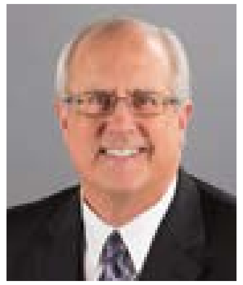
2015 ANNUAL REPORT

MFABC
Municipal Finance Authority of BC

Contents

Message from the Chair



Governance

The past year has been one of transition for the Municipal Finance Authority (MFA) while the organization has enjoyed continued success in providing capital financing at enviable rates for local governments in British Columbia. As Chair, I am pleased to have worked with Vice-Chair Al Richmond (Cariboo Regional District) and re-elected Trustees Derek Corrigan, Greg Moore, Richard Walton (Metro Vancouver), as well as Joe Stanhope (Regional District of Nanaimo). I have welcomed the support of new Trustees Susan Brice (Capital Regional District), Sharon Gaetz (Fraser Valley Regional District), Rob Gay (Regional District of East Kootenay) and Ron Toyota (Regional District of Central Kootenay). The meetings of the Board of Trustees and the Investment Advisory Committee included a review of operating performance, access to financial markets, oversight, business plans, and administration. The performance and outlook for our Pooled Investment Funds were also reviewed. The Finance Committee, chaired by Richard Walton, completed the auditor selection process. After screening by the Human Resources Committee, the Board of Trustees interviewed candidates and selected our new Chief Administrative Officer, Peter Urbanc.

Objectives

The MFA aims to provide capital financing for regional districts and member municipalities through the issuance of securities and to facilitate investment opportunities for local governments. The MFA was able to enhance its long history and reputation of success by meeting these objectives in 2015 when measured against our peers for long-term, short-term, and lease financing. The MFA continues to provide the lowest borrowing rates in Canada for all local governments in British Columbia, regardless of loan or community size. The income generated each year by the MFA is retained for the benefit of all taxpayers in the Province.

Credit ratings

The MFA maintains the highest credit ratings obtainable for its debt. I am pleased to report that the MFA's AAA credit rating, 'Outlook Stable', was reaffirmed by our three credit rating agencies; Standard and Poor's, Moody's, and Fitch. The Commercial Paper program was also given the highest rating.

Education

Part of the MFA's mandate is to support education in the public sector. Trustees and management made presentations on behalf of the MFA at various local government conferences during the year.

Management and staff

The Board of Trustees recognizes and appreciates the MFA staff for their valuable commitment and efforts. Over the years, this dedicated team of professionals has always been more than willing to give every extra effort whenever required.

On behalf of the organization, I would also like to express our thanks to our outgoing CAO, Robin Stringer, for his tremendous contribution over the last eight years. Robin has been an inspired leader and taken the organization to new levels during his tenure. Thank you Robin for your remarkable performance.

We would also like to welcome our new CAO, Peter Urbanc. Peter brings a deep background and a wealth of experience as an advisor, issuer and investor in capital markets. The Board of Trustees noted that among his many talents, Peter has demonstrated the ability to build and lead high-performing teams, a key criterion for success with any financial organization.

MALCOLM BRODIE *Chair*

MFA Trustees and Members

BOARD OF TRUSTEES*

The Board of Trustees exercises 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 districts.

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	N. Jensen
Capital	S. Brice*
Cariboo	A. Richmond*
Central Coast	R. Moody-Humchitt
Central Kootenay	R. Toyota*
Central Okanagan	D. Ophus
Columbia Shuswap	R. Martin
Comox Valley	E. Grieve
Cowichan Valley	T. Walker
East Kootenay	R. Gay*
Fraser-Fort George	L. Hall
Fraser Valley	S. Gaetz*
Fraser Valley	P. Ross
Kitimat-Stikine	H. Nyce
Kootenay Boundary	G. McGregor
Metro Vancouver	M. Brodie*
Metro Vancouver	D. Corrigan*
Metro Vancouver	L. Jackson
Metro Vancouver	D. Mussatto
Metro Vancouver	M. Clay
Metro Vancouver	R. Louie
Metro Vancouver	R. Walton*
Metro Vancouver	J. Villeneuve
Metro Vancouver	R. Stewart
Metro Vancouver	G. Moore*
Mount Waddington	S. Ackland
Nanaimo	J. Stanhope*
North Okanagan	K. Acton
Northern Rockies	B. Streeper
Okanagan-Similkameen	M. Pendergraft
Peace River	B. Sperling
Powell River	P. Brabazon
Skeena-Queen Charlotte	B. Pages
Squamish-Lillooet	J. Crompton
Strathcona	J. MacDonald
Sunshine Coast	G. Nohr
Thompson-Nicola	J. Ranta

Message from the Chief Administrative Officer

My final CAO report with thanks.

Income and Assets Under Management

Our Retention Fund increased to $47 million by the end of 2015, a $6.9 million increase from 2014. This was accomplished by a combination of Income from Operations of $2.3 million, Short-term debt fund profit of $3.4 million, and interest earned on the Fund itself of $1.2 million. Assets under management exceeded $8.1 billion at the end of 2015. Our Pooled Investment Funds, reported on separately, crested at $2.3 billion during the year.

Debt Financing - lowest rates in Canada compared to our peers

Our long-term borrowing raised $480 million through three debenture launches during the year. April proceeds were $165 million with the re-opening of an existing debenture with a yield of 2.154% for 9.5 years. In October we placed two issuances, raising $125 million with a new 10 year debenture with a yield of 2.689% followed by a $190 million with a new 5 year debenture with a yield of 1.779%

Our short-term borrowing program maintained a running balance over $500 million in commercial paper issued. We were able to provide shorter term financing at 1.38% and lease program financing at 2.00%

Our debt financing at the lowest rates in Canada when compared to our peers, is attributed to many factors. Our market share is the largest in Canada in the municipal category, with both our long and short term debt achieving the highest possible credit ratings (AAA outlook stable and P1-High respectively). Our bank syndicate of eight underwriters understands our business and is critical to each debenture launch. The institutional quality of the MFA is also recognized by investors, reflecting 45 years of continuous success underpinned by the strong system of local government in British Columbia. These elements provide both liquidity and security, a message we shared with current and potential investors across North America in 2015.

