

British Columbia's Public Accounts

Staying the Course

The Public Accounts include the Summary Financial Statements of the provincial Government Reporting Entity which includes the financial results of all ministries and Crown agencies presented on a consolidated basis. The supporting notes and schedules define the accounting policies followed in preparing the province's financial statements and form an integral part of the overall financial picture of the province's financial activities in fiscal year 2012/13.

Responsibility for the preparation of the government's financial statements rests with the Office of the Comptroller General. Although accounting policies are based in Public Sector Accounting Standards, the application of standards to specific programs and transactions is the responsibility of the preparer who must use professional judgement to determine the treatment that is most representative of the underlying economic substance and best serves the information requirements of the users of government financial statements.

These determinations can be challenging, particularly in a time of significant change in national and international accounting standards. To ensure due diligence in the application of accounting policies, decisions are based on comprehensive understanding of the substance of transactions, reference to existing and emerging accounting standards, and consultation with standard setters, other jurisdictions and the audit community. In preparing the province's financial statements, our objective is to ensure they not only comply with the technical requirements of Public Sector accounting, but also provide useful and understandable information about government's financial results and the financial position of the province. In addressing these challenges, the province is supported by the independent Accounting Policy Advisory Committee established under the *Budget Transparency and Accountability Act* in 2001.

As accounting standards evolve, government provides direction to its individual entities on the selection and application of accounting policies to ensure consistent and transparent practice across the government reporting entity. The way a transaction is reported at the entity level should be the same way that transaction is reported in the Summary Financial Statements. To that end, all service delivery agencies, including schools, universities, colleges and health authorities, now report under the same set of Public Sector Accounting Standards. This is the culmination of a multi-year project to improve the transparency, line of sight, and understandability of financial statements at every level within the reporting entity. Despite the growing complexity of the reporting process, British Columbia remains committed to timely delivery of the Public Accounts each year and continues to focus on consistency 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.

Throughout the year, we work with the Office of the Auditor General to implement changes in accounting standards, address audit findings and recommendations, and improve the transparency of financial reporting. In doing so, we are mindful of the need to maintain consistency in the fundamental principles of accounting, and the comparability of financial information over a long period of time. This continuity allows the users of financial information to compare government's financial performance against their fiscal plan, and to understand the province's financial performance over longer periods of time. These objectives help to demonstrate accountability for financial performance to the public, both in the current year and over the longer term.

To provide financial statement users with assurance over the reliability of the Public Accounts, the Auditor General expresses his independent opinion on the Summary Financial Statements and Debt Summary Report. This year the Auditor General has once again provided a qualified opinion, identifying areas where he believes the financial statements depart from the Canadian generally accepted accounting principles. While our judgement differs from that of the Auditor General, those differences are identified and quantified in the audit opinion, and disclosure is provided in the notes to the financial statements to ensure users are fully informed. Although disclosure is not an alternative to financial statement recognition, our main concern in addressing areas of disagreement is to ensure transparency and support a full understanding of the basis and nature of qualification while we engage the national community to resolve differences of application.

I would like to thank the Select Standing Committee on Public Accounts of the Legislative Assembly, government ministries, Crown corporations and agencies, and the Auditor General and his staff for their cooperation and support in preparing the 2012/13 Public Accounts.

Comments or questions regarding the Public Accounts document 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: Stuart.Newton@gov.bc.ca; by telephone at 250-387-6692, or by 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.

STUART NEWTON
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 business 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 Statement of Financial Position, the CRF Statement of Operating Results, the CRF Statement of Cash Flow, a CRF Schedule of Net Revenue by Source, a CRF Schedule of Expenses, a CRF Schedule of Financing Transactions, and a CRF 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.

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 Canadian Public Sector Accounting Board.

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, 2013*.

- The province ended the year with a deficit of \$1,146 million, compared to a budgeted deficit of \$968 million. Revenues were \$1,046 million weaker than budget estimates, offset by \$668 million savings in government spending, and the \$200 million forecast allowance was not used.
- In 2012/13, the province continued to invest in capital infrastructure. The province's net investment to build and upgrade schools, universities, colleges, hospitals, roads and bridges was \$1,070 million in 2012/13. Capital investment is financed through a combination of debt, partnerships with the private sector and cost sharing with partners such as Federal and Municipal governments.
- Total provincial debt, the most commonly used measure of debt, increased by \$5,623 million in 2012/13 to finance capital infrastructure and support working capital requirements for programs and initiatives. For accounting purposes, financial statement debt increased by \$5,885 million in 2012/13. A reconciliation of total provincial debt to financial statement debt is included on page 132 of the Public Accounts.
- In calendar year 2012, the provincial economy grew by 1.7% as measured by real GDP. This is marginally lower than the national average rate of 1.8%. The province's ratio of net liabilities to GDP was stable at 17%.
- British Columbia continues to maintain a strong credit rating with all three major credit rating agencies. Dominion Bond Rating Service affirmed the province a rating of AA(high) while Standard & Poor's and Moody's Investors Services Inc. affirmed the province's rating of AAA and Aaa respectively, their highest possible ratings.

