

Province of  
Newfoundland and Labrador



**Public Accounts  
Consolidated Summary  
Financial Statements**

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FOR THE YEAR ENDED  
MARCH 31, 2018





# **Province of Newfoundland and Labrador**

## **Public Accounts**

### **Consolidated Summary Financial Statements**

**For The Year Ended  
31 March 2018**

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## CONSOLIDATED REVENUE FUND SUPPLEMENTARY FINANCIAL INFORMATION

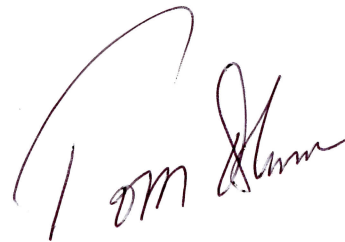
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## **MESSAGE FROM THE MINISTER OF FINANCE AND PRESIDENT OF TREASURY BOARD**

I hereby present the financial statements - the Public Accounts of the province of Newfoundland and Labrador for the 2017-18 fiscal year. To provide further information and transparency on the financial position of Newfoundland and Labrador, the audited financial statements contained herein are preceded by a discussion and analysis which highlights the fiscal health of the province.

The province reported a deficit of \$910.8 million for the 2017-18 fiscal year, which reflects a \$133.2 million increase as compared with the original forecasted deficit of \$777.6 million or an increase of \$98.9 million from the revised estimate published in Budget 2018. The increase in deficit from our forecast (original and revised estimate) is primarily the result of lower than anticipated revenues and higher than anticipated expenses, both primarily attributable to timing differences and actuarial adjustments.

The Provincial Government continues to work towards achieving a strong and diversified economy on its continued path towards returning to surplus in 2022-23. Government has partnered successfully in recent years with large industry and small businesses to create new opportunities for Newfoundlanders and Labradorians. The province continues to build on economic growth activity started under The Way Forward in industries such as agriculture, aquaculture, technology and the oil and gas sectors. Government is in the process of identifying its next areas of focus to continue with these diversification efforts in the years to come.

A handwritten signature in black ink, appearing to read 'Tom Osborne', is positioned above the printed name and title.

**TOM OSBORNE  
MINISTER OF FINANCE AND  
PRESIDENT OF TREASURY BOARD**

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**Understanding the Financial Health of the Province of  
Newfoundland and Labrador**

**For the Fiscal Year Ended 31 March 2018**

## **INTRODUCTION**

This financial statement discussion and analysis report precedes the Public Accounts to provide an overview of changes in government's financial position and highlight key figures and comparatives. The report is prepared by the Office of the Comptroller General and is not subject to an audit opinion; however, the information analyzed in the report is based on what is reported in the audited Public Accounts.

## **FINANCIAL REPORTS**

The Public Accounts are the audited consolidated summary financial statements of the Province. They are prepared using the **accrual basis** of accounting in accordance with standards established by the Public Sector Accounting Board (PSAB) and audited by the Auditor General. The financial statements contain Original Budget figures for comparison purposes, where applicable.

Within the annual Original Budget Speech is a series of statements which are comparable to the Public Accounts as both are prepared using the accrual basis of accounting and both consolidate the financial statements of core government departments with that of various Crown Corporations, Boards and Authorities, as approved by Treasury Board. These organizations are controlled by government and are accountable to either a Minister of the government department or directly to the Legislature for the administration of their financial affairs and resources.

The Public Accounts also contain supplemental financial information of the Consolidated Revenue Fund. The Consolidated Revenue Fund is comprised of all public money that is controlled by government. This financial information is essentially the unaudited financial statements of the aggregate core government departments. These statements are prepared on an accrual basis in accordance with standards established by the PSAB and can be found as an appendix within the Public Accounts.

The Report on the Program Expenditures and Revenues of the Consolidated Revenue Fund is an additional annual financial report prepared during the Public Accounts process. It is prepared using the modified **cash basis** of accounting. It presents the details of the actual revenues and expenditures of core government departments that were receipted and disbursed in the fiscal year. It is the companion document to the Estimates as it portrays actual cash revenues received and compares amounts spent against the amounts appropriated. This report is not subject to an audit opinion, but is tabled in the House of Assembly and is published on the Department of Finance website.

The Public Accounts of the Province are tabled in the House of Assembly in accordance with Section 60 of the *Financial Administration Act*.

All of these, as well as other financial reports can be found on the Department of Finance website at:

<http://www.fin.gov.nl.ca/fin/publications/index.html>

## **WHAT TO EXPECT IN THIS REPORT**

In this report you can expect to find variance analysis between the Original Budget deficit as per the Original Budget Speech and the actual deficit as per the Statement of Operations found in the Public Accounts. The Original Budget Speech represents government's forecast for the fiscal year while the Public Accounts report the financial results of that fiscal year. The comparison of Original Budget to actual promotes accountability and provides explanations of significant variances.

A comparison of current and previous year financial results and trend analysis is included to illustrate how the financial results of the current year relate to the results of prior years. It demonstrates government's position and highlights any significant changes that have occurred.

A summary of risks that may impact the financial position of the Province is presented to highlight potential changes and government's plans to mitigate them.

The financial statement discussion and analysis report will also summarize an outlook on 2018 by providing available information on what can be expected to impact government's financial position in the future.

Refer to the glossary of terms on page 41 for definitions and explanations of key terms that have been bolded throughout the document.

## **FINANCIAL HIGHLIGHTS**

The Public Accounts contains five financial statements. Each statement includes important information that is necessary to obtain a complete understanding of the Province's financial position. The financial statements present prior year results and Original Budget figures, where possible, for comparative purposes. Certain comparative figures have been reclassified to conform to the basis of presentation adopted during the current reporting period. This section provides a summary of key financial statement highlights of the Public Accounts.

### **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

- Presents **financial assets**, liabilities and **non-financial assets** at a point in time. The statement calculates **net debt**, the difference between financial assets and liabilities; and **accumulated deficit**, the net financial position of government from all years of operations at a point in time.
- Net debt for the 2017-18 fiscal year is \$14.7 billion. The accumulated deficit is \$10.2 billion.
- As at 31 March 2018, both net debt and accumulated deficit are larger than they were at the end of the previous fiscal year. This is primarily due to a 9.8% increase in **net borrowings** during the fiscal year as well as the \$910.8 million **annual deficit** for the period.

### **CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT**

- Highlights the changes in Net Debt from the previous fiscal year and provides a comparison to Original Budget figures.
- This statement shows that net debt totaled \$14.7 billion in the 2017-18 fiscal year and increased 7.9% in comparison to the prior year (31 March 2017 - \$13.6 billion).
- The assets and liabilities contributing to the change in net debt are presented in the Consolidated Statement of Financial Position. The intent of this statement is to report the extent the surplus/deficit has impacted net debt after removing the effects of changes to non-financial assets (i.e. **tangible capital assets**) from the surplus/deficit. As well, any changes in accounting policy or restatements of prior year's results are also reflected on this statement.

### **CONSOLIDATED STATEMENT OF OPERATIONS**

- Reports the revenues and expenses from operations in a fiscal year, the resulting surplus or deficit and provides a comparison to Original Budget figures and previous year actuals.
- The provincial deficit of \$910.8 million represents an increase of \$133.2 million compared to the \$777.6 million deficit originally budgeted for 2017-18 fiscal year. Furthermore, the annual deficit in 2017-18 decreased by \$237.0 million from the prior year (31 March 2017 - \$1.1 billion).
- For the fiscal year ended 31 March 2018, total revenue was \$7.3 billion (31 March 2017 - \$7.2 billion) and total expenses were \$8.2 billion (31 March 2017 - \$8.3 billion).

- Revenues increased by 1.7% from the prior year but decreased by 0.8% from the Original Budget. Expenses decreased by 1.4% from the prior year but increased from the Original Budget by 0.9%.
- Despite the increase in revenues from prior year, they remained less than expenses, resulting in a deficit for the current fiscal year.

### **CONSOLIDATED STATEMENT OF CHANGE IN ACCUMULATED DEFICIT**

- Highlights the changes in accumulated deficit from the Original Budget and the previous fiscal year.
- Similar to the Statement of Change in Net Debt, the main increase in accumulated deficit in 2017-18 is also due to the deficit for the current year.
- The accumulated deficit of \$10.2 billion for 2017-18 increased by \$1.0 billion in comparison to 2016-17 of \$9.2 billion.

### **CONSOLIDATED STATEMENT OF CASH FLOWS**

- Explains the change in cash and temporary investments from the previous fiscal year to the government generated and disbursed cash in the current fiscal year.
- Cash and temporary investments decreased by 14.4% from the previous fiscal year. Despite an increase in cash and temporary investments resulting from financing activities of \$1.1 billion, including the issuance of additional \$1.2 billion in new debt, overall cash flows declined primarily due to the expenditures exceeding revenues as represented in the annual deficit.



## KEY FINANCIAL HIGHLIGHTS

For the fiscal year ended 31 March 2018  
(In \$ millions)

	Original Budget 2017-18 <sup>1</sup>	Actual Results 2017-18	Actual Results 2016-17 <sup>2</sup>	Change from Original Budget			Change from Prior Year Actual Results		
				\$	%	↓↑	\$	%	↓↑
<b>REVENUE</b>									
Provincial									
Taxation	3,924.6	3,767.1	3,728.3	(157.5)	(4.0)	↓	38.8	1.0	↑
Investment	72.6	103.9	89.6	31.3	43.1	↑	14.3	16.0	↑
Fees and fines	356.3	364.3	371.4	8.0	2.2	↑	(7.1)	(1.9)	↓
Offshore royalties	881.7	943.9	982.7	62.2	7.1	↑	(38.8)	(3.9)	↓
Other	406.5	543.3	429.9	136.8	33.7	↑	113.4	26.4	↑
<b>Total Provincial</b>	<b>5,641.7</b>	<b>5,722.5</b>	<b>5,601.9</b>	<b>80.8</b>	<b>1.4</b>	<b>↑</b>	<b>120.6</b>	<b>2.2</b>	<b>↑</b>
Federal	1,256.2	1,184.2	1,104.0	(72.0)	(5.7)	↓	80.2	7.3	↑
Net income of government business enterprises and partnerships	441.0	373.4	451.2	(67.6)	(15.3)	↓	(77.8)	(17.2)	↓
<b>Total Revenue</b>	<b>7,338.9</b>	<b>7,280.1</b>	<b>7,157.1</b>	<b>(58.8)</b>	<b>(0.8)</b>	<b>↓</b>	<b>123.0</b>	<b>1.7</b>	<b>↑</b>
<b>EXPENSE</b>									
Salaries and employee benefits	3,410.4	3,513.4	3,773.8	103.0	3.0	↑	(260.4)	(6.9)	↓
Grants and subsidies	1,677.4	1,585.1	1,505.6	(92.3)	(5.5)	↓	79.5	5.3	↑
Operating costs	1,225.3	1,161.7	1,183.0	(63.6)	(5.2)	↓	(21.3)	(1.8)	↓
Debt expenses	980.8	997.8	955.9	17.0	1.7	↑	41.9	4.4	↑
Professional services	513.0	528.6	493.3	15.6	3.0	↑	35.3	7.2	↑
Other	309.6	404.3	393.3	94.7	30.6	↑	11.0	2.8	↑
<b>Total Expense</b>	<b>8,116.5</b>	<b>8,190.9</b>	<b>8,304.9</b>	<b>74.4</b>	<b>0.9</b>	<b>↑</b>	<b>(114.0)</b>	<b>(1.4)</b>	<b>↓</b>
<b>ANNUAL DEFICIT</b>	<b>(777.6)</b>	<b>(910.8)</b>	<b>(1,147.8)</b>	<b>(133.2)</b>	<b>17.1</b>	<b>↑</b>	<b>237.0</b>	<b>(20.6)</b>	<b>↓</b>

<sup>1</sup> The Budget figures are from pages *ii* and *vii* of the Budget Speech Statements and Schedules and certain figures have been restated as consistent with the Public Accounts.

<sup>2</sup> Prior year amounts have been restated as consistent with the Public Accounts 31 March 2018 presentation.

**HISTORICAL DATA**

For the past 5 fiscal years  
(\$ thousands)

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>5 Year Trend</b>
Total Revenue	7,487,472	6,921,117	5,977,155	7,157,066	7,280,145	↓
Total Expense	7,876,039	7,927,021	8,183,214	8,304,838	8,190,895	↑
Surplus (Deficit)	(388,567)	(1,005,904)	(2,206,059)	(1,147,772)	(910,750)	↑
Financial Assets	5,270,987	5,106,497	6,830,115	7,648,635	7,858,667	↑
Liabilities:						
Borrowings	5,119,222	5,427,494	8,974,249	10,415,024	11,505,532	↑
Group Health/ Life Insurance	2,554,039	2,609,492	2,770,744	2,854,068	2,937,396	↑
Pension	3,908,168	4,419,665	4,657,753	4,908,340	4,952,465	↑
Other Liabilities	2,774,510	2,980,321	2,931,422	3,069,009	3,136,990	↑
Net Debt	9,084,952	10,330,475	12,504,053	13,597,806	14,673,716	↑
Non-Financial Assets	4,148,253	4,349,277	4,439,421	4,405,957	4,493,026	↑
Accumulated Deficit	4,936,699	5,981,198	8,064,632	9,191,849	10,180,690	↑

## **CONSOLIDATED FINANCIAL RESULTS**

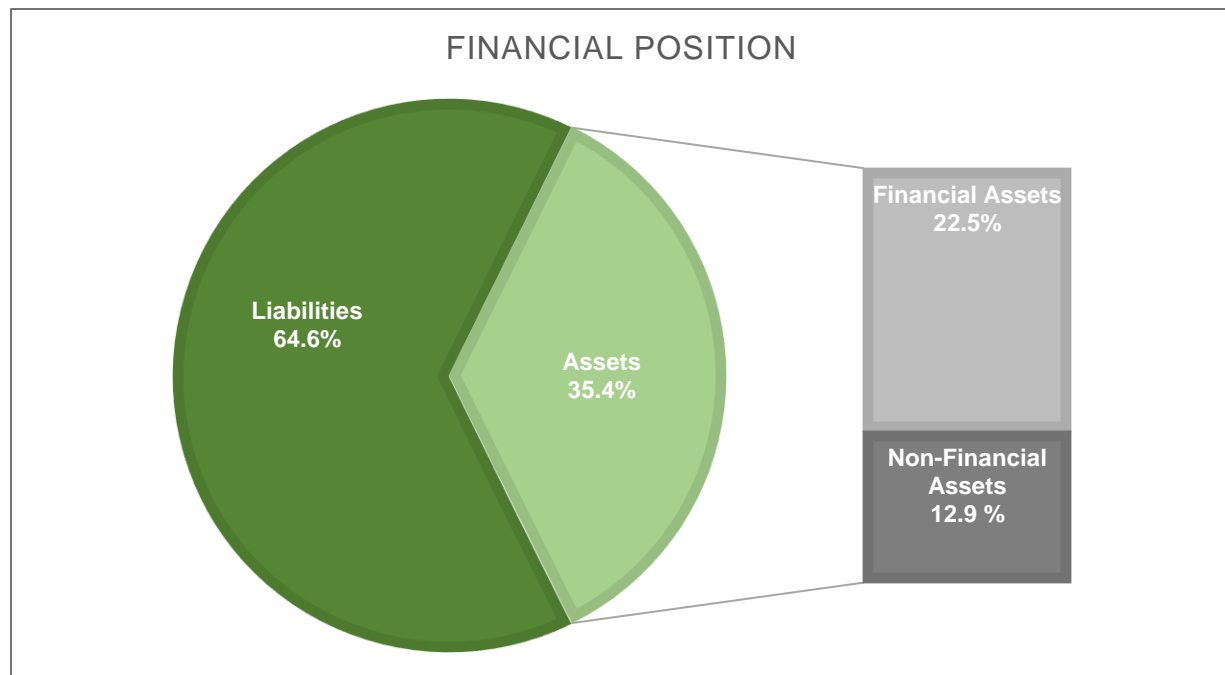
The largest expense variance between actual results and Original Budget figures relates to salaries and employee benefits. Salaries and employee benefits were \$103.0 million higher than the projected amount.

Salaries and employee benefits is also the largest variance from the previous fiscal year. Unlike the comparison to Original Budget, the salaries and employee benefits expense for 2017-18 decreased by \$260.4 million from 2016-17.

Further details regarding these and other significant variances can be found later in this report.

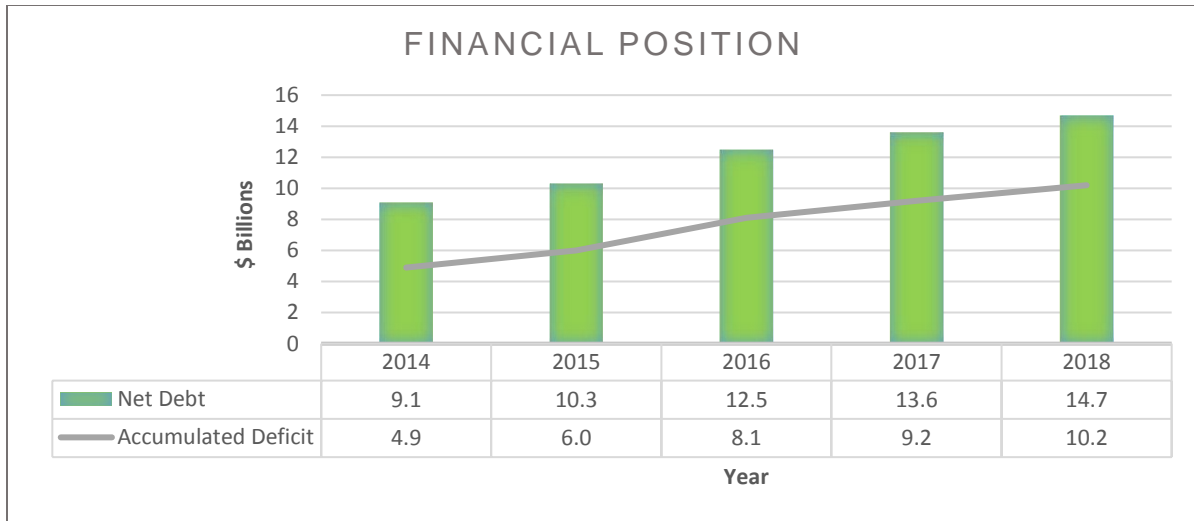
## **FINANCIAL POSITION**

The Province experienced a deficit in 2017-18 for the sixth consecutive year. Newfoundland and Labrador continues to face economic, social and fiscal challenges including a large level of debt. To ensure the future financial health of the Province, it is necessary that we continue to manage our fiscal situation while still focusing on delivery of valuable programs and services; achieve better outcomes for our investments; create an environment that supports economic development and job creation, and creates opportunities for residents.



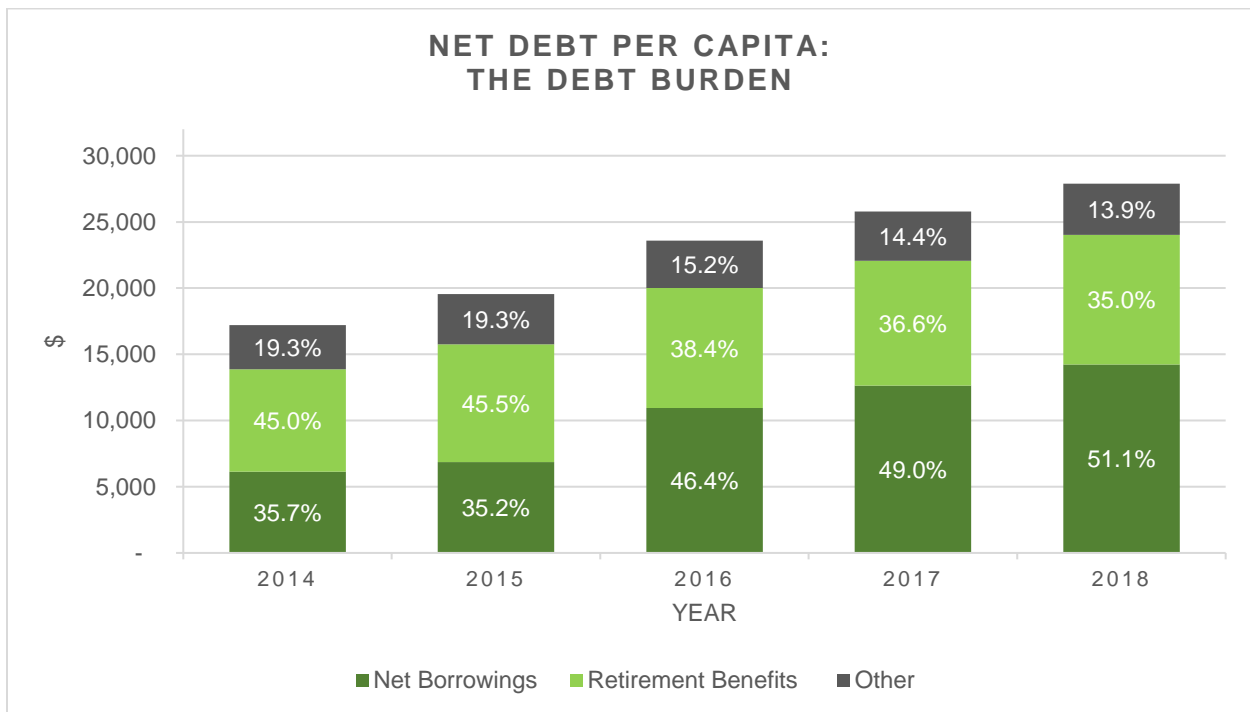
The Province's accumulated deficit position and net debt as at 31 March 2018 is presented in the following chart. The Province's net debt totals \$14.7 billion and represents the amount needed to be funded from future generations to pay for past activities.

Net debt increased by \$1.1 billion and accumulated deficit increased by \$1.0 billion from the previous year mainly due to the annual deficit. Details of the annual deficit will be discussed later in this report.



### NET DEBT PER CAPITA

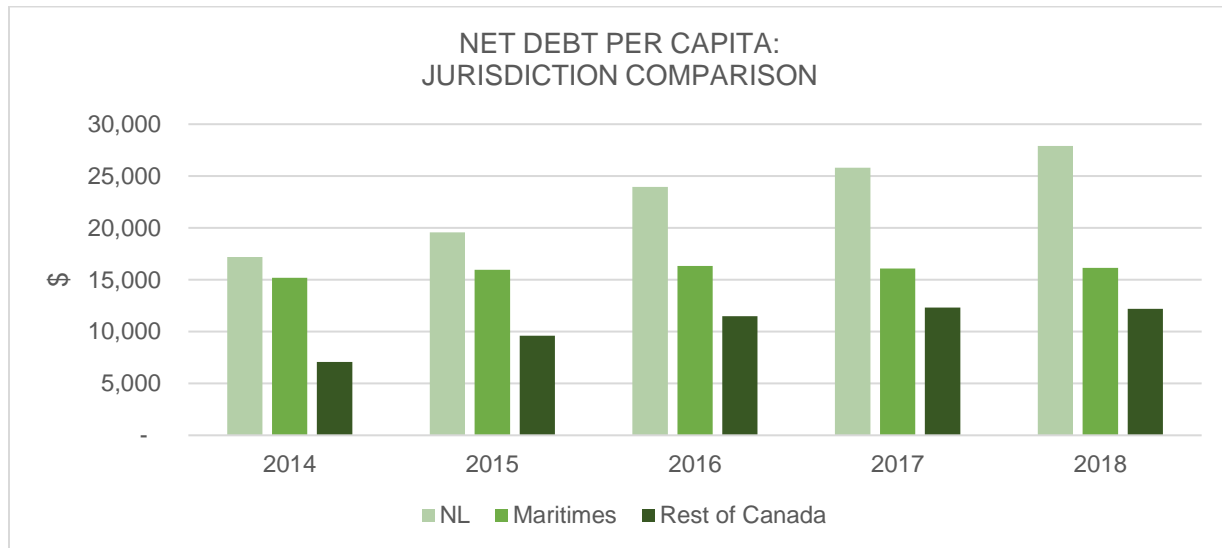
Net debt per capita indicates the average amount of the Province's net debt attributed to each citizen of the Province and is calculated by dividing the net debt by the Province's population. Each citizen's share of the net debt increased in 2017-18. As presented in the chart that follows, net debt per capita increased from \$25,788 in 2016-17 to \$27,898 in 2017-18. This increase of \$2,110 per person is primarily the result of the increase in the Province's net debt combined with a slight decrease in population. The following graph also indicates the portion of each type of debt that makes up the net debt per capita.



## UNDERSTANDING THE FINANCIAL HEALTH OF THE PROVINCE OF NEWFOUNDLAND AND LABRADOR

The rise in net debt per capita is primarily due to the increases in net debt over the past five years combined with slight decreases in population in the past two years.

The following chart presents the Province's net debt per capita in comparison to the Maritime Provinces and the rest of Canada.



\*Note: Original Budget figures were used where the Public Accounts actual results were not available.

Newfoundland and Labrador's net debt per capita has been greater than the average of the other jurisdictions for the past five years. This gap has grown significantly wider since 2015-16. The Maritimes' net debt per capita has increased steadily but at a much lesser rate. The rest of Canada is trending upwards but is still just over half of that of Newfoundland and Labrador.

The Province has a smaller population to carry the net debt burden. The average population for the last five years for the Province, and the Maritimes and the rest of Canada per jurisdiction is presented below. As shown, the average population for the country has remained steady.

<i>Average Population per jurisdiction (in 000's)</i>	2014	2015	2016	2017	2018 <sup>[1]</sup>	5 Year Change
<b>NL</b>	528.3	528.7	530.1	527.3	526.0	(2.3)
<b>Maritimes</b>	614.7	614.8	618.3	620.2	624.2	9.5
<b>Rest of Canada</b>	3,685.8	3,719.5	3,766.8	3,800.2	3,852.0	166.2

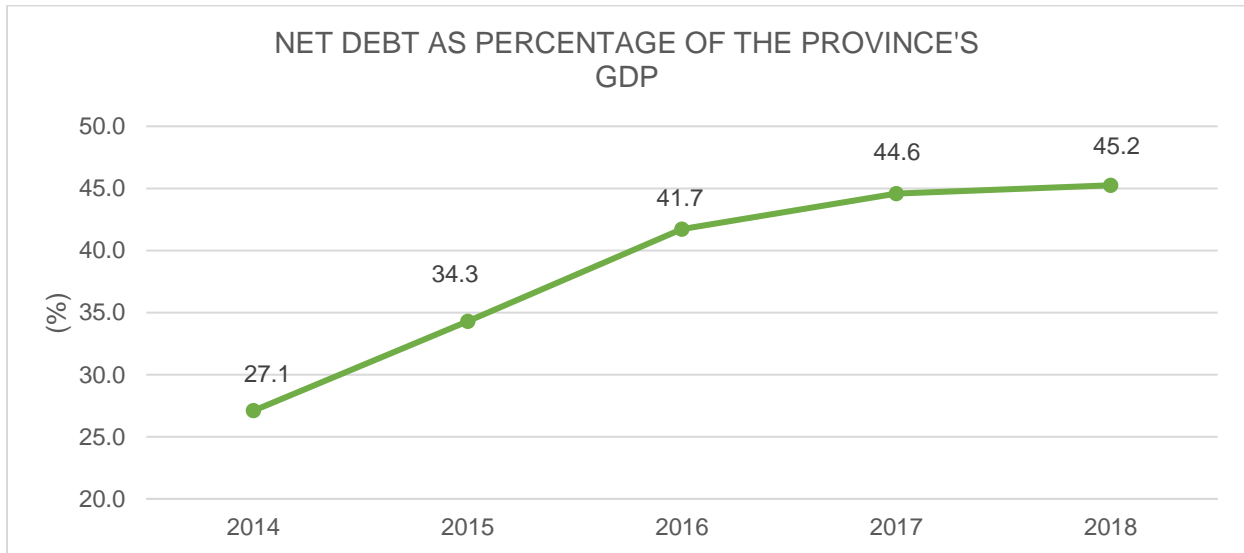
<sup>[1]</sup> Source: Statistics Canada, Demography Division

**NET DEBT AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT (GDP)**

This ratio measures the level of debt that the Province carries as a percentage of its **GDP**. GDP figures were obtained from Newfoundland and Labrador Statistics Agency's website. Figures used were the latest information available as of 31 March 2018.

As presented in the following graph, there has been an increase in net debt as a percentage of GDP in the current year resulting from both an increase in debt and a contraction in the economy. On a five-year basis, the relationship implies that the rate of increase in net debt has been greater than the rate of economic growth and as such, it indicates that Government has increased its demands on the provincial economy during this time.

The 2017-18 ratio is 45.2%, an increase of 0.6 percentage points from 2016-17. The average of this ratio over the past five years is 38.6%. Since 2014, it has experienced a significant increase of approximately 18.1 percentage points.



## NET DEBT AND ACCUMULATED DEFICIT

For the fiscal year ended 31 March 2018, net debt of \$14.7 billion included net borrowings of \$11.7 billion. Net debt for the fiscal year ended 31 March 2018 increased from the previous year by \$1.1 billion or 7.9% and net borrowings increased by \$1.1 billion which represents a 9.8% increase.

The net debt is the difference between total financial assets of \$7.8 billion and liabilities of \$22.5 billion. The Province's net debt, less non-financial assets of \$4.5 billion, results in an accumulated deficit of approximately \$10.2 billion.

Net debt and accumulated deficit are comprised of the following components:

(\$ billions)	2018	2017	2016	2015	2014
Borrowings (net of sinking funds)	11.7	10.6	9.1	5.5	5.1
Unfunded Pension Liability	5.0	4.9	4.7	4.4	3.9
Group Health and Life Insurance Retirement Benefits	2.9	2.9	2.8	2.6	2.6
Other Liabilities	2.9	2.8	2.7	2.9	2.8
Less: Total Financial Assets	(7.8)	(7.6)	(6.8)	(5.1)	(5.3)
<b>Net Debt</b>	<b>14.7</b>	<b>13.6</b>	<b>12.5</b>	<b>10.3</b>	<b>9.1</b>
Less: Tangible Capital Assets	(4.4)	(4.3)	(4.3)	(4.2)	(4.1)
Less: Other Non-financial Assets	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
<b>Accumulated Deficit</b>	<b>10.2</b>	<b>9.2</b>	<b>8.1</b>	<b>6.0</b>	<b>4.9</b>

As shown in the previous table, accumulated deficit and net debt have both increased from 2014 to 2018. This can be attributed primarily due to the additional borrowings of \$6.6 billion obtained by the Province during this period; this amount of additional debt is greater than the total borrowings of \$5.1 billion in 2014.

## BORROWINGS

For the fiscal year ended 31 March 2018, net borrowings totaled \$11.7 billion and increased by \$1.1 billion from 2017. For the current fiscal year, borrowings attributed for 51.9% of total liabilities.

## DEBT RELATED RISK

The practice of borrowing in both domestic and foreign currencies may potentially give rise to a number of risks including foreign exchange risk, liquidity risk, interest rate risk, and credit risk.

