Financial Statements
for the year ending March 31, 2005

bcbc
Facilitating workplace solutions

Management's Report

The financial statements of British Columbia Buildings Corporation have been prepared by the management of the Corporation, which is responsible for their consistency, integrity and objectivity. The statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgments based on currently available information. Financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

Management maintains and relies on a system of internal controls designed to provide reasonable assurance that the Corporation's assets are safeguarded, transactions are properly authorized and recorded, and that reliable and relevant financial information is produced. The Corporation's internal auditors independently review and evaluate these controls.

The Audit Committee comprises members of the Corporation's Board of Directors and oversees management's discharge of its financial reporting responsibilities. The Committee meets regularly with management, the internal auditors and representatives of the external auditors to review financial information prepared by management and discuss relevant matters. Both the internal and external auditors have full and free access to the Committee.

The external auditors have audited the financial statements, which have been approved by the Board of Directors on recommendation of the Audit Committee.

John Beales,
President and
Chief Executive Officer

Craig Paterson, CMA
Corporate Controller and
Chief Financial Officer

May 6, 2005

Auditor's Report

To the Board of Directors of
British Columbia Buildings Corporation

We have audited the balance sheet of British Columbia Buildings Corporation as at March 31, 2005 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Victoria, Canada

May 6, 2005

Balance Sheet

$ 000s	March 31 2005	2004 (Note 3)
ASSETS		
Real estate investments		
Income-producing properties (note 4)	641,754	680,190
Income-producing properties under construction (note 5)	11,002	14,023
Properties held for sale or development (note 6)	19,426	20,123
	672,182	714,336
Corporate properties and equipment (note 7)	6,058	10,545
Unamortized debt discount and issue expenses	7,297	7,624
Other assets (note 8)	77,205	96,595
	762,742	**829,100**
LIABILITIES		
Long-term debt (note 9)	251,128	320,652
Short-term debt (note 10)	-	7,000
Other liabilities (note 11)	120,113	140,912
	371,241	468,564
EQUITY		
Contributed surplus	52,832	52,832
Retained earnings	338,669	307,704
	762,742	**829,100**

Commitments (note 12)

See accompanying notes to the financial statements.

On Behalf of the Board:

Lucie Gosselin, CA
Chair

Taryn Brodie, CPA
Director

Statement of Income and Retained Earnings

$ 000s	Year Ended March 31	
	2005	**2004**
		(Note 3)
REVENUES		
Rentals	360,016	377,246
Other income	45,195	87,311
	405,211	464,557
EXPENSES		
Lease costs	137,587	140,451
Operations and maintenance	96,839	90,141
Amortization	32,238	33,991
Client requested projects	43,900	81,728
Property taxes and grants	18,941	18,890
Energy	19,309	22,334
General and administrative	13,776	17,250
	362,590	404,785
INCOME FROM OPERATIONS	**42,621**	**59,772**
Interest expense (note 13)	(23,190)	(29,409)
Gains on sale of properties	31,123	42,605
INCOME BEFORE OTHER ITEMS	**50,554**	**72,968**
One-time debt retirement costs	-	(29,626)
Property Management Outsourcing	-	(4,926)
Cost Recoveries--Early Terminations	-	8,050
NET INCOME	**50,554**	**46,466**
Retained earnings, beginning of year	307,704	279,229
Dividend	(19,589)	(17,991)
RETAINED EARNINGS, END OF YEAR	**338,669**	**307,704**

See accompanying notes to the financial statements.

