

Province of  
Newfoundland and Labrador



**Public Accounts  
Consolidated Summary  
Financial Statements**

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FOR THE YEAR ENDED  
MARCH 31, 2017





# **Province of Newfoundland and Labrador**

## **Public Accounts**

### **Consolidated Summary Financial Statements**

**For The Year Ended  
31 March 2017**

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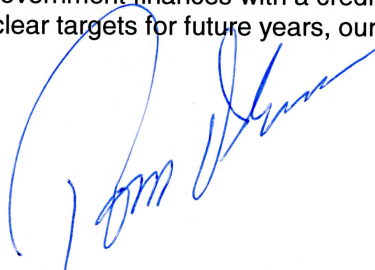
## **MESSAGE FROM THE MINISTER OF FINANCE AND PRESIDENT OF TREASURY BOARD**

I hereby present the financial statements - the Public Accounts of the province of Newfoundland and Labrador for the 2016-17 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 for the 2016-17 fiscal year of \$1.1 billion, which is an improvement from the original forecasted deficit of \$1.8 billion for this period. The decrease in deficit of \$0.7 billion from our original forecast is primarily the result of higher than anticipated revenues during the year from offshore royalties.

Despite the improvement in actual results from the original budget, economic conditions continued to contract in fiscal 2016-17. The Newfoundland and Labrador economy was impacted by several factors such as the transition of several major projects from development to production stages combined with continued low commodity prices. Amidst these economic pressures, deficit reduction measures to curtail expenditures, and strong fiscal management remained the province's top priority.

Going forward, we plan on taking the necessary steps to achieving our vision of long-term sustainability for our province. We are committed to regaining control of government finances with a credible plan to which we will hold ourselves accountable. By establishing clear targets for future years, our government is building a solid foundation for the future.



**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 2017**



## **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 2017 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 39 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 2016-17 fiscal year is \$13.6 billion. The accumulated deficit is \$9.2 billion.
- As at 31 March 2017, 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 16.5% increase in **net borrowings** during the fiscal year as well as the \$1.1 billion **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 \$13.6 billion in the 2016-17 fiscal year and increased 8.8% comparative to the prior year (31 March 2016 - \$12.5 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 \$1.1 billion is an improvement of \$682.3 million compared to the \$1.8 billion deficit originally budgeted for 2016-17 fiscal year. Furthermore, the annual deficit in 2016-17 decreased by \$1.1 billion from the prior year (31 March 2016 - \$2.2 billion).

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

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- For the fiscal year ended 31 March 2017, total revenue was \$7.2 billion (31 March 2016 - \$6.0 billion) and total expenses were \$8.3 billion (31 March 2016 - \$8.2 billion).
- Revenues increased by 19.7% from the prior year and increased by 7.6% from the Original Budget. Expenses increased by 1.5% from the prior year but decreased from the Original Budget by 2.1%.
- Despite the increase in revenues, 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 2016-17 is also due to the deficit for the current year.
- The accumulated deficit of \$9.2 billion for 2016-17 increased by \$1.1 billion comparative to 2015-16 of \$8.1 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 8.7% from the previous fiscal year. Despite an increase in cash and temporary investments resulting from financing activities of \$1.5 billion, including the issuance of additional \$2.9 billion in new debt, overall cash flows declined primarily due to the expenditures exceeding revenues as represented in the annual deficit.

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

**KEY FINANCIAL HIGHLIGHTS**

For the fiscal year ended 31 March 2017

(In \$ millions)

	Original Budget 2016-17 <sup>1</sup>	Actual Results 2016-17	Actual Results 2015-16 <sup>2</sup>	Change from Original Budget			Change from Prior Year Actual Results		
				\$	%	↕↕	\$	%	↕↕
<b>REVENUE</b>									
Provincial									
Taxation	3,703.1	3,728.3	3,222.8	25.2	0.7	↕	505.5	15.7	↕
Investment	68.2	89.6	107.9	21.4	31.4	↕	(18.3)	(16.9)	↕
Fees and fines	361.7	371.4	352.3	9.7	2.7	↕	19.1	5.4	↕
Offshore royalties	377.1	982.7	514.6	605.6	160.6	↕	468.1	91.0	↕
Other	548.1	429.9	421.3	(118.2)	(21.6)	↕	8.6	2.0	↕
<b>Total Provincial</b>	<b>5,058.2</b>	<b>5,601.9</b>	<b>4,618.9</b>	<b>543.7</b>	<b>10.7</b>	↕	<b>983.0</b>	<b>21.3</b>	↕
Federal	1,184.8	1,104.0	1,059.4	(80.8)	(6.8)	↕	44.6	4.2	↕
Net income of government business enterprises and partnerships	408.4	451.2	298.8	42.8	10.5	↕	152.4	51.0	↕
<b>Total Revenue</b>	<b>6,651.4</b>	<b>7,157.1</b>	<b>5,977.1</b>	<b>505.7</b>	<b>7.6</b>	↕	<b>1,180.0</b>	<b>19.7</b>	↕
<b>EXPENSE</b>									
Salaries and employee benefits	3,831.4	3,773.8	3,600.8	(57.6)	(1.5)	↕	173.0	4.8	↕
Grants and subsidies	1,584.2	1,505.6	1,581.4	(78.6)	(5.0)	↕	(75.8)	(4.8)	↕
Operating costs	1,233.0	1,183.0	1,226.6	(50.0)	(4.1)	↕	(43.6)	(3.6)	↕
Debt expenses	982.3	955.9	902.1	(26.4)	(2.7)	↕	53.8	6.0	↕
Professional services	531.0	493.3	490.8	(37.7)	(7.1)	↕	2.5	0.5	↕
Other	319.5	393.3	381.5	73.8	23.1	↕	11.8	3.1	↕
<b>Total Expense</b>	<b>8,481.4</b>	<b>8,304.9</b>	<b>8,183.2</b>	<b>(176.5)</b>	<b>(2.1)</b>	↕	<b>121.7</b>	<b>1.5</b>	↕
<b>ANNUAL DEFICIT</b>	<b>(1,830.0)</b>	<b>(1,147.8)</b>	<b>(2,206.1)</b>	<b>682.2</b>	<b>(37.3)</b>	↕	<b>1,058.3</b>	<b>(48.0)</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 2017 presentation.

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


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**HISTORICAL DATA**

For the past 5 fiscal years  
(\$ thousands)

	2013	2014	2015	2016	2017	5 Year Trend
Total Revenue	7,505,493	7,487,472	6,921,117	5,977,155	7,157,066	↓
Total Expense	7,700,518	7,876,039	7,927,021	8,183,214	8,304,838	↑
Surplus (Deficit)	(195,025)	(388,567)	(1,005,904)	(2,206,059)	(1,147,772)	↑
Financial Assets	5,116,591	5,270,987	5,106,497	6,830,115	7,648,635	↑
Liabilities	13,464,336	14,355,939	15,436,972	19,334,168	21,246,441	↑
Net Debt	8,347,745	9,084,952	10,330,475	12,504,053	13,597,806	↑
Non-Financial Assets	3,915,955	4,148,253	4,349,277	4,439,421	4,405,957	↑
Accumulated Deficit	4,431,790	4,936,699	5,981,198	8,064,632	9,191,849	↑

### **CONSOLIDATED FINANCIAL RESULTS**

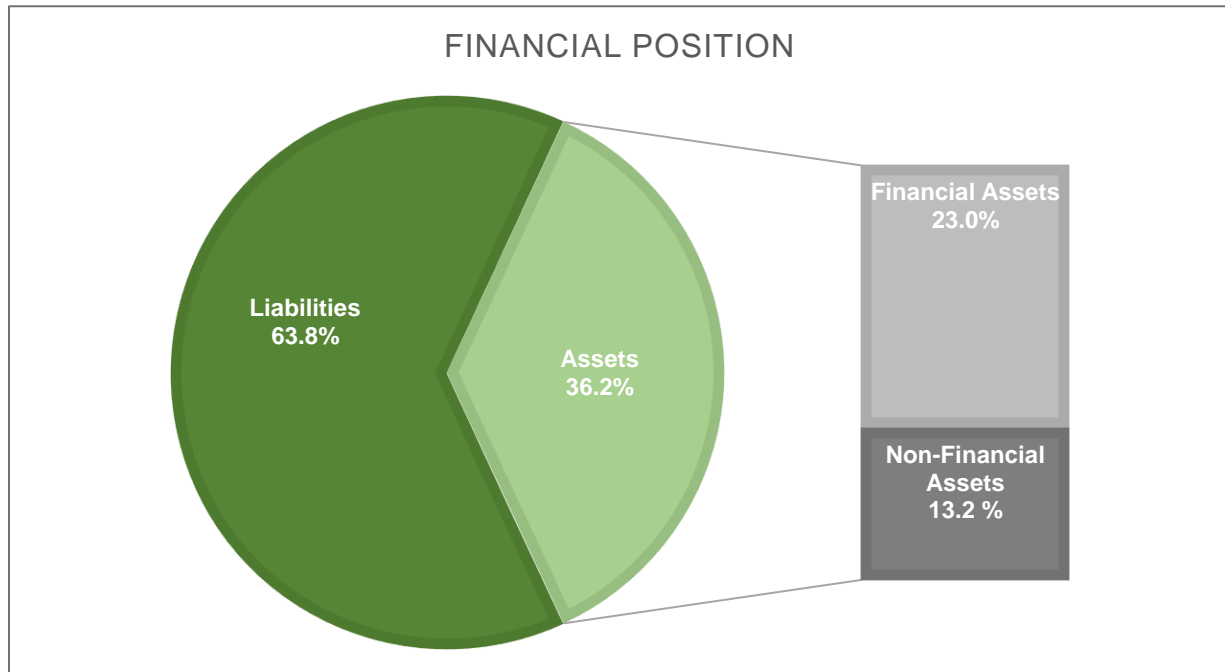
The largest variances between actual results and Original Budget figures relates to offshore royalty revenue. Offshore royalty revenue was higher than projected due to higher commodity prices and increased production. The oil price assumption at Original Budget was \$40.00 US per barrel; however, over the fiscal year it averaged \$48.54 US per barrel.

Offshore royalty revenue is also the largest variance from the previous fiscal year. Similar to the comparison to Original Budget, the offshore royalty revenue has increased by 91.0% since 2015-16 due to higher than anticipated oil prices and production. The largest variance in expenses is salaries and employee benefits which increased by \$173.0 million from the previous fiscal year primarily due to the move to Joint Trusteeship for the Teacher’s Pension Plan (TPP) Joint Trusteeship Agreement.

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

### **FINANCIAL POSITION**

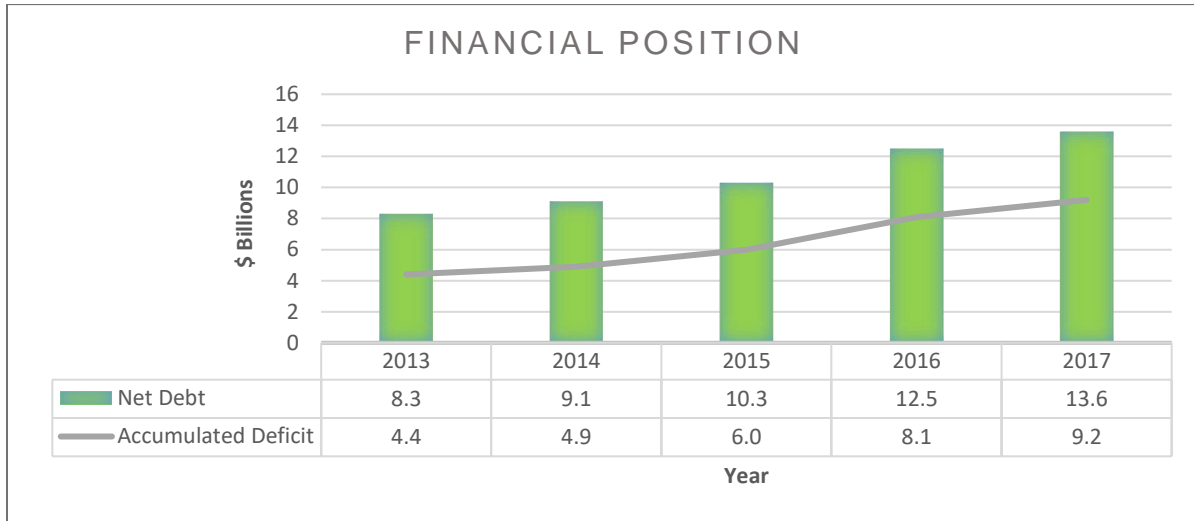
The Province experienced a deficit in 2016-17 for the fifth consecutive year. Economic conditions continued to contract and Newfoundland and Labrador will continue to face fiscal challenges including a large level of debt. To ensure the future financial health of the Province, it is necessary that the Province address this fiscal reality through strong financial management of its resources to ensure sustainable spending levels, generating increased sources of revenues and ensuring the efficient delivery of public services.



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

The Province's accumulated deficit position and net debt as at 31 March 2017 is presented in the following chart. The Province's net debt totals \$13.6 billion and represents the amount needed to be funded from future generations to pay for past activities.

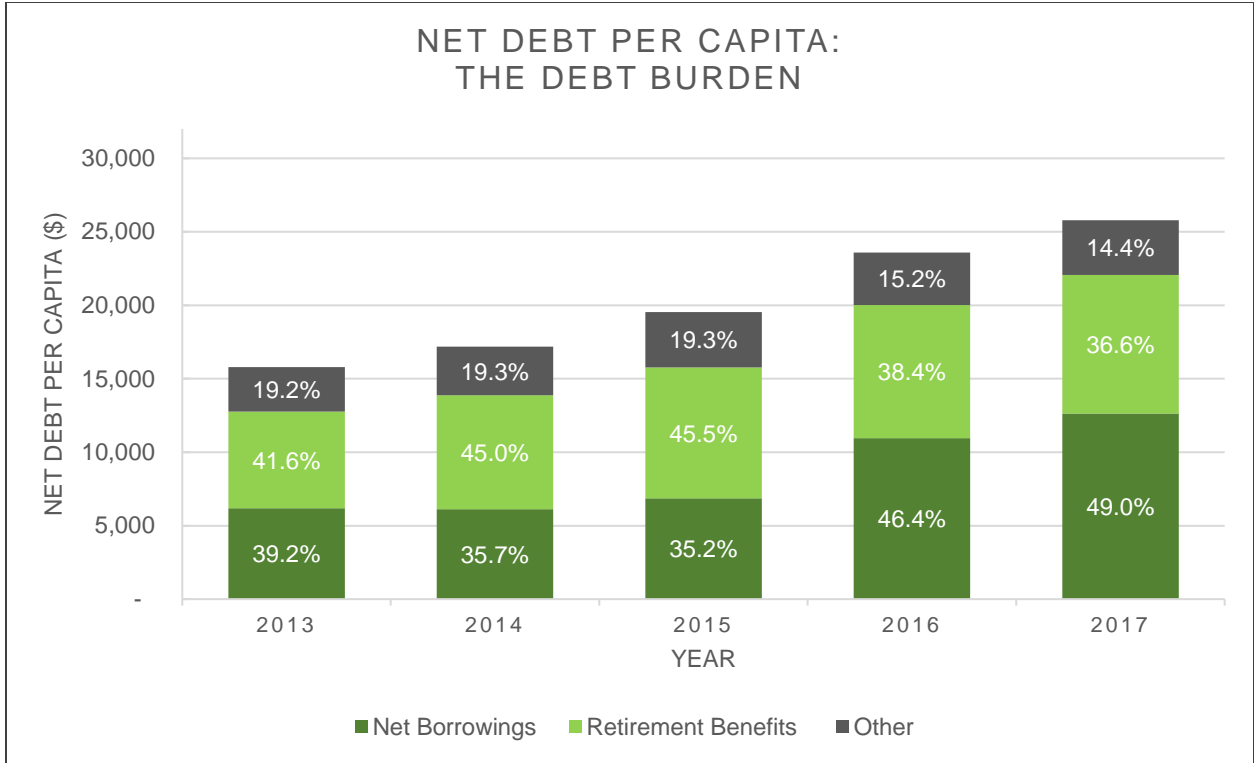
Net debt and accumulated deficit increased by \$1.1 billion from the previous year mainly due to the annual deficit. Details of the annual deficit will be discussed later in this report.



### NET DEBT PER CAPITA

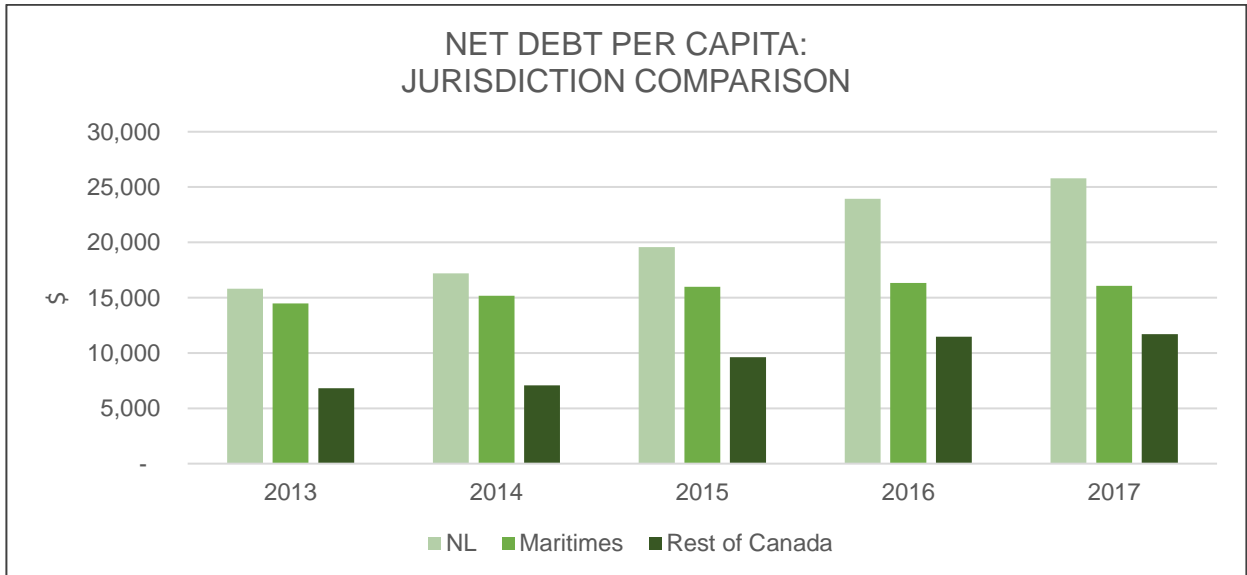
Net debt per capita indicates the average amount of the Province's net debt attributed to each citizen of the Province and is calculated by dividing the net debt by the Province's population. Each citizen's share of the net debt increased in 2016-17. As presented in the chart that follows, net debt per capita increased from \$23,587 in 2015-16 to \$25,788 in 2016-17. This increase of \$2,201 per person is primarily the result of the increase in the Province's net debt mainly due to market-driven variables. Previous year's numbers have been revised to reflect the information available on the Province's population as at April 2017. The following graph also indicates the portion of each type of debt that makes up the net debt per capita.





As the Province’s population has remained stable over the past five years, the rise in net debt per capita is due to the increase in net debt over the same period.

The following chart presents the Province’s net debt per capita comparative to the Maritime Provinces and the rest of Canada.



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

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

Newfoundland and Labrador's net debt per capita has been greater than the average of the other jurisdictions for the past five years with the largest increase occurring in 2016-17. 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, Maritimes, and rest of Canada is presented below. As shown, the average population for the country has remained steady.

Average Population (in 000's)	2013	2014	2015	2016	2017 <sup>[1]</sup>	5 Year Change
<b>NL</b>	527.4	528.3	528.7	530.1	527.3	(0.1)
<b>Maritimes</b>	614.8	614.7	614.8	618.3	620.2	5.4
<b>Rest of Canada</b>	3,642.6	3,642.6	3,719.5	3,766.8	3,800.2	157.6

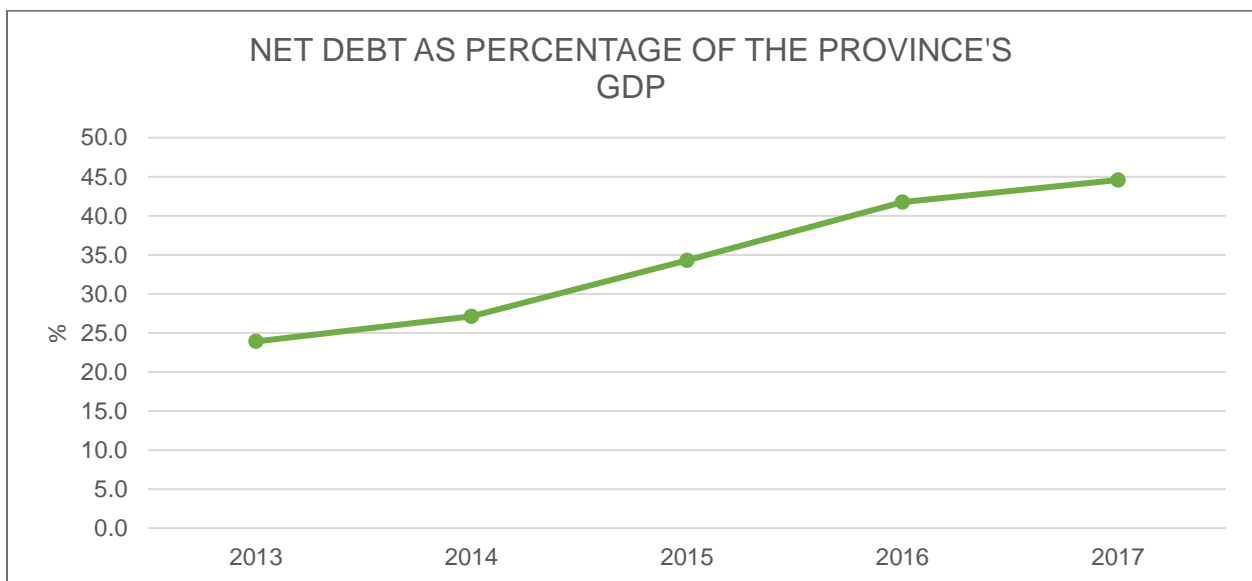
[1] Source: Statistics Canada, Demography Division

### 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 2017. The figures used in 2017 and 2016 analysis were the most recently available for each respective year.

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 2016-17 ratio is 44.6%, an increase of 2.9 percentage points from 2015-16. The average of this ratio over the past five years is 34.3%. Since 2013, it has experienced a significant increase of approximately 20.7 percentage points.



## NET DEBT AND ACCUMULATED DEFICIT

For the fiscal year ended 31 March 2017, net debt of \$13.6 billion included net borrowings of \$10.6 billion. Net debt for the fiscal year ended 31 March 2017 increased from the previous year by \$1.1 billion or 8.8% and net borrowings increased by \$1.5 billion which represents a 16.5% increase.

The net debt is the difference between total financial assets of \$7.6 billion and liabilities of \$21.2 billion. The Province's net debt, less non-financial assets of \$4.4 billion, results in an accumulated deficit of approximately \$9.2 billion.

