Financial Statements
for the year ending March 31, 2006

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Facilitating workplace solutions

Management's Report

The financial statements of British Columbia Buildings Corporation (BCBC) 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 external auditors have audited the financial statements, which have been approved by the Deputy Minister of Labour and Citizens' Services (sole Director and Chair of BCBC up to and including March 31, 2006).

Michael MacDougall,
Chief Executive Officer
Shared Services BC

Patricia Marsh, CA
Executive Director, Business Services and
Chief Financial Officer
Accommodation and Real Estate Services
Shared Services BC

May 5, 2006

Auditors' 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, 2006 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, 2006 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 5, 2006

Balance Sheet

$ 000s	March 31	
	2006	**2005**
ASSETS		
Real estate investments		
Income-producing properties (note 3)	596,079	641,754
Income-producing properties under construction (note 4)	10,907	11,002
Properties held for sale or development (note 5)	14,588	19,426
	621,574	672,182
Corporate properties and equipment (note 6)	3,943	6,058
Unamortized debt discount and issue expenses	6,969	7,297
Other assets (note 7)	169,205	77,205
	801,691	**762,742**
LIABILITIES		
Long-term debt (note 8)	254,434	251,128
Other liabilities (note 9)	113,014	120,113
	367,448	371,241
EQUITY		
Contributed surplus (note 10)	41,508	52,832
Retained earnings	392,735	338,669
	801,691	**762,742**

Subsequent event (note 1)
Commitments (note 11)

See accompanying notes to the financial statements.

On Behalf of the Board:

Gordon Macatee, BCBC Chair and
Deputy Minister of Labour and Citizens' Services

Cheryl Wenezenki-Yolland
Executive Financial Officer and
Assistant Deputy Minister
Corporate and Ministry Support Services
Ministry of Labour and Citizens' Services

Statement of Income and Retained Earnings

$ 000s	Year Ended March 31	
	2006	**2005**
REVENUES		
Rentals	346,410	360,016
Other income	58,929	45,195
	405,339	405,211
EXPENSES		
Lease costs	139,056	137,587
Operations and maintenance	86,113	96,839
Amortization	29,949	32,238
Client requested projects	54,196	43,900
Property taxes and grants	18,336	18,941
Energy	21,117	19,309
General and administrative	12,677	13,776
	361,444	362,590
INCOME FROM OPERATIONS	**43,895**	**42,621**
Interest expense (note 12)	(19,202)	(23,190)
Gains on sale of properties	32,107	31,123
INCOME BEFORE OTHER ITEM	**56,800**	**50,554**
Early retirements and terminations (note 1)	(2,734)	-
NET INCOME	**54,066**	**50,554**
Retained earnings, beginning of year	338,669	307,704
Dividend	-	(19,589)
RETAINED EARNINGS, END OF YEAR	**392,735**	**338,669**

See accompanying notes to the financial statements.

Statement of Cash Flows

$ 000s	Year Ended March 31	
	2006	**2005**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	54,066	50,554
Non-cash items		
Amortization of capital assets and other amounts	30,276	32,566
Provision for asset retirement	154	147
Write-down of vacated properties and other assets	-	457
Gains on sale of properties	(32,107)	(31,123)
Other assets and liabilities, net change	(19,840)	17,590
	32,549	70,191
CASH FLOWS FROM INVESTING ACTIVITIES		
Real estate investments	(20,427)	(5,957)
Corporate properties and equipment	(971)	(1,264)
Net proceeds from sale of properties	68,189	59,776
	46,791	52,555
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt repayments	(50,000)	-
Decrease (increase) in sinking funds	50,960	(69,524)
Decrease in short-term debt	-	(7,000)
Dividends paid	-	(37,580)
	960	(114,104)
INCREASE IN CASH AND CASH EQUIVALENTS	**80,300**	**8,642**
Cash and cash equivalents, beginning of year	24,021	15,379
CASH AND CASH EQUIVALENTS, END OF YEAR (note 14)	**104,321**	**24,021**

See accompanying notes to the financial statements.

