



Province of Newfoundland and Labrador

Public Accounts

Volume I

Consolidated Summary Financial Statements

**For The Year Ended
31 March 2004**

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INTRODUCTION

Volume I of the Public Accounts presents the consolidated summary financial statements of the Province of Newfoundland and Labrador. These statements are preceded by a report which discusses and analyzes the information contained within the summary financial statements. The report, entitled **Understanding the Financial Health of the Province of Newfoundland and Labrador**, provides a narrative review of the financial performance of the Province along with illustrations of key figures and relationships. This financial statement discussion and analysis, in conjunction with the consolidated summary financial statements, enhances users' understanding of the Province's financial position and the changes in its financial position.

The consolidated summary financial statements combine the financial statements of the Consolidated Revenue Fund with the financial statements of various Crown Corporations, Boards and Authorities, as approved by Treasury Board, which are controlled by the Government of Newfoundland and Labrador. 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.

These statements are prepared on the accrual basis of accounting in accordance with the Public Sector Accounting Board (PSAB) standards of the Canadian Institute of Chartered Accountants (CICA), and as outlined in the significant accounting policies of the Province. They are prepared by the Comptroller General and are audited by the Auditor General, who presents an annual report to the House of Assembly on the results of his audit. Budget figures, where available, are provided on several Statements for comparison purposes.

The Public Accounts for the year ended 31 March 2004 consists of three other volumes:

Volume II – Consolidated Revenue Fund Financial Statements presents the financial position of the Fund and the results of its activities.

Volume III – Consolidated Revenue Fund Supplementary Statements and Schedules presents the unaudited summary statements, detailed departmental statements, schedules and notes of the Fund and are prepared on a basis consistent with the Estimates of the Province.

Volume IV – Financial Statements of Crown Corporations, Boards and Authorities presents a reproduction of the available financial statements of the Crown Corporations, Boards and Authorities.

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

Internet Address

The Public Accounts are available on the Internet at:
<http://www.gov.nl.ca/ComptrollerGeneral/publications.htm>

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UNDERSTANDING THE FINANCIAL HEALTH OF THE PROVINCE OF NEWFOUNDLAND AND LABRADOR

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS REPORT

The Consolidated Summary Financial Statements of the Province include the financial results of the various departments of Government that comprise the Consolidated Revenue Fund and various Crown corporations, boards and authorities which are controlled by and are accountable to the Government of Newfoundland and Labrador. These financial statements are prepared on the accrual basis of accounting in accordance with the Public Sector Accounting Board standards of the Canadian Institute of Chartered Accountants, who set the accounting standards for Canadian senior Governments.

Providing financial accountability to Newfoundlanders and Labradorians as to the financial health of the Province is a responsibility of Government and as Minister of Finance and President of Treasury Board, I am providing this report for the first time to the people of the Province as part of the Public Accounts of the Province. The inclusion of Financial Statement Discussion and Analysis with the Public Accounts is a practice recommended by the Public Sector Accounting Board.

This year the format of the Public Accounts follows the new standards issued by the Public Sector Accounting Board and includes Tangible Capital Assets of the Province (buildings, marine vessels, heavy equipment, etc.) as non-financial assets, amortized over their useful lives. There are other changes as noted in the following report and the Public Accounts.

The financial indicators used in this report assess the overall financial health at 31 March 2004 summarized under the headings of *sustainability*, *flexibility* and *vulnerability* as identified in a research report of the Canadian Institute of Chartered Accountants. In addition, other financial information including comparative information for the preceding four years is included.

The Province has significant fiscal challenges ahead and Government is committed to improving the financial state of the Province in the ensuing years, focusing initially on its significant cash deficiency. The information in this report will provide useful benchmarks as Government moves its agenda forward. Understanding the financial terminology is not always easy for the non-financial professional. A glossary of terms has been included in an effort to reduce confusion.

Government is committed to being open, transparent and accountable to the people of the Province of Newfoundland and Labrador.

**LOYOLA SULLIVAN
MINISTER OF FINANCE AND
PRESIDENT OF TREASURY BOARD**

15 October 2004

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The Public Accounts Volumes

The Public Accounts consists of four volumes. These include:

Volume I: Consolidated Summary Financial Statements

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

Volume II: Consolidated Revenue Fund (CRF) Financial Statements

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

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

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

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

- They comprise reproductions of the audited financial statements of each Government organization (Crown corporations, boards and authorities).
- The Auditor General issued an unqualified audit opinion on the financial statements for 2003-04.
- The Public Accounts (excluding Volume IV) can be found on the Government's website at: www.gov.nl.ca/ComptrollerGeneral/Publications.htm
- Copies of all volumes of the Public Accounts can be obtained at the Queen's Printer, Confederation Building.
- In addition to the volumes of the Public Accounts, a **Highlights and Analysis** booklet is produced for the Consolidated Summary Financial Statements. This booklet may also be obtained from the above noted website or from the Queen's Printer.

Changes to the Financial Statements

Effective for the 2003-04 Public Accounts, the Province's financial statements (Volumes I and II) have been prepared in accordance with the new government reporting format as prescribed by new Public Sector Accounting Standards issued by the Canadian Institute of Chartered Accountants. A summary of the major changes from 2002-03 are as follows:

- Tangible Capital Assets are now capitalized on the Statement of Financial Position with the cost of such assets amortized over the useful life of the asset. Previously, tangible capital assets were recorded entirely as expenditures upon acquisition.

- Statement of Operations replaces the former Statement of Revenue and Expenditure and reflects the amortization expense associated with tangible capital assets. Budget figures are also included for comparison.
- Statement of Change in Net Debt replaces the former Statement of Net Debt and includes Budget figures for comparison.
- Statement of Cash Flows replaces the former Statement of Changes in Financial Position.
- Introduction of a new Statement of Change in Accumulated Deficit.

The most significant impact of this change is the initial recording of tangible capital assets (representing a non-financial asset) on the Statement of Financial Position, as opposed to simply disclosing the balance of such assets as a schedule to the financial statements for information purposes only. Non-financial assets do not normally provide resources to discharge liabilities but rather contribute to the delivery of government programs and services.

The annual surplus/deficit (as calculated and disclosed on the new Statement of Operations) now reflects the amortization expense associated with the use of tangible capital assets. Costs of acquisitions and construction of tangible capital assets are no longer charged directly against annual surplus/deficit, but are reflected in the tangible capital assets balance as recorded on the Statement of Financial Position.

The new government reporting format has been applied to restate the figures for 2002-03 to facilitate comparability.

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/due and expenses are recorded when liabilities are incurred.
<i>Accumulated Deficit:</i>	The excess of liabilities over financial and non-financial assets. It is the accumulated annual accrual deficits (surpluses) to the date of the financial statements.
<i>Annual Deficit:</i>	The excess of annual expenses over annual revenues. See the Consolidated Statement of Operations, Volume I.
<i>Cash Basis:</i>	A method of accounting whereby revenues are recorded when received and expenditures are recorded when paid.
<i>Financial Assets:</i>	Assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. (e.g., cash and receivables.)
<i>GDP:</i>	Gross domestic product, at market prices, of the Province.

<i>Group Health and Life Insurance Retirement Benefits:</i>	The liability, as determined by an actuary, associated with Government's share of health and life insurance premiums to be paid on behalf of retirees. See the Consolidated Statement of Financial Position, Volume I.
<i>Net Borrowings:</i>	The total borrowings (debentures, treasury bills, etc.) less sinking funds. See Schedule 6, Volume I.
<i>Net Debt:</i>	The excess of liabilities over financial assets.
<i>Non-Financial Assets:</i>	Acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities, but instead are normally employed to deliver government services, which, in the normal course of operations, may be consumed and are not for sale. (e.g., tangible capital assets, prepaid expenses and inventories of supplies.)
<i>Province's Interest Cost:</i>	The cost of servicing the public debt, including pension interest expense and other debt related expenses.
<i>Tangible Capital Assets:</i>	Non-financial assets which are held for use in the production or supply of goods and services, have useful economic lives extending beyond an accounting period and have been acquired to be used on a continuing basis.
<i>Unfunded Pension Liability:</i>	The total pension obligation less pension assets as determined by an actuary, as well as unamortized actuarial experience gains/losses. See the Consolidated Statement of Financial Position, Volume I.

Financial Summary

For the fiscal year ended 31 March 2004, the Public Accounts reported the following financial results:

- Volume I: Consolidated Summary (accrual) Deficit - \$913.6 million; Net Debt - \$11.5 billion; and Accumulated Deficit - \$9.3 billion.
- Volume II: CRF (accrual) Deficit - \$670.2 million; Net Debt - \$11.2 billion; and Accumulated Deficit - \$10.0 billion
- Volume III: CRF (cash) Deficit - \$134.7 million; comprised of a Current Account cash surplus of \$8.0 million offset by a Capital Account cash deficit of \$142.7 million.

This report will focus on the consolidated summary financial statements (i.e., Volume I).

Cash Result Compared to Consolidated Accrual Result

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

- \$391.7 million adjustment for interest on accrued retirement benefits;

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

Consolidated Accrual Result Compared to Original Budget (Accrual)

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

- Total revenue was \$128.0 million less than originally budgeted. Some of the significant factors attributing to this difference in revenue included:
 - An increase in taxation revenue of \$94.9 million mainly due to revenues received from the Offshore Revenue Fund and higher than expected personal income tax and sales tax arising from adjustments to the amounts received for both the current and prior years. In addition, an increase in corporate income tax revenue, mainly due to the offshore sector, was also experienced.
 - A decrease in federal revenues of \$152.9 million mainly due to a decrease in Equalization and Canada Health and Social Transfers resulting from the incorporation of revised population data, from the 2001 census, into federal estimates.
 - A decrease in the net income of Newfoundland and Labrador Liquor Corporation and Newfoundland and Labrador Hydro of \$104.9 million. This lower than expected net income was primarily the result of a write-down of capital assets in the amount of \$130.9 million by Newfoundland and Labrador Hydro. Excluding the minority interest, the net impact was \$118.6 million on net income.
- Total expenses were \$119.6 million greater than originally budgeted. Some of the significant factors which account for this change included:
 - An increase in expenses related to group health and life insurance retirement benefits in the amount of \$72.5 million. This increase was the result of a new actuarial valuation of group health and life insurance retirement benefits. Such results were not available for the 2003-04 Estimates.
 - An increase in pension interest expense and accrued pension costs in the amount of \$55.4 million occurred due to new actuarial valuations and revised projections associated with the various pension plans.
 - A decrease in debt related expenses in the amount of \$29.4 million also occurred primarily due to a change in the foreign exchange rate, as well as a higher than expected accrued interest expense resulting from differences between the amount and timing of the issuance of new debt.

- Another factor attributing to the increase in expenses included higher than estimated expenses related to the acquisition and amortization of tangible capital assets in the amount of \$17.2 million.

Financial Position - 31 March 2004

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

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

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

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

Key Indicators

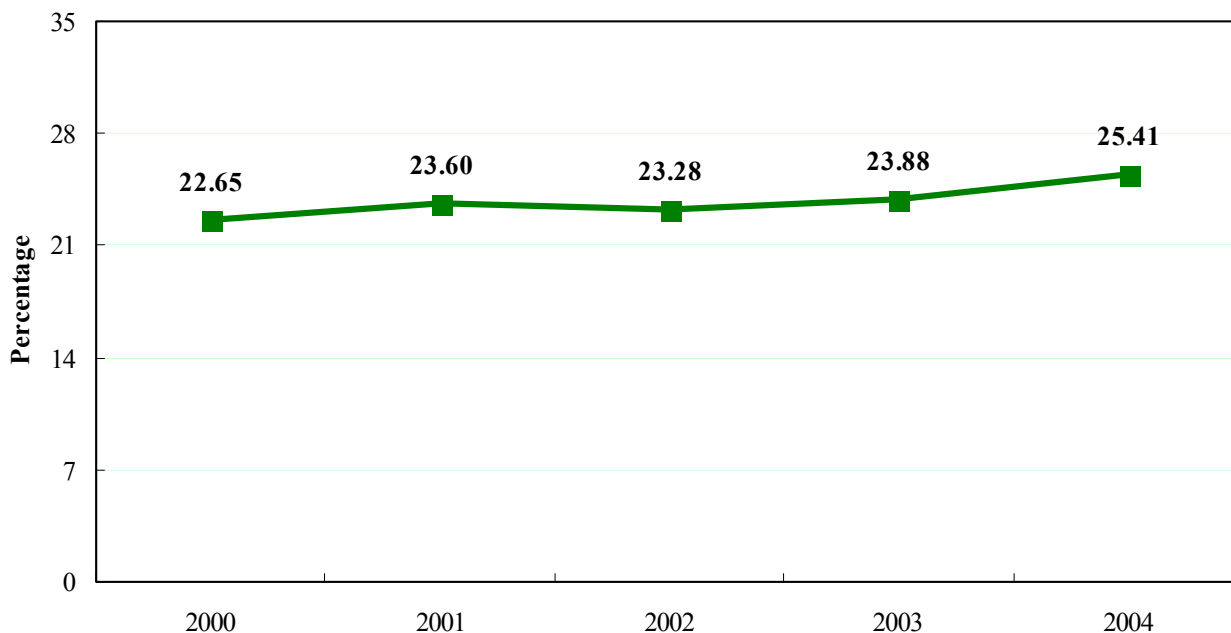
- Key indicators included in this document are applied to Volume I, as this volume contains the financial information for the entire government reporting entity and thus provides a complete picture of the Province's financial condition at 31 March 2004.
- Primarily the common key indicators included herein, were identified in a research report issued by the Canadian Institute of Chartered Accountants entitled *Indicators of Government Financial Condition*. These indicators, which are used in assessing a government's financial health in the context of the overall economic and financial environment, can be summarized under the headings of *sustainability*, *flexibility*, and *vulnerability*.
- While there are no established benchmarks for these indicators, one can assess the Province's financial condition through a comparison of previous years' indicators.
- Gross Domestic Product (GDP) and population figures were obtained from Newfoundland and Labrador Statistics Agency. Figures used were the latest non-forecasted information available as of 31 March 2004.

Flexibility:

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

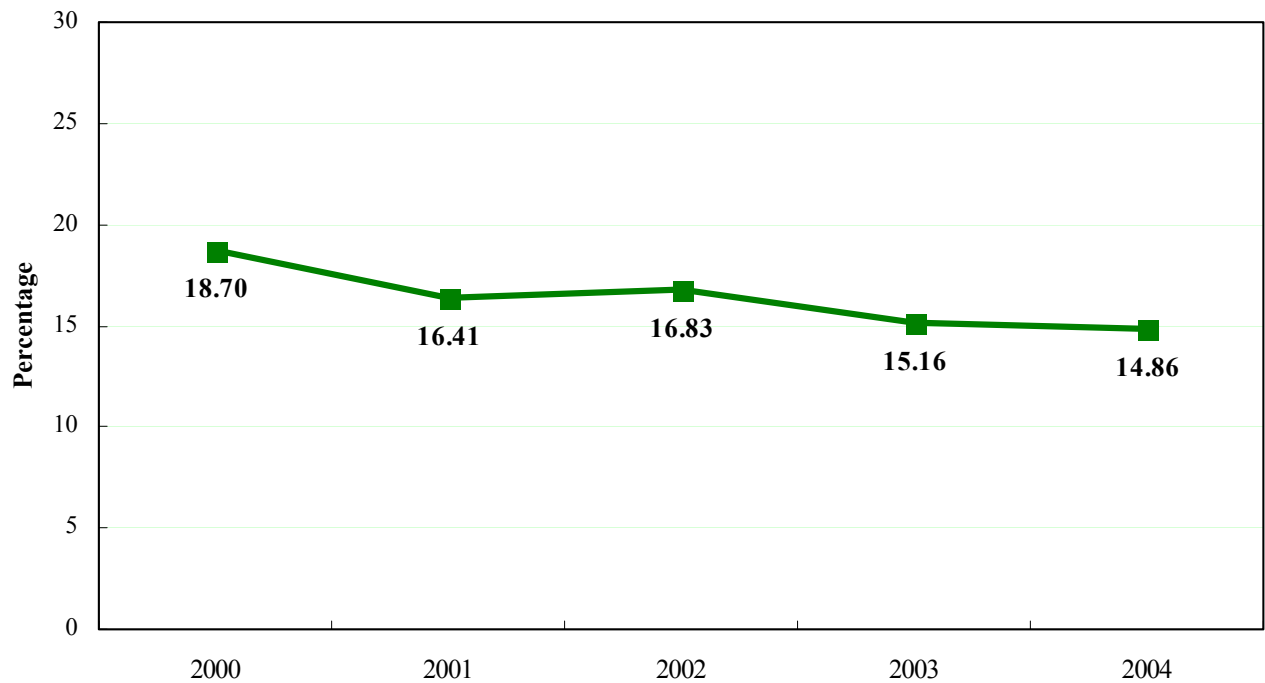
a) Province's Interest Cost as a Percentage of Revenues

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



b) Provincial Revenues as a Percentage of GDP

- The purpose of this indicator is to show the extent to which a government is taking income out of the economy in its jurisdiction, through both taxation and user charges.
- The following graph indicates that provincial revenues as a percentage of GDP have decreased over the last five years. This suggests that the Province is taking less income out of the economy (as a percentage) through taxation and user fees than it did in previous years.
- The average of this ratio over the past five years is 16.39%.