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

(\$ billions)	2017	2016	2015	2014	2013
Borrowings (net of sinking funds)	10.6	9.1	5.5	5.1	5.1
Unfunded Pension Liability	4.9	4.7	4.4	3.9	3.3
Group Health and Life Insurance Retirement Benefits	2.9	2.8	2.6	2.6	2.3
Other Liabilities	2.8	2.7	2.9	2.8	2.7
Less: Total Financial Assets	(7.6)	(6.8)	(5.1)	(5.3)	(5.1)
<b>Net Debt</b>	<b>13.6</b>	<b>12.5</b>	<b>10.3</b>	<b>9.1</b>	<b>8.3</b>
Less: Tangible Capital Assets	(4.3)	(4.3)	(4.2)	(4.1)	(3.8)
Less: Other Non-financial Assets	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
<b>Accumulated Deficit</b>	<b>9.2</b>	<b>8.1</b>	<b>6.0</b>	<b>4.9</b>	<b>4.4</b>

As shown in the previous table, accumulated deficit and net debt have both increased from 2013 to 2017. This can be attributed primarily due to the additional borrowings of \$5.5 billion obtained by the Province during this period.

## BORROWINGS

For the fiscal year ended 31 March 2017, net borrowings totaled \$10.6 billion and increased by \$1.5 billion from 2016. For the current fiscal year, borrowings attributed for 50.0% 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

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

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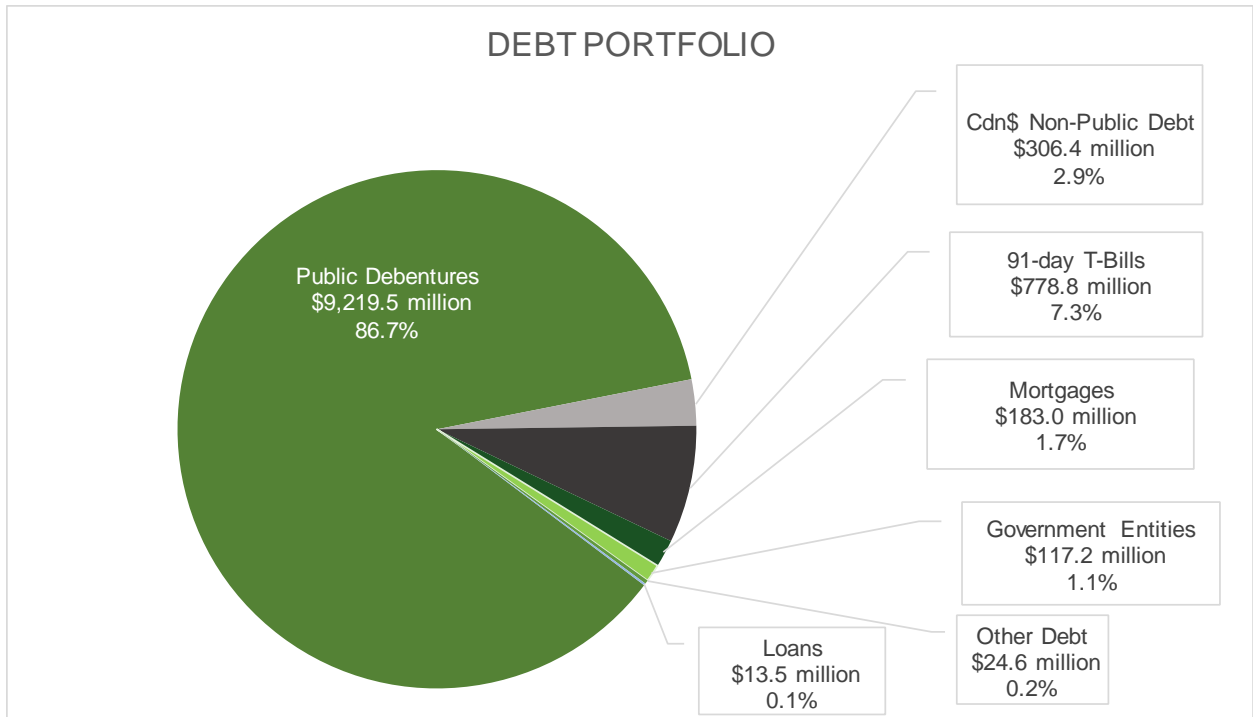
rates at 31 March 2017 would result in an increase/decrease in foreign borrowings of \$10.5 million (31 March 2016 - \$10.5 million). Original budget 2016-17 forecasts the US-Canada exchange rate to be \$0.73. This estimate is based on an average of eight forecasts and was a prudent estimate based on best available information. The average US-Canada exchange rate for 2016-17 was \$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:

- \$9.2 billion in public debentures of which 34% are due in 30 years or more, pertaining to the Consolidated Revenue Fund. 85% is Canadian while the remaining 15% is foreign debt (US).
- \$778.8 million of 91-day T-bills (floating-rate revolving debt).
- \$306.4 million of Canadian non-public debentures; Canadian Pension Plan (CPP) related debt.
- \$183.0 million in various mortgages and debt assumed relating to electricity generating assets. Mortgages pertaining to Canada Mortgage and Housing Corporation (CMHC) represents 53% of total mortgages.
- \$117.2 million in debenture debt held by government entities.
- \$24.6 million in various other debt including \$8.8 million including short term bankers' acceptances which mature during 2017-18.
- \$13.5 million in loans with both fixed and variable interest rates for the purposes of funding student transportation for schools.



## CREDIT RATING

Commitment by the Provincial Government of Newfoundland and Labrador to reduce the annual deficit to sustainable levels, and setting the foundation for a return to surplus, has been reflected in improved credit ratings. Most recently, Moody's Investor Service indicated that Newfoundland and Labrador saw better than anticipated results in fiscal 2016-17 and a re-profiling of financing requirements suggests the Province's debt burden may stabilize over the medium term.

Standard and Poor's Financial Services (S&P) affirmed the Provincial Government's credit ratings (long-term 'A' and short-term 'A-1') and revised outlook from negative to stable. The Dominion Bond Rating Service (DBRS) has also confirmed the Province's credit ratings (long-term 'A (low)') and short-term 'R-1 (low)') with a stable outlook.

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>
<b>S&amp;P</b>	A	A-1	Stable	July 14, 2017
<b>Moody's</b>	Aa3	Not rated	Negative	July 28, 2017
<b>DBRS</b>	A (low)	R-1 (low)	Stable	July 14, 2017

## NON-FINANCIAL ASSETS

The total non-financial assets of \$4.4 billion in 2016-17 included prepaid and deferred charges of \$38.5 million; inventory of supplies of \$57.3 million; and tangible capital assets of \$4.3 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.

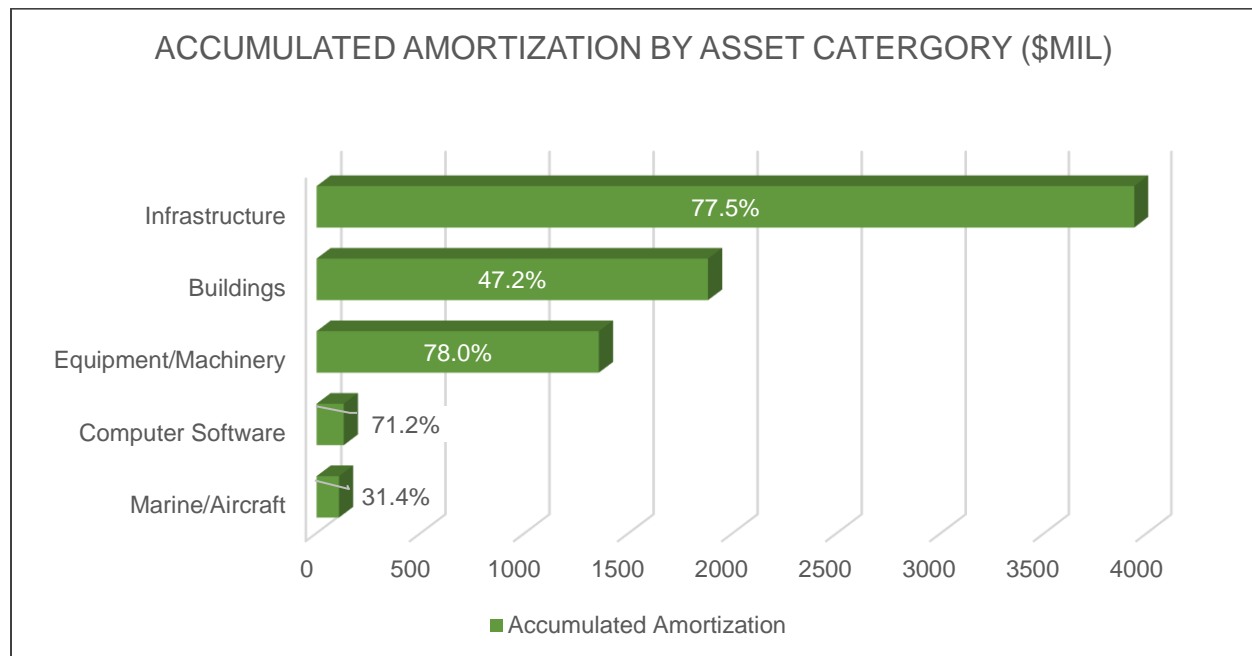
### Accumulated Amortization

Total accumulated amortization of tangible capital assets (excluding work in progress assets) represents 65.4% of the cost of tangible capital assets. The most significant of the asset categories that are amortized are infrastructure and equipment and machinery where 77.5% and 78.0% 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 \$394.9 million as at 31 March 2017 which is a \$171.8 million or a 30.3% decrease from 2016. 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.

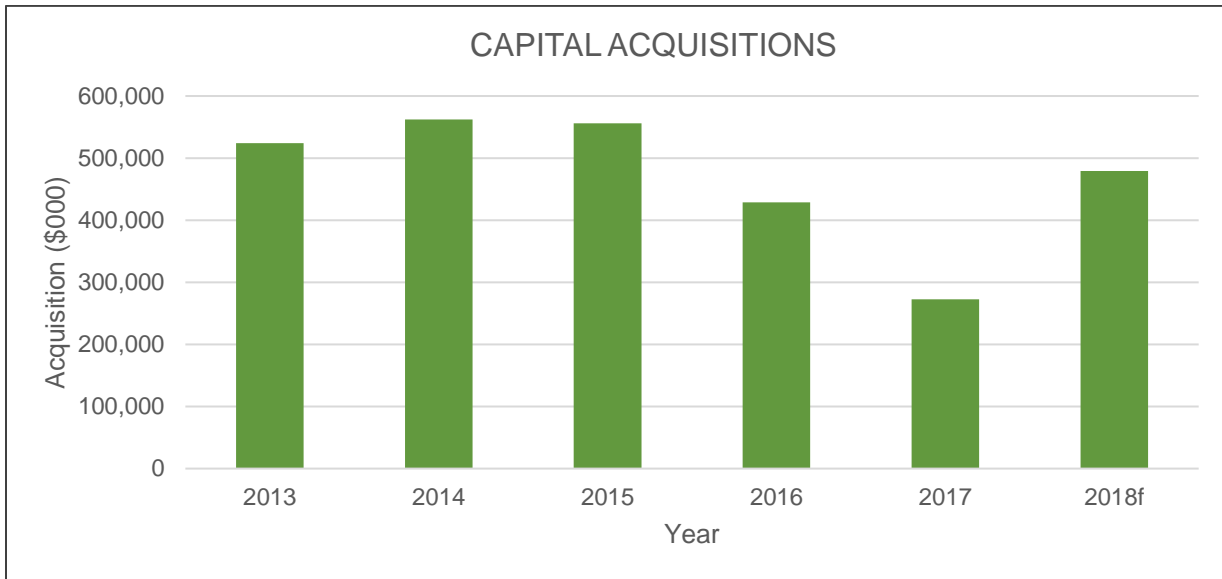
The following chart presents the tangible capital asset cost (excluding work in progress) and accumulated amortization by category at 31 March 2017.



### Capital Acquisitions

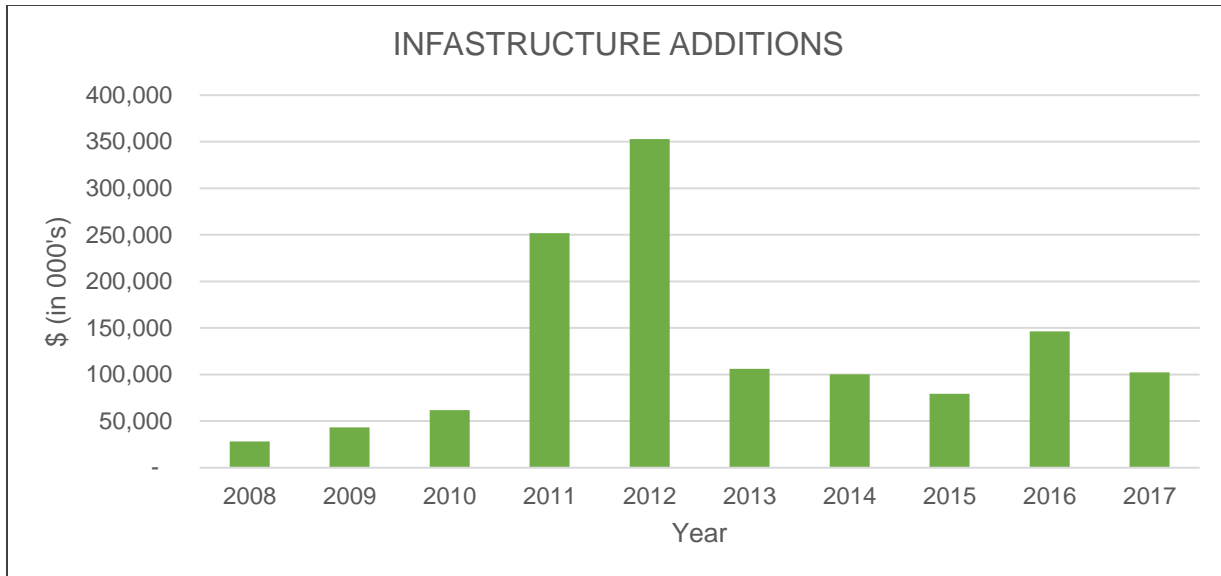
Capital Acquisitions in the current year totaled \$272.8 million and includes capital additions of \$444.6 million, net additions to work in progress assets of \$117.0 million, less \$288.8 million of work in progress assets capitalized in the year. Acquisitions decreased in 2016-17 by \$156.2 million from 2015-16 (\$429.0 million). However, the Province continues to invest in capital assets and is forecasting to increase capital acquisitions by \$206.6 million in 2017-18.

Original Budget for fiscal 2017-18 invests \$573.1 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 77.5% 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

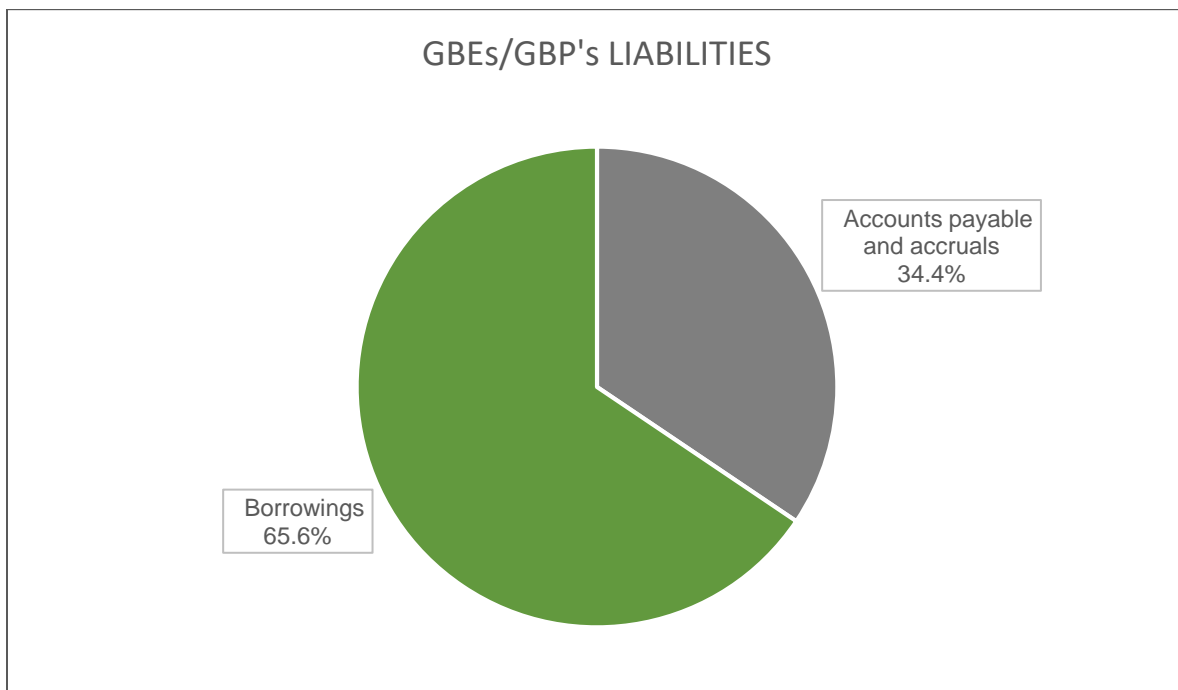
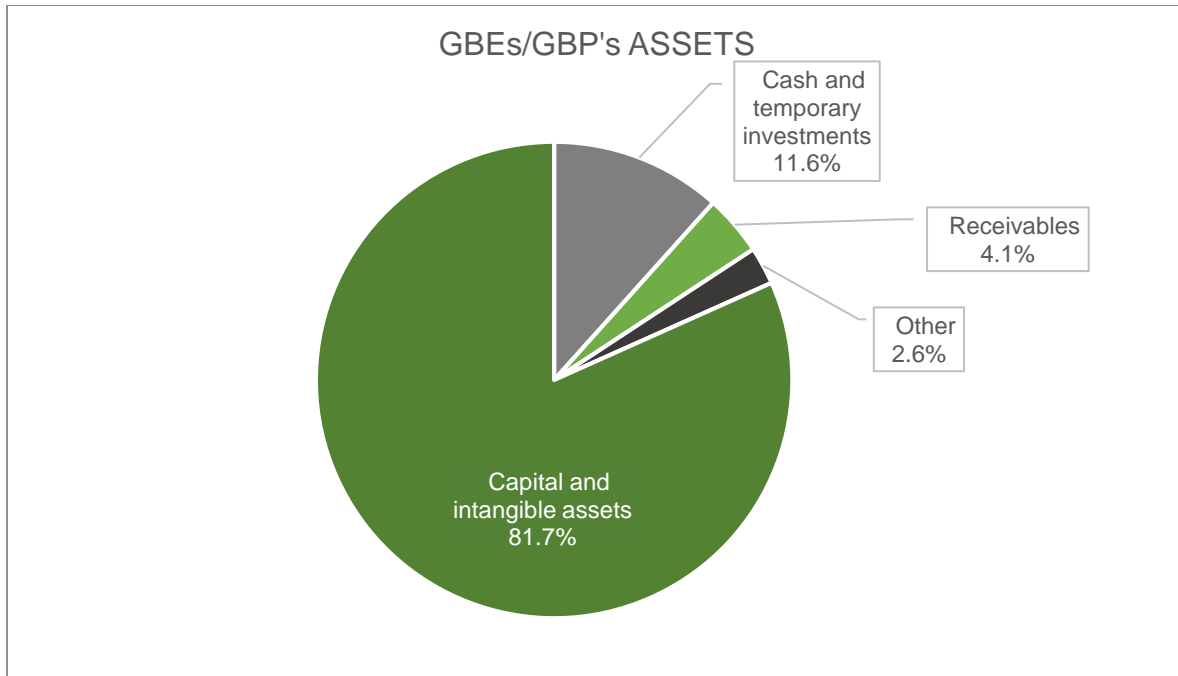
The Province has two Government Business Enterprises (GBEs) including Newfoundland Labrador Liquor Corporation (NLC), and Nalcor Energy (Nalcor); and one Government Business Partnership (GBP), Atlantic Lottery Corporation Inc. (ALC). NLC is a provincial crown corporation responsible for managing the 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 2016-17. Financial figures for ALC, NLC, and Nalcor can be found in Schedules 3 and 4 of the Consolidated Summary Financial Statements.

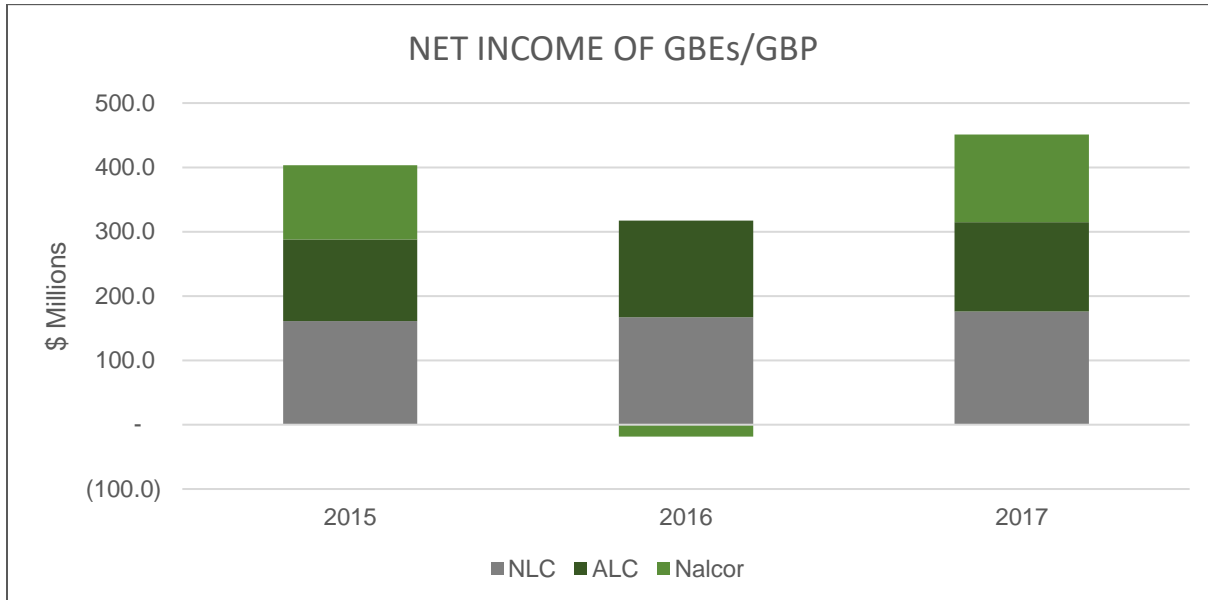
GBEs and GBPs are considered investments and hence consolidated on a one-line basis as 'equity in government business enterprises and partnership' on the Consolidated Statement of Financial Position. Their individual assets and liabilities are not combined with the assets and liabilities of other government entities. However, to provide further information on the financial position of these organizations the following provides an overview of their asset and liability components. 99.35% of GBE/GBP borrowings relate to Nalcor as does 99.39% 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 \$451.2 million. This is an increase of \$152.5 million and 51.1% from 2015-16 (\$298.7 million). The increase in net income was mainly due to the improved financial results from Nalcor, reporting net income of \$136.4 million in the fiscal year, which was an increase in profit of \$155.1 million over 2015-16.



Key drivers of the improved financial results of Nalcor included lower operating costs across all lines of business; increased revenue, largely due to increased oil sales as a result of higher production at Hibernia Southern Extension (HSE); as well as favourable changes to Hydro's regulatory deferrals which are costs or credits incurred but deferred and expected to be recovered or refunded in future electrical rates as set through periodic general rate applications to the Public Utilities Board. These increases in profit were partially offset by increased oil production costs and higher depletion associated with increased production at HSE; lower energy sales in Churchill Falls as a result of the impact of the Renewal Contract (the initial term of the 1969 Power Contract between Churchill Falls and Hydro-Québec expired in 2016. A Renewal Contract commenced September 1, 2016 and expires August 31, 2041); and lower realized export prices in Energy Marketing, partially offset by higher volumes of export sales.