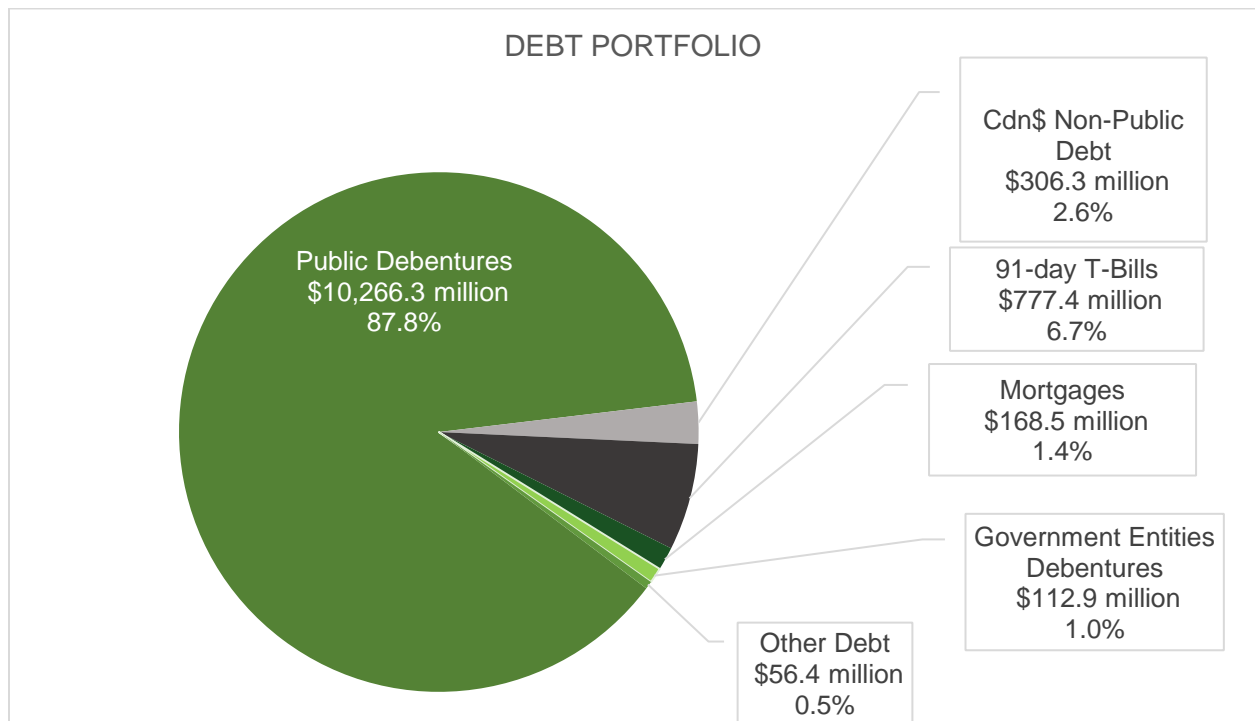
- **Foreign exchange risk:** Foreign exchange risk exists when a financial transaction is denominated in a currency other than that of the base currency of the Province (CAD). While the majority of the Province's debt is domestic in nature, there are a number of US dollar denominated debt issues. All of these are long-term issues and the Province has established sinking funds, also in US dollars, to provide repayment of the debt at maturity. An increase/decrease of one cent in the foreign exchange rates at 31 March 2018 would result in an increase/decrease in foreign borrowings of \$10.5 million (31 March 2017 - \$10.5 million). Original Budget 2017-18 forecasts the US-Canada exchange rate to be \$0.75. This estimate is based on an average of eight forecasts and was a prudent estimate based on best available information. The average US-Canada exchange rate for 2017-18 was \$0.78 (2016-17 - \$0.76).
- **Liquidity Risk:** Liquidity risk is the risk that a party cannot meet its short-term debt obligations. Exposure to liquidity risk is managed by distributing debt maturities over several years, maintaining sinking funds for the repayment of certain long-term debt issues and holding adequate cash reserves or short-term borrowings as contingent sources of liquidity.
- **Interest Rate and Credit Risk:** Interest rate risk and credit risk are also a risk factor for the Province of Newfoundland and Labrador. Interest rate risk is the risk that debt-servicing costs will increase due to changes in interest rates. Credit risk is the risk that a loss may occur from the failure of another party to meet its obligations under a financial instrument contract. To mitigate these risks, the Province's debt portfolio is structured such that virtually all of its debt is long-term with fixed interest rates and fixed repayment terms. When appropriate and the option is available, debt with high interest rates has been called and refinanced with new lower interest rate debt. Otherwise, debt is generally held until maturity. Additionally, the Province attempts to manage its exposure to these risks and minimize volatility in its debt expenses by following a conservative debt and risk management strategy.



## DEBT PORTFOLIO

The Province's debt portfolio is comprised of the following:

- \$10.3 billion in public debentures of which 27% are due in 25 years or more, pertaining to the Consolidated Revenue Fund. 87% is Canadian while the remaining 13% is foreign debt (US).
- \$777.4 million of 91-day T-bills (floating-rate revolving debt).
- \$306.3 million of Canadian non-public debentures; Canadian Pension Plan (CPP) related debt.
- \$168.5 million in various mortgages and debt assumed relating to electricity generating assets. Mortgages pertaining to Canada Mortgage and Housing Corporation (CMHC) represents 54% of total mortgages.
- \$112.9 million in debenture debt held by government entities.
- \$42.7 million in various other debt including \$7.5 million including short-term bankers' acceptances which mature during 2018-19.
- \$13.7 million in loans with both fixed and variable interest rates for the purposes of funding student transportation for schools.



## CREDIT RATING

The Province has committed to reducing the annual deficit to sustainable levels, and setting the foundation for a return to surplus which has been reflected in stable credit ratings. Most recently, Moody's Investors Service indicated that the rating outlook is negative, as a result of the potential for further fiscal deterioration and higher debt burden if the Province fails to achieve its budget targets. The outlook also reflects ongoing concerns due to the significant contingent liabilities of the Province.

Standard and Poor's Financial Services (S&P) stated that the Province of Newfoundland and Labrador continues to make slow but steady progress toward its target of balancing its books in fiscal year 2022-2023 and as such ratings remain stable.

The Dominion Bond Rating Service (DBRS) has also reconfirmed the Province's credit ratings (long-term 'A (low)') and short-term 'R-1 (low)') as stable. While fiscal and economic conditions remain challenging for Newfoundland and Labrador, the fiscal recovery plan remains on track.

The Province's long-term and short-term ratings were recently affirmed as follows:

	<b>Long-Term</b>	<b>Short-Term</b>	<b>Outlook</b>	<b>Date</b>
S&P	A	A-1	Stable	July 18, 2018
Moody's	Aa3	Not rated	Negative	July 23, 2018
DBRS	A (low)	R-1 (low)	Stable	August 23, 2018

## NON-FINANCIAL ASSETS

The total non-financial assets of \$4.5 billion in 2017-18 included prepaid and deferred charges of \$40.6 million; inventory of supplies of \$59.4 million; and tangible capital assets of \$4.4 billion, the most significant component.

### Tangible Capital Assets

Tangible capital assets are capitalized on the Consolidated Statement of Financial Position with the cost of the assets amortized over the estimated useful life of the assets.

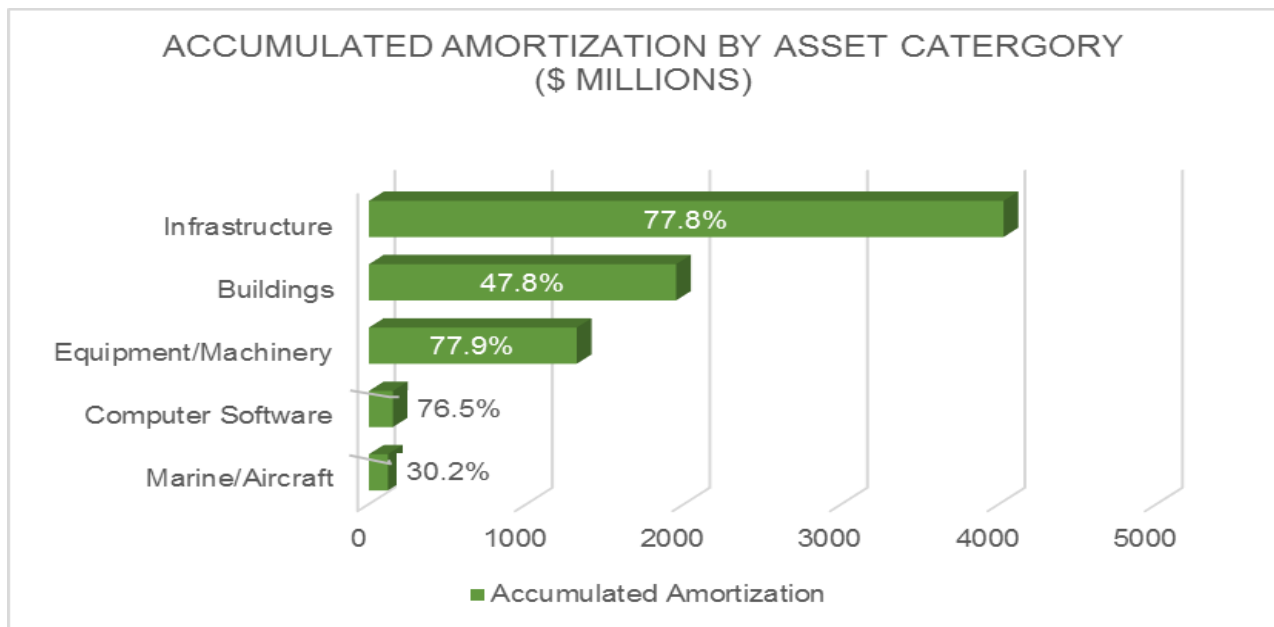
### Accumulated Amortization

Total accumulated amortization of tangible capital assets (excluding work in progress assets) represents 65.6% of the cost of tangible capital assets. The most significant of the asset categories that are amortized are infrastructure and equipment and machinery where 77.8% and 77.9% of the original cost has been amortized respectively.

The Province's infrastructure, such as bridges and roads, has less than one quarter of its useful life remaining. Computer software, as well as equipment and machinery have a relatively short useful life. It is expected that these assets will be replaced more frequently due primarily to changing technologies.

The Province currently has a number of projects under construction or development. Work in progress assets consists of \$416.3 million as at 31 March 2018 which is a \$21.4 million or a 5.4% increase from 2017. Work in progress is considered to be a tangible capital asset; however, it is not subject to amortization as it is not currently available for use.

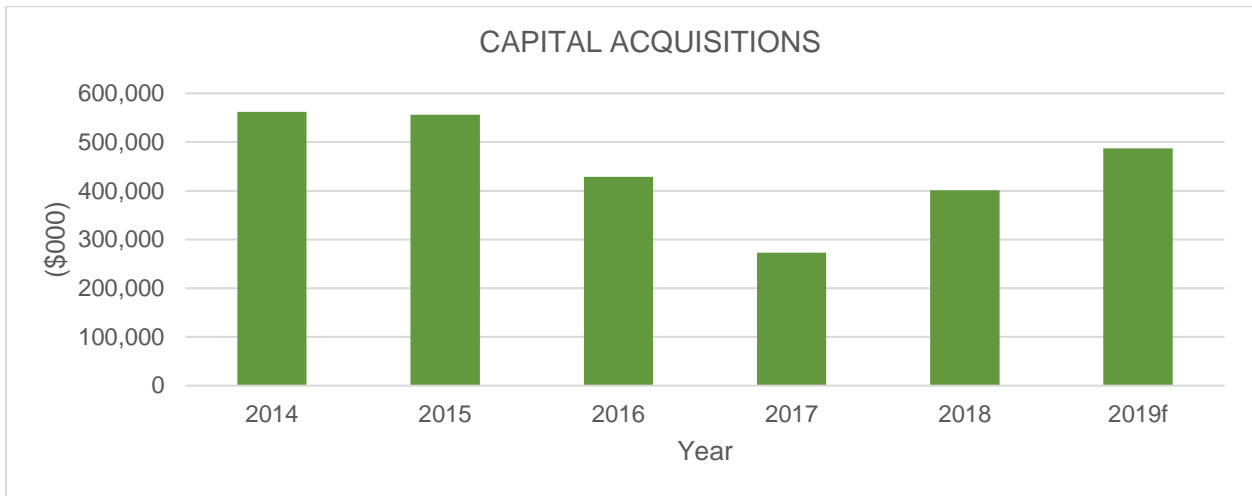
The following chart presents the tangible capital asset cost (excluding work in progress) and accumulated amortization by category at 31 March 2018.



### Capital Acquisitions

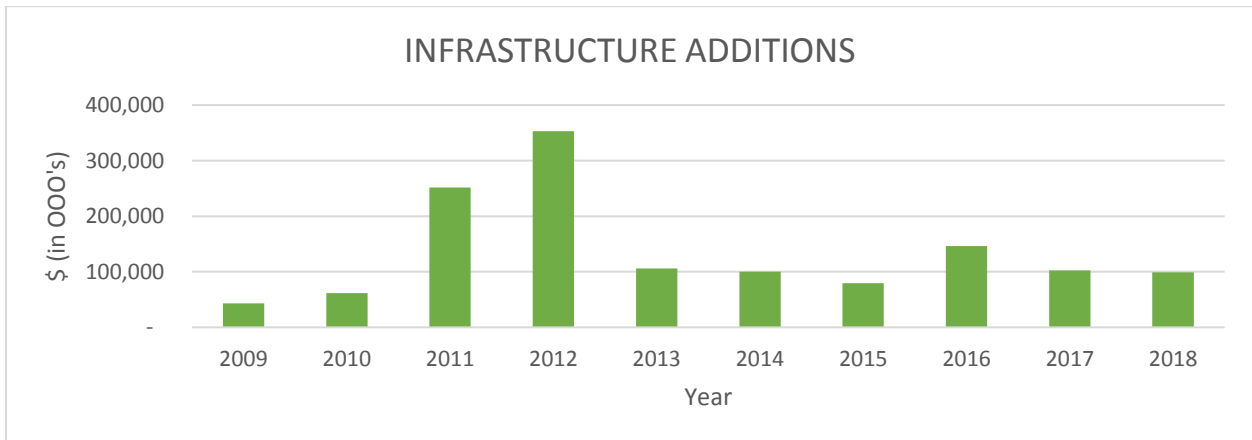
Capital Acquisitions in the current year totaled \$400.9 million and includes capital additions of \$379.7 million, net additions to work in progress assets of \$212.4 million, less \$191.2 million of work in progress assets capitalized in the year. Acquisitions increased in 2017-18 by \$128.1 million from 2016-17 (\$272.8 million). The Province continues to invest in capital assets and is forecasting to increase capital acquisitions by \$86.3 million in 2018-19.

Original Budget for fiscal 2018-19 invests \$619.7 million in key infrastructure areas including roads, schools, health care facilities and municipal infrastructure projects to encourage economic growth and assist with leveraging federal funding. This investment is part of a nearly \$3.0 billion multi-year infrastructure plan. Acquisitions to tangible capital assets for the past five years were reported as follows:



### Infrastructure Additions

Although infrastructure is reported as 77.8% amortized, this does not necessarily describe the age of this asset category. The Province continues to invest in roads, bridges, waterways and dams. The following graph presents reported infrastructure additions for the last ten fiscal years. Note that this graph does not include work-in-progress infrastructure.



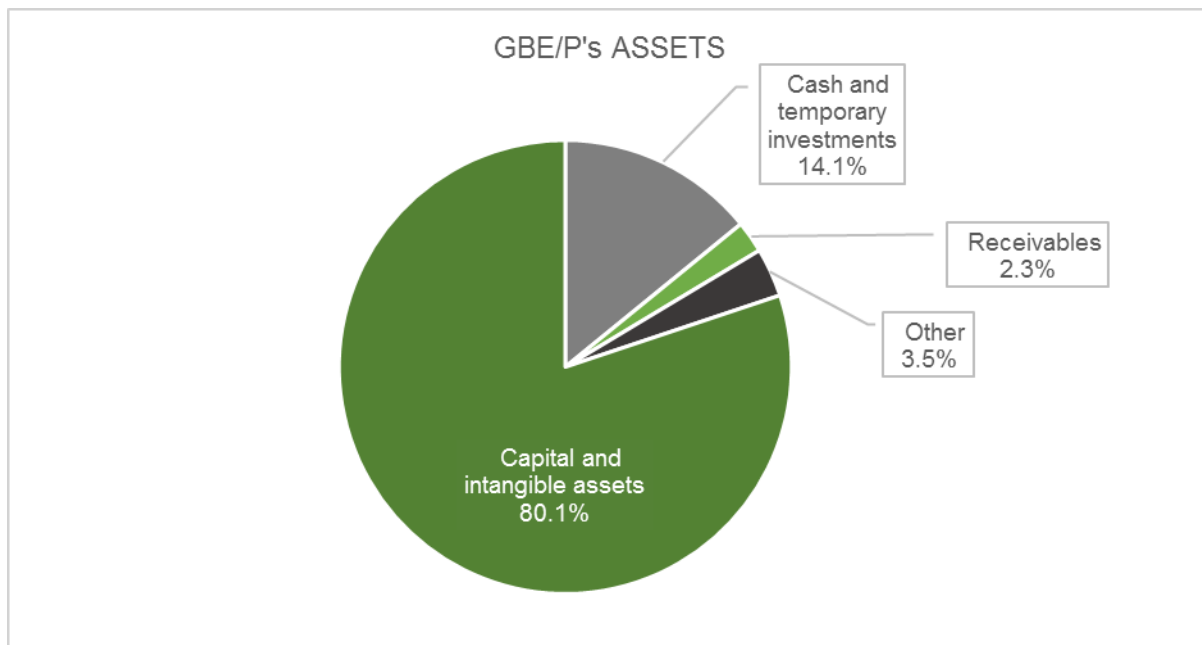
## GOVERNMENT BUSINESS ENTERPRISES AND PARTNERSHIP

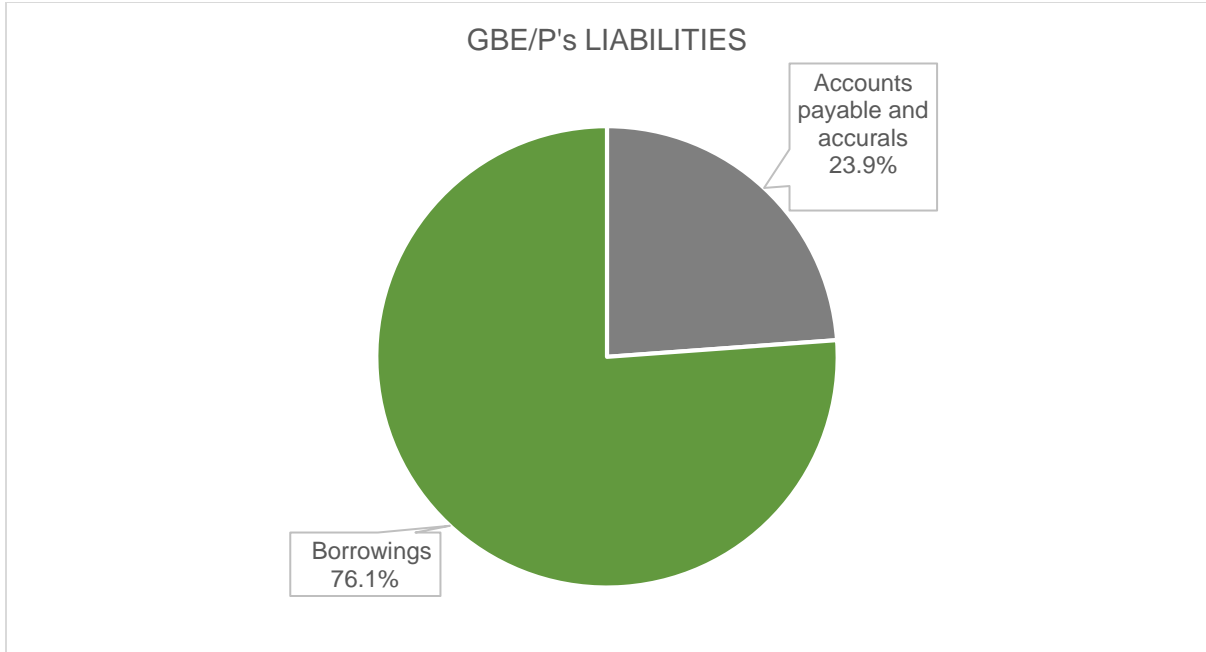
The Province has two Government Business Enterprises (GBEs) including Newfoundland Labrador Liquor Corporation (NLC), and Nalcor Energy (Nalcor); and one Government Business Partnership (GBP), Atlantic Lottery Corporation Inc. (ALC). NLC is a provincial crown corporation responsible for managing the importation, sale and distribution of alcohol beverages throughout the Province. Nalcor is incorporated as a crown corporation and its business includes the development, generation, transmission and sale of electricity, oil and gas, industrial fabrication and energy marketing. ALC has been appointed to undertake, conduct and manage lotteries by and on behalf of the Provinces of Newfoundland and Labrador, New Brunswick, Nova Scotia and Prince Edward Island. ALC was consolidated in the Province's Consolidation Summary Financial Statements for the first time in fiscal 2013-14.

### Equity In Government Business Enterprises and Partnership

Equity in GBEs and GBPs account for more than half of the Province's consolidated financial assets in 2017-18. Financial figures for ALC, NLC, and Nalcor can be found in Schedules 3 and 4 of the Consolidated Summary Financial Statements.

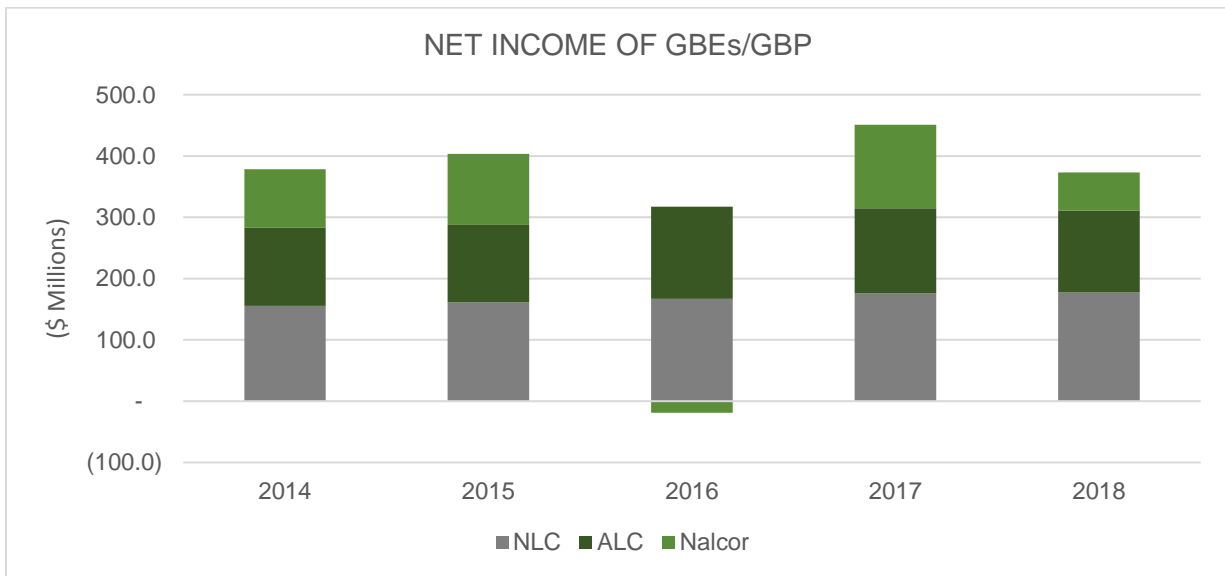
GBEs and GBPs are considered investments therefore their assets and liabilities are not combined with the assets and liabilities of other government entities; they are recorded in one line as 'equity on government business enterprises and partnership' on the Consolidated Statement of Financial Position. To provide further information on the financial position of these organizations the following provides an overview of their asset and liability components. 99.7% of GBE/GBP borrowings relate to Nalcor as does 99.6% of the GBE/GBP capital and intangible assets.





**Net Income of Government Business Enterprises and Partnership**

The following graph shows the five-year trend in GBEs and GBPs net income. Total net income for the current year from GBE/GBPs was \$373.4 million. This is a decrease of \$77.8 million and 17.2% from 2016-17 (\$451.2 million). The decrease in net income was mainly due to the financial results from Nalcor, reporting net income of \$62.2 million in the fiscal year, which was an decrease in profit of \$74.2 million over 2016-17.



Key drivers relating to the decrease of \$74.2 million in net income for Nalcor included:

- Expenses increased by approximately \$269.0 million primarily relating to :
  - \$165.0 million increase in depreciation, depletion, amortization and impairment primarily due to impairment expenses related to exploration intangible assets and previously capitalized Gull Island costs; an increase in Oil and Gas depletion associated with higher production volumes; and increased levels of investment in property, plant and equipment in Hydro Regulated.
  - \$58.0 million increase in fuels due to increases in No. 6 fuel and gas turbine fuel prices. This increase was partially offset by a decrease in gas turbine fuel volume.
  - \$46.0 million net increase in in various other expenses.
- Revenue increased by approximately \$106.0 primarily related to:
  - An increase in Oil and Gas revenue as a result of higher average Dated Brent oil prices and an increase in production volumes, as well as the recognition of a one-time adjustment to Bull Arm Fabrication lease revenue related to the close-out value of the ExxonMobil Canada Properties sublease agreement.
- Regulatory recoveries also increase by approximately \$90 million due to:
  - Rate Stabilization Plan(RSP) amortization and deferred fuel costs as a result of the normal operation of the RSP; reduced RSP interest due to RSP refunds during the year; adjustments related to the 2014-2015 cost deferral accounts associated with the conclusion of the 2013 GRA; and the approval of deferral of energy supply cost variances.

## Investment in Government Business Enterprises and Partnership

The Province injected \$589.9 million in Nalcor during 2017-18 in the form of equity investments relating to the Lower Churchill Project. A 90-day promissory note issued to Nalcor by the Province in 2016 in the amount \$225.0 million was repaid during the year. ALC and NLC transferred a combined total of over \$310.1 million in dividends to the Province. Greater than 98% of the Province's equity in GBE/GBPs relate to Nalcor.

## Capital Transactions

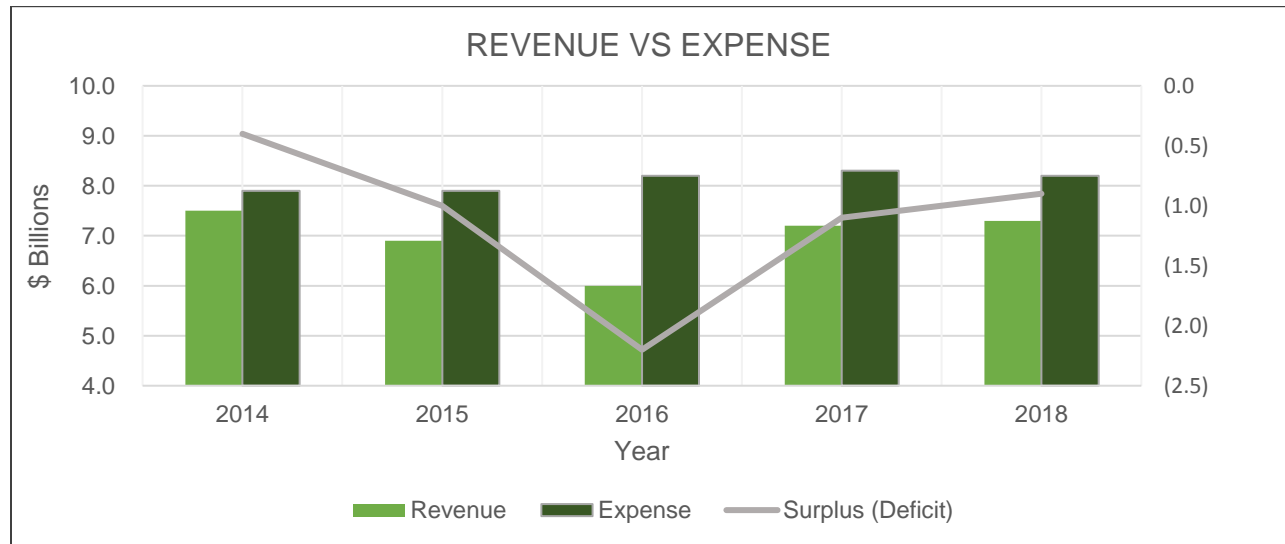
	2014	2015	2016	2017	2018
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
<b>Equity Contributions from the Province:</b>					
Nalcor	531,000	337,600	760,004	836,002	589,885
NLC	-	-	-	-	-
ALC	-	-	-	-	-
<b>Total</b>	<b>531,000</b>	<b>337,600</b>	<b>760,004</b>	<b>836,002</b>	<b>589,885</b>
<b>Dividends Received by the Province:</b>					
Nalcor	-	-	-	-	-
NLC	152,000	170,500	158,500	198,000	180,000
ALC	120,592	125,196	144,784	135,193	130,084
<b>Total</b>	<b>272,592</b>	<b>295,696</b>	<b>303,284</b>	<b>333,193</b>	<b>310,084</b>

\*ALC was consolidated in the Province's Consolidated Summary Financial Statements for the first time in fiscal 2013-14. Prior to 2013-14, lottery revenues received were recorded by the Province as revenue.



## FINANCIAL OPERATIONS

For the fiscal year ended 31 March 2018, total revenue was \$7.3 billion (31 March 2017 - \$7.2 billion) and total expenses were \$8.2 billion (31 March 2017 - \$8.3 billion), resulting in a provincial deficit of \$910.8 million (31 March 2017 - \$1.1 billion). The Province reported revenues and expenses for the previous five years as follows:



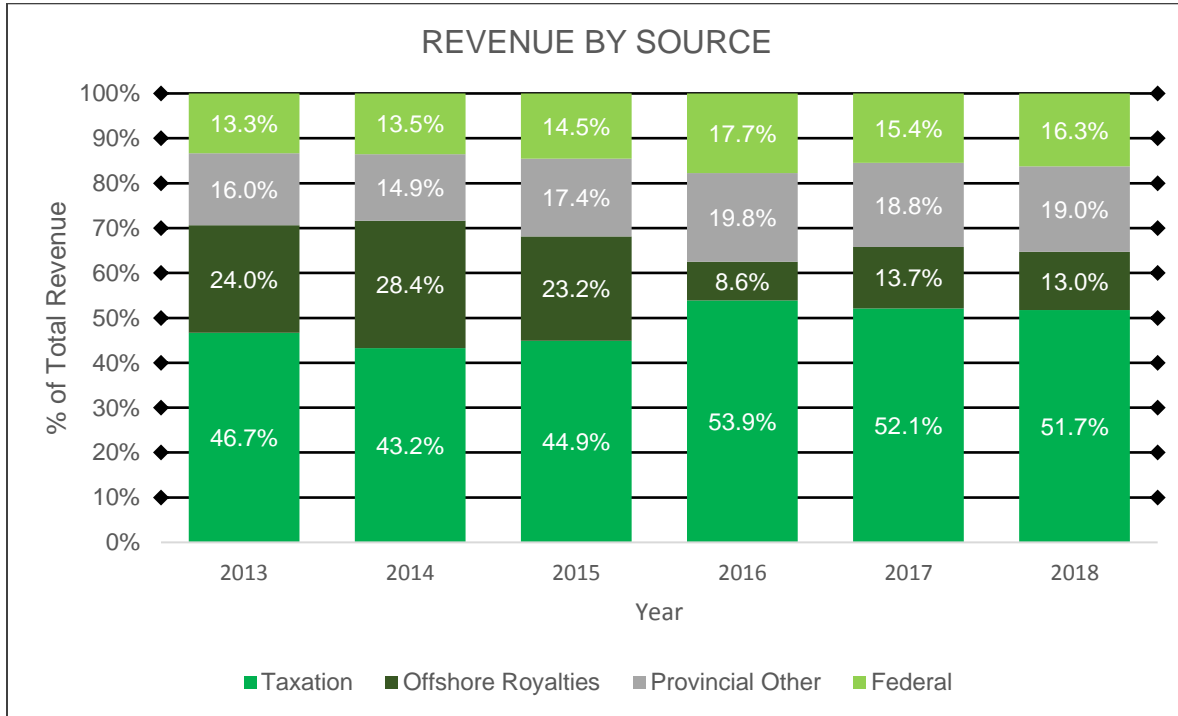
In the previous graph, the five-year trend in surplus (deficit) is shown in relation to revenues and expenses. Since 2014, the Province's annual deficit continued, reaching a low point of \$2.2 billion in 2015-16. However, both 2016-17 and 2017-18 shows the Province's somewhat improved financial results.

## Revenue Highlights

Revenues of \$7.3 billion for 2017-18 were \$58.8 million lower than the Original Budget of \$7.3 billion. Reported revenues in 2016-17 were \$7.2 billion. Compared to the prior year, revenues increased by \$123.1 million. The improvement in the actual results for the fiscal year compared to the previous year is primarily due to higher sales tax.

### Revenues by Source – Five Year Trend

The provincial and federal sources that make up total revenues for the past five fiscal periods are presented in the following graph.



## Offshore Royalties

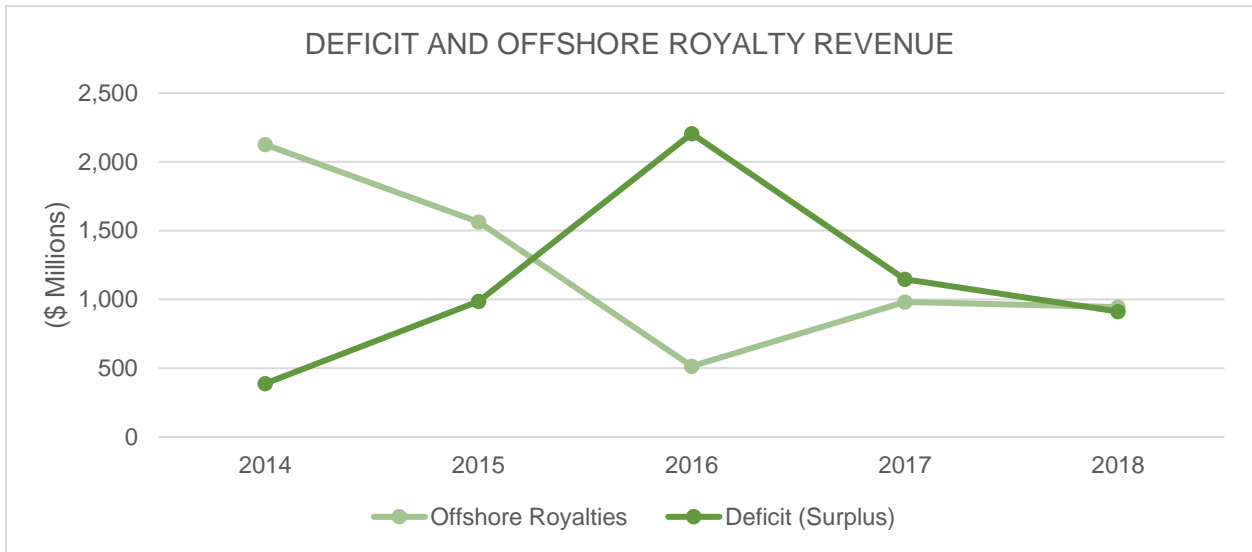
Oil royalties, which were forecast at Original Budget to be \$881.7 million resulted in actuals of \$943.9 million. Offshore oil royalty revenue was \$62.2 million higher than projected due to higher oil prices and higher production. Compared to previous year offshore royalties were \$38.8 million lower in 2017-18. The average oil price for the year was \$57.41 US, \$1.41 above the \$56.00 US forecasted at original budget time.