Financial Statement Discussion and Analysis Report

Economic Highlights

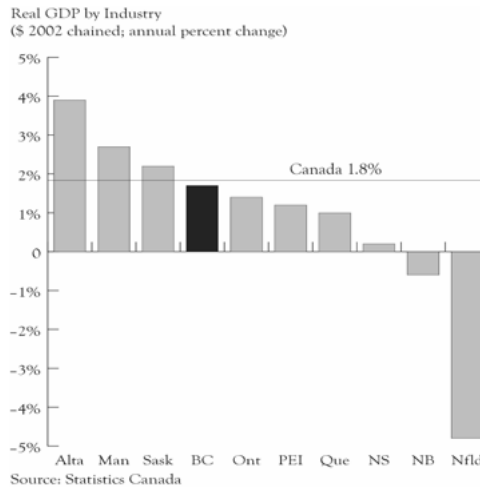
British Columbia's economy grew by an estimated 1.7% in the 2012 calendar year, the fourth highest rate among provinces and slightly lower than the national average of 1.8%, according to preliminary GDP by industry data from Statistics Canada. The 1.7% growth for British Columbia in 2012 is below the government's June Update 2013 estimate of 1.8%.

Real Gross Domestic Product in Calendar Year 2012

Growth was observed across most major industries in 2012 with the exception of agriculture, forestry, fishing and hunting (down 1.9%), mining, quarrying, oil and gas extraction (down 0.5%) and public administration (down 0.2%). The strongest gains among industries in 2012 were observed in construction (up 4.5%), real estate, rental and leasing services (up 2.7%) and professional, scientific and technical services (also up 2.7%). Wholesale and retail trade, as well as transportation and warehousing, also saw steady gains in 2012.

Retail sales, an indicator of consumer spending, increased by 1.9% in 2012. However, the value of merchandise exports from British Columbia fell by 4.2% in 2012, due to slowing global demand and declines in some key commodity prices.

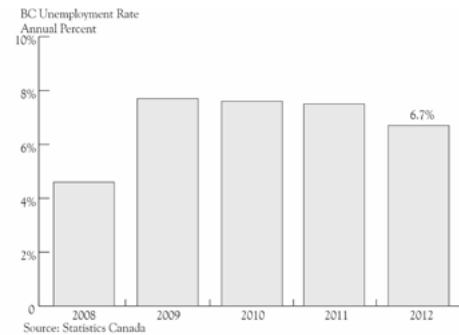
Provincial Comparison



Unemployment Rate in Calendar Year 2012

British Columbia saw its annual unemployment rate decline in 2012, as it fell to 6.7% from the 7.5% rate observed in 2011. The unemployment rate in BC in 2012 was lower than the national average of 7.2%. The average level of employment in 2012 was higher than the pre-recession level observed in 2008 by about 46,100 jobs.

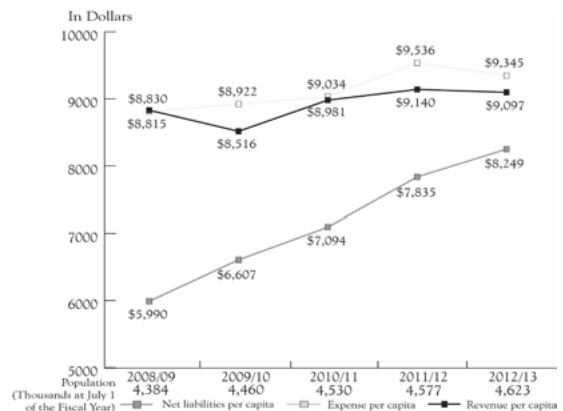
2008 to 2012



Per Capita Information

Per capita information describes the amount of revenue received, amounts expended, and net liabilities incurred per person in the province over the last five years. Revenue per capita decreased this year along with expense per capita.

2008/09 to 2012/13



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 Provincial Debt.

Summary Accounts Surplus (Deficit)

	In Millions			Variance	
	2012/13 Budget	2012/13 Actual	2011/12 Actual	2012/13 Actual to Budget	2012/13 vs 2011/12
	\$	\$	\$	\$	\$
Taxpayer-supported Programs and Agencies					
Revenue.....	40,384	39,257	39,126	(1,127)	131
Expense.....	(43,869)	(43,201)	(43,646)	668	445
Taxpayer-supported net earnings	(3,485)	(3,944)	(4,520)	(459)	576
Self-supported Crown corporation net earnings.....	2,717	2,798	2,706	81	92
Surplus (deficit) before unusual items	(768)	(1,146)	(1,814)	(378)	668
Forecast allowance.....	(200)			200	0
Surplus (deficit) for the year.....	(968)	(1,146)	(1,814)	(178)	668

The province ended the year with a deficit of \$1,146 million, which was \$178 million over the deficit forecast in the *Budget and Fiscal Plan 2012/13 – 2014/15*. The 2012/13 deficit of \$1,146 million was \$668 million less than the deficit of \$1,814 million in fiscal year 2011/12.

During the 2012/13 fiscal year, the province continued to invest in capital projects. Investments in infrastructure, including the Fort St. John Hospital and Residential Care Centre, Jim Pattison Outpatient Care and Surgery Centre, Interior Heart and Surgical Centre, expansions to Kelowna General and Vernon Jubilee Hospitals, Northern Cancer Centre, Prince George, Children's and Women's Hospitals Redevelopment Project, eHealth, Surrey Memorial Hospital Critical Care Tower Project, Faculty of Pharmaceutical Sciences and the Centre for Drug Research and Development Building for UBC-V, the South Fraser Perimeter Road, BC Place development, and various upgrades and improvements to facilities in the Education sector, as well as the province's power generation and transmission facilities, which ensure future service potential is available to support the delivery of government programs and services to the public. BC has continued to invest in the capital infrastructure necessary to support economic stability.