## Investment in Government Business Enterprises and Partnership

The Province injected \$836.0 million in Nalcor during 2016-17 in the form of equity investments. This includes \$674.1 million for the Lower Churchill Project and \$161.9 million for oil and gas development. In addition, the Province issued a 90 day promissory note to Nalcor in the amount \$225.0 million with a current maturity date of 31 March 2018, as an extension was granted. ALC and NLC transferred a combined total of over \$333.2 million in dividends to the Province. In the past five years, greater than 95% of the Province's equity in GBE/GBPs relate to Nalcor.

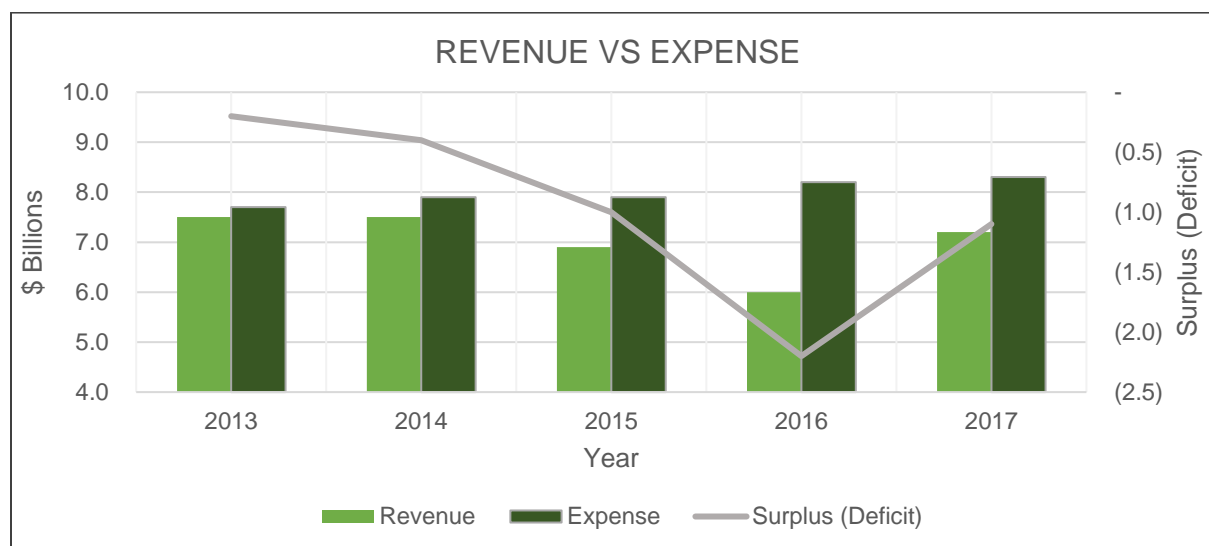
## Capital Transactions

	2013	2014	2015	2016	2017
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
<b>Equity Contributions from the Province:</b>					
Nalcor	245,000	531,000	337,600	760,004	836,002
NLC	-	-	-	-	-
ALC	-	-	-	-	-
<b>Total</b>	<b>245,000</b>	<b>531,000</b>	<b>337,600</b>	<b>760,004</b>	<b>836,002</b>
<b>Dividends Received by the Province:</b>					
Nalcor	-	-	-	-	-
NLC	141,000	152,000	170,500	158,500	198,000
ALC	-*	120,592	125,196	144,784	135,193
<b>Total</b>	<b>141,000</b>	<b>272,592</b>	<b>295,696</b>	<b>303,284</b>	<b>333,193</b>

\*ALC was consolidated in the Province's Consolidation 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 2017, total revenue was \$7.2 billion (31 March 2016 - \$6.0 billion) and total expenses were \$8.3 billion (31 March 2016 - \$8.2 billion), resulting in a provincial deficit of \$1.1 billion (31 March 2016 - \$2.2 billion). The Province reported revenues and expenses for the previous five years as follows:



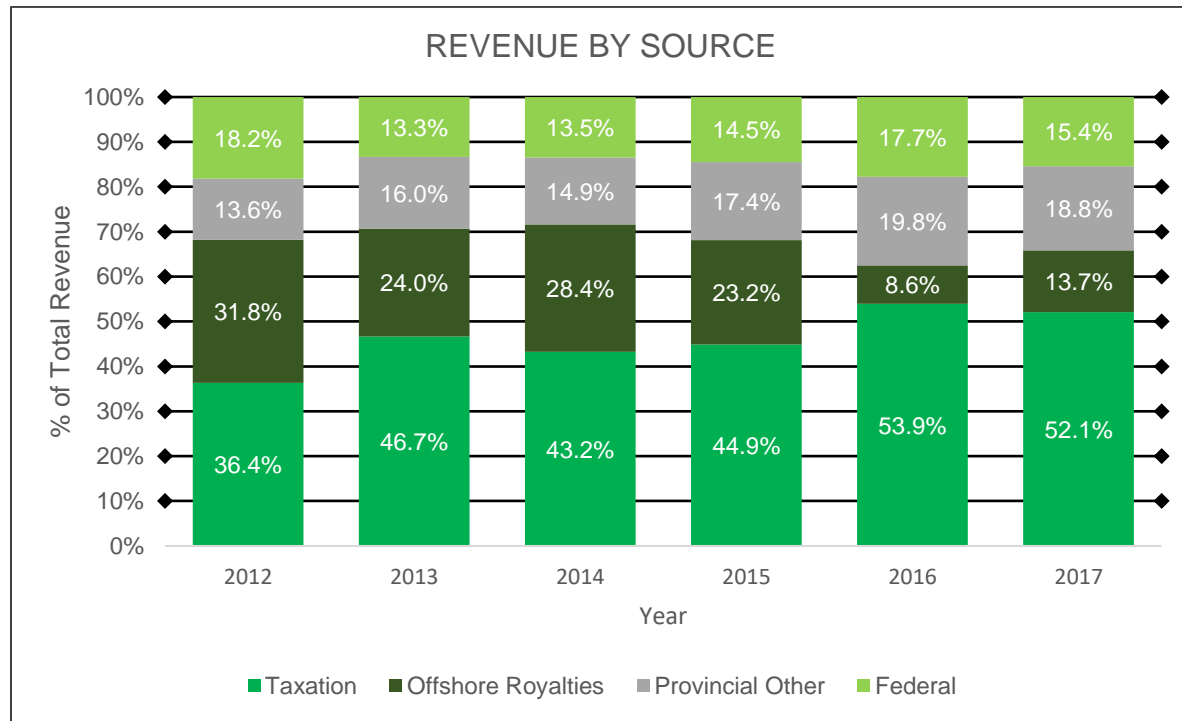
In the previous graph, the five-year trend in surplus (deficit) is shown in relation to revenues and expenses. Since 2013, the Province's annual deficit continued, reaching a low point of \$2.2 billion in 2015-16. However, 2016-17 shows the Province's somewhat improved financial results.

### Revenue Highlights

Revenues of \$7.2 billion for 2016-17 were \$505.7 million higher than the Original Budget of \$6.7 billion. Reported revenues in 2015-16 were \$6.0 billion. Compared to the prior year, revenues increased by \$1.2 billion. The improvement in the actual results for the fiscal year compared to both the Original Budget and past year is primarily due to higher offshore oil royalties.

### 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. Although revenues from taxation shows a decrease in percentage of total revenue from the prior year, taxation increased \$505.5 million from fiscal 2015-16.



## Offshore Royalties

The largest variance between actuals and Original Budget revenue figures relate to offshore oil royalty revenue. Oil royalties, which were forecast at Original Budget to be \$377.1 million (forecasted at budget to be \$502.1 million less a risk adjustment of \$125.0 million due to the volatility of the commodity), resulted in actuals of \$982.7 million. Offshore oil royalty revenue was \$605.6 million higher than projected due to higher oil prices and higher production. Over the course of the year, oil prices generally trended higher from a low of \$36.00 US at the beginning of April 2016 to a high of \$56.00 US in February 2017. The average oil price for the year was \$48.54 US, \$8.54 above the \$40.00 US forecasted at original budget time. Oil prices received a boost in late November 2016, when key OPEC members and Russia announced that they had agreed to a combined 1.8 million barrel per day production cut in an effort to rebalance the oil market.

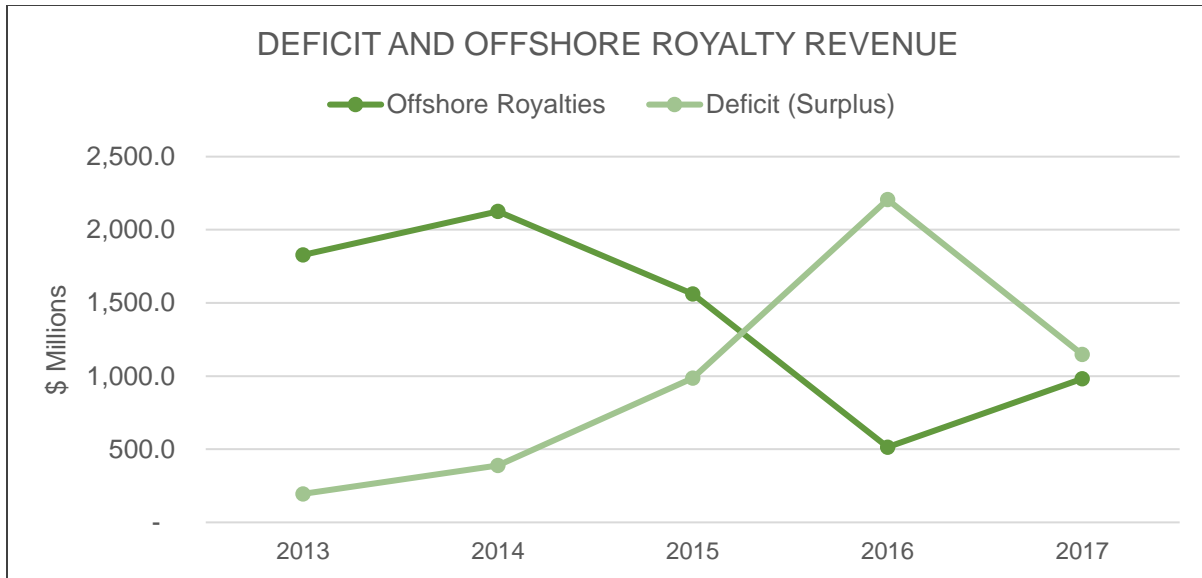
Total oil production was 13.34 million barrels higher than projected due to better than expected well performance and increased facility efficiency and reliability.

<b>Offshore Oil Royalties, Actuals and Original Budget For Fiscal year ended 31 March 2017</b>			
	<b>Actuals</b>	<b>Budget</b>	<b>Variance</b>
Royalties (\$M)	\$982.7	\$377.1	\$605.6
Average oil price per barrel (\$US)	\$48.54	\$40.00	\$8.54
Average exchange rate (\$US/\$CA)	0.76	0.73	0.03
Production (millions of barrels):			
Hibernia	52.59	41.75	10.84
Terra Nova	12.49	9.57	2.92
White Rose	14.63	15.05	(0.42)
Total Oil Production	79.71	66.37	13.34

Note: Figures shown are for fiscal year 2016-17, and will differ from the calendar year figures presented in *The Economy* publications.

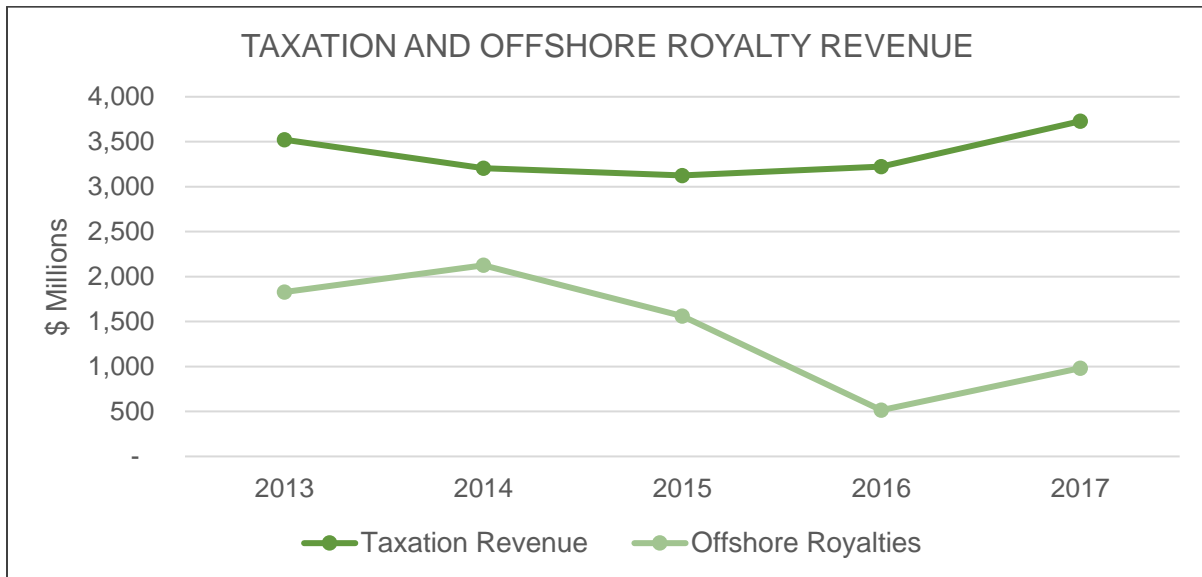
Similarly, the increase of \$468.1 million from 2015-16 offshore royalties (\$514.6 million) was due to higher production.

Steady and significant decline in offshore royalties from 2013 to 2016 relate to the decline in the price of oil and its production. Over this period, royalties declined by more than \$1.6 billion. The downward trend in offshore royalty revenue has an inverse relation to the annual deficit.



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

The following graph shows the taxation and offshore royalty revenue reported in the past five years. Taxation revenue has remained steady over this period and is expected to remain at this level.



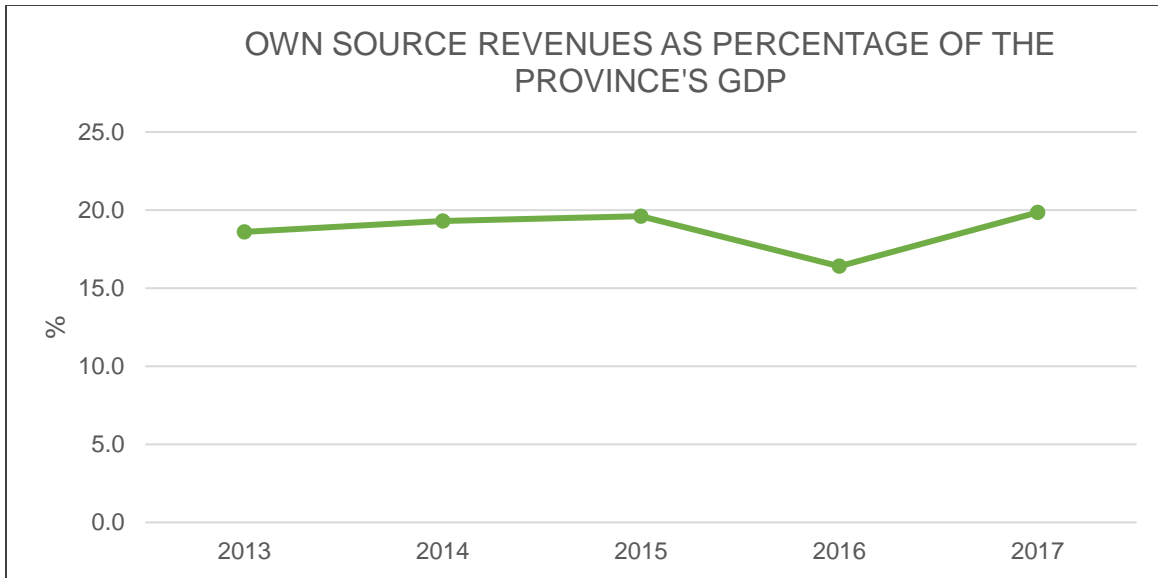
## **Taxation Revenue**

- Actual Results 2016-17 comparative to Original Budget:
  - Personal income tax increased significantly by \$87.0 million due to higher than anticipated income tax assessments for tax year 2015. This increase was partly offset by a decrease in sales tax of \$69.2 million due to lower than anticipated consumer expenditure.
- Actual Results 2016-17 comparative to prior year:
  - Personal income tax increased by \$302.2 million (23.1%) from fiscal 2015-16. Effective July 1, 2016, tax rates for all income ranges were increased. Additionally, a temporary deficit reduction levy was introduced on July 1, 2016 (Individuals with taxable income of \$50,000 or less are exempt from the levy).
  - Sales tax increased \$196.8 million from the prior year due to the HST tax increase and tax on insurance premiums. On July 1, 2016, the HST rate went from 13.0% to 15.0%, with the provincial portion of the HST increasing from 8.0% to 10.0%. The Retail Sales Tax on insurance premiums was reintroduced on July 1, 2016. A tax of 15.0% was applied to insurance premiums for property and casualty insurance policies.
  - Gasoline tax revenue increased by \$115.9 million in 2016-17 from the prior year. Effective June 2, 2016, gasoline tax was temporarily increased by 16.5 cents per litre. The tax rate on diesel products increased by 5.0 cents per litre, and the tax rate on aviation fuel went from 0.7 cents per litre to 2.5 cents per litre.
  - The above increases were partially offset by a decrease in corporate income tax revenue of \$117.4 million in 2016-17 mainly due to effects of the decline in the offshore economy.

## **PROVINCIAL REVENUES AS A PERCENTAGE OF GDP**

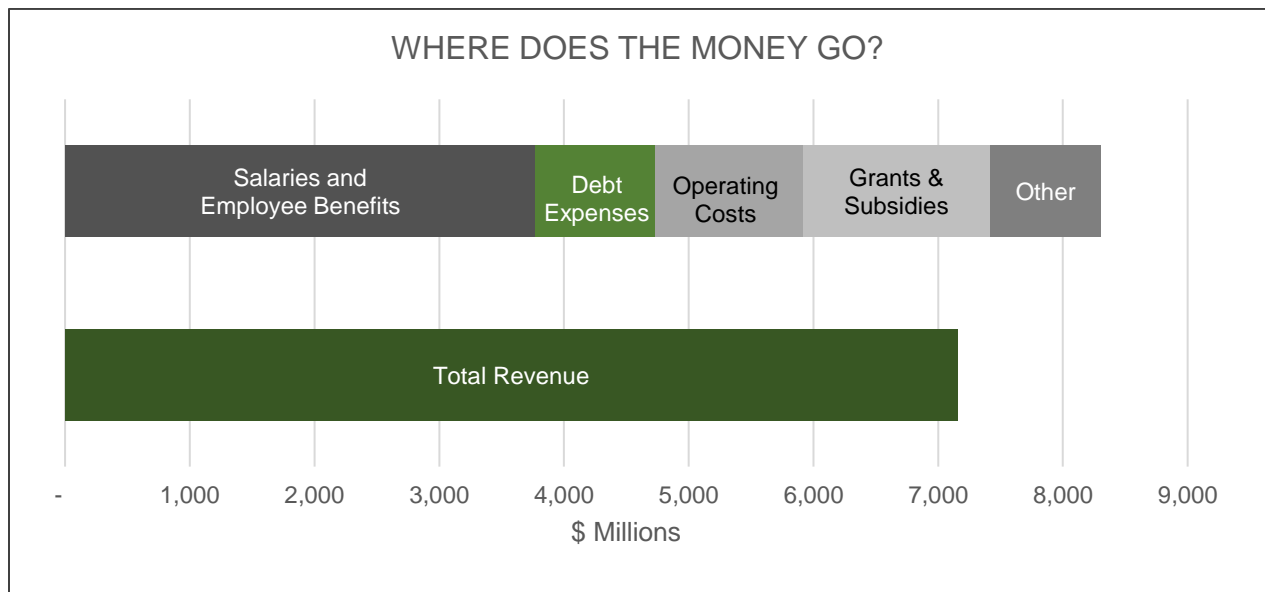
- The purpose of this indicator is to show the extent to which a government is taking income out of the economy in its jurisdiction, through both taxation and user charges.
- The following graph indicates that Provincial revenues as a percentage of GDP increased in the current year from 2015-16. The Province's GDP increased in 2016-17 which coincided with an increase in revenue.
- The 2016-17 own source revenues as percentage of the Province's GDP ratio is 19.8%. This represents an increase of 3.4 percentage points from 16.4% in 2015-16. This ratio is above the five-year average of 18.7%.

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



**EXPENSE HIGHLIGHTS**

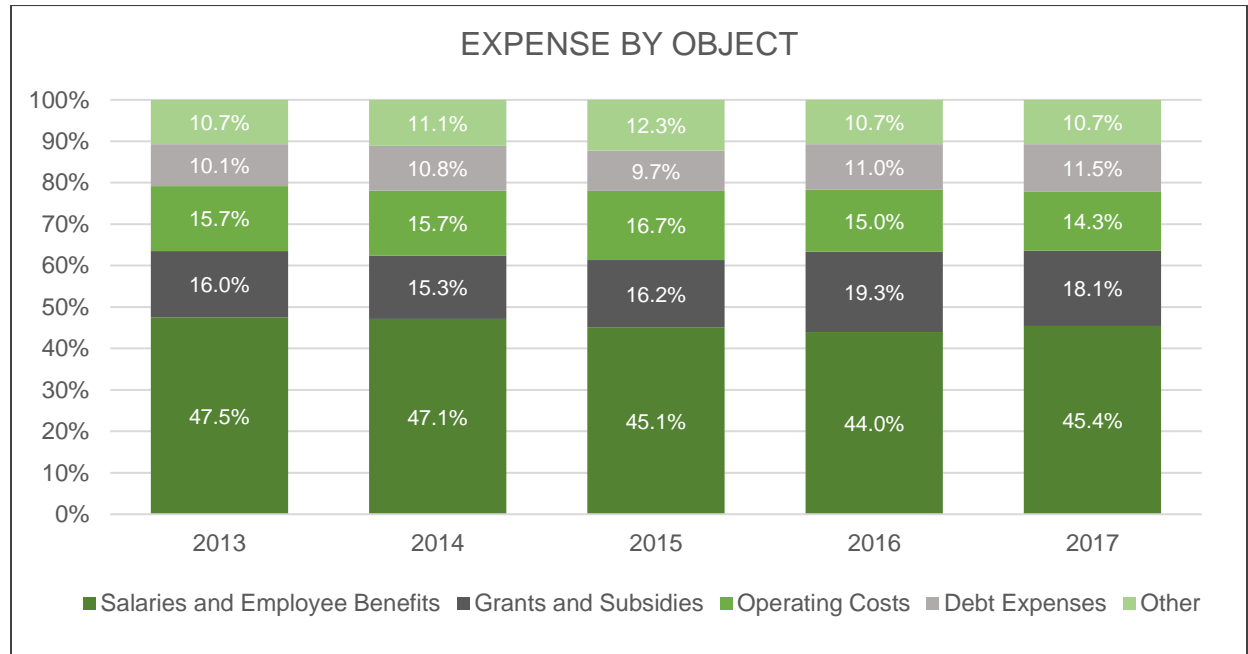
The Province's expenses are classified into the following: salaries and employee benefits; grants and subsidies; operating costs; debt expenses; and other expenses including professional services; amortization and (gain)/loss on the sale of tangible capital assets; property, furnishings and equipment; and valuation allowances (recovery). Total expenses of \$8.3 billion were \$176.5 million lower than the Original Budget (\$8.5 billion) and increased by \$121.7 million from the previous year. Salaries and employee benefits was the Province's largest expense in each of the last five years.