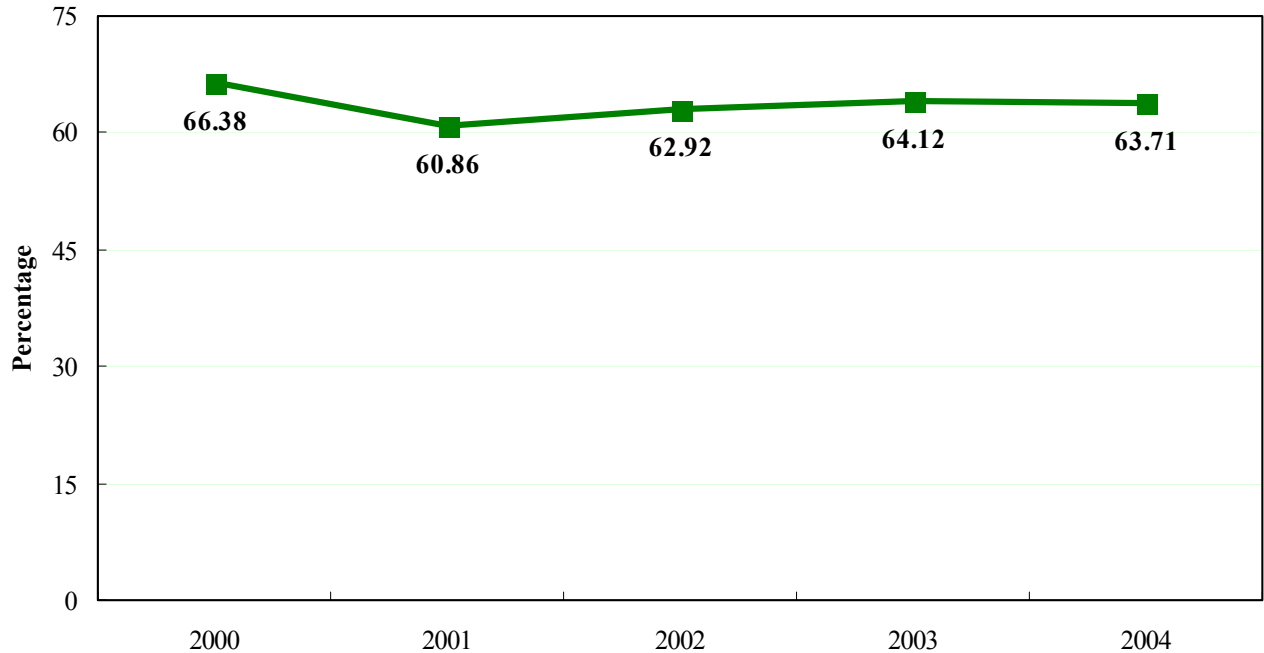


Sustainability:

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

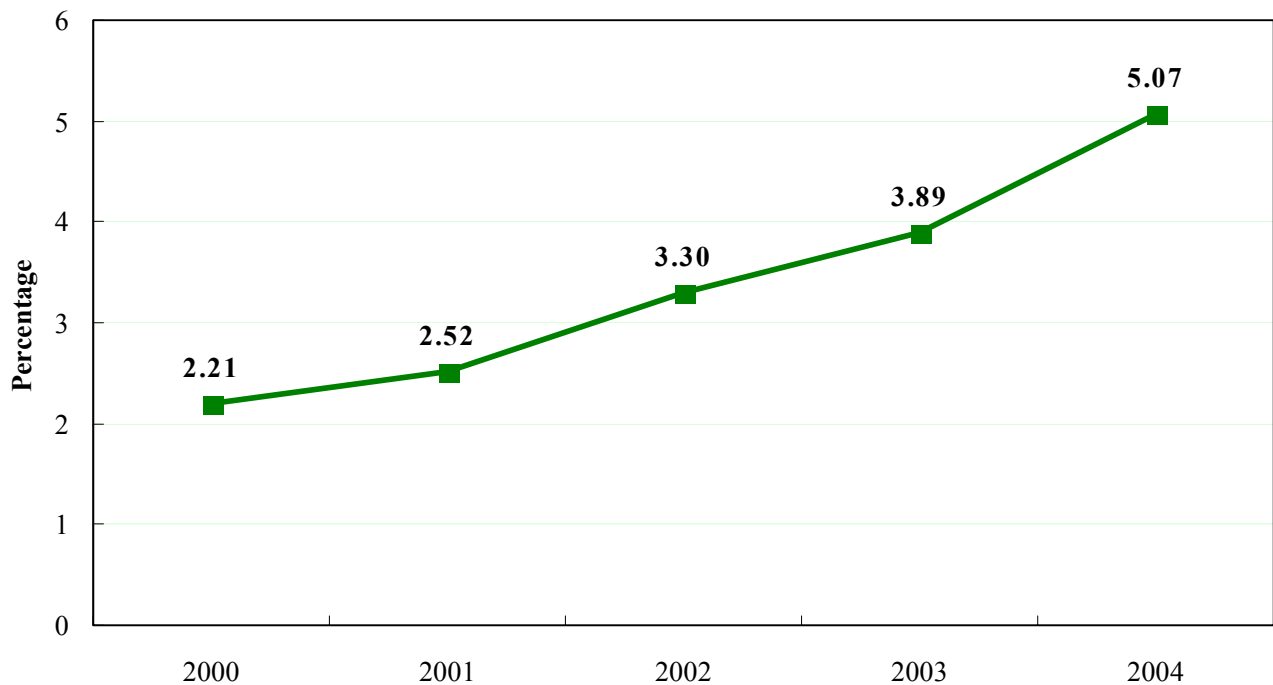
a) Net Debt (liabilities less financial assets) as a Percentage of GDP

- This ratio measures the level of debt that the Province carries as a percentage of its GDP.
- As indicated in the following graph, net debt as a percentage of GDP has decreased over the last five years. This relationship implies that the rate of economic growth is greater than the rate of growth in debt. The lower this ratio, the more room Government has to manoeuvre in making fiscal choices.
- The average of this ratio over the past five years is 63.60%.



b) Annual Deficit as a Percentage of GDP

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

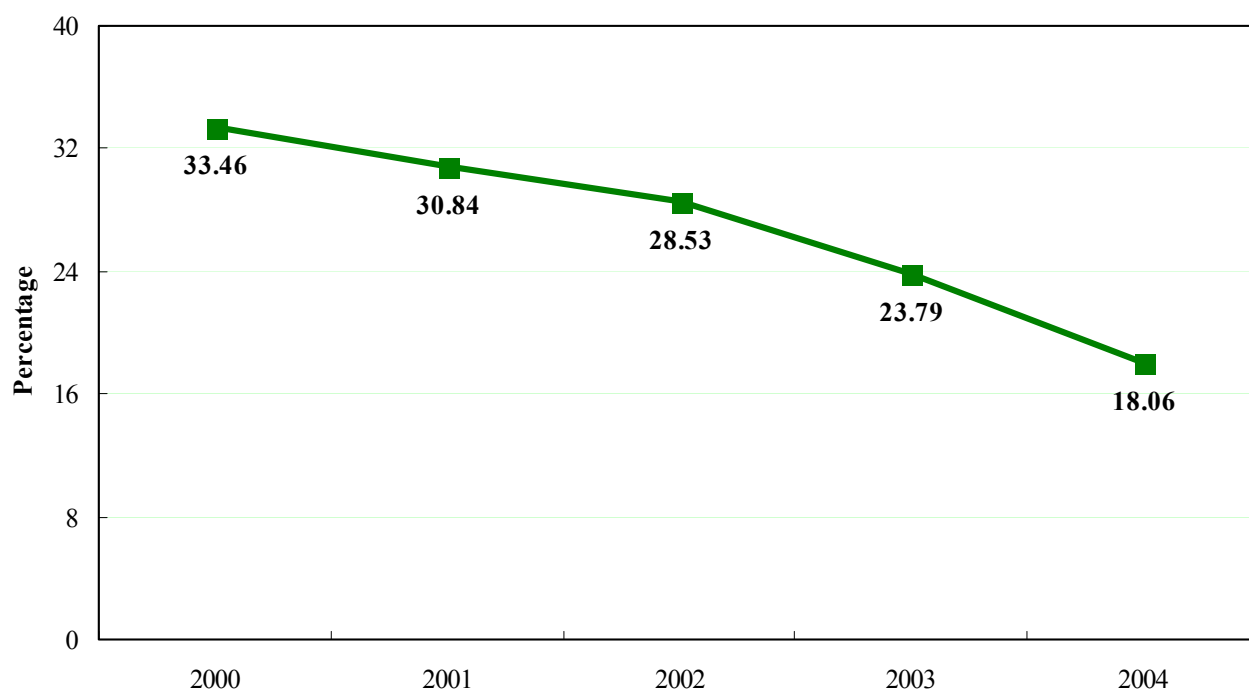


Vulnerability:

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

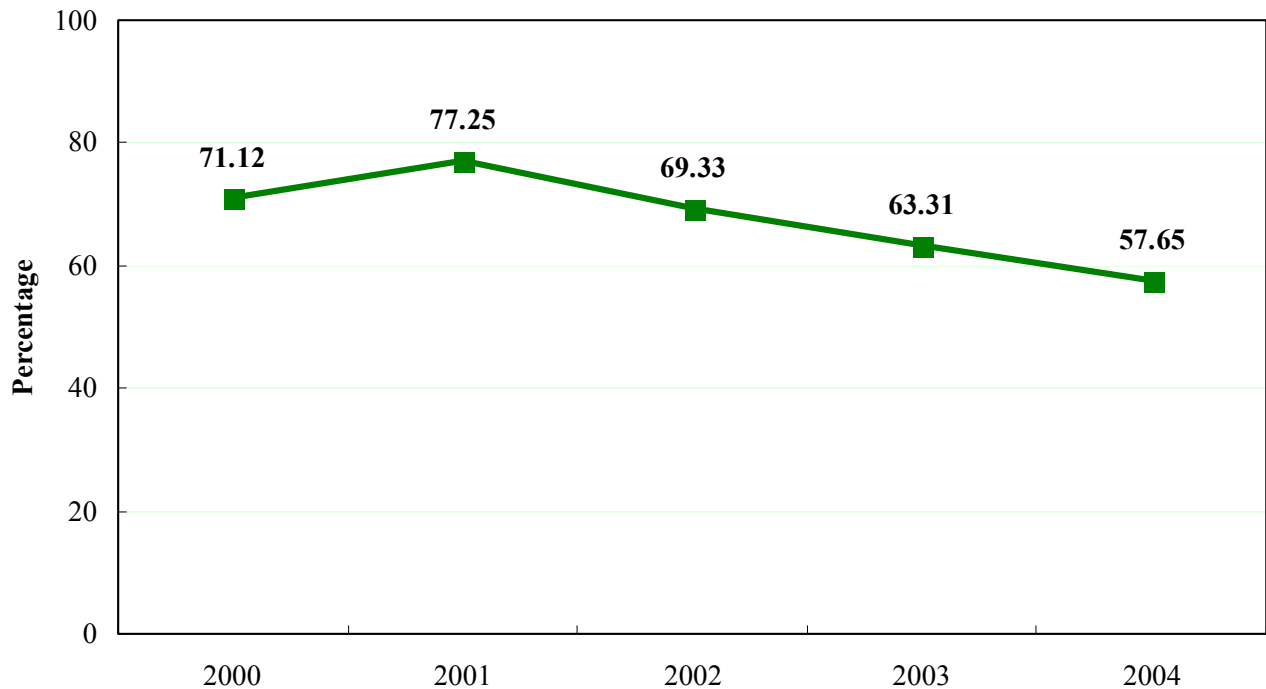
a) Foreign Currency Debt as a Percentage of Net Borrowings

- This ratio measures the Province's foreign currency debt relative to its net borrowings. It reflects the degree of vulnerability to foreign currency swings that the Province faces.
- As indicated in the following graph, foreign currency debt as a percentage of net borrowings has decreased steadily over the last five years, thus indicating that the Province is less susceptible to foreign currency fluctuations in terms of repaying its debt.
- The average of this ratio over the past five years is 26.94%. While this percentage indicates that foreign currency debt has historically been a significant portion of the Province's borrowings, this ratio has now declined to 18.06% for the 2003-04 fiscal year.



b) Federal Transfers as a Percentage of Provincial Revenues

- This ratio measures the extent to which the Province raises its own revenue from within the Province as compared to the extent it receives funds from the Federal Government.
- As indicated in the following graph, federal transfers as a percentage of provincial revenues have decreased over the last five years. This decline in federal transfers has placed a greater financial burden on the Province. Consequently, the fiscal policy decisions of the Federal Government have a significant impact on the Province's financial position.
- The average of this ratio over the past five years is 67.73%. While this percentage has decreased to 57.65% in 2003-04, historically the Province has been heavily dependant on transfers from the Federal Government.

