

Financial Statements

MANAGEMENT'S REPORT

The financial statements of 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.

The Audit Committee, comprised of non-management members of the Board of Directors, meets periodically with internal auditors, the external auditor, 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.



Dennis Truss
President and
Chief Executive Officer



Lak 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 British Columbia Buildings Corporation as at March 31, 1998 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, 1998 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 8, 1998

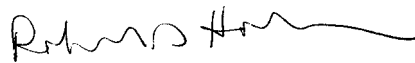
BALANCE SHEET

\$ THOUSANDS	March 31	
	1998	1997
ASSETS		
Real estate investments		
Income-producing properties (note 3)	938,681	896,673
Income-producing properties under construction (note 4)	15,398	51,730
Land held for sale or development (note 5)	23,574	34,936
	977,653	983,339
Corporate properties and equipment (note 6)	11,396	11,483
Unamortized debt discount and issue expenses	9,410	10,057
Other assets (note 7)	75,217	52,042
	1,073,676	1,056,921
LIABILITIES		
Long-term debt (note 8)	641,994	645,039
Short-term debt (note 9)	104,294	102,501
Other liabilities (note 10)	87,717	89,023
EQUITY		
Contributed surplus, contributions by the Province of British Columbia (note 11)	52,832	52,832
Retained earnings	186,839	167,526
	1,073,676	1,056,921
Commitments (note 12)		

On Behalf of the Board:



Stephanie Green, Director



Robert Hobson, Director

STATEMENT OF INCOME AND RETAINED EARNINGS

\$ THOUSANDS	Year Ended March 31	
	1998	1997
REVENUE		
Rentals	403,737	397,667
Other income	24,804	18,931
Gains on sale of properties	11,779	7,377
	440,320	423,975
EXPENSES		
Lease costs	138,584	135,488
Operations and maintenance	86,735	85,332
Amortization	47,927	47,986
Client requested projects	24,035	17,724
Property taxes and grants	16,708	16,591
Energy	16,717	16,417
General and administrative	9,624	9,784
	340,330	329,322
INCOME BEFORE INTEREST	99,990	94,653
Interest (note 13)	60,677	55,234
NET INCOME	39,313	39,419
Retained earnings, beginning of year	167,526	138,107
Dividend	(20,000)	(10,000)
RETAINED EARNINGS, END OF YEAR	186,839	167,526

STATEMENT OF CASH FLOWS

\$ THOUSANDS	Year Ended March 31	
	1998	1997
OPERATING ACTIVITIES		
Net income	39,313	39,419
Non-cash items		
Amortization of capital assets and other amounts	48,625	48,736
Gains on sale of properties	(11,779)	(7,377)
Other assets and liabilities, net change	(2,129)	(11,747)
Proceeds from sale of properties	22,689	15,317
	96,719	84,348
INVESTING ACTIVITIES		
Real estate investments	(50,323)	(80,380)
Corporate properties and equipment	(2,741)	(2,691)
	(53,064)	(83,071)
FINANCING ACTIVITIES		
Long-term debt issued	75,000	102,500
Long-term debt repayments	(60,120)	(138,291)
Decrease (increase) in sinking funds	(17,924)	44,440
Increase in short-term debt	1,793	11,836
	(1,251)	20,485
DIVIDENDS PAID		
Declared in prior year	(10,000)	(12,000)
Declared in current year	(20,000)	-
	(30,000)	(12,000)
CASH POSITION		
Net increase in cash during the year	12,404	9,762
Cash position, beginning of year	18,894	9,132
	31,298	18,894
CASH POSITION, END OF YEAR		
Cash position consists of cash and temporary investments less bank indebtedness		

March 31, 1998

TABULAR AMOUNTS IN \$ 000s

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. During the year the Corporation received 80% (1997 - 88%) 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 from five to forty 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 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.

NOTES TO FINANCIAL STATEMENTS

March 31, 1998

TABULAR AMOUNTS IN \$ 000s

(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, as well as other transactions in which the 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.

(h) Environmental Expenditures and Liabilities

Under the standard accommodation agreement with tenants, 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 when a determination of liability is made and the related costs can be reasonably estimated.

3. INCOME-PRODUCING PROPERTIES

Net book value:

	1998	1997
Cost	1,410,570	1,343,188
Accumulated amortization	(471,889)	(446,515)
	938,681	896,673

Activity:

Net book value, beginning of year	896,673	839,664
Properties transferred from income-producing properties under construction	65,865	108,283
Acquisitions (disposals)	21,539	(5,995)
Amortization expense	(45,396)	(45,279)
Net book value, end of year	938,681	896,673

