



**Province of Newfoundland
and Labrador**

**Public Accounts
Volume I**

**Consolidated Summary
Financial Statements**

**For The Year Ended
31 March 2005**



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Public Accounts

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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, provides additional information for users of the Provinces' summary statements.

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 of Finance 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 2005 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

Government is committed to the principles of transparency and accountability. In my role as the Minister of Finance and President of Treasury Board, I am reporting on the financial health of the province to the people of the province. A glossary of terms has been included in the pages that follow to assist the readers of this report and the Public Accounts.

Last year I noted in my report that government is committed to improving the financial position of the province so that future generations of Newfoundlanders and Labradorians will not have to deal with the consequences of fiscal mismanagement. I report that for the fiscal year ended 31 March 2005, the total borrowing requirements were \$308 million as compared to \$707 million for the 2004 fiscal year. The net debt of the province for the year ended 31 March 2005 increased by \$447 million compared to \$913 million for the 2004 fiscal year. The deficit for the year ended 31 March 2005 was \$489 million compared to \$914 million for the 2004 fiscal year. Government has improved the financial position of the province in the 2005 fiscal year.

In spite of those improvements, government still faces significant financial challenges. The net debt of the province is still rising. The province's net debt at 31 March 2005 was \$11.9 billion, a significant amount. Each citizen's share of the provincial net debt for 2005 was \$22,982, the highest of all the provinces. As previously noted, the province had a significant deficit in 2005.

Government's challenge is to find a balance in meeting its social and other responsibilities to the people of the province while remaining vigilant in managing the province's financial situation.

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

23 September 2005

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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).
- The consolidated summary (accrual) deficit for the year ended 31 March 2005 as presented in Volume I is \$488.8 million; net debt is \$11.9 billion; and accumulated deficit is \$9.8 billion.

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.
- The CRF (accrual) deficit for the year ended 31 March 2005 as presented in Volume II is \$554.7 million; net debt is \$11.7 billion; and accumulated deficit is \$10.6 billion.

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.
- The CRF (cash) deficit of \$83.4 million for the year ended 31 March 2005 as presented in Volume III is comprised of a Current Account cash surplus of \$143.6 million offset by a Capital Account cash deficit of \$227.0 million.

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 2004-05.
- 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.

The inclusion of this report, a financial discussion and analysis of the Public Accounts, is a practice recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. The Public Sector Accounting Board sets the accounting standards for Canadian senior governments.

Information provided in this report will focus on the consolidated summary financial statements of the Province. Throughout this report, any reference to a particular year means the fiscal year ended in that year. For example, reference to 2005 means the fiscal year ended 31 March 2005.

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>	Liabilities less total assets. This equals the net accumulation of all annual surpluses and deficits experienced by the Province.
<i>Annual Deficit:</i>	The excess of annual expenses over annual revenues.
<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 (such as cash, receivables and investments) to be used to reduce existing or future liabilities.
<i>GDP:</i>	Gross Domestic Product (at market prices) of the Province.
<i>Interest Cost:</i>	Interest on the Province's debt (e.g. borrowings, unfunded pension liability), as well as other debt related expenses.
<i>Net Borrowings:</i>	Total borrowings (debentures, treasury bills, etc.) less sinking funds. Also referred to as provincial debt in this report.
<i>Net Debt:</i>	Liabilities less financial assets.
<i>Non-Financial Assets:</i>	Assets consumed in the delivery of government services, but not intended to reduce existing or future liabilities. Non-financial assets are primarily comprised of tangible capital assets.
<i>Tangible Capital Assets:</i>	Non-financial assets which are held for use in the production or supply of goods and services and have useful economic lives extending beyond an accounting period. Examples include buildings, roads, infrastructure, marine vessels and heavy equipment and machinery.
<i>Unfunded Pension Liability:</i>	The total unpaid pension benefits earned by existing/former employees and retirees less the value of assets set aside to fund the benefits.

CONSOLIDATED ACCRUAL RESULT

Compared to Original Budget (Accrual)

The difference between the budgeted annual accrual deficit of \$839.6 million as per the 2004-05 Estimates and the actual accrual deficit of \$488.8 million is \$350.8 million. This difference occurred primarily due to the following:

- Total revenue was \$73.4 million more than originally budgeted. Some of the significant factors attributing to this difference in revenue included:
 - An increase in offshore royalties of \$143.3 million, which can be attributed to higher than expected world oil prices and increased production. In addition, royalty rates tied to price and production also increased proportionately.
 - A decrease in taxation revenue of \$67.4 million mainly due to decreases in provincial revenues relating to corporate income taxes and harmonized sales tax. Adjustments were the result of revised estimates applicable to previous years.
- Total expenses were \$277.4 million less than originally budgeted for in 2005. Some of the significant factors which account for this change include:
 - Debt expenses decreased by approximately \$137.5 million. \$83.0 million of this amount resulted from a reclassification, not reflected in original budget numbers, of debt expenses to grant expenses. This reclassification has been included in the numbers for 2004 and 2005, as well as subsequent budgets. \$19.0 million reflects the decrease in interest expense on the unfunded pension liability. The balance of the variance can be attributed to favourable interest rates and a stronger Canadian dollar, which impacted debt servicing costs for foreign debt.
 - Social sector expenses have decreased by \$170.2 million as compared to original budget.
 - Amortization of tangible capital assets was \$42.5 million higher than originally budgeted. The original budget reflected amortization of deferred revenues of \$28.9 million, however, this policy was changed and did not apply in the calculation of actual amortization expense for the year.
- Total borrowing requirements of \$308.5 million for the year were significantly less than the originally budgeted amount of \$766.1 million.

Compared to Previous Year

The difference between the actual accrual deficit of \$488.8 million for 2005 and \$913.6 million for 2004 is \$424.8 million, a reduction of 46.5% over last year. This overall decrease is a combination of an increase in revenues and decrease in expenses.

- Total revenues increased by \$264.1 million over 2004. The most significant contribution to this change is the increase in offshore royalties, primarily due to increased oil prices and production.

- Total expenses decreased in all sectors, and by \$160.6 million overall. A general reduction of \$112.7 million in grants and subsidies is the major factor for this change.
- Total borrowing requirements of \$308.5 million for the year were \$398.0 million less than the requirements of \$706.5 million for 2004.
- Additional variance analysis on the changes in revenues and expenses between the 2004 and 2005 fiscal years is included in later sections of this report.

CASH FLOW ANALYSIS

The Province records its transactions on an accrual basis in accordance with generally accepted accounting principles, the timing of which may vary from when actual cash is paid or received. In 2005, the Province's overall net cash inflows differed by \$669.8 million from the previous year, as detailed in the following chart:

Cash flow by Category	2005	2004	Difference
	<i>(000's)</i>	<i>(000's)</i>	<i>(000's)</i>
Operating	116,583	(120,007)	236,590
Capital	(106,164)	(144,002)	37,838
Financing	424,891	264,521	160,370
Investing	46,930	(188,107)	235,037
Net Inflows (Outflows) of Cash	<u>482,240</u>	<u>(187,595)</u>	<u>669,835</u>

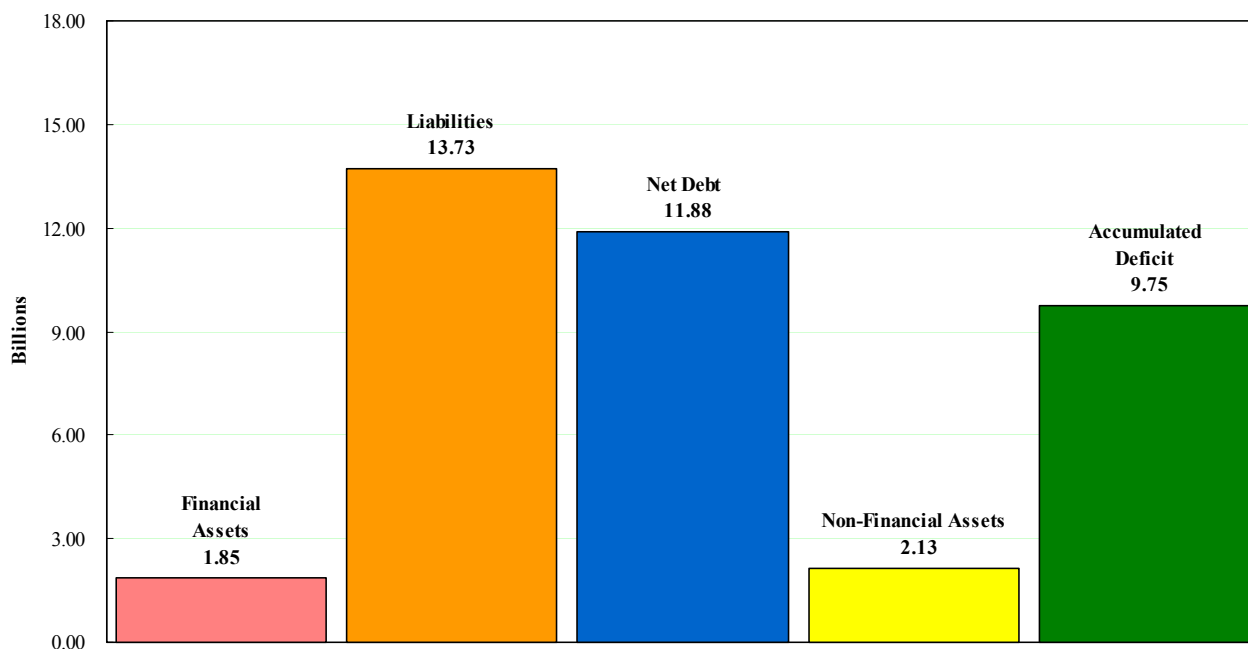
The main reason for the difference in the operating category is a positive cash impact related to a reduction in the annual deficit from 2004. A non-cash adjustment representing a write down in Newfoundland and Labrador Hydro assets of the previous year also impacted the cash flow from operations.

Cash inflows from financing increased by \$160.4 million, mainly due to the \$378.4 million received in the form of an interest-free equalization loan offset by an increase of \$206.5 million in overall debt retirement.

Cash inflows from investing increased by \$235.0 million during fiscal 2005, primarily as a result of a decrease in loan advances during the year by \$167.7 million and a \$59.4 million increase in loan repayments.

HIGHLIGHTS - FINANCIAL POSITION

The Province's annual deficit position improved in 2005 by \$424.8 million, although net debt, borrowings and accumulated deficit continued to increase. The financial position as at 31 March 2005 is presented in the following chart.

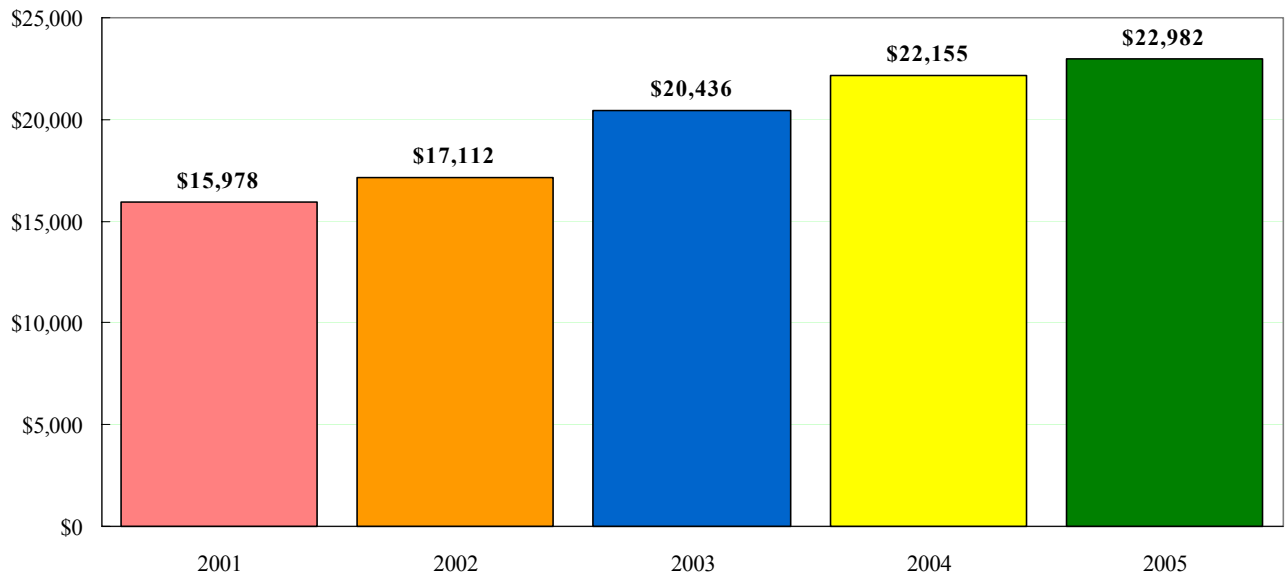


Net Debt and Net Borrowings

For the fiscal year ended 31 March 2005, net debt totaled \$11.9 billion which included net borrowings of \$6.8 billion. As indicated below, these figures have increased on a per capita basis over the past five years.

