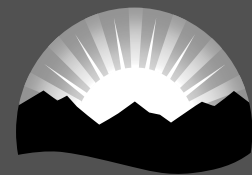


Public Accounts

For the Fiscal Year Ended
March 31, 2008

2007/2008



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July 17, 2008
Victoria, British Columbia

Lieutenant Governor of the Province of British Columbia

MAY IT PLEASE YOUR HONOUR:

The undersigned has the honour to present the Public Accounts of the Government of the Province of British Columbia for the fiscal year ended March 31, 2008.

COLIN HANSEN
Minister of Finance

*Ministry of Finance
Victoria, British Columbia*

*Honourable Colin Hansen
Minister of Finance*

I have the honour to submit herewith the Public Accounts of the Government of the Province of British Columbia for the fiscal year ended March 31, 2008.

Respectfully submitted,

CHERYL WENEZENKI-YOLLAND
Comptroller General

British Columbia's Public Accounts

Leading the Way

British Columbia is committed to leading practices in public sector reporting. The Public Accounts are one of the more significant accountability documents of the provincial government. They demonstrate accountability to the citizens of British Columbia by providing audited financial statements and other information in a consistent, timely and understandable format. They allow the reader to see how government performed relative to its fiscal plan and provide a picture of the current financial state of the government in terms of its assets, liabilities and net debt.

The main focus of the Public Accounts is the Summary Financial Statements representing the consolidated financial results and financial position of the province. The Summary Financial Statements include the financial statements and the supporting notes and schedules. All parts of the statements must be considered when reading the financial statements and when considering their meaning. These statements provide a whole of government view of how the province and its various organizations performed against the fiscal plan. Consistent with its legislative requirement to follow generally accepted accounting principles (GAAP), the province follows Canadian Public Sector Accounting Standards and includes the financial balances and results of operations of school districts, universities, colleges, institutes and health organizations (the SUCH sector).

As a result of the province's move to full compliance with GAAP, British Columbia continues to lead the country in terms of the organizations it includes in its reporting entity. As stated in previous years, we will continue to monitor the practices of other senior governments to determine if universities should be considered part of government in the long term. This year, there have been no significant changes to the reporting entity. There is a complete listing of the reporting entity for government on pages 77 –79.

Following inclusion of the SUCH sector in the province's financial statements in 2004/05, the province continues to improve the Public Accounts in terms of their usefulness to readers. In adopting changes to the Public Accounts, the accounting standards provide a number of considerations: how does the information aid understanding and assessments of government's financial operations and promote accountability; does the benefit of providing the information exceed the cost of doing so; and is the information relevant and reliable and what trade-offs may be appropriate in guiding professional judgement. The standards clearly acknowledge that no rule of general application can substitute the exercise of professional judgement in the determination of what constitutes fair presentation and/or good practices in a particular case. Generally, the approach the province has taken is one of thoughtful, measured improvement that considers all of the implications and includes consultation with impacted government organizations, the broader professional community and other senior government jurisdictions. All accounting policy and format changes are made in consultation with the independent Accounting Policy Advisory Committee created under the *Budget Transparency and Accountability Act* in 2001.

Each year the Auditor General expresses his opinion on the Summary Financial Statements based on his audit. This year the Auditor General has expressed a qualified audit opinion and noted several reservations in areas he believes the financial statements have departed from Canadian Generally Accepted Accounting Principles. The position of the Auditor General represents a very different view of our long standing accounting policies, and is also different from the generally accepted practice followed by other jurisdictions in Canada. All of these issues are the result of differences in professional judgement about how accounting principles should best be applied to faithfully represent the underlying substance of specific transactions and programs. Responsibility for the preparation of the government's financial statements resides with my office. Based on our professional judgement, analysis of the transactions and programs, and broad consultation with experts in government, other jurisdictions and the independent Accounting Policy Advisory Committee, we were unable to agree with the positions taken by the Auditor General on these issues. As always we will continue to work with the professional community, other jurisdictions and the Office of the Auditor General to address the issues he has raised.

As a matter of due practice, accounting policies are reviewed each year to ensure they remain relevant and consistent with GAAP. As GAAP changes, the province must change its policies accordingly. While there have been no new standards or changes in GAAP this year, there have been two changes to the province's application of its accounting policies which are worth highlighting. The Province's policy for capitalizing interest during construction was simplified and clarified to provide for consistent application across the reporting entity. Also, as part of our ongoing review of resource roads, enhancements in systems provided new information that supported reclassification of BC Timber Sales resource roads as tangible capital assets as opposed to prepaid program costs. The specifics of these two changes can be found in Note 1(e) of the financial statements.

While standards generally provide guidance on accounting, some of the more complex types of transactions require specific application guidance to be developed to ensure their treatment is consistent and correct across the broad entity. Emerging areas such as public private partnerships (P3) or private finance initiatives require guidance to ensure they are reported fairly and are consistent with the principles of public sector accounting.

While determining the costs under P3 arrangements is easy, identifying how they should be allocated between the capital asset value and operating costs has been the subject of much debate within the accounting community. In light of this, British Columbia has led the development of a new methodology to consistently allocate costs between capital and operating for all provincial P3 arrangements. From the provincial perspective, the adoption of the new methodology has not resulted in any substantial changes to the way P3 assets are valued or reported. We continue to work with standard setters and other jurisdictions to lead the development of international practice in the area of P3s. We will continue to revise our model and evaluate any required changes as standards develop and are adopted.

British Columbia continues to be a leader in budgeting and financial reporting based on the comparability of its Estimates and Public Accounts and the focus on "one bottom line"; that is, the Summary Financial Statements of the province. We will continue to change as accounting standards evolve and respond to the changing needs of the legislature and our financial statement readers. British Columbia's open and transparent financial reporting has played a significant part in the decision by certain major credit rating agencies to maintain the high credit rating of the province.

Public sector reporting will need to continue to evolve and change. The way governments manage and deliver public services continues to adapt to changing needs, technology and information systems continue to advance, and the globalization of economies is becoming a reality. The accounting and reporting standards need to acknowledge and evolve to recognize this new context and operational reality of public service. National and international public sector financial accounting standards also continue to change. Canadian GAAP is on the verge of a significant change with the announcement of convergence of private sector GAAP with international standards by 2011. The direction for Canadian public sector GAAP is to remain with Canadian standards at this time. British Columbia remains committed to working with the broader professional community in the development of consistent, principle-based policies which are both relevant and reliable, and striving to better inform users of the government's financial statements.

I would like to thank the Select Standing Committee on Public Accounts of the Legislative Assembly, government ministries, Crown corporations, agencies, the SUCH sector and the Auditor General and his staff for their cooperation and support in preparing the 2007/08 Public Accounts. I would also like to acknowledge the dedication of staff of the Office of the Comptroller General—specifically, the Financial Reporting and Advisory Services Branch, who prepared the Public Accounts and supporting documents.

Comments or questions regarding the Public Accounts documents are encouraged and much appreciated. Please direct your comments or questions to me by mail at PO Box 9413 STN PROV GOVT, Victoria BC V8W 9V1; e-mail at: Cheryl.WenzenkiYolland@gov.bc.ca; or, by telephone at 250 387-6692, fax at 250 356-2001.

