2006/2007 : Report 9

OFFICE OF THE
Auditor General of British Columbia

Seeking Best Practices in Financial Reporting:
Report on the Province's 2005/06 Public Accounts

January 2007

Library and Archives Canada Cataloguing in Publication Data

British Columbia. Office of the Auditor General.

Seeking best practices in financial reporting, a report on the province's ... public accounts. — 2005/06 –

Annual.

Continues: British Columbia. Office of the Auditor General. Adopting best practices in government financial statements. ISSN 1705-1630.

ISSN 1499-7819 — Seeking best practices in financial reporting, a report on the province's ... public accounts

1. Finance, Public — British Columbia — Accounting — Periodicals. I. Title.

HJ13.B7B74 352.4'390971105 C2007-960010-7

OFFICE OF THE
Auditor General
of British Columbia

LOCATION:
8 Bastion Square
Victoria, British Columbia
V8V 1X4

OFFICE HOURS:
Monday to Friday
8:30 a.m. – 4:30 p.m.

TELEPHONE:
250 387-6803
Toll free through Enquiry BC at: 1 800 663-7867
In Vancouver dial 660-2421

FAX: 250 387-1230

E-MAIL: bcauditor@bcauditor.com

INTERNET HOMEPAGE:
This report and others are available at our Website, which also contains further information about the Office: www.bcauditor.com

OFFICE OF THE
Auditor General
of British Columbia

8 Bastion Square
Victoria, British Columbia
Canada V8V 1X4
Telephone: 250 387-6803
Facsimile: 250 387-1230
Website: http://bcauditor.com

The Honourable Bill Barisoff
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
V8V 1X4

Dear Sir:

I have the honour to transmit herewith to the Legislative Assembly of British Columbia my office's Report 9: Seeking Best Practices in Financial Reporting: Report on the Province's 2005 / 06 Public Accounts.

Arn van Iersel, CGA
Auditor General (Acting)

Victoria, British Columbia
January 2007

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

Table of Contents

Table of Contents

Acknowledgements

Project Team

Assistant Auditor General:
Bill Gilhooly

Director:
Lisa Moore

Project Leader:
Geoff Stagg

This report is based on the result of audit work done mainly between August 2005 and July 2006 by about 90 staff and contractors of the Office of the Auditor General of British Columbia, and by many private sector accounting firms that took part in the audit of the Summary Financial Statements and in audits of all government organizations that are included in the government reporting entity.

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

Deputy Auditor General's Comments

The audit of the Province's Summary Financial Statements is a key aspect of the work of the Office of the Auditor General. Our audit of the 2005/06 statements culminated with my issuing an unqualified audit opinion thereon.

We present here the findings from our audit of government's 2005/06 Summary Financial Statements, and our observations on how government is steadily improving its financial reporting.

In this report, we explain how government continues to set best practices in reporting on its Summary Financial Statements. We also take the opportunity to recommend how further improvements can be made. And we point out that several important accounting issues need to be addressed, such as accounting for assets built by public-private partnerships (P3's) and resource roads.

As well, we are encouraging government to expand some aspects of disclosure in its Summary Financial Statements. For example, disclosures about employee pension plans and post-employment benefits could be expanded and improved.

Standards continue to evolve, resulting in significant changes in the 2005/06 year and beyond. We look forward to continuing our work with government and standard setters as these changes occur.

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

Errol S. Price, CA, CMC
Deputy Auditor General

Victoria, British Columbia
January 2007

Introduction

Introduction

Why do we write this report?

As an independent office of the Legislature, we report on, and provide recommendations to improve, government's financial management and accountability practices. Our annual audit of the Summary Financial Statements of the Government of the Province of British Columbia (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.

The audited Summary Financial Statements are included in the Public Accounts booklet (and also on the internet) that is published by government. The Public Accounts also includes unaudited information, such as management's discussion and analysis of the financial results, and information about the consolidated revenue fund.

We conduct our audit to assess and to report to legislators and to the citizens of the province whether or not the statements present fairly both the financial position of the Province and the results of its operations; and that is what we did, when we issued our audit opinion, which was published by government in July 2006 as part of its financial statements.

This report is an important product of our audit. Here we outline government's accomplishments in the 2005/06 fiscal year in improving its financial accounting and reporting practices, suggest improvements that we hope government will implement, 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 on the best accounting and reporting practices to use often requires significant analysis and professional judgement.

In Canada, accounting standards for governments are issued by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). Further guidance exists in the accounting standards issued by the Accounting Standards Board of the CICA for public and private companies. These standards are referred to as Canadian generally accepted accounting principles (GAAP). In British Columbia, the Budget Transparency and Accountability Act requires government to follow GAAP in the preparation of its Summary Financial Statements.

In situations that are not covered by Canadian GAAP, guidance on appropriate accounting policies can be obtained from standards issued by bodies empowered to do so in other jurisdictions, in particular the United States Financial Accounting Standards Board and the International Accounting Standards Board. However, when looking to other sources of GAAP, it is important to choose policies that are consistent with the primary sources of Canadian GAAP, including PSAB's conceptual framework.

According to PSAB, the accounting policies chosen should result in financial statements that:

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

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

Last Year's Accomplishments and Changes

In the 2005/06 Summary Financial Statements, government made a number of changes and improvements. Although most were driven by changes in GAAP, we believe they also reflect an ongoing commitment to sound public sector financial reporting.

The financial statement discussion and analysis is more comprehensive

For the past five years we have published a report titled *Monitoring Government's Finances*.[1] We published the first one in February 2002, (commenting on the 2000/01 fiscal year), in part to fill a need we saw for a clearer analysis and discussion of government's finances. At that time, there was little guidance on the form and content of this type of public sector reporting.

In our first report, we encouraged government not only to provide fully consolidated financial statements using GAAP; but also to supplement the financial statements with a good analysis and discussion of trends and key financial indicators. This was so that the financial health of the Province could be better explained to legislators and the public.

In June 2004, there was a new development in financial reporting practices for the public sector. PSAB published its "*Statement of Recommended Practice*" to aid governments in preparing a version of the private sector Management's Discussion and Analysis report. As had been done in the private sector for many years, the recommended practice called for management to provide a detailed discussion of its financial health and performance.

We were pleased to see that government has included a more comprehensive financial statement discussion and analysis section in the 2005/06 fiscal year's Public Accounts. The discussion of the Province's financial results has more depth and breadth than in prior years. There is now more explanation of how financial results differed from last year, additional descriptions of the nature of significant balances, and new trend analysis. Some of the key "Indicators of Government Financial Condition" as recommended by the CICA were also included and discussed this year.

We were also pleased to note that additional financial discussion and analysis was also added to the Ministry of Finance's *Financial and Economic Review* report, which is published shortly after the Public Accounts.

---

1 Go to http://bcauditor.com for copies of past Monitoring Government's Finances reports.

Last Year's Accomplishments and Changes

In our *Monitoring Government's Finances* report[2] for the 2005/06 fiscal year, we encouraged government to continue to make improvements in its financial statement discussion and analysis, including providing longer-term financial trends. In particular, we would like to see some of the key information currently in the *Financial and Economic Review* included in the Financial Statement Discussion and Analysis for the Public Accounts.

Disclosure of interest expense is now consistent

Prior to 2005/06, government showed only a part of its total interest expense separately on its statement of operations. The other part was combined with the health, education and transportation expenses. As a result, the only place that the total interest expense was shown was in the notes to the financial statements, and it was not easy to compare total interest with other types of expense.

To improve the disclosure, we recommended in previous years that government disclose the interest expense consistently, either by disclosing it as a single item or completely allocating it to the different functions. In our 2004/05 report, we recommended that it simply be disclosed as a single item.

In 2005/06, the government did so[3], restating the comparative figures for consistency.

Note disclosure of investments has been improved

In 2004/05, the disclosure of investments in the notes was a mixture of the types of investments held and the organizations which held them. For example, one line disclosed the total investments of universities, colleges and institutes, while other lines showed the total investments in Government of Canada bonds, pooled investment portfolios, and so on. This implied that none of the investments of universities, colleges and institutes were in Government of Canada bonds or pooled investment portfolios, which was not the case.

---

2 Go to http://bcauditor.com for a copy of our Monitoring Government's Finances report for 2005/06.

3 On the statement of operations on page 36 of the Summary Financial Statements.

In 2005/06, government has made the disclosure consistent by disclosing the type of investment.[4] As well, the market value of the investments has been disclosed in addition to the carrying value, as required by GAAP.

Recent changes to accounting standards have required changes in government's accounting and reporting practices

Several changes to GAAP came into effect for 2005/06. Those relating to contractual obligations, measurement uncertainty and contingent liabilities affected the nature and extent of information required to be presented in the notes to the financial statements. Changes relating to rate-regulated accounting affected how the results of British Columbia Hydro and Power Authority and British Columbia Transmission Corporation were accounted for, and directly impacted government's surplus for the year.

More disclosure of contractual obligations

Contractual obligations are obligations of government to others that will become liabilities in the future when the contract terms are met.

In 2004/05 and earlier years, government disclosed only those contractual obligations relating to non-operating commitments (for example, capital asset programs) costing more than $50 million.

Starting in 2005/06, GAAP required government to disclose all significant contractual obligations, both operating and non-operating. Government also had to provide information about the nature of the obligations and their timing.

In applying the new standard, government determined that significant contractual obligations were those costing more than $50 million. It has disclosed these obligations, both operating and non-operating, in a new note in the Summary Financial Statements,[5] breaking them down by function of government (Transportation, Health, etc.), and showing amounts for each of the next five years, a total for amounts applying to more than five years in the future, and a grand total.

4 Note 9 on page 49 of the Summary Financial Statements.
5 Note 25(d) on page 65 of the Summary Financial Statements.

Last Year's Accomplishments and Changes

Disclosure of contractual obligations could be improved

We believe government could improve its disclosure of contractual obligations.

We feel that although disclosing the function to which the contractual obligations relate is meeting the new requirements under GAAP, it is only providing minimal information about the nature of the obligations. In our view, the disclosure would be more informative and a leading practice if it also included more detail as to what types of contracts are included in each line item.

For example, it could note that transportation contains significant contractual obligations such as highways' construction and maintenance of the Sea-to-Sky Highway and the Okanagan Lake Bridge. Alternatively, it could change from disclosing by function to disclosing by types of contracts such as capital construction, computer services, operating leases and capital leases.

Recommendation 1

We recommend that government provide fuller disclosure on the nature of its contractual obligations.

GAAP requires government to disclose information about the contractual obligations of all the entities whose financial results are included in the Summary Financial Statements. This includes both entities that are fully consolidated and those that are consolidated on a modified equity basis (government business enterprises). We think that the way government has chosen to do this — by combining the information from both types of entity in the one note — may be confusing to the reader.

Information on future contractual obligations provides an indication of committed expenditure levels of government. In order to be useful, this important information should be capable of being compared to the statement of operations. The way in which government business enterprises are consolidated, using the modified equity method, means that only their net income is recorded on the statement of operations. Their gross revenues and expenses are not included as part of the total revenues and expenses. However, their contractual obligations have been combined in the financial statement note. As a result, the expenses on the statement of operation are not comparable to the amount of contractual obligations in the note.

For example, expenses for natural resources and economic development, as reported on the statement of operations for 2005/06, were $1.6 billion. Note 25(d) shows that contractual obligations for that sector are $2.0 billion for 2006/07, an increase of 25%, when in fact the government has budgeted for just under $1.5 billion, a small decrease.

We believe that government should report the contractual obligations of government business enterprises separately.

Recommendation 2

We recommend that government disclose government business enterprise contractual obligation information separately from information on the rest of government's contractual obligations.

Errors in the contractual obligations note

When applying new accounting standards, the risk of potential misstatement is increased as individuals are trying to interpret them, including determining what information needs to be gathered, and deciding how best to display the information in the financial statements.

Subsequent to the release of the 2005/06 Public Accounts, the Office of the Comptroller General brought to our attention that the contractual obligations note contained incorrect information. The misstatement resulted from the consolidation of information gathered from various Crown corporations. The information presented by these Crown corporations on their own financial statements was correct, but it was misinterpreted during the rush of the consolidation and audit process. In particular, information about the obligations of the British Columbia Hydro and Power Authority were mis-read. The result was that the obligations for 2006/07 reflected in the note were overstated by $1.3 billion, and those for 2012 and beyond were understated by $8.1 billion. The misstatement affected only the disclosure of contractual obligations in note 25(d) on page 65 of the Public Accounts.

After review with and agreement by our Office, the Office of the Comptroller General posted a notice of change on October 2, 2006 for note 25(d), page 65, contractual obligations.

We will work with the Comptroller General to strengthen our respective processes to mitigate the risks of future misstatements.

Last Year's Accomplishments and Changes

More comprehensive disclosure of measurement uncertainty

The preparation of financial statements usually 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.

For a number of years, government has been disclosing in a note[6] the existence and nature of the measurement uncertainly involved in preparing its Summary Financial Statements, even though such disclosure was not a requirement (it was only a requirement for private sector organizations).

Starting in fiscal 2005/06, however, government disclosed the nature and extent of all significant areas where measurement uncertainty exists, in accordance with a new PSAB standard. Government has determined "significant" to mean where estimated amounts could vary by more than $10 million, and has disclosed amounts where this is so. As well, government has shown the extent of the uncertainty by stating a range by which the actual amount recorded might change.

Under new accounting standard changes that will take effect in fiscal 2007/08, government will also need to disclose the impact of changes in accounting estimates.

Changes in accounting for contingent liabilities

A contingent liability exists when an expected future event will determine whether or not a liability exists and should be recorded in the financial statements. The most common contingent liabilities are lawsuits claiming damages from government, wherein the plaintiffs are alleging to have suffered losses that government should pay damages for.

Since these matters are in dispute, the possible government liability cannot be determined with certainty until some point in the future when the judicial process is completed. If it is determined that government will likely have to make a payment, however, then the amount should be accrued in the financial statements and included as a liability, even though the confirming event has not yet occurred.

---

[6] Note 2 on page 43 of the Summary Financial Statements.

Last Year's Accomplishments and Changes

For 2005/06, two changes in the PSAB accounting standard for contingent liabilities affected how government has shown such liabilities in the Summary Financial Statements.

First, when a contingent liability is assessed as likely and government can reasonably estimate the amount of the liability, the amount should be accrued. Prior to 2005/06, if a previous assessment changed to "not determinable" in a subsequent year, the amount accrued would be reversed and removed as a liability. The new standard requires that once an amount has been accrued, it cannot be reversed in a subsequent year, however, unless it is reassessed as "unlikely" and this status will not change in the near future (or the lawsuit is settled and a payout is made). Simply reassessing the amount of a contingent liability as "not determinable" is no longer sufficient to reverse the accrual.

Second, PSAB considers that disclosure of the extent of a contingent liability can be made more useful by including government's best estimate and a range of possible amounts, unless to do so would have an adverse effect on the outcome. Alternatively, more useful disclosure of the extent could be accomplished by disclosing the maximum likely amount of the contingent liability, along with an explanation of the significant factors that affect the resolution of the contingent liability and a statement of the likelihood that any contingent liability will be less than the maximum likely amount.

We believe that government could do more to comply with the spirit of these changes.

For example, with respect to disclosure, government continued its practice of disclosing the full amounts claimed rather than making more realistic (and lower) assessments.[7] We believe that PSAB's new standard should be adopted—namely, that disclosing government's best estimate and a range of possible amounts would provide a more realistic sense of the extent of a contingent liability (unless disclosing such an estimate would have an adverse effect on the outcome). In our view, this approach would present more useful information to financial statement users.

[7] Note 25 (b) on page 62 of the Summary Financial Statements.

An alternative approach is for government to disclose the maximum likely amount of the contingent liability, adding an explanation both of the significant factors that affect the resolution of the contingent liability and of the prospects of any contingent liability being less than the maximum likely amount.

Recommendation 3

If government wishes to disclose the maximum claim amount for a contingent liability, we recommend that it state this fact, explain any significant factors that could affect the resolution of the contingent liability, and the prospects of it being settled for a lesser amount.

Rate-regulated accounting is no longer adjusted for

Rate-regulated accounting refers to accounting policies and adjustments that are dictated by a regulating body for compliance by some types of organizations. In British Columbia, three organizations that are part of the government reporting entity —British Columbia Hydro and Power Authority (BC Hydro), British Columbia Transmission Corporation, and the Insurance Corporation of British Columbia—follow directions given by the British Columbia Utilities Commission, a regulatory body.

Because government appoints the members of the Utilities Commission, we have considered that the Commission is not wholly independent of government. Therefore, prior to 2005/06, when government prepared its consolidated financial statements we expected it to make adjustments to reverse the financial impacts of directions given by the Utilities Commission. This is what government did. (The directions of the Commission had only affected the financial results of BC Hydro, so it was only necessary to adjust how the results of BC Hydro were consolidated.)