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.

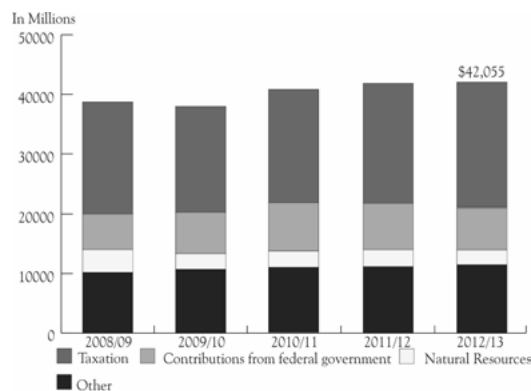
Revenue by Source

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				
	2008/09	2009/10	2010/11	2011/12	2012/13
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Taxation.....	18,706	17,702	19,031	20,145	21,050
Contributions from federal government.....	5,985	6,917	7,997	7,707	7,042
Fees and licences.....	4,008	4,121	4,434	4,725	4,896
Miscellaneous.....	2,504	2,627	2,700	2,715	2,623
Natural resources.....	3,810	2,649	2,729	2,812	2,473
Net earnings of self-supported Crown corporations.....	2,880	3,033	2,951	2,706	2,798
Investment income.....	818	931	843	1,022	1,173
Total revenue.....	38,711	37,980	40,685	41,832	42,055

2008/09 to 2012/13

Provincial revenues increased by \$223 million in 2012/13. The improvement in provincial revenue was led by increases in tax revenue as well as minor increases in fees and licences, net earnings from self-supported Crown corporations and investment income. Increases in these significant sources of revenue were offset by decreases in contributions from the federal government and natural resource revenue.



In 2012/13, tax revenue increased by \$905 million (4.5%). Personal income tax revenue increased by \$550 million. Corporate income tax revenue increased by \$202 million, and harmonized sales tax revenue increased by \$171 million. These increases were offset by a \$186 million decrease in property transfer tax revenue from 2011/12. All other tax revenues increased by \$168 million over the same period.

Contributions from the Federal government were \$665 million lower than contributions received in 2011/12. The province did not receive HST transition funding in 2012/13, compared to transition funds of \$580 million received in 2011/12. Contributions under infrastructure programs were \$94 million less than in 2011/12, and federal disaster financial assistance was \$57 million less than in 2011/12. Federal contributions under other programs, including the Canada Health and Social transfer, increased by \$66 million.

Natural resource revenues decreased by \$339 million (12.1%) from 2011/12 to 2012/13. Petroleum and natural gas royalties were \$240 million less than in 2011/12, and mineral revenues were \$214 million less than in 2011/12. These decreases were offset by an increase in forest revenues of \$88 million over 2011/12. All other sources of natural resource revenue increased by \$27 million over 2011/12.

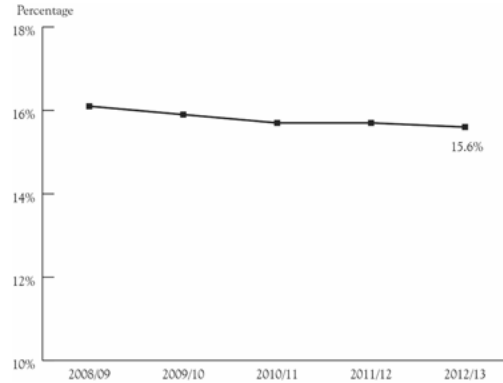
Financial Statement Discussion and Analysis Report

Own-source Revenue to GDP

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

Having decreased from a range of 16.1% to 15.7% in 2011/12, own-source revenue to GDP has remained relatively stable in 2012/13 ending the year at 15.6%.

2008/09 to 2012/13

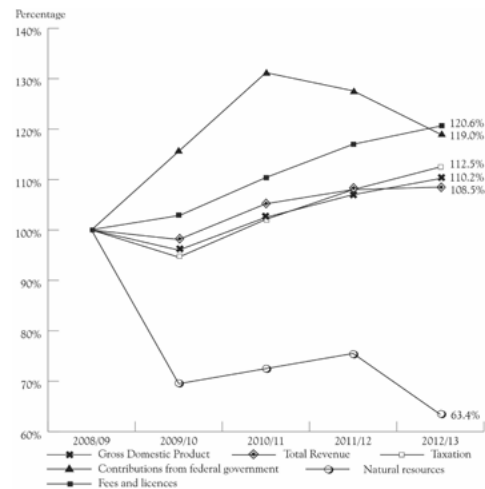


Percentage Change in Revenue

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.

Total revenue increased in 2012/13. This improvement is the result of increases in taxation and other revenues, including fees and licences revenue and earnings from self-supported Crown corporations, offset by decreases in natural resource revenue and federal contributions.