Further information on the government's financial performance is also provided through the Consolidated Revenue Fund Extracts (available on the Internet – website <http://www.fin.gov.bc.ca/ocg/htm>). These extracts compare actual to planned spending of ministries on an appropriation basis, fulfilling ministries accountability back to the Legislative Assembly.

CHERYL WENEZENKI-YOLLAND
Comptroller General

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Public Accounts Content

Financial Statement Discussion and Analysis (Unaudited)—this section provides a written commentary on the Summary Financial Statements plus additional information on the financial performance of the provincial government.

Summary Financial Statements—these audited statements have been prepared to disclose the financial impact of the government's activities. They aggregate the Consolidated Revenue Fund (CRF), the taxpayer-supported Crown corporations and agencies (government organizations), the self-supported Crown corporations and agencies (government enterprises) and the school districts, universities, colleges, institutes and health organizations (SUCH) sector.

Supplementary Information (Unaudited)—this section provides supplementary schedules containing detailed information on the results of those Crown corporations and agencies that are part of the government reporting entity and the impact of the SUCH sector on the province's financial statements.

Consolidated Revenue Fund Extracts (Unaudited)—the CRF reflects the core operations of the province as represented by the operations of government ministries and legislative offices. Its statements are included in an abridged form. The CRF Extracts include a summary of the CRF operating result, a schedule of net revenue by source, a schedule of expenses, a schedule of financing transactions, and a schedule of write-offs, extinguishments and remissions, as required by statute.

Provincial Debt Summary—this section presents unaudited schedules and unaudited statements that provide further details on provincial debt and reconcile the Summary Financial Statements debt to the province's total debt. Also included are the audited Summary of Provincial Debt, Key Indicators of Provincial Debt and Summary of Performance Measures.

This publication is available on the Internet at: www.fin.gov.bc.ca

Additional Information Available (Unaudited)

The following information is available only on the Internet at: www.fin.gov.bc.ca

Consolidated Revenue Fund Supplementary Schedules—this section contains schedules that provide details of financial activities of the CRF, including details of expenses by ministerial appropriations, an analysis of statutory appropriations, Special Accounts and Special Fund balances and operating statements, and financing transactions.

Consolidated Revenue Fund Detailed Schedules of Payments—this section contains detailed schedules of salaries, wages, travel expenses, grants and other payments.

Financial Statements of Government Organizations and Enterprises—this section contains links to the audited financial statements of those Crown corporations, agencies and SUCH sector entities that are included in the government reporting entity.

Summaries of Financial Statements of Corporations and Agencies to which the Financial Information Act applies—this section contains summaries of the financial statements of corporations, associations, boards, commissions, societies and public bodies required to report under the *Financial Information Act* (R.S.B.C. 1996, chap. 140, sec. 2).

Legislative Compliance and Accounting Policy Report

The focus of the province's financial reporting is the Summary Financial Statements, which consolidate the operating and financial results of the province's Crown corporations, agencies, school districts, universities, colleges, institutes and health organizations with the Consolidated Revenue Fund. These are general-purpose statements designed to meet, to the extent possible, the information needs of a variety of users.

The Public Accounts are prepared in accordance with the *Financial Administration Act* and the *Budget Transparency and Accountability Act* (BTAA).

The BTAA was amended in 2001 with the passing of Bill 5. Under section 20 of that Bill, the government has mandated that "all accounting policies and practices applicable to documents required to be made public under this Act for the government reporting entity must conform to generally accepted accounting principles."

For senior governments, generally accepted accounting principles (GAAP) is generally considered to be the recommendations and guidelines of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

Section 4.1 of the BTAA established an Accounting Policy Advisory Committee (APAC) to advise Treasury Board on the implementation of GAAP for the government reporting entity (GRE). With the government's transition to full GAAP for the 2004/05 year, the role of APAC changed to include the provision of advice on evolving developments in accounting standards by the accounting profession as well as emerging issues within government.

Financial Statement Discussion and Analysis Report

Highlights

The highlights section provides a summary of the key events affecting the financial statements based on information taken from the Summary Financial Statements and Provincial Debt Summary included in the Public Accounts. The budget figures are from pages 3–7 of the *Estimates—Fiscal Year Ending March 31, 2008*.

- The province ended the year with a surplus of \$2,886 million, due to strong economic activity and prudent financial management. Taxation revenue increased by \$1,388 million reflecting robust employment and consumer confidence. Self-supported Crown corporations earnings also increased by \$288 million over the previous year. These gains were partially offset by decreases in federal government transfers and natural resource revenues totalling \$659 million. Program spending increased by \$2,519 million in 2007/08 as the province spent more on health, education and climate related programs and initiatives.
- In 2007/08, the province continued to invest in the capital infrastructure needed to deliver social programs and meet the needs of a growing economy. The province's net investment to build and upgrade schools, universities, colleges, hospitals, roads and bridges was \$1,979 million in 2007/08, \$1,881 million in 2006/07, \$1,559 million in 2005/06 and \$913 million in 2004/05. Capital investment is financed through a combination of debt, partnerships with the private sector, cost sharing with partners, and other sources including balances of cash and temporary investments.
- Total provincial debt, the most commonly used measure of debt, increased by \$1,194 million in 2007/08 to finance capital infrastructure and support working capital requirements for programs and initiatives. Over the last four years, from 2004/05 to 2007/08, total provincial debt has decreased by \$3,110 million. For accounting purposes, financial statement debt increased by a modest \$13 million in 2007/08. A reconciliation of total provincial debt to financial statement debt is included on page 118 of the Public Accounts.
- In calendar year 2007, the provincial economy grew by 3.1%. This rate of growth is higher than the national rate of 2.7% and the province's ratio of net liabilities to GDP continues on a downward trend this year. This means the economy is growing faster than net liabilities, allowing the province to increase spending on programs and services, and to invest in capital infrastructure.
- British Columbia continues to maintain a strong credit rating with all three major credit rating agencies. Dominion Bond Rating Service gave the province a rating of AA(high) while Standard & Poor's and Moody's Investors Services Inc. gave the province a rating of AAA and Aaa respectively, their highest possible ratings.

Financial Statement Discussion and Analysis Report

Economic Highlights

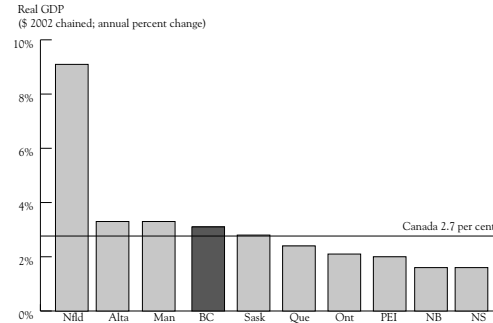
British Columbia's economy grew by 3.1% in the 2007 calendar year, the fourth highest among provinces and above the national average of 2.7%, according to preliminary data from Statistics Canada. The estimated 3.1% growth for 2007 is consistent with the government's February 2007 budget forecast.

