2003/2004: Report 6

OFFICE OF THE

Auditor General of British Columbia

Leading the Way — Adopting Best Practices in Government Financial Reporting– 2003/2004

National Library of Canada Cataloguing in Publication Data

British Columbia. Office of the Auditor General.

Adopting best practices in government financial statements.–2001/2002–

(Report)
Annual.
Report year ends Mar. 31.

Continues: British Columbia. Office of the Auditor General. Report on government financial accountability for the ... fiscal year. Report on the ... public accounts. ISSN 1488–4585.

ISSN 1705-1630–Adopting best practices in government financial statements

1. Finance, Public – British Columbia – Accounting – Periodicals. I. Title. II. Series: British Columbia. Office of the Auditor General. Report.

HJ13.B7B74 352.4'39'0971105 C2001–960288–X

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The Honourable Claude Richmond
Speaker of the Legislative Assembly
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Dear Sir:

I have the honour to transmit herewith to the Legislative Assembly of British Columbia my 2004/2005 Report 6: Leading the Way – Adopting Best Practices in Government Financial Reporting – 2003/2004.

Wayne Strelioff

Wayne Strelioff, FCA
Auditor General

Victoria, British Columbia
November 2004

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

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This report is based on the result of audit work done mainly between September 2003 and August 2004, by 75 staff and contractors of the Office of the Auditor General of British Columbia and by many private accounting firms, that took part in the audit of the Summary Financial Statements and in audits of all the government organizations that are included in the government reporting entity.

We received full co-operation in our audit from government's staff.

Auditor General's Overview

Wayne Strelioff, FCA
Auditor General

We present here the findings from our audit of the Summary Financial Statements, and our observations on how the government is steadily improving its financial reporting.

The last fiscal year was a significant one because, for the first time, the government published its complete financial plans — not just those of the ministries and Crown corporations, but also those of schools, universities, colleges and health care organizations. These plans are for the current fiscal year, and set the stage for the March 31, 2005 financial statements, which will report on the results of the whole of government. I commend the government for doing this and for other improvements it has continued to make over the past few years in its financial reporting. In this report we explain how the government is leading the way towards having the best summary financial statements in Canada.

Much has been done, but there is still more to be accomplished. Our recommendations in this report point to several opportunities. These include addressing specific accounting concerns, such as how interest expense should be shown in the Statement of Operations. They also highlight the kind of information that should be disclosed more fully and more frequently, such as the risk of inaccuracy associated with uncertain conditions. As well, we are encouraging the government to provide fuller explanations of its significant transactions, not just annually in the Public Accounts, but also in its quarterly reports.

Timely release of the government's annual Public Accounts, including the audited Summary Financial Statements, is extremely important. I am pleased to see that in the last two years the government has released its financial statements within three months of the year-end, earlier than ever before. Again, however, I see room for improvement.

Many large national and international corporations have managed, for some time now, to release their consolidated audited financial results within several weeks of their year-end. They do this by allocating appropriate resources to their financial reporting function. I think governments should do the same. This will initially be a challenge, but one I believe the government is up to meeting.

In closing, I wish to thank all those in my Office, and all those inside and outside government who assisted my Office in our audit of British Columbia's Summary Financial Statements.

Wayne K. Strelioff, FCA
Auditor General

Victoria, British Columbia
November 2004

Introduction

Why do we write this report?

Our Office plays an important role in enhancing the provincial government's accountability and performance. As an independent office of the Legislature, we report objectively on the government financial management and administrative practices and we recommend how these could be improved. However, like many publicly funded organizations, we have limited resources with which to provide such assurance. We can therefore examine only particularly significant matters. Among those are the Summary Financial Statements of the Government of the Province of British Columbia (the government's financial statements), a major means by which the government accounts for its financial performance. Auditing these statements each year is a significant focus of our Office.

We conduct our examination with two goals in mind: first, to give assurance to the legislators and citizens of the province that the statements present fairly both the financial position of the government and the results of its operations; and second, to comment on the government's progress in adopting best practices in financial statement reporting.

We achieved our assurance goal in June 2004 when the government issued its financial statements. In the short report that must accompany the government financial statements whenever they are presented as audited financial statements, we confirmed that, with two major exceptions, the statements presented the government's financial position and operations well. We explained the exceptions in the reservation paragraph of the report. Our reservation concerned the incomplete accounting for publicly controlled schools, universities, colleges and hospitals and the way

As explained in note 1(c) to these financial statements, the Government's stated accounting policies contain exceptions to generally accepted accounting principles (GAAP) for senior governments, as recommended by the Canadian Institute of Chartered Accountants, related to schools, universities, colleges and institutes, and health care organizations. Had GAAP been followed as at March 31, 2004, it would be expected that financial assets increase by \$3.7 billion (\$3.4 billion at March 31, 2003), liabilities increase by \$3.9 billion (\$3.7 billion at March 31, 2003), non - financial assets increase by \$4.8 billion (\$3.6 billion at March 31, 2003), and the accumulated deficit decrease by \$4.6 billion (\$3.3 billion at March 31, 2003). Similarly, for the year ended March 31, 2004, revenues increase by \$2.3 billion (\$2.4 billion for 2003), expenses increase by \$2.0 billion (\$2.2 billion for 2003), and the annual deficit decrease by \$0.3 billion (\$0.2 billion for 2003).

capital grants given them are accounted for. These organizations are collectively referred to as the SUCH sector. The highlighted extract from our June report (shown here in the sidebar) lists the substantial dollar effects of excluding these organizations from the government reporting entity.

We expect this to be the last year the Auditor General expresses this reservation on the government financial statements, because the government intends to include the SUCH sector in its financial reports for the 2004/05 fiscal year. The government has already demonstrated its commitment to moving fully to GAAP by including the SUCH sector in its budget tabled in February 2004.

This report summarizes the findings related to our second goal in examining the Summary Financial Statements — namely, to inform Members of the Legislative Assembly and the public about the government's progress in adopting best practices in financial accountability. Here we outline government's accomplishments last year in improving its financial accounting and reporting practices; explain improvements-in-progress; state where we stand on our previous recommendations; explain the need to understand the level of certainty in financial statements; discuss the quality of financial information in the Public Accounts that is not audited; and outline our plan for our annual assessment of the state of health of the province's auditing practices to the extent they relate to public accountability.

How do we know what are best practices?

Because many government transactions are complex, it is important that the accounting policies chosen to record and report them are the best ones for making the financial information understandable and conveying what actually happened. Deciding which are the best accounting and reporting practices to use requires significant professional judgement.

According to the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (the CICA) those practices chosen should result in financial statements that:

- provide an accounting of the full nature and extent of the financial affairs and resources that the government controls, including those related to the activities of its agencies and enterprises;

- describe the government's financial position in a way that is useful for evaluating the government's ability to finance its activities, meet its liabilities and commitments, and provide future services;
- describe the changes in the government's financial position, showing the sources, allocation and consumption of the government's resources, how the government's activities affected its net debt, and how the government financed its activities; and
- demonstrate the accountability of the government for the resources, obligations and financial affairs for which it is responsible.

As auditors, we measure against these objectives the accounting and reporting practices adopted by the government, and we compare them to GAAP and other standards of the CICA, and to what our peers across Canada are doing. Considering these outside sources helps us decide objectively what the best practice is in each circumstance.

The Government of British Columbia either already follows, or has committed itself to adopting, most of what makes up best practice across Canada. For the second consecutive year, for example, the financial statements were published within three months of the year-end — a considerable improvement from six years ago when the financial statements were published almost eight months after the year-end. We think this is a noteworthy accomplishment because the Summary Financial Statements are a central feature of government financial reporting — one of the key ways for government to tell legislators, policy-makers and the public how it has administered public financial resources.

How well is the stage set for best financial reporting?

The news for British Columbians about their government's financial reporting is good. We are approaching the end of what has been a long — and, at times, arduous — road to one of our most important destinations in public financial accountability: a single and complete set of financial statements of the government. In February 2004, for the first time in the history of this province, the government tabled a consolidated plan that includes all of its financial operations. In June 2005, the government will report on its complete financial activities for the 2004/05 fiscal year, relative to this plan.

Recent events — as described in this report — indicate that we are approaching this important milestone at full speed.

We commend the government for its resolve in ensuring that British Columbia's Public Accounts are the best in Canada.

A great deal of effort is still needed by the government between now and June 2005 before a complete set of financial statements is prepared based on the Canadian Generally Accepted Accounting Principles. Meanwhile, this report presents the results of our annual monitoring of the government's progress in adopting best practices in financial accountability, particularly in financial statement reporting.

Last Year's Accomplishments

The government is responsible for ensuring that its financial statements properly present the operating results and financial position of the whole of government. Adopting best practices in financial accounting and reporting helps the government fulfill this important responsibility effectively.

During fiscal year 2003/04, the government made a number of improvements in its financial accounting and reporting practices. The main ones are outlined below. We consider these to be positive signs of consistent progress.

The result overall is that the 2003/04 Public Accounts contain a clearer and more comprehensive analysis of the province's finances than has ever been presented before. Events that had a significant impact on government's finances are better explained, and the operations and balances of each important segment of government's work are more accurately disclosed.

The government tabled its *Budget and Fiscal Plan 2004/05 – 2006/07* in February 2004. The Secretary to Treasury Board confirmed that the plan meets, and in some cases surpasses, all disclosure requirements of the Budget Transparency and Accountability Act. Those requirements referred to in the Secretary's confirming results include the adoption of the CICA's Generally Accepted Accounting Principles (GAAP) for senior governments.

On June 29, 2004, the government published the Public Accounts, including the government financial statements, a debt report, and the government's analysis of its financial performance for the 2003/04 fiscal year. We consider publishing the Public Accounts within three months after the fiscal year-end a continuing achievement.

Improving the quality of financial information

Compared with that in prior years, the quality of information presented in the 2003/04 Public Accounts was improved. One such improvement is the publication of the government's first financial statement discussion and analysis report. It includes an explanation of budget-to-actual and year-to-year changes in revenue and expense categories; of financial and non-financial assets; and of liabilities, including the provincial debt, its "net liabilities" and the accumulated deficit.

We praise the government for taking this first important step towards publishing an annual Public Accounts that could bring the government's financial and performance information together into one clear document. The Auditor General's assessment of the province's financial situation is presented in a separate report titled *Monitoring the Government's Finances – November 2004*.

Improving accounting practices

During the 2003/04 fiscal year, the government paid particular attention to addressing a number of accounting matters that needed to be looked at if its financial statements were to meet all standards of good practice. These issues included the adoption of more appropriate methods of accounting for federal transfers, post-retirement liabilities in the health care sector, and schools. We are particularly pleased with the progress government made in adopting GAAP for school accounting.

Improving the disclosure of financial impacts of significant events

The content of the government financial statements has also improved, with government having disclosed the financial impacts of the significant events that took place in the year, such as government commitments for the 2010 Winter Olympics, transferring ferry services to the new BC Ferry Authority, and selling BC Rail to CN.

Most of the important work the government does — in health care, education, transportation or protection of our social and natural environment — falls within defined programs that continue from one year to the next. Because we live in a democratic society, the users of these services and others who benefit directly from them are entitled to provide elected officials with their views on such services. The Public Accounts provide the public with the basic information they need to understand what resources the government spent in delivering services, and to compare what was actually done to what was originally planned in a given year. Legislators also use the information to hold the government to account, notably in budget debates and at other opportunities. In short, a well-established system for planning, performing and accounting exists for ongoing services. To present a complete financial picture, full explanation and audited information about one-time, significant events (e.g., the sale of major assets by the government and the discontinuation of certain programs) should also be provided separately in government's periodical publications.

By presenting audited information about the financial impact of significant events that took place during that year, the government financial statements for 2003/04 are valuable in helping prevent misinformation and misunderstandings. We are satisfied with the concise audited information provided in the Summary Financial Statements. However, we believe the government should report on it more fully in the Management Discussion and Analysis section. We comment further on these events later in the report.

Improvements-in-Progress

Improving government's accounting and reporting practices is the result of much work by many people whose aim is to enhance public accountability and transparency. These people include the elected and appointed officials of the government, the Comptroller General, the Auditor General and accounting and other standard-setting bodies. Sometimes the roles, responsibilities and relationships between all the players are not clear to the users of the public financial information.

Who is responsible for the quality of the Summary Financial Statements?

Treasury Board, a committee of Cabinet, is responsible for establishing financial controls, determining the government's accounting policies, managing the government's finances, and periodically reporting on its performance. The chief accountant of the government, the Comptroller General, is responsible for preparing the Summary Financial Statements in accordance with the accounting policies established by Treasury Board in conformity with Canadian generally accepted accounting principles (GAAP). Therefore, the responsibility for the integrity and objectivity — the "quality" — of the Summary Financial Statements rests with the government.

Are we responsible for finding errors?

The Auditor General expresses an opinion on whether or not the Summary Financial Statements fairly present the government's financial position and result of operations, but has no direct responsibility for preparing — or correcting — those statements. Ideally, our Office's financial audits should raise no material concerns, because doing so might indicate poor accounting or management practices. Nevertheless, in any financial statement audit it is almost inevitable that we will find something that concerns us. For example, an inadequate control process, inaccurate financial records, or poorly presented information would be errors we would comment on.

What do we do when we find an error?

Our audit processes include discussing matters that concern us with management and senior staff of the audited organizations. While we would like to help improve the quality of the statements, this must not be regarded as the main purpose of our audit. We don't expect to find every error and control weakness that exists, but we do plan our audit work so that we can be confident we will discover any significant ones. From those we note, we first decide whether one or more of them (individually or taken together) could, if not corrected, make the financial statements misleading. We study the substance of every issue we come across and try to resolve our concerns by discussing it with officials of the government. If we cannot resolve those concerns and we believe the financial statements remain misleading, we then express an opinion with a reservation. The purpose of the reservation is to alert users of the financial statements to our conclusions and, when possible, to provide sufficient information to let users see for themselves the effect of the error. We also report publicly — as in this report — on other findings that we believe will assist the government in continuing to improve the quality of its financial reporting.

We discussed all our audit concerns with the government. Some have been satisfactorily resolved, some are in the process of being resolved and some are still unresolved. Below we summarize those concerns we believe the government intends to resolve satisfactorily.

The completeness of the government financial statements

The government financial statements for 2003/04, as in prior years, include the assets, liabilities, revenues and expenses of all organizations controlled by the government except for publicly funded schools, universities, colleges and hospitals (collectively referred to as the "SUCH" sector). Therefore, the completeness of the Summary Financial Statements remained our main concern in 2003/04. In the short report he issued in June 2004, the Auditor General publicly explained the nature of this concern and provided an overview of what the financial statements would look like if the matter had been resolved. This "reservation" of opinion alerts readers of the statements that although everything else is well presented, the lack of completeness remains a serious issue. The short report is reproduced in Appendix C of this report.

Including the SUCH sector organizations in the government reporting entity considerably affects the story told by the government financial statements. The short report says that total expenses shown in the statements would increase by $2 billion if the SUCH sector were included, but the total increase is the net result of many changes to the types of expenses. For example, the billions of dollars currently reported as government grants to schools, universities, colleges and hospitals would be better defined in terms of salaries (paid to nursing, teaching and support staff working in these organizations), other operating costs and tangible capital assets used in delivering health care and educational services. Information on the impact of excluding the SUCH sector has been included with the Public Accounts since 1996/97.

The inclusion of the SUCH sector in government's financial reporting would also affect the government's total surplus/deficit measure. In 2003/04, for instance, it would reduce the deficit for the year by over $300 million. Accounting differences are part of the reason. The other part is that because SUCH sector organizations are expected to run no deficit, the small surpluses of the approximately 100 SUCH sector organizations would add up.

Excluding the SUCH sector poses another accounting problem, but — as explained below — that will be automatically resolved when the SUCH sector is fully consolidated in the Summary Financial Statements.

The deferral of capital grants

Governments grant millions of dollars each year to health and educational institutions. Some of these monies are for buying, or building, tangible capital assets, and they are often referred to as capital grants.

Like money transferring between two departments of a company, grants made by a ministry to a government organization represent movement of money within the government reporting entity. However, as explained above, the government does not include publicly controlled schools, universities, colleges and hospitals in its Summary Financial Statements. It therefore accounts for grants made from its Consolidated Revenue Fund to these organizations as if they were transfers of funds to outside organizations. When such transfers are for capital acquisitions, the government defers expensing the grants by describing them as "prepaid capital advances," records them as assets on its balance sheet, and amortizes them over the lifespan of the acquired tangible capital assets.

What is the government doing about the completeness of the financial statements and the deferral of capital grants?

We are very pleased that the 2003/04 Summary Financial Statements will be the last statements prepared by the government of British Columbia that do not fully follow Canadian generally accepted accounting principles (GAAP). The full adoption of GAAP in 2004/05 is the result of a lot of hard work by government ministries, central agencies, Crown corporations and other government organizations to ensure that all the necessary information is available, and more importantly that all government organizations are themselves following GAAP in their accounting. We are expecting a full and fair accounting of the SUCH sector to be included in the Summary Financial Statements for the 2004/05 fiscal year. At that point we will consider the completeness issue related to the inclusion of schools, universities, colleges and hospitals to be resolved.

The combination of excluding the SUCH sector and deferring capital grants made to SUCH sector organizations has resulted in very complex financial reporting. All capital grants recorded as prepaid capital advances will — as they should — be treated as internal transfers of funds within the government once the SUCH sector is fully consolidated in the government financial statements. The result will be clearer and more understandable financial statements.

What other significant changes do we expect in next year's statements?

Accounting based on GAAP will require a few other important changes in the government financial statements. Some 100 new organizations will be added to the government reporting entity, and a few accounting practices will have to be adjusted. These are discussed below.

Prepaid capital advances

A significant asset on the 2003/04 Statement of Financial Position — at just over $7 billion — represent grants to SUCH sector organizations to acquire capital assets, usually buildings and major equipment. Once the SUCH sector is consolidated in the Summary Financial Statements, these prepaid capital costs will be replaced by the book value of the tangible capital assets they represent.

Provincial debt

"Sinking fund" is the name given to investments separately held for the purpose of paying off long-term debt. In its Statement of Financial Position, the government currently shows the provincial debt net of the related sinking funds. Full information on debt, including investment assets kept in sinking funds at March 31, 2004 of almost $4 billion, is disclosed in the notes to the financial statements.

Under GAAP, however, the debt and the sinking fund investments should be shown separately on the Statement of Financial Position.

In 2004/05 the government will show the full amount of its debt and sinking fund investments on its Statement of Financial Position.

Budget-to-actual comparison

An important piece of information that makes financial reporting more meaningful is the comparison of the operating budget information with the actual results. This is another area where the government has put in a lot of hard work in preparation for the move to full use of GAAP. The financial statements have presented budget figures for the past few years, but the 2004/05 financial statements will present, for the first time, budget figures for the whole provincial government operation, including school districts, universities, colleges and institutes, and health authorities and hospital societies.

We are generally pleased with the government's focus on improving its financial accounting and reporting practices, and we look forward to working again with the government to further improve the presentation of the 2004/05 fiscal year's Public Accounts.

In the next section of the report, we describe the matters that still concern us about government's financial accountability, and offer recommendations for resolving those concerns.

Improvements We Recommend

Full and transparent reporting of government's financial operation should not be confined to the structured framework of the government financial statements. Other publications (e.g. the annual and quarterly reports) also afford the government opportunity for open and clear explanation of significant measures, trends, transactions and expected events. Publishing such information regularly raises public trust and confidence in government.

In this section of the report, we first look at the status of our prior years' recommendations, and then discuss new opportunities for better public accountability.

Most previous recommendations have been implemented

The recommendations we made to the government in the last two years and the status of their implementation are reported here.