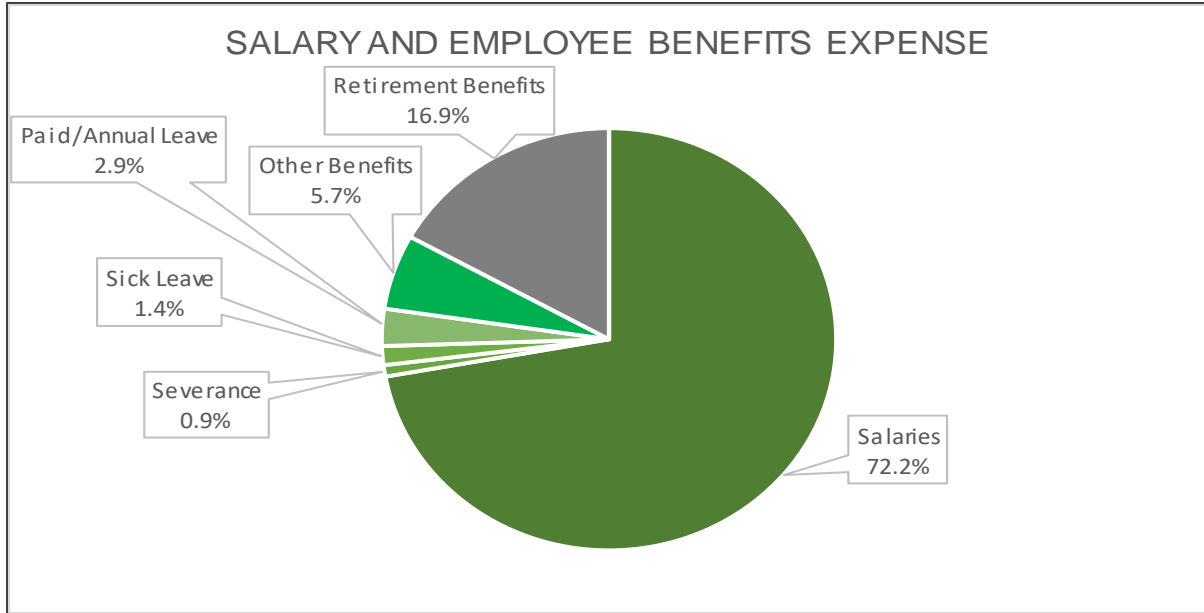
## Expenses by Object

The following graph presents the percentage of expenses by object for the previous five year period. The most significant expense type in 2016-17 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 2013.



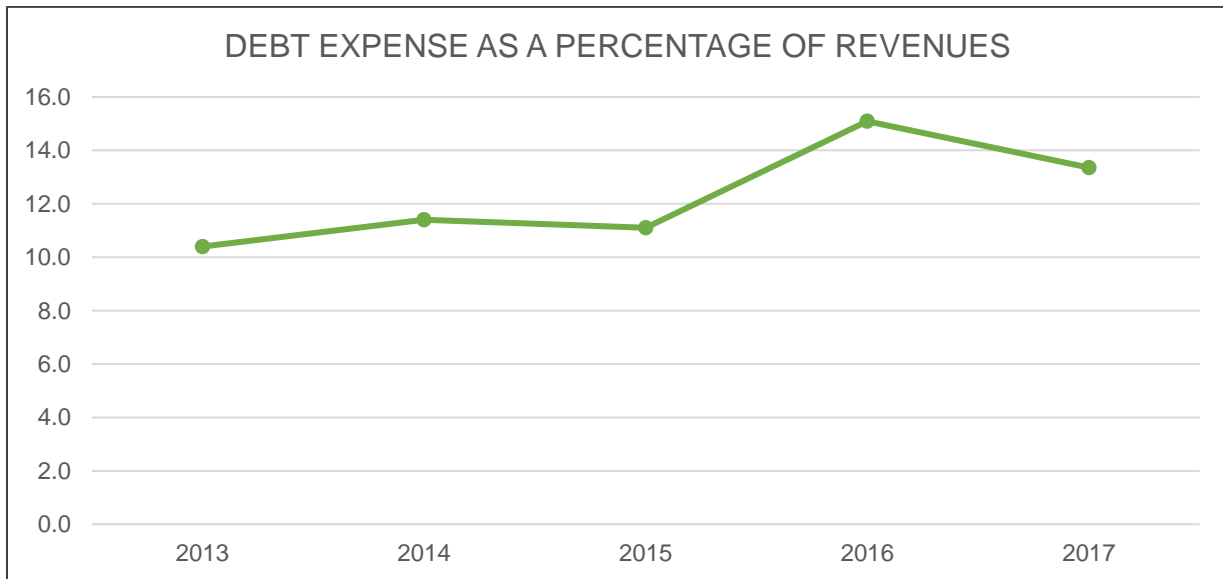
## Salaries and Employee Benefits

Salaries and employee benefits consists of \$2,723.4 million for salaries (31 March 2016 - \$2,680.4 million), \$639.0 million for retirement costs (31 March 2016 - \$482.4 million), \$216.5 million for other benefits (31 March 2016 - \$220.2 million), \$107.4 million for paid and annual leave (31 March 2016 - \$107.1 million), \$54.6 million for sick leave (31 March 2016 - \$64.7 million) and \$32.9 million for severance (31 March 2016 - \$46.0 million).



**Debt Expense**

The following graph presents the percentages of revenues used to pay debt expenses for the past five years. In 2016-17, the Province spent 13.4 cents of each revenue dollar on interest (15.1 cents in 2015-16). This is a 28.8% 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 increase in total expenses of \$121.7 million from 2015-16 to 2016-17 can be attributed to increases in the following:

- Increase of \$173.0 million in salaries and employee benefits primarily due to:
  - \$156.6 million increase in retirement costs as follows:
    - \$152.9 million net increase relating to the **unfunded pension liability (UPL)** and group health and group life (GH/GL) retirement benefits due primarily to the move to Joint Trusteeship for the TPP Joint Trusteeship Agreement.
    - \$3.7 million net increase in other various departments and government entities.
  - \$10.5 million increase to salaries and other benefits for the Newfoundland and Labrador English School District including \$17.1 million increase resulting from the Job Evaluation System (JES) scale upgrade, as well as, increases for student assistance and janitorial salaries. The above increase was partially offset by a decrease of \$5.5 million in severance costs and \$1.1 million decrease in sick leave expense due to actuarial gains.
  - \$5.9 million net increase from various departments and government entities.
  
- Increase of \$53.8 million in 2016-17 debt expenses largely due to the following:
  - \$116.6 million increase to the interest on borrowings expense largely due to the Province's increased net borrowings.
  - \$74.9 million net decrease to the interest expense on the unfunded pension liability (\$129.8 million decrease primarily relating to the MUNPP) and promissory notes (\$54.9 million increase primarily resulting from the new TPP Joint Trusteeship Agreement).
  - During 2015-16, the Province and the Newfoundland and Labrador Teacher's Association (NLTA) reached an agreement to sustain the TPP. The Joint Sponsorship Agreement requires 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 TPP promissory note amortizes \$1.9 billion over 30 years at a discount rate of 6%. The Public Service Pension Plan (PSPP) Joint Sponsorship Agreement and the subsequent amendments to the Public Service Pension 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 PSPP promissory note amortizes \$2.7 billion over 30 years at a discount rate of 6%.
  - \$12.1 million net increase in various departments and entities.
  
- Decrease of \$75.8 million in grants and subsidies expense from the prior year attributed primarily to:
  - \$63.8 million decrease in the Department of Municipal Affairs and Environment as a result of lower municipal infrastructure expenditures for municipal capital works, multi-year capital works, waste management, and recreation infrastructure projects.
  - \$11.0 million decrease in the Department of Tourism, Culture, Industry and Innovation due to 2015-16 conclusion of funding to the City of St. John's for the Convention Centre Project, as well as, a partial reduction in carryforward of funding for Rural Broadband Initiative (RBI) project.
  - \$13.5 million net decreases for various government departments and entities.
  - \$12.5 million increase in the Eastern Regional Health Authority resulting primarily from higher direct client costs, increased board and lodging, and respite and personal care costs.

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


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- \$43.6 million decrease in operating costs from the prior year due to:
  - \$15.2 million decrease for Memorial University of Newfoundland and Labrador primarily relating to reductions in purchased services of \$4.3 million, materials and supplies of \$3.5 million, repairs and maintenance of \$3.2 million, other operating costs of \$3.2 million, and travel and communications of \$1.0 million.
  - \$13.7 million decrease for the Department of Transportation and Works relating to the conclusion of the Atlantic Gateway and Trade Corridor program, which provided investments for the St. John's International Airport and the Gander International Airport, as well as, reductions to the Improvements - Provincial Roads program due to changes in size and scope of the program.
  - \$10.4 million decrease for Newfoundland and Labrador Housing Corporation primarily resulting from lower rental property maintenance, modernization, and improvement costs.
  - \$4.3 million net decrease in various other government departments and entities.
- \$14.3 million net increases in professional services, amortization and (gain) loss on sale of tangible capital assets, property, plant and equipment and valuation allowances (recovery).

Note property, furnishing and equipment (PFE) includes expenses for property, furnishings and equipment that do not meet the established definition or thresholds for tangible capital assets.

### **Compared to Original Budget**

Expenses for 2016-17 totaled \$8.3 billion, resulting in savings of \$176.5 million compared the Original Budget (\$8.5 billion). The decrease in expenses can be primarily attributed to the following:

- \$78.6 million decrease in grants and subsidies mainly due to the following:
  - \$62.4 million decrease in the Department of Municipal Affairs and Environment as a result of lower municipal infrastructure expenditures for municipal capital works, multi-year capital works, waste management, and recreation infrastructure projects.
  - \$9.7 million decrease in Education and Early Childhood Development grants and subsidies expense attributed by a lower uptake on the operating grant program for child care services than anticipated.
  - \$6.5 million in net decreases in various government departments and entities.
- \$57.6 million decrease in salaries and employee benefits which includes:
  - \$57.5 million net decrease to retirement costs and employee benefits from budget mainly relating to the accounting for the PSPP and TPP promissory notes pertaining to the unfunded pension liability.
  - \$0.1 million net decrease in various government departments and entities.

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

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- \$50.0 million decrease in operating costs can be attributed by the following:
  - \$39.8 million decrease in Memorial University of Newfoundland operating costs including a \$19.5 million decrease in repairs and maintenance expenditures as compared to budget; \$13.8 million decrease in expenditures for supplies and materials; \$7.8 million in lower than anticipated utility expenses; offset by a net increase of \$1.3 million in various other operating expenditures.
  - \$10.2 million in net decreases of various government departments and entities.
- \$9.7 million in net increases in debt expenses, professional services, amortization and (gain) loss on sale of tangible capital assets, property, plant 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 16 – 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 14, 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 Lower Churchill Project, there are a variety of uncertainties relating to execution risk as would be the case with any mega project. There is a risk that costs increase over original estimates due to the numerous factors including contractor perception of risk, inflation or materials cost increases. The schedule can be impacted by the performance of contractors and the workforce, the availability of resources and materials, unexpected problems experienced during commissioning and startup, weather, productivity, safety and other incidents onsite causing work interruption, and changes to the original project plan to enhance quality, reliability, or some other objective. Schedule delays could impact the timing of interconnection to the North American grid and the delivery of power to Hydro and export markets which may impact future revenue assumptions. The quality of the work done onsite is of paramount importance, and issues with components not meeting the standards set can cause increases to cost or schedule. The Lower Churchill Project has controls over cost, schedule and quality. Competitive contracting was achieved by creating interest in the project from Canadian, North American and international contractors and contractor oversight is a key priority. Project capital costs are closely monitored, and changes impacting cost must meet certain criteria.

## **UPSIDE RISKS**

The Province is also subject to various upside risks to the economic forecast that could result in positive impacts on the economy including mining, aquaculture, offshore oil exploration, and additional resource development.

- With regards to mining, extensive iron ore resources in Labrador continue to hold potential for development if market conditions improve.
- Heightened interest in the aquaculture development opportunities in Newfoundland and Labrador could significantly increase the Province's current aquaculture production.
- Activity in Newfoundland and Labrador offshore oil exploration continues with approximately \$3.0 billion in outstanding work commitment bids and drilling plans which go outwards of ten years, beginning in 2018.

**DOWNSIDE RISKS**

Demand and pricing of oil and gas has a direct impact on the level of exploration, development and production activity in Newfoundland and Labrador's offshore region. Various other market conditions over which the Province has no control, could also impact results. These include expectations about future commodity prices, levels of consumer demand, severe weather events, policy or regulatory change, and global economic conditions. Additionally, trade with the U.S. may also pose as a financial risk. The U.S. has indicated that the North American Free Trade Agreement (NAFTA) will be renegotiated. Uncertainties surrounding NAFTA lead to potential for negative impacts on exports to the U.S.

## **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 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 2016 as well as an outlook for 2017. It should be noted that the economic forecast discussed in this section was prepared by the Department of Finance in March 2017 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 2017 in the Fiscal and Economic Update. As a result, some estimates for 2016 presented in this discussion such as GDP and household income, and all economic data for 2017 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 2016**

After many years of expansion, the economy of Newfoundland and Labrador has contracted in recent years due to several factors, including major project development timelines and a decline in commodity prices. In 2016, the Province's nominal GDP at market prices is estimated to have been about \$30 billion, down 0.4% from the previous year (see table of economic indicators). In real terms, GDP is estimated to have declined by 0.7% due primarily to lower capital investment which offset an increase in exports.<sup>3</sup>

The value of provincial exports (in real terms) increased in 2016 due primarily to higher oil production. Oil production was 76.7 million barrels in 2016, an increase of 22.5% compared with 2015. This increase stemmed from higher Hibernia output. In nominal terms, the value of exports was relatively unchanged as lower prices for petroleum offset output gains.

Capital investment totaled approximately \$12.1 billion in 2016, a decrease of 6.4% compared to 2015. Lower spending on the Hebron oil project and the Vale nickel processing facility offset higher spending on the Muskrat Falls Project. Total residential spending (including renovations) was \$1.3 billion for 2016, down by 9.8% compared with the previous year. Expenditures declined for both renovations and new dwellings. Housing starts fell by 17.6% to 1,398 units.

<sup>3</sup> It should be noted that in May 2017 Statistics Canada estimated real GDP growth (at basic prices) in 2016 of 1.9% for Newfoundland and Labrador. Estimates of real GDP at market prices by Statistics Canada for 2016 will be released in November 2017.



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


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## Economic Indicators

## Newfoundland and Labrador

	2013	2014	2015	2016e	2017f
GDP at Market Prices (\$ Millions)	34,462	34,022	30,100	29,967	30,503
% Change	7.6	-1.3	-11.5	-0.4	1.8
% Change, real	5.2	-1.0	-2.0	-0.7	-3.8
Final Domestic Demand (\$ Millions)	34,628	36,900	37,368	36,951	36,174
% Change	7.6	6.6	1.3	-1.1	-2.1
% Change, real	6.0	4.1	0.1	-3.2	-4.1
Consumer Price Index (2002=100)	126.0	128.4	129.0	132.5	136.4
% Change	1.7	1.9	0.5	2.7	2.9
Household Income (\$ Millions)	23,530	24,315	25,260	25,430	25,348
% Change	5.0	3.3	3.9	0.7	-0.3
% Change, real	3.3	1.4	3.4	-2.0	-3.2
Household Disposable Income (\$ Millions)	16,025	16,626	17,271	17,217	17,153
% Change	4.8	3.8	3.9	-0.3	-0.4
% Change, real	3.1	1.8	3.4	-2.9	-3.2
Retail Sales (\$ Millions)	8,606	8,919	8,972	8,988	8,973
% Change	5.1	3.6	0.6	0.2	-0.2
% Change, real	4.4	1.6	-0.3	-2.3	-3.0
Capital Investment (\$ Millions)	11,566	12,946	12,868	12,050	11,116
% Change	17.7	11.9	-0.6	-6.4	-7.8
% Change, real	16.4	8.6	-2.5	-7.9	-9.1
Housing Starts (Units)	2,862	2,119	1,697	1,398	1,350
% Change	-26.3	-26.0	-19.9	-17.6	-3.4
Employment ('000s)	242.7	238.6	236.2	232.6	228.3
% Change	0.8	-1.7	-1.0	-1.5	-1.9
Labour Force ('000s)	274.5	270.9	270.8	268.7	265.1
% Change	0.0	-1.3	0.0	-0.8	-1.3
Unemployment Rate (%)	11.6	11.9	12.8	13.4	13.9
Population ('000s)	527.4	528.3	528.7	530.1	527.3
% Change	0.2	0.2	0.1	0.3	-0.5

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 2017

Source: Statistics Canada; Department of Finance

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

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Consumer spending growth was limited in 2016. The value of retail sales increased by 0.2% compared to 2015.

Growth in the Consumer Price Index, or inflation, averaged 2.7% in 2016. Inflation was notably higher in the second half of 2016 as increases to several consumer taxes, effective June/July 2016, impacted the prices of some consumer goods and services. Nonetheless, lower prices were recorded for some key consumption categories.

Most labour market indicators demonstrated weakness in 2016. Employment averaged 232,600, down 1.5% compared to 2015, and the unemployment rate increased by 0.6 percentage points to average 13.4%. Average weekly earnings were \$1,018 in 2016, down 0.4% compared to 2015, however, still high compared to most provinces. The Province's labour force participation rate averaged 60.5% in 2016, down 0.6 percentage points from 2015. This overall decline was mainly reflective of increases in the number of older individuals (65 years and over) who typically have much lower participation rates.

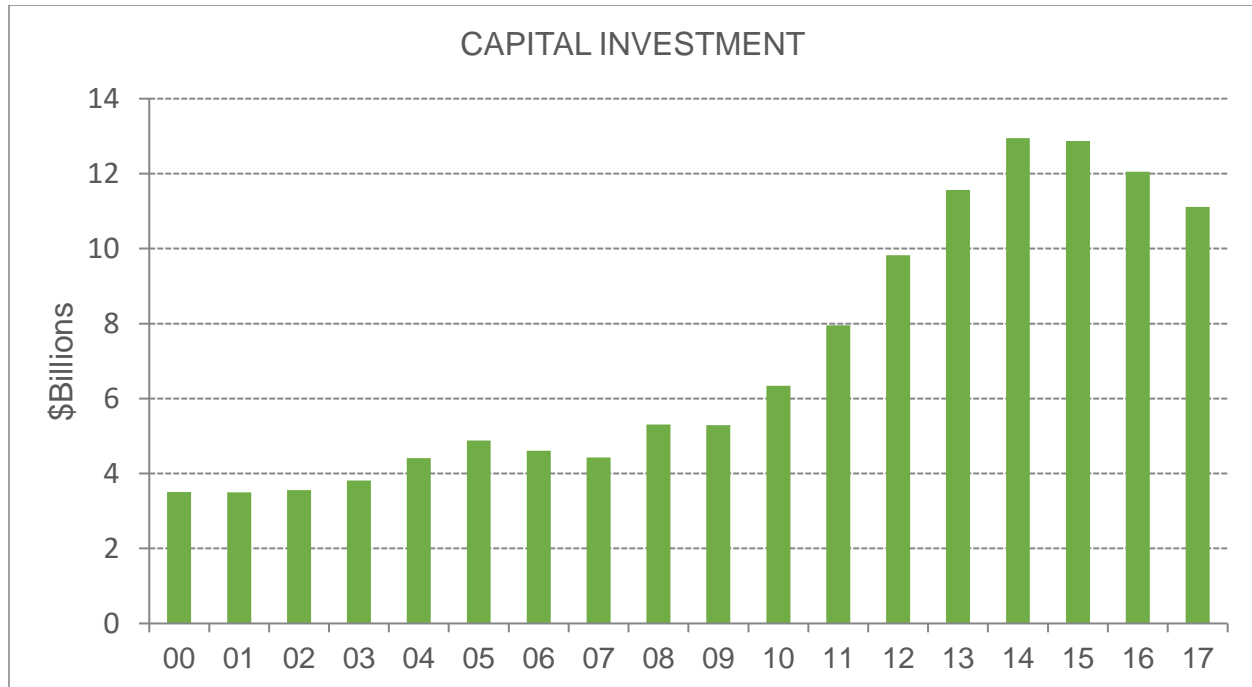
After many years of solid growth, employee compensation decreased by an estimated 0.2% to \$15.7 billion. This decrease reflected employment declines and slightly lower average wages. Household income increased by 0.7% to \$25.4 billion as increases in government transfers such as old age security are estimated to have offset lower employment related income.

Despite weaker economic conditions in the last couple of years, the Province's population grew. As of July 1, 2016, the Province's population was estimated at 530,128, an increase of 0.3% (or 1,452 persons) from July 1, 2015. This marked the ninth consecutive year of population growth following 15 years of decline. Population growth stemmed from migration—primarily international migration. Total migration added 2,286 to the Province's population. This was partially offset by a natural population decline of 834 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 45.0 years in 2015 to 45.3 years in 2016 and remains the highest in the country.

### **ECONOMIC OUTLOOK**

A contraction in Newfoundland and Labrador's economy began in 2014 and is anticipated to continue for several more years. This is a reflection of low commodity prices, which have dampened the outlook for some resource investment, and the winding down of the construction of several major projects. While the decline in resource investment will be partially offset by spending under the Provincial Government's infrastructure plan, deficit reduction measures are expected to curtail current expenditure growth in the public sector in the future.

According to the March 2017 forecast, nominal GDP is expected to grow by 1.8% in 2017 while real GDP is expected to decline by 3.8%. The largest impact on the economy in 2017 will come from a decline in capital investment as development of Hebron, Vale's nickel processing facility and Muskrat Falls moves closer to completion. Capital investment is expected to decrease by 7.8% (see chart).



Source: Statistics Canada; Department of Finance

The completion of these projects will also result in a decline in employment and income which is expected to dampen consumption growth. In the March 2017 forecast, employment was projected to decline by 1.9% in 2017. However, employment declines so far in 2017 have been steeper. During the first seven months of the year employment averaged 4.0% below the same period in 2016. A resumption of population decline was anticipated in the March 2017 forecast. The Province's population is expected to decline 0.5% from 2016 reflecting, in part, fewer employment opportunities. Lower employment and an aging population will result in continued declines in the labour force participation rate in 2017.

Despite the challenges over the next few years, the Province has considerable long-term potential, particularly in the energy sector, but also in other areas such as tourism and aquaculture. 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 2016 and 2017 form the basis for revenue estimates, they are still projections and are subject to change. Further economic and administrative data relating to 2016 and 2017 are expected in the future. New data may result in revisions to taxation revenues in respect to the taxation years reported. Such differences will be reflected as the information becomes known.

## **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 2017**

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28 September 2017

## 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*.

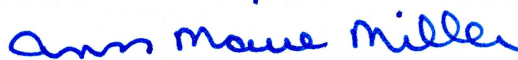
The Government is responsible for maintaining a system of internal accounting and administrative controls in order to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained.

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, 2017, 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, 2017, 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, 2017, 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.

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke at the end.