Real Gross Domestic Product in Calendar Year 2007

Robust domestic demand continued to drive economic growth in British Columbia in 2007. Real consumer spending, which accounts for two-thirds of all provincial economic activity, increased by 5.6% during 2007. Real business investment rose by 2.9%, as growing investment in residential structures (3.5%), and machinery and equipment (7.2%) offset a decline in non-residential construction (-2.2%).

The rapid decline of the US housing market in the latter half of the year, combined with a strong Canadian dollar, contributed to a decline of 0.6% in total exports of goods and services from British Columbia in 2007. Total imports of goods and services from other provinces and countries increased by 3.9% in 2007.

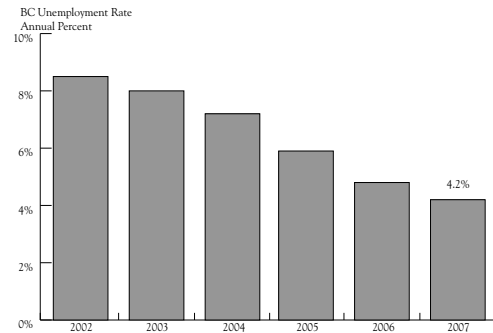
Provincial Comparison



Unemployment Rate in Calendar Year 2007

British Columbia saw a further drop in its annual unemployment rate in 2007, falling to 4.2% from the 4.8% observed in 2006. This marks the lowest unemployment rate seen in the province in 30 years and was complemented by strong labour income growth, which increased by 6.2%.

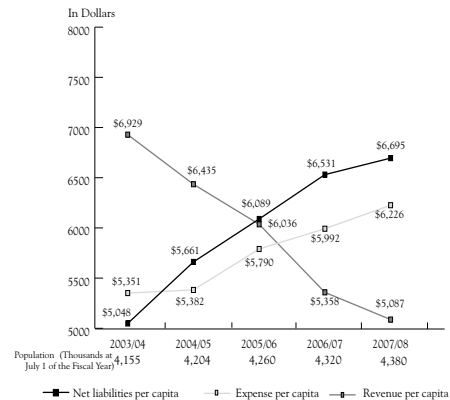
2002 to 2007



Per Capita Information

Per capita information indicates the amount of revenue received, amounts expended, and net liabilities incurred per person in the province over the last five years. In this period, the province has had to borrow less to fund capital investment and program spending because revenue growth has exceeded increases in spending since fiscal 2004/05. This has resulted in a sustainable trend of decreasing net liabilities over the previous five years.

2003/04 to 2007/08



Financial Statement Discussion and Analysis Report

Discussion and Analysis

The detailed analysis section provides an overview of significant trends relating to the statement of operations, statement of financial position and the provincial debt.

Summary Accounts Surplus (Deficit)

	In Millions			Variance	
	2007/08 Budget	2007/08 Actual	2006/07 Actual	2007/08 Actual to Budget	2007/08 vs 2006/07
Taxpayer-supported Programs and Agencies	\$	\$	\$	\$	\$
Revenue.....	34,887	36,857	35,819	1,970	1,038
Expense.....	(36,240)	(36,945)	(34,426)	(705)	(2,519)
Taxpayer-supported net earnings	(1,353)	(88)	1,393	1,265	(1,481)
Self-supported Crown corporation net earnings.....	2,503	2,974	2,686	471	288
Surplus (deficit) before unusual items	1,150	2,886	4,079	1,736	(1,193)
Forecast allowance.....	(750)			750	0
Surplus (deficit) for the year.....	400	2,886	4,079	2,486	(1,193)

The province ended the year with a surplus of \$2,886 million, \$2,486 million higher than budget, due to a strong domestic economy and consumer confidence, and higher than anticipated earnings from self-supported Crown corporations. The 2007/08 surplus of \$2,886 million was \$1,193 million lower than the record surplus of \$4,079 million in fiscal year 2006/07.

The larger than anticipated surplus supported continued investment in capital projects. Investments in infrastructure, including the Sea-to-Sky highway, the Canada Line Rapid Transit Project, the Abbotsford Regional Hospital and Cancer Centre, various residential care and assisted living projects, new academic space in teaching hospitals throughout BC, new student residences at various campuses and various upgrades and improvements to schools and the province's power generation and transmission facilities, ensure future service potential is available to support the delivery of government programs and services to the public. BC will continue to invest in the capital infrastructure necessary to support program and service delivery in the future and to meet the needs of a growing economy.

The large surpluses of recent years have largely been due to higher than anticipated revenue. Decreases in revenue during 2007/08, from both natural resources and federal government transfers, indicates that higher than expected revenues cannot be counted on in future periods. Changing demographics and a tightening labour market are risks to the economic outlook. Prudent financial management ensures increases in operating expenses remain sustainable in the future.

Financial Statement Discussion and Analysis Report

Components of Surplus (deficit)

Revenue Analysis

Revenue analysis helps users understand the government's finances in terms of its revenue sources and allows them to evaluate the revenue producing capacity of the government.

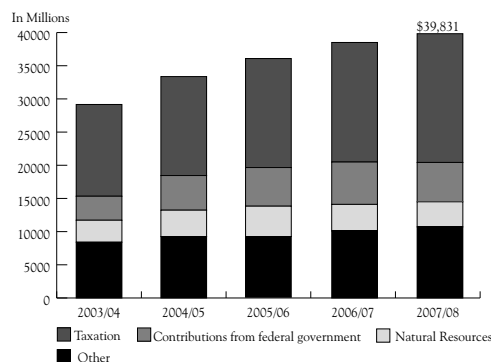
Revenue by Source

Revenue by source provides an outline of the primary sources of provincial revenue and how results change between those sources over time. Revenues are broken down into separate components of taxation, contributions from the federal government, natural resources and other sources, which include fees and licenses, contributions from self-supported Crown corporations, and investment income.

	In Millions				
	2003/04	2004/05	2005/06	2006/07	2007/08
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Taxation.....	13,830	14,917	16,429	18,018	19,406
Contributions from federal government.....	3,619	5,222	5,825	6,386	5,931
Natural resources.....	3,309	3,973	4,567	3,982	3,778
Fees and licences.....	3,525	3,660	3,687	3,812	3,986
Net earnings of self-supported Crown corporations...	1,955	2,563	2,221	2,686	2,974
Miscellaneous.....	1,974	2,200	2,296	2,589	2,617
Investment income.....	950	833	949	1,032	1,139
Total revenue.....	29,162	33,368	35,974	38,505	39,831

2003/04 to 2007/08

Provincial revenues have increased steadily over the last five years. This growth is mainly due to strong economic performance resulting in increased tax revenue. Net earnings of self-supported Crown corporations have also increased this year, but these gains were offset by decreases in contributions from the federal government, and lower natural resource revenues.



In 2007/08, tax revenue increased by \$1,388 million (8%) over 2006/07 and \$5,576 million (40%) since 2003/04. The most significant increases were in corporate tax which increased by \$712 million, and social services tax which increased by \$358 million. The increase in tax revenue is the result of strong economic performance, employment growth, and consumer confidence.

