2014 ANNUAL REPORT

MFABC
Municipal Finance Authority of BC

Contents

Message from the Chair

The objectives of the MFA are to provide financing for regional districts and their member municipalities by the issue of securities…to provide interim financing…and to provide short term investment opportunities. The MFA has a long history and reputation of success with these three objectives and 2014 was another accomplished year.

We continue to provide the lowest rates in Canada, when measured against our peers, for long-term, short-term, and lease financing for all local governments in British Columbia, regardless of loan or community size.

The MFA generates income each year which is retained with accumulated reserves that strengthen our credit ratings. These reserves also generate returns that now exceed $1 million per year. The fiscal strength of the MFA and strong stable local government in British Columbia are key to the success of the MFA.

The MFA continues to have the highest credit ratings obtainable for both long- and short-term debt. Vice-Chair Malcolm Brodie and I accompanied senior management on the annual credit rating reviews and we are pleased to report that our AAA credit rating, 'outlook stable,' was reaffirmed by our three credit rating agencies; Standard and Poor's, Moody's, and Fitch. Our Commercial Paper program was also reaffirmed at the highest rating available.

The Board of Trustees met with management several times throughout the year to review operating performance, access to financial markets, oversight, business plans and administration. During 2014 we reviewed management's plans for organizational capacity and continued operational excellence. We also held meetings of the Investment Advisory Committee that provided reviews of the performance of our Pooled Investment Funds. The MFA Pooled investment Funds peaked at $2.54 billion.

Trustees also made presentations on behalf of the MFA at various local government conferences during the year. To this end, the MFA is committed to education with financial assistance that in 2014 amounted to $124,000.

The Vice-Chair and I appreciate the efforts of the Board of Trustees, including their participation and contribution to the Investment Advisory Committee. The attendance and participation of the MFA Members at the Financial Forum, Annual General Meeting, and Semi-Annual Meeting continue to be important parts of our success.

The Board of Trustees recognizes the commitment and professionalism of our employees.

We continue to provide the lowest rates in Canada, when measured against our peers, for long-term, short-term, and lease financing for all local governments in British Columbia, regardless of loan or community size.

We close out the year confident that our MFA will continue to build on its history, maintaining a cautious and prudent approach in achieving our objective of obtaining effective access to financial markets and in turn providing low-cost funding to local governments in BC.

My first MFA meeting was over twenty years ago and having served you as Chair for fifteen years, I add a personal note of thanks to my colleagues, our management, staff, and advisors. While the numbers on the balance sheet are considerably larger, the strength and quality of this organization remains the same. I wish you continued success—you are all 'triple A' in my books.

Frank Leonard

FRANK LEONARD *Chair*

MFA Trustees and Members

BOARD OF TRUSTEES*

The Board of Trustees exercise executive and administrative powers and duties, including the selection of the secretary-treasurer.

Oversight of policy, strategy, and business plans is conducted through the Finance and Audit Committee, and the Investment Advisory Committee.

MEMBERS OF THE AUTHORITY

The Members of the Authority consist of elected local government officials appointed by the individual boards of each regional district within BC. The number of Members (currently 39) is based on the population of the regional district.

The Members meet twice a year; once at the Annual General Meeting (AGM) held prior to March 31st, and again at the Semi-Annual Meeting held in the fall. At these meetings, the Members review the requests for financing and authorize the issue and sale of securities. At the AGM, in addition to approving both financial statements and external auditors, the Members elect 10 Trustees and a chairperson to govern the Authority until the next AGM. The Board of Trustees must be comprised of, four Members from Metro Vancouver, one from the Capital Regional District, and the other five from the remaining regional districts.

REGIONAL DISTRICT	MEMBER APPOINTED
Alberni-Clayoquot	M. Kokura
Bulkley-Nechako	B. Miller
Capital	F. Leonard*
Capital	D. Howe
Cariboo	A. Richmond*
Central Coast	R. Moody
Central Kootenay	R. Toyota
Central Okanagan	R. Hobson*
Columbia Shuswap	D. Raven
Comox Valley	S. Winchester
Cowichan Valley	I. Morrison
East Kootenay	R. Gay
Fraser-Fort George	S. Green*
Fraser Valley	P. Ross
Fraser Valley	S. Gaetz
Kitimat-Stikine	G. Lowry
Kootenay Boundary	G. McGregor
Metro Vancouver	M. Brodie*
Metro Vancouver	D. Corrigan*
Metro Vancouver	M. Reid
Metro Vancouver	D. Mussatto
Metro Vancouver	M. Clay
Metro Vancouver	R. Louie
Metro Vancouver	R. Walton*
Metro Vancouver	J. Villeneuve
Metro Vancouver	W. Wright
Metro Vancouver	G. Moore*
Mount Waddington	G. Furney*
Nanaimo	J. Stanhope*
North Okanagan	C. Lord
Northern Rockies	K. Eglinski
Okanagan-Similkameen	M. Pendergraft
Peace River	M. Caisley
Powell River	C. Palmer
Skeena-Queen Charlotte	B. Pages
Squamish-Lillooet	R. Kirkham
Strathcona	J. MacDonald
Sunshine Coast	G. Nohr
Thompson-Nicola	J. Ranta

Message from the Chief Administrative Officer

I am pleased to report another very successful year for operations and program management.

Income

Our Retention Fund increased to $40.1 million by the end of 2014, a $6.7 million increase from 2013. This was accomplished by a combination of record Income from Operations of $2.3 million, Short-term debt fund profit of $2.7 million and interest earned on the Fund itself of $1.1 million. The sale of our former head office contributed a book gain of $601,000. The Retention Fund is unrestricted and is available for operating activities, debt obligations, and distributions to clients and members. Income from Operations exceeded the approved budget by $201,240.

Debt Financing

Our long-term borrowing raised $878 million through four debenture launches during the year. In March, proceeds were $213 million with the re-opening of an existing debenture with a yield of 3.28% for 9.5 years. In June, we raised $350 million with a new 5 year debenture with a yield of 2.08%. In October, we raised $135 million with a new 10 year debenture with a yield of 2.99%. In November, we re-opened the June issue with a yield of 1.93%, raising a further $180 million. Our short-term borrowing program maintained a running balance of $500 million in Commercial Paper. We were able to provide shorter term financing at 1.72% and lease program financing at 2.00%.

We are committed to the delivery of outstanding performance within our mandate.

Credit Ratings

Our AAA credit rating, outlook stable, was reaffirmed by our three credit rating agencies. Our commercial paper program that finances our leases and interim loans was also rated at the highest rating possible by two rating agencies.

The highest credit quality and active investor relations resulted in access to the lowest cost of funds for both long- and short- term debt, when benchmarked against other municipal issuers in Canada.

Assets Under Management

Assets under management exceed $7.7 billion at the end of 2014. I encourage the reader to review our Management Discussion and Analysis in this report for greater detail on our business.

Pooled Investment Funds

The MFA provides access to Pooled Investment Funds which are reported separately. These funds crested at $2.3 billion, representing the investments of 250 clients.

Eight Employees

Our eight employees are responsible for operations, financing, lending, and investments. During 2015, we will continue to preserve our core while building towards a future that includes continuous improvement and to create greater value for taxpayers in British Columbia. We are committed to the delivery of outstanding performance within our mandate.

Vision

Our vision is to be recognized as a world class financial institution for the benefit of taxpayers in British Columbia and to be the preferred choice, by choice, for financing and investing. We strive to increase our value each year.

Robin Stringer

ROBIN STRINGER *Chief Administrative Officer*

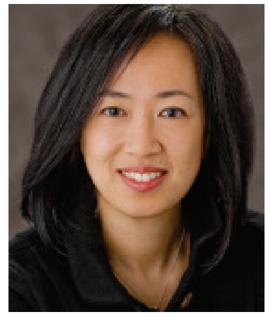
MFA Team

GRAHAM EGAN, CA
Director of Finance

» Long-term debt, loans and investments
» Investor relations
» Information technology

SHELLEY HAHN, CGA
Director of Business Services

» Short-term debt, loans and investments
» Legislation
» Client relations



CINDY WONG, CGA
Controller

» Accounting and Compliance
» Asset control & Risk management

JANE MORRISON, BA Econ.
Short Term Loan Administrator

» Capital leasing and interim financing
» Asset management, billing and EFT processing

MEAGAN JAMES, CGA
Treasury Officer

» Cash management
» Pooled investment administration

RENATA HALE, CGA
Manager of Strategic Initiatives

» Business process review
» Online services and communication
» Internal training and Client education

Financial Statements and Related Reports

REPORTS:

SCHEDULES:

Management Discussion and Analysis

This Management Discussion and Analysis provides commentary on the financial and operating results of the Municipal Finance Authority of British Columbia (MFA) for the 2014 fiscal year and should be read in conjunction with the 2014 audited consolidated financial statements and accompanying notes.

OVERVIEW OF BUSINESS

The MFA was established in 1970 under the *Municipal Finance Authority Act* (the "Act") to provide long-term and short-term financing for regional districts and their member municipalities, regional hospital districts, and other prescribed institutions in British Columbia (BC) (collectively, the "clients"). Also included in the client base are the Greater Vancouver Water District, Greater Vancouver Sewerage and Drainage District, Emergency Communications for Southwest British Columbia (E-Comm), Capital Region Emergency Service Telecommunications (CREST), and the South Coast British Columbia Transportation Authority (TransLink). The City of Vancouver is also a member but functions under its own charter and retains the right to issue its own securities. Long-term debt requirements of local governments (5 to 30 years) must be borrowed through the MFA.

The MFA also provides short-term investment opportunities for its clients and other prescribed institutions through the establishment and operation of a Pooled Investment Fund Program. These funds include a money market fund, an intermediate fund, and a bond fund. The funds are reported on separately and are not included in the audited consolidated financial statements or annual report. The MFA does not provide investment advice to clients.

In addition to the Act, the operations are also subject to the application of other statutes. Notable provincial legislation that integrates with the MFA is *The Local Government Act, The Community Charter*, and the *South Coast British Columbia Transportation Authority Act.*

The mandate of the MFA is to raise long-term capital through the issuance of securities, in the name of the Municipal Finance Authority of British Columbia, for the purpose of lending proceeds to clients. This report and the consolidated financial statements describe this process in greater detail. Long-term financing, the primary source of funds for client loans, is used to finance capital infrastructure in British Columbia.

The MFA also raises short-term financing through an active $500 million commercial paper program backstopped by two Canadian chartered banks. As well, the MFA has additional access to liquidity through a $200 million credit facility with a Canadian chartered bank. Short-term financing supports a capital lease financing program, provides interim financing for short-term capital projects, and funding in anticipation of long-term borrowing or qualifying future revenue receipts. In order to maintain a continued presence in financial markets, typically the full $500 million limit is issued. Proceeds raised, that are not immediately lent to clients, are invested in highly rated short-term investments, including chartered banks and British Columbia credit unions, or are held as cash for liquidity purposes.