Employees - our most critical resource

Thank you to a remarkable team; Graham Egan, Director of Finance and Shelley Hahn, Director of Business Services who have the history, expertise and insight into the complex operations of our business, Jane Morrison our Short Term Loan Officer, Renata Hale who rejoined the MFA in 2014 in the new role of Manager of Strategic Initiatives and Cindy Wong who joined the MFA in 2008 and became our first Controller. In 2015, two further new positions were created, Shannon Cottrell as Business Support Officer and Andrew Hoge as Credit and Economic Analyst.

You stood by me and with me. Many indelible moments, often marked with humour. I will miss you all.

Board of Trustees

I express my appreciation for your trust and at times patience with me. I have learned much about the dedication of elected officials in municipal office in British Columbia. The enormous commitment of time to public office is often not properly recognized.

I have had the pleasure of working with two Chairs. I thank former Chair Frank Leonard and Chair Malcolm Brodie for your wisdom, guidance, and insight. A common bond is your belief in the MFA and its purpose of serving the taxpayers of British Columbia.

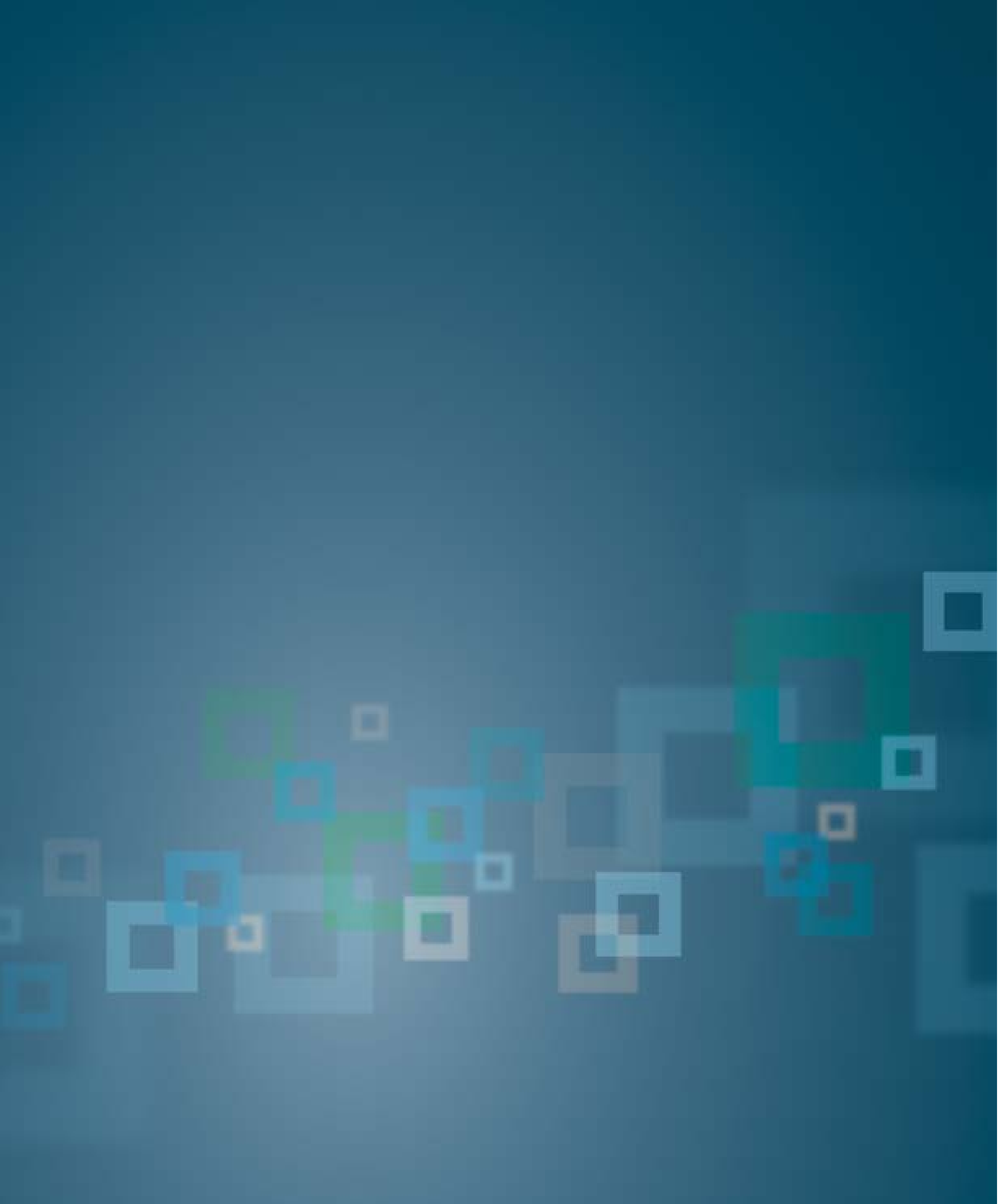
It has been a real run for me.

ROBIN STRINGER *Chief Administrative Officer*

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 2015 fiscal year and should be read in conjunction with the 2015 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), excluding the City of Vancouver, must be borrowed through the MFA.

The MFA also provides short-term investment opportunities for its clients 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 commercial paper program, authorized up to $700 million, and 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 equipment , and funding in anticipation of long-term borrowing or qualifying future revenue receipts. In order to maintain a continued presence in financial markets, an amount in excess of $500 million is typically 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 primarily issues 5 and 10-year bonds thereby accommodating the 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 Canadian chartered banks and financial institutions.

Short-term funding needs have been fulfilled through a commercial paper program authorized up to $700 million and supported by a dealer network of 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 jointly 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 securities, 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 1.00% 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. Administering the repayment process in this manner augments the liquidity of the MFA through emphasis of regional districts' 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 are held as an offset against the associated source of financing, 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 AND STAFF

The MFA functions with a small professional team of dedicated employees and maintains a high level of employment continuity contributing to the organization's key successes. The specialized nature of the MFA's operations requires a highly trained and efficient team skilled in both areas of finance and legislation. 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

Financial strength is founded on the structure of the organization itself and the conservative nature of 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 have annually affirmed the MFA and its general obligation debenture debt as the highest investment quality available. Credit ratings as at December 31, 2015; **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, 2015; **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 2015 the MFA issued a new 5-year debenture, a new 10-year debenture, and reopened an existing 10-year debenture. The performance of these issuances is measured against senior governments and large municipalities in Canada.

