



**PROVINCE OF  
NEWFOUNDLAND  
AND LABRADOR**

**HIGHLIGHTS  
AND  
ANALYSIS**

**Consolidated Summary  
Financial Statements**

**Public Accounts  
31 March 2004**

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## **Purpose**

- These highlights are based on the audited Public Accounts for the year ended 31 March 2004. The purpose of this document is to provide users with accurate, relevant and understandable information on the financial position of the Province and the results of its operations.

## **The Public Accounts Volumes**

### *Volume I: Consolidated Summary Financial Statements*

- These are the combined audited financial statements of the Consolidated Revenue Fund (all departments) and government organizations (including Health and School Boards) which are controlled by and therefore accountable to Government.
- They present the consolidated financial position of the Province on an accrual basis, in accordance with the accounting standards established for governments by the Canadian Institute of Chartered Accountants (CICA).

### *Volume II: Consolidated Revenue Fund (CRF) Financial Statements*

- These are the audited financial statements of the Consolidated Revenue Fund (all departments) on an accrual basis.

### *Volume III: Consolidated Revenue Fund (CRF) Supplementary Statements and Schedules*

- They present the revenues and expenditures, and the resulting annual surplus/deficit, of the Consolidated Revenue Fund on a cash basis.

### *Volume IV: Financial Statements of Crown Corporations, Boards and Authorities*

- They comprise reproductions of the audited financial statements of each government organization (Crown corporations, boards and authorities).
- The Auditor General issued an unqualified audit opinion on the financial statements for 2003-04.
- The Public Accounts (excluding Volume IV) can be found on the Government's website at:  
[www.gov.nl.ca/ComptrollerGeneral/Publications.htm](http://www.gov.nl.ca/ComptrollerGeneral/Publications.htm)
- Copies of all volumes of the Public Accounts can be obtained at the Queen's Printer, Confederation Building.

## **Changes to the Financial Statements**

- Effective for the 2003-04 Public Accounts, the Province's financial statements (Volumes I and II) have been prepared in accordance with the new government reporting format as prescribed by new Public Sector Accounting Standards issued by the Canadian Institute of Chartered Accountants. A summary of the major changes from 2002-03 are as follows:
  - Tangible Capital Assets are now capitalized on the Statement of Financial Position with the cost of such assets amortized over the useful life of the asset. Previously, tangible capital assets were recorded entirely as expenditures upon acquisition.
  - Statement of Operations replaces the former Statement of Revenue and Expenditure and reflects the amortization expense associated with tangible capital assets. Budget figures are also included for comparison.

- Statement of Change in Net Debt replaces the former Statement of Net Debt and includes Budget figures for comparison.
- Statement of Cash Flows replaces the former Statement of Changes in Financial Position.
- Introduction of a new Statement of Change in Accumulated Deficit.
- The most significant impact of this change is the initial recording of tangible capital assets (representing a non-financial asset) on the Statement of Financial Position, as opposed to simply disclosing the balance of such assets as a schedule to the financial statements for information purposes only. Non-financial assets do not normally provide resources to discharge liabilities but rather contribute to the delivery of government programs and services.
- The annual surplus/deficit (as calculated and disclosed on the new Statement of Operations) now reflects the amortization expense associated with the use of tangible capital assets. Costs of acquisitions and construction of tangible capital assets are no longer charged directly against annual surplus/deficit, but are reflected in the tangible capital assets balance as recorded on the Statement of Financial Position.
- The new government reporting format has been applied to restate the figures for 2002-03 to facilitate comparability.

#### **Financial Summary - 31 March 2004**

- Volume I: Consolidated Summary (accrual) Deficit - \$913.6 million; Net Debt - \$11.5 billion; and Accumulated Deficit - \$9.3 billion.

- Volume II: CRF (accrual) Deficit - \$670.2 million; Net Debt - \$11.2 billion; and Accumulated Deficit - \$10.0 billion.
- Volume III: CRF (cash) Deficit - \$134.7 million; comprised of a Current Account cash surplus of \$8.0 million offset by a Capital Account cash deficit of \$142.7 million.

#### **Cash Result Compared to Consolidated Accrual Result**

The difference in the cash deficit as compared to the consolidated accrual deficit was \$778.9 million (\$913.6 million less \$134.7 million). This change consists of year end accrual adjustments for the CRF and the adjusted annual results of government organizations. For example:

- \$391.7 million adjustment for interest on accrued retirement benefits;
- \$31.3 million for other adjustments to accrued retirement costs;
- \$243.4 million in net adjustments for the accrual deficits of government organizations;
- \$26.4 million adjustment for bad debt expenses;
- \$27.7 million adjustment relating to the amortization of tangible capital assets net of acquisitions and adjustments for the CRF;
- \$31.5 million adjustment for amortization of foreign exchange gains/losses on debenture debt; and
- \$26.9 million in net adjustments for other miscellaneous accruals of the CRF.