Guidance under GAAP did not address the issue of independence of rate regulators. The CICA Accounting Standards Board (AcSB) undertook a project to examine the accounting of rate-regulated operations, but finally recommended (on May 3, 2006) that the project be discontinued. In the absence of guidance from the CICA handbook addressing the specific circumstances of entities subject to rate regulation, the AcSB instead decided that the US Financial Accounting Standards Board statement FAS 71 "Accounting for the Effects of Certain Types of Regulation" was acceptable.

According to FAS 71 the regulator is not required to be independent, as long as the regulator has been established by statute. Consequently, we advised government that it should no longer adjust for the effects of rate regulated accounting. Government made this change for both the current and prior year comparatives in the Summary Financial Statements. As a result, the surplus reported for 2006 was increased by $233 million, and for 2005 by $162 million.[8]

[8] Note 1(e) on page 43 of the Summary Financial Statements.

Upcoming Changes in Accounting Standards

Upcoming Changes in Accounting Standards

Accounting standards continue to evolve, especially as many national standard setting bodies across the globe attempt to bring their standards into harmony with each other. Canada is no exception, and there are a number of new standards in the making. None of these is mandatory for the 2006/07 fiscal year — indeed, some of the new standards are still only at the proposal stage ("exposure drafts").

Early adoption of new standards is often encouraged by PSAB, and we have recommended previously that, to the extent practical, government adopt new standards before their formal effective date. Government is required by legislation to follow GAAP and adopt new recommendations. However, government has also stated that early implementation of new recommendations is not always practical or, in its view, advisable.

The disclosure of accounting changes will likely be expanded

Effective for its financial statements for the 2007/08 fiscal year, government will need to comply with a new standard that addresses disclosure about accounting changes, including changes in accounting policies, changes in accounting estimates, and corrections of prior period errors.

Government already complies with most of the requirements about changes in accounting policies and corrections of prior period errors.

A significant additional requirement concerning changes in accounting policies is that government will need to provide information about new accounting standards that have been issued but that are not yet mandatory and have not yet been adopted.

For example, we discuss below the probable new standard on government transfers, which is expected to be issued sometime in 2007, but will not be mandatory until government's 2009/10 fiscal year. If government does not adopt this proposed new standard until 2009/10, then for its fiscal years 2007/08 and 2008/09 it will need to disclose that it has not yet adopted this standard. It will also need to provide information about the possible impact the new standard will have on its 2009/10 financial statements.

The new standard also requires additional disclosure for changes in accounting estimates. The amount of significant accounting estimates is already disclosed—as measurement uncertainty (as we discussed above). However, the new standard will also require disclosure of the amounts by which the prior year's estimates have changed and the impact that has had on the current period or is expected to have on future periods.

Comprehensive income will not be part of government's operating statement

The new standard on comprehensive income introduces a new line item on the financial statements of private sector companies. It is called "other comprehensive income", (or OCI). Of importance is the fact that OCI is reported on the income statement as a separate item after net income—it is not part of net income. Other comprehensive income consists of the change in market value of financial assets available for sale (to be distinguished from financial assets held for trading or held to maturity), and changes in the fair values of effective cash flow hedging instruments, and gains and losses arising from the translation of the financial statements of a self-sustaining foreign operation.

Government business enterprises and government business partnerships are organizations that carry on a business (BC Hydro is an example of a government business enterprise). Accordingly, such enterprises are required under GAAP to report on the same basis as the private sector. There are also government "business-type" organizations—organizations that carry on a business but do not support themselves from their earnings. They also report on that basis and so may include OCI on their financial statements.

PSAB has determined that governments should not report OCI on their statement of operations (their equivalent of the "income statement"). Rather, they should do so both in the statement that reconciles the change in accumulated surplus or deficit, and in the statement of changes in net debt.

As a result of this standard, if there are government organizations that are reporting OCI on their statements of operations, it will be necessary to make adjustments when the Summary Financial Statements are prepared so that the OCI is not carried through to the

Summary Financial Statements and reported on the government's statement of operations. These adjustments will be part of the usual adjustments made as part of the consolidation process to ensure that the results of all organizations that are consolidated are prepared using the same accounting policies as government.

An exception in this particular case is for government business enterprises, which are consolidated using the modified equity method (their net earnings are reported as income of the government, instead of all their revenues, expenses, assets and liabilities being consolidated.) Normally, there is no adjustment for different accounting policies that government business enterprises might follow. In this case, however, PSAB specifically requires adjustments to be made for any government business enterprises that have reported OCI.

The new standard is mandatory for the 2008 fiscal year, but some organizations may choose to adopt it in the current fiscal year.

Segmented reporting is changing

The purpose of producing functional consolidated sector information is to provide more detail to make it easier for financial statement users to understand both the composition of the Summary Financial Statements as a whole and the relative size and financial results of each major part. It will also:

- help users identify the resources allocated to support the major activities of government;
- help users make more informed judgements about the government reporting entity and its major activities;
- help users better understand the manner in which the organizations in government are organized; and
- enhance the transparency of financial reporting.

Effective April 1, 2007, government is required to follow the new PSAB handbook standard on segmented reporting. The standard, discussed in detail below, covers how to define and disclose segments in a government's Summary Financial Statements.

To its credit, the Province has been disclosing some segmented information for a number of years, even though there has been no requirement to do so until the introduction of this new standard.

Defining segments

The consolidation of sectoral financial information requires choosing an appropriate basis of segmentation. The new standard suggests alternative ways of defining segments for reporting purposes. One basis it suggests is by major functional classifications of activities undertaken by government (this is how segmented information is currently portrayed in the British Columbia Summary Financial Statements).

The standard notes that the supplementary disclosures sometimes provided by governments at a broad or detailed level about components of the government reporting entity do not always meet the requirements of the standard. What is important within the Summary Financial Statements is that the definition of a segment be met.

This means that the segmented information produced to roll up into the segmented statements by total sector (and hence into the Summary Financial Statements) should include the consolidation of all government organizations within each sector, including the related ministries. For example, the segmented statement for the health sector would include the consolidation of the health authorities, hospital societies, related health Crown corporations and the Ministry of Health.

Disclosing segment information

Under the new standard, governments' Summary Financial Statements will be required to disclose:

- the basis for identifying segments, the nature of the segments and the activities they encompass, and the method of significant allocations to segments;
- segment expense by major object or category;
- segment by revenue source and type;
- the aggregate of the net surplus/deficit of government business enterprises and government business partnerships accounted for under the modified equity method for each segment, if applicable;

- a reconciliation between the information disclosed for segments and the consolidated information in the Summary Financial Statements; and
- changes in accounting policies related specifically to segment reporting that have a material effect on segment information.

In addition, governments are also encouraged to provide other segment information where useful to the users such as total carrying amount of assets by segment, total carrying amount of liabilities by segment, and tangible capital assets by segment.

The changes that are needed

We have identified some changes that will be needed, but government will need to review the new standard to determine what is required.

Government already presents information by sector, using major functions such as health, education, and social services as the basis for determining the sectors. We believe this is the most logical display of relevant segmented information. However, effective for the 2007/08 fiscal year, government will need to add disclosure that explains the basis for identifying the segments, the nature of the segments, the activities they encompass, and the method of significant allocations to segments.

As well, government already prepares a consolidated statement of operations by sector and a consolidated statement of financial position by sector (the latter the equivalent of the private sector's balance sheet). Government's consolidated statement of operations by sector meets PSAB's requirement to disclose current year revenue and expense by segment, and is also reconciled to the Summary Financial Statements (using a column for adjustments). Government's consolidated statement of financial position by sector also meets PSAB's additional guidance on what governments are encouraged to disclose for assets and liabilities by segment for current year information, and the statement be reconciled to the Summary Financial Statements.

For the fiscal year beginning April 1, 2007, government will be required to prepare these segmented statements on a comparative basis so that there are segment totals for both the current and prior year.

As well, there will need to be disclosure of the aggregate of the net surplus/deficit of government business enterprises and government business partnerships (which are accounted for under the modified equity method) for each segment, and disclosure of changes in segment reporting accounting policies that have a material effect on segment information.

We also encourage government to provide additional disclosure by producing detailed statements for each segment. Doing so would make it easier to understand the finances of the separate sectors of government.

Accounting for government transfers may change

Government transfers are funds or capital assets that are transferred from one government to another government, or from a government to an individual or organization. For example, in fiscal 2005/06 the Province received $5.8 billion from the federal government, and it paid $8 billion to local government, organizations and individuals. As mentioned above, PSAB is developing a new standard for accounting for government transfers. While the exposure draft covers both receipts and payments, it is the accounting for the receipts from the federal government that we believe warrants closer scrutiny.

The current standard for accounting for receipts of government transfers requires the funding to be recorded as revenue when received. Most of the transfers from the federal government are recorded this way. However, in 2003/04 the federal provincial Health Accord resulted in the transfer of significant funds to British Columbia for health care programs. Originally intended to be transferred over three years, the federal government instead transferred all the money during 2003/04. Additional transfers were made during 2004/05. These totalled approximately $0.5 billion in 2003/04 and $1.3 billion in 2004/05.

We told government that we would agree with its proposal of deferring and recognizing the funds received as revenue to match the expense if it:

- only deferred funds provided by the federal government for the specific purposes set out in the Health Accord;

- developed plans to spend these funds on the health care initiatives set out in the Health Accord;
- tracked the dollars spent; and
- developed and implemented a means to measure the effectiveness of the dollars spent that would withstand the rigour of an audit.

The alternative would have been to record the funds as revenue in the years received, something that was problematic for government given that some of the funding was received close to the year-end. In 2004/05 for example, $0.6 billion was received on March 30. Government could not constructively spend this money before year-end, and if it was budgeted to be spent in the following year(s), when there was no federal revenue to offset the expense, there might be a budget deficit. We agreed to the deferral because the accounting for government transfers was still under review by PSAB and the issue of revenue recognition and deferral was a significant factor in its deliberations.

In 2005/06, additional transfers totalling $190 million were received for mountain pine beetle mitigation and early learning child care programs. We agreed that part of this funding could be deferred as well, following the same conditions as noted above.

In August 2006, PSAB released a proposed standard on accounting for government transfers. This was expected to be finalized in March 2007, however further discussions are in-progress to consider the definition of a liability resulting from government transfers, especially in light of a recently approved international public sector standard. The current proposed standard would not be mandatory until the 2009/10 fiscal year. If approved in its current form, there will be changes in how governments account for the transfers they make and receive.

Under the proposed new standard, transfers received from the federal government must be recognized as revenue during the year in which the events giving rise to the transfer occurred, as long as the transfer has been authorized (by the federal government), and federal eligibility criteria (if any) have been met. One eligibility criterion, for example, might be that the Province can incur expenses that comply with certain conditions, and then apply to the federal government for reimbursement (as is done, for instance, with emergency program expenditures).

However, there is no provision in the proposed new standard to defer revenue and recognize it at a later date when related expenditures are incurred, as has been done in the Summary Financial Statements with the transfers for the Health Accord, mountain pine beetle mitigation and early learning child care programs described above. This could be a significant change for British Columbia. If the proposed standard had been in place from 2003/04 onwards (which is when the first Health Accord deferrals were made), revenue would have been approximately $390 million higher in 2003/04, $770 million higher in 2004/05, and $230 million less in 2005/06.

The long transition period proposed by PSAB until the proposed standard becomes mandatory in fiscal 2009/10 is intended to allow time for governments to consider and plan for its impact.

As described above in the section "The disclosure of accounting changes will likely be expanded", if government did not adopt this standard until fiscal 2009/10, it would still need to disclose that the new standard had not been adopted in its 2007/08 and 2008/09 financial statements, and provide information about what the likely impact of the standard would be in fiscal 2009/10.

Transfers from the federal government to be paid out of its surplus

The federal government, through bill C-48, has provided the federal Minister of Finance with the authority to make payments to the provinces out of the federal government surplus (if one is recorded). On May 2, 2006, the federal government announced that it would provide provinces and territories with up to $3.3 billion for post-secondary education, public transit, affordable housing, northern housing and off-reserve Aboriginal housing, if the surplus for the year ended March 31, 2006, exceeded $2 billion, and after providing up to $320 million for international assistance commitments. British Columbia's share of this funding was to be $408 million.

When the federal government made this announcement, it also stated that its projected surplus was $8 billion. Since there would need to be a surplus of approximately $5.6 billion for any of the provinces or territories to receive the full amount, we felt it was very likely the province would receive this funding (and British Columbia, in fact, received its $408 million share in September 2006). However, no amount was recorded in the Summary Financial Statements at March 31, 2006. This gives rise to two questions: Should the Province have accrued the revenue in 2005/06? And would the Province have needed to do so if the proposed standard had been in place? We think the answer in both cases is no.

The Province should record this revenue in the year in which the events giving rise to it took place, provided that the transfer had been authorized (by the federal government), and the eligibility criteria, if any, had been met. So, if the federal government had made, and communicated, its decision to make the transfer to the provinces before March 31, then the government would have needed to consider accruing the revenue at March 31.

However, a further requirement that is relevant in this situation is that the amount is contingent on the federal government recording a surplus of at least $5.6 billion. Even though this is likely, the accounting standards state that contingent revenues should never be accrued. Accordingly, the revenue would be recorded in the subsequent year. The proposed new accounting standard would not change this treatment.

Accounting for tax revenue and expenditures may change

The Province currently reduces the amount of tax revenue it records in its financial statements by the amount of tax credits and offsets related to the tax. This may need to change as a result of a proposed tax revenue accounting standard.

The proposed standard is part of a move to bring Canadian accounting standards into line with international accounting standards. It distinguishes between “tax expenditures”, which should be accounted for as deductions from tax revenue, and “expenses paid through the tax system”, which should be shown separately as expenses.

The key distinction between expenses paid through the tax system and tax expenditures is that the former is available to recipients irrespective of whether or not they pay taxes.

In British Columbia for example, the BC Family Bonus is paid to families with children under the age of 18. The amount is calculated based on information provided on the personal tax return, and may be reduced depending on the amount of income the family earns. The Province calculates how much of the bonus is paid to families that pay personal income tax, and records that portion as a deduction from tax revenues. The amount of the bonus that is paid to families that do not have enough income to pay taxes is recorded as an expense. In 2005/06, $38 million of the family bonus was deducted from tax revenue, and $37 million was recorded as an expense.

If the proposed standard is adopted in its current form, we would expect that, for the example provided above, the portion of the expense currently deducted from tax revenue would be required to be shown as an expense. At present, there is no suggested date for when this will happen.

The accounting for other tax credits and offsets (for example credits given to mining and forest companies) may need to be changed as well.

Accounting standards differ between government and government organizations

As mentioned earlier, government and government ministries follow accounting standards set down by PSAB. However, government business enterprises and "business-type organizations" follow accounting standards set out by the CICA, and other government organizations such as universities, colleges and health authorities follow "non-profit organization" accounting standards, also set out by the CICA.

At times, the accounting practices required by these standards are different. When this is so, different organizations within the reporting entity will account for an identical item in a different manner. For example, government business type organizations, following CICA standards, write down capital assets when their value exceeds the sum of future cash flows expected from the use of the capital asset. However, under the PSAB standards followed by government, if the asset was still capable of being used — and was indeed still being used — then it would not be written down.

When the consolidated financial statements are prepared, government is required to make adjustments so that all items are accounted for in the same manner. Therefore, if a government business-type organization had written down a capital asset using a future cash flows test, but the asset was still capable of providing a service and was still being used, then government would need to reverse the write-down when it prepared the consolidated statements.

Another example is the reporting of comprehensive income, which we discussed earlier in "Upcoming Changes In Accounting Standards". Governments may not show comprehensive income on their statement of operations, although many government organizations will. This too will need to be adjusted on consolidation.

PSAB has proposed a project to review differences of this type and, in particular, to assess whether it makes sense for government organizations to follow different accounting standards.

Further Improvements We Recommend

Further Improvements We Recommend

We have a number of additional recommendations concerning accounting practices and disclosures.

Accounting for resource roads needs to be reviewed

British Columbia has about 250,000 kilometres of forest service roads, and thousands more kilometres of roads that support mining and oil and gas exploration and extraction.

These resource roads are currently expensed as they are built, a situation that would not be appropriate if these roads were tangible capital assets.

This issue has come to light recently because of a public-private partnership arrangement for the Sierra Yoyo Desan (SYD) resource road in north eastern British Columbia. We believe the SYD road meets the definition of a tangible capital asset and therefore should be capitalized. This has brought into question the accounting for all other resource roads in the province and whether they also meet the definition of tangible capital assets and therefore should be capitalized.

PSAB clearly states that "roads" are tangible capital assets. Government has capitalized all highways in the province for a number of years, consistent with PSAB guidance. The guidance also indicated that all tangible capital assets must be reported as non-financial assets, regardless of whether they contribute net cash inflows to government. (The one exception is those that should be reported as assets held for sale.) PSAB does not distinguish by type of road, however. In our view, highways are very different from resource roads and the latter should be assessed separately.