April: Issued an additional $165 million of the 2.95% October 14, 2024 debenture with a return of 2.154% bringing the total outstanding to $300 million. At the time of this re-opening, the Government of Canada 10-year bond was yielding 1.289% while other comparable municipal issuers were returning a yield in the range of 2.25% - 2.50%.

October: Issued $125 million of a new 10-year debenture with a coupon of 2.65% and yield of 2.689% dated October 2, 2025. At the time of this issue, the Government of Canada 10-year bond was yielding 1.519% while other comparable municipal issuers were returning a yield in the range of 2.75% - 3.00%.

October: Issued $190 million of a new 5-year debenture with a coupon of 1.75% and yield of 1.779% dated October 15, 2020. At the time of this issue, the Government of Canada 5-year bond was yielding 0.834% while other comparable municipal issuers were returning a yield in the range of 1.90% - 2.15%.

As well, during 2015, 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.

Market and Interest Rate Risk

To minimize exposure due to market volatility, the MFA borrows in Canadian dollar denominations only 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 requirements of associated funding debentures. For clients with loan terms that extend beyond the maturity of the related debenture(s), an interest rate refinancing 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 ($107 million as at December 31, 2015), ensuring access to a $200 million bank facility, and actively participating in the commercial paper market.

Although never undertaken in its history, 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. Since inception, the MFA has never experienced a loan default nor had to access its debt reserve fund. Prior to funding any loans, 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 global and provincial economic conditions, accesses regional political issues, and analyzes the submission of client's financial records.

OUTLOOK

The continued low Canadian dollar and suppressed oil prices remain poised to benefit British Columbia's economy in 2016 with growth expectations in the range of 3.0%. The outlook for 2017 and beyond is also encouraging as the US economy continues to recover even though commodity prices will likely lag as China's demand fluctuates.

Projections for 2016 indicate an estimated $400 million in new long-term loans and an additional $1.2 billion in refinancing of existing long-term loans. As well the MFA will continue to maintain a market presence of $500 million of commercial paper outstanding with a potential increase up to a maximum of $700 million if expected short-term borrowing demands materialize.

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 2015, total revenue amounted to $404 million against total expense of $313 million for an annual profit of $91 million. Removing the negative impact of valuation adjustments on derivative contracts in the amount of $103 million, the reported retained earnings balance of $11 million increases to $114 million which is comprised of $67 million of undistributed payments to clients and $47 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 $103 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 31, 2016.

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, CPA, 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, 2015 and December 31, 2014, 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, 2015 and December 31, 2014, 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 Professional Accountants

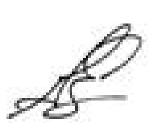
March 31, 2016
Victoria, British Columbia, Canada

Consolidated Statements of Financial Position

AS AT DECEMBER 31

THOUSANDS OF DOLLARS	2015	2014
ASSETS		
Cash and cash equivalents	$ 140,220	$ 70,404
Investments (Note 4)	3,305,574	3,006,309
Accrued interest and other receivables	79,259	72,934
Short-term loans to clients (Note 5)	303,158	239,121
Loans to clients (Note 6)	4,299,992	4,376,473
Property and equipment (Note 7)	250	262
Total Assets	$ 8,128,453	$ 7,765,503
LIABILITIES		
Trade and other payables (Note 8)	$ 35,864	$ 36,046
Bank and short-term indebtedness (Note 9)	549,779	499,699
Due to clients (Note 10)	107,642	104,204
Derivative contracts (Note 11)	102,827	93,565
Long-term debt (Note 12)	7,020,403	6,732,257
Total Liabilities	7,816,515	7,465,771
EQUITY		
Accumulated other comprehensive income	300,889	276,919
Retained earnings (Note 13)	11,049	22,813
Total Equity	311,938	299,732
Total Liabilities and Equity	$ 8,128,453	$ 7,765,503

The notes on pages 18 to 37 are an integral part of these consolidated financial statements



Graham Egan, CPA, CA

Director of Finance
Victoria, British Columbia, Canada

Consolidated Statements of Comprehensive Income

FOR THE YEARS ENDED DECEMBER 31

THOUSANDS OF DOLLARS	2015	2014
REVENUE		
Interest from loans to clients	$ 268,206	$ 276,250
Investment income	119,767	108,876
Amortization of premiums on long-term debt	12,077	11,077
Financial service fees	2,278	2,316
Recoveries from new issues	1,739	2,047
Operating levy	264	251
Total Revenue	404,331	400,817
EXPENSE		
Interest on long-term debt	274,238	275,999
Interest on bank and short-term indebtedness	3,759	5,229
Amortization of discounts on long-term debt	4,147	4,068
Administration	3,229	2,891
Investment income due to clients (Note 10)	3,562	9,603
Debt management and marketing	123	133
Settlement of derivative contracts	15,003	12,928
Loss from change in fair value of derivative contracts	9,262	45,841
Total Expense	313,323	356,692
Profit for the year	91,008	44,125
OTHER COMPREHENSIVE INCOME		
Net change in fair value of available-for-sale financial assets:		
to be realized in profit or loss on disposal	31,233	269,225
transferred to profit or loss	(7,263)	(389)
Other Comprehensive Income for the year	23,970	268,836
Total Comprehensive Income for the year	$ 114,978	$ 312,961

The notes on pages 18 to 37 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, 2013	$ 8,083	$ 82,418	$ 90,501
Profit for the year	–	44,125	44,125
Allocations to clients (Note 14)	–	(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
Profit for the year	–	91,008	91,008
Allocations to clients (Note 14)	–	(102,772)	(102,772)
Net change in fair value of available-for-sale financial assets:			
to be realized in profit or loss on disposal	31,233	–	31,233
transferred to profit or loss	(7,263)	–	(7,263)
Balance December 31, 2015	$ 300,889	$ 11,049	$ 311,938

