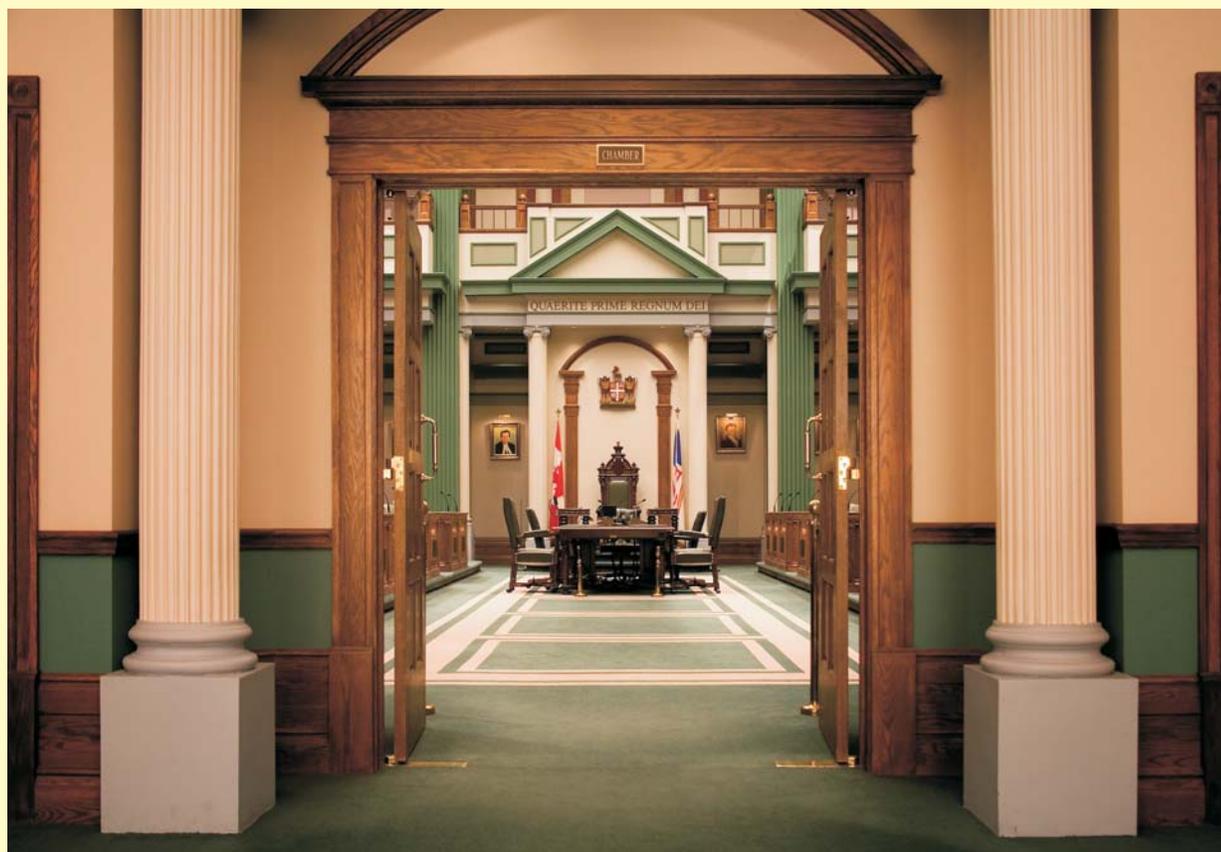




REPORT OF THE AUDITOR GENERAL

To the House of Assembly



On the Audit of the Financial Statements of the
Province of Newfoundland and Labrador

For the Year Ended
31 March 2010

Office of the Auditor General Newfoundland and Labrador



The Auditor General reports to the House of Assembly on significant matters which result from the examinations of Government, its departments and agencies of the Crown. The Auditor General is also the independent auditor of the Province's financial statements and the financial statements of many agencies of the Crown and, as such, expresses an opinion as to the fair presentation of their financial statements.

VISION

The Office of the Auditor General is an independent Office of the Legislature which, through audit, adds credibility to information provided by Government to the House of Assembly so that the Members of the House of Assembly can hold Government accountable for the prudent use and management of public resources.

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21 January 2011

The Honourable Roger Fitzgerald, M.H.A.
Speaker
House of Assembly

Dear Sir:

In compliance with the *Auditor General Act*, I have the honour to submit herewith, for transmission to the House of Assembly, my Report on the Audit of the Financial Statements of the Province for the year ended 31 March 2010.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "John L. Noseworthy".

JOHN L. NOSEWORTHY, CA
Auditor General

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**CHAPTER
1
REFLECTIONS OF THE
AUDITOR GENERAL**

Reflections of the Auditor General



The following comments are made further to my audit of the Province's financial statements (commonly referred to as the Public Accounts) for the year ended 31 March 2010. The Report provides additional information on the financial condition of Government measured by using indicators issued by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. The Report also offers comments on Government's compliance with generally accepted accounting principles and adherence to principles of sound financial accountability.

The Public Accounts provide an important link in an essential chain of public accountability. They are the principal means by which Government reports to the House of Assembly and to all Newfoundlanders and Labradorians on its stewardship of public funds.

Public Accounts Volume I (Consolidated Summary Financial Statements) provides the most complete information about the financial position and operating results of the Province. They combine the financial position and operating results of central Government and the departments (Consolidated Revenue Fund - Public Accounts Volume II), with those of other Government entities.

There have been significant surpluses and reductions in net debt from 2006 to 2009 when offshore oil royalties factored into improving the Province's financial position and fiscal capacity. At the same time, expenses for infrastructure development and other Government programs, especially health and education, have increased dramatically. As a result of the increasing offshore oil royalties, the Province has been able to increase expenditures and weather the global economic downturn better than most other jurisdictions. The strength of the Province's continued fiscal performance is evidenced by the positive future economic projections from various Canadian financial institutions.

However, much of the Province's fiscal performance relates to offshore oil royalties which are volatile by their nature and depend on fluctuations in three main factors: world oil prices, production and foreign currency fluctuations - none of which can be directly impacted by Government. Furthermore, oil is a non-renewable resource and offshore oil royalties will not always be available to fund Government programs. Therefore, the sustainability of current and future Government programs will depend on other revenue sources.

I note that, while there have been substantial improvements in the Province's financial position and fiscal capacity from 2006 through 2009 as a result of surpluses totalling \$4.141 billion during that period, my audit for 2010 identified a number of concerns with regards to the Province's current financial condition, as follows:

Reflections of the Auditor General

- the large surpluses seen from 2006 to 2009 are gone - the Province reported a \$33 million deficit for 2010;
- expenses have increased substantially in recent years - total expenses have increased by \$1.973 billion (36.8%) since 2006 and, in particular, health and education expenses have increased by \$1.049 billion (34.7%) since 2006 to \$4.072 billion in 2010, accounting for 55.6% of total expenses;
- an increase in net debt of \$252 million, from \$7.968 billion in 2009 to \$8.220 billion in 2010 - the Province would require a surplus of \$275 million each year for almost 30 years to eliminate the \$8.220 billion in net debt;
- an increase in net debt per capita of \$426, from \$15,700 in 2009 to \$16,126 in 2010 - the second highest in the country and 39.0% higher than the national net debt per capita average of approximately \$11,600;
- an increase in debt expenses of \$145 million, from \$745 million in 2009 to \$890 million in 2010 - the highest debt expenses since 2006. The \$890 million in debt expenses consists of \$457 million related to borrowings, \$337 related to the unfunded pension liability (highest interest costs since 2000), and \$96 million related to group health and life insurance retirement liabilities;
- the credit ratings provided by the Province's three bond rating agencies have not improved since 2008 and the Province is still among the lowest rated provinces – improvements in the credit rating would reduce the debt servicing cost over time;
- an increase in the unfunded pension liability of \$473 million, from \$1.704 billion in 2009 to \$2.177 billion in 2010 - five of the six pension plans had increases in the unfunded liability, and, for the first time since 2000, pension payments (\$469 million) exceeded contributions (\$422 million);
- an increase in the liability for group health and group life insurance retirement benefits of \$138 million, from \$1.630 billion in 2009 to \$1.768 billion in 2010 – the liability will continue to increase and is expected to total \$2.225 billion by 2014, an increase of approximately \$457 million or approximately 25.8% over the 2010 balance of \$1.768 billion if no action is taken to address it; and
- a decrease in the Province's GDP of \$6.488 billion, from \$31.458 billion in 2009 to \$24.970 billion in 2010 - the lowest GDP since 2007. The Province's net debt as a percentage of GDP increased by 7.6%, from 25.3% in 2009 to 32.9% in 2010.