The main purpose for constructing and maintaining resource roads is to provide access to natural resources such as minerals, oil, gas and timber. These roads are often also used for other purposes such as accessing parks and recreation sites.

Resource roads are constructed on both Crown and private land. Although a private company may pay for the construction of some resource roads on Crown lands, such costs are effectively reimbursed through reduced fees charged by government. As well, while resource roads are in use by private companies, those companies are required to hold permits. To determine who accounts for the roads while under permit, it is important to look at who has the risks and rewards of ownership during that time.

In our view, both the private companies and the Province obtain rewards in the form of revenue earned through use of the roads. The extent of the risk exposure by either party depends on the circumstances. If a lawsuit pertained to the actions of the private companies, then the company would be vulnerable. However, the Province would also likely be included in any action.

When private companies no longer require the use of the road, the road reverts back to the Crown, which results in the Province having beneficial ownership and full responsibility for road maintenance.

There are varying types of resource roads, including service, operational and site roads, varying in nature from temporary to permanent. Given these various types of resource roads and the different arrangements they involve with the private sector, each type would need to be individually assessed to see whether or not it meets the definition of a tangible capital asset. Likely, some of the permanent ones would need to be capitalized. Existing resource roads that reverted to the Province when the permit expired in previous years may also need to be capitalized.

What value should be assigned to those roads that are deemed to be tangible capital assets is a common question. PSAB states that some government tangible capital assets that are still in use by government may not have any unamortized cost remaining because of their age and the amortization period set for that type of tangible capital asset. If government has the information to estimate the historical cost and accumulated amortization of such fully amortized assets, then that information would be recorded in government's accounting records. Where a government does not have this detailed information on its fully amortized assets, it would record them at an initial value equal to their residual value (where the residual value is material and estimable) or at nominal value.

Finally, once a road is capitalized, government would have to estimate a useful life for it so that it could be amortized over an appropriate period.

Further Improvements We Recommend

Recommendation 4

We recommend that government review its policy on accounting for resource roads to see whether there are roads that should be capitalized, when they should be capitalized, at what value they should be capitalized and at what rate they should be amortized.

Financial statement disclosure of employee pension plans should be improved

Government participates in several joint trusteeship pension plans that provide for future benefits for its employees. These are plans where government shares the risks and rewards of providing benefits jointly with plan participants. There are three components to the pension plans: basic pension benefits, inflation adjustments, and non-pension group health benefits.

It is important for financial statement users to appreciate the significance that these retirement benefit plans have on government's finances. Detailed disclosure must be available in order to best describe government's responsibilities and fully demonstrate the impact that these pension plans have on the results of operations and financial position of government.

The notes to the Summary Financial Statements do not contain all of the information that the PSAB standard requires to be disclosed in the financial statements. This includes such items as:

- the current period benefit cost;
- the pension expense;
- the amount of contributions by employees during the year;
- the amount of contributions by the government during the year; and
- the impact of inflation on the plans.

This is not a complete list of what should be disclosed in the financial statements. The PSAB standard lists 25 items that need to be disclosed, and government should review the list to determine what additional disclosure is needed in its financial statements.

Much of the information is presented on the pension plans' website, and the Province includes a reference to that website in the financial statements. However, we believe that providing that reference does not fulfill the required disclosure standard of including the information in the financial statements.

Recommendation 5

We recommend that government provide complete disclosure on pension plans as required by the PSAB standard.

Post-employment benefits disclosure should be expanded

The requirement for post-employment benefits disclosure is similar to the requirement for pension plan disclosure, although it varies depending on the nature of the benefit. Currently, government discloses the liability amount for "accrued employee leave entitlements", but nothing about the nature of these benefits, information about key assumptions, a reconciliation of assets and accrued benefit obligations from the beginning of the fiscal year to the end of the fiscal year, and the expense for the period. All this is required by the PSAB standard.

Recommendation 6

We recommend that government revise its current accrued employee leave entitlements disclosure so that it complies with the PSAB standard on post-employment benefits.

The policy on capitalized interest during construction should be applied consistently

When an organization constructs a building or large capital asset, a generally accepted accounting practice is to include as part of the cost of the asset the interest paid on money borrowed to finance construction. Capitalizing this interest ceases when construction is complete and the asset is put into use. From then on, any financing costs are expensed.

The Province's accounting policy is to capitalize interest charges on money borrowed to finance 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.

In 2004/05, and again in 2005/06, however, interest was capitalized on one construction project despite the fact that there was no specific borrowing for that project.

In 2004/05, the Province capitalized interest costs of almost $3 million as part of the cost of constructing the Vancouver Convention Centre Expansion, and then capitalized a further $6 million in 2005/06. 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 capitalized is calculated as the amount spent on construction, times the average interest rate for the year on the total borrowing of the Province. 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 practice of capitalizing interest during construction, capitalizing interest on this particular project raises questions 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 provided for the Vancouver Convention Centre Expansion, assuming that the funding came from general borrowing, but it has not been attributed to the substantial funding, that was given for construction projects in the education and health sectors, which also came from general borrowing.
- The rationale for calculating interest is that general borrowing financed the construction in process. However, in each of the two years in which interest has been capitalized on the convention centre expansion so far, the Province recorded a surplus and reduced its total debt.

As well, in the case of the Vancouver Convention Centre Expansion, the calculation of the interest assumes that all of the construction in process was financed by the Province, ignoring the participation of the federal government and Tourism Vancouver.

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

Recommendation 7

We recommend that government review its policy on capitalization of interest during construction so that the policy is applied more logically (in terms of calculating the amount), and consistently across the government reporting entity.

Disclosure of the Olympics Games commitment should be expanded

In the 2005/06 Summary Financial Statements, government only disclosed a commitment of $600 million for the 2010 Olympic and Paralympic Winter Games. This commitment and the amount spent against it to date ($148 million) were disclosed in the notes to the Summary Financial Statements[9]. For several reasons, noted in our September 2006 report[10] "*The 2010 Olympic and Paralympic Winter Games: Review of Estimates Related to the Province's Commitments*", we believe that this commitment is understated.

In particular, it does not include a commitment government made to the International Olympics Committee (IOC) to upgrade the Sea-to-Sky highway. Although the amount spent to date —$169 million—is disclosed later on in the text of the note, the remaining commitment amount is not noted there. The remaining total commitment, $1,811 million (which includes payments for maintenance after 2012), is included as part of the total government commitments in the Transportation sector[11]. The remaining capital portion of the Sea-to-Sky highway, which we believe is part of the commitment to the Olympics, has not been disclosed separately.

As well, the note does not disclose separately other Games-related commitments government has made such as funding for the British Columbia 2010 Olympic and Paralympic Winter Games Secretariat and construction of the Callaghan Valley roads. Although this is not specifically required under PSAB standards for

[9] Note 25(c) on page 64 of the Summary Financial Statements.
[10] Go to http://bcauditor.com for copies of our report.
[11] Included in the total of note 25(d) on page 65 of the Summary Financial Statements.

disclosure of commitments, we believe that, given the significance of this undertaking, government should include all Games-related commitments in one place, that is, in its Olympics commitment note.

Recommendation 8

We recommend that government disclose the complete Games-related commitments in its Olympics commitment note.

Other Significant Matters

Other Significant Matters

There are a number of other matters related to the Summary Financial Statements that we wish to report on.

The boundaries of the government reporting entity need continual monitoring

The government reporting entity is not static. Each year, there are organizations that are created by government that must be reviewed to determine whether or not they should be included in the reporting entity. Conversely, government may wind-up or extinguish some entities when they no longer serve a public purpose or as part of restructuring initiatives.

The PSAB standard indicates that an organization that is controlled by government should be included within the reporting entity. Control is defined as the ability to influence the financial and operating policies of the organization. Government does not need to have actually influenced these policies, it just needs to have the ability to do so.

Usually, the issue of control comes down to whether or not government appoints a majority of the board or other governing body of the organization. But this is not the only factor; it is also the ability to control the organization that is important.

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

When a new organization is established, officials of government and our Office discuss the appropriate accounting treatment for it. The main issue is almost always whether the financial results of such organizations should be included (consolidated) within government's Summary Financial Plans and Summary Financial Statements. When they are consolidated, Ministers of Government are directly accountable to the Legislative Assembly for the performance of these organizations.

Other Significant Matters

In recent years, government has created a number of organizations that appear to be outside the reporting entity.

Usually, we agree with government officials on the most appropriate accounting approach. For instance, when the BC Safety Authority and the Land Title and Survey Authority were created we agreed that these authorities should report their financial results separately from government. Accordingly, their results are not consolidated within government's financial plans or the Summary Financial Statements.

Often, much analysis and discussion takes place before we reach agreement on the matter. When the new BC Ferry Services Inc. was created, for example, determining the most appropriate accounting treatment took several months of analysis and discussion. Eventually all parties decided that, for that point in time, the most appropriate accounting for this organization was to report its financial results separately from government.

For BC Ferry Services Inc, our Office also indicated we would monitor and assess whether such an accounting treatment continues to be appropriate. We are doing this because the legislation creating this organization established a complex ownership and governance structure, and because it has a significant ongoing relationship with government through the Coastal Ferry Services Contract.

There are times when, even after much analysis and discussion, government and our Office do not agree on the most appropriate accounting treatment for a new organization. For example, we disagree with the method used by government to account for the BC Forest Revitalization Trust Account. We think the financial results of this account should be consolidated within government's Summary Financial Statements because the account is not able to make key strategic and operating decisions independent of government.

We also disagree in the case of the British Columbia Investment Management Corporation. We believe that it should be part of the reporting entity because government owns the single share of the corporation. Government believes that it should be outside the reporting entity because, despite owning the single share, it does not have the ability to appoint a majority of the board.

In both these cases, however, we have determined that the impact of not consolidating them is currently not sufficiently material that we should qualify our opinion on the Summary Financial Statements.

In our report on the 2004/05 Public Accounts[12], we discussed a number of significant new entities that were created by government and deemed to be outside the government reporting entity: They included:

- Northern Development Initiative Trust;
- North Island-Coast Development Initiative Trust; and
- Southern Interior Development Initiative Trust.

Although we agreed with government's decision that these entities are to be reported outside of the government reporting entity for fiscal 2005/06, we will continue to monitor their operations and relationship with government to ensure the current treatment remains appropriate. It may not be until these organizations have been in existence for a few years that the interaction, or lack thereof, between them and government clarifies for us the true nature of the relationship.

We also actively monitor (as does government) changes in accounting standards, especially those that may give additional guidance on how to determine which organizations should be part of the government reporting entity.

Examples of other entities created by government and currently not in the government reporting entity include:

- New Relationship Trust;
- B.C. Rail Benefits (First Nations) Trust;
- Coast Sustainability Trust;
- Motor Dealer Administrative Authority;
- F.D.B.C. Film Development Society of British Columbia; and
- British Columbia Achievement Foundation.

Given the significant funding granted to them in some cases, and the pervasive role they play in the lives of the province's citizens, we plan to increase our audit focus to examine government's relationship with some or all of these in more detail to verify their status as independent from government.

[12] *Leading the Way: Adopting Best Practices in Financial Reporting 2004/2005* Report 9 March 2006.

Other Significant Matters

Removal of WCB (WorkSafeBC) note disclosure

One of the significant issues we discussed with government in prior years was how to include the financial results of the Workers' Compensation Board (WCB) within the government reporting entity and Public Accounts. Most of the discussions were around the potential degree of control that government could have over the board.

In our report on the 2001/02 Public Accounts we agreed with government's decision to disclose only the financial results of the WCB (now known as WorkSafeBC) in the notes to the Public Accounts, rather than to consolidate the financial results into government's bottom line. We also indicated that we would keep a watching brief on future events that may or may not lead to evidence of control of WCB by government.

Government continued this disclosure through fiscal 2004/05. In our 2002/03 report on the Public Accounts, we noted that WCB was no longer controlled by government (as determined using PSAB guidance on control), and we therefore considered it to be outside the government reporting entity.

In fiscal 2005/06, government decided to remove the WCB note, believing that including the results of an entity that is not part of the government reporting entity could be confusing to readers. We agreed with this change.

Accounting for Public-Private Partnership arrangements is a complex area

Asset and Liability Recognition

Public-private partnership (P3) relationships are not new, but using long-term contracts to finance and maintain as well as design and build assets is a relatively new way of doing business for the provincial government. The Province has entered into several of these P3 agreements since 2004 in order to construct assets. Examples include the Sierra Yoyo Desan resource road, the Abbotsford hospital, the William R. Bennett Bridge, and upgrades to the Sea-to-Sky and Kicking Horse Canyon highways.

Accounting standards do not specifically address accounting for P3s, but the guidance contained in the standards concerning asset and liability recognition can be applied to P3s.

A typical P3 arrangement is called "Design Build Finance Operate" (DBFO), requiring the contractor to design, build and finance an asset and, upon completion, to provide maintenance and rehabilitation services for the assets constructed. Each project has unique financial characteristics and terms. Some of the agreements state that asset ownership transfers to the Province as the project is being built. Others state ownership does not transfer until construction is substantially complete. In all cases, the Province retains ownership of the asset being constructed.

The fact that the asset will be created over a number of years and that "legal title" will not pass until the contract is substantially complete are typical features of this type of transaction in the construction industry.

Government has decided that, in accordance with the definitions in the CICA handbook, the asset and the liability should be recorded as the asset is constructed. Although being constructed by an outside party, which may also operate and maintain the asset once completed, the asset represents a future benefit that involves the capacity to provide a service, to which the Province controls access. Also, the Province has an obligation to pay for the asset, and has little or no way of avoiding that obligation. As well, the event that gives rise to the asset and liability, the signing of the P3 contract, has already happened.

Government also decided that the portion of the contractual obligation that is not recognized upfront as a liability must be disclosed as a contractual obligation in the notes to the financial statements.

We agreed with both the decision to record the asset and liability, and to disclose the contractual obligation.

Valuation of the constructed assets

Once it has been decided to record an asset and liability for a P3 project, the next step is to determine the amount at which it should be recorded. As already noted, these P3 agreements require the contractor to build and maintain the asset. Therefore, the contract will be for a period of time that is beyond the construction period of the asset and includes a payment stream that covers both capital and operating portions of the agreement. So how does one determine the portion of the total contract cost that relates to the construction of the asset in order to capitalize that amount? Again, there is no specific handbook guidance yet addressing P3s.

Determining the cost of the asset would be relatively simple if the agreements to construct them actually broke down the costs between the asset and the maintenance costs. However, few agreements do this. This means that determining the cost of the asset is the first challenge.

The second challenge is how to define “fair value”.

If the Province were constructing the asset itself, determining fair value would not be a problem: the value would be the cost of the material and the labour paid to construct the asset. Separate agreements for the construction of the asset and the maintenance of the asset would also make finding fair value relatively straightforward.

Alternatively, where the agreements are a total amount for construction and maintenance, possible ways the fair value of the constructed asset could be obtained are:

- engaging an independent appraiser to value the asset;
- comparing the asset with similarly constructed assets, recast into today’s dollars; or
- using the financial model submitted by the winning contractor during the bidding process for the job.

Extensive discussions around the valuation of these constructed assets have occurred between officials of our Office and government. These discussions will continue. The value that is recorded needs to be determined in a manner that complies with GAAP and can withstand audit scrutiny. As guidance continues to evolve and be published, we will continue to work with government and standard-setters on this complicated issue.

Accounting for collective bargaining agreement incentives

On November 30, 2005, government announced a new framework for negotiating with its employees. Part of this included a signing bonus for all contracts renewed before their expiration date. Government passed a supplementary estimate to provide up to $1 billion to fund signing bonuses agreed to in fiscal 2005/06.

With the funding in place for fiscal 2005/06, we discussed with government what criteria needed to be met in order for the signing bonus to be expensed in fiscal 2005/06.

At the end of the collective bargaining process, the union presents government's offer to its members for ratification. The Labour Relations Act requires the parties to bargain in good faith. Accordingly, our position on the accounting was that once the Minister of Finance had approved the offer, government could not withdraw it, and, therefore, a contingent liability would be created for government.

A contingent liability is one in which an expense and liability can be recorded if the amount can be determined and if it is likely that a future event outside the control of government—in this case, the union ratification vote—will confirm that a liability exists. We informed government that we would agree with it recording a contingent liability at March 31, 2006 as long as:

- the Minister signed the offer before March 31, 2006;
- the offer was sufficiently detailed that the amount of the signing bonus could be calculated;
- the ratification vote indicating acceptance of the offer occurred before the financial statements were finalized (that is, prior to mid-June 2006); and
- there was no link between the bonus and some aspect of the agreement that occurred in the future (for example, if the signing bonus was offered up front in exchange for a lesser increase in a future year of the agreement).