Statement of Cash Flows

$ 000s	Year Ended March 31	
	2005	**2004**
		(Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	50,554	46,466
Non-cash items		
Amortization of capital assets and other amounts	32,566	34,362
Provision for asset retirement	147	3,077
Write-down of vacated properties and other assets	457	14,946
Gains on sale of properties	(31,123)	(42,605)
Other assets and liabilities, net change	17,590	14,523
	70,191	70,769
CASH FLOWS FROM INVESTING ACTIVITIES		
Real estate investments	(5,957)	(8,342)
Corporate properties and equipment	(1,264)	(1,878)
Net proceeds from sale of properties	59,776	60,598
	52,555	50,378
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt repayments	-	(168,000)
(Increase)/Decrease in sinking funds	(69,524)	25,590
(Decrease)/Increase in short-term debt	(7,000)	7,000
Dividends paid	(37,580)	-
	(114,104)	(135,410)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**8,642**	**(14,263)**
Cash and cash equivalents, beginning of year	15,379	29,642
CASH AND CASH EQUIVALENTS, END OF YEAR (note 15)	**24,021**	**15,379**

See accompanying notes to the financial statements.

1. Statement of Purpose

British Columbia Buildings Corporation (the Corporation), established in 1977 as a Crown Corporation of the Province of British Columbia through the enactment of the British Columbia Buildings Corporation Act, has a mandate to serve as an agency of the Crown in providing real property and accommodation infrastructure services to the provincial government and the broader public sector. Corporate and customer accountability is achieved by charging market based prices for services rendered, and using private sector management principles. During the year the Corporation received 74% (2004 - 75%) of its revenues from provincial government ministries, 15% (2004 – 13%) from other provincial government entities, with the balance from other sources.

2. Accounting Policies

The financial statements of the Corporation are prepared in accordance with Canadian generally accepted accounting principles. The Corporation’s significant accounting policies are as follows:

(a) Real Estate Investments and Corporate Properties and Equipment

Real estate investments and corporate properties and equipment are recorded at cost less accumulated amortization. In addition to land and direct costs, amounts capitalized to real estate investments during development and construction include property taxes and the applicable portion of both interest on general borrowings and general and administrative expenses. Capitalized costs do not exceed estimated future recoveries for income-producing properties and estimated realizable value for properties held for development.

(b) Temporary Investments

Temporary investments represent short-term funds administered by the Province of British Columbia. These investments are recorded at cost, which approximates market.

(c) Amortization

Real estate investments and corporate properties and equipment are amortized on an individual basis by the straight-line method over their estimated useful lives or lease terms. Amortization is prorated by month in the year of acquisition or disposal.

The estimated useful lives or lease terms of income-producing and corporate properties are from five to fifty years. The estimated useful lives of all other assets are from three to ten years.

(d) Income Taxes

The Corporation is exempt from federal and provincial income taxes.

(e) Amortization of Debt Discount and Issue Expenses

Debt discount and issue expenses are amortized on a straight-line basis, both over the terms of the applicable debt.

March 31, 2005 (Tabular amounts in $ 000s)

(f) Related Party Transactions

The Corporation is related through common ownership to all Province of British Columbia ministries, agencies and Crown corporations. Transactions with these entities, as well as other transactions in which provincial government intervention is a component, are generally considered to be in the normal course of operations and are recorded at the exchange amount. Unless disclosed separately in these financial statements, this exchange amount approximates market

(g) Environmental Expenditures and Liabilities

Under the current environmental legislation and the Corporation's standard accommodation agreement with customers, responsibility for site cleanup rests with the polluter. Environmental cleanup costs are recoverable from customers. These recoveries are included in other income.

Environmental expenditures incurred as a result of the ongoing business activities of the Corporation are expensed or capitalized as appropriate.

(h) Accounting Estimates

Financial statements, by their nature, contain estimates and are subject to measurement uncertainty. Accounts receivable are evaluated as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. The amounts recorded for amortization of capital assets and deferred charges are based on estimates of the useful life benefit of these assets. The effect on the financial statements of changes in such estimates in future periods is not anticipated to be significant.

3. Change in accounting policies

Asset Retirement Obligations

Effective in the 2004/05 fiscal year, the Corporation retroactively adopted the new standard of the Canadian Institute of Chartered Accountants (CICA) for asset retirement obligations. The new standard requires the fair value of asset retirement obligations to be recorded as liabilities when incurred and the related assets be increased by the amount of these liabilities. Over time, the liabilities are accreted for the change in their present value and the initial capitalized costs are depreciated over the useful lives of the related assets. The Corporation's asset retirement obligations (ARO's) are the obligations associated with the retirement of its building property assets.