## **Consolidated Accrual Result Compared to Original Budget (Accrual)**

The difference between the budgeted annual accrual deficit of \$666.0 million as per the 2003-04 Estimates and the actual accrual deficit of \$913.6 million was \$247.6 million. This difference occurred primarily due to the following:

- Total revenue was \$128.0 million less than originally budgeted. Some of the significant factors attributing to this difference in revenue included:
  - An increase in taxation revenue of \$94.9 million mainly due to revenues received from the Offshore Revenue Fund and higher than expected personal income tax and sales tax arising from adjustments to the amounts received for both the current and prior years. In addition, an increase in corporate income tax revenue, mainly due to the offshore sector, was also experienced.
  - A decrease in federal revenues of \$152.9 million mainly due to a decrease in Equalization and Canada Health and Social Transfers resulting from the incorporation of revised population data, from the 2001 census, into federal estimates.
  - A decrease in the net income of Newfoundland and Labrador Liquor Corporation and Newfoundland and Labrador Hydro of \$104.9 million. This lower than expected net income was primarily the result of a write-down of capital assets of \$130.9 million by Newfoundland and Labrador Hydro. Excluding the minority interest, the net impact was \$118.6 million on net income.

- Total expenses were \$119.6 million greater than originally budgeted. Some of the significant items which account for this change included:
  - An increase in expenses related to group health and life insurance retirement benefits in the amount of \$72.5 million. This increase was the result of a new actuarial valuation of group health and life insurance retirement benefits. Such results were not available for the 2003-04 Estimates.
  - An increase in pension interest expense and accrued pension costs in the amount of \$55.4 million occurred due to new actuarial valuations and revised projections associated with the various pension plans.
  - A decrease in debt related expenses in the amount of \$29.4 million also occurred primarily due to a change in the foreign exchange rate, as well as a higher than expected accrued interest expense resulting from differences between the amount and timing of the issuance of new debt.
  - Another factor attributing to the increase in expenses included higher than estimated expenses related to the acquisition and amortization of tangible capital assets in the amount of \$17.2 million.

## **Financial Position - 31 March 2004**

- Net debt of \$11.48 billion is comprised of:

	<u>(\$ billion)</u>
Unfunded Pension Liability	3.75
Borrowings (net of sinking funds)	6.78
Group Health and Life Insurance Retirement Benefits	1.06
Other Liabilities	1.29
Less: Total Financial Assets	<u>(1.40)</u>
Net Debt	<u><u>11.48</u></u>

- Accumulated deficit of \$9.30 billion is comprised of:

	<u>(\$ billion)</u>
Net Debt	11.48
Less: Tangible Capital Assets	(2.13)
Less: Other Non-financial Assets	<u>(0.05)</u>
Accumulated Deficit	<u><u>9.30</u></u>

## **Key Indicators**

- Key indicators included in this document are applied to Volume I, as this volume contains the financial information for the entire government reporting entity and thus provides a complete picture of the Province's financial condition at 31 March 2004.
- Primarily, the common key indicators included herein were identified in a research report issued by the Canadian Institute of Chartered Accountants entitled *Indicators of Government Financial Condition*. These indicators, which are used in assessing a government's financial health in the context of the overall economic and financial environment,

can be summarized under the headings of *sustainability*, *flexibility*, and *vulnerability*.

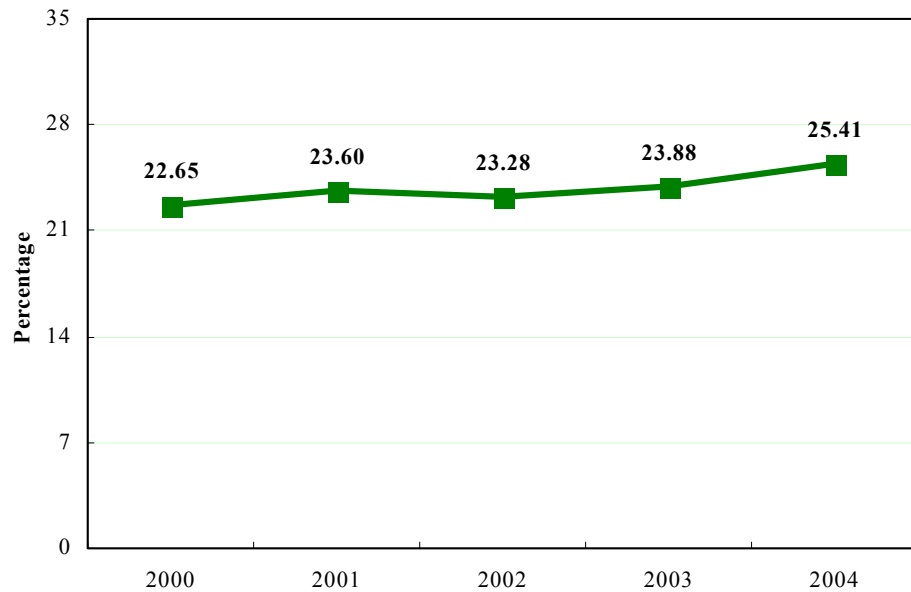
- While there are no established benchmarks for these indicators, one can assess the Province's financial condition through a comparison of previous years' indicators.
- Gross Domestic Product (GDP) and population figures were obtained from Newfoundland and Labrador Statistics Agency. Figures used were the latest non-forecasted information available as of 31 March 2004.