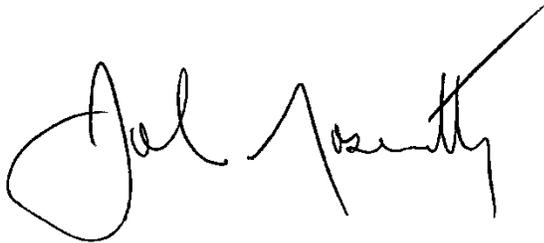
Government will have to continue to closely monitor the continued sustainability of its program expenditures, the unfunded pension liability and the liability for group health and group life insurance retirement benefits.

Reflections of the Auditor General

I also have concerns with the lack of progress made by Government regarding the identification of contaminated sites and the determination of remediation costs. In my opinion, the environmental liability of \$21.1 million currently recorded in the Province's financial statements is likely understated.

Acknowledgements

I acknowledge the cooperation and assistance my Office has received from the Office of the Comptroller General during the completion of my audit, as well as from officials of the various Government departments and Crown agencies. I also thank my staff for their continued hard work, professionalism and dedication.

A handwritten signature in black ink, appearing to read "John Noseworthy". The signature is fluid and cursive, with a large initial "J" and a long, sweeping underline.

JOHN L. NOSEWORTHY, CA
Auditor General

CHAPTER
2
INTRODUCTION

Background

This chapter presents information on the Province's financial statements (commonly referred to as the Public Accounts). These financial statements provide an important link in an essential chain of public accountability. They are the principal means by which Government reports to the House of Assembly and to all Newfoundlanders and Labradorians on its stewardship of public funds.

The Consolidated Summary Financial Statements are prepared on the accrual basis of accounting in accordance with the accounting standards established for governments by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), and as outlined in the significant accounting policies of the Province.

The statements provide the most complete information about the operating results and financial position of the Province. They combine the results of operations of the Consolidated Revenue Fund, which accounts for the financial activities of the central Government and the departments, with those of other Government entities.

For the year ended 31 March 2010, the Public Accounts contain the Consolidated Summary Financial Statements, the Auditor General's Report on those financial statements, and other information which Government is required to include or chooses to include.

In this chapter, I comment on the Consolidated Summary Financial Statements and present a summary of certain financial information contained in those financial statements. I have also included two appendices. Appendix I presents answers to questions I am frequently asked in relation to the Public Accounts, while Appendix II presents a glossary of terms used in the Public Accounts.

Legislative Requirements

In accordance with section 59 of the *Financial Administration Act*, Government prepares a document called the Public Accounts which includes the Consolidated Summary Financial Statements of the Province and the Consolidated Revenue Fund Financial Statements. In accordance with the *Act* the Public Accounts must show:

- the state of the public debt;
- the revenue and expenditure;

- all compromises, remissions, refunds and amounts written off; and
- those other accounts and statements that may under good accounting practice be required to show the financial position of the Province at the end of the fiscal year.

Under section 19 of the *Transparency and Accountability Act*, the Comptroller General is required to include (consolidate) the audited financial statements of Government entities in the Public Accounts.

Treasury Board prescribes the manner and form in which the Public Accounts of the Province are prepared, as provided for under the *Financial Administration Act*.

Section 11 of the *Auditor General Act* requires that the Auditor General express an opinion as to whether the financial statements included in the Public Accounts present fairly the financial position, results of operations and changes in the financial position of the Province in accordance with the disclosed accounting policies of the Provincial Government and on a basis consistent with that of the preceding year, together with reservations the Auditor General may have.

Responsibility for the Public Accounts

Government is responsible for providing the House of Assembly with the Province's financial statements (the Public Accounts). While Treasury Board prescribes the manner and form in which the Public Accounts of the Province are prepared, the actual statements, schedules and notes are prepared by the Comptroller General.

The Consolidated Summary Financial Statements include a Statement of Responsibility, signed by the Minister of Finance and President of Treasury Board, and the Comptroller General. The Statement indicates that *"Responsibility for the integrity, objectivity and fair presentation of the consolidated summary financial statements of the Province of Newfoundland and Labrador rests with the Government. As required under Section 59 of the Financial Administration Act, these consolidated summary financial statements are prepared by the Comptroller General of Finance in accordance with the applicable legislation and in accordance with the accounting policies as disclosed in Note 1 to these consolidated summary financial statements. These consolidated summary financial statements are prepared based upon information provided by the various Government departments and the noted Crown corporations, boards and authorities pursuant to Section 19 of the Transparency and Accountability Act and Section 20 of the Financial Administration Act. The Government is responsible for maintaining a system of internal accounting and*

administrative controls in order to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained."

**Auditor's
Report on the
Financial
Statements of
the Province**

The Auditor's Report on the Consolidated Summary Financial Statements of the Province for the year ended 31 March 2010 reads as follows:

*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 2010 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 2010 and the results of its operations, the changes in its net debt and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles and, pursuant to section 11 of the Auditor General Act, in accordance with the accounting policies of the Provincial government as disclosed in Note 1 to these financial statements applied on a basis consistent with that of the preceding year.

JOHN L. NOSEWORTHY, CA
Auditor General

*St. John's, Newfoundland and Labrador
15 December 2010*

Introduction

Compliance with Generally Accepted Accounting Principles

The Consolidated Summary Financial Statements are the principal financial statements of the Province and are in full compliance with the requirements of Canadian generally accepted accounting principles for government.

**CHAPTER
3
FINANCIAL CONDITION
OF THE PROVINCE**

Financial Condition of the Province

Introduction Each year in this chapter, I present key financial information contained in the Public Accounts. I also present information on the financial condition of the Province, including a discussion of financial indicators in the Newfoundland and Labrador context. These financial indicators are intended to assist the reader in interpreting the financial information contained in the Public Accounts and to more completely understand the significance of the information provided.

The following analysis is based on the financial position of the Province for the 2010 fiscal year.

Key Balances in the Public Accounts There are five key balances in Volume I of the Public Accounts, i.e. the Consolidated Summary Financial Statements - net debt, accumulated deficit, surplus (deficit), revenue and expense.

Net Debt

Net debt as at 31 March 2010 was \$8.2 billion (2009 - \$8.0 billion). This is the amount by which the Province's liabilities of \$12.5 billion (2009 - \$12.4 billion) exceeded its financial assets of \$4.3 billion (2009 - \$4.4 billion). It is also considered to be the amount which the Government of the day leaves for future Governments to either repay or refinance.

Accumulated Deficit

The accumulated deficit as at 31 March 2010 was \$5.5 billion (2009 - \$5.5 billion). This is the total net amount of all annual surpluses and deficits experienced by the Province.

Surplus (Deficit)

The consolidated deficit for the year ended 31 March 2010 was \$33 million (2009 – surplus of \$2.4 billion). The \$33 million deficit for 2010 is the amount by which the Province's total expense exceeded its total revenue. The \$2.4 billion surplus for 2009 is the amount by which the Province's total revenue exceeded its total expense.

Revenue

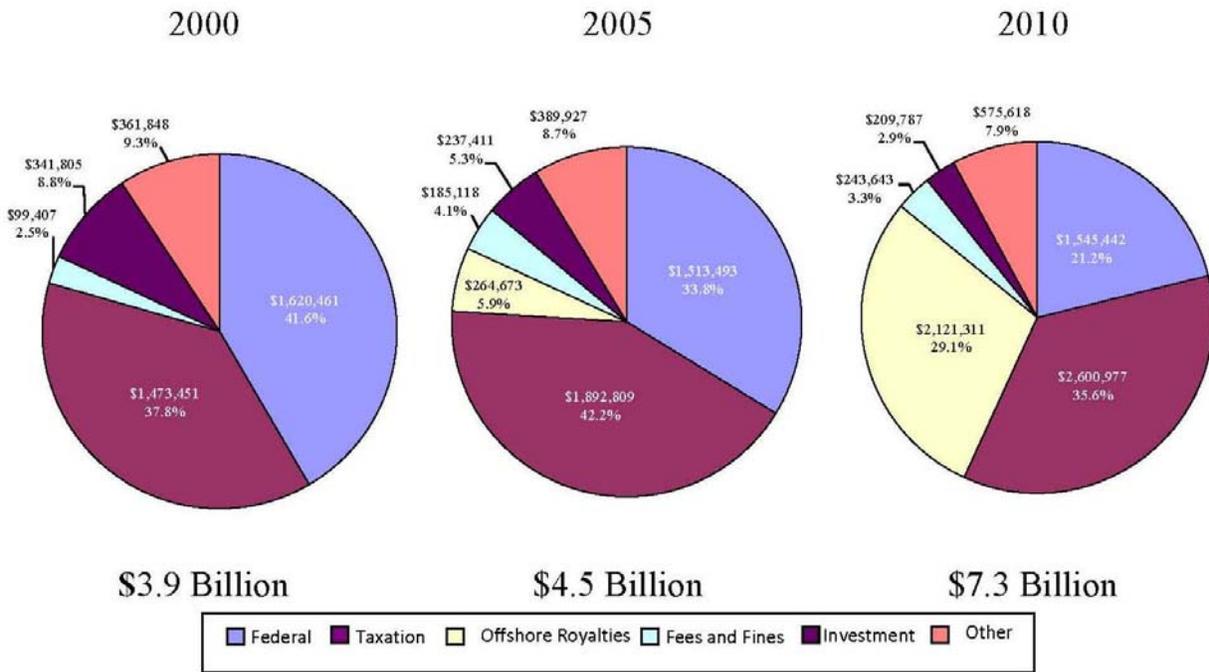
Total revenue for the year ended 31 March 2010 was \$7.3 billion (2009 - \$8.6 billion). Revenues consist of:

- revenues received from the Government of Canada;
- own source revenues generated by the Province e.g. through taxation, offshore oil royalties, fees and fines;
- revenues from investments; and
- other revenue sources, including net income of Government business enterprises - considered as organizations which carry on business and sell goods and services to individuals and non-Government organizations as their principal activity and source of revenue. The Government business enterprises included in the 2010 Consolidated Summary Financial Statements consisted of the Newfoundland and Labrador Liquor Corporation (year ended 3 April 2010) and Nalcor Energy (year ended 31 December 2009).