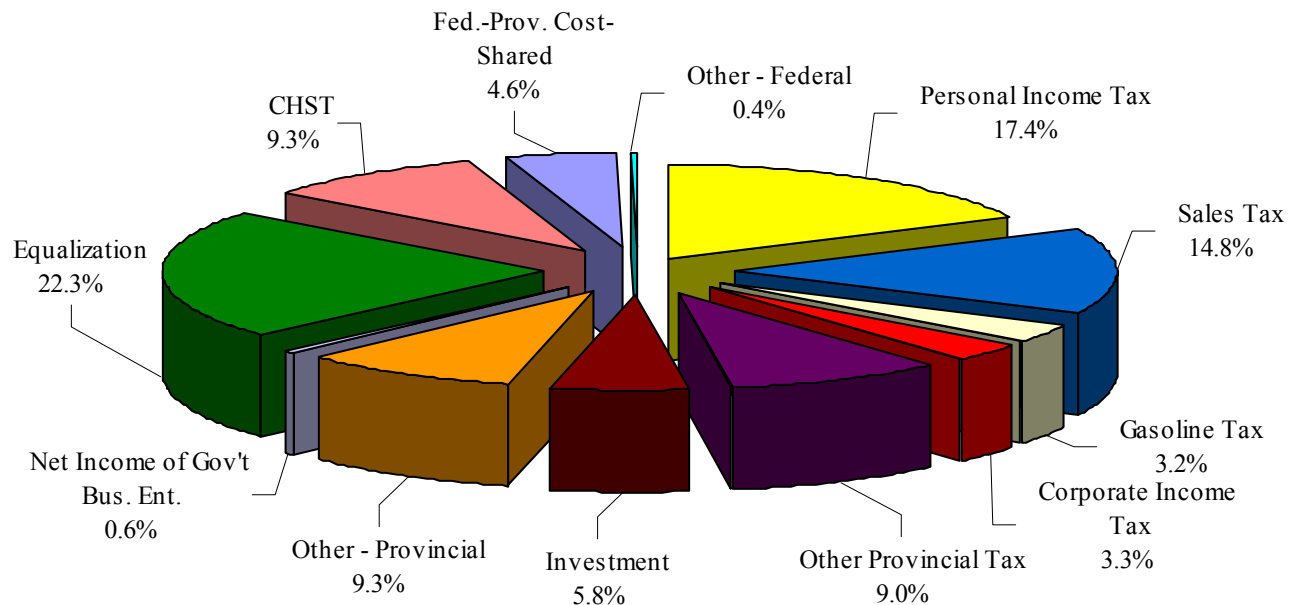


Financial Highlights

Revenues:

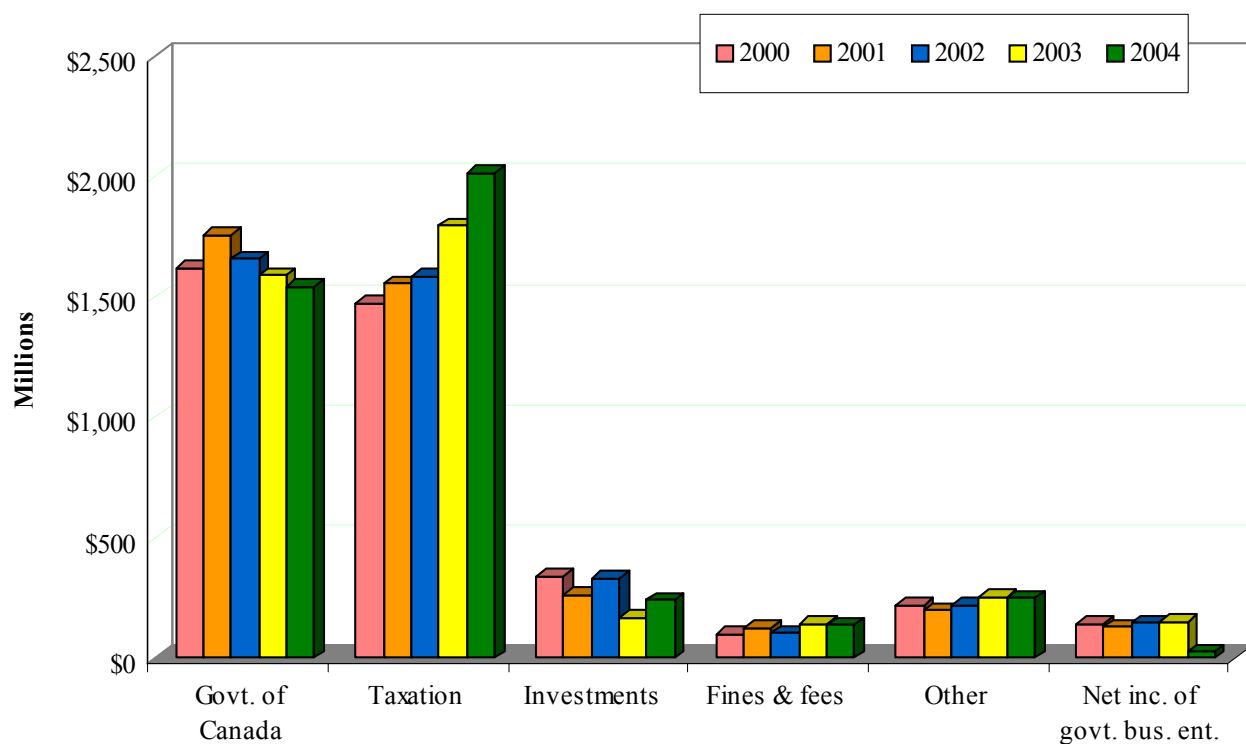
For the fiscal year ended 31 March 2004, total revenue amounted to \$4.22 billion. Of this amount, 36.6% came from Federal Government sources, while 63.4% was the result of provincial revenue sources. Details on these sources of revenue, including five-year historical comparisons, are provided below.

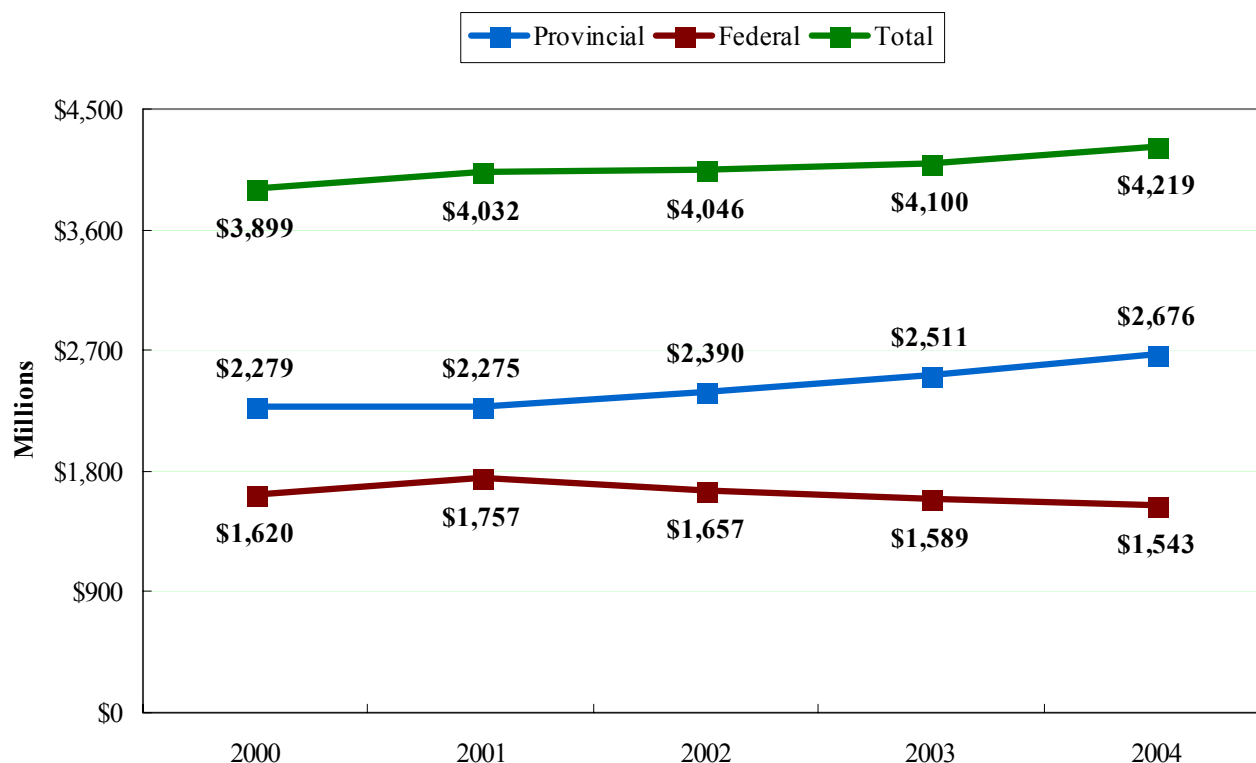
a) Revenues by Source - 31 March 2004



	<u>(\$000)</u>
Provincial:	
Personal Income Tax	733,217
Sales Tax	625,148
Gasoline Tax	135,937
Corporate Income Tax	139,575
Other Provincial Tax	380,125
Investment	243,219
Other - Provincial	393,511
Net Income of Gov't Business Enterprises	25,438
Total: Provincial	<u>2,676,170</u>
Federal:	
Equalization	938,983
CHST	393,668
Cost-shared	192,820
Other - Federal	17,297
Total: Federal	<u>1,542,768</u>
TOTAL	<u><u>4,218,938</u></u>

b) Revenues by Source - 5 Year Comparison



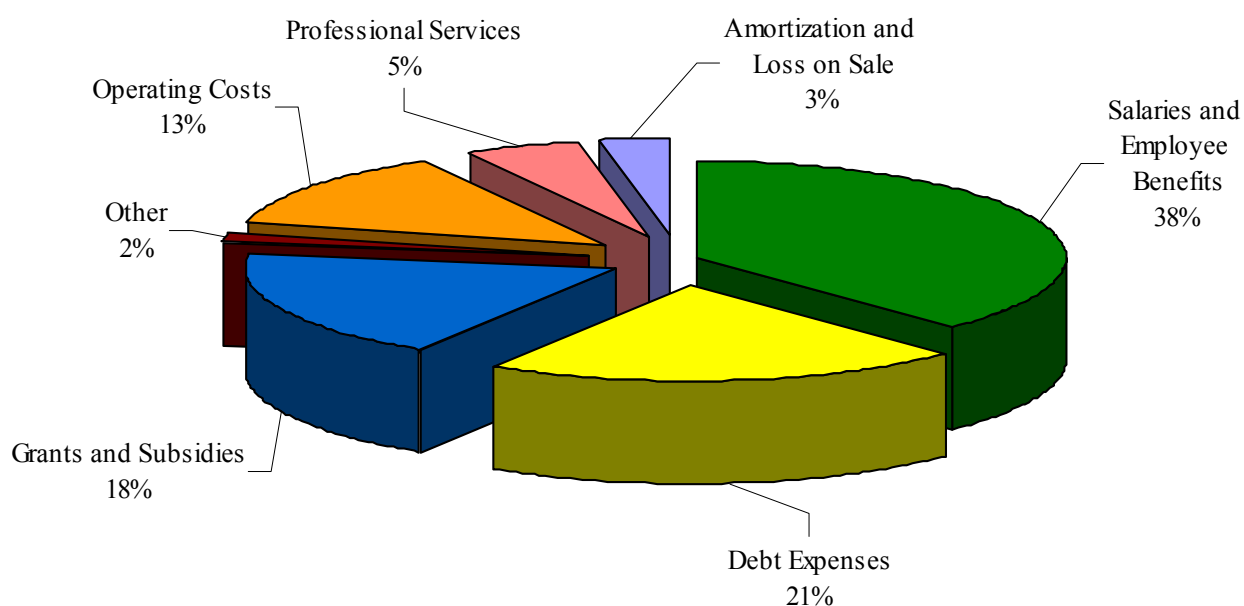
c) *Revenues - 5 Year Comparison*

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

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

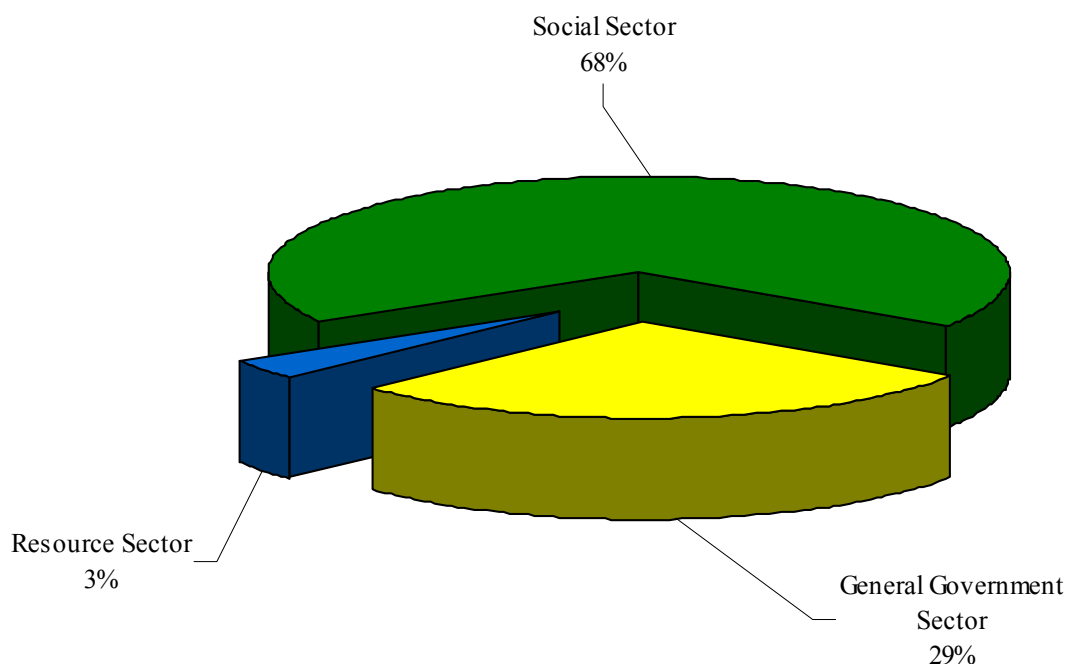
Expenses:

For the fiscal year ended 31 March 2004, total expenses amounted to \$5.13 billion. Provided below are details on the nature of these expenses, the allocation of the expenses to each sector of Government and a five-year historical comparison. The illustrations in (a) and (b) have been presented on an expense basis due to the implementation of a change in accounting policy in fiscal 2003-04.

a) Expenses by Category - 31 March 2004

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

b) Expenses by Sector - 31 March 2004

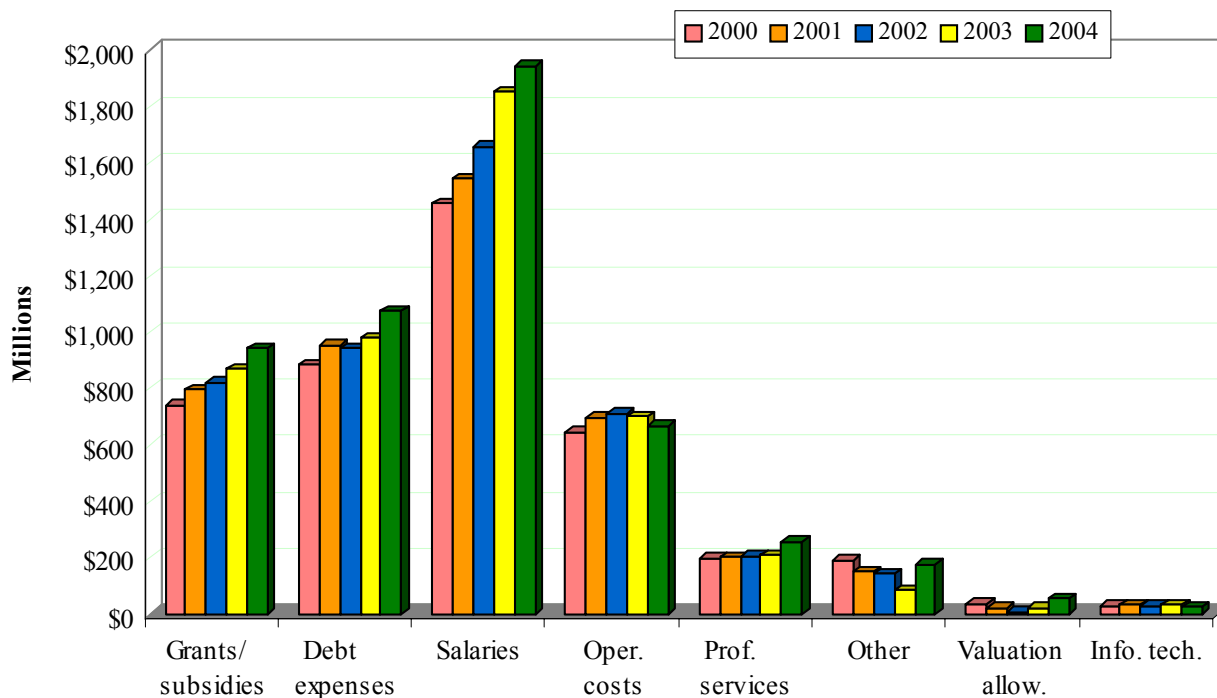


<i>Sector:</i>	<u>(\$000)</u>
Social	3,476,248
General Government	1,473,309
Resource	182,982
TOTAL	<u><u>5,132,539</u></u>

