

Overview of Provincial Financial Reporting

The province publishes financial statements, showing its financial position, in terms of assets and liabilities; the results of operations, in terms of revenues and expenses; and the change in financial position, in terms of the sources and uses of financial resources. These are general purpose statements that serve, to the extent possible, the needs of a variety of users. The statements are audited and issued annually. Although addressed to the Legislature, they are available to all interested parties.

The Public Accounts in which these financial statements are published provide information at various levels of responsibility.

The *Financial Administration Act* indicates the government statements as those of the Consolidated Revenue Fund. Hence, the main focus of the budget data and Estimates debate for each fiscal year is the Consolidated Revenue Fund (CRF). Volume 2 of the Public Accounts focuses on various levels of activities of the CRF and provides a comparison of estimated or appropriated revenues and expenses and actual activities. The CRF is comprised of the government operating account, Special Accounts and Special Funds.

To provide an overview of the broader responsibilities of the government, the Summary Financial Statements are prepared to reflect the combined results of the government and Crown entities. These statements are intended to provide an accounting of the province's financial affairs and resources, including the related activities of the Crown entities.

PRINCIPLES OF CONSOLIDATION

Crown entities are ultimately classified as government organizations or government enterprises. The method used to consolidate their results with the rest of government is determined by that classification.

A government organization is defined as an organization that is accountable for the administration of its financial affairs and resources either to a minister of the government or directly to the Legislature, and is owned

or controlled by the government with certain specified exceptions (*see* Reporting Entity definition on page A24).

A government enterprise is a government organization that sells goods and/or services to persons outside the government entity and can, in the normal course of its business, maintain its operations and meet its liabilities from revenue derived from sources outside the government reporting entity.

The methods of consolidation used to prepare the Summary Financial Statements are "full consolidation" or "modified equity." Full consolidation is used for government organizations while modified equity is used for government enterprises.

For full consolidation, the government adjusts the accounts of government organizations to be consistent with the accounting policies of the CRF. Operating and financial results are combined on a "line-by-line" basis. Gross revenue and expense of the Summary Financial Statements, therefore, include the total revenue of the CRF and the government organizations as well as their assets and liabilities. Amounts transferred or owing between these entities are eliminated from the statement totals.

For modified equity consolidation, there is no adjustment to conform to the government's accounting policies. The only eliminations are the profit element in inter-entity transactions and certain increases in contributed surplus. Otherwise, the original investment of the government is included at cost and adjusted annually to include the net earnings/losses and other net equity changes of the enterprises.

Page A52 and A53 list the individual government organizations that are fully consolidated, by sector, and the government enterprises recorded on the modified equity basis.

On the next page is a reconciliation of the Consolidated Revenue Fund and Estimates for 1998/99 to the Summary Financial Statements.

Reconciliation of the Consolidated Revenue Fund and Estimates to the Summary Financial Statements

	In Millions		
	1998/99 Estimated ³	1998/99 Actual	1997/98 Actual
	\$	\$	\$
CRF Net Operating Revenue (Expense)	(95)	(466)	(151)
Summary Financial Statements			
GOVERNMENT ORGANIZATIONS (See page A70)			
BC Transportation Financing Authority.....		(22)	52
British Columbia Buildings Corporation.....		48	39
British Columbia Ferry Corporation.....		(111)	(59)
British Columbia Systems Corporation.....		(1)	2
Forest Renewal BC.....		(264)	(92)
Other.....		10	38
Net Revenue (Expense)	(330)	(340)	(20)
Net Policy Adjustments	(412)	(449)	(288)
Net Equity Adjustments	(111)	(61)	(37)
Government Organizations Net Revenue (Expense)	(853)	(850)	(345)
GOVERNMENT ENTERPRISES (See page A71)			
552513 British Columbia Ltd.....		(28)	(28)
B.C. Community Financial Services Corporation ¹			(1)
BCIF Management Ltd.....			2
British Columbia Assets and Land Corporation ^{1,2}			2
British Columbia Hydro and Power Authority		395	408
British Columbia Liquor Distribution Branch		616	606
British Columbia Lottery Corporation.....		446	283
British Columbia Railway Company.....		27	40
Columbia Power Corporation		5	3
Insurance Corporation of British Columbia.....		61	14
Provincial Capital Commission.....			
Net Earnings	1,463	1,522	1,327
Accounting policy and other adjustments.....	(9)	(77)	1
<i>Less: transfers and dividends included in CRF revenue:</i>			
British Columbia Hydro and Power Authority	(373)	(323)	(369)
British Columbia Liquor Distribution Branch.....	(635)	(616)	(606)
British Columbia Lottery Corporation.....	(386)	(369)	(283)
British Columbia Railway Company.....	(61)	(40)	(4)
Increase (decrease) in unremitted earnings of Government Enterprises..	(1)	97	66
Government Organizations and Enterprises Net Revenue (Expense)	(854)	(753)	(279)
Summary Financial Statements Net Revenue (Expense) for the year.....	(949)	(1,219)	(430)

¹Effective 1998/99, these corporations are reported as government organizations and the results of their operations are included under "Other."

²British Columbia Assets and Land Corporation was previously known as W.L.C. Developments Ltd.