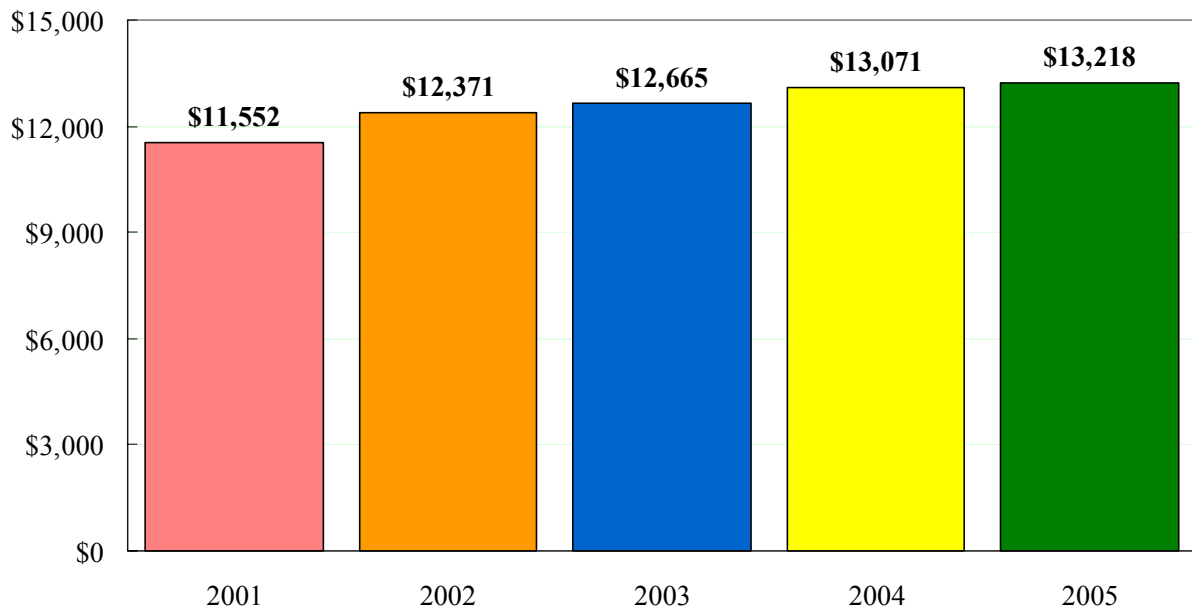
a) *Net Debt per Capita*

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 \$22,155 in 2004 to \$22,982 in 2005, an increase of \$827 per person, as a result of an increase in the net debt combined with a slight decrease in the population.



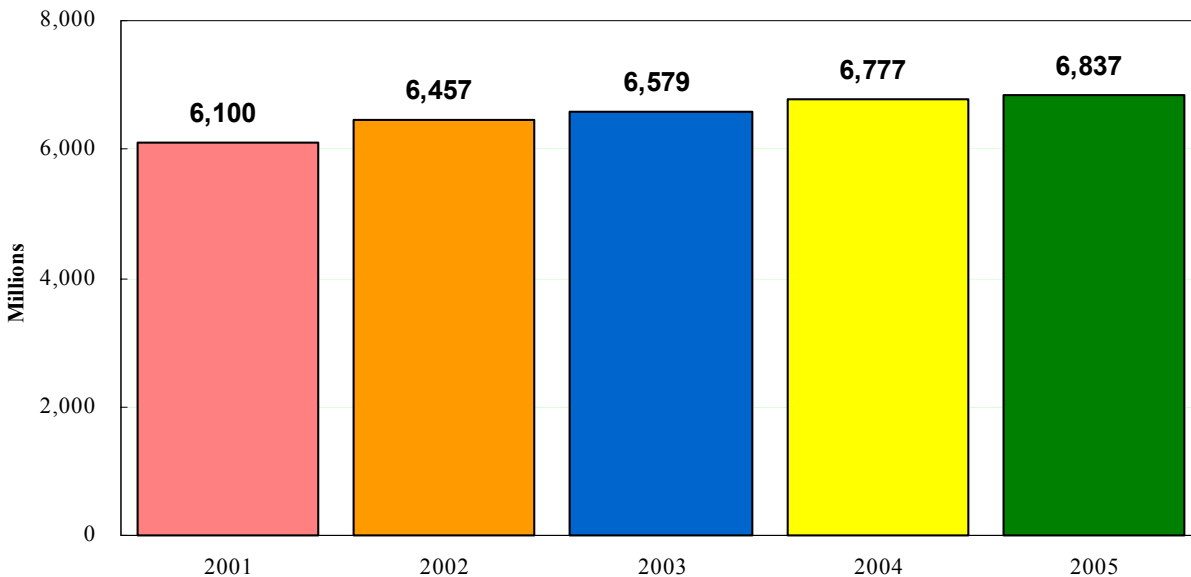
b) *Net Borrowings per Capita*

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 \$13,071 to \$13,218, a change of \$147 per person, between 2004 and 2005 primarily as a result of an increase in the debt combined with a slight decrease in the population. However, the increase is significantly less than the \$406 per person change between the two preceding years of 2003 and 2004.



c) Net Borrowings - 5 Year Comparison

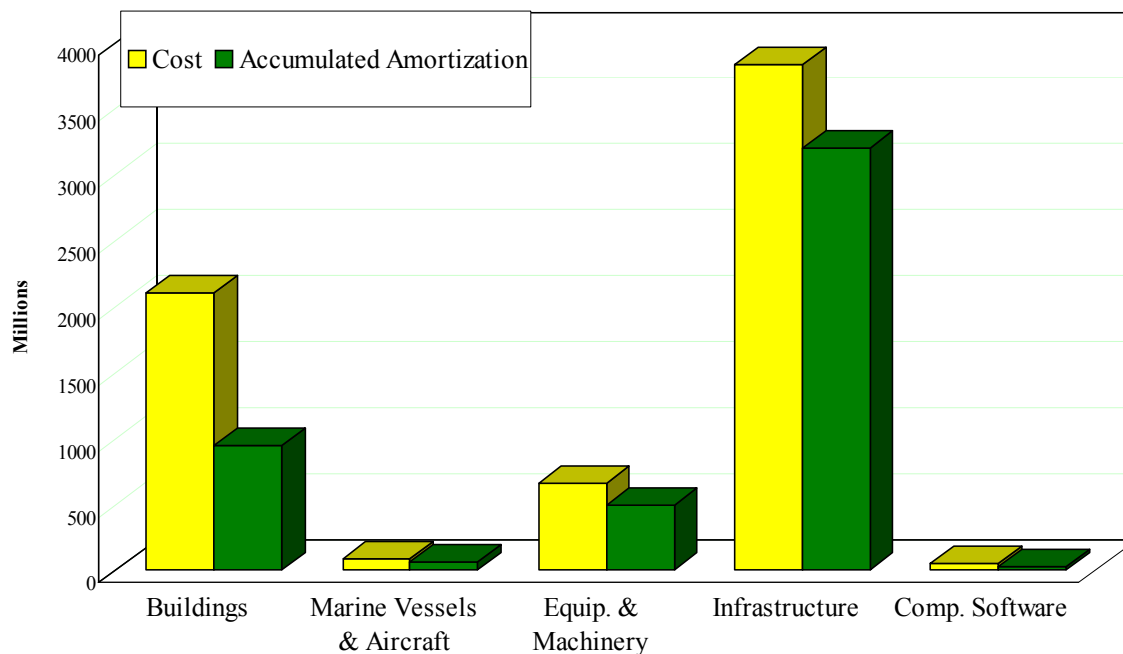
Net borrowings of the Province generally remained constant at \$6.8 billion in both 2004 and 2005. Borrowings of the Consolidated Revenue Fund represented 89.2% of the total borrowings during 2005, a slight increase over 86.7% in 2004.



Non-Financial Assets

In 2005, non-financial assets of \$2.1 billion related primarily to tangible capital assets. The net book value of tangible capital assets decreased by \$44.1 million from 2004. Analysis of the following chart allows us to make these observations:

- Buildings and infrastructure (including roads, bridges, airstrips and marine facilities) represent 86.3% of the total net book value of tangible capital assets for the year ended 31 March 2005.
- The net book value of tangible capital assets declined by \$44.1 million as acquisitions decreased overall and accumulated amortization continued to increase.
- The average accumulated amortization of tangible capital assets is 69.4%. 45.0% of buildings and 83.3% of infrastructure assets are amortized.
- The Province faces widely acknowledged significant challenges for investing adequately in public infrastructure. As shown by the graph, the Province's \$3.8 billion investment in infrastructure (as defined above) is almost at the end of its useful life. Existing assets are depreciating at a rate greater than acquisition.
- Government is aware of the past reduced level of investment in marine vessels and aircraft, which are now 76.8% amortized, and has undertaken plans for strategic investments in marine vessels.
- 66.0% of computer software assets are amortized. However, during 2005, Government created the Office of the Chief Information Officer, established to bring a new focus for modernizing and improving information technology functions, including operational improvements and assets.



FINANCIAL POSITION

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

(\$ billions)	2005	2004	2003	2002	2001
Unfunded Pension Liability	3.93	3.75	3.56	3.39	3.35
Borrowings (net of sinking funds)	6.94	6.78	6.41	6.15	5.81
Group Health and Life Insurance Retirement Benefits	1.16	1.07	0.98	Note	Note
Other Liabilities	1.70	1.29	1.18	1.12	0.99
Less: Total Financial Assets	(1.84)	(1.40)	(1.51)	(1.73)	(1.71)
Net Debt	11.89	11.49	10.62	8.93	8.44
Less: Tangible Capital Assets	(2.08)	(2.13)	(2.13)	Note	Note
Less: Other Non-financial Assets	(0.06)	(0.05)	(0.05)	Note	Note
Accumulated Deficit	9.75	9.31	8.44	Note	Note

NOTE:

Prior to 2004, the Province did not recognize non-financial assets or group health and life insurance retirement benefits in its financial statements. Pursuant to direction from the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, these items were recognized in 2004, with restatement for 2003. Accordingly, this information is not available for years prior to 2003.

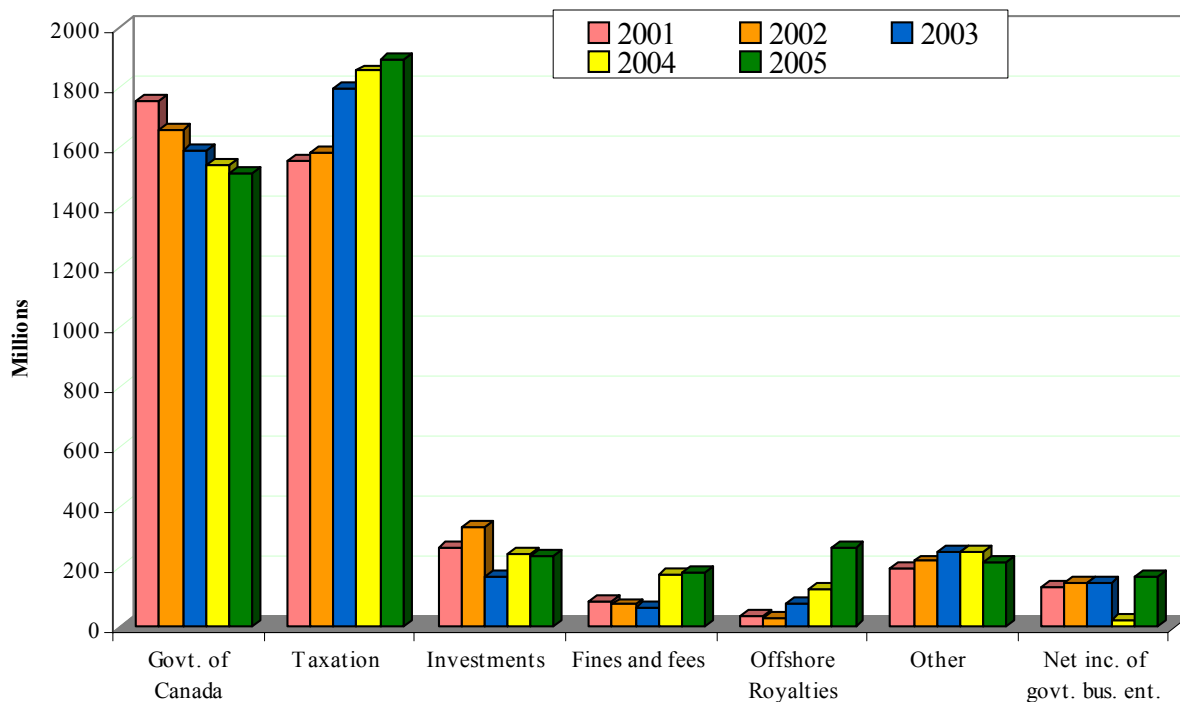
As seen in the previous chart, liabilities including net debt have been growing over the past five years, indicating that the Province still has significant financial challenges to face, in particular the unfunded pension liability.