Recommendation

That the Ministry of Education complete its review of school district accounting and reporting issues by the end of the 2002/2003 school year

Status

The Ministry of Education has completed its review. School districts in British Columbia adopted generally accepted accounting principles (GAAP) effective July 1, 2004, which is the start of their fiscal year.

Recommendation

That the government be consistent in how it allocates interest expense to appropriate functions.

Status

This recommendation has not been implemented. The government, in its 2003/04 Summary Financial Statements still did not consistently allocate interest expense to all functions. We have repeated our recommendation this year, and it is discussed further below.

Improvements We Recommend

Recommendation

That the government annually provide, in the Summary Financial Statements, complete segmented financial information.

Status

The government has significantly improved the presentation of its sectoral financial information. We are expecting further improvement to follow when the SUCH sector is included in the government reporting entity in 2004/05.

Recommendation

That the government consider the possibility of obtaining assurance on an interim financial statement of school districts as at March 31 each year, for inclusion in the Summary Financial Statements.

Status

The government has decided to prepare a consolidated statement of the financial position of the districts and the results of their operations as at March 31 of each year, for inclusion in the government's Summary Financial Statements. The statement will be prepared from information provided by the school districts as at that date. Assurance on this consolidated financial statement will be provided by our Office.

Recommendation

That, to the extent practical, the government adopt new CICA recommendations before their formal effective date.

Status

The government is committed to following GAAP and adopting new recommendations of the Canadian Institute of Chartered Accountants (CICA). However, it has stated that early implementation of new recommendations is not always practical or, in its view, advisable.

Improvements We Recommend

Recommendation

That the government record the BC Forestry Revitalization Trust account (and any similar self-established trust accounts) as part of its restricted assets and continue to show its liabilities in the Summary Financial Statements until those liabilities are discharged in substance.

Status

The government disagrees with our characterization of the Forestry Revitalization Trust (FRT) and does not record the FRT's assets and liabilities in the Summary Financial Statements. However, the CICA has recently provided new accounting guidelines on the consolidation of "variable interest entities." These entities are subject to control in ways other than through the ownership of voting shares. Given the new guidelines, we will be revisiting the examination of the Forestry Revitalization Trust and other similar organizations to ensure the completeness of the Summary Financial Statements.

Recommendation

That the government improve its record-keeping process to provide clear and sufficient support for all revisions and restatements of the original Estimates presented in the note to the Summary Financial Statements.

Status

This year there were no revisions or restatements between the original Estimates and those presented in the Summary Financial Statements.

Recommendation

That the government obtain an actuarial valuation so that an expense for the retirement allowance can be recorded for each year that an employee works.

Status

An actuarial valuation was obtained and the retirement allowance is now recorded completely.

There are several accounting practices we do not support

In 2003/04, the government accounted for a few transactions in ways we do not consider good practice. These are:

- disclosure of interest expense on debt
- prepayment of Small Community Protection Grants
- defeased debt

In total, the results do not cause a material distortion of the 2003/04 financial statements. However, we believe it is important that they be corrected. We explain them further below.

Disclosure of interest expense on debt

Interest expense on debt is not disclosed consistently. On the statement of operations, part of the cost of borrowing is disclosed as interest expense and part (as shown in note 29 of the Summary Financial Statements) is combined with the health, education and transportation costs.

The cost of borrowing can be disclosed in one of two ways: to show it as an overall cost to the government, or to allocate the cost of borrowing as part of what is spent on health, education, transportation and so on. The government's current disclosure is neither completely one nor the other. We have recommended previously that interest expense be accounted for consistently. The government has not yet acted on this, so we reiterate our recommendation.

We recommend that the government be consistent in how it allocates interest expense to appropriate functions.

Prepayment of Small Community Protection Grants

Small Community Protection Grants are paid under the authority of the Local Government Grants Act. A regulation to that Act sets out the granting formula for calculating the amount a municipality may receive in a calendar year.

Exhibit 1 shows the month in which the grants for the last five calendar years have been paid.

Exhibit 1

Time of payment of Small Community Protection Grant, 2000-2004

Calendar year	Month paid	Fiscal year paid
2000	April 2000	2000/01
2001	April 2001	2001/02
2002	April 2002	2002/03
2003	April 2003	2003/04
2004	February 2004	2003/04

Source: Government General Ledgers

The government may choose to grant the whole amount to an eligible municipality at once or in instalments. In recent years, as shown in Exhibit 1, the funds were transferred to the receiving municipalities only once a year, in April. In 2003/04, however, the government paid local authorities in full twice, $36 million each time (once in April 2003 and the second time in February 2004) and accounted for both payments as an expense in 2003/04. We believe the next payment is scheduled to be made in April 2005, in the 2005/06 fiscal year, so no expense will be recorded in the 2004/05 fiscal year.

Recording funds granted for two years in one fiscal year is not appropriate. We believe the payment made in February 2004 should be recorded as an advance payment and be expensed in the 2004/05 fiscal year.

We recommend that the government record as expense of a fiscal year only the amount authorized by regulation to be granted each year to small communities.

Defeased debt

When funds are set aside and invested so that their earnings and market value are sufficient to meet both a debt's interest and its principal repayments at maturity, the debt and investments may be removed from the statement of financial position. The debt is said to be "defeased." GAAP allows the defeased debt and its related investments to be set off against each other when such an arrangement is in accordance with the terms of the debt issue. In such circumstances, the lender must agree to accept the investments as payment for the debt obligation at the maturity date. Investments related to a defeased debt must be held in an irrevocable and independent trust.

The government has defeased debt totalling $831 million because it has set aside funds — sufficient to meet principal and interest payments — in a trust. However, the lenders have not legally agreed to accept the investments as payment of the debt and the trust fund established is neither irrevocable nor independent.

Up until now, the government disclosed in the Summary Financial Statements its debt net of sinking funds. Earlier we commented on this departure from GAAP. We extend that comment to defeased debt. We believe the government should also show the gross amounts of any defeased debt and investments, unless GAAP requirements for the defeasance have been met.

We recommend that the government show the gross amounts of any of its defeased debt and investments that do not meet the GAAP definition of debt defeasance.

We found other opportunities for improvements

Reporting under uncertain conditions

Government management, like that of its private business counterparts, uses a great deal of estimation in preparing modern financial statements.

Reporting on a cash basis of accounting requires no estimation at all. However, modern accounting and reporting conventions have moved a long way from accounting for cash alone. Modern financial statements are prepared on the accrual basis of accounting. This involves recording the financial ramifications of business decisions when they are made rather than when cash changes hands as a result of those decisions. For example, an expense is recorded when a service is received, even if it is not yet paid for.

Unavoidably, accrued amounts (expenses and revenues) are often estimated. And with estimation comes uncertainty. Both accountants and auditors are therefore often concerned that financial statements prepared on an accrual basis of accounting might not completely stand the test of time and ultimately be proven inaccurate. To address this concern, they apply due diligence and extreme care when making significant accounting estimates and in auditing the financial statements based on those. For better transparency, well-prepared modern financial statements also describe the nature of uncertainty.

Note 2 of the government's 2003/04 financial statements contains such an explanation. It refers to the level of uncertainty under which the financial statements were prepared, making particular reference to accrued amounts for pension obligations, the Canada Health and Social Transfer (CHST), the federal equalization program (equalization), and personal income taxes. The note also points to the uncertainty associated with a disputed 2001 power sales revenue, resulting from the instability in the California electricity market and the ongoing regulatory and legal proceedings.

We believe the explanation provided in Note 2 is reasonable for financial statement presentation. However, regular monitoring and public reporting of income and obligation amounts estimated in the Summary Financial Statements, particularly those which were subject to uncertainties, is needed outside the government financial statements (for instance, in the government's annual or quarterly reports) to help legislators and other users of the information understand the significance of measurement uncertainty and how the government manages its surplus deficit measures despite that uncertainty.

Sometimes in recent years some such information has been provided. We think information should be updated regularly even if no change has occurred in the preceding quarter.

Note 2 alerts the reader that uncertainty related to CHST, equalization, and personal income taxes arises because of the possible differences between the economic forecasts used to estimate the amounts and the actual economic results. The explanation below of the changes in federal equalization payment and in revenue estimation since 2000 is an example of how significant these differences can be.

Estimating equalization amounts, 2001-2004

At March 31, 2004, the province owed the federal government $888 million of the equalization amounts it received previously. British Columbia is not alone in this: all the eight provinces that currently receive equalization payments now owe money to the federal government. The equalization amount for a year is based on estimates that are revised in subsequent years as better information about a province's economy and population becomes available. In the 2003/2004 fiscal year, more complete information became available about population figures from the 2001 census (data released in September 2003); and the figures for the 2002 personal and corporate income tax returns were finalized by the Canada Revenue Agency. This data was significantly different from the earlier estimated data the federal government had been using.

Equalization is a federal transfer program that allows all provinces, regardless of their ability to raise revenue, to provide their citizens with roughly comparable levels of services at roughly comparable levels of taxation.

Eligibility to receive equalization funding is determined by a formula, set out in federal legislation and regulations, that measures each province's revenue-raising capacity against a five-province standard. Provinces with revenue-raising ability, or fiscal capacity, below the five-province standard receive equalization payments from the Government of Canada to bring their capacity up to that standard. British Columbia was one of eight provinces to receive equalization in 2003/04.

The equalization payments formula calculates a province's ability to raise revenues from each of 33 revenue sources (including personal income tax, corporate income tax, sales tax and property tax) on a per capita basis. The five-province standard is the average of the per capita fiscal capacity of Ontario, Quebec, Manitoba, Saskatchewan and British Columbia. The per capita fiscal capacity of each of the 10 provinces is then compared to the standard, and any province whose fiscal capacity is below the standard (a "have-not" province) is entitled to receive an equalization amount. That amount is calculated as the difference between the standard and the province's own fiscal capacity, times the province's population.

The federal government's calculations of equalization payments to be made to the provinces are based on estimated figures that are revised as better data becomes available. In 2004, two areas of estimate in each province were revised significantly: the estimate of population, and the estimate of personal and corporate income tax assessments for 2002.

Population

In the fall of 2003, Statistics Canada released the 2001 census data. British Columbia's population was less than had been estimated, and this resulted in the downward revision of the population estimates that had been used to calculate equalization for subsequent years.

Population changes affect the equalization calculation in two ways. First, the fiscal capacity of a province and the standard fiscal capacity are calculated on a per capita basis, so population changes affect the calculation of those amounts. Second, the amount of equalization a province receives is the difference between its per capita fiscal capacity and the standard fiscal capacity, times its population, so population changes affect the calculation of total revenue.

As a result of the population change in British Columbia, the federal government calculated that the province had been overpaid by $344 million.

Personal and corporate income tax assessments for 2002

In early 2004, the Canada Revenue Agency finalized the assessments of personal and corporate income taxes for 2002. Incomes were less than had been expected across Canada, especially those for Ontario. Because Ontario is the dominant province used in calculating the five-province standard, its reduced personal and corporate incomes meant that the standard incomes nationally were also reduced. This in turn reduced the equalization payments.

Based on the 2002 figures, the personal and corporate income tax estimates for 2003 were also revised downwards, reducing equalization for that year as well.

As a result of the change in the personal and corporate income tax figures, the federal government calculated that British Columbia had been overpaid by $389 million.

All the provinces that receive equalization payments have been affected by these changes. Quebec is the most affected, having been overpaid by just over $1 billion.

British Columbia properly uses accrual accounting for equalization revenue, and makes its own estimates of the amount of equalization to record in a year. The difference between the revenue British Columbia records and the cash it receives from the federal government is accrued by the province as a receivable or payable at year-end. The province expects that further adjustments to the estimates will be made next year, which will result in the federal government determining that it has made additional overpayments to British Columbia. This means the province has actually recorded a larger amount payable than the federal government's current estimate.

The net result of all this is that, based on the information available in 2004, British Columbia turned out to be a "have-not" province in 2002 and 2004 and a "have" province in 2003. (This could change next year as more information about 2003 and 2004 becomes available.) Since equalization is based on estimates, adjustments to prior-year revenues are accounted for as revisions to estimates instead of as corrections, and so all adjustments are made in the current year. In particular, the $543 million of equalization revenue recorded in 2003 has had to be reversed in 2004. Together with other adjustments for 2002 and 2004, this results in the province recording a net expense, instead of revenue, for equalization of $330 million in the financial statements for the year ended March 31, 2004, and recording $888 million as payable to the federal government at March 31, 2004. (The equalization and the CHST programs are inter-related, and so the decrease in equalization has resulted in an increase in CHST, and the province has recorded a receivable for CHST of $132 million at March 31, 2004.)

In fact, based on preliminary census figures, the province was already expecting as early as March 2003 to have to repay some of the equalization receipts it had received from the federal government, and it had therefore recorded a payable of $188 million at March 31, 2003.

Revenue estimation trends

The changes described above in equalization payments reflect the significant fluctuations that have also been occurring in personal income taxes and the CHST.

Each year, we apply great care in our audit to assessing whether management has been duly diligent in estimating accrual amounts necessary to calculate the province's personal tax and federal transfer amounts. Nevertheless, as the trends show, huge adjustments occur from one year to the next.

The estimates of personal income tax revenues are routinely revised and adjusted each year as more information becomes available relating to prior years. Exhibit 2 summarizes the annual increase or decrease in this revenue.

Exhibit 2

Revisions to prior year income tax revenues reported in the Summary Financial Statements – 2000-2004

Year ended March 31	Increase/(decrease) for prior year revisions ($ millions)	Revision as a % change in prior-year income tax revenue
2000	$309	5.7
2001	$189	3.2
2002	$173	2.9
2003	($311)	5.8
2004	$149	3.6

Source: Audited Summary Financial Statements

The overall possible effect of uncertain conditions

Not all valuations and estimates used in preparing the Summary Financial Statements are subject to high level of fluctuation. However, in managing its surplus/deficit measure, the government must keep a watchful eye on economic results and other statistics it estimated in calculating its previous year's accrued amounts.

We estimate that the possible effects of measurement uncertainty on the surplus/deficit in any given year could be as much as plus or minus $500 million.

Clearly, better-than-anticipated actual revenue results relative to the previous year would give the government of the day the ability to compensate for poorer performance in other areas of it's operations. Worse-than-anticipated actual results would, conversely, force the government to reassess its planned program.

Quarterly reports and measurement uncertainty

To monitor their performance during the year, governments publish quarterly reports. These reports reflect the latest available data (including the prior years' adjusted economic results and population statistics), providing interim opportunity for governments to explain why change occurred in estimated amounts. This enables legislators and the public to better assess their government's actual performance.

Because of complexities of corporate tax law and the lack of adequate information, most government financial statements have been reporting corporate income taxes on a cash basis. No estimation has therefore been required up to now. Today, though, because of recent changes in the federal accounting of income taxes, we expect the information necessary to estimate corporate income taxes may become more available, and we expect the government in due course to be reporting this corporate income tax on an accrual basis. This will add to the measurement uncertainty in future financial statements (even though it will better match the recording of revenues to the period they relate to), and thus require more frequent monitoring of it during the year.

Currently the quarterly reports of the Government of British Columbia are not audited.

Uncertainty about factors outside the control of government can result in the recording of some accrual amounts in the government financial statements that will not come to pass. However, this is an accepted feature in all modern financial statements, even though the variances at times are very large. With time, more accurate information becomes available about certain basic factors management used in its estimation, but the delay results in significant fluctuations in federal transfers and income taxes. Audited quarterly reports provide elected officials and the public with independently examined revised financial estimates as better information becomes available. This tempers expectations and makes a better assessment of the government's performance possible.

Recommendation

We recommend that the government provide and regularly update, in every annual and quarterly report, an audited explanation of all significant estimates used in the determination of the revenues and expenses in its Summary Financial Statements, and also a full explanation of any changes in the estimated amounts used for the prior year that have had to be accounted for in the current year.

Reporting the financial impact of all significant events

The Summary Financial Statements are complex and serve a general purpose. In putting them together annually, the government summarizes a great deal of information, including that concerning the impact of, and the transactions resulting from, important decisions that have been made. We agree the summarized disclosure is adequate for the purpose of government financial statements. However, a fuller explanation elsewhere, in a regular publication, helps readers understand the role these decisions play in shaping the government's finances.

Below we comment on five such decisions and the related transactions that played a significant role in shaping the financial statements of the government in 2003/04.

- Government commitment to the 2010 Winter Olympics needs an accumulating progress report
- Health Accord package offers multi-year revenue
- Sale of BC Rail to CN is finalized
- The new Consumer Protection Authorities are independent of government
- Recording education funding from Indian and Northern Affairs Canada is improved

Government commitment to the 2010 Winter Olympics needs an accumulating progress report

In its 2003/04 Summary Financial Statements, the government provided information on its financial commitment for the 2010 Winter Olympics and on amounts paid to date. We believe the level of disclosure is sufficient for financial statement presentation. However, given the significance of this undertaking over the next six years, we think an accumulating progress report should be published in each quarterly and annual Summary Financial Statements, to publicly track government spending on this event. The overall commitment covers a number of different types of obligations. Payments should be clearly identified as planned obligations are met.

Health Accord package offers multi-year revenue

The 2003 First Ministers' Accord on Health Care Renewal (the Accord) provided for additional funding to the provinces to address specific health care issues. In 2003/04, British Columbia received just over $200 million from the Diagnostic/Medical Equipment Fund and just over $333 million from the Canada Health and Social Transfer Supplement Fund.

The federal government had originally planned to provide these funds annually, over a three-year period 2003/04-2005/06. Later, it transferred the total amount for the three years to a separate account from which provinces could make withdrawals as and when needed. When the province realized it would not be able to achieve the results intended by spending the three years' funds in one year, it deferred the revenues. We agreed with the government's accounting of these funds as deferred revenue because the funds were given for specified future performance as described in the First Ministers' Accord. Matching the revenue with future planned expense would not distort the government's overall performance.

The intended purpose for the $200 million received from the Diagnostic/Medical Equipment Fund is to enhance medical procedures by making more diagnostic equipment accessible. The government intends the full funds to be spent by March 31, 2006. The cost of equipment bought by the health authorities in 2004 for this purpose will be amortized over the useful life of the equipment. The amortization expense for 2004 amounted to $13 million, and so $13 million in revenue was recognized.

The $333 million received from the Canada Health and Social Transfer Supplement Fund has been used to enhance the government's Fair Pharmacare program. The government has published its plan to spend this amount by March 31, 2006.

The government's service plan has set performance goals, indicators and measurement criteria for the results it intends to achieve using these funds in each of the three years. The government also undertook to develop a tracking system monitoring the costs of achieving these goals, and to ensure the information it gathers is sufficient and rigorous enough to withstand the test of an audit.

In 2004, the government has expensed $129 million on Fair Pharmacare programs that meet the aims of the Health Accord, and so has recorded $129 million of revenue in the Summary Financial Statements — an amount equal to the expense it has incurred.

We accepted the accounting treatment of the Health Accord funding in 2004.

Sale of BC Rail industrial freight business to CN is finalized

On July 2, 2004, the government reached a consent agreement with the Federal Commissioner of Competition regarding sale of the industrial freight business of BC Railway Company (BCRC) to the Canadian National Railway Company (CN). The $1 billion deal with CN closed on July 14, 2004.

The Province of British Columbia has owned and operated passenger and freight rail services since 1918 as a public policy tool for economic development. The operation became a Crown corporation in 1979, but until 1993 it continued to receive operating grants from government. Since that time, although the BCRC has operated without receiving government assistance, it has accumulated significant liability, of which $650 million was written down between 1999 and 2001.

Selling a business, of the size and nature of BC Rail industrial freight, is a complex task that needs giving much attention to details, not all of which is included here in this concise description of the transaction. For instance, while we realize that each party to the many contractual agreements that make this deal possible may at law have a separate identity, we use "government" here (as in other parts of this report) to mean all organizations collectively referred to as the "government reporting entity", as defined in the Budget Transparency and Accountability Act. Individual organizations' legal and governance responsibilities, clearly, are not affected by this definition.