Implementation of this accounting policy resulted in the following changes to the financial statements for the year ended March 31, 2004; a decrease to net income and retained earnings of $47,000, an increase to the asset net of depreciation of $2,744,000, and an increase to the liability of $2,791,000. The following is a reconciliation of the liability for asset retirement obligations:

	2005	2004
Asset retirement liability, beginning of year	3,218	-
Additions	-	3,077
Accretion expense	147	141
Asset retirement liability, end of year	3,365	3,218

March 31, 2005 (Tabular amounts in $ 000s)

The accretion expense is included in interest expenses. The undiscounted estimated cash flows required to settle the obligation range from $3,800,000 to $4,200,000 during the years 2006 to 2013. The cash flows are discounted using a credit adjusted risk-free rate of 4.48% (2004 – 4.48%).

Other assumptions used by management to determine the carrying amount of the asset retirement obligations are: construction costs based upon current market conditions; market risk premium for unforeseeable circumstances; and the rate of inflation over the expected years to settlement.

4. Income-Producing Properties

	2005	2004
Net book value:		
Cost	1,141,274	1,183,662
Accumulated amortization	(499,520)	(503,472)
	641,754	680,190
Activity:		
Net book value, beginning of year	680,190	720,195
Properties transferred from income-producing properties under construction	8,792	12,792
Asset retirement cost (note 3)	-	3,077
Write-down of vacated properties	-	(14,946)
Disposals, net	(18,397)	(10,779)
Amortization expense	(28,831)	(30,149)
Net book value, end of year	641,754	680,190

5. Income-Producing Properties Under Construction

	2005	2004
Balance, beginning of year	14,023	19,031
Direct development and construction costs	4,245	6,109
Capitalization of:		
Interest	200	180
General and administrative expenses	1,326	1,495
Cost of properties completed and transferred to income-producing properties	(8,792)	(12,792)
Balance, end of year	11,002	14,023

March 31, 2005 (Tabular amounts in $ 000s)

6. Properties Held For Sale or Development

	2005	2004
Balance, beginning of year	20,123	27,754
Capitalization of interest and property tax	185	559
Disposals, net	(882)	(8,190)
Balance, end of year	19,426	20,123

7. Corporate Properties and Equipment

	2005	2004
Cost:		
Office and data processing equipment	25,852	27,988
Corporate properties and leasehold improvements	2,968	8,009
Maintenance equipment	-	2,797
Vehicles	85	5,104
	28,905	43,898
Accumulated amortization	(22,847)	(33,353)
	6,058	10,545

8. Other Assets

	2005	2004
Cash	971	15,298
Temporary investments	23,050	81
Accounts receivable:		
Short Term - Ministry of Finance (note 14)	4,407	48,799
- Other provincial ministries and entities	17,756	17,760
- Other	17,392	4,432
Long Term - Provincial ministries and entities	1,383	1,776
- Other	10,143	7,713
Prepaid expenses	2,103	736
	77,205	96,595

March 31, 2005 (Tabular amounts in $ 000s)

9. Long-Term Debt

	2005	2004
Debentures payable to the Province of British Columbia		
Various issues at an average effective interest rate of 7.39% (2004 – 7.39%) maturing at various times to 2029 (2004 - 2029)	454,512	454,512
Sinking funds on deposit with the Province of British Columbia	(203,384)	(133,860)
	251,128	320,652

At March 31, 2005, the coupon rates on the long-term debt ranged from 5.70% to 10.60% (2004 - 5.70% to 10.60%).

Minimum sinking fund payments for each of the next five years:

2005/06	9,001
2006/07	8,251
2007/08	6,180
2008/09	6,180
2009/10	4,541

10. Short-Term Debt

There was no short-term debt outstanding at March 31, 2005.

