PROVINCIAL
CAPITAL
COMMISSION

Financial Statements

Year ended March 31, 2009

PROVINCIAL
CAPITAL
COMMISSION

Contents

PROVINCIAL CAPITAL COMMISSION

Provincial Capital Commission
Financial Statements

Year Ended March 31, 2009

Management's Responsibility for Financial Reporting

The financial statements of the Provincial Capital Commission have been prepared by management in accordance with Canadian generally accepted accounting principles. Any financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial records are properly maintained to facilitate the preparation of financial statements in a timely manner.

Grant Thornton LLP has performed an independent audit of the financial statements of the Provincial Capital Commission. The Auditors' Report outlines the scope of this independent audit and expresses an opinion on the financial statements of the Provincial Capital Commission.

Richard Crosby, C.G.A.
Chief Financial Officer and
Acting Chief Executive Officer

S. Nacey

Sean Nacey
Manager of Accounting

Victoria, British Columbia
May 7, 2009

Grant Thornton LLP
Chartered Accountants
Management Consultants

Auditors' Report

To the Members of the Board of Directors of the Provincial Capital Commission, and
To the Minister of Tourism, Culture and the Arts, Province of British Columbia

We have audited the statement of financial position of the Provincial Capital Commission as at March 31, 2009 and the statements of operations, changes in net assets and cash flow for the year then ended. These financial statements are the responsibility of the Commission'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 Commission as at March 31, 2009 and the results of its operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

The Commission has reported Board approved budget information in the statement of operations. This budget information is not included in our audit scope and should not be considered as part of the audited statements on which we have expressed an opinion.

Grant Thornton LLP

Victoria, Canada
May 7, 2009

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Chartered Accountants

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Provincial Capital Commission
Statement of Financial Position

As at March 31	2009	2008
Assets		
Current		
Cash and short-term investments (Note 3)	$ 2,230,539	$ 2,704,277
Accounts receivable	112,712	80,886
Prepaid expenses	72,352	88,507
	2,415,603	2,873,670
Capital assets (Note 4)	17,688,892	17,817,065
	$ 20,104,495	$ 20,690,735
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 312,343	$ 211,175
Due to Province of British Columbia (Note 8)	79,108	192,853
Deferred revenue	122,951	69,406
	514,402	473,434
Deferred operating contributions (Note 5)	989,660	1,078,037
Deferred capital contributions (Note 6)	3,188,506	3,336,313
	4,692,568	4,887,784
Net Assets		
Invested in capital assets	14,500,403	14,480,769
Restricted for Greenways (Note 7)	-	95,000
Restricted for BC150 Celebrations (Note 7)	-	377,500
Unrestricted	911,524	849,682
	15,411,927	15,802,951
	$ 20,104,495	$ 20,690,735

See accompanying notes to the financial statements including:

- Commitments (Note 9)
- Contingent liability (Note 10)

On behalf of the Board:

Bill Wellburn
Chair, Board of Directors

David Everett
Chair, Finance and Audit Committee

Provincial Capital Commission
Statement of Operations

Year ended March 31	2009 Plan	2009 Actual	2008 Actual
Revenue			
Commercial activities:			
Tenants	$ 2,150,000	$ 2,312,294	$ 2,195,330
Parking lots	650,000	724,404	686,824
St Ann's Academy	100,000	127,311	94,544
Investment income	100,000	99,117	109,426
Contributions:			
Operating – Port Facility (Note 5)	45,000	88,377	44,160
Capital – contributed assets (Note 6)	180,000	191,632	191,632
	$ 3,225,000	$ 3,543,135	$ 3,321,916
Expenses			
Programs:			
Outreach expenses and administration	$ 950,000	$ 975,761	$ 923,098
St. Ann's Interpretive Centre			
Operating expenses and administration	235,000	258,775	247,932
Amortization	15,000	15,492	15,522
	1,200,000	1,250,028	1,186,552
Properties:			
Operating expenses	740,000	861,291	770,582
Property management and administration	440,000	454,596	464,957
Amortization	375,000	361,443	355,250
	1,555,000	1,677,330	1,590,789
Corporate Support and Governance:			
Corporate administration	330,000	424,647	335,907
Board and committee meetings	55,000	48,222	34,838
Amortization	35,000	36,616	30,222
	420,000	509,485	400,967
	$ 3,175,000	$ 3,436,843	$ 3,178,308
Excess of revenue over expenses from operations	$ 50,000	$ 106,292	$ 143,608
Property activities:			
Property – land disposition, net (Note 8)	-	281,554	645,367
Belleville Terminal Project - development costs (Note 4)	-	(175,000)	-
Programs funded from restricted net assets:			
BC150 Celebrations – Festival 150	(603,870)	(603,870)	(222,500)
(Deficiency) excess of revenue over expenses	$ (553,870)	$ (391,024)	$ 566,475

See accompanying notes to the financial statements.