Oil prices continued to trend upward for most of 2017-18, due primarily to a number of contributing factors, which include continued production cuts by key OPEC members and Russia, supply disruptions from Venezuela, uncertainty around the Iran nuclear deal, and the global economy performing stronger than expected.

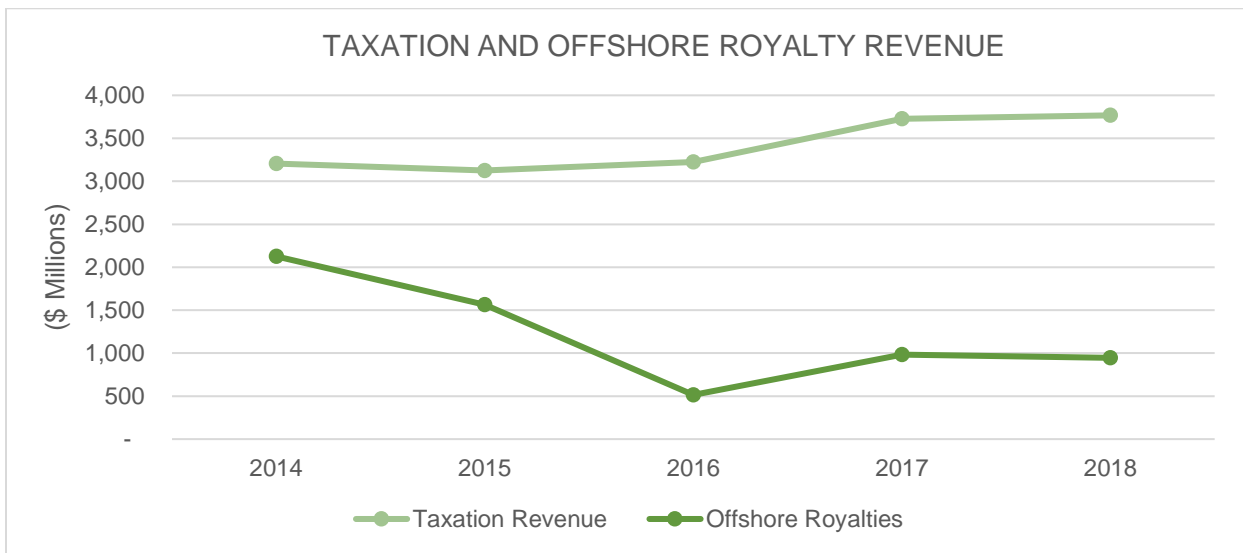
Total oil production was 12.19 million barrels higher than projected due to better than expected well performance and increased facility efficiency and reliability.

<b>Offshore Oil Royalties, Actuals and Original Budget For Fiscal year ended 31 March 2018</b>			
	<b>Actuals</b>	<b>Budget</b>	<b>Variance</b>
Royalties (\$M)	\$943.9	\$881.7	\$62.2
Average oil price per barrel (\$US)	\$57.41	\$56.00	\$1.41
Average exchange rate (\$US/\$CA)	0.78	0.75	0.03
Production (millions of barrels):			
Hibernia	51.14	44.03	7.11
Terra Nova	11.31	10.01	1.30
White Rose	14.23	13.21	1.02
Hebron	4.30	1.54	2.76
Total Oil Production	80.98	68.79	12.19

Note: Figures shown are for fiscal year 2017-18, and will differ from the calendar year figures presented in *The Economy* publications.



### Offshore Royalty and Taxation Revenue – Five Year Trend

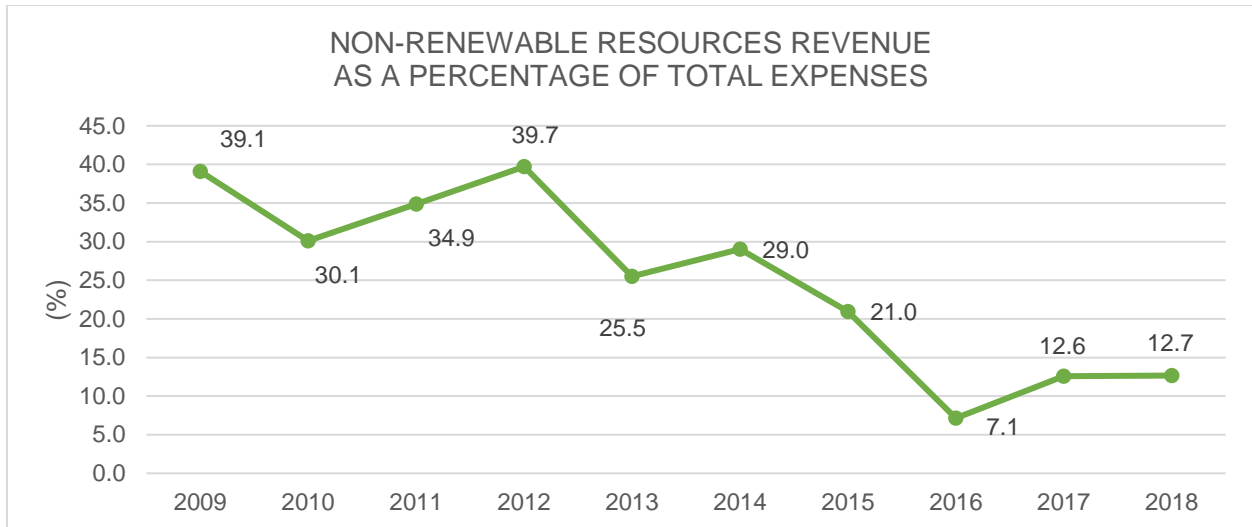


## Taxation Revenue

- Actual Results 2017-18 in comparison to prior year resulted in increased revenue of \$38.8 million relating to:
  - \$141.7 million increase in sales tax relating to an increase in HST entitlements due to the fully annualized rate change from 13% to 15%. In addition, RST revenue increased due to the reinstatement of the tax on insurance premiums.
  - \$69.5 million increase in corporate income tax mainly as a result of adjustments due to payments made in prior years.
  - Personal income tax (PIT) decreased by \$138.0 million primarily due to tax planning. The Federal Government conducted analysis that suggests that the temporarily lower federal PIT revenues in tax year 2016 were driven particularly by tax planning of high-income earners (who had flexibility) to report earnings earlier (in 2015) to reduce the impact of the new 2016 top federal rate.
  - Gasoline tax revenue decreased by \$51.0 million mainly as a result of the decrease in the tax rate of 8.5 cents in June 2017 and 4 cents in December 2017.
  - Mining and Mineral rights and other taxes had a net increase of \$16.6 million.
  
- Actual Results 2017-18 in comparison to Original Budget resulted in a decrease of \$157.5 million relating to:
  - \$152.9 million decrease in personal income tax due to tax planning. As noted above the Federal Government conducted analysis that suggests that the temporarily lower federal PIT revenues in tax year 2016 were driven particularly by tax planning of high-income earners (who had flexibility) to report earnings earlier (in 2015) to reduce the impact of the new 2016 top federal rate.
  - \$40.5 million decrease in corporate income tax primarily due to revised taxable income data for the 2016 tax year.
  - \$56.1 million increase in mining and mineral rights due to improved iron ore prices in 2017.
  - \$20.2 million net decrease in various other taxes.

## NON-RENEWABLE RESOURCES REVENUE AS A PERCENTAGE OF TOTAL EXPENSES

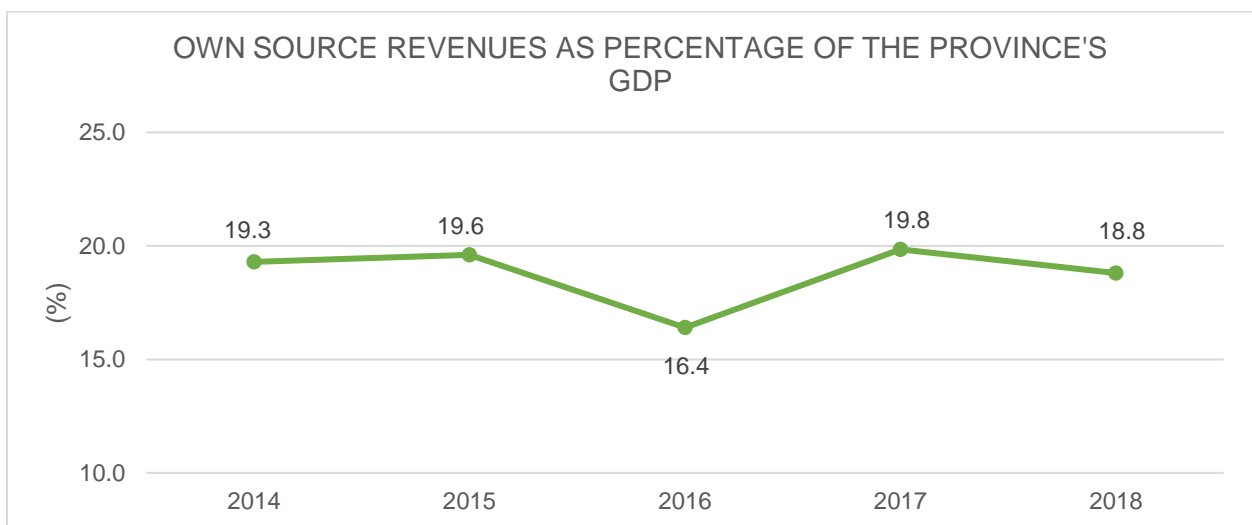
- Non-renewable resources revenue is affected by price, sales and other factors that are often beyond the Province's direct control. Non-renewable resources revenue as a percentage of total expenses is an indicator of how vulnerable the Province is as a result of its dependence on non-renewable resources revenue to fund its expenses
  
- The following graph indicates that the Province's reliance on non-renewable resources revenue as a percentage of total expenses has decreased substantially from 39.1% in 2009 to 12.7% in 2018



Note: Figures shown in the above graph include revenues for offshore royalties and mining and mineral rights tax.

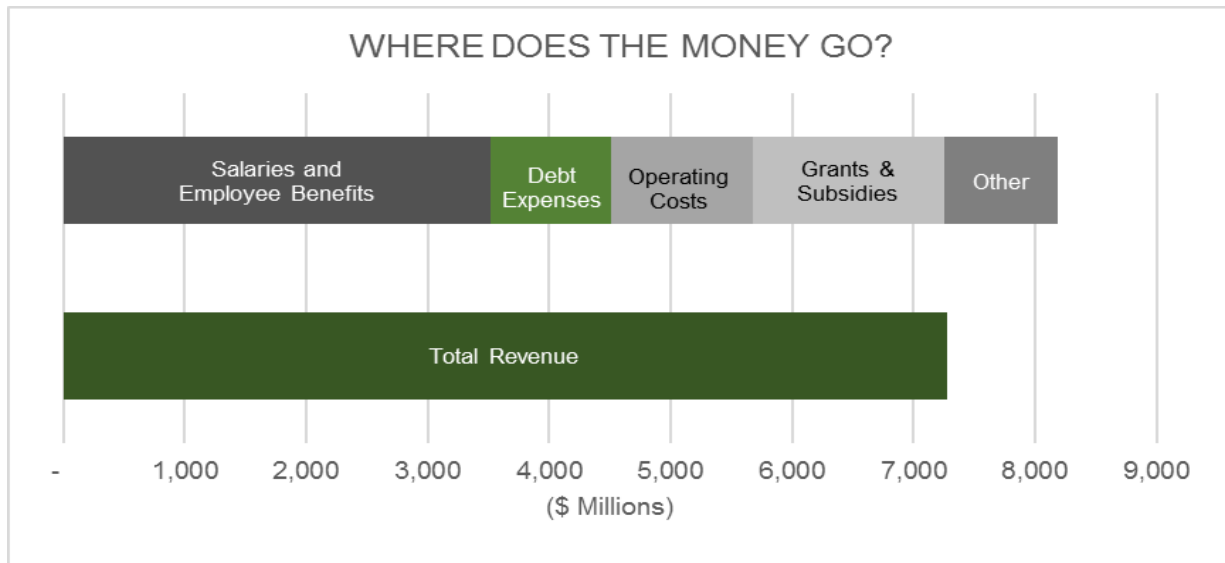
**PROVINCIAL REVENUES AS A PERCENTAGE OF GDP**

- The purpose of this indicator is to show the extent to which a government is taking income out of the economy in its jurisdiction, through both taxation and user charges.
- The following graph indicates that provincial revenues as a percentage of GDP decreased in the current year from 2016-17. The Province's GDP increased in 2017-18 which coincided with an increase in revenue.
- The 2017-18 own source revenues as percentage of the Province's GDP ratio is 18.8%. This represents a decrease of 1.0 percentage points from 19.8% in 2016-17. This ratio is the equivalent of the five-year average of 18.8%.



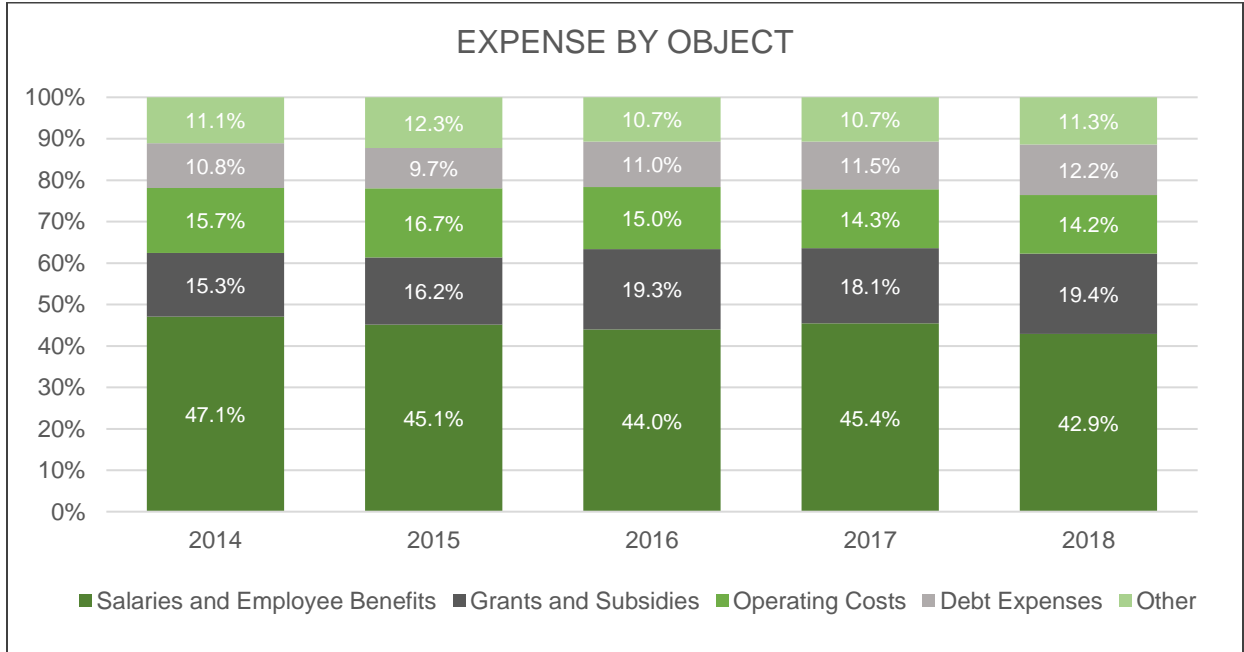
## EXPENSE HIGHLIGHTS

The Province's expenses are classified into the following: salaries and employee benefits; grants and subsidies; operating costs; debt expenses; and other expenses including professional services; amortization and (gain)/loss on the sale of tangible capital assets; property, furnishings and equipment; and valuation allowances (recovery). Total expenses of \$8.2 billion were \$74.4 million higher than the Original Budget (\$8.1 billion) and decreased by \$113.9 million from the previous year. Salaries and employee benefits was the Province's largest expense in each of the last five years.



### Expenses by Object

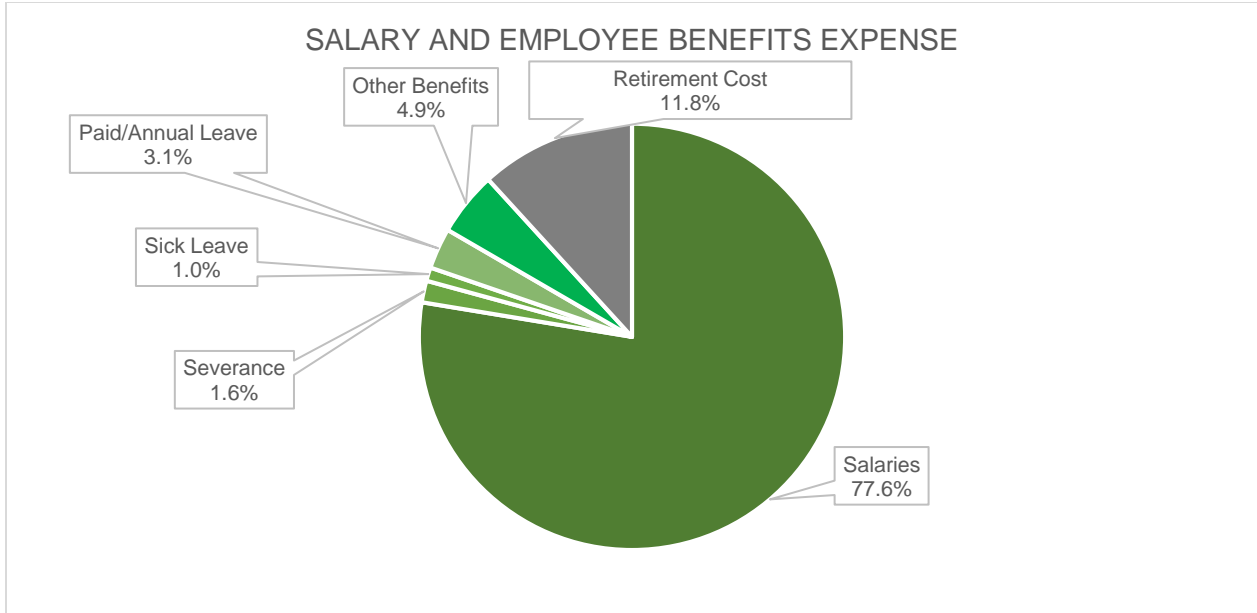
The following graph presents the percentage of expenses by object for the previous five-year period. The most significant expense type in 2017-18 was salaries and employee benefits, reflecting the nature of government in providing services to the Province. Salaries and employee benefits expense as a percentage of total expenses has declined since 2014.



### Salaries and Employee Benefits

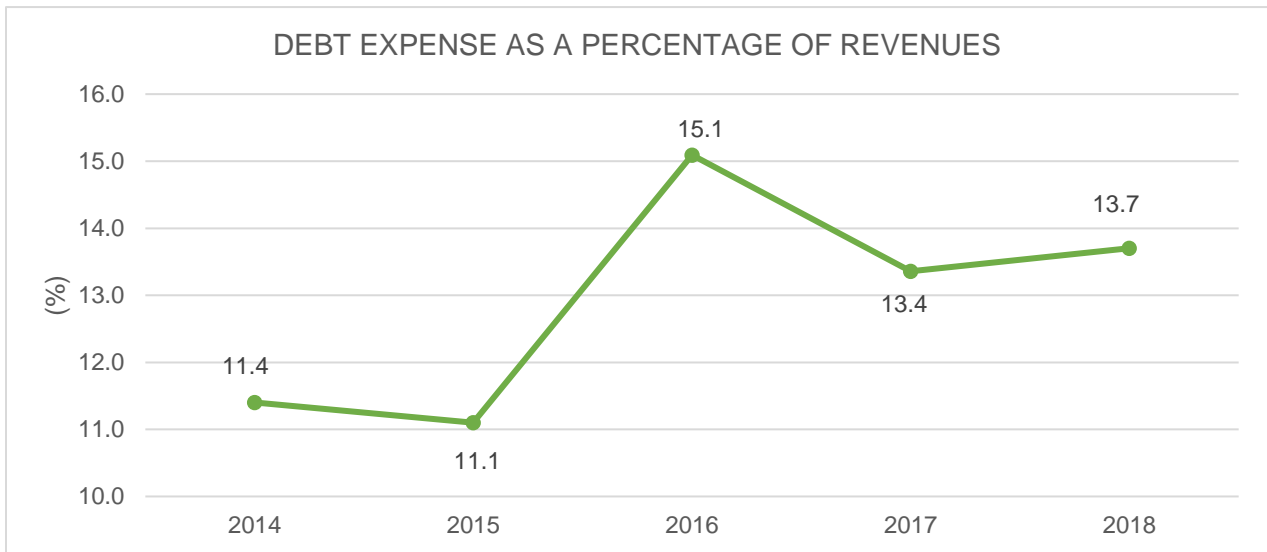
	2018 (\$mil)	2017 (\$mil)
Salaries	2,726.4	2,723.4
Retirement costs	413.9	639.0
Other benefits	170.5	216.5
Paid and annual leave	108.8	107.4
Severance	57.8	32.9
Sick leave	36.0	54.6
	<u>3,513.4</u>	<u>3,773.8</u>





**Debt Expense**

The following graph presents the percentages of revenues used to pay debt expenses for the past five years. In 2017-18, the Province spent 13.7 cents of each revenue dollar on interest (13.4 cents in 2016-17). This is a 20.2% increase over the five-year period. With an increasing ratio, there is less money available to provide core public services such as education and health care.



## Compared to Previous Year

The decrease in total expenses of \$113.9 million from 2016-17 to 2017-18 can be attributed to the following:

- Decrease of \$260.4 million in salaries and employee benefits primarily due to:
  - \$213.4 million decrease in government departments due in part to lower expenditures for retirement and other employee related costs than the previous year.
  - \$42.7 million decrease in Memorial University of Newfoundland (MUN) primarily as a result of a prior year adjustment to the MUN pension plan unamortized experience gains (losses) due to revisions of actuarial determined estimates in accordance with PS 3250 Retirement Benefits.
  - \$4.3 million net decrease in salaries and employee benefits from various departments and government entities.

This decrease was partially offset by the following increases:

- Increase of \$79.5 million in grants and subsidies largely due to the following:
  - \$34.9 million increase primarily as a result of enhancements to the seniors' benefit and HST low-income benefit.
  - \$30.2 million increase in Municipal Affairs and Environment relating to increased spending in federal/provincial infrastructure programs and the Canada/Newfoundland and Labrador Gas Tax Program.
  - \$14.4 million net increase in various other departments and government entities.
- Increase of \$41.8 million in debt expenses largely due to the following:
  - \$54.3 million increase in debt expense for MUN primarily relating to lower interest earned on pension fund assets compared to prior year.
  - \$12.5 million net decrease in various other departments and government entities.
- \$25.2 million net increase in operating, professional services, amortization and (gain) loss on sale of tangible capital assets, property, furnishings and equipment and valuation allowances (recovery).

## Compared to Original Budget

Expenses for 2017-18 totaled \$8.2 billion; resulting in a \$74.4 million increase compared the Original Budget (\$8.1 billion). The increase in expenses can be primarily attributed to the following:

- Increase of \$103.0 million in salaries and employee benefits primarily relating to:
  - \$36.9 million increase in MUN retirement costs primarily relating to revisions of actuarially determined estimates for the MUN pension plan; specifically for the unamortized experience gains (losses).
  - \$29.2 million increase in Eastern Regional Health Authority (ERHA) primarily relating to increase in severance expense for NAPE employees with 1-8 years of service and the restructuring of staff from nursing homes to the Regional Health Authorities resulting in increased salaries and employee benefits and decreased grants and subsidies expense as noted below.
  - \$26.8 million increase in government departments primarily due to higher than anticipated cost for severance and other employee related costs.
  - \$10.1 million net increase in various other departments and government entities.
- Increase of \$40.2 million in amortization and (gain)/loss on the sale of tangible capital assets largely due to revised calculations relating to the Newfoundland and Labrador English School District and work in progress assets of various government departments put in service earlier than anticipated.
- Decrease of \$92.3 million in grants and subsidies costs due to:
  - \$51.1 million decrease in Grants and Subsidies primarily due to lower than anticipated spending in various programs including the Canada/Newfoundland Gas Tax Program, Municipal Infrastructure, and delayed initiatives for the Atlantic Fisheries Fund.
  - \$31.7 million decrease in ERHA primarily relating to direct client costs as a result of changes in several client entitlements, also the restructuring of staff from nursing homes to the Regional Health Authorities resulting in decreased grants and subsidies expense and increase salaries and employee benefits expense as previously noted above.
  - \$9.5 million net decrease in various other departments and government entities.
- \$23.5 million net increase in operating, debt expense, professional services, property, furnishings and equipment and valuation allowances (recovery).

## **RISK ANALYSIS**

The Province is subject to various forms of risk inherent in the nature of certain financial statement elements and financial markets.

Exposure to risk from the use of accounting and other estimates in recording certain transactions is discussed in Note 19 – Measurement Uncertainty, of the consolidated financial statements of this publication.

Debt related risk including foreign exchange risk, interest rate risk, credit risk, and liquidity risk was discussed previously in the consolidated financial results section, page 15, of this publication.

In terms of Government Business Enterprises and Partnership risk, ALC and Nalcor Energy operate in an environment with various forms of financial risk including changes in interest rates, and fluctuation in foreign currency exchange rates and commodity prices. A combination of financial instruments and portfolio management tools and techniques are utilized to manage these risks.

With regards to the Muskrat Falls Project (MFP), as is the case with any large construction project, there are a variety of uncertainties relating to execution. There is a risk that costs can increase over original estimates and schedules can be impacted by a number of factors. Factors impacting project capital costs and schedules are closely monitored. Organizational and structural changes implemented in 2016 separated the generation and transmission elements of the project to allow for more focus on the completion of each scope of work. MFP maintains an owner controlled insurance program. Insurance is subject to coverage, limits and exclusions, as well as time sensitive claims discovery and reporting provisions. In addition, no assurance can be given that such insurance will be adequate to cover liabilities.

## **OPPORTUNITIES**

The Province is subject to various opportunities to the economic forecast that could result in positive impacts on the economy including tourism, deepwater offshore oil, mining, aquaculture and advanced technology.

- Newfoundland and Labrador has a unique tourism product that has seen steady improvements in recent years and is expected to continue in the coming years. Significant investments have been made over the past decade, including new landing system at the St. John's airport, new Marine Atlantic ferries, numerous new hotels, and an expansion of the St. John's convention Centre.
- Recent call for bids have been very successful for deepwater offshore oil, with \$2.9 billion in outstanding bids/work currently committed for the NL offshore. An acceleration in oil exploration activity will have a positive impact on the economy.
- If demand and prices for iron ore were to improve, development of iron ore projects could ramp up. There are several projects that were in early development stages and put on hold in recent years that could be reactivated.
- Heightened interest in the aquaculture development opportunities in Newfoundland and Labrador could significantly increase the Province's current aquaculture production. Our government believes that there is significant potential to more than double the number of year round jobs in aquaculture from 1,000 to 2,100 and add 500 person years of employment in the agriculture sector.

- As reflected by the success of the Federal Government's Ocean Supercluster initiative, the opportunities are limitless for our advanced technology sector, having several leading-edge technology companies that are competing globally and continuing to expand.
- The recent announcement that newsprint tariffs will not be levied on CBPP will increase confidence in the industry which in turn could have a positive impact on the provincial economy.

## **RISKS**

The Province is also subject to various risks to the economic forecast that could result in negative impacts on the economy including, oil prices, NAFTA, demographics and cost of major projects.

- Oil prices lower than assumed in the economic forecast would reduce revenues and require further fiscal actions to balance the budget.
- Impacts relating to the tentative deal reached on the North American Free Trade Agreement (NAFTA) now known as United States-Mexico-Canada Agreement (USMCA) are still to be determined.
- Rapid aging of the population is one of the most important demographic challenges confronting the Province because of its significant implications for program delivery of many public services, in particular health care.
- There is still uncertainty related to the recovery of cost overruns on the MFP and how this might impact the economy.

## **ECONOMIC OUTLOOK AND OVERVIEW**

In advance of receiving results of actual revenues collected, the Department of Finance relies on its economic and demographic forecasts, and known relationships with administrative data to estimate revenues. Some components of nominal Gross Domestic Product (GDP) such as consumer expenditure are used to forecast growth in specific tax bases. Other indicators such as household income (including earned income), consumer inflation and population are also used in the projection and estimation of certain revenues.

The following discussion provides an overview of the economic and demographic performance of Newfoundland and Labrador in 2017 as well as an outlook for 2018. It should be noted that the economic forecast discussed in this section was prepared by the Department of Finance in March 2018 and reflects the latest information available at that time. A revised economic forecast will be released by the Department of Finance in the fall of 2018 in the Fiscal and Economic Update. As a result, some estimates for 2017 presented in this discussion such as GDP and household income, and all economic data for 2018 are subject to change. It should also be noted that all data discussed in this section are reported on a calendar year basis.

## **ECONOMIC PERFORMANCE IN 2017**

The economy of Newfoundland and Labrador continued to adjust in 2017, as a result of major projects transitioning from development to production phases. In 2017, the Province's nominal GDP at market prices is estimated to have been about \$32 billion, up 4.2% from the previous year (see table of economic indicators) due primarily to a higher value of exports. Conversely, GDP, in real terms, is estimated to have declined by 3.4% as the solid growth in exports was not enough to offset the impact of lower investment.<sup>3</sup>

The value of provincial exports (in real terms) increased by 1.6% in 2017 due primarily to an increase in exports of crude oil, refined petroleum and iron ore. Oil production was 80.6 million barrels in 2017, an increase of 5.0% compared with 2016. This increase stemmed from increased extraction from Hibernia and the North Amethyst portion of White Rose, and the addition of production from Hebron. In nominal terms, the value of exports increased by 16.4%, bolstered by higher prices for crude oil and iron ore.

<sup>3</sup>It should be noted that in May 2018 Statistics Canada estimated real GDP growth (at basic prices) in 2017 of 2.1% for Newfoundland and Labrador. Estimates of real GDP at market prices by Statistics Canada for 2017 will be released in November 2018.

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**UNDERSTANDING THE FINANCIAL HEALTH OF THE PROVINCE OF NEWFOUNDLAND AND LABRADOR**


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## Economic Indicators

## Newfoundland and Labrador

	2014	2015	2016	2017e	2018f
GDP at Market Prices (\$ Millions)	34,277	30,332	31,112	32,429	32,850
% Change	-0.5	-11.5	2.6	4.2	1.3
% Change, real	-0.9	-1.7	1.9	-3.4	-0.8
Final Domestic Demand (\$ Millions)	35,711	36,513	38,901	35,631	35,110
% Change	3.1	2.2	6.5	-8.4	-1.5
% Change, real	1.1	0.5	3.6	-9.3	-2.9
Consumer Price Index (2002=100)	128.4	129.0	132.5	135.7	138.4
% Change	1.9	0.5	2.7	2.4	2.0
Household Income (\$ Millions)	24,375	25,290	25,883	26,368	26,540
% Change	3.6	3.8	2.3	1.9	0.7
% Change, real	1.7	3.3	-0.4	-0.5	-1.3
Household Disposable Income (\$ Millions)	16,543	17,017	17,267	17,586	17,712
% Change	3.2	2.9	1.5	1.8	0.7
% Change, real	1.3	2.4	-1.2	-0.6	-1.3
Retail Sales (\$ Millions)	8,919	8,972	9,011	9,227	9,293
% Change	3.6	0.6	0.4	2.4	0.7
% Change, real	1.7	0.8	-1.7	1.1	-0.5
Capital Investment (\$ Millions)	12,035	12,325	14,200	10,699	9,703
% Change	4.1	2.4	15.2	-24.7	-9.3
% Change, real	1.8	-0.9	9.6	-25.4	-10.8
Housing Starts (Units)	2,119	1,697	1,398	1,400	1,259
% Change	-26.0	-19.9	-17.6	0.1	-10.1
Employment ('000s)	238.6	236.2	232.6	224.1	221.9
% Change	-1.7	-1.0	-1.5	-3.7	-1.0
Labour Force ('000s)	270.9	270.8	268.7	262.9	260.6
% Change	-1.3	0.0	-0.8	-2.2	-0.9
Unemployment Rate (%)	11.9	12.8	13.4	14.8	14.8
Population ('000s)	528.4	528.8	530.3	528.8	525.9
% Change	0.2	0.1	0.3	-0.3	-0.6

Final domestic demand measures demand in the local economy by summing consumption, investment and government expenditures; it excludes net exports.

e: estimate for some indicators; f: forecast, Department of Finance, March 2018

Source: Statistics Canada; Department of Finance

Capital investment totalled approximately \$10.7 billion in 2017, a decrease of 24.7% compared to 2016 due mainly to lower spending on the Hebron oil project. Total residential spending (including renovations) was \$1.2 billion for 2017, down by 6.3% compared with the previous year. Expenditures declined for single-detached housing, however, increased for multiple housing, indicating a compositional shift in housing types as homebuilders target buyers looking for more affordable homes. Housing starts totalled 1,400 units in 2017, on par with the previous year.

Consumer spending growth was moderate in 2017. The value of retail sales increased by 2.4% compared to 2016.