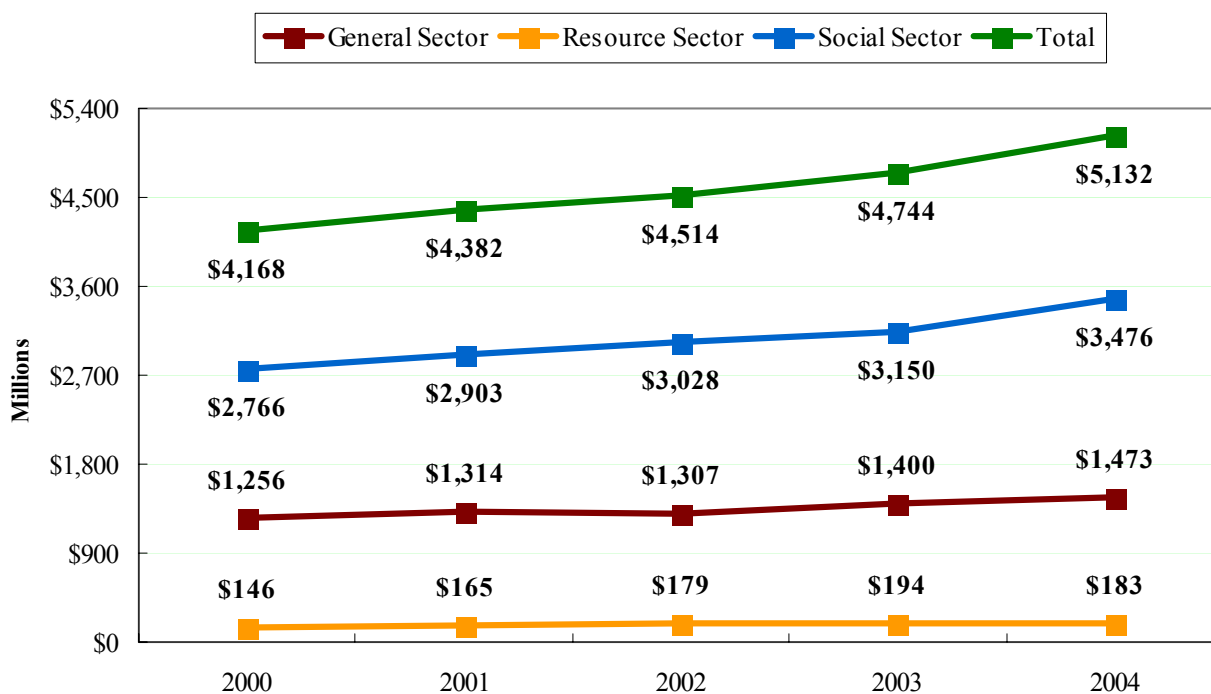
c) Expenses by Major Category - 5 Year Comparison

In accordance with PSAB standards, the change in accounting policy from the expenditure to the expense basis has been applied retroactively with the restatement of the 2002-03 comparative figures presented in the consolidated summary financial statements. However, for the fiscal years from 1999-2000 to 2001-02 in the following five-year comparisons, the noted amounts have not been restated as the information necessary to make the appropriate adjustments was not readily available. The amounts for these fiscal years are presented on an expenditure basis as originally reported in the Public Accounts for each of the respective years.

In the following graph, the Other category represents capital property acquisitions, as well as amortization and loss on sale relating to tangible capital assets. However, as a result of the accounting policy change being applied to the 2002-03 and the 2003-04 fiscal years only, this category does not include amortization expense and loss on sale relating to tangible capital assets for fiscal years prior to 2002-03.



d) Expenses by Sector - 5 Year Comparison



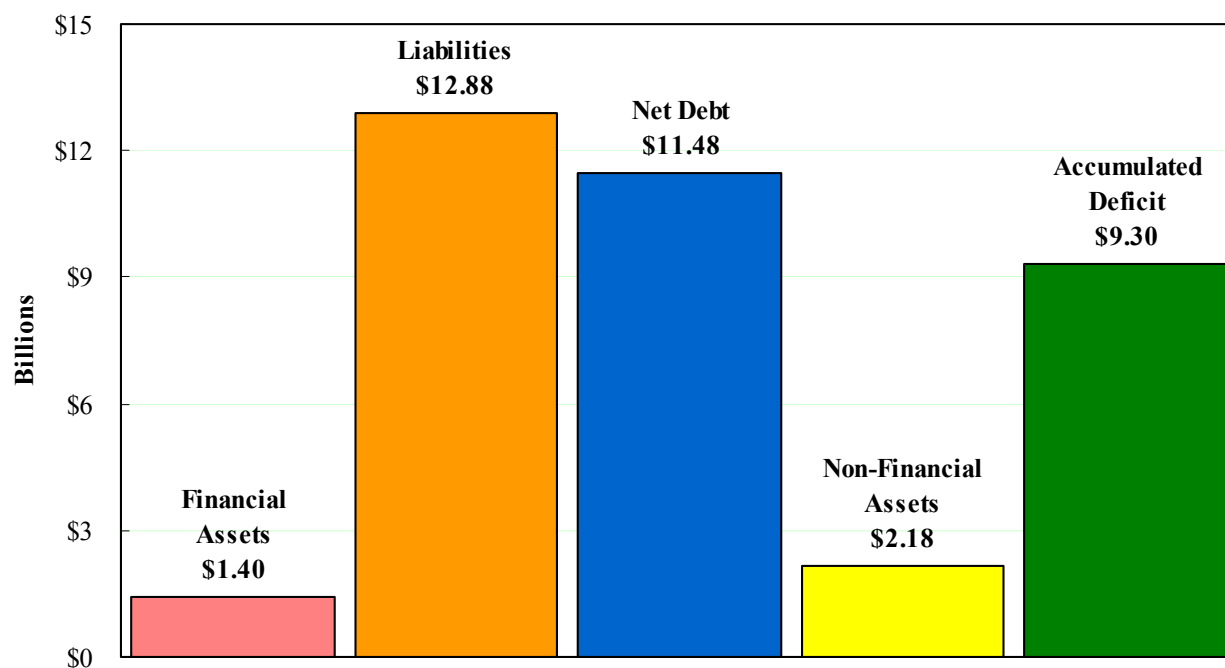
From an analysis of the above tables and charts, we can make the following observations:

- Total expenses have increased steadily over the last five years - from \$4.17 billion in 2000 to \$5.13 billion in 2004.

- Salaries and employee benefits expense has increased steadily over the past five years - from \$1.45 billion in 2000 to \$1.94 billion in 2004; an increase of \$490.0 million.
- Debt expenses have been fairly stable from 2000 to 2004. The majority of this expense relates to the Consolidated Revenue Fund for interest on debt, foreign exchange amortization/losses and interest on the unfunded pension liability.
- Expenses for the Social Sector which includes health, education and social services were \$3.48 billion in 2004, accounting for 68% of the total expenses for the year.
- Salaries/benefits and debt expenses represent 59% of total expenses for the year ended 31 March 2004.

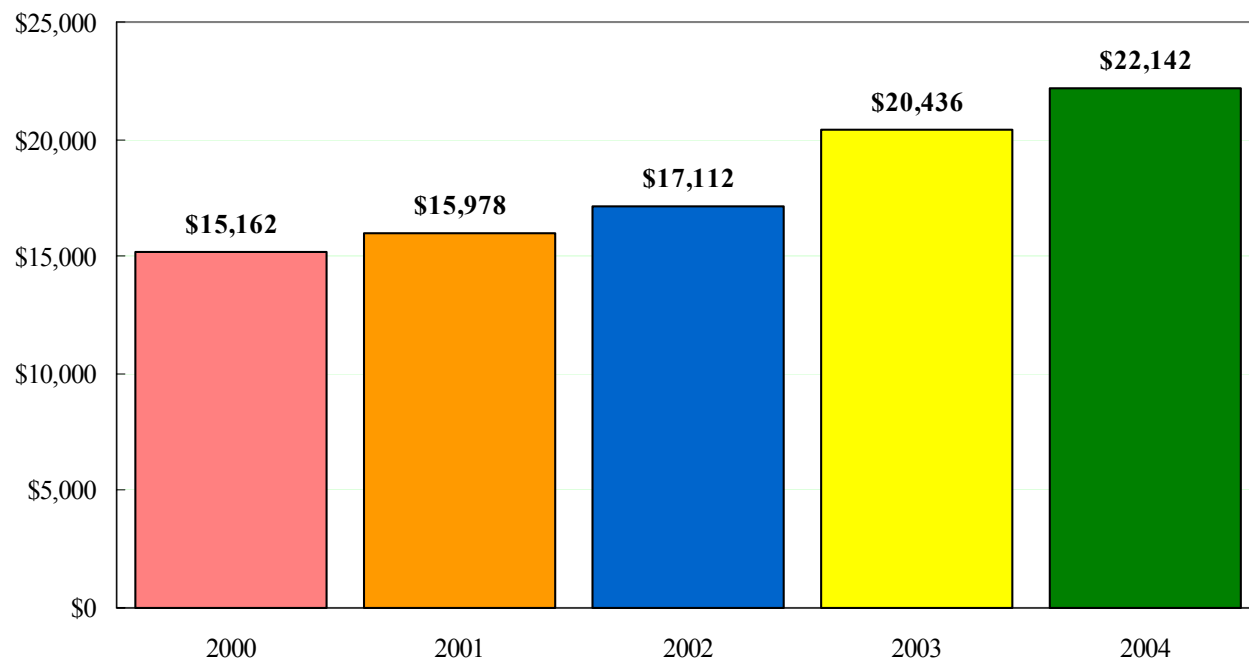
Financial Position Highlights

As a result of the new reporting format discussed earlier in this report, there have been a number of changes to the Consolidated Statement of Financial Position. While the traditional reporting of net debt (financial assets less liabilities) has remained, this statement now includes the reporting of non-financial assets, consisting mostly of tangible capital assets, and an accumulated deficit figure as depicted below.

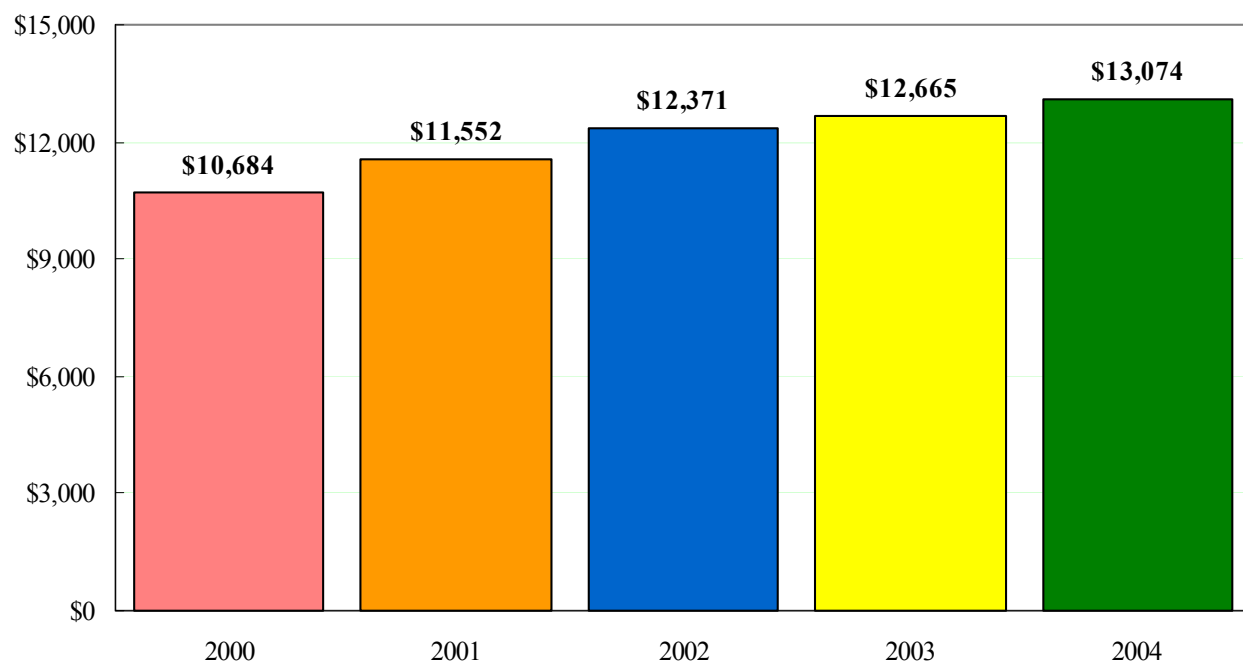


Net Debt and Net Borrowings:

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

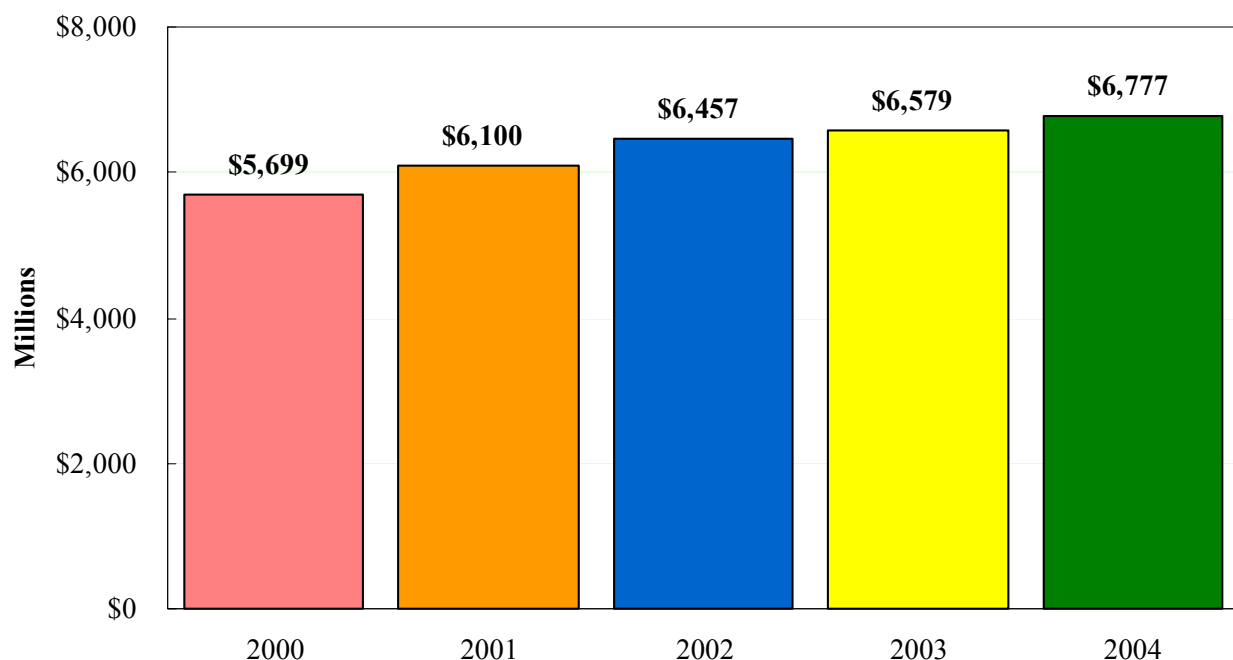
a) Net Debt per Capita

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

b) Net Borrowings per Capita

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

c) Net Borrowings - 5 Year Comparison



Net borrowings of the Province increased from \$6.58 billion in 2003 to \$6.78 billion in 2004. Borrowings of the CRF represented 86.7% of the total borrowings in 2004.