Provincial Capital Commission
Statement of Changes in Net Assets

Year Ended March 31

		Restricted				
	Invested in Capital Assets	Greenways	BC150 Celebrations	Unrestricted	**Net Assets 2009**	Net Assets 2008
Balance, beginning of year	$ 14,480,769	$ 95,000	$ 377,500	$ 849,682	$ 15,802,951	$ 15,236,476
Excess (deficiency) of revenue over expenses from operations	(176,317)			282,609	106,292	143,608
Property – land disposition, net (Note 8)				281,554	281,554	645,367
Belleville Terminal Project – development costs (Note 4)	(175,000)				(175,000)	-
Programs funded from restrictions: (Note 7) - BC150 Celebrations – Festival 150			(603,870)		(603,870)	(222,500)
Investment in capital assets	370,951			(370,951)	-	-
Board approved restrictions: (Note 7) - BC150 Celebrations – Festival 150			226,370	(226,370)	-	-
- Transfer to Unrestricted		(95,000)		95,000	-	-
Balance, end of year	$ 14,500,403	$ -	$ -	$ 911,524	$15,411,927	$ 15,802,951

See accompanying notes to the financial statements.

Provincial Capital Commission
Statement of Cash Flow

Year ended March 31	**2009**	2008
Increase (decrease) in cash		
Cash flow from operating activities		
Excess of revenue over expenses from operations	$ 106,292	$ 143,608
Exclude: non-cash revenues and expenses		
Revenue from deferred contributions	(325,610)	(332,892)
Amortization expense	413,551	400,993
Change in non-cash operating working capital	(73,288)	131,411
	120,945	343,120
Property - land disposition, net (Note 4, 8)	281,554	645,367
Program disbursements from restricted net assets:		
BC150 Celebrations - Festival 150 (Note 7)	(603,870)	(222,500)
Net cash flow from operating activities	(201,371)	765,987
Cash flow from investing activities		
Purchase of capital assets	(460,377)	(194,862)
Exclude:		
Third party contributions	89,425	-
Net change in accounts payable at year end	98,585	6,114
Net cash flow from investing activities	(272,367)	(188,748)
Net (decrease) increase in cash and short-term investments	(473,738)	577,239
Cash and short term investments, beginning of year	2,704,277	2,127,038
Cash and short term investments, end of year	$ 2,230,539	$ 2,704,277

See accompanying notes to the financial statements.

1. Purpose of the Commission

The Commission, established in 1956, operates under authority of the *Capital Commission Act* of British Columbia and is governed by an appointed board of directors. Eight directors are appointed through Order in Council by the province, and six are appointed by the four core municipalities of Greater Victoria. As a crown corporation, the Commission is accountable to the provincial government of British Columbia. The Commission is exempt from federal and provincial income taxes, and the federal Goods and Services Tax on expenses.

Its mandate is to connect and celebrate the Capital with every British Columbian through the delivery of outreach and engagement programs. The Commission is also responsible for the stewardship of its owned heritage buildings and preservation of the view corridor to the Capital. Revenues from property assets are used to fund core business activities on a self sustaining basis.

2. Summary of significant accounting policies

Basis of accounting

The financial statements are prepared in accordance with Canadian generally accepted accounting principles applied within the framework of significant accounting policies summarized below:

Changes in accounting policies

Effective April 1, 2008 the Commission adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3862, Financial Instruments – Disclosures and 3863, Financial Instruments – Presentation. These standards revise and replace Handbook Section 3861, Financial Instruments – Disclosures and Presentation and enhance disclosure requirements regarding the nature and extent of risk arising from financial instruments and how the entity manages those risks. These standards impacted the disclosures the Commission provides but did not affect the Commission's results of operations or financial position. These disclosures are included in Note 12 to the financial statements.