Growth in the Consumer Price Index (CPI), or inflation, averaged 2.4% in 2017. Higher gasoline and fuel oil prices exerted upward pressure on the CPI. Lower food prices moderated the increase in the total CPI.

Most labour market indicators demonstrated weakness in 2017. Employment averaged 224,100, down 3.7% compared to 2016, and the unemployment rate increased by 1.4 percentage points to average 14.8%. The Province's labour force participation rate averaged 59.0% in 2017, down 1.5 percentage points from 2016.

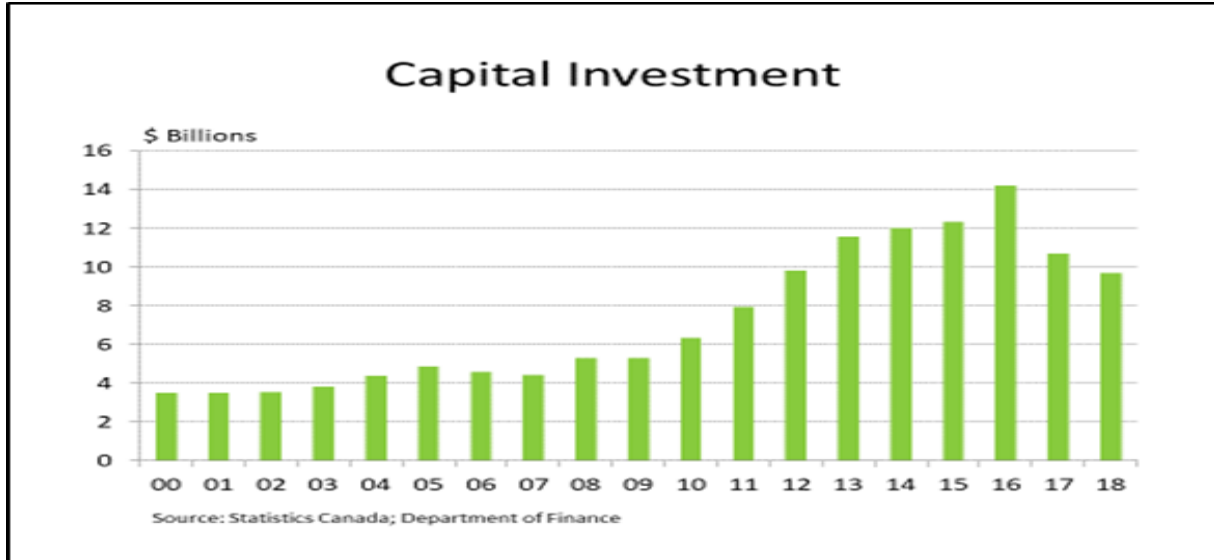
While employment declined in 2017, wages continued to increase. Average weekly earnings were \$1,035 in 2017, up 1.7% compared to 2016. As a result of higher wages, total compensation of employees increased by 1.2% to \$15.3 billion. Total household income increased by 1.9% to \$26.4 billion as increases in government transfers such as old age security posted stronger growth than employee compensation.

Preliminary estimates indicate that the population of Newfoundland and Labrador stood at 528,817 as of July 1, 2017, a decrease of 0.3% (or 1,488 persons) compared to July 1, 2016. The population decline was the result of both net migration and natural change. Net migration reduced the population by 619 persons. Natural population further reduced the population by 869 as there were more deaths than births in the Province. Natural population change has been negative for several years, reflecting the aging population and a relatively low fertility rate. The median age of the Province increased from 45.3 years in 2016 to 45.7 years in 2017 and remains the highest in the country.

## **Economic Outlook**

The economic outlook for Newfoundland and Labrador remains challenging in the short to medium term. According to the March 2018 forecast, nominal GDP is expected to grow by 1.3% in 2018, however, real GDP is expected to decline by 0.8%. The largest impact on the economy in 2018 will come from a decline in capital investment as Hebron has progressed to the production stage and the Muskrat Falls project is moving closer to completion. Capital investment is expected to decrease by 9.3% (see chart).





The winding down of these projects will also result in a decline in employment and income which is expected to constrain consumption and housing starts. In the March 2018 forecast, employment was projected to decline by 1.0% in 2018. During the first seven months of the year, employment averaged 0.4% below the same period in 2017. In 2018, the Province's population is expected to decline 0.6% from 2017 reflecting, in part, fewer employment opportunities.

Despite the challenges over the next few years, the Province has considerable long-term potential, particularly in the energy sector but in areas such as the tourism sector as well. Significant exploration programs have been announced by oil companies over the next 10 years demonstrating considerable commitment to the offshore area. Oil exploration and development hold significant opportunities for the provincial economy.

## Risks and Adjustments

Although these economic indicators for 2017 and 2018 form the basis for the final revenues presented in the 2017-18 Public Accounts, they are still projections and are subject to change. Further economic and administrative data relating to 2017 and 2018 are expected in the future. New data may result in adjusted revenues in respect to the taxation years reported in this document. Such differences will be reflected in subsequent fiscal years as prior year adjustments. As a result, differences may arise between estimated and actual revenues reported in these Public Accounts.

## **GLOSSARY OF TERMS**

To assist in understanding the discussion and analysis to follow in this report, definitions of the various terms used are provided below:

<i>Accrual Basis:</i>	A method of accounting whereby revenues are recorded when earned and expenses are recorded when liabilities are incurred.
<i>Accumulated Deficit:</i>	Liabilities less total assets. This equals the net accumulation of all annual surpluses and deficits experienced by the Province.
<i>Annual Surplus/ (Deficit):</i>	The excess of annual revenues (expenses) over annual expense (revenues).
<i>Original budgetary Contribution/ (Requirement):</i>	The difference between revenues and expenditure cash flows of the Consolidated Revenue Fund generated as a result of the operations of government departments during the year.
<i>Cash Basis:</i>	A method of accounting whereby revenues are recorded when received and expenditures are recorded when paid.
<i>Deferred Revenue:</i>	Represents funding received in advance of revenue recognition criteria being met.
<i>Financial Assets:</i>	Assets (such as cash, receivables and investments) to be used to reduce existing or future liabilities.
<i>GDP:</i>	Gross Domestic Product (at market prices) of the Province.
<i>Interest Cost:</i>	Interest on the Province's debt (e.g. borrowings, unfunded pension liability), as well as, other debt related expenses.
<i>Net Borrowings:</i>	Total borrowings (debentures, treasury bills, etc.) less sinking funds. Also referred to as provincial debt in this report.
<i>Net Debt:</i>	Liabilities less financial assets.

<i>Non-Financial Assets:</i>	Assets consumed in the delivery of government services, but not intended to reduce existing or future liabilities. Non-financial assets are primarily comprised of tangible capital assets.
Tangible Capital Assets:	Non-financial assets which are held for use in the production or supply of goods and services and have useful economic lives extending beyond an accounting period. Examples include buildings, roads, infrastructure, marine vessels, heavy equipment and machinery.
Unfunded Pension Liability:	The total unpaid pension benefits earned by existing/former employees and retirees less the value of assets set aside to fund the benefits. Also included is the outstanding balance of the promissory notes as issued from the pension reform.



# **Province of Newfoundland and Labrador**

## **Consolidated Summary Financial Statements**

**For The Year Ended  
31 March 2018**

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3 October 2018

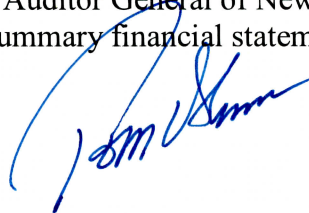
## STATEMENT OF RESPONSIBILITY

Responsibility for the integrity, objectivity and fair presentation of the consolidated summary financial statements of the Province of Newfoundland and Labrador rests with the Government. As required under Section 59 of the *Financial Administration Act*, these consolidated summary financial statements are prepared by the Comptroller General of Finance in accordance with the applicable legislation and in accordance with the accounting policies as disclosed in Note 1 to these consolidated summary financial statements. These consolidated summary financial statements are prepared based upon information provided by the various Government departments and the noted Crown corporations, boards and authorities pursuant to Section 19 of the *Transparency and Accountability Act* and Section 20 of the *Financial Administration Act*.

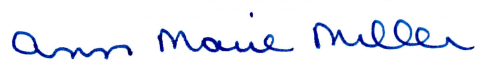
The Government is responsible for maintaining a system of internal accounting and administrative controls in order to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained.

The consolidated summary financial statements in this volume include a Consolidated Statement of Financial Position, a Consolidated Statement of Change in Net Debt, a Consolidated Statement of Operations, a Consolidated Statement of Change in Accumulated Deficit, a Consolidated Statement of Cash Flows and notes. Other schedules and notes that are included also form an integral part of these statements.

Pursuant to Section 11 of the *Auditor General Act*, the Auditor General of Newfoundland and Labrador provides an independent opinion on the consolidated summary financial statements.



TOM OSBORNE  
Minister of Finance and  
President of Treasury Board



ANN MARIE MILLER, CPA, CMA  
Comptroller General of Finance

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**AUDITOR  
GENERAL**  
of Newfoundland and Labrador

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**INDEPENDENT AUDITOR'S REPORT**

To the House of Assembly  
Province of Newfoundland and Labrador

**Report on the Consolidated Summary Financial Statements**

I have audited the accompanying Consolidated Summary Financial Statements of the Province of Newfoundland and Labrador, which comprise the consolidated statement of financial position as at March 31, 2018, and the consolidated statements of change in net debt, operations, change in accumulated deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Government's Responsibility for the Consolidated Summary Financial Statements*

Government is responsible for the preparation and fair presentation of these Consolidated Summary Financial Statements in accordance with Canadian public sector accounting standards, and for such internal control as Government determines is necessary to enable the preparation of Consolidated Summary Financial Statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

My responsibility is to express an opinion on these Consolidated Summary Financial Statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Consolidated Summary Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Summary Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Summary Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Consolidated Summary Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Government, as well as evaluating the overall presentation of the Consolidated Summary Financial Statements.



## INDEPENDENT AUDITOR'S REPORT (cont.)

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### *Opinion*

In my opinion, the Consolidated Summary Financial Statements present fairly, in all material respects, the consolidated financial position of the Province as at March 31, 2018, and the consolidated results of its operations, the change in its net debt, the change in its accumulated deficit and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### *Report on Other Legal and Regulatory Requirements*

As required under Section 11 of the *Auditor General Act*, I also report that in my opinion, these Consolidated Summary Financial Statements present fairly, in all material respects, the consolidated financial position of the Province as at March 31, 2018, and the consolidated results of its operations, the change in its net debt, the change in its accumulated deficit, and its cash flows for the year then ended in accordance with the accounting policies as disclosed in Note 1 to these Consolidated Summary Financial Statements applied on a basis consistent with that of the preceding year except as described in Note 1(e) of the Consolidated Summary Financial Statements for the adoption of new accounting standards.



**JULIA MULLALEY, CPA, CA**  
**Auditor General**

October 4, 2018  
St. John's, Newfoundland and Labrador

# PROVINCE OF NEWFOUNDLAND AND LABRADOR

## Consolidated Statement of Financial Position As at 31 March 2018 with comparative figures for 2017

	Actuals 2018 (\$000)	Actuals 2017 (\$000)
<b>FINANCIAL ASSETS</b>		
	1,752,858	2,048,660
Sch. 1	563,781	455,078
	4,531	4,426
Sch. 2	396,909	576,969
Sch. 3	5,140,588	4,563,502
	<u>7,858,667</u>	<u>7,648,635</u>
<b>LIABILITIES</b>		
Sch. 5	2,968,467	2,889,447
	168,523	179,562
Sch. 6	11,687,763	10,642,935
	(182,231)	(227,911)
	<u>11,505,532</u>	<u>10,415,024</u>
	2,937,396	2,854,068
	609,946	502,708
	4,342,519	4,405,632
	<u>4,952,465</u>	<u>4,908,340</u>
	<u>22,532,383</u>	<u>21,246,441</u>
<b>NET DEBT</b>		
	<u>14,673,716</u>	<u>13,597,806</u>
<b>NON-FINANCIAL ASSETS</b>		
Sch. 10	4,393,073	4,310,185
	40,588	38,455
	59,365	57,317
	<u>4,493,026</u>	<u>4,405,957</u>
<b>ACCUMULATED DEFICIT</b>		
	<u>10,180,690</u>	<u>9,191,849</u>
Sch. 7		
Sch. 9		

The accompanying notes and supporting schedules form an integral part of the financial statements.

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Consolidated Statement of Change in Net Debt For the year ended 31 March 2018 with comparative figures for 2017

	Actuals 2018 (\$000)	Original Budget 2018 (Note 21) (\$000)	Actuals 2017 (\$000)
<b>NET DEBT - beginning of period</b>	13,597,806	14,251,453	12,504,053
Add (Deduct):			
Adjustments - note 14			
Government organization changes	679	-	(22,932)
<b>ADJUSTED NET DEBT - beginning of period</b>	<u>13,598,485</u>	<u>14,251,453</u>	<u>12,481,121</u>
<b>Surplus (Deficit) for the period</b>	<u>(910,750)</u>	<u>(777,551)</u>	<u>(1,147,772)</u>
<b>Changes in tangible capital assets</b>			
Acquisition of tangible capital assets	400,856	479,408	272,806
Net book value of tangible capital asset disposals/adjustments	(3,889)	-	122
Amortization of tangible capital assets	<u>(314,079)</u>	<u>(274,543)</u>	<u>(301,041)</u>
<b>Increase (Decrease) in net book value of tangible capital assets</b>	<u>82,888</u>	<u>204,865</u>	<u>(28,113)</u>
<b>Changes in other non-financial assets</b>			
Acquisition of prepaid and deferred charges (net of usage)	2,133	-	(5,700)
Acquisition of inventories of supplies (net of consumption)	<u>2,048</u>	<u>-</u>	<u>349</u>
<b>Increase (Decrease) in other non-financial assets</b>	<u>4,181</u>	<u>-</u>	<u>(5,351)</u>
<b>Changes in net debt from operations</b>			
Sch. 3 Other comprehensive (income) loss	<u>77,412</u>	<u>-</u>	<u>2,377</u>
<b>Increase (Decrease) from operations</b>	<u>77,412</u>	<u>-</u>	<u>2,377</u>
<b>Increase (Decrease) in net debt</b>	<u>1,075,231</u>	<u>982,416</u>	<u>1,116,685</u>
<b>NET DEBT - end of period</b>	<u><u>14,673,716</u></u>	<u><u>15,233,869</u></u>	<u><u>13,597,806</u></u>

The accompanying notes and supporting schedules form an integral part of the financial statements.

# PROVINCE OF NEWFOUNDLAND AND LABRADOR

## Consolidated Statement of Operations For the year ended 31 March 2018 with comparative figures for 2017

	Actuals 2018 (\$000)	Original Budget 2018 (Note 21) (\$000)	Actuals 2017 (Note 18) (\$000)
<b>REVENUE</b>			
Sch. 11 Provincial			
Sch. 11 Taxation	3,767,084	3,924,589	3,728,246
Sch. 11 Investment	103,890	72,622	89,644
Sch. 11 Fees and fines	364,312	356,304	371,379
Sch. 11 Offshore royalties	943,946	881,682	982,693
Sch. 11 Miscellaneous	543,276	406,451	429,910
Sch. 11 Federal	<u>1,184,240</u>	<u>1,256,250</u>	<u>1,103,948</u>
	6,906,748	6,897,898	6,705,820
Sch. 4 Net income of government business enterprises and partnership	<u>373,397</u>	<u>441,047</u>	<u>451,246</u>
<b>Total Revenue</b>	<u>7,280,145</u>	<u>7,338,945</u>	<u>7,157,066</u>
<b>EXPENSE</b>			
Sch. 12 General Government Sector and Legislative Branch	1,869,188	1,881,392	2,094,002
Sch. 12 Resource Sector	1,506,129	1,426,006	1,412,010
Sch. 12 Social Sector	<u>4,815,578</u>	<u>4,809,098</u>	<u>4,798,826</u>
Sch. 13 <b>Total Expense</b>	<u>8,190,895</u>	<u>8,116,496</u>	<u>8,304,838</u>
<b>ANNUAL SURPLUS (DEFICIT)</b>	<u>(910,750)</u>	<u>(777,551)</u>	<u>(1,147,772)</u>

The accompanying notes and supporting schedules form an integral part of the financial statements.

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Consolidated Statement of Change in Accumulated Deficit For the year ended 31 March 2018 with comparative figures for 2017

	<u>Actuals</u> 2018 (\$000)	<u>Original</u> <u>Budget</u> 2018 (Note 21) (\$000)	<u>Actuals</u> 2017 (\$000)
<b>ACCUMULATED DEFICIT - beginning of period</b>	9,191,849		8,064,632
Add (Deduct):			
Adjustments - note 14			
Government organization changes	<u>679</u>		<u>(22,932)</u>
<b>ADJUSTED ACCUMULATED DEFICIT - beginning of period</b>	9,192,528		8,041,700
<b>Surplus (Deficit) for the period</b>	(910,750)	(777,551)	(1,147,772)
Sch. 3 <b>Other comprehensive (income) loss</b>	<u>77,412</u>		<u>2,377</u>
<b>ACCUMULATED DEFICIT - end of period</b>	<u><u>10,180,690</u></u>		<u><u>9,191,849</u></u>

The accompanying notes and supporting schedules form an integral part of the financial statements.

# PROVINCE OF NEWFOUNDLAND AND LABRADOR

## Consolidated Statement of Cash Flows For the year ended 31 March 2018 with comparative figures for 2017

	Actuals 2018 (\$000)	Actuals 2017 (\$000)
<b>Funds provided from (applied to):</b>		
<b>OPERATIONS</b>		
Annual surplus (deficit)	(910,750)	(1,147,772)
Add (Deduct) non-cash items:		
Accounts receivable	(116,959)	177,154
Accounts payable	79,020	105,000
Amortization of foreign exchange (gains)/losses, premiums, discounts and issuance fees	19,153	(48,014)
Amortization of tangible capital assets	314,079	301,041
Retirement costs	194,404	396,311
Valuation allowances	16,932	18,079
Unremitted net income of government business enterprises and partnership	(63,313)	(118,053)
Sinking fund earnings	(57,393)	(56,048)
Deferred revenue	(11,039)	32,587
Other	(30,192)	(6,931)
Special purpose funds/contractors' holdback funds	32,544	119
<b>Net cash provided from (applied to) operating transactions</b>	<b>(533,514)</b>	<b>(346,527)</b>
<b>CAPITAL</b>		
Acquisitions	(400,856)	(272,806)
Disposals	3,889	1,840
<b>Net cash provided from (applied to) capital transactions</b>	<b>(396,967)</b>	<b>(270,966)</b>
<b>FINANCING</b>		
Debt issued	1,196,765	2,925,909
Debt retirement	(20,728)	(22,279)
Retirement of pension liabilities	(3,757)	(2,907)
Retirement of promissory note	(63,113)	(59,541)
Sinking fund contributions	(45,134)	(45,108)
Treasury bills purchased	3,910,365	3,055,315
Treasury bills redeemed	(3,911,770)	(4,368,954)
<b>Net cash provided from (applied to) financing transactions</b>	<b>1,062,628</b>	<b>1,482,435</b>
<b>INVESTING</b>		
Loan repayments	237,010	23,639
Loan advances	(35,470)	(249,253)
Investments	(39,604)	1,506
Investment in government business enterprises	(589,885)	(836,002)
<b>Net cash provided from (applied to) investing transactions</b>	<b>(427,949)</b>	<b>(1,060,110)</b>
<b>Net cash provided (applied)</b>	<b>(295,802)</b>	<b>(195,168)</b>
Cash and temporary investments - beginning of period	2,048,660	2,243,828
<b>CASH AND TEMPORARY INVESTMENTS - end of period - note 2</b>	<b>1,752,858</b>	<b>2,048,660</b>

The accompanying notes and supporting schedules form an integral part of the financial statements.

**SUMMARY FINANCIAL STATEMENTS****PROVINCE OF NEWFOUNDLAND AND LABRADOR****Notes to the Consolidated Financial Statements  
For the year ended 31 March 2018****1. Summary of Significant Accounting Policies****(a) The Reporting Entity**

The Reporting Entity includes the accounts and financial activities of organizations, as approved by Treasury Board, which are controlled by Government. These organizations are accountable for the administration of their financial affairs and resources either to a Minister of the Government or directly to the Legislature.

A listing of organizations included in these financial statements is provided in Schedule 15 - Government Reporting Entity.

**(b) Method of Consolidation**

The accounts of government organizations, except those designated as government business enterprises and government business partnership, are consolidated after adjusting them to a basis consistent with the accounting policies described below. Inter-organizational transactions and balances are eliminated.

Government business enterprises are organizations, included in the reporting entity, that have the financial and operating authority to carry on a business and sell goods and services to individuals and non-government organizations as its principal activity and source of revenue.

A government partnership exists when the Government has entered into a contractual arrangement with one or more partners outside the government reporting entity where these partners cooperate to achieve clearly defined common goals and share on an equitable basis, the significant risks and benefits associated with operating a government partnership.

A government business partnership is a government partnership that has the financial and operating authority to carry on a business and sell goods and services to individuals and organizations other than the partners as its principal activity and source of revenue.

Government business enterprises and government business partnerships are recorded on the modified equity method. Under this method, the Government's proportionate share of equity in these organizations are adjusted annually to reflect the net income/loss and other net equity changes of the organizations without adjusting the organization's financial statements to conform with the accounting policies described below. Inter-organizational transactions and balances are not eliminated.

Adjustments are not made to the financial results of government organizations because of fiscal year-ends different than that used for the consolidated entity, unless it would have a significant impact on the consolidated operating results.

**(c) Basis of Accounting****(i) Method**

These financial statements are prepared on the accrual basis of accounting, revenues being recorded when earned and expenses being recorded when liabilities are incurred, with exceptions made in accordance with the applicable significant accounting policies.

## SUMMARY FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(ii) *Revenues*

Revenues from the Government of Canada under the federal-provincial fiscal arrangements, health and social transfers and tax collection agreements are based on regular entitlements received for the current year and adjusted against future years' revenues when known. Government transfers are recognized as revenue in the period during which the transfer is authorized and all eligibility criteria are met, except when and to the extent that the transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers meeting the definition of a liability are recorded as deferred revenue and are recognized as revenue when the funds are used as intended.

Revenues from provincial tax sources are accrued in the year earned based upon estimates using statistical models and prior year actuals. Tax revenues are recorded at the amount estimated, after considering certain adjustments for non-refundable tax credits and other adjustments from the federal government. Refundable tax credits are not recognized as a reduction of tax revenues. Tax revenues are recorded net of any tax concessions or expenditures that reduce the amount of tax payable. Transfers made through the tax system that do not affect the amount of tax payable are recorded as expenses.

Other revenues are recorded on an accrual basis.

(iii) *Expenses*

Expenses are recorded on an accrual basis.

Retirement related costs are determined as the cost of benefits and interest on the liabilities accrued, as well as amortization of experience gains and losses.

(iv) *Assets*

Cash and temporary investments represent the cash position including bank balances and short-term, highly liquid investments that are readily convertible to known amounts of cash. Temporary investments are recorded at cost or market value, whichever is lower.

Accounts receivable are recorded for all amounts due for work performed and goods or services supplied. Taxes receivable are recorded for all amounts due for levies that are authorized and for which the taxable event has occurred. Valuation allowances are provided when collection is considered doubtful.

Inventories held for resale are recorded at the lower of cost or net realizable value.

Inventories of supplies are comprised of items which are held for consumption that will be used by the Province in the course of its operations.

Loans, advances and mortgages receivable are recorded at cost, less any concessionary terms. Concessionary terms represent the difference between the face value and the present value of the loan and are accounted as expenses on the Statement of Operations. Valuation allowances are recorded to reflect assets at the lower of cost or net recoverable value. Loans made by the Province that are expected to be recovered from future appropriations are accounted for as expenses by providing valuation allowances. Interest revenue on loans receivable is recognized when earned and ceases when collection is not reasonably assured.

Investments are recorded at cost, less any concessionary terms. Concessionary terms represent the difference between the face value and the present value of the investment and are accounted as expenses on the Statement of Operations. Investments are written down when there is a loss in value that is other than a temporary decline.



## SUMMARY FINANCIAL STATEMENTS

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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Equity in government business enterprises and government business partnerships represents the net assets of government business enterprises and government business partnerships recorded on the modified equity basis as described under note 1(b).

Unrealized foreign exchange gains or losses are deferred and amortized on a straight line basis over the remaining term of the debt.

Tangible capital assets held by the Province are recorded at cost or estimated cost less accumulated amortization.

(v) *Liabilities*

Payables, accrued and other liabilities are recorded for all amounts due for work performed, goods or services received or for charges incurred in accordance with the terms of a contract.

A liability for remediation of contaminated sites is recognized when an environmental standard exists, contamination exceeds the environmental standard, the government is directly responsible or accepts responsibility, it is expected that future economic benefits will be given up and a reasonable estimate of the amount can be made. An obligation is not recognized unless all criteria above are satisfied.

Deferred revenue represents amounts received but not earned.

Borrowings, except treasury bills, are recorded at face value and are reported net of sinking funds. Treasury bills are recorded at net proceeds. The Province records foreign-denominated debt in Canadian dollars translated at the exchange rate on the transaction date which is considered to be the issue date; except for the proceeds of hedged transactions which are recorded at the rate as established by the terms of that hedge. Foreign-denominated sinking fund assets are also recorded in Canadian dollars and transactions are translated at the exchange rate used in recording the related debt. At 31 March, foreign debt and sinking funds are adjusted to reflect the exchange rate in effect on that date. Premiums and Discounts relating to the issuance of debentures as well as issuance fees are deferred and amortized over the term of the related debt. Amortization and realized foreign exchange gains and losses, premiums and discounts and issuance fees are charged to debt expense.

(vi) *Government Transfers*

Government transfers are recognized by the Province as revenues or expenses in the period during which both the payment is authorized and any eligibility criteria and stipulations are met. The recognition of transfer revenues is only deferred when and to the extent that the transfer gives rise to an obligation that meets the definition of a liability. Receivables are established for transfers to which the Province is entitled under government legislation, regulation or agreement. Liabilities are established for any transfers due at 31 March for which the intended recipients have met the eligibility criteria and the transfer is authorized.

(vii) *Loan Guarantees*

The Province has guaranteed the repayment of principal and interest on certain debentures and bank loans on behalf of Crown corporations, municipalities, private sector companies and certain individuals. A provision for losses on these guarantees is established when it is determined that a loss is likely.

## SUMMARY FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### (d) Generally Accepted Accounting Principles

The accounting policies followed in the preparation of these financial statements have been applied consistently with generally accepted accounting principles for senior governments as established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada.

#### (e) Changes in Accounting Policies

The Province has prospectively adopted new accounting policies as a result of updates to the Public Sector Accounting Standards, effective 1 April 2017, as follows:

##### (i) *Related Party Disclosures*

The Province has adopted a new standard defining related parties and establishing disclosure requirements for related party transactions. This standard provides general guidance on note disclosure and as such has no impact on the annual deficit, net debt and accumulated deficit. See note 15 – Related Party Disclosures for further details.

##### (ii) *Assets*

The Province has adopted a new standard providing guidance for applying the definition of assets and establishing general disclosure requirements for assets. This implementation of this standard has no impact on the annual deficit, net debt and accumulated deficit.

##### (iii) *Contingent Assets*

The Province has adopted a new standard defining and establishing disclosure requirements for contingent assets. This standard provides general guidance on note disclosure and as such has no impact on the annual deficit, net debt and accumulated deficit. See note 17 – Contingent Assets for further details.

##### (iv) *Contractual Rights*

The Province has adopted a new standard defining and establishing disclosure requirements for contractual rights. This standard provides general guidance on note disclosure and as such has no impact on the annual deficit, net debt and accumulated deficit. See note 16 – Contractual Rights for further details.

##### (v) *Inter-entity Transactions*

The Province has adopted a new standard on how to account for and report transactions with public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. This standard provides general guidance on note disclosure and as such has no impact on the annual deficit, net debt and accumulated deficit.

#### (f) Future Changes in Accounting Policies

There are several new standards and amendments to standards issued by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada that are not yet effective and have not been applied in these financial statements. These standards and corresponding effective dates are as follows:

## SUMMARY FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Effective 1 April 2018:

*PS 3430 Restructuring Transactions* – a new standard on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities.

Effective 1 April 2021:

*PS 3450 Financial Instruments* – a new standard establishing guidance on how to account for and report all types of financial instruments including derivatives.

*PS 2601 Foreign Currency Translation* – replaces *PS 2600* with revised standards on how to account for and report transactions that are denominated in a foreign currency.

*PS 1201 Financial Statement Presentation* – effective in the period *PS 2601* and *PS 3450* are adopted, replaces *PS 1200* with revised general reporting principles and standards for disclosure of information.

*PS 3041 Portfolio Investments* – effective in the period *PS 1201*, *PS 2601* and *PS 3450* are adopted, replaces *PS 3040* with revised standards on how to account for and report portfolio investments.

*PS 3280 Asset Retirement Obligations* – replaces *PS 3270 Solid Waste Landfill Closure and Post-Closure Liability*, with revised guidance on how to account for and report the legal obligations associated with the retirement of tangible capital assets.

These new and amended standards are planned to be adopted on the effective dates. The Province is currently analyzing the impact these standards will have on the financial statements.

## 2. Cash and Temporary Investments

Cash and temporary investments consist of:

	31 March 2018 (\$mil)	31 March 2017 (\$mil)
Cash and temporary investments – Consolidated Revenue Fund (CRF):		
Cash balance (overdraft)	1,333.7	1,606.2
Temporary investments	-	-
Total cash and temporary investments – CRF	1,333.7	1,606.2
Cash and temporary investments – Other Entities:		
Cash balance (overdraft)	271.8	328.5
Temporary investments	147.4	114.0
Total cash and temporary investments – Other Entities	419.2	442.5
Total: Cash and Temporary Investments (CRF and Other Entities)	1,752.9	2,048.7

Temporary investments consist of investments with financial institutions. As at 31 March 2018, these investments are on call or have maturity dates ranging from 11 April 2018 to 30 June 2020 at interest rates which vary from 1.00% to 7.00%.

## SUMMARY FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 3. Inventories

Inventories consist of:

	31 March 2018	31 March 2017
	(\$mil)	(\$mil)
Inventories Held for Resale		
University and college textbooks, stockroom and food supplies	3.0	3.0
Other miscellaneous inventories	1.5	1.4
Total: Inventories Held for Resale	4.5	4.4
 Inventories of Supplies		
Textbooks and stockroom supplies held within the CRF	32.1	31.8
Medical and drug supplies held by health sector entities	25.8	23.9
Other miscellaneous supplies	1.5	1.6
Total: Inventories of Supplies	59.4	57.3

#### 4. Deferred Revenue

Deferred revenue consists of:

	31 March 2018	31 March 2017	Change
	(\$mil)	(\$mil)	(\$mil)
Entities in the education sector relating to the provision of various educational services including contract training and special projects	114.9	108.1	6.8
Federal-Provincial initiatives in support of housing and home repair programs	21.6	31.7	(10.1)
Gas tax initiatives	19.6	29.9	(10.3)
Entities in the health sector relating to the provision of various health care services including research and other contracts	4.3	5.4	(1.1)
Federal initiatives in support of early learning and child care	3.8	-	3.8
Other miscellaneous programs including recycling programs, social and economic development and cultural heritage	4.3	4.5	(0.2)
Total: Deferred Revenue	168.5	179.6	(11.1)

The balance as of 31 March 2018 will be recognized as revenue in the periods in which the revenue recognition criteria have been met.

## SUMMARY FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 5. Unamortized Unrealized Foreign Exchange Gains and Losses and Unamortized Premiums (Discounts) and Issuance Fees

Foreign currency debt and sinking funds are translated to Canadian dollars at the exchange rate at 31 March 2018 or the exchange rate at maturity for those debt and sinking funds retired during the fiscal year. Premiums (discounts) and issuance fees relating to the issuance of debentures are deferred and amortized over the term of the related debt. See Schedule 6 - Borrowings. Details of the effect of these translations at year end are outlined in the table below.

The net amortization expense on foreign exchange is \$16.7 million which represents a debit adjustment (31 March 2017 - \$13.1 million-debit adjustment). The net amortization expense on premiums (discounts) and issuance fees is \$2.5 million which represents a debit adjustment (31 March 2017 - \$61.2 million-credit adjustment).