GOVERNANCE

The MFA is represented by 39 members appointed from each of the 28 regional districts within the province of British Columbia. A board of ten Trustees is elected annually from the Members to exercise executive and administrative powers including policy, strategy, and business plans.

The Board of Trustees also provides oversight through the Finance and Audit Committee and the Investment Advisory Committee.

Management Discussion and Analysis continued

KEY PERFORMANCE DRIVERS

Reputation and History

The MFA has never defaulted on any debt obligation and accordingly has never imposed a tax levy nor made any claim on its Debt Reserve Fund.

The success of the MFA operations has continually resulted in lower program costs, absorption of fees, and the reduction of interest charges on loans to clients.

Borrowing Process

Through a cooperative approach with our clients and the Province of British Columbia ,the MFA is able to ensure an understanding of, and adherence to, the requirements of its *Act* and other relevant legislation regarding the borrowing process and expenditure limits.

All borrowings must be within each municipality's individual borrowing power, which stipulates that only 25% of sustainable revenue may be allocated to debt servicing costs (principal and interest). An imposed cap on the inclusion of tax revenue derived from industry lessens the reliance on this sector as a primary funding source for our clients. The purpose of this cap is to ensure that the revenue base is diversified and that local governments are not relying exclusively on one category of taxation.

Long-term borrowing requests or bylaws must be approved first at the local government level through a public consultation process and then at the regional district level. Bylaws must also receive legal approval from the Provincial Ministry through the issuance of a Certificate of Approval which ensures that the request is within financial borrowing limits. Only after these steps have been completed can a borrowing bylaw be presented to the MFA for funding consideration.

The Members of the Authority review all requests for financing and, in consideration of the relevant market and economic conditions, may authorize the issue and sale of securities to fund those requests.

INVESTOR CONFIDENCE

Long-term financing needs are met through the placements of bullet debentures in capital markets. The MFA typically issues 10-year bonds thereby accommodating both the average borrowing terms requested by our clients and the market preferences of investors. On rare occasions, serial and longer-dated debentures have been issued to meet specific funding requirements. Bond issuances are syndicated through the services of a financial consortium comprised of seven Canadian chartered banks and one other financial institution.

Short-term funding needs have been fulfilled through a $500 million dollar commercial paper program supported by a dealer network of six Canadian chartered banks.

Each program allows for a wide distribution of MFA paper to investors throughout Canada and has established the MFA as one of the premium municipal credits in the world with the highest possible credit rating attainable.

CREDIT FUNDAMENTALS

Joint and Several

Local governments, within each regional district, are joint and severally liable for each other's long-term debt borrowings through the MFA. When a municipality passes a borrowing bylaw and presents it to its regional district for the purpose of issuing security, all municipalities within the region must vote on their acceptance of that borrowing. Approval of the bylaw binds each municipality with joint and several obligations.

Management Discussion and Analysis continued

In the normal course of business, the MFA collects debt servicing costs from regional districts, which in turn requisition funds from the participating municipalities. If a municipality is unable to make payment, then the regional district incurs that deficiency and must work to recover any default from its member municipalities.

Debt Reserve Fund

The *Act* requires the establishment of a Debt Reserve Fund. The fund accumulates through the withholding of 1% of principal borrowed on each loan request. If, at any time, the Authority does not have sufficient funds to meet payments or sinking fund contributions due on its obligations, (with an issue term greater than 2 years) the payments or sinking fund contributions must be made from the Debt Reserve Fund. Once a regional district or municipality has fulfilled its loan obligation, its portion of the Debt Reserve Fund is repaid. There has never been a default on any loan payments nor has the MFA ever required the use of funds held in the Debt Reserve Fund.

Taxing Powers

Under the provisions of its Act, the MFA has unfettered access to the full property assessment base in the Province of British Columbia without requiring approval of any senior level of government. The MFA applies a nominal tax rate annually on taxable property in order to maintain the levy and preserve the collection process.

If the Debt Reserve Fund is required to meet obligations, as described above, and payments cannot be recovered under the terms of the loan agreements with the delinquent regional district, the Trustees may impose a tax on British Columbia taxable land and improvements to restore the fund.

If the Authority does not have sufficient funds to meet payments or sinking fund contributions on issues having a term of 2 years or more, the Trustees must levy or impose rates on all taxable land and improvements in British Columbia sufficient to meet the payments.

Loan Methodology

Loan agreement terms stipulate that the MFA will invoice clients for principal repayments and interest charges at the regional district level. Regional districts are then responsible for the collection of funds subsequently lent to member municipalities. Administrating the repayment process in this manner augments the liquidity of the MFA through emphasis of regional district's debt guarantee provisions.

The loan repayment process follows a sinking fund methodology in which clients repay principal amounts in equal annual installments. Funds received are invested by the MFA and held as an offset against the associated source of financing which is typically accomplished through bullet debenture issuances. This arrangement provides clients with budget certainty (fixed loan repayment stream) while eliminating the requirement for balloon payments at loan expiry.

Clients are compensated for loan repayments, received in advance of MFA's associated debt maturities, with the application of an actuarial reduction to each principal payment made (discounted principal repayments). The MFA covers this discount through investment earnings realized on each payment received.

The investments of the MFA are retained for the future retirement of debt. The MFA sets actuarial rates at the commencement of each loan and reviews the adequacy of the rate annually, retaining the right to adjust on a prospective basis. Earnings in excess of the actuarial rate are recorded as a surplus and form a component of the equity at year end. If a surplus still exists when the debenture matures, these funds will then be distributed to participating clients.

Management Discussion and Analysis continued

MANAGEMENT AND STAFF

The MFA functions with a professional team of eight employees. Employment continuity has been one of the organization's key successes with the current team providing over 80 years of combined service contribution. The Director of Finance and Director of Business Services themselves have over 32 years of experience working with the MFA while the balance of the personnel averages 12 years in tenure. The specialized nature of the MFA's operations requires a highly trained and efficient group of financial and legislative individuals. In that regard, employees are continually updating their education and improving their technical skills. This necessitates the team traveling throughout the Province and actively engaging clients, assisting them in financial matters, and helping them navigate the borrowing processes.

PERFORMANCE MEASUREMENT

Independent Credit Rating

The MFA's financial strength is founded in its organizational structure and conservative nature of its clients. Through a combination of checks and balances over the borrowing process, joint and several obligations of regional districts and their member municipalities, a substantial Debt Reserve Fund, and the ability to levy a tax on all property in the Province, the MFA continues to maintain its high credit worthiness. Credit agencies continually rate the MFA and its general obligation debenture debt as the highest investment quality available. Credit ratings as at December 31, 2014, were Aaa (Moody's Investors Service), AAA (Standard & Poor's), and AAA (Fitch Ratings).

The commercial paper program is rated with the highest credit worthiness for short-term money market instruments in Canada. Short-term credit ratings at December 31, 2014, were P-1 high (Moody's Investors Service) and A-1+ (Standard & Poor's). All commercial paper issued is secured by two Canadian chartered banks that provide dedicated term loan facilities.

COST OF BORROWING

During 2014 the MFA issued one new 10-year debenture, reopened an existing 10-year debenture, and issued and reopened a new 5-year debenture. The performance of these issuances is measured against senior governments and large municipalities in Canada.

March: Issued an additional $205 million of the 3.75% September 26, 2023 debenture with a return of 3.280% bringing the total outstanding to $485 million. At the time of this re-opening, the Government of Canada 10-year bond was yielding 2.370% while other comparable municipal issuers were returning a yield in the range of 3.50% - 3.70%.

June: Issued $350 million of a new 5-year debenture with a coupon of 2.05% and yield of 2.081% dated June 2, 2019. At the time of this issue, the Government of Canada 5-year bond was yielding 1.526% while other comparable municipal issuers were returning a yield in the range of 2.20% - 2.40%.

October: Issued $135 million of a new 10-year debenture with a coupon of 2.95% and yield of 2.991% dated October 14, 2024. At the time of this issue, the Government of Canada 10-year bond was yielding 2.101% while other comparable municipal issuers were returning a yield in the range of 3.10% - 3.30%.

December: Issued an additional $180 of its 2.90% June 2, 2019 debenture with a return of 1.932% bringing the total outstanding to $350 million. At the time of this re-opening, the Government of Canada 5-year bond was yielding 1.452% while other comparable municipal issuers were returning a yield in the range of 2.05% - 2.30%.

As well, during 2014, the MFA issued $4.5 billion in commercial paper ranging in terms of 35-days to 91-days, with yields comparable to Provincial issuers. The MFA benchmarks its commercial paper in relation to Government of Canada Treasury Bills.

RISK MANAGEMENT

The management of the MFA is responsible for safeguarding systems, identifying risks, and recommending the appropriate policies and framework. The Board of Trustees reviews and approves the risk management policies and associated reporting procedures to enable them to monitor the adherence to these policies.

Management Discussion and Analysis continued

Market and Interest Rate Risk

To minimize exposure due to market volatility, the MFA borrows only in Canadian dollar denominations and matches the timing of funding on client loans to the issuances of market debentures. The MFA sets lending rates on loans to cover the cash flow requirement on associated funding debentures. For clients with loan terms that extend beyond the maturity of the related debenture(s), a refinancing interest rate risk exists. At the time of refinancing, the MFA will reset the lending rate on remaining loans in relation to the rate on the new issuance of debt.

The MFA's investment policy does not allow the purchase of equity securities.

Liquidity Risk

Liquidity risk is the risk that the MFA will not have sufficient cash to meet its obligations as they become due. The MFA manages liquidity risk by monitoring cash flows on a daily basis, maintaining a liquid Debt Reserve Fund ($104 million as at December 31, 2014), ensuring access to a $200 million bank facility, and actively participating in the commercial paper market.

The MFA can also invoke the joint and several guarantee of its clients, call outstanding demand notes, and impose a property tax on all taxable land and improvements in British Columbia.

Operational Risk

Operational risk is the risk associated with a breakdown in internal controls, systems or procedural failures, human errors, or malfeasance. These risks can never be fully eliminated but the MFA has minimized this risk by establishing appropriate policies and sound internal controls through segregation of duties, strong accountability and reporting practices with a specific focus on stringent controls over cash balances and cash movements.

Client Credit Risk

Credit risk is the risk of loss due to a client failing to meet its obligations to the MFA. Since inception, the MFA has never experienced a loan default. Before any loans are funded, clients must demonstrate the financial capacity to service debt as regulated by the Province and must adhere to a strict borrowing process. The MFA also monitors the Provincial economy, regional issues, and financial information from its clients.