HIGHLIGHTS - FINANCIAL OPERATIONS

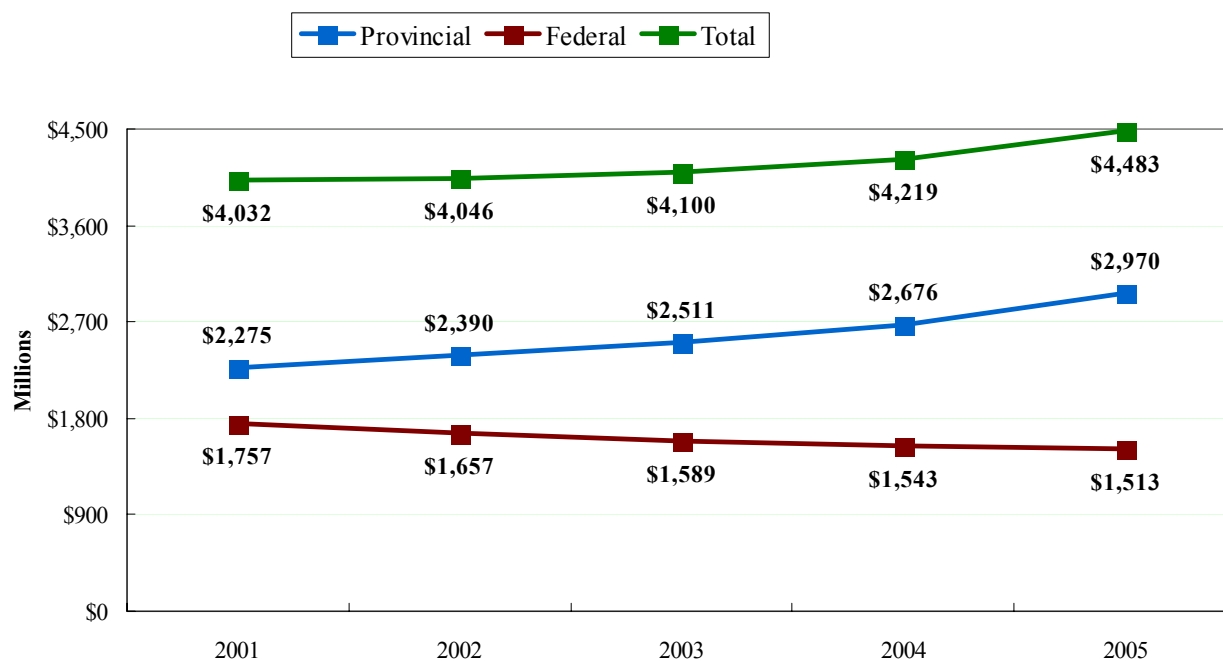
Revenues

For the fiscal year ended 31 March 2005, total revenue amounted to \$4.5 billion. Of this amount, 33.8% came from Federal Government sources, while 66.2% was derived from provincial revenue sources. Details on these sources of revenue, including five-year historical comparisons, are provided in the following charts and graphs.

a) Revenues by Source - 5 Year Comparison



b) Total Revenues - 5 Year Comparison



From an analysis of the above charts and the information presented in the consolidated summary financial statements, the following observations can be made:

- Total revenues have been increasing over the last five years, ranging from \$4.03 billion in 2001 to \$4.48 billion in 2005, with an increase of \$264.1 million from 2004 to 2005.
- Total federal revenues have been steadily decreasing over the last five years, from \$1.76 billion in 2001 to \$1.51 billion in 2005; including a decrease of \$29.3 million from 2004 to 2005.
- Total provincial revenues have increased over the last five years, ranging from \$2.28 billion in 2001 to \$2.97 billion in 2005; including an increase of \$293.4 million between 2004 and 2005.
- Taxation remains the most significant source of revenues overall, increasing steadily over the past five years to a high of \$1.89 billion in 2005, an increase of \$36.4 million from 2004.

c) Revenues by Source

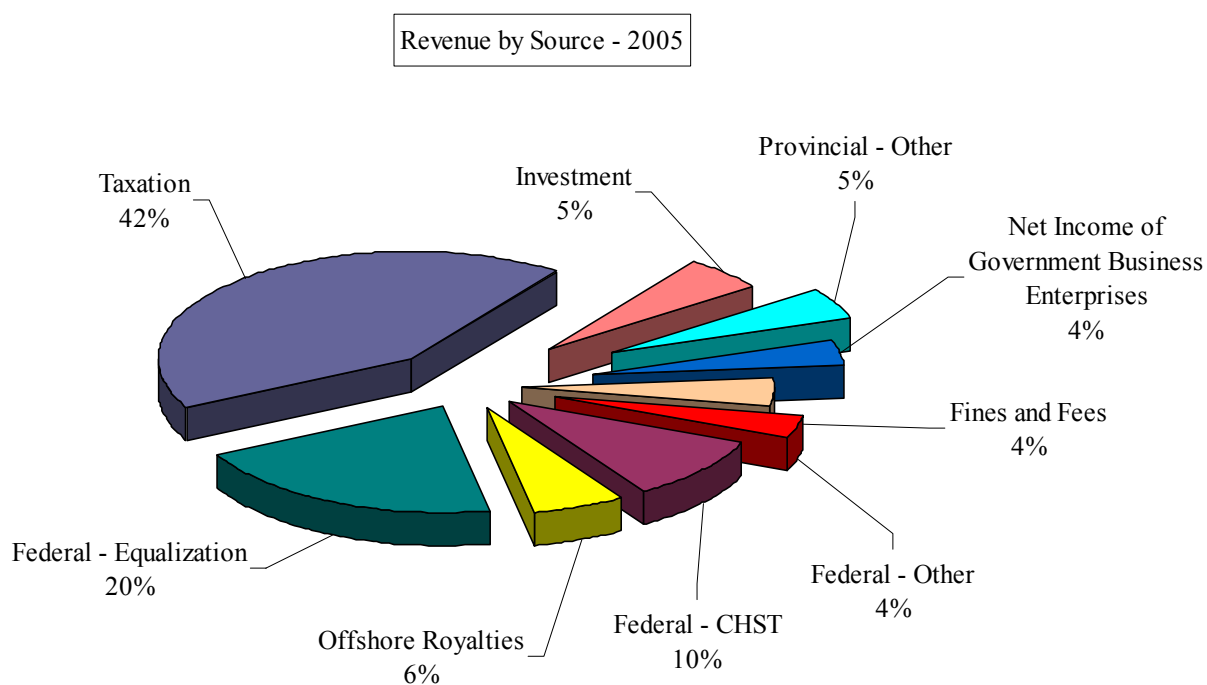
The most significant changes in revenues by source between 2004 and 2005 arise from offshore royalties and government business enterprises.

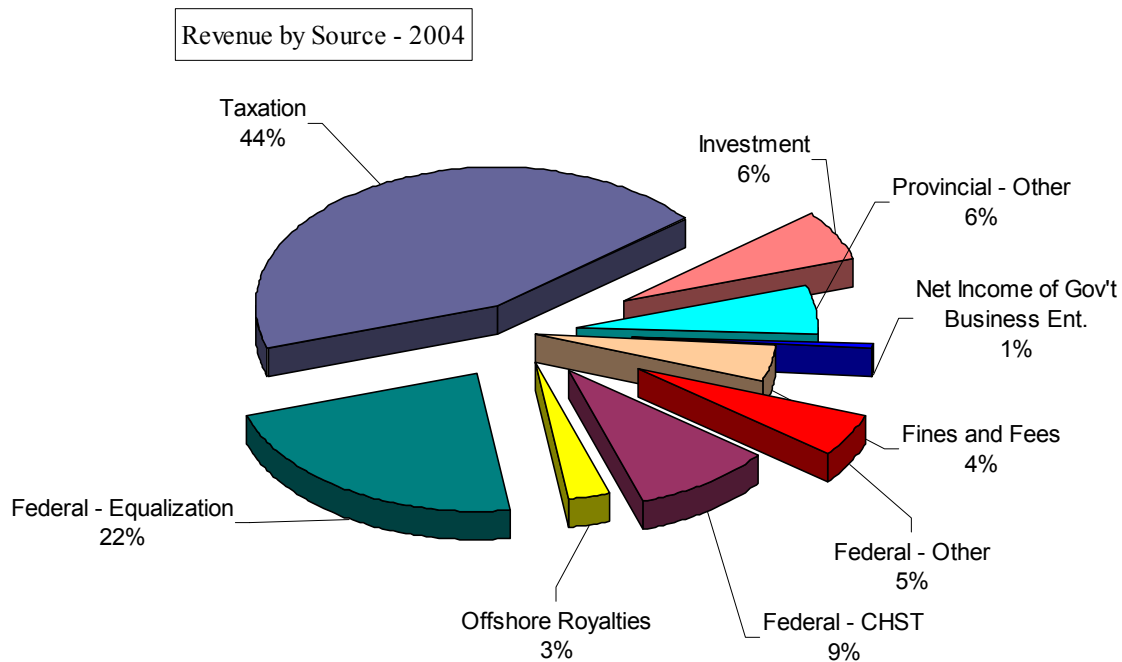
- In 2004, the net income of Newfoundland and Labrador Hydro decreased due to a write-down of capital assets in the amount of \$130.9 million (net impact after minority interest - \$118.6 million). Net income for 2005 has reverted to a rate comparable to previous years before the one time write-down, the primary reason for the \$141.8 million change in net income of Newfoundland and Labrador Hydro for 2005 over 2004.

- Offshore royalties increased by \$137.9 million, or 108.7%, between 2004 and 2005. This is primarily due to higher than usual oil prices and increased production.
- A gradual decline in Government of Canada revenues continues to impact on overall revenues.

The following charts depict revenues by source for the current and preceding years for comparative purposes.

- Equalization payments remain the most significant source of federal revenue representing 20.5% of all revenues (down slightly from 22.3% in 2004) and 60.8% of federal revenues in 2005.
- Personal income tax remains the second most significant source of revenue in 2005, representing 17.1% of all revenues (marginally higher than the 2004 rate of 17.4%) and 25.8% of all provincial revenues.
- As stated earlier, taxation is the most significant source of revenues overall although taxation as a percentage of all revenues decreased slightly to 42.2% in 2005 from 44.00% in 2004.

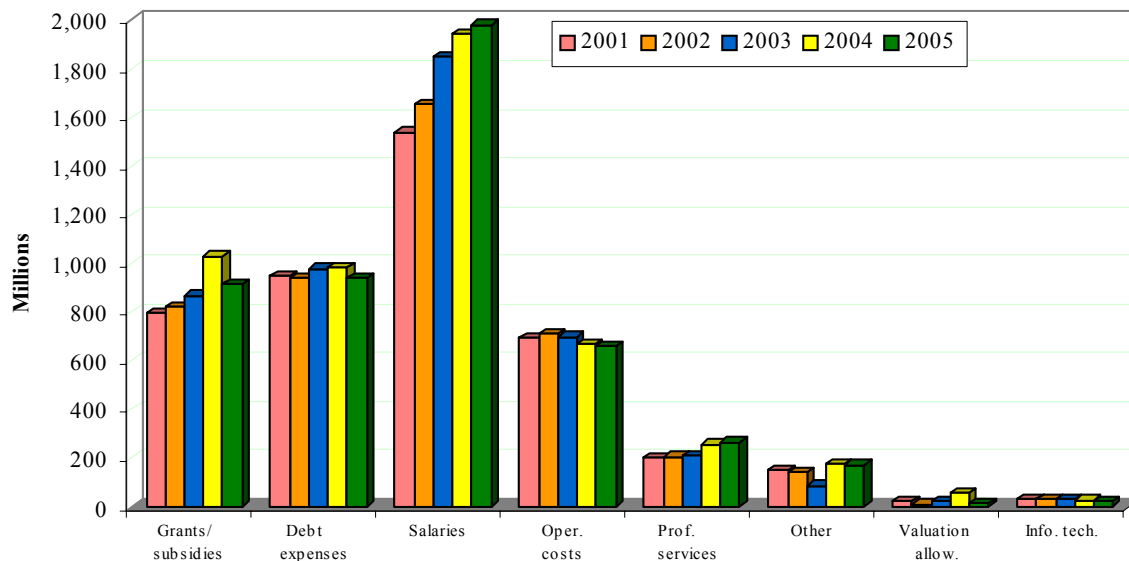




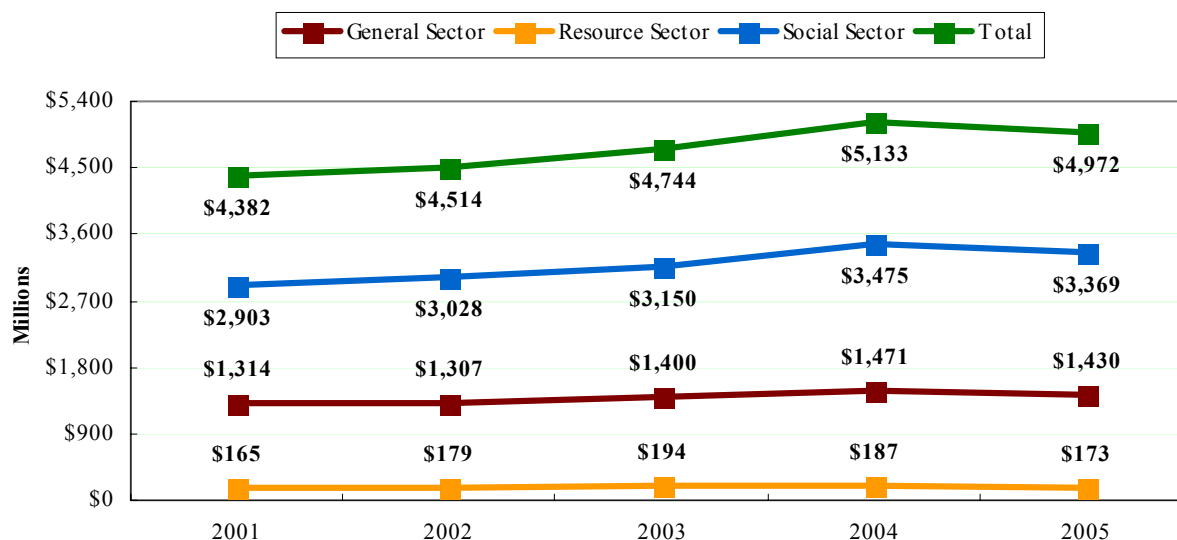
Expenses

For 2005, total expenses amounted to \$5.0 billion. The following charts and discussion analyse the nature of these expenses by category and sector. In the discussion on expense by category, it should be noted that the 'Other' category represents capital property acquisitions, as well as amortization and loss on sale relating to tangible capital assets. However, this category does not include amortization expense and loss on sale relating to tangible capital assets for fiscal years prior to 2003 due to the accounting policy change applied to subsequent fiscal years (see note on page 12).