The notes on pages 18 to 37 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	2015	2014
OPERATING ACTIVITIES		
Profit for the year	$ 91,008	$ 44,125
Non-cash items:		
Gain on disposal of investments	(7,134)	(3,097)
Gain on disposal of property held for sale	–	(6,01)
Accretion of discounts on investments	(64,783)	(61,278)
Amortization of premiums and discounts on long-term debt	(7,930)	(7,009)
Investment income due to clients	3,562	9,603
Depreciation on property and equipment	36	33
Loss from change in fair value of derivative contracts	9,262	45,841
Changes in accrued interest and other receivables	(6,325)	(1,054)
Changes in trade and other payables	(182)	1,721
Net cash provided by operating activities	17,514	28,284
INVESTING ACTIVITIES		
Investments sold or matured	905,398	1,483,301
Investments purchased	(1,108,776)	(1,649,914)
Purchase of leasehold improvements	(24)	–
Proceeds on sale of property	–	1,194
Net cash applied to investing activities	(203,402)	(165,419)
FINANCING ACTIVITIES		
New debt issued	511,096	885,320
Debt retired	(215,020)	(672,593)
Loan repayments from clients	425,475	482,638
New loans to clients	(513,962)	(535,646)
Bank indebtedness and commercial paper issued	4,701,328	4,494,709
Bank indebtedness and commercial paper repaid	(4,651,248)	(4,494,806)
Contributions from clients for new loans	3,078	3,508
Contributions and earnings refunded to clients	(3,202)	(8,470)
Payments of surplus to clients (Note 14)	(1,841)	(7,171)
Net cash provided by financing activities	255,704	147,489
Increase in cash and cash equivalents	69,816	10,354
Cash and cash equivalents, beginning of the year	70,404	60,050
Cash and cash equivalents, end of the year	$ 140,220	$ 70,404

The notes on pages 18 to 37 are an integral part of these consolidated financial statements

Supplementary cash flow information (Note 15)

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 31, 2016.

(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 6) are based on expectations of interest income earned on investments. Actual income realized will differ from the estimates, perhaps materially.

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 13). The amount of retained earnings re-allocated to clients is disclosed in the consolidated statements of changes in equity (see note 14).

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 1.00% 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 are comprised of 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 expired.

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.

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:

- 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 2014 comparative figures have been reclassified to conform to the consolidated financial statement presentation for the current year.

(j) 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, 2015 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:

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets and financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 (2014) includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. Mandatory adoption of the IFRS 9 (2014) is January 1, 2018. 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 15 is January 1, 2018. The extent of impact to the Authority has not been determined.

(iii) IFRS 16 Leases:

In January 2016, IFRS 16 was issued, which will replace IAS 17. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard is effective for the year beginning January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. 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 and maturities:

THOUSANDS OF DOLLARS	within 1yr	1-3yrs	3-5yrs	over 5yrs	2015	2014
Government of Canada	$ 6,967	–	–	25,501	$ 32,468	$ 37,997
Provincial governments	16,149	6,356	80,529	1,801,465	1,904,499	1,618,165
Chartered banks	65,902	288,480	112,103	179,611	646,096	701,288
Credit unions	64,970	5,000	12,573	10,361	92,904	87,907
Local governments	14,259	2,142	37,442	564,769	618,612	532,407
Commercial paper	5,994	–	–	–	5,994	16,978
Corporate bonds	5,001	–	–	–	5,001	11,567
	$ 179,242	301,978	242,647	2,581,707	$ 3,305,574	$ 3,006,309

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

5. 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 three programs:

Leasing Program: short-term leasing of capital assets.

Equipment Financing Program: short-term funding 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	2015	2014
Tax revenue anticipation	$ –	$ 600
Temporary financing of capital projects	242,796	202,910
Short-term capital borrowing	36,145	1,442
Short-term leases of capital equipment	24,217	34,169
	$ 303,158	$ 239,121

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 $16,145,710 (2014 – $32,141,485).

6. 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.

Notes to the Consolidated Financial Statements continued

6. Loans to clients (continued)

The aggregate principal payments recoverable from clients in each of the next five years and aggregated to maturity (excluding principal payments forgiven as outlined in note 14) are as follows:

THOUSANDS OF DOLLARS	
2016	$ 279,205
2017	272,181
2018	253,524
2019	227,234
2020	210,353
2021 – 2025	875,440
2026 and thereafter	571,210
	$ 2,689,147

These scheduled principal payments require management to estimate an expected earnings rate on investments, (5.00% up to and including Issue 88, 4.00% on issues up to and including Issue 130, and 3.50% thereafter) therefore included in loans to clients are budgeted non-cash actuarial adjustments of $1,610,845,169. 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 annually the associated actuarial adjustments are credited to the loan balance outstanding.

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 forgiven.

7. Property and equipment

Property and equipment represents 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 $335,134 which is reflected net of accumulated depreciation of the building of $85,000 (2014 – $50,536).

8. Trade and other payables

Trade and other payables consist of:

THOUSANDS OF DOLLARS	2015	2014
Interest payable – Long-term debt	$ 35,231	$ 35,393
Other payables	633	653
	$ 35,864	$ 36,046

Notes to the Consolidated Financial Statements continued

9. Bank and short-term indebtedness

The Authority operates a commercial paper facility with an authorized limit of $700 million (2014 – $500 million) 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 $350 million which can only be accessed if the Authority is unable to issue or roll maturing commercial paper. As at year end, the average interest rate on commercial paper issued was 0.62% (2014 – 1.04%).

The Authority has an agreement under which a chartered bank (the "bank") provides a revolving credit facility of up to $200 million. 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 relating to debt issues refinanced through proceeds from short-term facilities was NIL (2014 – $4,204,765).

10. 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 1.00% 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 or 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		
2016	$	3,972
2017		6,236
2018		10,384
2019		4,772
2020		2,274
2021 – 2025		32,764
2026 and thereafter		47,240
	$	107,642

10. Due to clients (continued)

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

THOUSANDS OF DOLLARS	2015	2014
Cash	$ 25,297	$ 26,660
Accrued interest receivable	291	274
Investments	82,054	77,270
	$ 107,642	$ 104,204

Included in Investments are investments of the Debt Reserve Fund:

THOUSANDS OF DOLLARS	2015	2014
Government of Canada	$ 14,802	$ 28,567
Provincial governments	22,095	16,084
Chartered banks	24,578	16,895
Local governments	20,579	15,724
	$ 82,054	$ 77,270

Also integral to the Debt Reserve Fund, but not presented on the consolidated statements of financial position, are Demand Notes Receivable from clients of $220,709,111 (2014 – $219,779,810) 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.