Figure 1 shows the total revenues of the Province by source for 2000, 2005 and 2010.

Figure 1

**Province of Newfoundland and Labrador
Revenues by Source for 2000, 2005 and 2010
(\$ 000's)**



As Figure 1 shows, Federal revenue as a proportion of total revenues has decreased from 41.6% in 2000 to 21.2 % in 2010, while the proportion of offshore oil royalties has increased significantly from being an immaterial amount in 2000 to 29.1% in 2010.

Expense

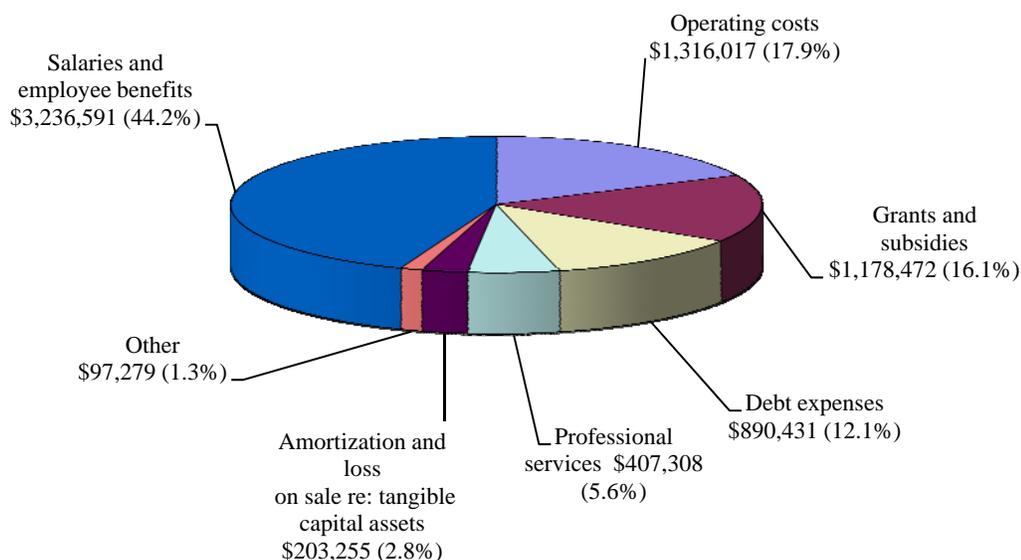
Total expense for the year ended 31 March 2010 was \$7.3 billion (2009 - \$6.3 billion). Expenses include:

- salaries and employee benefits;
- debt expenses;
- operating costs;
- grants and subsidies; and
- other costs to Government of providing programs and services.

Figure 2 shows the total expenses of the Province by type for 2010.

Figure 2

**Province of Newfoundland and Labrador
Expenses by Type for 2010
(\$000's)**



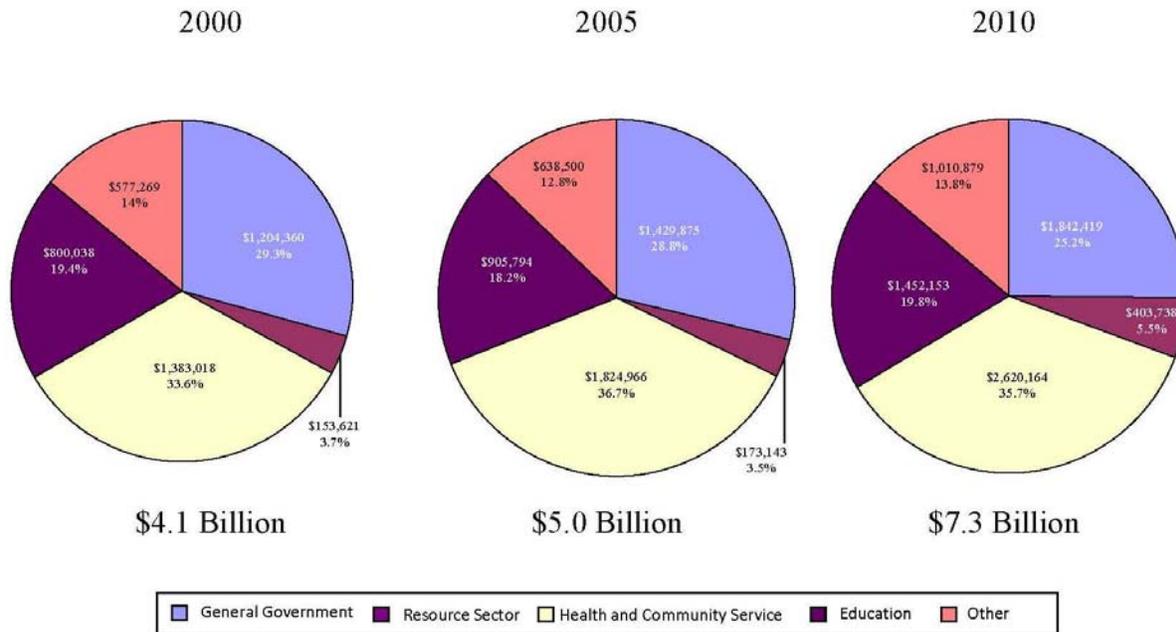
Total: \$7.3 Billion

Expenses are summarized in the statements by the three sectors - general Government and legislature sector, resource sector, and social sector (including health and community services, education, and other social sector areas). Figure 3 shows the expenses of the Province by sector for 2000, 2005 and 2010.

Financial Condition of the Province

Figure 3

**Province of Newfoundland and Labrador
Expenses by Sector for 2000, 2005, and 2010
(\$ 000's)**



As Figure 3 shows, funding for the Departments of Health and Community Services, and Education has increased significantly since 2000. Funding for the Department of Health and Community Services has increased from \$1.4 billion (33.6% of total expenses) in 2000 to \$2.6 billion (35.7% of total expenses) in 2010, while funding for the Department of Education increased from \$800 million (19.4% of total expenses) in 2000 to \$1.5 billion (19.8% of total expenses) in 2010. Combined funding for health and education made up 55.5% of the total expenses in 2010, up from 53% in 2000.

Key Balances

A summary of key balances contained in the Consolidated Summary Financial Statements is provided in Figure 4.

Financial Condition of the Province

Figure 4

**Consolidated Summary Financial Statements
Key Balances
Years Ended 31 March
(\$ Billions)**

| Balance | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|--|----------------|---------------|---------------|---------------|--------------|----------------|
| Statement of Financial Position | | | | | | |
| Financial Assets | 1.845 | 2.118 | 2.104 | 3.177 | 4.422 | 4.339 |
| Liabilities | 13.733 | 13.802 | 13.662 | 13.365 | 12.391 | 12.559 |
| Net Debt | 11.888 | 11.684 | 11.558 | 10.188 | 7.969 | 8.220 |
| Non-Financial Assets | 2.135 | 2.289 | 2.316 | 2.436 | 2.467 | 2.705 |
| Accumulated Deficit | 9.753 | 9.395 | 9.242 | 7.752 | 5.502 | 5.515 |
| Statement of Operations | | | | | | |
| Revenue | 4.483 | 5.556 | 5.521 | 7.141 | 8.632 | 7.296 |
| Expense | 4.972 | 5.357 | 5.367 | 5.704 | 6.282 | 7.329 |
| Annual Surplus (Deficit) | (0.489) | 0.199 | 0.154 | 1.437 | 2.350 | (0.033) |

While Government's overall financial condition improved from 2006 to 2009, a deficit of \$33 million was reported in 2010. The Province's net debt of \$8.2 billion is still quite high, with net debt per capita of approximately \$16,126 as at 31 March 2010 being the second highest in Canada. Based on information obtained from Government, this is 39.0% above the national average of approximately \$11,600 per capita.