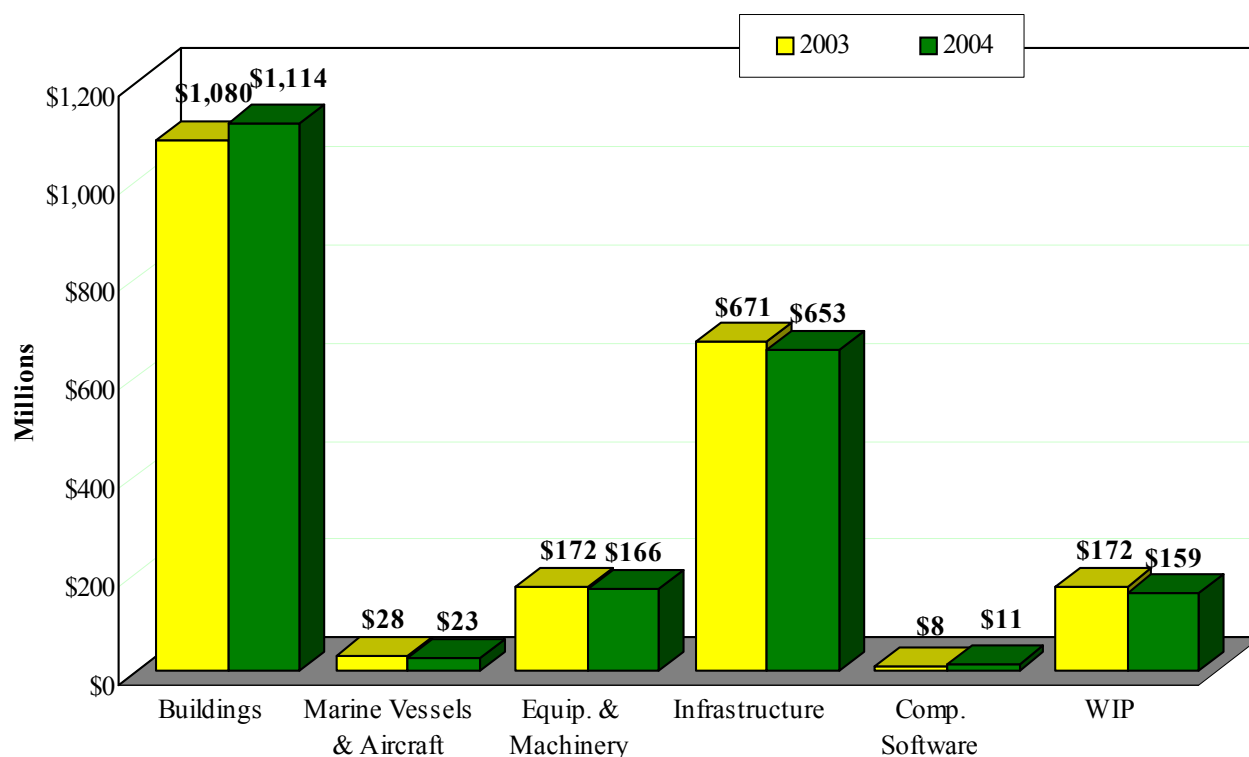
Non-Financial Assets:

For the fiscal year ended 31 March 2004, non-financial assets totaled \$2.18 billion. Of this amount, \$2.13 billion related to tangible capital assets. Due to the change in accounting policy as noted previously, the 2003-04 Public Accounts now include the capitalization and amortization of these tangible capital assets over their estimated useful lives. Previously, such assets were recorded entirely as expenditures in the year they were acquired. As a result of moving from the expenditure basis to the expense basis in relation to tangible capital assets, the impact on the annual deficit for 2003-04 has been an increase of \$2.95 million (decrease of \$45.23 million for 2002-03).

The illustrations below highlight the composition of the net book value of the tangible capital assets along with a comparison to the prior years' net book value.

a) *Tangible Capital Assets by Asset Category*

	<u>Net Book Value</u> (Smil)	<u>Percentage</u>
<i>Asset Categories:</i>		
Buildings	1,113.9	52.4%
Marine Vessels & Aircraft	23.3	1.1%
Equipment & Machinery	165.8	7.8%
Infrastructure	652.8	30.7%
Computer Software	11.1	0.5%
Work-in-Progress (WIP)	159.4	7.5%
TOTAL	2,126.3	100%

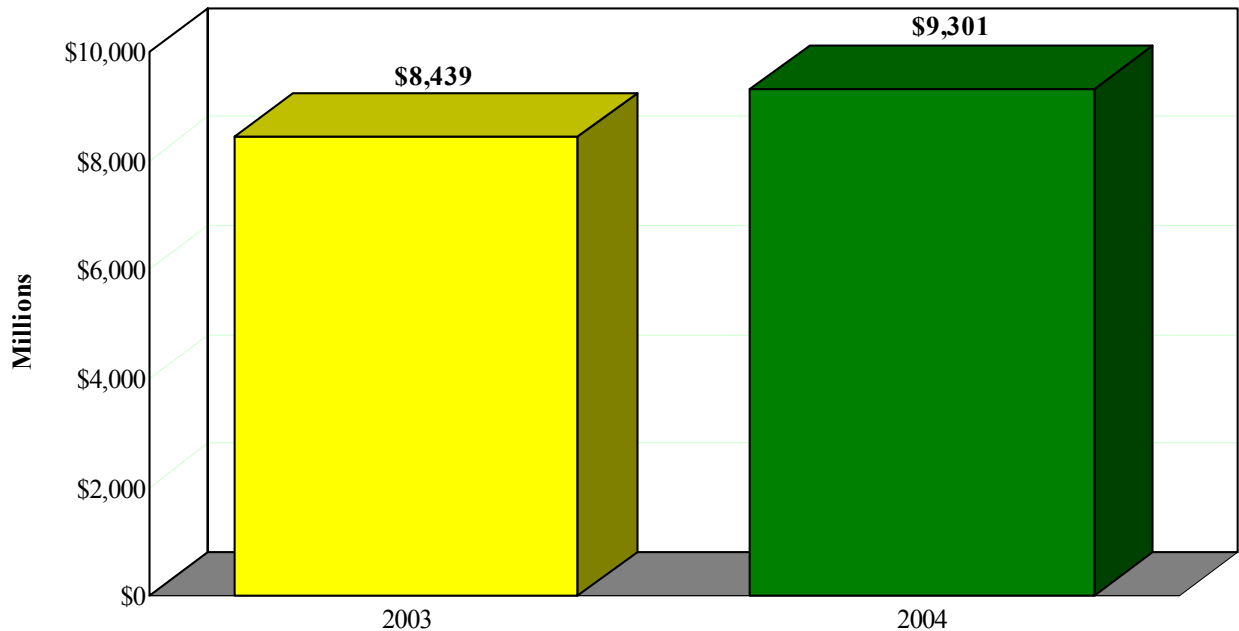


From an analysis of the above, we can make the following observations:

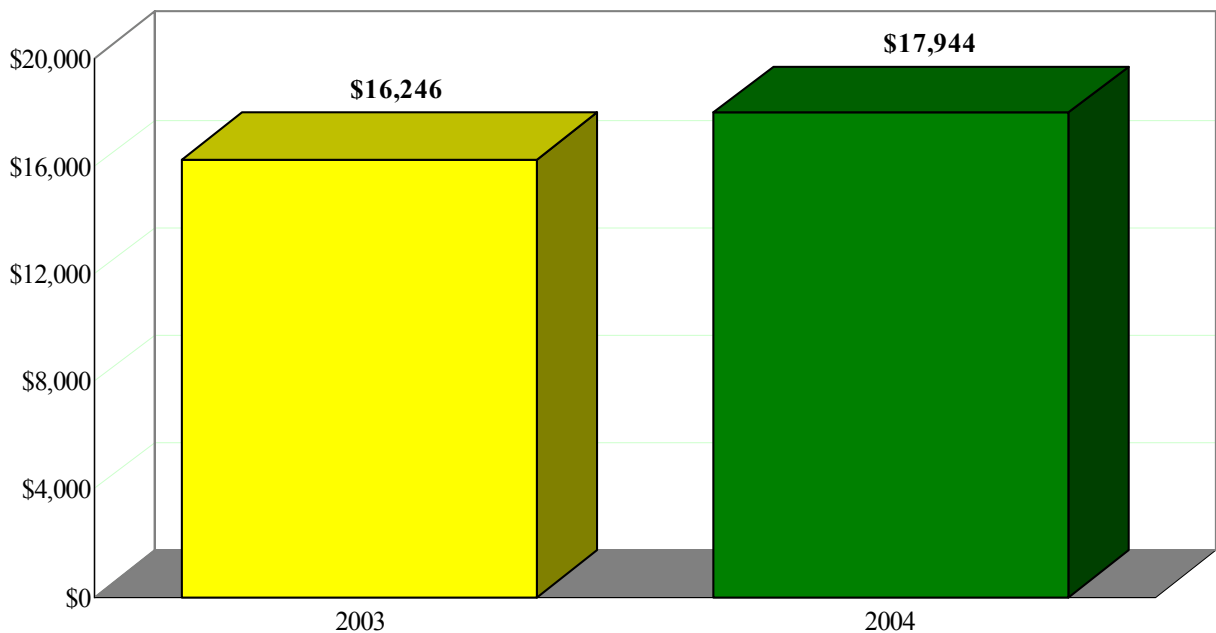
- The net book value of tangible capital assets has remained fairly stable from 2003 to 2004, decreasing by \$2.9 million.
- Buildings represent 52.4% of the total net book value of tangible capital assets for the year ended 31 March 2004.

Accumulated Deficit:

For the fiscal year ended 31 March 2004, the accumulated deficit amounted to \$9.30 billion. This value represents the accumulated annual deficits/surpluses as at 31 March 2004. The analysis provided below highlights the change in accumulated deficit from 2003 to 2004, as well as provide analysis on accumulated deficit on a per capita basis.

a) Accumulated Deficit from 2003 to 2004

The accumulated deficit of the Province increased from \$8.44 billion in 2003 to \$9.30 billion in 2004.

b) Accumulated Deficit per Capita

Accumulated deficit per capita indicates the average amount of provincial accumulated deficit owing by each citizen of the Province and is calculated by dividing the accumulated deficit of the Province by the population of the Province. Each citizen's share of the provincial accumulated deficit increased from \$16,246 to \$17,944 between 2003 and 2004 as a result of an increase in the accumulated deficit combined with a slight decrease in the population.

Improving Financial Performance

The preceding analysis has highlighted the fact that the Province's financial health is continuing to decline. In fact, the annual deficit alone has increased dramatically by \$269.2 million over the previous fiscal year. The Province cannot afford to continue on such a pace. The Government has identified these financial difficulties and is committed to improving the Province's financial situation. Through the implementation of its fiscal policies, the Government continues to strive towards increasing the Province's revenue streams, while at the same time tightening the rein on government spending. These policies, along with effective program management to provide essential services to the public, are key components to ensuring the improvement of the Province's financial performance through debt and deficit reductions.

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Province of Newfoundland and Labrador

Consolidated Summary Financial Statements

**For The Year Ended
31 March 2004**

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GOVERNMENT OF
NEWFOUNDLAND AND LABRADOR

TREASURY BOARD SECRETARIAT

OFFICE OF THE COMPTROLLER GENERAL

CONFEDERATION BUILDING
ST. JOHN'S

15 October 2004

STATEMENT OF RESPONSIBILITY

These consolidated summary financial statements of the Province are prepared in accordance with the applicable legislation based upon information provided by the various Government departments and the noted Crown corporations, boards and authorities. Where necessary, the information included in these consolidated summary financial statements is based upon best estimates and judgement, taking into account materiality of the amounts. 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. Together they present fairly, in all material respects, the financial position of the Province as at 31 March 2004 and the results of operations for the year then ended.

RONALD A. WILLIAMS, C.A.
Comptroller General

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OFFICE OF THE AUDITOR GENERAL
St. John's, Newfoundland and Labrador

AUDITOR'S REPORT

To the House of Assembly
Province of Newfoundland and Labrador

I have audited the consolidated statement of financial position of the Province of Newfoundland and Labrador as at 31 March 2004 and the consolidated statements of change in net debt, operations, change in accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of Government. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Government, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated summary financial statements present fairly, in all material respects, the financial position of the Province of Newfoundland and Labrador as at 31 March 2004 and the results of its operations and its cash flows for the year then ended in accordance with the accounting policies disclosed in Note 1 to the consolidated summary financial statements applied, after giving retroactive effect to the changes in accounting policies as disclosed in Notes 1(c)(ii), 7 and 8, on a basis consistent with that of the preceding year.

JOHN L. NOSEWORTHY, C.A.
Auditor General

St. John's, Newfoundland and Labrador
15 October 2004

SUMMARY FINANCIAL STATEMENTS

PROVINCE OF NEWFOUNDLAND AND LABRADOR

Consolidated Statement of Financial Position
As at 31 March 2004
with comparative figures for 2003

	Actuals 2004	Actuals 2003
	(\$000)	(\$000)
FINANCIAL ASSETS		
	254,099	441,855
Sch. 1	293,787	280,221
	9,410	9,213
Sch. 2	320,698	145,873
Sch. 3	521,021	630,387
	<u>1,399,015</u>	<u>1,507,549</u>
LIABILITIES		
Sch. 5	1,276,747	1,148,574
	11,022	26,701
Sch. 6	6,777,160	6,578,949
	8,436	(173,098)
	<u>6,785,596</u>	<u>6,405,851</u>
	1,057,669	985,174
	3,745,470	3,556,806
	<u>12,876,504</u>	<u>12,123,106</u>
NET DEBT	<u>11,477,489</u>	<u>10,615,557</u>
NON-FINANCIAL ASSETS		
Sch. 9	2,126,262	2,129,216
	20,102	19,314
	29,775	27,969
	<u>2,176,139</u>	<u>2,176,499</u>
ACCUMULATED DEFICIT	<u>9,301,350</u>	<u>8,439,058</u>
Contingent Liabilities - note 9		
Commitments - note 10		
Sch. 7		
Sch. 8		

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 2004 with comparative figures for 2003

	Actuals 2004 (\$000)	Original Estimates 2004 (Note 17) (\$000)	Actuals 2003 (\$000)
NET DEBT - beginning of period	10,615,557		8,932,266
Add (Deduct):			
Adjustments:			
Prepaid expenses - note 7(b)	-		29,457
Government organization changes - note 14	(51,309)		(12,311)
Group health and life insurance retirement benefits - note 7(d)	-		985,174
ADJUSTED NET DEBT - beginning of period	<u>10,564,248</u>		<u>9,934,586</u>
Deficit for the period	<u>913,601</u>	665,994	<u>644,365</u>
Changes in tangible capital assets - note 7(a)			
Acquisition of tangible capital assets	145,587	193,259	201,862
Net book value of tangible capital asset disposals/adjustments	13,147		(4,026)
Amortization of tangible capital assets	(161,688)	(127,970)	(152,605)
<i>Increase (Decrease) in net book value of tangible capital assets</i>	<u>(2,954)</u>	<u>65,289</u>	<u>45,231</u>
Changes in other non-financial assets			
Acquisition of prepaid and deferred charges (net of usage) - note 7(b)	788		(10,143)
Acquisition of inventories of supplies (net of consumption) - note 7(c)	1,806		1,518
<i>Increase (Decrease) in other non-financial assets</i>	<u>2,594</u>		<u>(8,625)</u>
<i>Increase (Decrease) in net debt</i>	<u>913,241</u>		<u>680,971</u>
NET DEBT - end of period	<u><u>11,477,489</u></u>		<u><u>10,615,557</u></u>

See accompanying notes to the financial statements.

SUMMARY FINANCIAL STATEMENTS

PROVINCE OF NEWFOUNDLAND AND LABRADOR

Consolidated Statement of Operations For the year ended 31 March 2004 with comparative figures for 2003

		Actuals 2004 (\$000)	Original Estimates 2004 (Note 17) (\$000)	Actuals 2003 (\$000)
REVENUE				
Sch. 10	Provincial			
Sch. 10	Taxation	2,014,002	1,919,082	1,796,218
Sch. 10	Investment	243,219	176,993	167,415
Sch. 10	Fees and fines	141,122	133,699	142,956
Sch. 10	Other	252,389	291,236	253,576
Sch. 10	Government of Canada	1,542,768	1,695,667	1,589,411
		<u>4,193,500</u>	<u>4,216,677</u>	<u>3,949,576</u>
Sch. 4	Net income of government business enterprises	25,438	130,310	150,374
	Total Revenue	<u>4,218,938</u>	<u>4,346,987</u>	<u>4,099,950</u>
EXPENSE				
Sch. 11	General Government Sector	1,473,309	1,469,345	1,400,007
Sch. 11	Resource Sector	182,982	194,787	194,268
Sch. 11	Social Sector	3,476,248	3,348,849	3,150,040
Sch. 12	Total Expense	<u>5,132,539</u>	<u>5,012,981</u>	<u>4,744,315</u>
	ANNUAL DEFICIT - notes 7(a), (c)	<u>913,601</u>	<u>665,994</u>	<u>644,365</u>

See accompanying notes to the financial statements.