	31 March 2018	31 March 2017
	(\$mil)	(\$mil)
Foreign exchange gain (loss):		
Debt	(82.2)	(124.8)
Sinking funds	35.7	51.8
Net	(46.5)	(73.0)
Accumulated amortization on foreign exchange	13.7	(3.0)
Net unamortized unrealized foreign exchange gains (losses)	(32.8)	(76.0)
Unamortized premiums (discounts) and issuance fees	(149.4)	(151.9)
Total unamortized unrealized foreign exchange gains (losses), premiums (discounts) and issuance fees	(182.2)	(227.9)

#### 6. Retirement Benefits - Group Health and Life Insurance

All retired employees of the Government of Newfoundland and Labrador who are receiving a pension from the Uniformed Services Pension Plan, Members of the House of Assembly Pension Plan or the Provincial Court Judges' Pension Plan are eligible to participate in the group insurance program sponsored by Government, including their spouses and dependents. All retired employees of the Government of Newfoundland and Labrador who (i) retired under the Public Service Pension Plan (PSPP) prior to 01 January 2015 or (ii) retire under the PSPP after 31 December 2014 and meet the eligibility criteria outlined below are eligible to participate in the group insurance program sponsored by Government. All retired teachers who are receiving a pension from the Teachers' Pension Plan are eligible for coverage under the group insurance program sponsored by the Newfoundland and Labrador Teachers Association (NLTA) and cost shared by Government. All retired employees of the Newfoundland and Labrador Housing Corporation (NLHC) are eligible to participate in the group insurance plans sponsored by NLHC. All retired employees of Memorial University of Newfoundland (MUN) who are receiving a pension from the Memorial University Pension Plan or another retirement benefit to which MUN contributed are eligible to participate in the group insurance plans, including dental benefits, sponsored by MUN. These programs provide both group health and group life benefits to enrolled retirees.

Following proclamation of the *Other Post-Employment Benefits Eligibility Modification Act* (OPEB Act) on 01 January 2015 new criteria related to the eligibility for post-employment group health and group life insurance benefits (i.e., OPEBs) were established for PSPP members. Effective 01 January 2015, new employees and those who do not meet the eligibility criteria applicable during the five year transitional period under the OPEB Act will require 10 years of pensionable service instead of five and must immediately retire under the PSPP upon termination of employment to be eligible for OPEBs. During the five year transitional period certain employees

## SUMMARY FINANCIAL STATEMENTS

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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and deferred pensioners, as defined in the OPEB Act, may be eligible for OPEBs in accordance with the OPEB Act.

Subsequent to year end, the Province introduced amendments to the OPEB Act, which sets out new rules for benefits applying to employees who are covered under the *Public Service Pensions Act, 1991* hired on and after 1 June 2018. See note 20 – Subsequent Events for further details. These amendments are currently effective for NAPE employees hired on or after 31 March 2018.

Under the plans sponsored by the Province, NLTA and NLHC, the employer contributes 50% towards group health and group life premiums for both employees and eligible retirees. Plans sponsored by the NLTA are subject to the maximum rates under the NLTA's program. NLHC contributes 100% of the retirees' group life premiums after age 65 up to a maximum coverage of \$10,000. For plans sponsored by MUN, the employer also contributes 50% of the total premium charged towards the benefits of both employees and retirees, with the exception of certain retirees whose health benefits are fully funded by MUN. Group life benefits cease at age 72 for MUN retirees and at age 65 for the Province and NLTA retirees. As at 31 March 2018, the plans have 69,030 participants who contributed total contributions of \$71.3 million. The total of all the plans provided benefits of \$36.1 million to 35,749 retirees, their spouses and dependents.

#### **Actuarial Valuations**

An actuarial extrapolation was prepared to 31 March 2018 by the Province's actuaries based on the latest actuarial valuations (Public Service valuation date of 31 December 2017 and Teachers' valuation date of 31 August 2015) for the programs sponsored by the Province and the NLTA. The actuarial extrapolation was based on a number of assumptions about future events including an interest rate of 3.30%, Consumer Price Index (CPI) of 2.25%, as well as other assumptions such as health care cost trends, wage and salary increases, termination rates, plan participation rates, utilization rates and mortality rates. The assumptions used reflect the Province's best estimates of expected long-term rates and short-term forecasts.

An actuarial valuation was prepared to 31 March 2018 by NLHC's actuaries for the programs sponsored by NLHC. The actuarial valuation was based on a number of assumptions about future events including an interest rate of 5.0%, CPI of 2.0%, as well as other assumptions such as health care cost trends, wage and salary increases, termination rates, plan participation rates, utilization rates and mortality rates. The assumptions used reflect NLHC's best estimates of expected long-term rates and short-term forecasts.

An actuarial extrapolation was prepared to 31 March 2018 by MUN's actuaries based on the latest actuarial valuation (valuation date of 31 December 2016) for the programs sponsored by MUN. The extrapolation was based on a number of assumptions about future events including an interest rate of 3.7%, CPI of 2.0%, as well as other assumptions such as health care cost trends, wage and salary increases, termination rates, plan participation rates, utilization rates and mortality rates. The assumptions used reflect MUN's best estimates of expected long-term rates and short-term forecasts.

## SUMMARY FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### Group Health and Life Insurance Retirement Benefits Liability

Details of the group health and life insurance retirement benefits liability are outlined in the table below:

Plan	Estimated Accrued Benefit Obligation (\$mil)	Unamortized Experience Gains (Losses) (\$mil)	Net Liability 2018 (\$mil)	Net Liability 2017 (\$mil)	Difference (\$mil)
Group health retirement benefits					
Consolidated Revenue Fund	2,262.7	366.8	2,629.5	2,566.9	62.6
Memorial University of Newfoundland	204.3	(36.0)	168.3	154.5	13.8
Newfoundland and Labrador Housing Corporation	16.8	4.6	21.4	21.4	-
Sub-total	2,483.8	335.4	2,819.2	2,742.8	76.4
Group life insurance retirement benefits					
Consolidated Revenue Fund	133.8	(19.5)	114.3	107.3	7.0
Memorial University of Newfoundland	1.2	0.5	1.7	1.8	(0.1)
Newfoundland and Labrador Housing Corporation	1.9	0.3	2.2	2.2	-
Sub-total	136.9	(18.7)	118.2	111.3	6.9
<b>Total</b>	<b>2,620.7</b>	<b>316.7</b>	<b>2,937.4</b>	<b>2,854.1</b>	<b>83.3</b>

There are no fund assets associated with these plans.

## SUMMARY FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### Group Health and Life Insurance Retirement Benefits Expense

In these statements, group health and life insurance retirement benefits costs have been determined as the cost of benefits accrued during the period. Interest on the liability has been accrued for the same period.

The change in the liability for the current period is comprised of the following amounts:

Plan	Employer's Share of Current Period Costs (\$mil)	Interest Expense on the Liability (\$mil)	Actuarial Value of Benefits Provided (\$mil)	Current Period Amortization of Experience Changes (\$mil)	Change (\$mil)
Group health retirement benefits					
Consolidated Revenue Fund	64.2	74.8	(30.3)	(46.1)	62.6
Memorial University of Newfoundland	7.3	7.5	(2.9)	1.9	13.8
Newfoundland and Labrador Housing Corporation	-	0.9	(0.4)	(0.5)	-
<b>Sub-total</b>	<b>71.5</b>	<b>83.2</b>	<b>(33.6)</b>	<b>(44.7)</b>	<b>76.4</b>
Group life insurance retirement benefits					
Consolidated Revenue Fund	2.7	4.7	(2.4)	2.0	7.0
Memorial University of Newfoundland	-	-	(0.1)	-	(0.1)
Newfoundland and Labrador Housing Corporation	-	0.1	-	(0.1)	-
<b>Sub-total</b>	<b>2.7</b>	<b>4.8</b>	<b>(2.5)</b>	<b>1.9</b>	<b>6.9</b>
<b>Total</b>	<b>74.2</b>	<b>88.0</b>	<b>(36.1)</b>	<b>(42.8)</b>	<b>83.3</b>

Interest expense related to the group health and life insurance retirement benefits liability is included with interest as a component of debt expenses in the financial statements. Interest expense for 31 March 2017 amounted to \$85.6 million.

#### Experience Gains or Losses

Experience gains or losses are amortized over the estimated average remaining service life of active participants. The amortization amount is included with retirement costs in the financial statements commencing in the year subsequent to the year in which the experience gain or loss arose.

The opening unamortized experience gain of \$531.2 million was decreased by \$214.5 million during the year resulting in a closing unamortized experience gain of \$316.7 million. This decrease consists of \$171.7 million for new experience loss and amortization of \$42.8 million.

The expected average remaining service life (EARSL) of programs sponsored by the Province and the NLTA is 12 years, while NLHC is 13 years and MUN is 13 years.



## SUMMARY FINANCIAL STATEMENTS

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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#### 7. Retirement Benefits - Pensions

##### Defined Benefits

The defined benefit pension plans provided to employees of the Province are maintained in four funds; the Public Service Pension Plan Fund, the Teachers' Pension Plan Fund, the Memorial University Pension Fund and the Province of Newfoundland and Labrador Pooled Pension Fund.

##### **Public Service Pension Plan Fund**

During 2014-15, the Province signed a Joint Sponsorship Agreement with the five major unions representing unionized members of the Public Service Pension Plan (PSPP). The agreement establishes joint and equal participation in the sponsorship and management of the PSPP via the Public Service Pension Plan Corporation (PSPP Corporation). As a result, changes were made to the *Public Service Pensions Act, 1991* to establish the Public Service Pension Plan Fund. The PSPP Corporation (Provident<sup>10</sup>) was created to administer the plan and manage the investment of the Fund. The Corporation is an independent, statutory corporation without share capital and is not an agent of the Crown.

The Joint Sponsorship Agreement provides for joint management of the PSPP and an equal sharing between the Province and plan members in any surpluses and deficits. The *Pensions Funding Act* was updated to reflect that the Province is no longer required to provide a deficiency guarantee for the PSPP. The Province's sole financial obligation is to make contributions to the Plan as specified. Actuarial surpluses and deficits are shared equally by the Province and the PSPP members as well as adjustments required when funding is below or above established funding targets.

The joint agreement and the subsequent amendments to the *Public Service Pensions Act, 1991* require the Province to deliver a fully enforceable non-marketable and non-transferrable promissory note to the PSPP Corporation (Provident<sup>10</sup>), effective 31 March 2015. The promissory note amortizes \$2.685 billion over 30 years at a discount rate of 6%. The payments under this agreement are fixed and shall be made regardless of the funded status of the PSPP. Payments of \$47.0 million are made on a quarterly basis, which equates to equal annual payments of \$195.0 million due to the time value of money. As at 31 March 2018, the balance of the promissory note is \$2.529 billion. The promissory note is included as part of the total net pension liability on the statement of financial position.

As at 31 March 2018, the PSPP has 26,959 participants who contributed \$175.3 million. The plan provided benefits of \$521.2 million to 20,798 pensioners.

##### **Contribution and Benefit Formulae**

##### **Public Service Pension Plan**

Employee contributions are up to 11.85% of pensionable salary, less a formulated amount representing contributions to the Canada Pension Plan (CPP). A pension benefit is available for employees hired after 1 January 2015 based on the number of years of pensionable service times 2% of the employee's best six years average salary, and for employees hired prior to 1 January 2015, based on the higher of the frozen best average five year earnings or the best average six year earnings. Both new and existing pension benefits are reduced by a formulated amount representing CPP pension benefits for each year since 1967.

During 2006-07 the *Public Service Pensions Act, 1991* was enacted consistent with the two components of the Plan. The Registered component (RPP) is administered in the PSPP Corporation (Provident<sup>10</sup>). The Supplementary component (SERP) is administered in the accounts of the Consolidated Revenue Fund and will provide for the remainder of benefits under the Plan.

## SUMMARY FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### **Teachers' Pension Plan Fund**

During 2015-16, the Province and the Newfoundland and Labrador Teachers' Association (NLTA) reached an agreement to sustain the Teachers' Pension Plan (TPP). The agreement establishes joint and equal participation in the sponsorship and management of the TPP via the Teachers' Pension Plan Corporation (TPP Corporation). As a result, changes were made to the *Teachers' Pensions Act* to establish the Teachers' Pension Plan Fund. The TPP Corporation was created to administer the plan and manage the investment of the Fund. The Corporation is an independent, statutory corporation without share capital and is not an agent of the Crown.

The Joint Sponsorship Agreement provides for joint management of the TPP and an equal sharing between the Province and plan members in any surpluses and deficits. The *Pensions Funding Act* was updated to reflect that the Province is no longer required to provide a deficiency guarantee for the TPP. The Province's sole financial obligation is to make contributions to the Plan as specified. Actuarial surpluses and deficits are shared equally by the Province and the TPP members as well as adjustments required when funding is below or above established funding targets.

The joint agreement and the subsequent amendments to the *Teachers' Pensions Act* require the Province to deliver a fully enforceable non-marketable and non-transferrable promissory note to the TPP Corporation, effective 31 August 2016 with interest accruing as of 1 September 2015. The promissory note amortizes \$1.862 billion over 30 years at a discount rate of 6%. The payments under this agreement are fixed and shall be made regardless of the funded status of the TPP. Equal annual payments of \$135.3 million began on 31 August 2016. As at 31 March 2018, the balance of the promissory note is \$1.813 billion. The promissory note is included as part of the total net pension liability on the statement of financial position.

In addition to changes to Joint Sponsorship, other plan amendments were effective 01 September 2015. Amendments include an increase in members' contributions to 11.35% of pensionable salary from 9.35%, suspension of indexing for future service and changes to the average pensionable earnings formula. Any active member who terminates employment after 31 August 2016 with less than 24.5 years of credited service shall be eligible to retire at age 62. Amendments to the *Teachers' Pensions Act* to reflect the terms of the agreement signed by the Provincial Government and NLTA have been approved by the House of Assembly.

As at 31 March 2018, the TPP has 5,927 participants who contributed \$57.2 million. The plan provided benefits of \$296.7 million to 9,147 pensioners. Inflation protection is not extended to pensioners of the Teachers' Pension Plan who retired prior to 1 September 1998.

#### **Contribution and Benefit Formulae**

##### **Teachers' Pension Plan**

Employee contributions are 11.35% of pensionable salary. A pension benefit is available based on the number of years of pensionable service prior to 1 January 1991 times 1/45th of the employee's best eight years average salary, plus 2% of the employee's best eight years average salary times years of pensionable service after that date, reduced by a formulated amount representing CPP pension benefits for each year since 1967. The CPP reduction only applies to pensioners who retired after 31 August 1998.

During 2006-07 the *Teachers' Pensions Act* was enacted consistent with the two components of the Plan. The Registered component will be administered in the Teachers' Pension Plan Corporation. The Supplementary component is administered in the accounts of the Consolidated Revenue Fund and will provide for the remainder of benefits under the Plan.

## SUMMARY FINANCIAL STATEMENTS

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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#### **Memorial University Pension Fund**

Memorial University of Newfoundland (MUN) has a defined benefit pension plan for full time employees known as the Memorial University of Newfoundland Pension Plan (MUNPP). The MUNPP has 3,778 participants who contributed \$34.0 million as at 31 March 2018.

The MUNPP provides for pensions based on employees' length of service and highest average earnings. Employees contribute a defined percentage of their salary, and the employer generally matches this amount. As at 31 March 2018, the MUNPP provided benefits of \$82.4 million to the registered component of the plan and MUN provided benefits of \$1.4 million to the supplemental component to a total of 2,469 pensioners.

In 1970, the Memorial University Pension Fund was established by the *Memorial University Pensions Act*. This Fund administers all financial activity, including the collection of all contributions and the payment of pensions and the investment of funds for the MUNPP. The financial activity of the MUNPP is administered by MUN. The Consolidated Revenue Fund guarantees any deficiency in the event assets of a plan are insufficient to meet benefit payments or administration costs.

#### **Contribution and Benefit Formulae**

##### **Memorial University of Newfoundland Pension Plan**

Employee contributions are 9.9% of pensionable salary, less a formulated amount representing contributions to the CPP. A pension benefit is available based on the number of years of pensionable service times 2% of the employee's best five years average salary, reduced at age 65 by a formulated amount representing integration with the CPP.

In addition to the above Registered component, in May 1996, MUN approved a Supplemental Retirement Income Plan to provide benefits to employees whose average salaries upon retirement generate defined benefit pensions that exceed the maximum benefits payable from the Memorial University of Newfoundland Pension Plan as per limits set out in the federal *Income Tax Act*. As well, in February and May 1996, MUN offered employees who reached the age of 55 and attained a minimum of 10 years pensionable service, an opportunity to take an early retirement under the provisions of the Voluntary Early Retirement Incentive Program. The program provided an incentive of enhanced pension benefits of up to five years pensionable service and waiver of actuarial reduction, if applicable, or a lump sum early retirement payment.

#### **Province of Newfoundland and Labrador Pooled Pension Fund**

The Government of Newfoundland and Labrador guarantees defined benefit pension plans for a number of its full time employees and for members of its Legislature. The plans are – the Uniformed Services Pension Plan, the Members of the House of Assembly Pension Plan, and the Provincial Court Judges' Pension Plan. Combined, the plans have 699 participants who contributed \$5.2 million as at 31 March 2018 as follows: Uniformed Services - \$4.5 million, Members of the House of Assembly - \$0.4 million and Provincial Court Judges' - \$0.3 million.

The Plans provide for pensions based on employees' length of service and highest average earnings. Employees contribute a defined percentage of their salary, and the employer generally matches this amount. As at 31 March 2018, the plans provided benefits of \$36.6 million to 1,004 pensioners as follows: Uniformed Services - \$27.8 million, Members of the House of Assembly - \$8.1 million and Provincial Court Judges' - \$0.7 million. Inflation protection is not extended to pensioners of the Uniformed Services Pension Plan nor the Members of the House of Assembly Pension Plan who retired prior to 1 September 1998.

In 1980, the Province of Newfoundland and Labrador Pooled Pension Fund was established by the *Pensions Funding Act*, with the Minister of Finance as Trustee. This Fund administers all financial activity, including the collection of all contributions and the payment of pensions and the investment of funds for all the pension plans noted above. The Consolidated Revenue Fund guarantees any deficiency in the event assets of a plan are insufficient to meet benefit payments or administration costs.

## SUMMARY FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### Contribution and Benefit Formulae

##### Uniformed Services Pension Plan

Employee contributions are 9.95% of pensionable salary, less a formulated amount representing contributions to the CPP. A pension benefit is available based on the number of years pensionable service times 2% of the employee's best three years average salary, reduced by a formulated amount representing CPP pension benefits since 1967. Grandfathered members have higher service accrual pensions in recognition of their higher contributions.

During 2012-13 the *Uniformed Services Pensions Act, 2012* was enacted consistent with the two components of the Plan. The Registered component will continue to be administered within the Province of Newfoundland and Labrador Pooled Pension Fund and will provide benefits based on limits set out in the federal *Income Tax Act*. The Supplementary component will be administered in the accounts of the Consolidated Revenue Fund and will provide for the remainder of benefits under the Plan.

##### Members of the House of Assembly Pension Plan

Member contributions are 9% of pensionable salary, which includes salary as a Minister, if applicable. A pension benefit is available after serving as a Member in, at least, two General Assemblies and for, at least, five years. The benefit formula is based on years of service expressed as a percentage of the average pensionable salary for the best three years. The percentage varies being 5% for each of the first ten years, 4% for each of the next five years and 2.5% for each of the next two years of service as a Member. For members elected for the first time after 8 February 1999, the percentage is 5% for the first ten years and 2.5% for each of the next ten years. For members elected for the first time after 31 December 2009, the percentage is 3.5% for each year of service as a Member. The accrued benefit is reduced by a formulated amount representing CPP pension benefits for each year since 1967. Ministers receive an additional pension amount calculated similarly, based on service and pensionable salary as a Minister.

During 2005-06 the *Members of the House of Assembly Retiring Allowances Act* was enacted to restructure the Members of the House of Assembly Pension Plan (MHAPP) into two components based on limits set out in the federal *Income Tax Act*. The first, or registered component, will continue to be administered within the Province of Newfoundland and Labrador Pooled Pension Fund. The second, or the Supplementary Employee Retirement component, will be administered in the accounts of the Consolidated Revenue Fund.

During 2017-18, Bill 21 was passed amending the *Members of the House of Assembly Retiring Allowances Act* and the *Portability of Pensions Act*. For members of the MHAPP first elected on or after November 30, 2015, the annual benefit accrual rate is reduced from 3.5% to 2.5% with a maximum pension accrual entitlement reducing from 70% to 50%. There shall be no portability option to the MHAPP. Eligibility for an MHA to receive a pension shall be at 60 years of age, and there shall be no option to select an early retirement option; the MHAPP shall have no indexing component; and the current MHAPP vesting component and survivor's benefit remain unchanged.

##### Provincial Court Judges' Pension Plan

Effective 1 April 2002 (pursuant to the *Provincial Court Judges Pension Plan Act* enacted 8 June 2004) the Provincial Court Judges' Pension Plan was established with then-existing judges being given the one-time option of transferring from the Public Service Pension Plan. All judges appointed subsequent to 1 April 2002 are required to join this Plan. Employee contributions are 9% of pensionable salary. A pension benefit is available based on the number of years pensionable service times 3.33% of the judge's annual salary. The Registered component of the Plan, administered within the Province of Newfoundland and Labrador Pooled Pension Fund, provides benefits based on limits set out in the federal *Income Tax Act* with the remainder of the benefit provided by the Supplementary component. The Supplementary component will be administered in the accounts of the Consolidated Revenue Fund.

## SUMMARY FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### Actuarial Valuations

The actuarial valuations which are prepared by the Province's and MUN's actuaries were based on a number of assumptions about future events, such as interest rates, wage and salary increases, inflation rates and rates of employee turnover, disability and mortality rates. The assumptions used reflect the Province's and MUN's best estimates of expected long-term rates and short-term forecasts. The expected interest and inflation rates follow:

#### Expected Interest Rates

Pension Plan	Expected Average Interest Rate
Public Service Pension Plan	
RPP	6.00%
SERP	3.30%
Teachers'	6.00%
Memorial University of Newfoundland	
RPP	5.80%
Supplemental Retirement Income Plan	3.70%
Voluntary Early Retirement Income Plan	3.30%
Uniformed Services	6.25%
Members of the House of Assembly	
RPP	6.15%
SERP	3.30%
Provincial Court Judges'	
RPP	6.15%
SERP	3.30%

The expected average interest rate is based on the average interest rate for plan assets for the registered components, while the cost of borrowing is used for the supplementary unfunded components of the plans.

#### Expected Inflation Rates

The expected inflation rate for all pension plans is 2.25% excluding MUNPP with an inflation rate of 2.0%.

Actuarial valuations for accounting purposes are generally completed every three years. The latest actuarial valuations for the Province's pension plans, according to the administrators of those plans, are dated as listed in the following table:

Pension Plan	Valuation Date
Public Service	31 December 2015
Teachers'	31 August 2015
Memorial University of Newfoundland	31 December 2017
Uniformed Services	31 December 2017
Members of the House of Assembly	31 December 2015
Provincial Court Judges'	31 December 2016

Actuarial extrapolations are provided for accounting purposes by the Province's and MUN's actuaries based on the above dates, unless otherwise noted.

## SUMMARY FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### Pension Liability

Details of the pension liability are outlined in the table below.

Pension Plan	Estimated Accrued Benefit Obligation (\$mil)	Fund Assets (\$mil)	Unamortized Experience Gains (Losses) (\$mil)	Net Unfunded Liability 2018 (\$mil)	Net Unfunded Liability 2017 (\$mil)	Change (\$mil)
Public Service	6,016.1	3,407.5	(6.9)	2,601.7	2,607.9	(6.2)
Teachers'	3,463.5	1,737.7	(43.5)	1,682.3	1,681.1	1.2
Memorial University of Newfoundland	1,839.0	1,569.8	(17.8)	251.4	225.0	26.4
Uniformed Services	469.3	176.4	12.8	305.7	284.0	21.7
Members of the House of Assembly	120.3	26.4	(4.7)	89.2	89.5	(0.3)
Provincial Court Judges'	29.5	11.0	3.7	22.2	20.8	1.4
<b>Total</b>	<b>11,937.7</b>	<b>6,928.8</b>	<b>(56.4)</b>	<b>4,952.5</b>	<b>4,908.3</b>	<b>44.2</b>

Pension Fund Assets are valued at the market value at 31 March 2018 (31 March 2017 – \$6,561.0 million).

As at 31 March 2018, the net unfunded liability of \$4,952.5 million is comprised of the \$4,342.5 million outstanding balance of the promissory notes delivered by the Province upon joint sponsorship to address the unfunded liability related to the Public Service Pension Plan (\$2,529.0 million) and the Teachers' Pension Plan (\$1,813.5 million).

#### Special Payments

MUN has requested that the exemptions relating to the minimum contributions required under the *Pension Benefits Act Regulations* established under the *Pension Benefits Act, 1997* based on a going concern valuation and a solvency valuation be extended. Without further exemptions, significant special payments will be required over 15 years and 40 years for past service cost of indexing effective 1 July 2004 related to the going concern valuation and five years related to the solvency valuation to address the above net unfunded liability. Going concern valuation payments have been exempted to 31 March 2017 and solvency valuation payments have been exempted to 31 December 2018.

During 2017-18, MUN made a special payment of \$3.8 million (31 March 2017 - \$2.9 million) towards the balance of the unfunded liability.

## SUMMARY FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### Pension Expense

In these statements, pension costs have been determined as the cost of benefits accrued during the period. Interest on the unfunded liability has been accrued for the same period.

The change in the unfunded liability for the current period for each plan is comprised of the following amounts:

Pension Plan	Province's Share of Pension Benefits Earned for the Period	Pension Interest Expense (Earned) on the Unfunded Liability	Province's Current Period Pension Contributions	Current Period Amortization of Experience Changes	Unfunded Portion of Current Period Pension Change
	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)
Public Service	134.3	90.3	(280.6)	49.8	(6.2)
Teachers'	42.0	55.0	(132.4)	36.6	1.2
Memorial University of Newfoundland	29.1	16.7	(35.5)	16.1	26.4
Uniformed Services	4.4	18.6	(4.4)	3.1	21.7
Members of the House of Assembly	1.0	3.3	(7.1)	2.5	(0.3)
Provincial Court Judges'	1.7	0.6	(0.7)	(0.2)	1.4
<b>Total</b>	<b>212.5</b>	<b>184.5</b>	<b>(460.7)</b>	<b>107.9</b>	<b>44.2</b>

#### Interest Expense (Earned)

Pension interest expense is included with interest as debt expenses in the financial statements. Interest expense is comprised of the interest expense on the accrued benefit obligation netted with the interest earned on fund assets as follows:

Pension Plan	Interest Expense on the Accrued Benefit Obligation 2018 (\$mil)	Interest Earned on Fund Assets 2018 (\$mil)	Net Interest Expense (Earned) 2018 (\$mil)
Public Service	284.2	(193.9)	90.3
Teachers'	151.1	(96.1)	55.0
Memorial University of Newfoundland	103.3	(86.6)	16.7
Uniformed Services	29.8	(11.2)	18.6
Members of the House of Assembly	4.9	(1.6)	3.3
Provincial Court Judges'	1.2	(0.6)	0.6
<b>Total</b>	<b>574.5</b>	<b>(390.0)</b>	<b>184.5</b>

Pension interest expense for 31 March 2017 amounted to \$175.5 million. Also included in debt expenses is an additional interest expense of \$130.1 million (31 March 2017 - \$131.9 million) relating to the interest on the promissory notes.

## SUMMARY FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### Experience Gains or Losses

Experience gains or losses are amortized over the estimated average remaining service life of active contributors. The amortization amount is included with retirement costs in the financial statements commencing in the year subsequent to the year in which the experience gain or loss arose.

#### Accrued Benefit Obligation

The change in the unamortized experience gains (losses) on the accrued benefit obligation for the current period is comprised of the following amounts:

Pension Plan	Opening Unamortized Experience Gains (Losses)	New Experience Gains (Losses)	Amortization Gains (Losses)	Closing Unamortized Experience Gains (Losses)
	(\$mil)	(\$mil)	(\$mil)	(\$mil)
Public Service	(459.9)	234.8	57.8	(167.3)
Teachers'	(237.6)	61.4	36.1	(140.1)
Memorial University of Newfoundland	(179.0)	14.6	25.4	(139.0)
Uniformed Services	(32.8)	9.9	5.1	(17.8)
Members of the House of Assembly	(7.0)	(5.0)	3.4	(8.6)
Provincial Court Judges'	1.0	1.0	-	2.0
<b>Total</b>	<b>(915.3)</b>	<b>316.7</b>	<b>127.8</b>	<b>(470.8)</b>

#### Fund Assets

The change in the unamortized experience gains (losses) on the fund assets for the current period is comprised of the following amounts:

Pension Plan	Opening Unamortized Experience Gains (Losses)	New Experience Gains (Losses)	Amortization Gains (Losses)	Closing Unamortized Experience Gains (Losses)
	(\$mil)	(\$mil)	(\$mil)	(\$mil)
Public Service	189.3	(20.9)	(8.0)	160.4
Teachers'	43.6	52.5	0.5	96.6
Memorial University of Newfoundland	133.9	(3.4)	(9.3)	121.2
Uniformed Services	30.2	2.4	(2.0)	30.6
Members of the House of Assembly	3.9	0.9	(0.9)	3.9
Provincial Court Judges'	1.7	0.2	(0.2)	1.7
<b>Total</b>	<b>402.6</b>	<b>31.7</b>	<b>(19.9)</b>	<b>414.4</b>



## SUMMARY FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Expected average remaining service life (EARSL) of related employee groups is as follows:

	<u>EARSL</u>
Public Service - RPP	11 years
Public Service – SERP	9 years
Teachers'	13 years
Memorial University of Newfoundland	13 years
Uniformed Services	15 years
Members of the House of Assembly	8 years
Provincial Court Judges'	8 years

#### Other Pension Plan

The *Government Money Purchase Pension Plan Act* established the Government Money Purchase Pension Plan for employees whose employment status does not qualify them for participation in another of their employer's pension plans. This plan has approximately 34,454 participants. Employees contribute 5% of their salary to the Plan and the Province generally matches this contribution. Each employee will receive an annuity at retirement, the value of which is determined by their accumulated contributions plus investment earnings. This Plan is administered by The Great-West Life Assurance Company and at 31 March 2018 assets had a market value of \$375.9 million (31 March 2017 - \$358.4 million). The expense recognized for 31 March 2018 amounted to \$14.1 million (31 March 2017 - \$14.1 million).

#### 8. Prepaid and Deferred Charges

Prepaid and deferred charges consist of:

	<u>31 March 2018 (\$mil)</u>	<u>31 March 2017 (\$mil)</u>
Maintenance contracts	7.7	6.4
Property taxes and other municipal fees	7.3	7.1
Insurance costs	5.7	6.5
Software licenses	5.1	4.3
Canadian Blood Services	3.1	-
Membership fees and subscriptions	2.4	2.3
Library operating supplies	2.0	2.3
Workers' compensation fees	0.9	0.9
Computer network and accessories	0.7	0.5
Ambulance services	0.6	1.8
Rent	0.6	1.0
Other prepaid and deferred charges	<u>4.5</u>	<u>5.4</u>
Total: Prepaid and Deferred Charges	<u><u>40.6</u></u>	<u><u>38.5</u></u>

## SUMMARY FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 9. Contingent Liabilities

##### (a) Guaranteed Debt

Guarantees made by the Province as at 31 March 2018 amounted to \$1,685.9 million (31 March 2017 - \$1,531.2 million). In addition, the Province guaranteed the interest thereon. See Schedule 7 - Guaranteed Debt.

##### (b) Legal Actions

(i) There have been a number of statements of claim alleging negligence on the part of Government employees and agencies in not preventing abuse while these claimants were under Government care.

(ii) A number of claims have been filed against the Province for alleged breaches of contracts and/or tenders as well as for general damages and personal claims pursuant to action initiated by the Province.

##### (c) Other

###### (i) *Trust Accounts*

###### a) Office of the Public Trustee

The Province guarantees all sums required to discharge the balances of the Public Trustee as administrator, guardian, trustee, etc. (*Public Trustee Act*). See Schedule 9 - Trust Accounts.

###### b) Supreme Court of Newfoundland and Labrador

The Province guarantees all sums required to discharge the balances of the Supreme Court of Newfoundland and Labrador as administrator, guardian, trustee, etc. (*Judicature Act*). See Schedule 9 - Trust Accounts.

###### c) Other Trust Accounts

Generally, the Province is contingently liable for any shortage that may occur for certain funds held in trust by the Province. Currently, all obligations held have an offsetting asset. See Schedule 9 - Trust Accounts.

###### (ii) *Canadian Salt Fish Corporation*

On 17 July 1970, the Province entered into an agreement with the Government of Canada for the marketing of saltfish products by the Canadian Saltfish Corporation (the Corporation), pursuant to the *Saltfish Act*. The Agreement provided that the Province is required to pay to the Government of Canada a proportional share of 50 per cent of the losses of the Corporation. This share is based on the total value of annual sales of cured fish products applicable to each participating province.

On 19 February 1993, the Government of Canada requested that the Province compensate it for losses incurred to 31 March 1992. The amount which the Government of Canada calculated as the Province's share of the losses was \$21.6 million.

The Corporation was dissolved with effect from 1 April 1995, so that resolution of the matter will be between the Government of Canada and the Province. However, the Province takes the position that for a number of reasons, including the fact that the Corporation engaged in activities

## SUMMARY FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

beyond its mandate as determined by the Auditor General of Canada and confirmed by the Department of Justice of Canada, it is not liable for the amount claimed.

(iii) *Newfoundland and Labrador Student Loans Program*

Under the loan guarantee component of this Program, the Province has no guarantees issued at 31 March 2018. Under the debt reduction component of the Program, the Province is contingently liable for possible grants totaling \$7.8 million, of which \$5.5 million (31 March 2017 - \$3.7 million) has been recorded as a provision for likely amounts payable related to student loans due to the debt reduction component. See Schedule 5 - Payables, Accrued and Other Liabilities.