Overall, contributions from the federal government decreased in 2007/08 by \$455 million (7%). In 2007/08 the province did not qualify for Federal Equalization Payments and one-time grants based on federal surpluses were lower than in previous years. The province did receive an increase of \$353 million in Canada health and social funding in 2007/08 as established by the *Federal Provincial Fiscal Arrangements Act*.

Financial Statement Discussion and Analysis Report

Natural resource revenues decreased from 2006/07 to 2007/08 due to volatility in commodity prices. In 2007/08, natural resource revenues decreased by \$204 million (5%) mostly due to depressed lumber prices caused by a weak US housing market. In 2006/07, the decrease in natural resource revenues was due to lower natural gas prices.

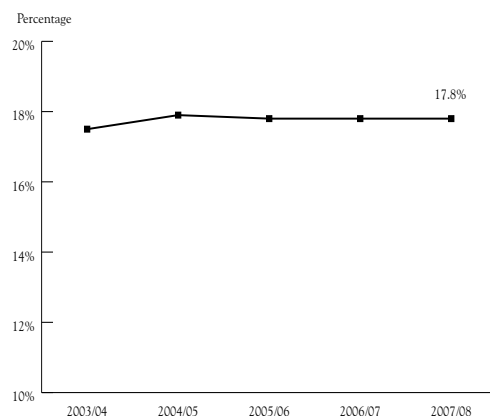
Net earnings of self-supported commercial Crown corporations increased by \$288 million (11%) in 2007/08 primarily due to increased earnings at Insurance Corporation of British Columbia from higher premium revenues and a one-time gain on the sale of the Surrey Central City Mall.

Own-source Revenue to GDP

The ratio of own-source revenue to GDP represents the amount of income government is taking from the whole provincial economy in the form of taxation, natural resource revenues, user fees and sales (own-source revenue is all revenue except for federal transfers).

Own-source revenue to GDP has remained constant around 18% for the last five years. This indicates the government has not increased the proportion received from the economy to meet its obligations and fund increases to social programs and infrastructure.

2003/04 to 2007/08

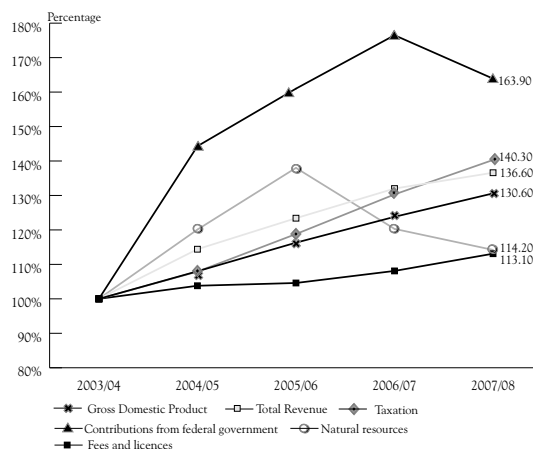


Percentage Change in Revenue

Trend analysis of revenue provides users with information about significant changes in revenue over time and between sources. This enables users to evaluate past performance and assess potential implications for the future.

While taxation revenue and revenue from fees and licenses continue to increase in line with GDP, natural resource revenues and contributions from the federal government decreased in 2007/08. Total revenue continues to increase in line with GDP.

2003/04 to 2007/08



Financial Statement Discussion and Analysis Report

Natural Resource Revenue

The chart of natural resource revenues explains past trends of natural resource revenues in total and by major category. Natural resource revenues are among the most volatile revenue sources for the province because they are vulnerable to market fluctuations in commodity prices.

Natural gas royalty revenue decreased by \$714 million in 2006/07 due to depressed natural gas prices. In 2007/08, the decline in natural gas royalty revenue has moderated, ending the year with a decrease of \$75 million over 2006/07 as natural gas prices picked up in the fourth quarter.

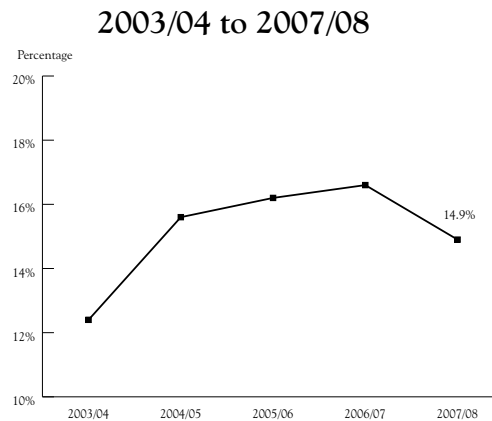
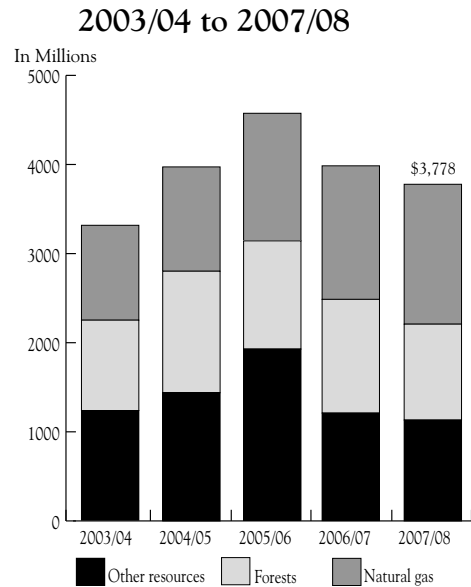
Forestry revenue decreased by \$200 million in 2007/08 due to low lumber prices, and a weak housing market in the U.S. The proportion of natural resource revenue attributable to forestry has decreased slightly from 32% to 28%.

Other resource revenues have increased in the year due to increased activity in the mining sector caused by increasing commodity prices for metals.

Government-to-Government Transfers to Total Revenue

The ratio of government-to-government transfers to total revenue is an indicator of how dependent the province is on transfers from the federal government. An increasing trend shows more reliance and a decreasing trend shows less.

The decrease in 2007/08 resulted from fewer one-time payments to fund specific provincial programs and infrastructure investments than in previous years, and an end to equalization payments. The decrease in federal contributions for 2007/08 was moderated by an increase in Canada health and social services funding as established by the *Federal Provincial Fiscal Arrangements Act*.



Financial Statement Discussion and Analysis Report

Expense Analysis

The following analysis helps users understand the impact of the government's spending on the economy, the government's allocation and use of resources, and the cost of government programs.