BCRC has over 2,300 kilometres of track and provides service from Vancouver to Fort Nelson, with branches to Mackenzie, Dawson Creek, Tumbler Ridge, Fort St. James and Takla. It also owns the line servicing the Roberts Bank coal and container port. Exhibit 3 shows the extent of the rail lines.

Exhibit 3

BCRC has over 2,300 kilometres of track in British Columbia

Source: British Columbia Railway Company

Following a review of BCRC in 2001, and after much deliberation, the provincial government concluded that the public interest would be better served with alternative ownership of the company's industrial freight business. Amongst reasons for this decision included the operation's troubled financial history, state of its revenue producing assets, shrinking revenue base and increasing dependence on forest products. The government concluded that the company's industrial freight services were unable to compete with a deregulated private sector transportation industry.

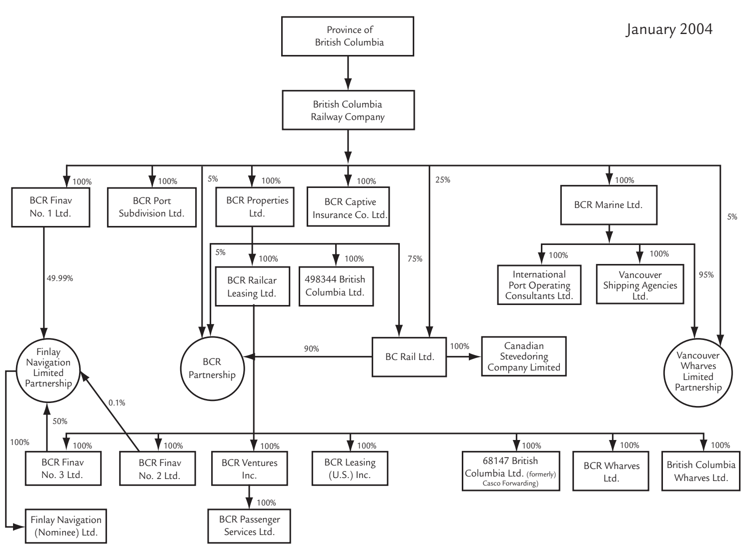
In May 2003, the government sought expressions of interest from the private sector. Six months later, on November 25, it announced that it had reached an agreement with CN. The July 2004 consent agreement reached between the Canadian Commissioner of Competition and CN finalized the deal. The details of the transaction itself are contained in a Transaction Agreement which includes a number of schedules, one of which is the Revitalization Agreement.

Details of the sale of BCRC industrial freight business

BCRC owns a number of interrelated subsidiaries. The corporate structure before the agreement with CN is shown in Exhibit 4.

Exhibit 4

The British Columbia Railway Company's corporate structure before selling its industrial freight business



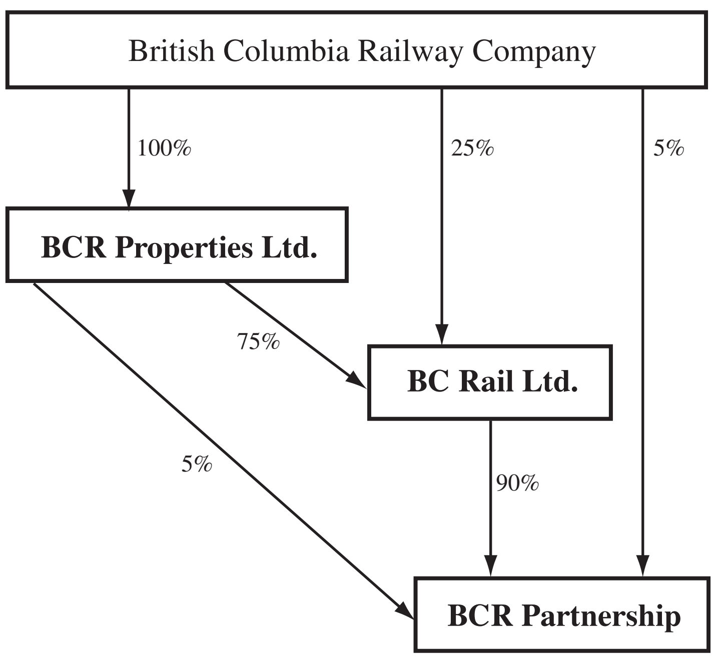
Source: British Columbia Railway Company

In preparation for the agreement with CN, BCRC decided to make one of its subsidiaries — BC Rail Ltd — the company that was solely in the industrial freight rail business. It did this by reorganizing assets and liabilities within the BCRC group of companies. Once this was done, the sale of shares in BC Rail Ltd. to CN would ensure that CN bought from BCRC nothing other than its industrial freight rail business.

Before the reorganization, the relationships between BCRC and its subsidiaries-those most affected by the transaction — were as shown in Exhibit 5.

Exhibit 5

Interests in BCR Properties, BC Rail Ltd. and BCR Partnership before selling its industrial freight operation



Source: BC Office of the Auditor General

During the restructuring, the following assets owned by BC Rail Ltd. and/or BCR Partnership were transferred to BCRC:

- all shares and partnership interests in BCRC affiliated entities that did not relate to the industrial freight business. The 90% interest in BCR Partnership remained in BC Rail Ltd.;
- the assets of the Port Subdivision, the rail line servicing the Roberts Bank coal and container port (BCRC does not operate its own traffic on this line but it owns and manages its 38-kilometre rail line for other users);
- all rail and non-rail-related real estate, including the railway right-of-way; and
- all railbed and track and other infrastructure bridges, tunnels, road crossings and signals necessary to support the railway operations.

The ultimate result of the above transfers was that the industrial freight business of BCRC was packaged in BC Rail Ltd. and its 90% owned BCR Partnership. By buying all BC Rail Ltd. shares and the two 5% share interests in BCR Partnership from BCRC and BCR Properties, CN was able to take over 100% of the BCRC's industrial freight business. Rail cars owned or leased by BCR Marine Ltd. (a subsidiary of BCRC) and leased to BCR Partnership were also acquired by a CN affiliated entity.

CN also needed to have the future right to uninterrupted use of the BCRC's railway right of way, railbed and tracks. This right was secured through a lease agreement (called the Revitalization Agreement) between the company and CN.

CN paid $1 billion for:

- all shares of BC Rail Ltd. (which gave CN 90% control of the BCR Partnership);
- the remaining 10% interest in the BCR Partnership from BCRC and BCR Properties Ltd. (This full ownership of the BCR Partnership — 10% directly and 90% through its recently acquired BC Rail Ltd — meant that CN acquired the ownership right to all rolling stock owned or leased by BC Rail Ltd., including railcars owned by BCR Marine Ltd.);
- the prepayment of all lease payments to BCRC under the Revitalization Agreement.

Through ownership of 100% of the shares of BC Rail Ltd. (including 100% of the partnership interest of BCR partnership), CN acquired the exclusive right to operate the BCRC industrial freight railway business, all rolling stock and related operating assets, and certain tax losses and other tax attributes of the two entities.

As part of the transaction, the government had to indemnify CN for losses or damages that CN might incur as a consequence of representations and warranties made by BCRC about the industrial freight business being inaccurate. The total obligation for these indemnities, which are typical and common to any commercial transaction, is capped at $262 million.

The government also had to indemnify CN for any loss that CN might incur if it could not use the corporate losses and allowances it acquired to reduce its future taxes. The maximum payable under these tax-related indemnities is $367 million.

There were three complex aspects of this transaction: the tax-related indemnities, the lease covered by the Revitalization Agreement, and inter-company debt.

Tax-related indemnities – BC Rail Ltd. (a subsidiary of a Crown corporation) was subject to income tax. When CN acquired BC Rail Ltd.'s shares, it acquired that company's significant accumulated losses and unclaimed depreciations (capital cost allowances). For tax purposes, these losses and unclaimed allowances have a significant value because they can effectively reduce the income tax CN will be required to pay on its future income. Of the $1 billion paid by CN, $250 million was attributed to the value to CN of BC Rail Ltd.'s and BCR Partnership's losses and allowances carried forward for taxation purposes.

The government has indemnified CN against any loss caused by an adverse assessment by the CRA related to the $250 million. CN is also indemnified for an additional $117 million, which covers the usual tax attributes associated with the purchase of business assets.

Should the CRA disallow CN's use of the tax losses and unclaimed allowances to reduce its taxes, BCRC, or the Province as guarantor, will have to pay to CN up to $367 million under the indemnities, plus interest at 9% calculated from July 14, 2004, and will also have to reimburse CN for any tax it pays as a result of receiving the indemnity payments.

The government has obtained independent legal opinions on whether the use of these tax losses and unclaimed allowances by CN is likely to result in a loss to the government. If the CRA initially disallowed CN's claims to use the tax losses and unclaimed allowances, the assessment could be appealed. However, in the interim, the government would have to pay the indemnity to CN. It is unlikely that the Province and BCRC will ultimately be held liable for any amounts under the indemnity.

***The lease covered by the Revitalization Agreement* —** The Revitalization Agreement is a lease agreement that gives CN the right to use the right-of-way, railbed and track and all the infrastructure necessary to operate the railway such as bridges, tunnels, cuttings and crossings. All such lease payments have been prepaid in the $1 billion transaction.

The full term of the lease, if all renewal options are exercised, will be 990 years. The initial term is 60 years, with a 30-year renewal option.

At the end of the first renewal period, BCRC has the option to repurchase the railway operation at a price, calculated according to a formula, that should approximate to fair market value. If it does not exercise this option, then CN has the right to renew the lease for a period of 60 years. At the end of this and subsequent renewals, BCRC again has the option to repurchase the operation, or CN may renew for another 60-year term. Altogether, there may be 15 of these 60-year renewals (which, with the initial term and 30-year first renewal, total 990 years).

***The inter-company debt* —** BC Rail Ltd. and BCR Partnership together owed BCRC and its subsidiary, BCR Properties Ltd., approximately $1.8 billion in inter-company debt. Approximately $1 billion of this amount has been retired as a result of the transaction. Because CN has bought all interest in BC Rail Ltd., the balance will be a liability of CN. The outstanding debt owed to BCRC, by BC Rail Ltd., of $800 million bears no interest until 2094 and no payments are due until then. The present value of the debt is estimated to be $10 million.

BCRC can look forward to receiving $800 million in 2094.

How the sales proceeds are being used

Because the risk of any loss due to the indemnities is considered low, the full amount of the proceeds is being recognized as revenue of the government on the closing date, July 14, 2004.

The proceeds are being used as follows:

- On receiving the $1 billion payment, BCRC used $510 million to pay off its outstanding long-term debt to the Province. This debt was incurred on behalf of BC Rail Ltd. and the BCR Partnership. BCRC retains $50 million, and the $440 million balance will be paid to the Province as a dividend.
- The Province has already announced plans to use some of this money to establish trusts for the benefit of communities along the BC Rail corridor. For example, $135 million will go to the Northern Development Initiative Trust to support investment in the northern regions; and $15 million will go to the BC Rail First Nations Benefits Trust for economic development, educational advancement and cultural renewal.
- Another $41 million has been allocated for other, smaller initiatives. This amount, together with the monies paid to the trusts, is intended to equal the gain expected on the sale — that is, the proceeds less the book value of the assets sold and any costs of the transaction.

The new Consumer Protection Authorities are independent of government

In the past year, the government has created two consumer protection authorities, the Business Practices and Consumer Protection Authority and the BC Safety Authority. Both of these will begin operating in fiscal 2004/05, and both are expected to be outside the government reporting entity.

The government reporting entity comprises all organizations that are controlled by government. The Public Sector Accounting Board of the CICA states that control by government is a matter of fact, and lists some indicators of control, the most usual being the ability to appoint a majority of the board.

Both of these organizations have been set up so that the government appoints one board member and the rest are appointed by the existing board. (For the first board, the government appointed the first member, that person appointed two others, and those three then appointed the first full board complement.) We are satisfied that one of the organizations is not controlled by the government, and our preliminary assessment suggests that the other is not either.

We intend to monitor the make-up of these boards and the relationship between government and the organizations. We expect that they will remain outside the government reporting entity, but in our initial discussions with government we were advised that these bodies might be assigned additional responsibilities once they are in operation. We pointed out that government cannot assign responsibilities to an organization it does not control, and that doing so could be taken as de facto control by government. Government can, of course, introduce legislation which, if passed, would give the organization additional responsibilities — assigning responsibilities by legislation would not be de facto control.

Recording education funding from Indian and Northern Affairs Canada is improved

Indian and Northern Affairs Canada (INAC) provides funding for elementary education for First Nations students living on reserves. This money is distributed through various arrangements with First Nations and provinces, who in turn make payments to school districts for educational services. In 2003/04, INAC provided $52 million directly to First Nation band councils or education authorities and $31 million to the province's Ministry of Education for that purpose.

The Ministry of Education recorded, consistent with its prior practice, the full amount of $83 million as revenue and expenditure in the provincial accounts. However, the government determined that the monies paid directly by INAC to First Nations were inappropriately recorded this way and it made the necessary corrections to current and prior years' accounts. These corrections did not have any effect on the annual operating result of the province, because they adjusted revenue and expense in equal amounts.

Concluding remark and recommendation on reporting the financial impact of all significant events

We believe the government has the opportunity to improve its reporting practice by regularly providing, outside the government financial statements, detailed information similar to that provided in this section of the report on non-recurring decisions that significantly affect its finances.

Recommendation

We recommend that the government regularly provide, outside its Summary Financial Statements, detailed information on non-recurring decisions that significantly affect its financial position.

Exemption from reporting requirements of the Budget Transparency and Accountability Act

Government organizations are required by legislation to prepare and make public all annual service plans, major capital project plans, and annual service plan reports. For this purpose, a government organization means an organization that is within the government reporting entity.

An organization may be exempted from the reporting requirements of the Budget Transparency and Accountability Act by regulation, on the recommendation of the Minister of Finance, after consultation with the Auditor General.

Sufficient time should be allowed for consultation with our Office

The Act does not provide a set time period during which consultation with the Auditor General should occur. However, we believe that the government should allow sufficient time for it. This has not been our experience in the last two years.

- In 2004, the government provided us with the Minister's draft recommendations on February 11, 2004, and the exemption regulation was published on February 17, 2004.
- In 2003, government provided us with the Minister's draft recommendations on January 28, 2003, and amended them on February 10, 2003. The exemption regulation was published on February 14, 2003.

We plan to work with the government to set a mutually acceptable time line for this process.

Reasons for the one exemption from reporting are not convincing

The Auditor General has supported all of the Minister's recommendations but one for exempting organizations from reporting. The Minister recommended in 2003/04 that, for 2004, BC Railway Company be exempted from the requirement (set out under section 14 of the Act) to prepare and make public an annual service plan. The reason given for exempting BC Railway Company was that it was undergoing significant transition and it would be difficult for the organization to formulate a meaningful three-year plan. The government intended to review the exemption in 2005.

In our view, although components of BC Railway Company were undergoing significant transition, it was particularly in such a time of change that the public needed to be made aware of the planned activities of the company. We acknowledge that it would have been difficult to provide clear service levels and performance measures for all aspects of the company's activities. Nevertheless, we feel that the company could, and indeed should, have provided this information for its other activities, such as its marine operations.

Reporting on the Financial Statement Auditing Process for the Government Reporting Entity

Our extended oversight responsibilities

In April 2003, a new Auditor General Act was passed. An important provision of the Act makes the Auditor General the external auditor of the provincial government reporting entity. This extended whole-of-government audit mandate assures the Legislative Assembly that the conclusions and recommendations received from the Auditor General will apply to the entire government entity, whether or not a private sector auditor has been hired, directly or indirectly, to audit a specific organization or program of government. This new arrangement allows for a single, clearly identifiable channel through which the Assembly is regularly advised on a consistent basis and across all government programs and organizations.

Given the key role played by the audit function in the governance and accountability processes of our democratic system, it is important that the Assembly receive independent assurance that the financial statement audit process overall is functioning effectively and serving the Assembly's interests. This assurance now may be provided by the Auditor General through section 10(8) of the Act, which provides that the Auditor General may report his assessment of the financial statement audit process for all government organizations and trust funds.

Section 10(8) assists the Assembly in carrying out its financial reporting oversight responsibilities. In this regard, the Auditor General as overall auditor for the Assembly has the responsibility for providing assurance to it that the financial statement audit process is functioning effectively across all of government and meeting the needs and interests of legislators.

How we will provide assurance on the health of the financial statement audit process

Our annual three-year audit coverage plan, which incorporates a combination of direct audits carried out on a number of government entities and the overseeing of work done by appointed auditors on the remaining entities, provides us with the opportunity to efficiently focus on assessing the health of the financial statement audit process. Our Office issued the first plan, Financial Statement Audit Coverage Plan for Fiscal Years 2004/05—2006/07, to the Select Standing Committee on Public Accounts in November 2003[1]. We will do so in the fall of each year as part of our annual planning and budgeting process.

In accordance with the requirements of the Act, we will ensure that each plan we prepare provides sufficient and appropriate audit coverage across the organizations in the government reporting entity. To achieve this we will consult with the governing boards of these organizations and ensure that each plan is tabled, discussed and approved by a committee of legislators.

We will provide assurance on the health of the financial statement audit process by conducting direct assessments. For example, effective audit committees are considered to be a critical component of a healthy financial statement audit process. Audit committees are responsible for overseeing the external financial statement audit examinations as well as the recommendations of the external auditors. Therefore, by assessing the current state of audit committees across government organizations, we would be able to provide legislators with some assurance regarding how well the audit process was functioning.

In addition, the work of audit committees and their independent external auditors is very closely related, since both groups often have important financial statement objectives in common. Because communications between the two is critical to the financial statement audit process, assessing the extent and quality of communication between audit committees and external auditors will also provide some assurance that the audit process is functioning well.

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[1] Please go to www.bcauditor.com for a copy of the report.

Our assessment of the health of the financial statement audit process will be based on criteria indicative of best practices, which we are in the process of developing. We will look to Canadian generally accepted auditing standards, the Canadian Public Accountability Board, a body that oversees private sector auditing practices in Canada, and the Sarbanes Oxley work in the United States in developing them.

Further, to be comprehensive in our approach and effective in results, we need to discuss with boards, audit committees and external auditors what we intend to do. We will also keep a watchful eye on the work currently in progress by the Canadian Public Accountability Board.

Once these criteria have been developed, we will use them to assess our own work as well.

When we will report

We expect to start reporting on the health of the auditing practices in British Columbia for government-related audits before the end of this fiscal year. Over time, the experience and knowledge we gain through our oversight involvement with audit committees of government organizations and enterprises we do not directly audit, will help us in reporting on the overall health of the audit process to legislators.

Response from the Ministry of Finance

Response from the Ministry of Finance

We appreciate the opportunity to respond to the Auditor General's comments. We feel this report recognizes the significant and continuous improvements we have made to reporting. We appreciate the review and thank the Auditor General for his acknowledgement of the government's progress in adopting best practices in financial accountability including:

- *The government's diligence in reviewing, processing, accumulating and combining of transactions to ensure proper representation of the operating results and financial position of the whole of government;*
- *The Auditor General's support of the deferral of capital grants to outside organizations where the asset is used in delivering a government service;*
- *The requirement that significant professional judgement must be applied in determining accounting policies chosen;*
- *The government's commitment to include the schools, universities, colleges and hospitals (SUCH) sector in its 2004/05 fiscal year and the expectation that this will remove the current qualification of the province's summary financial statements;*
- *The acknowledgement that even though some Public Sector Accounting Board (PSAB) guidance was not yet required, the province disclosed relevant details of pending events such as restructuring of British Columbia Ferry Corporation, British Columbia Rail and the Coquihalla Highway;*
- *The completion of the Ministry of Education review of school district accounting and reporting. The movement to generally accepted accounting principles (GAAP) for their fiscal period beginning July 1, 2004 has been no small feat and is much more than just an accounting issue;*
- *The improvements to the note disclosure for contingent liabilities; and*
- *The significant improvement to sectoral financial information.*

We are following the recommendations of the PSAB of the Canadian Institute of Chartered Accountants in our reporting with the exception of the exclusion of the SUCH sector from the government reporting entity. The movement to full implementation of GAAP is a major undertaking, not just an accounting issue. We have been working closely with the Accounting Policy Advisory Committee to resolve issues. Much work has been done, and remains to be done, for the province to achieve this goal.

