2005/2006 : Report 9

OFFICE OF THE

Auditor General of British Columbia

Leading the Way –

Adopting Best Practices in Financial Reporting 2004/05

March 2006

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 Bill Barisoff
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Dear Sir:

I have the honour to transmit herewith to the Legislative Assembly of British Columbia my 2005/2006 Report 9: Leading the Way—Adopting Best Practices in Financial Reporting 2004/2005.

Wayne Strelioff

Wayne Strelioff, FCA
Auditor General

Victoria, British Columbia
March 2006

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Clerk of the Legislative Assembly

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This report is based on the result of audit work done mainly between July 2004 and June 2005, by about 90 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 Comments

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.

British Columbia reached a significant milestone in public sector financial reporting in Canada this year. For the first time, government's Summary Financial Statements provide a complete accounting of its financial plans and results in accordance with Canadian generally accepted accounting principles (GAAP).

This is the first year I have issued an unqualified audit opinion. I did so after the government completed its multi-year plan to implement GAAP. The last step it took this year was to fully consolidate the financial results of all school districts, universities, colleges and health organizations. I commend government for this and for other improvements it has made over the past few years in its financial reporting.

In this report, we explain how government is leading the way towards having the best Summary Financial Statements in Canada. We also take the opportunity to recommend how further improvements can be made. Several accounting concerns remain to be addressed, such as how interest expense should be shown and the policy on how government accounts for interest during construction needs updating.

As well, we are encouraging the government to provide fuller disclosure in the Summary Financial Statements. Preparing and disclosing consolidated sectoral financial information would further enhance their usefulness and understandability.

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

Wayne Strelioff, FCA
Auditor General

Victoria, British Columbia
March 2006

Detailed Report

Detailed Report

Why do we write this report?

Enhancing the provincial government's accountability and performance is the mission of our Office. We are an independent office of the Legislature, and we report on, and provide recommendations to improve, government's management and accountability practices. We must choose in which areas to spend our resources, but our annual audit of the Summary Financial Statements of the Government of the Province of British Columbia (the government financial statements) is a significant and ongoing focus of our Office because these statements are a major means by which government accounts for its financial performance.

We conduct our audit 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 allow us to comment on the government's progress in adopting best practices in financial statement reporting.

We achieved our first goal when we issued our audit opinion and it was published by the government in June 2005 as part of its financial statements.

This report is the result of our second goal in examining the Summary Financial Statements. Here we outline government's accomplishments last year in improving its financial accounting and reporting practices, suggest improvements that we hope government will make, and explain other matters we believe are relevant to an understanding of the financial statements and our audit of them.

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 what are the best accounting and reporting practices to use often requires significant professional judgement.

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According to the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (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 the accounting and reporting practices adopted by government against these objectives, and compare them with Canadian generally accepted accounting principles (GAAP), other standards of the CICA and, where appropriate, practices followed by our peers across Canada. Considering these outside sources helps us objectively decide what best practice is in each circumstance.

Last Year's Accomplishments

Government is responsible for ensuring 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 effectively fulfill this important responsibility.

Detailed Report

Achieving full adoption of GAAP

During the fiscal year 2004/05, the government significantly improved its financial accounting and reporting practices with the full adoption of GAAP for senior governments. The 2004/05 Public Accounts now contains a more complete picture of the Province's finances than has ever been presented. The results of operations and the ending financial position of all organizations in the government reporting entity are now included in the Summary Financial Statements. In prior years, a significant part of the education and health sectors—the schools, universities, colleges and health care organizations (known collectively as the SUCH sector)—were excluded.

This achievement took place after years of deliberate, measured progress, requiring a great deal of commitment, support and hard work by many individuals and groups throughout the provincial public sector.

Recognition of this achievement was made by the Canadian Institute of Chartered Accountants (CICA) and the Public Sector Accounting Board (PSAB), both of which noted the government's leadership in financial reporting.

What other financial statement improvements resulted from adopting GAAP?

In adopting GAAP, the government made a number of improvements to the Summary Financial Statements:

- Capital asset disclosure was improved by the elimination of prepaid capital advances.
- Disclosure of debt related to sinking funds was improved.
- A more accurate debt disclosure was made by adding back "in-substance" defeased debt to the statement of financial position.
- The accounting policy for bonus bid revenue for petroleum and natural gas rights was changed to reflect recent professional pronouncements.

We discuss each of these improvements in more detail below.

The SUCH sector was consolidated

GAAP requires the government to prepare consolidated financial statements that include the results of operations and year-end financial position of all organizations that it controls. In previous years, the government did not consolidate the operating results and year-end position of schools, universities, colleges, health authorities and hospital societies. As a result, revenues and expenses reported in the government's financial statements were understated by over $2 billion, and the financial assets and liabilities were understated by about $4 billion. We therefore included a reservation in our audit opinion, describing the impacts of these understatements.

In 2001, the government legislated, through the Budget Transparency and Accountability Act, that it would adopt GAAP for the Public Accounts by 2005. Considerable work was needed to meet this legislated requirement. Before the financial results of all the different 150 or so government organizations could be consolidated, they individually had to be presented on a basis consistent with the government's stated accounting policies. Since the government was moving to GAAP, all government organizations had to ensure that their own financial statements were also in accordance with GAAP. The government's task was first to identify the accounting policies in all organizations that were not in accordance with GAAP, and then to come up with a strategy to move them to GAAP.

In most organizations, this was not a significant problem—they had been reporting in accordance with GAAP for some time. However, school districts had been reporting on the basis of policies created by the Ministry of Education, developed to serve the specific reporting needs of the ministry. Much of the government's work moving to GAAP revolved around the school districts, addressing such items as amortization of capital assets, accrual of vacation pay and employee future benefits, and the inclusion of school-based funds.

Another hurdle in achieving full consolidation of all government organizations involved aligning all financial information to the government's March 31 year-end. Many government organizations have March 31 year-ends, and those few Crown agencies and corporations that do not were accustomed to providing additional adjusted financial information. Again, it was in the school districts where much of the effort was needed, since they have a June 30 fiscal year-end, corresponding to the end of the academic year.

Our Office worked closely with the Comptroller General's Office and the Ministry of Education in finding solutions to these issues, as discussed elsewhere in this report.

Capital asset disclosure was improved by the elimination of prepaid capital advances

At just over $7 billion, prepaid capital advances were a significant non-financial asset on the government's statement of financial position in previous years. These advances represented grants made to government organizations in the health and education sectors for capital asset acquisitions.

The government had deferred these grants, amortizing them to expense over the same period of years as the estimated useful lives of the assets that the grants had been used to purchase. This was not in accordance with GAAP, which requires these grants to be expensed.

The organizations receiving these pre-paid capital grants—schools, universities, colleges and health authorities—were not included in the Summary Financial Statements in those years. Once these organizations were consolidated in the 2004/05 year, the grants were eliminated as part of the normal consolidation adjustments, and replaced by the tangible capital assets they had been used to purchase.

Disclosure of debt related to sinking funds was improved

From time to time, when the government determines there is sufficient securities to satisfy scheduled interest and principal payments for a debt instrument, sinking funds are set aside in a defeased trust account. "Sinking funds" is the name given to investments held separately for the purpose of paying off outstanding debt at maturity. Under GAAP, both the debt and related sinking funds are required to be shown separately on the statement of financial position.

In its statement of financial position in prior years, the government had been showing the provincial debt, net of related sinking funds. Full information on debt, including investment assets kept in sinking funds, was disclosed in the notes to the financial statements. Because debt, net of sinking funds, was reported on the statement of financial position, the result was an understatement of financials assets and liabilities. With the government's adoption of GAAP in 2004/05, the full amount of debt and sinking fund investments was reported on its statement of financial position, increasing both financial assets and liabilities by about $4 billion.

More accurate debt disclosure was made by adding back "in-substance" defeased debt to the statement of financial position

When funds are set aside and invested so that the earnings and market value are sufficient to meet debt interest and principal repayments at maturity, the debt and investments may be removed from the statement of financial position if certain conditions are met. The debt is said to be "defeased." GAAP allows defeased debt and its related investments to be matched against each other when such an arrangement is in accordance with the terms of the debt issue. In these 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.

Before fiscal 2004/05, the government had debt with sufficient offsetting investments in a separate trust account to satisfy future scheduled interest and principal payments. The government considered this arrangement to be "defeased in-substance"; and the debt, sinking fund assets and related interest expense and investment earnings were removed from the financial statements. However, the debt and related sinking funds were not legally defeased, which they should have been to meet GAAP requirements.

The government has changed its reporting of public debt for fiscal 2004/05. Debt and related sinking funds that did not meet the GAAP definition of defeasance are now included in the statement of financial position, and the associated interest income and expense is included on the statement of operations. This change was made on a retroactive basis with a restatement of prior year figures. As a result, taxpayer-supported debt increased by $763 million

($832 million in 2004) and accrued interest payable increased by $18 million ($21 million in 2004). As well, sinking funds increased by $812 million ($891 million in 2004), and the related interest income increased by $61 million ($66 million in 2004) and interest expense by $68 million ($35 million in 2004).

The accounting policy for bonus bid revenue for petroleum and natural gas rights was changed to reflect recent professional pronouncements

As a result of recent guidance issued by the CICA, the Province changed how it accounts for revenue for bonus bids received by the Ministry of Energy and Mines (now the Ministry of Energy, Mines and Petroleum Resources) related to competitions for the right to explore and develop Crown petroleum and natural gas resources.

Once each month, the ministry holds a competition, by sealed tender, allowing companies to submit a bonus bid on the petroleum and natural gas rights within specified parcels of land. Provided the bid is considered to be fair value, the highest bidder receives the right to enter into a tenure agreement with the Province, allowing the company to explore the parcel for petroleum and natural gas and to enter into production, depending on the type of tenure agreement. Tenure agreements are typically issued for periods ranging from 3 to 10 years and can be renewed or extended if certain conditions are met.

Accepted bonus bids are non-refundable. Historically they were recorded immediately as revenue by the Province.

Now, under the new CICA guidance, these up-front payments are considered part of the tenure agreement and are to be recognized over the tenure terms. Starting in fiscal 2004/05, the Province changed its accounting policy to defer and recognize this revenue over the estimated life of tenure agreements.

Deferral term

For the 2004/05 fiscal year, the Province has deferred bonus bid revenue over an eight-year term. This eight years is an estimate of the average term of tenure agreements, including the initial tenure and all renewals, based on government's best estimate of past experience. The Office of the Comptroller General and the Ministry of Energy, Mines and Petroleum Resources have said that this average term will be reviewed annually to ensure it is still based on reasonable, supportable assumptions and accurately reflects the average term of tenure agreements.

Application

Since the new guidance is applicable for fiscal year-ends beginning after December 17, 2003, this is the first year of application in the Summary Financial Statements. Consistent with the new CICA guidance, the Province has applied this new accounting policy retroactively, restating prior year financial statements. All future changes in the estimated average tenure term are to be applied prospectively.

Financial impact

The financial impact of this change in accounting policy is significant, resulting in a decrease in opening accumulated surplus and an increase in deferred revenue of $1,278 million. This restatement has not changed the total amount of revenue to be recorded for the bonus bids, only the timing of when the revenue will be recognized.

For the current year, this results in a revenue deferral of $1,262 million (2004: $1,278 million) that would previously have been recognized; and an increase in current year revenue of approximately $15.5 million (2004: decrease of $344 million).

Exhibit 1 details the effect of this change in accounting policy for the current and four prior fiscal years.

Exhibit 1

Resulting change in revenue (000's)

	2000/01	2001/02	2002/03	2003/04	2004/05
Original revenue amount recorded	418,006	312,171	279,946	625,663	280,185
Restated revenue	192,946	208,914	220,519	282,011	295,711
Change in revenue	**(225,010)**	**(103,257)**	**(59,427)**	**(343,652)**	**15,526**

Source: Ministry of Energy, Mines and Petroleum Resources

Detailed Report

Adopting GAAP in the SUCH sector

The composition of the Summary Financial Statements was significantly impacted by the inclusion of the SUCH sector in 2004/05.

106 organizations have been added to the government reporting entity, bringing the total number in 2004/05 to 149. Of these 106 additional organizations, 90 are in the education sector and 16 are in the health sector.

For our part, we needed to gain sufficient and appropriate assurance over the reliability of the financial results of these additional organizations in order to form an audit opinion on the Summary Financial Statements. Our three-year Financial Statement Audit Coverage Plan, which is approved by the Select Standing Committee on Public Accounts, authorizes various levels of involvement for our Office in the audits of individual organizations in the SUCH sector. This provides the Auditor General with the contextual knowledge needed to evaluate whether the financial performance of these organizations are fairly presented in the Summary Financial Statements.

The process by which we were able to determine the reliability of the financial results was strongly influenced by: 1) whether the organizations had the same fiscal year-end as the government; and 2) whether the organizations were following the same basis of accounting used by the provincial government.

Health organizations, universities and colleges issue their audited financial statements as at March 31 of each year, the same fiscal year-end as the government. Because of this, we were able to rely on the financial statement audit opinions provided by the external auditors of these organizations and so obtain the assurance we required over the financial results reported by the individual entities according to their basis of accounting.

These SUCH sector entities prepared their financial statements using the accounting recommendations for not-for-profit organizations (NPO GAAP) developed by the CICA. The government, however, prepares its consolidated financial statements in accordance with the standards set by PSAB (PSAB standards) for senior, local and territorial governments. Accordingly, the ministries responsible for these entities consolidated the financial results, and also prepared the necessary policy adjustments to convert these results from the NPO GAAP used by the individual organizations to the PSAB standards followed by the provincial government.

This was a significant task. For example, adjustments needed to be made to record endowment funds and external contributions for land to revenue.

Our Office reviewed these policy adjustments in order to obtain assurance over the appropriateness of the entries recorded. We also reviewed the consolidation of these entities to ensure that their transactions and account balances with the government and other organizations in the government reporting entity were appropriately eliminated. These eliminations primarily related to government funding for operations and for capital additions.

School districts in British Columbia , on the other hand, have a fiscal year-end of June 30, which is not aligned with the government's year-end. To enable the preparation of financial information for the years ended March 31, 2004 and 2005, the school districts provided the Ministry of Education with accounting submissions for the nine months up to March 31. These submissions, when merged with the audited financial statements at June 30 of the previous year, allowed a full year of operations to be portrayed. The ministry consolidated these results, ensuring that inter-entity balances were eliminated properly and that the results were converted from the NPO GAAP basis to the PSAB standards. Our Office reviewed in detail this consolidation and the policy adjustments made to ensure they were appropriate.

Other challenges emerged, however. For example, the school district financial information for the nine months ended March 31, 2005, had not yet been examined by the organizations' own auditors, nor had the auditors examined the districts' balance sheets at March 31, 2005 and 2004. Accordingly, we needed to carry out additional work to obtain an appropriate level of assurance on the results reported by the school districts for the full 12 months of the year and on the balances reported as at March 31, 2004 and 2005. The results of our extended work allowed the ministry to form a view on the reliability of the information provided to them by the school districts and also gave our Office an appropriate level of assurance over the results reported by the school districts, as a component of the government's Summary Financial Statements.

We performed detailed audit procedures using information available at the Ministry of Education and information from a sample of school districts. We selected the districts primarily according to their significance to the overall school district consolidation. As well, we chose an additional sample of school districts so that we could assess financial statement components that are generally regarded as high risk, such as cash.

We appreciated the cooperation and support of the officials in the ministries and SUCH sector organizations we visited to carry out our work, particularly as this was a new challenge for all parties.

Looking to the Future

Before we get to our specific recommendations, there are a number of financial reporting issues we wish to discuss.

How will government continue to improve on its reporting in the Summary Financial Statements?

What steps should the government next take in continuing to improve on its objective of being transparent and accountable in its financial policies and practices? According to the Ministry of Finance's "Message from the Minister and Accountability Statement," the ministry will "work to ensure British Columbia continues to lead the provinces in the timeliness of its financial reports and in providing the most comprehensive set of public disclosure documents in Canada."[1]

We believe that the next significant steps government takes should be to include a full consolidation of Government Business Enterprises (GBEs) and the preparation, disclosure and consolidation of sectoral financial statements.

[1] Source: 2005/06 - 2007/08 Service Plan Update, Ministry of Finance and Associated Entities, September 2, 2005.