(iv) *Contaminated Sites*

The Province has identified approximately 198 sites for which environmental liabilities or contamination may exist for assessment, remediation or monitoring. See note 10 – Contaminated Sites for further details.

In addition, the Province has provided an environmental guarantee to the acquiring entity of North Atlantic Refining Limited (NARL) regarding the oil refinery in Come by Chance. The Province and NARL entered into an environmental agreement on 13 November 2014 which required an environmental site assessment to be completed by NARL. The environmental assessment includes Phase I, II and III assessments and a remediation plan. The environmental assessment process has not yet been completed. Phase I, which included a review of current and historical activities associated with oil refinery, has been completed and approved by the Province. Phase II, which included the preliminary collection and analysis of samples, has been completed and is being reviewed by the Province. While Phase III and a remediation plan have not been completed, a preliminary estimate indicates a range of \$34 - \$269 million.

(v) *Equity Support Agreements – Lower Churchill Project*

The Province has provided a guarantee to the Government of Canada to compensate it for any costs under the Federal Loan Guarantee on the Lower Churchill Project which are triggered by legislative or regulatory actions of the Province. The Province has a separate agreement for each component of the project to guarantee the payment of Nalcor's equity commitments in the event that Nalcor fails to fulfill its commitments.

The project is expected to cost \$12.7 billion, including interest during construction and other capitalized/pre-funded financing costs of \$2.6 billion. The Province had a total equity investment in the project of \$2.8 billion as at 31 March 2018. Also, as at 31 March 2018, the Province had further equity commitments totaling \$1.0 billion related to the project. The project is being financed through the issuance of bonds in the amount of \$7.9 billion and equity contributions of \$4.8 billion.

(vi) *Corner Brook Pulp and Paper Limited (CBPPL)*

In 2014 the Province signed an agreement with CBPPL which states that in the event of the closure of the Corner Brook Mill, the Province has agreed to purchase the power assets and water rights. The purchase price is dependent upon the timing of the closure of the Corner Brook Mill, and could range from \$101.8 million to the greater of \$200.0 million or the fair market value of the purchased assets, less any monies owing to the Province in relation to the loan agreement with CBPPL. In 2017 the Province entered into another agreement providing a guarantee up to \$88.0 million on a letter of credit held by a Trust for the benefit of pension plan members. Should the government have to pay under the guarantee, the amount would also be deducted from the purchase price of the power assets and water rights.

## SUMMARY FINANCIAL STATEMENTS

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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#### 10. Contaminated Sites

There are a number of sites throughout the Province which are considered potentially contaminated sites. The liability reflects the Province's best estimate of the amount required to remediate the sites to the current minimum standards for its use prior to contamination. As some of these sites are not yet fully assessed and contamination has not yet been determined or a detailed remediation plan has not been developed, no liability has been recognized. Studies are ongoing to assess the nature and extent of damage and to develop remediation plans, if necessary.

The Province has identified approximately 198 sites for which environmental liabilities may exist for assessment, remediation or monitoring. Of these, 17 were identified as sites where action is possible and for which a liability was recorded. As at 31 March 2018, a total liability for contaminated sites of \$137.4 million (31 March 2017 – \$122.0 million) has been recorded (see Schedule 5 – Payables, Accrued and Other Liabilities). Of this, \$132.8 million relates to a liability for remediation of former mining sites. The Province has completed a partial remediation program at these sites, focused on the removal of buildings and infrastructure, designed to address safety hazards. The remaining contaminated sites liability of \$4.6 million is mainly related to Petroleum Hydrocarbon (PHC) impacts. The liability reflects the present value of estimated future cash flows, where applicable, with total undiscounted expenditures of \$508.6 million present valued at a discount rate of 4.65%.

The remainder of the sites are not liabilities as they are active and absent of an unexpected event; the impacts on the site do not exceed the applicable standards; the Province is not responsible for remediation; or it is not anticipated that remediation will occur. Upon identification of new contaminated sites or changes in the assessments of currently known sites, additional liabilities or disclosures may be recognized.

## SUMMARY FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 11. Contractual Obligations

Contractual obligations consist of:

	<u>31 March 2018</u>	<u>31 March 2017</u>
	(\$mil)	(\$mil)
Lower Churchill Project	1,834.0	2,457.0
Capital projects	543.8	366.3
Lease payments	393.1	196.0
Economic development	252.4	125.0
Power purchase agreements	160.4	383.6
Provincial policing agreement	153.7	147.4
Oil and Gas	65.2	107.4
Information technology services	50.3	67.4
Letters of credit	42.0	36.9
Ferry services	23.7	24.0
Transmission service agreements	22.6	4.3
Energy savings	17.7	3.1
Road maintenance	14.1	6.6
Residential services	11.1	11.3
Telephone services	9.0	11.9
Forestry Management	4.5	-
Early learning and childcare	2.7	-
Other agreements	<u>26.1</u>	<u>23.0</u>
Total: Contractual Obligations	<u><u>3,626.4</u></u>	<u><u>3,971.2</u></u>

Contractual obligations are those to outside organizations in respect of contracts entered into before 31 March 2018. These contractual obligations will become liabilities when the terms of the contracts are met. Payments in respect of these contracts and agreements for the Consolidated Revenue Fund are subject to voting of supply by the Legislature.

The above table includes contractual obligations of \$2.2 billion (31 March 2017 - \$3.2 billion) for government business enterprises and \$18.6 million (31 March 2017 – \$23.7 million) for government business partnership.

#### 12. Externally Restricted Assets

Externally restricted assets amount to \$140.1 million (31 March 2017 - \$127.0 million) of which \$138.6 million relates to Memorial University of Newfoundland which consists primarily of assets held for endowment purposes whereby the principal is not expendable. Income earned on these assets is required to be used for the purpose specified by the donors and hence cannot be used for other operating purposes. The externally restricted assets consist of donations and investments which are to be used for scholarships, assistance, professional recruitment and development, equipment and other external endowments. Externally restricted assets of other entities amount to \$1.5 million which relate to various donations designated for specified purposes.

## SUMMARY FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 13. Provision for Guaranteed Debt

The provision for probable losses on guaranteed debt (see note 9(a)) is nil (31 March 2017 - \$0.7 million).

#### 14. Adjustments to Beginning Balances

##### (a) Government Organization Changes

Net Debt and Accumulated Deficit increased by \$0.7 million (31 March 2017 - \$22.9 million decrease) relating to the following government organization changes:

- (i) Entity accounting policies and entity restatements resulted in an increase in accumulated deficit of \$0.7 million (31 March 2017 - \$23.8 million decrease);
- (ii) There was no change to accumulated deficit (31 March 2017 - \$0.9 million increase) as a result of prior period adjustments relating to deferred revenue.

These changes have been applied retroactively without restatement.

#### 15. Related Party Disclosures

The Province considers key management personnel (KMP), their close family members and any organizations controlled by the KMP or their close family members as related parties. For this purpose, KMPs are defined to include Ministers and Deputy Ministers (Equivalents). KMPs of Government entities also include board members.

The Province and its entities have determined through a due diligence process that no transactions occurred at a price different than fair market value or under terms different than what two unrelated parties would agree. As a result, all transactions with its related parties were conducted in the normal course of business and at arms' length.

Refer to Schedule 4 – Net Income of Government Business Enterprises and Partnership for a description of related party transactions of Government Business Enterprises and Partnership.

#### 16. Contractual Rights

Contractual Rights consist of:

	31 March 2018
	(\$mil)
Cost sharing agreements	503.9
Other agreements	10.5
Total: Contractual Rights	514.4

Contractual rights are rights to economic resources arising from contracts or agreements entered into before 31 March 2018. These contractual rights will become assets when the transaction or event triggering recognition occurs.

## SUMMARY FINANCIAL STATEMENTS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 17. Contingent Assets

Contingent assets consist of:	31 March 2018 <u>(\$mil)</u>
Hebron Benefits Agreement Dispute Settlement	3.9
Insurance Claims	<u>0.1</u>
Total: Contingent Assets	<u><u>4.0</u></u>

Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. The resolution of the uncertainty will confirm the existence or non-existence of an asset. The uncertainty will be resolved when one or more future events not wholly within the Province's control occurs or fails to occur.

A number of legal actions have been filed for the Province that have the potential to result in damages being awarded to the Province. The outcome of the legal actions is not determinable.

#### 18. Change in Government Structure

Under sections 5 and 17 of the *Executive Council Act*, government departments were reorganized effective 1 April 2017. Pursuant to Cabinet direction, the new financial structure for the departments commenced for the 2017-18 fiscal year. The comparative figures have been restated to reflect this new departmental structure.

#### 19. Measurement Uncertainty

Measurement uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Estimates are based on the best information available at the time of preparation of the financial statements and are adjusted annually to reflect new information as it becomes available.

Some examples of where measurement uncertainty exists are as follows:

- (i) The nature of uncertainty for the accrual of retirement benefits, the allowance for guaranteed debt, and the accrual of self-insured workers' compensation benefits arises as actual results may differ significantly from the Province's assumptions about plan members and economic conditions in the marketplace.
- (ii) The accruals for environmental remediation obligations are uncertain because the actual extent of the remediation activities, methods, and site contamination may differ significantly from the Province's original remediation plans.
- (iii) Revenues from sales taxes, income taxes, oil royalties, Canada Health Transfer, and Canada Social Transfer are uncertain due to differences between the estimated and actual economic performance and other assumptions used to accrue these revenues. The tax revenues under the federal-provincial fiscal arrangements attributable to the year can change as a result of reassessments in subsequent years. The variability of the final amounts attributable to the year cannot be reasonably determined.

#### 20. Subsequent Events

##### a) Revisions to Compensation and Benefits

Subsequent to year end, the Province enacted the *Salary Restraint and Extinguishment of Severance Pay Act*. The Act introduces the elimination of severance, whereby non-represented public sector employees and statutory officers with at least one year of continuous service will be paid one week to a maximum of 20 weeks. In addition, the Act implements a wage freeze, to expire on 31 March 2020.

## SUMMARY FINANCIAL STATEMENTS

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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The Province also introduced amendments to the *Other Post-Employment Benefits Eligibility Modification Act*, which sets out new rules for benefits applying to non-represented public sector employees who are covered under the *Public Service Pensions Act, 1991* hired on and after 1 June 2018. While current employees qualify for retirement benefits after 10 years of pensionable service at the date of his or her retirement, new hires will be required to reach 15 years of pensionable service at the date of his or her retirement to qualify. As well, the Act institutes a sliding scale to calculate premiums at retirement.

b) Mining Tax Revenue

Subsequent to year end, the Province received \$200.8 million relating to assessments of mining tax revenue.

#### 21. Original Budget

Certain amounts in the statements and exhibits of the 2017-18 Budget Speech shown for comparative purposes were prepared on the accrual basis as described under note 1(c)(i). To be consistent with the format of the financial statements, presentation changes have been applied as necessary. These changes include \$160.5 million reallocated from fees and fines revenue to miscellaneous other revenue, \$131.5 million reallocated from debt expenses to salaries and employee benefits expense and \$13.2 million reallocated from operating costs to grants and subsidies expense. This has resulted in an overall nil impact on the Original Budget surplus (deficit).

In addition, amounts for Net Debt (Consolidated Statement of Change in Net Debt) as per these statements and exhibits have also been presented for comparative purposes.

#### 22. Additional Notes

In addition to the aforementioned, there are various other notes disclosed in the schedules which follow.

#### 23. Comparatives

Certain of the 31 March 2017 financial statement figures and related schedules have been restated to be consistent with the 31 March 2018 statement presentation.



## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Receivables As at 31 March 2018 with comparative figures for 2017

	2018	2017
	(\$000)	(\$000)
Accounts receivable	307,448	263,347
Taxes receivable	127,208	101,413
Offshore royalties	119,007	109,958
Due from Government of Canada	116,027	77,586
Accrued interest receivable	840	1,267
	670,530	553,571
 Less: Allowance for doubtful accounts	 106,749	 98,493
Total: Receivables	563,781	455,078

**PROVINCE OF NEWFOUNDLAND AND LABRADOR****Loans, Advances and Investments  
As at 31 March 2018  
with comparative figures for 2017**

	2018	2017
	(\$000)	(\$000)
Loans and Advances - notes 1, 2		
Commercial - note 3	180,856	161,342
Housing	93,203	88,289
Student loans	91,655	88,611
Municipalities	5,007	9,627
Government Business Enterprises and Partnership - note 4	-	225,000
Other	6,193	5,585
Total: Loans and Advances	<u>376,914</u>	<u>578,454</u>
Less: Discounts due to concessionary terms on loans - note 5	93,536	88,120
Allowance for doubtful loans and advances	61,079	48,100
Provision for loan repayments through future appropriations (municipalities)	5,007	9,627
	<u>217,292</u>	<u>432,607</u>
Investments		
Equity Investments:		
Administered by Memorial University of Newfoundland	74,605	39,726
Administered by Newfoundland & Labrador Film Development Corporation	48,729	43,942
Cold Ocean Salmon Inc.	10,000	10,000
Administered by Business Investment Corporation	8,745	9,018
Northern Harvest Sea Farms Newfoundland Ltd.	8,347	8,241
Gray Aqua Group Ltd.	4,827	4,827
Country Ribbon Inc.	4,500	4,500
Administered by Janeway Children's Hospital Foundation	4,446	4,256
Burton's Cove Logging and Lumber	3,591	3,689
Administered by Multi-Materials Stewardship Board	2,430	377
ACF Equity Atlantic Inc.	2,203	2,203
Newfoundland Aqua Services Ltd. - redeemable	2,000	2,000
Icewater Seafoods Inc.	1,491	1,666
Blue Line Innovations Inc.	500	500
Consilient Technologies Corporation	500	500
Marine Industrial Lighting Systems	500	500
NavSim Technologies	500	500
Sexton Lumber Co. Ltd.	500	500
Hurley Slate Works Company Inc.	400	400
Pixecur Technologies Inc. - redeemable	400	400
Other	2,407	2,433
	<u>181,621</u>	<u>140,178</u>

## SUMMARY FINANCIAL STATEMENTS

## LOANS, ADVANCES AND INVESTMENTS (continued)

	2018	2017
	(\$000)	(\$000)
Other Investments:		
Memorial University of Newfoundland - Fixed Income	58,940	61,685
Newfoundland and Labrador Venture Capital Fund	4,643	2,450
Dr. H. Bliss Murphy Cancer Care Foundation - Endowment Funds investments Administered by Janeway Children's Hospital Foundation	1,231	1,216
	<u>726</u>	<u>2,028</u>
	<u>65,540</u>	<u>67,379</u>
Total: Investments	<u>247,161</u>	<u>207,557</u>
Less: Discounts due to concessionary terms on investments - note 6	49,138	44,387
Allowance for write-down of investments	<u>18,406</u>	<u>18,808</u>
	<u>179,617</u>	<u>144,362</u>
Total: Loans, Advances and Investments	<u><u>396,909</u></u>	<u><u>576,969</u></u>

## NOTES

**1. Interest Rates and Loan Terms**

Interest rates for all loans range from non-interest bearing to 14.0% and are payable over terms not exceeding 23 years.

**2. Loan Receivable**

During the year, the Province reopened general debenture 7C and issued \$300.0 million on 20 December 2017 and an additional \$300.0 million on 20 March 2018, both on behalf of a subsidiary of Nalcor Energy. In accordance with public sector accounting standards, the loan receivable from Nalcor Energy and the offsetting debenture debt are netted for presentation purposes. In addition, the interest revenue earned on this loan totalling \$10.0 million is netted against the offsetting interest expense on the debenture debt.

**3. Security**

Security exists for certain loans that can be accessed in the event of default. Refer to note 9 (c) (vi) of the Notes to the Financial Statements for further details.

**4. Short Term Promissory Note**

On 11 October 2016, the Province issued a short term promissory note to Nalcor Energy in the amount of \$225.0 million with interest at the three month Canadian Dollar Bankers Acceptances Rate. This amount was repaid to the Province during the year from the proceeds loaned in note 2 above.

**5. Discounts Due to Concessionary Terms on Loans**

The discounts due to concessionary terms on loans are the portion of the receivable that represents the difference between the face value and the present value of the loan. The loans are reported at their present value due to the concessionary terms in the loan agreement.

**6. Discounts Due to Concessionary Terms on Investments**

The discounts due to concessionary terms on investments are the portion of the investment that represents the difference between the cost and the present value of the investment. The investments are reported at their present value due to the concessionary terms in the investment agreement.

# PROVINCE OF NEWFOUNDLAND AND LABRADOR

## Equity in Government Business Enterprises and Partnership As at 31 March 2018 with comparative figures for 2017

	Atlantic Lottery Corporation 31 Mar 2018 (\$000)	NL Liquor Corporation 7 Apr 2018 (\$000)	Nalcor Energy 31 Dec 2017 (\$000)	Total 2018 (\$000)	Total 2017 (\$000)
Equity - beginning of year	4,211	53,788	4,505,503	4,563,502	3,592,124
Adjustment to opening balance	-	-	1,300	1,300	19,700
Adjusted equity - beginning of period	4,211	53,788	4,506,803	4,564,802	3,611,824
Net income for year	133,612	177,538	62,247	373,397	451,246
Other comprehensive income (loss) - note 1	702	(114)	(78,000)	(77,412)	(2,377)
Capital transactions:					
Transfers from government - note 2	-	-	589,885	589,885	836,002
Transfers to government	(130,084)	(180,000)	-	(310,084)	(333,193)
Equity - end of year	<u>8,441</u>	<u>51,212</u>	<u>5,080,935</u>	<u>5,140,588</u>	<u>4,563,502</u>
Equity represented by:					
Assets					
Cash and temporary investments	5,308	18,717	2,543,500	2,567,525	1,634,255
Receivables	5,582	13,873	391,791	411,246	577,245
Inventories	1,460	33,201	116,000	150,661	130,748
Prepaid and deferred charges	3,757	1,541	138,000	143,298	190,480
Investments	-	-	338,000	338,000	37,800
Reserve fund	-	-	-	-	14,900
Capital and intangible assets	36,982	27,115	14,486,000	14,550,097	11,466,500
Total Assets	<u>53,089</u>	<u>94,447</u>	<u>18,013,291</u>	<u>18,160,827</u>	<u>14,051,928</u>
Liabilities					
Accounts payable and accruals	10,893	43,235	3,050,000	3,104,128	3,266,635
Deferred government assistance	-	-	2,100	2,100	2,100
Borrowings - note 3	33,755	-	9,880,256	9,914,011	6,219,691
Total Liabilities	<u>44,648</u>	<u>43,235</u>	<u>12,932,356</u>	<u>13,020,239</u>	<u>9,488,426</u>
Equity	<u>8,441</u>	<u>51,212</u>	<u>5,080,935</u>	<u>5,140,588</u>	<u>4,563,502</u>

### NOTES

#### 1. Other Comprehensive Income (Loss)

Other comprehensive income (loss) includes certain unrealized gains and losses of government business enterprises and partnership that are not reported in the statement of operations but are reported in the statement of financial position. Unrealized gains and losses are recognized in the statement of operations when they become realized gains and losses. Accumulated other comprehensive income (loss) as at 31 March 2018 amounted to \$(40.9) million (31 March 2017 - \$36.5 million). The other comprehensive income (loss) recognized during the year was \$(77.4) million (31 March 2017 - \$(2.4) million).

#### 2. Transfers from Government

Capital transfers from the Province include \$589.9 million (31 March 2017 - \$674.1 million) for the Lower Churchill Project and nil (31 March 2017 - \$161.9 million) for oil and gas development.

## EQUITY IN GOVERNMENT BUSINESS ENTERPRISES AND PARTNERSHIP (continued)

**3. Contributions and Repayment Requirements**

Sinking fund contributions and long term debt repayments for Government Business Enterprises and Partnership, in Canadian dollars are as follows.

	Total
	(\$000)
2018-2019	380,604
2019-2020	5,590
2020-2021	2,404
2021-2022	2,458
2022-2023	2,512
2023-2057	<u>9,713,587</u>
	10,107,155
Less: Sinking Fund Contributions	<u>(193,144)</u>
	<u><u>9,914,011</u></u>

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Net Income of Government Business Enterprises and Partnership As at 31 March 2018 with comparative figures for 2017

	Atlantic Lottery Corporation 31 Mar 2018 (\$000)	NL Liquor Corporation 7 Apr 2018 (\$000)	Nalcor Energy 31 Dec 2017 (\$000)	Total 2018 (\$000)	Total 2017 (\$000)
Revenue					
Revenue from operations	<u>320,892</u>	<u>340,395</u>	<u>929,247</u>	<u>1,590,534</u>	<u>1,483,423</u>
Expense					
Expenses from operations	<u>187,280</u>	<u>162,857</u>	<u>867,000</u>	<u>1,217,137</u>	<u>1,032,177</u>
Net Income	<u><u>133,612</u></u>	<u><u>177,538</u></u>	<u><u>62,247</u></u>	<u><u>373,397</u></u>	<u><u>451,246</u></u>

#### NOTE

##### Related Party Transactions

Nalcor Energy earned related party revenues regarding funding to support both new and current offshore petroleum exploration, funding for wind feasibility studies in Labrador, as well as Churchill Falls Trust contributions, for a total amount of \$8.4 million (31 December 2016 - \$8.8 million). Nalcor Energy incurred related party expenses in relation to power purchase agreements, cost of application hearings, operation of Exploits assets, various rentals and royalties, and a debt guarantee fee. Netted against these expenses is the funding received from the Province related to Nalcor's obligation under the Upper Churchill Redress Agreement resulting in total recovery of \$13.9 million (31 December 2016 - \$24.3 million).

In relation to the above listed related party transactions for Nalcor Energy, there exists accounts receivable, accounts payable, deferred credits and borrowings. Accounts receivable include \$41.5 million (31 December 2016 - \$41.4 million); accounts payable include \$9.8 million (31 December 2016 - \$10.0 million); deferred credits include \$1.3 million (31 December 2016 - \$2.1 million), and borrowings include nil million (31 December 2016 - \$225.0 million). In addition, Nalcor Energy invested \$37.3 million (31 December 2016 - \$60.8 million) in Provincial bonds. During the year, the Province borrowed \$600.0 million on behalf of a subsidiary of Nalcor Energy. Refer to Schedule 2, note 2 for further details.

Newfoundland and Labrador Liquor Corporation is leasing office and warehouse space from the Department of Transportation and Works. These leases are rent free to the Corporation; however, all operating, leasehold and maintenance costs related to the buildings are the responsibility of the Corporation.

Atlantic Lottery Corporation Inc.'s related party profit earnings totaled \$133.8 million (31 March 2017 - \$138.9 million). In relation to profit earnings, there exists an accounts payable of \$1.7 million (31 March 2017 - \$2.5 million).

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Payables, Accrued and Other Liabilities As at 31 March 2018 with comparative figures for 2017

	2018	2017
	(\$000)	(\$000)
Accrued salaries and employee benefits - note 1	1,202,160	1,172,170
Taxes payable - note 2	545,802	559,567
Accounts payable	447,794	377,955
Due to Government of Canada	370,753	398,066
Accrued interest payable	207,314	203,626
Contaminated sites	137,406	122,004
Capital leases - note 3	19,753	21,783
Due to municipalities	16,721	23,544
Nalcor Energy	12,908	3,884
Provision for student loan debt reduction payable	5,491	3,666
Other	2,365	3,182
Total: Payables, Accrued and Other Liabilities	2,968,467	2,889,447

#### NOTES

#### 1. Accrued Salaries and Employee Benefits

Accrued salaries and employee benefits consists of the following.

	2018	2017
	(\$mil)	(\$mil)
Severance	530.2	497.0
Paid and annual leave	263.6	266.8
Sick leave	232.3	229.4
Salaries	117.1	111.8
Self-insured workers' compensation benefits	46.9	46.1
Other benefits	11.1	10.8
Pay in lieu	1.0	10.3
	1,202.2	1,172.2

During the 2016-17 fiscal year, an actuarial valuation as of 31 December 2016, with disclosures as at 31 March 2017, was obtained for the Province's self-insured workers' compensation benefits. Accrued severance and sick leave balances have been determined using a combination of actuarial valuations and internal methodologies.

#### 2. Taxes Payable

Taxes payable is comprised of \$327.6 million for corporate income tax (31 March 2017 - \$417.5 million), \$158.5 million for HST (31 March 2017 - \$131.4 million), \$53.9 million for personal income tax (31 March 2017 - nil) and \$5.8 million for other taxes (31 March 2017 - \$10.7 million).

#### 3. Capital Leases

Interest rates for all capital leases range from non-interest bearing to 16.0% and have repayment schedules ranging in duration from 1 to 6 years.

# PROVINCE OF NEWFOUNDLAND AND LABRADOR

## Borrowings As at 31 March 2018 with comparative figures for 2017

	2018			Interest Rate Range (%)	2017
	Total Borrowings (\$000)	Sinking Fund Balance (\$000)	Net Borrowings (\$000)		Net Borrowings (\$000)
Consolidated Revenue Fund					
Treasury bill borrowings	777,403	-	777,403	1.19 - 1.38	778,807
General debentures	11,686,762	1,420,497	10,266,265	1.13 - 10.95	9,219,492
Sun Life Assurance Company of Canada	65,270	-	65,270	7.55 - 9.20	71,060
Government of Canada	<u>306,313</u>	<u>-</u>	<u>306,313</u>	4.91 - 7.88	<u>306,356</u>
	12,835,748	1,420,497	11,415,251		10,375,715
Health care organizations	150,778	21,123	129,655	0.99 - 10.50	135,326
Newfoundland and Labrador Housing Corporation	86,701	-	86,701	1.01 - 19.75	92,024
Memorial University of Newfoundland	38,424	-	38,424	3.69 - 5.88	19,596
School Districts	13,666	-	13,666	prime-1 - 5.04	13,542
Newfoundland and Labrador Municipal Financing Corporation	4,066	-	4,066	5.15 - 5.20	6,732
Total: Borrowings	<u>13,129,383</u>	<u>1,441,620</u>	<u>11,687,763</u>		<u>10,642,935</u>

### NOTES

#### 1. General Debentures

During the year, the Province reopened general debenture 7C and issued \$300.0 million on 20 December 2017 and an additional \$300.0 million on 20 March 2018, both on behalf of a subsidiary of Nalcor Energy. In accordance with public sector accounting standards, the loan receivable from Nalcor Energy and the offsetting debenture debt are netted for presentation purposes. In addition, the interest revenue earned on this loan totalling \$10.0 million is netted against the offsetting interest expense on the debenture debt.



## SUMMARY FINANCIAL STATEMENTS

## BORROWINGS (continued)

## 2. Borrowings

Borrowings and unamortized foreign exchange losses, by major currency, sinking funds and unamortized premiums, discounts and issuance fees as at 31 March 2018 are noted below. Refer to note 5 of the Notes to the Financial Statements for further details.

Major Currencies	Foreign Borrowings (\$000)	Exchange Rate	Canadian (\$000)	Unamortized Foreign Exchange Gains/(Losses) and Unamortized Premiums/Discounts and Issuance Fees (\$000)	Net (\$000)
U.S.	1,050,000	1.2894	1,353,870	(54,714)	1,299,156
Canadian			11,775,513	-	11,775,513
		Sub-total	13,129,383	(54,714)	13,074,669
		Foreign sinking funds	(600,023)	21,909	(578,114)
		Canadian sinking funds	(841,597)	-	(841,597)
		Sub-total	11,687,763	(32,805)	11,654,958
		Unamortized premiums and discounts and issuance fees		(149,426)	(149,426)
		Total		(182,231)	11,505,532

## 3. Contributions and Repayment Requirements

Sinking fund contributions and long term debt repayments, by major currency, in Canadian dollars are as follows.

	U.S. (\$000)	Canadian (\$000)	Total (\$000)
2018-2019	6,250	1,070,771	1,077,021
2019-2020	12,160	101,063	113,223
2020-2021	231,989	597,539	829,528
2021-2022	159,504	256,233	415,737
2022-2023	161,277	1,460,457	1,621,734
2023-2049	113,378	6,252,362	6,365,740
	684,558	9,738,425	10,422,983
Plus: Sinking Fund Values at Maturity			3,343,593
Less: Sinking Fund Contributions			(637,193)
			13,129,383

## BORROWINGS (continued)

**4. Interest Expense**

The gross interest expense associated with borrowings, recognized for 31 March 2018, amounted to \$574.3 million (31 March 2017 - \$541.0 million).

**5. Foreign Exchange Gain/Loss and Premiums, Discounts and Issuance Fees**

The foreign exchange loss which has been recognized on the Consolidated Statement of Operations is \$16.7 million which represents a debit adjustment (31 March 2017 - \$13.1 million - debit adjustment). The net amortization expense on premiums (discounts) and issuance fees is \$2.5 million which represents a debit adjustment (31 March 2017 - \$61.2 million - credit adjustment).

**6. Sensitivity Analysis**

An increase/decrease of one cent in the foreign exchange rates at 31 March 2018 would result in an increase/decrease in foreign borrowings of \$10.5 million (31 March 2017 - \$10.5 million).

**7. Related Sinking Fund Investments**

At year end, the Province held \$664.1 million worth of its own debentures (face value) in sinking funds as active investments (31 March 2017 - \$669.9 million) which are reflected in the sinking fund balances disclosed in note 2 above. These were comprised of \$478.3 million in Canadian investments and \$185.8 million in US investments.

**8. Debt Related Risk**

The practice of borrowing in both domestic and foreign currencies may potentially give rise to a number of risks including interest rate, credit, foreign exchange and liquidity risk. Interest rate risk is the risk that debt servicing costs will increase due to changes in interest rates while credit risk is the risk that a loss may occur from the failure of another party to meet its obligations under a derivative financial instrument contract. As well, foreign exchange risk is the risk that debt servicing costs will increase due to a decline in the value of the Canadian dollar relative to other currencies while liquidity risk is the risk that financial commitments will not be met over the short-term.

The Province attempts to manage its exposure to these risks and minimize volatility in its debt expenses by following a conservative debt and risk management strategy. The Province's debt portfolio is structured such that virtually all of its debt is long-term with fixed interest rates and fixed repayment terms. When appropriate and the option is available, debt with high interest rates has been called and refinanced with new lower interest rate debt. Otherwise, debt is generally held until maturity. Hence, the Province's exposure to interest rate and credit risk is minimal as a result of its conservative debt management strategy.

While the majority of the Province's debt is domestic in nature, there are a number of US dollar denominated debt issues. All of these are long-term issues and the Province has established sinking funds, also in US dollars, to provide repayment of the debt at maturity. For debt servicing purposes, short-term forward contracts are occasionally entered into when favorable exchange rates are available to minimize exposure to foreign exchange risk.

The Province's exposure to liquidity risk is managed by distributing debt maturities over several years, maintaining sinking funds for the repayment of certain long-term debt issues and holding adequate cash reserves or short-term borrowings as contingent sources of liquidity.

Atlantic Lottery Corporation Inc. and Nalcor Energy operate in environments with various forms of financial risk including changes in interest rates, and fluctuation in foreign currency exchange rates and commodity prices. A combination of financial instruments and portfolio management tools and techniques are utilized to manage these risks. Net borrowings of Atlantic Lottery Corporation Inc. and Nalcor Energy are reflected in the Equity in government business enterprises and partnership on the Consolidated Statement of Financial Position.

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Guaranteed Debt As at 31 March 2018 with comparative figures for 2017

	2018	2017
	(\$000)	(\$000)
Guaranteed Debentures		
Newfoundland and Labrador Hydro	1,616,551	1,446,358
Newfoundland and Labrador Housing Projects - note 4	36,965	46,067
Municipalities	593	575
	1,654,109	1,493,000
Guaranteed Bank Loans		
Fisheries	31,242	37,707
Other corporations	560	530
	31,802	38,237
Total: Guaranteed Debt	1,685,911	1,531,237

#### NOTES

**1. Limit of Loan Guarantees**

The limit of loan guarantees for guaranteed debentures is \$1,654.1 million and \$72.6 million for guaranteed bank loans.

**2. Provision for Guaranteed Debt**

The provision for probable losses on guaranteed debt is nil (31 March 2017 - \$0.7 million).

**3. General Terms and Conditions**

Guaranteed debentures for Newfoundland and Labrador Hydro have maturity dates ranging from February 2026 to October 2048 at interest rates varying from 3.6% to 8.4%. Other guaranteed debentures and guaranteed bank loans have maturity dates ranging from April 2018 to December 2035 at interest rates varying from 0.87% to 10.5%.

**4. Loan Guarantees**

The Newfoundland and Labrador Housing Corporation has provided loan guarantees pursuant to the Canada-Newfoundland Social Housing Agreement in respect of certain Canada Mortgage and Housing Corporation debt of partner managed housing operations.

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Losses, Uncollectible Accounts and Other Amounts Written Off As at 31 March 2018 with comparative figures for 2017

Department	2018 (\$000)	2017 (\$000)
Finance:		
Remissions	98	186
Uncollectible accounts	267	-
	<u>365</u>	<u>186</u>
Advanced Education, Skills and Labour:		
Uncollectible accounts	7,906	3,951
Children, Seniors and Social Development:		
Uncollectible accounts	83	-
Education and Early Childhood Development:		
Uncollectible accounts	20	28
Fisheries and Land Resources:		
Loan forgiveness	-	4,227
Tax forgiveness	1,741	1,741
Uncollectible accounts	2	-
	<u>1,743</u>	<u>5,968</u>
Justice and Public Safety:		
Uncollectible accounts	-	1,570
Municipal Affairs and Environment:		
Uncollectible accounts	77	-
Natural Resources:		
Uncollectible accounts	4	-
Service Newfoundland and Labrador:		
Uncollectible accounts	8	-
Tourism, Culture, Industry and Innovation:		
Loan forgiveness	-	856
Uncollectible accounts	-	870
	<u>-</u>	<u>1,726</u>
Total: Losses, Uncollectible Accounts and Other Amounts Written Off	<u>10,206</u>	<u>13,429</u>

#### NOTE

Losses, Uncollectible Accounts and Other Amounts Written Off includes balances of the Consolidated Revenue Fund.