Response from the Ministry of Finance

In addition to our work on moving to GAAP, the Office of the Auditor General and the Office of the Comptroller General have been working together to urge PSAB to change GAAP to improve reporting by allowing the deferral of capital grants to organizations outside of the government reporting entity.

Changes in accounting recommendations occur frequently. We ensure that we implement changes within the recommended implementation timeframe. With an organization as large as the government reporting entity it is not always practical or advisable to do early implementation of recommended changes to accounting. Where practical we have provided additional disclosure that is not yet required e.g. disclosure of BC Ferry and BC Rail restructuring and the potential public private partnership related to the Coquihalla highway. Where clear decisions to dispose of assets or operations have not yet been made, it would be inappropriate to change our reporting and then have to change it back the following year because the final decision was different from the anticipated one. A case in point is the public private partnership arrangement contemplated for the Coquihalla Highway. Proposed arrangements varied from asset disposal to a range of partnering options. Without a clear decision, we determined that it would be better to leave the existing treatment in place and disclose information of this potential partnership arrangement.

With respect to the timeliness of the release of the Public Accounts, we would like to note that this year the province had the earliest release of Public Accounts of all the senior jurisdictions in the country. The significant efforts of the many organizations including ministries, Crown corporations, schools, universities, colleges, and health authorities were required to accomplish this. Our focus over the next few years will be on improving the quality of reporting for our much-expanded entity rather than in pursuing an earlier delivery date for the Public Accounts.

With respect to the OAG recommendation that government disclose all significant adjustments affecting revenues and expenses, the government does disclose significant "prior-year adjustments" in the Assumptions Table or in the text describing major changes included in the Quarterly Reports and Budget documents for personal income tax revenue, the health and social transfers and equalization revenue.

Staff provide further information upon request rather than add complexity in the report by including detailed and lengthy explanations.

Response from the Ministry of Finance

In the situation in 2003/04, when staff realized that 2002/03 equalization entitlement was significantly over-accrued in the 2002/03 Public Accounts, a topic box on equalization was included in government's Second Quarterly Report.

The focus of the Quarterly Reports is to provide interim updates to the fiscal plan (forecast information), and not be audited "actuals" at the level of quality required for the Public Accounts.

Regarding the accounting treatment for corporate income tax (CIT) revenue (cash versus accrual), there is no additional information available this year at the provincial level that could support an accrual methodology.

The federal government does not have any in-year provincial jurisdiction information regarding payments.

According to federal government officials, the methodology for recording federal CIT revenue is modified cash.

The federal government does not attempt to determine actual entitlement when it records CIT revenue in the Public Accounts.

In terms of sector reporting, the province of British Columbia is ahead of other provinces. Our current disclosure goes beyond the requirements of GAAP. Should there be a change in GAAP, we will comply with it.

We think that fiscal 2003/04 was a very positive year in terms of the progress we have made. We look eagerly to fiscal 2004/05 and our expected unqualified financial statements that are fully compliant with GAAP. We thank the Office of the Auditor General for it's continuing support in this objective.

Appendices

Appendix A

Summary Financial Statement Audit Methodology

When examining for the purpose of expressing an opinion on financial statements, auditors are expected to comply with established professional standards, referred to as generally accepted auditing standards. The principal source of these standards in Canada is the Canadian Institute of Chartered Accountants (CICA).

Generally accepted auditing standards consist of three main areas. There are general requirements that the auditor be properly qualified to conduct and report on an audit, and that he or she carry out the duties with an objective state of mind. Further standards outline the key technical elements to be observed in the conduct of an audit. Finally, reporting standards set out the essential framework of the auditor's report on the financial statements.

In addition to these broad standards, the CICA makes other, more detailed, recommendations related to matters of auditing practice.

Application of the Standards

We carry out extensive examinations of the accounts and records maintained by the ministries and central agencies of government, and by the Crown corporations and other public bodies of which the Auditor General is the auditor.

Also, with respect to Crown corporations that are audited by other auditors and that form part of the Summary Financial Statements, we obtain various information and assurances from those other auditors which enable us to rely on their work in conducting our audit of the government's accounts. This information is supplemented by periodic reviews by our staff of those auditors' working paper files and audit procedures.

Throughout these examinations, the Office of the Auditor General complies with all prescribed auditing standards in the conduct of its work. However, the Auditor General's opinion on a set of financial statements does not guarantee the absolute accuracy of those statements. In auditing the Summary Financial Statements, or the financial statements of any large organization, it is neither feasible nor economically desirable to examine every transaction. Instead, using our knowledge of the government's business, its methods of operation and systems of internal control, we assess the risk of error occurring and then design audit procedures to provide reasonable assurance that any errors contained in the financial statements are not, in total, significant enough to mislead the reader as to the government's financial position or results of operations.

When determining the nature and extent of work required to provide such assurance, we consider two main factors: *materiality*, which is expressed in dollar terms, and *overall audit assurance*, expressed in percentage terms.

- *Materiality* relates to the aggregate dollar amount which, if in error, would affect the substance of the information reported in the financial statements, to the extent that a knowledgeable reader's judgement, based on the information contained in the statements, would be influenced.

  In our audit of the Summary Financial Statements, we have assumed that an error in the current year's operating results in excess of one-half of 1% of the gross expense of the government would be considered material.

  We advise management of all errors that we find and, usually, if individually and in aggregate they are less than materiality, we do not insist that they be adjusted. Sometimes, however, we must take into account qualitative considerations where a relatively small error might have a significant impact on the financial statements — for example, where an error might change a surplus to a deficit (or vice versa) or affect an important trend.

- *Overall audit assurance* represents, in percentage terms, how certain the auditor wants to be that the audit will discover any errors in the financial statements, which in total exceed materiality.

  In our audit of the Summary Financial Statements, we planned our work so as to achieve an overall audit assurance of 95% that the audit would detect total error in excess of materiality. In choosing the level of assurance, we consider factors such as the expectations of the users of the financial statements and the nature of the audit evidence available.

Appendix A

In planning our audits of financial statements, we exercise professional judgement in determining the application of these two key factors. Professional judgement is influenced by our knowledge of the requirements of readers of the financial statements, and by what is generally accepted as being appropriate by auditors of similar organizations.

We continuously revise and update our auditing methodology to keep pace with auditing best practices.

Appendix B

Government Organizations Included in the 2003/2004 Summary Financial Statements and Their Auditors

	Audited by: Auditor General	Audited by: Private Sector Auditors
552513 British Columbia Ltd.	✓	
B.C. Community Financial Services Corporation		✓
B.C. Festival of the Arts Society		✓
B.C. Games Society		✓
B.C. Immigrant Investment Fund Ltd.	✓	
B.C. Pavilion Corporation		✓
BC Transportation Financing Authority	✓	
BCIF Management Ltd.		✓
British Columbia Arts Council[1]		
British Columbia Assessment Authority	✓	
British Columbia Buildings Corporation		✓
British Columbia Enterprise Corporation	✓	
British Columbia Ferry Corporation[2]		✓
British Columbia Heritage Trust		✓
British Columbia Housing Management Commission		✓
British Columbia Hydro and Power Authority		✓
British Columbia Liquor Distribution Branch[3]	✓	
British Columbia Lottery Corporation		✓
British Columbia Railway Company		✓
British Columbia Securities Commission	✓	
British Columbia Trade Development Corporation		✓
British Columbia Transit		✓

[1] The entity's financial statements were unaudited.
[2] Control transferred outside the government reporting entity as April 2, 2003
[3] A special operating agency under the Ministry of Public Safety and Solicitor General

Appendix B

	Audited by	
	Auditor General	Private Sector Auditors
Canadian Blood Services		✓
Columbia Basin Trust		✓
Columbia Power Corporation	✓	
Creston Valley Wildlife Management Authority Trust Fund	✓	
Discovery Enterprises Inc.		✓
First Peoples' Heritage, Language and Cultural Council		✓
Forensic Psychiatric Services Commission		✓
Forestry Innovation Investment Ltd.	✓	
Homeowner Protection Office	✓	
Industry Training and Apprenticeship Commission	✓	
Industry Training Authority	✓	
Innovation and Science Council of British Columbia		✓
Insurance Corporation of British Columbia		✓
Interim Authority for Community Living British Columbia	✓	
Land and Water British Columbia Inc.	✓	
Legal Services Society		✓
Oil and Gas Commission	✓	
Organized Crime Agency of British Columbia Society		✓
Pacific National Exhibition		✓
Partnerships British Columbia Inc.	✓	
Private Post-Secondary Education Commission		✓
Provincial Capital Commission	✓	
Provincial Rental Housing Corporation		✓
Rapid Transit Project 2000 Ltd.		✓
Royal BC Museum		✓
Tourism British Columbia	✓	
Vancouver Convention Centre Expansion Project	✓	
Vancouver Trade and Convention Centre Authority	✓	
Victoria Line Ltd.	✓	

Appendix C

The 2003/04 Summary Financial Statements

Summary Financial Statements

Province of British Columbia

For the Fiscal Year Ended March 31, 2004

BRITISH COLUMBIA

Report of the Auditor General of British Columbia

ON THE SUMMARY FINANCIAL STATEMENTS OF THE GOVERNMENT OF THE PROVINCE OF BRITISH COLUMBIA

To the Legislative Assembly
of the Province of British Columbia

I have audited the summary financial statements of the Government of the Province of British Columbia consisting of the statement of financial position as at March 31, 2004, and the statements of operations, change in net liabilities, and changes in cash and temporary investments for the year then ended. These financial statements are the responsibility of the Government. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian 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 the Government, as well as evaluating the overall financial statement presentation.

Reservation

As explained in note 1(c) to these financial statements, the Government's stated accounting policies contain exceptions to generally accepted accounting principles (GAAP) for senior governments, as recommended by The Canadian Institute of Chartered Accountants, related to schools, universities, colleges and institutes, and health care organizations. Had GAAP been followed as at March 31, 2004, it would be expected that financial assets increase by $3.7 billion ($3.4 billion at March 31, 2003), liabilities increase by $3.9 billion ($3.7 billion at March 31, 2003), non-financial assets increase by $4.8 billion ($3.6 billion at March 31, 2003), and the accumulated deficit decrease by $4.6 billion ($3.3 billion at March 31, 2003). Similarly, for the year ended March 31, 2004, revenues increase by $2.3 billion ($2.4 billion for 2003), expenses increase by $2.0 billion ($2.2 billion for 2003), and the annual deficit decrease by $0.3 billion ($0.2 billion for 2003).

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Opinion

In my opinion, except for the effects of my reservation explained in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Government of the Province of British Columbia as at March 31, 2004, the results of its operations and the changes in net liabilities and its cash and temporary investments for the year then ended, in accordance with generally accepted accounting principles for senior governments as recommended by The Canadian Institute of Chartered Accountants.

Wayne Strelioff

Victoria, British Columbia
May 14, 2004

Wayne Strelioff, FCA
Auditor General

Statement of Responsibility for the Summary Financial Statements of the Government of the Province of British Columbia

Responsibility for the integrity and objectivity of the Summary Financial Statements for the Government of the Province of British Columbia rests with the Provincial Government. The Comptroller General prepares these financial statements in accordance with the accounting policies as determined by Treasury Board. The fiscal year for the provincial government is from April 1 to March 31 of the following year.

To fulfill its accounting and reporting responsibilities, the government maintains financial management and internal control systems. These systems give due consideration to costs, benefits and risks and are designed to provide reasonable assurance that transactions are properly authorized by the Legislative Assembly, are executed in accordance with prescribed regulations and are properly recorded. This is done to maintain accountability of public money and safeguard the assets and properties of the Province of British Columbia under government administration. The Comptroller General of British Columbia maintains the accounts of British Columbia, a centralized record of the government's financial transactions, and obtains additional information as required from ministries, Crown corporations and agencies to meet accounting and reporting requirements.

The Auditor General of British Columbia provides an independent opinion on the financial statements prepared by the government. The duties of the Auditor General in this respect are contained in section 11 of the *Auditor General Act*.

Annually, the financial statements are tabled in the Legislature as part of the Public Accounts, and are referred to the Select Standing Committee on Public Accounts of the Legislative Assembly. The Select Standing Committee on Public Accounts reports to the Legislative Assembly with the results of its examination and any recommendations it may have with respect to the financial statements and accompanying audit opinions.

Approved on behalf of the Government of the Province of British Columbia:

Gary Collins

GARY COLLINS
Chair, Treasury Board

Summary Financial Statements
Statement of Financial Position
as at March 31, 2004

	Note	In Millions 2004	2003
Financial Assets		$	$
Cash and temporary investments	3	430	312
Accounts receivable	4	2,542	2,380
Inventories for resale	5	238	216
Due from other governments	6	344	135
Due from self–supported Crown corporations and agencies	7	164	402
Equity in self–supported Crown corporations and agencies	8	2,989	2,629
Loans, advances and mortgages receivable	9	1,048	596
Other investments	10	453	328
Financial assets held for sale	11		37
Loans for purchase of assets, recoverable from agencies	12	7,602	7,336
		15,810	14,371
Liabilities			
Accounts payable and accrued liabilities	13	3,543	3,353
Due to other governments	14	1,109	322
Due to Crown corporations, agencies and funds	15	123	101
Deferred revenue	16	1,292	706
Liabilities related to assets held for sale	11		113
Employee pension plans (unfunded pension liabilities)	17	3	4
Taxpayer–supported debt	18	29,431	28,899
Self–supported debt	19	7,507	7,225
		43,008	40,723
Net liabilities	21	(27,198)	(26,352)
Non–financial Assets			
Tangible capital assets	22	10,482	10,381
Prepaid capital advances	23	7,136	7,108
Prepaid program costs	24	82	107
Non–financial assets held for sale	11		593
Other assets	25	144	148
		17,844	18,337
Accumulated surplus (deficit)	26	**(9,354)**	**(8,015)**
Contingencies and commitments	27		
Significant events	34		

The accompanying notes and supplementary statements are an integral part of these financial statements.

Prepared in accordance with the accounting policies as determined by Treasury Board.

ARN VAN IERSEL
Comptroller General

Summary Financial Statements
Statement of Operations
for the Fiscal Year Ended March 31, 2004

	In Millions		
	2004		2003
	Estimates (Note 31) $	Actual $	Actual $
Revenue			
Taxation (Note 28)	13,341	13,808	12,277
Contributions from the federal government	3,992	3,346	3,578
Natural resources	3,396	3,653	3,281
Fees and licences	2,262	2,427	2,283
Net earnings of self–supported Crown corporations and agencies (Note 8)	1,381	1,881	1,766
Miscellaneous	900	977	829
Investment earnings	728	582	639
	26,000	26,674	24,653
Expense			
Health (Note 29)	10,718	10,945	10,724
Education (Note 29)	6,936	6,899	6,898
Social services	2,856	2,871	3,151
Interest (Note 29)	1,792	1,451	1,493
Protection of persons and property	1,428	1,565	1,422
Transportation (Note 29)	1,354	1,267	1,150
Natural resources and economic development	1,127	1,496	1,533
Other	1,123	906	667
General government	466	491	539
	27,800	27,891	27,577
Surplus (deficit) for the year before unusual items	(1,800)	(1,217)	(2,924)
Forecast allowance	(500)		
Results of discontinued operations (Note 11)			(106)
Restructuring exit expense (Note 35)		(122)	(169)
Surplus (deficit) for the year	**(2,300)**	(1,339)	(3,199)
Accumulated surplus (deficit)—beginning of year as restated (Note 26)		(8,015)	(4,816)
Accumulated surplus (deficit)—end of year		**(9,354)**	**(8,015)**

The accompanying notes and supplementary statements are an integral part of these financial statements.

Summary Financial Statements
Statement of Change in Net Liabilities
for the Fiscal Year Ended March 31, 2004

	In Millions	
	2004	2003
	$	$
Surplus (deficit) for the year	(1,339)	(3,199)
Effect of change in tangible capital assets:		
Acquisition of tangible capital assets	(702)	(601)
Amortization of tangible capital assets	526	564
Impact of tangible capital assets held for sale	593	
Disposals and valuation adjustments	75	268
	492	231
Effect of change in:		
Prepaid capital advances	(28)	(75)
Prepaid program costs	25	19
Other assets	4	9
	1	(47)
(Increase) decrease in net liabilities	(846)	(3,015)
Net liabilities—beginning of year	(26,352)	(23,337)
Net liabilities—end of year	**(27,198)**	**(26,352)**

The accompanying notes and supplementary statements are an integral part of these financial statements.

Summary Financial Statements
Statement of Changes in Cash and Temporary Investments
for the Fiscal Year Ended March 31, 2004

	In Millions			
	2004			2003
Operating Transactions	Receipts $	Disburse–ments $	Net $	Net $
Surplus (deficit) for the year			(1,339)	(3,199)
Non–cash items included in surplus (deficit)				
Amortization of tangible capital assets			526	564
Amortization of prepaid capital advances			468	415
Amortization of public debt deferred revenues and deferred charges			(15)	55
Concessionary loan adjustments (decreases)			(2)	(1)
Impact of Tangible Capital Assets held for sale			(51)	51
Valuation adjustments			228	273
Net earnings of self–supported Crown corporations and agencies			(1,881)	(1,766)
Accounts receivable (increases)			(327)	(55)
Due from other governments (increases)			(209)	278
Due from self–supported Crown corporations and agencies (increases) decreases			238	(18)
Accounts payable increases (decreases)			190	(30)
Due to other governments increases			787	223
Due to Crown corporations, agencies and funds increases			22	38
Unfunded pension liability payments			(1)	(2)
Items applicable to future operations increases			615	116
Contributions of self–supported Crown corporations and agencies.			1,541	1,657
Cash derived from (used for) operations			790	(1,401)
Capital Transactions				
Tangible capital assets (acquisitions)	629	702	(73)	(392)
Prepaid capital advances (increases)		496	(496)	(490)
Cash (used for) capital	629	1,198	(569)	(882)
Investment Transactions				
Investment in self–supported Crown corporations and agencies		20	(20)	
Loans, advances and mortgages receivable (issues)	120	603	(483)	(35)
Other investments—net decreases (increases)		133	(133)	(44)
Cash (used for) investments	120	756	(636)	(79)
Total financing (requirements)			(415)	(2,362)

Summary Financial Statements
Statement of Changes in Cash and Temporary Investments
for the Fiscal Year Ended March 31, 2004—Continued

	In Millions			
	2004			2003
Financing Transactions[1]	Receipts $	Disburse–ments $	Net $	Net $
Public debt increases	15,905	15,094	811	770
Derived from Warehouse Program investments				1,067
Derived from (used for) purchase of assets, recoverable from agencies	(4,900)	(4,622)	(278)	57
Cash derived from (used for) financing	11,005	10,472	533	1,894
Increase (decrease) in cash and temporary investments			118	(468)
Balance—beginning of year			312	780
Balance—end of year			**430**	**312**

[1] Financing transaction receipts are from debt issues and disbursements are for debt repayments.