OUTLOOK

The low Canadian dollar and decline in Oil prices will likely benefit British Columbia's economy in 2015 with growth expectations in the range of 2.6% to 2.7%. The outlook for 2016 and beyond is also encouraging as the US economy continues to recover. Projections for 2015 indicate an estimated $400 million in new long-term loans and an additional $200 million in refinancing of existing long-term loans. As well the MFA will continue to maintain a market presence of $500 million in commercial paper outstanding.

FINANCIAL SUMMARY

The MFA continues to produce positive financial results with profits in the Operating Fund, Long-term financing, and the Short-term financing programs. For the year ended 2014, total revenue amounted to $400 million against total expense of $356 million for an annual profit of $44 million. Removing the negative impact of valuation adjustments on derivative contracts in the amount of $93 million, the reported retained earnings balance of $23 million increases to $116 million which is comprised of $76 million of undistributed payments to clients and $40 million which is available for operating activities, extinguishing debt obligations, and additional distributions to clients as approved by the Authority.

During the year, clients of the MFA were allocated $104 million consisting of surplus payments, forgiven loan repayments, and actuarial adjustments.

Management Report

The consolidated financial statements of the Municipal Finance Authority of British Columbia (the "Authority") are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards, consistently applied and appropriate in the circumstances. The preparation of financial statements necessarily involves the use of estimates which have been made using careful judgment. In management's opinion, the consolidated financial statements have been properly prepared within the framework of the accounting policies summarized in the financial statements and incorporate, within reasonable limits of materiality, all information available as at March 26, 2015.

Management has developed and maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel, and appropriate delegation of authority and segregation of responsibilities within the organization.

The consolidated financial statements have been examined by KPMG LLP, the Authority's independent external auditors. The external auditors' responsibility is to express their opinion on whether the consolidated financial statements fairly present, in all material respects, the Authority's financial position, results of operations, and cash flows in accordance with International Financial Reporting Standards. Their Independent Auditors' Report, which follows, outlines the scope of their examination and their opinion.

The Board of Trustees, through the Finance and Audit Committee, monitors management's responsibility for financial reporting and internal controls. The Board or Committee meets with the external auditors and management to satisfy itself that each group has properly discharged its responsibility to review the consolidated financial statements before recommending approval by the Members of the Authority. The external auditors have full and open access to the Board, with and without the presence of management.

Graham Egan, CA

Director of Finance
Victoria, British Columbia, Canada

Independent Auditors' Report

To the Members of the Municipal Finance Authority of British Columbia

We have audited the accompanying consolidated financial statements of the Municipal Finance Authority of British Columbia, which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Municipal Finance Authority of British Columbia as at December 31, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
Victoria, British Columbia, Canada
March 26, 2015

Consolidated Statements of Financial Position

AS AT DECEMBER 31

THOUSANDS OF DOLLARS	2014	2013
ASSETS		
Cash and cash equivalents	$ 70,404	$ 60,050
Investments (Note 4)	3,006,309	2,506,485
Accrued interest and other receivables	72,934	71,880
Derivative contracts (Note 5)	–	894
Short-term loans to clients (Note 6)	239,121	211,482
Loans to clients (Note 7)	4,376,473	4,447,662
Property and equipment (Note 8)	262	295
Property held for sale (Note 9)	–	595
Total Assets	$ 7,765,503	$ 7,299,343
LIABILITIES		
Trade and other payables (Note 10)	$ 36,046	$ 34,325
Bank and short-term indebtedness (Note 11)	499,699	499,796
Due to clients (Note 12)	104,204	99,564
Derivative contracts (Note 5)	93,565	48,618
Long-term debt (Note 13)	6,732,257	6,526,539
Total Liabilities	7,465,771	7,208,842
EQUITY		
Accumulated other comprehensive income	276,919	8,083
Retained earnings (Note 14)	22,813	82,418
Total Equity	299,732	90,501
Total Liabilities and Equity	$ 7,765,503	$ 7,299,343

The notes on pages 20 to 39 are an integral part of these consolidated financial statements

Graham Egan, CA

Director of Finance
Victoria, British Columbia, Canada

Consolidated Statements of Comprehensive Income

FOR THE YEARS ENDED DECEMBER 31

THOUSANDS OF DOLLARS	2014	2013
REVENUE		
Interest from loans to clients	$ 276,250	$ 289,370
Investment income	110,910	105,233
Gain from change in fair value of derivative contracts	–	45,411
Amortization of premiums on long-term debt	11,077	10,320
Financial service fees	2,316	1,908
Recoveries from new issues	13	15
Operating levy	251	247
Total Revenue	400,817	452,504
EXPENSE		
Interest on long-term debt	275,999	277,913
Interest on bank and short-term indebtedness	5,229	5,392
Amortization of discounts on long-term debt	4,068	3,888
Administration	2,891	2,677
Investment income (loss) due to clients (Note 12)	9,603	(6,341)
Debt management and marketing	133	142
Settlement of derivative contracts	12,928	2,753
Loss from change in fair value of derivative contracts	45,841	–
Total Expense	356,692	286,424
Profit for the year	44,125	166,080
OTHER COMPREHENSIVE INCOME (LOSS)		
Net change in fair value of available-for-sale financial assets:		
to be realized in profit or loss on disposal	269,225	(73,653)
transferred to profit or loss	(389)	(109,796)
Other Comprehensive Income (Loss) for the year	268,836	(183,449)
Total Comprehensive Income (Loss) for the year	$ 312,961	$ (17,369)

The notes on pages 20 to 39 are an integral part of these consolidated financial statements

Consolidated Statements of Changes in Equity

FOR THE YEARS ENDED DECEMBER 31

THOUSANDS OF DOLLARS	Accumulated other comprehensive income*	Retained earnings	Total
Balance December 31, 2012	$ 191,532	$ 34,786	**$ 226,318**
Profit for the year	–	166,080	**166,080**
Allocations to clients (Note 15)	–	(118,448)	**(118,448)**
Net change in fair value of available-for-sale financial assets:			
to be realized in profit or loss on disposal	(73,653)	–	**(73,653)**
transferred to profit or loss	(109,796)	–	**(109,796)**
Balance December 31, 2013	$ 8,083	$ 82,418	**$ 90,501**
Profit for the year	–	44,125	**44,125**
Allocations to clients (Note 15)	–	(103,730)	**(103,730)**
Net change in fair value of available-for-sale financial assets:			
to be realized in profit or loss on disposal	269,225	–	**269,225**
transferred to profit or loss	(389)	–	**(389)**
Balance December 31, 2014	$ 276,919	$ 22,813	**$ 299,732**

The notes on pages 20 to 39 are an integral part of these consolidated financial statements

**Accumulated other comprehensive income represents unrealized gain (loss) on available-for-sale investments.*

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31

THOUSANDS OF DOLLARS	2014	2013
OPERATING ACTIVITIES		
Profit for the year	$ 44,125	$ 166,080
Non-cash items:		
Gain on disposal of investments	(3,097)	(8,154)
Gain on disposal of property held for sale	(601)	–
Accretion of discounts on investments	(61,278)	(54,030)
Amortization of premiums and discounts on long-term debt	(7,009)	(6,432)
Investment income (loss) due to clients	9,603	(6,341)
Depreciation on property and equipment	33	28
Loss (gain) from change in fair value of derivative contracts	45,841	(45,411)
Changes in accrued interest and other receivables	(1,054)	8,654
Changes in trade and other payables	1,721	788
Net cash provided by operating activities	28,284	55,182
INVESTING ACTIVITIES		
Investments sold or matured	1,483,301	2,048,168
Investments purchased	(1,649,914)	(2,315,660)
Purchase of leasehold improvements	–	(313)
Proceeds on sale of property	1,194	–
Net cash applied to investing activities	(165,419)	(267,805)
FINANCING ACTIVITIES		
New debt issued	885,320	602,809
Debt retired	(672,593)	(391,201)
Loan repayments from clients	482,638	458,633
New loans to clients	(535,646)	(456,448)
Bank indebtedness and commercial paper issued	4,494,709	5,194,805
Bank indebtedness and commercial paper repaid	(4,494,806)	(5,194,797)
Contributions from clients for new loans	3,508	2,818
Contributions and earnings refunded to clients	(8,470)	(10,922)
Payments of surplus to clients (Note 15)	(7,171)	(17,704)
Net cash provided by financing activities	147,489	187,993
Increase (decrease) in cash and cash equivalents	10,354	(24,630)
Cash and cash equivalents, beginning of the year	60,050	84,680
Cash and cash equivalents, end of the year	$ 70,404	$ 60,050

The notes on pages 20 to 39 are an integral part of these consolidated financial statements

Supplementary cash flow information (Note 16)

Notes to the Consolidated Financial Statements

1. Reporting entity

The Municipal Finance Authority of British Columbia (the "Authority") has its head office at 3680 Uptown Boulevard Victoria, British Columbia. It operates under the *Municipal Finance Authority Act* (the "*Act*") as a central borrowing agency for the financing of capital requirements of regional districts and their member municipalities, regional hospital districts, and other special purpose municipal bodies (collectively the "clients"). The Authority issues its own securities and lends the proceeds to clients at whose request the financing is undertaken. Obligations of the Authority are not obligations of the Province of British Columbia (the "Province") and are not guaranteed, directly or indirectly, by the Province.

The Authority may annually impose rates, not exceeding prescribed amounts, on all taxable land and improvements in the Province to meet the annual operating budget. Additional rates will be levied if the Board of Trustees is of the opinion that debt repayments may not be recovered within a reasonable time under the loan agreements with clients.

Under Sections 149 (1) (c) and 149 (1) (d.5) of the *Income Tax Act*, the Authority is exempt from income taxes.

These consolidated financial statements reflect the capital financing and general operations of the Authority. The Authority also has established pooled investment funds which are reported on separately.

These consolidated financial statements incorporate the financial statements of the Authority and its wholly owned subsidiary, the *MFA Leasing Corporation*, an entity controlled by the Authority. The financial statements of the subsidiary have been included in the consolidated financial statements from the date that control commenced and will continue to be included until the date that control ceases. The accounting policies of the subsidiary are aligned with the policies adopted by the Authority.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

2. Basis of presentation

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.

The consolidated financial statements were authorized for issue by the Members of the Authority on March 26, 2015.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value.
- Available-for-sale financial assets, including investments, are measured at fair value.

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the Authority's functional currency. All tabular financial information presented has been rounded to the nearest thousand.

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Key sources of estimation uncertainty are the areas where assumptions and estimates have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities. These are:

(i) Investments - in determining the valuation of available-for-sale financial assets where quoted prices in active markets are not available, the Authority determines the fair value of future payments to be received utilizing appropriate discount rates based on comparable market transactions and the estimated effect of credit risk for the transaction.

(ii) The amounts recognized in the notes to the consolidated financial statements regarding loans to clients (see note 7) are based on expectations of interest income earned on investments. Actual income realized will differ from the estimates, perhaps materially.