Also, while the Province's economic growth has been positive, its ability to raise its own source revenue remains vulnerable to changes in the economy, including changes due to fluctuations in oil prices and production levels, the value of the Canadian dollar and interest rates.

With regards to offshore oil royalties, the Province is becoming increasingly reliant on these revenues due to growth in this revenue source in recent years. Offshore oil royalties in 2005 were \$265 million and increased by \$1.8 billion to \$2.1 billion in 2010. These revenues are generated from non-renewable resources and are very vulnerable to changes in world oil prices, production and foreign currency fluctuation; all of which are outside the control of Government. As a result, there can be significant variances between Government estimated revenue and actual revenue which can have significant impacts on fiscal performance.

Financial Condition of the Province

To illustrate, in November 2010, Government increased its offshore oil royalties estimate for the 2011 fiscal year by \$65 million. This had a significant impact on the expected fiscal outlook and was a major factor in changing the original budgeted deficit of \$194.3 million for the 2011 fiscal year, to a projected surplus of \$12.3 million.

There has to be a continued improvement in Government's financial results in order to support a reasonable plan to address the substantial net debt. By way of illustration, consider that the Province would require a surplus of \$275 million each year for almost 30 years to eliminate its current net debt of \$8.2 billion.

Maintaining a substantial net debt means incurring significant annual costs to service that debt. It also means that these annual costs could change significantly due to changes in interest rates. Debt expenses for the year ended 31 March 2010 totalled \$890 million, which represents 12.2% of total revenues (also known as the "interest bite"). This means that the Province spent \$890 million to pay financing costs associated with debt incurred in the past, as well as changes in the unfunded pension liability and the liability for group health and life insurance retirement benefits. As a result, that amount was not available to spend on programs and services. Furthermore, at 31 March 2010, the Province had \$795 million in U.S. debt (net of sinking fund assets). Therefore it has exposure to currency fluctuations. For example, a 1 cent change in exchange rates would have an impact of approximately \$10.5 million on the Province's debt.

Although Newfoundland and Labrador is considered a "Have Province", the Province remains reliant on transfers from the Federal Government in order to fund its programs and services. Of the Province's total revenue of \$7.3 billion for the year ended 31 March 2010, \$1.5 billion or 21.2% resulted from Federal transfers.

Aside from the risk of fluctuating revenues, Government faces continued demand for expenditures, especially in health and education. Expenses in these two departments over the last ten years increased by \$1.9 billion (or 86%) from \$2.2 billion for 2000 to \$4.1 billion for 2010, and accounted for 56% of total Government expenses for the year ended 31 March 2010.

There are other factors which could also result in changes to the annual surplus or deficit, including an aging infrastructure, an aging population, and changes in population migration.

Financial Condition of the Province

Figure 5 provides details of the Province's liabilities, annual surplus (deficit), net debt and debt expenses for the years 1997 to 2010 as reported in the Consolidated Summary Financial Statements of the Province.

Figure 5

**Consolidated Summary Financial Statements
Liabilities, Annual Surplus (Deficit), Net Debt and Debt Expenses
Years Ended 31 March
(\$ Millions)**

| Year | Net Borrowing and other Liabilities | Unfunded Pension Liability | Group Health and Group Life Insurance Benefits Liability | Total Liabilities | Annual Surplus (Deficit) | Net Debt | Debt Expenses |
|--------------|-------------------------------------|----------------------------|--|-------------------|--------------------------|----------|---------------|
| 1997 | 6,730 | 2,943 | | 9,673 | (107) | 7,254 | 819 |
| 1998 | 6,373 | 3,134 | | 9,507 | 133 | 7,301 | 865 |
| 1999 | 6,758 | 3,352 | | 10,110 | (187) | 7,851 | 1,008 |
| 2000 | 6,689 | 3,309 | | 9,998 | (269) | 8,087 | 883 |
| 2001 | 6,801 | 3,348 | | 10,149 | (350) | 8,437 | 951 |
| 2002 | 7,270 | 3,392 | | 10,662 | (468) | 8,932 | 942 |
| 2003 | 7,581 | 3,557 | 985 | 12,123 | (644) | 10,616 | 979 |
| 2004 | 8,073 | 3,746 | 1,067 | 12,886 | (914) | 11,487 | 982 |
| 2005 | 8,640 | 3,934 | 1,159 | 13,733 | (489) | 11,888 | 940 |
| 2006 | 10,336(1) | 2,201 | 1,265 | 13,802 | 199 | 11,684 | 947 |
| 2007 | 10,334(2) | 1,925 | 1,403 | 13,662 | 154 | 11,558 | 777 |
| 2008 | 10,393(3) | 1,459 | 1,513 | 13,365 | 1,437 | 10,188 | 751 |
| 2009 | 9,056 | 1,704 | 1,630 | 12,390 | 2,350 | 7,968 | 745 |
| 2010 | 8,615 | 2,177 | 1,767 | 12,559 | (33) | 8,220 | 890 |
| Total | | | | | 812 | | 12,479 |

(1) Includes deferral of \$1.678 billion Atlantic Accord (2005) money.

(2) Includes deferral of \$1.459 billion Atlantic Accord (2005) money.

(3) Includes deferral of \$1.153 billion Atlantic Accord (2005) money.

As Figure 5 shows, prior to 2006, the Province had substantial deficits and interest costs and an increasing net debt each year. There was some improvement in 2006 and 2007, and a significant improvement in 2008 and 2009. However, there was some decline in 2010, with the Province once again recording a deficit and an increase in net debt and debt expenses. The total surpluses (net of deficits) reported over the 14 year period is \$812 million, with total debt expenses over the same period of \$12.5 billion.

Financial Condition of the Province

Although the Province had a budgeted deficit of \$750 million for 2010, it had an actual deficit of \$33 million. The \$33 million deficit was a significant reduction from the original budgeted deficit of \$750 million, and significantly lower than the reported surplus of \$2.4 billion for 2009.

The reduction in the \$2.4 billion surplus in 2009 to a deficit of \$33 million in 2010 relates primarily to significant increases in expenses, as well as the fact that no revenue was recorded from the Atlantic Accord (2005) Agreement in 2010.

Figure 6 provides details on the budget forecast compared to actual results for the year ended 31 March 2010.

Figure 6

**Consolidated Summary Financial Statements
Actual Compared to Budget
As at 31 March 2010
(\$000's)**

| | Actual | Original Estimates | Impact on Deficit | % of Impact |
|---|------------------|---------------------------|--------------------------|--------------------|
| REVENUE | | | | |
| Provincial | | | | |
| Taxation | 2,600,977 | 2,592,509 | 8,468 | 1.18% |
| Investment | 209,787 | 207,260 | 2,527 | .35% |
| Fees and fines | 243,643 | 227,879 | 15,764 | 2.2% |
| Offshore oil royalties | 2,121,311 | 1,312,600 | 808,711 | 112.8% |
| Other | 384,680 | 351,026 | 33,654 | 4.70% |
| Government of Canada | 1,545,442 | 1,731,315 | (185,873) | (25.93%) |
| Net income of government business enterprises | 190,938 | 189,342 | 1,596 | .22% |
| Total Revenue | 7,296,778 | 6,611,931 | 684,847 | 95.52 |
| EXPENSE | | | | |
| General Government Sector | 1,842,419 | 1,905,712 | 63,293 | 8.83% |
| Resource Sector | 403,738 | 353,492 | (50,246) | (7.01%) |
| Social Sector | 5,083,196 | 5,102,258 | 19,062 | 2.66% |
| Total Expense | 7,329,353 | 7,361,462 | 32,109 | 4.48% |
| SURPLUS (DEFICIT) | (32,575) | (749,531) | 716,956 | 100% |

Financial Condition of the Province

Financial Indicators

An important role for my Office is to provide Members of the House of Assembly with information on the state of Government's finances. This information is necessary in order to have an informed debate about the issues that Government has to address. Issues include the ability of Government to fund programs and services, where the revenues will come from and the impact of surpluses, deficits, and debt.

The Public Sector Accounting Board issued a Statement of Recommended Practice on indicators of financial condition that governments should use that will help the average person understand whether a government is better or worse off than the year or years before.

These indicators combined indicate the financial condition of a government: its financial health as measured by **sustainability**, **flexibility** and **vulnerability**, looked at in the context of the overall economic and financial environment. An explanation of these terms is as follows:

- **Sustainability** - whether a government is living within its means;
- **Flexibility** - whether a government can meet rising commitments by expanding its revenues or increasing its debt; and
- **Vulnerability** - the extent to which a government relies on money from the Federal government or other outside sources to pay for existing provincial programs.