**TERRY PADDON, CPA, CA**  
**Auditor General**

September 29, 2017  
St. John's, Newfoundland and Labrador

# PROVINCE OF NEWFOUNDLAND AND LABRADOR

## Consolidated Statement of Financial Position As at 31 March 2017 with comparative figures for 2016

	Actuals 2017 (\$000)	Actuals 2016 (Note 14) (\$000)
<b>FINANCIAL ASSETS</b>		
Sch. 1	2,048,660	2,243,828
	Cash and temporary investments - note 2	
Sch. 1	455,078	634,605
	Receivables (net of valuation allowances)	
	4,426	4,709
	Inventories held for resale - note 3	
Sch. 2	576,969	354,849
	Loans, advances and investments (net of valuation allowances)	
Sch. 3	4,563,502	3,592,124
	Equity in government business enterprises and partnership - note 1(b)	
	<b><i>Total Financial Assets</i></b>	<b><i>6,830,115</i></b>
<b>LIABILITIES</b>		
Sch. 5	2,889,447	2,784,447
	Payables, accrued and other liabilities	
	179,562	146,975
	Deferred revenue - note 4	
Sch. 6	10,642,935	9,137,071
	Borrowings (net of sinking fund assets)	
	(227,911)	(162,822)
	Plus: Unamortized unrealized foreign exchange gains (losses) and unamortized premiums (discounts) and issuance fees - note 5	
	10,415,024	8,974,249
	Group health and life insurance retirement benefits - note 6	
	2,854,068	2,770,744
	Unfunded pension liability - note 7	
	502,708	2,054,581
	Plus: Promissory notes - note 7	
	4,405,632	2,603,172
	4,908,340	4,657,753
	<b><i>Total Liabilities</i></b>	<b><i>19,334,168</i></b>
	<b>NET DEBT</b>	<b>12,504,053</b>
	13,597,806	
<b>NON-FINANCIAL ASSETS</b>		
Sch. 10	4,310,185	4,338,298
	Tangible capital assets	
	38,455	44,155
	Prepaid and deferred charges - note 8	
	57,317	56,968
	Inventories of supplies - note 3	
	4,405,957	4,439,421
	<b><i>Total Non-Financial Assets</i></b>	
<b>ACCUMULATED DEFICIT</b>		
	9,191,849	8,064,632
	Contingent Liabilities - note 9	
	Contractual Obligations - note 11	
	Externally Restricted Assets - note 12	
Sch. 7	Guaranteed Debt - note 13	
Sch. 9	Trust Accounts - note 9(c)(i)	

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

## SUMMARY FINANCIAL STATEMENTS

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

**Consolidated Statement of Change in Net Debt  
For the year ended 31 March 2017  
with comparative figures for 2016**

	Actuals 2017 (\$000)	Original Budget 2017 (Note 18) (\$000)	Actuals 2016 (Note 14) (\$000)
<b>NET DEBT - beginning of period</b>	12,504,053	12,633,009	10,330,475
Add (Deduct):			
Adjustments - note 14			
Hebron Benefits DES Agreement	-	-	(150,000)
Change in Government reporting entity	-	-	1,205
Government organization changes	<u>(22,932)</u>	-	<u>(118)</u>
<b>ADJUSTED NET DEBT - beginning of period</b>	<u>12,481,121</u>	<u>12,633,009</u>	<u>10,181,562</u>
<b>Surplus (Deficit) for the period</b>	<u>(1,147,772)</u>	<u>(1,830,036)</u>	<u>(2,206,059)</u>
<b>Changes in tangible capital assets</b>			
Acquisition of tangible capital assets	272,806	485,165	428,960
Net book value of tangible capital asset disposals/adjustments	122	-	(15,747)
Amortization of tangible capital assets	<u>(301,041)</u>	<u>(286,017)</u>	<u>(291,159)</u>
<b><i>Increase (Decrease) in net book value of tangible capital assets</i></b>	<u>(28,113)</u>	<u>199,148</u>	<u>122,054</u>
<b>Changes in other non-financial assets</b>			
Acquisition of prepaid and deferred charges (net of usage)	(5,700)	-	5,627
Acquisition of inventories of supplies (net of consumption)	<u>349</u>	-	<u>7,887</u>
<b><i>Increase (Decrease) in other non-financial assets</i></b>	<u>(5,351)</u>	-	<u>13,514</u>
<b>Changes in net debt from operations</b>			
Sch. 3      Other comprehensive (income) loss	<u>2,377</u>	-	<u>(19,136)</u>
<b><i>Increase (Decrease) from operations</i></b>	<u>2,377</u>	-	<u>(19,136)</u>
<b><i>Increase (Decrease) in net debt</i></b>	<u>1,116,685</u>	<u>2,029,184</u>	<u>2,322,491</u>
<b>NET DEBT - end of period</b>	<u><u>13,597,806</u></u>	<u><u>14,662,193</u></u>	<u><u>12,504,053</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 2017 with comparative figures for 2016

	Actuals 2017 (\$000)	Original Budget 2017 (Note 18) (\$000)	Actuals 2016 (Note 14,15) (\$000)
<b>REVENUE</b>			
Sch. 11 Provincial			
Sch. 11 Taxation	3,728,246	3,703,129	3,222,849
Sch. 11 Investment	89,644	68,171	107,938
Sch. 11 Fees and fines	371,379	361,743	352,322
Sch. 11 Offshore royalties	982,693	377,100	514,557
Sch. 11 Miscellaneous	429,910	548,076	421,314
Sch. 11 Federal	<u>1,103,948</u>	<u>1,184,752</u>	<u>1,059,434</u>
	6,705,820	6,242,971	5,678,414
Sch. 4 Net income of government business enterprises and partnership	<u>451,246</u>	<u>408,350</u>	<u>298,741</u>
<b>Total Revenue</b>	<u>7,157,066</u>	<u>6,651,321</u>	<u>5,977,155</u>
<b>EXPENSE</b>			
Sch. 12 General Government Sector and Legislative Branch	2,095,141	2,321,486	1,859,749
Sch. 12 Resource Sector	1,412,010	1,501,356	1,554,694
Sch. 12 Social Sector	<u>4,797,687</u>	<u>4,658,515</u>	<u>4,768,771</u>
Sch. 13 <b>Total Expense</b>	<u>8,304,838</u>	<u>8,481,357</u>	<u>8,183,214</u>
<b>ANNUAL SURPLUS (DEFICIT)</b>	<u>(1,147,772)</u>	<u>(1,830,036)</u>	<u>(2,206,059)</u>

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

## SUMMARY FINANCIAL STATEMENTS

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

**Consolidated Statement of Change in Accumulated Deficit  
For the year ended 31 March 2017  
with comparative figures for 2016**

	Actuals 2017 (\$000)	Original Budget 2017 (Note 18) (\$000)	Actuals 2016 (Note 14) (\$000)
<b>ACCUMULATED DEFICIT - beginning of period</b>	8,064,632		5,981,198
Add (Deduct):			
Adjustments - note 14			
Hebron Benefits DES Agreement	-		(150,000)
Tangible capital assets	-		45,424
Change in Government reporting entity	-		1,205
Government organization changes	(22,932)		(118)
<b>ADJUSTED ACCUMULATED DEFICIT - beginning of period</b>	<u>8,041,700</u>		<u>5,877,709</u>
<b>Surplus (Deficit) for the period</b>	(1,147,772)	(1,830,036)	(2,206,059)
Sch. 3 <b>Other comprehensive (income) loss</b>	<u>2,377</u>		<u>(19,136)</u>
<b>ACCUMULATED DEFICIT - end of period</b>	<u><u>9,191,849</u></u>		<u><u>8,064,632</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 2017 with comparative figures for 2016

	Actuals 2017 (\$000)	Actuals 2016 (Note 14) (\$000)
<b>Funds provided from (applied to):</b>		
<b>OPERATIONS</b>		
Annual surplus (deficit)	(1,147,772)	(2,206,059)
Add (Deduct) non-cash items:		
Accounts receivable	177,154	61,776
Accounts payable	105,000	(34,940)
Amortization of foreign exchange (gains)/losses, premiums, discounts and issuance fees	(48,014)	(44,254)
Amortization of tangible capital assets	301,041	291,159
Retirement costs	396,311	435,496
Valuation allowances	18,079	7,727
Unremitted net income of government business enterprises and partnership	(118,053)	4,543
Sinking fund earnings	(56,048)	(53,436)
Deferred revenue	32,587	(13,959)
Other	(6,931)	7,899
Special purpose funds/contractors' holdback funds	119	(8,658)
<b>Net cash provided from (applied to) operating transactions</b>	<u>(346,527)</u>	<u>(1,552,706)</u>
<b>CAPITAL</b>		
Acquisitions	(272,806)	(428,210)
Disposals	1,840	549
<b>Net cash provided from (applied to) capital transactions</b>	<u>(270,966)</u>	<u>(427,661)</u>
<b>FINANCING</b>		
Debt issued	2,925,909	2,411,414
Debt retirement	(22,279)	(33,126)
Retirement of pension liabilities	(2,907)	(3,118)
Retirement of promissory note	(59,541)	(33,078)
Sinking fund contributions	(45,108)	(47,814)
Sinking fund proceeds	-	96
Treasury bills purchased	3,055,315	10,203,892
Treasury bills redeemed	(4,368,954)	(8,889,922)
<b>Net cash provided from (applied to) financing transactions</b>	<u>1,482,435</u>	<u>3,608,344</u>
<b>INVESTING</b>		
Loan repayments	23,639	56,012
Investments	1,506	26,630
Loan advances	(249,253)	(40,910)
Investment in government business enterprises	(836,002)	(760,004)
<b>Net cash provided from (applied to) investing transactions</b>	<u>(1,060,110)</u>	<u>(718,272)</u>
<b>Net cash provided (applied)</b>	(195,168)	909,705
Cash and temporary investments - beginning of period	2,243,828	1,334,123
<b>CASH AND TEMPORARY INVESTMENTS - end of period - note 2</b>	<u>2,048,660</u>	<u>2,243,828</u>

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



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**SUMMARY FINANCIAL STATEMENTS**

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**PROVINCE OF NEWFOUNDLAND AND LABRADOR****Notes to the Consolidated Financial Statements  
For the year ended 31 March 2017**

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**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) 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:

Effective 1 April 2017:

*PS 2200 Related Party Disclosures* – a new standard defining related parties and establishing disclosure requirements for related party transactions.

*PS 3210 Assets* – a new standard providing guidance for applying the definition of assets and establishing general disclosure requirements for assets but does not provide guidance for the recognition and disclosure of specific types of assets.

*PS 3320 Contingent Assets* – a new standard defining and establishing disclosure requirements for contingent assets but does not include disclosure standards for specific types of contingent assets.

*PS 3380 Contractual Rights* – a new standard defining and establishing disclosure requirements for contractual rights but does not include disclosure standards for specific types of contractual rights.

*PS 3420 Inter-entity Transactions* – a new standard on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

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 2019:

*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.

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.

## SUMMARY FINANCIAL STATEMENTS

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

#### 2. Cash and Temporary Investments

Cash and temporary investments consist of:

	<u>31 March 2017</u>	<u>31 March 2016</u>
	(\$mil)	(\$mil)
Cash and temporary investments – Consolidated Revenue Fund (CRF):		
Cash balance (overdraft)	1,606.2	1,665.4
Temporary investments	<u>-</u>	<u>-</u>
Total cash and temporary investments – CRF	<u>1,606.2</u>	<u>1,665.4</u>
Cash and temporary investments – Other Entities:		
Cash balance (overdraft)	328.5	432.5
Temporary investments	<u>114.0</u>	<u>145.9</u>
Total cash and temporary investments – Other Entities	<u>442.5</u>	<u>578.4</u>
Total: Cash and Temporary Investments (CRF and Other Entities)	<u>2,048.7</u>	<u>2,243.8</u>

Temporary investments consist of investments with financial institutions. As at 31 March 2017, these investments are on call or have maturity dates ranging from 27 April 2017 to 30 June 2020 at interest rates which vary from 0.95% to 7.00%.

#### 3. Inventories

Inventories consist of:

	<u>31 March 2017</u>	<u>31 March 2016</u>
	(\$mil)	(\$mil)
Inventories Held for Resale		
University and college textbooks, stockroom and food supplies	3.0	3.3
Other entities	<u>1.4</u>	<u>1.4</u>
Total: Inventories Held for Resale	<u>4.4</u>	<u>4.7</u>
Inventories of Supplies		
Textbooks and stockroom supplies held within the CRF	31.8	31.1
Medical and drug supplies held by health sector entities	23.9	24.4
Other miscellaneous supplies	<u>1.6</u>	<u>1.5</u>
Total: Inventories of Supplies	<u>57.3</u>	<u>57.0</u>

## SUMMARY FINANCIAL STATEMENTS

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

#### 4. Deferred Revenue

Deferred revenue consists of:

	31 March 2017 (\$mil)	31 March 2016 (\$mil)	Change (\$mil)
Entities in the education sector relating to the provision of various educational services including contract training and special projects	108.1	98.1	10.0
Provincial-Federal initiatives in support of housing and home repair programs	31.7	9.9	21.8
Gas tax initiatives	29.9	27.2	2.7
Entities in the health sector relating to the provision of various health care services including research and other contracts	5.4	5.5	(0.1)
Federal initiatives in support of community and employment development	-	1.2	(1.2)
Other miscellaneous programs including recycling programs, social and economic development and cultural heritage	4.5	5.1	(0.6)
Total: Deferred Revenue	<u>179.6</u>	<u>147.0</u>	<u>32.6</u>

The balance as of 31 March 2017 will be recognized as revenue in the periods in which the revenue recognition criteria have been met.

#### 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 2017 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 \$13.1 million which represents a debit adjustment (31 March 2016 - \$9.8 million-debit adjustment). The net amortization expense on premiums (discounts) and issuance fees is \$61.2 million which represents a credit adjustment (31 March 2016 - \$54.1 million-credit adjustment).

## SUMMARY FINANCIAL STATEMENTS

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

	31 March 2017	31 March 2016
	(\$mil)	(\$mil)
Foreign exchange gain (loss):		
Debt	(124.8)	(92.0)
Sinking funds	51.8	36.0
Net	(73.0)	(56.0)
Accumulated amortization on foreign exchange	(3.0)	(16.1)
Net unamortized unrealized foreign exchange gains (losses)	(76.0)	(72.1)
Unamortized premiums (discounts) and issuance fees	(151.9)	(90.7)
Total unamortized unrealized foreign exchange gains (losses), premiums (discounts) and issuance fees	(227.9)	(162.8)

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

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 2017, the plans have 65,563

## SUMMARY FINANCIAL STATEMENTS

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

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participants who contributed total contributions of \$65.0 million. The total of all the plans provided benefits of \$36.3 million to 34,979 retirees, their spouses and dependents.

#### **Actuarial Valuations**

An actuarial extrapolation was prepared to 31 March 2017 by the Province's actuaries based on the latest actuarial valuations (Public Service valuation date of 31 December 2014 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 3.70%, 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. The assumptions used reflect the Province's best estimates of expected long-term rates and short-term forecasts.

An actuarial extrapolation was prepared to 31 March 2017 by NLHC's actuaries (valuation date 31 March 2015) 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. 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 2017 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 4.2%, 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. 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 2017 (\$mil)	Net Liability 2016 (\$mil)	Difference (\$mil)
Group health retirement benefits					
Consolidated Revenue Fund	2,003.3	563.6	2,566.9	2,501.0	65.9
Memorial University of Newfoundland	172.9	(18.4)	154.5	142.7	11.8
Newfoundland and Labrador Housing Corporation	17.6	3.8	21.4	21.3	0.1
Sub-total	2,193.8	549.0	2,742.8	2,665.0	77.8
Group life insurance retirement benefits					
Consolidated Revenue Fund	125.9	(18.6)	107.3	101.8	5.5
Memorial University of Newfoundland	1.1	0.7	1.8	1.9	(0.1)
Newfoundland and Labrador Housing Corporation	2.1	0.1	2.2	2.0	0.2
Sub-total	129.1	(17.8)	111.3	105.7	5.6
<b>Total</b>	<b>2,322.9</b>	<b>531.2</b>	<b>2,854.1</b>	<b>2,770.7</b>	<b>83.4</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	63.2	73.1	(29.5)	(40.9)	65.9
Memorial University of Newfoundland	5.2	7.0	(2.6)	2.2	11.8
Newfoundland and Labrador Housing Corporation	-	0.8	(0.3)	(0.4)	0.1
Sub-total	68.4	80.9	(32.4)	(39.1)	77.8
Group life insurance retirement benefits					
Consolidated Revenue Fund	2.9	4.5	(3.8)	1.9	5.5
Memorial University of Newfoundland	-	0.1	(0.1)	(0.1)	(0.1)
Newfoundland and Labrador Housing Corporation	0.1	0.1	-	-	0.2
Sub-total	3.0	4.7	(3.9)	1.8	5.6
<b>Total</b>	<b>71.4</b>	<b>85.6</b>	<b>(36.3)</b>	<b>(37.3)</b>	<b>83.4</b>

Interest expense related to the group health and life insurance retirement benefits liability is included with interest as debt expenses in the financial statements. Interest expense for 31 March 2016 amounted to \$81.5 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 \$507.0 million was increased by \$24.2 million during the year resulting in a closing unamortized experience gain of \$531.2 million. This increase consists of \$61.5 million for new experience gains net of amortization of \$37.3 million.

The expected average remaining service life (EARSL) of programs sponsored by the Province and the NLTA is 12 years, while NLHC is 8 years and MUN is 13 years.

## SUMMARY FINANCIAL STATEMENTS

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

#### 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 2017, the balance of the promissory note is \$2.567 billion. The promissory note is included as part of the total net pension liability on the statement of financial position.

As at 31 March 2017, the PSPP has 27,873 participants who contributed \$195.1 million. The plan provided benefits of \$482.2 million to 20,120 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 is administered in the PSPP Corporation (Provident<sup>10</sup>). 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

### 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, 1991* 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, 1991* 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 2017, the balance of the promissory note is \$1.838 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, 1991* 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 2017, the TPP has 6,063 participants who contributed \$58.1 million. The plan provided benefits of \$289.4 million to 8,997 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, 1991* 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 3,895 participants who contributed \$32.5 million as at 31 March 2017.

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 2017, the MUNPP provided benefits of \$76.0 million to 2,447 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 655 participants who contributed \$5.3 million as at 31 March 2017 as follows: Uniformed Services - \$4.6 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 2017, the plans provided benefits of \$34.7 million to 1,037 pensioners as follows: Uniformed Services - \$26.6 million, Members of the House of Assembly - \$7.5 million and Provincial Court Judges' - \$0.6 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

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

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#### 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 *Uniform 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 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.

##### 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.

#### 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. 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:

## SUMMARY FINANCIAL STATEMENTS

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

#### Expected Interest Rates

The expected average interest rate for the Public Service Pension Plan used for the extrapolation is 6.0% for the Registered component and 3.70% for the Supplementary Employee Retirement component, projected on a long-term basis. The expected rate for the Teachers' Pension Plan is 6.0% projected on a long-term basis. The expected rate of return for the Memorial University of Newfoundland Pension Plan is 5.80%, the Supplemental Retirement Income Plan is 4.20% and the Voluntary Early Retirement Income Plan is 3.30% projected on a long-term basis. The expected rate for the Uniformed Services Pension Plan is 6.50% projected on a long-term basis. The expected rate for the Members of the House of Assembly Pension Plan is 6.50% for the Registered component and 3.70% for the Supplementary Employee Retirement component, projected on a long-term basis. The expected rate for the Provincial Court Judges' Pension Plan is 6.25% for the Registered component and 3.70% for the Supplementary Employee Retirement component, projected on a long term basis.

#### 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:

<u>Pension Plan</u>	<u>Valuation Date</u>
Public Service	31 December 2015
Teachers'	31 August 2015
Memorial University of Newfoundland	31 December 2015
Uniformed Services	31 December 2014
Members of the House of Assembly	31 December 2015
Provincial Court Judges'	31 December 2013

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	Fund Assets	Unamortized Experience Gains (Losses)	Net Unfunded Liability 2017	Net Unfunded Liability 2016	Change
	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)
Public Service	6,108.0	3,229.5	(270.6)	2,607.9	2,587.4	20.5
Teachers'	3,490.1	1,615.0	(194.0)	1,681.1	1,486.8	194.3
Memorial University of Newfoundland	1,770.6	1,500.5	(45.1)	225.0	216.6	8.4
Uniformed Services	468.3	181.7	(2.6)	284.0	260.2	23.8
Members of the House of Assembly	117.1	24.5	(3.1)	89.5	87.9	1.6
Provincial Court Judges'	27.9	9.8	2.7	20.8	18.9	1.9
<b>Total</b>	<b>11,982.0</b>	<b>6,561.0</b>	<b>(512.7)</b>	<b>4,908.3</b>	<b>4,657.8</b>	<b>250.5</b>

Pension Fund Assets are valued at the market value at 31 March 2017 (31 March 2016 – \$7,326.5 million).

As at 31 March 2017, the net unfunded liability of \$4,908.3 million is comprised of the \$4,405.6 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 (\$2,567.2 million) and the Teachers' Pension Plan (\$1,838.4 million).

#### Special Payments

During 2016-17, MUN made a special payment of \$2.9 million (31 March 2016 - \$3.1 million) towards the balance of the unfunded liability.

MUN has requested that the exemptions relating to the minimum contributions required under the *Pension Benefits Act, 1997* (the Act) based on a going concern valuation and a solvency valuation be extended. Without further exemptions, significant special payments will be required over 15 years related to the going concern valuation and five years related to the solvency valuation to address the above net unfunded liability. Previous exemptions have been in place up to 31 March 2016.



## 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 Contributions	Current Period Amortization Changes	Other Adjustments	Unfunded Portion of Current Period Pension Change
	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)
Public Service	131.8	105.8	(283.7)	66.6	-	20.5
Teachers'	38.0	86.8	(133.7)	339.7	(136.5)	194.3
Memorial University of Newfoundland	38.7	(40.0)	(31.9)	16.9	24.7	8.4
Uniformed Services	4.5	18.6	(4.5)	5.2	-	23.8
Members of the House of Assembly	1.2	3.6	(6.1)	2.9	-	1.6
Provincial Court Judges'	1.7	0.7	(0.6)	0.1	-	1.9
<b>Total</b>	<b>215.9</b>	<b>175.5</b>	<b>(460.5)</b>	<b>431.4</b>	<b>(111.8)</b>	<b>250.5</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 2017	Interest Earned on Fund Assets 2017	Net Interest Expense (Earned) 2017
	(\$mil)	(\$mil)	(\$mil)
Public Service	279.8	(174.0)	105.8
Teachers'	218.2	(131.4)	86.8
Memorial University of Newfoundland	98.2	(138.2)	(40.0)
Uniformed Services	29.2	(10.6)	18.6
Members of the House of Assembly	5.0	(1.4)	3.6
Provincial Court Judges'	1.2	(0.5)	0.7
<b>Total</b>	<b>631.6</b>	<b>(456.1)</b>	<b>175.5</b>

Pension interest expense for 31 March 2016 amounted to \$305.3 million. Also included in debt expenses is an additional interest expense of \$131.9 million (31 March 2016 - \$77.0 million) relating to the interest on the promissory notes.

## SUMMARY FINANCIAL STATEMENTS

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

#### Other Adjustments

Other adjustments include the impact of the move to joint trusteeship of \$136.5 million relating to the Teachers' Pension Plan Joint Sponsorship Agreement. This was partially offset by \$24.7 million as a result of an adjustment to the MUNPP unamortized experience gains (losses) balance as at 31 March 2017 as a result of revisions of actuarial determined estimates in accordance with *PS 3250 Retirement Benefits*.