Full consolidation of GBEs

According to PSAB, a Government Business Enterprise (GBE) is an organization that has all of the following characteristics:

- it is a separate legal entity with the power to contract in its own name and that can sue and be sued;
- it has been delegated the financial and operational authority to carry on a business;
- it sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity; and
- it can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.

All GBEs are currently consolidated on a modified equity basis of accounting (see sidebar). This means that their complete financial picture is not represented in the Summary Financial Statements. Although this consolidation method is in accordance with GAAP, only the net earnings/losses for the year are consolidated, instead of the individual line items in the financial statements of these organizations.

In the future, we hope that the government will choose to disclose the assets, liabilities, revenues and expenses of those organizations accounted for by the modified equity method within the relevant segmented information. This would be useful for understanding and assessing the extent to which programs and services are delivered by government regardless of the form of the organization.

Preparing and consolidating sectoral financial information

Modified Equity Basis of Accounting

Under the modified equity basis of accounting, the consolidated financial statements show only the government's investment in the organization, not a full line-by-line consolidation. The investment is made up of the initial investment plus or minus further advances and dividends, and the organization's accumulated surplus (or deficit).

Currently, the Summary Financial Statements include segmented reporting by entity type. For example, segmented reporting for the schools, universities, colleges and health organizations (the SUCH sector) consolidates the financial information for the health and education sector components. The collection of information of government ministries, known as the Consolidate Revenue Fund (CRF), is consolidated into a single segment that includes all sectors of government (health, education, natural resources and so on).

The consolidation of sectoral financial information requires choosing an appropriate basis of segmentation. We believe the most logical display of relevant segmented information would be by major government function or sector. This means that the segmented information produced to roll up into the Summary Financial Statements would include the consolidation of all government organizations within each sector, including the related ministries. So, for example, the health sector would include the consolidation of the health authorities, hospital societies, related health Crown corporations and the Ministry of Health.

Producing functional consolidated sector information would provide a lower level of detail, and make it easier for the financial statement users to understand both the composition of the Summary Financial Statements as a whole and the relative size and financial performance of each major part.

Recently, PSAB issued an exposure draft for comment on segment disclosures. Although the latest version does not discuss or promote the full consolidation of GBEs that we support, the disclosure of government segments in British Columbia 's Summary Financial Statements already exceeds some of the proposed requirements. Whereas the exposure draft only encourages disclosure of total assets and liabilities, the Province's Summary Financial Statements already includes a statement of financial position with detailed line-by-line information by major sectors. To improve its disclosure and meet the rest of the new proposed standards, the sectoral information shown in the Summary Financial Statements would need to be prepared on a comparative basis, further adding to its usefulness.

Disclosing CRF information in accordance with GAAP

Currently the CRF information included in the Public Accounts does not comply with GAAP. Adjustments are made upon consolidation into the Summary Financial Statements to ensure compliance. Similarly, ministries do not produce individual financial statements, and we therefore do not provide a separate audit opinion on this financial information. We believe that financial statement users would benefit from having ministry financial statements prepared in accordance with GAAP. These changes would also assist the government in moving to sectoral financial.

Upcoming changes in accounting policies

The government is preparing for three accounting policy changes as a result of new directives issued by PSAB for the 2005/06 fiscal year. These changes will affect how contractual obligations, contingent liabilities and measurement uncertainty are disclosed in the notes of the Summary Financial Statements. Unlike the changes that took place in 2004/05 that affected amounts reported in the Summary Financial Statements, all of the changes for the upcoming year will probably only affect the level of disclosure required.

Contractual obligations

Until now, the government has routinely disclosed only those contractual obligations relating to non-operating commitments costing more than $50 million (although, in 2004/05, it did also disclose operating commitments relating to several alternative service delivery agreements).

Starting in 2005/06, the government must disclose all significant contractual obligations, both operating and non-operating. It must also provide information about the nature of the obligation and its timing. The government has determined that “significant contractual obligations” are those costing more than $50 million, and that it will disclose amounts for each of the next five years and a total amount for obligations beyond five years.

The government began planning early for this new requirement in the summer and fall of 2005, since the information needs to be collected from all government organizations.

Contingent liabilities

A contingent liability exists when an expected future event will determine whether or not a liability exists and can be recorded in the financial statements as at the end of a current fiscal year. The most common contingent liabilities are lawsuits claiming damages from the government, wherein plaintiffs are alleging to have suffered losses that the government should pay damages for. Since these matters are in dispute, the possible government liability will not be determined until some point in the future when the matter is completed in the judicial process.

The government currently classifies these lawsuits into two categories: those that are "likely," meaning that government legal counsel believes that there is a high probability of having to pay damages; and those that are "unlikely or not determinable." The government then determines if it can estimate how much it may have to pay in each "likely" lawsuit (although the completion of the legal process will not always result in the full amount claimed by the plaintiffs being awarded as damages). For accounting purposes on the "likely" lawsuits, if the government can make reasonable estimates of the amount it is likely to pay on a case-by-case basis, then it accrues those amounts as liabilities in its financial statements. For those cases where it cannot make reasonable estimates, or if the estimates are less than the full amount claimed, the government will disclose in the notes to the financial statements the amounts claimed in excess of the liability it has accrued.

Regardless of how much is accrued as a liability for individual cases or disclosed as a contingency, an overriding principle is that the detail given in the financial statements will never be sufficient to allow the plaintiffs to guess (1) whether their lawsuits are ones that the government thinks it will likely have to make a payment on or (2) how much that payment might be.

A new accounting standard effective for the fiscal 2005/06 year-end will require two changes to this disclosure of contingent liabilities:

First, when a contingent liability is assessed as likely and the amount can be reasonably estimated, the amount is accrued. Up to now, if a previous assessment changes to "not determinable" in a subsequent year, the amount accrued would be reversed and removed as a liability. However, the new standard requires that once an amount has been accrued, it cannot be reversed in a subsequent year unless it is reassessed as "unlikely" (or the lawsuit is settled and a payout is made). Simply being reassessed as "not determinable" will no longer be sufficient to reverse the accrual.

Second, the amount disclosed can be made more realistic. Under the old standard, if a plaintiff's lawsuit claimed $1 million in damages and the government believed that a payment of $10,000 was the most likely outcome, the government would accrue the $10,000 and disclose $990,000 as a possible contingency. Under the new standard, if the government believed that $10,000 was the likely outcome, with the added possibility of paying $100,000 but no likelihood of paying $1 million, then it would accrue the $10,000 as before, but disclose only $90,000 in the notes to the financial statements as being a more realistic estimated range of the possible liability.

We point out that in no case, under either the old standard or the new one, would the government disclose in the financial statements, or be required to disclose, anything that would give away to the plaintiff what the government thought it realistically might be expected to pay.

Under this new standard, the information disclosed is more realistic, and thus more useful, than under the previous standard where the amounts disclosed covered a much broader range from the minimum to the maximum.

Measurement uncertainty

The preparation of most financial statements involves the use of estimates, and this in turn creates "measurement uncertainty," a phrase used in the accounting profession to describe the inherent imprecision in any estimating process.

Over a number of years, the government has been disclosing the existence and nature of the measurement uncertainty involved in preparing its Summary Financial Statements. For example, in note 2 to the March 31, 2005, financial statements, it describes the existence of measurement uncertainty in accruals for: employment benefits; pension obligations and post-retirement benefits; health and social transfer payments from the federal government, personal income tax; recognition of bid revenue; and amounts receivable at BC Hydro. This note also describes the nature of the measurement uncertainty, outlining the reasons for uncertainty in the estimation of these figures.

Until the end of the 2005/06 fiscal year, disclosure of measurement uncertainty was not a requirement for governments—it was only a requirement for private sector organizations. To its credit, however, the Province of British Columbia disclosed significant areas of measurement uncertainty to provide a more complete disclosure and understanding for financial statement readers.

Now that the new disclosure standard for measurement uncertainty applies to governments, the Province will need to assess whether it has completely met the standard and disclosed all significant areas where measurement uncertainty exists. A new twist in the standard is that the government must also disclose the extent of the uncertainty, which would most likely take the form of a dollar range by which the amount might change. This would be a new disclosure that the government has not previously provided. If disclosure could have a significant adverse effect (such as might be the case if negotiations were involved in determining the final amount), the government can choose not to disclose the amount as long as it explains why. It is possible that some of the amounts involved could change materially in the coming year.

As with contractual obligations, this new standard requires that information to be collected from all government organizations across the provincial public sector, so that the government can determine what it should disclose in its financial statements. Preparations started in the fall of 2005.

Accounting and reporting issues for new entities created by government

Each year, government, through legislation, creates new organizations. In some cases, the legislation provides government with clear authority to carry out its policies and programs through these organizations. In some cases, the legislation establishes a governance framework that provides the organization itself with the authority required to determine its own strategic policies and programs independent of government. In other cases, the legislation creates new organizations with complex governance structures and relationships to government.

When a new organization is created, officials of government and our Office discuss the appropriate accounting. The main issue is whether the financial results of such organizations should be included (consolidated) within the government's summary financial plans and summary financial statements. When they are consolidated, Ministers of Government are accountable for the performance of these organizations to the Legislative Assembly.

When most new organizations are created, we agree quickly with officials of government on the most appropriate accounting. For example, such agreement took place when the BC Safety Authority and the Land Title and Survey Authority were created. We agreed the appropriate accounting for these Authorities is to report their financial results separately from government. Accordingly, their results are not consolidated within the government's financial plans or its summary financial statements.

In a few circumstances, much analysis and discussion takes place before we reach agreement on the most appropriate accounting. For example, when the new BC Ferry Services Inc. was created, determining the most appropriate accounting treatment took several months of analysis and discussion. Finally, we agreed the most appropriate accounting for this organization was to report its financial results separately from government. Our Office also indicated we would monitor and assess whether such an accounting continues to be appropriate. We are doing so because the legislation creating this organization put in place a complex ownership and governance structure and because it has a significant ongoing relationship with government through a service agreement negotiated annually.

In a few circumstances, after much analysis and discussion the government and my Office do not agree on the most appropriate accounting for a new organization. For example, we disagree with the method used by the government to account for the BC Forest Revitalization Trust Account. We think the financial results of this Account should be consolidated within the government's summary financial statements because the Account is not able to make key strategic and operating decisions independent of government.

Currently, officials of government and the Office are discussing the most appropriate accounting for three new organizations. These organizations are the Northern Development Initiative

Trust, the North Island-Coast Development Initiative Trust, and the Southern Interior Development Trust. So far in this fiscal year, the government indicates it plans to transfer about $150 million to these organizations. Although each of these organizations are called a 'Trust', they are not trusts in a legal or accounting sense because they do not have the responsibilities of a trustee to a beneficiary.

Once again, the main accounting issue is whether the finances of these organizations should be fully consolidated within the government's financial plans and summary financial statements. Officials of government are advancing the view that the financial results of these organizations should not be consolidated.

At the date of this report, our Office is not yet ready to conclude whether these organizations have or have not the required authority to make their key strategic and operating decisions independent of government. If we conclude they do have such authority, we would then agree with the view of government.

The legislation providing the government with the authority to create these three organizations includes a particularly complicated operating and governance framework.

Our Office is questioning the view taken by government because the operating and governance framework established in legislation for these organizations appears to restrict significantly the authority of these organizations to make key strategic and operating decisions.

Currently, we are asking officials of government to consider whether the following factors indicate the most appropriate accounting is to consolidate the financial results of these organizations with its summary financial plans and financial statements. These factors are that these organizations:

- Receive funding from government only;
- Can spend money only on project or program areas that are specified in legislation and that are similar to what is done through other programs of government;
- Can spend money only on projects proposed by regional advisory committees, which include Members of the Legislative Assembly; and

- A significant number of appointments to the governing boards of these organizations are made by government directly or by the regional advisory committees.

In our discussions with officials of government, we have asked them to consider two other issues. If the financial results of these organizations are not consolidated within the government's summary financial plans and financial statements:

- The costs of regional development programs recorded in the government's summary financial plans and financial statements would be inaccurate as costs would be recorded in the period money is transferred to these organizations rather than when these organizations actually spend the money; and
- There does not appear to be any mechanism for members of the public or their elected representatives to effectively challenge the planned and actual performance of these organizations in a public way.

At the date of this report, our discussions are not yet complete.

Improvements We Recommend

A full and transparent reporting of government's financial performance is not confined just to the structured framework of the government financial statements. Other publications, such as quarterly and annual performance reports, also afford government opportunities to publicly explain its financial performance against plans. These should include clear explanations of all significant measures, trends, transactions, and expected and unplanned events. Regularly publishing this information, prepared in a robust way and with an auditor's assurance, raises public trust and confidence in government.

We are pleased that most of the recommendations we have made to the government to improve its financial reporting practices in the last two years have been implemented. Those that have not, we re-iterate here, along with several new recommendations.

Unaudited supplementary financial information should be published separately from the Public Accounts

The *Public Accounts* published by the government currently contain information that is both audited and unaudited.

The *Financial Statement Discussion and Analysis* section is unaudited. This is a discussion of the Summary Financial Statements and additional information on the financial performance of the government.

The *Summary Financial Statements* are audited. They disclose the results of operations for the fiscal year ending March 31, and the financial position of the government as at the year-end.

The *Supplementary Financial Information and Consolidated Revenue Fund Extracts* are unaudited. These provide more detail about the results of operations for the year of Crown corporations and other government organizations, as well as more detail about the Consolidated Revenue Fund.

The *Provincial Debt Summary* presents schedules and state-ments that provide further detail about the provincial debt. Some of this information is audited and some is not.

In our view, the *Public Accounts* should only contain the *Summary Financial Statements* and other information that either helps readers to understand the Province's finances or is reconciled (i.e., traceable) to the Summary Financial Statements. We believe that the Supplementary Financial Information and Consolidated Revenue Fund Extracts do not fit into these categories. This information is unaudited and is not reconciled to the *Summary Financial Statements*. We suggest that it is preferable to publish this information separately from the *Public Accounts*, perhaps on the government website, which already has other supplementary financial information.

We recommend that the Supplementary Financial Information and Consolidated Revenue Fund Extracts be published separately from the Public Accounts.

The policy on capitalized interest during construction should be reviewed

A generally accepted accounting practice when an organization constructs a building or large capital asset is to include in its financial statements the interest paid on money borrowed to finance construction. The interest is included as both an expense and as part of the cost of the assets being created. Capitalizing this interest ceases when the asset is finished and put into use. From then on, any financing costs are expensed.

The Province's accounting policy is to capitalize interest charges during construction until the project is 97% complete. On capital projects over $5 million, such as an information technology initiative, interest during construction may be capitalized if it exceeds $250,000. For highway construction/rehabilitation projects, interest during construction may be capitalized if the project is over $100,000.

Usually there is a direct link between the interest capitalized and the asset constructed: the interest is being paid on money borrowed specifically to finance the construction. However, in 2005 that link was tenuous for one particular asset.

In 2004/05, the Province capitalized interest costs of almost $3 million as part of the cost of constructing the Vancouver Convention Centre Expansion. Yet, although the Province is funding the construction, with the participation of the federal government and Tourism Vancouver, it has not specifically borrowed for the project. The interest it has notionally capitalized is the amount it has calculated as the amount spent on construction, times the average interest rate for the year on the Province's borrowing. The rationale provided was that part of the general borrowing the Province made during the year was to fund the construction.

Although we support the concept of capitalization of interest during construction, we have two specific concerns about the lack of consistency in how the policy is applied across government and how the calculation is made:

- Interest has been attributed to the funding given for the Vancouver Convention Centre Expansion, but it has not been attributed to the funding given for construction projects in the education and health sectors.
- The rationale for calculating interest is that general borrowing financed the construction in process. It is not clear how this rationale stands up in a year when the Province records a surplus and reduces its total debt.

We believe that rather than assign interest during construction in an ad hoc way, the government should review its accounting policy on capitalization of interest to address these system-wide concerns.

We recommend that government review its policy on capitalization of interest during construction so that the policy is applied more logically—as to the computation of the amount—and consistently across the government reporting entity.

Disclosure of interest expense could be improved

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

The cost of borrowing could be disclosed in one of two ways: as single total cost to government, or separately allocated as part of the total spent on health, education, transportation and so on. The government's current disclosure is neither completely one way or 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 here, with the further recommendation this year that the government disclose all the interest as a single overall expense.

Government has a number of decisions to make when preparing its budget, including what programs to deliver and what those programs will cost. As well, government must estimate the revenue it will receive from its existing sources—given the forecasted changes in the economy—and decide how much investment in capital assets will be made. Taken together, these variables determine the expected surplus or deficit, and resulting financing requirements. Since there is now legislation that prohibits government from budgeting for a deficit, several iterations of estimating these variables of revenue, expenses and capital investment may be necessary until there is an acceptable financial plan.