11. Other Liabilities

	2005	2004
Accounts payable and accrued liabilities	48,296	55,623
Dividend payable	-	17,991
Holdbacks	11,282	9,994
Accrued interest payable:		
Province of British Columbia	6,716	6,801
Deferred revenue	21,920	24,550
Deferred gains on sale of properties	31,899	25,953
	120,113	140,912

12. Commitments

The Corporation estimates that the cost to complete projects under construction at March 31, 2005 will be $46,678,000 of which $11,161,000 has been committed.

The Corporation has entered into leases with third parties to provide space for customers and corporate operations for varying periods up to the year 2023 at a total aggregate net rental of approximately $498,039,000. Most lease terms are from five to ten years and include renewal options.

March 31, 2005 (Tabular amounts in $ 000s)

Minimum lease payments which will be charged to operations in subsequent years for leases committed at March 31, 2005:

2005/06	110,372
2006/07	87,986
2007/08	74,528
2008/09	61,585
2009/10	43,604
Thereafter	119,964

The Corporation had outstanding letters of credit totaling $551,000 at March 31, 2005 to guarantee performance on various projects.

13. Interest Expense

	2005	2004
Interest on long-term debt	33,015	40,906
Other interest expense	726	380
Amortization of debt discount and issue expenses	328	371
Sinking fund and other interest earnings	(9,901)	(10,385)
Interest capitalized	(978)	(1,863)
	23,190	29,409

14. Government Accommodation Restructuring

During 2002/03 and 2003/04 many provincial government ministries implemented significant program changes with associated impacts on related accommodation requirements. Government established a centralized fund for certain costs associated with the accommodation restructuring, over the 2002/03 and 2003/04 fiscal years. During the year, the Corporation invoiced $9,259,000 (2004 - $79,569,000) to the fund for costs associated with this accommodation restructuring. At March 31, 2005 $4,407,000 (2004 - $48,799,000) is included in accounts receivable (note 8).

15. Cash and Cash Equivalents

	2005	2004
Cash	971	15,298
Temporary investments	23,050	81
Total cash and cash equivalents	24,021	15,379

16. Employees' Benefit Plans

The Corporation and its employees contribute to the Public Service Pension Plan (the plan), a jointly trusteed pension plan. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of the assets and administration of benefits. The plan is a multi-employer, contributory pension plan. Basic pension benefits are defined. The plan has approximately 52,000 active and 30,000 retired plan members. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The latest valuation as at March 31, 2002, indicated a $546 million funding surplus for basic pension benefits. The next evaluation will be as at March 31, 2005 with results available in 2006. The actuary does not attribute portions of the surplus to individual employers. Contributions to the plan by the Corporation totaled $1,665,000 (2004 - $2,818,000) during the year.

In addition, employees are entitled to specific retirement benefits as provided for under the collective agreement and terms of employment. The Corporation accrues the liability for the future obligation for these benefits as the employees render the services necessary to earn the benefit. During the year, an expenditure of $396,000 (2004 - $486,000) was recognized with respect to these retirement benefits.

17. Risk Management

(a) Interest rate risk:

In conjunction with the Ministry of Finance (the Corporation's fiscal agent), the Corporation may enter into interest rate agreements to manage its exposure on debt instruments. The terms of these instruments are disclosed in note 9.

(b) Credit risk:

The Corporation grants credit to its customers, the majority of whom (note 1) are Province of British Columbia entities. Management feels that any risk associated with such a concentration of credit is offset by the fiscal stability of these clients.

(c) Fair value of financial instruments:

The carrying amounts of financial instruments, other than long-term debt, included in the balance sheet approximate their fair value, due to their short- term nature. The fair value of the Corporation's long-term debt, net of sinking funds, at March 31, 2005 was $323,371,000 (2004- $389,012,000). The fair value of the long-term debt has been estimated based on current market rates for long-term debt with similar terms and conditions.

18. Comparative Figures

Certain balances of the preceding period have been reclassified to conform with the current year's financial statement presentation.