2008/09 to 2012/13



Financial Statement Discussion and Analysis Report

Natural Resource Revenue

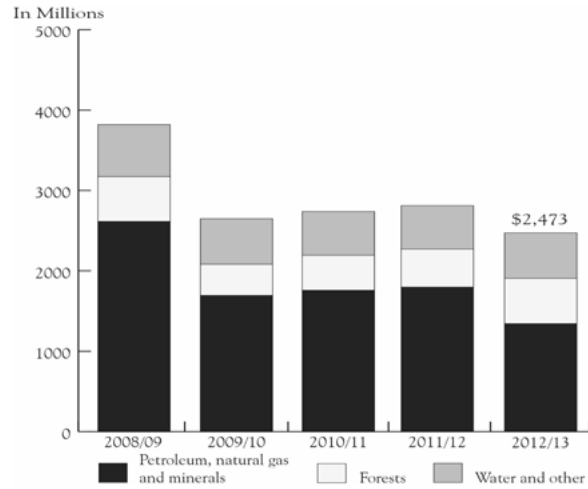
The chart of natural resource revenue explains past trends of natural resource revenue in total and by major category. Natural resource revenue is among the most volatile revenue sources for the province because it is vulnerable to market fluctuations in commodity prices.

Petroleum, natural gas and mineral revenues decreased by \$454 million from 2011/12. These categories of natural resource revenue account for 54% of natural resource revenue compared to 64% in 2011/12.

Forestry revenue increased by \$88 million in 2012/13. The proportion of natural resource revenue derived from forestry increased to 23% in 2012/13 from 17% in 2011/12.

Water and other resource revenues increased by \$27 million in the year.

2008/09 to 2012/13

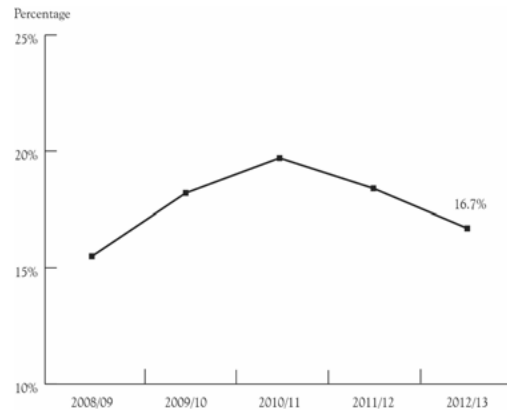


Government-to-Government Transfers to Total Revenue

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.

Federal transfers decreased by \$665 million in 2012/13. This decrease was the result of receiving less federal funding for HST transition, infrastructure, and disaster financial assistance. This trend indicates a decrease in the province's dependence on federal contributions as they return towards historical levels.

2008/09 to 2012/13



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

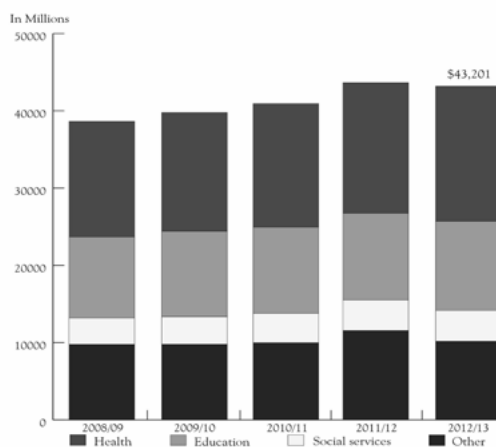
Expense by function provides a summary of the major areas of government spending, and changes in spending over time. Functions, which indicate the purpose of expenditures, are defined by Statistics Canada's Financial Management System of Government Statistics. The province uses the following functions: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

	In Millions				
	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Actual
	\$	\$	\$	\$	\$
Health.....	14,980	15,385	15,992	16,917	17,502
Education.....	10,485	11,052	11,165	11,228	11,528
Social services.....	3,420	3,573	3,786	3,940	3,990
Interest.....	2,158	2,197	2,252	2,383	2,390
Natural resources and economic development.....	1,991	2,264	2,349	1,873	2,092
Transportation.....	1,422	1,474	1,580	1,544	1,552
Other.....	1,674	1,407	1,208	1,415	1,346
Protection of persons and property.....	1,588	1,535	1,448	1,512	1,539
General government.....	929	903	1,146	2,834	1,262
Total expense.....	38,647	39,790	40,926	43,646	43,201

2008/09 to 2012/13

Government program spending increased by \$1,154 million in 2012/13 while total expenses decreased by \$445 million. Total expenses decreased because the \$1,599 million repayment of HST transition funding was included in total expenses for 2011/12.

In 2012/13, the province increased spending on health by \$585 million (3.5%), education by \$300 million (2.7%) and social services by \$50 million (1.3%). Spending on natural resources and economic development increased by \$219 million and all other changes were offset in 2012/13 resulting in no effect to total expense.



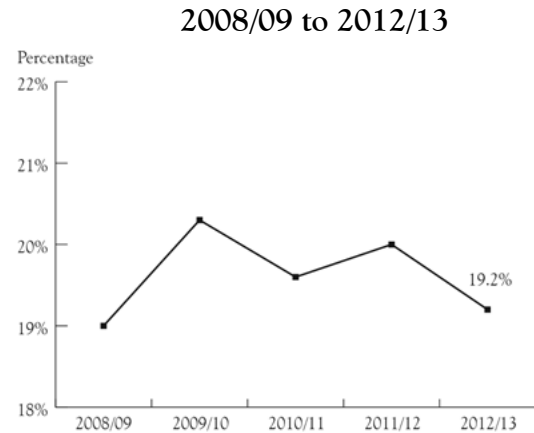
Financial Statement Discussion and Analysis Report

In 2012/13, provincial operating expenses were \$43,201 million, a \$445 million (1.0%) decrease from 2011/12. Program spending has increased by \$4,554 million (11.8%) since 2008/09 in line with government's commitment to protect core public services including healthcare, education and social services.