In the end, the interest that government pays is the result of the decisions it makes about how much to spend and invest, how much to expect can be covered by revenue, and how much to pay down on the pre-existing debt. As a result, we believe that all the interest should be shown as a separate expense and not grouped with other functions.

We recommend that government show all its interest expense as a separate item on the statement of operations.

Disclosure of spending on the 2010 Winter Olympics

The government has committed $600 million for the winter Olympic Games to be held in British Columbia in 2010. This commitment and the amount spent against it to date ($140 million) have been disclosed in the notes to the Summary Financial Statements. The government has also agreed to upgrade the Sea-to-Sky Highway, and this commitment and the amount spent to date ($600 million and $63 million, in 2002 dollars, respectively) are also disclosed in the notes.[2] Although sufficient for financial statement disclosure, we believe that, given the significance of this undertaking over the next five years, the government should disclose its total spending on the Games.

The government has established a British Columbia 2010 Olympic and Paralympic Winter Games Secretariat, whose primary role is to provide strategic leadership, coordination and oversight to ensure the Province meets its financial infrastructure and service commitments. The Secretariat also has a key role in ensuring that the sustainable economic, cultural, sport and social opportunities associated with hosting an Olympic event are identified early and realized before, during and after the Games, and that those opportunities evolve into enduring legacies for communities and businesses around the province. Since its creation in 2002, the salaries and operating costs of the Secretariat have amounted to just over $7 million to date. These costs will likely become more significant over time.

Although the costs of the Secretariat are not part of the $600 million commitment the government made, we believe that the government should include them as part of the costs of the Olympic Games in the notes to the Summary Financial Statements.

We recommend that the government include the costs of the British Columbia 2010 Olympic and Paralympic Winter Games Secretariat as part of its contribution towards the 2010 Olympic Games.

[2] In January 2003, our Office issued a report titled Review of Estimates Related to Vancouver's Bid to Stage the 2010 Olympic Winter Games and Paralympic Winter Games. In that report, we examined the processes used to develop the estimates, the assumptions underlying those estimates, and the plans for managing the risks associated with the planning and staging of the Games. As part of our strategy to keep the public and legislators informed on the costs and risks of this initiative, we will be issuing a second status report in the spring of 2006.

Other Significant Matters

Reviewing the Summary Financial Statements audit plan and results with legislators and Treasury Board

One of the most important financial statement audit processes is the preparation and implementation of an audit plan that demonstrates that sufficient and appropriate audit evidence will be obtained to support the provision of an assurance opinion for a financial statement engagement, in accordance with professional standards.

In addition to being used to satisfy internal quality assurance standards, these plans are also an important communication vehicle for auditors to the governing boards of organizations that will rely on these assurance opinions. Due diligence of the auditing profession requires that these plans be discussed with governing boards to ensure board members understand all relevant aspects of the assurance work to be undertaken. The standards also require that discussions of all significant issues that arose in the audit be held at the end of the audit, and before an assurance opinion is released.

In the private and provincial public sectors, it is commonplace for all auditors to carry out this due diligence, usually with subcommittees (often called audit committees), and report to the governing boards. In some ways, in the provincial public sector, the government is like the parent corporation, and all of the organizations making up the government reporting entity are like the subsidiaries, each with its own audited financial statements and audit committee structures. What is lacking in the public sector, however, is the equivalent of an audit committee structure and discussion of the auditor's audit plan for the parent company—the government.

In British Columbia , as in the other provinces, formal structures exist to ensure, in part, independent public scrutiny of the performance of management. The most common structure is the Select Standing Committee on Public Accounts (PAC). Although this committee reviews a number of aspects related to the Summary Financial Statements, it does not review the audit plan or detailed audit issues in real-time before the Auditor General's opinion is issued with the Summary Financial Statements. Because of the timing and nature of committee meetings, it would likely be impractical to engage legislators on many of the detailed issues, although we believe it would be beneficial if they were aware of significant aspects of the summary financial statement audit plan.

Another common structure in the public sector is the Treasury Board. Although British Columbia 's Treasury Board reviews and approves the government's accounting policies, and the Chair approves the Summary Financial Statements for release, there is no active discussion between the Auditor General and the board on the audit plan or on the important issues related to the Summary Financial Statements—discussions that are standard good practice in the private sector and throughout the provincial public sector in audit committees. We believe it would be good practice for Treasury Board to be briefed on the contents of the plan and expected significant audit issues, and for discussions to take place on the resolution of these issues at the end of the audit cycle.

We have briefed the Secretary to Treasury Board and senior government officials on our audit plan and results of the 2004/05 audit, and intend to do again on the 2005/06 plan. We believe that the Summary Financial Statement audit process would be further strengthened if we also briefed Treasury Board, and the PAC. We are currently considering how we would carry out these briefings.

Recognizing new multi-year federal funding

In 2003/04, the Province received additional funding from the federal government as a result of commitments made in the First Ministers' Accord on Health Care in 2003. The federal government had originally intended to transfer these funds in annual instalments over three years. Later, it instead transferred the full three years' funding during 2003/04. Additional funding was also received in 2004/05.

In the last two fiscal years, the Province has received $1.6 billion from the federal government under the Health Accord. Almost $0.5 billion has been spent, and at March 31, 2005, just under $1.2 billion was deferred in the Summary Financial Statements.

Also in 2004/05, the Province received almost $20 million of federal funding for Early Learning Child Care Programs. All of this was spent and recognized as revenue in that year.

Further Health Accord funding will be received in 2005/06, as well increased amounts for Early Learning Child Care. Also new for 2005/06 will be additional funds to start mitigating damage from the mountain pine beetle infestation.

Current accounting policy issued by PSAB requires all of this funding to be recorded as revenue in the year it is received. However, since the policy is in the process of being revised, we agreed with the government's position that it is appropriate to defer the revenue and record it as the amounts are spent, in accordance with the spending plans developed for these programs.

The funding is provided for a specified purpose—it is not general revenue—and the government's service plan has set performance goals, indicators and measurement criteria for the results it intends to achieve using these funds over several years. The government has also committed to developing methods of monitoring the costs of achieving these goals, and to ensuring that the information it gathers is sufficient and rigorous enough to withstand the test of an audit.

In 2004/05, we discussed with the government the amounts recognized as revenue, especially in respect of diagnostic medical equipment funding. Because the government recognized as revenue the amounts given to health authorities rather than the amounts the health authorities recorded as amortization for the equipment purchased, we felt the revenue was overstated. (The revenue recognized did not equal the expense recorded.) Since the amount was not significant, we have accepted what was recorded as revenue in the Summary Financial Statements.

However, although the amounts recorded as revenue for the diagnostic medical equipment have been relatively small—$13 million in 2003/04 and $17 million in 2004/05—there was $236 million deferred at March 31, 2005. We are concerned that the difference between our revenue estimate and that of the government could become significant before the program is finished.

A new accounting policy is being developed by PSAB. If finalized in its current draft form, it might require the government in future to recognize as revenue in the year all amounts received in that year unless there was a requirement that the funds be returned to the federal government if they were not spent for the purpose given.

Published unaudited financial information about the CRF does not completely follow GAAP

The financial information for the Consolidated Revenue Fund (CRF), which is published as "unaudited" in the public accounts, is prepared using some policies that are not in accordance with GAAP.

Examples include the recording of some revenues as deductions from expenses ("recoveries"), the recording of provisions for revenues that may not be collected, the reversal of prior year expenditure accruals, and the recording of advances to government organizations for the purchase of assets as prepaid capital advances. The reasons these policies are not in accordance with GAAP generally lies with the Financial Administration Act and the emphasis on legislative pre-approval and control of ministry expenditures. Provisions for revenues that may not be collectable, for instance, are recorded as a reduction in revenue instead of, as GAAP requires, an expense. This allows a ministry to make an appropriate provision without needing to be concerned about whether there is room in its voted budget to record the expense of the provision.

As a normal part of the CRF consolidation process, adjustments are made so that these items are recorded in the Summary Financial Statements in a manner that is in accordance with GAAP. These adjustments do not affect the bottom line surplus or deficit—they increase or decrease revenues and expenses equally. The total of these adjustments exceeds $2 billion.

BC Hydro consolidation adjustment

Each year, at our urging, the results of British Columbia Hydro and Power Authority (BC Hydro) that are included in the Summary Financial Statements are adjusted to remove the impact of rate-regulated accounting entries.

Consolidation of Government Business Enterprises

BC Hydro is consolidated following the rules for government business enterprises (GBEs).

Since BC Hydro is classified as a GBE, it is consolidated into the Summary Financial Statements on a modified equity basis. Under this method, the accounting is adjusted only to the extent that BC Hydro's accounting principles are not changed to conform to those of the government. In order to consolidate, the government initially records its original investment at cost and adjusts it annually to include the net earnings/loss and other net equity changes of BC Hydro in the Summary Financial Statements.

The British Columbia Utilities Commission (BCUC) is the rate regulator of BC Hydro. Rulings, including accounting policies that direct the financial accounting of BC Hydro, are established by BCUC from time to time. The result of a few of these accounting rulings is the establishment of deferral accounts that have the effect of "smoothing" the financial results of BC Hydro.

The issue to consider is whether the Summary Financial Statements should be adjusted to remove the effects of regulatory accounting when consolidating BC Hydro.

Both BC Hydro and the BCUC are part of the government reporting entity, consolidated into the Summary Financial Statements, and are subject to government direction. The BCUC's members are appointed by the Lieutenant Governor in Council and therefore are not independent of government. The deferral accounts at BC Hydro are set up as if they were subject to external restrictions and regulations. However, in terms of the government reporting entity as a whole, these rulings are effectively only internal restrictions, with no potential liability to outside parties. GAAP requires external restrictions to be in place in order to defer this revenue.

Current GAAP does not address the independence of rate regulators, which suggests that the standard does not require a regulator to be independent in order for an entity to follow rate-regulated accounting. However, our concern is that without this actual independence, government could pre-determine and possibly manipulate its own financial results.

We believe the Summary Financial Statements should always be adjusted to remove the effects of rate-regulated accounting, since the regulator is not independent of government. As a related party to the government, the BCUC regulator should not be able to pre-determine government's financial accounting results by providing special directives to BC Hydro. We therefore asked government to make adjustments to remove the effects of the deferral accounts created by the regulator, and government agreed to do this.

We distinguish these adjustments from those that would be needed if BC Hydro's financial results were to conform to the accounting policies of government. Under the modified equity method of accounting, the accounting policies of a GBE (in this case BC Hydro) are not adjusted to conform to those of government.

The future

Because PSAB is currently examining this matter of accounting for rate-regulated operations, it is unclear how the final results of that review will affect the current accounting of rate-regulated entities.

The British Columbia Transmission Corporation is currently fully consolidated into BC Hydro's accounts, but will be treated as a separate entity effective in the 2005/06 fiscal year. The British Columbia Transmission Corporation also has approval from BCUC to use several deferral accounts. This will create the same issue of consolidation into the Summary Financial Statements as currently exists for BC Hydro.

The BCUC also regulates the Insurance Corporation of British Columbia, another government business enterprise. As at March 31, 2005, the BCUC had not made any rulings that would affect the accounting policies of ICBC, and so no adjustments have been needed. This could change, however, depending on future rulings of the BCUC.

Exemptions from reporting requirements of the BTAA

On the recommendation of the Minister of Finance, after consultation with the Auditor General, the Lieutenant Governor in Council may, by regulation, exempt an organization from the requirement in the Budget Transparency and Accountability Act to prepare and make public one or more of the following: service plan, major capital plan, and annual service plan report.

The government has developed several criteria for determining whether an organization should be excluded or not. An organization would be recommended for exclusion if it:

a) has ceased operations, is inactive, or will cease operations during the fiscal year;
b) is reported in the service plan and annual report of another organization;
c) is below a specified materiality threshold (annual provincial funding, and/or revenues and expenditures are less than $1 million; there are no significant public policy issues; and the organization provides other public reporting of its financial and operational activities); or
d) is undergoing significant transition through a restructuring initiative and its future form and direction are not known (organizations exempted under this criteria are reviewed annually to determine whether the exemption should be continued).

We have supported every recommendation the Minister has made for exemption except one. In February 2004, BC Railway Company was exempted from filing an annual service plan. The government gave as its reason that the organization was undergoing significant transition and it would be difficult to formulate a meaningful three-year plan.

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

When the government recommended exempting BC Railway, it stated that it would review the situation in 2005, in keeping with the criteria (specifically (d) above). In February 2005, the government concluded that since the company's strategic partnering initiative with CN Rail had been completed, it was appropriate that

BC Railway resume providing the annual service plan, and the exemption was rescinded.

As of March 2005, there are 25 organizations exempted from the requirement to prepare and make public one or more of the following: a service plan, major capital plan, and annual service plan report. These organizations are listed in Exhibit 2, although some of them have since ceased to exist or are no longer controlled by government.

Exhibit 2

Exempted organizations as of March 2005

552513 British Columbia Ltd.

577315 British Columbia Ltd.

580440 B.C. Ltd.

BC Health Care Risk Management Society

BC Immigrant Investment Fund Limited

BC Transportation Financing Authority

BCIF Management Ltd.

British Columbia Enterprise Corporation

British Columbia Ferry Corporation

B.C. Community Financial Services Corporation

B.C. Festival of the Arts Society

British Columbia Health Research Foundation

Canadian Blood Services

Creston Valley Wildlife Management Authority

Discovery Enterprises Inc.

Forensic Psychiatric Services Commission

Industry Training and Apprenticeship Commission

Okanagan Valley Tree Fruit Authority

Organized Crime Agency of British Columbia

Pacific National Exhibition

Private Post-secondary Education Commission

Provincial Rental Housing Corporation

Rapid Transit Project 2000 Ltd.

Vancouver Trade and Convention Centre Authority

Victoria Line Ltd.

Source: BC Regulation 27/2002 as amended up to BC Regulation 139/05.

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 ongoing commitment we have made in leading the development of best practices in public sector reporting. We have achieved a significant milestone by reporting our financial plans and results in accordance with generally accepted accounting principles (GAAP), and received for the first time since 1993 an unqualified audit opinion. Even so, we continue to strive towards improved reporting. We appreciate the review and thank the Auditor General for his acknowledgement of the government's achievements in "leading the way towards having the best Summary Financial Statements in Canada".

Having achieved our goal of full implementation of GAAP with the release of the 2004/05 Public Accounts, we are following the recommendations of the Public Sector Accounting Board (PSAB) without exception. Our goal now is to work with the accounting and auditing communities in jurisdictions across Canada to promote common interpretation and application of those principles to improve comparability and relevance on the part of the users of public sector financial reports. While the advice and opinion of the Auditor General is valuable in determining what best practices should be, we recognize the importance of all perspectives, most importantly the perspective of the users of financial statements. Reports like this one provide an opportunity to present a balanced perspective on the issues faced in public sector reporting and should provoke thought about how to best inform the users of financial reports.

The Auditor General has identified some areas where we have been working towards determining the best application. We take a measured approach in assessing the options and implications of each issue that emerges in the field of public sector reporting. While we often agree with the Auditor General's position, we are also conscious of the risk of getting too far ahead of standard setters and other jurisdictions. The application of GAAP will always require considerable professional judgment. We appreciate the Auditor General's thoughts on how we can continue to improve reporting in the Summary Financial Statements and look forward to working with his office over the next year.

- *The Auditor General recommends full consolidation of government business enterprises, but acknowledges that consolidating these entities under the modified equity method is required by public sector GAAP. We believe the modified equity approach provides the greatest benefit to the users of the financial statements by accurately reflecting their* *relationship to government. This treatment is also consistent with other jurisdictions and taking a different approach would impede comparability between provinces. Additional detail is readily available through links to the organization's financial statements found on our website.*

- *The Auditor General also recommends enhanced reporting on a sectoral basis, but acknowledges that the disclosure of segments in British Columbia 's Summary Financial Statements already exceeds some of the recommendations in PSAB's statement of recommended practice. Therefore, we will continue our current sectoral reporting practices and will monitor developing best practices in public sector reporting.*
- *The Auditor General notes that supplemental information on government's Consolidated Revenue Fund is not fully consistent with GAAP, and that ministries do not prepare individual financial statements. We continue to evaluate the benefits of making changes in these areas in the context of government's financial management framework, which includes budgeting and performance management considerations as well as those of reporting.*

Changes in accounting recommendations occur frequently as public sector accounting guidance evolves to meet the needs of senior governments. Our commitment to GAAP requires diligence in identifying the implications of changes and the timely development of policies and procedures to implement changes across an organization as large as the government reporting entity (GRE). The Auditor General acknowledges that he agrees with government's proposed treatment of upcoming changes in accounting policy.

