



Financial Statements

Management's Report

The financial statements of the British Columbia Buildings Corporation have been prepared by management in accordance with generally accepted accounting principles which are considered appropriate in the circumstances. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the notes to financial statements. The external auditors appointed by the Lieutenant-Governor-in-Council have examined the financial statements which have been approved by the Board of Directors on recommendation of the Audit Committee. Financial information presented elsewhere in this annual report is consistent with that in the financial statements.



Dennis Truss

President and Chief Executive Officer

The Audit Committee, comprised of non-management members of the Board of Directors, meets periodically with internal auditors, the external auditors and management to ensure that each group is discharging its obligations.

Management depends upon a system of internal accounting controls that provides reasonable assurance, on a cost-effective basis, that the financial information is reliable and accurate. This system is maintained through the performance of a comprehensive internal audit program.



Lakshmi Parmar

Vice President, Finance and Chief Financial Officer

Report of the Auditor General of British Columbia

To the Lieutenant-Governor-in-Council Province of British Columbia

I have audited the balance sheet of the British Columbia Buildings Corporation as at March 31, 1997 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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles.



Auditor General of British Columbia
Victoria, British Columbia
May 9, 1997

Balance Sheet

\$ THOUSANDS	March 31	
	1997	1996
ASSETS		
Real estate investments		
Income-producing properties (note 3)	896,673	839,664
Income-producing properties under construction (note 4)	51,730	80,740
Land held for development (note 5)	34,936	38,405
	983,339	958,809
Investment in sinking funds	140,826	185,266
Corporate properties and equipment (note 6)	11,483	11,507
Unamortized debt discount and issue expenses	10,057	2,980
Other assets (note 7)	52,042	35,722
	1,197,747	1,194,284
LIABILITIES		
Long-term debt (note 8)	785,865	821,656
Short-term debt (note 9)	102,501	90,665
Other liabilities (note 10)	89,023	88,387
EQUITY		
Contributed surplus, contributions by the Province of British Columbia (note 11)	52,832	55,469
Retained earnings	167,526	138,107
	1,197,747	1,194,284

Commitments (note 12)

On Behalf of the Board:



Stephanie Green, Director



Robert Hobson, Director

See accompanying notes

Statement of Income and Retained Earnings

\$ THOUSANDS	Year Ended March 31	
	1997	1996
REVENUE		
Rentals	391,124	365,681
Other income	25,574	35,956
Gains on sale of properties	7,377	14,852
	423,975	416,489
EXPENSES		
Lease costs	135,488	124,976
Operations and maintenance	85,332	92,365
Amortization	47,986	43,885
Client-requested projects	17,724	23,988
Property taxes and grants	16,591	15,026
Energy	16,417	15,965
General and administrative	9,784	9,916
	329,322	326,121
INCOME BEFORE INTEREST	94,653	90,368
Interest (note 13)	55,234	57,116
NET INCOME	39,419	33,252
Retained earnings, beginning of year	138,107	116,855
Dividend	(10,000)	(12,000)
RETAINED EARNINGS, END OF YEAR	167,526	138,107

Statement of Cash Flow

\$ THOUSANDS	Year Ended March 31	
	1997	1996
OPERATING ACTIVITIES		
Net income	39,419	33,252
Non-cash items		
Amortization of capital assets and other amounts	48,736	44,844
Gains on sale of properties	(7,377)	(14,852)
Other assets and liabilities, net change	(11,747)	4,691
Proceeds from sale of properties	15,317	23,764
	84,348	91,699
INVESTING ACTIVITIES		
Real estate investments	(80,380)	(112,699)
Corporate properties and equipment	(2,691)	(1,778)
	(83,071)	(114,477)
FINANCING ACTIVITIES		
Long-term debt issued	102,500	95,000
Long-term debt repayments	(138,291)	(24,710)
Decrease (increase) in sinking funds	44,440	(9,854)
Increase (decrease) in short-term debt	11,836	(30,268)
	20,485	30,168
PRIOR YEAR DIVIDENDS PAID	(12,000)	(20,000)
CASH POSITION		
Net increase (decrease) in cash during the year	9,762	(12,610)
Cash position, beginning of year	9,132	21,742
CASH POSITION, END OF YEAR	18,894	9,132
Cash position consists of cash and short-term investments less bank indebtedness		

Notes to Financial Statements

March 31, 1997

(TABULAR AMOUNTS IN \$ 000'S)

1. Statement of Purpose

British Columbia Buildings 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 accommodation and real estate services to the provincial government. Corporate and client accountability is achieved by establishing market-based rents, payable by the client to the Corporation. In 1996/97, the Corporation received 88% (1995/96 - 85%) of its revenues from provincial government ministries, with the balance from other sources.