Notes to the Consolidated Financial Statements continued

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

(a) Retained earnings:

Included in retained earnings are undistributed and unallocated earnings on investments in excess of budgeted actuarial earnings which are to be paid to clients once their loan obligation is extinguished and the associated funding debenture is retired (see note 14). The amount of retained earnings re-allocated to clients is disclosed in the consolidated statements of changes in equity (see note 15).

The Authority has no authorized or issued share capital.

The Authority is required under the Act to segregate certain activities by fund.

(b) Revenue recognition:

The annual operating tax levy is recognized as revenue in the Operating Fund when the rates have been set by the Authority in March of each year. It is collected on behalf of the Authority by the municipalities in the Province and by the Provincial Surveyor of Taxes and is payable to the Authority by August 1st each year.

Financial service fee revenue is recognized as earned and measured at a rate of 1% per annum on the book value of investment holdings.

(c) Interest revenue and expense:

Interest revenue and expense for all interest-bearing financial instruments is recognized within interest revenue and interest expense in the consolidated statements of comprehensive income using the effective interest method. The effective interest method is the rate that exactly discounts the estimated future cash flow through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Authority estimates future cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation of the effective interest method includes all fees and costs paid or received between parties to the contract that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest revenue and expense presented in the consolidated statements of comprehensive income includes:

- interest on financial assets and financial liabilities measured at amortized cost, calculated on an effective interest basis
- interest on available-for-sale investment securities calculated on an effective interest basis

(d) Financial instruments:

(i) Non-derivative financial assets:

The Authority has the following non-derivative financial assets: loans and receivables, and available-for-sale financial assets.

Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise loans to clients, short-term loans to clients, accrued interest and other receivables.

Notes to the Consolidated Financial Statements continued

3. Significant accounting policies (continued)

(d) Financial instruments (continued):

Available-for-sale financial assets:

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories of financial assets. The Authority's investments are classified as available-for-sale financial assets. Available-for-sale financial assets are initially recorded at fair value. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and presented within equity. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Cash and cash equivalents comprise cash balances with original maturities of three months or less.

(ii) Non-derivative financial liabilities:

The Authority initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Authority becomes a party to the contractual provisions of the instrument.

The Authority derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

Financial assets and liabilities are offset and the net amount presented in the consolidated statements of financial position when, and only when, the Authority has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Authority has the following non-derivative financial liabilities: due to clients, long-term debt, bank and short-term indebtedness, and trade and other payables.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. The Authority does not have any non-derivative financial liabilities classified as fair value through profit or loss.

(iii) Derivative financial instruments, including hedge accounting:

The Authority is authorized to enter into financial contracts that may be considered hedging transactions. These transactions include forward interest rate contracts on behalf of clients and certain derivative instruments where established cash flow streams are exchanged for a future cash payment upon contract maturity. The Authority does not conduct derivative trading or contracting for trading gain.

Forward interest rate contracts are derivative contracts with various financial institutions that provide clients with a fixed lending rate for a predetermined period of time, commencing at a specified future date. At the specified future date, the Authority settles the derivative contract with the financial institution and recovers the settlement cost from the client over the remaining term of the loan. The Authority no longer enters into forward interest rate contracts on behalf of clients.

As part of the sinking fund investment practices, the Authority may purchase derivative or cash flow annuity contracts with institutions whereby the Authority sells a cash flow stream of principal collections from a client or group of clients to an institution for a future lump sum principal amount. The Authority will enter into these contracts to achieve fixed yields to meet actuarial requirements or to aggregate cash flows which could not be effectively invested by themselves due to the magnitude of individual transactions

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss.

Notes to the Consolidated Financial Statements continued

3. Significant accounting policies (continued)

(d) Financial instruments (continued):

The Authority determines whether hedge accounting can be applied when the individual derivative contracts are first established.

During the years presented, no derivative contracts were accounted for under hedge accounting.

(e) Investments:

The investment purchasing and trading policy of the Authority is to match the maturity of investments with the applicable obligation dates of the related debt.

Investment acquisitions and disposals are recorded as of the trade date. Although investments are typically held to maturity, all investments have been designated as available-for-sale and stated at fair value. Any unrealized change in fair value is reflected in accumulated other comprehensive income and subsequently transferred to profit or loss when realized.

Fair values of investments are determined using quoted market prices where available. Where active market prices are not available, fair values are calculated based on discounted cash flow analysis with an incorporation of credit risk as applicable.

(f) Property and equipment:

(i) Recognition and measurement:

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized net within profit or loss.

Property is classified as held for sale when its carrying amount will be recovered principally through a sale rather through continuing use and sale is highly probable. Property held for sale is carried at the lower of its carrying amount or fair value less cost to sell.

(ii) Subsequent costs:

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Authority, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation:

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

- buildings 40 years
- leasehold improvements 10 years

Depreciation methods, useful lives, and residual values are reviewed at each financial year end and adjusted if appropriate.

Notes to the Consolidated Financial Statements continued

3. Significant accounting policies (continued)

(g) Impairment:

(i) Financial assets (including receivables):

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence is considered to exist when there is a significant or prolonged decline in value.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Authority on terms that the Authority would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

The Authority considers evidence of impairment for receivables, including loans to clients, at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in unrealized gains/losses on available-for-sale financial assets in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayments and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale investment security (excluding equity investments) increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Authority's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of a non-financial asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized when the carrying amount of a non-financial asset exceeds its estimated recoverable amount.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3. Significant accounting policies (continued)

(h) Employee future benefits:

The Authority and its employees make contributions to the Municipal Pension Plan. These contributions are expenses as incurred.

(i) Comparative figures:

Certain 2013 comparative figures have been reclassified to conform to the consolidated financial statement presentation for the current year.

(j) Adoption of new accounting standards:

(i) IAS 32 Financial Instruments: Presentation:

On January 1, 2014, the Authority adopted amendments to IAS 32, *Financial Instruments: Presentation*. The amendments clarify that an entity has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The adoption had no impact on the consolidated financial statements at January 1, 2014.

(ii) IFRS 13 (2013) Fair Value Measurement:

Effective January 1, 2013, the Authority adopted IFRS 13, *Fair Value Measurement*. This standard replaces fair value measurement guidance contained in individual IFRSs with a single course of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The adoption of the new standard had no impact on the recognition or measurement of any items in the Authority's consolidated financial statements. The disclosures required under IFRS 13 are provided in note 17.

(iii) IFRS 10 Consolidated Financial Statements:

Effective January 1, 2013, the Authority adopted IFRS 10, *Consolidated Financial Statements*. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The standard had no impact on the consolidated financial statements.

(k) New standards and interpretations not yet adopted:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2014 and have not been applied in preparing these consolidated financial statements. Those expected to potentially impact the consolidated financial statements of the Authority are as follows:

(i) IFRS 9 Financial Instruments:

In November 2013, additional amendments to IFRS 9, *Financial Instruments (2013)*, were released, including revision to the mandatory effect date from January 1, 2015 to January 1, 2018. IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities and includes a new hedge accounting standard. The extent of impact to the Authority has not been determined.

(ii) IFRS 15 Revenue from Contracts with Customer:

IFRS 15 replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts*, providing guidance on the amount and/or timing of recognition of revenue. Mandatory adoption of IFRS's is January 1, 2017. The extent of impact to the Authority has not been determined.

Notes to the Consolidated Financial Statements continued

4. Investments

Investments consist of the following debt securities:

THOUSANDS OF DOLLARS	within 1yr	1-3yrs	3-5yrs	over 5yrs	2014	2013
Government of Canada	$ 7,050	507	–	30,440	**$ 37,997**	$ 98,533
Provincial governments	20,956	5,387	71,448	1,520,374	**1,618,165**	1,261,687
Chartered banks	139,836	223,140	172,939	165,373	**701,288**	613,093
Credit unions	77,949	–	–	9,958	**87,907**	111,331
Local governments	23,583	7,407	28,698	472,719	**532,407**	404,331
Commercial paper	16,978	–	–	–	**16,978**	4,992
Corporate bonds	7,094	–	4,473	–	**11,567**	12,518
	$ 293,446	236,441	277,558	2,198,864	**$ 3,006,309**	$ 2,506,485

Investments in Government of Canada, Provincial governments, and chartered banks may be direct or guaranteed.

5. Derivative contracts

Derivative contracts are forward interest rate swaps, which are agreements where two counterparties exchange a series of payments based on different interest rates applied to a notional amount. These contracts are entered into as devices to control interest rate risk. Notional amounts represent the amount to which a rate or price is applied in order to calculate the exchange of cash flows. Notional amounts are not recorded on the consolidated statements of financial position. The credit risk related to derivative contracts is limited to the amount of any adverse change in interest rates applied on the notional contract should the counterparty default. It is the Authority's policy that any loss incurred on the derivative contract is charged to the client, for whom the contract was established, thereby passing on the interest and credit risk to the client requesting interest rate certainty.

Interest rate swap fair values at December 31 were as follows:

THOUSANDS OF DOLLARS	Notional amount	2014	2013
Derivative contracts, positive fair values	$ -	$ -	$ 894
Derivative contracts, negative fair values	429,417	(93,565)	(48,618)
	$ 429,417	$ (93,565)	$ (47,724)

The following summarizes the maturities of derivative contracts:

THOUSANDS OF DOLLARS	less than 1 year		more than 1 year	
	Notional amount	Weighted average interest rate	Notional amount	Weighted average interest rate
December 31, 2014	**$ 48,476**	**5.18%**	**$ 380,941**	**5.24%**
December 31, 2013	63,880	5.08%	439,317	5.25%

Notes to the Consolidated Financial Statements continued

6. Short-term loans to clients

Short-term loans represent loans of 1 to 5 years and are provided for under Section 11 of the Act. The Authority offers a revolving credit facility for clients under two programs:

Leasing Program: short-term leasing of capital assets.

Short-term Financing Program: tax revenue anticipation, interim funding requirements, and bridge financing of capital projects.

Short-term loans represents loans receivable for the following purposes:

THOUSANDS OF DOLLARS		
	2014	2013
Tax revenue anticipation	$ **600**	$ 418
Temporary financing of capital projects	**202,910**	167,750
Short-term capital borrowing	**1,442**	1,576
Short-term leases of capital equipment	**34,169**	41,738
	$ **239,121**	$ 211,482

Short-term leases of capital equipment bear interest at a rate of prime minus 1.00% while all other short-term loans are charged interest based on the daily 30-day Canadian Dollar Offered Rate (CDOR) plus 0.50%. All short-term loans carry a maximum term of 5 years.

The amounts due within one year are $32,141,485 (2013 – $36,848,115).