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 $2,768,913 (2014 – $3,132,355) and incurred total expenses of $88,414 (2014 – $88,581). Included in accumulated other comprehensive income is an unrealized mark-to-market valuation gain on the investments of $881,861 (2014 – $6,558,892). 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 $3,562,360 (2014 – $9,602,666) and is recorded as investment income due to clients.

11. 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. The notional amount of the contracts outstanding $380,940,696 (2014 – $429,416,996) 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.

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, 2015	$ 301,451	5.24%	$ 79,490	5.24%
December 31, 2014	48,476	5.18%	380,941	5.24%

12. 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	
2016	$ 1,241,948
2017	732,320
2018	1,172,710
2019	1,174,611
2020	638,521
2021 – 2025	1,656,256
2026 and thereafter	372,956
	6,989,322
Transaction costs, net of accumulated amortization	31,081
	$ 7,020,403

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. Estimated refinancing over the next five years is dependent on a number of considerations such as maturity date of related loans, sinking fund positions, estimated future investment income, and estimated future interest rates, among others. The estimated refinancings and current average interest rates associated, are as follows:

THOUSANDS OF DOLLARS	Refinancing	Average existing interest rate
2016	$ 1,181,000	3.99%
2017	449,000	4.80%
2018	942,000	4.06%
2019	717,000	4.18%
2020	377,000	4.11%

13. Retained earnings

Included in retained earnings is $66,895,593 (2014 – $76,185,023) of investment earnings, over budgeted actuarial earnings, which will be distributed to clients as surplus payments once their loan obligations are extinguished and the associated funding debenture is retired (see Note 14). Also included in retained earnings is a mark-to-market loss on derivative contracts of $102,827,073 (2014 – $93,564,833). 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 $46,980,243 (2014 – $40,192,991) is available for operating activities, extinguishing debt obligations, and additional distributions to clients as approved by the Authority.

14. 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	2015	2014
Cash surplus repayments	$ 1,841	$ 7,171
Future invoice payments forgiven	400	903
Actuarial earnings recognized	100,531	95,656
	$ 102,772	$ 103,730

Included in actuarial earnings recognized is $34,599,453 (2014 – $31,488,863) of accrued earnings calculated from the last principal payment dates to December 31, 2015.

15. Supplemental cash flow information

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

THOUSANDS OF DOLLARS	2015	2014
Interest from clients on long-term loans	$ 264,080	$ 271,863
Interest from clients on short-term loans	3,923	3,831
Interest from investments	42,736	45,676

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

THOUSANDS OF DOLLARS	2015	2014
Interest on long-term debt	$ 274,400	$ 274,293
Interest on short-term indebtedness	3,759	5,229

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.

16. 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 utilizes a commercial paper facility with an authorized limit of $700 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, 2015	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	$ 35,864	$ 35,864	*35,864*	-	-	-	-
Bank and short-term indebtedness	549,779	549,779	*549,779*	-	-	-	-
Due to clients	107,642	107,642	*1,676*	*2,296*	*6,236*	*17,430*	*80,004*
Long-term debt	7,020,403	8,131,492	*659,255*	*833,979*	*2,312,837*	*2,442,950*	*1,882,471*
Derivative financial liabilities							
Derivative contracts	102,827	-	-	-	-	-	-
	$ 7,816,515	$ 8,824,777	*1,246,574*	*836,275*	*2,319,073*	*2,460,380*	*1,962,475*

16. Financial instruments (continued)

(b) Liquidity risk (continued):

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*

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

	2015	2014
Fixed rate instruments		
Financial assets	$ 7,663,566	$ 7,421,824
Financial liabilities	(7,138,610)	(6,845,847)
	$ 524,956	$ 575,977
Variable rate instruments		
Financial assets	$ 464,634	$ 343,417
Financial liabilities	(575,076)	(526,359)
	$ (110,442)	$ (182,942)

16. 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 $5,106,077 (2014 – $4,124,680).

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 $6,979,951 (2014 – $5,945,486).

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 $1,466,922 (2014 – $1,840,996). 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	2015	2014
Investments available-for-sale	$ 3,305,574	$ 3,006,309
Loans and receivables	4,682,409	4,688,528
Cash and cash equivalents	140,220	70,404
	$ 8,128,203	$ 7,765,241

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.

16. 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 $153,132,030 (2014 – $153,831,129). The Authority has made related principal payments towards those contracts of $65,102,710 (2014 – $57,228,569). Remaining contractual payments towards the contracts are $26,037,785 (2014 – $34,459,637).

As at December 31, 2015 a derivative liability was recorded representing the fair value of derivative instruments (note 11). 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, 2015. 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

16. Financial instruments (continued)

(g) Fair value (continued):

The table below analyzes 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, 2015			
Available-for-sale financial assets	$ 3,121,684	$ 183,890	$ 3,305,574
Derivative financial liabilities	–	(102,827)	(102,827)
	$ 3,121,684	$ 81,063	$ 3,202,747

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

There were no financial instruments measured using unobservable market data (referred to as Level 3) or transfers of financial instruments between valuation levels during 2015 or 2014.