NOTES TO FINANCIAL STATEMENTS

March 31, 1998

TABULAR AMOUNTS IN \$ 000s

4. INCOME-PRODUCING PROPERTIES UNDER CONSTRUCTION	1998	1997
Balance, beginning of year	51,730	80,740
Direct development and construction costs	23,321	69,027
Capitalization of:		
Interest	2,263	6,499
General and administrative expenses	3,949	3,747
Cost of properties completed and transferred to income-producing properties	(65,865)	(108,283)
Balance, end of year	15,398	51,730
5. LAND HELD FOR SALE OR DEVELOPMENT	1998	1997
Balance, beginning of year	34,936	38,405
Capitalization of interest and property tax	626	1,410
Disposals	(11,988)	(4,879)
Balance, end of year	23,574	34,936
6. CORPORATE PROPERTIES AND EQUIPMENT	1998	1997
Cost:		
Office and data processing equipment	19,259	20,931
Corporate properties and leasehold improvements	7,956	7,819
Maintenance equipment	3,270	3,291
Vehicles	5,347	5,200
	35,832	37,241
Accumulated amortization	(24,436)	(25,758)
	11,396	11,483

NOTES TO FINANCIAL STATEMENTS

March 31, 1998

TABULAR AMOUNTS IN \$ 000s

	1998	1997
7. OTHER ASSETS		
Cash	—	394
Temporary investments	31,500	18,500
Accounts receivable:		
Province of British Columbia	24,748	24,019
Other	18,720	8,711
Prepaid expenses	249	418
	75,217	52,042
8. LONG-TERM DEBT		
	1998	1997
Principal outstanding:		
Debentures payable to the Minister of Finance and Corporate Relations for British Columbia		
Various issues at an average effective interest rate of 8.95% (1997–9.32%) maturing at various times to 2026 (1997–2026)	692,499	677,500
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% (1997–14.26%) maturing at various times to 2003 (1997–2003)	106,655	106,655
Mortgage payable to the Bank of Montreal	1,590	1,710
	800,744	785,865
Sinking funds on deposit with the Minister of Finance and Corporate Relations for British Columbia.	(158,750)	(140,826)
	641,994	645,039

At March 31, 1998, the coupon rates on the long-term debt ranged from 5.40% to 15.69% (1997–5.40% to 15.69%).

NOTES TO FINANCIAL STATEMENTS

March 31, 1998

TABULAR AMOUNTS IN \$ 000s

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 2000 and 2003.

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

1998/99	62,476
1999/00	13,584
2000/01	49,847
2001/02	16,802
2002/03	11,270

9. SHORT-TERM DEBT

The interest rates on short-term debt range from 4.23% to 4.83% (1997 – 2.95% to 4.70%), and result in an average effective interest rate of 4.66% (1997 – 3.30%) for the notes outstanding. These notes mature at varying dates to October 10, 1998 and are payable to the Minister of Finance and Corporate Relations for British Columbia.

10. OTHER LIABILITIES

	1998	1997
Bank indebtedness, unsecured	202	—
Accounts payable and accrued liabilities	36,654	36,503
Holdbacks	2,109	6,356
Accrued interest payable:		
Province of British Columbia	13,393	12,766
Other	5,195	5,249
Deferred revenue	30,164	18,149
Dividend payable	—	10,000
	87,717	89,023

NOTES TO FINANCIAL STATEMENTS

March 31, 1998

TABULAR AMOUNTS IN \$ 000s

11. RELATED PARTY TRANSACTIONS

In the prior year, the Corporation sold a property with fair market value of \$5.5 million and a net book value of \$2.6 million to the Greater Vancouver Regional District. At the direction of the Province of British Columbia, the sale price was \$1. The transaction was recorded in these financial statements at the carrying amount of the property. The difference between the cash received and the carrying amount was recorded as a reduction to contributed surplus.

During the year the Corporation acquired a property from another BC Crown corporation. The purchase occurred at the net book value of the asset acquired. Management has estimated that this transfer value approximates market value.

12. COMMITMENTS

The Corporation estimates that the cost to complete projects under construction at year end will be \$9,629,000 of which \$6,690,000 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 2017, at a total aggregate net rental of approximately \$452,798,000. Most leases 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, 1998:

1998/99	106,590
1999/00	82,916
2000/01	61,220
2001/02	45,445
2002/03	35,107
Thereafter	121,520

The Corporation had outstanding letters of credit totaling \$2,108,000 at March 31, 1998 to guarantee performance on various projects.

NOTES TO FINANCIAL STATEMENTS

March 31, 1998

TABULAR AMOUNTS IN \$ 000s

13. INTEREST	1998	1997
Interest on long-term debt	72,894	82,078
Other interest	1,755	4,861
Amortization of debt discount and issue expenses	698	750
	75,347	87,689
Deduct:		
Sinking fund earnings	11,871	24,778
Interest capitalized	2,799	7,677
	14,670	32,455
	60,677	55,234

14. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to current year presentation.

15. ACCOUNTING ESTIMATES

Financial statements, by their nature, contain estimates and are subject to measurement uncertainty. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. The amounts recorded for depreciation and 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 are not anticipated to be significant.

16. PENSION PLAN

The Corporation and its employees contribute to the Public Service Pension Plan in accordance with the Pension (Public Service) Act. The Superannuation Commission of the Province of British Columbia administers the plan, including the payment of pension benefits on behalf of employers and employees to whom the Act applies. The Plan is a defined benefit pension plan. The financial position of the Plan is described in the financial statements of the Plan included in the Public Accounts of the Province. The Province of British Columbia has statutory responsibility for any unfunded liability. The most recent actuarial evaluation has determined that the Plan is in a surplus position.