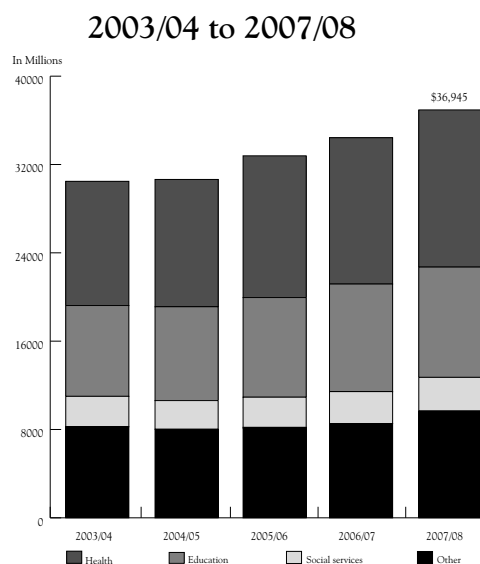
Expense by Function

Expense by function provides a summary of the major areas of government spending, and changes in spending over time. Functions, which indicate the purpose of expenditures, are defined by Statistics Canada's Financial Management System of Government Statistics. The province uses the following functions: health, education, social services, interest, other, natural resources and economic development, protection of persons and property, transportation, and general government. The health, education and social services functions account for approximately 75% of the province's total operating costs.

	In Millions				
	2003/04	2004/05	2005/06	2006/07	2007/08
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Health.....	11,250	11,529	12,838	13,253	14,236
Education.....	8,226	8,499	9,027	9,742	9,989
Social services.....	2,753	2,598	2,798	2,892	3,046
Interest.....	2,448	2,306	2,202	2,269	2,231
Other.....	1,075	1,028	1,094	1,278	1,398
Natural resources and economic development.....	1,630	1,669	1,610	1,642	1,974
Protection of persons and property.....	1,362	1,204	1,414	1,331	1,579
Transportation.....	1,120	1,308	1,203	1,251	1,379
General government.....	490	505	676	768	1,113
Total operating expense.....	30,354	30,646	32,862	34,426	36,945
Restructuring exit expense.....	123				
Total expense.....	30,477	30,646	32,862	34,426	36,945

Government spending has increased since 2003/04 in line with affordability. Expenses increased by 7% in 2007/08 while revenues increased by 3.4% in the same period, and GDP increased by 3.1%.

In 2007/08, the province increased spending on health and education, as well as climate action initiatives and housing programs. In 2007/08, the province increased spending on health by \$983 million (7%), education by \$247 million (3%) and social services by \$154 million (6%). All other program spending in the province, including climate action initiatives and housing, increase by \$1,135 million (12%).



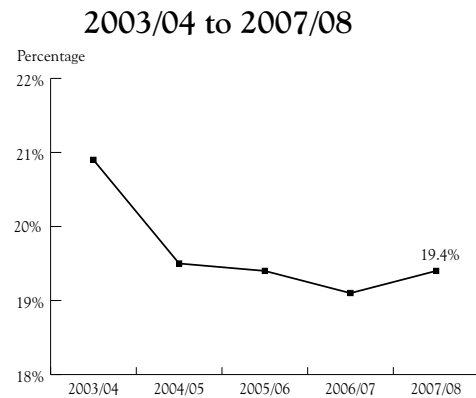
Financial Statement Discussion and Analysis Report

In 2007/08, provincial operating expenses were \$36,945 million, a \$2,519 million (7%) increase over 2006/07 and a \$6,468 million (21%) increase since 2003/04. Health expense increased by \$983 million (7%) due to several priority health initiatives undertaken by the province, increases in health funding paid for increased operating costs, including salaries, increased funding for life support programs, and the Health Innovation Fund which promoted innovation in the health care system. Education expenses increased by \$247 million (3%) over 2006/07 as the province increased its investment in research projects, additional grants for aboriginal programs and provided funding for new spaces in post secondary education. Climate action initiatives undertaken by the province in 2007/08 include the climate action dividend, and the Pacific Institute for Climate Solutions (PICS). The province has also continued its February 2007 budget commitment to meet the housing challenges of a growing economy through increased funding for initiatives which provide year round shelter beds for the homeless, invest in social housing projects and enhance rental assistance to lower income working families.

Expense to GDP

The ratio of expense to GDP represents the amount of government spending in relation to the overall provincial economy.

Government spending as a percentage of GDP increased slightly in 2007/08, indicating that government spending on programs and initiatives has increased to meet the needs of a growing economy.



Financial Statement Discussion and Analysis Report

Changes in Actual Results from 2006/07 to 2007/08

	In Millions		
	Revenue	Expense	Surplus
	\$	\$	\$
2006/07 Surplus	38,505	34,426	4,079
Increase in taxation revenue.....	1,388		1,388
Decrease in federal contributions.....	(455)		(455)
Decrease in natural resources revenue.....	(204)		(204)
Net increase in other revenue.....	309		309
Increase in self-supported Crown corporation net earnings.....	288		288
Increase in health expense.....		983	(983)
Increase in education expense.....		247	(247)
Increase in general government expense.....		345	(345)
Increase in natural resource expense.....		332	(332)
Increase in protection.....		248	(248)
Increase in other expenses.....		364	(364)
Subtotal of changes in actual results.....	<u>1,326</u>	<u>2,519</u>	<u>(1,193)</u>
	<u>1,326</u>	<u>2,519</u>	
2007/08 Surplus			2,886
2006/07 Accumulated Surplus			4,200
Accumulated other comprehensive income from self-supported Crown corporations and agencies.....			<u>365</u>
2007/08 Accumulated Surplus			<u>7,451</u>

The net increase in revenue of \$1,326 million over 2006/07 was offset by increased program spending of \$2,519 million, resulting in a net decrease of \$1,193 million in the 2007/08 surplus. The surplus of \$2,886 million in 2007/08, along with accumulated other comprehensive income from self-supported Crown corporations and agencies of \$365 million, resulted in an ending accumulated surplus of \$7,451 million for 2007/08.

Financial Statement Discussion and Analysis Report

Changes from 2007/08 Budget

	In Millions			
	Revenue	Expense	Forecast Allowance	Surplus
	\$	\$	\$	\$
Surplus per Budget February 2007.....	37,390	36,240	(750)	400
Increase in taxation revenue.....	1,735			1,735
Decreased natural resource revenue.....	(850)			(850)
Increased self-supported Crown corporations earnings.....	471			471
Decreased investment earnings.....	225			225
Increased federal transfers.....	388			388
Increased other revenues.....	472			472
Interest savings.....		(114)		114
Increased education spending.....		152		(152)
Increased natural resource spending.....		408		(408)
Increased other program spending.....		259		(259)
Unused forecast allowance.....			750	750
Subtotal of changes in actual results compared to budget.....	2,441	705	750	2,486
Actual Results.....	39,831	36,945	0	2,886

Revenue was \$2,441 million (7%) higher than the budgeted amount of \$37,390 million and expenses were \$705 million (2%) higher than the budget of \$36,240 million, which does not include supplementary estimates. The forecast allowance of \$750 million was not used because revenues were significantly higher than budget.

Net Liabilities and Accumulated Surplus (Deficit)

In accordance with Canadian generally accepted accounting principles, the government's statement of financial position is presented on a net liabilities basis. Net liabilities represent net future cash outflows resulting from past transactions and events. An analysis of net liabilities and accumulated surplus helps users to assess the government's overall financial position and the future revenue required to pay for past transactions and events.