a) Expenses by Major Category - 5 Year Comparison



b) Expenses by Sector - 5 Year Comparison

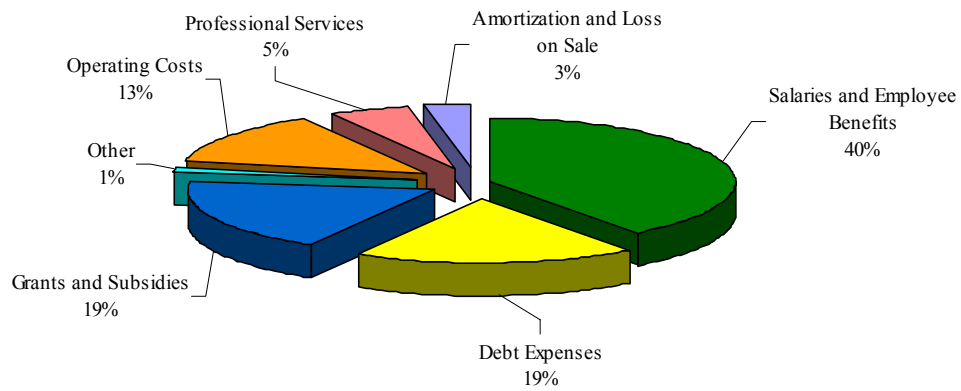


From an analysis of the previous charts and the information presented in the consolidated summary financial statements, the following observations can be made:

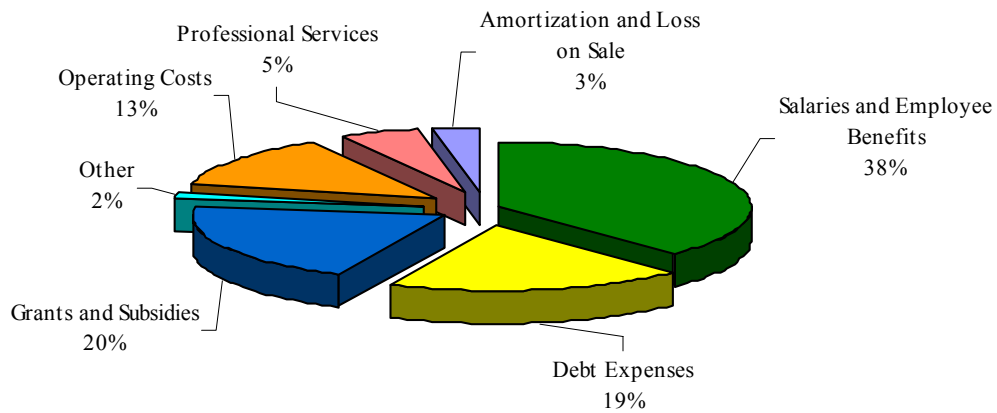
- Total expenses increased by \$751.3 million from 2001 to 2004, then decreased by \$160.6 million to 2005, representing a change of 3.1% from 2004.
- Salaries and employee benefits remain the most significant expense, increasing steadily over the past five years from \$1.5 billion in 2001 to \$2.0 billion in 2005; an overall increase of \$440.7 million in those five years, or 2.0% from 2004 to 2005.
- Together salaries/benefits and debt expenses represent 58.8% of total expenses for 2005, slightly higher than 57.0% in 2004.
- Expenses for the Social Sector which includes health, education and social services were \$3.4 billion in 2005, accounting for 67.8% of the total expenses for the year. Although the expense decreased overall from 2004 for the Social Sector by \$106.0 million, the percentage remains unchanged at 67.7% of total expenses.

c) *Expenses by Category*

Expenses by Major Category - 2005



Expenses by Major Category - 2004



The most significant changes in expenses by category between 2004 and 2005 relate to decreases in grants and subsidies, debt expenses and valuation allowances.

- Grants and subsidies expense decreased by \$112.8 million between 2004 and 2005. This can be partially attributed to a \$14.4 million reduction in municipal grants for debt charges, \$11.6 million less required for disaster assistance, and another \$7.8 million decrease in other municipality-related expenses. A \$5 million one-time debt repayment in 2004 and other lower than usual expenses of \$5.4 million related to the winding down of several federal - provincial agreements contributed to the variance.
- The majority of debt expense relates to the Consolidated Revenue Fund for interest on debt, foreign exchange amortization/losses and interest on the unfunded pension liability. Part of the decrease of \$41.2 million between 2004 and 2005 can be attributed to lower interest rates on refinanced debt, and a stronger Canadian dollar which reduced the cost of servicing foreign debt. There is a decrease in realized foreign exchange losses of \$52.5 million as no foreign denominated debt was redeemed in 2005. Offsetting this decrease is a \$17.1 million increase in amortization expense on debenture debt as a result of foreign exchange losses of past years.
- Valuation allowances decreased by \$43.3 million between 2004 and 2005. An overall change in bad debt expense for the Newfoundland and Labrador Student Loan Corporation accounts for \$20.4 million of this decline, while a decrease in bad debt expenses for the Consolidated Revenue Fund accounts for an additional \$24.6 million. A government-wide review of provisions for bad debt expense in 2004 resulted in a more appropriate valuation of these provisions, contributing to the lower bad debt expense in 2005.

KEY INDICATORS

- Key indicators included in this document provide a complete picture of the Province's financial condition at 31 March 2005.
- The common key indicators included herein were primarily 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 public sector 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 2005.

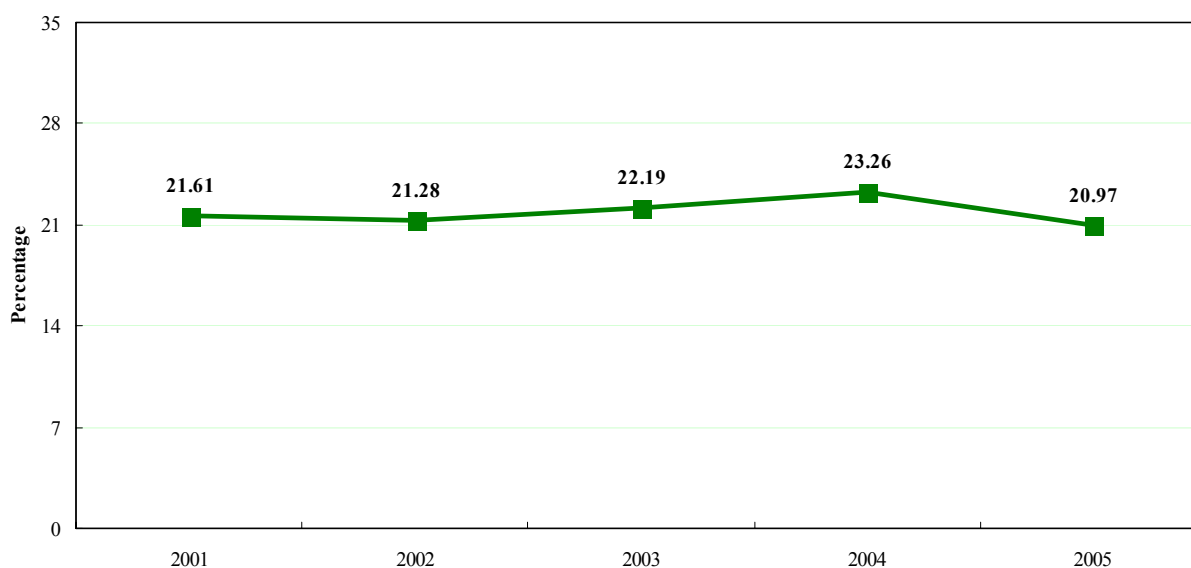
Flexibility

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*

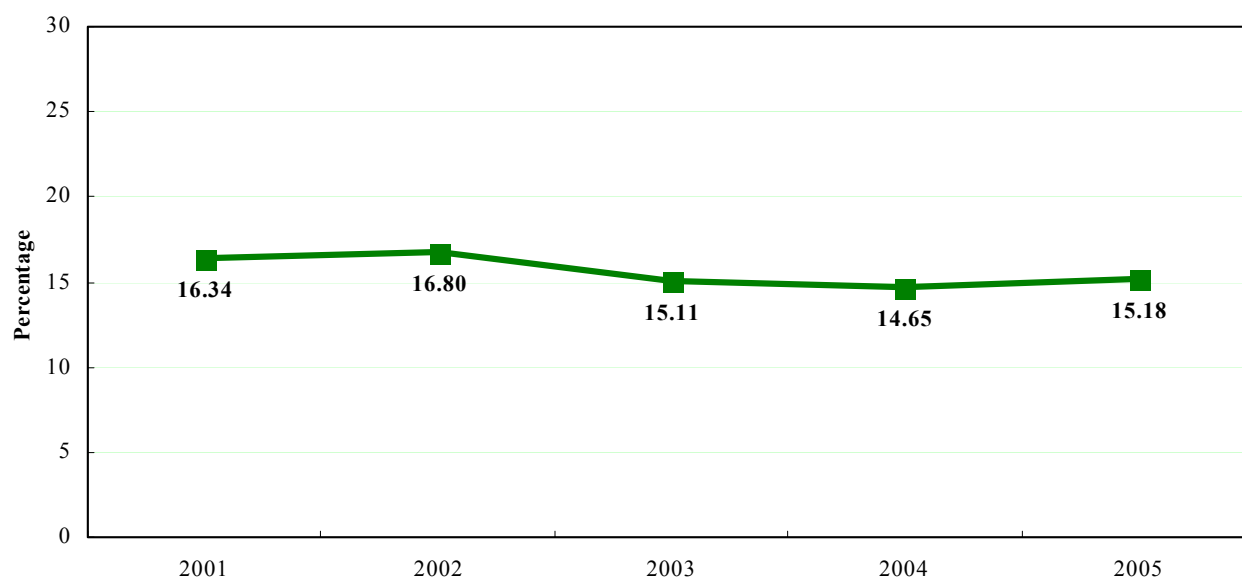
- This ratio measures the extent to which past borrowings may impact the Province's ability to provide for the economic and social needs of its citizens.
- The graph below indicates that the Province's interest cost as a percentage of revenues has stayed in the range of 20.97% to 23.26% over the past five years, peaking in 2004 with a decrease of 2.29% to its lowest level in 2005.
- The average of this ratio over the past five years is 21.86%. The relatively flat trend to this ratio indicates that interest costs remain a constant significant expense incurred by the Province since it represents 20.97% of all revenues.

A reallocation of debt expenses to a correct categorization of grant expenses affected the graphs as presented in 2004 financial statement discussion and analysis. For the purpose of this analysis, the expenses have been restated for the past five years.



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 been fluctuating slightly over the last five years.
- The current year ratio is 15.18%, less than the five average of 15.62%. This suggests that on average, the Province is taking less income out of the economy (as a percentage) through taxation and user fees.