#### 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) (\$mil)	New Experience Gains (Losses) (\$mil)	Amortization (\$mil)	Other Adjustments	Closing Unamortized Experience Gains (Losses) (\$mil)
Public Service	(627.3)	95.1	72.3	-	(459.9)
Teachers'	(388.0)	(262.8)	413.2	-	(237.6)
Memorial University of Newfoundland	(210.0)	6.8	20.1	4.1	(179.0)
Uniformed Services	(39.6)	1.6	5.2	-	(32.8)
Members of the House of Assembly	(11.4)	0.7	3.7	-	(7.0)
Provincial Court Judges'	0.1	0.7	0.2	-	1.0
<b>Total</b>	<b>(1,276.2)</b>	<b>(157.9)</b>	<b>514.7</b>	<b>4.1</b>	<b>(915.3)</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) (\$mil)	New Experience Gains (Losses) (\$mil)	Amortization (\$mil)	Other Adjustments	Closing Unamortized Experience Gains (Losses) (\$mil)
Public Service	57.7	137.3	(5.7)	-	189.3
Teachers'	(46.8)	163.9	(73.5)	-	43.6
Memorial University of Newfoundland	94.7	21.8	(3.2)	20.6	133.9
Uniformed Services	14.1	16.1	-	-	30.2
Members of the House of Assembly	2.1	2.6	(0.8)	-	3.9
Provincial Court Judges'	0.8	1.0	(0.1)	-	1.7
<b>Total</b>	<b>122.6</b>	<b>342.7</b>	<b>(83.3)</b>	<b>20.6</b>	<b>402.6</b>

## SUMMARY FINANCIAL STATEMENTS

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

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

	Expected average remaining service life of related employee groups (EARSL)
Public Service - RPP	11 years
Public Service – SERP	9 years
Teachers'	13 years
Memorial University of Newfoundland	13 years
Uniformed Services	14 years
Members of the House of Assembly	8 years
Provincial Court Judges'	8 years

#### **Other Pension Plan**

The Government Money Purchase Pension Plan was established for employees whose employment status does not qualify them for participation in another of their employer's pension plans. This plan has approximately 33,920 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 2017 assets had a market value of \$358.4 million (31 March 2016 - \$340.4 million). The expense recognized for 31 March 2017 amounted to \$14.1 million (31 March 2016 - \$14.3 million).

## SUMMARY FINANCIAL STATEMENTS

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

#### 8. Prepaid and Deferred Charges

Prepaid and deferred charges consist of:

	31 March 2017	31 March 2016
	(\$mil)	(\$mil)
Property taxes and other municipal fees	7.1	6.9
Insurance costs	6.5	5.3
Maintenance contracts	6.4	8.8
Software licences	4.3	4.2
Membership fees and subscriptions	2.3	2.0
Library operating supplies	2.3	1.5
Ambulance services	1.8	2.0
Rent	1.0	1.1
Workers' compensation fees	0.9	0.8
Computer network and accessories	0.5	2.3
Other prepaid and deferred charges	5.4	9.3
Total: Prepaid and Deferred Charges	38.5	44.2

#### 9. Contingent Liabilities

##### (a) Guaranteed Debt

Guarantees made by the Province as at 31 March 2017 amounted to \$1,531.2 million (31 March 2016 - \$1,236.4 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.

## SUMMARY FINANCIAL STATEMENTS

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

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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) *Pensions*

a) Province of Newfoundland and Labrador Pooled Pension Fund

Pursuant to Section 9 of the *Pensions Funding Act*, the Consolidated Revenue Fund is liable for any deficiency in the Province of Newfoundland and Labrador Pooled Pension Fund covered by that Act. See note 7.

b) Memorial University of Newfoundland Pension Fund

Pursuant to Section 6 of the *Memorial University Pensions Act*, if there is insufficient money in the Memorial University of Newfoundland Pension Fund to provide for the payment of applicable expenditures as they fall due, the Consolidated Revenue Fund is liable for payment of an amount to cover the deficiency. As at 31 March 2017, the Memorial University of Newfoundland Pension Plan had a net unfunded pension liability for funding purposes of \$262.1 million (31 March 2016 - \$283.4 million). However, sufficient money currently exists in the Fund for the payment of expenditures as they fall due. See note 7.

(iii) *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 beyond its mandate as determined by the Auditor General of Canada and confirmed by the Department of Justice of Canada, it is not liability for the amount claimed.

(iv) *Newfoundland and Labrador Student Loans Program*

Under the loan guarantee component of this Program, the Province has no guarantees issued at 31 March 2017. Under the debt reduction component of the Program, the Province is contingently liable for possible grants totalling \$5.2 million, of which \$3.7 million (31 March 2016 - \$3.3 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.

## SUMMARY FINANCIAL STATEMENTS

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

(v) *Contaminated Sites*

The Province has identified approximately 193 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, Phase II and Phase 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 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.

(vi) *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 \$2.2 billion as at 31 March 2017. Also, as at 31 March 2017, the Province had further equity commitments totaling \$1.5 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.

(vii) *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. Subsequent to 31 March 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.

#### 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.

## SUMMARY FINANCIAL STATEMENTS

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

The Province has identified approximately 193 sites for which environmental liabilities may exist for assessment, remediation or monitoring. Of these, 15 were identified as sites where action is possible and for which a liability was recorded. As at 31 March 2017, a total liability for contaminated sites of \$122.0 million (31 March 2016 – \$110.3 million) has been recorded (see Schedule 5 – Payables, Accrued and Other Liabilities). Of this, \$117.5 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 \$4.5 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 5.46%.

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.

#### 11. Contractual Obligations

Contractual obligations consist of:

	31 March 2017	31 March 2016
	(\$mil)	(\$mil)
Lower Churchill Project	2,457.0	3,195.0
Power purchase agreements	383.6	370.5
Capital projects	366.3	335.8
Lease payments	196.0	202.2
Provincial policing agreement	147.4	152.5
Economic development	125.0	163.5
Oil and Gas	107.4	149.6
Information technology services	67.4	35.1
Letters of credit	36.9	12.0
Ferry services	24.0	36.0
Telephone services	11.9	14.5
Residential services	11.3	17.7
Road maintenance	6.6	25.0
Transmission service agreements	4.3	99.9
Energy savings	3.1	-
Other agreements	23.0	28.8
Total: Contractual Obligations	<u>3,971.2</u>	<u>4,838.1</u>

Contractual obligations are those to outside organizations in respect of contracts entered into before 31 March 2017. 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.

## SUMMARY FINANCIAL STATEMENTS

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

The above table includes contractual obligations of \$3.2 billion (31 March 2016 - \$3.9 billion) for government business enterprises and \$23.7 million (31 March 2016 - \$11.6 million) for government business partnership.

#### 12. Externally Restricted Assets

Externally restricted assets amount to \$127.0 million (31 March 2016 - \$122.6 million) of which \$125.0 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 \$2.0 million which relate to various donations designated for specified purposes.

#### 13. Provision for Guaranteed Debt

The provision for probable losses on guaranteed debt (see note 9(a)) is \$0.7 million (31 March 2016 - nil).

#### 14. Adjustments to Beginning Balances

##### (a) Hebron Benefits Drilling Equipment Set (DES) Agreement

There was no change to Net Debt and Accumulated Deficit (31 March 2016 - \$150.0 million decrease) as a result of the Province restating comparative accounts receivable to account for the Hebron Benefits DES Agreement completed September 2012. These changes have been applied retroactively with restatement.

##### (b) Tangible Capital Assets

There was no change to Net Debt (31 March 2016 - nil) and Accumulated Deficit (31 March 2016 - \$45.4 million increase) as a result of the Province restating tangible capital assets to ensure consistent reporting between the Province and the Regional Health Authorities. There was a nil impact on the Annual Deficit (31 March 2016 - \$1.0 million decrease). These changes have been applied retroactively with restatement.

##### (c) Change in Government Reporting Entity

There was no change to Net Debt and Accumulated Deficit (31 March 2016 - \$1.2 million increase) as a result of changes to entities included in the Government reporting entity. Newfoundland and Labrador 911 Bureau Inc. was included for the 2015-16 fiscal year.

##### (d) Government Organization Changes

Net Debt and Accumulated Deficit decreased by \$22.9 million (31 March 2016 - \$0.1 million decrease) relating to the following government organization changes:

- (i) Entity accounting policies and entity restatements resulted in a decrease in accumulated deficit of \$23.8 million (31 March 2016 - nil);
- (ii) Prior period adjustments relating to deferred revenue resulted in an increase in accumulated deficit of \$0.9 million (31 March 2016 - \$0.1 million decrease).

These changes have been applied retroactively without restatement.



## SUMMARY FINANCIAL STATEMENTS

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

#### 15. Change in Government Structure

Under sections 5 and 17 of the *Executive Council Act*, government departments were reorganized effective 1 April 2016. Pursuant to Cabinet direction and under section 20 of the *Financial Administration Act*, the new financial structure for the departments commenced for the 2016-17 fiscal year. The comparative figures have been restated to reflect this new departmental structure.

#### 16. 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.

#### 17. Subsequent Event

##### a) Nalcor Energy Commitments

Subsequent to year end, the Province, through Nalcor Energy and its subsidiaries, entered into new commitments related to the Lower Churchill Project in the amount of \$457.3 million.

##### b) Amendment to White Rose Expansion Project Framework

Subsequent to year end, on 26 May 2017 an agreement was signed between the Province and Nalcor Energy – Oil and Gas Inc., Husky Oil Operations Limited and Suncor Energy Inc., which authorized that \$60.0 million will be paid to an Innovation and Business Development Fund to be administered by the Province for strategic investments to grow industry capacity. The agreement acknowledges that the WHP Proponents shall make annual \$6.0 million contributions to the fund for a period of ten years, commencing on 1 January 2018. The Province agrees that, upon payment, these contribution amounts shall qualify as and be classified as eligible capital costs for the WHP Proponents, for the purpose of calculating royalty payable under the *Royalty Regulations, 2003*.

#### 18. Original Budget

Certain amounts in the statements and exhibits of the 2016-17 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 \$147.7 million reallocated from fees and fines revenue to miscellaneous other revenue and \$288.2 million reallocated from operating costs to grants and subsidies expense. This has resulted in an overall nil impact on the Original Budget surplus (deficit).

## SUMMARY FINANCIAL STATEMENTS

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

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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.

**19. Additional Notes**

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

**20. Comparatives**

Certain of the 31 March 2016 financial statement figures and related schedules have been restated to be consistent with the 31 March 2017 statement presentation.

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Receivables As at 31 March 2017 with comparative figures for 2016

	2017	2016
	(\$000)	(\$000)
Accounts receivable	263,347	271,323
Offshore royalties	109,958	78,340
Taxes receivable	101,413	112,338
Due from Government of Canada	77,586	114,332
Accrued interest receivable	1,267	4,392
Hebron Benefits DES Agreement	-	150,000
	553,571	730,725
Less: Allowance for doubtful accounts	98,493	96,120
Total: Receivables	455,078	634,605

**PROVINCE OF NEWFOUNDLAND AND LABRADOR****Loans, Advances and Investments****As at 31 March 2017****with comparative figures for 2016**

	2017	2016
	(\$000)	(\$000)
Loans and Advances		
Government Business Enterprises and Partnership - note 4	225,000	-
Commercial - note 5	161,342	154,108
Student loans	88,611	94,780
Housing	88,289	81,961
Municipalities	9,627	16,607
Other	5,585	5,384
Total: Loans and Advances	<u>578,454</u>	<u>352,840</u>
Less: Discounts due to concessionary terms on loans - note 2	88,120	82,950
Allowance for doubtful loans and advances	48,100	45,442
Provision for loan repayments through future appropriations (municipalities)	9,627	16,607
	<u>432,607</u>	<u>207,841</u>
Investments		
Equity Investments:		
Administered by Newfoundland & Labrador Film Development Corporation	43,942	41,711
Administered by Memorial University of Newfoundland	39,726	48,671
Cold Ocean Salmon Inc.	10,000	10,000
Administered by Business Investment Corporation	9,018	9,538
Northern Harvest Sea Farms Newfoundland Ltd.	8,241	8,608
Gray Aqua Group Ltd.	4,827	4,827
Country Ribbon Inc.	4,500	4,500
Administered by Janeway Children's Hospital Foundation	4,256	2,930
Burton's Cove Logging and Lumber	3,689	3,818
ACF Equity Atlantic Inc.	2,203	2,203
Newfoundland Aqua Services Ltd. - redeemable	2,000	2,000
Icewater Seafoods Inc.	1,666	1,841
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
Administered by Multi-Materials Stewardship Board	377	426
Newfound Genomics Inc.	-	500
Newlab Clinical Research Inc.	-	484
Other	2,433	3,071
	<u>140,178</u>	<u>148,428</u>

## SUMMARY FINANCIAL STATEMENTS

### LOANS, ADVANCES AND INVESTMENTS (continued)

	2017	2016
	(\$000)	(\$000)
Other Investments:		
Memorial University of Newfoundland - Fixed Income	61,685	53,923
Newfoundland and Labrador Venture Capital Fund	2,450	1,820
Administered by Janeway Children's Hospital Foundation	2,028	3,699
Dr. H. Bliss Murphy Cancer Care Foundation - Endowment Funds investments	1,216	1,193
	67,379	60,635
Total: Investments	207,557	209,063
Less: Discounts due to concessionary terms on investments - note 3	44,387	42,272
Allowance for write-down of investments	18,808	19,783
	144,362	147,008
Total: Loans, Advances and Investments	576,969	354,849

### 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 24 years.

**2. 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.

**3. 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.

**4. Short Term Promissory Note**

On 11 October 2016, the Province issued a 90 day promissory note to Nalcor Energy in the amount of \$225.0 million with interest at the three month Canadian Dollar Bankers Acceptances Rate, to be repaid on or before 11 January 2017. Extensions were granted on 11 January 2017, 31 March 2017 and subsequent to year end an additional extension was granted with a current maturity date of 31 March 2018.

**5. Security**

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

# PROVINCE OF NEWFOUNDLAND AND LABRADOR

## Equity in Government Business Enterprises and Partnership As at 31 March 2017 with comparative figures for 2016

	Atlantic Lottery Corporation 31 Mar 2017 (\$000)	NL Liquor Corporation 1 Apr 2017 (\$000)	Nalcor Energy 31 Dec 2016 (\$000)	Total 2017 (\$000)	Total 2016 (\$000)
Equity - beginning of year	(2,161)	75,600	3,518,685	3,592,124	2,817,527
Adjustment to opening balance	-	-	19,700	19,700	-
Adjusted equity - beginning of period	(2,161)	75,600	3,538,385	3,611,824	2,817,527
Net income for year	138,696	176,134	136,416	451,246	298,741
Other comprehensive income (loss) - note 1	2,869	54	(5,300)	(2,377)	19,136
Capital transactions:					
Transfers from government - note 2	-	-	836,002	836,002	760,004
Transfers to government	(135,193)	(198,000)	-	(333,193)	(303,284)
Equity - end of year	<u>4,211</u>	<u>53,788</u>	<u>4,505,503</u>	<u>4,563,502</u>	<u>3,592,124</u>
Equity represented by:					
Assets					
Cash and temporary investments	5,259	16,596	1,612,400	1,634,255	3,046,804
Receivables	4,923	12,516	559,806	577,245	351,417
Inventories	1,605	36,043	93,100	130,748	120,011
Prepaid and deferred charges	5,252	1,928	183,300	190,480	173,676
Investments	-	-	37,800	37,800	102,400
Reserve fund	-	-	14,900	14,900	30,900
Capital and intangible assets	39,755	29,645	11,397,100	11,466,500	8,331,360
Total Assets	<u>56,794</u>	<u>96,728</u>	<u>13,898,406</u>	<u>14,051,928</u>	<u>12,156,568</u>
Liabilities					
Accounts payable and accruals	12,394	42,940	3,211,301	3,266,635	2,429,152
Deferred government assistance	-	-	2,100	2,100	4,900
Borrowings - note 3	40,189	-	6,179,502	6,219,691	6,130,392
Total Liabilities	<u>52,583</u>	<u>42,940</u>	<u>9,392,903</u>	<u>9,488,426</u>	<u>8,564,444</u>
Equity	<u>4,211</u>	<u>53,788</u>	<u>4,505,503</u>	<u>4,563,502</u>	<u>3,592,124</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 2017 amounted to \$36.5 million (31 March 2016 - \$38.9 million). The other comprehensive income (loss) recognized during the year was \$(2.4) million (31 March 2016 - \$19.1 million).

#### 2. Transfers from Government

Capital transfers from the Province include \$674.1 million (31 March 2016 - \$571.0 million) for the Lower Churchill Project and \$161.9 million (31 March 2016 - \$189.0 million) for oil and gas development.

## SUMMARY FINANCIAL STATEMENTS

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

#### 3. Contributions and Repayment Requirements

Sinking fund contributions and long term debt repayments for Nalcor Energy, in Canadian dollars are as follows.

	Total
	(\$000)
2017-2018	570,963
2018-2019	-
2019-2020	-
2020-2021	-
2021-2022	-
2022-2053	5,879,439
	6,450,402
Less: Sinking Fund Contributions	(270,900)
	6,179,502

This includes a 90 day promissory note from the Province of \$225.0 million.

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Net Income of Government Business Enterprises and Partnership As at 31 March 2017 with comparative figures for 2016

	Atlantic Lottery Corporation 31 Mar 2017	NL Liquor Corporation 1 Apr 2017	Nalcor Energy 31 Dec 2016	Total 2017	Total 2016
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
Revenue					
Revenue from operations	<u>321,620</u>	<u>337,587</u>	<u>824,216</u>	<u>1,483,423</u>	<u>1,483,467</u>
Expense					
Expenses from operations	<u>182,924</u>	<u>161,453</u>	<u>687,800</u>	<u>1,032,177</u>	<u>1,184,726</u>
Net Income	<u><u>138,696</u></u>	<u><u>176,134</u></u>	<u><u>136,416</u></u>	<u><u>451,246</u></u>	<u><u>298,741</u></u>

#### NOTE

##### Related Party Transactions

Nalcor Energy earned related party revenues regarding funding to support new and offshore petroleum exploration, funding for wind feasibility studies in Labrador, as well as Churchill Falls Trust contributions, for a total amount of \$8.8 million (31 December 2015 - \$8.4 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 \$24.3 million (31 December 2015 - \$14.6 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 \$41.4 million (31 December 2015 - \$41.7 million); accounts payable include \$10.0 million (31 December 2015 - \$12.2 million); deferred credits include \$2.1 million (31 December 2015 - \$3.5 million), and borrowings include \$225.0 million (31 December 2015 - nil). In addition, Nalcor Energy invested \$60.8 million (31 December 2015 - \$58.3 million) in Provincial bonds.

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 \$138.9 million (31 March 2016 - \$148.5 million). In relation to profit earnings, there exists an accounts payable of \$2.5 million (31 March 2016 - \$2.0 million).



## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Payables, Accrued and Other Liabilities As at 31 March 2017 with comparative figures for 2016

	2017	2016
	(\$000)	(\$000)
Accrued salaries and employee benefits - note 1	1,172,170	1,133,142
Taxes payable - note 2	559,567	456,259
Due to Government of Canada	398,066	452,835
Accounts payable	377,955	401,696
Accrued interest payable	203,626	167,863
Contaminated sites	122,004	110,335
Due to municipalities	23,544	31,649
Capital leases - note 3	21,783	23,800
Nalcor Energy	3,884	-
Provision for student loan debt reduction payable	3,666	3,301
Other	3,182	3,567
Total: Payables, Accrued and Other Liabilities	2,889,447	2,784,447

#### NOTES

#### 1. Accrued Salaries and Employee Benefits

Accrued salaries and employee benefits consists of \$497.0 million for severance (31 March 2016 - \$481.3 million), \$266.8 million for paid and annual leave (31 March 2016 - \$265.7 million), \$229.4 million for sick leave (31 March 2016 - \$226.2 million), \$111.8 million for salaries (31 March 2016 - \$105.1 million), \$10.8 million for other benefits (31 March 2016 - \$10.8 million), \$10.3 million for pay in lieu (31 March 2016 - nil) and \$46.1 million related to the self-insured workers' compensation benefits liability (31 March 2016 - \$44.0 million). 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 \$417.5 million for corporate income tax (31 March 2016 - \$370.9 million), \$131.4 million for HST (31 March 2016 - \$65.0 million) and \$10.7 million for other taxes (31 March 2016 - \$20.4 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 7 years.

# PROVINCE OF NEWFOUNDLAND AND LABRADOR

## Borrowings As at 31 March 2017 with comparative figures for 2016

	2017			Interest Rate Range (%)	2016
	Total Borrowings (\$000)	Sinking Fund Balance (\$000)	Net Borrowings (\$000)		Net Borrowings (\$000)
Consolidated Revenue Fund					
Treasury bill borrowings	778,807	-	778,807	0.59 - 0.64	2,092,446
General debentures	10,554,239	1,334,747	9,219,492	1.13 - 10.95	6,377,067
Sun Life Assurance Company of Canada	71,060	-	71,060	7.55 - 9.20	76,382
Government of Canada	306,356	-	306,356	4.91 - 7.88	306,395
	<u>11,710,462</u>	<u>1,334,747</u>	<u>10,375,715</u>		<u>8,852,290</u>
Health care organizations	154,871	19,545	135,326	0.99 - 10.50	139,666
Newfoundland and Labrador Housing Corporation	92,024	-	92,024	1.01 - 19.75	97,078
Memorial University of Newfoundland	19,596	-	19,596	3.69 - 5.88	21,416
School Districts	13,542	-	13,542	prime-1 - 5.04	14,223
Newfoundland and Labrador Municipal Financing Corporation	6,732	-	6,732	5.10 - 5.20	12,398
	<u>11,997,227</u>	<u>1,354,292</u>	<u>10,642,935</u>		<u>9,137,071</u>
Total: Borrowings	<u>11,997,227</u>	<u>1,354,292</u>	<u>10,642,935</u>		<u>9,137,071</u>

See accompanying notes.

**SUMMARY FINANCIAL STATEMENTS**

**NOTES TO THE SCHEDULE OF BORROWINGS**  
**As at 31 March 2017**

**1. Borrowings**

Borrowings and unamortized foreign exchange losses, by major currency, sinking funds and unamortized premiums, discounts and issuance fees as at 31 March 2017 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	1.3299	1,396,395	(130,919)	1,265,476
Canadian			<u>10,600,832</u>	-	<u>10,600,832</u>
	Sub-total		11,997,227	(130,919)	11,866,308
	Foreign sinking funds		(585,506)	54,887	(530,619)
	Canadian sinking funds		<u>(768,786)</u>	-	<u>(768,786)</u>
	Sub-total		<u>10,642,935</u>	(76,032)	10,566,903
	Unamortized premiums and discounts and issuance fees			<u>(151,879)</u>	<u>(151,879)</u>
	Total			<u>(227,911)</u>	<u>10,415,024</u>

**2. 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)
2017-2018	6,650	845,831	852,481
2018-2019	6,650	295,131	301,781
2019-2020	6,650	91,598	98,248
2020-2021	234,715	597,754	832,469
2021-2022	161,623	255,985	417,608
2022-2049	<u>276,291</u>	<u>6,514,371</u>	<u>6,790,662</u>
	<u>692,579</u>	<u>8,600,670</u>	9,293,249

Plus: Sinking Fund Values at Maturity	3,386,656
Less: Sinking Fund Contributions	<u>(682,678)</u>
	<u>11,997,227</u>

## NOTES TO THE SCHEDULE OF BORROWINGS (continued)

**3. Interest Expense**

The gross interest expense associated with borrowings, recognized for 31 March 2017, amounted to \$541.0 million (31 March 2016 - \$424.4 million).

**4. 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 \$13.1 million which represents a debit adjustment (31 March 2016 - \$9.8 million - debit adjustment). The net amortization expense on premiums, discounts and issuance fees is \$61.2 million which represents a credit adjustment (31 March 2016 - \$54.1 million - credit adjustment).