	In Millions			Variance	
	2007/08	2007/08	2006/07	2007/08	2007/08
	Budget	Actual	Actual	Actual	vs
	\$	\$	\$	to Budget	2006/07
	\$	\$	\$	\$	\$
Financial assets.....	26,579	29,642	26,758	3,063	2,884
Less: liabilities.....	(53,379)	(51,925)	(49,904)	(1,454)	2,021
Net Liabilities.....	(26,800)	(22,283)	(23,146)	(4,517)	(863)
Less: non-financial assets.....	29,951	29,734	27,793	(217)	1,941
Accumulated surplus (deficit).....	3,151	7,451	4,647	(4,300)	(2,804)

Financial Statement Discussion and Analysis Report

The accumulated surplus (deficit) represents the sum of the current and prior years' operating results. At March 31, 2008, the accumulated surplus was \$7,451 million, \$4,300 million higher than budget due to a higher than forecast surplus for 2007/08. The \$2,804 million increase in accumulated surplus compared to 2006/07 reflects the annual surplus of \$2,886 million less a decrease in other comprehensive income of self-supported Crown corporations of \$82 million.

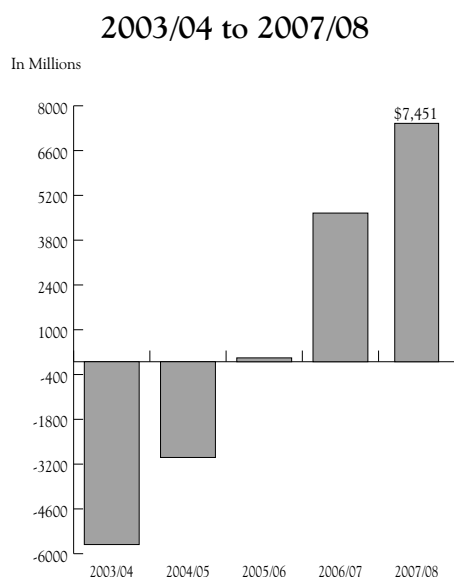
Financial assets were \$3,063 million higher than budget and \$2,884 million higher than 2006/07. Most of this increase was due to a higher end of year balance in cash, cash equivalents and temporary investments. Compared to 2006/07, cash, cash equivalent and temporary investments increased by \$2,501 million.

Liabilities were \$1,454 million lower than budget, and \$2,021 million higher than 2006/07. Compared to 2006/07, accounts payable and other liabilities increased by \$861 million in line with the increase in expenditures, deferred revenue increased by \$1,147 million, and self-supported debt increased by \$400 million offset by a decrease in taxpayer-supported debt of \$387 million.

Non-financial assets typically represent resources, such as tangible capital assets, that the government can use in the future to provide services. Non-financial assets increased by \$1,941 million over the prior year due to the government's increased capital investment in hospitals and health facilities, transportation infrastructure and post secondary institutions.

Accumulated Surplus (Deficit)

The accumulated surplus (deficit) represents current and all prior years operating results. The province had operating surpluses over the past five years which reduced the accumulated deficit in 2004/05 and virtually eliminated it by 2005/06. In 2006/07 the province had an accumulated surplus of \$4,647 million which increased to \$7,451 million in 2007/08. Positive operating results have allowed for additional investment in capital infrastructure and increased spending on priority programs and services.



Financial Statement Discussion and Analysis Report

Components of Net Liabilities

Financial Assets

Trend analysis of financial assets provides users with information regarding the amount of resources available to the government that can be converted to cash to meet obligations or fund operations.

	In Millions				
	2003/04	2004/05	2005/06	2006/07	2007/08
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Cash, cash equivalents and temporary investments...	2,690	3,589	3,880	3,450	5,951
Accounts receivable.....	2,792	2,616	2,591	2,902	2,812
Equity in self-supported Crown corporations and agencies.....	3,047	3,196	3,476	4,426	5,090
Loans for purchases of assets recoverable from agencies.....	7,512	6,901	6,916	7,170	7,719
Other financial assets.....	8,120	8,526	8,463	8,810	8,070
Total financial assets.....	24,161	24,828	25,326	26,758	29,642

In 2007/08, financial assets increased by \$2,884 million over 2006/07 primarily due to an increase in cash, cash equivalents and temporary investments which increased by \$2,501 million. The treasury operation of government ensures that sufficient cash and liquid assets are on hand to cover current obligations, fulfill debt redemption requirements and fund priority capital investments. Equity in self-supported Crown corporations increased by \$664 million due to higher than expected income from self-supported Crown corporations and agencies. Recoverable capital loans increased by \$549 million as the province provided funding to Crown agencies for capital projects. This was offset by a decrease of \$1,149 million in sinking fund investments which were liquidated to reduce borrowing requirements. Other financial assets and accounts receivable increased by \$319 million.

Liabilities

Trend analysis of liabilities provides users with information to understand and assess the demands on financial assets and the revenue raising capacity of government.

	In Millions				
	2003/04	2004/05	2005/06	2006/07	2007/08
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Taxpayer-supported debt.....	33,386	32,023	30,299	28,924	28,537
Self-supported debt.....	8,555	7,889	7,758	7,897	8,297
Total financial statement debt.....	41,941	39,912	38,057	36,821	36,834
Accounts payable and other liabilities.....	7,007	6,788	7,288	7,094	7,955
Deferred revenue.....	4,003	5,181	5,695	5,989	7,136
Total liabilities.....	52,951	51,881	51,040	49,904	51,925

In 2007/08, liabilities increased by \$2,021 million over 2006/07. Liabilities are obligations to third parties that must be settled at a future date by the transfer of financial assets. Financial statement debt increased by \$13 million from 2006/07 and is \$5,107 million lower than in 2003/04. Deferred revenue increased by \$1,147 million in part due to an increase in Bonus Bids of \$685 million for oil and gas tenures in areas of proven reserves. Accounts payable and other liabilities increased by \$861 million in line with the increase in program expenses. Taxpayer-supported debt decreased in 2007/08 by \$387 million, offset by an increase of \$400 million in self-supported debt. Information relating to the government's debt management can be found in more detail in the analysis of the total provincial debt on page 25.

Financial Statement Discussion and Analysis Report

Non-financial Assets

Trend analysis of non-financial assets provides users with information to assess the management of a government's infrastructure and long-term non-financial assets.