SUMMARY FINANCIAL STATEMENTS

PROVINCE OF NEWFOUNDLAND AND LABRADOR

**Consolidated Statement of Change in Accumulated Deficit
For the year ended 31 March 2004
with comparative figures for 2003**

	Actuals 2004 (\$000)	Original Estimates 2004 (Note 17) (\$000)	Actuals 2003 (\$000)
ACCUMULATED DEFICIT - beginning of period - note 8	8,439,058		6,821,830
Add (Deduct):			
Adjustments:			
Government organization changes - note 14	(51,309)		(12,311)
Group health and life insurance retirement benefits - note 7(d)	-		985,174
ADJUSTED ACCUMULATED DEFICIT - beginning of period	<u>8,387,749</u>		<u>7,794,693</u>
Deficit for the period	<u>913,601</u>	665,994	<u>644,365</u>
ACCUMULATED DEFICIT - end of period	<u><u>9,301,350</u></u>		<u><u>8,439,058</u></u>

See accompanying notes to the financial statements.

PROVINCE OF NEWFOUNDLAND AND LABRADOR

Consolidated Statement of Cash Flows For the year ended 31 March 2004 with comparative figures for 2003

	Actuals 2004	Actuals 2003
	(\$000)	(\$000)
Funds provided from (applied to):		
OPERATIONS		
Annual deficit	(913,601)	(644,365)
Add (Deduct) non-cash items:		
Amortization of foreign exchange gains/losses	(22,760)	23,519
Amortization of tangible capital assets	161,688	152,605
Retirement costs	424,659	312,821
Valuation allowances	54,989	21,792
Unremitted net income of government business enterprises	109,262	70,626
Sinking fund earnings	(22,315)	17,122
Other	103,750	24,046
Net cash applied to operating transactions	(104,328)	(21,834)
CAPITAL		
Acquisitions	(145,587)	(201,862)
Disposals	1,585	1,594
Net cash applied to capital transactions	(144,002)	(200,268)
FINANCING		
Debt issued	589,674	522,340
Debt retirement	(194,365)	(245,395)
Special purpose funds/contractors' holdback funds	3,191	2,955
Deferred revenue	(15,679)	(10,252)
Treasury bills issued	2,741,476	3,505,816
Treasury bills redeemed	(2,740,699)	(3,506,850)
Sinking fund contributions	(39,011)	(41,273)
Sinking fund retirement	67,755	41,892
Retirement of pension liabilities	(163,500)	(148,500)
Net cash provided from financing transactions	248,842	120,733
INVESTING		
Loan repayments	54,953	69,794
Loan advances	(242,488)	(38,447)
Investments	(572)	1,613
Net cash provided from (applied to) investing transactions	(188,107)	32,960
Net cash provided (applied)	(187,595)	(68,409)
Cash and temporary investments - beginning of period	441,682	510,091
CASH AND TEMPORARY INVESTMENTS - end of period - see note 2. . .	254,087	441,682

See accompanying notes to the financial statements.

PROVINCE OF NEWFOUNDLAND AND LABRADOR

Notes to the Consolidated Financial Statements For the year ended 31 March 2004

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 14 - Government Reporting Entity.

(b) Method of Consolidation

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

A government business enterprise is an organization, included in the reporting entity, that has 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.

Government business enterprises are recorded on the modified equity method. Under this method, the Government's equity in these enterprises is adjusted annually to reflect the net income/loss and other net equity changes of the enterprise without adjusting the enterprise's financial statements to conform with the accounting policies described below. Inter-governmental 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.

(ii) Changes in Financial Statement Presentation

The financial statement presentation for the 2003-04 Public Accounts is in accordance with the newly recommended format pursuant to the Public Sector Accounting Standards issued by the Canadian Institute of Chartered Accountants. Major changes in presentation from 2002-03 include:

- Consolidated Statement of Financial Position includes tangible capital assets and accumulated deficit, differentiates between financial and non-financial assets, but retains the traditional net debt figure;
- Consolidated Statement of Operations (reflecting amortization expense related to tangible capital assets) replaces the former Consolidated Statement of Revenue and Expenditure (which treated costs of acquiring and constructing tangible capital assets as expenditures);
- Consolidated Statement of Cash Flows replaces the former Consolidated Statement of Changes in Financial Position;
- Introduction of a Consolidated Statement of Change in Accumulated Deficit; and,
- Budget figures, where available, are provided on several Statements for comparison purposes.

The new government reporting format has been applied to restate the comparative figures for 2002-03 to facilitate comparability.

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(iii) *Revenues*

Revenues from the Government of Canada under the federal-provincial fiscal arrangements, Canada Health and Social Transfer and tax collection agreements are based on regular entitlements received for the current year and adjusted against future years' revenues when known.

Other revenues are recorded on an accrual basis.

(iv) *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.

(v) *Assets*

Temporary investments are recorded at cost or market value, whichever is lower.

Receivables are recorded for all amounts due for work performed and goods or services supplied. 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 and advances are recorded at cost. 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 and are written down when there is a loss in value that is other than a temporary decline.

Equity in government business enterprises represents the net assets of government business enterprises 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 valued at cost or estimated cost less accumulated amortization.

(vi) *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.

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.

(vii) *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 are met.

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(viii) *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 loss is established when it is determined that a payment on guarantee is likely.

2. Cash and Temporary Investments

Cash and temporary investments of \$254.1 million (31 March 2003 - \$441.9 million), including accrued interest of \$0.01 million (31 March 2003 - \$0.17 million) consist of investments with financial institutions. These investments are callable or have maturity dates ranging from 19 January 2004 to 15 September 2016 at interest rates which vary from 1.35% to 6.55%.

3. Provision for Guaranteed Debt

An amount of \$0.1 million (31 March 2003 - \$0.8 million) has been recorded as a provision for possible losses on guaranteed debt (see note 9(a)). See Schedule 5 - Payables, Accrued and Other Liabilities.

4. Unamortized Unrealized Foreign Exchange Gains and Losses

Foreign currency debt and sinking funds are translated to Canadian dollars at the exchange rate at 31 March 2004. See Schedule 6 - Borrowings. Details of the effect of these translations at year end are outlined in the table below.

The net amortization expense is \$22.8 million which represents a credit adjustment (31 March 2003 - \$23.5 million-debit adjustment).

	31 March 2004	31 March 2003
	(\$mil)	(\$mil)
Unrealized foreign exchange gain (loss):		
Debt	(158.8)	(339.4)
Sinking funds	16.0	44.8
Net	(142.8)	(294.6)
Total accumulated amortization	151.2	121.5
Net unamortized unrealized foreign exchange gain (loss)	<u>8.4</u>	<u>(173.1)</u>

5. Retirement Benefits - Group Health and Life Insurance

All retired employees of the Government of Newfoundland and Labrador who are receiving a pension from the Public Service Pension Plan, Uniformed Services Pension Plan or the Members of the House of Assembly Pension Plan 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. These programs provide both group health and group life benefits to enrolled retirees.

Under the plans, the Province pays 50% of the total premium charged towards the benefits of both active employees and retirees for both the life insurance and health benefits under both programs sponsored by the Province and the NLTA. As at 31 March 2004, the plans provided benefits to 14,202 retirees.

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Actuarial Valuations

An actuarial valuation as of 31 March 2003, with disclosures as at 31 March 2004, was prepared by the Province's actuaries based on a number of assumptions about future events including an interest rate of 5.5% (31 March 2004), CPI of 3.0%, 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 the Province's best estimates of expected long-term rates and short-term forecasts.

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	Unamortized Experience Losses 2004	Net Liability 2004	Net Liability 2003	Change
	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)
Group health retirement benefits	1,115.1	(130.1)	985.0	916.5	68.5
Group life insurance retirement benefits	81.4	(8.7)	72.7	68.7	4.0
	1,196.5	(138.8)	1,057.7	985.2	72.5

There are no fund assets associated with these plans.

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	Province's Share of Current Period Costs	Interest Expense on the Liability	Province's Current Period Contributions	Current Period Amortization of Experience Changes	Change
	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)
Group health retirement benefits	25.5	57.1	(14.1)	-	68.5
Group life insurance retirement benefits	1.4	3.8	(1.2)	-	4.0
	26.9	60.9	(15.3)	-	72.5

Interest expense related to the group health and life insurance retirement benefits liability is included with interest as debt expenses in the financial statements.

Experience Gains or Losses

Experience gains or losses are amortized over the estimated average remaining service life of active participants. The amortization amount will be 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 unamortized experience loss at 31 March 2004 resulted from a change in the discount rate used by the actuaries.

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Retirement Benefits - Pensions**Defined Benefits**

The Government of Newfoundland and Labrador guarantees defined benefit pension plans for substantially all of its full time employees, and those of its Agencies, Boards and Commissions and for members of its Legislature. The plans are - the Public Service Pension Plan, Teachers' Pension Plan, Uniformed Services Pension Plan, the Members of the House of Assembly Pension Plan, and the Provincial Court Judges' Pension Plan. Combined, the plans have approximately 33,195 participants.

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 2004, the plans provided benefits to 18,031 pensioners. Inflation protection is not extended to pensioners of the Uniformed Services Pension Plan and the Members of the House of Assembly Pension Plan nor to pensioners of the Teachers' Pension Plan who retired prior to 01 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 of these five plans, including the collection of all contributions and the payment of pensions and the investment of funds. The Province guarantees any deficiency in the event assets of a plan are insufficient to meet benefit payments or administration costs.

Contribution and Benefit Formulae**Public Service Pension Plan**

Employee contributions are 8.6% of pensionable salary, less a formulated amount representing contributions to the Canada Pension Plan (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 by a formulated amount representing CPP pension benefits for each year since 1967.

Teachers' Pension Plan

Employee contributions are 9.35% 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 five years average salary, plus 2% of the employee's best five 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.

Uniformed Services Pension Plan

Employee contributions are 8.5% 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.

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 1 April 1998, the percentage is 5% for the first ten years and 2.5% for each of the next ten years. 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.

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Effective 31 December 2003, the Supplementary Employee Retirement component was established as a component of the existing Plan, with the liability being split between the two components based on limits set out in the federal *Income Tax Act*. The Registered component provides benefits based on limits set out in the federal *Income Tax Act* for active members only with the remainder of the benefit provided by the Supplementary Employee Retirement component which also provides benefits to pensioners and deferred pensioners.

Provincial Court Judges' Pension Plan

Effective 01 April 2002 (pursuant to the *Provincial Court Judges' Pension Plan Act* enacted 08 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 01 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 employee's annual salary. The Registered component of the Plan provides benefits based on limits set out in the federal *Income Tax Act* with the remainder of the benefit provided by the Supplementary component.

Actuarial Valuations

The actuarial valuations which are prepared by the Province'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 best estimates of expected long-term rates and short-term forecasts. The expected interest and inflation rates follow:

Expected Interest Rates

The expected average interest rate for the Public Service Pension Plan is 7.5%. The expected rate for the Teachers' Pension Plan is 7.5% projected on a long term basis. The expected rate for the Uniformed Services Pension Plan is 7.5% projected on a long term basis. The expected rate for the Members of the House of Assembly Pension Plan is 7.5% for the Registered component and 5.5% for the Supplementary Employee Retirement component, projected on a long term basis. The expected rate for the Provincial Court Judges' Pension Plan is 7.0% for the Registered component (no actuarial valuation has yet been performed on the Supplementary Employee Retirement component).

Expected Inflation Rates

The expected inflation rate for the Public Service Pension Plan is 3.0%. The expected rate for the Teachers' Pension Plan is 3.0%. The expected rate for the Uniformed Services Pension Plan is 3.0% projected on a long term basis. The expected rate for the Members of the House of Assembly Pension Plan is 3.0% projected on a long term basis. The expected rate for the Provincial Court Judges' Pension Plan (Registered component) is 3.0%.

The latest actuarial valuations for the Province's pension plans, according to the administrators of those plans, are dated as listed in the following table:

Pension Plan	Valuation Date
Public Service	31 December 2003
Teachers'	31 August 2003
Uniformed Services	31 December 2003
Members of the House of Assembly	31 December 2003
Provincial Court Judges'	01 April 2002

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

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Complete formal actuarial extrapolations to 31 March 2004 could not be obtained for the Provincial Court Judges' Pension Plan in time for inclusion in these financial statements, however the actuary did provide a general estimate of the total accrued benefit obligation (\$3.0 million) at 31 March 2004 which is reflected in the table below. In any event, the impact of such extrapolations on the financial statements would be immaterial.

Pension Liability

Details of the pension liability are outlined in the table below. The estimated accrued benefit obligation and the value of the plan assets reported below have been extrapolated by the Province's actuaries to 31 March 2004. The actual results of future valuations may result in variances from these extrapolations.

Pension Plan	Estimated Accrued Benefit Obligation	Fund Assets	Unamortized Experience Losses 2004	Net Unfunded Liability 2004	Net Unfunded Liability 2003	Change
	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)
Public Service	3,690.7	1,762.8	(343.5)	1,584.4	1,492.7	91.7
Teachers'	3,013.1	792.0	(278.6)	1,942.5	1,840.5	102.0
Uniformed Services	240.4	48.1	(12.1)	180.2	185.3	(5.1)
Members of the House of Assembly	72.2	1.2	(19.9)	51.1	38.3	12.8
Provincial Court Judges'	3.0	-	-	3.0	-	3.0
Unallocated Fund Assets	-	15.7	-	(15.7)	-	(15.7)
Total	\$7,019.4	\$2,619.8	(\$654.1)	\$3,745.5	\$3,556.8	\$188.7

Pension Fund Assets are valued at the market value at 31 December 2003 and projected to year end.

Special Payments

Pursuant to the applicable pensions legislation, the Province has agreed to make special payments of \$60 million annually into the Public Service Pension Plan as long as the plan remains unfunded. In addition, the Province has agreed to make special payments of \$76 million annually into the Teachers' Pension Plan until the remaining balance of an initial obligation of \$815 million plus interest has been paid. Annual payments of \$20 million to the Uniformed Services Pension Plan are also being made by the Province for a five year period which commenced in 2001-2002. Also commencing in 2001-2002, the Province began making annual payments of \$7.5 million to the Members of the House of Assembly Pension Plan, however, it was determined that such payments were not allowable under the federal *Income Tax Act* to fund the Registered component of the Plan and therefore the residual amount of the payments (\$15.7 million) is no longer classified as an asset of the Plan. The amount, however, remains part of the Pooled Pension Fund and will ultimately be allocated to one or more of the other pension plans.

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.

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 on the Unfunded Liability	Province's Current Period Pension Contributions	Current Period Amortization of Experience Changes	Other Adjustments	Unfunded Portion of Current Period Pension Change
	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)
Public Service	32.7	146.0	(126.6)	39.6	-	91.7
Teachers'	14.7	167.0	(110.3)	30.6	-	102.0
Uniformed Services	1.7	14.5	(22.0)	0.7	-	(5.1)
Members of the House of Assembly	0.8	3.4	(0.4)	0.8	8.2	12.8
Provincial Court Judges'	-	-	-	-	3.0	3.0
Unallocated Fund Assets	-	-	(7.5)	-	(8.2)	(15.7)
Total	\$49.9	\$330.9	(\$266.8)	\$71.7	\$3.0	\$188.7

Pension interest expense is included with interest as debt expenses in the financial statements. Pension interest expense for 31 March 2003 amounted to \$270.2 million.

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.

Other Pension Plans

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 22,535 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 London Life Insurance Company and at 31 March 2004 assets had a market value of \$157.3 million.