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 decreased in 2012/13, indicating that government spending was at a rate below economic growth as represented by GDP. This decrease in spending is mainly related to the one-time repayment of HST transitional funding recognized in 2011/12.



Financial Statement Discussion and Analysis Report

Changes in Actual Results from 2011/12 to 2012/13

	In Millions		Surplus (Deficit)
	Revenue	Expense	
	\$	\$	\$
2011/12 (Deficit).....	41,832	43,646	(1,814)
Increase in taxation revenue.....	905		905
Decrease in federal contributions.....	(665)		(665)
Decrease in natural resource revenue.....	(339)		(339)
Net increase in other revenue.....	322		322
Increase in health spending.....		585	(585)
Increase in education spending.....		300	(300)
Increase in social services spending.....		50	(50)
Increase in natural resource and economic development.....		219	(219)
One-time repayment of HST transitional funding.....		(1,599)	1,599
Subtotal of changes in actual results.....	223	(445)	668
	<u>42,055</u>	<u>43,201</u>	
2012/13 (Deficit).....			(1,146)
2011/12 Accumulated Surplus.....			2,428
Accumulated other comprehensive income from self-supported Crown corporations and agencies.....			103
2012/13 Accumulated Surplus.....			<u>1,385</u>

The net increase in revenue of \$223 million and decrease in total expense of \$445 million, resulted in a deficit that was \$668 million lower than 2011/12. The deficit of \$1,146 million in 2012/13, offset by the accumulated other comprehensive income from self-supported Crown corporations and agencies of \$103 million, resulted in an ending accumulated surplus of \$1,385 million for 2012/13.

Financial Statement Discussion and Analysis Report

Changes from 2012/13 Budget

	In Millions			
	Revenue	Expense	Forecast Allowance	Surplus (Deficit)
	\$	\$	\$	\$
(Deficit) per Budget March 2012	43,101	43,869	(200)	(968)
Decreased natural resource revenue.....	(513)			(513)
Decreased federal transfers.....	(215)			(215)
Decreased other revenues.....	(318)			(318)
Decreased health spending.....		(468)		468
Decreased education spending.....		(233)		233
Increased social services spending.....		62		(62)
Increased natural resource and economic development spending.....		260		(260)
Decreased other program spending.....		(289)		289
Forecast allowance.....			200	200
Subtotal of changes in actual results compared to budget.....	(1,046)	(668)	200	(178)
Actual Results	42,055	43,201	0	(1,146)

Revenue was \$1,046 million (2.4%) lower than the budgeted amount of \$43,101 million and expenses were \$668 million (1.5%) lower than the budget of \$43,869 million.

Net Liabilities and Accumulated Surplus

In accordance with Canadian generally accepted accounting principles, the government's Consolidated 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	
	2012/13 Budget	2012/13 Actual	2011/12 Actual	2012/13 Budget to Actual	2012/13 vs 2011/12
	\$	\$	\$	\$	\$
Financial assets.....	38,469	37,528	34,454	(941)	3,074
Less: liabilities.....	(76,470)	(75,664)	(70,316)	806	(5,348)
Net Liabilities.....	(38,001)	(38,136)	(35,862)	(135)	(2,274)
Less: non-financial assets.....	39,101	39,521	38,334	420	1,187
Accumulated surplus	1,100	1,385	2,472	285	(1,087)

Financial Statement Discussion and Analysis Report

The accumulated surplus represents the sum of the current and prior years' operating results. At March 31, 2013, the accumulated surplus was \$1,385 million, \$285 million higher than budget. The \$1,087 million decrease in accumulated surplus compared to 2011/12 reflects the annual deficit of \$1,146 million, plus the change in other comprehensive income of self-supported Crown corporations, which increased by \$59 million.

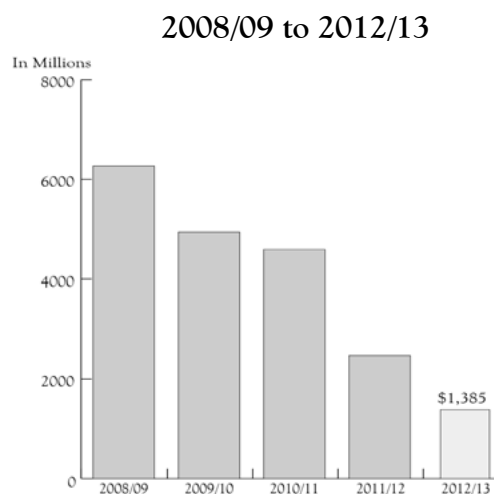
Financial assets were \$3,074 million higher than 2011/12. Compared to 2011/12, cash, cash equivalents, and temporary investments decreased by \$74 million. This is offset by increases in equity in self-supported Crown corporations and agencies of \$540 million, loans for the purchase of assets, recoverable from agencies of \$2,061 million, and other financial assets of \$547 million.

Liabilities increased by \$5,348 million from 2011/12. Compared to 2011/12, self-supported debt increased by \$2,069 million and taxpayer-supported debt increased by \$3,816 million to fund infrastructure programs, provide capital financing to self-supported Crown corporations and agencies, and support working capital requirements. Other liabilities, including accounts payable and deferred revenue, decreased \$537 million from 2011/12.