The bonus was also paid to non-union employees. Since there was no bargaining involved in this case, the payment needed to be approved by the Minister and that approval communicated to non-union employees before March 31, 2006; it had to be estimatable; and it could not be linked to a future aspect of the agreement. As well, it needed to be paid before the financial statements were finalized.

Fifty-five agreements were reached on or before March 31, 2006, and all were ratified and / or paid before the finalization of the financial statements. In almost all cases, the agreements met all the criteria, and a liability for signing bonuses of $710 million was accrued and expensed in fiscal 2005/06. One agreement made commitments for lump sum payments in the coming year, and those payments will be expensed at the appropriate time.

Of the $710 million, approximately $57 million was paid to staff of organizations that were no longer part of the government reporting entity. However, because their employees are still members of the union, they were included in the collective bargaining process. Government made a grant to these organizations to cover the cost of the signing bonus. The grant also covered the cost of the bonus paid to management employees of those organizations.

Changes in Auditing Standards

Changes in Auditing Standards

Since the 2004/05 fiscal year, significant changes in Canadian generally accepted auditing standards have not only progressively changed the procedures we use in our audits, but also increased the time it takes us to complete our work.

Changes in audit procedures

The Canadian Institute of Chartered Accountants (CICA) recently issued new generally accepted auditing standards (GAAS) based on an audit risk model. The new standards, which apply to all financial statement audits conducted in Canada, were precipitated by events in North America and world-wide that undermined the public's confidence in the performance and quality of financial statement audits.

Generally, the new approach focuses more on governance procedures and top-down controls, rather than on individual accounting transactions. It represents a change in how auditors carry out their work, requiring them to obtain a more in-depth understanding of the organizations they are auditing, and to look to sources of evidence beyond those related to financial reporting. Under the new standards, for example, auditors are required to have discussions not only with management involved with the financial aspects of an entity, but also with those individuals who have operational roles within the organization. The new standards also have more stringent requirements for documentation.

Our Office has been actively implementing many of the new audit requirements over the past two years, but several outstanding audit procedures will be carried out for the first time in the 2006/07 audit cycle.

The effect of the new audit risk standards on current audit practice

Financial statement auditors are now required to place greater emphasis on the organization's risk assessment process in order to understand the organization's objectives, strategies and related business risks. The reason for this greater emphasis is so that the auditor can design appropriate audit procedures for responding to risks to the achievement of the entity's objectives, including its financial reporting objectives.

The new standards include more detailed guidance for the auditor on the scope of knowledge of the entity required. This guidance, along with increased guidance on understanding the organization's control environment, is intended to help the auditor better understand (1) the role that management and those charged with governance have in the entity's overall control framework and (2) the way in which the controls may affect the auditor's procedures.

In practice, management prepares the financial statements based on the accounting records of the organization. The auditor obtains some evidence by testing the accounting system and individual records, and by re-performing procedures followed in the financial reporting process. Under the new standards, however, accounting records alone do not provide sufficient evidence on which to base an audit opinion on the financial statements. The auditor must obtain other sources of audit evidence such as minutes of meetings and information prepared and used by management in carrying out the organization's business.

Gaining an understanding of an entity and its environment has always been an essential part of every audit, but the new standards emphasize that the information obtained during this phase of the auditor's work now constitutes valid audit evidence and, as such, must follow the rules of evidence gathering. For example, audit evidence is more reliable when the auditor obtains it consistently from different sources of a different nature. Evidence obtained from executive minutes, briefing books, Treasury Board submissions, and similar sources is now considered to be important corroborating material to that obtained from the primary sources traditionally used by the auditor.

Not only does this understanding allow auditors to identify and assess the risk of material errors, but also it allows them to exercise informed judgement in:

- assessing management's selection and application of accounting policies;
- determining the adequacy of financial statement disclosures;
- identifying audit areas for special consideration (for example, related party or unusual transactions);
- performing analytical procedures, particularly those related to the auditor's expectation of recorded amounts; and
- evaluating the sufficiency and appropriateness of the audit evidence obtained.

Obtaining sources of evidence outside traditional accounting records

In summary, our audit approach now incorporates a more thorough gathering of evidence from sources outside the traditional accounting records. While most of these sources have been accessed by us in the past, the frequency of this access will increase as our new audit processes are brought into everyday practice. This approach is being played out in all other provincial jurisdictions across Canada, not just in British Columbia or just by our Office.

Audit implications of using service organizations

During the last few years, government has entered into a number of significant multi-year agreements for the delivery of services. Those services include:

- administration of the Medical Services Plan and PharmaCare program;
- management of corporate human resources and payroll;
- collection of revenue;
- management of corporate information technology; and
- administration of property transfer taxes.

The dollar value of these and other outsourced services is significant to the Summary Financial Statements. They now also have an impact on our audit work, as a new auditing standard (effective April 1, 2006), has been issued for situations where an entity uses a service organization.

GAAS requires auditors to obtain an understanding of internal controls of significant systems and to identify any associated audit risks. The fact that government uses a service organization outside of the government reporting entity does not change our responsibility under GAAS to obtain sufficient appropriate audit evidence to support our risk assessments and, ultimately, our audit opinion on the Summary Financial Statements. The new auditing standards provide guidance on how to obtain this evidence when government uses a service organization to process significant transactions.

Because government is responsible for the financial information that the service organizations produce, it should be obtaining assurance that the controls at the organizations are adequate to provide accurate and reliable financial information. An effective way of obtaining this assurance is to request a report on the controls of the service organization in accordance with Section 5970.46 of the CICA Handbook, "auditor's report on controls at a service organization placed in operation and tests of the operating effectiveness of controls." Not only would this provide government the assurance it needs, but also it would assist our Office in obtaining the evidence we need to support our audit opinion.

Recommendation 9

We recommend that government require all service organizations that initiate, authorize, record and process significant transactions for the Province to engage a service auditor to provide a report on controls that the service organization has placed in operation and tests of the operating effectiveness of the controls.

Recommendation 10

We recommend that the requirement for reporting on controls be built into all significant future service organization agreements where applicable.

Summary of Recommendations

Summary of Recommendations

The 10 recommendations we made in this report to improve the Summary Financial Statements are listed here.

Disclosure of contractual obligations could be improved

Recommendation 1

We recommend that government provide fuller disclosure on the nature of its contractual obligations.

Recommendation 2

We recommend that government disclose government business enterprise contractual obligation information separately from the information on the rest of government's contractual obligations.

Accounting for and disclosure of contingent liabilities could be improved

Recommendation 3

If government wishes to disclose the maximum claim amount for a contingent liability, we recommend that it state this fact, explain any significant factors that could affect the resolution of the contingent liability, and the prospects of it being settled for a lesser amount.

Accounting for resource roads needs to be reviewed

Recommendation 4

We recommend that government review its policy on accounting for resource roads to see whether there are roads that should be capitalized, when they should be capitalized, at what value they should be capitalized and at what rate they should be amortized.

Disclosure of employee pension plans should be improved

Recommendation 5

We recommend that government provide complete disclosure on pension plans as required by PSAB standards.

Summary of Recommendations

Post-Employment benefits disclosure should be expanded

Recommendation 6

We recommend that government revise its current accrued employee leave entitlements disclosure so that it complies with the PSAB standard on post-employment benefits.

The policy on capitalized interest during construction should be applied consistently

Recommendation 7

We recommend that government review its policy on capitalization of interest during construction so that the policy is applied more logically (in terms of calculating the amount), and consistently across the government reporting entity.

Disclosure of the Olympics Games commitment should be expanded

Recommendation 8

We recommend that government disclose the complete Games-related commitments in its Olympics commitment note.

Reports on controls should be required of all significant service organizations

Recommendation 9

We recommend that government require all service organizations that initiate, authorize, record and process significant transactions for the Province, to engage a service auditor to provide a report on controls that the service organization has placed in operation and tests of the operating effectiveness of the controls.

Recommendation 10

We recommend that the requirement for reporting on controls be built into all significant future service organization agreements where applicable.

Response from the Ministry of Finance

Response from the Ministry of Finance

We appreciate the opportunity to respond to the Office of the Auditor Generals comments. Once again the report recognizes the ongoing commitment we have made in leading the development of best practices in public sector reporting. We continue to report our financial plans and results in accordance with generally accepted accounting principles (GAAP), and have again received an unqualified audit opinion for the 2005/06 fiscal year having not only met those requirements but in many cases exceeded them in the interests of transparency and accountability. As before, we continue to strive towards improved reporting and thank the Office of the Auditor General for its acknowledgement of government's achievements, as well as the suggestions provided.

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. We will continue to work with the accounting and auditing communities in other jurisdictions, both nationally and internationally, to promote the development and adoption of best practices in public sector reporting. The Office of the Auditor General has provided its views on upcoming accounting changes. We agree that all perspectives are important, including those of preparers and auditors, as well as the users of the financial statements.

In the service of improving best practice, the Office of the Auditor General recommends that the disclosure for contractual obligations be expanded beyond the current requirements of GAAP, and that the contractual obligations of Government Business Enterprises be disclosed separately. Because there are many options for expanded reporting in this area we will continue to work with other jurisdictions and the users of financial statements to help define the best basis of disclosure which is consistent and comparable across jurisdictions. We will ensure that the information provided in the financial statements and notes is presented on a consistent basis to ensure the informative value to the users.

The Office of the Auditor General also recommends that if government wishes to disclose the maximum claim amount for some contingent liabilities the fact should be disclosed in the notes to the financial statements. Government wishes to clarify that we disagree with the conclusion drawn by the auditor. The amount disclosed is the government's best estimate of the contingent liability and we will continue to work with the Office of the Auditor General to ensure contingent liabilities are fairly presented in the notes to the financial statements.

Response from the Ministry of Finance

The report also includes additional recommendations which we have been working on in conjunction with the Office of the Auditor General over the past year.

- *The government's long standing accounting policy for resource roads is under review to determine whether capitalizing the costs of temporary roads provides better information to the users of financial statements than recognizing the costs of building and maintaining these roads when incurred.*
- *Note disclosure of employee pension plans and post employment benefits is being reviewed to determine whether the users of the Public Accounts would benefit from the inclusion of additional information, and if it is consistent with PSAB direction to ensure disclosure on these items is in consideration of the highly aggregated nature of the Summary Financial Statements. To ensure full transparency, a link to the Pension Corporation is included in the notes to the financial statements.*
- *The application of government's policy on capitalization of interest during construction to all areas of the expanded reporting area has been recommended and we continue to review practical opportunities to improve consistency across the Government Reporting Entity.*
- *The separate disclosure of indirect spending initiatives related to the 2010 Olympic Games has been discussed and we believe that specific reports such as the annual reports of the Auditor General, and the reports of the Vancouver Organizing Committee, are a more appropriate forum for detailed reporting of the economic analysis of the games initiative.*
- *The auditor has also recommended that separate reports on the controls of service organizations should be required in response to recent changes in auditing standards. We are reviewing this new requirement to determine the most practical approach to ensure the information is available.*

We believe that the 2005/06 Public Accounts once again demonstrates our commitment to maintaining a leadership role in developing best practices for public sector reporting in Canada. We thank the Office of the Auditor General for its continuing support in this objective.

Appendices

Appendix A: Glossary

Accounting Standards Board (AcSB)

This board, which is part of the CICA, has the authority to develop and establish standards and guidance governing financial accounting and reporting in Canada.

Canadian Institute of Chartered Accountants (CICA)

The CICA is an independent body that conducts research into current business issues and supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government. It issues guidance on control and governance, publishes professional literature, develops continuing education programs and represents the CA profession nationally and internationally.

Financial Accounting Standard (FAS)

Accounting standards issued in the United States by the Financial Accounting Standards Board (FASB). The standards govern the preparation of financial reports and are officially recognized as authoritative by the (U.S.) Securities and Exchange Commission.

generally accepted accounting principles (GAAP)

Accounting principles as laid down (in Canada) by the CICA and PSAB, to be followed in the preparation and presentation of financial statements.

generally accepted auditing standards (GAAS)

Auditing standards laid down (in Canada) by the CICA to be followed by every audit practitioner who issues an audit opinion on a set of financial statements.

government business enterprise

A government business enterprise is an organization that sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity, and that can, in the normal course of operations, cover its expenses from those sales. It is a separate legal entity with the power to contract in its own name and to sue and be sued. It also has the financial and operational authority to carry on a business.

government business partnership

A government business partnership is a partnership where one of the partners is government or a government organization, and which, except for being a partnership, is the same as a government business enterprise.

government reporting entity (GRE)

The ministries and government organizations that are consolidated in the Summary Financial Statements.

Appendix A: Glossary

modified equity

A method of consolidation whereby only the investment and earnings from the investment are recorded in the financial statements. This method is used to consolidate government business enterprises and government business partnerships.

Public Sector Accounting Board (PSAB)

This board, which is part of the CICA, has the authority to set accounting standards for the public sector.

tangible capital assets

Non-financial assets having physical substance that:

(i) are held for use in the production or supply of goods and services;

(ii) have useful economic lives extending beyond an accounting period; and

(iii) have been acquired to be used on a continuing basis.

Appendix B: Summary Financial Statement Audit Methodology

When examining financial statements for the purpose of expressing an opinion thereon, 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

Each year, we prepare (and present to the Select Standing Committee on Public Accounts) an audit coverage plan for the Summary Financial Statements. The coverage plan is designed to meet professional standards. Those standards require the auditor signing the audit opinion on a set of financial statements to have sufficient knowledge of the operations of the organizations making up the financial statements being audited to determine whether the information contained within the financial statements is complete and has been fairly presented.

We obtain this knowledge by carrying 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. We also extend our procedures for organizations that we do not audit, by reviewing audit plans and files prepared by other auditors, determining how issues identified during the audit are resolved, and participating in communications with audit committees or their equivalent.

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 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 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, if individually and in aggregate they are less than materiality, we usually 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 plan our work so as to achieve an overall audit assurance of 95% that the audit would detect total error in excess of materiality. To choose 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.

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

The audit standards include discussing matters that concern us with management and senior staff of the audited organizations. While we would like to help improve the quality of the statements, this must not be regarded as the main purpose of our audit. We don't expect to find every error and control weakness that exists, but we do plan our audit work so that we can be confident we will discover any significant ones. From those we note, we first decide whether one or more of them (individually or taken together) could, if not corrected, make the financial statements misleading.

We study the substance of every issue we come across and try to resolve our concerns by discussing it with officials of government. If we cannot resolve those concerns and we believe the financial statements remain misleading, we then express an opinion with a reservation. The purpose of the reservation is to alert users of the financial statements to our conclusions and, when possible, to provide sufficient information to let users see for themselves the effect of the error. We also report publicly—as in this report—on other findings that we believe will assist the government in continuing to improve the quality of its financial reporting.

We discuss all our audit concerns with government. Some are satisfactorily resolved, some are in the process of being resolved and some are still unresolved. We have included in this report those concerns that we feel are significant. We have separately communicated to government a number of other matters that, while important, are of less significance.

During our audit, we keep track of the cumulative impact on the financial statements of all the items we find, and we discuss these with government. Some government agrees to adjust, some, after further explanation, we agree do not need to be adjusted, and some government disagrees with our findings and declines to adjust. Provided that the total of unadjusted items is not material to the financial statements, we allow those to remain unadjusted.