7. Accounting Changes

(a) Tangible Capital Assets

Due to changes introduced by the Public Sector Accounting Board (refer to note 1(c)(ii)), a change in accounting policy has been implemented whereby tangible capital assets and other non-financial assets are now being recorded on the Consolidated Statement of Financial Position as non-financial assets. Previously, tangible capital assets were recorded as expenditures upon acquisition but are now capitalized and amortized over the useful life of the asset.

This accounting change has been applied retroactively with restatement. As a result, the 31 March 2003 figures presented for comparative purposes have been restated from those previously reported. This has resulted in a decrease in the annual deficit of \$45.2 million for the fiscal year ended 31 March 2003. A cumulative adjustment relating to the effects of tangible capital assets as at 31 March 2002 has been included in the opening balance of the accumulated deficit for 31 March 2003 in the amount of \$2,084.0 million (see note 8).

(b) Prepaid Expenses

As a result of the changes described in note 1(c)(ii), prepaid expenses has been reclassified as a non-financial asset (previously shown as a financial asset) on the Consolidated Statement of Financial Position. This has resulted in an increase to the beginning net debt as at 31 March 2003 of \$29.5 million. There was no impact on the annual deficit or accumulated deficit as a result of this change.

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(c) Inventories of Supplies

As a result of the changes described in note 1(c)(ii), inventories of supplies have been included as non-financial assets on the Consolidated Statement of Financial Position. Previously, inventories of supplies were recorded as expenditures upon acquisition.

This accounting change has been applied retroactively with restatement. As a result, the 31 March 2003 figures presented for comparative purposes have been restated from those previously reported. This has resulted in a decrease in the annual deficit of \$1.2 million for the fiscal year ended 31 March 2003. A cumulative adjustment relating to the effects of inventories of supplies as at 31 March 2002 has been included in the opening balance of the accumulated deficit for 31 March 2003 in the amount of \$26.5 million (see note 8).

(d) Group Health and Life Insurance Retirement Benefits

Due to changes introduced by the Public Sector Accounting Board, an actuarial review was undertaken to determine the Province's liability related to group health and life insurance retirement benefits for inclusion in the financial statements. Adoption of this accounting policy was applied retroactively without restatement of the prior year with respect to the Consolidated Statement of Operations as the amounts were not available. The Consolidated Statement of Financial Position at 31 March 2003 was restated with a resulting increase to Total Liabilities and Net Debt of \$985.2 million.

8. Accumulated Deficit

In accordance with changes to the financial statement presentation as required by the Public Sector Accounting Standards issued by the Canadian Institute of Chartered Accountants, a Consolidated Statement of Change in Accumulated Deficit was added to the 2003-04 Public Accounts. The opening balance of accumulated deficit as reported in the 2003 comparatives (i.e. ending balance as at 31 March 2002) of \$6,821.8 million was derived by taking the ending net debt at 31 March 2002 of \$8,932.3 million (per 2002-03 Public Accounts) less the ending balance of tangible capital assets at 31 March 2002 of \$2,084.0 million as disclosed in note 7(a) and less the ending balance of inventories of supplies at 31 March 2002 of \$26.5 million as disclosed in note 7(c).

9. Contingent Liabilities**(a) Guarantees**

Guarantees made by the Province amounted to \$1,522.6 million (31 March 2003 - \$1,497.7 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 Statement of Claim has been served on the Province in its role as the regulator of mortgage brokers and investment companies.
- (iii) 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) *Registrar of the Supreme Court*

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

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(ii) *Pensions*

a) Province of Newfoundland and Labrador Pooled Pension Fund

Pursuant to Section 9 of the *Pensions Funding Act*, the Province is liable for any deficiency in the Province of Newfoundland and Labrador Pooled Pension Fund covered by that Act (see note 6).

b) Memorial University of Newfoundland Pension Fund

Pursuant to Section 6 of the *Memorial University Pensions Act*, the Province is liable for payment of any deficiency in the Memorial University of Newfoundland Pension Fund covered by that Act. As at 31 March 2004, no liability existed.

(iii) *Trust Accounts*

The Province is contingently liable for any shortage that may occur for funds held in trust by the Province. Currently, all obligations held have an offsetting asset. See Schedule 8 - Trust Accounts.

(iv) *Canadian Saltfish 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 its proportional share of 50 per cent of the losses to Canada. This share is based on the loss to Canada 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 is \$21.6 million.

This matter is currently under discussion 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 liable for the amount claimed.

(v) *Newfoundland and Labrador Student Loans Program*

Under the loan guarantee component of this Program, the Province has issued guarantees totaling \$0.1 million. Under the loan remission component of the Program, the Province is contingently liable for possible remissions totaling \$9.1 million.

(vi) *Environmental Responsibility*

As a result of delivering its stated programs and initiatives, the Province acknowledges that there are situations where it may be responsible for dealing with environmental issues. As at 31 March 2004, the status and costs of potential issues are not determinable.

10. Commitments

Commitments to outside organizations in respect of contracts entered into before 31 March 2004 amount to \$230.1 million, of which \$42.6 million is for lease payments, \$116.6 million for capital projects, \$43.5 million for government's service agreement with xwave Solutions Limited and other agreements of \$27.4 million. These commitments 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 the voting of supply by the Legislature.

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Student Loan Corporation of Newfoundland and Labrador

During the 2003-04 fiscal year, the financial institution previously responsible for funding student loans under the Student Loan Program gave notice of their intent to discontinue such involvement. As a result, the Province acquired the student loans portfolio from the financial institution during March 2004. See Schedule 2 - Loans, Advances and Investments for additional information.

12. 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 the accrual of retirement benefits, the amortization of foreign exchange gains or losses, the allowance for guaranteed debt and the accrual of self-insured workers' compensation benefits.

13. Self-Insured Workers' Compensation Benefits

Payables, accrued and other liabilities on the Consolidated Statement of Financial Position includes an amount related to self-insured workers' compensation benefits. The methodology used to calculate this liability at 31 March 2004 differed from that which was used to calculate the liability at 31 March 2003 resulting in a decrease to the liabilities of \$3.6 million. This represents a change in estimate and has been applied prospectively.

14. Government Organization Changes

The net debt at 31 March 2004 has been decreased by \$51.3 million to reflect the change to the prior year's amounts in the 31 March 2003 financial statements of certain entities. The net debt at 31 March 2003 has been decreased by \$12.3 million to reflect the change to the prior year's amounts in the 31 March 2002 financial statements of certain entities. These changes have been applied retroactively without restatement.

15. Change in Government Structure

Under sections 5 and 17 of the *Executive Council Act*, government departments were reorganized effective 23 February 2004 (Orders in Council 2004-197 to 2004-205). Pursuant to Cabinet direction, the financial structure for the departments that existed prior to the reorganization was to remain in place until the end of the 2003-04 fiscal year.

16. Comparatives

Certain of the 31 March 2003 financial statement figures have been restated to be consistent with the 31 March 2004 statement presentation. Some examples of where this occurs include cash and temporary investments, prepaid expenses, borrowings and other liabilities.

17. Original Estimates

Certain amounts in the 2003-04 Estimates shown for comparative purposes were prepared on the accrual basis.

The format of the revenue and expense items as stated in the 2003-04 Estimates has been adjusted in order to be consistent with the presentation of the actual figures on the Consolidated Statement of Operations. Certain of these revenue and expense items not disclosed in the 2003-04 Estimates were obtained from internal documentation.

Amounts for beginning and ending net debt (Consolidated Statement of Change in Net Debt) and accumulated deficit (Consolidated Statement of Change in Accumulated Deficit) were not presented in the 2003-04 Estimates and therefore are not available for comparison purposes.

18. Additional Notes

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

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SUMMARY FINANCIAL STATEMENTS

*Schedule 1***PROVINCE OF NEWFOUNDLAND AND LABRADOR**

Receivables
As at 31 March 2004
with comparative figures for 2003

	<u>2004</u>	<u>2003</u>
	(\$000)	(\$000)
Accounts receivable	200,336	199,255
Taxes receivable	157,948	141,492
Due from Government of Canada	<u>54,325</u>	<u>29,783</u>
	412,609	370,530
Less: Provision for doubtful accounts	<u>118,822</u>	<u>90,309</u>
	<u><u>293,787</u></u>	<u><u>280,221</u></u>

PROVINCE OF NEWFOUNDLAND AND LABRADOR

Loans, Advances and Investments As at 31 March 2004 with comparative figures for 2003

	2004	2003
	(\$000)	(\$000)
Loans and Advances		
Municipalities	257,556	272,595
Student loans	204,950	-
Commercial	73,102	77,716
Other	48,585	46,392
Housing	10,019	9,974
	594,212	406,677
Less: Provision for loan repayments through future appropriations	235,613	245,787
Provision for doubtful loans and advances	91,365	67,929
	267,234	92,961
Investments		
Water rights held in Labrador - note 1	30,000	30,000
Equity investments	22,614	23,088
Government of Canada Coupon investments	13,917	17,438
CHC Composites Inc	10,500	9,500
Country Ribbon Corporation	4,500	-
ACF Equity Atlantic Inc	2,231	2,231
Griffiths Guitars International Limited	450	-
Mineral Resources Corporation	-	640
Terra Nova Shoes Limited	-	135
Atlantic Ocean Farms Limited	290	290
Other investments	1,348	1,956
	85,850	85,278
Less: Provision for write-down of investments	32,386	32,366
	53,464	52,912
	320,698	145,873

NOTES

1. Water Rights Held in Labrador

Pursuant to an agreement dated 24 November 1978, the Lower Churchill Development Corporation Limited (LCDC) has the option of purchasing Newfoundland and Labrador Industrial Development Corporation's water rights to the Lower Churchill River in consideration for the issuance of 3,000 Class B common shares without nominal or par value. These shares will then be transferred to Newfoundland and Labrador Hydro. This option was to expire 24 November 1996 but has been extended to 24 November 2004. LCDC was incorporated under the *Corporations Act* and is owned 51% by Newfoundland and Labrador Hydro and 49% by the Government of Canada. LCDC was established with the objective of developing all or part of the hydro-electric potential of the Lower Churchill Basin.

2. Interest Rates

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

SUMMARY FINANCIAL STATEMENTS

Schedule 3

PROVINCE OF NEWFOUNDLAND AND LABRADOR**Equity in Government Business Enterprises
As at 31 March 2004
with comparative figures for 2003**

	Nfld. and Labrador Liquor Corporation 31 Mar 2004	Nfld. and Labrador Hydro 31 Dec 2003	Total 2004	Total 2003
	(\$000)	(\$000)	(\$000)	(\$000)
Equity - as previously reported	36,787	593,600	630,387	705,972
Equity adjustment	(104)	-	(104)	(4,959)
Equity - beginning of year	36,683	593,600	630,283	701,013
Net income for year	100,038	(74,600)	25,438	150,374
Capital transactions:				
Transfers to government	(93,600)	(41,100)	(134,700)	(221,000)
Equity - end of year	<u>43,121</u>	<u>477,900</u>	<u>521,021</u>	<u>630,387</u>
Equity represented by:				
Assets				
Cash and temporary investments	15,689	100	15,789	11,272
Receivables	10,877	222,700	233,577	207,183
Inventories	22,723	48,500	71,223	72,176
Prepaid and deferred charges	448	91,700	92,148	112,881
Investments	-	5,200	5,200	5,200
Capital assets	<u>12,625</u>	<u>1,793,000</u>	<u>1,805,625</u>	<u>1,917,201</u>
Total Assets	<u>62,362</u>	<u>2,161,200</u>	<u>2,223,562</u>	<u>2,325,913</u>
Liabilities				
Accounts payable and accruals	19,241	114,100	133,341	134,915
Borrowings	-	<u>1,566,700</u>	<u>1,566,700</u>	<u>1,545,811</u>
Total Liabilities	<u>19,241</u>	<u>1,680,800</u>	<u>1,700,041</u>	<u>1,680,726</u>
Non-controlling interest	-	2,500	2,500	14,800
Equity	<u>43,121</u>	<u>477,900</u>	<u>521,021</u>	<u>630,387</u>

PROVINCE OF NEWFOUNDLAND AND LABRADOR

Net Income of Government Business Enterprises For the year ended 31 March 2004 with comparative figures for 2003

	Nfld. and Labrador Liquor Corporation 31 Mar 2004	Nfld. and Labrador Hydro 31 Dec 2003	Total 2004	Total 2003
	(\$000)	(\$000)	(\$000)	(\$000)
Revenue				
Revenue from operations	185,926	441,500	627,426	596,664
Expenses				
Expenses from operations	85,888	383,600	469,488	434,090
Transfers to government	-	13,900	13,900	12,200
Total Expenses	85,888	397,500	483,388	446,290
Adjustments				
Write-down of capital assets	-	130,900	130,900	-
Non-controlling interest	-	(12,300)	(12,300)	-
Total Adjustments	-	118,600	118,600	-
Net income	100,038	(74,600)	25,438	150,374

SUMMARY FINANCIAL STATEMENTS

*Schedule 5***PROVINCE OF NEWFOUNDLAND AND LABRADOR****Payables, Accrued and Other Liabilities
As at 31 March 2004
with comparative figures for 2003**

	<u>2004</u>	<u>2003</u>
	(\$000)	(\$000)
Accrued salaries and employee benefits	521,334	484,525
Accounts payable	203,567	251,452
Accrued interest payable	183,914	199,681
Due to Government of Canada	191,730	80,259
Due to municipalities	105,297	74,988
Long-term leases	43,190	45,405
Other	27,590	11,463
Provision for guaranteed debt	<u>125</u>	<u>801</u>
	<u>1,276,747</u>	<u>1,148,574</u>

PROVINCE OF NEWFOUNDLAND AND LABRADOR

Borrowings As at 31 March 2004 with comparative figures for 2003

	2004			Interest Rate Range	2003
	Total Borrowings	Sinking Fund Balance	Net Borrowings		Net Borrowings
	(\$000)	(\$000)	(\$000)	(%)	(\$000)
Consolidated Revenue Fund					
Treasury bill borrowings	491,219	-	491,219	2.01-2.61	490,441
General debentures	5,253,816	697,142	4,556,674	5.12-11.62	4,669,971
Government of Canada	633,631	3,880	629,751	5.41-14.06	555,174
Other	200,000	-	200,000	prime-4.61	200,586
	6,578,666	701,022	5,877,644		5,916,172
Newfoundland and Labrador Municipal Financing Corporation					
General debentures	319,284	20,097	299,187	2.25-12.75	325,997
Newfoundland and Labrador Housing Corporation					
General debentures	29,275	-	29,275	6.22	29,951
Other	27,873	-	27,873	2.67-2.75	33,472
	57,148	-	57,148		63,423
Other Debt					
Health Care organizations	194,882	2,422	192,460	prime-11.00	183,735
Miscellaneous	350,721	-	350,721	prime-10.00	89,622
	545,603	2,422	543,181		273,357
Total	7,500,701	723,541	6,777,160		6,578,949

See accompanying notes.

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE SCHEDULE OF BORROWINGS
As at 31 March 2004

1. Borrowings

Borrowings and unamortized foreign exchange losses, by major currency, and sinking funds as at 31 March 2004 are as follows:

Major Currencies	Foreign Borrowings	Exchange Rate	Canadian \$	Unamortized Foreign Exchange Gains/(Losses)	Net
			(000's)	(000's)	(000's)
U.S.	1,150,000	1.3113	1,507,995	8,614	1,516,609
Canadian			5,992,706	-	5,992,706
	Sub-total		7,500,701	8,614	7,509,315
	Less: Foreign sinking funds		284,200	178	284,378
	Less: Canadian sinking funds		439,341	-	439,341
	Total		<u>6,777,160</u>	<u>8,436</u>	<u>6,785,596</u>

2. Contributions and Repayment Requirements

Sinking fund contributions and debt repayments which are not funded by a sinking fund, by major currency, in Canadian dollars are as follows:

	U.S.	Canadian	Total
	(000's)	(000's)	(000's)
2004-2005	12,100	513,057	525,157
2005-2006	12,100	439,903	452,003
2006-2007	12,100	136,281	148,381
2007-2008	9,500	267,845	277,345
2008-2009	9,500	361,850	371,350
2009-2042	99,700	1,843,300	1,943,000
	<u>155,000</u>	<u>3,562,236</u>	<u>3,717,236</u>

3. Foreign Exchange Loss

The foreign exchange loss which has been recognized on the Consolidated Statement of Operations is \$22.8 million.