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 \$1,187 million over 2011/12 as government invested in hospitals and health facilities, transportation infrastructure and post-secondary institutions.

Accumulated Surplus

The accumulated surplus represents current and all prior years' operating results. In 2012/13, the province had an accumulated surplus of \$1,385 million, \$1,087 million less than in 2011/12. Despite an annual deficit, the province maintains a positive financial position. The positive operating results of prior years provide the flexibility to protect core public services as the economy strengthens.



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				
	2008/09	2009/10	2010/11	2011/12	2012/13
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Cash, cash equivalents, temporary investments and warehouse investments.....	7,248	2,893	3,048	3,223	3,149
Accounts receivable.....	2,551	2,530	2,334	2,398	2,445
Equity in self-supported Crown corporations and agencies.....	5,952	7,457	7,090	6,994	7,534
Loans for the purchase of assets, recoverable from agencies.....	9,149	11,471	12,947	14,846	16,907
Other financial assets.....	5,426	5,937	7,028	6,993	7,493
Total financial assets.....	30,326	30,288	32,447	34,454	37,528

In 2012/13, financial assets increased by \$3,074 million over 2011/12 primarily due to an increase in capital loans to Crown agencies. Recoverable capital loans increased by \$2,061 million as the province provided funding to Crown agencies for capital projects, equity in self-supported Crown corporations increased by \$540 million, and all other financial assets increased by \$473 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				
	2008/09	2009/10	2010/11	2011/12	2012/13
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Taxpayer-supported debt.....	28,322	31,116	33,079	36,012	39,828
Self-supported debt.....	11,330	11,552	13,030	14,942	17,011
Total financial statement debt.....	39,652	42,668	46,109	50,954	56,839
Accounts payable and other liabilities.....	7,452	7,043	7,675	8,874	8,902
Deferred revenue.....	9,480	10,045	10,798	10,488	9,923
Total liabilities.....	56,584	59,756	64,582	70,316	75,664

In 2012/13, total liabilities increased by \$5,348 million over 2011/12. Liabilities are obligations that must be settled at a future date by the transfer or use of assets. Taxpayer-supported debt increased in 2012/13 by \$3,816 million, while self-supported debt increased by \$2,069 million. Information relating to the government's debt management can be found in more detail in the analysis of the total provincial debt on page 26. Deferred revenue decreased by \$565 million while accounts payable and other liabilities increased by \$28 million.

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.

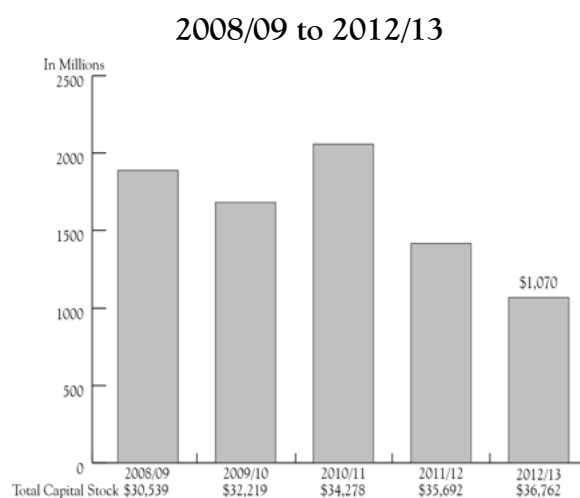
	In Millions				
	2008/09	2009/10	2010/11	2011/12	2012/13
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Tangible capital assets.....	30,539	32,219	34,278	35,692	36,762
Other non-financial assets.....	1,986	2,187	2,448	2,642	2,759
Total non-financial assets.....	32,525	34,406	36,726	38,334	39,521

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, 2013, non-financial assets were \$39,521 million which was \$1,187 million higher than 2011/12 and \$6,996 million higher than 2008/09. The majority of the province's non-financial assets represent capital expenditures for tangible capital assets net of amortization. The government has increased its investment in tangible capital assets by \$1,070 million in 2012/13, \$1,414 million in 2011/12, \$2,059 million in 2010/11, \$1,680 million in 2009/10 and \$1,888 million in 2008/09 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 government's stock of physical capital. Positive amounts demonstrate an investment in infrastructure to replace existing capital and provide service potential in future periods.

The net annual investment in capital was \$1,070 million in 2012/13, and \$8,111 million since 2008/09. Total capital stock has also increased steadily over that period which indicates that capital infrastructure is available to continue providing programs and services in future periods.



Financial Statement Discussion and Analysis Report

Net Liabilities and Accumulated Surplus

	In Millions				
	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Actual
	\$	\$	\$	\$	\$
Financial assets.....	30,326	30,288	32,447	34,454	37,528
Less: liabilities.....	(56,584)	(59,756)	(64,582)	(70,316)	(75,664)
Net liabilities.....	(26,258)	(29,468)	(32,135)	(35,862)	(38,136)
Less: non-financial assets.....	32,525	34,406	36,726	38,334	39,521
Accumulated surplus.....	6,267	4,938	4,591	2,472	1,385