**5. Sensitivity Analysis**

An increase/decrease of one cent in the foreign exchange rates at 31 March 2017 would result in an increase/decrease in foreign borrowings of \$10.5 million (31 March 2016 - \$10.5 million).

**6. Related Sinking Fund Investments**

At year end, the Province held \$669.9 million worth of its own debentures (face value) in sinking funds as active investments (31 March 2016 - \$587.2 million) which are reflected in the sinking fund balances disclosed in note 1 above. These were comprised of \$478.3 million in Canadian investments and \$191.6 million in US investments.

**7. 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 2017 with comparative figures for 2016

	2017	2016
	(\$000)	(\$000)
Guaranteed Debentures		
Newfoundland and Labrador Hydro	1,446,358	1,135,940
Newfoundland and Labrador Housing Corporation - note 4	46,067	56,873
Municipalities	575	559
	<u>1,493,000</u>	<u>1,193,372</u>
Guaranteed Bank Loans		
Fisheries	37,707	42,281
Other corporations	530	719
	<u>38,237</u>	<u>43,000</u>
Total: Guaranteed Debt	<u>1,531,237</u>	<u>1,236,372</u>

#### NOTES

**1. Limit of Loan Guarantees**

The limit of loan guarantees for guaranteed debentures is \$1,493.0 million and \$72.6 million for guaranteed bank loans.

**2. Provision for Guaranteed Debt**

The provision for probable losses on guaranteed debt is \$0.7 million (31 March 2016 - nil).

**3. General Terms and Conditions**

Guaranteed debentures for government business enterprises have maturity dates ranging from July 2017 to December 2045 at interest rates varying from 3.6% to 10.25%. Other guaranteed debentures and guaranteed bank loans have maturity dates ranging from April 2017 to March 2037 at interest rates varying from 0.84% 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 2017****with comparative figures for 2016**

Department	2017 (\$000)	2016 (\$000)
Finance:		
Remissions	186	388
Advanced Education, Skills and Labour:		
Uncollectible accounts	3,951	951
Education and Early Childhood Development:		
Uncollectible accounts	28	-
Fisheries and Land Resources:		
Loan forgiveness	4,227	-
Tax forgiveness	1,741	1,685
	5,968	1,685
Justice and Public Safety:		
Uncollectible accounts	1,570	149
Municipal Affairs and Environment:		
Uncollectible accounts	-	220
Tourism, Culture, Industry and Innovation:		
Loan forgiveness	856	-
Uncollectible accounts	870	4
	1,726	4
Total: Losses, Uncollectible Accounts and Other Amounts Written Off	13,429	3,397

**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 2017 with comparative figures for 2016

	2017	2016
	(\$000)	(\$000)
Office of the Public Trustee	36,299	40,219
Supreme Court of Newfoundland and Labrador	22,450	34,338
Refund Deposit Account (formerly known as Rate Stabilization Fund)	10,788	9,018
Teachers' Accrued Salary Trust Account	7,680	8,754
Scholarships and Awards	7,393	7,342
Patients' Funds Held in Trust	5,020	5,699
Consolidated Tender Account	4,876	4,512
Replacement Reserve Funds	3,794	3,878
Federal/Provincial Contractors' Security Account	2,746	5,521
Support Enforcement	1,473	1,327
Provincial Courts Trust Account	585	490
Contractors' Security Account - Transportation and Works	176	246
Other Trust Accounts	2,165	2,143
Total: Trust Accounts	105,445	123,487

#### 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 2016, the Commission reported a net fund surplus of \$291.1 million (31 December 2015 - net fund surplus of \$206.5 million) and an accumulated operating surplus of \$291.2 million (31 December 2015 - surplus of \$206.6 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 2017 with comparative figures for 2016

Category	Original Cost			Accumulated Amortization			Net Book Value 31 March 2017 (\$mil)	Net Book Value 31 March 2016 (\$mil)	
	Balance 31 March 2016 (\$mil)	Additions 2017 (\$mil)	Disposals 2017 (\$mil)	Balance 31 March 2017 (\$mil)	Balance 31 March 2016 (\$mil)	Amort. Net of Disposals 2017 (\$mil)			Balance 31 March 2017 (\$mil)
Buildings	3,740.7	248.6	7.3	3,982.0	1,788.4	92.7	1,881.1	2,100.9	1,952.3
Marine vessels & aircraft	342.5	3.9	3.0	343.4	95.9	11.8	107.7	235.7	246.6
Equipment & machinery	1,685.7	69.7	15.8	1,739.6	1,291.9	64.6	1,356.5	383.1	393.8
Infrastructure	4,979.6	102.3	0.7	5,081.2	3,851.6	86.8	3,938.4	1,142.8	1,128.0
Computer software	163.2	20.1	-	183.3	112.3	18.2	130.5	52.8	50.9
Sub-total	<u>10,911.7</u>	<u>444.6</u>	<u>26.8</u>	<u>11,329.5</u>	<u>7,140.1</u>	<u>274.1</u>	<u>7,414.2</u>	3,915.3	3,771.6
Work in progress				<u>394.9</u>				<u>394.9</u>	<u>566.7</u>
Total				<u>11,724.4</u>				<u>4,310.2</u>	<u>4,338.3</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 2017 of \$394.9 million (31 March 2016 - \$566.7 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 \$444.6 million include \$288.8 million of work in progress assets that have been capitalized in the year. Net additions to work in progress assets include additions of \$117.0 million less disposals of nil for 2016-17.



## SUMMARY FINANCIAL STATEMENTS

### TANGIBLE CAPITAL ASSETS (continued)

#### 3. Accumulated Amortization

The \$274.1 million change in accumulated amortization from the prior year, as reported in the Tangible Capital Asset schedule, consists 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 in accumulated amortization of \$1.2 million is the result of changes in estimates by certain entities.

The \$271.2 million change in accumulated amortization as at 31 March 2016 consisted of amortization expense of \$291.2 million less accumulated amortization on assets disposed of in the year in the amount of \$21.1 million. The remaining increase of \$1.1 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 \$51.9 million (31 March 2016 - \$51.2 million), amortization expense is \$1.5 million (31 March 2016 - \$1.7 million) and accumulated depreciation is \$39.2 million (31 March 2016 - \$37.0 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. \$151.6 million, (net) has been recorded as the cost of the electricity generating assets for the fiscal year ended 31 March 2017 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 2017 with comparative figures for 2016

	Actuals 2017 (\$000)	Original Budget 2017 (Note 18) (\$000)	Actuals 2016 (\$000)
<b>Provincial Sources</b>			
<b>Taxation</b>			
Personal income tax	1,610,845	1,523,885	1,308,669
Sales tax	1,102,241	1,171,423	905,398
Gasoline tax	309,119	328,112	193,240
Corporate income tax	232,258	222,670	349,635
Mining and mineral rights tax	60,035	52,999	70,038
Other	413,748	404,040	395,869
	<u>3,728,246</u>	<u>3,703,129</u>	<u>3,222,849</u>
<b>Investment</b>			
Sinking fund earnings	56,852	54,359	54,234
Interest	30,138	13,812	20,625
Other	2,654	-	33,079
	<u>89,644</u>	<u>68,171</u>	<u>107,938</u>
<b>Fees and Fines</b>			
Fees	361,262	346,105	340,771
Fines	10,117	15,638	11,551
	<u>371,379</u>	<u>361,743</u>	<u>352,322</u>
<b>Offshore royalties</b>	982,693	377,100	514,557
<b>Miscellaneous</b>			
Sales and rentals	69,475	-	69,141
Cost recoveries	36,278	-	36,683
Other	324,157	548,076	315,490
	<u>429,910</u>	<u>548,076</u>	<u>421,314</u>
<b>Total Provincial Sources</b>	<u>5,601,872</u>	<u>5,058,219</u>	<u>4,618,980</u>
<b>Federal Sources</b>			
Health and social transfers	725,097	720,327	685,070
Cost-shared programs	324,025	331,521	308,824
Other	54,826	132,904	65,540
<b>Total Federal Sources</b>	<u>1,103,948</u>	<u>1,184,752</u>	<u>1,059,434</u>
Net income of government business enterprises and partnership - see note	451,246	408,350	298,741
<b>Total: Revenue by Source</b>	<u><u>7,157,066</u></u>	<u><u>6,651,321</u></u>	<u><u>5,977,155</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 2017 with comparative figures for 2016

	Actuals 2017 (\$000)	Original Budget 2017 (Note 18) (\$000)	Actuals 2016 (\$000)
<b>General Government Sector and Legislative Branch</b>			
<b>General Government Sector</b>			
Consolidated Fund Services	836,862	802,903	588,745
Executive Council	102,306	104,808	105,375
Finance	629,077	809,199	564,080
Government Purchasing	1,971	2,236	2,321
Public Service Commission	2,591	2,498	2,426
Service NL	38,953	39,838	38,880
Transportation and Works	459,954	534,905	529,828
<b>Legislative Branch</b>			
Legislature	23,427	25,099	28,094
	<u>2,095,141</u>	<u>2,321,486</u>	<u>1,859,749</u>
<b>Resource Sector</b>			
Advanced Education, Skills and Labour	1,118,274	1,245,355	1,251,783
Fisheries and Land Resources	113,139	103,817	124,809
Natural Resources	78,163	43,937	51,941
Tourism, Culture, Industry and Innovation	102,434	108,247	126,161
	<u>1,412,010</u>	<u>1,501,356</u>	<u>1,554,694</u>
<b>Social Sector</b>			
Children, Seniors and Social Development	171,780	174,061	172,920
Education and Early Childhood Development	832,204	803,970	761,634
Health and Community Services	3,203,269	3,025,890	3,177,180
Justice and Public Safety	260,091	245,999	255,982
Municipal Affairs and Environment	209,529	280,238	267,803
Newfoundland and Labrador Housing Corporation	120,814	128,357	133,252
	<u>4,797,687</u>	<u>4,658,515</u>	<u>4,768,771</u>
<b>Total: Expenses by Department</b>	<u><u>8,304,838</u></u>	<u><u>8,481,357</u></u>	<u><u>8,183,214</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 2017 with comparative figures for 2016

	Actuals 2017 (\$000)	Original Budget 2017 (Note 18) (\$000)	Actuals 2016 (\$000)
Salaries and employee benefits - note 1	3,773,794	3,831,368	3,600,770
Grants and subsidies	1,505,588	1,584,205	1,581,402
Operating costs	1,183,028	1,232,966	1,226,626
Debt expenses	955,918	982,342	902,067
Professional services	493,261	530,997	490,791
Amortization and (gain)/loss on the sale of tangible capital assets	298,709	286,017	291,195
Property, furnishings and equipment - note 2	76,461	33,367	82,636
Valuation allowances (recovery)	18,079	95	7,727
Total: Expenses by Object	8,304,838	8,481,357	8,183,214

#### NOTES

#### 1. Salaries and employee benefits

Salaries and employee benefits consists of \$2,723.4 million for salaries (31 March 2016 - \$2,680.4 million), \$639.0 million for retirement costs (31 March 2016 - \$482.4 million), \$216.5 million for other benefits (31 March 2016 - \$220.2 million), \$107.4 million for paid and annual leave (31 March 2016 - \$107.1 million), \$54.6 million for sick leave (31 March 2016 - \$64.7 million) and \$32.9 million for severance (31 March 2016 - \$46.0 million).

#### 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 2017

	General Government Sector and Legislative Branch (\$000)	Resource Sector (\$000)	Social Sector (\$000)	Total (\$000)
<b>REVENUE</b>				
Provincial				
Taxation	3,770,329	152	-	3,770,481
Investment	76,699	8,541	4,404	89,644
Fees and Fines	171,636	111,355	88,388	371,379
Offshore Royalties	387	982,306	-	982,693
Other	53,777	190,978	200,590	445,345
Federal sources	<u>758,833</u>	<u>208,906</u>	<u>136,209</u>	<u>1,103,948</u>
	4,831,661	1,502,238	429,591	6,763,490
Net income of government business enterprises and partnership	<u>314,830</u>	<u>136,416</u>	<u>-</u>	<u>451,246</u>
<b>Total Sector Revenue - note 2</b>	<u>5,146,491</u>	<u>1,638,654</u>	<u>429,591</u>	<u>7,214,736</u>
<b>EXPENSE</b>				
Salaries and employee benefits	628,639	721,268	2,467,577	3,817,484
Operating costs	281,600	226,656	688,665	1,196,921
Grants and subsidies	124,285	388,072	993,129	1,505,486
Debt expenses	935,735	(22,794)	42,977	955,918
Professional services	8,865	18,323	466,073	493,261
Amortization and loss on sale of tangible capital assets	115,903	63,488	119,318	298,709
Property, furnishings, and equipment	456	18,641	57,553	76,650
Valuation allowances	112	13,189	4,778	18,079
<b>Total Sector Expense - note 3</b>	<u>2,095,595</u>	<u>1,426,843</u>	<u>4,840,070</u>	<u>8,362,508</u>
Sector Results - before adjustments	3,050,896	211,811	(4,410,479)	(1,147,772)
Inter-Sector Eliminations	<u>(41,781)</u>	<u>6,801</u>	<u>34,980</u>	<u>-</u>
Annual Surplus (Deficit)	<u>3,009,115</u>	<u>218,612</u>	<u>(4,375,499)</u>	<u>(1,147,772)</u>

See accompanying notes.

**SUMMARY FINANCIAL STATEMENTS****NOTES TO THE SCHEDULE OF REVENUE AND EXPENSE BY SECTOR**  
**For the year ended 31 March 2017**

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**1. Sectors**

The sectors identified above are consistent with the presentation of the Consolidated Statement of Operations, the 2016-17 Estimates, as well as the reorganization of government departments which was effective 01 April 2016. 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 \$57.7 million resulting in total revenue of \$7,157.1 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 \$57.7 million resulting in total expense of \$8,304.8 million as per the Consolidated Statement of Operations.

# PROVINCE OF NEWFOUNDLAND AND LABRADOR

## Government Reporting Entity For the year ended 31 March 2017

### GOVERNMENT ORGANIZATIONS

	Board of Commissioners of Public Utilities
	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
	Newfoundland Ocean Enterprises Limited
	Provincial Advisory Council on the Status of Women - Newfoundland and Labrador
	Provincial Information and Library Resources Board
	Research and Development Corporation of Newfoundland and Labrador



## SUMMARY FINANCIAL STATEMENTS

### 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 - note 4      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 2016-17 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 2016-17 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                Nalcor Energy is Newfoundland and Labrador's energy company focused on sustainable development of the province's energy resources.



# **Province of Newfoundland and Labrador**

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

**For The Year Ended  
31 March 2017**

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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 2017  
with comparative figures for 2016

	Actuals 2017 (\$000)	Actuals 2016 (\$000)
<b>FINANCIAL ASSETS</b>		
	1,606,167	1,665,366
	46,453	111,308
Sch. A	432,009	576,611
	93,018	89,546
	338,991	487,065
Sch. B	364,091	134,244
	5,823	8,587
	358,268	125,657
Sch. C	3,201,310	2,366,693
	9,861	10,244
	3,191,449	2,356,449
<b>Total Financial Assets</b>	<b>5,541,328</b>	<b>4,745,845</b>
<b>LIABILITIES</b>		
Sch. D	1,823,654	1,668,561
	36,102	29,828
Sch. E	11,710,510	10,071,750
	1,334,747	1,219,413
	(227,911)	(162,822)
	10,147,852	8,689,515
	2,674,238	2,602,751
	277,653	1,838,037
	4,405,632	2,603,172
	4,683,285	4,441,209
<b>Total Liabilities</b>	<b>19,365,131</b>	<b>17,431,864</b>
<b>NET DEBT</b>	<b>13,823,803</b>	<b>12,686,019</b>
<b>NON-FINANCIAL ASSETS</b>		
	2,528,257	2,595,881
	5,213	4,869
	31,811	31,135
<b>Total Non-Financial Assets</b>	<b>2,565,281</b>	<b>2,631,885</b>
<b>ACCUMULATED DEFICIT</b>	<b>11,258,522</b>	<b>10,054,134</b>

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 2017 with comparative figures for 2016

	Actuals 2017 (\$000)	Original Budget 2017 (\$000)	Actuals 2016 (\$000)
<b>NET DEBT - beginning of period</b>	12,686,019	12,400,397	10,721,410
Add (Deduct):			
Adjustments			
Hebron Benefits DES Agreement	-	-	(150,000)
<b>ADJUSTED NET DEBT - beginning of period</b>	<u>12,686,019</u>	<u>12,400,397</u>	<u>10,571,410</u>
<b>Surplus (Deficit) for the period</b>	<u>(1,204,388)</u>	<u>(1,857,364)</u>	<u>(2,039,159)</u>
<b>Changes in tangible capital assets</b>			
Acquisition of tangible capital assets	90,356	289,581	217,365
Net book value of tangible capital asset disposals	(335)	-	(110)
Amortization of tangible capital assets	<u>(157,645)</u>	<u>(141,420)</u>	<u>(147,175)</u>
<b><i>Increase in net book value of tangible capital assets</i></b>	<u>(67,624)</u>	<u>148,161</u>	<u>70,080</u>
<b>Changes in other non-financial assets</b>			
Acquisition of prepaid expenses (net of usage)	344		(2,414)
Acquisition of inventories of supplies (net of usage)	<u>676</u>		<u>7,784</u>
<b><i>Increase in other non-financial assets</i></b>	<u>1,020</u>		<u>5,370</u>
<b><i>Increase (Decrease) in net debt</i></b>	<u>1,137,784</u>	<u>2,005,525</u>	<u>2,114,609</u>
<b>NET DEBT - end of period</b>	<u><u>13,823,803</u></u>	<u><u>14,405,922</u></u>	<u><u>12,686,019</u></u>

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

CONSOLIDATED REVENUE FUND (UNAUDITED)

**PROVINCE OF NEWFOUNDLAND AND LABRADOR**

**Statement of Operations**  
**For the year ended 31 March 2017**  
**with comparative figures for 2016**

	Actuals 2017 (\$000)	Original Estimates 2017 (\$000)	Actuals 2016 (\$000)
<b>REVENUE</b>			
Provincial			
Tax Revenue			
Sales	1,102,241	1,171,423	905,398
Personal income	1,610,845	1,523,885	1,308,669
Gasoline	309,119	328,112	193,240
Corporate income	232,258	222,670	349,635
Mining and mineral rights	60,035	52,999	70,038
Other	455,983	404,040	438,401
Non-Tax Revenue			
Offshore royalties	982,693	377,100	514,557
Investment	317,733	373,009	329,920
Fees and fines	209,677	165,620	192,495
Other	30,902	150,000	34,924
Provincial related revenue	233,029	156,925	172,090
Federal			
Health and social transfers	725,097	720,327	685,070
Other	9,547	9,712	32,688
Federal related revenue	269,497	331,521	253,446
<b>Total Revenue</b>	<b>6,548,656</b>	<b>5,987,343</b>	<b>5,480,571</b>
<b>EXPENSE</b>			
Salaries and employee benefits	987,208	1,097,198	868,695
Transportation and communications	29,385	37,335	33,189
Supplies	97,907	106,223	96,950
Professional services	467,130	502,882	461,887
Purchased services	349,729	276,112	380,080
Property, furnishings and equipment	15,723	4,605	48,635
Allowances and assistance	675,263	553,384	653,129
Grants and subsidies	4,021,301	4,175,703	4,057,883
Debt expenses	942,776	949,845	762,737
Amortization of tangible capital assets	157,645	141,420	147,175
Bad debt expense (recovery)	8,977	-	9,370
<b>Total Expense</b>	<b>7,753,044</b>	<b>7,844,707</b>	<b>7,519,730</b>
<b>ANNUAL SURPLUS (DEFICIT)</b>	<b>(1,204,388)</b>	<b>(1,857,364)</b>	<b>(2,039,159)</b>

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



**CONSOLIDATED REVENUE FUND (UNAUDITED)**

**PROVINCE OF NEWFOUNDLAND AND LABRADOR**

**Statement of Change in Accumulated Deficit  
For the year ended 31 March 2017  
with comparative figures for 2016**

	<u>Actuals</u> 2017 (\$000)	<u>Original</u> Budget 2017 (\$000)	<u>Actuals</u> 2016 (\$000)
<b>ACCUMULATED DEFICIT - beginning of period</b>	10,054,134		8,119,551
Add (Deduct):			
Adjustments			
Tangible capital assets	-		45,424
Hebron Benefits DES Agreement	-		(150,000)
<b>ADJUSTED ACCUMULATED DEFICIT - beginning of period</b>	<u>10,054,134</u>		<u>8,014,975</u>
<b>Surplus (Deficit) for the period</b>	<u>(1,204,388)</u>	<u>(1,857,364)</u>	<u>(2,039,159)</u>
<b>ACCUMULATED DEFICIT - end of period</b>	<u><u>11,258,522</u></u>		<u><u>10,054,134</u></u>

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 2017  
with comparative figures for 2016

	Actuals 2017 (\$000)	Actuals 2016 (\$000)
<b>Funds provided from (applied to):</b>		
<b>OPERATIONS</b>		
Annual surplus (deficit)	(1,204,388)	(2,039,159)
Add (Deduct) non-cash items:		
Accounts payable	138,301	81,540
Accounts receivable	144,602	50,381
Amortization of foreign exchange (gains)/losses, premiums (discounts) and and issuance fees	(48,014)	(44,254)
Amortization of tangible capital assets	157,645	147,175
April writebacks	23,821	(114,776)
Deferred revenue	6,274	6,045
Other	47,530	(12,510)
Retirement costs	373,104	307,878
Sinking funds	(56,048)	(53,436)
Special purpose funds/contractors' holdback funds	119	(8,658)
Valuation allowances	8,977	9,370
<b>Net cash provided from (applied to) operating transactions</b>	<u>(408,077)</u>	<u>(1,670,404)</u>
<b>CAPITAL</b>		
Acquisitions	(90,356)	(217,365)
Disposals	335	110
<b>Net cash provided from (applied to) capital transactions</b>	<u>(90,021)</u>	<u>(217,255)</u>
<b>FINANCING</b>		
Debt issued	2,925,000	2,385,000
Debt retirement	(5,361)	(4,928)
Retirement of promissory note	(59,541)	(33,078)
Sinking fund contributions	(43,556)	(46,268)
Sinking fund proceeds	-	96
Treasury bills purchased	3,055,315	10,203,892
Treasury bills redeemed	(4,368,954)	(8,889,922)
<b>Net cash provided from (applied to) financing transactions</b>	<u>1,502,903</u>	<u>3,614,792</u>
<b>INVESTING</b>		
Loan advances and investments	(1,073,724)	(772,875)
Loan repayments	9,720	22,215
<b>Net cash provided from (applied to) investing transactions</b>	<u>(1,064,004)</u>	<u>(750,660)</u>
<b>Net cash provided (applied)</b>	(59,199)	976,473
Cash and temporary investments - beginning of period	1,665,366	688,893
<b>CASH AND TEMPORARY INVESTMENTS - end of period</b>	<u>1,606,167</u>	<u>1,665,366</u>

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

## PROVINCE OF NEWFOUNDLAND AND LABRADOR

### Accounts and Taxes Receivable As at 31 March 2017 with comparative figures for 2016

	2017	2016
	(\$000)	(\$000)
Accounts Receivable:		
Offshore royalties	109,958	78,340
Newfoundland Labrador Liquor Corporation	53,788	75,600
Social assistance overpayments	52,810	49,556
Court fines	40,519	39,680
Miscellaneous/other receivables	22,409	24,358
Funds held in trust	17,000	-
Student loans	13,911	14,972
Reciprocal billings - medical services	4,816	3,830
Rent and other royalties/permits to occupy	4,811	5,148
Amounts due as a result of Constituency Allowance review	2,700	2,723
Atlantic Lottery Corporation Incorporated	2,537	1,965
Due from municipalities	2,015	1,789
Workplace, Health, Safety and Compensation Commission	1,451	1,650
Medical care plan audit recoveries	1,163	732
Fees and licences	625	653
Accident recovery claims	33	768
Travel advances	26	38
Province of Newfoundland and Labrador Pooled Pension Fund	24	690
Hebron Benefits DES Agreement	-	150,000
Nalcor Energy	-	8,956
Accrued interest receivable	-	2,825
Total: Accounts Receivable	330,596	464,273
Taxes Receivable:		
Gasoline tax	27,577	15,878
Mining and mineral rights tax	20,547	48,612
Health and post secondary education tax	14,169	13,463
Tobacco tax	12,656	13,968
Sales tax	10,763	1,614
School tax	9,101	9,129
Insurance companies tax	6,250	5,480
Miscellaneous/other taxes	350	258
Corporate income tax	-	3,936
Total: Taxes Receivable	101,413	112,338
Total: Accounts and Taxes Receivable	432,009	576,611

#### NOTE

The allowance for doubtful accounts for 31 March 2017 is \$93.0 million (31 March 2016 - \$89.5 million).