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

Appendix C: Ministries and Government Organizations Included in the 2005 / 2006 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		✓
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		✓
Langara College	✓	
Leading Edge Endowment Fund Society		✓
Malaspina University—College		✓

Appendix C: Ministries and Government Organizations Included in the 2005 / 06 Summary Financial Statements and Their Auditors

	Audited by: Auditor General	Audited by: Private Sector Auditors
Nicola Valley Institute of Technology		✓
North Island College		✓
Northern Lights College		✓
Northwest Community College		✓
Okanagan College		✓
Okanagan University College		✓
Open Learning Agency		✓
Private Career Training Institutions Agency		✓
Royal Roads University		✓
School District No. 5 (South East Kootenay)		✓
School District No. 6 (Rocky Mountain)		✓
School District No. 8 (Kootenay Lake)		✓
School District No. 10 (Arrow Lakes)		✓
School District No. 19 (Revelstoke)		✓
School District No. 20 (Kootenay-Columbia)		✓
School District No. 22 (Vernon)		✓
School District No. 23 (Central Okanagan)		✓
School District No. 27 (Cariboo-Chilcotin)		✓
School District No. 28 (Quesnel)		✓
School District No. 33 (Chilliwack)		✓
School District No. 34 (Abbotsford)		✓
School District No. 35 (Langley)		✓
School District No. 36 (Surrey)		✓
School District No. 37 (Delta)		✓
School District No. 38 (Richmond)		✓
School District No. 39 (Vancouver)		✓
School District No. 40 (New Westminster)		✓
School District No. 41 (Burnaby)		✓
School District No. 42 (Maple Ridge-Pitt Meadows)		✓
School District No. 43 (Coquitlam)		✓
School District No. 44 (North Vancouver)		✓
School District No. 45 (West Vancouver)		✓
School District No. 46 (Sunshine Coast)		✓
School District No. 47 (Powell River)		✓
School District No. 48 (Howe Sound)		✓
School District No. 49 (Central Coast)		✓

Appendix C: Ministries and Government Organizations Included in the 2005 / 06 Summary Financial Statements and Their Auditors

		Audited by Auditor General	Audited by Private Sector Auditors
School District No. 50 (Haida Gwaii-Queen Charlotte)			✓
School District No. 51 (Boundary)			✓
School District No. 52 (Prince Rupert)			✓
School District No. 53 (Okanagan-Similkameen)			✓
School District No. 54 (Bulkley Valley)			✓
School District No. 57 (Prince George)			✓
School District No. 58 (Nicola-Similkameen)			✓
School District No. 59 (Peace River South)			✓
School District No. 60 (Peace River North)			✓
School District No. 61 (Greater Victoria)			✓
School District No. 62 (Sooke)			✓
School District No. 63 (Saanich)			✓
School District No. 64 (Gulf Islands)			✓
School District No. 67 (Okanagan-Skaha)			✓
School District No. 68 (Nanaimo-Ladysmith)		✓	
School District No. 69 (Qualicum)			✓
School District No. 70 (Alberni)			✓
School District No. 71 (Comox Valley)			✓
School District No. 72 (Campbell River)			✓
School District No. 73 (Kamloops-Thompson)			✓
School District No. 74 (Gold Trail)			✓
School District No. 75 (Mission)			✓
School District No. 78 (Fraser-Cascade)			✓
School District No. 79 (Cowichan Valley)			✓
School District No. 81 (Fort Nelson)			✓
School District No. 82 (Coast Mountains)			✓
School District No. 83 (North Okanagan-Shuswap)			✓
School District No. 84 (Vancouver Island West)			✓
School District No. 85 (Vancouver Island North)			✓
School District No. 87 (Stikine)			✓
School District No. 91 (Nechako Lakes)			✓
School District No. 92 (Nisga'a)			✓
School District No. 93 (Francophone Education Authority)			✓
School District consolidation	1	✓	
Selkirk College			✓
Simon Fraser University			✓

Appendix C: Ministries and Government Organizations Included in the 2005 / 06 Summary Financial Statements and Their Auditors

		Audited by	
		Auditor General	**Private Sector Auditors**
Thompson Rivers University			✓
The University of British Columbia		✓	
University College of the Fraser Valley			✓
University of Northern British Columbia			✓
University of Victoria			✓
Vancouver Community College			✓
Social Services Sector			
Community Living British Columbia		✓	
Interim Authority for Community Living British Columbia		✓	
Legal Services Society			✓
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		✓
British Columbia Innovation Council			✓
British Columbia Transmission Corporation	2	✓	
Columbia Basin Trust			✓
Columbia Power Corporation	2	✓	
Creston Valley Wildlife Management Authority Trust Fund			✓
Discovery Enterprises Inc			✓
Forestry Innovation Investment Ltd		✓	
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 Railway Company	2		✓
British Columbia Transit			✓
Rapid Transit Project 2000 Ltd			✓

Appendix C: Ministries and Government Organizations Included in the 2005 / 06 Summary Financial Statements and Their Auditors

		Audited by Auditor General	Audited by Private Sector Auditors
Other Sector			
BC Games Society			✓
British Columbia Arts Council	3		
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			✓
Protection of Persons and Property			
British Columbia Securities Commission		✓	
Insurance Corporation of British Columbia	2		✓
Organized Crime Agency of British Columbia Society			✓
General Government Sector			
British Columbia Liquor Distribution Branch	2	✓	
British Columbia Lottery Corporation	2		✓

1. The consolidation of school districts is prepared by the Ministry of Education to report the results as at March 31. (Individual School Districts have a June 30 year-end.)
2. These organizations are government business enterprises and are recorded on a modified equity basis in the sector in which they are listed.
3. This organization is not audited.

Appendix D: Summary Financial Statements 2005/06

Summary Financial Statements 2005/06

Summary Financial Statements

Province of British Columbia

For the Fiscal Year Ended
March 31, 2006

BRITISH
COLUMBIA

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 organizations 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*. The audit opinion for the 2005/06 statements was signed by the deputy auditor general.

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

Report of the Office 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 consolidated statement of financial position as at March 31, 2006, and the consolidated statements of operations, change in net liabilities, and cash flow 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 consolidated financial statements present fairly, in all material respects, the financial position of the Government of the Province of British Columbia as at March 31, 2006 and the results of its operations, change in net liabilities and its cash flow for the year then ended, in accordance with generally accepted accounting principles as recommended by The Canadian Institute of Chartered Accountants.

Errol S. Price

Victoria, British Columbia | Errol Price, CA

June 16, 2006 | Deputy Auditor General

Summary Financial Statements
Consolidated Statement of Financial Position
as at March 31, 2006

	Note	2006 (In Millions)	2005 (In Millions)
Financial Assets		$	$
Cash and cash equivalents		2,889	2,568
Temporary investments		1,012	1,015
Accounts receivable	3	2,602	2,649
Inventories for resale	4	93	78
Due from other governments	5	662	634
Due from self–supported Crown corporations and agencies	6	443	544
Equity in self–supported Crown corporations and agencies	7	3,422	3,164
Loans, advances and mortgages receivable	8	923	770
Other investments	9	2,217	1,986
Sinking fund investments	10	4,059	4,516
Loans for purchase of assets, recoverable from agencies	11	6,916	6,901
		25,238	24,825
Liabilities			
Accounts payable and accrued liabilities	12	6,202	5,609
Due to other governments	13	870	891
Due to Crown corporations, agencies and funds	14	144	152
Deferred revenue	15	5,674	5,181
Employee pension plans	16	2	3
Taxpayer–supported debt	17	30,278	32,032
Self–supported debt	18	7,758	7,889
		50,928	51,757
Net assets (liabilities)	20	(25,690)	(26,932)
Non–financial Assets			
Tangible capital assets	21	24,719	23,135
Prepaid program costs	22	532	462
Other assets	23	315	151
		25,566	23,748
Accumulated surplus (deficit)	24	**(124)**	**(3,184)**

	Note
Measurement uncertainty	2
Contingencies and contractual obligations	25
Restricted assets	26
Significant events	31

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

Prepared in accordance with Canadian generally accepted accounting principles.

DAVID FAIRBOTHAM
Acting Comptroller General

Summary Financial Statements
Consolidated Statement of Operations
for the Fiscal Year Ended March 31, 2006

	In Millions		
	2006		2005
	Estimates (Note 32) $	Actual $	Actual $
Revenue			
Taxation (Note 27)	15,445	16,429	14,917
Contributions from the federal government	5,623	5,786	5,222
Natural resources	4,406	4,567	3,973
Fees and licences	3,665	3,649	3,621
Net earnings of self–supported Crown corporations and agencies (Note 7)	2,274	2,198	2,558
Miscellaneous	2,245	2,370	2,239
Investment income	818	948	833
	34,476	35,947	33,363
Expense (Note 28)			
Health	12,463	12,822	11,529
Education	8,948	9,053	8,512
Social services	2,842	2,798	2,598
Natural resources and economic development	1,649	1,638	1,688
Transportation	1,224	1,203	1,308
Other	1,431	1,101	1,027
Protection of persons and property	1,349	1,414	1,206
Interest	2,336	2,182	2,294
General government	634	676	505
	32,876	32,887	30,667
Surplus (deficit) for the year before forecast allowance	1,600	3,060	2,696
Forecast allowance	(300)		
Surplus (deficit) for the year	**1,300**	**3,060**	**2,696**
Accumulated surplus (deficit)—beginning of year as restated (Note 24)		(3,184)	(5,880)
Accumulated surplus (deficit)—end of year		**(124)**	**(3,184)**

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

Summary Financial Statements
Consolidated Statement of Change in Net Liabilities for the Fiscal Year Ended March 31, 2006

	In Millions 2006 Estimates $	2006 Actual $	2005 Actual $
Surplus (deficit) for the year	1,300	3,060	2,696
Effect of change in tangible capital assets			
Acquisition of tangible capital assets	(3,038)	(3,080)	(2,323)
Amortization of tangible capital assets	1,367	1,374	1,324
Disposals and valuation adjustments	25	122	134
	(1,646)	(1,584)	(865)
Effect of change in:			
Prepaid program costs	(222)	(70)	(80)
Other assets	(4)	(164)	6
	(226)	(234)	(74)
(Increase) decrease in net liabilities	(572)	1,242	1,757
Net assets (liabilities)—beginning of year	(26,805)	(26,932)	(28,689)
Net assets (liabilities)—end of year	**(27,377)**	**(25,690)**	**(26,932)**

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

Summary Financial Statements
Consolidated Statement of Cash Flow
for the Fiscal Year Ended March 31, 2006

	In Millions			
	2006			2005
	Receipts	Disbursements	Net	Net
Operating Transactions	$	$	$	$
Surplus (deficit) for the year[2]			3,060	2,696
Non–cash items included in surplus (deficit):				
Amortization of tangible capital assets			1,374	1,324
Amortization of public debt deferred revenue and deferred charges			(77)	(20)
Concessionary loan adjustments (decreases)			(1)	(1)
Valuation adjustments			215	222
Net earnings of self–supported Crown corporations and agencies			(2,198)	(2,558)
Temporary investments decreases (increases)			3	(46)
Accounts receivable decreases (increases)			(112)	18
Due from other governments decreases (increases)			(28)	(234)
Due from self–supported Crown corporations and agencies (increases) decreases			101	(380)
Accounts payable increases (decreases)			593	(7)
Due to other governments increases (decreases)			(21)	(246)
Due to Crown corporations, agencies and funds increases (decreases)			(8)	29
Unfunded pension liability payments			(1)	
Items applicable to future operations increases			237	1,126
Contributions of self–supported Crown corporations and agencies			1,940	2,263
Cash derived from (used for) operations			5,077	4,186
Capital Transactions				
Tangible capital assets (acquisitions)	110	(3,080)	(2,970)	(2,195)
Cash derived from (used for) capital	110	(3,080)	(2,970)	(2,195)
Investment Transactions				
Investment in self–supported Crown corporations and agencies				151
Loans, advances and mortgages receivable (issues)	61	(244)	(183)	242
Other investments—net decreases (increases)		(232)	(232)	(196)
Sinking fund investments—net decreases (increases)	702	(245)	457	103
Cash derived from (used for investments)	763	(721)	42	300
Sub–total cash (requirements)			2,149	2,291

Summary Financial Statements
Consolidated Statement of Cash Flow
for the Fiscal Year Ended March 31, 2006—Continued

	In Millions			
	2006			2005
	Receipts $	Disbursements $	Net $	Net $
Sub–total cash (requirements) carried forward from previous page			2,149	2,291
Financing Transactions[1]				
Public debt (decreases) increases	12,639	(14,415)	(1,776)	(2,037)
Derived from Warehouse Borrowing Program investment	21	(21)		
Derived from (used for) purchase of assets, recoverable from agencies	(4,548)	4,496	(52)	593
Cash derived from (used for) financing	8,112	(9,940)	(1,828)	(1,444)
Increase (decrease) in cash and cash equivalents			321	847
Cash and cash equivalents—beginning of year			2,568	1,721
Cash and cash equivalents—end of year			**2,889**	**2,568**
Cash and cash equivalents are made up of:				
Cash			1,266	1,013
Cash equivalents			1,623	1,555
			2,889	2,568

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

[2]Interest received during the year was $950. Interest paid during the year was $2,226. Interest received is made up of interest income from the statement of operations in the amount of $948 less the change in accrued interest receivable in the amount of $(2). Interest paid is made up of interest expense from the statement of operations in the amount of $2,182 less the change in accrued interest payable in the amount of $(44).

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

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006

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 71 – 73. 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 organizations (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 118.

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 Crown corporations, agencies and entities consist of the British Columbia Assessment Authority, the Insurance Corporation of British Columbia, the British Columbia Railway Company, and all school districts.

(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 are restricted for specific programs such as health transfers.

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 plan amendments related to past service is expensed in the year the plan is amended.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

1. Significant Accounting Policies—Continued

Government transfers include grants, entitlements and transfers under agreements, as defined in the definitions on page 118. 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.

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

Cash and cash equivalents include cash on hand, demand deposits and short–term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. These short–term investments generally have a maturity of three months or less and are held for the purpose of meeting short–term cash commitments rather than for investing.

Temporary investments and Warehouse Program Investments include short–term investments recorded at the lower of cost or market value. The fair values of short–term investments approximate their carrying values because of the short–term maturity of these instruments.

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. The recorded cost, less the residual value, is generally amortized over the estimated useful lives of the assets on a straight–line basis except for some transportation equipment which is amortized using the sinking fund method.

All significant tangible capital assets of government organizations and operations have been capitalized. Intangible assets and items inherited by right of the Crown, such as forests, water and mineral resources, are not recognized in these financial statements. Crown land is capitalized at a nominal value of one dollar.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

1. Significant Accounting Policies—Continued

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.

Guaranteed debt includes guarantees by the minister of finance, made through specific agreements or legislation, to repay promissory notes, bank loans, line of credit, mortgages and other securities. Loss provisions on guaranteed debt are recorded when it is likely that a loss will occur. The amount of the loss provision represents the best estimate of future payments less recoveries. The loss provision is recorded as a liability and an expense in the year determined and is adjusted as necessary to ensure it equals the expected payout of the guarantee.

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 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, other notes, bonds and debentures, bank loans, capital leases and mortgages payable. These obligations are recorded at principal less unamortized premium or discount and unrealized 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.

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 Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—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

Rate Regulated Accounting

The province has changed its reporting of rate regulated accounting to agree with the new guidance provided by the Canadian Institute of Chartered Accountants Accounting Standards Board. The effects of this new guidance results in an increase in the equity in self–supported crowns and agencies and net earnings of self–supported crowns and agencies of $233 million (2005: $162 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 exists in these financial statements as identified in the table below for items with a variability of over $10 million dollars:

	In Millions			
Account	Actual Amount Recorded	Measurement Uncertainty Minimum	Measurement Uncertainty Maximum	% Range
	$	$	$	
Health and social transfer payments	4,220	4,170	4,270	1 %
Personal income tax	5,838	5,713	5,963	2 %
Variability is based on the potential differences between the estimated economic factors used in calculating the accruals and the eventual actual economic results.				
Litigation and arbitration	94	80	108	15 %
Crime victim assistance program	109	104	114	5 %
Variability exists in the outcomes of litigation and arbitration.				

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

2. Measurement Uncertainty—Continued

	In Millions			
Account	Actual Amount Recorded	Measurement Uncertainty Minimum	Measurement Uncertainty Maximum	% Range
	$	$	$	
Provision for doubtful accounts	76	68	84	10 %
Accrued expenditure liability	73	64	79	10 %

Variability exists in the accruals as the recorded numbers are based on the province's best estimate of expected results.

See note 25 with respect to the measurement uncertainty related to environmental remediation liabilities.

3. Accounts Receivable

	In Millions 2006	In Millions 2005
	$	$
Trade accounts receivable	1,916	2,008
Taxes receivable	1,156	1,113
Accrued interest	286	288
	3,358	3,409
Provision for doubtful accounts	(756)	(760)
	2,602	**2,649**

4. Inventories for Resale

	In Millions 2006	In Millions 2005
	$	$
Other	52	37
Properties	41	41
	93	**78**

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

5. Due from Other Governments

	In Millions 2006	2005
	$	$
Government of Canada:		
Current	511	470
Long–term	119	132
Provincial governments:		
Current	18	15
Local governments:[1]		
Current	14	17
	662	**634**

[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.