7. Loans to clients

Loans are initially measured at fair value and subsequently reflected at amortized cost using the effective interest method. Lending rates on loans are fixed for borrowing terms commencing with the initial period of the loan. The Authority conducts an annual evaluation of loan impairment to determine if an impairment writedown is necessary. No impairments have been taken in the current or previous years. A reduction in the carrying value of a loan may be recovered by an offsetting transfer from the Debt Reserve Fund and ultimately through a levy on taxable land and improvements if it is believed that payments under loan agreements may not be recovered within a reasonable time.

The aggregate principal payments recoverable from clients in each of the next five years and aggregated to maturity (excluding principal payments suspended as outlined in note 15) are as follows:

THOUSANDS OF DOLLARS	
2015	$ **278,282**
2016	**264,400**
2017	**257,389**
2018	**238,724**
2019	**212,435**
2020 – 2024	**871,310**
2025 and thereafter	**612,237**
	$ **2,734,777**

These scheduled principal payments require management to estimate an expected earnings rate on investments, (5% up to and including Issue 88 and 4% on issues thereafter) therefore included in loans to clients are budgeted non-cash actuarial adjustments of $1,641,696,001. This actuarial adjustment represents the estimated interest income on the investment portfolio for principal payments collected from clients and invested by the Authority until the related debt is retired. As principal payments are received the associated actuarial adjustments are credited to the loan balance outstanding.

Notes to the Consolidated Financial Statements continued

7. Loans to clients (continued)

When the Authority, under Section 14 of the Act and with the approval of the Inspector of Municipalities, has determined that the amount of the assets in the sinking fund, together with the anticipated earnings for that fund, is greater than the amount which will be required to repay the debt or discharge the obligation and has declared that there is an anticipated surplus in the fund of a specified amount, the scheduled future payments of both principal and interest from clients under the related loan agreements are suspended.

8. Property and equipment

Property and equipment represent the net book value of the leasehold improvements on the facilities out of which the Authority operates. The Authority entered into a 10 year lease agreement commencing June 1, 2013 and has incurred leasehold improvements of $312,536 which is reflected net of accumulated depreciation of the building of $50,536 (2013 – $16,200).

9. Property held for sale

Property held for sale represented the net book value of the land and building out of which the Authority operated until May 31, 2013. This property, purchased at an original cost of $998,000 and reflected net of accumulated depreciation of the building of $403,305, was sold during the year for net proceeds of $1,194,000.

10. Trade and other payables

Trade and other payables consist of:

THOUSANDS OF DOLLARS	2014	2013
Interest payable – Long-term debt	$ 35,393	$ 33,687
Other payables	653	638
	$ 36,046	$ 34,325

11. Bank and short-term indebtedness

The Authority operates a $500,000,000 commercial paper facility which allows for the issuance of short-term notes in the name of the Authority of up to 365 days in duration. The program requires secured standby lines of credit from Canadian chartered banks. At year end the Authority had two unutilized standby facilities totaling $250,000,000 which can only be accessed if the Authority is unable to issue or roll maturing commercial paper. As at year end, the interest rate on commercial paper issued was 1.04% (2013 – 1.03%).

The Authority has an agreement under which a chartered bank (the "bank") provides a revolving credit facility of up to $200,000,000. Under that agreement, the Authority may borrow at a daily floating rate based on the prime rate or at negotiated rates for fixed terms up to one year in length. Floating-rate borrowings are subject to repayment within 30 days following demand by the bank while fixed-term borrowings are repayable at maturity. During the year, the Authority did not borrow against the revolving credit facility nor hold any associated floating or fixed term debt at the beginning of the year or at year end.

Clients may choose terms on their long-term loans ranging from 5 to 30 years. Since most debenture debt issued to finance these loans matures in 10 years, debt refinancing is required. Refinancing is undertaken either through the issuance of a new debenture or the use of short-term facilities. This decision is reached based on the Authority's assessment of current market conditions and sinking fund positions. Bank and short-term indebtedness at year end includes $4,204,765 (2013 – $7,658,252) relating to debt issues refinanced through proceeds from short-term facilities.

12. Due to clients

At the commencement of each loan, the Act requires that each regional district deposit with the Authority: (a) an amount equal to one-half the average annual installment of principal and interest in respect of its own borrowing, and (b) an amount equal to one-half the average annual installment of principal and interest as set out in the borrowing agreements entered into with its member municipalities. Amounts are payable either in full or in an amount equal to 1% of the total principal amount borrowed, with the balance secured by a non-interest bearing demand note.

The Act requires the Authority to place these deposits into a Debt Reserve Fund whose primary purpose is to provide security for debenture payments to bondholders. If, at any time, the Authority does not have sufficient funds to meet payments or sinking fund contributions due on its obligations, the payments or sinking fund contributions must be made from the Debt Reserve Fund. Once the regional district of member municipalities have made the final payment under their respective loan agreements, then these deposits are repaid to clients.

Scheduled payments to clients in each of the next five years and to the maturity of all loans are as follows:

THOUSANDS OF DOLLARS	
2015	$ **2,985**
2016	**3,871**
2017	**6,059**
2018	**10,049**
2019	**4,614**
2020 – 2024	**26,333**
2025 and thereafter	**50,293**
	$ **104,204**

The balance held in the Debt Reserve Fund, to be applied to pay amounts Due to clients, is as follows:

THOUSANDS OF DOLLARS	**2014**	2013
Cash	$ **26,660**	$ 13,840
Accrued interest receivable	**274**	534
Investments	**77,270**	85,190
	$ **104,204**	$ 99,564

Included in Investments are investments of the Debt Reserve Fund:

THOUSANDS OF DOLLARS	**2014**	2013
Government of Canada	$ **28,567**	$ 47,473
Provincial governments	**16,084**	27,629
Chartered banks	**16,895**	7,066
Local governments	**15,724**	2,803
Credit unions	**-**	219
	$ **77,270**	$ 85,190

Also integral to the Debt Reserve Fund, but not presented on the consolidated statements of financial position, are Demand Notes Receivable from clients of $219,779,810 (2013 – $221,942,667) which are entered into upon commencement of a loan and are callable on demand to meet Authority obligations. Once clients have made the final payment under their respective loan agreements, the demand notes will be extinguished. For financial statement presentation these demand notes receivable have been classified as an offset against Due to clients, reflecting their contingent nature. Throughout the history of the organization, the Authority has never called upon any demand note.

12. Due to clients (continued)

If the Board of Trustees of the Authority is of the opinion that the payments made from the Debt Reserve Fund may not be recovered under the terms of the loan agreements within a reasonable time, they may levy or impose upon substantially all taxable land and improvements in the Province of British Columbia, rates sufficient to maintain the Debt Reserve Fund at a level not exceeding the amount which would have been in the fund had no such payments been made. Further, the Board of Trustees must impose such rates when the balance in the fund is less than 50% of the amount that would have been in the fund had no such payments been made.

During the year, the Debt Reserve Fund recognized total revenue of $3,132,355 (2013 – $5,208,638) and incurred total expenses of $88,581 (2013 – $102,138). Included in accumulated other comprehensive income is an unrealized mark-to-market valuation gain on the investments of $6,558,892 (2013 – $11,447,991 valuation loss). The Authority's practice is to hold investments until maturity to minimize the impact of fluctuations of market pricing on investment values. The excess of revenue to expenses in the fund was $9,602,666 (2013 – $6,341,491 deficiency of revenue over expenses) and is recorded as investment income (loss) due to clients.

13. Long-term debt

The aggregate Long-term debt maturities in each of the next five years and aggregated to maturity are as follows (including provision for early calls by the Authority and redemptions at the option of the bondholder):

THOUSANDS OF DOLLARS	
2015	$ 214,649
2016	1,239,694
2017	730,066
2018	1,170,456
2019	1,172,357
2020 – 2024	1,793,358
2025 and thereafter	380,724
	6,701,304
Transaction costs, net of accumulated amortization	30,953
	$ 6,732,257

Client bylaw terms (up to 30 years) may not coincide with the Authority's debenture term (usually 10 years), and therefore many client borrowing requests require refinancing. Scheduled refinancing over the next five years, and the current average interest rates on the refinanced amounts, are as follows:

THOUSANDS OF DOLLARS	Refinancing	Average existing interest rate
2015	$ 180,000	4.22%
2016	953,000	3.85%
2017	427,000	4.80%
2018	721,000	3.78%
2019	723,000	4.21%

Notes to the Consolidated Financial Statements continued

14. Retained earnings

Included in retained earnings is $76,185,023 (2013 – $96,638,703) of investment earnings, over budgeted actuarial earnings, which will be distributed to clients as cash surplus payments once their loan obligations are extinguished and the associated funding debenture is retired (see Note 15). Also included in retained earnings is a mark to market loss on derivative contracts of $93,564,833 (2013 – $47,723,592) The Authority will extinguish these contracts upon refinancing the associated debentures with any resulting gains or losses to be offset through deficiencies or recoveries realized from client's loans. The balance of retained earnings of $40,192,991 (2013 – $33,503,094) is available for operating activities, extinguishing debt obligations, and additional distributions to clients as approved by the Authority.

15. Allocations to clients

Allocations to clients comprise the total of surpluses earned (earnings in excess of debenture interest costs) by the investments relating to specific debenture issues that have matured and were distributed back to clients for whom the financing was undertaken. Accruals of investment income due to clients and allocations of net profit to clients, which apply to the Debt Reserve Fund, are shown separately.

During the year, the following amounts were allocated:

THOUSANDS OF DOLLARS	2014	2013
Cash surplus repayments	$ **7,171**	$ 17,704
Future invoice payments forgiven	**903**	5,629
Actuarial earnings recognized	**95,656**	95,115
	$ **103,730**	$ 118,448

Included in actuarial earnings recognized is $31,488,863 (2013 – $30,770,944) of accrued earnings calculated from the last principal payment dates to December 31, 2014.

16. Supplemental cash flow information

During the year, the Authority received the following cash payments:

THOUSANDS OF DOLLARS	2014	2013
Interest from clients – long-term loans	$ **271,863**	$ 290,861
Interest from clients – short-term loans	**3,831**	2,978
Interest from investments	**45,676**	48,701

During the year, the Authority made the following cash payments:

THOUSANDS OF DOLLARS	2014	2013
Interest on long-term debt	$ **274,293**	$ 277,267
Interest on short-term indebtedness	**5,229**	5,392

The amounts shown on the consolidated statements of comprehensive income are recorded on an accrual basis and may differ from the information presented above on a cash basis.

Notes to the Consolidated Financial Statements continued

17. Financial instruments

(a) Risk management:

The Authority has a restrictive investment policy as defined in the Act which limits investments to fixed income securities of the Government of Canada and its agencies, Provinces in Canada, local governments in Canada, Canadian chartered banks, and Canadian saving institutions. No equity investments are permitted.

All long-term loans to clients are approved according to Provincial legal and financial requirements and each loan request must be reviewed by the Members of the Authority prior to funding. One percent of each borrowing request must be deposited as a refundable cash contribution and held in the Debt Reserve Fund as security against possible loan default. Furthermore, the Authority has the power to levy a province-wide property tax to meet operational requirements.