³Per Budget '99.

DEBT REPORTING

The Summary Financial Statements include the debt of the Consolidated Revenue Fund and government organizations. The Debt Statistics report also includes the debt of government enterprises

and guaranteed debt. The following table is a reconciliation of the Summary Financial Statements to the Debt Statistics report.

Reconciliation of Debt on the Summary Financial Statements to Debt in the Debt Statistics Report

	In Millions			1998
	1999			
	Taxpayer Supported \$	Commercial \$	Total \$	Total \$
CONSOLIDATED REVENUE FUND (CRF)				
Warehouse Program.....		658	658	212
Fiscal Agency Loan Program.....	3,408	7,845	11,253	16,505
Government Operating.....	19,189		19,189	11,488
Total Public Debt on the CRF Balance Sheet.....	22,597	8,503	31,100	28,205
GOVERNMENT ORGANIZATIONS				
Fiscal Agency Loan Program.....				5,231
Direct Borrowing	3,324		3,324	4,633
Other long-term debt	141		141	125
Total	3,465		3,465	9,989
Less: amounts owed within the reporting entity	(3,262)		(3,262)	(9,084)
Total debt of government organizations owed to organizations outside the reporting entity	203		203	905
Total Public Debt on the Summary Balance Sheet	22,800	8,503	31,303	29,110
Debt included in "Equity in Government Enterprises" (See page A57)				
Fiscal Agency Loan Program.....		7,843	7,843	7,040
Fiscal Agency Loan Program year-end adjustment.....		2	2	57
Direct borrowing		557	557	928
Direct borrowing of government organizations' joint ventures.....		47	47	48
Total debt of government enterprises.....		8,449	8,449	8,073
Less: amounts owed within the reporting entity		(7,845)	(7,845)	(7,097)
Accounting adjustments.....		(50)	(50)	(79)
Total debt of government enterprises owed to organizations outside the reporting entity		554	554	897
Contingent Debt of the Summary Reporting Entity				
Contingent debt (see page A46).....	487		487	866
Less: guaranteed debt of government enterprises	(326)		(326)	(691)
Contingent debt included in the Debt Statistics Report.....	161		161	175
Total Debt in the Debt Statistics report¹.....	22,961	9,057	32,018	30,182

¹Figures based on preliminary unaudited 1999 Debt Statistics report. Taxpayer-supported debt and commercial debt at March 31, 1998 were \$21,978 million and \$8,204 million, respectively.

GOVERNMENT ACCOUNTING POLICIES

The government continues to amend its accounting policies towards the implementation of full accrual accounting.

Prepaid Capital Advances

This year, the government has changed its recognition criteria for government transfers (grants and contributions) to permit the deferral of expense recognition when the payments are for future service delivery.

One particular area where this has been of major impact is the establishment of a prepaid expense for funds advanced for social capital asset acquisitions. These funds are advanced to the various organizations for the acquisition of tangible capital assets to be used for social programs in health, education and transportation. Formerly, such programs were funded through loans that were repaid through yearly grants obtained from the province.

The new accounting policy provides for the recognition of those costs such that they are more closely tied to the use of the asset rather than the repayment of the debt. Prepaid capital advances will be amortized over the life of the asset acquired with the advanced funds. The debt incurred by the province in order to provide the capital funding will now be recorded as part of the government operating debt rather than Fiscal Agency Loan Program debt.

Amounts advanced in prior years through the Fiscal Agency Loan Program have been released. A prepaid capital advance has been established for the unamortized value of advances made to date, which will be amortized over the average life of the assets held by each program. Certain debts related to the acquired assets and funded by the province, previously only guaranteed by the province, have now been assumed as direct debt of the province.

Major legislative amendments and this accounting policy change resolves the Auditor General's concern about the value of fiscal agency loans funded through future appropriations as assets.

Note 1 (d) of the Summary and Consolidated Revenue Fund Financial Statements provides details on the implications of this change.

Tangible Capital Assets

The government also continues its phased-in or "step-by-step" approach to the capitalization of tangible capital assets approved by Treasury Board in September 1995.

The approved process is to capitalize and amortize those classes of assets for which estimated or actual values can be readily ascertained. The Ministry of Finance and Corporate Relations and the Office of the Auditor General have agreed on the proposed schedule for future capitalization of asset classes.

As part of a long-term plan, most assets held by government organizations and certain land, vehicles, ferries, buildings, mainframe, mini, and micro-computer systems held by the province have been capitalized (recorded on the Balance Sheet) and will be amortized as appropriate to the nature and use of each asset type.

Capitalizing tangible capital assets does not impact the amount of debt reported by the province. It is now easier to determine which portion of the debt is attributable to operating deficits and how much was borrowed in order to build or acquire tangible capital assets. As capitalization proceeds, this breakdown will become more accurate. Capitalization provides better program costing since it ensures costs are matched to periods when service is provided.

The audited Summary Financial Statements Note 16 (*see* page A36), the audited Consolidated Revenue Fund Financial Statements Note 15 (*see* page B18), and the unaudited Schedule of Non-Capitalized Tangible Assets (*see* page C10) provide details of the government's current best estimate of its inventory of tangible capital assets.