1. Statement of Purpose and Subsequent Event

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 73% (2005 - 74%) of its revenues from provincial government ministries, 16% (2005 – 15%) from other provincial government entities, with the balance from other sources.

On March 20, 2006, legislation changing the status of the Corporation from a Crown Corporation to a division of the Ministry of Labour and Citizens' Services, was passed. The effective date of this change was April 1, 2006. The transition to government resulted in early retirements and terminations that occurred prior to March 31, 2006 and the expense of $2,734,000 has been shown separately on the Statement of Income and Retained Earnings. It is not practicable to estimate the financial effect of the transition to government in addition to the early retirements and terminations reported.

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.

March 31, 2006 (Tabular amounts in $ 000s)

(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.

(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. This exchange amount approximates market with one exception described below.

During the year, the Corporation sold a property with a fair value of $58,421,000 and a net book value of $11,324,000 to the Royal British Columbia Museum Corporation. At the direction of the Province of British Columbia, the sale price was $1. The transaction has been recorded in these financial statements at the carrying amount of the property. The difference between the cash received and the carrying amount has been recorded as a reduction to contributed surplus (note 10).

(g) Asset Retirement Obligations

The fair value of asset retirement obligations are recorded as liabilities when incurred and the related assets are 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 are the obligations associated with the retirement of its building property assets. The following is a reconciliation of the liability for asset retirement obligations:

	2006	2005
Asset retirement liability, beginning of year	3,365	3,218
Decrease in anticipated cash flow	(401)	-
Accretion expense	154	147
Asset retirement liability, end of year	3,118	3,365

The accretion expense is included in interest expense. The undiscounted estimated cash flows required to settle the obligations range from $3,400,000 to $3,800,000 during the period 2007 to 2013. The cash flows are discounted using a credit adjusted risk-free rate of 4.48% (2005 – 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.

March 31, 2006 (Tabular amounts in $ 000s)

(h) 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.

(i) Deferred Gains on Sinking Funds

The Corporation's sinking funds are administered by the British Columbia Investment Management Corporation, which has invested the funds in various long-term financial instruments. During the year, the Corporation became aware that certain gains arising from previous sales had been placed in a reserve to offset possible future losses rather than being distributed to the individual sinking funds. The Corporation requested that this policy be reversed and, as a result, gains of $4,761,000 were distributed. The Corporation allocated this amount to the individual sinking funds in proportion to their respective market values and amortized the gains, on a straight-line basis, over the remaining lives of the related long-term debt issues. As a result, $2,416,000 was amortized during the current year and $2,345,000 deferred to future years (note 8).

(j) 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 of these assets. The effect on the financial statements of changes in such estimates in future periods is not anticipated to be significant.

3. Income-Producing Properties

	2006	2005
Net book value:		
Cost	1,079,127	1,141,274
Accumulated amortization	(483,048)	(499,520)
	596,079	641,754
Activity:		
Net book value, beginning of year	641,754	680,190
Properties transferred from income-producing properties under construction	23,476	8,792
Disposals, net	(42,214)	(18,397)
Amortization expense	(26,937)	(28,831)
Net book value, end of year	596,079	641,754

March 31, 2006 (Tabular amounts in $ 000s)

4. Income-Producing Properties Under Construction

	2006	2005
Balance, beginning of year	11,002	14,023
Direct development and construction costs	21,279	4,245
Capitalization of:		
Interest	206	200
General and administrative expenses	1,896	1,326
Cost of properties completed and transferred to income-producing properties	(23,476)	(8,792)
Balance, end of year	10,907	11,002

5. Properties Held For Sale or Development

	2006	2005
Balance, beginning of year	19,426	20,123
Capitalization of interest and property tax	151	185
Disposals, net	(4,989)	(882)
Balance, end of year	14,588	19,426

