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**BUDGET PAPER C:  
CHANGES IN ACCOUNTING  
AND BUDGETARY POLICY**

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# **BUDGET PAPER C: CHANGES IN ACCOUNTING AND BUDGETARY POLICY**

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This paper summarizes the changes in accounting and budgetary policy the Province has implemented in the current budget year. These changes are in accordance with the new recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (CICA).

## **Consolidation**

Consolidation refers to the preparation of budgets or financial statements to include the results of its own operations, as well as the results of operations of its subsidiary entities. The Province has prepared consolidated Financial Statements for several years; however, the Budget Estimates were not prepared on a full consolidated basis. In the current fiscal year, the Budget is prepared on a consolidated basis to enhance the presentation of consolidated financial statements. Table 2 lists all crown entities from Schedules “B”, “C” and “D” of the *Financial Administration Act* and indicates which entities were previously excluded from the Province’s bottom line. The Province either funded these entities through a grant for their total operations or provided a grant for their net operation. The Province’s financial results will now report all assets, liabilities and annual operating surpluses/deficits of these entities except for government business enterprises where only their change in equity will be included.

The Provincial Budget has always included the operations of the four Health Regions, Provincial Health Services Authority, School Boards, Tourism PEI and P.E.I. Business Development Inc. Beginning with this Budget, the remaining entities, as outlined on Schedule 8 of the Budget Address, will be consolidated in a manner similar to government business enterprises. The majority of these entities have been established for research and insurance purposes and therefore will be consolidated on a net surplus or deficit position for budgetary purposes.

Government business enterprises, as listed on Schedule 8 of the Budget Address, are defined as those agencies, crown corporations and boards which, (i) have the power to contract in their own name, (ii) have the financial and operating authority to carry on a business, (iii) sell goods and services to customers outside the provincial reporting entity as their principal activity and source of revenue, and (iv) are able to maintain their operations and meet their liabilities from revenues received from sources outside the provincial reporting entity.

For the purpose of the current year’s presentation, the surpluses and deficits of consolidated entities and government business enterprises have been grouped together.

## **Tangible Capital Assets**

The Public Sector Accounting Board of the CICA, which establishes accounting standards for government bodies, has urged governments in Canada to adopt full accrual accounting. Most of the provinces and the Federal Government are following this standard. The Province has always used full accrual accounting with the exception of the recently released recommendation for capitalizing and amortizing tangible capital assets. As of this budget year, the Province will adopt the PSAB recommendation.

Tangible capital assets are non-financial assets of physical substance that are purchased, constructed, developed or otherwise acquired, and which: (i) are used in the production or supply of goods, delivery of services or program outputs; (ii) have a useful life extending beyond one year; and (iii) are not intended for resale in the ordinary course of operations. Accounting standards for government entities require that the cost of tangible capital assets be amortized over the useful life of each asset.

Tangible capital assets of the Province will include construction, major additions and repairs to bridges, roads, schools, hospitals, parks, government and health facilities and purchase of buildings; major equipment; road machinery and buses. This will not include road repairs such as patching and culverts.

Tangible capital assets will be recorded at their original cost. Provincial assets will be amortized on the straight-line basis over their useful life. In the year of an asset's acquisition, amortization is recorded at half the normal rate. For budgetary purposes amortization is recorded as follows:

Bridges	Amortized over 40 years
Roads	Amortized over 20 years
Buildings	Amortized over 40 years or less
Major Equipment	Amortized over 5 years
Road Machinery & Buses	Amortized over 10 years

Crown corporations have been encouraged to follow accounting practices that are consistent with government.

## **Changes due to Implementation**

The implementation of these new accounting and budgetary policies will not only improve accountability and stewardship reporting for the Province, but will also provide more detail as to the actual breakdown of the Net Debt position of the Province. Net Debt is defined as the government's liabilities minus its financial assets. Net Debt will be classified into two categories: accumulated deficit and tangible capital assets. Accumulated deficit is defined as the total of all surpluses and deficits of the government since its inception, plus any adjustments charged directly to the accumulated deficit. At March 31, 2004, it will represent 46% of total Net Debt figure of \$1.1 billion. Tangible capital assets, as defined above, represent the other 54% of total Net Debt. This presentation provides a clearer understanding of the components of Net Debt. Schedule 4 of the Budget Address provides a breakdown of these two categories.

The implementation of these accounting and budgetary changes will result in a change in the Province's reported surplus or deficit. In order to facilitate comparability with the 2002-2003 Budget, which was prepared using different accounting and budgetary policies, the Budget Summary has been presented to show the effect of these changes. Table 1 is an alternative presentation of the Budget Summary to indicate the presentation which will be followed in future years.

**Table 1**  
**Prince Edward Island**  
**Budget Summary Restated**

	<b>2003-2004 Budget Estimate</b>
<b>Revenue:</b>	
Provincial Own Sources	\$ 610,675,100
Federal Sources	\$ 404,107,600
Sinking Fund Earnings	<u>\$ 13,225,000</u>
	<b>\$1,028,007,700</b>
 <b>Expense:</b>	
Program Expense	\$ 907,545,600
Interest Charges on Debt	\$ 105,408,600
Amortization	\$ 25,442,300
Net Deficit of Crown Entities	<u>\$ 1,103,200</u>
	<b><u>\$1,039,499,700</u></b>
 <b>Consolidated Deficit</b>	 <b><u>(\$11,492,000)</u></b>

**Table 2**  
**Provincial Crown Entities**

Prince Edward Island Agricultural Insurance Corporation\*  
Prince Edward Island Business Development Inc.  
Prince Edward Island Employment Development Agency  
Prince Edward Island Housing Corporation  
Prince Edward Island Energy Corporation\*  
Prince Edward Island Liquor Control Commission  
P.E.I. Lending Agency  
P.E.I. Self Insurance and Risk Management Fund\*  
Island Investment Development Inc.\*  
Island Waste Management Corporation\*  
Prince Edward Island Crown Building Corporation  
Prince Edward Island Grain Elevators Corporation\*  
Prince Edward Island Lotteries Commission  
Prince Edward Island Special Projects Fund\*  
Prince Edward Island Museum & Heritage Foundation\*  
PEI Agriculture Research Investment Fund Inc.\*  
Charlottetown Area Development Corporation\*  
Summerside Regional Development Corporation\*  
PEI Aquaculture and Fisheries Research Initiative Inc.\*  
Tourism PEI

Western School Board  
Eastern School District  
La Commission Scolaire de langue française  
Southern Kings Regional Authority  
Eastern Kings Regional Authority  
Queens County Regional Authority  
East Prince Regional Authority  
West Prince Regional Authority

Island Regulatory and Appeals Commission  
Prince Edward Island Human Rights Commission

\* indicates entity previously excluded from Province's budgeted surplus/deficit