**PROVINCE OF NEWFOUNDLAND AND LABRADOR**

**Loans, Advances and Mortgages Receivable**

**As at 31 March 2017**

**with comparative figures for 2016**

	<u>2017</u>	<u>2016</u>
	(\$000)	(\$000)
Crown Agencies:		
C.A. Pippy Park Commission	250	250
Nalcor Energy	225,000	-
Newfoundland and Labrador Film Development Corporation	6,819	6,819
Student Loan Corporation	-	1,804
Total: Crown Agencies	<u>232,069</u>	<u>8,873</u>
Commercial Loans:		
6574262 Canada Inc.	500	500
A. L. Stuckless & Sons Limited	-	1,217
Afinin Lab Inc.	30	30
Atlantic Canada Regional Adventure Fund Limited Partnership	5,737	4,235
Blue Drop Inc.	414	500
Blue Ocean Satellite Systems Inc.	193	203
Canada Fluorspar (NL) Inc.	-	637
Clear Risk Inc.	420	420
Corner Brook Pulp and Paper Limited	101,835	99,269
D.F. Barnes Fabrication Limited	425	500
Desire2Learn Incorporated	674	674
Doyle, James & Sons Ltd.	771	771
Eastern Composite Services Inc.	399	212
Gavijo Innovations	-	15
Goodfellow Inc.	-	38
Holson Forest Products Ltd.	7,419	7,419
Hughes, Vincent	50	50
IC Spa Products Inc.	183	183
Icewater Harvesting Inc.	1,562	1,750
Island Seafoods Products Limited	125	125
Keats, Eric	102	102
Koby Seat Inc.	9	9
Marwood Ltd.	971	1,149
Mediclink Systems Limited	-	58
Mike Butland Fisheries	134	134
MyTechSupport.com Limited	20	20
MyTelescope.com Inc.	315	315
Newfoundland and Labrador Mobile Shelters Limited	500	500

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

	2017	2016
	(\$000)	(\$000)
Commercial Loans:		
Other Ocean Group Inc.	781	781
Phocalux International Inc.	800	824
Procom Data Services	127	127
Pumphrey, Gerry	537	537
ROINS Financial Services Limited	6,500	4,005
Saunders, Ralph	61	61
Seacraft Limited	68	68
Seaward, Alphonsus	99	99
Sexton Lumber Ltd.	1,301	1,573
Shell-Ex (formerly known as Eastern Star Group Canada Inc.)	150	150
Short, William	262	262
Silk Stevens (NLL) Limited	89	103
Superior Waterproof Coatings NF & LB Inc.	154	154
Sweet, Roy	59	59
Terra Nova Marine Co. Ltd.	-	400
Uncle Phil's Think Tank Inc.	75	75
Verafin Inc.	5,273	2,504
Virtual Marine Technology	991	991
Wilson, Ronald & Curtis, Kevin	354	354
Total: Commercial Loans	<u>140,469</u>	<u>134,162</u>
Municipalities	<u>630</u>	<u>630</u>
Total: Other Organizations	<u>630</u>	<u>630</u>
Sub-Total: Loans, Advances and Mortgages Receivable	373,168	143,665
Less: Discounts due to concessionary terms - note 3	<u>(9,077)</u>	<u>(9,421)</u>
Total: Loans, Advances and Mortgages Receivable	<u><u>364,091</u></u>	<u><u>134,244</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 twenty-four years.

**2. Allowance for Doubtful Accounts**

The allowance for doubtful accounts for 31 March 2017 is \$5.8 million (31 March 2016 - \$8.6 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 90 day promissory note to Nalcor Energy in the amount of \$225.0 million with interest at the three month Canadian Dollar Bankers Acceptances Rate, to be repaid on or before 11 January 2017. Extensions were granted on 11 January 2017, 31 March 2017 and subsequent to year end an additional extension was granted with a current maturity date of 31 March 2018.

**5. Security**

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

**PROVINCE OF NEWFOUNDLAND AND LABRADOR**

**Investments  
As at 31 March 2017  
with comparative figures for 2016**

Description of Investment	Balance 31 March 2017			2016
	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	(129)	74	3,689	3,818
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.	(367)	8,240,434	8,241	8,608
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>(496)</u>		<u>35,297</u>	<u>35,793</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
Dockside Appetizers Ltd. - Class B	(31)	-	-	31
Dynamic Air Shelters Ltd. - Class B	(231)	-	-	231
First Choice Vision Centre Limited - Class B	(27)	4,537	344	371
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	88	98
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
MedicLink Systems Ltd. - Class A	(352)	-	-	352
Municipal Assessment Agency	-	1	-	-
Nalcor Energy Corporation	-	122,500,018	110,187	110,187
NavSim Technologies	-	5,000	500	500
Newfound Genomics Inc.	(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 2017		2016	
	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	3
Newlab Clinical Research Inc. - Class A	(484)	-	-	484
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>(1,635)</u>		<u>115,986</u>	<u>117,621</u>
<b>Non-Share Equity:</b>				
Nalcor Energy Corporation	836,002	-	2,985,170	2,149,168
Newfoundland and Labrador Housing Corporation	-	-	62,852	62,852
Newfoundland and Labrador Venture Capital Fund	630	-	2,450	1,820
Total: Non-Share Equity Investments	<u>836,632</u>		<u>3,050,472</u>	<u>2,213,840</u>
Sub-Total: Investments	834,501		3,201,755	2,367,254
Less: Discounts due to concessionary terms - note 2	-		(445)	(561)
Total: Investments	<u><u>834,501</u></u>		<u><u>3,201,310</u></u>	<u><u>2,366,693</u></u>

**NOTES**

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

The allowance for investment write-downs for 31 March 2017 is \$9.9 million (31 March 2016 - \$10.2 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 2017  
with comparative figures for 2016**

	2017	2016
	(\$000)	(\$000)
Taxes payable - note 1	559,567	456,259
Due to Government of Canada - note 2	289,218	296,546
Accounts payable write-backs	245,211	228,538
Accrued salaries and employee benefits - note 3	207,955	191,039
Accrued interest	202,734	166,921
Contaminated sites	121,582	109,204
Self-insured workers' compensation benefits - note 4	46,144	43,996
Due to municipalities	32,494	47,656
Offshore royalties	20,405	33,445
Capital leases - note 5	20,390	22,320
Physician services	16,744	15,551
Contractors' holdbacks	15,443	19,049
Special purpose funds - note 6	12,870	9,145
Reciprocal billing - hospital services payable	10,785	10,873
Atlantic Lottery Corporation Incorporated	7,379	11,068
Accounts payable - other	7,183	3,650
Nalcor Energy	3,884	-
Provision for student loan debt reduction	3,666	3,301
Total: Other Liabilities	<u>1,823,654</u>	<u>1,668,561</u>

**NOTES**

**1. Taxes Payable**

Taxes payable is comprised of \$417.5 million for corporate income tax (31 March 2016 - \$370.9 million), \$131.4 million for HST (31 March 2016 - \$65.0 million) and \$10.7 million for other taxes (31 March 2016 - \$20.4 million).

**2. Due to Government of Canada**

This amount is comprised of \$266.7 million for an Equalization loan (31 March 2016 - \$271.2 million), \$18.3 million for an RCMP payable (31 March 2016 - \$18.1 million) and \$4.2 million for a Federal program (31 March 2016 - \$7.2 million).

**3. Accrued Salaries and Employee Benefits**

Accrued salaries and employee benefits consists of \$93.9 million for severance (31 March 2016 - \$90.7 million), \$59.0 million for paid/annual leave (31 March 2016 - \$59.6 million), \$27.1 million for salaries (31 March 2016 - \$24.5 million), \$15.4 million for sick leave (31 March 2016 - \$14.5 million), \$10.3 million for pay in lieu (31 March 2016 - nil) and \$2.3 million for other benefits (31 March 2016 - \$1.7 million).



**CONSOLIDATED REVENUE FUND (UNAUDITED)**

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**OTHER LIABILITIES (continued)**

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

The amount of \$46.1 million relates to the self-insured workers' compensation benefits liability as at 31 March 2017 (31 March 2016 - \$44.0 million). 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.

**5. Capital Leases**

Interest rates for all capital leases range from 9.41% to 16.00% and have repayment schedules ranging in duration from 2 to 7 years.

**6. Special Purpose Funds**

Included in this schedule are funds totalling \$12.9 million (31 March 2016 - \$9.1 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 2017  
with comparative figures for 2016**

Series	Date of Issue	Date of Maturity	Interest Rate %	Amount in Foreign Currency (\$000)	Sinking Fund Balance (\$000)	Amount Issued or Outstanding		Notes
						2017 (\$000)	2016 (\$000)	
General Debentures:								
AG	01 Jun. 1989	01 Jun. 2019	9.00	(150,000U.S.)	204,947	199,485	194,805	1(a)
AH	01 Jun. 1990	01 Jun. 2020	9.88	(150,000U.S.)	67,285	199,485	194,805	1(a)
AJ	29 Nov. 1990	01 Dec. 2020	10.00	(150,000U.S.)	64,539	199,485	194,805	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.)	78,606	265,980	259,740	1(a)
AM	22 Oct. 1992	22 Oct. 2022	8.65	(200,000U.S.)	71,550	265,980	259,740	1(a)
AN	13 Oct. 1993	13 Oct. 2023	7.32	(200,000U.S.)	98,579	265,980	259,740	1(a)
6B	07 Jul. 1995	07 Jul. 2025	9.15		31,584	100,000	100,000	1(a)
6C	05 Feb. 1996	05 Feb. 2026	8.45		45,447	150,000	150,000	1(a)
6F	17 Apr. 1998	17 Apr. 2028	6.15		143,970	450,000	450,000	1(a)
6H	27 Jul. 1999	17 Oct. 2029	6.50		63,177	200,000	200,000	1(a)
6K	30 Jun. 2000	17 Oct. 2030	6.55		128,567	450,000	450,000	1(a)
6R	12 Jun. 2003	17 Oct. 2033	5.60		69,196	300,000	300,000	1(a)
6T	21 Sep. 2004	17 Oct. 2035	5.70		61,819	300,000	300,000	1(a)
6U	28 Nov. 2006	17 Apr. 2037	4.50		69,609	350,000	350,000	1(a)
6V	15 May 2007	17 Oct. 2040	4.65		110,144	650,000	650,000	1(a)
6Q	16 Aug. 2002	17 Oct. 2042	6.24		25,728	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	700,000	1(b)
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	600,000	1(b)
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	-	1(a)
7C	7 Dec. 2016	17 Oct. 2048	3.70		-	500,000	-	1(a)
Total: General Debentures					<u>1,334,747</u>	<u>10,554,287</u>	<u>7,596,527</u>	
Other:								
Treasury bill borrowings					-	<u>778,807</u>	<u>2,092,446</u>	1(c)
Total: Other					-	<u>778,807</u>	<u>2,092,446</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	
					2017 (\$000)	2016 (\$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)				-	251	290
Sun Life Assurance Company of Canada - see note 1(f)				-	71,060	76,382
Total: Other				-	71,311	76,672
Total: Government of Canada and Other				-	377,416	382,777
Total: Debenture and Other Debt				<u>1,334,747</u>	<u>11,710,510</u>	<u>10,071,750</u>
Current portion of Debenture and Other Debt					784,640	2,097,807
Long-term portion of Debenture and Other Debt					<u>10,925,870</u>	<u>7,973,943</u>
					<u>11,710,510</u>	<u>10,071,750</u>

## DEBENTURE AND OTHER DEBT (continued)

## NOTES

**1. Details of Debt Issues**

- a) Non-callable.
- b) Non-callable. During the year, general debenture 6X was reopened and \$500.0 million was issued on 1 April 2016; \$450.0 million was issued on 19 May 2016 and \$400.0 million was issued on 19 July 2016. In addition, general debenture 6Z was reopened and \$400.0 million was issued on 30 August 2016.
- c) This amount represents the net proceeds from the sale of \$778.8 million discounted treasury bills with maturity dates ranging from 6 April 2017 to 29 June 2017 and interest rates ranging from 0.59% to 0.64%.
- 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.

**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 2017	31 March 2016
	(\$mil)	(\$mil)
Investments at cost	1,175.0	1,087.0
Amortization of bond discount	<u>63.7</u>	<u>59.3</u>
Investments at amortized cost	1,238.7	1,146.3
Cash and receivables less accounts payable	<u>96.0</u>	<u>73.1</u>
Net Sinking Fund Assets - translated at 31 March	<u><u>1,334.7</u></u>	<u><u>1,219.4</u></u>

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 net sinking fund assets balance of \$1,219.4 million Canadian dollars as at 31 March 2016 includes \$415.7 million U.S. dollars translated to \$539.9 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 2017 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	1.3299	1,396,395	(130,919)	1,265,476
Canadian			<u>10,314,115</u>	-	<u>10,314,115</u>
	Sub-total		11,710,510	(130,919)	11,579,591
	Foreign sinking funds		(585,506)	54,887	(530,619)
	Canadian sinking funds		<u>(749,241)</u>	-	<u>(749,241)</u>
	Sub-total		<u><u>10,375,763</u></u>	(76,032)	10,299,731
	Unamortized premiums (discounts) and issuance fees			<u>(151,879)</u>	<u>(151,879)</u>
	Total			<u><u>(227,911)</u></u>	<u><u>10,147,852</u></u>

**4. Contributions and Repayment Requirements**

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

	<u>U.S.</u> (\$000)	<u>Canadian</u> (\$000)	<u>Total</u> (\$000)
2017-2018	6,650	822,075	828,725
2018-2019	6,650	280,611	287,261
2019-2020	6,650	79,624	86,274
2020-2021	234,715	587,596	822,311
2021-2022	161,623	245,882	407,505
2022-2049	<u>276,291</u>	<u>6,362,178</u>	<u>6,638,469</u>
	<u><u>692,579</u></u>	<u><u>8,377,966</u></u>	9,070,545
Plus: Sinking Fund Values at Maturity			3,305,450
Less: Sinking Fund Contributions			<u>(665,485)</u>
			<u><u>11,710,510</u></u>

The foreign exchange loss which has been realized on the Statement of Operations is \$13.1 million.

**CONSOLIDATED REVENUE FUND (UNAUDITED)****DEBENTURE AND OTHER DEBT (continued)****5. Interest Expense**

The gross interest expense associated with debenture and other debt, recognized for 31 March 2017, amounted to \$517.1 million (31 March 2016 - \$397.7 million).

**6. Sensitivity Analysis**

An increase/decrease of one cent in the foreign exchange rates at 31 March 2017 would result in an increase/decrease in foreign borrowings of \$10.5 million (31 March 2016 - \$10.5 million).

**7. Related Sinking Fund Investments**

At year end, the Province held \$608.9 million worth of its own debentures (face value) in sinking funds as active investments (31 March 2016 - \$526.2 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 \$191.6 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 2017  
with comparative figures for 2016**

	Limit of Guarantee	Contingent Liability	
	(\$000)	2017 (\$000)	2016 (\$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	92	92	89
Harbour Breton	220	220	213
Harbour Grace	152	152	149
Placentia	87	87	85
Wabana	24	24	23
	<u>575</u>	<u>575</u>	<u>559</u>
<b>Crown Corporations - note 2:</b>			
Eastern Regional Health Authority	113,062	113,062	114,613
Newfoundland and Labrador Hydro Electric Corporation	1,446,358	1,446,358	1,135,940
Newfoundland and Labrador Municipal Financing Corporation	6,738	6,738	12,414
	<u>1,566,158</u>	<u>1,566,158</u>	<u>1,262,967</u>
<b>Guaranteed Bank Loans - note 7:</b>			
<b>Crown Corporations:</b>			
Labrador-Grenfell Regional Health Authority	10,000	8,685	-
Marble Mountain Development Corporation	2,100	1,990	1,744
	<u>12,100</u>	<u>10,675</u>	<u>1,744</u>
<b>Fisheries - note 3:</b>			
70354 Newfoundland and Labrador Limited	167	167	191
AAG Enterprises Inc.	-	-	20
A.J. Rodgers & Sons Limited	243	243	277
Adam Crocker	175	175	184
Aiden Power and Leonard Mooney	140	140	158
Allister Russell and Wade Russell	880	880	960
Alychan Enterprise Limited	629	629	1,020
Anchor Point Enterprises Limited	1,073	1,073	1,145
Andrew Daley Limited	39	39	77
Ashco Fishing Limited	196	196	261
Ashley Enterprises Limited	113	113	131
Ashley's Pride Enterprises Limited	147	147	207
Atlantic Providence Inc.	2,057	2,057	2,244
Atlantic Retriever Limited	642	642	-
B & O Enterprises Ltd.	922	922	822



**CONSOLIDATED REVENUE FUND (UNAUDITED)**

**GUARANTEED DEBT (continued)**

	Limit of Guarantee	Contingent Liability	
		2017	2016
	(\$000)	(\$000)	(\$000)
Guaranteed Bank Loans:			
Fisheries: - note 3			
B & R Genge Company Limited	93	93	139
B & R Mariner Fisheries Limited	110	110	146
B.A.D.S. Fisheries Limited	125	125	167
BNB Morey Fisheries Limited	-	-	50
Bears Cove Fisheries Limited	975	975	975
Billy and David Greenham	2,262	2,262	2,387
Brendan Noonan	164	164	-
Brent Adams	280	280	-
CJ Fisheries	99	99	149
Campbell Fisheries Limited	-	-	36
Cecil Ward Limited	476	476	516
Christopher Gerard Melvin	461	461	494
Colcor Fisheries Limited	234	234	260
D & A Fisheries Limited	780	780	840
Dempster's Fisheries Limited	803	803	918
Donald Spence	164	164	212
Drover's Sea Harvesting Limited	-	-	77
Dwight Russell Enterprises Limited	420	420	480
E & E Fisheries Limited	339	339	424
Fabian Hobbs	77	77	148
Frazer Scanlon	41	41	47
G & D Fisheries Limited	138	138	207
G & L Fisheries Incorporated	737	737	793
G B Dalton Enterprise Ltd.	-	-	212
Garrett Mulrooney	486	486	486
Genge, Theodore	-	-	670
Glenn Petten	-	-	497
Gregory D Piercey	478	478	505
Haily Bear Enterprises Limited	-	-	1,301
Harbourview Fishing Corporation	1,403	1,403	1,590
Hicks Fisheries Limited	146	146	175
J & K Frampton Enterprises Limited	-	-	315
Janica II Enterprise Limited	675	675	736
Jeffery Jones Fisheries Limited	450	450	500
John W. Brazil	203	203	239
Jolly T Fisheries Inc.	-	-	510
Jones, Richard	121	121	144
Kailey Venture Limited	135	135	229
Keith Bowen	813	813	875
KMKA Voyager Enterprises Limited	970	970	-
L.S.J. Fisheries Limited	1,009	1,009	1,087
Larry Roche	221	221	244
Leyte, Melvin	-	-	78
Long Haul Ltd. (formerly Daley, Gary)	79	79	119

GUARANTEED DEBT (continued)

	Limit of Guarantee (\$000)	Contingent Liability	
		2017 (\$000)	2016 (\$000)
Guaranteed Bank Loans:			
Fisheries - note 3:			
Nautical Nancy Limited	237	237	285
Noonan Enterprise Limited	2,219	2,219	2,349
North Queen Limited	774	774	829
Northern Auk Fisheries Limited	468	468	510
Northern Provider Limited	152	152	261
Ocean Surfer Limited	858	858	980
P & G Sea Harvestors Limited	1,071	1,071	1,131
Penney's Fisheries Limited	-	-	39
RB Fisheries Limited	853	853	925
Rainbow Venture Inc.	197	197	213
Richard and Melanie Marsh	96	96	104
Ryan, Randy and Lisa and Sea Surfer Enterprises Ltd.	-	-	14
Samuel and Juanita Morris	211	211	243
Shannon & Trevor Fisheries Limited	1,240	1,240	1,360
Shelco Fisheries Limited	500	500	600
Shirley Ann D. Enterprises Ltd.	1,118	1,118	1,212
Southside Fisheries Ltd.	896	896	1,008
Straits Venture Inc.	149	149	186
T & C Fisheries Ltd.	150	150	180
TJL Enterprises Limited	77	77	97
TPJH Fisheries Limited	298	298	-
Trina and Sons Ltd.	68	68	139
Vince Petten	577	577	629
Ward, Cecil	-	-	67
Wayne Sterling Morgan	189	189	206
Woodworth Fisheries Limited	975	975	1,040
ZHL Fisheries Limited	944	944	-
	<u>37,707</u>	<u>37,707</u>	<u>42,281</u>
Aggregate Limit & Contingent Amount	<u>69,966</u>	<u>69,966</u>	<u>72,706</u>
Corporate:			
Fogo Island Co-operative Society Limited	1,500	-	-
Stephenville Airport Corporation	900	530	719
	<u>2,400</u>	<u>530</u>	<u>719</u>
Other Bank Loans:			
Consumer Protection Fund for Prepaid Funeral Expenses	200	-	-
	<u>200</u>	<u>-</u>	<u>-</u>

**CONSOLIDATED REVENUE FUND (UNAUDITED)**

**GUARANTEED DEBT (continued)**

	Limit of Guarantee	Contingent Liability	
		2017	2016
	(\$000)	(\$000)	(\$000)
Other Guarantees:			
Crown Corporations:			
Newfoundland and Labrador Immigrant Investor Fund Limited - note 4	106,300	106,300	153,194
	<u>106,300</u>	<u>106,300</u>	<u>153,194</u>
	<u>1,725,440</u>	<u>1,721,945</u>	<u>1,461,464</u>

**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	19,543	<u>113,062</u>
Newfoundland and Labrador Hydro Electric Corporation				
- Canadian Funds	1,375,000	14,561	285,203	1,104,358
- Promissory Notes	<u>342,000</u>	-	-	<u>342,000</u>
	<u>1,717,000</u>	<u>14,561</u>	<u>285,203</u>	<u>1,446,358</u>

## GUARANTEED DEBT (continued)

**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 2017, the Province's contingent liability with respect to these guarantees is \$37.7 million (31 March 2016 - \$42.3 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.

**5. Payments under Guarantee**

Payments under guarantee for 31 March 2017 is nil (31 March 2016 - nil).

**6. Valuation Allowance**

The provision for guaranteed debt for 31 March 2017 is \$0.7 million (31 March 2016 - nil).

**7. General Terms and Conditions**

Guaranteed debentures and guaranteed bank loans have maturity dates ranging from October 2017 to December 2035 at interest rates varying from 1.12% to 10.5%.

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