4. Sensitivity Analysis

An increase/decrease of one cent in the foreign exchange rates at 31 March 2004 would result in an increase/decrease in foreign borrowings of \$11.5 million.

5. Debt-Related Risk

The Province, in consultation with its fiscal agents, monitors financial markets (interest and foreign currency rates) in consideration of its existing debt servicing costs and mix of domestic and foreign currency debt. Opportunities to reduce debt servicing costs, while keeping debt-related risk to an acceptable level, are duly considered by the Province.

PROVINCE OF NEWFOUNDLAND AND LABRADOR

Guaranteed Debt As at 31 March 2004 with comparative figures for 2003

	2004	2003
	(\$000)	(\$000)
Guaranteed Debentures		
Newfoundland and Labrador Hydro	1,485,572	1,461,052
Municipalities	901	1,099
Newfoundland Liquor Corporation	-	105
	1,486,473	1,462,256
Guaranteed Bank Loans		
Fisheries	30,936	29,589
Mortgages	3,551	3,976
Other corporations	1,530	1,757
Municipalities	109	75
	36,126	35,397
	1,522,599	1,497,653

NOTES

1. Limit of Loan Guarantees

The limit of loan guarantees for Guaranteed Debentures is \$1,486.5 million, \$39.8 million for Guaranteed Bank Loans and \$213.0 million for Other Guarantees.

2. Provision for Guaranteed Debt

An amount of \$0.1 million (31 March 2003 - \$0.8 million) has been recorded as a provision for possible losses on guaranteed debt.

SUMMARY FINANCIAL STATEMENTS

Schedule 8

PROVINCE OF NEWFOUNDLAND AND LABRADOR

**Trust Accounts
As at 31 March 2004
with comparative figures for 2003**

	2004	2003
	(\$000)	(\$000)
Registrar of the Supreme Court - note 2	23,563	21,077
Newfoundland Government Fund	20,250	20,000
Teachers' Accrued Salary Trust Account	5,823	5,010
Commercial and Corporate Affairs Trust	5,580	6,596
Patients' Funds Held in Trust	2,828	2,637
Consolidated Tender Account	1,076	675
Provincial Courts Trust Account	646	354
Federal/Provincial Contractors' Security Account	504	913
Homes for Special Care - note 2	-	647
Other Trust Accounts	912	956
	<u>61,182</u>	<u>58,865</u>

NOTES**1. 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 2003, the Commission reported a surplus of \$7.5 million (31 December 2002 - surplus of \$17.4 million) and an unfunded liability of \$171.1 million (31 December 2002 - \$178.9 million). Under legislation, no liability on behalf of the Province has been established. The Commission's financial statements are reproduced in Volume IV of the Public Accounts.

2. Homes for Special Care

The balances in the Homes for Special Care Trust Fund were passed over to the Registrar of the Supreme Court on 26 March 2004.

PROVINCE OF NEWFOUNDLAND AND LABRADOR

Tangible Capital Assets As at 31 March 2004 with comparative figures for 2003

Category	Original Cost			Accumulated Amortization			Net Book Value 31 March 2004	Net Book Value 31 March 2003
	Balance 31 March 2003	Additions 2004	Disposals 2004	Balance 31 March 2004	Balance 31 March 2003	Amort. Net of Disposals 2004		
	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)
Buildings	1,934.1	99.2	11.2	2,022.1	854.3	53.9	908.2	1,079.8
Marine vessels & aircraft	82.2	0.0	0.0	82.2	54.7	4.2	58.9	27.5
Equipment & machinery	587.0	42.1	6.5	622.6	415.3	41.5	456.8	171.7
Infrastructure	3,758.7	37.2	1.0	3,794.9	3,088.0	54.1	3,142.1	670.7
Computer software	29.1	7.3	0.6	35.8	21.5	3.2	24.7	7.6
Sub-total	<u>6,391.1</u>	<u>185.8</u>	<u>19.3</u>	<u>6,557.6</u>	<u>4,433.8</u>	<u>156.9</u>	<u>4,590.7</u>	<u>1,957.3</u>
Work in progress				<u>159.4</u>			<u>159.4</u>	<u>171.9</u>
Total				<u><u>6,717.0</u></u>			<u><u>2,126.3</u></u>	<u><u>2,129.2</u></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. Government currently has a number of projects under construction or development with a total for 31 March 2004 of \$159.4 million (31 March 2003 - \$171.9 million) having been spent on these projects to date. Upon completion, these assets are recorded in the appropriate category in the schedule.

3. Amortization Expense

Amortization net of disposals in the amount of \$156.9 million as reported in the schedule consists of amortization expense of \$161.7 million less accumulated amortization on assets disposed of in the year in the amount of \$15.6 million. The remaining \$10.8 million is the result of a transitional adjustment relating to the inclusion of additional financial transactions of health care organizations and the inclusion of additional entities in the Government reporting entity as noted in Schedule 14 - note 1.

Amortization net of disposals as at 31 March 2003 was \$131.8 million which consisted of amortization expense of \$152.6 million less accumulated amortization on assets disposed of in the year in the amount of \$19.8 million. The balance of \$1.0 million is the result of adjustments to previously reported amounts by certain entities.

SUMMARY FINANCIAL STATEMENTS

TANGIBLE CAPITAL ASSETS (continued)

4. Amortization

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 assets	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.

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 \$87.2 million and accumulated depreciation is \$49.3 million. These are included in the appropriate category in the schedule.

8. Comparatives

Certain of the 31 March 2003 figures have been adjusted from those reported in the 2002-03 Public Accounts. The balances reported previously included Original Cost of \$6,552.3 million and Accumulated Amortization of \$4,089.7 million for a Net Book Value at 31 March 2003 of \$2,462.6 million. Tangible capital assets were not capitalized in the 2002-03 Public Accounts and were presented for information purposes only.

PROVINCE OF NEWFOUNDLAND AND LABRADOR

Revenue For the year ended 31 March 2004 with comparative figures for 2003

	Actuals 2004	Actuals 2003
	(\$000)	(\$000)
Government of Canada		
Equalization	938,983	1,085,963
Canada health and social transfer	393,668	312,868
Cost-shared programs	192,820	173,813
Other	17,297	16,767
	1,542,768	1,589,411
Taxation		
Personal income tax	733,217	671,419
Sales tax	625,148	589,998
Other	380,125	290,230
Gasoline tax	135,937	135,926
Corporate income tax	139,575	108,645
	2,014,002	1,796,218
Investment		
Sinking fund earnings	59,301	69,771
Other	142,864	57,007
Interest	41,054	40,637
	243,219	167,415
Fees and Fines		
Fees	134,003	135,264
Fines	7,119	7,692
	141,122	142,956
Other	252,389	253,576
	4,193,500	3,949,576

SUMMARY FINANCIAL STATEMENTS

Schedule 11

PROVINCE OF NEWFOUNDLAND AND LABRADOR**Expenses by Department
For the year ended 31 March 2004
with comparative figures for 2003**

	Actuals 2004	Actuals 2003
	(\$000)	(\$000)
General Government Sector		
Consolidated Fund Services	1,015,593	939,811
Executive Council	30,481	32,806
Finance	88,921	116,274
Government Services and Lands	31,369	30,015
Labrador and Aboriginal Affairs	7,275	7,273
Legislature	17,805	14,031
Public Service Commission	2,209	2,216
Works, Services and Transportation	279,656	257,581
	<u>1,473,309</u>	<u>1,400,007</u>
Resource Sector		
Environment	24,273	22,268
Fisheries and Aquaculture	9,510	10,026
Forest Resources and Agrifoods	55,701	51,268
Industry, Trade and Rural Development	36,257	40,061
Mines and Energy	17,272	30,115
Tourism, Culture and Recreation	39,969	40,530
	<u>182,982</u>	<u>194,268</u>
Social Sector		
Education	591,646	573,798
Health and Community Services	1,797,866	1,659,083
Human Resources and Employment	263,642	257,640
Justice	149,073	142,456
Labour	7,893	7,012
Municipal and Provincial Affairs	257,042	238,490
Youth Services and Post-Secondary Education	409,086	271,561
	<u>3,476,248</u>	<u>3,150,040</u>
	<u>5,132,539</u>	<u>4,744,315</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 2004
with comparative figures for 2003**

	Actuals 2004	Actuals 2003
	(\$000)	(\$000)
Salaries and employee benefits	1,943,528	1,852,485
Debt expenses	1,071,987	978,996
Grants and subsidies	939,761	869,075
Operating costs	665,819	698,398
Professional services	255,226	208,964
Amortization and loss on sale re tangible capital assets	163,659	153,910
Valuation allowances	54,989	21,792
Information technology	25,299	30,646
Capital property acquisitions/adjustments	12,271	(69,951)
	<u>5,132,539</u>	<u>4,744,315</u>

SUMMARY FINANCIAL STATEMENTS

Schedule 13

PROVINCE OF NEWFOUNDLAND AND LABRADOR**Reconciliation of Cash Results to Consolidated Accrual Results
For the year ended 31 March 2004
with comparative figures for 2003**

	Actuals 2004	Actuals 2003
	(\$000)	(\$000)
Surplus (Deficit) - Actuals (cash)	(134,711)	(36,198)
Surplus (Deficit) - Actuals (consolidated accrual)	<u>(913,601)</u>	<u>(644,365)</u>
Change in deficit - note 1	<u>(778,890)</u>	<u>(608,167)</u>
The change in deficit is comprised of the following:		
Consolidated Revenue Fund - note 2:		
Sinking fund earnings	20,011	(14,017)
Accrued retirement costs - interest	(391,733)	(270,276)
Accrued retirement costs - other	(31,326)	(42,545)
Amortization of foreign exchange losses	(31,487)	(43,994)
Other debt expenses	(3,800)	1,972
Bad debt expenses	(26,397)	(8,232)
Amortization expense re tangible capital assets	(89,029)	(85,529)
Tangible capital asset acquisitions/adjustments - net	61,334	95,556
Inventories of supplies	(132)	645
Accrued revenues and expenses	<u>(42,927)</u>	<u>(94,849)</u>
	(535,486)	(461,269)
Other entities - note 3:		
Health care sector	(29,705)	(5,636)
Education sector	(77,313)	(8,849)
General Government sector	<u>(136,386)</u>	<u>(132,413)</u>
	(243,404)	(146,898)
Change in deficit	<u>(778,890)</u>	<u>(608,167)</u>

See accompanying notes.

NOTES TO THE RECONCILIATION OF CASH RESULTS TO CONSOLIDATED ACCRUAL RESULTS
For the year ended 31 March 2004

1. Reconciliation of Cash Results to Consolidated Accrual Results

This schedule reconciles the cash deficit of the Consolidated Revenue Fund to the accrual deficit on a consolidated basis. The change shown consists of year end accrual adjustments for the Consolidated Revenue Fund and accounting policy adjustments to the annual results of government organizations.

2. Consolidated Revenue Fund

Sinking fund earnings represent the interest earned on the sinking funds during the year less the sinking fund income returned to the Province from the sinking funds retired.

Accrued retirement costs (interest) represent the net interest expense on the unfunded pension liability and the group health and life insurance retirement benefits.

Accrued retirement costs (other) represent primarily the employer contributions that exceeded the current service costs for pensions as well as group health and life insurance retirement benefits.

Amortization of foreign exchange losses represent the amortization of the unrealized foreign exchange losses.

Other debt expenses represent primarily the change in the accrued interest expense on the debt and capital leases.

Bad debt expenses represent the net increase in the allowance for doubtful accounts receivable, loans, investments, and guarantees made by the Province.

Accrued revenues and expenses represent all other changes in revenues and expenses during the year (e.g. equalization, sales tax, salaries and benefits).

3. Other Entities

This represents the accrual deficits of all other government organizations after adjustments have been made to conform to the accounting policies of the Province. The General Government sector adjustment includes the above and reverses the cash received by the Province for Newfoundland and Labrador Hydro and Newfoundland Liquor Corporation and records the net income of these entities.

SUMMARY FINANCIAL STATEMENTS

Schedule 14

PROVINCE OF NEWFOUNDLAND AND LABRADOR**Government Reporting Entity
For the year ended 31 March 2004**GOVERNMENT ORGANIZATIONS

J	Avalon East School Board
	Avalon Health Care Institutions Board
J	Avalon West School District
J	Baie Verte, Central, Connaigre School District
	Board of Commissioners of Public Utilities
	Bull Arm Site Corporation
J	Burin Peninsula School Board
	Business Investment Corporation
	C.A. Pippy Park Commission
	Central East Health Care Institutions Board
	Central Regional Health and Community Services Board
	Central West Health Corporation
	College of the North Atlantic
J	Conseil Scolaire Francophone Provincial de Terre-Neuve et du Labrador
	Consolidated Revenue Fund
J	Cormack Trail School Board
J	Corner Brook - Deer Lake - St. Barbe School District
D	Credit Union Deposit Guarantee Corporation
	Eastern Health and Community Services Board
	Grenfell Regional Health Services Board
Note 1	Health Care Corporation of St. John's
	Health Labrador Corporation
	Heritage Foundation of Newfoundland and Labrador
	Hotel Buildings Limited
J	Labrador School Board
	Labrador Transportation Initiative Fund
J	Lewisporte/Gander School District
	Livestock Owners Compensation Board
A	Marble Mountain Development Corporation
A	Marble Mountain Management Corporation
	Multi-Materials Stewardship Board
	Municipal Assessment Agency Inc.
	Newfoundland and Labrador Arts Council
	Newfoundland and Labrador Centre for Health Information
	Newfoundland and Labrador Crop Insurance Agency
	Newfoundland and Labrador Education Investment Corporation
	Newfoundland and Labrador Farm Products Corporation
	Newfoundland and Labrador Film Development Corporation
	Newfoundland and Labrador Heritage Corporation
	Newfoundland and Labrador Housing Corporation

SUMMARY FINANCIAL STATEMENTS

GOVERNMENT REPORTING ENTITY (continued)

GOVERNMENT ORGANIZATIONS

	Newfoundland and Labrador Industrial Development Corporation
	Newfoundland and Labrador Legal Aid Commission
	Newfoundland and Labrador Municipal Financing Corporation
	Newfoundland and Labrador Petroleum Products Pricing Commission
	Newfoundland and Labrador Student Investment and Opportunity Corporation
	Newfoundland Hardwoods Limited
	Newfoundland Ocean Enterprises Limited
J	Northern Peninsula/Labrador South School Board
	Peninsulas Health Care Corporation
	Provincial Advisory Council on the Status of Women
	Provincial Information and Library Resources Board
	Provincial Perinatal Program
D	Public Accountants Licensing Board
	Public Health Laboratory
	Special Celebrations Corporation of Newfoundland and Labrador, Inc.
	St. John's Nursing Home Board
	St. John's Regional Health and Community Services Board
N	Student Loan Corporation of Newfoundland and Labrador
	The Newfoundland Cancer Treatment and Research Foundation
N	The Rooms Corporation of Newfoundland and Labrador
J	Vista School District
	Western Health Care Corporation
	Western Regional Health and Community Services Board

GOVERNMENT BUSINESS ENTERPRISES

D	Newfoundland and Labrador Hydro
	Newfoundland Liquor Corporation

LEGEND

A	These entities have a year end of 30 April.
J	These entities have a year end of 30 June.
D	These entities have a year end of 31 December.
N	These entities are new to the reporting entity for 31 March 2004.

NOTES

Note 1	Included in the 2003-04 Consolidated Financial Statements are the statements of the following foundations/associations which are controlled by the Health Care Corporation of St. John's: 1) General Hospital Hostel Association; 2) Health Care Foundation of St. John's Incorporated; 3) Janeway Children's Hospital Foundation; 4) Northwest Rotary - Janeway Hostel Corporation; 5) Waterford Foundation Incorporated.
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