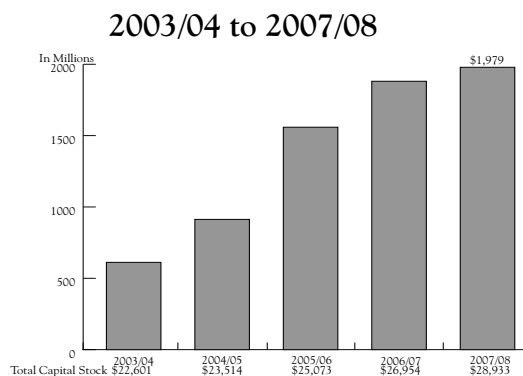
	In Millions				
	2003/04 Actual \$	2004/05 Actual \$	2005/06 Actual \$	2006/07 Actual \$	2007/08 Actual \$
Tangible capital assets.....	22,601	23,514	25,073	26,954	28,933
Other assets.....	475	547	762	839	801
Total non-financial assets.....	23,076	24,061	25,835	27,793	29,734

Management of non-financial assets has a direct impact on the level and quality of services a government is able to provide to its constituents. Non-financial assets typically represent resources that government can use in the future to provide services. At March 31, 2008, non-financial assets were \$29,734 million which was \$1,941 million higher than 2006/07 and \$6,658 million higher than 2003/04. The majority of the province's non-financial assets represent capital expenditures for tangible capital assets. The government has increased its investment in tangible capital assets by \$1,979 million in 2007/08, \$1,881 million in 2006/07, \$1,559 million in 2005/06, \$913 million in 2004/05 and \$612 million in 2003/04 to ensure service potential is available to deliver programs and services in future periods. Capital expenditures are not included on the Consolidated Statement of Operations and have no effect on the current surplus. They reduce future surpluses in the form of amortization expense as the service potential of assets is used to deliver programs and services.

Change in Capital Stock

This measure shows the impact of net changes to the governments stock of physical capital. An increasing trend demonstrates investment in infrastructure to provide service potential in future periods. The net value of total assets is also provided to allow users to assess the significance of annual changes.

Net annual investment increased by \$1,979 million in 2007/08 and by \$6,658 million since 2003/04. Total capital stock has also increased steadily over that period demonstrating that capital infrastructure is available to provide service in future periods



Net Liabilities and Accumulated Surplus (Deficit)

	In Millions				
	2003/04 Actual \$	2004/05 Actual \$	2005/06 Actual \$	2006/07 Actual \$	2007/08 Actual \$
Financial assets.....	24,161	24,828	25,326	26,758	29,642
Less: liabilities.....	(52,951)	(51,881)	(51,040)	(49,904)	(51,925)
Net liabilities.....	(28,790)	(27,053)	(25,714)	(23,146)	(22,283)
Less: non-financial assets.....	23,076	24,061	25,835	27,793	29,734
Accumulated surplus (deficit).....	(5,714)	(2,992)	121	4,647	7,451

Financial Statement Discussion and Analysis Report

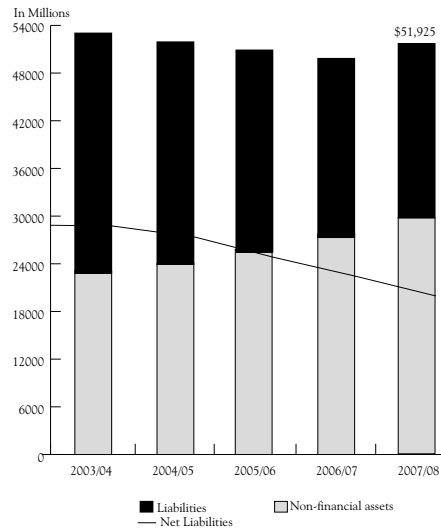
Net liabilities have decreased and accumulated surplus has increased consistently from 2003/04 to 2007/08. Over that time the provinces financial position has increased by \$13,165 million from an accumulated deficit of \$5,714 million in 2003/04 to a record accumulated surplus of \$7,451 million in 2007/08.

Non-financial Assets as a Portion of Liabilities

The chart provides an indication of what proportion of liabilities are used to fund capital infrastructure as opposed to funding working capital requirements.

Net liabilities have declined steadily over the last three years and the province moved from a deficit to a surplus. Over that period, a greater proportion of liabilities have arisen from government's investment in infrastructure projects, rather than operations.

2003/04 to 2007/08

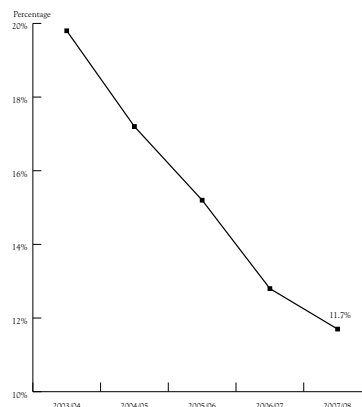


Net Liabilities to GDP

The net liabilities to GDP ratio provides an indication of the province's ability to maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy as a whole.

The government's ratio of net liabilities to GDP has declined consistently between 2003/04 and 2007/08 reducing the financial burden on the provincial economy and on future taxpayers. The decrease in net liabilities to GDP indicates the province can sustain program spending without a negative impact on the economy.

2003/04 to 2007/08

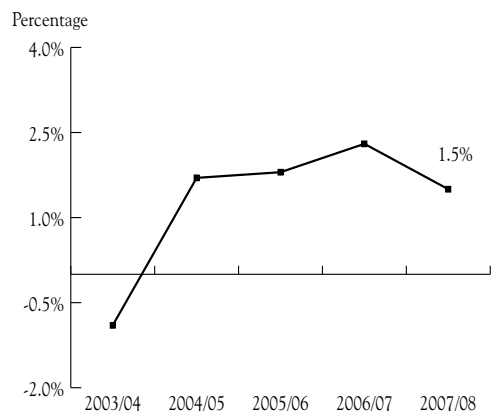


Surplus (Deficit) to GDP

The surplus (deficit) to GDP ratio is an indicator of sustainability that compares the province's financial results to the overall results of the economy.

The consistent positive trend since 2003/04 shows that government operating requirements are decreasing at a greater rate than growth in GDP. Results in the positive range of the chart indicate that government can maintain existing operations and reduce the debt burden or invest in infrastructure without a negative impact on the economy.

2003/04 to 2007/08



Financial Statement Discussion and Analysis Report

Total Provincial Debt

Analysis of total provincial debt helps users to assess the extent of long-term liabilities and the government's ability to meet future debt obligations.

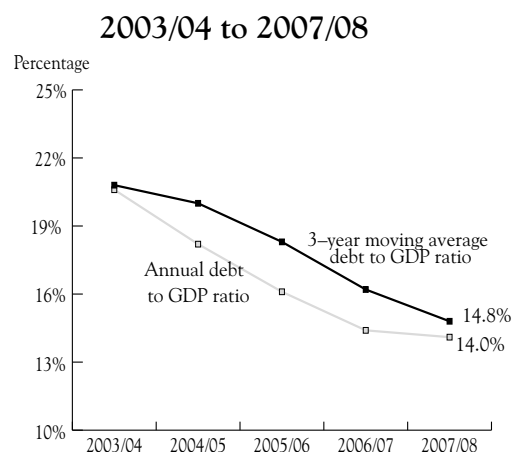
	In Millions				
	2003/04 Actual \$	2004/05 Actual \$	2005/06 Actual \$	2006/07 Actual \$	2007/08 Actual \$
Gross debt.....	41,941	39,912	38,057	36,821	36,834
Less: sinking funds assets.....	(4,619)	(4,515)	(4,059)	(3,798)	(2,649)
Third party guarantees and non-guaranteed debt.....	415	449	399	410	442
Total provincial debt.....	37,737	35,846	34,397	33,433	34,627

When reporting to rating agencies, the province adds to its financial statement debt, all debt guarantees and the debt directly incurred by self-supported Crown corporations reduced by sinking fund assets. This balance is referred to as the total provincial debt.