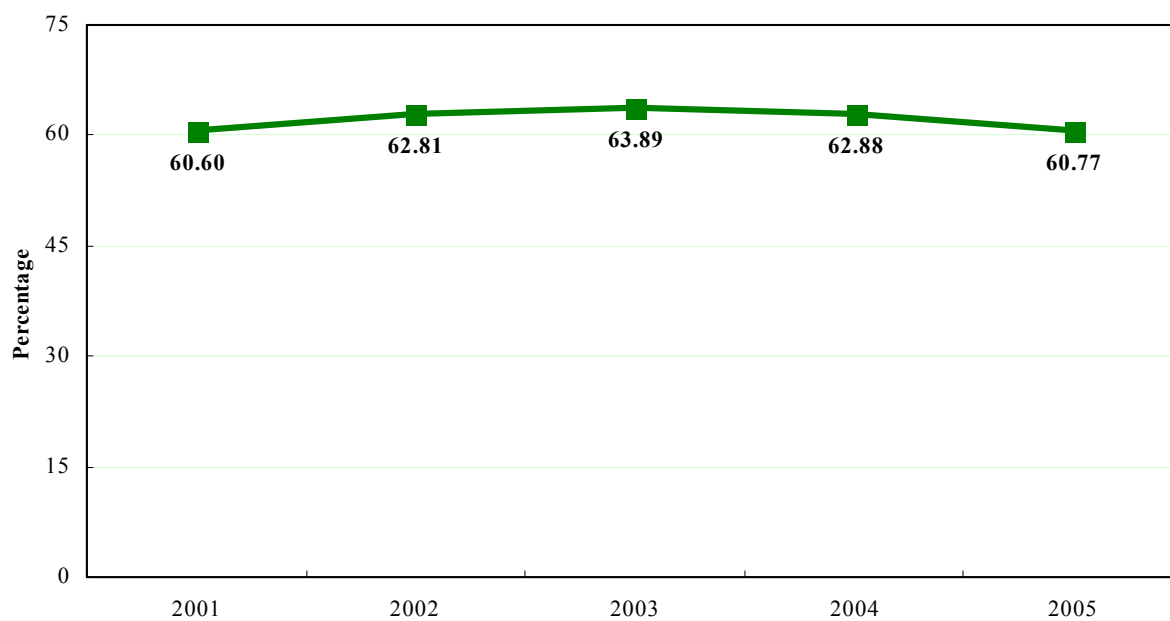


Sustainability

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 as a Percentage of GDP*

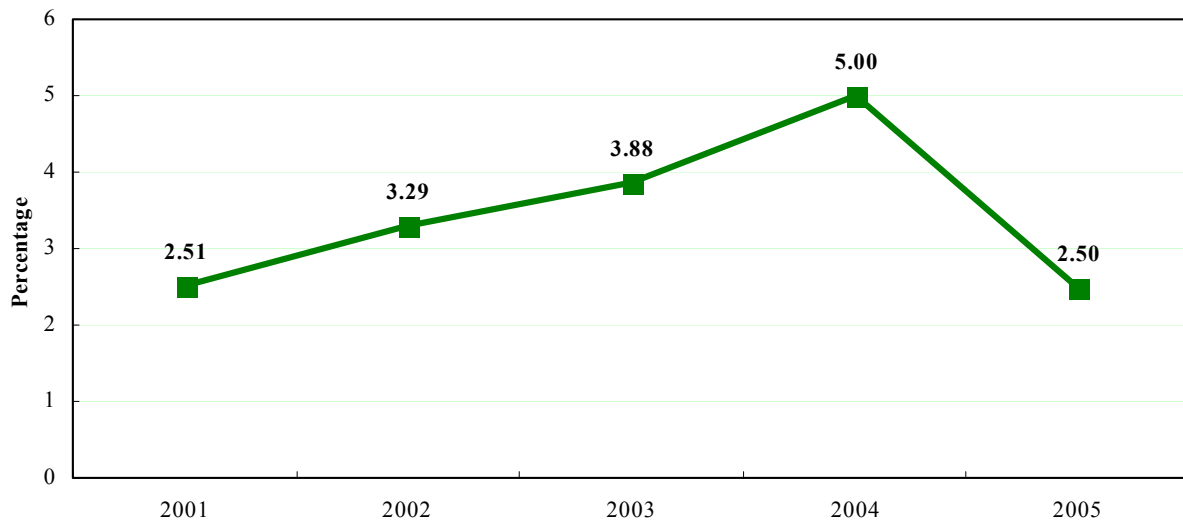
- This ratio measures the level of debt that the Province carries as a percentage of its GDP.



- As indicated in the preceding graph, net debt as a percentage of GDP has decreased over the last four 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 62.19%, with a slight decline from 62.88% in 2004 to 60.77% in 2005.

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 increased from 2001 to 2004, despite a corresponding increase in GDP over the same period. However, the Province's annual deficits as a percentage of GDP decreased significantly in 2005 to a low of 2.5% in this five year period. If this decrease continues as a trend, the Province will increase its ability to meet financial obligations.
- The average of this ratio over the past five years is 3.44%.

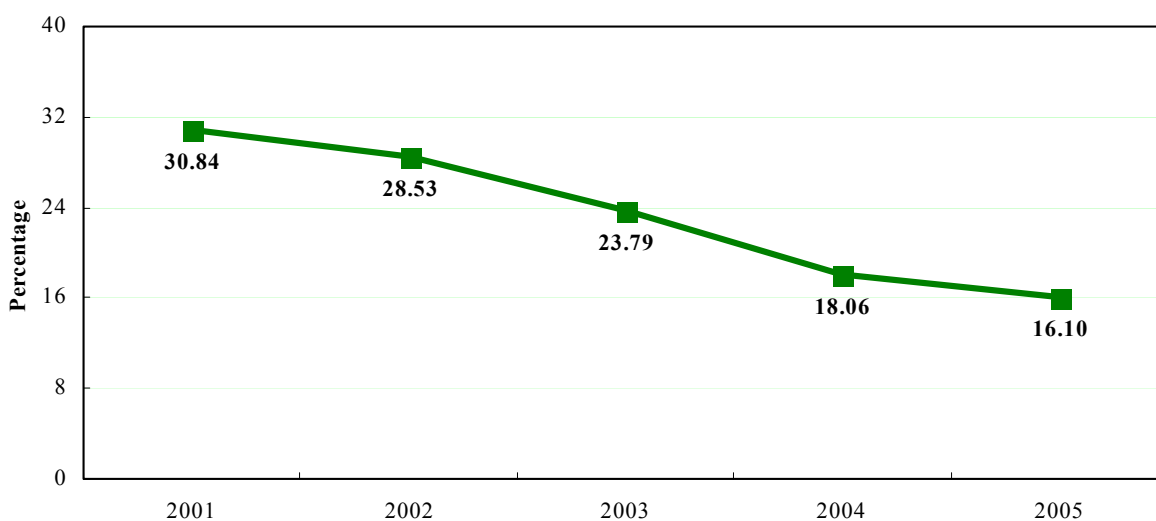


Vulnerability

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*

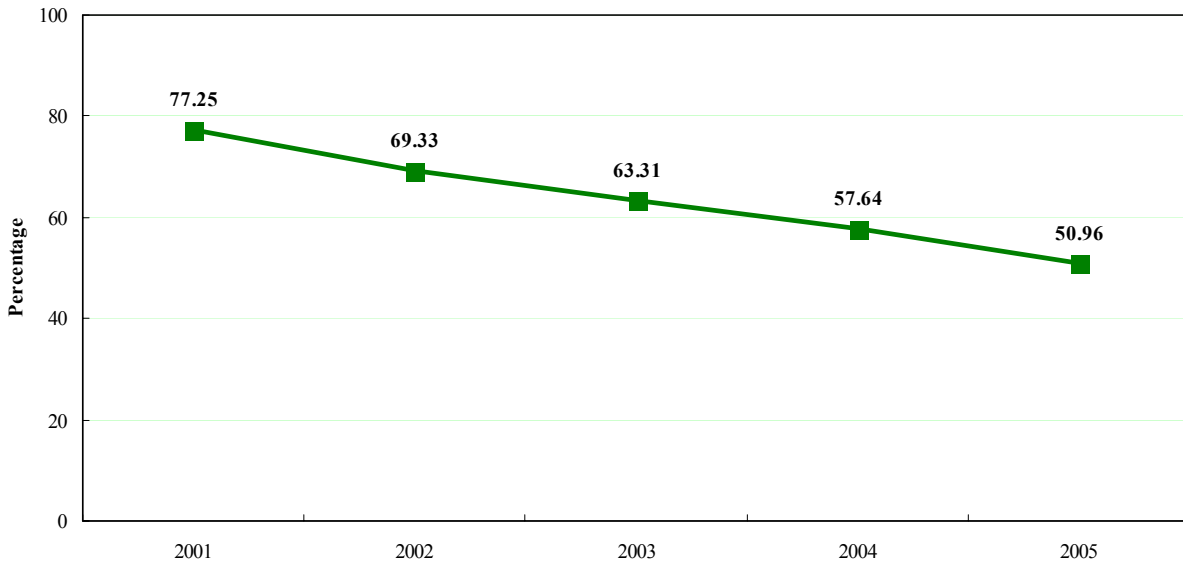
- This ratio measures the Province's foreign currency debt relative to its net borrowings. It reflects the degree of vulnerability to foreign currency swings that the Province faces.
- As indicated in the following graph, foreign currency debt as a percentage of net borrowings has decreased steadily 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 23.46%, a decrease from the 2004 average of 26.94%. While this percentage indicates that foreign currency debt has historically represented a significant portion of the Province's borrowings, this ratio has now declined to a five year low of 16.10% for 2005.



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 63.70%, down slightly from the 1999 - 2004 average of 67.73%. This percentage has decreased to 50.96% in 2005, indicating the Province's historically heavy dependence on the Federal Government is gradually being reduced.



FINANCIAL PERFORMANCE

The fiscal policies and deficit reduction measures introduced in Budget 2004 for the fiscal year ended 31 March 2005 were intended to ensure fiscal stability and sustainability by focusing on responsible spending controls while maintaining strong, economic growth. The discussion and analysis presented in this report clearly indicate that Government is on track to meet long term objectives for restoring the financial health of the Province. Other financial indicators including net debt, accumulated deficit and net borrowings have increased, but at a significantly lower rate than in the previous four years, indicating an overall improvement in financial performance.

Newfoundland and Labrador is in a better position than at the beginning of the 2004-05 fiscal year. Measures have been implemented to contribute to a deficit reduction strategy over the next few years while the new Health Accord and the Atlantic Accord (2005), a newly negotiated arrangement on the sharing of offshore petroleum revenue, will enhance the Province's long term financial circumstances. Government's challenge will be to remain vigilant in managing the Province's financial position while maintaining social and other responsibilities.



Province of Newfoundland and Labrador

Consolidated Summary Financial Statements

**For The Year Ended
31 March 2005**

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GOVERNMENT OF
NEWFOUNDLAND AND LABRADOR

DEPARTMENT OF FINANCE

OFFICE OF THE COMPTROLLER GENERAL

CONFEDERATION BUILDING
ST. JOHN'S

23 September 2005

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 2005 and the results of operations for the year then ended.

RONALD A. WILLIAMS, C.A.
Comptroller General of Finance

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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 2005 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 2005 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 on a basis consistent with that of the preceding year.

JOHN L. NOSEWORTHY, C.A.
Auditor General

St. John's, Newfoundland and Labrador
23 September 2005

SUMMARY FINANCIAL STATEMENTS

PROVINCE OF NEWFOUNDLAND AND LABRADOR**Consolidated Statement of Financial Position
As at 31 March 2005
with comparative figures for 2004**

	Actuals 2005	Actuals 2004
	(\$000)	(\$000)
FINANCIAL ASSETS		
	737,022	254,099
Sch. 1	315,845	293,787
	8,796	9,410
Sch. 2	250,781	320,698
Sch. 3	532,668	521,021
	<u>1,845,112</u>	<u>1,399,015</u>
LIABILITIES		
Sch. 5	1,682,473	1,276,747
	19,482	11,022
Sch. 6	6,837,456	6,777,160
	100,968	8,436
	<u>6,938,424</u>	<u>6,785,596</u>
	1,158,807	1,066,848
	3,933,568	3,745,470
	<u>13,732,754</u>	<u>12,885,683</u>
	<u>11,887,642</u>	<u>11,486,668</u>
NET DEBT		
NON-FINANCIAL ASSETS		
Sch. 9	2,082,159	2,126,262
	23,665	20,102
	28,578	29,775
	<u>2,134,402</u>	<u>2,176,139</u>
	<u>9,753,240</u>	<u>9,310,529</u>
ACCUMULATED DEFICIT		
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 2005
with comparative figures for 2004