Notes to the Consolidated Financial Statements continued

16. 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	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value				
Cash and cash equivalents	$ 140,220	$ 140,220	$ 70,404	$ 70,404
Investments	3,305,574	3,305,574	3,006,309	3,006,309
	$ 3,445,794	$ 3,445,794	$ 3,076,713	$ 3,076,713
Assets carried at amortized cost				
Loans and receivables	$ 4,682,409	$ 5,077,962	$ 4,688,528	$ 5,135,914
Liabilities carried at fair value				
Derivative contracts	$ (102,827)	$ (102,827)	$ (93,565)	$ (93,565)
Liabilities carried at amortized cost				
Trade and other payables	$ (35,864)	$ (35,864)	$ (36,046)	$ (36,046)
Bank and short-term indebtedness	(549,779)	(549,779)	(499,699)	(499,699)
Due to clients	(107,642)	(107,642)	(104,204)	(104,204)
Long-term debt	(7,020,403)	(7,544,192)	(6,732,257)	(7,316,965)
	$ (7,713,688)	$ (8,237,477)	$ (7,372,206)	$ (7,956,914)

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

THOUSANDS OF DOLLARS	2015		2014	
	Level 1	Level 2	Level 1	Level 2
Loans and receivables	$ -	$ 5,077,962	$ -	$ 5,135,914
Trade and other payables	$ -	$ (35,864)	$ -	$ (36,046)
Bank and short-term indebtedness	(549,779)	-	(499,699)	-
Due to clients	-	(107,642)	-	(104,204)
Long-term debt	-	(7,544,192)	-	(7,316,965)
	$ (549,779)	$ (7,687,698)	$ (499,699)	$ (7,457,215)

Notes to the Consolidated Financial Statements continued

17. 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, 2015 and 2014, the Authority was in compliance with these covenants. There were no changes to the approach to capital management during the year.

18. 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, 2015 and 2014, the Authority has no assets or operations outside of British Columbia.

19. 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	2015	2014
Cash and cash equivalents	$ 2,651	$ 3,414
Accrued interest and other receivables	16,054	13,036
Property and equipment	250	262
Total assets	$ 18,955	$ 16,712
Trade and other payables	$ 479	$ 531
Equity	18,476	16,181
Total liabilities and equity	$ 18,955	$ 16,712

During the year, the Operating Fund recognized total revenue of $5,380,265 (2014 – $5,733,409) and incurred total expenses of $3,084,993 (2014 – $2,799,048).

The Authority has entered into a lease agreement expiring June 30, 2023 with estimated annual payments of $227,425 over the next 8 years.

Notes to the Consolidated Financial Statements continued

20. Related party transactions

Compensation of key personnel and trustees, including executive management, during the years ended December 31, 2015 and 2014 were as follows:

THOUSANDS OF DOLLARS	2015	2014
Compensation	$ 828	$ 842

Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the years ended December 31, 2015 and 2014.

21. Employee future benefit obligations

The Authority and its employees contribute to the Municipal Pension Plan (the "Plan"), a jointly trusteed pension plan. A 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 approximately 184,000 active members and approximately 79,000 retired members. Active members include approximately 40,000 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 of the entire Plan on 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 with results available later in 2016. 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. In relation to it's nine employes during the fiscal year, the Authority paid $119,413 (2014 – $107,096) for employer contributions and Authority employees paid $95,867 (2014 – $93,275) to the Plan. Employer contributions are expected to be consistent in future years with minor increases for inflation and Plan deficits.

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		DECEMBER 31, 2015 LONG-TERM DEBT OUTSTANDING		DECEMBER 31, 2014 LONG-TERM DEBT OUTSTANDING	REFERENCES
Issued by the Authority:										
71DZ	2014	June 2, 2019	2.050	$	530,000	$	530,000	$	530,000	(1)
75DV	2011	June 1, 2016	3.000		515,000		515,000		515,000	(1)
80DY	2013	December 3, 2018	2.350		320,000		320,000		320,000	(1)
86DD	2004	December 2, 2024	5.350		50,000		50,000		50,000	(1)
92DF	2005	April 6, 2015	4.700		63,400		-		27,000	(1)
93DG	2005	April 6, 2025	4.978		118,300		70,529		76,213	(1)
94EC	2015	October 15, 2020	1.750		190,000		190,000		-	(1)
95DH	2005	October 13, 2015	4.150		167,000		-		167,000	(1)
96DI	2005	April 2, 2026	4.600		50,000		50,000		50,000	(1)
97DL	2006	April 19, 2016	4.650		715,000		715,000		715,000	(1)
101DM	2007/2012	December 1, 2017	4.800		720,000		720,000		720,000	(1)
102DN	2007	December 1, 2027	4.950		310,000		310,000		310,000	(1)
103DO	2008	April 23, 2018	4.600		440,000		440,000		440,000	(1)
104DQ	2008	November 20, 2018	5.100		400,000		400,000		400,000	(1)
105DR	2009	June 3, 2019	4.875		630,000		630,000		630,000	(1)
110DT	2010	June 1, 2020	4.450		435,000		435,000		435,000	(1)
113	2011	March 25, 2021	3.560		2,300		2,300		2,300	(1) (2)
116DU	2011	June 1, 2021	4.150		330,000		330,000		330,000	(1)
118DW	2012	June 1, 2022	3.350		290,000		290,000		290,000	(1)
126DX	2013/2014	September 26, 2023	3.750		485,000		485,000		485,000	(1)
130EA	2014/2015	October 14, 2024	2.950		300,000		300,000		135,000	(1)
133EB	2015	October 2, 2025	2.650		125,000		125,000		-	(1)
			carried forward	$	7,186,000	$	6,907,829	$	6,627,513	

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	DECEMBER 31, 2015 LONG-TERM DEBT OUTSTANDING	DECEMBER 31, 2014 LONG-TERM DEBT OUTSTANDING	REFERENCES
			brought forward	$ 7,186,000	$ 6,907,829	$ 6,627,513	
Transferred from the Province of British Columbia:							
517 / 624	1999	November 30, 2023	7.875	4,561	4,561	4,561	(1) (3)
Issued through the Federation of Canadian Municipalities:							
90	2005	June 6, 2015	2.900	11,310	-	11,310	(1) (4)
107	2009	October 30, 2019	1.920	1,492	1,492	1,492	(1) (4)
108	2009	November 16, 2029	2.230	1,769	1,270	1,361	(1) (4)
109	2010	January 29, 2020	1.830	500	225	275	(1) (4)
119	2012	June 26, 2022	1.750	3,374	2,193	2,531	(1) (4)
120	2012	June 29, 2022	0.300	2,000	2,000	2,000	(1) (4)
122	2012	November 1, 2032	2.000	1,999	1,699	1,799	(1) (4)
123	2013	March 28, 2033	2.000	3,142	2,749	2,906	(1) (4)
125	2013	May 30, 2023	2.000	4,000	3,000	3,400	(1) (4)
128	2014	November 16, 2029	1.030	1,770	1,598	1,712	(1) (4)
129	2014	July 31, 2034	2.000	10,000	9,500	10,000	(1) (4)
132	2015	June 12, 2025	2.250	7,408	7,037	-	(1) (4)
134	2015	October 14, 2025	2.250	10,000	10,000	-	(1) (4)
135	2015	November 20, 2035	3.000	1,000	1,000	-	(1) (4)
136	2015	November 30, 2025	2.250	4,629	4,629	-	(1) (4)
				64,393	48,392	38,786	
Issued through the Canada Mortgage and Housing Corporation:							
111	2010	October 1, 2025	3.350	10,187	7,333	7,942	(1) (5)
114	2011	March 29, 2026	3.650	15,920	12,474	13,382	(1) (5)
115	2011	March 29, 2031	3.890	10,200	8,733	9,120	(1) (5)
				36,307	28,540	30,444	
Debt due to bondholders				$ 7,291,261	6,989,322	6,701,304	
Unamortized premiums and discounts:					31,081	30,953	
Long-term debt					$ 7,020,403	$ 6,732,257	