The accompanying notes and supplementary statements are an integral part of these financial statements.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004

1. Significant Accounting Policies

(a) REPORTING ENTITY

These financial statements include the accounts of organizations accountable for the administration of their financial affairs and resources to a minister of the government or, directly to the Legislature, and are owned or controlled by the government. For purposes of the reporting entity, accountability to a minister or directly to the Legislature, does not include those entities that are part of a province–wide program and are locally based having initial accountability to a local board.

The reporting entity also includes government partnerships.

A list of organizations included in these consolidated financial statements can be found on pages 67 and 68.

Trusts administered by the government or a Crown corporation or agency are excluded from the reporting entity.

(b) PRINCIPLES OF CONSOLIDATION

Taxpayer–supported Crown corporations' and agencies' financial statements are consolidated with the Consolidated Revenue Fund using the full consolidation method. The government's interests in government partnerships are recorded on a proportional consolidation basis.

Self–supported Crown corporations and agencies and government business partnerships are consolidated with the Consolidated Revenue Fund on the modified equity basis of consolidation.

The definitions of these consolidation methods can be found on page 117.

No adjustments are made for Crown corporations and agencies whose fiscal year–ends are different from the government's fiscal year–end of March 31, unless the effect of an adjustment would be significant to the consolidated operating result.

(c) BASIS OF ACCOUNTING

The government's Summary Financial Statements are prepared in accordance with the Generally Accepted Accounting Principles (GAAP) for senior governments as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants, with the following exceptions:

(i) Reporting entity—PSAB recommends the reporting entity comprise all organizations that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the Legislature, and are owned or controlled by the government. The government currently does not include school districts, universities, colleges and institutes, or health care authorities (SUCH sector) in its reporting entity. These organizations will be included in 2004/05. The inclusion of universities will be reviewed annually.

(ii) Prepaid capital advances—PSAB recommends government transfers be expensed in a government's financial statements in the period that the events giving rise to the transfer occurred, as long as the transfer is authorized, eligibility criteria are met, and a reasonable estimate of the amount can be made. Transfers to school districts, universities, colleges and institutes, and health care authorities for the acquisition of significant tangible capital assets are not expensed in the year they are issued; rather, they are treated as a prepaid expense and amortized over the life of the tangible capital assets acquired with the advances.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

1. Significant Accounting Policies—Continued

The following table provides the impact to the province's financial statements if the accounting policies were changed to conform to current PSAB.

	In Millions (Unaudited)					
	Assets	Liabilities	Net Equity	Revenue	Expense	Surplus
	$	$	$	$	$	$
Inclusion of SUCH sector and expensing prepaid capital advances—increase....	**8,503**	**3,892**	**4,611**	**2,300**	**1,963**	**337**

The *Budget Transparency and Accountability Act* requires that any exceptions to GAAP be eliminated for fiscal 2004/05.

(d) SPECIFIC ACCOUNTING POLICIES

Revenue

All revenue is recorded on an accrual basis except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable. The exception is corporation income tax which is recorded on a cash basis.

Government transfers are recognized as revenues in the period during which the transfer is authorized and any eligibility criteria are met.

Tax credits/offsets are accrued on the same basis as the associated tax revenues and reduce gross taxation revenue but are not considered valuation allowances.

Expenses

The cost of all goods and services received during the year is expensed.

Interest expense is recorded net of sinking fund earnings and includes debt servicing costs such as amortization of discounts and premiums, foreign exchange gains and losses, and issue costs.

Pension expense is calculated as the cost of pension benefits earned by employees during the year, interest on the pension benefits liability, net of pension plan assets, and amortization of the government's share of any experience gains or losses, less contributions made by members. The estimated total cost of the government's share of the plan amendments related to past service is expensed in the year the plan is amended.

Government transfers include grants, entitlements and transfers under agreements, as described in the definitions on page 117. Government transfers are recognized as expenses in the period in which the events giving rise to the transfer occurred, as long as the transfer is authorized, eligibility criteria have been met and a reasonable estimate of the amount can be made. This excludes transfers that meet the criteria for a prepaid capital advance.

Acquisitions of tangible capital assets and prepaid capital advances are recorded as assets and the cost is amortized over the useful life of the relevant tangible capital asset. Tangible capital assets not related to a capitalized class of assets are expensed in the year of acquisition.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

1. Significant Accounting Policies—Continued

Restructuring exit expenses are recorded when a restructuring plan in appropriate form has been approved by the province. To qualify, the expense must not be associated with or benefit activities that will be continued by the government reporting entity. In addition, the expense must:

(i) be incremental to other expenses incurred in normal operations and incurred as a direct result of the restructuring plan; or,
(ii) represent amounts to be incurred under an existing contractual obligation that will continue after the restructuring plan is completed with no economic benefit to the government; or,
(iii) represent a penalty or compensation incurred to cancel an existing contractual obligation.

Assets

Assets are recorded to the extent that they represent cash and claims upon outside parties, items held for resale to outside parties, prepaid expenses, deferred charges, prepaid capital advances or tangible capital assets acquired as a result of events and transactions prior to the year–end.

Financial Assets

Temporary investments and Warehouse Program investments include short–term investments recorded at the lower of cost or market value.

Inventories for resale include property which has been purchased, or for which development costs have been incurred, that is held for ultimate resale or lease to outside parties. Inventories for resale are recorded at the lower of cost or net realizable value.

Equity in self–supported Crown corporations and agencies represents the province's investment (including long–term advances) in those self–supported Crown corporations and agencies at cost, adjusted for increases and decreases in the investees' net assets.

Loans and advances are recorded at cost less adjustment for any prolonged impairment in value. Mortgages receivable are recorded at the principal amount less valuation allowance, are secured by real estate and are repayable over periods ranging up to thirty years. Concessionary loans and mortgages are recorded at net present value at issue and related present value discounts are expensed. Valuation allowances are made when collectability is considered doubtful.

Other investments are recorded at the lower of cost of acquisition (which may be adjusted by attributed income) or estimated current value. Valuation adjustments are made when the value of investments is impaired.

Loans for purchase of assets, recoverable from agencies are recorded at maturity value less unamortized premium or discount, deferred foreign exchange gains or losses and sinking fund balances. Premium/discount is amortized on a constant yield basis.

Non–Financial Assets

Tangible capital assets are recorded at historical cost, less accumulated amortization. Estimated cost is used to record existing tangible capital assets when actual cost is unknown. The recorded cost, less the residual value, is generally amortized over the estimated useful lives of the assets on a straight–line basis except for some transportation equipment which is amortized using the sinking fund method.

All significant tangible capital assets of government organizations and operations have been capitalized. Crown land is capitalized at a nominal value of $1.

The value of collections (artifacts, specimens and documents) has been excluded from the balance sheet.

Prepaid capital advances are provided to school districts, post–secondary educational institutions, health care organizations and other specified government organizations to fund capital asset acquisitions. The province has an ongoing claim on the assets of these organizations. Prepaid capital advances are amortized over the useful life of the assets funded.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

1. Significant Accounting Policies—Continued

Liabilities

All liabilities are recorded to the extent they represent claims payable to outside parties as a result of events and transactions prior to the year–end, including probable losses on loan guarantees issued by the province, contingent liabilities when it is likely a liability exists and the amount of the liability can be reasonably determined on an individual or portfolio basis, and unfunded pension liabilities.

Employee Pension Plans (Unfunded Pension Liabilities)

The province accounts for employee pension plans by recognizing a liability and an expense in the reporting period in which the employee has provided service. The amount is calculated using the accrued benefit actuarial cost method. Where plans are in a net asset position, and Joint Trusteeship Agreements restrict access to the assets, the province records the value of plan net assets as nil. Changes in net liabilities/assets which arise as a result of actuarial gains and losses, are amortized on a straight–line basis by the plan, over the average remaining service period of employees active at the date of the adjustments. Past service costs from plan amendments are recognized in full in the year of the amendment.

Unfunded pension liabilities of the Members of the Legislative Assembly Superannuation Account represent the terminal funding that would be required from the province for the difference between the present value of the obligations for future benefit entitlements and the amount of funds available in the account.

Public Debt

Public debt represents the direct debt obligations of the Province of British Columbia including borrowings incurred for government operating purposes, the acquisition of capital assets, for re–lending to authorized government bodies and for borrowings in advance of future requirements under the Warehouse Program. Public debt consists of short–term promissory notes, notes, bonds and debentures, bank loans, capital leases and mortgages payable. These obligations are recorded at principal less unamortized premium or discount, deferred foreign exchange gains or losses, and sinking fund balances where applicable. Public debt is reported in two categories: (1) taxpayer–supported, and (2) self–supported.

(1) Taxpayer–supported debt includes direct debt used for government operating and capital purposes, and the debt of Crown corporations and agencies that requires an operating or debt servicing subsidy from the provincial government or that are fully consolidated within these financial statements.

(2) Self–supported debt includes the portion of debt of commercial Crown corporations and agencies that has been borrowed through the government's fiscal agency loan program. It does not include all debt of commercial Crown corporations and agencies as these entities are consolidated on the modified equity basis. Commercial Crown corporations and agencies fully fund their operations and debt from revenue generated through the sale of goods and/or services at commercial rates to buyers that are outside the government reporting entity. Self–supported debt includes debt of the Warehouse Program.

Debt premium/discount is amortized on a constant yield basis. Unamortized premium/discount on bonds called and refinanced is amortized over the remaining life of the old debt, or the life of the new debt, whichever is shorter.

When it has been determined that there are sufficient securities to satisfy scheduled interest and principal payments for a debt instrument, the sinking fund assets are set aside in a defeased trust account. The debt and the related securities used to extinguish the debt are removed from the province's Statement of Financial Position. The debt is considered extinguished for financial reporting purposes.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

1. Significant Accounting Policies—Continued

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate prevailing at the year–end. Foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction unless hedged by forward contracts that specify the rate of exchange. Adjustments to revenue or expense transactions arising as a result of foreign currency translation are credited or charged to operations at the time the adjustments arise. Unrealized foreign currency gains and losses, on long–term fixed–term monetary assets and liabilities, are reported as a component of Public Debt and Loans for purchase of assets, recoverable from agencies and amortized over the remaining terms of the related items on a straight–line basis. Non–monetary assets and liabilities are translated at historical rates of exchange.

Derivative Financial Instruments

The province is a party to financial instruments with off–balance sheet risk due to fluctuations in foreign currency exchange rates, interest rate fluctuations and counterparty default on financial obligations. The province does not use derivative financial instruments for speculative purposes. Off–balance sheet position data is given in the form of nominal principal amounts outstanding. Amounts earned and expenses incurred under swaps are recognized and offset against the related interest expense. Gains and losses on terminated derivative contracts are deferred and amortized over the lesser of the remaining term of the contract or the related debt.

2. Measurement Uncertainty

Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Uncertainty exists whenever estimates are used because it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount.

Measurement uncertainty in these financial statements exists in the accruals for pension obligations, Canada Health and Social Transfer (CHST), the Federal Equalization Program and personal income tax.

The nature of the uncertainty in the accruals for pension obligations arises because actual results may differ significantly from the province's best estimates of expected results based on variables such as earnings on pension investments and life expectancy of claimants. Uncertainty related to the accrual for CHST, the Federal Equalization Program and personal income tax arises because of the possible differences between the estimates for the economic factors used in calculating the accruals and actual economic results.

British Columbia Hydro and Power Authority (BC Hydro), a wholly owned self–supported Crown corporation, is directly exposed to counterparty credit risk as a result of the purchase and sale of electricity and natural gas. During fiscal year 2001, the rapid rise of wholesale power prices and in–state supply shortages have caused significant financial hardship for a number of utilities in California, resulting in defaults on payments. As a result, BC Hydro has not recognized some amounts as revenue owed them from sales to these utilities and has recorded provisions for uncollectible amounts and legal costs that are, in management's best estimate, sufficient to cover any remaining exposure. Due to the instability in the California market and ongoing regulatory and legal proceedings, management cannot predict the outcome and the amount ultimately collected may differ materially from management's current estimate.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

3. Cash and Temporary Investments

	In Millions 2004	2003
	$	$
Cash (cheques issued in excess of funds on deposit)	(28)	(248)
Temporary investments[1]	458	560
	430	**312**

[1]Temporary investments consist mainly of units in the Province of British Columbia Investment Management Corporation Pooled Investment Portfolios. Units are carried at the lower of market value or cost of acquisition adjusted by income attributed to the units.

4. Accounts Receivable

	In Millions 2004	2003
	$	$
Taxes receivable	1,742	1,666
Trade accounts receivable	1,176	1,015
Accrued interest	343	315
	3,261	2,996
Provision for doubtful accounts	(719)	(616)
	2,542	**2,380**

5. Inventories for Resale

	In Millions 2004	2003
	$	$
Properties	49	82
Small Business Forest Enterprise Program	176	131
Other	13	3
	238	**216**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

6. Due from Other Governments

	In Millions 2004	2003
	$	$
Government of Canada		
Current	186	95
Long–term	132	
Provincial governments		
Current	18	14
Local governments[1]		
Current	8	24
Long–term		2
	344	**135**

[1]Local governments are municipal units established by the provincial government which include regional and metropolitan municipalities, cities, towns, townships, districts, rural municipalities and villages.

7. Due from Self–supported Crown Corporations and Agencies

	In Millions 2004	2003
	$	$
British Columbia Hydro and Power Authority	91	338
British Columbia Lottery Corporation	71	62
Columbia Power Corporation	2	2
	164	**402**

See page 73 for details.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

8. Equity in Self–supported Crown Corporations and Agencies

	In Millions 2004			2003
	Investments $	Unremitted Earnings $	Total $	Total $
British Columbia Hydro and Power Authority	20	1,614	1,634	1,630
British Columbia Railway Company	258	164	422	371
Columbia Power Corporation	276	23	299	293
Insurance Corporation of British Columbia		618	618	319
Provincial Capital Commission		16	16	16
	554	**2,435**	**2,989**	**2,629**

Change in Equity in Self–supported Crown Corporations and Agencies

	Investments $	Unremitted Earnings $	Total $	Total $
Balance—beginning of year	534	2,095	2,629	2,520
Increase in investment	20		20	
Net earnings of self–supported Crown corporations and agencies		1,881	1,881	1,766
Contributions paid to the Consolidated Revenue Fund		(1,353)	(1,353)	(1,483)
Adjustments to contributions paid		(188)	(188)	(174)
Balance—end of year	**554**	**2,435**	**2,989**	**2,629**

See pages 73 and 74 for details.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

9. Loans, Advances and Mortgages Receivable

	In Millions	
	2004	2003
Loans and Advances	$	$
British Columbia Student loans	412	302
Industrial Development Fund commercial loans	97	135
Land Tax Deferment loans	150	144
British Columbia Ferry Services Inc.	428	
Construction loans to social housing projects	21	24
Accountable advances	17	29
Miscellaneous	57	67
	1,182	701
Provision for doubtful accounts	(170)	(145)
	1,012	556
Mortgages Receivable		
Reconstruction Program	49	58
Miscellaneous	8	
	57	58
Provision for doubtful accounts	(21)	(18)
	36	40
	1,048	**596**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

9. Loans, Advances and Mortgages Receivable—Continued

The BC Student Loan Program provides loans to students for higher education. Students are required to repay these loans through a contracted service provider, to the province over a maximum of 174 months with a floating interest rate of prime plus 2.5% or a fixed rate of prime plus 5%. Defaulted loans are due on demand with interest at a floating rate of prime plus 2.5%. The Program also administers defaulted student loans issued by financial institutions under a guaranteed and risk sharing agreement with the province. Defaulted risk sharing loans arise due to bankruptcy or death of the student while attending school.

The Industrial Development Fund provided loans to assist the establishment of new industry, the introduction of new technology to existing industry, or the development of a region of British Columbia. These loans incur interest at rates ranging from 0% to 10%. The Industrial Development Fund was eliminated pursuant to the repeal of the *Industrial Development Incentive Act under the Budget Measures Implementation Act, 2002*. No loans were issued after March 31, 2002.

The Land Tax Deferment Program allows eligible owners to defer payment of all, or a portion of, annual property taxes due on residences. Eligible individuals are either 60 years or older, a surviving spouse or a person with a disability. Simple interest is charged on the deferred taxes at a rate set by the Minister of Provincial Revenue. This rate will not exceed 2.0% below the prime lending rate of the principal banker to the government. The deferred taxes, administration fees, plus any outstanding interest, must be repaid before the residence can be legally transferred to a new owner, other than directly to a surviving spouse.

As part of a secured debenture amendment and preferred share surrender agreement, dated May 23, 2003, the province exchanged its interest in British Columbia Ferry Corporation for an interest-bearing debt in British Columbia Ferry Service Inc. The loan is interest bearing at 5.33% with a maturity date of April 1, 2006.

Construction loans are provided by British Columbia Housing Management Commission (BCHMC), a taxpayer-supported Crown corporation, and an approved lender under the *National Housing Act.* BCHMC provides construction loans for societies that are building approved projects under social housing programs. Interest is payable at the province's weighted average borrowing rate for short-term funds, plus administration costs. Loans are repaid at substantial completion of each project from financing arranged with private lenders.

Accountable advances represent funds issued for program costs that have not been expended in accordance with the applicable agreements.

The Reconstruction Program provides financial assistance to homeowners to pay for repairs to homes with premature building envelope failure. The financial assistance is provided in the form of subsidized interest loans, no interest loans or deferred payment loans and secured by registered mortgages. This Program is administered by the Homeowner Protection Office.

Miscellaneous mortgages receivable have terms ranging from less than one year to twenty years with some loans being payable on demand. Interest rates range from 3.5% to 10%.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

10. Other Investments

	In Millions 2004	2003
	$	$
Government of Canada bonds	36	18
Provincial government bonds	63	63
Commercial loans and investments	111	111
British Columbia Ferry Services Inc	75	
Pooled Investment Portfolios	14	45
Columbia Basin Trust investments	201	152
Miscellaneous	68	54
	568	443
Provision for doubtful accounts	(115)	(115)
	453	**328**

Government of Canada bonds have a market value of $37.4 million (par value $35.5 million), with yields ranging from 2.305% to 4.336%. Maturity dates range from June 18, 2004 to June 1, 2012.

Provincial bonds of various provinces have a market value of $68.9 million (par value $60.9 million), with yields ranging from 2.075% to 4.566%. Maturity dates range from March 8, 2005 to July 22, 2013.

Commercial loans and investments are recorded at the lower of cost of acquisition adjusted by attributed income and market value. A provision in the full amount of these loans has been recorded.

As part of a secured debenture amendment and preferred share surrender agreement dated May 23, 2003, the province exchanged its interest in British Columbia Ferry Corporation for 75,477 preferred shares in British Columbia Ferry Services Inc. These non–voting shares are valued at $1,000 per share and entitle the province to a fixed cumulative dividend at a rate of 8% of the issue price.

Pooled investment portfolios consist of units in the British Columbia Investment Management Corporation's BC Focus Fund and Illiquid Fund. These funds' investments consist primarily of debt and equity holdings of privately held companies.

Columbia Basin Trust investments include $9 million in bankers acceptances and deposits. The balance of $192 million represents investments in power development joint ventures.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

11. Assets Held for Sale

The Financial Statements and related notes for the fiscal year ended March 31, 2003, have been restated to report the disposal of long lived assets and discontinued operations of only significant government operations. For the 2003/04 fiscal year, the impact of the government's decision to sell the shares and transfer control of British Columbia Ferry Services Inc. (BCFSI), (formerly British Columbia Ferry Corporation) to the British Columbia Ferry Authority is shown.