	Actuals 2005	Original Estimates 2005 (Note 18)	Actuals 2004
	(\$000)	(\$000)	(\$000)
NET DEBT - beginning of period	11,486,668		10,615,557
Add (Deduct):			
Adjustments:			
Government organization changes - note 15	(46,136)		(51,309)
Group health and life insurance retirement benefits - note 7	-		9,179
ADJUSTED NET DEBT - beginning of period	<u>11,440,532</u>		<u>10,573,427</u>
Deficit for the period	<u>488,847</u>	839,596	<u>913,601</u>
Changes in tangible capital assets			
Acquisition of tangible capital assets	107,199	107,985	145,587
Net book value of tangible capital asset disposals/adjustments	1,177		13,147
Amortization of tangible capital assets	(152,479)	(110,304)	(161,688)
<i>Increase (Decrease) in net book value of tangible capital assets</i>	<u>(44,103)</u>	<u>(2,319)</u>	<u>(2,954)</u>
Changes in other non-financial assets			
Acquisition of prepaid and deferred charges (net of usage)	3,563		788
Acquisition of inventories of supplies (net of consumption)	(1,197)		1,806
<i>Increase (Decrease) in other non-financial assets</i>	<u>2,366</u>		<u>2,594</u>
<i>Increase (Decrease) in net debt</i>	<u>447,110</u>		<u>913,241</u>
NET DEBT - end of period	<u><u>11,887,642</u></u>		<u><u>11,486,668</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 2005
with comparative figures for 2004**

	Actuals 2005 (\$000)	Original Estimates 2005 (Note 18) (\$000)	Actuals 2004 (\$000)
REVENUE			
Sch. 10	Provincial		
Sch. 10	1,892,809	1,960,225	1,856,415
Sch. 10	237,411	184,180	242,445
Sch. 10	185,118	160,425	173,069
Sch. 10	264,673	121,350	126,798
Sch. 10	218,710	374,866	252,389
Sch. 10	1,513,493	1,450,816	1,542,768
	4,312,214	4,251,862	4,193,884
Sch. 4	171,217	158,170	25,438
	Total Revenue	4,410,032	4,219,322
EXPENSE			
Sch. 11	1,429,875	1,519,092	1,470,699
Sch. 11	173,143	191,072	187,001
Sch. 11	3,369,260	3,539,464	3,475,223
Sch. 12	Total Expense	5,249,628	5,132,923
	ANNUAL DEFICIT	839,596	913,601

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 2005
 with comparative figures for 2004**

	Actuals 2005	Original Estimates 2005 (Note 18)	Actuals 2004
	(\$000)	(\$000)	(\$000)
ACCUMULATED DEFICIT - beginning of period	9,310,529		8,439,058
Add (Deduct):			
Adjustments:			
Government organization changes - note 15	(46,136)		(51,309)
Group health and life insurance retirement benefits - note 7	-		9,179
ADJUSTED ACCUMULATED DEFICIT - beginning of period	9,264,393		8,396,928
Deficit for the period	488,847	839,596	913,601
ACCUMULATED DEFICIT - end of period	<u>9,753,240</u>		<u>9,310,529</u>

See accompanying notes to the financial statements.

SUMMARY FINANCIAL STATEMENTS

PROVINCE OF NEWFOUNDLAND AND LABRADOR

Consolidated Statement of Cash Flows
For the year ended 31 March 2005
with comparative figures for 2004

	Actuals 2005	Actuals 2004
	(\$000)	(\$000)
Funds provided from (applied to):		
OPERATIONS		
Annual deficit	(488,847)	(913,601)
Add (Deduct) non-cash items:		
Amortization of foreign exchange gains/losses	(1,751)	(22,760)
Amortization of tangible capital assets	152,479	161,688
Retirement costs	435,804	424,659
Valuation allowances	11,665	54,989
Unremitted net income of government business enterprises	(15,247)	109,262
Sinking fund earnings	(44,063)	(22,315)
Deferred Revenue	8,460	(15,679)
Other	58,083	103,750
<i>Net cash provided from (applied to) operating transactions</i>	<u>116,583</u>	<u>(120,007)</u>
CAPITAL		
Acquisitions	(107,199)	(145,587)
Disposals	1,035	1,585
<i>Net cash applied to capital transactions</i>	<u>(106,164)</u>	<u>(144,002)</u>
FINANCING		
Debt issued	630,000	589,674
Debt retirement	(400,849)	(194,365)
Special purpose funds/contractors' holdback funds	3,829	3,191
Treasury bills redeemed	(2,312,581)	(2,740,699)
Treasury bills purchased	2,312,303	2,741,476
Equalization loan	378,402	-
Sinking fund contributions	(42,537)	(39,011)
Sinking fund retirement	12,324	67,755
Retirement of pension liabilities	(156,000)	(163,500)
<i>Net cash provided from financing transactions</i>	<u>424,891</u>	<u>264,521</u>
INVESTING		
Loan repayments	114,384	54,953
Loan advances	(74,820)	(242,488)
Investments	7,366	(572)
<i>Net cash provided from (applied to) investing transactions</i>	<u>46,930</u>	<u>(188,107)</u>
<i>Net cash provided (applied)</i>	<u>482,240</u>	<u>(187,595)</u>
Cash and temporary investments - beginning of period	254,087	441,682
CASH AND TEMPORARY INVESTMENTS - end of period - note 2.	<u><u>736,327</u></u>	<u><u>254,087</u></u>

See accompanying notes to the financial statements.

PROVINCE OF NEWFOUNDLAND AND LABRADOR**Notes to the Consolidated Financial Statements
For the year ended 31 March 2005**

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) 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.

(iii) Expenses

Expenses are recorded on an accrual basis.

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

(iv) Assets

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.

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

(v) *Liabilities*

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

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.

(vi) *Government Transfers*

Government transfers are recognized by the Province as revenues or expenses in the period during which both the payment is authorized and any eligibility criteria are met.

(vii) *Loan Guarantees*

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

2. Cash and Temporary Investments

Cash and temporary investments of \$737.0 million (31 March 2004 - \$254.1 million), including accrued interest of \$0.7 million (31 March 2004 - \$0.01 million), consist of investments with financial institutions. These investments are callable or have maturity dates ranging from 10 January 2005 to 15 April 2019 at interest rates which vary from 0.75% to 6.55%.

3. Provision for Guaranteed Debt

An amount of \$0.1 million (31 March 2004 - \$0.1 million) has been recorded as a provision for possible losses on guaranteed debt (see note 8(a)). See Schedule 5 - Payables, Accrued and Other Liabilities.

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 2005. 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 \$1.8 million which represents a credit adjustment (31 March 2004 - \$22.8 million-credit adjustment).

	31 March 2005	31 March 2004
	(\$mil)	(\$mil)
Unrealized foreign exchange gain (loss):		
Debt	10.6	(106.4)
Sinking funds	(6.6)	16.0
Net	4.0	(90.4)
Total accumulated amortization	97.0	98.8
Net unamortized unrealized foreign exchange gain (loss)	<u>101.0</u>	<u>8.4</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, Members of the House of Assembly Pension Plan or the Provincial Court Judges' Pension Plan are eligible to participate in the group insurance program sponsored by Government. All retired teachers who are receiving a pension from the Teachers' Pension Plan are eligible for coverage under the group insurance program sponsored by the Newfoundland and Labrador Teachers Association (NLTA) and cost shared by Government. All retired employees of the Newfoundland and Labrador Housing Corporation (NLHC) are eligible to participate in the group insurance plans sponsored by NLHC. These programs provide both group health and group life benefits to enrolled retirees.

Under the plans, the employer 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 the programs sponsored by the Province, NLTA and NLHC. As at 31 March 2005, the plans provided benefits to 14,965 retirees.

Actuarial Valuations

An actuarial valuation was prepared by the Province's actuaries (valuation date of 31 March 2003) for the programs sponsored by the Province and the NLTA. The actuarial valuation was based on a number of assumptions about future events including an interest rate of 5.5%, 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.

An actuarial valuation was also prepared by NLHC's actuaries (valuation date of 31 March 2005) for the programs sponsored by NLHC. The actuarial valuation was based on a number of assumptions about future events including an interest rate of 6.0%, CPI of 2.5%, as well as other assumptions such as health care cost trends, wage and salary increases, termination rates, plan participation rates, utilization rates and mortality. The assumptions used reflect NLHC's best estimates of expected long-term rates and short-term forecasts.

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Group Health and Life Insurance Retirement Benefits Liability

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

Plan	Estimated Accrued Benefit Obligation	Unamortized Experience Losses 2005	Net Liability 2005	Net Liability 2004	Change
	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)
Group health retirement benefits	1,201.9	(121.9)	1,080.0	993.0	87.0
Group life insurance retirement benefits	86.9	(8.1)	78.8	73.8	5.0
	1,288.8	(130.0)	1,158.8	1,066.8	92.0

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	Employer's Share of Current Period Costs	Interest Expense on the Liability	Employer's Current Period Contributions	Current Period Amortization of Experience Changes	Change
	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)
Group health retirement benefits	32.3	62.7	(16.7)	8.7	87.0
Group life insurance retirement benefits	1.7	4.2	(1.5)	0.6	5.0
	34.0	66.9	(18.2)	9.3	92.0

Interest expense related to the group health and life insurance retirement benefits liability is included with interest as debt expenses in the financial statements. Interest expense for 31 March 2004 amounted to \$60.9 million.

Experience Gains or Losses

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

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 32,533 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 2005, the plans provided benefits to 19,128 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.

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

Upon the passing of the legislation to amend the *Members of the House of Assembly Pensions Act* anticipated to be presented to the House of Assembly during 2005-06, the Members of the House of Assembly Pension Plan will be restructured into two components based on limits set out in the federal *Income Tax Act*. The first, or Registered component, will continue to be administered within the Province of Newfoundland and Labrador Pooled Pension Fund. The second, or the Supplementary Employee Retirement component, will be administered in the accounts of the Consolidated Revenue Fund. The restructuring of this Plan will result in assets of \$8.9 million currently related to the Members of the House of Assembly Pensions Plan as at 31 March 2005 no longer being classified as an asset of that Plan. The amount, however, will ultimately be reallocated to one or more of the other pension plans within the Province of Newfoundland and Labrador Pooled Pension Fund.

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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)

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 2005. The actual results of future valuations may result in variances from these extrapolations.

Pension Plan	Estimated Accrued Benefit Obligation	Fund Assets	Unamortized Experience Losses 2005	Net Unfunded Liability 2005	Net Unfunded Liability 2004	Change
	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)
Public Service	3,928.3	1,979.1	(278.1)	1,671.1	1,584.4	86.7
Teachers'	3,103.6	802.9	(257.1)	2,043.6	1,942.5	101.1
Uniformed Services	248.1	62.5	(10.2)	175.4	180.2	(4.8)
Members of the House of Assembly	73.7	16.1	(17.3)	40.3	35.4	4.9
Provincial Court Judges'	4.5	1.3	-	3.2	3.0	0.2
Total	\$7,358.2	\$2,861.9	(\$562.7)	\$3,933.6	\$3,745.5	\$188.1

Pension Fund Assets are valued at the market value at 31 December 2004 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 2001-02, the Province began making annual payments of \$7.5 million to the Members of the House of Assembly Pension Plan, however, these payments will only be allowable under the federal *Income Tax Act* to the extent that they fully fund the Registered component of the Plan. This will result in \$8.9 million of the \$16.1 million assets in the Members of the House of Assembly Pensions Plan as at 31 March 2005 no longer being classified as an asset of that Plan. The amount, however, will remain part of the Province of Newfoundland and Labrador 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.

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	32.9	141.7	(125.4)	31.0	6.5	86.7
Teachers'	16.0	163.1	(110.0)	32.0	-	101.1
Uniformed Services	1.6	14.4	(21.9)	1.1	-	(4.8)
Members of the House of Assembly	1.5	1.3	(0.4)	2.5	-	4.9
Provincial Court Judges'	0.5	0.1	(0.2)	-	(0.2)	0.2
Total	\$52.5	\$320.6	(\$257.9)	\$66.6	\$6.3	\$188.1

Pension interest expense is included with interest as debt expenses in the financial statements. Pension interest expense for 31 March 2004 amounted to \$330.9 million.

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Experience Gains or Losses

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

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 23,407 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 2005 assets had a market value of \$173.9 million (31 March 2004 - \$157.3 million).

7. Group Health and Life Insurance Retirement Benefits

Due to changes in accounting standards, Newfoundland and Labrador Housing Corporation (NLHC) initiated an actuarial review to determine NLHC'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 2004 was restated with a resulting increase to Total Liabilities and Net Debt of \$9.2 million.

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

Guarantees made by the Province amounted to \$1,490.3 million (31 March 2004 - \$1,522.6 million). In addition, the Province guaranteed the interest thereon. See Schedule 7 - Guaranteed Debt.

(b) Legal Actions

- (a) 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.
- (b) A Statement of Claim has been served on the Province in its role as the regulator of mortgage brokers and investment companies.
- (c) 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*).

(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.

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

b) Memorial University of Newfoundland Pension Fund

Pursuant to Section 6 of the *Memorial University Pensions Act*, if there is insufficient money in the Memorial University of Newfoundland Pension Fund to provide for the payment of applicable expenditures as they fall due, the Province is liable for payment of an amount to cover the deficiency. As at 31 March 2005, the Memorial University of Newfoundland Pension Plan had a net unfunded pension liability of \$134.7 million. However, as there is currently sufficient money in the Fund for the payment of expenditures as they fall due, there is no direct liability for the Province as at 31 March 2005.