In this section, the indicators are discussed in the Newfoundland and Labrador context. Each indicator can and should be analyzed in detail, combined with other information, and monitored over time.

Sustainability

Sustainability is the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy. Sustainability indicators include a government's:

- annual surplus or deficit;
- net debt and a province's gross domestic product (GDP) in relation to net debt;
- net debt as a percentage of province's GDP;
- Canadian and U.S. denominated borrowings;
- borrowings and sinking funds; and
- debt expenses.

Each of these indicators provides useful insight into the sustainability of a government's revenue raising and spending practices.

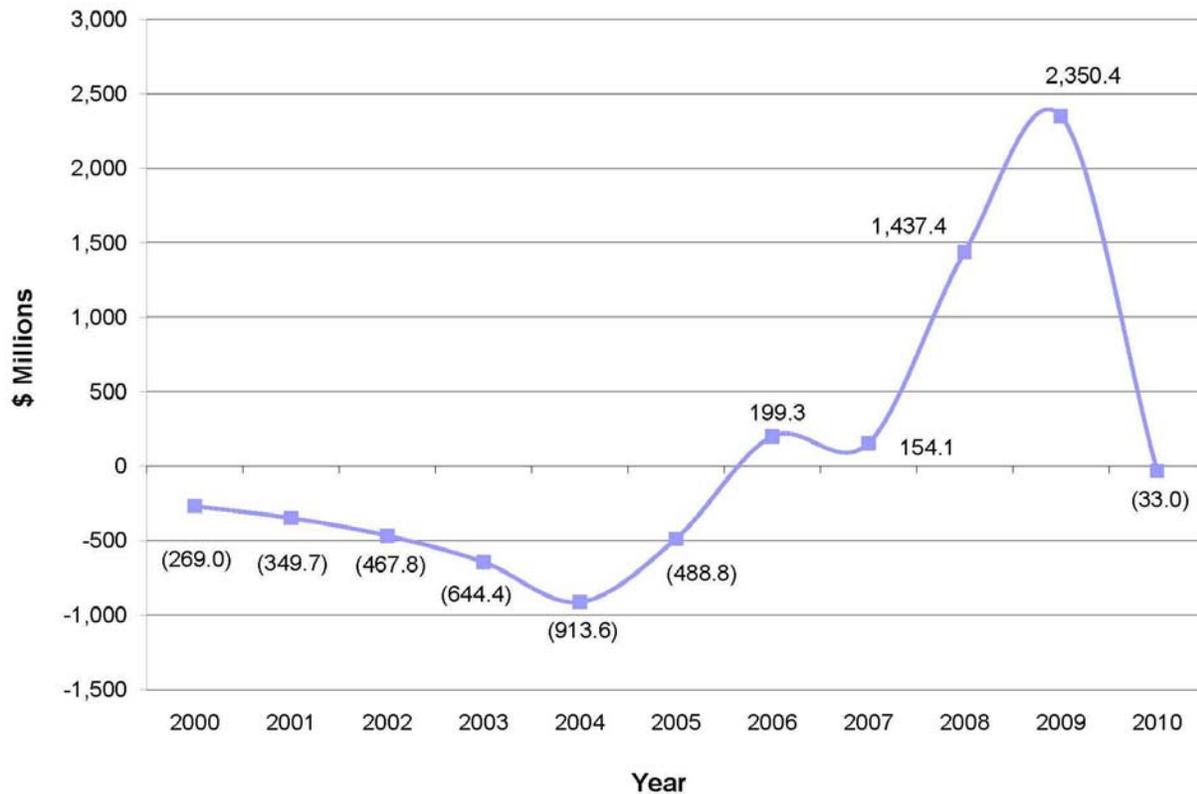
(a) Annual surplus or deficit

The annual surplus or deficit shows the extent to which a government spends less or more than it raises in revenues in one fiscal year. It is an indicator of whether a government is living within its means.

For the year ended 31 March 2010, the annual deficit reflected in the Province's Consolidated Summary Financial Statements was \$33 million. Figure 7 provides details as to the annual surplus or deficit each year from 2000 to 2010.

Figure 7

**Consolidated Summary Financial Statements
Annual Surplus (Deficit)
Years Ended 31 March
(\$ Millions)**



As Figure 7 shows, prior to 2006, Government had an annual deficit each year. In 2006, there was a reported surplus of \$199 million, the first surplus since 1998. The Figure also shows that Government's annual deficit grew each year from 2000 to 2004, with the deficit of \$914 million in 2004, representing the largest annual deficit recorded by the Province. Government also had a deficit in 2005; however, it had decreased from the record deficit in 2004, to \$489 million. For 2006, Government had a surplus of \$199 million, which was due in large part to an increase in offshore oil royalties and an increase in Government of Canada revenue. There was also a surplus in 2007; however, it had decreased from 2006 to \$154 million. The surplus in 2008 increased to \$1.4 billion and increased further in 2009 to \$2.4 billion. In 2010, however, the Province had a deficit of \$33 million.

(b) Net debt and a province's gross domestic product (GDP) in relation to net debt

Users of a province's financial statements should look at long-term trends such as net debt to GDP and net debt as a percentage of GDP. Such trends are further indicators of whether a government is living within its means.

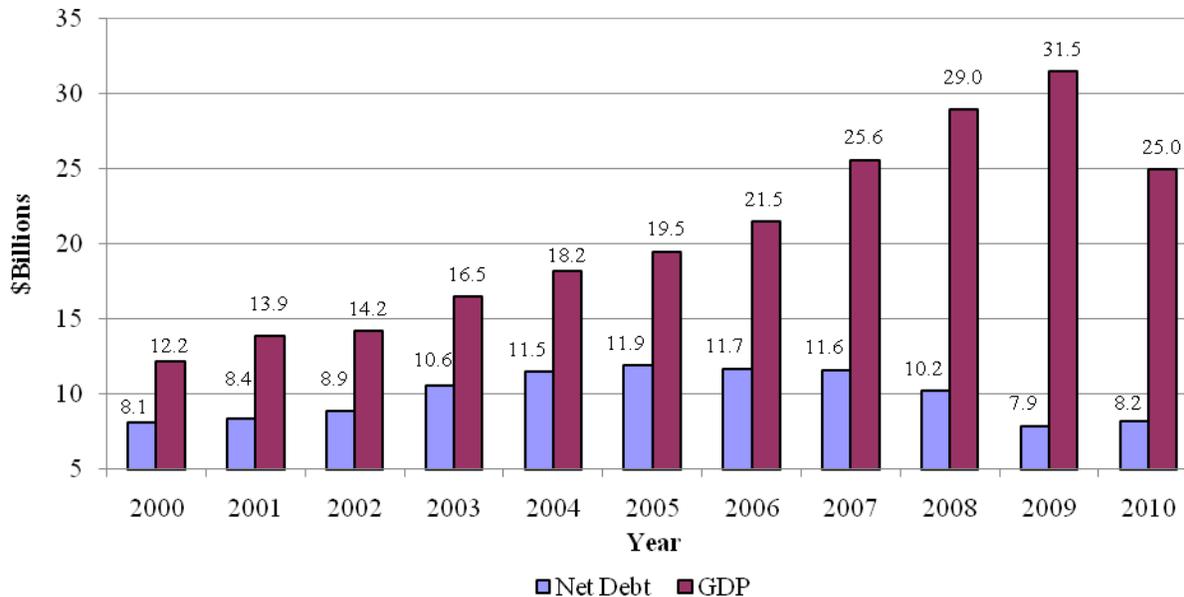
Net debt is the total of all liabilities reduced by financial assets (e.g. cash, temporary investments, and receivables). It is the amount which the government of the day leaves for future governments to either repay or refinance. As at 31 March 2010, the net debt reflected in the Province's Consolidated Summary Financial Statements was \$8.2 billion.

The Province's GDP is a measure of the total value of all goods and services produced in Newfoundland and Labrador in one year. It is the number most often used to indicate the size of a provincial economy. Government must manage its revenue raising and spending practices in the context of the economy of the Province.

Figure 8 provides details as to the net debt in relation to GDP from 2000 to 2010. For purposes of this chapter, GDP for 2010 is reported at \$25 billion, based on information obtained from the Provincial Department of Finance.

Figure 8

**Consolidated Summary Financial Statements
Net Debt in Relation to GDP
Years Ended 31 March
(\$ Billions)**



As Figure 8 shows, the GDP of Newfoundland and Labrador increased substantially from 2000 to 2009. Although the GDP decreased in 2010 because of the global economic downturn, at \$25 billion, it is still an increase of \$12.8 billion (105%) from the 2000 GDP of \$12.2 billion. Figure 8 also shows that the Province's net debt increased each year from 2000 to 2005, then decreased each year to 2009 and increased in 2010.