British Columbia Ferry Services Inc. provides ferry transportation services in British Columbia. The British Columbia Ferry Authority is an independent no-share capital corporation; its purpose is to govern BCFSI and to appoint its Board of Directors. As of April 2, 2003, BCFSI is no longer owned or controlled by the province and its assets and operations are no longer included in the government reporting entity. On that date, the province exchanged its ownership in BCFSI for non-voting preference shares in BCFSI with a stated value of $75 million and a promissory note from BCFSI with a par value of $428 million.

The discontinued operations and assets held for sale of the British Columbia Railway Company, a modified equity enterprise, are included in Equity in self-supported Crown corporations and agencies and described in Note 34, Significant Events.

12. Loans for Purchase of Assets, Recoverable from Agencies

	In Millions	
	2004	2003
	$	$
British Columbia Hydro and Power Authority	7,040	6,696
British Columbia Railway Company	467	481
Columbia Power Corporation		47
Improvement districts	5	6
Post–secondary educational institutions	90	106
	7,602	7,336
Provision for doubtful accounts		
	7,602	**7,336**

13. Accounts Payable and Accrued Liabilities

	In Millions	
	2004	2003
	$	$
Trade accounts payable and other liabilities	1,700	1,624
Accrued interest on debt	805	789
Accrued employee leave entitlements	280	245
Other accrued estimated liabilities[1]	758	695
	3,543	**3,353**

[1] Includes pending litigation, provision for guaranteed debt payout and other miscellaneous accrued claims.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

14. Due to Other Governments

	In Millions 2004	2003
	$	$
Government of Canada		
Current	334	297
Long–term	738	
Provincial governments		
Current	30	22
Local governments[1]		
Current	7	3
	1,109	**322**

[1]Local governments are municipal units established by the provincial government which include regional and metropolitan municipalities, cities, towns, townships, districts, rural municipalities and villages.

15. Due to Crown Corporations, Agencies and Funds

	In Millions 2004	2003
	$	$
British Columbia Liquor Distribution Branch	44	44
Post–secondary educational institutions		1
Trust funds	79	56
	123	**101**

16. Deferred Revenue

	In Millions 2004	2003
	$	$
Medical Services Plan premiums	66	69
Motor vehicle licences and permits	185	166
Petroleum, natural gas and minerals, leases and fees	35	32
Water rentals and recording fees	70	76
Derivative debt instruments	144	47
Federal Contributions	390	
Unearned lease revenue	106	107
Federal and municipal highway project revenues	65	36
Forest Stand Management Fund	15	16
Deferred Capital Contributions	85	67
Miscellaneous	131	90
	1,292	**706**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

17. Employee Pension Plans (Unfunded Pension Liabilities)

	In Millions 2004	2003
	$	$
Members of the Legislative Assembly Superannuation Account	3	4

The province contributes to four defined benefit pension plans for substantially all its employees and to the Members of the Legislative Assembly Superannuation Account (the Account). The four pension plans are the Public Service Pension Plan, the Municipal Pension Plan, the Teachers' Pension Plan and the College Pension Plan. The plans provide pensions based on length of service and highest five–year average earnings. No unfunded liability exists for the future indexing of pensions as the obligation is limited to the amount of available assets in separate inflation accounts.

There are additional employee pension plans in Crown corporations and agencies consolidated on the modified equity basis. Net assets or net liabilities of the pension funds are included in the investment balance of the particular Crown corporation or agency.

The estimated financial position as at March 31, 2004 for each plan is as follows:

	Public Service Pension Plan	Municipal Pension Plan	Teachers' Pension Plan (In Millions)	College Pension Plan	Total
	$	$	$	$	$
Accrued benefit obligation	8,986	9,049	10,566	1,331	29,932
Pension fund assets	11,069	10,300	10,182	1,523	33,074
	(2,083)	(1,251)	384	(192)	(3,142)
Unamortized actuarial gain (loss)			(776)	(196)	(972)
Accrued net obligation (asset)	**(2,083)**	**(1,251)**	**(392)**	**(388)**	**(4,114)**

The College, Public Service, Municipal and Teachers' plans are joint trusteeship plans. In joint trusteeship plans, control of the plans and their assets are assumed by individual pension boards made up of government and plan member representatives. Provisions of these plans stipulate that the province has no formal claim to any pension plan surpluses or assets. The boards are fully responsible for the management of the plans, including investment of the assets and administration of the plans. The British Columbia Pension Corporation (Pension Corporation) provides benefit administrative services as agents of the boards of trustees.

17. Employee Pension Plans (Unfunded Pension Liabilities)—Continued

In the event that a plan deficit is determined by an actuarial valuation (performed every three years), the pension boards, by agreement, are required to address it through contribution adjustments or other means. It is expected, therefore, that any unfunded liabilities in the future will be short-term in nature.

The reported net assets of the pension plans are under joint trusteeship agreements which limit the province's possible conditional share to 50%. The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time that such a decision is made. Also, only 70% of the pension fund assets and accrued benefit obligation are included for the Municipal Pension Plan, reflecting the province's interest in the plan.

The accrued benefit obligations and pension assets shown for 2003/04 are based on extrapolation of the most recent actuarial valuations as follows: Public Service Pension Plan (March 31, 2002); Municipal Pension Plan (December 31, 2000); Teachers' Pension Plan (December 31, 2002); and College Pension Plan (August 31, 2003). Fund assets are based on market value at the date of actuarial valuation and extrapolated using actuarial growth assumptions.

The Account is also administered by the Pension Corporation. As members of the Legislative Assembly retire, the present value of the amount required to provide a legislative member's future pension benefits are transferred from the Account to the Public Service Pension Plan from which monthly pensions are paid. Pension benefits are based on length of service and highest five-year average earnings. The unfunded pension liability for the Account represents the terminal funding that would be required from the province for the difference between the present value of the obligations for future benefit entitlements and the amount of funds available in the Account.

Key actuarial assumptions used in the valuations include a long-term annual rate of return on pension fund assets of 7.30% for the Public Service Pension Plan, 7.25% for the Municipal Pension Plan, 7.25% for the Teachers' Pension Plan, and 7.20% for the College Pension Plan, and long-term annual salary increases of 4.80% for the Public Service Pension Plan, 4.75% for the Municipal Pension Plan, 4.75% for the Teachers' Pension Plan, and 4.70% for the College Pension Plan.

The audited financial statements of each pension plan listed, along with full descriptions, benefit formulas, inflation assumptions and funding policies may be found at www.pensionsbc.ca.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

18. Taxpayer–supported Debt[1]

In Millions

	Year of Maturity	Canadian Dollar	US Dollar[2]	Japanese Yen[2]	Other Currencies[2]	2004 Canadian Dollar Total	2003 Canadian Dollar Total
Short–term promissory notes	2004						976
	2005	850	73			923	
Notes, bonds and debentures[3]	2004						1,912
	2005	1,036	489		610	2,135	2,123
	2006	2,365				2,365	2,296
	2007	1,431	1,179		370	2,980	2,987
	2008	930	829	59	418	2,236	2,248
	2009	2,103	1,157			3,260	2,970
	2009–2014	6,983	919	204	935	9,041	8,387
	2014–2019	783				783	659
	2019–2024	2,776				2,776	2,473
	2024–2029	1,635				1,635	1,632
	2029–2034	3,110				3,110	3,110
	2034–2039	665				665	165
	2039–2044	350				350	200
Total debt issued at face value		**25,017**	**4,646**	**263**	**2,333**	32,259	32,138
Sinking funds[4]						(2,680)	(3,135)
Unamortized premium (discount)						(119)	(119)
Unrealized foreign exchange gains/(losses)						(18)	24
Amount held in the Consolidated Revenue Fund						(11)	(9)
Total taxpayer–supported debt						**29,431**	**28,899**

The effective interest rates (weighted average percent) as at March 31 on the above debt are:

2004	5.67%	
2003		5.98%

[1]The balances and interest rates reflect the impact of the related derivative contracts, presented in Note 20 (Risk Management and Derivative Financial Instruments).

[2]Foreign currencies include: $3,023 million US ($4,646 million Canadian); 22,000 million Japanese yen ($263 million Canadian); 1,000 million Swiss francs ($1,028 million Canadian); and 741 million euros ($1,305 million Canadian). Effective January 1, 2002, debt originally issued in and totalling 2,499 million French francs and 703 million Deutsche marks was converted at established fixed exchange rates (6.55957 French francs for 1 euro and 1.95583 Deutsche marks for 1 euro) and is now reported in euros.

[3]Notes, bonds and debentures include nil (2003: $6 million) in bank loans, $32 million (2003: $47 million) in capital leases and $134 million (2003: $141 million) in mortgages.

[4]Sinking fund balances include assets totalling $108 million (2003: $138 million) invested in the Matched Book Program and assets totalling $2,572 million (2003: $2,997 million) set aside for orderly repayment of debt. Sinking funds are managed by the British Columbia Investment Management Corporation.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

18. Taxpayer–supported Debt—Continued

Notes, bonds and debentures

Redeemable by the bond holder

Balances include debentures issued to the Canada Pension Plan totalling $3,424 million (2003: $3,447 million) at a weighted average interest rate of 8.73% (2003: 9.27%). These debentures mature at various dates from April 2, 2004 to March 1, 2024, with interest rates varying between 5.29% and 14.06%. These debentures are redeemable in whole or in part before maturity, on six months' prior notice, at the option of the Minister of Finance of Canada, subject to certain restrictions. During the year, $300 million in Canada Pension Plan debentures were issued. Under Canada Pension Plan legislation, any significant amendment to benefits or contributions requires the approval of the legislature of two–thirds of the provinces.

Balances include 5.45% debentures due August 17, 2028, totalling $200 million (2003: $200 million). The holders have a put option that, if exercised, would result in the bond maturing on August 17, 2005. If the option is not exercised, the debenture will mature on August 17, 2028, and the effective rate on the bond will be 5.62% for the period August 18, 2005 to August 17, 2028.

Balances include 5.86% debentures due June 18, 2029, totalling $250 million (2003: $250 million). The holders have a put option that, if exercised, would result in the bond maturing on June 19, 2006. If the option is not exercised, the debenture will mature on June 18, 2029.

Balances include British Columbia Savings Bonds totalling $180 million (2003: $229 million) maturing at dates from October 15, 2005 to October 15, 2007, and with an effective rate of 2.35% are redeemable at par by the holder each April 15 and October 15 prior to maturity.

Redeemable by the province

Balances include debentures issued to the Canada Pension Plan totalling $3,424 million (2003: $3,447 million) at a weighted average interest rate of 8.73% (2003: 9.27%). These debentures mature at various dates from April 2, 2004 to March 1, 2024, with interest rates varying between 5.29% and 14.06%. These debentures are redeemable in whole or in part before maturity, on 30 days' prior notice, at the option of the province.

Issues totalling $150 million (2003: $80 million) with effective rates ranging from 2.25% to 2.31% are redeemable at par at the province's option on dates ranging from October 20, 2005 to April 30, 2015.

Defeasances

At March 31, 2004, sufficient securities had been set aside in a defeasance trust account to satisfy the scheduled interest and principal payment requirements of $763 million (2003: $814 million). The securities are government of Canada bonds, provincial bonds or BC Municipal Finance Authority securities that are held to maturity and match the timing and specific amounts required to pay the interest and principal payments on the debt. The debt is considered extinguished for financial reporting purposes. The debt and related securities used to extinguish the debt are removed from the province's Statement of Financial Position.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

18. Taxpayer–supported Debt—Continued

Notes, bonds and debentures—Continued

Aggregate payments to meet sinking fund instalments and retirement provisions

Aggregate payments for the next five fiscal years to meet sinking fund instalments and retirement provisions on notes, bonds and debentures are:

	In Millions Canadian Dollar
2005	1,836
2006	2,164
2007	2,765
2008	2,101
2009	3,130

19. Self–supported Debt[1]

In Millions

	Year of Maturity	Canadian Dollar	US Dollar[2]	Japanese Yen[2]	Other Currencies[2]	2004 Canadian Dollar Total	2003 Canadian Dollar Total
Short–term promissory notes	2004						1,187
	2005	267	733			1,000	
Notes, bonds and debentures	2004						300
	2005	388	75	135		598	598
	2006	413				413	413
	2007	314				314	314
	2008	9	397			406	430
	2009	144				144	144
	2009–2014	1,674	356		150	2,180	1,747
	2014–2019	350				350	
	2019–2024	1,296				1,296	1,296
	2024–2029	75	655			730	810
	2029–2034	575				575	575
	2034–2039	50	393			443	491
Total debt issued at face value		**5,555**	**2,609**	**135**	**150**	8,449	8,305
Sinking funds[3]						(1,048)	(1,029)
Unamortized premium (discount)						4	(6)
Unrealized foreign exchange gains/(losses)						102	(45)
Total self–supported debt						**7,507**	**7,225**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

19. Self–supported Debt—Continued

The effective interest rates (weighted average percent) as at March 31 on the above debt are:

2004	6.11%	
2003		6.25%

[1]The balances and interest rates reflect the impact of the related derivative contracts, presented in Note 20 (Risk Management and Derivative Financial Instruments).
[2]Foreign currencies include: $1,949 million US ($2,609 million Canadian); 10,000 million Japanese yen ($135 million Canadian); 97 million euros ($150 million Canadian).
[3]Sinking funds at March 31, 2004, totalling $397 million US (2003: $372 million US) act as a natural hedge of the US dollar debentures and short–term promissory notes. Sinking funds are managed by the British Columbia Investment Management Corporation.

Notes, bonds and debentures

Redeemable by the bond holder

Balances include debentures issued to the Canada Pension Plan totalling $317 million (2003: $317 million) at a weighted average interest rate of 11.11% (2003: 11.11%). These debentures mature at various dates from July 10, 2004 to June 9, 2009 with interest rates varying between 9.62% and 14.06%. These debentures are redeemable in whole or in part before maturity, on six months' prior notice, at the option of the Minister of Finance of Canada, subject to certain restrictions. During the year, no Canada Pension Plan debentures were issued for self–supported debt. Under Canada Pension Plan legislation, any significant amendment to benefits or contributions requires the approval of the legislature of two–thirds of the provinces.

Redeemable by the province

Balances include debentures issued to the Canada Pension Plan totalling $317 million (2003: $317 million) at a weighted average interest rate of 11.11% (2003: 11.11%). These debentures mature at various dates from July 10, 2004 to June 9, 2009, with interest rates varying between 9.62% and 14.06%. These debentures are redeemable in whole or in part before maturity, on 30 days' prior notice, at the option of the province.

Defeasances

At March 31, 2004, sufficient securities had been set aside in a defeasance trust account to satisfy the scheduled interest and principal payment requirements of $68 million (2003: $68 million). The securities are government of Canada bonds or provincial bonds that are held to maturity and match the timing and specific amounts required to pay the interest and principal payments on the debt. The debt is considered extinguished for financial reporting purposes. The debt and related securities used to extinguish the debt are removed from the province's Statement of Financial Position.

Aggregate payments to meet sinking fund instalments and retirement provisions

Aggregate payments for the next five fiscal years to meet sinking fund instalments and retirement provisions on notes, bonds and debentures are:

	In Millions Canadian Dollar
2005	566
2006	427
2007	327
2008	431
2009	150

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

20. Risk Management and Derivative Financial Instruments

The province borrows funds in both domestic and foreign capital markets, and manages its existing debt portfolio to achieve the lowest debt costs within specified risk parameters. As a result, the province is exposed to risks associated with interest rate fluctuations, foreign exchange rate fluctuations and credit risk. In accordance with risk management policy guidelines set by the Risk Committee of the Ministry of Finance, the province uses a variety of derivative financial instruments to hedge exposure to interest and foreign exchange risks.

Derivatives used by the province include interest rate swaps, cross–currency swaps, forward foreign exchange contracts, forward rate agreements, advanced rate setting agreements and options. A derivative instrument is a financial contract with a financial institution or counterparty that is applied to effect a hedge on interest rate or foreign exchange exposure contained in the underlying provincial debt instrument. A derivative derives value from the impact of market changes on the underlying hedged debt instrument.

The province also engaged in commodity derivative hedging on behalf of the British Columbia Ferry Corporation. The objective of commodity derivative hedging was to reduce the financial risks associated with price volatility in the commodity market. As at March 31, 2004, the remaining notional amounts under commodity contracts totalled nil (2003: 122,000) barrels of oil. Effective April 2, 2003, the contracts were transferred to British Columbia Ferry Services Inc. and matured at various dates from May 31, 2003, to August 31, 2003.

The following tables present maturity schedules of the province's derivatives by type, outstanding at March 31, 2004, based on the notional amounts of the contracts.

Taxpayer–supported Debt

In Millions

Year of Maturity	Cross Currency Swaps	Interest Rate Swaps	Advanced Rate Setting Agreement	Forward Foreign Exchange Contracts	Total
	$	$	$	$	$
2005	1,099	95	200	73	1,467
2006		745			745
2007	1,919	1,679			3,598
2008	1,305				1,305
2009	1,158	1,055			2,213
6–10 years	2,013	1,011			3,024
Over 10 years	218	634			852
Total	**7,712**	**5,219**	**200**	**73**	**13,204**

As at March 31, 2004, the province entered into two advanced rate setting agreements to lock in interest rates in advance of an expected bond issue. The hedging instrument for both is a Government of Canada bond, 5.75%, maturing June 1, 2029 with a notional amount of $200 million.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

20. Risk Management and Derivative Financial Instruments—Continued

Self–supported Debt

In Millions

	Year of Maturity	Cross Currency Swaps	Interest Rate Swaps	Delayed Interest Rate Swap	Total
		$	$	$	$
	2005	279	1,168		1,447
	2006	135	236		371
	2007		200		200
	2008	200	524		724
	2009				
	6–10 years	440	1,296	200	1,936
	Over 10 years		150		150
Total...		**1,054**	**3,574**	**200**	**4,828**

On behalf of British Columbia Hydro and Power Authority (BC Hydro), the province entered into a delayed interest rate swap to hedge the refinancing risk on a BC Hydro debt issue. Under the interest rate swap, the province pays a fixed semi–annual rate and receives a floating rate, starting June 21, 2004 and maturing December 21, 2012, on a notional amount of $200 million.

Interest rate risk

Interest rate risk is the risk that the province's debt servicing costs will fluctuate due to changes in interest rates. The province uses derivative contracts to manage interest rate risk by exchanging a series of interest payments, and assuming either a fixed or floating rate liability to a counterparty, based on the notional principal amount. Derivatives allow the province to alter the proportion of its debt held in fixed and floating rate form to take advantage of changes in interest rates.

The government's current policy guidelines, with respect to the provincial government direct debt portfolio, that totals $25,943 million (2003: $25,309 million), allow floating rate exposure up to 45.00% (2003: 45.00%) of this portion of the taxpayer–supported debt. At March 31, 2004, floating rate debt exposure was 35.62% (2003: 40.57%) of the government direct debt portfolio.

Under current policy guidelines for BC Hydro, the maximum floating rate exposure is 46.00% (2003: 46.00%) of their debt that totals $7,040 million (2003: $6,784 million). At March 31, 2004, floating rate debt exposure for BC Hydro was 29.30% (2003: 38.40%) of their debt.

Based on the taxpayer–supported and self–supported debt portfolios at March 31, 2004, a 1.00% increase in interest rates would result in an increase in the annual debt servicing expense of $93 million (2003: $100 million) for the taxpayer–supported debt portfolio and $15 million (2003: $25 million) for the self–supported debt portfolio.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

20. Risk Management and Derivative Financial Instruments—Continued

Foreign exchange risk

Foreign exchange risk is the risk that the province's debt servicing costs and principal payments will fluctuate due to changes in foreign exchange rates. The province uses derivative contracts to hedge foreign exchange risk by converting foreign currency principal and interest cash flows into Canadian dollar cash flows. Within specified limits set by policy, the province and provincial corporations may only assume unhedged exposure to US dollars and Japanese yen.