Treasury Board has directed that the consolidated financial statements of the Memorial University of Newfoundland will be included in the consolidated summary financial statements of the Province for the year ended 31 March 2006. As a result, any unfunded pension liability (or net assets) would also be included at that time.

(iii) *Trust Accounts*

Generally, the Province is contingently liable for any shortage that may occur for certain funds held in trust by the Province. Currently, all obligations held have an offsetting asset. See Schedule 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 debt reduction component of the Program, the Province is contingently liable for possible grants totaling \$21.4 million. An amount of \$20.9 million has been recorded as a provision for possible grants related to student loans due to the debt reduction program. See Schedule 2 - Loans, Advances and Investments.

(vi) *Environmental Responsibility*

As a result of delivering its stated programs and initiatives, there are a number of sites throughout the Province which are considered potentially contaminated sites. A liability will be accrued in the financial statements when it has been determined that the Province is liable for a site which has become contaminated and where a reasonable estimate of the remediation costs can be made. Where it is uncertain as to whether an obligation exists for the Province to remediate a contaminated site, then information on any such sites will be disclosed as contingent liabilities.

As at 31 March 2005, while the Province is aware of a number of contaminated sites, the full extent of the remediation costs for these known sites is not readily determinable. Efforts are currently ongoing to identify any other potentially contaminated sites which are owned by the Province and to collect the information necessary to assess the extent or likelihood of any environmental damage. These efforts may result in recognizing environmental liabilities or disclosing contingent liabilities due to newly identified sites and/or changes in the assessments of currently known sites.

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Commitments

Commitments to outside organizations in respect of contracts entered into before 31 March 2005 amount to \$260.6 million, of which \$46.8 million is for lease payments, \$166.7 million for capital projects, \$29.0 million for government's service agreement with xwave Solutions Limited and other agreements of \$18.1 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.

10. 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.

11. Self-Insured Workers' Compensation Benefits

Payables, accrued and other liabilities includes an amount of \$28.4 million related to the self-insured workers' compensation benefits liability as at 31 March 2005 (31 March 2004 - \$21.1 million). During the 2004-05 fiscal year, an actuarial valuation as of 31 December 2004, with disclosures as at 31 March 2005, was obtained for the Province's self-insured workers' compensation benefits. The self-insured workers' compensation benefits liability as at 31 March 2004 was based on an internally developed methodology.

12. Subsequent Event - Atlantic Accord (2005)

Subsequent to 31 March 2005, the enabling legislation for the Atlantic Accord (2005) agreement was passed by the Federal Government. The agreement provides 100% equalization clawback protection for offshore revenues for the eight year period from 2004-05 to 2011-12. Following the passing of the agreement, the Province received a \$2 billion advance payment in July 2005. While the agreement did include an allocation for the 2004-05 fiscal year, the revenue recognition criteria, as per generally accepted accounting principles, were not met until the passing of the federal legislation. As this occurred after 31 March 2005, no revenue relating to this agreement is recognized for the year ended 31 March 2005. The allocation for 2004-05 (\$133.6 million), along with the allocation for 2005-06 (\$188.7 million), will be recognized as revenue during the 2005-06 fiscal year.

13. Deferred Revenue

Deferred revenue of \$19.5 million includes \$8.1 million relating to the Diagnostic and Medical Equipment funding, \$5.1 million relating to entities in the education sector, \$3.5 million relating to entities in the health sector, and \$2.8 million related to other miscellaneous programs.

14. Inventories

Inventories for resale of \$8.8 million consist of Newfoundland and Labrador Housing Corporation land assemblies of \$8.0 million, with the balance of \$0.8 million relating to other entities. Inventories of supplies of \$28.6 million is comprised of medical and drug supplies held by Health Sector entities (\$14.7 million), textbooks and stockroom supplies held within the Consolidated Revenue Fund (\$13.1 million) and miscellaneous amounts of \$0.8 million.

15. Government Organization Changes

The net debt at 31 March 2005 has been decreased by \$46.1 million to reflect the change to the prior year's amounts in the 31 March 2004 financial statements of certain entities. This amount is comprised of equity changes of \$41.7 million to entities within the Social Sector, and \$4.4 million in the General Sector. 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. These changes have been applied retroactively without restatement.

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. 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 commenced for the 2004-05 fiscal year. The comparative actual figures have been restated to reflect this new departmental structure.

17. Comparatives

Certain of the 31 March 2004 financial statement figures and related schedules have been restated to be consistent with the 31 March 2005 statement presentation. Of particular note, for 31 March 2004 a total of \$90.5 million (\$76.1 million for 31 March 2005) related to municipalities for the repayment of their debt has been reclassified from debt expense to grants and subsidies to reflect its true substance.

18. Original Estimates

Certain amounts in the 2004-05 Estimates shown for comparative purposes were prepared on the accrual basis.

The format of the revenue and expense items as stated in the 2004-05 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 2004-05 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 2004-05 Estimates and therefore are not available for comparison purposes. However, commencing in the 2005-06 Estimates, figures for net debt and accumulated deficit have been presented for the 2005-06 fiscal year.

19. 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 2005
with comparative figures for 2004

	2005	2004
	(\$000)	(\$000)
Accounts receivable	226,610	200,336
Taxes receivable	141,490	157,948
Due from Government of Canada	<u>52,515</u>	<u>54,325</u>
	420,615	412,609
Less: Provision for doubtful accounts	<u>104,770</u>	<u>118,822</u>
	<u><u>315,845</u></u>	<u><u>293,787</u></u>

PROVINCE OF NEWFOUNDLAND AND LABRADOR

Loans, Advances and Investments As at 31 March 2005 with comparative figures for 2004

	2005	2004
	(\$000)	(\$000)
Loans and Advances		
Municipalities	247,317	257,556
Student loans	219,746	204,950
Commercial	65,761	73,102
Other	11,680	48,585
Housing	10,144	10,019
	<u>554,648</u>	<u>594,212</u>
Less: Provision for loan repayments through future appropriations (municipalities)	241,758	235,613
Provision for doubtful loans and advances	93,283	91,365
Provision for student loan debt reduction grants	20,934	-
	<u>198,673</u>	<u>267,234</u>
Investments		
Water rights held in Labrador - note 1	30,000	30,000
Equity Investments:		
Administered by Business Investment Corporation	20,783	22,614
Government of Canada Coupon investments	9,758	13,917
CHC Composites Inc.	5,750	10,500
Country Ribbon Inc.	4,500	4,500
Icewater Seafoods Inc.	3,500	-
ACF Equity Atlantic Inc.	2,231	2,231
Griffiths Guitars International Limited	450	450
Atlantic Ocean Farms Limited	290	290
Other investments	1,222	1,348
	<u>48,484</u>	<u>55,850</u>
Total Investments	78,484	85,850
Less: Provision for write-down of investments	26,376	32,386
	<u>52,108</u>	<u>53,464</u>
	<u>250,781</u>	<u>320,698</u>

See accompanying notes.

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE SCHEDULE OF LOANS, ADVANCES AND INVESTMENTS
As at 31 March 2005

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 2005. 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 14.5% and are repayable over terms not exceeding twenty five years.

PROVINCE OF NEWFOUNDLAND AND LABRADOR

Equity in Government Business Enterprises As at 31 March 2005 with comparative figures for 2004

	Nfld. and Labrador Liquor Corporation 31 Mar 2005	Nfld. and Labrador Hydro 31 Dec 2004	Total 2005	Total 2004
	(\$000)	(\$000)	(\$000)	(\$000)
Equity - as previously reported	43,121	477,900	521,021	630,387
Equity adjustment	-	(3,600)	(3,600)	(104)
Equity - beginning of year	43,121	474,300	517,421	630,283
Net income for year	104,017	67,200	171,217	25,438
Capital transactions:				
Transfers to government	(105,370)	(50,600)	(155,970)	(134,700)
Equity - end of year	<u>41,768</u>	<u>490,900</u>	<u>532,668</u>	<u>521,021</u>
Equity represented by:				
Assets				
Cash and temporary investments	14,957	4,000	18,957	15,789
Receivables	10,380	215,000	225,380	233,577
Inventories	26,418	48,300	74,718	71,223
Prepaid and deferred charges	521	87,000	87,521	92,148
Investments	-	5,200	5,200	5,200
Capital assets	<u>11,482</u>	<u>1,784,500</u>	<u>1,795,982</u>	<u>1,805,625</u>
Total Assets	<u>63,758</u>	<u>2,144,000</u>	<u>2,207,758</u>	<u>2,223,562</u>
Liabilities				
Accounts payable and accruals	21,990	121,400	143,390	133,341
Borrowings	-	1,529,200	1,529,200	1,566,700
Total Liabilities	<u>21,990</u>	<u>1,650,600</u>	<u>1,672,590</u>	<u>1,700,041</u>
Non-controlling interest	-	2,500	2,500	2,500
Equity	<u>41,768</u>	<u>490,900</u>	<u>532,668</u>	<u>521,021</u>

SUMMARY FINANCIAL STATEMENTS

Schedule 4

PROVINCE OF NEWFOUNDLAND AND LABRADOR

**Net Income of Government Business Enterprises
For the year ended 31 March 2005
with comparative figures for 2004**

	Nfld. and Labrador Liquor Corporation 31 Mar 2005	Nfld. and Labrador Hydro 31 Dec 2004	Total 2005	Total 2004
	(\$000)	(\$000)	(\$000)	(\$000)
Revenue				
Revenue from operations	186,932	493,500	680,432	627,426
Expenses				
Expenses from operations	82,915	411,700	494,615	469,488
Transfers to government	-	14,600	14,600	13,900
Total Expenses	82,915	426,300	509,215	483,388
Adjustments				
Write-down of capital assets	-	-	-	130,900
Non-controlling interest	-	-	-	(12,300)
Total Adjustments	-	-	-	118,600
Net income	104,017	67,200	171,217	25,438

PROVINCE OF NEWFOUNDLAND AND LABRADOR
Payables, Accrued and Other Liabilities
As at 31 March 2005
with comparative figures for 2004

	<u>2005</u>	<u>2004</u>
	(\$000)	(\$000)
Due to Government of Canada	568,247	191,730
Accrued salaries and employee benefits	475,642	521,334
Accounts payable	274,844	203,567
Accrued interest payable	186,887	183,914
Due to municipalities	111,621	105,297
Long-term leases	39,719	43,190
Other	25,388	27,590
Provision for guaranteed debt	<u>125</u>	<u>125</u>
	<u>1,682,473</u>	<u>1,276,747</u>

SUMMARY FINANCIAL STATEMENTS

Schedule 6

PROVINCE OF NEWFOUNDLAND AND LABRADOR

Borrowings
As at 31 March 2005
with comparative figures for 2004

	2005			Interest Rate Range	2004
	Total Borrowings	Sinking Fund Balance	Net Borrowings		Net Borrowings
	(\$000)	(\$000)	(\$000)	(%)	(\$000)
Consolidated Revenue Fund					
Treasury bill borrowings	490,941	-	490,941	2.44-2.606	491,219
General debentures	5,637,966	762,612	4,875,354	5.12-11.62	4,556,674
Government of Canada	633,615	-	633,615	5.36-14.06	629,751
Other	100,000	-	100,000	prime-4.61	200,000
	6,862,522	762,612	6,099,910		5,877,644
Newfoundland and Labrador Municipal Financing Corporation					
General debentures	283,833	9,225	274,608	2.25-12.75	299,187
Newfoundland and Labrador Housing Corporation					
General debentures	28,557	-	28,557	6.22	29,275
Other	15,967	-	15,967	3.16-3.18	27,873
	44,524	-	44,524		57,148
Other Debt					
Health care organizations	190,541	3,310	187,231	prime-10.50	192,460
Miscellaneous	231,183	-	231,183	prime-8.50	350,721
	421,724	3,310	418,414		543,181
Total	7,612,603	775,147	6,837,456		6,777,160

See accompanying notes.

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE SCHEDULE OF BORROWINGS
As at 31 March 2005

1. Borrowings

Borrowings and unamortized foreign exchange losses, by major currency, and sinking funds as at 31 March 2005 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	1.2096	1,391,040	122,374	1,513,414
Canadian			6,221,563	-	6,221,563
	Sub-total		7,612,603	122,374	7,734,977
	Less: Foreign sinking funds		290,235	21,406	311,641
	Less: Canadian sinking funds		484,912	-	484,912
	Total		<u>6,837,456</u>	<u>100,968</u>	<u>6,938,424</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)
2005-2006	11,200	473,111	484,311
2006-2007	11,200	181,554	192,754
2007-2008	8,800	312,505	321,305
2008-2009	8,800	406,693	415,493
2009-2010	8,800	339,409	348,209
2010-2043	83,200	2,239,009	2,322,209
	<u>132,000</u>	<u>3,952,281</u>	<u>4,084,281</u>

3. Foreign Exchange Gain

The foreign exchange gain which has been recognized on the Consolidated Statement of Operations is \$1.8 million (31 March 2004 - \$22.8 million).

4. Sensitivity Analysis

An increase/decrease of one cent in the foreign exchange rates at 31 March 2005 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.