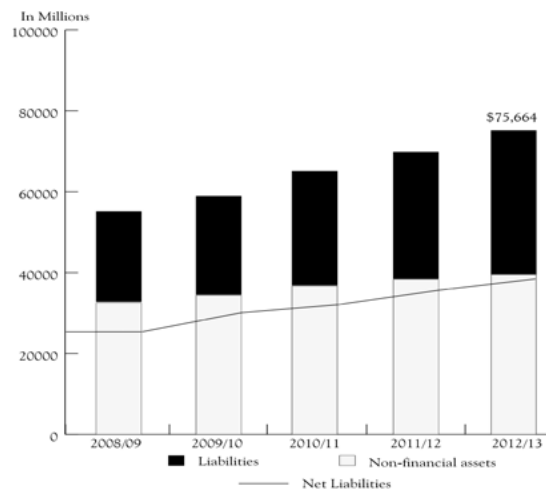
Net liabilities increased by \$2,274 million in 2012/13, due to increased spending on public services and investment in infrastructure. The liabilities include deferred revenue of \$9,923 million that represents restricted contributions that will be recognized as revenue in future periods as service delivery obligations are met.

While the financial measure of net liabilities has increased, the financial position of the province remains positive as total assets, including both financial assets and investments in capital stock, are greater than the liabilities of the province. The accumulated surplus of the province was \$1,385 million in 2012/13, indicating that the cumulative result of all past annual surpluses and deficits is positive, or that the province remains in a positive net financial position.

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 including accounts payable and other operating liabilities, as well as revenue deferred to future periods. Over the past five years, the proportion of liabilities used to fund capital infrastructure has decreased slightly from 57.5% in 2008/09 to 52.2% in 2012/13.

2008/09 to 2012/13



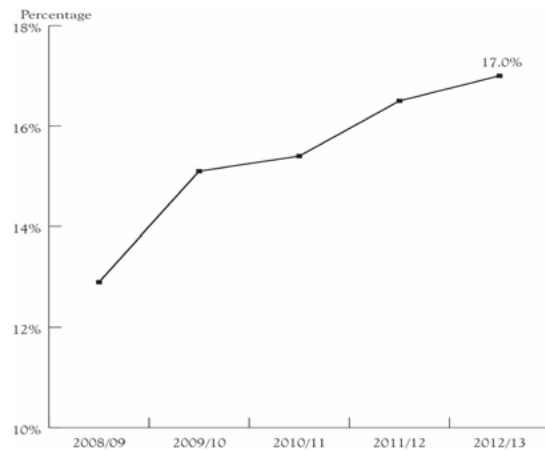
Financial Statement Discussion and Analysis Report

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 increase in net liabilities to GDP is the result of net liabilities increasing at a rate faster than the increase in economic growth as represented by GDP in 2012/13. Net liabilities include deferred revenue that will be recognized as revenue in future periods as well as obligations to outside parties, including accounts payable and debt.

2008/09 to 2012/13

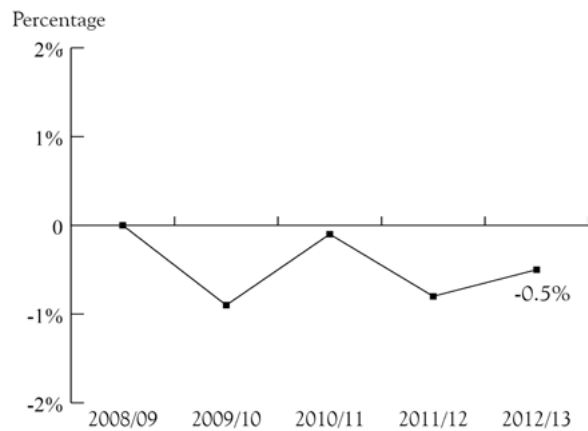


Surplus (Deficit) to GDP

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.

Results in the negative range of the chart indicate that government must take a greater share of GDP to support existing operations, reduce the debt burden, or invest in infrastructure.

2008/09 to 2012/13



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				
	2008/09	2009/10	2010/11	2011/12	2012/13
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Gross debt.....	39,652	42,668	46,109	50,954	56,839
Less: sinking fund assets.....	(2,134)	(1,329)	(1,410)	(1,491)	(1,778)
Third party guarantees and non-guaranteed debt.....	496	546	455	730	755
Total provincial debt.....	38,014	41,885	45,154	50,193	55,816

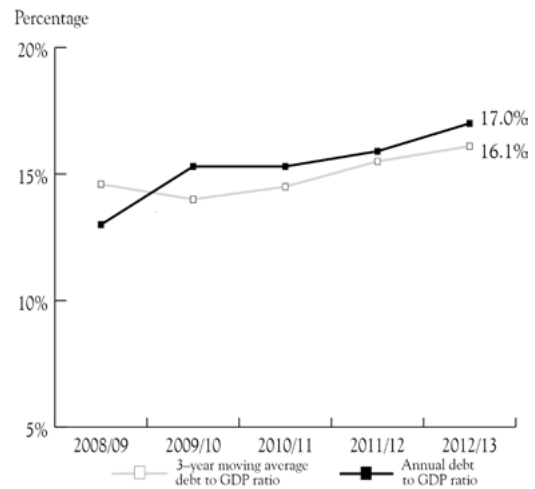
When reporting to rating agencies, the province adds to its financial statement debt, all debt guarantees and the debt directly incurred by self-supported Crown corporations, reduced by sinking fund assets. This balance is referred to as the total provincial debt.