6. Corporate Properties and Equipment

	2006	2005
Cost:		
Office and data processing equipment	26,655	25,852
Corporate properties and leasehold improvements	1,589	2,968
Vehicles	-	85
	28,244	28,905
Accumulated amortization	(24,301)	(22,847)
	3,943	6,058

March 31, 2006 (Tabular amounts in $ 000s)

7. Other Assets

	2006	2005
Cash	16,290	971
Temporary investments	88,031	23,050
Accounts receivable:		
Short term - Ministry of Finance (note 13)	2,517	4,407
- Other provincial ministries and entities	24,427	17,756
- Other	9,147	17,392
Long term - Provincial ministries and entities	1,202	1,383
- Other	12,941	10,143
Prepaid expenses	14,650	2,103
	169,205	77,205

8. Long-Term Debt

	2006	2005
Debentures payable to the Province of British Columbia		
Various issues at an average effective interest rate of 7.50% (2005 – 7.39%) maturing at various times to 2029 (2005 - 2029)	404,512	454,512
Sinking Funds on deposit with the Province of British Columbia	(152,423)	(203,384)
Deferred gains on sinking funds	2,345	-
	254,434	251,128

At March 31, 2006, the coupon rates on the long-term debt ranged from 5.70% to 10.60% (2005 - 5.70% to 10.60%).

On April 1, 2006 the long-term debt and sinking funds were transferred to the Provincial Treasury.

9. Other Liabilities

	2006	2005
Accounts payable and accrued liabilities	54,573	48,296
Holdbacks	7,735	11,282
Accrued interest payable – Province of British Columbia	6,029	6,716
Deferred revenue	12,194	21,920
Deferred gains on sale of properties	32,483	31,899
	113,014	120,113

March 31, 2006 (Tabular amounts in $ 000s)

10. Contributed Surplus

	2006	2005
Balance, beginning of year	52,832	52,832
Related party transaction – Transfer of Royal British Columbia Museum (note 2(f))	(11,324)	-
Balance, end of year	41,508	52,832

11. Commitments

The Corporation estimates that the cost to complete projects under construction at March 31, 2006 will be $47,850,000 of which $27,438,000 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 $562,717,000. Most lease terms are from five to ten years and include renewal options.

Minimum lease payments which will be charged to operations in subsequent years for leases committed at March 31, 2006:

2006/07	118,058
2007/08	102,769
2008/09	87,880
2009/10	68,399
2010/11	45,975
Thereafter	139,636

The Corporation had outstanding letters of credit totaling $551,000 at March 31, 2006 to guarantee performance on various projects.

12. Interest Expense

	2006	2005
Interest on long-term debt	30,859	33,015
Other interest expense	1,570	726
Amortization of debt discount and issue expenses	328	328
Sinking fund and other interest earnings	(12,897)	(9,901)
Interest capitalized	(658)	(978)
	19,202	23,190

13. 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 $3,631,000 (2005 - $9,259,000) to the fund for costs associated with

March 31, 2006 (Tabular amounts in $ 000s)

this accommodation restructuring. At March 31, 2006 $2,517,000 (2005 - $4,407,000) is included in accounts receivable (note 7).

14. Cash and Cash Equivalents

	2006	2005
Cash and bank indebtedness	16,290	971
Temporary investments	88,031	23,050
Total cash and cash equivalents	104,321	24,021

15. 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 51,000 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, 2005, indicated an unfunded liability of $767,000,000 for basic pension benefits. The next evaluation will be as at March 31, 2008 with results available in 2009. The actuary does not attribute portions of the surplus to individual employers. Contributions to the plan by the Corporation totaled $1,482,000 (2005 - $1,665,000) 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 $89,000 (2005 - $396,000) was recognized with respect to these retirement benefits.

16. 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 8.

(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, 2006 was $336,190,000 (2005 - $323,371,000). 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.