6. Due from Self–supported Crown Corporations and Agencies

	In Millions 2006	2005
	$	$
British Columbia Hydro and Power Authority	265	363
British Columbia Lottery Corporation	176	179
Columbia Power Corporation	2	2
	443	**544**

See Statement of Financial Position for Self–supported Crown Corporations and Agencies on page 78 for details.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

7. Equity in Self–supported Crown Corporations and Agencies

	In Millions 2006 Investments $	Unremitted Earnings $	Total $	2005 Total $
British Columbia Hydro and Power Authority		1,707	1,707	1,668
British Columbia Railway Company	107	10	117	107
British Columbia Transmission Corporation	20	17	37	20
Columbia Power Corporation	276	28	304	303
Insurance Corporation of British Columbia		1,242	1,242	1,051
Provincial Capital Commission		15	15	15
	403	**3,019**	**3,422**	**3,164**

Change in Equity in Self–supported Crown Corporations and Agencies

	Investments $	Unremitted Earnings $	Total $	2005 Total $
Balance—beginning of year	403	2,816	3,219	3,221
Prior period adjustments		(55)	(55)	(201)
Balance—beginning of year restated	403	2,761	3,164	3,020
Increase (decrease) in investment				(151)
Net earnings of self–supported Crown corporations and agencies		2,198	2,198	2,558
Contributions paid to the Consolidated Revenue Fund		(1,727)	(1,727)	(2,190)
Adjustments to contributions paid		(213)	(213)	(73)
Balance—end of year	**403**	**3,019**	**3,422**	**3,164**

See Statement of Financial Position for Self–supported Crown Corporations and Agencies and Summary of Results of Operations and Statement of Equity for Self–supported Crown Corporations and Agencies on pages 78 – 79 for details.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

8. Loans, Advances and Mortgages Receivable

	In Millions 2006	2005
Loans and Advances	$	$
BC student loans	673	575
Land Tax Deferment loans	178	157
Construction loans to social housing projects	97	21
Industrial Development Fund commercial loans	83	86
Accountable advances	31	12
Miscellaneous	36	59
	1,098	910
Provision for doubtful accounts	(223)	(201)
	875	709
Mortgages Receivable		
Reconstruction Loan Program	70	59
Miscellaneous	5	26
	75	85
Provision for doubtful accounts	(27)	(24)
	48	61
	923	**770**

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

8. 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 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 small business and 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 outstanding interest must be repaid before the residence can be legally transferred to a new owner, other than directly to a surviving spouse.

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.

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.

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

The Reconstruction Loan 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 3.2% to 12%.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

9. Other Investments

	In Millions 2006	2005
	$	$
Equity investments	795	617
Municipal, corporate and other bonds	488	479
Commercial loans and investments	350	301
Government of Canada bonds	204	165
Provincial government bonds	163	153
Pooled investment portfolios	98	135
British Columbia Ferry Services Inc.	75	75
Miscellaneous	104	121
	2,277	2,046
Provision for doubtful accounts	(60)	(60)
	2,217	**1,986**

Equity investments have a market value of $930 million. They include investments in Canadian, U.S. and international equity markets.

Municipal, corporate and other bonds have a market value of $491 million with yields ranging from 0.75% to 6.75%.

Commercial loans and investments are recorded at the lower of cost of acquisition adjusted by attributed income and market value. Commercial loans and investments include Columbia Basin Trust's $290 million (2005: $241 million) investment in power development joint ventures, and $55 million held by the Consolidated Revenue Fund, for which a full provision has been made.

Government of Canada bonds have a market value of $210 million (par value $204 million), with yields ranging from 3.67% to 8.75%. Maturity dates range from December 1, 2006 to June 1, 2023.

Provincial bonds of various provinces have a market value of $166 million (par value $163 million), with yields ranging from 2.75% to 7.6%. Maturity dates range from December 1, 2006 to March 8, 2033.

Pooled investment portfolios consist mainly of units in various funds of the British Columbia Investment Management Corporation. These funds' investments consist primarily of debt and equity holdings of privately held companies. Pooled investment portfolios have a market value of $96 million.

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.

Miscellaneous investments consist of other pooled funds as well as various forms of income securities, notes and treasury bills. The market value of miscellaneous investments is $108 million.

10. Sinking Fund Investments

	In Millions 2006	2005
	$	$
Taxpayer–supported sinking fund investments	3,213	3,523
Self–supported sinking fund investments	846	993
	4,059	**4,516**

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

10. Sinking Fund Investments—Continued

	In Millions	
	2006	2005
	$	$
Pooled investment portfolios	2,488	2,623
Provincial government bonds	906	1,036
Local government bonds	506	551
Financial institutions		89
Government of Canada bonds	54	82
Miscellaneous	105	135
	4,059	**4,516**

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 $970.4 million (par value $1,432.6 million), with yields ranging from 3.64% to 5.62%. Maturity dates range from April 17, 2006 to February 15, 2040.

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 $56.5 million (par value $80 million), with yields ranging from 3.81% to 4.30%. Maturity dates range from December 1, 2006 to October 1, 2009.

11. Loans for Purchase of Assets, Recoverable from Agencies

	In Millions	
	2006	2005
	$	$
British Columbia Hydro and Power Authority	6,882	6,896
British Columbia Transmission Corporation	30	
Improvement districts	4	5
	6,916	**6,901**

12. Accounts Payable and Accrued Liabilities

	In Millions	
	2006	2005
	$	$
Trade accounts payable	2,733	2,071
Other accrued estimated liabilities[1]	1,448	1,506
Accrued employee leave entitlements	1,318	1,285
Accrued interest on debt	703	747
	6,202	**5,609**

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

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

13. Due to Other Governments

	In Millions 2006	2005
	$	$
Government of Canada:		
Current	167	110
Long–term	659	733
Provincial governments:		
Current	35	41
Local governments:[1]		
Current	8	7
Long–term	1	
	870	**891**

[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.

14. Due to Crown Corporations, Agencies and Funds

	In Millions 2006	2005
	$	$
British Columbia Liquor Distribution Branch	42	54
Trust funds	102	98
	144	**152**

15. Deferred Revenue

	In Millions 2006	2005
	$	$
Deferred contributions	1,939	1,601
Petroleum, natural gas and minerals, leases and fees	1,517	1,298
Federal contributions	981	1,211
Motor vehicle licences and permits	221	202
Derivative debt instruments	174	156
Unearned lease revenue	97	108
Tuition	117	103
Federal and municipal highway project revenues	149	99
Water rentals and recording fees	79	69
Medical Services Plan premiums	70	65
Forest Stand Management Fund	12	15
Miscellaneous	318	254
	5,674	**5,181**

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

16. Employee Pension Plans (Unfunded Pension Liabilities)

	In Millions 2006	2005
	$	$
Members of the Legislative Assembly Superannuation Account	2	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 upon 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, 2006, for the basic pension in each plan is as follows:

	In Millions					
	Public Service Pension Plan	Municipal Pension Plan	Teachers' Pension Plan	College Pension Plan	Other Pension Plan [1]	Total
	$	$	$	$	$	$
Accrued benefit obligation	10,405	10,960	11,636	1,520	358	34,879
Pension fund assets	10,877	11,451	11,580	1,807	367	36,082
	(472)	(491)	56	(287)	(9)	(1,203)
Unamortized actuarial gain (loss)	(1,830)	(826)	(645)	(156)	11	(3,446)
Accrued net obligation (asset)	**(2,302)**	**(1,317)**	**(589)**	**(443)**	**2**	**(4,649)**

[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 Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

16. 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 is 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 trust 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 2005/06 are based on extrapolations of the most recent actuarial valuations as follows: Public Service Pension Plan (March 31, 2005); 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 is transferred from the Account to the Public Service Pension Plan from which monthly pensions are paid. The province provides additional funding when the present value of the funding exceeds the accumulated assets in the Account available to fund those members' benefit entitlements in the plan. This plan provides basic pension benefits 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 upon available funding.

Key actuarial assumptions used in the valuations include a long–term annual rate of return on pension fund assets of 6.75% 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 4.00% 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, except the Account, may be found in the annual reports at www.pensionsbc.ca outside these audited statements.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

17. Taxpayer–supported Debt[1]

In Millions

	Year of Maturity	Canadian Dollar $	US Dollar[2] $	Japanese Yen[2] $	Other Currencies[2] $	2006 Canadian Dollar Total $	2005 Canadian Dollar Total $
Short–term promissory notes.......	2006					0	603
	2007	1,147				1,147	0
Notes, bonds and debentures[3]......	2006					0	2,525
	2007	1,640	1,179		395	3,214	3,101
	2008	999	884	59	418	2,360	2,350
	2009	2,334	1,077			3,411	3,313
	2010	1,376	308	94	572	2,350	2,329
	2011	1,894		110	614	2,618	2,543
	2012–2016	5,019	512			5,531	5,713
	2017–2021	615				615	614
	2022–2026	3,523				3,523	3,462
	2027–2031	3,308				3,308	3,084
	2032–2036	1,470				1,470	1,629
	2037–2041	416				416	415
	2042–2046	400				400	400
Total debt issued at face value		**24,141**	**3,960**	**263**	**1,999**	30,363	32,081
Unamortized discount..........						(147)	(136)
Unrealized foreign exchange gains..........						69	95
Amount held in the Consolidated Revenue Fund..........						(7)	(8)
Taxpayer–supported debt..........						**30,278**	**32,032**

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

2006..........	6.00%	
2005..........		5.85%

[1]The balances and interest rates reflect the impact of the related derivative contracts, presented in Note 19 (Risk Management and Derivative Financial Instruments).

[2]Foreign currencies include: $2,705 million US ($3,960 million Canadian); 22,000 million Japanese Yen ($263 million Canadian); 400 million Swiss Franc ($418 million Canadian); and 917 million Euro ($1,581 million Canadian).

[3]Notes, bonds and debentures include $226 million (2005: $106 million) in bank loans, $317 million (2005: $123 million) in capital leases and $266 million (2005: $276 million) in mortgages.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

17. Taxpayer–supported Debt—Continued

Notes, bonds and debentures

Redeemable by the bond holder

Balances include 5.86% debentures due June 18, 2029, totalling $250 million (2005: $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 $32 million (2005: $134 million) maturing at dates from October 15, 2006 to October 15, 2007, and with an effective rate of 2.65% 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 $3,467 million (2005: $3,539 million) at a weighted average interest rate of 8.06% (2005: 8.20%). These debentures mature at various dates from May 9, 2006 to August 9, 2035 with interest rates varying between 3.69% and 11.33%. 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, $76 million (2005: $234 million) 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.

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
2007	2,919
2008	2,139
2009	3,196
2010	2,128
2011	2,244

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

18. Self–supported Debt[1]

	Year of Maturity	Canadian Dollar	US Dollar[2]	2006 Canadian Dollar Total	2005 Canadian Dollar Total
		In Millions			
		$	$	$	$
Short–term promissory notes	2006			0	918
	2007	415	483	898	0
Notes, bonds and debentures	2006			0	413
	2007	314		314	314
	2008	9	375	384	391
	2009	124		124	124
	2010	574	58	632	634
	2011	150		150	150
	2012–2016	1,425	290	1,715	1,715
	2017–2021	975		975	975
	2022–2026	697	619	1,316	1,301
	2027–2031			0	0
	2032–2036	800		800	400
	2037–2041		365	365	363
Total debt issued at face value		**5,483**	**2,190**	7,673	7,698
Unamortized discount premium				16	7
Unrealized foreign exchange gains				69	184
Total self–supported debt				**7,758**	**7,889**

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

2006	6.53%	
2005		6.24%

[1]The balances and interest rates reflect the impact of the related derivative contracts, presented in Note 19 (Risk Management and Derivative Financial Instruments).

[2]Foreign currencies include $1,753 million US ($2,190 million Canadian).

Notes, bonds and debentures

Redeemable by the province

Balances include debentures issued to the Canada Pension Plan totalling $191 million (2005: $229 million) at a weighted average interest rate of 10.01% (2005: 10.15%). These debentures mature at various dates from November 10, 2006 to June 9, 2009 with interest rates varying between 9.62% and 10.42%. These debentures are redeemable in whole or in part before maturity, on 30 days' prior notice, at the option of the province.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

18. 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
2007	279
2008	360
2009	86
2010	570
2011	141

19. 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, 2006, based on the notional amounts of the contracts.

Taxpayer–supported Debt

		In Millions			
	Year of Maturity	Cross Currency Swaps	Interest Rate Swaps	Forward Foreign Exchange Contracts	Total
		$	$	$	$
	2007	1,969	1,704		3,673
	2008	1,361			1,361
	2009	990	784	690	2,464
	2010	974	579		1,553
	2011	834			834
	6–10 years	512	605		1,117
	+ 10 years	64	1,019		1,083
Total		**6,704**	**4,691**	**690**	**12,085**

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

19. Risk Management and Derivative Financial Instruments—Continued

Self–supported Debt

	Year of Maturity	Cross Currency Swaps	Interest Rate Swaps	Forward Foreign Exchange Contracts	Total
		In Millions			
		$	$	$	$
	2007		200		200
	2008	200	175	130	505
	2009				0
	2010		558	57	615
	2011				0
	6–10 years	290	1,281		1,571
	+ 10 years		100	719	819
Total		**490**	**2,314**	**906**	**3,710**

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) 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 $22,727 million (2005: $24,802 million), allow floating rate exposure up to 45.00% (2005: 45.00%) of this portion of the taxpayer–supported debt. At March 31, 2006, floating rate debt exposure was 31.80% (2005: 31.72%) 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% (2005: 46.00%) of their debt that totals $6,892 million (2005: $6,906 million). At March 31, 2006, floating rate debt exposure for BC Hydro was 36.10% (2005: 28.90%) of their debt.

Based on the taxpayer–supported and self–supported debt portfolios at March 31, 2006, a 1.00% increase in interest rates would result in an increase in the annual debt servicing costs of $73 million (2005: $76 million) for the taxpayer–supported debt portfolio and $28 million (2005: $17 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 $22,727 million (2005: $24,802 million), allow unhedged foreign debt exposure up to 10.00% (2005: 10.00%) of this portion of the taxpayer–supported debt. At March 31, 2006, unhedged foreign debt exposure in Japanese yen was 1.57% (2005: 4.41%) of the government direct debt portfolio. At March 31, 2006, there was no unhedged foreign debt exposure in US dollars for the government direct debt portfolio (2005: nil).

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

19. Risk Management and Derivative Financial Instruments—Continued

Under current policy guidelines for BC Hydro, the maximum unhedged foreign debt exposure is 20.0% (2005: 20.0%) of their debt, which totals $6,892 million (2005: $6,906 million). At March 31, 2006, 2.60% (2005: 18.70%) 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, 2006, a one cent decrease in the Canadian dollar versus the US dollar would result in an increase of $9 million (2005: $10 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 101 yen to 100 yen) would result in an increase to the annual debt servicing costs of $3 million (2005: $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.

20. Net Liabilities

The Statement of Change in Net Liabilities (*see* page 37) 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.

21. Tangible Capital Assets

	In Millions	
	2006	2005
	$	$
Land and land improvements	2,085	2,010
Buildings (including tenant improvements)	11,271	10,451
Highway infrastructure	6,849	6,472
Transportation equipment	2,020	2,027
Computer hardware and software	778	639
Other	1,716	1,536
	24,719	**23,135**

See Statement of Tangible Capital Assets on page 80.

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 Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

21. 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 $911 million (2005: $929 million). A similar lease arrangement is under negotiation with GVTA for the RTP assets.

22. Prepaid Program Costs

	In Millions	
	2006	2005
	$	$
Prepaid program costs[1]	**532**	**462**

[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.

23. Other Assets

	In Millions	
	2006	2005
	$	$
Deferred debt instrument costs	277	114
Other deferred costs	21	18
Deferred treaty costs	17	19
	315	**151**

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

24. Accumulated Surplus (Deficit)

	In Millions	
	2006	2005
	$	$
Accumulated surplus (deficit)—beginning of year as previously reported[1]	(3,150)	(5,725)
Adjustments to accumulated surplus (deficit)[2,3]	(34)	(155)
Accumulated surplus (deficit)—beginning of year as restated	(3,184)	(5,880)
Surplus (deficit) for the year[4]	3,060	2,696
Accumulated surplus (deficit)—end of year	**(124)**	**(3,184)**

[1]The opening accumulated deficit figure for April 1, 2004 and April 1, 2005 are as reported in the 2004/05 Public Accounts.