Effective April 1, 2008, the Commission adopted the CICA Handbook Section 1535, Capital Disclosures, which requires an entity to disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital. This standard impacted the disclosures the Commission provides but did not affect the Commission's results of operations or financial position. These disclosures are included in Note 11 to the financial statements

Cash and short-term investments

Cash and short-term investments are classified as "financial assets held-for-trading" and are measured at fair value. These financial assets are marked-to-market through net earnings and recorded as investment income at each year end. Cash and cash equivalents consists of cash and short-term investments of units in Province of British Columbia Pooled Investment Portfolios.

Financial instruments

The Commission's financial instruments consist of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities, including amounts due to the Province of British Columbia. Unless otherwise noted, it is management's opinion that the Commission is not exposed to significant interest or foreign currency risks arising from these financial instruments. These financial assets are marked-to-market through net earnings and recorded as investment income at year end.

2. Summary of significant accounting policies (continued)

All financial instruments must be classified into a defined category, namely, held-to-maturity investments, held-for-trading financial assets and financial liabilities, available-for-sale financial assets, loans and receivables or other financial liabilities.

Financial assets and liabilities are initially recognized at fair value with subsequent measurement based on classification. All financial instruments, including derivatives, are measured at fair value except for loans and receivables, held-to-maturity and other financial liabilities which are measured at amortized cost using the effective interest method. Unrealized changes in fair value and gains and losses of held-for-trading instruments are recognized in the statement of operations.

The Commission has made the following classifications:
- held-for-trading: cash and short-term investments
- loans and receivables: accounts receivable
- other financial liabilities: accounts payable and accrued liabilities, due to Province of British Columbia and deferred revenues.

Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution unless otherwise noted. The contribution of park lands and green spaces is valued at $1. The contribution of St. Ann's Academy, a nationally designated historical site, is valued at $1. Capital improvements to St. Ann's Academy paid for by the Commission are recorded at cost.

Amortization of capital assets is calculated on a straight-line basis over the assets' estimated useful lives at the following rates:

	Years
Buildings and improvements	40
Wharves	10
Furniture and equipment	5
Computer hardware and software	3
Specialized equipment	20

No amortization is recognized for work in progress on capital assets under development.

The Commission regularly reviews the carrying value of long lived assets and continually makes estimates regarding future cash flows and other factors to determine the value of the respective assets. If these estimates or their related assumptions change in the future, the Commission may be required to record impairment charges for these assets.

Revenue recognition

The Commission follows the deferral method of accounting for contributions. Deferred contributions are recognized as revenue in the year in which the related expenses are incurred, or as specified under third party agreements. Revenue received under tenant lease agreements and from future development sites currently used as parking lots are recorded on an accrual basis. Tenant income includes base rent, license fees and additional rent under lease agreements for building operating expenses, amortization and property management.

2. Summary of significant accounting policies (continued)

Use of estimates

In preparing the Commission's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Expenses

Expenses are presented by core business activity. A description of each core business activity is summarized below:

<u>Programs</u>

Outreach expenses and administration includes employee salaries and benefits, purchased services and professional support, administrative expenses and an allocation for head office operating expenses. Income received from the rental of facilities at St. Ann's Academy is reported in Revenue.

Expenses for BC150 Celebrations – Festival 150 were funded from restricted net assets.

<u>Properties</u>

Expenses include operating expenses and amortization associated with revenue producing heritage buildings, Belleville port facilities, temporary parking lots, and the maintenance of parks and open space properties. Property management and administration expenses include employee salaries and benefits, professional support including legal, engineering, property management and accounting services, administrative expenses, and an allocation for head office operating expenses.

<u>Corporate Support and Governance</u>

Expenses include board and committee meetings, employee salaries and benefits, professional services and administrative expenses for corporate operations support, including operating expenses for the head office at 613 Pandora Avenue. A portion of head office operating expenses are allocated to Programs and Properties.

Employee benefit plans

The Commission 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 pension plan, including investment of the assets and administration of the plan. The pension plan is a multi-employer defined benefit pension plan with approximately 55,000 active plan members and 33,000 retired plan members. The total assets of the plan at March 31, 2008 were $17.5 billion. 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, 2008 indicated a surplus of $487 million. The actuary does not attribute portions of the surplus to individual employers.

The Commission also contributes through the provincial government payroll system for employer funded health care, employment and termination benefits as provided for under collective agreements and terms of employment. For 2008/09, the benefits contribution was 23.8% (2008: 23.8%) of salary costs. The Commission's total benefit expense for the year was $197,268 (2008: $181,219).