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Trust Accounts As at 31 March 2018 with comparative figures for 2017

	2018	2017
	(\$000)	(\$000)
Supreme Court of Newfoundland and Labrador	41,073	22,450
Office of the Public Trustee	35,842	36,299
Refund Deposit Account (formerly known as Rate Stabilization Fund)	7,971	10,788
Scholarships and Awards	7,377	7,393
Teachers' Accrued Salary Trust Account	7,032	7,680
Consolidated Tender Account	5,451	4,876
Patients' Funds Held in Trust	4,871	5,020
Federal/Provincial Contractors' Security Account	4,759	2,746
Replacement Reserve Funds	3,812	3,794
Support Enforcement	1,113	1,473
Provincial Courts Trust Account	484	585
Other Trust Accounts	4,598	2,341
Total: Trust Accounts	124,383	105,445

#### NOTE

#### Workplace, Health, Safety and Compensation Commission

The Workplace, Health, Safety and Compensation Commission (the Commission) is considered to be a form of trust. For the most recent fiscal year ended 31 December 2017, the Commission reported a net fund surplus of \$362.5 million (31 December 2016 - net fund surplus of \$291.1 million) and an accumulated operating surplus of \$362.7 million (31 December 2016 - surplus of \$291.2 million). Under legislation, no liability on behalf of the Province has been established.

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Tangible Capital Assets As at 31 March 2018 with comparative figures for 2017

Category	Original Cost			Accumulated Amortization			Net Book Value 31 March 2018	Net Book Value 31 March 2017	
	Balance 31 March 2017 (\$mil)	Additions 2018 (\$mil)	Disposals 2018 (\$mil)	Balance 31 March 2018 (\$mil)	Balance 31 March 2017 (\$mil)	Amort. Net of Disposals 2018 (\$mil)			Balance 31 March 2018 (\$mil)
Buildings	3,982.0	138.6	45.4	4,075.2	1,881.1	68.7	1,949.8	2,125.4	2,100.9
Marine vessels & aircraft	343.4	56.3	-	399.7	107.7	13.0	120.7	279.0	235.7
Equipment & machinery	1,739.6	69.0	114.5	1,694.1	1,356.5	(37.2)	1,319.3	374.8	383.1
Infrastructure	5,081.2	99.0	0.2	5,180.0	3,938.4	90.9	4,029.3	1,150.7	1,142.8
Computer software	183.3	16.8	0.6	199.5	130.5	22.1	152.6	46.9	52.8
Sub-total	<u>11,329.5</u>	<u>379.7</u>	<u>160.7</u>	<u>11,548.5</u>	<u>7,414.2</u>	<u>157.5</u>	<u>7,571.7</u>	3,976.8	3,915.3
Work in progress				<u>416.3</u>				<u>416.3</u>	<u>394.9</u>
Total				<u>11,964.8</u>				<u>4,393.1</u>	<u>4,310.2</u>

#### NOTES

##### 1. Tangible Capital Assets

Tangible capital assets are capitalized on the Consolidated Statement of Financial Position with the cost of the assets amortized over the estimated useful life of the assets.

##### 2. Work In Progress

Work in progress is considered to be a tangible capital asset, however it is not amortized as it is not yet available for use. The Province currently has a number of projects under construction or development with a total for 31 March 2018 of \$416.3 million (31 March 2017 - \$394.9 million) having been spent on these projects to date. Upon completion, these assets are recorded in the appropriate category in the schedule. The additions of \$379.7 million include \$191.2 million of work in progress assets that have been capitalized in the year. Net additions to work in progress assets include additions of \$212.4 million less disposals of nil for 2017-18.

## TANGIBLE CAPITAL ASSETS (continued)

**3. Accumulated Amortization**

The \$157.5 million change in accumulated amortization from the prior year, as reported in the Tangible Capital Asset schedule, consists of amortization expense of \$314.1 million less accumulated amortization on assets disposed of in the year in the amount of \$156.8 million.

The \$274.1 million change in accumulated amortization as at 31 March 2017 consisted of amortization expense of \$301.0 million less accumulated amortization on assets disposed of in the year in the amount of \$25.7 million. The remaining decrease of \$1.2 million is the result of adjustments by certain entities.

**4. Estimated Useful Life**

The historic cost of the assets is estimated in many cases, and amortization is calculated on a straight line basis over the following useful lives:

Asset	Estimated Useful Life
Buildings	40 years
Marine vessels & aircraft	
Marine vessels	20 years
Aircraft	20 years
Equipment & machinery	
Heavy machinery and equipment	20 years
Snow removal equipment	10 years
Office/other machinery and equipment	10 years
Vehicles	5 years
Computer hardware	4 years
Infrastructure	
Roads	20 years
Airstrips	20 years
Marine facility infrastructure	20 years
Other infrastructure	20 years
Land	indefinite
Bridges	40 years
Computer software	7 years

The above useful lives reflect the policies of the Consolidated Revenue Fund. Amortization reported by other organizations included in the Government reporting entity is recorded in these statements as per the amortization policies of these other organizations. These policies may differ from those identified above.

**5. Historical or Cultural Assets**

In accordance with current accounting standards, certain assets which have historical or cultural value belonging to the Province are not included in this schedule. Such assets consist of paintings, sculptures, historical documents, and historical and cultural artifacts.

## TANGIBLE CAPITAL ASSETS (continued)

**6. Intangible and Inherited Assets**

Intangible assets and items inherited by right of the Crown, such as Crown lands, forest, and mineral resources, are not recognized as tangible capital assets in accordance with current accounting standards.

**7. Leased Assets**

The gross amount of leased tangible capital assets is \$36.4 million (31 March 2017 - \$51.9 million), amortization expense is \$1.4 million (31 March 2017 - \$1.5 million) and accumulated amortization is \$23.2 million (31 March 2017 - \$39.2 million). These are included in the appropriate category in the schedule.

**8. Expropriated Assets**

In December 2008, the Province passed legislation entitled Abitibi-Consolidated Rights and Assets Act, to expropriate certain rights and assets from Abitibi-Consolidated. The intent of this Act was to return to the Province rights relating to timber and water use, as well as assets and land associated with the generation of electricity enabled by water use rights. As a result of the expropriation, the Province also assumed responsibility of other assets associated with the pulp and paper mill. While the Province has licensed Nalcor Energy to manage and operate the hydro electricity generating assets on behalf of the Province, the intent is to transfer these assets to Nalcor Energy or Newfoundland and Labrador Hydro. Nalcor Energy is operating these electricity generating assets on a cost recovery basis and with revised power purchase rates now applying to these facilities. As the value of the electricity generating assets expropriated, and their ultimate use, have not been determined, any payments related to subsection 10.(2) of the Act have been recorded as tangible capital assets. \$152.1 million, (net) has been recorded as the cost of the electricity generating assets for the fiscal year ended 31 March 2018 and are included in the infrastructure category. As the value of the non-electricity generating assets expropriated, and their ultimate future use have not been determined, they have been recorded as tangible capital assets at a nominal amount.



# PROVINCE OF NEWFOUNDLAND AND LABRADOR

## Revenue by Source For the year ended 31 March 2018 with comparative figures for 2017

	Actuals 2018 (\$000)	Original Budget 2018 (Note 21) (\$000)	Actuals 2017 (\$000)
<b>Provincial Sources</b>			
<b>Taxation</b>			
Personal income tax	1,472,886	1,625,828	1,610,845
Sales tax	1,243,991	1,238,367	1,102,241
Corporate income tax	301,738	342,227	232,258
Gasoline tax	258,088	273,824	309,119
Mining and mineral rights tax	93,352	37,229	60,035
Other	397,029	407,114	413,748
	<u>3,767,084</u>	<u>3,924,589</u>	<u>3,728,246</u>
<b>Investment</b>			
Sinking fund earnings	59,053	60,858	56,852
Interest	34,066	11,764	30,138
Other	10,771	-	2,654
	<u>103,890</u>	<u>72,622</u>	<u>89,644</u>
<b>Fees and Fines</b>			
Fees	350,522	341,642	361,262
Fines	13,790	14,662	10,117
	<u>364,312</u>	<u>356,304</u>	<u>371,379</u>
<b>Offshore royalties</b>	943,946	881,682	982,693
<b>Miscellaneous</b>			
Sales and rentals	98,552	-	69,475
Cost recoveries	32,860	-	36,278
Other	411,864	406,451	324,157
	<u>543,276</u>	<u>406,451</u>	<u>429,910</u>
<b>Total Provincial Sources</b>	<u>5,722,508</u>	<u>5,641,648</u>	<u>5,601,872</u>
<b>Federal Sources</b>			
Health and social transfers	739,369	736,243	725,097
Cost-shared programs	390,443	510,297	324,025
Other	54,428	9,710	54,826
<b>Total Federal Sources</b>	<u>1,184,240</u>	<u>1,256,250</u>	<u>1,103,948</u>
Net income of government business enterprises and partnership - see note	373,397	441,047	451,246
<b>Total: Revenue by Source</b>	<u><u>7,280,145</u></u>	<u><u>7,338,945</u></u>	<u><u>7,157,066</u></u>

### NOTE

See Schedule 4 for a breakdown by entity.

# PROVINCE OF NEWFOUNDLAND AND LABRADOR

## Expenses by Department For the year ended 31 March 2018 with comparative figures for 2017

	Actuals 2018 (\$000)	Original Budget 2018 (Note 21) (\$000)	Actuals 2017 (\$000)
<b>General Government Sector and Legislative Branch</b>			
<b>General Government Sector</b>			
Consolidated Fund Services	677,228	479,200	836,862
Executive Council	100,509	98,942	101,167
Finance	624,358	801,616	629,077
Government Purchasing	1,741	2,191	1,971
Public Service Commission	2,495	2,543	2,591
Service NL	38,661	38,868	38,953
Transportation and Works	402,283	433,767	459,954
<b>Legislative Branch</b>			
Legislature	21,913	24,265	23,427
	<u>1,869,188</u>	<u>1,881,392</u>	<u>2,094,002</u>
<b>Resource Sector</b>			
Advanced Education, Skills and Labour	1,185,616	1,165,198	1,118,274
Fisheries and Land Resources	142,348	110,675	113,139
Natural Resources	76,071	44,997	78,163
Tourism, Culture, Industry and Innovation	102,094	105,136	102,434
	<u>1,506,129</u>	<u>1,426,006</u>	<u>1,412,010</u>
<b>Social Sector</b>			
Children, Seniors and Social Development	178,717	99,345	171,780
Education and Early Childhood Development	805,039	859,869	832,204
Health and Community Services	3,197,801	3,156,903	3,203,269
Justice and Public Safety	266,316	249,421	260,091
Municipal Affairs and Environment	241,716	305,886	210,668
Newfoundland and Labrador Housing Corporation	125,989	137,674	120,814
	<u>4,815,578</u>	<u>4,809,098</u>	<u>4,798,826</u>
<b>Total: Expenses by Department</b>	<u><u>8,190,895</u></u>	<u><u>8,116,496</u></u>	<u><u>8,304,838</u></u>

### NOTE

Expenses by Department includes expenses by organizations in the Government reporting entity which report to that department.

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Expenses by Object For the year ended 31 March 2018 with comparative figures for 2017

	<u>Actuals</u> 2018 (\$000)	<u>Original</u> <u>Budget</u> 2018 (Note 21) (\$000)	<u>Actuals</u> 2017 (\$000)
Salaries and employee benefits - note 1	3,513,407	3,410,444	3,773,794
Grants and subsidies	1,585,109	1,677,380	1,505,588
Operating costs	1,161,683	1,225,259	1,183,028
Debt expenses	997,766	980,799	955,918
Professional services	528,648	513,015	493,261
Amortization and (gain)/loss on the sale of tangible capital assets	314,715	274,543	298,709
Property, furnishings and equipment - note 2	72,635	32,465	76,461
Valuation allowances (recovery)	16,932	2,591	18,079
Total: Expenses by Object	<u>8,190,895</u>	<u>8,116,496</u>	<u>8,304,838</u>

#### NOTES

#### 1. Salaries and employee benefits

Salaries and employee benefits consists of the following.

	<u>2018</u> (\$mil)	<u>2017</u> (\$mil)
Salaries	2,726.4	2,723.4
Retirement costs	413.9	639.0
Other benefits	170.5	216.5
Paid and annual leave	108.8	107.4
Severance	57.8	32.9
Sick leave	36.0	54.6
	<u>3,513.4</u>	<u>3,773.8</u>

#### 2. Property, Furnishings and Equipment

This amount includes expenses for property, furnishings and equipment that do not meet the established definition or thresholds for tangible capital assets.

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Revenue and Expense by Sector For the year ended 31 March 2018

	General Government Sector and Legislative Branch (\$000)	Resource Sector (\$000)	Social Sector (\$000)	Total (\$000)
<b>REVENUE</b>				
Provincial				
Taxation	3,809,654	259	-	3,809,913
Investment	76,637	22,154	5,099	103,890
Fees and Fines	147,674	120,565	96,073	364,312
Offshore Royalties	377	943,569	-	943,946
Other	44,699	307,018	208,501	560,218
Federal sources	<u>781,201</u>	<u>207,823</u>	<u>195,216</u>	<u>1,184,240</u>
	4,860,242	1,601,388	504,889	6,966,519
Net income of government business enterprises and partnership	<u>311,150</u>	<u>62,247</u>	<u>-</u>	<u>373,397</u>
<b>Total Sector Revenue - note 2</b>	<u>5,171,392</u>	<u>1,663,635</u>	<u>504,889</u>	<u>7,339,916</u>
<b>EXPENSE</b>				
Salaries and employee benefits	431,645	663,613	2,461,019	3,556,277
Operating costs	286,494	264,089	698,775	1,249,358
Grants and subsidies	159,050	460,701	894,225	1,513,976
Debt expenses	921,869	31,511	44,386	997,766
Professional services	10,358	13,092	505,198	528,648
Amortization and loss on sale of tangible capital assets	124,971	67,125	122,619	314,715
Property, furnishings, and equipment	1,084	13,633	58,277	72,994
Valuation allowances	<u>5,459</u>	<u>7,402</u>	<u>4,071</u>	<u>16,932</u>
<b>Total Sector Expense - note 3</b>	<u>1,940,930</u>	<u>1,521,166</u>	<u>4,788,570</u>	<u>8,250,666</u>
Sector Results - before adjustments	3,230,462	142,469	(4,283,681)	(910,750)
Inter-Sector Eliminations	<u>28,913</u>	<u>5,498</u>	<u>(34,411)</u>	<u>-</u>
Annual Surplus (Deficit)	<u>3,259,375</u>	<u>147,967</u>	<u>(4,318,092)</u>	<u>(910,750)</u>

See accompanying notes.

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**NOTES TO THE SCHEDULE OF REVENUE AND EXPENSE BY SECTOR**  
**For the year ended 31 March 2018**

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**1. Sectors**

The sectors identified above are consistent with the presentation of the Consolidated Statement of Operations, the 2017-18 Estimates, as well as the reorganization of government departments which was effective 01 April 2017. Each sector includes the revenue and expenses of the applicable departments and the organizations in the Government reporting entity which report to their respective department. Certain amounts have been allocated on a systematic basis. Refer to Schedule 12 - Expenses by Department for a list of departments included within each sector.

**2. Sector Revenue**

Sector revenues include revenues generated from within the Government reporting entity. These inter-sector transactions are eliminated upon consolidation. Total eliminations pertaining to revenues amount to \$59.8 million resulting in total revenue of \$7,280.1 million as per the Consolidated Statement of Operations.

**3. Sector Expense**

Sector expenses include expenses incurred from within the Government reporting entity. These inter-sector transactions are eliminated upon consolidation. Total eliminations pertaining to expenses amount to \$59.8 million resulting in total expense of \$8,190.9 million as per the Consolidated Statement of Operations.

# PROVINCE OF NEWFOUNDLAND AND LABRADOR

## Government Reporting Entity For the year ended 31 March 2018

### GOVERNMENT ORGANIZATIONS

	Board of Commissioners of Public Utilities
note 5	Business Investment Corporation
	C.A. Pippy Park Commission
	Central Regional Health Authority
D	Chicken Farmers of Newfoundland and Labrador
D - note 1	Churchill Falls (Labrador) Corporation Trust
	College of the North Atlantic
J	Conseil scolaire francophone provincial de Terre-Neuve et Labrador
	Consolidated Revenue Fund
D	Credit Union Deposit Guarantee Corporation
JU	Dairy Farmers of Newfoundland and Labrador
note 2	Eastern Regional Health Authority
D	Egg Farmers of Newfoundland and Labrador
	Heritage Foundation of Newfoundland and Labrador
	Labrador-Grenfell Regional Health Authority
	Livestock Owners Compensation Board
A	Marble Mountain Development Corporation
	Memorial University of Newfoundland
	Multi-Materials Stewardship Board
	Municipal Assessment Agency Inc.
	Newfoundland and Labrador 911 Bureau Inc.
	Newfoundland and Labrador Arts Council
	Newfoundland and Labrador Centre for Health Information
	Newfoundland and Labrador Crop Insurance Agency
J - note 3	Newfoundland and Labrador English School District
	Newfoundland and Labrador Farm Products Corporation
	Newfoundland and Labrador Film Development Corporation
	Newfoundland and Labrador Housing Corporation
	Newfoundland and Labrador Immigrant Investor Fund Limited
	Newfoundland and Labrador Industrial Development Corporation
	Newfoundland and Labrador Legal Aid Commission
	Newfoundland and Labrador Municipal Financing Corporation
	Newfoundland and Labrador Sports Centre Inc.
	Newfoundland Hardwoods Limited
note 4	Newfoundland Ocean Enterprises Limited
	Provincial Advisory Council on the Status of Women - Newfoundland and Labrador
	Provincial Information and Library Resources Board
note 5	Research and Development Corporation of Newfoundland and Labrador

## GOVERNMENT REPORTING ENTITY (continued)

GOVERNMENT ORGANIZATIONS

Student Loan Corporation of Newfoundland and Labrador  
 The Rooms Corporation of Newfoundland and Labrador  
 Western Regional Health Authority

GOVERNMENT BUSINESS ENTERPRISES

D Nalcor Energy  
 F Newfoundland and Labrador Liquor Corporation

GOVERNMENT BUSINESS PARTNERSHIP

Atlantic Lottery Corporation Inc. (25% ownership)

LEGEND

A This entity has a year end of 30 April.  
 D These entities have a year end of 31 December.  
 J These entities have a year end of 30 June.  
 JU This entity has a year end of 31 July.  
 F This entity has a floating year end to align with its four 13 week reporting periods. The fiscal year end of the entity will end on the first Saturday of April each year.

NOTES

- 1 Churchill Falls (Labrador) Corporation Trust is included in the Government reporting entity for consolidation since, in substance, it is closely held and controlled by the Province and is administered by senior Government officials.
- 2 Eastern Regional Health Authority controls a number of foundations/associations which have not been consolidated within their financial statements. In accordance with Public Sector Accounting Standards, these organizations have been included within the Province's 2017-18 Consolidated Summary Financial Statements. These entities are as follows: 1) Health Care Foundation of St. John's Inc; 2) Janeway Children's Hospital Foundation; 3) Dr. H. Bliss Murphy Cancer Care Foundation; 4) Discovery Health Care Foundation Inc.; 5) Trinity-Conception-Placentia Health Foundation Inc.; 6) The Burin Peninsula Health Care Foundation Inc.
- 3 Newfoundland and Labrador English School District controls a number of foundations/associations which have not been consolidated within their financial statements. In accordance with Public Sector Accounting Standards, these associations have been included within the Province's 2017-18 Consolidated Summary Financial Statements. These entities are as follows: 1) Newfoundland and Labrador Education Foundation Inc.; and 2) Newfoundland and Labrador International Student Education Inc.
- 4 During 2017-18, Newfoundland Ocean Enterprises Limited ceased operations.
- 5 During the year, the Department of Tourism, Culture, Industry and Innovation took over operations of the Research and Development Corporation of Newfoundland and Labrador. Subsequent to year end, the operations of the Research and Development Corporation of Newfoundland and Labrador and the Business Investment Corporation were combined.



# **Province of Newfoundland and Labrador**

## **Consolidated Revenue Fund Financial Information (Unaudited)**

**For The Year Ended  
31 March 2018**



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## INTRODUCTION

This supplementary information is comprised of the Consolidated Revenue Fund Financial Information which presents the financial statements of the Consolidated Revenue Fund of the Province of Newfoundland and Labrador. The Consolidated Revenue Fund, as required by the *Financial Administration Act*, is comprised of all public money over which the Legislature has power of appropriation.

These unaudited financial statements are prepared by the Comptroller General of Finance on the accrual basis of accounting in accordance with the Public Sector Accounting Standards of the Chartered Professional Accountants of Canada. The accounting policies applied in the preparation of these financial statements are consistent with those disclosed in Note 1 to the Consolidated Summary Financial Statements. Where available, Original Budget figures prepared on the accrual basis of accounting are provided on several statements for comparison purposes. As well, restatements to the comparative fiscal year as disclosed in the Consolidated Summary Financial Statements applicable to the Consolidated Revenue Fund have also been reflected in these statements.

The Consolidated Revenue Fund Financial Information for previous years is also available on the Internet at: [http://www.fin.gov.nl.ca/fin/public\\_accounts/index.html](http://www.fin.gov.nl.ca/fin/public_accounts/index.html)

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**PROVINCE OF NEWFOUNDLAND AND LABRADOR**
**Statement of Financial Position  
As at 31 March 2018  
with comparative figures for 2017**

	Actuals 2018 (\$000)	Actuals 2017 (\$000)
<b>FINANCIAL ASSETS</b>		
	1,333,674	1,606,167
	90,473	46,453
Sch. A	528,291	432,009
	101,677	93,018
	426,614	338,991
Sch. B	178,775	364,091
	11,286	5,823
	167,489	358,268
Sch. C	3,793,396	3,201,310
	9,861	9,861
	3,783,535	3,191,449
	<u>5,801,785</u>	<u>5,541,328</u>
<b>Total Financial Assets</b>		
<b>LIABILITIES</b>		
Sch. D	1,884,614	1,823,654
	24,514	36,102
Sch. E	12,835,748	11,710,510
	1,420,497	1,334,747
	(182,231)	(227,911)
	11,233,020	10,147,852
	2,743,764	2,674,238
	358,672	277,653
	4,342,519	4,405,632
	4,701,191	4,683,285
	<u>20,587,103</u>	<u>19,365,131</u>
<b>Total Liabilities</b>		
<b>NET DEBT</b>		
	<u>14,785,318</u>	<u>13,823,803</u>
<b>NON-FINANCIAL ASSETS</b>		
	2,500,782	2,528,257
	8,884	5,213
	32,107	31,811
	<u>2,541,773</u>	<u>2,565,281</u>
<b>Total Non-Financial Assets</b>		
<b>ACCUMULATED DEFICIT</b>		
	<u>12,243,545</u>	<u>11,258,522</u>

The accompanying supporting schedules form an integral part of the financial statements.

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Statement of Change in Net Debt For the year ended 31 March 2018 with comparative figures for 2017

	Actuals 2018 (\$000)	Original Budget 2018 (\$000)	Actuals 2017 (\$000)
<b>NET DEBT - beginning of period</b>	13,823,803	14,405,922	12,686,019
<b>Surplus (Deficit) for the period</b>	<u>(985,023)</u>	<u>(874,841)</u>	<u>(1,204,388)</u>
<b>Changes in tangible capital assets</b>			
Acquisition of tangible capital assets	145,639	222,979	90,356
Net book value of tangible capital asset disposals	(1,256)	-	(335)
Amortization of tangible capital assets	<u>(171,858)</u>	<u>(158,727)</u>	<u>(157,645)</u>
<b><i>Increase in net book value of tangible capital assets</i></b>	<u>(27,475)</u>	<u>64,252</u>	<u>(67,624)</u>
<b>Changes in other non-financial assets</b>			
Acquisition of prepaid expenses (net of usage)	3,671		344
Acquisition of inventories of supplies (net of usage)	<u>296</u>		<u>676</u>
<b><i>Increase in other non-financial assets</i></b>	<u>3,967</u>		<u>1,020</u>
<b><i>Increase (Decrease) in net debt</i></b>	<u>961,515</u>	<u>939,093</u>	<u>1,137,784</u>
<b>NET DEBT - end of period</b>	<u><u>14,785,318</u></u>	<u><u>15,345,015</u></u>	<u><u>13,823,803</u></u>

The accompanying supporting schedules form an integral part of the financial statements.

**PROVINCE OF NEWFOUNDLAND AND LABRADOR**

**Statement of Operations  
For the year ended 31 March 2018  
with comparative figures for 2017**

	Actuals 2018 (\$000)	Original Estimates 2018 (\$000)	Actuals 2017 (\$000)
<b>REVENUE</b>			
Provincial			
Tax Revenue			
Sales	1,243,991	1,238,367	1,102,241
Personal income	1,472,886	1,625,828	1,610,845
Gasoline	258,088	273,824	309,119
Corporate income	301,738	342,227	232,258
Mining and mineral rights	93,352	37,229	60,035
Other	439,858	407,114	455,983
Non-Tax Revenue			
Offshore royalties	943,946	881,682	982,693
Investment	310,908	371,041	317,733
Fees and fines	192,667	106,610	209,677
Other	33,911	-	30,902
Provincial related revenue	260,754	232,585	233,029
Federal			
Health and social transfers	739,369	736,243	725,097
Other	9,177	9,710	9,547
Federal related revenue	324,723	342,984	269,497
<b>Total Revenue</b>	<b>6,625,368</b>	<b>6,605,444</b>	<b>6,548,656</b>
<b>EXPENSE</b>			
Salaries and employee benefits	773,108	606,762	987,208
Transportation and communications	28,536	35,037	29,385
Supplies	101,743	107,078	97,907
Professional services	498,480	486,716	467,130
Purchased services	286,288	221,077	349,729
Property, furnishings and equipment	4,750	2,857	15,723
Allowances and assistance	715,236	556,678	675,263
Grants and subsidies	4,086,725	4,231,766	4,021,301
Debt expenses	928,982	1,073,587	942,776
Amortization and (gain)/loss of the sale of tangible capital assets	172,424	158,727	157,645
Valuation allowances (recovery)	14,119	-	8,977
<b>Total Expense</b>	<b>7,610,391</b>	<b>7,480,285</b>	<b>7,753,044</b>
<b>ANNUAL SURPLUS (DEFICIT)</b>	<b>(985,023)</b>	<b>(874,841)</b>	<b>(1,204,388)</b>

The accompanying supporting schedules form an integral part of the financial statements.

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Statement of Change in Accumulated Deficit For the year ended 31 March 2018 with comparative figures for 2017

	Actuals 2018 (\$000)	Original Budget 2018 (\$000)	Actuals 2017 (\$000)
<b>ACCUMULATED DEFICIT - beginning of period</b>	11,258,522		10,054,134
<b>Surplus (Deficit) for the period</b>	(985,023)	(874,841)	(1,204,388)
<b>ACCUMULATED DEFICIT - end of period</b>	12,243,545		11,258,522

The accompanying supporting schedules form an integral part of the financial statements.

**PROVINCE OF NEWFOUNDLAND AND LABRADOR**

**Statement of Cash Flows  
For the year ended 31 March 2018  
with comparative figures for 2017**

	Actuals 2018	Actuals 2017
	(\$000)	(\$000)
<b>Funds provided from (applied to):</b>		
<b>OPERATIONS</b>		
Annual surplus (deficit)	(985,023)	(1,204,388)
Add (Deduct) non-cash items:		
Accounts payable	24,646	138,301
Accounts receivable	(96,282)	144,602
Amortization of foreign exchange (gains)/losses, premiums (discounts) and and issuance fees	19,153	(48,014)
Amortization of tangible capital assets	171,858	157,645
April writebacks	(33,120)	23,821
Deferred revenue	(11,588)	6,274
Other	(11,156)	47,530
Retirement costs	150,547	373,104
Sinking funds	(58,223)	(56,048)
Special purpose funds/contractors' holdback funds	32,544	119
Valuation allowances	14,119	8,977
<b>Net cash provided from (applied to) operating transactions</b>	<u>(782,525)</u>	<u>(408,077)</u>
<b>CAPITAL</b>		
Acquisitions	(145,639)	(90,356)
Disposals	1,256	335
<b>Net cash provided from (applied to) capital transactions</b>	<u>(144,383)</u>	<u>(90,021)</u>
<b>FINANCING</b>		
Debt issued	1,175,000	2,925,000
Debt retirement	(5,833)	(5,361)
Retirement of promissory note	(63,113)	(59,541)
Sinking fund contributions	(43,556)	(43,556)
Treasury bills purchased	3,910,365	3,055,315
Treasury bills redeemed	(3,911,770)	(4,368,954)
<b>Net cash provided from (applied to) financing transactions</b>	<u>1,061,093</u>	<u>1,502,903</u>
<b>INVESTING</b>		
Loan advances and investments	(634,542)	(1,073,724)
Loan repayments	227,864	9,720
<b>Net cash provided from (applied to) investing transactions</b>	<u>(406,678)</u>	<u>(1,064,004)</u>
<b>Net cash provided (applied)</b>	(272,493)	(59,199)
Cash and temporary investments - beginning of period	1,606,167	1,665,366
<b>CASH AND TEMPORARY INVESTMENTS - end of period</b>	<u>1,333,674</u>	<u>1,606,167</u>

The accompanying supporting schedules form an integral part of the financial statements.



## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Accounts and Taxes Receivable As at 31 March 2018 with comparative figures for 2017

	2018	2017
	(\$000)	(\$000)
Accounts Receivable:		
Offshore royalties	119,007	109,958
Innovation and Business Development Fund Receivable	60,000	-
Social assistance overpayments	58,038	52,810
Newfoundland Labrador Liquor Corporation	51,212	53,788
Court fines	43,270	40,519
Miscellaneous/other receivables	24,882	22,409
Student loans	10,695	13,911
Community Investment Fund	9,167	-
Rent and other royalties/permits to occupy	6,034	4,811
Reciprocal billings - medical services	4,870	4,816
Workplace, Health, Safety and Compensation Commission	2,938	1,451
Amounts due as a result of Constituency Allowance review	2,668	2,700
Medical care plan audit recoveries	2,024	1,163
Atlantic Lottery Corporation Incorporated	1,704	2,537
Due from municipalities	1,522	2,015
Funds held in trust	1,250	17,000
Accident recovery claims	793	33
Province of Newfoundland and Labrador Pooled Pension Fund	506	24
Fees and licences	481	625
Travel advances	22	26
Total: Accounts Receivable	401,083	330,596
Taxes Receivable:		
Mining and mineral rights tax	51,469	20,547
Gasoline tax	17,469	27,577
Health and post secondary education tax	15,225	14,169
Sales tax	15,004	10,763
Tobacco tax	11,469	12,656
School tax	8,981	9,101
Insurance companies tax	7,206	6,250
Miscellaneous/other taxes	237	350
Forest management tax	148	-
Total: Taxes Receivable	127,208	101,413
Total: Accounts and Taxes Receivable	528,291	432,009

#### NOTE

The allowance for doubtful accounts for 31 March 2018 is \$101.7 million (31 March 2017 - \$93.0 million).