An issue that has been the subject of much debate is the treatment of new entities created by government. The Northern Development Initiative Trust, the North Island-Coast Development Initiative Trust, the Southern Interior Development Initiative Trust and other similar entities which may be developed are new models of service delivery where local representatives and stakeholders are engaged and empowered to leverage local decision making to best serve the needs of their respective regions. We have engaged the Auditor General in contributing to the development of these corporations to ensure accounting best reflects the autonomy and accountability of these entities and their local area constituents.

The constituting legislation makes it very clear that these corporations are not controlled by government, and that government should not *consolidate their assets in its financial statements. To do so would represent an entitlement to the assets that does not exist and may compromise the autonomy and accountability of regional representatives. The contemplation of this model of service delivery is the result of a deliberate direction of government to delegate authority where programs are appropriately delivered outside government. This area of debate is challenging because many of the principles involved are not contemplated by existing standards.*

The Auditor General has recommended specific improvements:

- **That Supplemental Financial Information and Consolidated Revenue Fund Extracts be published separately from the Public Accounts.**

  We believe that the supplemental information published as a separate part of the Public Accounts provides important information to the users of the financial statements and enhances their ability to interpret the document. This information is clearly identified as unaudited.

- **That government review its policy on capitalization of interest during construction.**

  We believe that government's policy on the capitalization of interest during construction is rational and consistent with GAAP. We recognize that consistency of application is a challenge in a large and complex organization and continue to review practical opportunities to improve consistency across the GRE.

- **That government show all its interest expense as a separate item on the statement of operations.**

  Government has made this change in Budget 2006 and will report on this basis in the 2005/06 Public Accounts.

- **That government include the costs of the British Columbia 2010 Olympic and Paralympic Winter Games Secretariat as part of its contribution towards the 2010 Olympic Games.**

  We believe that the role of British Columbia 2010 Olympic and Paralympic Winter Games Secretariat as an oversight agency for the province, as a key funder of the games, is appropriately disclosed as separate from the direct cost of the 2010 Olympic Games. The report agrees that our treatment of these costs is sufficient for financial statement disclosure.

The report also identifies other significant matters for comment.

Response from the Ministry of Finance

- *The Auditor General believes the audit process would be strengthened by briefing Treasury Board and the Select Standing Committee on Public Accounts (PAC) on the contents of the audit plan and expected audit issues. We believe that the Auditor General's regular attendance at meetings of PAC provides the best forum for review of the audit plan in a transparent and open environment.*
- *The province is involved in several multi year federal funding initiatives and has reviewed the appropriate treatment with the Office of the Auditor General in each case. We have agreed in all instances and continue to monitor evolving standards.*
- *While the unaudited financial information about the CRF includes minor differences from GAAP these policy variances are adjusted on consolidation to the Summary Financial Statements. The CRF is an important management tool that allows government to report on how resources are managed. We continue to examine options that serve both the requirements of GAAP reporting, and budgetary spending authority under our regime of financial legislation. The minor differences from GAAP at the CRF level are fully disclosed in the supplementary information.*
- *We have agreed with the Auditor General on the treatment of rate regulated accounting adjustments for BC Hydro and have adjusted their results accordingly on consolidation to the Summary Financial Statements. We are monitoring the development of public sector accounting standards to deal with rate regulated authorities in conjunction with the Office of the Auditor General and will respond accordingly when a standard is reached.*
- *BC Rail has resumed reporting in accordance with the Budget Transparency and Accountability Act and will no longer be exempted from its requirements.*

We believe that the 2004/05 Public Accounts was an important milestone for public sector reporting in British Columbia . We look forward to continuing to improve as we maintain our leadership role in developing best practices in Canada. We thank the Office of the Auditor General for its continuing support in this objective.

Ministry of Finance
March 2006

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.

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

Ministries and Government Organizations Included in the 2004/05 Summary Financial Statements, and Their Auditors

	Audited by: Auditor General	Audited by: Private Sector Auditors
Government Ministries (all) (Consolidated Revenue Fund)	✓	
Health Sector		
Bella Coola General Hospital		✓
Canadian Blood Services		✓
Forensic Psychiatric Services Commission		✓
Fraser Health Authority	✓	
Interior Health Authority		✓
Louis Brier Home and Hospital		✓
Menno Hospital		✓
Mount St. Mary Hospital		✓
Nisga'a Valley Health Board		✓
Northern Health Authority		✓
Providence Health Care		✓
Provincial Health Services Authority		✓
R.W. Large Memorial Hospital		✓
St. Joseph's General Hospital		✓
St. Michael's Centre		✓
Vancouver Coastal Health Authority		✓
Vancouver Island Health Authority		✓
Wrinch Memorial Hospital		✓
Education Sector		
British Columbia Institute of Technology		✓
British Columbia Open University		✓
Camosun College		✓
Capilano College		✓
College of New Caledonia		✓
College of the Rockies		✓
Douglas College		✓
Emily Carr Institute of Art and Design		✓
Industry Training Authority	✓	
Institute of Indigenous Government		✓
Justice Institute of British Columbia		✓
Kwantlen University College		✓

Appendix B: Ministries and Government Organizations Included in the 2004/05 Summary Financial Statements, and Their Auditors

	Audited by: Auditor General	Audited by: Private Sector Auditors
Langara College		✓
Leading Edge Endowment Fund Society		✓
Malaspina University–College		✓
Nicola Valley Institute of Technology		✓
North Island College		✓
Northern Lights College		✓
Northwest Community College		✓
Okanagan University College		✓
Open Learning Agency		✓
Private Career Training Institutions Agency		✓
Royal Roads University		✓
School Districts (all)[1]	✓	✓
Selkirk College		✓
Simon Fraser University		✓
The University College of the Cariboo		✓
The University of British Columbia	✓	
University College of the Fraser Valley		✓
University of Northern British Columbia		✓
University of Victoria		✓
Vancouver Community College		✓
Natural Resources and Economic Development Sector		
552513 BC Ltd.	✓	
BCIF Management Ltd.[2]		✓
BC Immigrant Investment Fund Ltd.	✓	
B.C. Pavilion Corporation	✓	
British Columbia Enterprise Corporation	✓	
British Columbia Hydro and Power Authority[2]		✓
Columbia Basin Trust		✓
Columbia Power Corporation[2]	✓	
Creston Valley Wildlife Management Authority Trust Fund		✓
Discovery Enterprises Inc.		✓
Forestry Innovation Investment Ltd.	✓	
Innovation and Science Council of British Columbia		✓
Land and Water British Columbia Inc.	✓	
Oil and Gas Commission	✓	
Partnerships British Columbia Inc.	✓	
Tourism British Columbia	✓	
Vancouver Convention Centre Expansion Project	✓	
Vancouver Trade and Convention Centre Authority	✓	

Appendix B: Ministries and Government Organizations Included in the 2004/05 Summary Financial Statements, and Their Auditors

	Audited by: Auditor General	Audited by: Private Sector Auditors
Transportation Sector		
BC Transportation Financing Authority	✓	
British Columbia Railway Company[2]		✓
British Columbia Transit		✓
Rapid Transit Project 2000 Ltd.		✓
Protection of Persons and Property		
British Columbia Securities Commission	✓	
Insurance Corporation of British Columbia [2]		✓
Organized Crime Agency of British Columbia Society		✓
Social Services Sector		
B.C. Community Financial Services Corporation[3]		
Interim Authority for Community Living British Columbia	✓	
Legal Services Society		✓
Other Sector		
BC Games Society		✓
British Columbia Arts Council[4]		
British Columbia Assessment Authority	✓	
British Columbia Buildings Corporation		✓
British Columbia Housing Management Commission		✓
First Peoples' Heritage, Language and Culture Council		✓
Homeowner Protection Office		✓
Provincial Capital Commission[2]		✓
Provincial Rental Housing Corporation		✓
The Royal British Columbia Museum Corporation		✓
General Government Sector		
British Columbia Liquor Distribution Branch[2]	✓	
British Columbia Lottery Corporation[2]		✓

1 The Auditor General audited a consolidation of school districts prepared by the Ministry of Education for the year ending March 31. For the audit of school districts at their regular year end of June 30, the Auditor General audited one school district and private sector auditors audited the rest.

2 These organizations are self-supported Crown corporations and agencies (government enterprises) and are recorded on a modified equity basis in the sectors in which they appear.

3 This organization was wound up during the year and was not audited.

4 This organization is not audited.

Appendix C

Summary Financial Statements 2004/05

Summary Financial Statements

Province of British Columbia

For the Fiscal Year Ended
March 31, 2005

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, 2005, and the statements of operations, change in net liabilities, and change 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.

In my opinion, 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, 2005, 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 as recommended by The Canadian Institute of Chartered Accountants.

Wayne Strelioff

Victoria, British Columbia
May 13, 2005

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 government. The comptroller general prepares these financial statements in accordance with generally accepted accounting principles for senior governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. The fiscal year of the 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, Crown agencies, school districts, universities, colleges, institutes and health authorities 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 that 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:

Carole Taylor.

CAROLE TAYLOR
Chair, Treasury Board

Summary Financial Statements
Statement of Financial Position
as at March 31, 2005

	Note	2005 (In Millions)	2004 (In Millions)
Financial Assets		$	$
Cash and temporary investments	3	3,568	2,690
Accounts receivable	4	2,633	2,838
Inventories for resale	5	78	91
Due from other governments	6	650	400
Due from self–supported Crown corporations and agencies	7	544	164
Equity in self–supported Crown corporations and agencies	8	3,219	3,221
Loans, advances and mortgages receivable	9	770	1,052
Other investments	10	2,001	1,794
Sinking fund investments	11	4,516	4,619
Loans for purchase of assets, recoverable from agencies	12	6,901	7,512
		24,880	24,381
Liabilities			
Accounts payable and accrued liabilities	13	5,537	5,563
Due to other governments	14	891	1,137
Due to Crown corporations, agencies and funds	15	152	123
Deferred revenue	16	5,256	4,087
Employee pension plans (unfunded pension liabilities)	17	3	3
Taxpayer–supported debt	18	32,032	33,432
Self–supported debt	19	7,889	8,555
		51,760	52,900
Net liabilities	21	(26,880)	(28,519)
Non–financial Assets			
Tangible capital assets	22	23,117	22,255
Prepaid program costs	23	462	382
Other assets	24	151	157
		23,730	22,794
Accumulated surplus (deficit)	25	**(3,150)**	**(5,725)**
Contingencies and commitments	26		
Significant events	33		

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

Prepared in accordance with Canadian generally accepted accounting principles.

ARN VAN IERSEL
Comptroller General

Summary Financial Statements
Statement of Operations
for the Fiscal Year Ended March 31, 2005

	In Millions		
	2005		2004
	Estimates (Note 30)	Actual	Actual
Revenue	$	$	$
Taxation (Note 27)	14,185	14,917	13,830
Contributions from the federal government	4,346	5,231	3,619
Fees and licences	3,578	3,621	3,531
Natural resources	3,432	3,973	3,309
Net earnings of self–supported Crown corporations and agencies (Note 8)	2,072	2,412	1,884
Miscellaneous	1,990	2,246	1,937
Investment earnings	889	833	950
	30,492	33,233	29,060
Expense			
Health (Note 28)	11,787	11,633	11,365
Education (Note 28)	8,788	9,022	8,764
Social services	2,678	2,665	2,819
Interest (Note 28)	1,661	1,472	1,572
Natural resources and economic development	1,321	1,670	1,486
Transportation (Note 28)	1,265	1,448	1,278
Protection of persons and property	1,166	1,215	1,365
Other	1,148	1,028	1,074
General government	478	505	489
	30,292	30,658	30,212
Surplus (deficit) for the year before unusual items	200	2,575	(1,152)
Forecast allowance	(100)		
Restructuring exit expense (Note 35)			(123)
Surplus (deficit) for the year	**100**	**2,575**	**(1,275)**
Accumulated surplus (deficit)—beginning of year as restated (Note 25)		(5,725)	(4,450)
Accumulated surplus (deficit)—end of year		**(3,150)**	**(5,725)**

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, 2005

	In Millions		
	2005		2004
	Estimates [1] $	Actual $	Actual $
Surplus (deficit) for the year	100	2,575	(1,275)
Effect of change in tangible capital assets			
Acquisition of tangible capital assets	(1,943)	(2,322)	(2,045)
Amortization of tangible capital assets	1,294	1,324	1,274
Impact of tangible capital assets for sale			593
Disposals and valuation adjustments	(624)	136	166
	(1,273)	(862)	(12)
Effect of change in:			
Prepaid program costs	(3)	(80)	(166)
Other assets	1	6	(5)
	(2)	(74)	(171)
(Increase) decrease in net liabilities	(1,175)	1,639	(1,458)
Net liabilities—beginning of year	(27,753)	(28,519)	(27,061)
Net liabilities—end of year	**(28,928)**	**(26,880)**	**(28,519)**

[1]Certain budget numbers have been restated to be consistent with the reporting of actuals on the gross basis.

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

Summary Financial Statements
Statement of Change in Cash and Temporary Investments
for the Fiscal Year Ended March 31, 2005

	In Millions			
	2005			2004
	Receipts	Disbursements	Net	Net
Operating Transactions	$	$	$	$
Surplus (deficit) for the year			2,575	(1,275)
Non–cash items included in surplus (deficit):				
Amortization of tangible capital assets			1,324	1,274
Amortization of public debt deferred revenues and deferred charges			1	27
Concessionary loan adjustments (decreases)			(1)	(7)
Impact of tangible capital assets held for sale				(51)
Valuation adjustments			223	241
Net earnings of self–supported Crown corporations and agencies			(2,412)	(1,884)
Accounts receivable decreases (increases)			34	(414)
Due from other governments decreases (increases)			(250)	(196)
Due from self–supported Crown corporations and agencies (increases) decreases			(380)	238
Accounts payable increases (decreases)			(26)	309
Due to other governments increases (decreases)			(246)	769
Due to Crown corporations, agencies and funds increases			29	23
Unfunded pension liability payments				(1)
Items applicable to future operations increases			1,096	1,150
Contributions of self–supported Crown corporations and agencies			2,263	1,541
Cash derived from (used for) operations			4,230	1,744
Capital Transactions				
Tangible capital assets (acquisitions)	130	2,322	(2,192)	(1,338)
Cash derived from (used for) capital	130	2,322	(2,192)	(1,338)
Investment Transactions				
Investment in self–supported Crown corporations and agencies	151		151	(20)
Loans, advances and mortgages receivable (issues)	484	242	242	(480)
Other investments—net decreases (increases)		212	(212)	(299)
Sinking fund investments—net decreases (increases)	303	200	103	455
Cash derived from (used for) investments	938	654	284	(344)
Total cash (requirements)			2,322	62

Summary Financial Statements
Statement of Change in Cash and Temporary Investments
for the Fiscal Year Ended March 31, 2005—Continued

	In Millions			
	2005			2004
	Receipts $	Disbursements $	Net $	Net $
Financing Transactions[1]				
Public debt (decreases) increases	14,319	16,356	(2,037)	417
Derived from (used for) purchase of assets, recoverable from agencies	(3,814)	(4,407)	593	(293)
Cash derived from (used for) financing	10,505	11,949	(1,444)	124
Increase (decrease) in cash and temporary investments			878	186
Balance—beginning of year			2,690	2,504
Balance—end of year			**3,568**	**2,690**

[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, 2005

1. Significant Accounting Policies

(a) BASIS OF ACCOUNTING

The government's Summary Financial Statements are prepared in accordance with generally accepted accounting principles (GAAP) for senior governments as required by the *Budget Transparency and Accountability Act* (BTAA) and as recommended by the independent Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

(b) REPORTING ENTITY

These financial statements include the accounts of organizations that meet the criteria of control (by the province) as established under GAAP. The reporting entity also includes government partnerships.

A list of organizations included in these consolidated financial statements may be found on pages 69 –71.

Trusts administered by government or government organizations are excluded from the reporting entity.