References to Schedule of Long-Term Debt

DECEMBER 31, 2015 AND 2014

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.
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 2014	NEW LOANS 2015	LOANS REPAID 2015	BALANCE OUTSTANDING 2015	PRINCIPAL TO BE REPAID 2015	PRINCIPAL TO BE REPAID 2014
REGIONAL DISTRICTS					(Note a)	
Alberni-Clayoquot	$ 13,657	2,912	737	$ 15,832	$ 8,694	7,425
Bulkley-Nechako	5,995	-	587	5,408	3,226	3,669
Capital	304,951	20,937	28,380	297,508	196,803	201,443
Cariboo	27,602	152	2,337	25,417	14,761	15,989
Central Coast	183	-	20	163	59	68
Central Kootenay	60,954	-	3,504	57,450	33,261	35,929
Central Okanagan	144,966	45,115	18,363	171,718	108,696	87,921
Columbia Shuswap	49,667	3,320	3,244	49,743	26,319	26,170
Comox Valley	44,420	610	5,019	40,011	23,452	25,918
Cowichan Valley	43,884	2,000	3,201	42,683	25,425	26,294
East Kootenay	41,913	14,150	3,790	52,273	33,637	27,639
Fraser-Fort George	90,181	16,821	9,464	97,538	65,296	59,540
Fraser Valley	85,800	1,900	4,743	82,957	46,711	48,709
Greater Vancouver (Note b)	1,940,655	121,500	180,020	1,882,135	1,193,329	1,234,764
Kitimat-Stikine	7,236	-	372	6,864	4,179	4,482
Kootenay Boundary	21,804	-	1,612	20,192	11,751	12,858
Mount Waddington	3,955	-	619	3,336	2,065	2,447
Nanaimo	83,325	4,860	5,121	83,064	51,552	50,454
North Okanagan	96,193	9,380	7,631	97,942	59,289	57,114
Northern Rockies	17,434	-	846	16,588	8,354	8,821
Okanagan-Similkameen	99,130	1,896	8,901	92,125	56,596	61,548
Peace River	92,130	17,499	7,801	101,828	64,794	57,530
Powell River	9,974	-	802	9,172	4,927	5,441
Skeena-Queen Charlotte	19,299	-	3,434	15,865	9,746	11,740
Squamish-Lillooet	58,723	3,187	4,206	57,704	36,125	36,871
Strathcona	3,812	-	913	2,899	2,003	2,725
Sunshine Coast	30,244	8,408	2,756	35,896	24,842	17,813
Thompson-Nicola	101,685	16,476	9,697	108,464	75,514	67,711
OTHER						
E-COMM	65,871	-	9,077	56,794	23,918	30,479
CREST	10,890	-	1,802	9,088	5,853	7,051
TransLink	221,965	-	15,829	206,136	126,672	139,232
Regional Hospital Districts *(page 44)*	577,975	16,686	39,463	555,198	341,294	358,979
	$ 4,376,473	307,809	384,291	$ 4,299,991	$ 2,689,143	2,734,774

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 $4,299,991,000 and the Principal To Be Repaid of $2,689,143,000 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 $634,131,061 (2014 - $708,610,618) 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 2014	NEW LOANS 2015	LOANS REPAID 2015	BALANCE OUTSTANDING 2015	PRINCIPAL TO BE REPAID 2015	PRINCIPAL TO BE REPAID 2014
HOSPITAL DISTRICTS						
Alberni-Clayoquot	$ 6,686	-	945	$ 5,741	$ 2,754	3,262
Capital	156,214	9,051	17,153	148,112	99,889	105,416
Central Okanagan	103,048	5,700	4,485	104,263	66,248	66,079
Comox-Strathcona	1,299	-	470	829	559	888
Cowichan Valley	764	-	147	617	342	437
Fraser-Fort George	10,472	-	1,037	9,435	4,500	5,089
Fraser Valley	46,036	-	2,709	43,327	25,646	27,713
Kootenay East	1,491	-	181	1,310	910	1,058
Mount Waddington	1,152	-	127	1,025	483	552
Nanaimo	29,399	1,935	1,619	29,715	19,811	19,823
North Okanagan/Columbia Shuswup	73,995	-	2,598	71,397	40,235	42,430
North West	20,260	-	1,282	18,978	11,057	11,963
Okanagan-Similkameen	916	-	198	718	338	432
Peace River	81,832	-	3,446	78,386	41,829	44,590
Powell River	22,357	-	773	21,584	14,265	15,016
Sea to Sky	6,036	-	308	5,728	3,482	3,731
Skeena-Queen Charlotte	16	-	11	5	3	7
Sunshine Coast	11,104	-	721	10,383	6,061	6,604
Thompson	487	-	276	211	170	374
West Kootenay-Boundary	4,411	-	977	3,434	2,712	3,515
	$ 577,975	16,686	39,463	$ 555,198	$ 341,294	358,979