(b) Liquidity risk:

Liquidity risk is the risk that a portfolio may not be able to settle or meet its obligation on time or at a reasonable price.

Each loan request is funded at the time the Authority raises monies in capital markets and the cash flow on debt repayment is matched to the cash flow on loan collections. The Authority monitors cash resources daily and continually reviews future cash flow requirements to ensure obligations are met.

The Authority maintains a commercial paper program of $500 million, has access to bank demand facilities of $200 million, and maintains a Debt Reserve Fund which is available to ensure timely payment of its obligations.

THOUSANDS OF DOLLARS

December 31, 2014	Carrying amount	Contractual cash flows	*6 months or less*	*6-12 months*	*1-2 years*	*2-5 years*	*more than 5 years*
Non-derivative financial liabilities							
Trade and other payables	$ **36,046**	$ 36,046	*36,046*	-	-	-	-
Bank and short-term indebtedness	**499,699**	499,699	*499,699*	-	-	-	-
Due to clients	**104,204**	104,204	*1,339*	*1,646*	*3,871*	*20,722*	*76,626*
Long-term debt	**6,732,257**	8,018,831	*179,707*	*306,684*	*2,423,558*	*3,147,839*	*1,961,043*
Derivative financial liabilities							
Derivative contracts	**93,565**	-	-	-	-	-	-
	$ **7,465,771**	$ 8,658,780	*716,791*	*308,330*	*2,427,429*	*3,168,561*	*2,037,669*

17. Financial instruments (continued)

(b) Liquidity risk (continued):

THOUSANDS OF DOLLARS									
December 31, 2013		Carrying amount		Contractual cash flows	*6 months or less*	*6-12 months*	*1-2 years*	*2-5 years*	*more than 5 years*
Non-derivative financial liabilities									
Trade and other payables	$	**34,325**	$	34,325	*34,325*	-	-	-	-
Bank and short-term indebtedness		**499,796**		499,796	*499,796*	-	-	-	-
Due to clients		**99,564**		99,564	*3,186*	*2,389*	*2,738*	*18,321*	*72,930*
Long-term debt		**6,526,539**		7,916,679	*626,429*	*313,223*	*1,918,644*	*2,972,409*	*2,085,974*
Derivative financial liabilities									
Derivative contracts		**48,618**		-	-	-	-	-	-
	$	**7,208,842**	$	8,550,364	*1,163,736*	*315,612*	*1,921,382*	*2,990,730*	*2,158,904*

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(c) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments.

Although investments are purchased with the intention to hold to maturity, they are designated as available-for-sale. Changes in the fair value of investments have parallel changes in value in equity. Investment trading will only occur if the transaction is within the investing policy and enhances the overall position of the portfolio. Trading is not done on speculation of interest rate changes and investments are not liquidated in response to declines in market prices.

The Authority sets the lending rates on loans at similar levels to the yield realized on debenture issuances such that the cash flow obligations on debentures and loans financed are matched. Any changes in interest rates during the period in which loans and the related debentures are outstanding will have no impact on profit.

At the reporting date, the interest rate profile of the Authority's interest-bearing financial instruments was:

THOUSANDS OF DOLLARS				
		2014		2013
Fixed rate instruments				
Financial assets	$	**7,421,824**	$	6,969,180
Financial liabilities		**(6,845,847)**		(6,646,588)
	$	**575,977**	$	322,592
Variable rate instruments				
Financial assets	$	**343,417**	$	328,379
Financial liabilities		**(526,359)**		(513,636)
	$	**(182,942)**	$	(185,257)

Notes to the Consolidated Financial Statements continued

17. Financial instruments (continued)

(c) Interest rate risk (continued):

Fair value sensitivity analysis for fixed rate instruments

The Authority does not account for any fixed rate financial assets and liabilities at fair value through profit or loss therefore a change in interest rates at the reporting date would not affect profit or loss.

A 100 basis point change in interest rates would have a parallel change in equity, at the reporting date, by $4,124,680 (2013 – $3,920,214).

The Authority does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. A 100 basis point change in interest rates at the reporting date would have an inverse change in profit or loss by $5,945,486 (2013 – $404,548).

Cash flow sensitivity analysis for variable rate instruments

A 100 basis point change in interest rates at the reporting date would have an inverse change in profit or loss by $1,840,996 (2013 – $2,057,479). This analysis assumes that all other variables remain constant.

(d) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge its obligation or commitment.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

THOUSANDS OF DOLLARS	2014	2013
Investments - available-for-sale	$ **3,006,309**	$ 2,506,485
Loans and receivables	**4,688,528**	4,731,024
Cash and cash equivalents	**70,404**	60,050
Derivative contracts, positive fair value	**-**	894
	$ **7,765,241**	$ 7,298,453

The investment portfolio is restricted to investment grade (BBB or higher) fixed-income securities with the preservation of principal as the highest priority.

Clients requesting loans must first comply with provincially imposed financial criteria which define borrowing limits and assess the ability to service new and existing debt. Within each regional district, each member municipality has joint and several obligations for all long-term loans undertaken. The general credit strength of each individual municipality supports the credit worthiness of the Authority.

For transactions that engage financial institutions as counterparties, the Authority will only enter into agreements with Schedule I or Schedule II banks with a credit rating of single A or better.

17. Financial instruments (continued)

(e) Other price risk and currency risk:

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices.

All loans and long-term debt are recorded at amortized cost using the effective interest method. Clients that pay out loan obligations prior to maturity must cover all cash flow requirements to that maturity date.

The Authority is not subject to currency risk. The functional currency is the Canadian dollar and all transactions are denominated in Canadian dollars.

(f) Derivatives:

The Authority has entered into financial agreements to economically hedge investment yields with third-party financial institutions whereby the Authority will make periodic payments in exchange for certain future cash receipts. At year end, the future payments under these contracts due to the Authority are $151,129,314 (2013 – $160,973,709) while related principal payments by the Authority towards those contracts are $57,228,569 (2013 – $58,887,847).

As at December 31, 2014 a derivative liability was recorded representing the fair value of derivative instruments (note 5). The liability arises from the current market valuation of contracts that have preset future lending rates on client loan agreements. This valuation recognizes the difference between the present value of the stated interest rate in the contracts and the prevailing market rate discounted to December 31, 2014. At the execution date of the contracts, any difference between the contract rate on the client's loan and the market rate on the Authority's debenture will be realized. The value at this time will either be collected from the client or from the financial institution with the intention that the Authority will remain cash neutral in the transaction.

(g) Fair value:

Fair value represents the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction. The fair value of a financial instrument on initial recognition is the value of the consideration given or received. Subsequent to initial recognition, financial assets measured at fair value that are quoted in active markets are based on bid prices. For certain investments and derivative contracts where an active market does not exist, fair values are determined using valuation techniques that refer to observable market data, including discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Notes to the Consolidated Financial Statements continued

17. Financial instruments (continued)

(g) Fair value (continued):

The table below analyses financial instruments carried at fair value, by valuation method.

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

THOUSANDS OF DOLLARS	Level 1	Level 2	**Total**
December 31, 2014			
Available-for-sale financial assets	$ 2,809,364	$ 196,945	**$ 3,006,309**
Derivative financial liabilities	–	(93,565)	**(93,565)**
	$ 2,809,364	$ 103,380	**$ 2,912,744**

THOUSANDS OF DOLLARS	Level 1	Level 2	Total
December 31, 2013			
Available-for-sale financial assets	$ 2,298,632	$ 207,853	$ 2,506,485
Derivative financial assets	–	894	894
	2,298,632	208,747	2,507,379
Derivative financial liabilities	–	(48,618)	(48,618)
	$ 2,298,632	$ 160,129	$ 2,458,761

There were no financial instruments measured using unobservable market data (referred to as Level 3) or transfers of financial instruments between valuation levels during 2014 or 2013.

Notes to the Consolidated Financial Statements continued

17. Financial instruments (continued)

(g) Fair value (continued):

Fair values versus carrying amounts:

The fair values of financial assets and liabilities, together with the carrying amounts shown in the consolidated statement of financial position, are as follows:

THOUSANDS OF DOLLARS	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value				
Cash and cash equivalents	$ 70,404	$ 70,404	$ 60,050	$ 60,050
Investments	3,006,309	3,006,309	2,506,485	2,506,485
Derivative contracts	-	-	894	894
	$ 3,076,713	$ 3,076,713	$ 2,567,429	$ 2,567,429
Assets carried at amortized cost				
Loans and receivables	$ 4,688,528	$ 5,135,914	$ 4,731,024	$ 5,030,628
Liabilities carried at fair value				
Derivative contracts	$ (93,565)	$ (93,565)	$ (48,618)	$ (48,618)
Liabilities carried at amortized cost				
Trade and other payables	$ (36,046)	$ (36,046)	$ (34,325)	$ (34,325)
Bank and short-term indebtedness	(499,699)	(499,699)	(499,796)	(499,796)
Due to clients	(104,204)	(104,204)	(99,564)	(99,564)
Long-term debt	(6,732,257)	(7,316,965)	(6,526,539)	(6,950,727)
	$ (7,372,206)	$ (7,956,914)	$ (7,160,224)	$ (7,584,412)

The table below classifies the fair value of financial instruments not carried at fair value, by valuation method.

THOUSANDS OF DOLLARS	2014		2013	
	Level 1	Level 2	Level 1	Level 2
Loans and receivables	$ -	$ 5,135,914	$ -	$ 5,030,628
Trade and other payables	$ -	$ (36,046)	$ -	$ (34,325)
Bank and short-term indebtedness	(499,699)	-	(499,796)	-
Due to clients	-	(104,204)	-	(99,564)
Long-term debt	-	(7,316,965)	-	(6,950,727)
	$ (499,699)	$ (7,457,215)	$ (499,796)	$ (7,084,616)

Notes to the Consolidated Financial Statements continued

18. Capital management

The Authority manages its capital, defined as equity and long-term debt, with an objective to safeguard the ability to continue as a going concern, and to preserve investor, creditor, and market confidence while maintaining uninterrupted access to capital markets and bank loan facilities.

The Authority monitors its debt servicing costs and matches those obligations to cash flows arising from the lending of funds with the goal of providing clients with low-cost financing.

The Authority has no regulatory or externally imposed capital requirements; however, the bank has imposed certain covenants in connection with the short-term loan facilities. As at December 31, 2014 and 2013, the Authority was in compliance with these covenants. There were no changes to the approach to capital management during the year.

19. Industry segment

The Authority operates in one segment, being the central borrowing agency for the financing of capital requirements of regional districts, regional hospital districts, and municipalities in British Columbia. As at December 31, 2014 and 2013, the Authority has no assets or operations outside of British Columbia.