**PROVINCE OF NEWFOUNDLAND AND LABRADOR**

**Loans, Advances and Mortgages Receivable**

**As at 31 March 2018**

**with comparative figures for 2017**

	<u>2018</u>	<u>2017</u>
	(\$000)	(\$000)
Crown Agencies - note 6:		
C.A. Pippy Park Commission	-	250
Memorial University of Newfoundland	21,746	-
Nalcor Energy	-	225,000
Newfoundland and Labrador Film Development Corporation	<u>6,819</u>	<u>6,819</u>
Total: Crown Agencies	<u>28,565</u>	<u>232,069</u>
Commercial Loans:		
6574262 Canada Inc.	500	500
Afinin Lab Inc.	30	30
Atlantic Canada Regional Adventure Fund Limited Partnership	6,962	5,737
Blue Drop Inc.	281	414
Blue Ocean Satellite Systems Inc.	152	193
Canada Fluorspar (NL) Inc.	17,000	-
Clear Risk Inc.	420	420
Corner Brook Pulp and Paper Limited	101,835	101,835
D.F. Barnes Fabrication Limited	275	425
Desire2Learn Incorporated	1,075	674
Doyle, James & Sons Ltd.	771	771
Eastern Composite Services Inc.	399	399
Holson Forest Products Ltd.	7,319	7,419
Hughes, Vincent	50	50
IC Spa Products Inc.	183	183
Icewater Harvesting Inc.	1,250	1,562
Island Seafoods Products Limited	125	125
Keats, Eric	102	102
Koby Seat Inc.	9	9
Marwood Ltd.	733	971
Mike Butland Fisheries	134	134
MyTechSupport.com Limited	20	20
MyTelescope.com Inc.	315	315
Newfoundland and Labrador Mobile Shelters Limited	500	500
Other Ocean Group Inc.	781	781
Phocalux International Inc.	785	800
Procom Data Services	127	127
Pumphrey, Gerry	537	537
ROINS Financial Services Limited	6,500	6,500
Saunders, Ralph	61	61
Seacraft Limited	68	68
Seaward, Alphonsus	99	99
Sexton Lumber Ltd.	1,104	1,301
Shell-Ex (formerly known as Eastern Star Group Canada Inc.)	145	150

**CONSOLIDATED REVENUE FUND (UNAUDITED)****LOANS, ADVANCES AND MORTGAGES RECEIVABLE (continued)**

	2018 (\$000)	2017 (\$000)
Commercial Loans:		
Short, William	262	262
Silk Stevens (NLL) Limited	56	89
Superior Waterproof Coatings NF & LB Inc.	154	154
Sweet, Roy	59	59
Uncle Phil's Think Tank Inc.	75	75
Verafin Inc.	6,000	5,273
Virtual Marine Technology	991	991
Wilson, Ronald & Curtis, Kevin	354	354
Total: Commercial Loans	<u>158,598</u>	<u>140,469</u>
Municipalities	630	630
Total: Other Organizations	<u>630</u>	<u>630</u>
Sub-Total: Loans, Advances and Mortgages Receivable	187,793	373,168
Less: Discounts due to concessionary terms - note 3	<u>(9,018)</u>	<u>(9,077)</u>
Total: Loans, Advances and Mortgages Receivable	<u><u>178,775</u></u>	<u><u>364,091</u></u>

**NOTES****1. Interest Rates and Loan Terms**

Interest rates on loans range from non-interest bearing to 14% and are repayable over terms not exceeding 23 years.

**2. Allowance for Doubtful Accounts**

The allowance for doubtful accounts for 31 March 2018 is \$11.3 million (31 March 2017 - \$5.8 million).

**3. Discounts Due to Concessionary Terms on Loans**

The discounts due to concessionary terms on loans are the portion of the receivable that represents the difference between the face value and the present value of the loan. The loans are reported at their present value due to the concessionary terms in the loan agreement.

**4. Short Term Promissory Note**

On 11 October 2016, the Province issued a short term promissory note to Nalcor Energy in the amount of \$225.0 million with interest at the three month Canadian Dollar Bankers Acceptances Rate. The amount was repaid to the Province during the year, using the proceeds loaned in note 6 below.

**5. Security**

Security exists for certain loans that can be accessed in the event of default.

**6. Loan Receivable**

During the year, the Province reopened general debenture 7C and issued \$300.0 million on 20 December 2017 and an additional \$300.0 million on 20 March 2018, both on behalf of a subsidiary of Nalcor Energy. In accordance with public sector accounting standards, the loan receivable from Nalcor Energy and the offsetting debenture debt are netted for presentation purposes. In addition, the interest revenue earned on this loan totaling \$10.0 million is netted against the offsetting interest expense on the debenture debt.

**PROVINCE OF NEWFOUNDLAND AND LABRADOR**

**Investments  
As at 31 March 2018  
with comparative figures for 2017**

Description of Investment	Balance 31 March 2018		2017	
	Net Additions (\$000)	No. of Shares	Cost (\$000)	Cost (\$000)
<b>Preferred Shares:</b>				
Atlantic Ocean Farms Limited - Class A, redeemable	-	289,655	290	290
Blue Line Innovations Inc. - Class B	-	5,000	500	500
Burton's Cove Logging and Lumber	(98)	74	3,591	3,689
Cold Ocean Salmon Inc. - Class A	-	10,000,000	10,000	10,000
Country Ribbon Inc.	-	4,500	4,500	4,500
Gray Aqua Group Ltd. - Class A	-	4,826,836	4,827	4,827
Newfoundland Aqua Services Ltd. - redeemable	-	2,000,000	2,000	2,000
Northern Harvest Sea Farms Newfoundland Ltd.	106	8,346,494	8,347	8,241
Pixecur Technologies Inc. - redeemable	-	4,000	400	400
Sexton Lumber Co. Ltd.	-	5,000	500	500
Shell-Ex - Class A	-	350	350	350
Total: Preferred Shares Investments	<u>8</u>		<u>35,305</u>	<u>35,297</u>
<b>Common Shares:</b>				
ACF Equity Atlantic Inc.	-	2,390,000	2,203	2,203
ACZEN Innovations Inc. - Class A	-	1,763	176	176
Adfinitum Networks Inc.	-	3,300	330	330
Atlantic Lottery Corporation Inc.	-	1	-	-
Consilient Technologies Corporation - Class B	-	568,182	500	500
First Choice Vision Centre Limited - Class B	(23)	4,537	321	344
Hurley Slate Works Company Inc. - Class B	-	400	400	400
Inter-Provincial Lottery Corporation - Class B	-	1	-	-
iSYS Intelligent Systems Solutions - Class F	(10)	986	78	88
Jackman Brand Marketing Inc. - Class B	-	1,250	125	125
Manitoba Telecom Services Inc.	-	126	-	-
Marble Mountain Development Corporation	-	500	-	-
Marine Industrial Lighting Systems	-	5,000	500	500
Municipal Assessment Agency	-	1	-	-
Nalcor Energy Corporation	-	122,500,018	110,187	110,187
NavSim Technologies	-	5,000	500	500
Newfoundland and Labrador Film Development Corporation	-	600	-	-
Newfoundland and Labrador Immigrant Investor Fund Ltd.	-	3	-	-

**CONSOLIDATED REVENUE FUND (UNAUDITED)**

INVESTMENTS (continued)

Description of Investment	Balance 31 March 2018		2017	
	Net Additions (\$000)	No. of Shares	Cost (\$000)	Cost (\$000)
<b>Common Shares:</b>				
Newfoundland Hardwoods Limited	-	253	25	25
Newfoundland Ocean Enterprises Limited	(3)	-	-	3
Northern Radar Inc. - Class C	-	3,749	375	375
Rooms Corporation of Newfoundland and Labrador Inc.	-	500	-	-
Solace Power Inc. - Class D	-	1,401	140	140
Trans Ocean Gas Inc.	-	18,000	90	90
Total: Common Shares Investments	<u>(36)</u>		<u>115,950</u>	<u>115,986</u>
<b>Non-Share Equity:</b>				
Nalcor Energy Corporation	589,885	-	3,575,055	2,985,170
Newfoundland and Labrador Housing Corporation	-	-	62,852	62,852
Newfoundland and Labrador Venture Capital Fund	2,193	-	4,643	2,450
Total: Non-Share Equity Investments	<u>592,078</u>		<u>3,642,550</u>	<u>3,050,472</u>
Sub-Total: Investments	592,050		3,793,805	3,201,755
Less: Discounts due to concessionary terms - note 2	-		(409)	(445)
Total: Investments	<u><u>592,050</u></u>		<u><u>3,793,396</u></u>	<u><u>3,201,310</u></u>

**NOTES**

**1. Allowance for Investment Write-downs**

The allowance for investment write-downs for 31 March 2018 is \$9.9 million (31 March 2017 - \$9.9 million).

**2. Discounts Due to Concessionary Terms on Investments**

The discounts due to concessionary terms on investments are the portion of the investments that represents the difference between the cost and the present value of the investment. The investments are reported at their present value due to the concessionary terms in the investment agreement.

**PROVINCE OF NEWFOUNDLAND AND LABRADOR**

**Other Liabilities  
As at 31 March 2018  
with comparative figures for 2017**

	2018	2017
	(\$000)	(\$000)
Taxes payable - note 1	545,802	559,567
Due to Government of Canada - note 2	289,671	289,218
Accounts payable write-backs	248,981	245,211
Accrued interest	206,472	202,734
Accrued salaries and employee benefits - note 3	205,860	207,955
Contaminated sites	137,026	121,582
Special purpose funds - note 6	52,898	12,870
Self-insured workers' compensation benefits - note 4	46,885	46,144
Offshore royalties	45,374	20,405
Due to municipalities	20,591	32,494
Physician services	18,339	16,744
Capital leases - note 5	18,284	20,390
Nalcor Energy	12,908	3,884
Reciprocal billing - hospital services payable	11,060	10,785
Contractors' holdbacks	7,959	15,443
Accounts payable - other	7,324	7,183
Provision for student loan debt reduction	5,491	3,666
Atlantic Lottery Corporation Incorporated	3,689	7,379
Total: Other Liabilities	<u>1,884,614</u>	<u>1,823,654</u>

**NOTES**

**1. Taxes Payable**

Taxes payable is comprised of \$327.6 million for corporate income tax (31 March 2017 - \$417.5 million), \$158.5 million for HST (31 March 2017 - \$131.4 million), \$53.9 million for personal income tax (31 March 2017 - nil) and \$5.8 million for other taxes (31 March 2017 - \$10.7 million).

**2. Due to Government of Canada**

This amount is comprised of \$266.7 million for an Equalization loan (31 March 2017 - \$266.7 million), \$18.8 million for an RCMP payable (31 March 2017 - \$18.3 million) and \$4.2 million for a Federal program (31 March 2017 - \$4.2 million).

**3. Accrued Salaries and Employee Benefits**

Accrued salaries and employee benefits consists of \$104.6 million for severance (31 March 2017 - \$93.9 million), \$57.1 million for paid/annual leave (31 March 2017 - \$59.0 million), \$24.9 million for salaries (31 March 2017 - \$27.1 million), \$15.8 million for sick leave (31 March 2017 - \$15.4 million), \$1.1 million for pay in lieu (31 March 2017 - \$10.3 million) and \$2.4 million for other benefits (31 March 2017 - \$2.3 million).

OTHER LIABILITIES (continued)

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**4. Self-Insured Workers' Compensation Benefits**

The amount of \$46.9 million relates to the self-insured workers' compensation benefits liability as at 31 March 2018 (31 March 2017 - \$46.1 million). During the 2016-17 fiscal year, an actuarial valuation as of 31 December 2016, with disclosures as at 31 March 2018, was obtained for the Province's self-insured workers' compensation benefits.

**5. Capital Leases**

Interest rates for all capital leases range from 9.41% to 16.00% and have repayment schedules ranging in duration from 1 to 6 years.

**6. Special Purpose Funds**

Included in this schedule are funds totalling \$52.9 million (31 March 2017 - \$12.9 million) considered to be special purpose funds whereby payments are made specifically for these purposes. Pursuant to Section 22(a) of the Financial Administration Act, appropriations are not required for these payments.

**PROVINCE OF NEWFOUNDLAND AND LABRADOR**

**Debenture and Other Debt  
As at 31 March 2018  
with comparative figures for 2017**

Series	Date of Issue	Date of Maturity	Interest Rate %	Amount in Foreign Currency (\$000)	Sinking Fund Balance (\$000)	Amount Issued or Outstanding		Notes
						2018 (\$000)	2017 (\$000)	
General Debentures:								
AG	01 Jun. 1989	01 Jun. 2019	9.00	(150,000U.S.)	198,872	193,410	199,485	1(a)
AH	01 Jun. 1990	01 Jun. 2020	9.88	(150,000U.S.)	70,770	193,410	199,485	1(a)
AJ	29 Nov. 1990	01 Dec. 2020	10.00	(150,000U.S.)	67,889	193,410	199,485	1(a)
5X	15 Apr. 1991	15 Apr. 2021	10.95		-	147,892	147,892	1(a)
AK	17 Oct. 1991	15 Oct. 2021	9.00	(200,000U.S.)	82,812	257,880	265,980	1(a)
AM	22 Oct. 1992	22 Oct. 2022	8.65	(200,000U.S.)	75,498	257,880	265,980	1(a)
AN	13 Oct. 1993	13 Oct. 2023	7.32	(200,000U.S.)	104,182	257,880	265,980	1(a)
6B	07 Jul. 1995	07 Jul. 2025	9.15		33,742	100,000	100,000	1(a)
6C	05 Feb. 1996	05 Feb. 2026	8.45		48,572	150,000	150,000	1(a)
6F	17 Apr. 1998	17 Apr. 2028	6.15		154,969	450,000	450,000	1(a)
6H	27 Jul. 1999	17 Oct. 2029	6.50		68,242	200,000	200,000	1(a)
6K	30 Jun. 2000	17 Oct. 2030	6.55		139,366	450,000	450,000	1(a)
6R	12 Jun. 2003	17 Oct. 2033	5.60		76,053	300,000	300,000	1(a)
6T	21 Sep. 2004	17 Oct. 2035	5.70		68,353	300,000	300,000	1(a)
6U	28 Nov. 2006	17 Apr. 2037	4.50		78,130	350,000	350,000	1(a)
6V	15 May 2007	17 Oct. 2040	4.65		124,916	650,000	650,000	1(a)
6Q	16 Aug. 2002	17 Oct. 2042	6.24		28,131	250,000	250,000	1(a)
6W	18 Mar. 2015	02 Jun. 2025	2.30		-	850,000	850,000	1(a)
6X	24 Jul. 2015	17 Oct. 2046	3.30		-	2,050,000	2,050,000	1(a)
6Y	15 Jan. 2016	30 Jan. 2019	1.13		-	235,000	235,000	1(a)
6Z	18 Mar. 2016	02 Jun. 2026	3.00		-	1,000,000	1,000,000	1(a)
7A	24 Mar. 2016	24 Mar. 2021	1.75		-	500,000	500,000	1(a)
7B	2 Jun. 2016	2 Jun. 2022	1.95		-	675,000	675,000	1(a)
7C	7 Dec. 2016	17 Oct. 2048	3.70		-	500,000	500,000	1(b)
7D	24 Nov. 2017	02 Jun. 2028	2.85		-	500,000	-	1(a)
7E	27 Feb. 2018	27 Feb. 2023			-	675,000	-	1(a,g)
Total: General Debentures					<u>1,420,497</u>	<u>11,686,762</u>	<u>10,554,287</u>	
Other:								
Treasury bill borrowings					-	<u>777,403</u>	<u>778,807</u>	1(c)
Total: Other					-	<u>777,403</u>	<u>778,807</u>	



**CONSOLIDATED REVENUE FUND (UNAUDITED)**

**DEBENTURE AND OTHER DEBT (continued)**

Series	Date of Issue	Date of Maturity	Interest Rate %	Sinking Fund Balance (\$000)	Amount Issued or Outstanding	
					2018 (\$000)	2017 (\$000)
Government of Canada and Other:						
Canada Pension Plan Investment Fund						
Debentures - note 1(d)						
3A-292	01 Mar. 1999	01 Mar. 2019	5.97	-	1,827	1,827
3A-293 to 3A-02 303	Apr. 1999 to 03 Mar. 2000	02 Apr. 2019 to 03 Mar. 2020	5.89 to 7.02	-	35,282	35,282
3A-304 to 3A-01 314	Apr. 2000 to 02 Mar. 2001	01 Apr. 2020 to 02 Mar. 2021	6.41 to 6.90	-	42,645	42,645
3A-315 to 3A-01 326	Apr. 2001 to 01 Mar. 2002	01 Apr. 2021 to 01 Mar. 2022	6.38 to 6.85	-	52,376	52,376
3A-327 to 3A-01 337	Apr. 2002 to 01 Mar. 2003	01 Apr. 2022 to 01 Mar. 2023	5.88 to 6.61	-	52,104	52,104
3A-338 to 3A-05 347	Apr. 2003 to 01 Mar. 2004	05 Apr. 2023 to 01 Mar. 2024	5.41 to 6.15	-	50,738	50,738
3A-348 to 3A-02 356	Apr. 2004 to 02 Jan. 2005	02 Apr. 2024 to 02 Jan. 2025	5.36 to 5.92	-	47,146	47,146
3A-357 to 3A-01 359	Apr. 2005 to 03 Jun. 2005	01 Apr. 2025 to 03 Jun. 2025	4.91 to 5.34	-	23,987	23,987
Total: Canada Pension Plan Investment Fund Debentures				-	306,105	306,105
Harbour Lodge - see note 1(e)				-	208	251
Sun Life Assurance Company of Canada - see note 1(f)				-	65,270	71,060
Total: Other				-	65,478	71,311
Total: Government of Canada and Other				-	371,583	377,416
Total: Debenture and Other Debt				1,420,497	12,835,748	11,710,510
Current portion of Debenture and Other Debt					1,020,576	784,640
Long-term portion of Debenture and Other Debt					11,815,172	10,925,870
					12,835,748	11,710,510

## DEBENTURE AND OTHER DEBT (continued)

## NOTES

**1. Details of Debt Issues**

- a) Non-callable.
- b) Non-callable. During the year, general debenture 7C was reopened and issued \$300.0 million on 20 December 2017 and an additional \$300.0 million on 20 March 2018, both on behalf of a subsidiary of Nalcor Energy. In accordance with public sector accounting standards, the loan receivable from Nalcor Energy and the offsetting debenture debt are netted for presentation purposes. In addition, the interest expense on the debenture debt totaling \$10.0 million is netted against the offsetting interest revenue on the loan receivable.
- c) This amount represents the net proceeds from the sale of \$777.4 million discounted treasury bills with maturity dates ranging from 5 April 2018 to 28 June 2018 and interest rates ranging from 1.19% to 1.38%.
- d) Callable at par at the option of the Minister of Finance of Canada upon six months' prior written notice, subject to the requirements of the Canada Pension Plan. Commencing March 1999, the Province has an option, pursuant to amendments of the Canada Pension Plan enacted by the Canada Pension Plan Investment Board Act, to refinance for a final twenty year term maturing Canada Pension Plan borrowings, provided sufficient monies are available in the Canada Pension Plan Investment Fund. The Province has exercised an option to refinance its maturing Canada Pension Plan debt and to date has rolled over, for a further 20 year term, all funds made available by the Canada Pension Plan Investment Fund from March 1999 to June 2005. Commencing July 2005, Canada Pension Plan borrowings have not been rolled over and have been allowed to mature.
- e) This is a loan from the Canada Mortgage and Housing Corporation for the acquisition and construction of the Harbour Lodge. This loan is repayable over a 50 year period in blended installments of principal and interest, at an interest rate of 7.875%, maturing 1 December 2021.
- f) Sun Life Assurance Company of Canada represents the secured creditors of the Exploits River Hydro Partnership and the Star Lake Hydro Partnership per Section 10.(2) of the Abitibi Consolidated Rights and Assets Act. The secured creditors of the Exploits River Hydro Partnership include Industrial Alliance Life Insurance, Manufacturers Life Insurance Company of Canada and Sun Life Assurance Company of Canada. This loan is repayable in blended quarterly installments of principal and interest, at an interest rate of 7.552%, maturing 31 December 2028. The secured creditors of the Star Lake Hydro Partnership include Sun Life Assurance Company of Canada, Industrial Alliance Life Insurance, Canada Life Assurance Company, Standard Life Assurance Company of Canada and Manufacturers Life Insurance Company of Canada. This loan is repayable in blended monthly installments of principal and interest, at an interest rate of 9.20%, maturing 1 April 2023.
- g) General debenture 7E has a floating interest rate equal to the three month Canadian Dollar Bankers Acceptance Rate plus 14.5 basis points.

**CONSOLIDATED REVENUE FUND (UNAUDITED)**

**DEBENTURE AND OTHER DEBT (continued)**

**2. Sinking Fund Balance**

The value of the sinking funds as recorded in the Newfoundland and Labrador Government Sinking Fund financial statements is reflected in these financial statements.

The Sinking Fund Assets consist of:

	31 March 2018	31 March 2017
	(\$mil)	(\$mil)
Investments at cost	1,157.3	1,175.0
Amortization of bond discount	71.2	63.7
Investments at amortized cost	1,228.5	1,238.7
Cash and receivables less accounts payable	192.0	96.0
Net Sinking Fund Assets - translated at 31 March	<u>1,420.5</u>	<u>1,334.7</u>

The net sinking fund assets balance of \$1,420.5 million Canadian dollars as at 31 March 2018 includes \$465.4 million U.S. dollars translated to \$600.0 million Canadian dollars in accordance with current practice.

The net sinking fund assets balance of \$1,334.7 million Canadian dollars as at 31 March 2017 includes \$440.3 million U.S. dollars translated to \$585.5 million Canadian dollars in accordance with current practice.

The Province does not anticipate conversion of the U.S. dollars to Canadian dollars as the U.S. funds will be used to retire U.S. debt.

DEBENTURE AND OTHER DEBT (continued)

3. Borrowings

Borrowings and unamortized foreign exchange losses, by major currency, sinking funds and unamortized premiums (discounts) and issuance fees as at 31 March 2018 are noted below.

Major Currencies	Foreign Borrowings (\$000)	Exchange Rate	Canadian (\$000)	Unamortized Foreign Exchange Gains/(Losses) and Unamortized Premiums/ Discounts and Issuance Fees (\$000)	Net (\$000)
U.S.	1,050,000	1.2894	1,353,870	(54,714)	1,299,156
Canadian			11,481,878	-	11,481,878
		Sub-total	12,835,748	(54,714)	12,781,034
	Foreign sinking funds		(600,023)	21,909	(578,114)
	Canadian sinking funds		(820,474)	-	(820,474)
		Sub-total	11,415,251	(32,805)	11,382,446
	Unamortized premiums (discounts) and issuance fees			(149,426)	(149,426)
	Total			(182,231)	11,233,020

4. Contributions and Repayment Requirements

Sinking fund contributions and long term debt repayments, by major currency, in Canadian dollars are as follows.

	U.S. (\$000)	Canadian (\$000)	Total (\$000)
2018-2019	6,250	1,058,013	1,064,263
2019-2020	12,160	79,624	91,784
2020-2021	231,989	587,596	819,585
2021-2022	159,504	245,882	405,386
2022-2023	161,277	1,448,377	1,609,654
2023-2049	113,378	6,089,311	6,202,689
	<u>684,558</u>	<u>9,508,803</u>	10,193,361
Plus: Sinking Fund Values at Maturity			3,262,387
Less: Sinking Fund Contributions			(620,000)
			<u>12,835,748</u>

The foreign exchange loss which has been realized on the Statement of Operations is \$16.7 million.

**DEBENTURE AND OTHER DEBT (continued)****5. Interest Expense**

The gross interest expense associated with debenture and other debt, recognized for 31 March 2018, amounted to \$551.5 million (31 March 2017 - \$517.1 million).

**6. Sensitivity Analysis**

An increase/decrease of one cent in the foreign exchange rates at 31 March 2018 would result in an increase/decrease in foreign borrowings of \$10.5 million (31 March 2017 - \$10.5 million).

**7. Related Sinking Fund Investments**

At year end, the Province held \$603.1 million worth of its own debentures (face value) in sinking funds as active investments (31 March 2017 - \$608.9 million) which are reflected in the sinking fund balances disclosed in note 3 above. These were comprised of \$417.3 million in Canadian investments and \$185.8 million in US investments.

**8. Debt Related Risk**

The practice of borrowing in both domestic and foreign currencies may potentially give rise to a number of risks including interest rate, credit, foreign exchange and liquidity risk. Interest rate risk is the risk that debt servicing costs will increase due to changes in interest rates while credit risk is the risk that a loss may occur from the failure of another party to meet its obligations under a derivative financial instrument contract. As well, foreign exchange risk is the risk that debt servicing costs will increase due to a decline in the value of the Canadian dollar relative to other currencies while liquidity risk is the risk that financial commitments will not be met over the short-term.

The Province attempts to manage its exposure to these risks and minimize volatility in its debt expenses by following a conservative debt and risk management strategy. The Province's debt portfolio is structured such that virtually all of its debt is long-term with fixed interest rates and fixed repayment terms. When appropriate and the option is available, debt with high interest rates has been called and refinanced with new lower interest rate debt. Otherwise, debt is generally held until maturity. Hence, the Province's exposure to interest rate and credit risk is minimal as a result of its conservative debt management strategy.

While the majority of the Province's debt is domestic in nature, there are a number of US dollar denominated debt issues. All of these are long-term issues and the Province has established sinking funds, also in US dollars, to provide repayment of the debt at maturity. For debt servicing purposes, short-term forward contracts are occasionally entered into when favorable exchange rates are available to minimize exposure to foreign exchange risk.

The Province's exposure to liquidity risk is managed by distributing debt maturities over several years, maintaining sinking funds for the repayment of certain long-term debt issues and holding adequate cash reserves or short-term borrowings as contingent sources of liquidity.

**PROVINCE OF NEWFOUNDLAND AND LABRADOR**

**Guaranteed Debt  
As at 31 March 2018  
with comparative figures for 2017**

	Limit of Guarantee	Contingent Liability	
	(\$000)	2018 (\$000)	2017 (\$000)
<b>Guaranteed Debentures - note 7:</b>			
<b>Municipalities:</b>			
(For debentures issued to The Municipal Development and Loan Board and The Canada Mortgage and Housing Corporation)			
Glenwood	95	95	92
Harbour Breton	227	227	220
Harbour Grace	156	156	152
Placentia	91	91	87
Wabana	24	24	24
	<u>593</u>	<u>593</u>	<u>575</u>
<b>Crown Corporations - note 2:</b>			
Eastern Regional Health Authority	111,484	111,484	113,062
Newfoundland and Labrador Hydro Electric Corporation	1,616,551	1,616,551	1,446,358
Newfoundland and Labrador Municipal Financing Corporation	4,069	4,069	6,738
	<u>1,732,104</u>	<u>1,732,104</u>	<u>1,566,158</u>
<b>Guaranteed Bank Loans - note 7:</b>			
<b>Crown Corporations:</b>			
Labrador-Grenfell Regional Health Authority	10,000	9,365	8,685
Marble Mountain Development Corporation	2,100	1,695	1,990
	<u>12,100</u>	<u>11,060</u>	<u>10,675</u>
<b>Fisheries - note 3:</b>			
70354 Newfoundland and Labrador Limited	-	-	167
A.J. Rodgers & Sons Limited	173	173	243
Adam Crocker	162	162	175
Aiden Power and Leonard Mooney	123	123	140
Allister Russell and Wade Russell	800	800	880
Alychan Enterprise Limited	-	-	629
Anchor Point Enterprises Limited	1,002	1,002	1,073
Andrew Daley Limited	-	-	39
Ashco Fishing Limited	131	131	196
Ashley Enterprises Limited	94	94	113
Ashley's Pride Enterprises Limited	-	-	147
Atlantic Providence Inc.	1,870	1,870	2,057
Atlantic Retriever Limited	583	583	642
B & O Enterprises Ltd.	-	-	922

**CONSOLIDATED REVENUE FUND (UNAUDITED)**

**GUARANTEED DEBT (continued)**

	Limit of Guarantee	Contingent Liability	
		2018	2017
	(\$000)	(\$000)	(\$000)
Guaranteed Bank Loans:			
Fisheries: - note 3			
B & R Genge Company Limited	46	46	93
B & R Mariner Fisheries Limited	73	73	110
B.A.D.S. Fisheries Limited	-	-	125
Bears Cove Fisheries Limited	900	900	975
Billy and David Greenham	2,136	2,136	2,262
Brendan Noonan	152	152	164
Brent Adams	254	254	280
CJ Fisheries	50	50	99
Cecil Ward Limited	436	436	476
Christopher Gerard Melvin	461	461	461
Colcor Fisheries Limited	208	208	234
D & A Fisheries Limited	720	720	780
Dempster's Fisheries Limited	688	688	803
Donald Spence	152	152	164
Dwight Russell Enterprises Limited	360	360	420
E & E Fisheries Limited	255	255	339
Fabian Hobbs	-	-	77
Frazer Scanlon	35	35	41
G & D Fisheries Limited	69	69	138
G & L Fisheries Incorporated	680	680	737
Garrett Mulrooney	404	404	486
Gregory D Piercey	287	287	478
Harbourview Fishing Corporation	1,216	1,216	1,403
Hicks Fisheries Limited	117	117	146
Janica II Enterprise Limited	613	613	675
Jeffery Jones Fisheries Limited	400	400	450
John W. Brazil	-	-	203
Jones, Richard	97	97	121
Kailey Venture Limited	89	89	135
Keith Bowen	500	500	813
KMKA Voyager Enterprises Limited	1,045	1,045	970
L.S.J. Fisheries Limited	932	932	1,009
Larry Roche	199	199	221
Long Haul Ltd. (formerly Daley, Gary)	39	39	79
Nautical Nancy Limited	190	190	237
Noonan Enterprise Limited	2,088	2,088	2,219
North Queen Limited	718	718	774
Northern Auk Fisheries Limited	425	425	468
Northern Provider Limited	-	-	152
Ocean Surfer Limited	735	735	858
P & G Sea Harvestors Limited	1,000	1,000	1,071
RB Fisheries Limited	781	781	853
Rainbow Venture Inc.	181	181	197
Richard and Melanie Marsh	-	-	96
Samuel and Juanita Morris	-	-	211

GUARANTEED DEBT (continued)

	Limit of Guarantee (\$000)	Contingent Liability	
		2018 (\$000)	2017 (\$000)
Guaranteed Bank Loans:			
Fisheries - note 3:			
Shannon & Trevor Fisheries Limited	1,120	1,120	1,240
Shelco Fisheries Limited	400	400	500
Shirley Ann D. Enterprises Ltd.	-	-	1,118
Southside Fisheries Ltd.	784	784	896
Straits Venture Inc.	111	111	149
T & C Fisheries Ltd.	-	-	150
TJL Enterprises Limited	1,441	1,441	77
TPJH Fisheries Limited	273	273	298
Trina and Sons Ltd.	44	44	68
Vince Petten	499	499	577
Wayne Sterling Morgan	172	172	189
Woodworth Fisheries Limited	910	910	975
ZHL Fisheries Limited	819	819	944
	<u>31,242</u>	<u>31,242</u>	<u>37,707</u>
Aggregate Limit & Contingent Amount	<u>69,966</u>	<u>69,966</u>	<u>69,966</u>
Corporate:			
Fogo Island Co-operative Society Limited	1,500	-	-
Stephenville Airport Corporation	900	560	530
	<u>2,400</u>	<u>560</u>	<u>530</u>
Other Bank Loans:			
Consumer Protection Fund for Prepaid Funeral Expenses	200	-	-
	<u>200</u>	<u>-</u>	<u>-</u>
Other Guarantees:			
Crown Corporations:			
Newfoundland and Labrador Immigrant Investor Fund Limited - note 4	76,885	76,885	106,300
	<u>76,885</u>	<u>76,885</u>	<u>106,300</u>
	<u>1,855,524</u>	<u>1,852,444</u>	<u>1,721,945</u>



## GUARANTEED DEBT (continued)

## NOTES

**1. Definitions**

The headings used in this Schedule are defined as follows:

Limit of Guarantee - This represents the maximum amount of loan advances available under the Province's guarantee plus capitalized interest thereon and past due interest, less down payment and less any receipted Provincial subsidy.

Contingent Liability - This represents the actual amount of loan advances (drawdowns) outstanding under the various guarantees plus capitalized interest thereon and past due interest. This represents the amount that the Province would be liable for if it had to honour these guarantees at year end.

The difference between these two amounts reflects the financing still available under the Province's guarantee.

**2. Debenture Issues with Sinking Funds**

Corporations for which guarantees are presented net of sinking funds values:

	Principal Amount of Debentures Outstanding	Accrued Interest	Value of Sinking Fund	Contingent Liability
	(\$000)	(\$000)	(\$000)	(\$000)
Eastern Regional Health Authority				
- Canadian Funds	130,000	2,605	21,121	<u>111,484</u>
Newfoundland and Labrador Hydro Electric Corporation				
- Canadian Funds	1,825,000	21,396	329,845	1,516,551
- Promissory Notes	<u>100,000</u>	-	-	<u>100,000</u>
	<u>1,925,000</u>	<u>21,396</u>	<u>329,845</u>	<u>1,616,551</u>

**3. Fisheries Loans**

During a vessel's construction period, interim financing is provided through bank loans which are fully guaranteed by the Province. Once construction has been completed, these interim loans are converted to term debt by the banks. For guarantees issued prior to 1 June 2012, the Province's contingent liability under each individual guarantee is determined as being limited to the lesser of the term loan or 20% of the aggregate of all term loans made by the Bank less the total of all claims paid to the Bank by the Province with respect to these loans. The Fisheries Loans Guarantee Program guidelines were amended effective 1 June 2012 such that all new guarantees issued from that date forward are fully guaranteed by the Province.

For the fiscal year ended 31 March 2018, the Province's contingent liability with respect to these guarantees is \$31.2 million (31 March 2017 - \$37.7 million).

**4. Newfoundland and Labrador Immigrant Investor Fund Limited**

The Corporation was incorporated on 28 April 2005 under the Corporations Act of the Province of Newfoundland and Labrador. The purpose of the Corporation is to administer and invest the Newfoundland and Labrador allocation of funds received from immigrant investors by Citizenship and Immigration Canada under its Business Immigration Program. The Province guarantees repayment of the funds received.

GUARANTEED DEBT (continued)

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**5. Payments under Guarantee**

Payments under guarantee for 31 March 2018 is \$1.3 million (31 March 2017 - nil).

**6. Valuation Allowance**

The provision for guaranteed debt for 31 March 2018 is nil (31 March 2017 - \$0.7 million).

**7. General Terms and Conditions**

Guaranteed debentures and guaranteed bank loans have maturity dates ranging from October 2018 to December 2035 at interest rates varying from 1.12% to 10.5%.

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