(c) PRINCIPLES OF CONSOLIDATION

Taxpayer–supported Crown corporations', agencies', and the school districts, universities, colleges, institutes and health authorities (SUCH) sector's financial statements are consolidated with the Consolidated Revenue Fund (CRF) using the full consolidation method. The government's interests in government partnerships are recorded on a proportional consolidation basis.

Self–supported Crown corporations, agencies, entities and government business partnerships are consolidated with the CRF on the modified equity basis of consolidation.

The definitions of these consolidation methods can be found on page 115.

Adjustments are made for Crown corporations, agencies and entities whose fiscal year ends are different from the government's fiscal year end of March 31. These consist of the British Columbia Assessment Authority, all school districts, the Insurance Corporation of British Columbia and the British Columbia Railway Company.

(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 corporate 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. Government transfers are deferred if they relate to future exchange type transactions.

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.

Expense

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

Interest expense 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 government's share of the plan amendments related to past service is expensed in the year the plan is amended.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

1. Significant Accounting Policies—Continued

Government transfers include grants, entitlements and transfers under agreements, as defined in the definitions on page 115. 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. Transfers are deferred if the amount represents prepaid operating expenses.

Acquisitions of tangible capital assets 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.

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

Financial Assets

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

Inventories for resale include property that has been purchased, or for which development costs have been incurred, and 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 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.

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 30 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 collectibility 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.

Sinking fund investments are cash and marketable securities held specifically for the purpose of repaying outstanding debt at maturity.

Tangible Capital 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.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

1. Significant Accounting Policies—Continued

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

The value of collections (artifacts, specimens and documents) has been excluded from the statement of financial position.

Liabilities

All liabilities are recorded to the extent they represent claims payable to outside parties as a result of events and transactions prior to year end. This includes 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, re–lending to authorized government bodies and borrowings in advance of future requirements under the Warehouse Borrowing 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 and deferred foreign exchange gains or losses. When it has been determined 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 includes debt and sinking fund balances previously reported as defeased "in substance."

Public debt is reported under two categories:

(i) Taxpayer–supported debt—includes direct debt used for government operating and capital purposes, the debt of those Crown corporations, agencies and SUCH sector entities who require an operating or debt servicing subsidy from the provincial government and the debt of an entity that is fully consolidated within these financial statements.

(ii) Self–supported debt—includes the portion of debt of commercial Crown corporations, agencies and entities 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 Borrowing 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.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—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 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 sinking funds and 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 term of the related debt.

(e) CHANGES IN ACCOUNTING TREATMENT

Inclusion of SUCH sector

Effective for the 2004/05 fiscal year, the SUCH sector is being fully consolidated on a line–by–line basis in the Summary Financial Statements of the province. Previously, the impacts of including these entities in the government's financial statements were only disclosed in the unaudited supplementary financial schedules. The inclusion of the SUCH sector has been applied retroactively with a restatement of the prior year figures and has been made in order to fully comply with GAAP.

The effects of the inclusion of the SUCH sector on the Summary Financial Statements are an increase to revenue of $2,860 million (2004: $2,549 million) and an increase to expense of $2,465 million (2004: $2,178 million) resulting in a $395 million increase to the surplus (2004: $371 million decrease to the deficit). Additionally, financial assets increased by $4,222 million (2004: $3,825 million) and liabilities increased by $4,215 million (2004: $4,005 million) resulting in a decrease to net liabilities of $7 million (2004: $180 million increase). Non–financial assets increased by $4,976 million (2004: $4,772 million) resulting in a decrease of $4,983 million (2004: $4,592 million) to the accumulated deficit.

Public Debt

The province has changed its reporting of public debt for the 2004/05 fiscal year. This change has been implemented on a retroactive basis with a restatement of prior year figures in order to more fully comply with GAAP. Previously, debt that had sufficient securities in a separate trust account to satisfy scheduled interest and principal payments was considered defeased in substance, and the debt and sinking fund assets, and related interest expense and investment earnings, were removed from financial statements. The par value of defeased debt was disclosed in the public debt notes. This debt and related sinking funds are not legally defeased and, therefore, are now recognized on the statement of financial position. In addition, public debt, sinking funds, debt interest expense and investment earnings, including sinking fund earnings, are now disclosed at their gross amounts. In past years, sinking funds were netted against debt and the sinking fund earnings were netted against the interest expense.

The effects of including the debt, sinking funds with related investment earnings, and interest expense related to debt previously considered defeased are an increase in taxpayer–supported debt of $763 million (2004: $832 million), an increase in accrued interest payable of $18 million (2004: $21 million), an increase in sinking funds

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

1. Significant Accounting Policies—Continued

related to taxpayer–supported debt of $812 million (2004: $891 million), an increase in investment earnings of $61 million (2004: $66 million), and an increase in interest expense of $68 million (2004: $35 million). This results in a $7 million decrease to the surplus (2004: $31 million decrease to the deficit) and a decrease of $31 million (2004: $38 million) to the accumulated deficit.

Recognition of Bid Revenue

Oil and gas tenure agreements are awarded through a competitive bidding process. The revenue received from the bids had been recognized at the time the bid was awarded. The province has changed its recognition policy to defer the bid revenue over eight years. Eight years is an estimate of the average term of the leases and licences granted through the bidding process. This change has been implemented retroactively with a restatement of prior year figures.

The effects of deferring bid revenue are an increase to revenue and the surplus of $16 million (2004: $344 million decrease) and an increase in deferred revenue and the accumulated deficit of $1,262 million (2004: $1,278 million).

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 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 employment benefits, pension obligations and post–retirement benefits, health and social transfer payments from the federal government, personal income tax and recognition of bid revenue.

The nature of the uncertainty in the accruals for employment benefits, pension obligations and post–retirement benefits 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 health and social transfer payments from the federal government 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. Uncertainty related to recognition of bid revenue arises from estimation of the tenure term over which revenue is deferred.

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 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 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, 2005—Continued

3. Cash and Temporary Investments

	In Millions 2005	2004
	$	$
Cash (cheques issued in excess of funds on deposit)	1,013	1,101
Temporary investments[1]	2,555	1,589
	3,568	**2,690**

[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 cost of acquisition adjusted by income attributed to the units or market value.

4. Accounts Receivable

	In Millions 2005	2004
	$	$
Taxes receivable	1,669	1,789
Trade accounts receivable	1,436	1,443
Accrued interest	288	354
	3,393	3,586
Provision for doubtful accounts	(760)	(748)
	2,633	**2,838**

5. Inventories for Resale

	In Millions 2005	2004
	$	$
Properties	41	51
Other	37	40
	78	**91**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

6. Due from Other Governments

	In Millions 2005	2004
	$	$
Government of Canada:		
Current	486	230
Long–term	132	132
Provincial governments:		
Current	15	22
Local governments[1]		
Current	17	16
	650	**400**

[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 2005	2004
	$	$
British Columbia Hydro and Power Authority	363	91
British Columbia Lottery Corporation	179	71
Columbia Power Corporation	2	2
	544	**164**

See page 76 for details

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

8. Equity in Self–supported Crown Corporations and Agencies

	In Millions			
	2005			2004
	Investments $	Unremitted Earnings $	Total $	Total $
British Columbia Hydro and Power Authority	20	1,757	1,777	1,876
British Columbia Railway Company	107		107	412
Columbia Power Corporation	276	27	303	299
Insurance Corporation of British Columbia		1,017	1,017	618
Provincial Capital Commission		15	15	16
	403	**2,816**	**3,219**	**3,221**

Change in Equity in Self–supported Crown Corporations and Agencies

	Investments $	Unremitted Earnings $	Total $	Total $
Balance—beginning of year	554	2,435	2,989	2,629
Prior period adjustments		232	232	229
Balance—beginning of year restated	554	2,667	3,221	2,858
Increase (decrease) in investment	(151)		(151)	20
Net earnings of self–supported Crown corporations and agencies		2,412	2,412	1,884
Contributions paid to the Consolidated Revenue Fund		(2,190)	(2,190)	(1,356)
Adjustments to contributions paid		(73)	(73)	(185)
Balance—end of year	**403**	**2,816**	**3,219**	**3,221**

See pages 76 – 77 for details.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

9. Loans, Advances and Mortgages Receivable

	In Millions 2005	2004
	$	$
Loans and Advances		
BC student loans	575	412
Industrial Development Fund commercial loans	86	97
Land Tax Deferment loans	157	150
British Columbia Ferry Services Inc.		428
Construction loans to social housing projects	21	21
Accountable advances	12	14
Miscellaneous	59	64
	910	1,186
Provision for doubtful accounts	(201)	(170)
	709	1,016
Mortgages Receivable		
Reconstruction Program	59	57
Miscellaneous	26	
	85	57
Provision for doubtful accounts	(24)	(21)
	61	36
	770	**1,052**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

9. Loans, Advances and Mortgages Receivable—Continued

The BC Student Loan Program provides loans to borrowers for higher education. Borrowers are required to repay these loans through a contracted service provider to the province, with a floating interest rate of prime plus 2.5% or a fixed rate of prime plus 5%. Amortization of the loans is usually set for 174 months, but borrowers can extend that amortization to a maximum of 234 months. Defaulted loans are due on demand with interest at a floating rate of prime plus 2.5%. The BC Student Loan 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 borrower 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 principal 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 Services Inc. The loan was interest bearing at 5.33% with a maturity date of April 1, 2006, and was repaid in full on May 27, 2004.

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 yet been expended in accordance with the applicable agreements.

The Reconstruction Program provides financial assistance to homeowners to pay for repairs for 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 is 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 12%.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

10. Other Investments

	In Millions 2005	2004
	$	$
Investments of universities, colleges and institutes	1,284	1,217
Investments of Columbia Basin Trust	261	201
Investments of health authorities	166	94
British Columbia Ferry Services Inc.	75	75
Provincial government bonds	73	63
Commercial loans and investments	55	111
Government of Canada bonds	40	36
Pooled investment portfolios	9	14
Miscellaneous	98	98
	2,061	1,909
Provision for doubtful accounts	(60)	(115)
	2,001	**1,794**

Universities, colleges and institutes investments are comprised of government and corporate bonds, equity, and other money market funds and guaranteed investment certificates.

Columbia Basin Trust investments include $15 million in bankers acceptances and deposits. The balance of $246 million represents investments in power development joint ventures.

Health authorities investments are comprised of government and corporate bonds.

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 preferred 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.

Provincial bonds of various provinces have a market value of $78.6 million (par value $71.1 million), with yields ranging from 2.952% to 4.419%. Maturity dates range from December 1, 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.

Government of Canada bonds have a market value of $41.2 million (par value $39.7 million), with yields ranging from 2.690% to 4.273%. Maturity dates range from December 1, 2005 to June 1, 2012.

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.

11. Sinking Fund Investments

	In Millions 2005	2004
	$	$
Taxpayer–supported sinking fund investments	3,523	3,571
Self–supported sinking fund investments	993	1,048
	4,516	**4,619**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

11. Sinking Fund Investments—Continued

	In Millions 2005	2004
	$	$
Pooled investment portfolios	2,623	2,677
Provincial government bonds	1,036	1,104
Local government bonds	551	593
Financial institutions	89	46
Government of Canada bonds	82	67
Miscellaneous	135	132
	4,516	**4,619**

Pooled investment portfolios consist of units in the British Columbia Investment Management Corporation's bond funds, which mainly consist of various governments' bonds and short term unitized funds that hold money market instruments.

Provincial bonds of various provinces have a market value of $1,096 million (par value $1,494 million), with yields ranging from 2.52% to 5.88%. Maturity dates range from April 20, 2005 to September 1, 2036.

Local government bonds mainly consist of debt issued by the Municipal Finance Authority of British Columbia.

Government of Canada bonds have a market value of $83.2 million (par value $110 million), with yields ranging from 2.58% to 4.66%. Maturity dates range from June 1, 2005 to December 1, 2016.

12. Loans for Purchase of Assets, Recoverable from Agencies

	In Millions 2005	2004
	$	$
British Columbia Hydro and Power Authority	6,896	7,040
British Columbia Railway Company		467
Improvement districts	5	5
	6,901	**7,512**

13. Accounts Payable and Accrued Liabilities

	In Millions 2005	2004
	$	$
Trade accounts payable	2,166	2,075
Accrued interest on debt	747	833
Accrued employee leave entitlements	1,285	1,224
Other accrued estimated liabilities[1]	1,339	1,431
	5,537	**5,563**

[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, 2005—Continued

14. Due to Other Governments

	In Millions 2005	2004
	$	$
Government of Canada		
Current	110	362
Long–term	733	738
Provincial governments		
Current	41	31
Local governments[1]		
Current	7	6
	891	**1,137**

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

15. Due to Crown Corporations, Agencies and Funds

	In Millions 2005	2004
	$	$
British Columbia Liquor Distribution Branch	54	44
Trust funds	98	79
	152	**123**

16. Deferred Revenue

	In Millions 2005	2004
	$	$
Deferred contributions	1,676	1,432
Petroleum, natural gas and minerals, leases and fees	1,298	1,313
Federal contributions	1,211	428
Motor vehicle licences and permits	202	185
Derivative debt instruments	156	144
Unearned lease revenue	108	105
Tuition	103	103
Federal and municipal highway project revenues	99	65
Water rentals and recording fees	69	70
Medical Services Plan premiums	65	66
Forest Stand Management Fund	15	15
Miscellaneous	254	161
	5,256	**4,087**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

17. Employee Pension Plans (Unfunded Pension Liabilities)

	In Millions 2005	In Millions 2004
	$	$
Members of the Legislative Assembly Superannuation Account	3	3

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 basic pensions based on length of service, highest five–year average earnings and plan members' age at retirement. Benefits such as group health benefits and inflation protection for the basic pension are not guaranteed and are contingent on available funding. 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, 2005, for the basic pension in each plan is as follows:

	Public Service Pension Plan	Municipal Pension Plan	Teachers' Pension Plan	College Pension Plan	Other Pension Plans [1]	Total
	In Millions					
	$	$	$	$	$	$
Accrued benefit obligation	9,488	10,357	11,102	1,425	309	32,681
Pension fund assets	11,756	10,610	10,870	1,650	323	35,209
	(2,268)	(253)	232	(225)	(14)	(2,528)
Unamortized actuarial gain (loss)		(915)	(711)	(176)	4	(1,798)
Accrued net obligation (asset)	**(2,268)**	**(1,168)**	**(479)**	**(401)**	**(10)**	**(4,326)**

[1] Other pension plans represent defined benefit plans outside of the Public Service, Municipal, Teachers' and College Pension plans which are funded by entities within the government reporting entity. They include the Retirement Plan for Non–Teaching Employees of the Board of School Trustees of School District No. 43 (Coquitlam), the University of Victoria's pension plan for employees other than faculty and professional staff and Simon Fraser University's Academic Pension Plan and Administrative/Union Pension Plan.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

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

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 the province has no formal claim to any pension plan surplus or asset. 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 an agent of the boards of trustees.

In the event 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 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 2004/05 are based on extrapolations of the most recent actuarial valuations as follows: Public Service Pension Plan (March 31, 2002); Municipal Pension Plan (December 31, 2003); 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, highest five–year average earnings and plan members' age at retirement. Benefits such as group health benefits and inflation protection for the basic pension are not guaranteed and are contingent on available funding. 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, 7.00% 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, 4.50% 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 in the annual reports at www.pensionsbc.ca.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

18. Taxpayer–supported Debt[1]

In Millions

	Year of Maturity	Canadian Dollar	US Dollar [2]	Japanese Yen [2]	Other Currencies [2]	2005 Canadian Dollar Total	2004 Canadian Dollar Total
Short–term promissory notes	2005						923
	2006	603				603	
Notes, bonds and debentures[3]	2005						2,275
	2006	2,525				2,525	2,508
	2007	1,527	1,179		395	3,101	3,083
	2008	988	885	59	418	2,350	2,346
	2009	2,236	1,077			3,313	3,301
	2010	1,355	308	94	572	2,329	2,104
	2010–2015	6,813	563	110	614	8,100	7,961
	2015–2020	594				594	540
	2020–2025	3,634				3,634	3,430
	2025–2030	3,087				3,087	2,830
	2030–2035	1,129				1,129	1,126
	2035–2040	916				916	865
	2040–2045	400				400	300
Total debt issued at face value		25,807	4,012	263	1,999	32,081	33,592

	2005	2004
Unamortized discount	(136)	(131)
Unrealized foreign exchange gains (losses)	95	(18)
Amount held in the Consolidated Revenue Fund	(8)	(11)
Taxpayer–supported debt	32,032	33,432

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

2005	5.85%	
2004		5.76%

[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: $2,705 million US ($4,012 million Canadian); 22,000 million Japanese yen ($263 million Canadian); 400 million Swiss francs ($418 million Canadian); and 917 million euros ($1,581 million Canadian).