## **Flexibility:**

Flexibility refers to the degree to which a government can respond to rising commitments by either expanding its revenues or increasing its debt. Indicators of flexibility include:

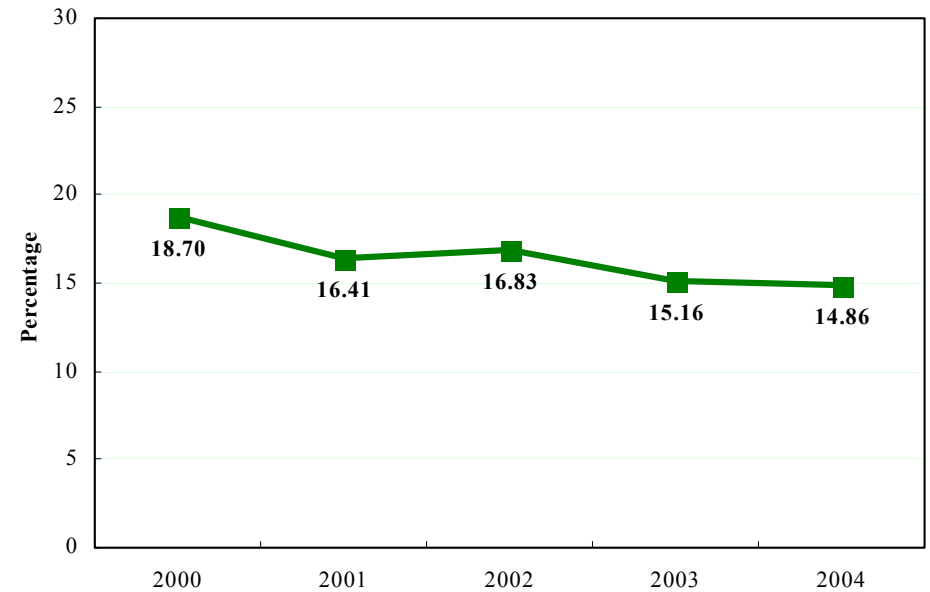
### **a) Province's Interest Cost as a Percentage of Revenues**

- This ratio measures the extent to which past borrowings may impact the Province's ability to provide for the economic and social needs of its citizens.
- The following graph indicates that the Province's interest cost as a percentage of revenues has increased over the last five years. As a result, more revenues are used to meet the Province's interest costs, thus leaving less revenues available for program spending.
- The average of this ratio over the past five years is 23.76%. The increasing trend to this ratio indicates that interest costs remain a significant expense incurred by the Province since it represents approximately one-quarter of all revenues.



**b) 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 have decreased over the last five years. This suggests that the Province is taking less income out of the economy (as a percentage) through taxation and user fees than it did in previous years.
- The average of this ratio over the past five years is 16.39%.



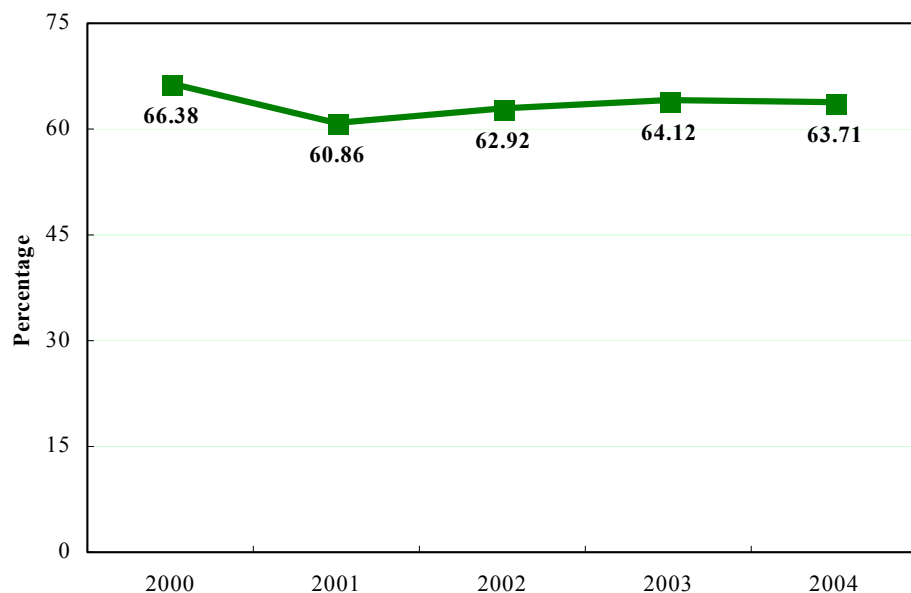
**Sustainability:**

Sustainability refers to the degree to which a government can meet its existing program commitments and creditor requirements without increasing the debt burden on the economy. Indicators of sustainability include:

**a) Net Debt (liabilities less financial assets) as a Percentage of GDP**

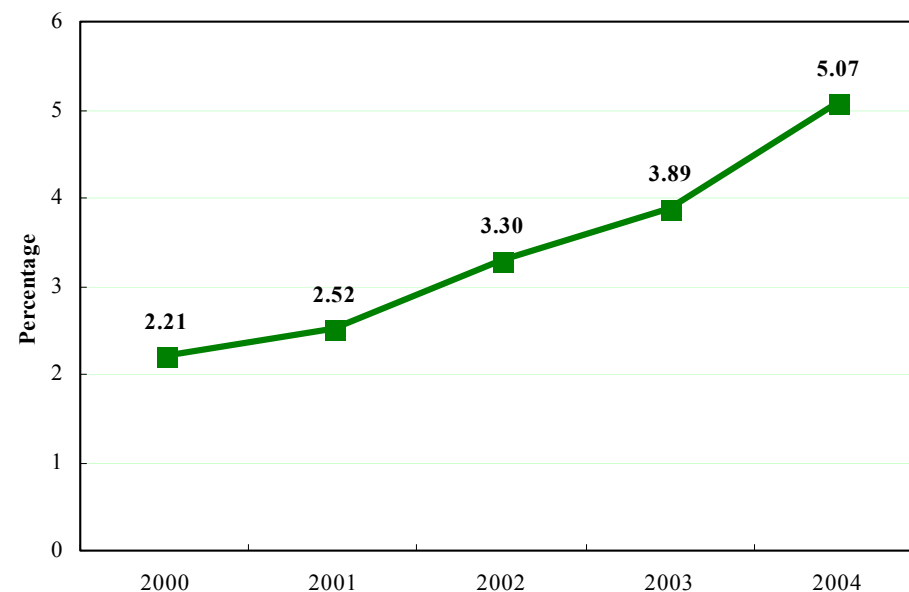
- This ratio measures the level of debt that the Province carries as a percentage of its GDP.
- As indicated in the following graph, net debt as a percentage of GDP has decreased over the last five years. This relationship implies that the rate of economic growth is greater than the rate of growth in debt. The lower this ratio, the more room Government has to manoeuver in making fiscal choices.

- The average of this ratio over the past five years is 63.60%.



**b) Annual Deficit as a Percentage of GDP**

- This ratio measures the difference between revenues and expenses expressed as a percentage of GDP.
- As indicated in the following graph, the annual deficit as a percentage of GDP has increased over the last five years. Despite an increase in GDP over this period, the Province’s annual deficits as a percentage of GDP continue to rise. If this trend continues, the Province will face ever increasing difficulty in meeting its financial obligations.
- The average of this ratio over the past five years is 3.40%.



**Vulnerability:**

Vulnerability refers to the degree to which a government is dependent on, and therefore vulnerable to, sources of funding outside of its control or influence. Indicators of vulnerability include:

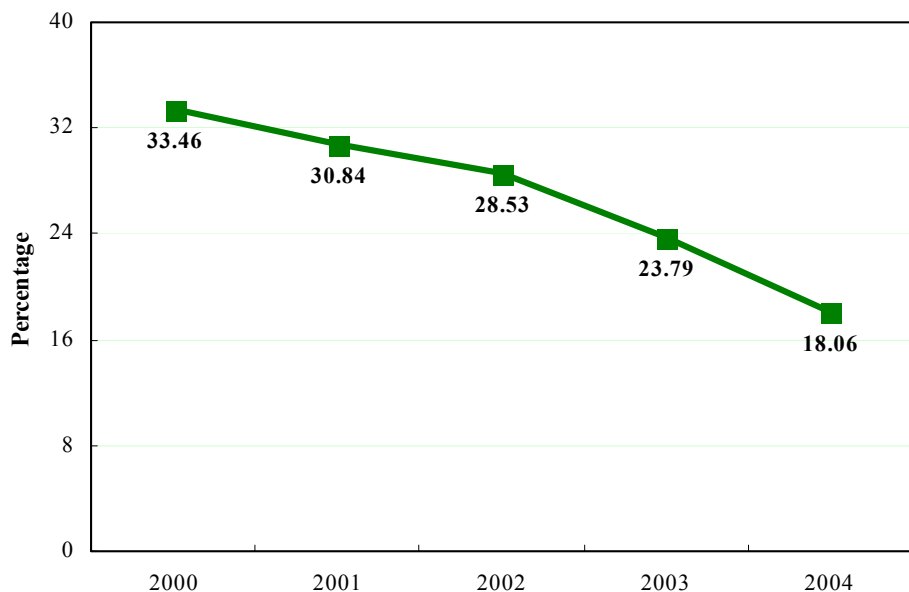
**a) Foreign Currency Debt as a Percentage of Net Borrowings**

- This ratio measures the amount of the Province’s foreign currency debt relative to the Province’s net borrowings. It reflects the degree of vulnerability to foreign currency swings that the Province faces.
- As indicated in the following graph, foreign currency debt as a percentage of net borrowings has decreased steadily over the last five years, thus indicating that the Province is less susceptible to



foreign currency fluctuations in terms of repaying its debt.

- The average of this ratio over the past five past is 26.94%. While this percentage indicates that foreign currency debt has historically been a significant portion of the Province's borrowings, this ratio has now declined to 18.06% for the 2003-04 fiscal year.