[2]During 2005/06, adjustments were made to the opening accumulated deficit for 2004/05 as follows:

School districts—adjustment for employee future benefits accrual and deferred capital contributions	(35)
Universities—adjustment for deferred capital contributions	85
BC Hydro—accounting policy change regarding rate regulated accounting	(251)
British Columbia Buildings Corporation—adjustment for land contributed by Province	15
Insurance Corporation of British Columbia—change in actuarial valuation for unpaid claims provision	50
Natural resources—adjustment for contractual obligations related to resource road development	(18)
Other miscellaneous adjustments	(1)
Total	(155)

[3]In fiscal 2005/06, adjustments were made to the opening deficit for 2005/06 for the following items:

School districts—adjustment for employee future benefits accrual and deferred capital contribution	(35)
Universities—adjustment for deferred capital contributions	85
BC Hydro—accounting policy change regarding rate regulated accounting	(89)
British Columbia Buildings Corporation—adjustment for land contributed by Province	18
Insurance Corporation of British Columbia—change in actuarial valuation for unpaid claims provision	34
Vancouver Convention Centre Expansion Project—correction for federal contributions	(10)
Natural resources—adjustment for contractual obligations related to resource road development	(36)
Other miscellaneous adjustments	(1)
Total	(34)

[4]During 2005/06, adjustments were made to the reported surplus figure for the 2004/05 fiscal as follows:

Reported surplus for 2004/05	2,575
BC Hydro—accounting policy change regarding rate regulated accounting	162
British Columbia Buildings Corporation—adjustment for land contributed by Province	3
Insurance Corporation of British Columbia—change in actuarial valuation for unpaid claims provision	(16)
Vancouver Convention Centre Expansion Project—correction for federal contributions	(10)
Natural resources—adjustment for contractual obligations related to resource road development	(18)
Total	2,696

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

25. Contingencies and Contractual Obligations

(a) GUARANTEED DEBT

The authorized limit for loans guaranteed by the province as at March 31, 2006 was $129 million (2005: $168 million). These guarantees include amounts where indemnities have been made for explicit quantifiable loans. Guaranteed debt as at March 31, 2006, totaled $111 million (2005: $142 million). See Statement of Guaranteed Debt on page 81 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	
	2006	2005
	$	$
Tax disputes	1,300	10
Contract disputes	138	126
Property access disputes	118	11
Damage to persons or property	112	13
Negligence and miscellaneous	13	16
Motor vehicle accidents	11	8
Expropriation disputes	4	3
	1,696	**187**

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 12) and an expense. The accrued liability for pending litigation in process at March 31, 2006, was $56 million (2005: $59 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 $143 million (2005: $124 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 $101 million at March 31, 2006. In addition, the Ministry of Energy and Mines has determined possible net liabilities of $384 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, 2006, there were 47 treaty tables in various stages of negotiation, representing two–thirds of the aboriginal people in British Columbia.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

25. Contingencies and Contractual Obligations—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.

Two Agreements in Principle (AiPs) were signed in 2005/06, (Yekooche and Yale) to add to the AiPs already signed. 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 Final Agreement tables are as follows:

(i) In–SHUCK–ch, 13,208 hectares
(ii) Lheidli T'enneh, 3,463 hectares
(iii) Maa–nulth, 22,003 hectares
(iv) Sechelt, 933 hectares
(v) Sliammon, 6,357 hectares
(vi) Tsawwassen, 427 hectares
(vii) Yale, 915 hectares
(viii) Yekooche, 5,960 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. An AiP was ratified by the In–SHUCK–ch Treaty Group on April 30, 2006 and is pending ratification by the province and the Government of Canada. 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 per cent 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 Organizations (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, 2005, was approximately $842 million (2004: $817 million).

(ii) The BC Transportation Financing Authority has contingent liabilities of $104 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.

(vi) 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 Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

25. Contingencies and Contractual Obligations—Continued

(v) The British Columbia Railway Corporation (BCRC) and BCR Properties Ltd. completed a transaction with Canadian National Railway Company (CN) on July 14, 2004. 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 $415 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 a payment which was identified, except for the amount of $490,000, prior to the transaction's financial close.

(c) COMMITMENTS

The government is involved in the following major commitments.

2010 Winter Olympics

On July 2, 2003, the International Olympic Committee (IOC) selected Vancouver to host the 2010 Olympic and Paralympic Winter Games (the Games). A comprehensive Multi–Party Agreement (MPA) among Canada, British Columbia, the City of Vancouver, the Resort Municipality of Whistler, the Canadian Olympic Committee, the Canadian Paralympic Committee, and the Vancouver 2010 Bid Corportaion was signed November 14, 2002.

The MPA establishes the roles and relationships of all the parties, the contractual arrangements, financial contributions, legal responsibilities, and the sport legacies of the parties in relation to the Games. On September 30, 2003, the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games (VANOC) was incorporated as the successor organization to the Vancouver 2010 Bid Corporation. The province has the power to appoint three of the 20 board members to VANOC. VANOC's mandate is to plan, organize, finance and stage the Games. In addition, the province has provided a guarantee to the IOC of a potential financial shortfall of VANOC. The guarantee should not be relied on by parties other than the IOC.

The province has made a commitment to contribute $600 million towards the Games. This commitment has been allocated as follows:

- Venues and live sites $255 million
- Venues endowment legacy $55 million
- Medical and security costs $100 million
- Paralympic games $20 million
- First Nations sports and municipal legacies $38 million; and
- Olympic contingency allocations $132 million.

The province spent $8 million in 2005/06 (2004/05: $31 million; previous years; $109 million) for a total to date of $148 million at March 31, 2006.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

25. Contingencies and Contractual Obligations—Continued

VANOC has requested an additional $110 million from Canada and the province with respect to venue construction costs. The request is being reviewed by the two governments. The provincial share of $55 million, if approved, will be funded from the above Games contingency allocation.

Information about the Games may be found at the 2010 Olympic Games website: www.vancouver2010.com, outside these audited statements, and at the BC Olympic and Paralympic Winter Games Secretariat http://www.sbed.gov.bc.ca/2010secretariat/, outside these audited statements.

The province is also upgrading the Sea–to–Sky Highway to coincide with the Games. The province spent $102 million in 2006 (2005: $50 million). The project to date spending total is $169 million. The contractual obligations related to the Sea–to–Sky Highway are included in section (d) of this note.

Crown Corporations, Agencies and the SUCH Sector

The province has committed to the construction of the $615 million expansion to the Vancouver Convention Centre and other shared upgrades to adjacent facilities. The cost is to be shared by the province ($273 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.

(d) CONTRACTUAL OBLIGATIONS

The government has entered into a number of multiple–year agreements for the delivery of services and the construction of assets. The following table presents the minimum amounts required to satisfy contractual obligations that are greater than $50 million, by sector, by year.

	In Millions						
	2006/07	2007/08	2008/09	2009/10	2010/11	2012 and beyond	Total
	$	$	$	$	$	$	$
Health	417	186	164	139	134	420	1,460
Education	354	88	38	12	3	7	502
Social services	78	62	54	63	20	180	457
Natural resources and economic development	3,427	1,440	1,057	999	939	1,142	9,004
Transportation	637	797	693	606	2,089	8,223	13,045
Other	62						62
Protection of persons and property	251	257	257	257	257	257	1,536
General government	290	305	296	276	150	203	1,520
Total	**5,516**	**3,135**	**2,559**	**2,352**	**3,592**	**10,432**	**27,586**

Note: See the Notice of Change, reproduced in Appendix E.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

26. Restricted Assets

	In Millions 2006	2005
	$	$
Endowment funds of universities and colleges	**979**	**868**

Donors have placed restrictions on their contributions to the endowment funds of universities and colleges. One restriction is that the original contribution should not be spent. Another potential restriction is that any investment income of the endowment fund, that is required to offset the eroding effect of inflation or to preserve the original value of the endowment, should also not be spent.

27. Revenue

	In Millions 2006	2005
Taxation revenue includes	$	$
Personal income	5,838	5,050
Corporate income	1,426	1,255
Social service	4,367	4,156
Property	1,717	1,661
Other	3,081	2,795
	16,429	**14,917**

See notes at the end of the Schedule of Net Revenue by Source on page 97 for additional information on taxation revenue.

28. Expense

	In Millions 2006	2005
Total Expense by Group Account Classification	$	$
Salaries and benefits	12,922	12,114
Government transfers	8,016	7,269
Operating costs	7,931	7,139
Interest[1]	2,182	2,294
Amortization	1,374	1,324
Other	462	527
	32,887	**30,667**

[1]Includes foreign exchange gain amortization of $121 million (2005: $33 million) and self-supported debt interest of $428 million (2005: $451 million).

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

29. Valuation Allowances

	In Millions 2006	In Millions 2005
	$	$
Accounts receivable	159	171
Loans, advances and mortgages receivable	31	41
Tangible capital assets	12	6
Inventories for resale	7	
Other assets	5	
Investments	1	4
	215	**222**

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 Consolidated Statement of Financial Position categories.

30. Trusts Under Administration

	In Millions 2006	In Millions 2005
	$	$
Public Trustee and Official Administrators —administered by government officials	582	548
Supreme and provincial court (Suitors' Funds) —administered by the Courts	39	31
Credit Union Deposit Insurance Corporation of B.C. —administered by various government officials and a non–government investment corporation	213	123
Other trust funds —administered by various government officials	93	91
	927	**793**

31. Significant Events

(a) Significant one–time grants

During the fiscal year, the province provided significant one–time grants to the following entities. The entities are not controlled by the government and therefore are excluded from the government reporting entity.

Northern Development Initiative Trust

On November 1, 2004, the *Northern Development Initiative Trust Act* came into force providing for the establishment of the Northern Development Initiative Trust (NDIT). The province provided $135 million last fiscal year to create opportunities for sustainable growth in the four regions of Cariboo–Chilcotin/Lillooet, Northwest, Peace and Prince George Regions. An independent board of directors, of which five members are appointed by the province, govern the NDIT. The 13 member board receives recommendations as submitted by the four Regional Advisory Committees in transportation, pine beetle recovery, forestry, tourism, mining, Olympic opportunities, small business, economic development, energy or agriculture.

This fiscal year, by an amendment to the *Northern Development Initiative Trust Act*, the province funded a one–time allocation of $50 million to the NDIT to help communities in this area respond to the mountain pine beetle infestation.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

31. Significant Events—Continued

North Island–Coast Development Initiative Trust

On February 27, 2006, the *North Island–Coast Development Initiative Trust Act* came into force providing for the establishment of the North Island–Coast Development Initiative Trust (NI–CDIT). NI–CDIT was provided $50 million to create new opportunities for sustainable economic growth in the regions of North Island–Sunshine Coast and the Central South Island. The independent board of directors, of which five members are appointed by the province, govern the investments for the regional economic priorities. The 13 member board receives recommendations as submitted by the two Regional Advisory committees in transportation, forestry, tourism, mining, Olympic opportunities, small business, economic development, energy or agriculture.

Southern Interior–Coast Development Initiative Trust

On February 27, 2006, the *Southern Interior*–Coast *Initiative Trust Act* came into force providing for the establishment of the Southern Interior Development Initative Trust (SIDIT). SIDIT was provided $50 million to create new opportunities for sustainable economic growth in the regions of Thompson–Okanagan and Columbia–Kootenay. The independent board of directors, of which five members are appointed by the province, govern the investments for the regional economic priorities. The 13 member board receives recommendations as submitted by the two Regional Advisory committees in transportation, forestry, tourism, mining, Olympic opportunities, small business, economic development, energy or agriculture.

New Relationship Trust

On March 31, 2006, the *New Relationship Trust Act* came into force providing for the establishment of the New Relationship Trust (NRT). This is a new relationship entered into by the provincial government and BC First Nations, (as represented by the First Nations Leadership Council) in March 2006. The NRT was provided with $100 million to assist First Nations to build their own capacity to participate in the processes and activities envisioned by, and that evolve out of, the new relationship by enhancing first nation governance, leadership and institutional and human resources capacity to address social, cultural and economic needs and priorities. An independent board of directors, of which two are appointed by the province, will govern the investments for enhancing capacity needs and priorities. The 7 member board of directors is responsible to prepare and make public a three year strategic plan that assists first nations to increase their ability to draw on expert advice or services from within first nations.

(b) Collective Bargaining Agreement Incentives

A significant proportion of the public service is made up of employees that work under collective bargaining agreements. The majority of public sector employees are represented by collective agreements that expired on or before March 31, 2006.

The province established a negotiating framework that included a one–time incentive payment to employees provided their collective agreement was negotiated on or before its expiry date. All those collective agreements with an expiry date of on or before March 31, 2006 were negotiated prior to their expiry dates and employees covered by these collective agreements became eligible for the incentive payment. The incentive payments are paid to employees once the collective agreements are ratified. The province also paid the incentive payment to management employees and non–union members of the public service. The total amount of the budget for incentive payments for all collective agreements, management employees and non–union members of the public service was $1 billion. Approximately $710 million of the incentive budget was paid for collective agreements concluded on or before March 31, 2006 as well as for management employees and non–union members of the public service. The remaining balance of $290 million relates to collective agreements that expire after, but were not concluded by, March 31, 2006.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

31. Significant Events—Continued

	In Millions 2006
	$
Health	408
Education	110
Social services	74
Natural resources and economic development	39
Transportation	7
Other	5
Protection of persons and property	35
General government	32
	710

32. Comparison to Estimates

The Estimates numbers on the Statement of Operations are taken from the Estimated Statement of Operations on page 4 of the *Estimates, Fiscal Year Ending March 31, 2006*, presented to the Legislative Assembly on September 14, 2005. Certain adjustments have been made to provide a proper comparison of Estimates to 2006 actuals. They do not include supplementary spending of $1,000 million for incentive payments for the benefit of Public Sector employees under the negotiating framework announced on November 30, 2005, that was approved by the Legislature during the 2005/06 fiscal year.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2006—Continued

32. Comparison to Estimates—Continued

The following table shows the adjustments to the original estimates to conform to 2006 actuals.

	Original Estimates 2005/06 [1]	In Millions Reclassify Interest Expense [2]	Restated Estimates 2005/06
	$	$	$
Taxation	15,445		15,445
Contributions from the federal government	5,623		5,623
Natural resources	4,406		4,406
Fees and licences	3,665		3,665
Net earnings of self–supported Crown corporations and agencies	2,274		2,274
Miscellaneous	2,245		2,245
Investment earnings	818		818
	34,476	**0**	**34,476**
Health	12,651	(188)	12,463
Education	9,515	(567)	8,948
Social services	2,842		2,842
Natural resources and economic development	1,649		1,649
Transportation	1,523	(299)	1,224
Other	1,431		1,431
Protection of persons and property	1,349		1,349
Interest	1,282	1,054	2,336
General government	634		634
	32,876	**0**	**32,876**
Surplus (deficit) for the year—before unusual items	1,600	0	1,600
Forecast allowance	(300)		(300)
	1,300	**0**	**1,300**

[1]Per page 4 of the 2005/06 *Estimates, Fiscal Year Ending March 31, 2006*.
[2]Reclassification of interest expense to the debt servicing sector.

33. Comparatives

The comparative figures for the previous year have been restated to conform with the current year's presentation. These restatements have had no effect on the operating result as previously reported except as specifically noted. (*See* Note 24).

Summary Financial Statements
Reporting Entity
for the Fiscal Year Ended March 31, 2006

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

Consolidated Revenue Fund[1,8]

Health Sector

Bella Coola General Hospital
Canadian Blood Services[2]
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
RW 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[3]
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
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 College[4]
Okanagan University College

Summary Financial Statements
Reporting Entity
for the Fiscal Year Ended March 31, 2006—Continued

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

Education Sector—Continued

Open Learning Agency
Private Career Training Institutions Agency
Royal Roads University
School Districts
Selkirk College
Simon Fraser University
Thompson Rivers University[5]
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[7]

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

Transportation Sector[9]

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

Protection of Persons and Property[11]

British Columbia Securities Commission
Organized Crime Agency of British Columbia Society

Social Services Sector

Community Living British Columbia[4]
Interim Authority for Community Living British Columbia[3]
Legal Services Society

Summary Financial Statements
Reporting Entity
for the Fiscal Year Ended March 31, 2006—Continued

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

Other Sector[12]

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[7]
British Columbia Hydro and Power Authority[7]
British Columbia Liquor Distribution Branch[8]
British Columbia Lottery Corporation[8]
British Columbia Railway Company[9]
British Columbia Transmission Corporation[7,10]
Columbia Power Corporation[7]
Insurance Corporation of British Columbia[11]
Provincial Capital Commission[12]

[1] The Consolidated Revenue Fund has been allocated to the appropriate sector on the Consolidated Statement of Financial Position by Sector (page 74) and Operations by Sector (page 76).

[2] This organization reflects a government partnership amongst Canadian provinces and is proportionally consolidated based upon the province's share (14.67%) of the total provincial contributions to the partnership.

[3] These organizations wound up operations during the fiscal year.

[4] This organization began operations during the fiscal year.

[5] This organization changed its name during the current year. It was formerly known as University College of the Cariboo.

[6] This organization changed its name during the current year. It was formerly known as Innovation and Science Council of British Columbia.

[7] BCIF Management Ltd., British Columbia Hydro and Power Authority, British Columbia Transmission Corporation and Columbia Power Corporation, are included in the Natural Resources and Economic Development Sector results.

[8] British Columbia Liquor Distribution Branch and British Columbia Lottery Corporation are included in the General Government Sector results.

[9] British Columbia Railway Company is included in the Transportation Sector results.

[10] This organization was previously consolidated in British Columbia Hydro and Power Authority's financial statements.

[11] Insurance Corporation of British Columbia is included in the Protection of Persons and Property Sector results.

[12] Provinical Capital Commission is included in the Other Sector results.