Five-Year Review

Unaudited – for information purposes only

THOUSANDS OF DOLLARS	2015	2014	2013	2012	2011
ASSETS					
Cash and cash equivalents	$ 140,220	$ 70,404	$ 60,050	$ 84,680	$ 88,681
Investments	3,305,574	3,006,309	2,506,485	2,360,258	2,127,731
Accrued interest and other receivables	79,259	72,934	71,880	80,534	85,192
Derivative contracts	-	-	894	1,712	2,694
Short-term loans to clients	303,158	239,121	211,482	152,348	174,682
Loans to clients	4,299,992	4,376,473	4,447,662	4,609,725	4,730,775
Property and equipment	250	262	295	605	630
Property held for sale	-	-	595	–	–
Total Assets	$ 8,128,453	$ 7,765,503	$ 7,299,343	$ 7,289,862	$ 7,210,385
LIABILITIES AND EQUITY					
Trade and other payables	$ 35,864	$ 36,046	$ 34,325	$ 33,537	$ 37,091
Bank and short-term indebtedness	549,779	499,699	499,796	499,788	499,767
Due to clients	107,642	104,204	99,564	114,009	113,233
Derivative contracts	102,827	93,565	48,618	94,847	83,596
Long-term debt	7,020,403	6,732,257	6,526,539	6,321,363	6,220,746
Total Liabilities	7,816,515	7,465,771	7,208,842	7,063,544	6,954,433
Equity	311,938	299,732	90,501	226,318	255,952
Total Liabilities and Equity	$ 8,128,453	$ 7,765,503	$ 7,299,343	$ 7,289,862	$ 7,210,385
REVENUE					
Interest from loans to clients	$ 268,206	$ 276,250	$ 289,370	$ 307,870	$ 317,850
Investment income	119,767	108,876	105,233	99,356	89,554
Financial service fees	2,278	2,316	1,908	2,030	1,903
Recoveries from new issues	1,739	2,047	15	18	50
Operating levy	264	251	247	244	220
Total Revenue	392,254	389,740	396,773	409,518	409,577
EXPENSE					
Interest on long-term debt	274,238	275,999	277,913	282,562	287,393
Interest on bank and short-term indebtedness	3,759	5,229	5,392	4,860	4,918
Amortization of (premiums) discounts on long-term debt	(7,930)	(7,009)	(6,432)	(256)	409
Administration	3,229	2,891	2,677	2,873	2,945
Investment (loss) income due to clients	3,562	9,603	(6,341)	4,144	7,955
Debt management and marketing	123	133	142	128	148
Settlement of derivative instruments	15,003	12,928	2,753	1,828	6,594
Loss (gain) from change in fair value of derivative instruments	9,262	45,841	(45,411)	12,233	51,817
Total Expense	301,246	345,615	230,693	308,372	362,179
Profit for the year	91,008	44,125	166,080	101,146	47,398
Equity, beginning of the year	299,732	90,501	226,318	255,952	202,424
Allocations to clients	(102,772)	(103,730)	(118,448)	(104,105)	(116,729)
Unrealized gains (losses) from change in fair value of available-for-sale investments	23,970	268,836	(183,449)	(26,675)	122,859
Equity, end of the year	$ 311,938	$ 299,732	$ 90,501	$ 226,318	$ 255,952

Bond Issues

Unaudited – for information purposes only

CANADIAN DOLLAR BONDS ISSUED IN CANADA

ISSUE / SERIES	DESCRIPTION	DATED	AUTHORIZED $(000)	OUTSTANDING DECEMBER 31, 2015 $(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
93DG	4.978% Amortizing Debentures due April 6, 2025	April 6, 2005	118,300	70,529	Semi-annual April 6 October 6
94EC	1.750% Debentures due October 15, 2020	October 15, 2015	190,000	190,000	Semi-annual April 15 October 15
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

Bond Issues: All fully registered in denominations of $1,000 and multiples thereof, non-callable, non-retractable, non-extendable, and without sinking fund provisions.

Bond Issues

Unaudited – for information purposes only

CANADIAN DOLLAR BONDS ISSUED IN CANADA

ISSUE / SERIES	DESCRIPTION	DATED	AUTHORIZED $(000)	OUTSTANDING DECEMBER 31, 2015 $(000)	INTEREST
103DO	4.600% 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	485,000	485,000	Semi-annual March 26 September 26
130EA	2.950% Debentures due October 14, 2024	October 14, 2014	300,000	300,000	Semi-annual April 14 October 14
133EB	2.650% Debentures due October 2, 2025	October 2, 2015	125,000	125,000	Semi-annual April 2 October 2

Registrar and Transfer Agent: BNY Trust Company of Canada
320 Bay Street, Toronto Ontario, Canada M5H 4A6
520 -1130 West Pender Street, Vancouver, British Columbia, Canada V6E 4A4

Contact Information

MUNICIPAL FINANCE AUTHORITY OF BRITISH COLUMBIA

#217 - 3680 Uptown Boulevard
Victoria, BC V8Z 0B9
Canada
T 250.383.1181
www.mfa.bc.ca

OFFICE HOURS

8:00 a.m. - 4:00 p.m.
Monday through Friday

AUDITORS

KPMG LLP
Victoria, BC

BOND COUNSEL

Lawson Lundell LLP
Vancouver, BC

EMPLOYEES

ROBIN STRINGER MBA, CPA, CA
Past Chief Administrative Officer
robin@mfa.bc.ca

GRAHAM EGAN CPA, CA
Director of Finance
graham@mfa.bc.ca

SHELLEY HAHN CPA, CGA
Director of Business Services
shelley@mfa.bc.ca

CINDY WONG CPA, CGA
Controller
cindy@mfa.bc.ca

RENATA HALE CPA, CGA
Manager of Strategic Initiatives
renata@mfa.bc.ca

PETER URBANC MBA
Chief Administrative Officier
peter@mfa.bc.ca

ANDREW HOGE CFA, CPA, CGA
Credit and Economic Analyst
andrew@mfa.bc.ca

JANE MORRISON BA Econ.
Short Term Loan Officer
jane@mfa.bc.ca

SHANNON COTTRELL
Business Support Officer
shannon@mfa.bc.ca

217–3680 Uptown Boulevard
Victoria, BC V8Z 0B9
T 250.383.1181

www.mfa.bc.ca

MFABC
Municipal Finance Authority of BC