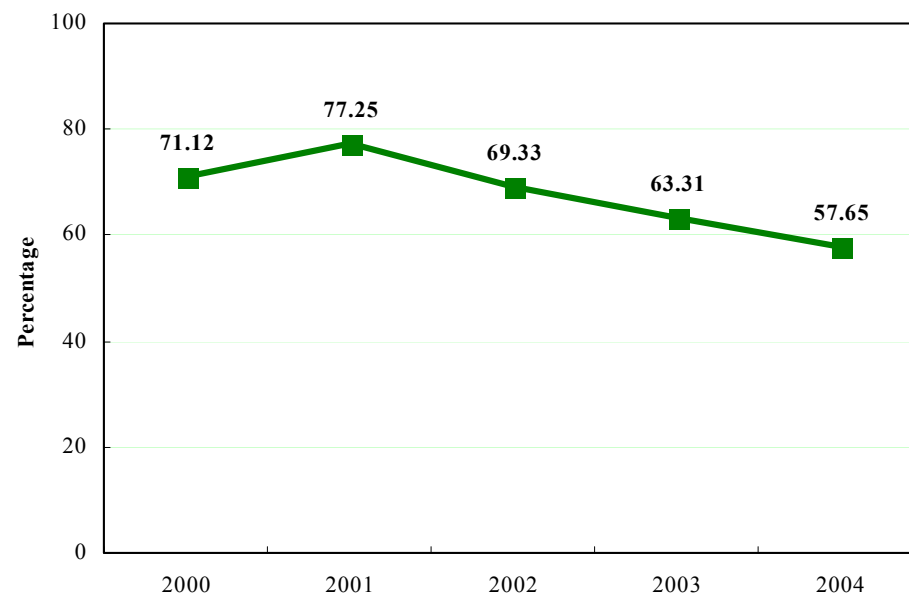


#### **b) Federal Transfers as a Percentage of Provincial Revenues**

- This ratio measures the extent to which the Province raises its own revenue from within the Province as compared to the extent it receives funds from the Federal Government.
- As indicated in the following graph, federal transfers as a percentage of provincial revenues have decreased over the last five years. This decline

in federal transfers has placed a greater financial burden on the Province. Consequently, the fiscal policy decisions of the Federal Government have a significant impact on the Province's financial position.

- The average of this ratio over the past five years is 67.73%. While this high percentage has decreased to 57.65% in 2003-04, historically the Province has been heavily dependant on transfers from the Federal Government.

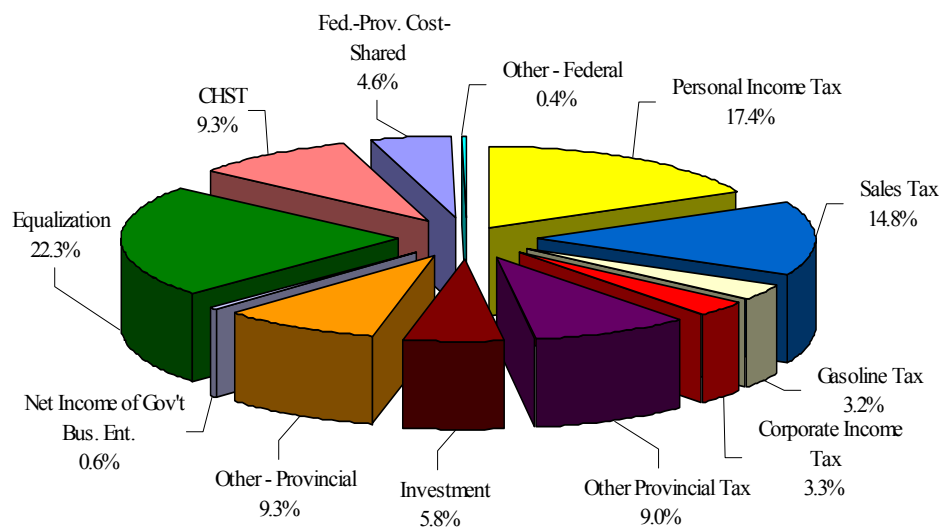


## Financial Highlights

### Revenues:

For the fiscal year ended 31 March 2004, total revenue amounted to \$4.22 billion. Of this amount, 36.6% came from Federal Government sources, while 63.4% was the result of provincial revenue sources. Details on these sources of revenue, including a five-year historical comparison, are provided below.

#### a) Revenues by Source - 31 March 2004



(\$000)

#### Provincial:

Personal Income Tax	733,217
Sales Tax	625,148
Gasoline Tax	135,937
Corporate Income Tax	139,575
Other Provincial Tax	380,125
Investment	243,219
Other - Provincial	393,511
Net Income of Gov't Business Ent.	25,438
<b>Total: Provincial</b>	<b><u>2,676,170</u></b>