Defined contribution plan accounting is applied to these benefit plans as the Commission has insufficient information to apply defined benefit plan accounting. As such, the cost of these employee future benefits is recognized as an expense in the year that contributions are paid.

3. Cash and short-term investments

	2009	2008
Cash	**$ 34,537**	$ 64,175
Short-term investments	**2,196,002**	2,640,102
	$ 2,230,539	$ 2,704,277

At March 31, 2009 short term investments which include marketable securities amounted to $2,196,002 reported at fair value (cost $2,179,892) as compared with $2,640,102 last year (cost $2,623,974). A balance of $989,660 (2008: $1,078,037) is externally restricted for eligible expenses to operate the Belleville Port Facility, as described in the Transport Canada Contribution Agreement dated December 4, 2001.

Investment income in fiscal 2009 was $99,117 (2008: $109,426).

4. Capital assets

			2009	2008
	Cost	Accumulated Amortization	**Net Book Value**	Net Book Value
Land	$ 9,575,220	$ -	**$ 9,575,220**	$ 9,575,220
Buildings	10,505,815	4,014,476	**6,491,340**	6,628,496
Wharves	705,629	243,758	**461,870**	261,019
Belleville Terminal Project – development costs	-	-	**-**	175,000
Furniture and equipment	291,572	157,942	**133,630**	142,564
Specialized equipment	655,269	83,672	**571,597**	564,041
St. Ann's Academy	619,667	164,432	**455,235**	470,725
	$22,528,172	$4,839,280	**$17,688,892**	$17,817,065

The current assessed value of Commission properties is $114.9 million (2008: $116.5 million). This includes 60 parcels of land that make up parklands and green spaces with an assessed value of $30.9 million (2008: $31.4 million). The assessed value of land and buildings from other Commission owned properties, including St. Ann's Academy is $84.0 million (land, $49.1 million; buildings, $34.9 million) (2008: $85.1 million). In June 2008, PCC land with a book value of $1 was transferred by the provincial government to the Ministry of Transportation and Infrastructure, as authorized by Order in Council 545/08.

St. Ann's Academy, excluding the Chapel and Interpretative Centre, is leased for 51 years, expiring in 2048, to the Ministry of Labour and Citizens Services, Accommodation and Real Estate Services (ARES), formerly the BC Buildings Corporation, for $10, in exchange for building renovations completed in 1996. During the lease period, ARES is responsible for property management and capital maintenance of the building. At the end of the lease term all tenant improvements become property of the Commission.

In 2004 and 2005, the Commission incurred $175,000 in development costs associated with the Belleville Terminal Project. In fiscal 2009, these costs have been written down and recorded as an expense through the Statement of Operations.

5. Deferred operating contributions

Transport Canada provided $1.5 million in cash in December, 2001 for the continued operation of the Belleville Port Facility. The contribution is restricted for eligible expenses to operate the port, as described in the Transport Canada Contribution Agreement dated December 4, 2001. In 2006, $145,750 was also spent on security improvements to dock facilities leased to Clipper Navigation Limited to bring the Port Facility to minimum standards. Any unused funds must be returned to Transport Canada after ten years. Cash and short-term investments held at the end of the year subject to these restrictions total $989,660 (2008: $1,078,037).

	2009	2008
Opening balance	**$ 1,078,037**	$ 1,122,197
Less: revenue recognized for eligible expenses	**(88,377)**	(44,160)
Ending balance	**$ 989,660**	$ 1,078,037

6. Deferred capital contributions

Deferred capital contributions represent assets received through contribution or donation from the Province of British Columbia, Transport Canada and other third parties. Significant events are as follows:

- In 2002, Transport Canada contributed $2 million in land, buildings and wharves to the Commission. The land contribution of $1,556,000 was recorded as an increase to investment in net assets. The balance of $444,000 for buildings and wharves, plus an additional $145,750 spent on dock facilities in 2006, was recorded as a deferred capital contribution and is recognized as revenue on the same basis as the annual amortization expense. The federal contribution revenue in the current year is $25,680 (2008: $25,680).
- In 2005, the Commission received $1,450,000 from the Province of British Columbia for remediation of the Crystal Garden. The amount was recorded as a deferred capital contribution and annual revenue matches the asset amortization expense. Revenue in the current year was $73,360 (2008: $73,360).
- In 2005/06, a tenant contribution of $676,845 was received for upgrades to the Crystal Garden and recorded as a deferred capital contribution. In April 2007, the City of Victoria assumed the rights to the contribution balance through an assignment of the lease. Based on the terms of the lease the amount recorded as revenue in the current year is $45,600 (2008: $97,091).
- In 2009, the Blackball Ferry Line wharf refurbishment of $178,850 was completed, with $89,425 funded as a deferred capital contribution by the tenant. Revenue will be recognized commencing April, 2009 based on the terms of the lease agreement.
- The balance of deferred capital contributions includes the net book values of the Crystal Garden and other buildings transferred from the Province in prior years. Annual revenue recorded is $92,592 (2008: $92,592).