20. Operating Fund

The Act provides for the establishment of an Operating Fund to meet the annual operating budget. In addition to the administration of the financing activities, the Operating Fund receives financial service fees from the Authority's Investments, Pooled Investment Funds (reported on separately), and the Short-term Financing Programs.

Included in the consolidated statement of financial position of the Authority are the following assets and liabilities of the Operating Fund:

THOUSANDS OF DOLLARS	2014	2013
Cash and cash equivalents	$ 3,414	$ 1,877
Accrued interest and other receivables	13,036	10,978
Property and equipment	262	295
Property held for sale	-	595
Total assets	$ 16,712	$ 13,745
Trade and other payables	$ 531	$ 499
Equity	16,181	13,246
Total liabilities and equity	$ 16,712	$ 13,745

During the year, the Operating Fund recognized total revenue of $5,733,409 (2013 – $4,469,556) and incurred total expenses of $2,799,048 (2013 – $2,611,317).

The Authority has entered into a lease agreement expiring June 1, 2023 with annual payments of $179,833 over the next 9 years.

Notes to the Consolidated Financial Statements continued

21. Related party transactions

Compensation of key personnel and trustees, including executive management, during the years ended December 31, 2014 and 2013 were as follows:

THOUSANDS OF DOLLARS				
		2014		2013
Compensation	$	**842**	$	824

Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the years ended December 31, 2014 and 2013.

22. Employee future benefit obligations

The Authority and its employees contribute to the Municipal Pension Plan (the "Plan"), a jointly trusteed pension plan. The Board of Trustees, representing plan members and employees, is responsible for overseeing the management of the Plan, including investment of assets and administration of benefits. The Plan is a multi-employer contributory defined benefit pension plan. Basic pension benefits provided are defined. The plan has about 182,000 active members and approximately 75,000 retired members. Active members include approximately 36,000 contributors from local governments.

Every three years an actuarial valuation is performed to access the financial position of the Plan and the adequacy of Plan funding. The most recent actuarial valuation as at December 31, 2012, indicated an unfunded liability of $1,370 million for basic pension benefits. The next valuation will be as at December 31, 2015. The actuary does not attribute portions of the unfunded liability to individual employers. Accordingly the Authority's participation in the plan is accounted for as a defined contribution plan with contributions recorded on an accrual basis. The Authority paid $107,096 (2013 – $98,240) for employer contributions and Authority employees paid $93,275 (2013 – $94,126) to the plan in fiscal 2014. Employer contributions are expected to be consistent in future years with minor increases for inflation and plan deficit.

Schedule of Long-Term Debt

Unaudited – for information purposes only

THOUSANDS OF DOLLARS

ISSUE / SERIES	YEAR OF ISSUE	MATURITY DATE	INTEREST RATE PERCENT		ORIGINAL AMOUNT
Issued by the Authority:					
71DS	2009	June 1, 2014	3.100	$	440,000
71DZ	2014	June 2, 2019	2.050		530,000
75DV	2011	June 1, 2016	3.000		515,000
80DY	2013	December 3, 2018	2.350		320,000
85DC	2004	December 2, 2014	4.900		180,000
86DD	2004	December 2, 2024	5.350		50,000
92DF	2005	April 6, 2015	4.700		63,400
93DG	2005	April 6, 2025	4.978		118,300
95DH	2005	October 13, 2015	4.150		167,000
96DI	2005	April 2, 2026	4.600		50,000
97DL	2006	April 19, 2016	4.650		715,000
101DM	2007/2012	December 1, 2017	4.800		720,000
102DN	2007	December 1, 2027	4.950		310,000
103DO	2008	April 23, 2018	4.600		440,000
104DQ	2008	November 20, 2018	5.100		400,000
105DR	2009	June 3, 2019	4.875		630,000
110DT	2010	June 1, 2020	4.450		435,000
113	2011	March 25, 2021	3.560		2,300
116DU	2011	June 1, 2021	4.150		330,000
118DW	2012	June 1, 2022	3.500		290,000
126DX	2013/2014	September 26, 2023	3.750		485,000
130EA	2014	October 14, 2024	2.950		135,000
			carried forward	$	7,326,000

DECEMBER 31, 2014 LONG-TERM DEBT OUTSTANDING	DECEMBER 31, 2013 LONG-TERM DEBT OUTSTANDING	REFERENCES
$ –	$ 440,000	(1)
530,000	-	(1)
515,000	515,000	(1)
320,000	320,000	(1)
–	180,000	(1)
50,000	50,000	(1)
27,000	30,900	(1)
76,213	81,624	(1)
167,000	167,000	(1)
50,000	50,000	(1)
715,000	715,000	(1)
720,000	720,000	(1)
310,000	310,000	(1)
440,000	440,000	(1)
400,000	400,000	(1)
630,000	630,000	(1)
435,000	435,000	(1)
2,300	2,300	(1) (2)
330,000	330,000	(1)
290,000	290,000	(1)
485,000	280,000	(1)
135,000	-	(1)
$ 6,627,513	$ 6,386,824	

Schedule of Long-Term Debt

Unaudited – for information purposes only

THOUSANDS OF DOLLARS					
ISSUE / SERIES	YEAR OF ISSUE	MATURITY DATE	INTEREST RATE PERCENT		ORIGINAL AMOUNT
			brought forward	$	7,326,000
Transferred from the Province of British Columbia:					
517 & 624	1999	November 30, 2023	7.875		297,929
					297,929
Issued through the Federation of Canadian Municipalities:					
84	2004	June 11, 2014	3.182		20,000
90	2005	June 6, 2015	2.900		11,310
107	2009	October 30, 2029	1.920		1,492
108	2009	November 16, 2029	2.230		1,769
109	2010	January 29, 2020	1.830		500
119	2012	June 26, 2022	1.750		3,374
120	2012	June 29, 2022	0.300		2,000
122	2012	November 1, 2032	2.000		1,999
123	2013	March 28, 2033	2.000		3,142
125	2013	May 30, 2023	2.000		4,000
128	2014	November 19, 2029	1.030		1,770
129	2014	July 31, 2034	2.000		10,000
					61,686
Issued through the Canada Mortgage and Housing Corporation:					
111	2010	October 1, 2025	3.350		10,187
114	2011	March 29, 2026	3.650		15,920
115	2011	March 29, 2031	3.890		10,200
					36,307
Debt due to bondholders				$	7,721,592
Unamortized premiums and discounts:					
Long-term debt					

DECEMBER 31, 2014 LONG-TERM DEBT OUTSTANDING	DECEMBER 31, 2013 LONG-TERM DEBT OUTSTANDING	REFERENCES
$ 6,627,513	$ 6,386,824	
4,561	24,810	(1) (3)
4,561	24,810	
–	20,000	(1) (4)
11,310	11,310	(1) (4)
1,492	1,492	(1) (4)
1,361	1,452	(1) (4)
275	325	(1) (4)
2,531	2,868	(1) (4)
2,000	2,000	(1) (4)
1,799	1,899	(1) (4)
2,906	3,063	(1) (4)
3,400	3,800	(1) (4)
1,712	-	(1) (4)
10,000	-	(1) (4)
38,786	48,209	
7,942	8,531	(1) (5)
13,382	14,259	(1) (5)
9,120	9,494	(1) (5)
30,444	32,284	
6,701,304	6,492,127	
30,953	34,412	
$ 6,732,257	$ 6,526,539	

References to Schedule of Long-Term Debt

DECEMBER 31, 2014 AND 2013

1. Non-callable prior to maturity.

2. Community Bond.

3. Debenture issues, relating to the Regional Hospital Districts, transferred from the Province of British Columbia to the Authority under a defeasance agreement dated March 31, 1999. The debt outstanding remains in the name of the Province and is comprised of two debenture issues averaging $2.281 million each. Individual issue detail is not shown.

4. Debentures issued through the Federation of Canadian Municipalities and administered by the Authority.

5. Debentures issued through the Canada Mortgage and Housing Corporation and administered by the Authority.

Schedule of Loans to Clients

Unaudited – for information purposes only

THOUSANDS OF DOLLARS

	BALANCE OUTSTANDING 2013	NEW LOANS 2014	LOANS REPAID 2014	BALANCE OUTSTANDING 2014	PRINCIPAL TO BE REPAID 2014	PRINCIPAL TO BE REPAID 2013
REGIONAL DISTRICTS					(Note a)	
Alberni-Clayoquot	$ 8,539	5,750	632	**$ 13,657**	**$ 7,425**	4,785
Bulkley-Nechako	6,168	650	823	**5,995**	**3,669**	3,858
Capital	285,844	46,861	27,754	**304,951**	**201,443**	188,357
Cariboo	29,846	-	2,244	**27,602**	**15,989**	17,555
Central Coast	202	-	19	**183**	**68**	76
Central Kootenay	60,739	3,467	3,252	**60,954**	**35,929**	36,152
Central Okanagan	162,471	790	18,295	**144,966**	**87,921**	100,253
Columbia Shuswap	52,614	-	2,947	**49,667**	**26,170**	28,194
Comox Valley	49,478	-	5,058	**44,420**	**25,918**	29,185
Cowichan Valley	45,798	1,121	3,035	**43,884**	**26,294**	27,678
East Kootenay	45,326	-	3,413	**41,913**	**27,639**	30,255
Fraser-Fort George	88,813	10,000	8,632	**90,181**	**59,540**	55,379
Fraser Valley	102,020	-	16,220	**85,800**	**48,709**	56,373
Greater Vancouver (Note b)	1,987,580	165,415	212,340	**1,940,655**	**1,234,764**	1,253,333
Kitimat-Stikine	7,598	-	362	**7,236**	**4,482**	4,789
Kootenay Boundary	19,423	4,000	1,619	**21,804**	**12,858**	11,910
Mount Waddington	4,567	-	612	**3,955**	**2,447**	2,859
Nanaimo	74,731	13,105	4,511	**83,325**	**50,454**	44,906
North Okanagan	103,626	312	7,745	**96,193**	**57,114**	62,318
Northern Rockies	16,011	2,247	824	**17,434**	**8,821**	8,172
Okanagan-Similkameen	98,219	9,267	8,356	**99,130**	**61,548**	61,599
Peace River	92,885	8,635	9,390	**92,130**	**57,530**	56,845
Powell River	10,415	43	484	**9,974**	**5,441**	5,763
Skeena-Queen Charlotte	13,277	7,000	978	**19,299**	**11,740**	7,715
Squamish-Lillooet	56,850	5,667	3,794	**58,723**	**36,871**	35,053
Strathcona	5,041	-	1,229	**3,812**	**2,725**	3,647
Sunshine Coast	30,460	2,017	2,233	**30,244**	**17,813**	18,050
Thompson-Nicola	95,188	15,548	9,049	**101,685**	**67,711**	62,973
OTHER						
E-COMM	73,713	-	7,842	**65,871**	**30,479**	36,230
CREST	12,617	-	1,727	**10,890**	**7,051**	8,248
TransLink	237,188	-	15,223	**221,965**	**139,232**	151,792
Regional Hospital Districts *(page 46)*	570,415	48,899	41,339	**577,975**	**358,979**	355,595
	$ 4,447,662	350,794	421,981	**$ 4,376,473**	**$ 2,734,774**	2,769,897