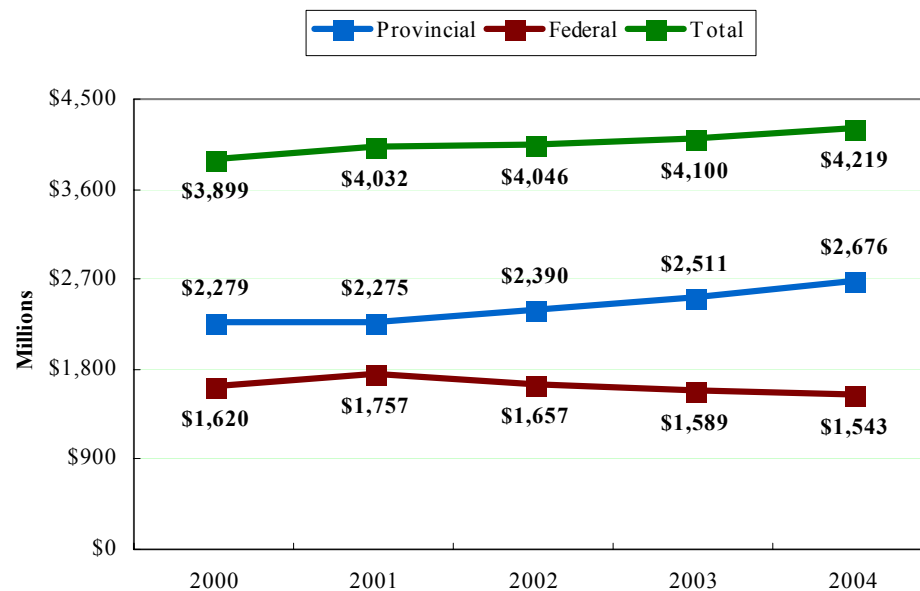
#### Federal:

Equalization	938,983
CHST	393,668
Cost-shared	192,820
Other - Federal	17,297
<b>Total: Federal</b>	<b><u>1,542,768</u></b>

#### TOTAL

**4,218,938**

#### b) Revenues - 5 Year Comparison



From an analysis of the above, the following observations can be made:

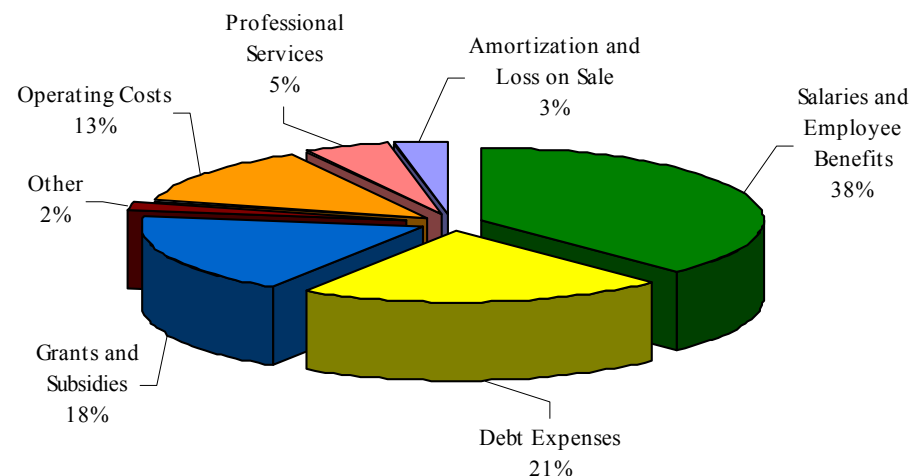
- Total revenues have been increasing slightly over the last five years, ranging from \$3.90 billion in 2000 to \$4.22 billion in 2004.
- Total federal revenues have decreased over the last five years - from \$1.62 billion in 2000 to \$1.54 billion in 2004; including a decrease of \$46.6 million from 2003 to 2004.
- Total provincial revenues have increased over the last five years - from \$2.28 billion in 2000 to \$2.68 billion in 2004; including an increase of \$165.0 million between 2003 and 2004.
- For the year ended 31 March 2004, federal revenues represent 36.6% of the total revenues which indicates a high reliance on federal assistance.
- Equalization payments from the Federal Government remains the most significant source of revenue representing 22.3% of all revenues and 60.9% of federal revenues in 2003-04.
- Personal income tax remains the second most significant source of revenue representing 17.4% of all revenues and 27.4% of all provincial revenues in 2003-04.

### Expenses:

For the fiscal year ended 31 March 2004, total expenses amounted to \$5.13 billion. Provided below are details on the nature of these expenses, the allocation of the expenses to each sector of Government and a five-year historical comparison. The illustrations in (a) and (b) have been presented on an expense basis

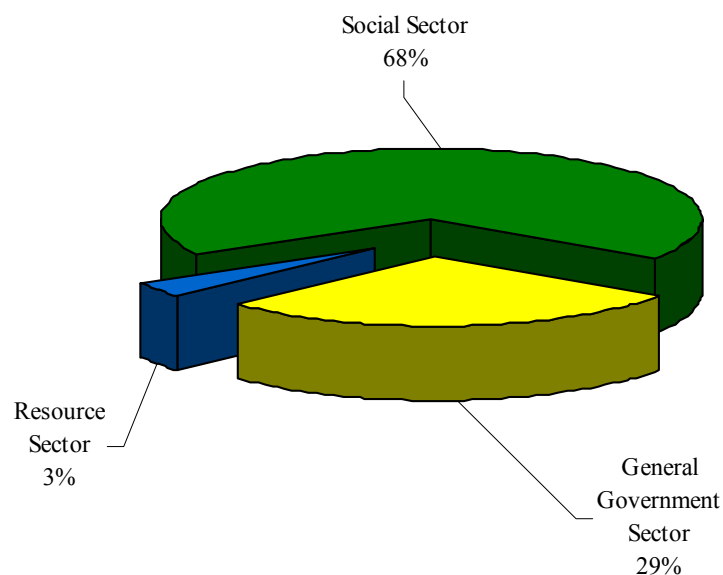
due to the implementation of a change in accounting policy in fiscal 2003-04.