[3]Notes, bonds and debentures include $106 million (2004: $91 million) in bank loans, $123 million (2004: $113 million) in capital leases and $276 million (2004: $251 million) in mortgages.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

18. Taxpayer–supported Debt—Continued

Notes, bonds and debentures

Redeemable by the bond holder

Balances include 5.45% debentures due August 17, 2028, totalling $200 million (2004: $200 million). The holders have a put option which, 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 (2004: $250 million). The holders have a put option which, 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 $134 million (2004: $180 million) maturing at dates from October 15, 2005 to October 15, 2007, and with an effective rate of 2.40% 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 $3,539 million (2004: $3,592 million) at a weighted average interest rate of 8.20% (2004: 8.79%). These debentures mature at various dates from April 2, 2005 to June 8, 2024 with interest rates varying between 5.28% and 12.57%. These debentures are redeemable in whole or in part before maturity, on 30 days' prior notice, at the option of the province. During the year, $234 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.

Issues totalling $150 million (2004: $150 million) with effective rates of 2.45% are redeemable at par at the province's option on dates ranging from October 20, 2005 to April 30, 2015.

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
2006	2,203
2007	2,813
2008	2,133
2009	3,102
2010	2,142

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

19. Self–supported Debt[1]

In Millions

	Year of Maturity	Canadian Dollar	US Dollar [2]	2005 Canadian Dollar Total	2004 Canadian Dollar Total
Short–term promissory notes	2005				1,000
	2006	221	697	918	
Notes, bonds and debentures	2005				598
	2006	413		413	413
	2007	314		314	314
	2008	9	382	391	406
	2009	124		124	144
	2010	574	60	634	790
	2010–2015	1,425	290	1,715	1,390
	2015–2020	525		525	350
	2020–2025	1,296		1,296	1,296
	2025–2030		605	605	905
	2030–2035	400		400	400
	2035–2040		363	363	443
	2040–2045			0	0
Total debt issued at face value		**5,301**	**2,397**	**7,698**	**8,449**
Unamortized premium				7	4
Unrealized foreign exchange gains				184	102
Total self–supported debt				**7,889**	**8,555**

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

2005	6.24%	
2004		6.11%

[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 $1,909 million US ($2,397 million Canadian).

Notes, bonds and debentures

Redeemable by the province

Balances include debentures issued to the Canada Pension Plan totalling $229 million (2004: $317 million) at a weighted average interest rate of 10.15% (2004: 11.11%). These debentures mature at various dates from July 10, 2005, to June 9, 2009 with interest rates varying between 9.62% and 10.86%. These debentures are redeemable in whole or in part before maturity, on 30 days' prior notice, at the option of the province. During the year, no Canada Pension Plan debentures were issued for self–supported debt. Under the Canada Pension Plan legislation, any significant amendment to benefits or contributions requires the approval of the legislature of two–thirds of the provinces.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

19. Self–supported Debt—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
2006	426
2007	327
2008	415
2009	134
2010	591

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 following tables present maturity schedules of the province's derivatives by type, outstanding at March 31, 2005, 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	Total
		$	$	$	$
	2006		745	80	825
	2007	1,969	1,704		3,673
	2008	1,361			1,361
	2009	1,077	805		1,882
	2010	974	576		1,550
	6–10 years	1,397	618		2,015
	+ 10 years	64	734		798
Total		**6,842**	**5,182**	**80**	**12,104**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

20. Risk Management and Derivative Financial Instruments—Continued

Self–supported Debt

In Millions

	Year of Maturity	Cross Currency Swaps	Interest Rate Swaps	Advanced Rate Setting Agreements	Total
		$	$	$	$
	2006	135	518	200	853
	2007		200		200
	2008	200	181		381
	2009				0
	2010		561		561
	6–10 years	290	580		870
	+ 10 years		150		150
Total		**625**	**2,190**	**200**	**3,015**

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 (interest rate swaps and advanced rate setting agreements) 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, which totals $24,802 million (2004: $25,943 million), allow floating rate exposure up to 45.00% (2004: 45.00%) of this portion of the taxpayer–supported debt. At March 31, 2005, floating rate debt exposure was 31.72% (2004: 35.62%) of the government direct debt portfolio.

Under current policy guidelines for British Columbia Hydro and Power Authority (BC Hydro), the maximum floating rate exposure is 46.00% (2004: 46.00%) of their debt that totals $6,906 million (2004: $7,040 million). At March 31, 2005, floating rate debt exposure for BC Hydro was 28.90% (2004: 29.30%) of their debt.

Based on the taxpayer–supported and self–supported debt portfolios at March 31, 2005, a 1.00% increase in interest rates would result in an increase in the annual debt servicing costs of $76 million (2004: $93 million) for the taxpayer–supported debt portfolio and $17 million (2004: $15 million) for the self–supported debt portfolio.

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 (cross currency swaps) to hedge foreign exchange risk by converting foreign currency principal and interest cash flows into Canadian dollar cash flows.

The government's current policy guidelines with respect to the provincial government direct debt portfolio, which totals $24,802 million (2004: $25,943 million), allow unhedged foreign debt exposure up to 10.00% (2004: 10.00%) of this portion of the taxpayer–supported debt. At March 31, 2005, unhedged foreign debt exposure in Japanese yen was 4.41% (2004: 4.73%) of the government direct debt portfolio. At March 31, 2005, there was no unhedged foreign debt exposure in US dollars for the government direct debt portfolio (2004: nil).

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

20. Risk Management and Derivative Financial Instruments—Continued

Under current policy guidelines for BC Hydro, the maximum unhedged foreign debt exposure is 20.0% (2004: 30.0%) of their debt, which totals $6,906 million (2004: $7,040 million). At March 31, 2005, 18.7% (2004: 20.1%) 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, 2005, a one cent decrease in the Canadian dollar versus the US dollar would result in an increase of $10 million (2004: $11 million) in the annual debt servicing costs for the self–supported debt portfolio. A decrease of one yen versus the value of the Canadian dollar (for example, from 88 yen to 87 yen) would result in an increase to the annual debt servicing costs of $3 million (2004: $3 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 Standard & Poor's and Moody's Investors Service Inc. 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.

21. Net Liabilities

The Statement of Change in Net Liabilities (*see* page 31) 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, 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	
	2005	2004
	Net Book Value	Net Book Value
	$	$
Land and land improvements	1,992	1,951
Buildings (including tenant improvements)	10,451	9,938
Highway infrastructure	6,472	6,268
Transportation equipment	2,027	2,064
Computer hardware and software	639	586
Other	1,536	1,448
	23,117	**22,255**

See Statement of Tangible Capital Assets on page 78.

The estimated useful lives of the more common tangible capital assets are: buildings (10–50 years); highway infrastructure (15–40 years); transportation equipment (5–40 years); computer hardware and software (3–5 years); and other (including vehicles, ferries and related infrastructure, 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 five years or the length of the relevant lease term.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

22. Tangible Capital Assets—Continued

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 15–year term with additional five–year renewal periods upon the agreement of BCT and GVTA. The net book value of these assets is $929 million (2004: $945 million). A similar lease arrangement is under negotiation with GVTA for the RTP assets.

23. Prepaid Program Costs

	In Millions	
	2005	2004
	$	$
Prepaid program costs[1]	462	382
	462	**382**

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

24. Other Assets

	In Millions	
	2005	2004
	$	$
Deferred debt instrument costs	114	119
Deferred treaty costs	19	21
Other deferred costs	18	17
	151	**157**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

25. Accumulated Surplus (Deficit)

	In Millions 2005	In Millions 2004
	$	$
Accumulated surplus (deficit)—beginning of year as previously reported	(9,354)	(8,015)
Impact of SUCH[1]	4,611	4,275
Adjustments to accumulated surplus (deficit)[2,3]	(982)	(710)
Accumulated surplus (deficit)—beginning of year as restated	(5,725)	(4,450)
Surplus (deficit) for the year[4]	2,575	(1,275)
Accumulated surplus (deficit)—end of year	**(3,150)**	**(5,725)**

[1]Effective the 2004/05 fiscal year, the school districts, universities, colleges, institutes and health authorities (SUCH) sector is being consolidated into the government reporting entity. Therefore, the opening deficit is adjusted to include the SUCH impact for the prior year comparatives.

For the 2004 opening accumulated deficit, the SUCH impact has been restated from the 2002/03 reported amount of $3,300 for the following items:

SUCH impact as reported in the 2002/03 Public Accounts	3,300
School districts—correction of amortization calculation and change in estimates	879
Health authorities—accrual of Healthcare Benefits Trust liability	(168)
Health authorities—adjustments to provincial versus nonprovincial deferred capital contributions allocation	249
Universities, colleges and hospital societies—miscellaneous adjustments	15
Restated impact of SUCH sector inclusion on 2003/04 opening accumulated surplus	4,275

For the 2005 opening accumulated deficit, the SUCH impact of $4,611 million is the amount reported in the 2003/04 Public Accounts.

[2]In fiscal 2004/05, the opening accumulated deficit for 2003/04 was restated for the following adjustments:

Natural resources bonus bid deferred revenue adjustment	(934)
Health authorities and hospital societies—adjustment to deferred contributions and employee leave accrual	(22)
School districts inclusion of school–generated funds, deferred revenue adjustment and prior year correction	(9)
British Columbia Housing Management Commission—adjustment for project revenue	(9)
British Columbia Buildings Corporation—adjustment for deferred revenue	(26)
Inclusion of the Leading Edge Endowment Fund Society as part of the government reporting entity	51
British Columbia Hydro and Power Authority restatement regarding asset retirement obligation	229
Other miscellaneous adjustments	10
Total	(710)

[3]In fiscal 2004/05, adjustments were made to the opening deficit for 2004/05 for the following items:

Natural resources bonus bid deferred revenue adjustment	(1,278)
Inclusion of debt and related trusts previously considered defeased in debt report	38
Social services tax accrual adjustment	23
Health authorities and hospital societies—adjustment to deferred contributions and employee leave accrual	(22)
British Columbia Housing Management Commission—adjustment for project revenue	(15)
British Columbia Buildings Corporation—adjustment for deferred revenue	(26)
Inclusion of the Leading Edge Endowment Fund Society as part of the government reporting entity	52
British Columbia Hydro and Power Authority restatement regarding asset retirement obligation	242
British Columbia Railway Company restatement regarding asset retirement obligations	(10)
Other miscellaneous adjustments	14
Total	(982)

[4]During 2004/05, adjustments were made to the reported deficit figure for the 2003/04 fiscal as follows:

Reported deficit for 2003/04	(1,339)
Impact of SUCH sector inclusion as reported	337
Natural resources bonus bid deferred revenue adjustment	(344)
Inclusion of debt and related trusts previously considered defeased in debt report	31
Social services tax accrual adjustment	23
School districts inclusion of school–generated funds, deferred revenue adjustment and prior year correction	14
British Columbia Housing Management Commission—adjustment for project revenue	(6)
British Columbia Hydro and Power Authority restatement regarding asset retirement obligation	13
British Columbia Railway Company restatement regarding asset retirement obligations	(10)
Other miscellaneous adjustments	6
Total	(1,275)

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

26. Contingencies and Commitments

(a) GUARANTEED DEBT

Guaranteed debt as at March 31, 2005, totalled $142 million (2004: $156 million). These guarantees include amounts where indemnities have been made for explicit quantifiable loans. *See* Statement of Guaranteed Debt on page 79 for details.

(b) CONTINGENT LIABILITIES

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 2005	2004
	$	$
Contract disputes	126	130
Negligence and miscellaneous	16	13
Damage to persons or property	13	17
Property access disputes	11	9
Tax disputes	10	18
Motor vehicle accidents	8	1
Expropriation disputes	3	
Timber harvesting rights disputes		3
	187	**191**

When it is determined it is likely 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, 2005, was $59 million (2004: $61 million).

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.

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 $124 million (2004: $130 million) has been accrued based on preliminary environmental assessments. 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 the government is liable. Estimated clean–up costs, not already accrued for sites under evaluation, are approximately $24 million at March 31, 2005. In addition, the Ministry of Energy and Mines has determined possible net liabilities of $327 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.

Aboriginal Land Claims

Treaty negotiations between the province, Canada and First Nations commenced in 1994. The province anticipates these negotiations will result in modern–day treaties defining the boundaries and nature of First Nations treaty settlement lands. As of March 31, 2005, there were 44 treaty tables in various stages of negotiation, representing two–thirds of the aboriginal people in British Columbia.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

26. Contingencies and Commitments—Continued

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.

Four Agreements in Principle (AiPs) were signed in 2003/04, to add to the AiP signed with Sechelt in 1999. It is expected the capital transfer components in all AiPs will be entirely provided by Canada. The current commitments of provincial Crown land for all five tables are as follows:

(i) Lheidli T'enneh, 3,140 hectares
(ii) Maa–nulth, 22,003 hectares
(iii) Sliammon, 6,337 hectares
(iv) Tsawwassen, 427 hectares
(v) Sechelt, 933 hectares

The parties at the Sechelt table are having informal discussions with the objective of returning to the table to conclude a Final Agreement based on the signed AiP. In addition, the Yekooche First Nation voted to accept its AiP in March 2005. The AiP contains a commitment of 5,950 hectares of provincial Crown land. Federal government acceptance is outstanding but anticipated shortly. Upon coming into effect, treaties will also trigger implementation costs and may result in compensation to third parties. Those costs are not determinable at this time.

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 2011 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 First Nations 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 results of these actions are not determinable at this time.

Crown Corporations, Agencies and the School Districts, Universities, Colleges, Institutes and Health Authorities (SUCH) Sector

(i) The Insurance Corporation of British Columbia (ICBC) has settled some claims that 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, 2004, was approximately $817 million (2003: $777 million).

(ii) The BC Transportation Financing Authority has contingent liabilities of $91 million remaining after deducting the estimated settlement expense currently accrued from gross claims outstanding for capital projects.

(iii) 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.

(iv) The University of British Columbia (UBC) is involved in arbitration proceedings for a $300 million claim against UBC regarding a research project. Management cannot determine the outcome of the claim; however, they represent that the claim is unfounded.

(v) The BC Pavilion Corporation and predecessor property owners remain liable for environmental and reclamation obligations for known hazards that exist at various owned facilities. Management is actively monitoring and mitigating these hazards. Management is not aware of any existing environmental problems related to its facilities that may result in material liability to the BC Pavilion Corporation.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

26. Contingencies and Commitments—Continued

(vi) The British Columbia Railway Corporation (BCRC) and BCR Properties Ltd. completed a transaction with Canadian National Railway Company (CN) on July 14, 2004 (*see* Note 33). As a result of the transaction, the province and BCRC have provided commercial indemnities to CN with respect to the transaction and indemnities related to income tax attributes of BC Rail Ltd. and BC Rail Partnership at closing. The maximum present value (calculated at 9%) of amounts payable under the tax indemnities related to income tax attributes is $366 million. 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 income tax attributes.

The maximum payable under the commercial indemnities—not related to income tax attributes—is limited to $263 million. There are certain other specific indemnities (including certain environmental indemnities and matters unrelated to the industrial freight rail business) for which there are no limits on the amounts payable thereunder.

The province and BCRC believe it is unlikely that the province or BCRC will ultimately be held liable for any amounts under the commercial and tax indemnities other than the payment of $490,000 which was identified, except for the amount, prior to the transaction's financial close.

(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 costing more than $50 million are detailed in this note.

2010 Winter Olympics

On July 2, 2003, the International Olympic Committee selected Vancouver to host the 2010 Olympic and Paralympic Winter Games (the 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 Winter Games (VANOC) was incorporated. The province has the power to appoint three of the 20 board members. VANOC's mandate is to plan, organize, finance and stage the Games.

The province has established a commitment of $600 million for the 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 for the venues; and providing $55 million to the Legacy Endowment Fund. The province spent $31 million (2004: $109 million) for a total to date of $140 million toward its commitment of $600 million. 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. More information about the 2010 Olympic Games may be found at the 2010 Olympic Games website: www.vancouver2010.com.