(c) Net debt as a percentage of Province's gross domestic product (GDP)

The financial demands placed on the economy by Government's spending and revenue raising practices can be assessed for sustainability by comparing Government's net debt to the Province's GDP. The thinking behind this measure is that the larger the GDP the more debt Government can afford to carry.

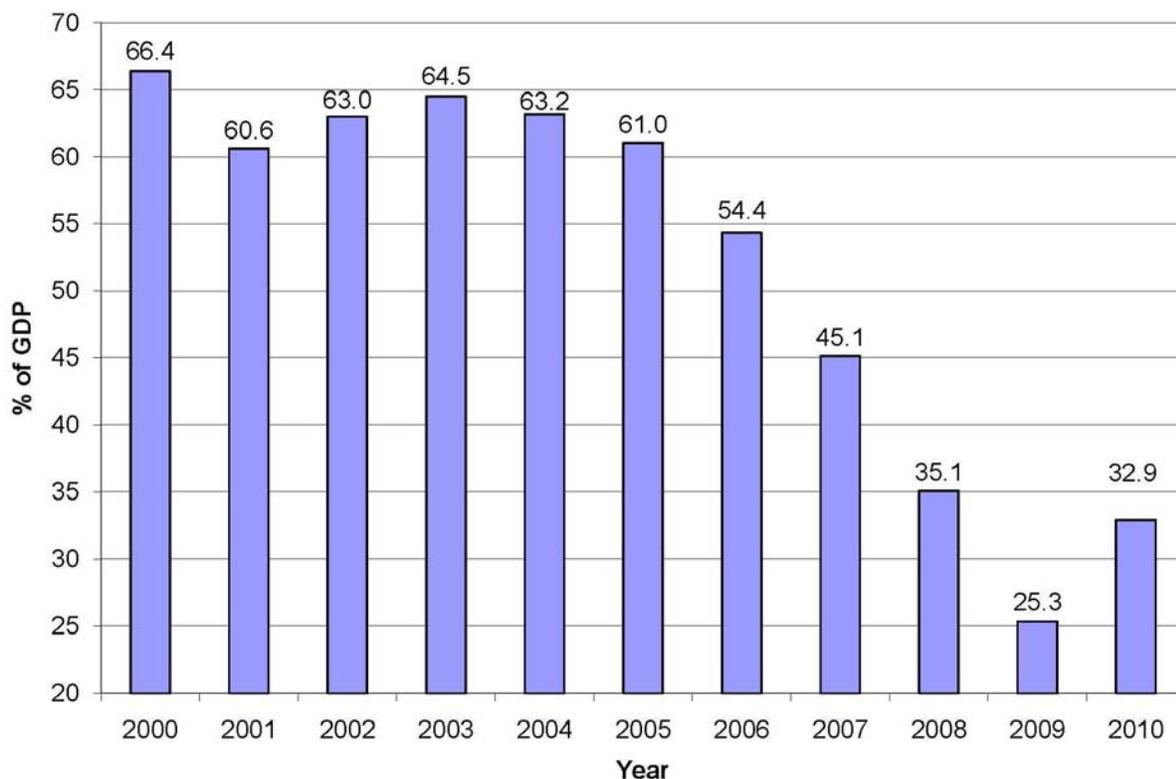
The Province's net debt decreased in 2007, 2008, and 2009, and has increased during 2010. The Provincial GDP increased each year between 2000 and 2009, and decreased in 2010.

Financial Condition of the Province

Therefore, as shown in Figure 9, the net debt as a percentage of GDP decreased significantly from 2004 to 2009. While it increased in 2010, the net debt of the Province as a percentage of GDP in 2010 of 32.9%, is still a significant decrease from 66.4% in 2000.

Figure 9

Consolidated Summary Financial Statements Net Debt as a Percentage of GDP Years Ended 31 March



(d) Canadian and U.S. denominated borrowings

As at 31 March 2010, borrowings were reported in the Consolidated Statement of Financial Position at \$6.0 billion, which represents total borrowings of \$6.9 billion less sinking fund assets of \$866 million. Total borrowings consist of general debentures in both Canadian and foreign currencies, amounts borrowed from the Government of Canada and its agencies, as well as other notes and loans payable by the Province. The \$6.0 billion total borrowings of the Province, net of sinking fund assets for various debentures, is comprised of \$5.524 billion in debt reflected in the Consolidated Revenue Fund, \$176 million in health care organization debt, \$156 million in Student Loan Corporation of Newfoundland and Labrador debt, \$99 million in Newfoundland and Labrador Municipal Financing Corporation debt,

Financial Condition of the Province

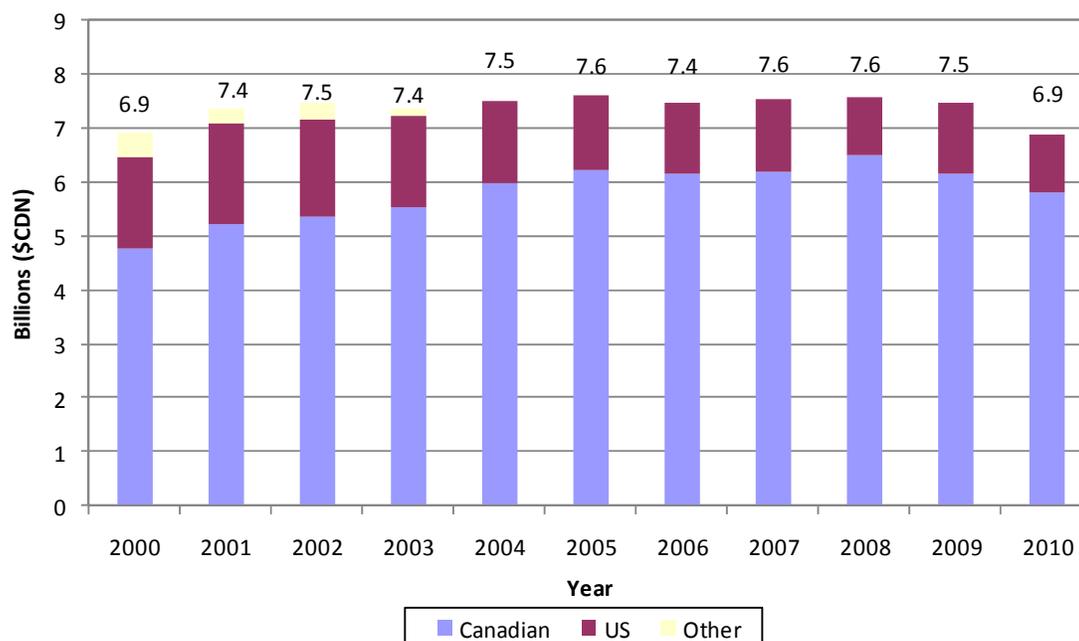
\$25 million in Newfoundland and Labrador Housing Corporation debt, and other miscellaneous debt of \$32 million.

The net borrowings of \$6.0 billion do not include the borrowings of Nalcor Energy. This accounting policy is consistent with the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants which require that the net equity position of a Government business enterprise such as Nalcor Energy be recorded in the Consolidated Summary Financial Statements of the Province. In the audited financial statements of Nalcor Energy for the year ended 31 December 2009, the Corporation reported long-term debt of \$1.1 billion (31 December 2008 - \$1.2 billion).

Figure 10 shows the total borrowings as at 31 March for each year from 2000 to 2010 as disclosed in the Consolidated Statement of Financial Position. The Figure provides a breakdown of Canadian and foreign currency debt.

Figure 10

Consolidated Summary Financial Statements
Total Borrowings
Years Ended 31 March
(\$ Billions)



Financial Condition of the Province

As Figure 10 shows, there were only Canadian and U.S. denominated borrowings as at 31 March 2010. The Canadian denominated borrowings totalled \$5.8 billion and accounted for 84.1% of total borrowings.

(e) Borrowings and sinking funds

Many of the debentures held by the Province have sinking fund requirements. Sinking funds are a pool of cash and investments accumulated during the life of the debentures to repay the debt at maturity.

Figure 11 provides information on sinking funds as at 31 March 2010 along with the related debenture debt outstanding and the net amount left after reducing the debt by the amount of the sinking funds.

Figure 11

Consolidated Summary Financial Statements
Borrowings and Sinking Funds
As at 31 March 2010
(\$ Millions)

| | Debt Outstanding | Sinking Fund Balance | Balance net of Sinking Fund |
|----------------------------------|-------------------------|-----------------------------|------------------------------------|
| Total Debt with Sinking Funds | 3,972 | 866 | 3,106 |
| Total Debt without Sinking Funds | 2,905 | - | 2,905 |
| Total | 6,877 | 866 | 6,011 |

As Figure 11 shows, Government had approximately \$866 million in sinking funds at 31 March 2010.