The government's current policy guidelines with respect to the provincial government direct debt portfolio, which totals $25,943 million (2003: $25,309 million), allow unhedged foreign debt exposure up to 10.00% (2003: 10.00%) of this portion of the taxpayer–supported debt. At March 31, 2004, unhedged foreign debt exposure in Japanese yen was 4.73% (2003: 2.99%) of the government direct debt portfolio. At March 31, 2004, there was no unhedged foreign debt exposure in US dollars for the government direct debt portfolio (2003: nil).

Under current policy guidelines for BC Hydro, the maximum unhedged foreign debt exposure is 30.00% (2003: 30.00%) of their debt, which totals $7,040 million (2003: $6,784 million). At March 31, 2004, 20.10% (2003: 25.20%) of their debt was in the form of unhedged foreign debt in US dollars.

Based on the taxpayer–supported and self–supported debt portfolios at March 31, 2004, a one cent decrease in the Canadian dollar versus the US dollar would result in an increase of $11 million (2003: $15 million) in the annual debt servicing expense for the self–supported debt portfolio. A decrease of one yen versus the value of the Canadian dollar (for example, from 79 yen to 78 yen) would result in an increase to the annual debt servicing expense of $3 million (2003: $2 million) for the taxpayer–supported debt portfolio.

Credit risk

Credit risk is the risk that the province will incur financial loss due to a counterparty defaulting on its financial obligation to the province. In accordance with the government's policy guidelines, the province reduces its credit risk by dealing with only highly rated counterparties. The province only enters into derivative transactions with counterparties that have a rating from Moody's Investors Service and Standard & Poor's of at least AA–/Aa3 or A+/A1 in the case of Canadian Schedule A banks. The province also establishes limits on individual counterparty credit exposures and monitors these exposures on a regular basis.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

21. Net Liabilities

The Statement of Change in Net Liabilities (*see* page 33) shows the net impact of applying the expenditure basis of accounting. The net liabilities calculation uses the expenditure, rather than the expense, basis of accounting. Under the expenditure basis of accounting, prepaid capital advances, tangible capital assets, prepaid program costs and other assets are recorded as expenditures when calculating the current year surplus or deficit. Under the expense basis of accounting, these items are recorded on the Statement of Financial Position as assets and amortized over an applicable period of time.

22. Tangible Capital Assets

	In Millions	
	2004	2003
	Net Book Value $	Net Book Value $
Land and land improvements	833	770
Buildings (including tenant improvements)	921	944
Highway infrastructure	6,263	6,161
Ferries and related infrastructure	11	15
Transportation equipment	2,053	2,088
Computer hardware and software	268	257
Other	133	146
	10,482	**10,381**

See Statement of Tangible Capital Assets on page 75.

The estimated useful lives of the more common tangible capital assets are: buildings (10–50 years); highway infrastructure (15–40 years); ferries and related infrastructure (5–40 years); transportation equipment (5–40 years); computer hardware and software (3–5 years); and other (including vehicles, specialized equipment, and furniture and equipment) (5–20 years). Land improvements are amortized over 30 years (recreation areas) or 40 years (dams and water management systems). Tenant improvements are amortized over 5 years or the length of the relevant lease term.

Included in tangible capital assets of British Columbia Transit (BCT) and of Rapid Transit Project 2000 Ltd (RTP) are capital assets under lease to Greater Vancouver Transportation Authority (GVTA). These capital assets under lease consist of land, land improvements, stations, guideways and other assets related to the SkyTrain system and West Coast Express. These assets are made available to GVTA for their use under the *Greater Vancouver Transportation Authority Act* and an Order in Council (OIC) enacted thereunder, and represent one of the province's contributions toward public transportation in the Greater Vancouver Regional District. The OIC–directed lease arrangements with GVTA and BCT are for one dollar per year under an initial fifteen–year term with additional five–year renewal periods upon the agreement of BCT and GVTA. The net book value of these assets is $945 million (2003: $963 million). A similar lease arrangement is under negotiation with GVTA for the RTP assets.

23. Prepaid Capital Advances

	In Millions	
	2004	2003
	$	$
Health facilities	3,074	2,953
Post–secondary educational institutions	2,609	2,401
Schools	6,429	6,475
	12,112	11,829
Accumulated amortization	(4,976)	(4,721)
	7,136	**7,108**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

24. Prepaid Program Costs

	In Millions 2004	2003
	$	$
Prepaid program costs[1]	**82**	**107**

[1]Includes inventories of operating material held in the Purchasing Commission and Queen's Printer warehouses pending distribution in a subsequent fiscal year. Also includes inventories of supplies and other not for resale items held by taxpayer–supported Crown corporations and agencies and charged to expenses when consumed in the normal course of operations.

25. Other Assets

	In Millions 2004	2003
	$	$
Deferred debt instrument costs	119	122
Deferred treaty costs	21	23
Other deferred costs	4	3
	144	**148**

26. Accumulated Surplus (Deficit)

	In Millions 2004	2003
	$	$
Accumulated surplus (deficit)—beginning of year as previously reported	(7,954)	(4,785)
Adjustments to accumulated surplus (deficit)[1,2]	(61)	(31)
Accumulated surplus (deficit)—beginning of year as restated[2]	(8,015)	(4,816)
Surplus (deficit) for the year[2]	(1,339)	(3,199)
Accumulated surplus (deficit)—end of year	**(9,354)**	**(8,015)**

[1]In fiscal 2002/03, the opening accumulated deficit for 2002/03 was restated to apply changes due to correction of errors. These adjustments were made: to recognize the outstanding amount of leave liability for the Healthcare Benefits Trust for those organizations funded through government ($30 million increase); to adjust the land account for land held for the federal government that had been capitalized by the province ($1 million increase); to adjust revenue recognition for safety inspection fees recognized as revenue in prior years that should have been deferred to future years to coincide with the related cost incurrence ($8 million increase); and, to transfer the trust account held for the Crop Insurance Fund to be included as a part of regular government operations, ($8 million decrease). The net effect of these changes results in an increase to the 2002/03 opening accumulated deficit of $31 million (from $4,785 to $4,816).

[2]In fiscal 2003/04, further restatements to the 2002/03 accumulated deficit were made to apply changes due to correction of errors. These adjustments were made: to recognize the outstanding amount of leave liability for the Healthcare Benefits Trust for those organizations funded through government ($23 million increase); to adjust expense for School District Building Envelope Program ($7 million increase); to transfer the trust account held for the Crop Insurance Fund to be included as a part of regular government operations, ($8 million decrease); and, to adjust the accrual for employee leave liability ($8 million increase). The net effect of these changes is a $30 million increase to the 2002/03 deficit (from $3,169 to $3,199). When combined with the prior year's change, the total impact to the 2003/04 opening accumulated deficit is $61 million (from $7,954 to $8,015).

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

27. Contingencies and Commitments

(a) GUARANTEED DEBT

Guaranteed debt as at March 31, 2004, totalled $156 million (2003: $264 million). These guarantees include amounts where indemnities have been made for explicit quantifiable loans. *See* Statement of Guaranteed Debt on page 76 for details.

(b) CONTINGENT LIABILITIES

(i) Litigation

The province is a defendant in legal actions and is involved in matters such as expropriation compensation disputes and tax assessment appeals. These matters may give rise to future liabilities.

The province has the following contingent liabilities where the estimated or known claim is or exceeds $100,000, but the likelihood of payment is uncertain.

	In Millions 2004	2003
	$	$
Negligence and miscellaneous	2	38
Contract disputes	130	163
Damages to persons or property	28	157
Expropriation disputes		34
Timber harvesting rights disputes	3	
Property access disputes	9	22
Motor vehicle accidents	1	2
Tax disputes	18	8
	191	**424**

When it is determined that it is likely that a liability exists and the amount can be reasonably estimated, the amount is recorded as an accrued liability (*see* Note 13) and an expense. The accrued liability for litigation at March 31, 2004 was $61 million (2003: $36 million).

(ii) Guarantees and Indemnities

The province also has contingent liabilities in the form of indemnities, indirect guarantees and outstanding claims for amounts that are not explicit or reasonably estimable at this time.

(iii) Environmental Clean–up

The province is responsible for the environmental clean–up of numerous contaminated sites in the province. For those sites where the province has possession, a liability of $130 million (2003: $145 million) has been accrued based on preliminary environmental audits. This liability is based on the minimum estimated clean–up costs for those sites where an estimate has been made and it has been determined that the government is liable. Estimated clean–up costs, not already accrued, for sites under evaluation are approximately $93 million at March 31, 2004. In addition, the Ministry of Energy and Mines has determined possible net liabilities of $300 million for sites the province does not own. Many other sites remain to be evaluated; the future liability for all environmental clean–up costs is not currently determinable.

(iv) Aboriginal Land Claims

Treaty negotiations between the province, Canada and First Nations commenced in 1994. The province anticipates that these negotiations will result in modern–day treaties defining the boundaries and nature of First Nations treaty settlement lands. As of March 31, 2004, there were 45 treaty tables in various stages of negotiation, representing two–thirds of the aboriginal people in British Columbia.

When final treaty agreements are ratified, the provincial cost of treaties is recorded in the Public Accounts. Costs are amortized over the same period as the period of capital transfers established in final agreements.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

27. Contingencies and Commitments—Continued

Four Agreements in Principle (AiPs) were signed in 2003, to add to the AiP signed with Sechelt in 1999. It is expected that the capital transfer components in all the AiPs will be entirely provided by Canada. The provincial land commitments of Provincial Crown Land within all five AiPs are as follows:

Lheidli T'enneh, 3,120 hectares
Maa-nulth, 20,900 hectares
Sliammon, 6,000 hectares
Tsawwassen, 427 hectares
Sechelt, 933 hectares

Since the signing of the Sechelt AiP, there has been little or no progress in negotiations and a final agreement is not anticipated in the near future.

Eighty percent of funding for First Nations negotiation costs is in the form of loans from Canada and is repayable from treaty settlements. The province has committed to reimburse Canada 50% of any negotiation support loans that default, along with 50% of the interest accrued. The earliest date at which the loans are expected to become due is 2006 and the amount of any provincial liability is not determinable at this time.

Some First Nations have chosen not to negotiate through the formal British Columbia Treaty Commission process. Several have commenced litigation claiming aboriginal rights and/or title over their asserted Traditional Territories and/or challenging provincial approvals regarding resource allocation and extraction on those lands with respect to the adequacy of consultation and accommodation. The result of these actions is not determinable at this time.

(v) Crown Corporations

The Insurance Corporation of British Columbia (ICBC) has settled some claims which require ICBC to provide claimants with periodic payments, usually for a lifetime. ICBC has purchased annuities to make these payments; however, if the annuities are insufficient, ICBC remains responsible. The gross amount of these settlements at December 31, 2003, was approximately $594 million (2002: $569 million).

The BC Transportation Financing Authority has contingent liabilities of $92 million remaining after deducting the estimated settlement expense currently accrued from gross claims outstanding for capital projects.

Powerex, a wholly–owned subsidiary of the British Columbia Hydro and Power Authority, has been named as a defendant in a number of lawsuits regarding alleged market manipulation of energy prices in the California wholesale electricity markets. Estimates of claims against all market participants could reach several billion US dollars. Management cannot predict the outcome of the various claims; however, Powerex states the terms of its sales were just and reasonable.

(c) COMMITMENTS

The government has ongoing operational and capital commitments to fund a variety of programs for public welfare including health, education, social services, protection of persons and property, and management of natural resources. Any significant non–operating commitments of less than five years duration and costing more than $50 million are detailed in this note.

(i) Restructuring plan

The province is in the final year of a three–year restructuring plan. In each year, associated costs are determined, included in the Estimates, and recorded in the financial statements.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

27. Contingencies and Commitments—Continued

(ii) 2010 Winter Olympics

On July 2, 2003, the International Olympic Committee selected Vancouver to host the 2010 Olympic and Paralympic Winter Games. A comprehensive Multi-Party Agreement (MPA) between Canada, British Columbia, the City of Vancouver, the Resort Municipality of Whistler, the Canadian Olympic Committee, the Canadian Paralympic Committee, and the Vancouver 2010 Organizing Committee was signed November 14, 2002. This agreement establishes the roles and relationships of all the parties, the contractual arrangements, financial contributions, legal responsibilities, and the sport legacies of the Games. On September 30, 2003 the "Vancouver Organizing Committee for the 2010 Olympic and Paralympic Games" (VANOC) was incorporated. The province has the power to appoint three of the twenty board members. VANOC's mandate is to plan, organize, finance and stage the Winter Games.

The province, has established a commitment of $600 million for the 2010 Olympic Games. The MPA outlines the province's obligations for the Games. The obligations include: medical services for the Games; sharing security costs with the Government of Canada; providing one half of the costs of the venues; and providing $55 million to the Legacy Endowment Fund. To date, the province has spent $111 million toward its $600 million commitment. In addition, the province has guaranteed any potential financial shortfall that may be incurred by VANOC as a result of staging the Games. A shortfall is not anticipated at this time. The province has also agreed to upgrade the Sea to Sky Highway at a cost estimated to be $600 million.

(iii) Crown corporations

The province has committed to the construction of the expansion to the Vancouver Convention Centre and other shared upgrades to adjacent facilities. The cost is to be shared by the province ($230 million), the Government of Canada ($223 million) and Tourism Vancouver ($90 million).

28. Revenue

	In Millions	
	2004	2003
Taxation revenue includes	$	$
Personal income	4,878	4,154
Corporation income	776	613
Social service	4,001	3,794
Property	1,576	1,541
Other	2,577	2,175
	13,808	**12,277**

See notes at end of the Schedule of Net Revenue by Source on page 94 for additional information on taxation revenue.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

29. Expense

Interest expense by function	2004 (In Millions)	2003 (In Millions)
	$	$
Health	151	152
Education	446	453
Transportation	138	138
Interest[1]	1,451	1,493
	2,186	**2,236**

Total expense by group account classification	2004 (In Millions)	2003 (In Millions)
	$	$
Government transfers	19,669	19,544
Operating costs	2,677	2,369
Salaries and benefits	2,370	2,281
Interest[1]	2,186	2,236
Other	466	583
Amortization	523	564
	27,891	**27,577**

[1]Includes foreign exchange gain amortization of $19 million (2003: loss amortization of $7 million)

30. Valuation Allowances

	2004 (In Millions)	2003 (In Millions)
	$	$
Accounts receivable	165	152
Loans, advances and mortgages receivable	41	31
Investments	8	6
Tangible capital assets	14	7
	228	**196**

These amounts are included in Other in expense by group account classification in Note 29 and represent the write–down of assets and liabilities in the above Statement of Financial Position categories.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

31. Comparison to Estimates

The Estimates numbers on the Statement of Operations are taken from the Estimated Statement of Operations on page 4 of the Estimates, Fiscal Year Ending March 31, 2004. They do not include supplementary spending of $419 million approved by the Legislature during the 2003/04 fiscal year. Of this amount, $319 million was additional Canadian Health and Social Transfer funds from the federal government that were not known at the time of the budget, but were included in the *Supply Act* passed on May 29, 2003.

32. Trusts Under Administration

	In Millions 2004	In Millions 2003
	$	$
Public Trustee and Official Administrators —administered by government officials	530	575
Supreme and Provincial Court (Suitors' Funds) —administered by the Courts	32	22
Credit Union Deposit Insurance Corporation of B.C. —administered by various government officials and a non–government investment corporation	117	104
Other trust funds —administered by various government officials	68	43
	747	**744**

33. Workers' Compensation Board of British Columbia (WCB)

WCB administers the *Workers' Compensation Act*. Its main functions are promotion of occupational health and safety, compensation for occupational injury, death or disease, and rehabilitation of injured workers. WCB collects funds necessary for its operations from employers covered under the Act, and operates similar to a trust. It is excluded from the government reporting entity. The audited financial statements of WCB at December 31 reflect the following financial information:

	In Millions December 31 2003	In Millions December 31 2002
	$	$
Assets	8,481	8,078
Liabilities	8,473	8,225
Net Equity	**8**	**(147)**

	In Millions December 31 2003	In Millions December 31 2002
	$	$
Revenue	1,573	795
Expense	1,419	1,366
Surplus (deficit)	**154**	**(571)**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

34. Significant Events

Government Restructuring

The province has stated its intentions to reorganize government. As part of the reorganization, the province will discontinue some operations and invite outside investors to participate in other operations. These include, among others, liquor distribution, land registry operations, rail operations and highway operations.

British Columbia Railway Company (BCRC) Operations

On November 25, 2003, BCRC and BCR Properties signed an agreement with Canadian National Railway Company (CN) under which CN will assume the operations of the industrial freight railway business carried on by BC Rail Partnership, by purchasing the shares of BC Rail Ltd., and the partnership interests of BC Rail Partnership (collectively "BC Rail"), for proceeds of $1 billion (the "Transaction").

Prior to closing, BC Rail will undergo a corporate restructuring to ensure that only assets and liabilities of BC Rail's Industrial Freight Railway business are owned by BC Rail at the time of the Transaction. Part of this restructuring will involve transferring the railbed and related infrastructure from BC Rail to BCRC. The BC Rail Partnership and BC Rail will continue to be liable for certain inter-company debt owing to BCRC and BCR Properties.

As part of the Transaction, BCRC and CN will enter into a Revitalization Agreement under which CN will lease the railbed and related infrastructure from BCRC for a term of 60 years. The Revitalization Agreement also gives CN the option to renew the lease for an additional 30 years at no cost to CN and allows for further extensions of the term of the agreement beyond this time, should BCRC not excercize its option to repurchase the rail operations.

The province and BCRC have provided commercial indemnities to CN with respect to the Transaction including indemnities related to tax attributes of BC Rail at closing.

The maximum payable under the indemnities related to tax attributes is $367 million, plus interest at 9% from the date of closing and any taxes payable by CN on the amounts received under the indemnities. These indemnities remain in effect until 90 days after the last date on which a tax assessment or reassessment can be issued in respect of the tax attributes. It is unlikely the province and BCRC will ultimately be held liable for any amounts under these indemnities.

The maximum payable under the other indemnities - not related to tax attributes - is limited to $262 million. There are certain other specific indemnities (including certain environmental indemnities and matters unrelated to the industrial freight railway business) for which there are not limits on the amounts payable thereunder.

At March 31, 2004, the book value of the net assets of these operations held for sale was $755 million and annual net income was $86 million.

Columbia Basin Trust

On January 16, 2004, the provincial government announced a regulation to bring the *Columbia Basin Trust Amendment Act, 2003* into force. The government's stated objective is to increase efficiency and deliver ongoing savings, provide representation from Columbia Basin residents and continue the mandate of the Columbia Basin Trust to invest its share of the power project and other income to further the economic, social and environmental well-being of Columbia Basin residents. The development and management of power projects, currently done through joint ventures between the Trust and Columbia Power Corporation, will be consolidated under a single corporation that will be a subsidiary of the Trust. The Trust will hold 100% of the subsidiary's shares and will appoint a majority of the board of directors. The mandate of the power subsidiary and the continued 50/50 sharing of power income will be set out in agreements between the province and the Trust to implement the power restructuring.

On May 3, 2004, the Arrow Lakes Generating Station(a joint venture of the Columbia Basin Trust and Columbia Power Corporation) incurred damage to a portion of the intake channel resulting in the temporary suspension of power generation. The cause of the damage is currently under investigation and the appropriate steps have been taken to prevent further damage and to carry out necessary repairs. The financial impact of this cannot be determined at this time. Recourse under insurance policies and warranties under the Design-Build Contract are currently under investigation.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2004—Continued

35. Restructuring Exit Expense

Reported restructuring exit expenses of $122 million (2003: $169 million) do not include an additional recovery of ($16) million (2003: expenses of $78 million) for restructuring exit expenses of government organizations that were consolidated using the modified equity basis. This consists of $8 million in expenses (2003: expenses of $37 million) for British Columbia Hydro and Power Authority, recoveries of ($25) million (2003: expenses of $26 million) for the British Columbia Liquor Distribution Branch, nil (2003: expenses of $15 million) for the Insurance Corporation of British Columbia and expenses of $1 million (2003: nil) for British Columbia Lottery Corporation.