Summary Financial Statements
Consolidated Statement of Financial Position by Sector
as at March 31, 2006

In Millions

	Health	Education	Social Services	NR and ED [1]	Transpor–tation	Other [2]	PPP [3]	Debt Servicing[4]	General Govern–ment [5]	Adjust–ments [6]	Total
Financial Assets	$	$	$	$	$	$	$	$	$	$	$
Cash and cash equivalents	276	1,464	1	177	27	145	9	790			2,889
Temporary investments	369	363	21	204		40	15				1,012
Accounts receivable	195	204	73	560	20	43	85	313	1,167	(58)	2,602
Inventories for resale	1	29		28		19	7		9		93
Due from the Province of British Columbia	324	106	3	5	37	14				(489)	0
Due from other governments	68	102	11	29	25	82	29		316		662
Due from self–supported Crown corporations and agencies				267					176		443
Equity in self–supported Crown corporations and agencies				2,048	117	15	1,242				3,422
Loans, advances and mortgages receivable	2	510		68	1	163	4		192	(17)	923
Other investments	157	1,484		452	76	40		18		(10)	2,217
Sinking fund investments		73			414	152		4,059		(639)	4,059
Loans for purchase of assets, recoverable from agencies								10,008		(3,092)	6,916
	1,392	4,335	109	3,838	717	713	1,391	15,188	1,860	(4,305)	25,238

Summary Financial Statements
Consolidated Statement of Financial Position by Sector as at March 31, 2006—Continued

In Millions

	Health	Education	Social Services	NR and ED [1]	Transportation	Other [2]	PPP [3]	Debt Servicing[4]	General Government [5]	Adjustments [6]	Total
Liabilities	$	$	$	$	$	$	$	$	$	$	$
Accounts payable and accrued liabilities	2,009	1,052	204	839	268	288	262	695	1,115	(530)	6,202
Due to other governments	55	13		3		2	56		741		870
Due to Crown corporations, agencies and funds						102			42		144
Due to the Province of British Columbia	4	1	1	1		3				(10)	0
Deferred revenue	1,058	1,129		1,865	237	149	250	174	858	(46)	5,674
Employee pension plan									2		2
Taxpayer–supported debt	204	709	5	293	3,192	619	5	28,947	43	(3,739)	30,278
Self–supported debt								7,758			7,758
	3,330	2,904	210	3,001	3,697	1,163	573	37,574	2,801	(4,325)	50,928
Net assets (liabilities)	(1,938)	1,431	(101)	837	(2,980)	(450)	818	(22,386)	(941)	20	(25,690)
Non–financial Assets											
Tangible capital assets	3,734	9,683	43	934	8,989	1,070	59		216	(9)	24,719
Prepaid capital advances		26								(26)	0
Prepaid program costs	152	21	3	303	9	29	1		14		532
Other assets	4	7		11	22		18	255		(2)	315
	3,890	9,737	46	1,248	9,020	1,099	78	255	230	(37)	25,566
Accumulated surplus (deficit)	**1,952**	**11,168**	**(55)**	**2,085**	**6,040**	**649**	**896**	**(22,131)**	**(711)**	**(17)**	**(124)**

[1] Natural resources and economic development.
[2] Includes housing, recreation and culture, and other activities which cannot be allocated to the specific sectors.
[3] Protection of persons and property.
[4] Debt servicing represents the financial impacts of activities related to management of the public debt.
[5] General government 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
Consolidated Statement of Operations by Sector
for the Fiscal Year Ended March 31, 2006

In Millions

	Health	Education	Social Services	NR and ED [1]	Transpor–tation	Other [2]	PPP [3]	Debt Servicing[4]	General Govern–ment [5]	Adjust–ments [6]	Total
Revenue	$	$	$	$	$	$	$	$	$	$	$
Taxation				28	463	63			15,875		16,429
Contributions from the federal government	58	479	51	60	26	192	88		4,832		5,786
Natural resources				4,567							4,567
Fees and licences	1,711	1,032		142	88	20	627		29		3,649
Contributions from the provincial government/ self–supported Crown corporations and agencies	345	236	33	293	17	310	191		1,715	(942)	2,198
Miscellaneous	630	1,119	28	115	51	223	188	1	137	(122)	2,370
Investment earnings	31	185	4	21	33	22	1	858	3	(210)	948
Total revenue	2,775	3,051	116	5,226	678	830	1,095	859	22,591	(1,274)	35,947

Summary Financial Statements
Consolidated Statement of Operations by Sector
for the Fiscal Year Ended March 31, 2006—Continued

In Millions

	Health	Education	Social Services	NR and ED [1]	Transpor–tation	Other [2]	PPP [3]	Debt Servicing[4]	General Govern–ment [5]	Adjust–ments [6]	Total
Expense	$	$	$	$	$	$	$	$	$	$	$
Salaries and benefits	4,946	6,024	368	485	123	135	532		309		12,922
Government transfers	3,646	769	1,801	520	70	769	602		479	(640)	8,016
Operating costs	3,814	1,617	655	601	631	444	262		204	(297)	7,931
Interest	7	49		(4)	160	40		1,434		496	2,182
Amortization	365	481	10	33	368	46	19		52		1,374
Other	323	647	(1)	55	148	29	16		78	(833)	462
Operating expense	13,101	9,587	2,833	1,690	1,500	1,463	1,431	1,434	1,122	(1,274)	32,887
Surplus (deficit) for the year 2005/06	(10,326)	(6,536)	(2,717)	3,536	(822)	(633)	(336)	(575)	21,469	0	3,060
Surplus (deficit) for the year 2004/05	(9,293)	(6,462)	(2,602)	3,111	(804)	(595)	30	(672)	20,002	(19)	2,696

[1] Natural resources and economic development.
[2] Includes housing, recreation and culture, and other activities which cannot be allocated to the specific sectors.
[3] Protection of persons and property.
[4] Debt servicing represents the financial impacts of activities related to management of the public debt.
[5] General government 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, 2006

In Millions

	Utility [1]	Insurance [2]	Liquor [3]	Transpor–tation [4]	Finance [5]	Economic Development [6]	2006 Total	2005 Total [7]
	$	$	$	$	$	$	$	$
Assets								
Cash and temporary investments	123	7,203		189	81	2	7,598	7,438
Accounts receivable	480	879	59		74		1,492	675
Inventories	136		71	22	5		234	195
Long–term investments	35	49					84	98
Sinking fund investments	846						846	992
Tangible capital assets	10,325	80	28	282	141	18	10,874	10,744
Other assets	1,345	53	7	45	9		1,459	1,252
	13,290	8,264	165	538	310	20	22,587	21,394
Liabilities								
Accounts payable	1,332	5,523	161	10	134		7,160	6,483
Deferred revenue	1,987	1,499		282		5	3,773	3,335
Due to Province of BC	267				176		443	544
Debt due to Province of BC	7,526						7,526	7,612
Other long–term debt	130		4	129			263	256
	11,242	7,022	165	421	310	5	19,165	18,230
Equity								
Investment by the CRF	296			107			403	403
Unremitted earnings—end of year	1,752	1,242		10		15	3,019	2,761
	2,048	1,242	0	117	0	15	3,422	3,164
Total Liabilities and Equity	**13,290**	**8,264**	**165**	**538**	**310**	**20**	**22,587**	**21,394**

[1] British Columbia Hydro and Power Authority, British Columbia Transmission Corporation 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 the Insurance Corporation of British Columbia had a change in accounting policy. The province changed how it recorded rate regulated accounting for British Columbia Hydro and Power Authority. The Insurance Corporation of British Columbia changed its accounting policy to record unpaid claims on the discounted basis. Theses changes have resulted in assets increasing by $344 million, liabilities increasing by $399 million, equity decreasing by $55 million, revenues increasing by $34 million and expenses increasing by $112 million for 2004/05. These changes are made up of the following restatements: British Columbia Hydro and Power Authority assets increased by $349 million, liabilities increased by $438 million, equity decreased by $89 million, expenses decreased by $162 million; Insurance Corporation of British Columbia assets decreased by $5 million, liabilities decreased by $39 million, equity increased by $34 million, revenues increased by $34 million and expenses increased by $51 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, 2006

In Millions

	Utility [1] $	Insurance [2] $	Liquor [3] $	Transpor–tation [4] $	Finance [5] $	Economic Development[6] $	2006 Total $	2005 Total [8] $
Revenue	4,548	3,790	2,269	119	2,261	3	12,990	11,941
Expense	4,266	3,599	1,469	109	1,346	3	10,792	9,383
Net Earning of self–supported corporations & agencies	282	191	800	10	915	0	2,198	2,558
Contributions paid to the CRF	(225)		(800)		(702)		(1,727)	(2,190)
Adjustments to contributions[7]					(213)		(213)	(73)
Increase(decrease) in unremitted earnings in self–supported Crown corps and agencies	57	191	0	10	0	0	258	295
Unremitted earnings—beginning of year	1,784	1,017				15	2,816	2,667
Adjustments to unremitted earnings[8]	(89)	34					(55)	(201)
Unremitted earnings—end of year	1,752	1,242	0	10	0	15	3,019	2,761
Investment by the CRF	296			107			403	403
Equity in self–supported Crown Corps and agencies for the year	**2,048**	**1,242**	**0**	**117**	**0**	**15**	**3,422**	**3,164**

[1]British Columbia Hydro and Power Authority British Columbia Transmission Corporation 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]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.
[8]British Columbia Hydro and Power Authority and the Insurance Corporation of British Columbia had a change in accounting policy. The province changed how it recorded rate regulated accounting for British Columbia Hydro and Power Authority. The Insurance Corporation of British Columbia changed its accounting policy to record unpaid claims on the discounted basis. Theses changes have resulted in assets increasing by $344 million, liabilities increasing by $399 million, equity decreasing by $55 million, revenues increasing by $34 million and expenses increasing by $112 million for 2004/05. These changes are made up of the following restatements: British Columbia Hydro and Power Authority assets increased by $349 million, liabilities increased by $438 million, equity decreased by $89 million, expenses decreased by $162 million; Insurance Corporation of British Columbia assets decreased by $5 million, liabilities decreased by $39 million, equity increased by $34 million, revenues increased by $34 million and expenses increased by $51 million.

Summary Financial Statements
Consolidated Statement of Tangible Capital Assets[1]
for the Fiscal Year Ended March 31, 2006

In Millions

	Land and Land Improvements	Buildings	Highway Infrastruc–ture	Transport–ation Equipment	Computer Hardware/ Software	Other [3]	2006 Total	2005 Total
Historical Cost[2]	$	$	$	$	$	$	$	$
Opening Cost	2,140	16,187	11,012	2,655	1,637	4,385	38,016	36,223
Additions	86	1,326	700	44	355	569	3,080	2,323
Disposals and valuation adjustments	15	(209)	(9)	(4)	(113)	(183)	(503)	(530)
	2,241	17,304	11,703	2,695	1,879	4,771	40,593	38,016
Accumulated Amortization								
Opening balance	(130)	(5,736)	(4,540)	(628)	(998)	(2,849)	(14,881)	(13,954)
Amortization expense	(10)	(432)	(314)	(48)	(213)	(357)	(1,374)	(1,324)
Effect of disposals and valuation adjustments	(16)	135		1	110	151	381	397
	(156)	(6,033)	(4,854)	(675)	(1,101)	(3,055)	**(15,874)**	**(14,881)**
Net book value for the year ended March 31, 2006	**2,085**	**11,271**	**6,849**	**2,020**	**778**	**1,716**	**24,719**	
Net book value for the year ended March 31, 2005	**2,010**	**10,451**	**6,472**	**2,027**	**639**	**1,536**		**23,135**

[1]This statement includes assets that are held on capital leases at March 31, 2006 at a net book value totalling $62million (2005: $36 million) comprised of: heavy equipment $3 million (2005: $0 million); vehicles $41 million (2005: $26 million); computer hardware/software $6 million (2005: $4 million); buildings $2 million (2005: $3 million); ferries $6 million (2005: $0 million) and other assets $4 million (2005: $3 million).

[2]Historical cost includes work–in–progress at March 31, 2006 totalling $1,999 million (2005: $1,208 million) comprised of: buildings $1,332 million (2005: $780 million); land improvements $23 million (2005: $9 million); highway infrastructure $511 million (2005: $326 million); transportation equipment $4 million (2005: $3 million); computer hardware/software $126 million (2005: $87 million); and specialized equipment $3 million (2005: $3 million). Work–in–progress is not amortized. Work–in–progress includes capitalized interest expense at March 31, 2006 totalling $13 million (2005: $7 million).

[3]"Other" at net book value includes office furniture and equipment $470 million (2005: $448 million), vehicles $69 million (2005: $51 million), machinery $977 million (2005: $836 million)and miscellaneous $200 million (2005: $201 million).

Summary Financial Statements
Consolidated Statement of Guaranteed Debt[1]
as at March 31, 2006

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, and SUCH[2] sector entities.

	In Millions			
	2006		2005	
Taxpayer–supported Guaranteed Debt	Maximum Guarantee Authorized $	Net Outstanding[1] $	Maximum Guarantee Authorized $	Net Outstanding[1] $
Municipalities and other local governments:				
Municipal Act debentures	1	1	1	1
Subtotal, municipalities and other local governments	1	1	1	1
Government services:				
Homeowner Protection Act loan guarantees[3]	79	79	102	102
Subtotal, government services	79	79	102	102
Health and education:				
Financial Administration Act student aid loans	16	16	29	29
Subtotal, health and education	16	16	29	29
Economic development:				
Financial Administration Act:				
Business Development Bank Guaranteed Program	1	1	1	1
Credit Enhancement Emergency Fund Guaranteed Program	1	1	2	2
Farm Distress Operating Loan Program	1	1	1	1
Feeder Association's Loan Guarantee Program	10	4	10	4
Home Mortgage Assistance Program Act mortgages	9	6	11	7
Home Mortgage Assistance Program Act second mortgages[4]	1	1	1	1
Subtotal, economic development	23	14	26	16
Total taxpayer–supported guaranteed debt	119	110	158	148
Self–supported Guaranteed Debt				
Total self–supported guaranteed debt[3,5]	10	10	10	10
Grand total, all guaranteed debt	129	120	168	158
Provision for probable payout		(9)		(16)
Net total, all guaranteed debt	**129**	**111**	**168**	**142**

[1]Sinking fund balances of $1 million (2005: $1 million) have been set aside for the repayment of debt obligations.
[2]School districts, universities, colleges and health organizations.
[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.
[4]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.
[5]The government has unconditionally guaranteed the payment of principal and interest for $10 million (2004: 10 million) of debentures issued to the Canada Pension Plan Investment Fund.

Appendix E: Public Accounts 2005/06 Notice of Change

Province of BritishColumbia
Public Accounts 2005/06

Notice of Change

Consolidated Summary Financial Statements
Note 25(d)
Page 65

The 2005 / 06 fiscal year was the first year that the government of British Columbia disclosed contractual obligations in its financial statements. This was done in compliance with new recommendations from the Public Sector Accounting Board (PSAB) that became effective for the 2005 / 06 fiscal year.

Subsequent to the release of the 2005 / 06 Public Accounts on July 17, 2006, a review of the contractual obligations revealed errors in the disclosed amounts. The errors have been discussed with the Office of the Auditor General (OAG) and they have agreed with the correction presented below. The errors resulted from the consolidation of information gathered from various Crown corporations. The information presented by the Crown corporations on their financial statements remains unchanged.

The errors affect the contractual obligations for the natural resources and economic development and general government sectors. This error does not affect financial statement amounts or any other number in the Public Accounts. The changes are highlighted in the table below:

				In Millions			
	2006/07	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**2012 and beyond**	**Total**
	$	$	$	$	$	$	$
Health	417	186	164	139	134	420	1,460
Education	354	88	38	12	3	7	502
Social Services	78	62	54	63	20	180	457
Natural resources and economic development	3,427	1,440	1,057	999	939	1,142	9,004
Adjusted by	**(1,347)**	**(151)**	**(41)**	**(25)**	**(5)**	**8,138**	**6,569**
Transportation	637	797	693	606	2,089	8,223	13,045
Other	62						62
Protection of persons and property	251	257	257	257	257	257	1,536
General government	290	305	296	276	150	203	1,520
Adjusted by	**(57)**	**(78)**	**(81)**	**(87)**	**39**	**122**	**(142)**
Contractual Obligations as restated	4,112	2,906	2,437	2,240	3,626	18,692	34,013

October 2, 2006

Appendix F: Summary of our reports issued in 2006 / 07

Report 1 – April 2006

Strengthening Public Accountability: A Journey on a Road that Never Ends

Report 2 – September 2006

The 2010 Olympic and Paralympic Winter Games: A Review of Estimates Related to the Province's Commitments

Report 3 – November 2006

Audit of Treaty Negotiations in British Columbia: An Assessment of the Effectiveness of British Columbia's Management and Administrative Processes

Report 4 – December 2006

Province of British Columbia Audit Committees: Doing the Right Things

Report 5 – December 2006

Audit of Government's Corporate Accounting System: Part 2

Report 6 – December 2006

Monitoring Government's Finances: Province of British Columbia

Report 7 – December 2006

Government's Post-secondary Expansion—25,000 Seats by 2010

Report 8 – December 2006

Changing Course—A New Direction for British Columbia's Coastal Ferry System: A Review of the Transformation of BC Ferries

Report 9 – January 2007

Seeking Best Practices in Financial Reporting: Report on the Province's 2005/06 Public Accounts

Each of these reports can be accessed through our website http://www.bcauditor.com or requested in print from our office.