Total provincial debt is \$1,023 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 \$5,623 million in 2012/13 because the government borrowed to fund capital projects and working capital requirements. The largest increases in the debt of self-supported Crown agencies were the debt of the British Columbia Hydro and Power Authority which increased by \$1,189 million and the debt of Transportation Investment Corporation which increased by \$831 million. BC Transportation Financing Authority debt increased by \$797 million; health sector debt increased by \$398 million; education sector debt increased by \$553 million; and the debt of other taxpayer-supported entities increased by \$180 million. Provincial government direct operating debt increased by \$1,595 million compared to 2011/12.

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. An increasing ratio means that debt is growing faster than the economy.

2008/09 to 2012/13



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 2012/13, Moody's Investors Service Inc. gave the province an Aaa credit rating (2012: Aaa); Standard and Poor's gave the province an AAA credit rating (2012: AAA); and Dominion Bond Rating Services gave the province an AA(high) credit rating (2012: AA (high)).

Credit Ratings May 2013

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	AAA	AA
Manitoba	Aa1	AA	A (high)
Ontario	Aa2	AA-	AA (low)
Quebec	Aa2	A+	A (high)
New Brunswick	Aa2	AA-	A (high)
Nova Scotia	Aa2	A+	A
Prince Edward Island	Aa2	A	A (low)
Newfoundland	Aa2	A+	A
Canada	Aaa	AAA	AAA

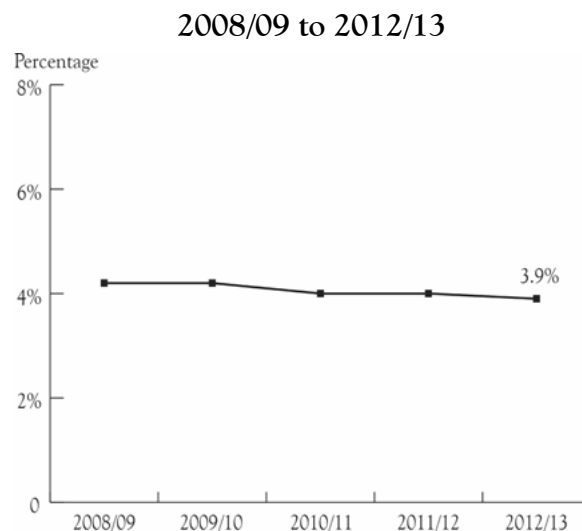
¹The rating agencies assign letter ratings to borrowers. The major categories, in descending order of credit quality, are: AAA/Aaa; AA/Aa; A; BBB/Baa; BB/Ba; and B. The "1", "2", "3", "high", "low", "-", and "+" modifiers show relative standing within the major categories. For example, AA+ exceeds AA.

A more comprehensive overview of provincial debt, including key debt indicators is located on pages 129–142.

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. The ratio is sensitive to the cost of debt arising from either increasing interest rates or increasing debt, as well as decreases in revenue.

If an increasing proportion of provincial revenue is required to pay interest on provincial debt, less money is left to provide core public services. The interest bite has remained relatively stable over the last five years. In 2012/13, the province spent 3.9 cents of each revenue dollar on interest on the provincial debt.



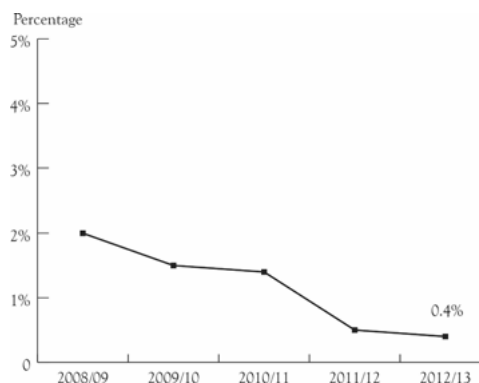
Financial Statement Discussion and Analysis Report

Non-Hedged Foreign Currency Debt to Total Provincial Debt

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 2008/09, the government has significantly reduced its foreign currency debt, thereby reducing the province's vulnerability to changes in exchange rates.

2008/09 to 2012/13



Risks and Uncertainties

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

- assumptions underlying revenue and Crown corporation forecasts such as economic factors, commodity prices and weather conditions;
- outcomes from litigation, arbitration, and negotiations with third parties;
- changes in federal transfers, cost-sharing agreements with the federal government and impacts on the provincial income tax bases arising from federal tax policy and budget changes;
- utilization rates for government services such as healthcare, children and family services, or income assistance;
- exposure to interest rate fluctuations, foreign exchange rates and credit risk; and
- changes in Canadian generally accepted accounting principles.

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

Key Fiscal Sensitivities		
Variable	Increase Of	Annual Fiscal Impact (\$ millions)
Nominal GDP	1%	\$150 to \$250
Lumber prices (US\$/thousand board feet)	\$50	\$25 to \$50 ¹
Natural gas prices (Cdn\$/gigajoule)	50 cents	\$117-\$125 ²
US exchange rate (US cents/Cdn\$)	1 cent	(\$25) to (\$50)
Interest rate	1 percentage point	(\$97)
Debt	\$500 million	(\$14)

¹Sensitivity relates to stumpage revenue only. Depending on market conditions, changes in stumpage revenue may be offset by changes in border tax revenue.

²Sensitivities can vary significantly especially at lower prices.

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. As in previous years, the government applied a forecast allowance in the budget to account for risks to revenue, expenditure, Crown corporations', school districts', universities', colleges', institutes', 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 69 of the Notes to the Consolidated Summary Financial Statements.