6. Related Sinking Fund Investments

At year end, the Province held \$648.3 million worth of its own debentures (face value) in sinking funds as active investments (31 March 2004 - \$510.9 million) which are reflected in the sinking fund balances disclosed in note 1 above. These were comprised of \$517.6 million in Canadian investments and \$130.7 million in US investments.

SUMMARY FINANCIAL STATEMENTS

Schedule 7

PROVINCE OF NEWFOUNDLAND AND LABRADOR

**Guaranteed Debt
As at 31 March 2005
with comparative figures for 2004**

	2005	2004
	(\$000)	(\$000)
Guaranteed Debentures		
Newfoundland and Labrador Hydro	1,452,322	1,485,572
Municipalities	710	901
	<u>1,453,032</u>	<u>1,486,473</u>
Guaranteed Bank Loans		
Fisheries	31,241	30,936
Mortgages	3,441	3,551
Other corporations	2,471	1,530
Municipalities	66	109
	<u>37,219</u>	<u>36,126</u>
	<u>1,490,251</u>	<u>1,522,599</u>

NOTES**1. Limit of Loan Guarantees**

The limit of loan guarantees for Guaranteed Debentures is \$1,453.0 million and \$39.6 million for Guaranteed Bank Loans.

2. Provision for Guaranteed Debt

An amount of \$0.1 million (31 March 2004 - \$0.1 million) has been recorded as a provision for possible losses on guaranteed debt.

PROVINCE OF NEWFOUNDLAND AND LABRADOR

Trust Accounts As at 31 March 2005 with comparative figures for 2004

	2005	2004
	(\$000)	(\$000)
Registrar of the Supreme Court	28,259	23,563
Teachers' Accrued Salary Trust Account	6,222	5,823
Commercial and Corporate Affairs Trust	5,616	5,580
Patients' Funds Held in Trust	3,351	3,211
Consolidated Tender Account	2,308	1,076
Provincial Courts Trust Account	724	646
Federal/Provincial Contractors' Security Account	419	504
Other Trust Accounts	1,070	1,035
	47,969	41,438

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 2004, the Commission reported a surplus of \$50.8 million (31 December 2003 - surplus of \$7.5 million) and an unfunded liability of \$114.8 million (31 December 2003 - \$171.1 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. Newfoundland Government Fund

The Newfoundland Government Fund, which had been included in the Trust Accounts Schedule above in previous fiscal years, has now been removed from the schedule as a result of reassessing the nature of the organization. The reassessment has confirmed that the Newfoundland Government Fund is in fact not a trust administered by the Province.

SUMMARY FINANCIAL STATEMENTS

Schedule 9

PROVINCE OF NEWFOUNDLAND AND LABRADOR

Tangible Capital Assets
As at 31 March 2005
with comparative figures for 2004

Category	Original Cost			Accumulated Amortization			Net Book Value 31 March 2005	Net Book Value 31 March 2004	
	Balance 31 March 2004	Additions 2005	Disposals 2005	Balance 31 March 2005	Balance 31 March 2004	Amort. Net of Disposals 2005			
	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)	(\$mil)	
Buildings	2,022.1	95.8	14.6	2,103.3	908.2	38.0	946.2	1,157.1	1,113.9
Marine vessels & aircraft	82.2	-	-	82.2	58.9	4.2	63.1	19.1	23.3
Equipment & machinery	622.6	43.5	9.7	656.4	456.8	31.2	488.0	168.4	165.8
Infrastructure	3,794.9	40.4	0.2	3,835.1	3,142.1	53.9	3,196.0	639.1	652.8
Computer software	35.8	11.2	0.2	46.8	24.7	6.2	30.9	15.9	11.1
Sub-total	<u>6,557.6</u>	<u>190.9</u>	<u>24.7</u>	<u>6,723.8</u>	<u>4,590.7</u>	<u>133.5</u>	<u>4,724.2</u>	1,999.6	1,966.9
Work in progress				<u>82.6</u>				<u>82.6</u>	<u>159.4</u>
Total				<u><u>6,806.4</u></u>				<u><u>2,082.2</u></u>	<u><u>2,126.3</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 2005 of \$82.6 million (31 March 2004 - \$159.4 million) having been spent on these projects to date. Upon completion, these assets are recorded in the appropriate category in the schedule. The additions of \$190.9 million include \$90.3 million of work in progress assets that have been capitalized in the year. Additions to work in progress assets amount to \$13.5 million for 2004-05.

3. Amortization Expense

Amortization net of disposals in the amount of \$133.5 million as reported in the schedule consists of amortization expense of \$152.5 million less accumulated amortization on assets disposed of in the year in the amount of \$10.7 million. The remaining \$8.3 million is the result of adjustments by certain entities.

Amortization net of disposals as at 31 March 2004 was \$156.9 million which consisted 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 balance of \$10.8 million is the result of 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.

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:

<u>Asset</u>	<u>Estimated Useful Life</u>
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 \$92.2 million and accumulated depreciation is \$55.0 million. These are included in the appropriate category in the schedule.

SUMMARY FINANCIAL STATEMENTS

Schedule 10

PROVINCE OF NEWFOUNDLAND AND LABRADOR

Revenue
For the year ended 31 March 2005
with comparative figures for 2004

	Actuals 2005	Actuals 2004
	(\$000)	(\$000)
Government of Canada		
Equalization	919,955	938,983
Canada Health and Social Transfer	426,406	393,668
Cost-shared programs	147,469	192,820
Other	19,663	17,297
	<u>1,513,493</u>	<u>1,542,768</u>
Taxation		
Personal income tax	766,510	733,217
Sales tax	594,551	625,148
Other	222,284	222,538
Gasoline tax	137,801	135,937
Corporate income tax	171,663	139,575
	<u>1,892,809</u>	<u>1,856,415</u>
Investment		
Sinking fund earnings	44,519	59,301
Interest	46,436	41,054
Other	146,456	142,090
	<u>237,411</u>	<u>242,445</u>
Fees and Fines		
Fees	174,987	165,950
Fines	10,131	7,119
	<u>185,118</u>	<u>173,069</u>
Offshore Royalties	264,673	126,798
Other	218,710	252,389
	<u>4,312,214</u>	<u>4,193,884</u>

PROVINCE OF NEWFOUNDLAND AND LABRADOR

Expenses by Department For the year ended 31 March 2005 with comparative figures for 2004

	Actuals 2005	Actuals 2004
	(\$000)	(\$000)
General Government Sector		
Consolidated Fund Services	1,004,315	1,015,593
Executive Council	31,318	30,484
Finance	69,486	88,921
Government Services	28,608	30,344
Labrador and Aboriginal Affairs	6,792	7,275
Legislature	15,475	17,809
Public Service Commission	2,216	2,210
Transportation and Works	271,665	278,063
	<u>1,429,875</u>	<u>1,470,699</u>
Resource Sector		
Business	255	991
Environment and Conservation	39,641	39,975
Fisheries and Aquaculture	8,858	9,512
Innovation, Trade and Rural Development	23,707	35,276
Natural Resources	69,431	73,005
Tourism, Culture and Recreation	31,251	28,242
	<u>173,143</u>	<u>187,001</u>
Social Sector		
Education	905,794	978,121
Health and Community Services	1,824,966	1,797,896
Human Resources, Labour and Employment	370,523	390,141
Justice	146,382	149,091
Municipal and Provincial Affairs	121,595	159,974
	<u>3,369,260</u>	<u>3,475,223</u>
	<u>4,972,278</u>	<u>5,132,923</u>

NOTE

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

SUMMARY FINANCIAL STATEMENTS

Schedule 12

PROVINCE OF NEWFOUNDLAND AND LABRADOR

Expenses by Object
For the year ended 31 March 2005
with comparative figures for 2004

	Actuals 2005	Actuals 2004
	(\$000)	(\$000)
Salaries and employee benefits	1,982,249	1,943,528
Debt expenses	940,290	981,529
Grants and subsidies	917,454	1,030,219
Operating costs	661,207	666,203
Professional services	265,241	255,226
Amortization and loss on sale re tangible capital assets	152,804	163,659
Information technology	22,600	25,299
Property, furnishings and equipment - see note	18,768	12,271
Valuation allowances	11,665	54,989
	<u>4,972,278</u>	<u>5,132,923</u>

NOTE

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

PROVINCE OF NEWFOUNDLAND AND LABRADOR

Reconciliation of Cash Results to Consolidated Accrual Results For the year ended 31 March 2005 with comparative figures for 2004

	Actuals 2005	Actuals 2004
	(\$000)	(\$000)
Surplus (Deficit) - Actuals (cash)	(83,376)	(134,711)
Surplus (Deficit) - Actuals (consolidated accrual)	(488,847)	(913,601)
Change in deficit - note 1	(405,471)	(778,890)
The change in deficit is comprised of the following:		
Consolidated Revenue Fund - note 2:		
Sinking fund earnings	42,911	20,011
Accrued retirement costs - interest	(386,846)	(391,733)
Accrued retirement costs - other	(48,958)	(31,326)
Amortization of foreign exchange gains/losses	927	(31,487)
Other debt expenses	(952)	16,332
Bad debt expenses	(1,784)	(26,397)
Amortization expense re tangible capital assets	(82,667)	(89,029)
Tangible capital asset acquisitions/adjustments - net	45,450	61,334
Inventories of supplies	(1,484)	(132)
Accrued revenues and expenses	(37,926)	(63,059)
	(471,329)	(535,486)
Other entities - note 3:		
General Government Sector	3,837	(142,843)
Resource Sector	5,120	9,477
Social Sector	56,901	(110,038)
	65,858	(243,404)
Change in deficit	(405,471)	(778,890)

See accompanying notes.

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE RECONCILIATION OF CASH RESULTS TO CONSOLIDATED ACCRUAL RESULTS
For the year ended 31 March 2005

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. The original budgeted consolidated accrual deficit for the period as per the Estimates was \$839.6 million.

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 gains/losses represent the amortization of the unrealized foreign exchange gains/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.

PROVINCE OF NEWFOUNDLAND AND LABRADOR
**Government Reporting Entity
For the year ended 31 March 2005**

GOVERNMENT ORGANIZATIONS

AU	Avalon East School Board
	Avalon Health Care Institutions Board
AU	Avalon West School District
AU	Baie Verte, Central, Connaigre School District
	Board of Commissioners of Public Utilities
N	Breast Screening Program for Newfoundland and Labrador
	Bull Arm Site Corporation
AU	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
AU	Cormack Trail School Board
AU	Corner Brook - Deer Lake - St. Barbe School District
D	Credit Union Deposit Guarantee Corporation
	Eastern Health and Community Services Board
Note 1	Grenfell Regional Health Services Board
Note 2	Health Care Corporation of St. John's
	Health Labrador Corporation
	Heritage Foundation of Newfoundland and Labrador
Note 3	Hotel Buildings Limited
J	Labrador School Board
	Labrador Transportation Initiative Fund
AU	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
Note 4	Newfoundland and Labrador Education Investment Corporation
M	Newfoundland and Labrador Farm Products Corporation
	Newfoundland and Labrador Film Development Corporation
Note 5	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
Note 6	Newfoundland and Labrador Petroleum Products Pricing Commission
	Newfoundland and Labrador Student Investment and Opportunity Corporation
	Newfoundland Hardwoods Limited
	Newfoundland Ocean Enterprises Limited
AU	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
	Student Loan Corporation of Newfoundland and Labrador
	The Newfoundland Cancer Treatment and Research Foundation
	The Rooms Corporation of Newfoundland and Labrador
AU	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.
AU	These entities had an extended year end of 31 August 2004 (this fiscal year only).
D	These entities have a year end of 31 December.
M	This entity had an extended year end of 31 May 2005.
N	These entities are new to the reporting entity for 31 March 2005.

NOTES

Note 1	Included in the 2004 -05 Consolidated Summary Financial Statements are the statements of Grenfell Foundation Incorporated, which is controlled by Grenfell Regional Health Services Board.
Note 2	Included in the 2004-05 Consolidated Summary 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 (controlled by the Health Care Foundation of St. John's Incorporated).
Note 3	The financial statements for 30 June 2004 represented the final financial position and results of operations for Hotel Buildings Limited, covering the period 1 April 2004 to 30 June 2004.

SUMMARY FINANCIAL STATEMENTS

GOVERNMENT REPORTING ENTITY (continued)

- Note 4 The financial statements for 20 May 2005 represented the final financial position and results of operations for Newfoundland and Labrador Education Investment Corporation, covering the period of 1 April 2004 to 20 May 2005 (extended year end).
- Note 5 The financial statements for 22 April 2005 represented the final financial position and results of operations for Newfoundland and Labrador Heritage Corporation, covering the period of 1 April 2004 to 22 April 2005 (extended year end).
- Note 6 The financial statements for 7 June 2004 represented the financial position and results of operations for Newfoundland and Labrador Petroleum Products Pricing Commission for the period of 1 April 2004 to 7 June 2004. The organization was absorbed by the Public Utilities Board of Newfoundland and Labrador on 8 June 2004.