Total provincial debt is \$2,207 million lower than the amounts reported in the province's financial statements after deducting sinking funds held to pay down the debt and the inclusion of debt guarantees and non-guaranteed debt. Overall, total provincial debt increased by \$1,194 million in 2007/08 because the government borrowed to fund capital projects and working capital requirements. The largest increases were the debt of the BC Transportation Financing Authority which rose by \$711 million; education sector debt increased by \$587 million; health sector debt increased by \$446 million; the debt of other taxpayer-supported entities increased by \$116 million; the debt of the British Columbia Hydro and Power Authority increased by \$489 million; and the debt of other self-supported entities increased by \$86 million. This was offset by a reduction of provincial government direct operating debt of \$1,241 million compared to 2006/07.

Taxpayer-supported debt to GDP

The ratio of taxpayer-supported debt to GDP is a key measure used by financial analysts and investors to assess a province's ability to repay debt and is a key measure monitored by the bond rating agencies. The government is committed to maintaining a downward trend in the taxpayer-supported debt to GDP ratio. A declining ratio means that debt will not grow faster than the economy, so that future generations will not be left with a debt burden that they cannot afford.



Financial Statement Discussion and Analysis Report

Strong Credit Rating

Reflecting the province's strong fiscal performance, British Columbia has maintained a strong and stable credit rating with all three credit rating agencies. In 2007/08, Moody's Investors Service Inc. gave the province an Aaa (stable) credit rating (2007: Aaa); Standard and Poor's gave the province an AAA (stable) credit rating (2007: AAA), and Dominion Bond Rating Services gave the province an AA(high) credit rating (2007: AA (high)).

Credit Ratings June 2008

Jurisdiction	Rating Agency ¹		
	Moody's Investors Service Inc.	Standard and Poor's	Dominion Bond Rating Service
British Columbia	Aaa	AAA	AA (high)
Alberta	Aaa	AAA	AAA
Saskatchewan	Aa1	AA	AA(low)
Manitoba	Aa1	AA	A(high)
Ontario	Aa1	AA	AA
Quebec	Aa2	A+ positive	A(high)
New Brunswick	Aa1	AA-	A(high)
Nova Scotia	Aa2	A+	A
Prince Edward Island	Aa2	A	A(low)
Newfoundland	Aa2	A	A(low) positive
Canada	Aaa	AAA	AAA/AA(high)

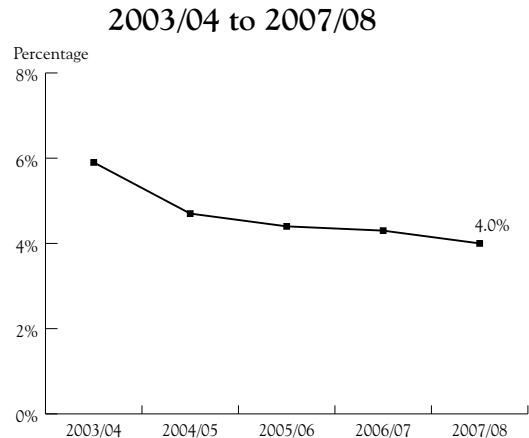
¹The rating agencies assign letter ratings to borrowers. The major categories, in descending order of credit quality, are: AAA/Aaa; AA/Aa; A; BBB/Baa; BB/Ba; and B. The "1", "2", "3", "high", "low", "-", and "+" modifiers show relative standing within the major categories. For example, AA+ exceeds AA.

A more comprehensive overview of provincial debt, including key debt indicators is located on pages 115–127.

Public Debt Charges to Revenue (the Interest Bite)

The public debt charges to revenue indicator is often referred to as the "interest bite". This provides users with the percentage of the province's revenue used to pay interest on debt.

If a decreasing proportion of provincial revenue is used to pay interest on provincial debt, more money is left to provide government services. The interest bite has decreased over the last five years. In 2007/08, the province spent 4 cents of each revenue dollar on interest on the provincial debt.



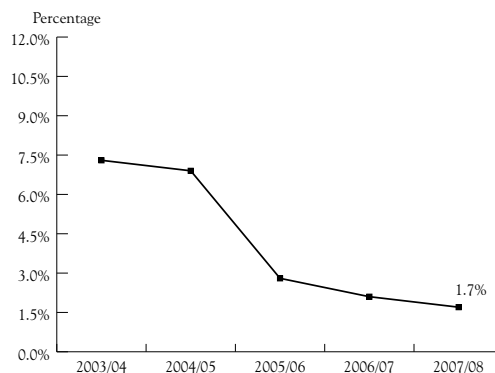
Financial Statement Discussion and Analysis Report

Non-Hedged Foreign Currency Debt to Total Provincial Debt

2003/04 to 2007/08

The ratio of non-hedged foreign currency debt to total provincial debt shows the degree of vulnerability of a government's public debt position to swings in exchange rates.

Since 2003/04, the government has reduced its foreign currency debt, thereby reducing the province's vulnerability to changes in exchange rates.



Risks and Uncertainties

The government's main exposure to risks and uncertainties arises from variables which the government does not directly control. These include:

- economic factors such as commodity prices, personal income, retail sales, population growth, and unexpected shocks such as terrorism, avian flu and forest fires
- outcomes from litigation, arbitration and negotiations with third parties
- changes in federal transfers
- utilization rates for government services such as health care, children and family services, or employment assistance
- exposure to interest rate fluctuations, foreign exchange rates and credit risk
- changes in Canadian generally accepted accounting principles

The following are the approximate effect of changes in some of the key variables on the surplus:

Key Fiscal Sensitivities ¹		
Variable	Increase Of	Annual Fiscal Impact (\$ millions)
Nominal GDP	1%	\$150 to \$250
Lumber prices (US\$/thousand board feet)	\$50	\$75 to \$125 ²
Natural gas prices (Cdn\$/gigajoule)	\$1	\$275 to \$325
US exchange rate (US cents/Cdn\$)	1 cent	(\$25) to (\$40)
Interest rate	1 percentage point	(\$90)
Debt	\$500 million	(\$23)

¹ Individual circumstances and inter-relationships between the variables may cause the actual variances to be higher or lower than the estimates shown.

² Sensitivity relates to stumpage revenue only. Depending on market conditions, changes in stumpage revenues may be offset by changes in border tax revenues.

Financial Statement Discussion and Analysis Report

Although the government is unable to directly control these variables, strategies have been implemented to mitigate these risks and uncertainties. The development of taxation, financial and corporate regulatory policy to reinforce British Columbia's position as an attractive place to invest and create jobs will help offset the increase in competition for investment as a result of globalization of economic and financial markets. The government will continue to apply a forecast allowance in the budget to account for risks to revenue, expenditure, Crown corporations, and schools, universities, colleges and health organizations (SUCH) sector forecasts. The use of forecast allowances recognizes the uncertainties in predicting future economic developments.

Risk management in relation to debt is discussed in Note 19 on page 64 of the Notes to Consolidated Summary Financial Statements.