		2009	2008
Opening balance		**$ 3,336,313**	$ 3,625,036
Add: Blackball Ferry Wharf Repairs – tenant contribution		**89,425**	
Less: amounts amortized to revenue			
Tenant contribution – Crystal Garden		**(45,600)**	(97,091)
Provincial and federal contributions:			
Provincial – contributed assets	$165,952		
Federal - Belleville Port Facility	25,680	**(191,632)**	(191,632)
Ending balance		**$ 3,188,506**	$ 3,336,313

7. Restrictions on net assets

At the discretion of the board of directors, the Commission may restrict net assets for specific uses. Current year activity is summarized in the Statement of Changes in Net Assets.

Greenways Program

In fiscal 2009, the Board approved a transfer of $95,000 in net assets restricted for a cancelled project to unrestricted net assets.

BC150 Celebrations

In fiscal 2009, the Board approved $603,870 (2008: $222,500) for core funding of an event held in the Capital on BC Day 2008. The event, Festival 150, was part of a province wide celebration of the 150th anniversary of British Columbia as a crown colony. Total event management and production expense of $826,370 was funded through a restriction of net assets.

Building Remediation

As part of its property stewardship responsibilities, the Board also restricts net assets for building remediation projects over $200,000 approved by Order in Council. At March 31, 2009 there were no restrictions for building remediation.

8. Related party transactions

In addition to the amount due to the Province of British Columbia, the Commission's shareholder, the Commission had the following transactions with the Province and its related entities:

- The Commission received compensation of $325,000 from the Province of British Columbia for Commission land purchased by the Ministry of Transportation and Infrastructure. The proceeds of $281,554 are net of expenses for legal and real estate services.
- Rent revenue of $39,600 (2008: $28,738) was received from ARES relating to St. Ann's Academy. In return, operating costs of $104,443 (2008: $64,771) relating to St. Ann's Academy were paid to ARES. A nil amount (2008: $90,000) was paid to ARES for real estate services related to the Commission's property plan.
- Insurance costs of $116,360 (2008: $160,685) were paid to the Ministry of Finance, Risk Management Branch.
- The Province acts as fiscal agent for the Commission and also provides personnel and payroll services. Service charges were $11,944 (2008: $12,560).

9. Commitments

At March 31, 2009, the Commission has commitments under various agreements as follows:

- Outreach: program commitments including the Student Travel Subsidy program total $204,735 (2008:$170,505). Student Travel Subsidy expenses are subject to completion of approved travel plans to the Capital by school groups in the 2009/10 fiscal year.
- Operating leases: the Commission has two operating leases for office equipment. One agreement runs to 2013 with an annual commitment of $7,500. The other expires in 2014 with an annual commitment of $5,812.
- Salaries and benefits: under the terms of the current BCGEU collective agreement, staff will receive a 2% wage increase effective April 1, 2009.

10. Contingent Liability

The Commission has received a Writ of Summons and Statement of Claim for a third party injury claim. The potential liability is uncertain and cannot be estimated at March 31, 2009.

11. Capital Management

The primary objective of the Commission's capital management is to ensure that it maintains net assets in order to satisfy its responsibilities of stewardship of its property assets and to deliver outreach and engagement programs. The Commission manages its rental income to ensure that appropriate rent levels are charged to cover costs and maintain the net assets of the Commission.

12. Financial Risk Management

In the normal course of operations, the Commission is exposed to a number of risks that can affect its operating performance. The management of the Commission along with its board of directors monitors the Commission's risk through periodic review. These risks and the action taken to manage them are as follows:

Interest Rate Risk

The Commission has investments classified as held for trading. These investments are short term and are therefore not subject to large fair market value changes caused by changes in interest rates.

Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and will be unable to fulfil their lease commitments. The Commission mitigates the risk of credit loss by attracting and retaining quality tenants, diversification of the tenant mix, and through lease indemnification measures.