2. Accounting Policies

- (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 land 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 between five and forty years. The estimated useful lives of all other assets are between three and 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 is amortized by the effective rate of interest method and issue expenses are amortized on a straight-line basis, both over the terms of the applicable debt.
- (f) **Rentals Received in Advance** - Rentals received in advance are amortized using the effective rate of interest method over the period to which they relate.
- (g) **Related Party Transactions** - The Corporation is related through common ownership to all Province of British Columbia departments, agencies and Crown corporations. Transactions with these entities, unless disclosed separately in these financial statements, are generally considered to be in the normal course of operations, and are recorded at the exchange amount.

Notes to Financial Statements

March 31, 1997
(TABULAR AMOUNTS IN \$ 000'S)

Transactions in which provincial government intervention is a component are also considered to be related party transactions regardless of the actual relationship between BCBC and the transacting party.

(h) Environmental Expenditures and Liabilities - Under the standard accommodation agreement with tenants, the responsibility for site cleanup rests with the tenant.

Environmental expenditures incurred as a result of the ongoing business activities of the Corporation are expensed or capitalized as appropriate. Environmental cleanup costs, which have been immaterial in amount, are recorded in the year damage is discovered.

	1997	1996
3. Income-Producing Properties		
Net book value:		
Cost	1,343,188	1,247,571
Accumulated amortization	(446,515)	(407,907)
	896,673	839,664
Activity:		
Net book value, beginning of the year	839,664	756,476
Properties transferred from income-producing properties under construction	108,283	115,397
Acquisitions (disposals)	(5,995)	9,496
Amortization expense	(45,279)	(41,705)
Net book value, end of year	896,673	839,664
4. Income-Producing Properties Under Construction		
Balance, beginning of year	80,740	101,636
Direct development and construction costs	69,027	82,048
Capitalization of:		
Interest	6,499	7,768
General and administrative expenses	3,747	4,685
Cost of properties completed and transferred to income-producing properties	(108,283)	(115,397)
Balance, end of year	51,730	80,740

Notes to Financial Statements

March 31, 1997

(TABULAR AMOUNTS IN \$ 000'S)

	1997	1996
5. Land Held For Development		
Balance, beginning of year	38,405	38,508
Capitalization of interest and property tax	1,410	1,799
Disposals	(4,879)	(1,902)
Balance, end of year	34,936	38,405
6. Corporate Properties and Equipment		
Cost:		
Office and data-processing equipment	20,931	18,641
Corporate properties and leasehold improvements	7,819	7,216
Maintenance equipment	3,291	3,288
Vehicles	5,200	5,196
	37,241	34,341
Accumulated Amortization	(25,758)	(22,834)
	11,483	11,507
7. Other Assets		
Cash	394	-
Temporary investments	18,500	10,000
Accounts receivable:		
Province of British Columbia	24,019	16,269
Other	8,711	9,124
Prepaid expenses	418	329
	52,042	35,722

Notes to Financial Statements

March 31, 1997

(TABULAR AMOUNTS IN \$ 000'S)

	1997	1996
8. Long-Term Debt		
Principal Outstanding:		
Debentures payable to the Ministry of Finance and Corporate Relations for British Columbia		
Various issues at an average effective interest rate of 9.32% (1996 - 8.64%) maturing at various times to 2026 (1996 - 2024)	677,500	654,800
Debentures payable to the Minister of Finance for Canada to the credit of the Canada Pension Plan Investment Fund		
Various issues at an average effective interest rate of 14.26% (1996 - 12.62%) maturing at various times to 2003 (1996 - 2003)	106,655	165,041
Mortgage payable to the Bank of Montreal	1,710	1,815
	785,865	821,656

45

At March 31, 1997, the coupon rates on the long-term debt ranged from 5.40% to 15.69% (1996 - 5.01% to 15.69%).