Figure 12 shows borrowings net of sinking funds for each of the past eleven years.

Figure 12

**Consolidated Summary Financial Statements
Borrowings and Sinking Funds
Years Ended 31 March
(\$ Billions)**

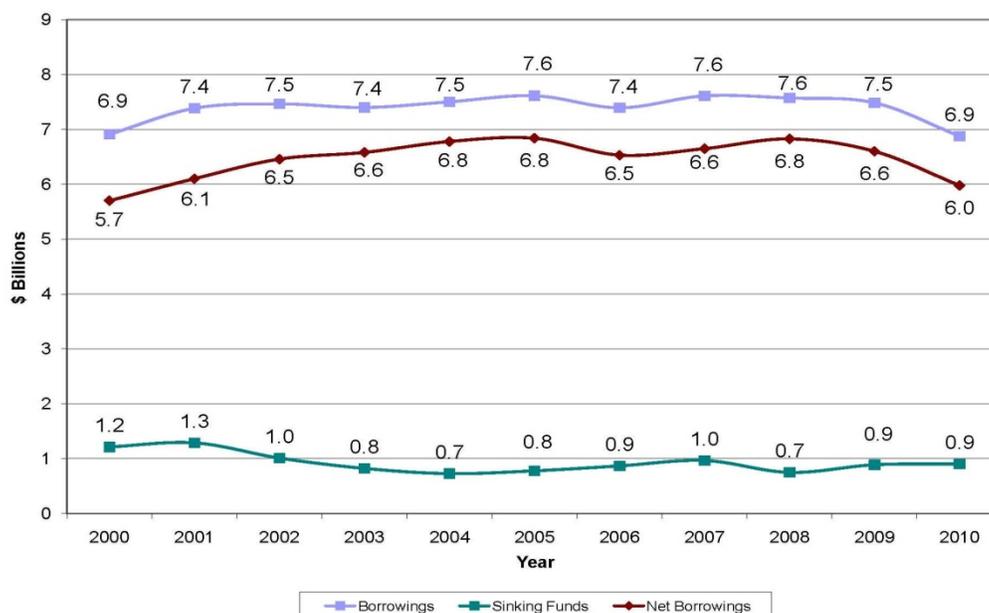


Figure 12 shows that from 2002 to 2009 there was no significant change in these balances; however, borrowings declined by approximately \$600 million during 2010.

(f) Debt expenses

Debt expense (also known as the “interest bite”) is the amount the Province has to pay to service its debt. The Province’s debt expenses for 2010 as recorded in the Consolidated Summary Financial Statements totalled \$890 million, which consists of approximately \$337 million for the unfunded pension liability, \$96 million for the net liability for group health and life insurance retirement benefits, and \$457 million for the Province’s borrowings.

Total debt expenses for the Province for each year from 2000 to 2010 are outlined in Figure 13.

Figure 13

**Consolidated Summary Financial Statements
Debt Expenses
Years Ended 31 March
(\$ Millions)**

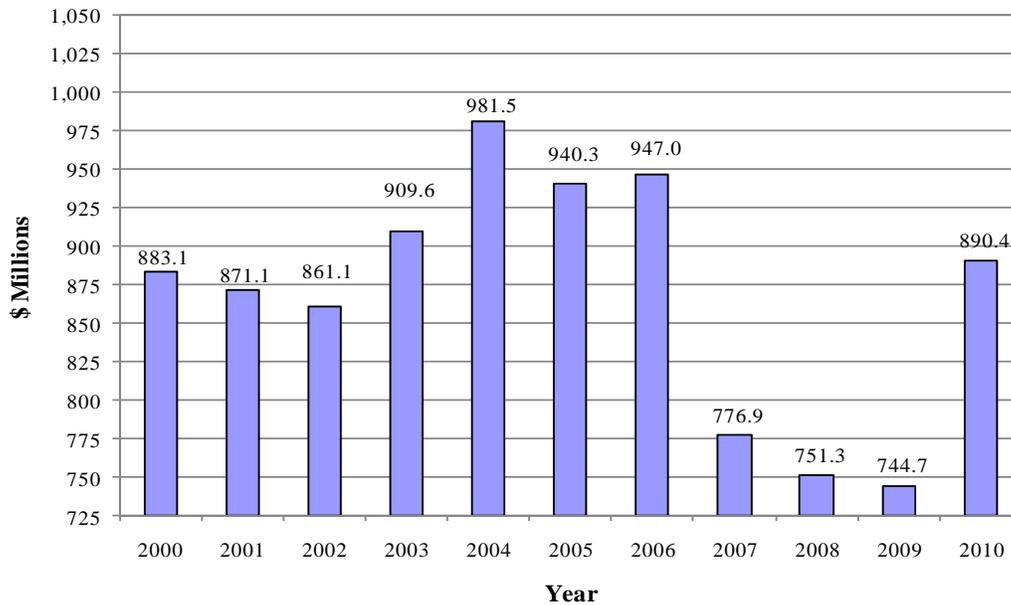


Figure 13 shows that debt expenses decreased significantly during the period of 2007, 2008 and 2009. However, they increased in 2010 to \$890 million, primarily due to an increase in interest costs on the unfunded pension liability.

Flexibility

Flexibility is the degree to which a government can increase its financial resources to respond to rising commitments, by either expanding its revenues or increasing its debt. Flexibility indicators include:

- interest costs as a percentage of total revenue; and
- own source revenues to GDP.

Together with a government's net debt and a province's GDP, these indicators provide insight into a government's flexibility in responding to rising commitments. For example, when a government has a large net debt and high interest costs, it has fewer resources to allocate to programs and services.

(a) Interest costs as a percentage of total revenue

Government incurs interest costs on its borrowings, as well as on its liabilities relating to retirement benefits. At 31 March 2010, Government's long-term borrowings net of sinking funds was \$6.0 billion, its unfunded pension liability was \$2.2 billion and its unfunded group health and life insurance retirement benefits liability was \$1.8 billion. In 2010, Government's interest costs (debt expenses) totalled \$890 million. The significance of debt expenses is that this money is not available to fund programs and services.

Interest costs as a percentage of total revenue, sometimes called the "interest bite", is an important indicator of the state of a government's finances.

Figure 14 provides the total debt expenses as a percentage of total revenue for the years ended 31 March 2000 to 2010.

Figure 14

Consolidated Summary Financial Statements Total Debt Expenses as a Percentage of Total Revenue Years Ended 31 March

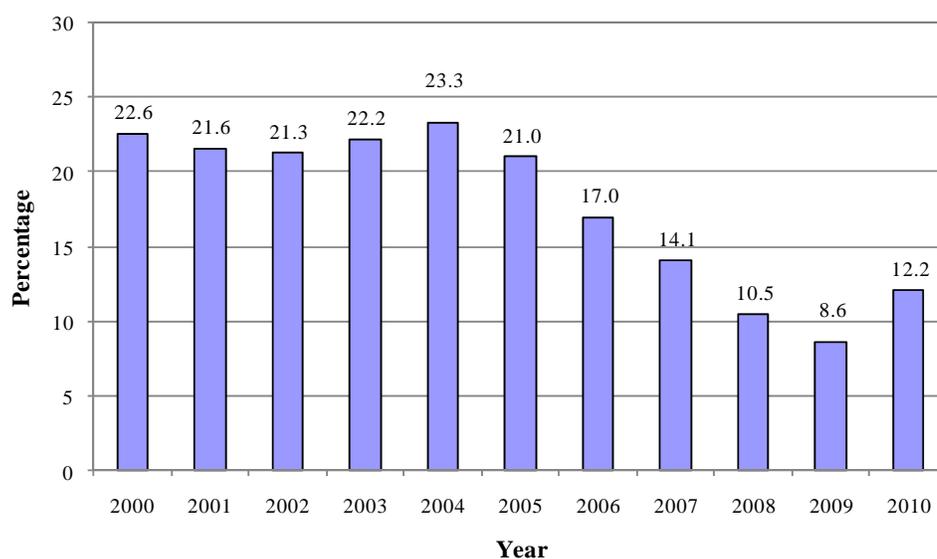


Figure 14 indicates a significant decrease in debt expenses as a percentage of total revenue in 2007, 2008 and 2009. However, in 2010 there was an increase in total debt expenses as a percentage of total revenue. These costs continue to be a substantial burden for government.

Reductions in debt expenses would allow Government to use more of its revenues to pay for programs and services, and use less of its revenues to pay for debt expenses.

(b) Own source revenues to GDP

The Government of Newfoundland and Labrador receives revenue from two general sources. The first revenue source is from within the Province. This source is called "own source revenue". The second source of revenue is transfers from the Federal Government.