The province has also agreed to upgrade the Sea–to–Sky Highway and has estimated the capital cost for this to be $600 million in 2002 dollars. The province spent $50 million [$47 million in 2002 dollars] (2004: $17 million [$16 million in 2002 dollars]) for a total to date of $67 million [$63 million in 2002 dollars] towards its commitment of $600 million in 2002 dollars.

Crown Corporations, Agencies and the SUCH Sector

The province has committed to the construction of the $571 million 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). It is expected the difference between cost and contributions will be generated from increased revenues.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

26. Contingencies and Commitments—Continued

The BC Transportation Financing Authority has a number of general commitments outstanding for ongoing infrastructure projects. The approved capital program for 2005/06 is $519 million.

During the year, the government has entered into a number of multiple–year agreements for the delivery of services and the construction of assets.

Alternative Service Delivery Agreements

(i) Delivery of the Medical Services Plan and PharmaCare services with a ten–year agreement. The province has a five–year renewal option. The ten–year contractual obligation under this agreement is approximately $324 million. This amount is made up of transition costs and ten–year fee payments.

(ii) Delivery of corporate human resources and payroll services with a ten–year agreement. The province has a five–year renewal option. The ten–year contractual obligation under this agreement is approximately $170 million. The payments under this agreement are subject to adjustments for inflation.

(iii) Delivery of revenue collection services with a ten–year agreement. The province has a five–year renewal option. The ten–year base contractual obligation under this agreement is $301 million. The province has also agreed to share the financial benefits arising from the agreement. The base payments under this agreement are subject to adjustments for inflation.

(iv) Delivery of corporate information technology services with a ten–year agreement. The province has a two–year renewal option as well as a one–year transition option. The ten–year contractual obligation under this agreement is approximately $300 million. The payments under this agreement are subject to adjustments for inflation.

Public Private Partnership Agreements

(i) The design, finance, construction and maintenance of a regional hospital and cancer centre in Abbotsford at a capital cost of approximately $355 million. The Fraser Valley Regional Hospital District is contributing a total of $71 million to the construction cost. The private sector partner will advance the remainder of the cost. The agreement terminates in 2038. Capital, facilities management and maintenance payments under the concession agreement will commence once substantial completion has been achieved, which is expected to be in 2008. The first and subsequent years' payments will be $40.8 million, excluding any bonuses or penalties, and future payments will be adjusted for inflation.

(ii) The design, finance, construction and maintenance of an academic ambulatory care facility at Vancouver General Hospital at a capital cost of approximately $95 million. The agreement terminates in approximately 2036. Capital, facilities management and maintenance payments under the concession agreement are expected to commence once substantial completion has been achieved, which is expected to be in 2006. The first and subsequent years' payments will be $5.2 million, excluding penalties, and future payments will be adjusted for inflation.

(iii) The design, finance, construction and operation of a water treatment plant at the Britannia mine site. The agreement terminates in approximately 2026. Payments under the concession agreement are expected to commence in 2005. Payment amounts are as follows: 2005—$2.8 million; 2006—$2.8 million; 2007—$2.9 million; 2008—$2.9 million; 2009—$2.9 million; subsequent 15 years—$47.7 million. These payments are subject to performance penalties and adjustments for inflation.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

27. Revenue

Taxation revenue includes	In Millions 2005	2004
	$	$
Personal income	5,050	4,877
Corporate income	1,255	775
Social service	4,156	4,024
Property	1,661	1,576
Other	2,795	2,578
	14,917	**13,830**

See notes at the end of the Schedule of Net Revenue by Source on page 92 for additional information on taxation revenue.

28. Expense

Interest Expense by Function	In Millions 2005	2004
	$	$
Health[1]	171	168
Education[1]	511	526
Interest[2]	1,472	1,572
Transportation[1]	140	159
	2,294	**2,425**

Total Expense by Group Account Classification	In Millions 2005	2004
	$	$
Salaries and benefits	12,114	12,450
Government transfers	7,741	7,124
Operating costs	6,659	6,320
Interest[2]	2,294	2,425
Amortization	1,324	1,274
Other	526	619
	30,658	**30,212**

[1]Represents interest expense related to prepaid capital advances paid by the province to health, education, and transportation organizations for capital projects.
[2]Includes foreign exchange gain amortization of $33 million (2004: gain amortization of $19 million).

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

29. Valuation Allowances

	In Millions	
	2005	2004
	$	$
Accounts receivable	171	165
Loans, advances and mortgages receivable	41	41
Investments	5	8
Tangible capital assets	6	27
	223	**241**

These amounts are included in "Other" of "Total expense by Group Account Classification" in Note 28, and represent the write–down of assets and liabilities in the above Statement of Financial Position categories.

30. Comparison to Estimates

The Estimates numbers on the Statement of Operations are based on the Estimated Statement of Operation on page 4 of the Estimates, Fiscal Year Ending March 31, 2005 with certain adjustments to provide a proper comparison of Estimates to 2005 actuals.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

30. Comparison to Estimates—Continued

The following table shows the adjustments to conform to 2005 actuals.

	In Millions				
	Original Estimates 2004/05 [1]	Reclassify Health Authority Revenue [2]	Reclassify Post Secondary Revenue [3]	Defeasance Trust Earnings/ Costs [4]	Restated Estimates 2004/05
	$	$	$	$	$
Taxation	14,185				14,185
Contributions from the federal government	4,346				4,346
Fees and licences	3,754	(226)	50		3,578
Natural resources	3,432				3,432
Net earnings of self–supported Crown corporations and agencies	2,072				2,072
Miscellaneous	1,814	226	(50)		1,990
Investment earnings	826			63	889
	30,429	0	0	63	30,492
Health	11,787				11,787
Education	8,788				8,788
Social services	2,678				2,678
Interest	1,598			63	1,661
Natural resources and economic development	1,321				1,321
Transportation	1,265				1,265
Protection of persons and property	1,166				1,166
Other	1,148				1,148
General government	478				478
	30,229	0	0	63	30,292
Surplus (deficit) for the year—before unusual items	200				200
Forecast allowance	(100)				(100)
	100	0	0	0	100

[1] Per page 4 of the 2004/05 Estimates.
[2] Reclassification of certain health authority revenue sources to more closely align them in accordance with their nature.
[3] Reclassification of certain post–secondary institute revenue sources to more closely align them in accordance with their nature.
[4] To recognize interest costs and associated investment earnings related to recognition of debt previously considered defeased and excluded from the financial statements.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

30. Comparison to Estimates—Continued

During the 2004/05 fiscal year, the Legislative Assembly approved eleven Supplementary Estimates totalling $1,152 million. The Supplementary Estimates provided information and authorization to support $454 million of priority spending, $550 million for a grant to BC Transportation Financing Authority (there is no bottom line impact as a result of this transfer) and $148 million in spending relating to additional federal health care contributions. These Supplementary Estimates were not included in the above Estimates numbers.

	In Millions $
Additional funding for Ministry of Community, Aboriginal and Women's Services to be used for infrastructure grants to local governments (Other function)	26
Additional funding to establish a trust to enhance the financial and managerial capacity of arts and culture organizations, to provide funding to local organizations for infrastructure projects, to provide funding for provincial spending under the Western Economic Partnership Agreement, and to provide a grant to LegaciesNow to expand and accelerate its work in sport development (Natural resource function: $69 million, Other function: $40 million)	109
Additional funding to mitigate adverse financial impacts of the *Forestry Revitalization Act* and address the reforestation of large areas of land devastated by wildfires and the mountain pine beetle epidemic (Natural resource function)	113
Additional funding to support higher than expected costs of crop insurance, the impact of bovine spongiform encephalopathy (BSE) and avian flu and to further strengthen key areas of the agricultural sector (Natural resource function)	27
Additional funding needed to collect, interpret and publish geosciences data to promote investment in resource and development (Natural resource function)	25
Additional funding to Ministry of Community, Aboriginal and Women's Services to fund historical infrastructure deficits in municipalities in North East British Columbia (Other function)	40
Additional funding for research in mental health (Education function)	10
Additional funding for Olympic venues and activities in support of sport and culture (Other function)	40
Additional funding for assistance to persons with disabilities, for a one–time grant as part of the province's commitment to adding 215 RCMP officers to British Columbia's communities, for marketing services to tourism operators, for tourism infrastructure, for recording the provincial liability for known costs of remediating specific contaminated sites, and for reflecting water rental remissions granted to British Columbia Hydro and Power Authority to offset licence restrictions resulting from water use plans, for a contribution to the Habitat Conservation Trust and to provide funding to post–secondary institutions for conservation research (Social service function: $10 million, Protection of persons and property function: $3 million, Natural resources function: $51 million)	64
Total priority initiatives	**454**
One–time capital assistance grant to the BC Transportation Financing Authority in support of capital investments under the 10–year Transportation Investment Plan (Transportation function)	550
New federal funding for health care ($131 million from the 2003 First Ministers' Accord on Health Care Renewal and $17 million from the new 2004 Public Health and Immunization Trust) (Health function)	148
Total Supplementary Estimates	**1,152**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

31. Trusts Under Administration

	In Millions 2005	2004
	$	$
Public Trustee and Official Administrators —administered by government officials	548	530
Supreme and provincial court (Suitors' Funds) —administered by the Courts	31	32
Credit Union Deposit Insurance Corporation of B.C. —administered by various government officials and a non–government investment corporation	123	117
Other trust funds —administered by various government officials	80	68
	782	**747**

32. Workers' Compensation Board of British Columbia

Workers' Compensation Board (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 31st reflect the following financial information:

	In Millions December 31 2004	December 31 2003
	$	$
Assets	9,851	8,481
Liabilities	8,613	8,473
Net equity	**1,238**	**8**

	In Millions December 31 2004	December 31 2003
	$	$
Revenue	2,021	1,573
Expense	1,351	1,419
Surplus (deficit)	**670**	**154**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

33. Significant Events

British Columbia Railway Company (BCRC) Operations

On July 14, 2004, BCRC and BCR Properties Ltd. completed a transaction with Canadian National Railway Company (CN) pursuant to an agreement signed between the parties on November 25, 2003 (the "BC Rail/CN Transaction"). Under the terms of the BC Rail/CN Transaction agreement, CN assumed BCRC's industrial freight railway business by purchasing the shares of BC Rail Ltd., the partnership interests of BC Rail Partnership, and railcars from a related entity (collectively "BC Rail") for cash proceeds of $1.0 billion. The gain on the BC Rail/CN Transaction is $199 million, calculated as follows:

	In Millions $
Proceeds	1,000
Disposition costs	(19)
	981
Net assets of BC Rail transferred to CN (including cash assumed by CN)	(782)
Gain on BC Rail/CN Transaction	199

The proceeds from the BC Rail/CN Transaction were used to repay all outstanding debt due to the province at a cost of $510 million. The province, however, still retains the associated external debt and, as a result, the debt has been reclassified as taxpayer–supported debt. The proceeds were also used to pay a $443 million dividend to the province. The balance was retained by BCRC to pay transaction costs and fund future corporate requirements.

Prior to the BC Rail/CN Transaction, BCRC and BC Rail Partnership entered into a Revitalization Agreement, under which BC Rail Partnership leased the railbed and related infrastructure from BCRC under a long–term lease. BC Rail Partnership prepaid all lease payments under the Revitalization Agreement. The lease of certain items included in railbed assets is being accounted for as an operating lease. Assets under the operating lease include land, grade, ballast and track laying and surfacing. The remaining railbed assets and track infrastructure have been treated as a capital lease. CN assumed responsibility for the Revitalization Agreement as part of the BC Rail/CN Transaction.

The Revitalization Agreement has an initial term of 60 years and gives CN the option to renew the lease for an additional 30 years at no cost to CN, and allows for further extensions to the term of the Revitalization Agreement should BCRC not exercise its option to repurchase the rail operations. The maximum term of the Revitalization Agreement is 990 years.

The BC Rail net operating income for the 106 days ending July 14, 2004 was $16 million ($86 million for the year ending March 31, 2004).

The province and BCRC have provided indemnities to CN with respect to the BC Rail/CN Transaction (*see* Note 26).

34. Comparatives

The comparative figures for the previous year have been restated to conform with the current year's presentation and for inclusion of school districts, universities, colleges, institutes and health authorities in the government reporting entity. Debt has been grossed up to include defeased debt and interest has been grossed up to include interest funded by sinking fund revenue. Sinking funds are reported as financial assets, and sinking fund earnings are included in investment earnings. Natural resource revenue and deferred revenue has been restated for a change in bid revenue recognition. (*See* Note 1(e)).

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2005—Continued

35. Restructuring Exit Expense

There was no restructuring exit expense in 2005. The reported restructuring exit expense of $123 million for 2004 does not include an additional recovery in 2004 of ($16) million for restructuring exit expenses of government organizations that were consolidated using the modified equity basis—expenses of $8 million for British Columbia Hydro and Power Authority, recoveries of ($25) million for the British Columbia Liquor Distribution Branch, and expenses of $1 million for the British Columbia Lottery Corporation.

	In Millions 2005	2004
	$	$
Restructuring Exit Expense by Function		
Health		11
Education		1
Social services		22
Protection of persons and property		17
Transportation		5
Natural resources		25
Other		13
General government		29
	0	123
Restructuring Exit Expense by Group Account Classification		
Government transfers		3
Operating costs		38
Salaries and benefits		78
Other		4
	0	123

Summary Financial Statements
Reporting Entity
for the Fiscal Year Ended March 31, 2005

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

Consolidated Revenue Fund[1]

Health Sector

Bella Coola General Hospital[2]
Canadian Blood Services[3]
Forensic Psychiatric Services Commission[4]
Fraser Health Authority[2]
Interior Health Authority[2]
Louis Brier Home and Hospital[2]
Menno Hospital[2]
Mount St. Mary Hospital[2]
Nisga'a Valley Health Board[2]
Northern Health Authority[2]
Providence Health Care[2]
Provincial Health Services Authority[2]
R.W. Large Memorial Hospital[2]
St. Joseph's General Hospital[2]
St. Michael's Centre[2]
Vancouver Coastal Health Authority[2]
Vancouver Island Health Authority[2]
Wrinch Memorial Hospital[2]

Education Sector

British Columbia Institute of Technology[2]
British Columbia Open University[2]
Camosun College[2]
Capilano College[2]
College of New Caledonia[2]
College of the Rockies[2]
Douglas College[2]
Emily Carr Institute of Art and Design[2]
Industry Training Authority
Institute of Indigenous Government[2]
Justice Institute of British Columbia[2]
Kwantlen University College[2]
Langara College[2]
Leading Edge Endowment Fund Society[2]
Malaspina University–College[2]
Nicola Valley Institute of Technology[2]
North Island College[2]
Northern Lights College[2]
Northwest Community College[2]
Okanagan University College[2]
Open Learning Agency[2]
Private Career Training Institutions Agency[5]
Royal Roads University[2]
School Districts (all)[2]
Selkirk College[2]
Simon Fraser University[2]

Summary Financial Statements
Reporting Entity
for the Fiscal Year Ended March 31, 2005—Continued

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

The University College of the Cariboo[2]
The University of British Columbia[2]
University College of the Fraser Valley[2]
University of Northern British Columbia[2]
University of Victoria[2]
Vancouver Community College[2]

Natural Resources and Economic Development Sector

552513 BC Ltd
BC Immigrant Investment Fund Ltd
B.C. Pavilion Corporation
British Columbia Enterprise Corporation
Columbia Basin Trust
Creston Valley Wildlife Management Authority Trust Fund
Discovery Enterprises Inc
Forestry Innovation Investment Ltd
Innovation and Science Council of British Columbia
Land and Water British Columbia Inc
Oil and Gas Commission
Partnerships British Columbia Inc
Tourism British Columbia
Vancouver Convention Centre Expansion Project
Vancouver Trade and Convention Centre Authority

Transportation Sector

BC Transportation Financing Authority
British Columbia Transit
Rapid Transit Project 2000 Ltd

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[6]
Interim Authority for Community Living British Columbia
Legal Services Society

Summary Financial Statements
Reporting Entity
for the Fiscal Year Ended March 31, 2005—Continued

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

Other Sector

BC Games Society
British Columbia Arts Council
British Columbia Assessment Authority
British Columbia Buildings Corporation
British Columbia Housing Management Commission
First Peoples' Heritage, Language and Culture Council
Homeowner Protection Office
Provincial Rental Housing Corporation
The Royal British Columbia Museum Corporation

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

[1]The Consolidated Revenue Fund has been allocated to the appropriate sector on the Statement of Financial Position by Sector (page 72) and Operations by Sector (page 74).
[2]These organizations are included in the government reporting entity this fiscal year on a retroactive basis, but were previously not included.
[3]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.
[4]This organization reports to the Provincial Health Services Authority, which is included in the government reporting entity this fiscal year.
[5]This organization changed its name during the current year. It was formerly known as Private Post–Secondary Education Commission.
[6]These organizations wound up operations during the fiscal year.