Note a: *The Authority finances borrowing requests through the issuance of bullet debentures. Clients discharge their loan obligations with annual principal repayments which are invested until the maturity date of the associated financing debenture. The Authority budgets to earn a specified return on these investments and annually credits the clients' loan balances with this amount. The difference between the Principal Outstanding of $4,376,475,000 and the Principal To Be Repaid of $2,734,774,000 represents expected future earnings by the Authority.*

Note b: *Included in the Greater Vancouver loan balance outstanding are borrowings of the region's transportation authority (TransLink) in the amount of $708,610,618 (2013 - $821,045,720) which are in the name of and administered through the Greater Vancouver Regional District. Direct borrowings of TransLink are shown under OTHER loan balances. Both loans portfolios are joint and several obligations of the underlying municipalities within the Greater Vancouver Regional District.*

Schedule of Loans to Regional Hospital Districts

Unaudited – for information purposes only

THOUSANDS OF DOLLARS	BALANCE OUTSTANDING 2013	NEW LOANS 2014	LOANS REPAID 2014	BALANCE OUTSTANDING 2014	PRINCIPAL TO BE REPAID 2014	PRINCIPAL TO BE REPAID 2013
HOSPITAL DISTRICTS						
Alberni-Clayoquot	$ 7,661	-	975	$ **6,686**	$ **3,262**	3,782
Capital	163,453	10,114	17,353	**156,214**	**105,416**	110,288
Cariboo	43	-	43	-	-	27
Cariboo-Chilcotin	1,636	-	1,636	-	-	135
Central Okanagan	93,510	13,500	3,962	**103,048**	**66,079**	60,546
Comox-Strathcona	2,092	-	793	**1,299**	**888**	1,459
Cowichan Valley	941	-	177	**764**	**437**	547
Fraser-Fort George	11,531	-	1,059	**10,472**	**5,089**	5,722
Fraser Valley	48,750	-	2,714	**46,036**	**27,713**	29,844
Kitimat-Stikine	22	-	22	-	-	13
Kootenay Boundary	37	-	37	-	-	22
Kootenay East	1,668	-	177	**1,491**	**1,058**	1,205
Mount Waddington	1,273	-	121	**1,152**	**552**	621
Nanaimo	28,074	2,928	1,603	**29,399**	**19,823**	19,217
North Okanagan	8	-	8	-	-	5
North Okanagan/Columbia Shuswup	76,493	-	2,498	**73,995**	**42,430**	44,625
North West	21,507	-	1,247	**20,260**	**11,963**	12,887
Okanagan-Similkameen	1,124	-	208	**916**	**432**	526
Peace River	85,386	-	3,554	**81,832**	**44,590**	47,495
Powell River	107	22,357	107	**22,357**	**15,016**	64
Sea to Sky	6,332	-	296	**6,036**	**3,731**	3,980
Skeena-Queen Charlotte	147	-	131	**16**	**7**	78
Squamish-Lillooet	96	-	96	-	-	59
Sunshine Coast	11,801	-	697	**11,104**	**6,604**	7,146
Thompson	1,372	-	885	**487**	**374**	983
West Kootenay-Boundary	5,351	-	940	**4,411**	**3,515**	4,319
	$ 570,415	48,899	41,339	$ **577,975**	$ **358,979**	355,595

Five-Year Review

Unaudited – for information purposes only

THOUSANDS OF DOLLARS		2014		2013
ASSETS				
Cash and cash equivalents	$	**70,404**	$	60,050
Investments		**3,006,309**		2,506,485
Accrued interest and other receivables		**72,934**		71,880
Derivative contracts		**-**		894
Short-term loans to clients		**239,121**		211,482
Loans to clients		**4,376,473**		4,447,662
Property and equipment		**262**		295
Property held for sale		**-**		595
Total Assets	$	**7,765,503**	$	7,229,343
LIABILITIES AND EQUITY				
Trade and other payables	$	**36,046**	$	34,325
Bank and short-term indebtedness		**499,699**		499,796
Due to clients		**102,204**		99,564
Derivative contracts		**93,565**		48,618
Long-term debt		**6,732,257**		6,526,539
Total Liabilities		**7,465,771**		7,208,842
Equity		**299,732**		90,501
Total Liabilities and Equity	$	**7,765,503**	$	7,299,343
REVENUE				
Interest from loans to clients	$	**276,250**	$	289,370
Investment income		**110,910**		105,233
Financial service fees		**2,316**		1,908
Recoveries from new issues		**13**		15
Operating levy		**251**		247
Total Revenue		**389,740**		396,773
EXPENSE				
Interest on long-term debt		**275,999**		277,913
Interest on bank and short-term indebtedness		**5,229**		5,392
Amortization of (premiums) discounts on long-term debt		**(7,009)**		(6,432)
Administration		**2,891**		2,677
Investment (loss) income due to clients		**9,603**		(6,341)
Debt management and marketing		**133**		142
Loss from settlement of derivative instruments		**12,928**		2,753
Loss (gain) from change in fair value of derivative instruments		**44,956**		(45,411)
Total Expense		**345,615**		230,693
Profit for the year		**44,125**		166,080
Equity, beginning of the year		**90,501**		226,318
Allocations to clients		**(103,730)**		(118,448)
Unrealized gains (losses) from change in fair value of available-for-sale investments		**268,836**		(183,449)
Equity, end of the year	$	**299,732**	$	90,501

	2012	2011	2010
	$ 84,680	$ 88,681	$ 109,345
	2,360,258	2,127,731	1,690,504
	80,534	85,192	98,987
	1,712	2,694	3,048
	152,348	174,682	199,385
	4,609,725	4,730,775	4,758,079
	605	630	655
	–	–	–
	$ 7,289,862	$ 7,210,385	$ 6,803,634
	$ 33,537	$ 37,091	$ 37,951
	499,788	499,767	510,534
	114,009	113,233	110,169
	94,847	85,596	32,133
	6,321,363	6,220,746	5,910,423
	7,063,544	6,954,433	6,601,210
	226,318	255,952	202,424
	$ 7,289,862	$ 7,210,385	$ 6,803,634
	$ 307,870	$ 317,850	$ 327,740
	99,356	89,554	75,534
	2,030	1,903	1,802
	18	50	32
	244	220	211
	409,518	409,577	405,319
	282,562	287,393	286,316
	4,860	4,918	2,621
	(256)	409	(985)
	2,873	2,945	3,225
	4,144	7,955	2,678
	128	148	140
	1,828	6,594	338
	12,233	51,817	27,689
	308,372	362,179	322,022
	101,146	47,398	83,297
	255,952	202,424	193,921
	(104,105)	(116,729)	(104,522)
	(26,675)	122,859	29,728
	$ 226,318	$ 255,952	$ 202,424

Bond Issues

Unaudited – for information purposes only

CANADIAN DOLLAR BONDS ISSUED IN CANADA

ISSUE / SERIES	DESCRIPTION	DATED	AUTHORIZED $(000)	OUTSTANDING DECEMBER 31, 2014 $(000)	INTEREST
71DZ	2.050% Debentures due June 2 2019	June 2, 2014	530,000	530,000	Semi-annual June 2 December 2
75DV	3.000% Debentures due June 1, 2016	June 1, 2011	515,000	515,000	Semi-annual June 1 December 1
80DY	2.350% Debentures due December 3, 2018	December 3, 2013	320,000	320,000	Semi-annual June 3 December 3
86DD	5.350% Debentures due December 2, 2024	October 25, 2004	50,000	50,000	Semi-annual June 2 December 2
92DF	4.700% Serial Debentures due April 6, 2015	April 6, 2005	63,400	27,000	Semi-annual April 6 October 6
93DG	4.978% Amortizing Debentures due April 6, 2025	April 6, 2005	118,300	76,213	Semi-annual April 6 October 6
95DH	4.150% Debentures due October 13, 2015	October 13, 2005	167,000	167,000	Semi-annual April 13 October 13
96DI	4.600% Debentures due April 2, 2026	October 13, 2005	50,000	50,000	Semi-annual April 2 October 2
97DL	4.650% Debentures due April 19, 2016	April 19, 2006	715,000	715,000	Semi-annual April 19 October 19
101DM	4.800% Debentures due December 1, 2017	October 10, 2007	720,000	720,000	Semi-annual June 1 December 1
102DN	4.950% Debentures due December 1, 2027	November 1, 2007	310,000	310,000	Semi-annual June 1 December 1

DENOMINATIONS	CALL PROVISION	SINKING FUND OR MATURITIES NEXT 5 YEARS $(000)	RETRACTION OR EXTENSION	REGISTRAR AND TRANSFER AGENT
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
Fully registered $1,000 and multiples thereof	Non-callable	2015 - 27,000	N/A	BNY Trust Company of Canada
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada

Bond Issues

Unaudited – for information purposes only

CANADIAN DOLLAR BONDS ISSUED IN CANADA

ISSUE / SERIES	DESCRIPTION	DATED	AUTHORIZED $(000)	OUTSTANDING DECEMBER 31, 2014 $(000)	INTEREST
103DO	4.900% Debentures due April 23, 2018	April 23, 2008	440,000	440,000	Semi-annual April 23 October 23
104DQ	5.100% Debentures due November 20, 2018	November 20, 2008	400,000	400,000	Semi-annual May 20 November 20
105DR	4.875% Debentures due June 3, 2019	April 21, 2009	630,000	630,000	Semi-annual June 3 December 3
110DT	4.450% Debentures due June 1, 2020	April 8, 2010	435,000	435,000	Semi-annual June 1 December 1
113	3.560% Debentures due March 25, 2021	March 25, 2011	2,300	2,300	Semi-annual March 25 September 25
116DU	4.150% Debentures due June 1, 2021	April 4, 2011	330,000	330,000	Semi-annual June 1 December 1
118DW	3.350% Debentures due June 1, 2022	April 11, 2012	290,000	290,000	Semi-annual June 1 December 1
126DX	3.750% Debentures due September 26, 2023	September 26, 2013	280,000	280,000	Semi-annual March 26 September 26
130EA	2.950% Debentures due October 14, 2024	October 14, 2014	135,000	135,000	Semi-annual April 14 October 14

DENOMINATIONS	CALL PROVISION	SINKING FUND OR MATURITIES NEXT 5 YEARS $(000)	RETRACTION OR EXTENSION	REGISTRAR AND TRANSFER AGENT
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
Fully registered $100,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada

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