The Province of British Columbia has unconditionally guaranteed the principal and interest of all debt payable to third parties. At the option of the Minister of Finance for Canada, debentures to the credit of the Canada Pension Plan Investment Fund may be called prior to maturity under certain conditions on six months written notice. These debentures mature between 1997 and 2003.

Principal payments, net of projected sinking fund balances at maturity, and sinking fund payments for each of the next five years:

1997/98	66,871
1998/99	60,825
1999/00	11,945
2000/01	48,232
2001/02	15,247

During 1997, \$58,386,000 of outstanding long-term debt, together with related sinking fund investments, was removed from the Corporation's balance sheet under a defeasance agreement with the Province of British Columbia. The Province has unconditionally relieved the Corporation of any further obligations regarding these securities.

Notes to Financial Statements

March 31, 1997
(TABULAR AMOUNTS IN \$ 000'S)

9. Short-Term Debt

The interest rates on short-term debt range from 2.75% to 6.13% (1996 - 4.90% to 6.07%), and result in an average effective interest rate of 4.45% (1996 - 5.42%) for the notes outstanding. These notes mature at varying dates to December 15, 1997 and are payable to the Ministry of Finance and Corporate Relations for British Columbia.

	1997	1996
10. Other Liabilities		
Due to bank, unsecured	-	868
Accounts payable and accrued liabilities	36,503	37,794
Holdbacks	6,356	7,813
Accrued interest payable:		
Province of British Columbia	12,766	12,216
Other	5,249	5,966
Deferred revenue	18,149	11,730
Dividend payable	10,000	12,000
	89,023	88,387

11. Related Party Transactions

During the year, the Corporation sold a property with a fair market value of \$5.5 million and a net book value of \$2,637,386 to the Greater Vancouver Regional District. 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.

Gains on sale of properties include \$2,754,702 which resulted from a sale to a post-secondary institution.

Notes to Financial Statements

March 31, 1997
(TABULAR AMOUNTS IN \$ 000'S)

12. Commitments

The Corporation estimates that the cost to complete projects under construction will be \$19,388,000 of which \$6,205,000 has been committed.

The Corporation has entered into leases with third parties to provide space for its clients and its head office for varying periods up to the year 2082, at a total aggregate net rental of approximately \$465,479,000. Most leases are for between five and ten years and include renewal options.

Minimum annual lease payments which will be charged to operations in subsequent years for leases committed at March 31, 1997:

1997/98	103,466
1998/99	86,750
1999/00	67,885
2000/01	48,355
2001/02	33,602
Thereafter	125,421

47

The Corporation had outstanding letters of credit totalling \$2,082,000 at March 31, 1997 to guarantee performance on various projects.

13. Interest

	1997	1996
Interest on long-term debt	82,078	75,501
Other interest	4,861	6,208
Amortization of debt discount and issue expenses	750	959
	87,689	82,668
Deduct:		
Sinking fund earnings	24,778	16,292
Interest capitalized	7,677	9,260
	32,455	25,552
	55,234	57,116

Notes to Financial Statements

March 31, 1997
(TABULAR AMOUNTS IN \$ 000'S)

14. Financial Instruments

The estimated fair value of cash, cash equivalents, accounts receivable and accounts payable, approximates carrying value due to the relatively short-term nature of the instruments. Financial instruments with a carrying value different from their fair value include the following:

	1997		1996	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Sinking funds	140,286	153,105	185,266	197,013
Short-term debt	102,501	103,468	90,655	91,794
Long-term debt	785,865	909,361	821,656	918,894

48

The fair values of sinking funds are based upon quoted market values. The fair values of debt instruments are estimated based upon discounted future cash flows using discount rates that reflect current market conditions for instruments having similar terms and conditions.

15. Change in Presentation

Certain prior year numbers have been reclassified to match current year presentation.