### a) Expenses by Category - 31 March 2004



	<u>(\$000)</u>
<b>Expenses:</b>	
Salaries and Employee Benefits	1,943,528
Debt Expenses	1,071,987
Grants and Subsidies	939,761
Operating Costs	665,819
Professional Services	255,226
Amortization and Loss on Sale	163,659
Information Technology	25,299
Other	67,260
<b>TOTAL</b>	<b><u><u>5,132,539</u></u></b>

**b) Expenses by Sector - 31 March 2004**



**(\$000)**

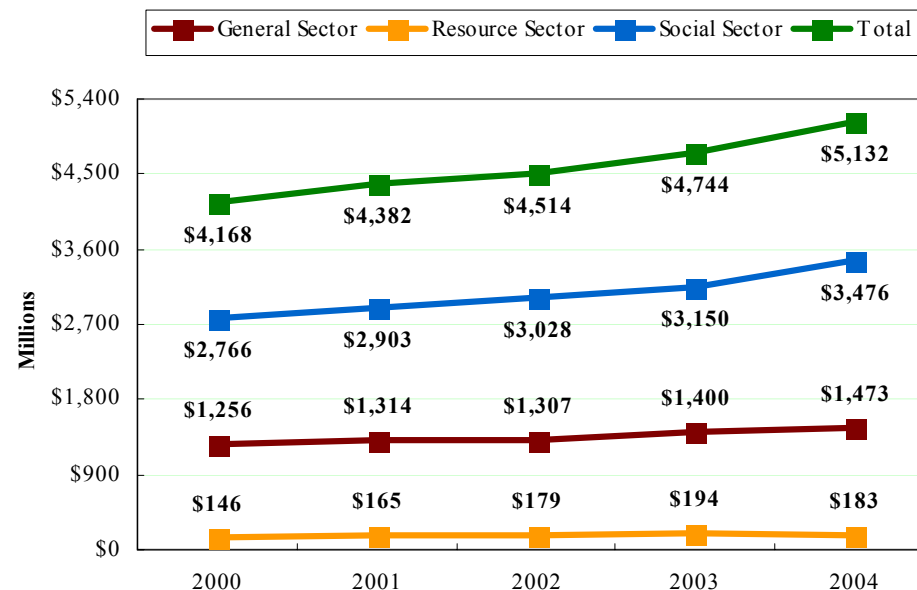
**Sector:**

Social	3,476,248
General Government	1,473,309
Resource	182,982
<b>TOTAL</b>	<b>5,132,539</b>

**c) Expenses by Sector - 5 Year Comparison**

In accordance with PSAB standards, the change in accounting policy from the expenditure to the expense basis has been applied retroactively with the restatement of the 2002-03 comparative figures presented in the consolidated summary financial statements. However, for the fiscal years from 1999-2000 to 2001-02 in the following five-year comparison, the noted amounts have not been restated as the information necessary to make the appropriate

adjustments was not readily available. The amounts for these fiscal years are presented on an expenditure basis as originally reported in the Public Accounts for each of the respective years.



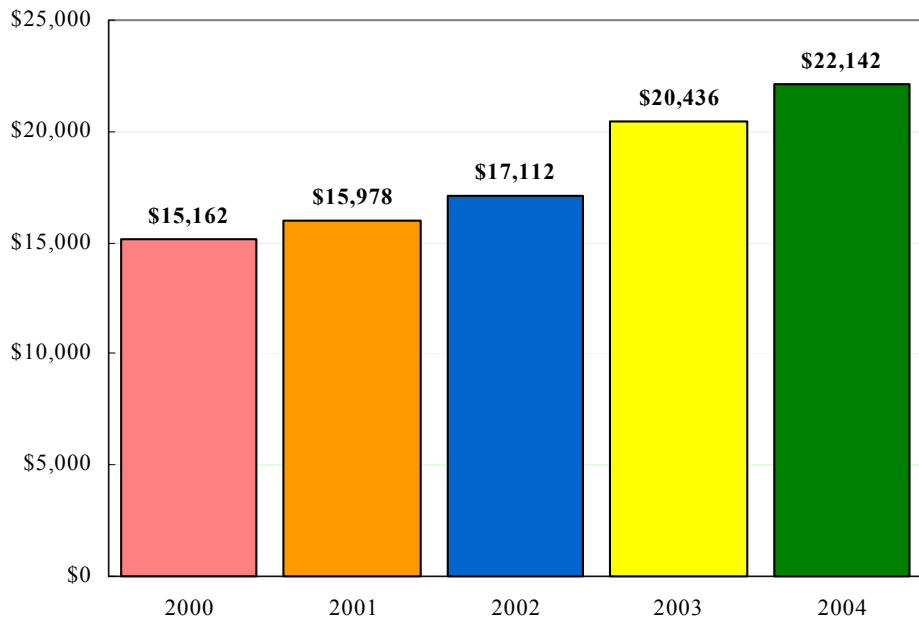
From an analysis of the above, we can make the following observations:

- Total expenses have increased steadily over the last five years - from \$4.17 billion in 2000 to \$5.13 billion in 2004.
- Expenses for the Social Sector which includes health, education and social services were \$3.48 billion in 2004, accounting for 68% of the total expenses for the year.