	In Millions	
	2004	2003
Restructuring exit expense by function	$	$
Health	10	6
Education	1	2
Social services	22	17
Protection of persons and property	17	2
Transportation	5	14
Natural resources	25	69
Other	13	55
General government	29	4
	122	**169**

	In Millions	
	2004	2003
Restructuring exit expense by group account classification	$	$
Government transfers	3	16
Operating costs	38	61
Salaries and benefits	78	89
Other	3	3
	122	**169**

36. Comparatives

Certain of the comparative figures for the previous year have been restated to conform with the current year's presentation. These restatements have had no effect on the operating result as previously reported except as specifically noted.

Summary Financial Statements
Reporting Entity
for the Fiscal Year Ended March 31, 2004

TAXPAYER–SUPPORTED CROWN CORPORATIONS AND AGENCIES (GOVERNMENT ORGANIZATIONS) RECORDED ON A CONSOLIDATED BASIS

Consolidated Revenue Fund[1]

Health Sector
Canadian Blood Services[2]
Forensic Psychiatric Services Commission

Education Sector
Industry Training and Apprenticeship Commission[3]
Industry Training Authority[4]
Private Post–Secondary Education Commission

Natural Resources and Economic Development Sector
552513 British Columbia Ltd[5]
BC Immigrant Investment Fund Ltd
B.C. Pavilion Corporation
British Columbia Enterprise Corporation
British Columbia Trade Development Corporation[3]
Columbia Basin Trust
Creston Valley Wildlife Management Authority Trust Fund
Discovery Enterprises Inc
Forestry Innovation Investment Ltd[4]
Innovation and Science Council of British Columbia[6]
Land and Water British Columbia Inc
Oil and Gas Commission
Partnerships British Columbia Inc
Tourism British Columbia
Vancouver Convention Centre Expansion Project[4]
Vancouver Trade and Convention Centre Authority

Transportation Sector
BC Transportation Financing Authority
British Columbia Ferry Corporation[7]
British Columbia Transit
Rapid Transit Project 2000 Ltd
Victoria Line Ltd[3]

Protection of Persons and Property
British Columbia Securities Commission
Organized Crime Agency of British Columbia Society

Social Services Sector
B.C. Community Financial Services Corporation
Interim Authority for Community Living British Columbia
Legal Services Society

Summary Financial Statements
Reporting Entity
for the Fiscal Year Ended March 31, 2004—Continued

TAXPAYER-SUPPORTED CROWN CORPORATIONS AND AGENCIES (GOVERNMENT ORGANIZATIONS) RECORDED ON A CONSOLIDATED BASIS—CONTINUED

Other Sector

B.C. Festival of the Arts Society[3]
B.C. Games Society
British Columbia Arts Council
British Columbia Assessment Authority
British Columbia Buildings Corporation
British Columbia Heritage Trust[3]
British Columbia Housing Management Commission
First Peoples' Heritage, Language and Culture Council
Homeowner Protection Office
Pacific National Exhibition[7]
Provincial Rental Housing Corporation
Royal BC Museum[4]

SELF-SUPPORTED CROWN CORPORATIONS AND AGENCIES (GOVERNMENT ENTERPRISES) RECORDED ON A MODIFIED EQUITY BASIS

BCIF Management Ltd
British Columbia Hydro and Power Authority
British Columbia Liquor Distribution Branch
British Columbia Lottery Corporation
British Columbia Railway Company
Columbia Power Corporation
Insurance Corporation of British Columbia
Provincial Capital Commission

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[1] The Consolidated Revenue Fund has been allocated to the appropriate sector on the Statement of Financial Position by Sector (page 69) and Operations by Sector (page 71).
[2] This organization reflects a government partnership amongst Canadian provinces and is proportionally consolidated based upon the province's share (14.67%) of the total provincial contributions to the partnership.
[3] These organizations were wound up during the fiscal year.
[4] These organizations began operations during the fiscal year.
[5] 552513 British Columbia Ltd was involved in the acquisition and disposal of Skeena Cellulose Inc.
[6] This organization changed its name during the current year. It was formerly known as Science Council of British Columbia.
[7] During the year, the government transferred control of these organizations to outside the government reporting entity.

Summary Financial Statements
Statement of Financial Position by Sector
as at March 31, 2004

In Millions

	Health	Education	Social Services	Debt Servicing	PPP[1]	Transpor– tation	NR and ED[2]	Other[3]	General Govern– ment[4]	Adjust– ments[5]	Total
Financial Assets	$	$	$	$	$	$	$	$	$	$	$
Cash and temporary investments	15	1	11	238		14	157	(6)			430
Accounts receivable	104	27	77	380	136	31	725	24	1,083	(45)	2,542
Inventories for resale					7	10	192	20	9		238
Due from the Province of British Columbia						37				(37)	
Due from other governments	19	36	7		13	17	22	29	201		344
Due from self–supported Crown corporations and agencies							93		71		164
Equity in self–supported Crown corporations and agencies			5		618	422	1,934	16		(6)	2,989
Loans, advances and mortgages receivable	3	303	1		5	428	85	59	164		1,048
Other investments	27			23		76	268	59			453
Loans for purchase of assets, recoverable from agencies				10,839						(3,237)	7,602
	168	367	101	11,480	779	1,035	3,476	201	1,528	(3,325)	15,810

Summary Financial Statements
Statement of Financial Position by Sector
as at March 31, 2004—Continued

In Millions

	Health	Education	Social Services	Debt Servicing	PPP[1]	Transpor–tation	NR and ED[2]	Other[3]	General Govern–ment[4]	Adjust–ments[5]	Total
Liabilities	$	$	$	$	$	$	$	$	$	$	$
Accounts payable and accrued liabilities	527	87	139	805	230	225	659	301	640	(70)	3,543
Due to other governments	30		6		47	3	7	2	1,014		1,109
Due to Crown corporations, agencies and funds							1	78	44		123
Due to the Province of British Columbia											
Deferred revenue	109	10		144	226	131	173	111	391	(3)	1,292
Unfunded pension liabilities									3		3
Taxpayer–supported debt	5		5	29,245	4	2,851	60	508	1	(3,248)	29,431
Self–supported debt				7,507							7,507
	671	97	150	37,701	507	3,210	900	1,000	2,093	(3,321)	43,008
Net liabilities	(503)	270	(49)	(26,221)	272	(2,175)	2,576	(799)	(565)	(4)	(27,198)
Non–financial Assets											
Tangible capital assets	83	13	30		65	8,438	676	1,037	140		10,482
Prepaid capital advances	1,670	5,466									7,136
Prepaid program costs	15		1		4	22	18	13	9		82
Other assets				105	21	15	3				144
	1,768	5,479	31	105	90	8,475	697	1,050	149	0	17,844
Accumulated surplus (deficit)	**1,265**	**5,749**	**(18)**	**(26,116)**	**362**	**6,300**	**3,273**	**251**	**(416)**	**(4)**	**(9,354)**

[1]Protection of persons and property.

[2]Natural Resources and Economic Development.

[3]Includes housing, recreation and culture and other activities which cannot be allocated to the specific sectors.

[4]Includes the Legislature, tax collection and administration, CHST and equalization transfers from the federal government, liquor and gaming profits, general administration and central agency services such as accounting, auditing, budgeting, insurance and risk management to all sectors.

[5]Represents sectoral adjustments to conform to government accounting policies and to eliminate transactions between sectors.

Summary Financial Statements
Statement of Operations by Sector
for the Fiscal Year Ended March 31, 2004

In Millions

	Health	Education	Social Services	Debt Servicing	PPP[1]	Transpor– tation	NR and ED[2]	Other[3]	General Govern– ment[4]	Adjust– ments[5]	Total
Revenue	$	$	$	$	$	$	$	$	$	$	$
Taxation						446	24	62	13,276		13,808
Contributions from the federal government	45	148	57		215	24	22	117	2,718		3,346
Natural resources							3,653				3,653
Fees and licences	1,539	2	6		602	91	102	24	61		2,427
Contributions from the provincial government/self–supported Crown corporations and agencies					299	58	105	311	1,442	(334)	1,881
Miscellaneous	229	9	84		132	19	132	334	87	(49)	977
Investment earning	2	4	1	703	1	28	25	7	7	(196)	582
Total revenue	1,815	163	148	703	1,249	666	4,063	855	17,591	(579)	26,674

Summary Financial Statements
Statement of Operations by Sector
for the Fiscal Year Ended March 31, 2004—Continued

In Millions

	Health	Education	Social Services	Debt Servicing	PPP[1]	Transpor–tation	NR and ED[2]	Other[3]	General Govern–ment[4]	Adjust–ments[5]	Total
Expense	$	$	$	$	$	$	$	$	$	$	$
Government transfers	10,013	5,993	2,234		631	144	124	530	21	(21)	19,669
Operating costs	372	364	241		318	482	793	505	(60)	(338)	2,677
Salaries and benefits	319	36	371		542	136	473	162	331		2,370
Interest				1,434		143	1	70		538	2,186
Other	241	504	23		59	167	84	(20)	155	(747)	466
Amortization	17	2	13		17	345	29	44	56		523
Operating expense	10,962	6,899	2,882	1,434	1,567	1,417	1,504	1,291	503	(568)	27,891
Surplus (deficit) for the year before unusual items	(9,147)	(6,736)	(2,734)	(731)	(318)	(751)	2,559	(436)	17,088	(11)	(1,217)
Restructuring exit expense	(7)				(3)		(3)	(50)	(74)	15	(122)
Surplus (deficit) for the year 2003/04	**(9,140)**	**(6,736)**	**(2,734)**	**(731)**	**(315)**	**(751)**	**2,562**	**(386)**	**17,162**	**(26)**	**(1,095)**
Surplus (deficit) for the year 2002/03	**(9,009)**	**(6,754)**	**(3,031)**	**(728)**	**(614)**	**(918)**	**2,273**	**(281)**	**15,969**	**(106)**	**(3,199)**

[1]Protection of persons and property.

[2]Natural Resources and Economic Development.

[3]Includes housing, recreation and culture and other activities which cannot be allocated to the specific sectors.

[4]Includes the Legislature, tax collection and administration, CHST and equalization transfers from the federal government, liquor and gaming profits, general administration and central agency services such as accounting, auditing, budgeting, insurance and risk management to all sectors.

[5]Represents sectoral adjustments to conform to government accounting policies and to eliminate transactions between sectors.

Summary Financial Statements
Statement of Self–supported Crown Corporations and Agencies
Summary of Financial Position
as at March 31, 2004

In Millions

	Utility[1]	Insurance[2]	Liquor[3]	Transpor–tation[4]	Finance[5]	Natural Resources[6]	2004 Total	2003 Total
Assets	$	$	$	$	$	$	$	$
Cash and temporary investments	77	6,490	(10)	56	73	4	6,690	5,838
Accounts receivable	329	177	49	48	44		647	619
Inventories	87		69	36	6		198	242
Long–term investments	88	31					119	396
Tangible capital assets	10,088	84	24	891	55	15	11,157	11,079
Other assets	578	117	2	98	6		801	786
	11,247	6,899	134	1,129	184	19	19,612	18,960
Liabilities								
Accounts payable and accrued liabilities	1,124	4,840	127	216	113		6,420	6,030
Deferred revenue	1,089	1,441				3	2,533	2,424
Due to the Province of British Columbia	93				71		164	402
Long–term debt due to the Province of British Columbia	6,900			467			7,367	7,270
Other long–term debt	108		7	24			139	205
	9,314	6,281	134	707	184	3	16,623	16,331
Equity								
Investment by the Consolidated Revenue Fund	296			258			554	534
Unremitted earnings—end of year	1,637	618		164		16	2,435	2,095
	1,933	618		422		16	2,989	2,629
Total liabilities and equity	**11,247**	**6,899**	**134**	**1,129**	**184**	**19**	**19,612**	**18,960**

[1]Utility—British Columbia Hydro and Power Authority and Columbia Power Corporation.
[2]Insurance—Insurance Corporation of British Columbia (ICBC).
[3]Liquor—British Columbia Liquor Distribution Branch.
[4]Transportation—British Columbia Railway Company.
[5]Finance—British Columbia Lottery Corporation and BCIF Management Ltd.
[6]Natural Resources—Provincial Capital Commission.

Summary Financial Statements
Statement of Self–supported Crown Corporations and Agencies
Summary of Results of Operations and Statement of Equity
for the Fiscal Year Ended March 31, 2004

In Millions

	Utility[1]	Insur–ance[2]	Liquor[3]	Transpor–tation[4]	Finance[5]	Natural Resources[6]	2004 Total	2003 Total[7]
	$	$	$	$	$	$	$	$
Revenue	3,455	3,300	2,004	374	1,891	4	11,028	10,279
Expense	3,370	2,998	1,280	323	1,172	4	9,147	8,513
Net earnings of self–supported Crown corporations and agencies	85	302	724	51	719		1,881	1,766
Contributions paid to the Consolidated Revenue Fund	(95)	(3)	(724)		(534)		(1,356)	(1,483)
Adjustments to contributions[8]					(185)		(185)	(174)
Increase (decrease) in unremitted earnings in self–supported Crown corporations and agencies	(10)	299		51			340	109
Unremitted earnings—beginning of year	1,647	319		113		16	2,095	1,986
Adjustment to unremitted earnings								
Unremitted earnings—end of year	1,637	618		164		16	2,435	2,095
Investment by the Consolidated Revenue Fund	296			258			554	534
Equity in self–supported Crown corporations and agencies for the year	**1,933**	**618**	**0**	**422**	**0**	**16**	**2,989**	**2,629**

[1]Utility—British Columbia Hydro and Power Authority and Columbia Power Corporation.
[2]Insurance—Insurance Corporation of British Columbia (ICBC).
[3]Liquor—British Columbia Liquor Distribution Branch.
[4]Transportation—British Columbia Railway Company.
[5]Finance—British Columbia Lottery Corporation and BCIF Management Ltd.
[6]Natural Resources—Provincial Capital Commission.
[7]BC Hydro has a change in accounting policy that requires electricity trade income to be netted against corresponding energy costs. It has restated the the 2002/03 amounts, decreasing revenue and increasing expenses by $1,189 million, netting to $0.
[8]This adjustment is for British Columbia Lottery Corporation transfers to charities and local governments which is shown as a recovery by the Consolidated Revenue Fund.

Summary Financial Statements
Statement of Tangible Capital Assets[1]
for the Fiscal Year Ended March 31, 2004

In Millions

	Land and Land Improve–ments	Buildings	Highway Infra–structure	Ferries	Transpor–tation Equipment	Computer Hardware / Software	Other	2004 Total	2003 Total
Historical Cost[2]	$	$	$	$	$	$	$	$	$
Opening cost	841	1,750	10,121	83	2,564	724	361	16,444	16,249
Additions	77	53	406		20	105	41	702	601
Disposals and valuation adjustments	(12)	(115)	(19)	(14)	(5)	(33)	(59)	(257)	(406)
	906	1,688	10,508	69	2,579	796	343	16,889	16,444
Accumulated Amortization									
Opening balance	71	806	3,960	68	476	467	215	6,063	5,745
Amortization expense	5	51	285	2	52	89	42	526	564
Effects of disposals and valuation adjustments	(3)	(90)		(12)	(2)	(28)	(47)	(182)	(246)
	73	767	4,245	58	526	528	210	6,407	6,063
Net book value for the year ended March 31, 2004	**833**	**921**	**6,263**	**11**	**2,053**	**268**	**133**	**10,482**	10,381
Net book value for the year ended March 31, 2003	**770**	**944**	**6,161**	**15**	**2,088**	**257**	**146**		**10,381**

[1]This statement includes assets that are held on capital leases at March 31, 2004, at a net book value totalling $32 million (2003: $45 million) comprised of: heavy equipment $0 million (2003: $4 million) and vehicles $32 million (2003: $41 million).

[2]Historical cost includes work–in–progress at March 31, 2004, totalling $295 million (2003: $191 million) comprised of: buildings $39 million (2003: $21 million); land improvements $6 million (2003: $7 million); highway infrastructure $190 million (2003: $106 million); transportation equipment $1 million (2003: $3 million); computer hardware/software $58 million (2003: $50 million); and specialized equipment $1 million (2003: $4 million). Work–in–progress is not amortized.

Summary Financial Statements
Statement of Guaranteed Debt[1]
as at March 31, 2004

Guaranteed debt represents that debt of municipalities and other governments, private enterprises and individuals, and debt and minority interests of provincial Crown corporations and agencies, which has been explicitly guaranteed or indemnified by the government, under the authority of a statute, as to net principal or redemption provisions.

	In Millions	
	2004	2003
Taxpayer–supported Guaranteed Debt	Net Outstanding[1] $	Net Outstanding[1] $
Municipalities and other local governments		
Municipal Act debentures	1	1
Subtotal, municipalities and other local governments	1	1
Government services		
Homeowner Protection Act loan guarantees	104	98
Subtotal, government services	104	98
Health and education		
Financial Administration Act student aid loans	41	54
Subtotal, health and education	41	54
Economic development		
Securities Act		1
Financial Administration Act		
Business Development Bank Guaranteed Program	1	1
Emergency Credit Enhancement Program	3	7
Farm Distress Operating Loan Program	1	3
Feeder Association's Loan Guarantee Program	5	5
Miscellaneous guarantees each less than $1 million		1
Home Mortgage Assistance Program Act mortgages	10	15
Home Mortgage Assistance Program Act second mortgages[2]	1	1
Subtotal, economic development	21	34
Total taxpayer–supported guaranteed debt	167	187

Summary Financial Statements
Statement of Guaranteed Debt[1]
as at March 31, 2004—Continued

	In Millions	
	2004	2003
Self–supported Guaranteed Debt	Net Outstanding[1] $	Net Outstanding[1] $
Economic development		
British Columbia Railway Finance Act capital leases[3]		2
Subtotal, economic development		2
Utilities		
Hydro and Power Authority Act bonds and debentures[3]		87
Subtotal, utilities		87
Total self–supported guaranteed debt		89
Grand total, all guaranteed debt	167	276
Provision for probable payout	(11)	(12)
Net total, all guaranteed debt[4]	**156**	**264**

[1]Guaranteed debt includes gross principal debt less sinking fund balances, and represents the total amount of contingent liability of the government arising from relevant guarantees.

[2]The British Columbia Second Mortgage Program was sold to the Bank of Montreal in June 1989, with the condition that the province will buy back any mortgages which may become uncollectible in future years.

[3]*See* the financial statements of government organizations and enterprises for details of maturity dates, interest rates and redemption features of the outstanding debt of these Crown agencies and for details of derivative financial products.

[4]Debentures totalling $0.3 million (2003: $0.3 million) have been defeased and are considered extinguished for financial reporting purposes.

Appendix D

Office of the Auditor General: 2003/04 Reports Issued to Date

Report 1 – April 2004

Follow-up of Performance Reports

Managing Interface Fire Risks

Transportation in Greater Vancouver:
A Review of Agreements Between the Province and TransLink,
and of TransLink's Governance Structure

Report 2 – June 2004

In Sickness and in Health: Healthy Workplaces
for British Columbia's Health Care Workers

Report 3 – October 2004

Preventing and Managing Diabetes in British Columbia

Report 4 – October 2004

Internal Audit in Health Authorities:
A Status Report

Report 5 – October 2004

Salmon Forever: An Assessment of the Provincial Role
in Sustaining Wild Salmon

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Published by the Queen's Printer for British Columbia©
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