Summary Financial Statements
Statement of Financial Position by Sector
as at March 31, 2005

In Millions

	Health	Education	Social Services	Debt Servicing [1]	PPP [2]	Transpor–tation	NR and ED [3]	Other [4]	General Govern–ment [5]	Adjust–ments [6]	Total
Financial Assets	$	$	$	$	$	$	$	$	$	$	$
Cash and temporary investments	1,011	1,461	(4)	574	(10)	208	295	65	(32)		3,568
Accounts receivable	225	205	60	318	107	21	598	44	1,112	(57)	2,633
Inventories for resale	1	31			7		11	19	9		78
Due from the Province of British Columbia						34	4	1		(39)	
Due from other governments	81	96	10		38	28	72	58	267		650
Due from self–supported Crown corporations and agencies							365		179		544
Equity in self–supported Crown corporations and agencies					1,017	107	2,080	15			3,219
Loans, advances and mortgages receivable	2	433	1		5		84	77	170	(2)	770
Other investments	199	1,329		18		76	354	36		(11)	2,001
Sinking fund investments		69		4,453		329		208		(543)	4,516
Loans for purchase of assets, recoverable from agencies				9,831						(2,930)	6,901
	1,519	3,624	67	15,194	1,164	803	3,863	523	1,705	(3,582)	24,880

Summary Financial Statements
Statement of Financial Position by Sector as at March 31, 2005—Continued

In Millions

	Health	Education	Social Services	Debt Servicing [1]	PPP [2]	Transpor–tation	NR and ED [3]	Other [4]	General Govern–ment [5]	Adjust–ments [6]	Total
Liabilities	$	$	$	$	$	$	$	$	$	$	$
Accounts payable and accrued liabilities	1,781	872	137	741	200	286	740	251	610	(81)	5,537
Due to other governments	45	14	7		63		4	1	757		891
Due to Crown corporations, agencies, funds	3						2	98	54	(5)	152
Due to the Province of British Columbia							3	2		(5)	
Deferred revenue	950	999	1	156	241	161	1,481	133	1,164	(30)	5,256
Unfunded pension liabilities									3		3
Taxpayer–supported debt	140	546	3	31,155	4	2,884	151	610	17	(3,478)	32,032
Self–supported debt				7,889							7,889
	2,919	2,431	148	39,941	508	3,331	2,381	1,095	2,605	(3,599)	51,760
Net liabilities	(1,400)	1,193	(81)	(24,747)	656	(2,528)	1,482	(572)	(900)	17	(26,880)
Non–financial Assets											
Tangible capital assets	3,355	9,107	33		57	8,619	785	1,004	166	(9)	23,117
Prepaid capital advances		27								(27)	
Prepaid program costs	143	22	2		5	6	262	14	8		462
Other assets	1	4		98	19	19	9	1			151
	3,499	9,160	35	98	81	8,644	1,056	1,019	174	(36)	23,730
Accumulated surplus (deficit)	**2,099**	**10,353**	**(46)**	**(24,649)**	**737**	**6,116**	**2,538**	**447**	**(726)**	**(19)**	**(3,150)**

[1]Debt servicing represents the financial impacts of activities related to management of the public debt.
[2]Protection of persons and property.
[3]Natural resources and economic development.
[4]Includes housing, recreation and culture, and other activities which cannot be allocated to the specific sectors.
[5]Includes the legislature, tax collection and administration, Canada Health and Social Transfer 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.
[6]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, 2005

In Millions

Revenue	Health	Education	Social Services	Debt Servicing [1]	PPP [2]	Transpor– tation	NR and ED [3]	Other [4]	General Govern– ment [5]	Adjust– ments [6]	Total
	$	$	$	$	$	$	$	$	$	$	$
Taxation						458	26	62	14,371		14,917
Contributions from the federal government	76	397	49		111	24	38	140	4,396		5,231
Fees and licences	1,690	965	1		596	95	189	38	56	(9)	3,621
Natural resources							3,973				3,973
Contributions from the provincial govern– ment/self–supported Crown corporations and agencies	24	81	3		399	185	266	308	1,589	(443)	2,412
Miscellaneous	603	1,031	48	1	174	28	144	213	98	(94)	2,246
Investment earnings	59	128	3	765	1	42	21	15	7	(208)	833
Total revenue	2,452	2,602	104	766	1,281	832	4,657	776	20,517	(754)	33,233

Summary Financial Statements
Statement of Operations by Sector
for the Fiscal Year Ended March 31, 2005—Continued

In Millions

	Health	Education	Social Services	Debt Servicing [1]	PPP [2]	Transpor– tation	NR and ED [3]	Other [4]	General Govern– ment [5]	Adjust– ments [6]	Total
Expense	$	$	$	$	$	$	$	$	$	$	$
Salaries and benefits	4,446	5,826	331		510	122	445	127	307		12,114
Government transfers	3,162	575	2,151		412	349	482	721	17	(128)	7,741
Operating costs	3,502	1,452	194		275	485	601	420	41	(311)	6,659
Interest	179	545		1,438		299	(2)	42		(207)	2,294
Amortization	336	477	10		19	359	30	42	49	2	1,324
Other	120	189	20		19	21	124	22	98	(87)	526
Operating expense	11,745	9,064	2,706	1,438	1,235	1,635	1,680	1,374	512	(731)	30,658
Surplus (deficit) for the year 2004/05	**(9,293)**	**(6,462)**	**(2,602)**	**(672)**	**46**	**(803)**	**2,977**	**(598)**	**20,005**	**(23)**	**2,575**
Surplus (deficit) for the year 2003/04	**(9,145)**	**(6,395)**	**(2,735)**	**(731)**	**(321)**	**(755)**	**2,225**	**(492)**	**17,037**	**37**	**(1,275)**

[1]Debt servicing represents the financial impacts of activities related to management of the public debt.
[2]Protection of persons and property.
[3]Natural resources and economic development.
[4]Includes housing, recreation and culture, and other activities which cannot be allocated to the specific sectors.
[5]Includes the legislature, tax collection and administration, Canadian Health and Social Transfer 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.
[6]Represents sectoral adjustments to conform to government accounting policies and to eliminate transactions between sectors.

Summary Financial Statements
Statement of Financial Position
for Self–supported Crown Corporations and Agencies
as at March 31, 2005

In Millions

	Utility [1]	Insurance [2]	Liquor [3]	Transpor–tation [4]	Finance [5]	Natural Resources [6]	2005 Total	2004 Total [7]
Assets	$	$	$	$	$	$	$	$
Cash and temporary investments	80	7,176		68	111	3	7,438	6,690
Accounts receivable	407	154	64		55		680	647
Inventories	92		69	23	5		189	198
Sinking fund investments	948						948	981
Long term investments	62	37					99	119
Tangible capital assets	10,223	85	18	340	112	15	10,793	11,237
Other assets	651	153	3	91	5		903	776
	12,463	7,605	154	522	288	18	21,050	20,648
Liabilities								
Accounts payable and accrued liabilities	1,014	5,124	148	133	109		6,528	6,243
Deferred revenue	1,264	1,464		282		3	3,013	2,533
Due to the Province of British Columbia	365				179		544	164
Long–term debt due to the Province of British Columbia	7,612						7,612	8,348
Other long–term debt	128		6				134	139
	10,383	6,588	154	415	288	3	17,831	17,427
Equity								
Investment by the Consolidated Revenue Fund	296			107			403	554
Unremitted earnings—end of year	1,784	1,017				15	2,816	2,667
	2,080	1,017		107		15	3,219	3,221
Total liabilities and equity	**12,463**	**7,605**	**154**	**522**	**288**	**18**	**21,050**	**20,648**

[1] British Columbia Hydro and Power Authority and Columbia Power Corporation.
[2] Insurance Corporation of British Columbia.
[3] British Columbia Liquor Distribution Branch.
[4] British Columbia Railway Company.
[5] British Columbia Lottery Corporation and BCIF Management Ltd.
[6] Provincial Capital Commission.
[7] British Columbia Hydro and Power Authority and British Columbia Railway Company had a change in accounting policy that addresses accounting and reporting for obligations associated with the retirement of long–lived assets. British Columbia Hydro and Power Authority also restated amounts for their mark to market gains/losses. Theses changes have resulted in assets increasing by $55 million, liabilities decreasing by $177 million and expenses decreasing by $3 million for 2003/04. These changes are made up of the following restatements: British Columbia Hydro and Power Authority assets increased by $32 million, liabilities decreased by $210 million, expenses decreased by $13 million; British Columbia Railway Company assets increased by $23 million, liabilities increased by $33 million and expenses increased by $10 million.

Summary Financial Statements

Summary of Results of Operations and Statement of Equity for Self–supported Crown Corporations and Agencies for the Fiscal Year Ended March 31, 2005

In Millions

	Utility [1]	Insurance [2]	Liquor [3]	Transpor–tation [4]	Finance [5]	Natural Resources [6]	2005 Total	2004 Total [7]
	$	$	$	$	$	$	$	$
Revenue	3,897	3,448	2,159	371	2,029	3	11,907	11,028
Expense	3,651	3,049	1,380	193	1,218	4	9,495	9,144
Net earnings of self–supported Crown corporations and agencies	246	399	779	178	811	(1)	2,412	1,884
Contributions paid to the Consolidated Revenue Fund	(341)		(779)	(443)	(627)		(2,190)	(1,356)
Adjustments to contributions[8]				111	(184)		(73)	(185)
Increase (decrease) in unremitted earnings in self–supported Crown corporations and agencies	(95)	399		(154)		(1)	149	343
Unremitted earnings—beginning of year	1,637	618		164		16	2,435	2,095
Prior period adjustments	242			(10)			232	229
Unremitted earnings—end of year	1,784	1,017				15	2,816	2,667
Investment by the Consolidated Revenue Fund	296			107			403	554
Equity in self–supported Crown corporations and agencies for the year	**2,080**	**1,017**	**0**	**107**	**0**	**15**	**3,219**	**3,221**

[1] British Columbia Hydro and Power Authority and Columbia Power Corporation.
[2] Insurance Corporation of British Columbia.
[3] British Columbia Liquor Distribution Branch.
[4] British Columbia Railway Company.
[5] British Columbia Lottery Corporation and BCIF Management Ltd.
[6] Provincial Capital Commission.
[7] British Columbia Hydro and Power Authority and British Columbia Railway Company had a change in accounting policy that addresses accounting and reporting for obligations associated with the retirement of long–lived assets. British Columbia Hydro and Power Authority also restated amounts for their mark to market gains/losses. Theses changes have resulted in assets increasing by $55 million, liabilities decreasing by $177 million and expenses decreasing by $3 million for 2003/04. These changes are made up of the following restatements: British Columbia Hydro and Power Authority assets increased by $32 million, liabilities decreased by $210 million, expenses decreased by $13 million; British Columbia Railway Company assets increased by $23 million, liabilities increased by $33 million and expenses increased by $10 million.
[8] The adjustments are for British Columbia Lottery Corporation transfers to charities and local governments, which is shown as a recovery by the Consolidated Revenue Fund, and for British Columbia Railway Company's adjustment to share capital for the amount paid to the Consolidated Revenue Fund in excess of retained earnings on the books of British Columbia Railway Company.

Summary Financial Statements
Statement of Tangible Capital Assets[1]
for the Fiscal Year Ended March 31, 2005

In Millions

	Land and Land Improve–ments	Buildings	Highway Infra–structure	Transpor–tation Equipment	Computer Hardware/ Software	Other [3]	2005 Total	2004 Total
Historical Cost[2]	$	$	$	$	$	$	$	$
Opening cost	2,071	15,405	10,512	2,648	1,464	4,109	36,209	34,583
Additions	89	955	513	21	283	461	2,322	2,045
Disposals and valuation adjustments	(39)	(173)	(13)	(14)	(110)	(185)	(534)	(419)
	2,121	16,187	11,012	2,655	1,637	4,385	37,997	36,209
Accumulated Amortization								
Opening balance	120	5,467	4,244	584	878	2,661	13,954	12,933
Amortization expense	9	404	298	56	216	341	1,324	1,274
Effect of disposals and valuation adjustments		(135)	(2)	(12)	(96)	(153)	(398)	(253)
	129	5,736	4,540	628	998	2,849	14,880	13,954
Net book value for the year ended March 31, 2005	**1,992**	**10,451**	**6,472**	**2,027**	**639**	**1,536**	**23,117**	
Net book value for the year ended March 31, 2004	**1,951**	**9,938**	**6,268**	**2,064**	**586**	**1,448**		**22,255**

[1]This statement includes assets that are held on capital leases at March 31, 2005 at a net book value totalling $36 million (2004: $60 million) comprised of: heavy equipment $0 million (2004: $2 million); vehicles $26 million (2004: $32 million); computer hardware $4 million (2004: $4 million); buildings $3 million (2004: $21 million) and other assets $3 million (2004: $1 million).

[2]Historical cost includes work–in–progress at March 31, 2005 totalling $1,207 million (2004: $787 million) comprised of: buildings $780 million (2004: $529 million); land improvements $9 million (2004: $7 million); highway infrastructure $326 million (2004: $190 million); transportation equipment $2 million (2004: $1 million); computer hardware/software $87 million (2004: $59 million); and specialized equipment $3 million (2004: $1 million). Work–in–progress is not amortized. Work–in–progress includes capitalized interest expense at March 31, 2005 totalling $7 million (2004: $4 million).

[3]"Other" at net book value includes office furniture and equipment $448 million (2004: $419 million), machinery $837 million (2004: $770 million), miscellaneous $199 million (2004: $202 million)and vehicles $52 million (2004: $57 million).

Summary Financial Statements
Statement of Guaranteed Debt[1]
as at March 31, 2005

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

	Net Outstanding In Millions[1]	
	2005	2004
Taxpayer–supported Guaranteed Debt	$	$
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	102	104
Subtotal, government services	102	104
Health and education:		
Financial Administration Act student aid loans	29	41
Subtotal, health and education	29	41
Economic development		
Financial Administration Act:		
Business Development Bank Guaranteed Program	1	1
Credit Enhancement Emergency Fund Guaranteed Program	2	3
Farm Distress Operating Loan Program	1	1
Feeder Association's Loan Guarantee Program	4	5
Home Mortgage Assistance Program Act mortgages	7	10
Home Mortgage Assistance Program Act second mortgages[2]	1	1
Subtotal, economic development	16	21
Total taxpayer–supported guaranteed debt	148	167
Self–supported Guaranteed Debt		
Total self–supported guaranteed debt[3,4]	10	0
Grand total, all guaranteed debt	158	167
Provision for probable payout	(16)	(11)
Net total, all guaranteed debt	**142**	**156**

[1]Guaranteed debt includes gross principal debt less sinking fund balances of $1 million (2004: $1 million), 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]The government has unconditionally guaranteed the payment of principal and interest for $10 million (2004: nil) of debentures issued to the Canada Pension Plan Investment Fund.

Appendix D

Office of the Auditor General: 2005/06 reports issued to date

Report 1 — April 2005

Follow-up of the Recommendations of the Select Standing Committee on Public Accounts contained in its Fourth Report of the 3rd Session of the 36th Parliament: Earthquake; Performance Audit

Report 2 — May 2005

Joint Follow-up of 2001/2002: Report 1 Managing Interface Fire Risks and Firestorm 2003 Provincial Review

Report 3 — June 2005

Audit of the Government's Corporate Accounting System: Part 1

Report 4 — July 2005

Building Better Reports: Our Assessment of the 2003/04 Annual Service Plan Reports of Government

Report 5 — July 2005

Keeping the Decks Clean:
Managing Gaming Integrity Risks in Casinos

Report 6 — November 2005

Monitoring the Government's Finances
Province of British Columbia

Report 7 — March 2006

Follow-up of 2003/04 Report 4: Alternative Payments to Physicians: A Program in Need of Change

Report 8 — March 2006

Managing PharmaCare: Slow Progress Towards Cost-Effective Drug Use and a Sustainable Program

Report 9 — March 2006

Leading the Way — Adopting Best Practices
in Financial Reporting 2004/05

This report and others are available on our website at http://www.bcauditor.com