## Net Debt and Net Borrowings:

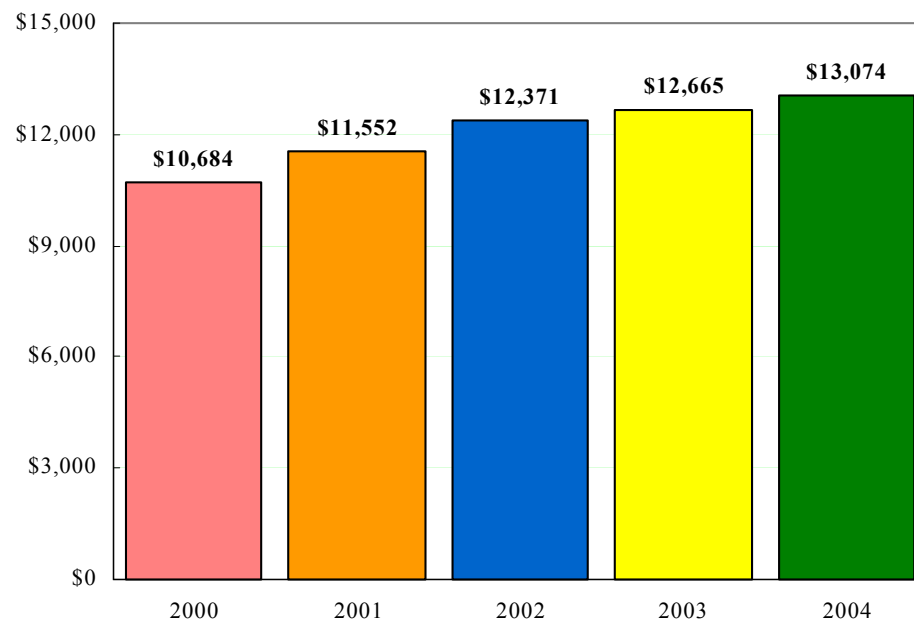
For the fiscal year ended 31 March 2004, net debt totaled \$11.48 billion which included net borrowings of \$6.78 billion. As indicated in the following illustrations, these figures have increased on a per capita basis over the past five years.

### a) *Net Debt per Capita*



Net debt per capita indicates the average amount of provincial net debt owing by each citizen of the Province and is calculated by dividing the net debt of the Province by the Province's population. Each citizen's share of the provincial debt increased from \$20,436 to \$22,142 between 2003 and 2004 as a result of an increase in the net debt combined with a slight decrease in the population.

### b) *Net Borrowings per Capita*



Net borrowings per capita indicates the average amount of provincial debt owing by each citizen of the Province and is calculated by dividing the net debenture and other debt (net of sinking funds) of the Province by the population of the Province. Each citizen's share of the provincial debt increased from \$12,665 to \$13,074 between 2003 and 2004 primarily as a result of an increase in the debt combined with a slight decrease in the population.

## Glossary of Terms

<i>Accrual Basis:</i>	A method of accounting whereby revenues are recorded when earned/due and expenses are recorded when liabilities are incurred.
<i>Accumulated Deficit:</i>	The excess of liabilities over financial and non-financial assets. It is the accumulated annual accrual deficits (surpluses) to the date of the financial statements.
<i>Annual Deficit:</i>	The excess of annual expenses over annual revenues. See the Consolidated Statement of Operations, Volume I.
<i>Cash Basis:</i>	A method of accounting whereby revenues are recorded when received and expenditures are recorded when paid.
<i>Financial Assets:</i>	Assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. (e.g., cash and receivables.)
<i>GDP:</i>	Gross domestic product, at market prices, of the Province.
<i>Group Health and Life Insurance Retirement Benefits:</i>	The liability, as determined by an actuary, associated with Government's share of health and life insurance premiums to be paid on behalf of retirees. See the Consolidated Statement of Financial Position, Volume I.
<i>Net Borrowings:</i>	The total borrowings (debentures, treasury bills, etc.) less sinking funds. See Schedule 6, Volume I.

<i>Net Debt:</i>	The excess of liabilities over financial assets.
<i>Non-Financial Assets:</i>	Acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities, but instead are normally employed to deliver government services, which, in the normal course of operations, may be consumed and are not for sale. (e.g., tangible capital assets, prepaid expenses and inventories of supplies.)
<i>Province's Interest Cost:</i>	The cost of servicing the public debt, including pension interest expense and other debt related expenses.
<i>Tangible Capital Assets:</i>	Non-financial assets which are held for use in the production or supply of goods and services, have useful economic lives extending beyond an accounting period and have been acquired to be used on a continuing basis.
<i>Unfunded Pension Liability:</i>	The total pension obligation less pension assets as determined by an actuary, as well as unamortized actuarial experience gains/losses. See the Consolidated Statement of Financial Position, Volume I.