Government's own source revenue to GDP reflects how much revenue Government can raise from the Provincial economy e.g. through taxes and fees. It shows the extent to which Government obtains its revenues from the Provincial economy as opposed to transfers from the Federal Government, and the flexibility it has in increasing its financial resources through own source revenues if faced with decreases in Federal Government transfers.

Figure 15 provides information on own source and Federal revenues from 2000 to 2010.

Figure 15

**Consolidated Summary Financial Statements
Revenue by Source
Years Ended 31 March
(\$ Billions)**

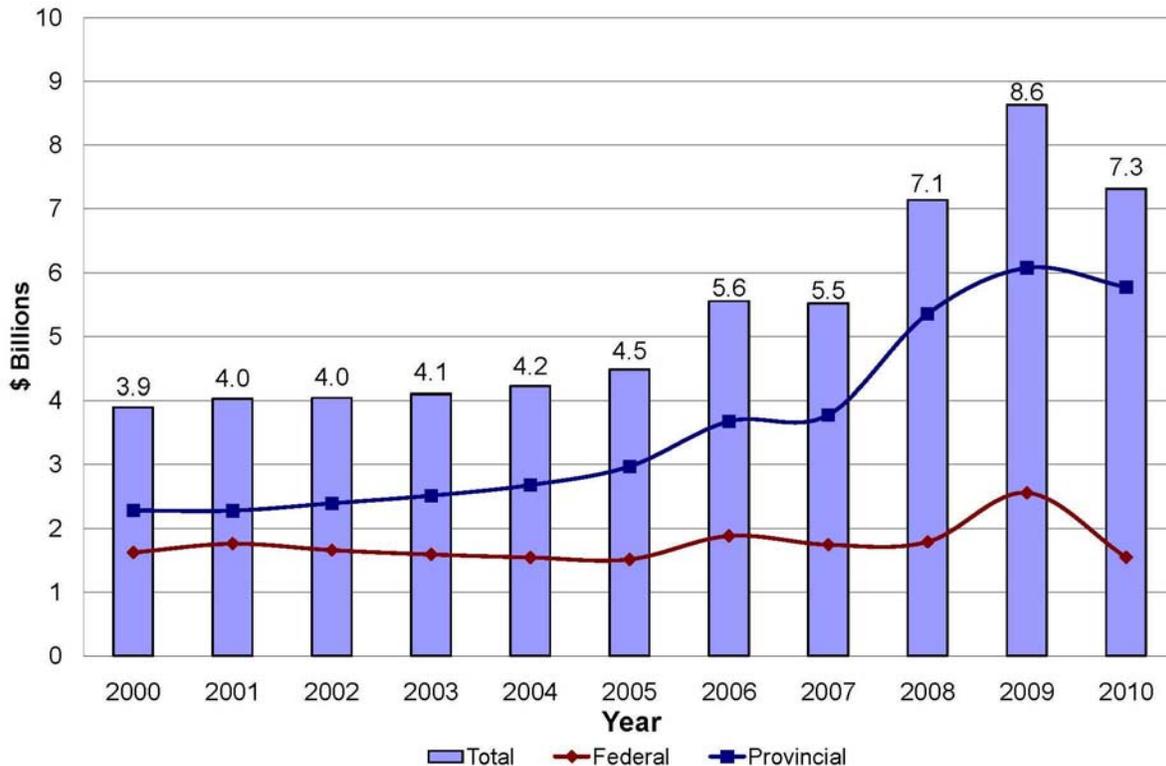


Figure 15 shows, although a substantial portion of our total revenue continues to come from the Federal Government, there was no significant change in this revenue source from 2000 to 2008. There was, however, an increase in 2009 and a decrease in 2010. At the same time, however, Provincial revenues have generally increased since 2000, although there was a decrease in 2010.

Another important factor to consider is the comparison of the change in a government's own source revenue to the size of the economy as indicated by the GDP.

Figure 16 provides information on this indicator from 2000 to 2010.

Figure 16

**Consolidated Summary Financial Statements
Own Source Revenue as a Percentage of GDP
Years Ended 31 March**

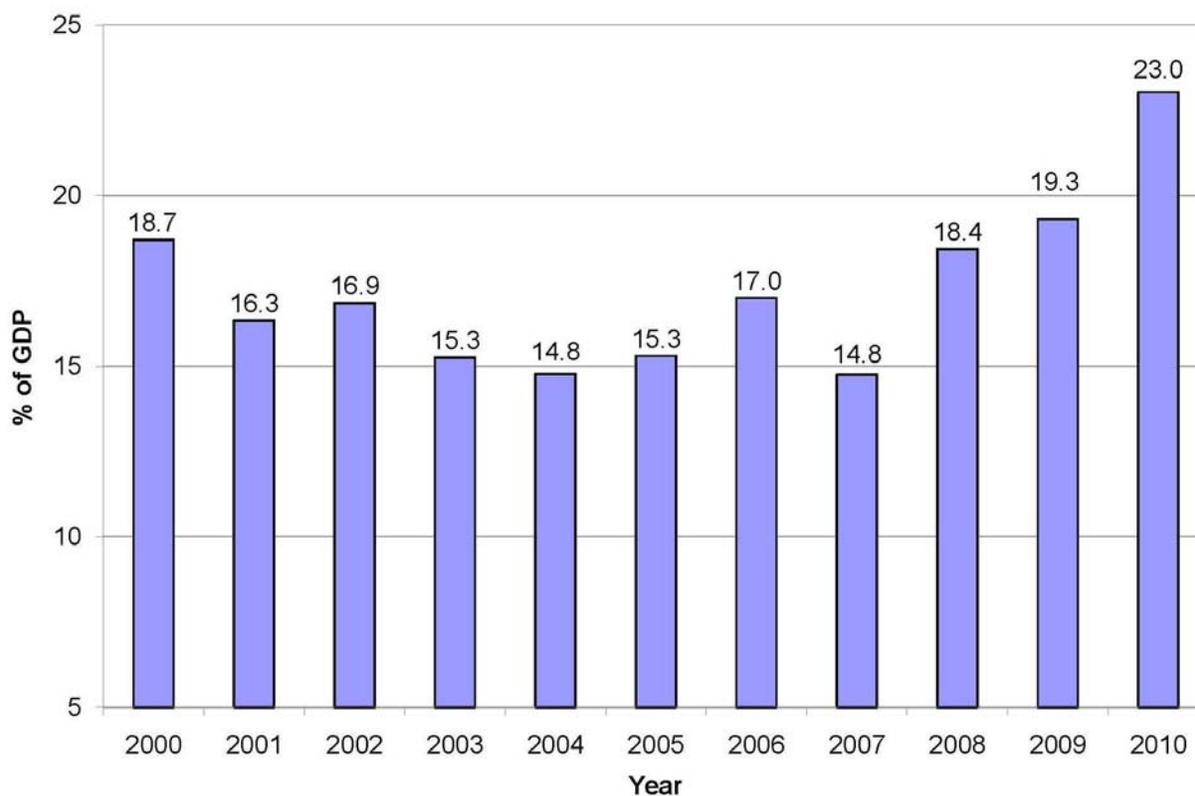


Figure 16 shows, revenue raised from sources within the Province, as a percentage of GDP, generally declined from 2000 to 2004 and increased overall to 2010. In 2000 the percentage was 18.7% while in 2010 it was 23.0%. This means that the Province is now taking more income out of the economy than it was in 2000.

Vulnerability

Vulnerability is the degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence. This indicator measures the extent to which a government can manage its financial affairs without having to rely on others. Important vulnerability indicators include:

- (a) Federal Government revenues compared to own source revenues;
- (b) foreign currency debt to total government debt; and
- (c) offshore oil royalties as a percentage of own source revenues.

(a) Federal Government revenues compared to own source revenues

A comparison of Federal Government revenues to own source revenues reflects how dependent Government is on transfers from the Federal Government and how vulnerable Government is to changes in these transfers in its ability to finance its programs and services.

A significant portion of Government's revenue in this Province consists of transfers from the Federal Government such as Health and Social Transfers, and cost-shared programs.

In the case of equalization, Newfoundland and Labrador does not currently receive any equalization payments. The Province is now classified as a "Have Province", meaning that we are considered to be financially self-reliant. However, equalization transfers are affected by each province's performance in relation to the performance of other provincial economies, and therefore are subject to change.

Offshore oil royalties have become the single largest own source revenue for Newfoundland and Labrador. The Province is especially vulnerable to changes in world oil prices and production levels. If resource revenues were to decline significantly it could result in the reversal of a "Have Province" to a Province that may possibly once more be a recipient of equalization payments from the Federal Government.

Figure 17 provides information on the percentage of Federal revenues compared to the Province's total revenues from 2000 to 2010.

Figure 17

**Consolidated Summary Financial Statements
Federal Revenues as a Percentage of Total Revenues
Years Ended 31 March**

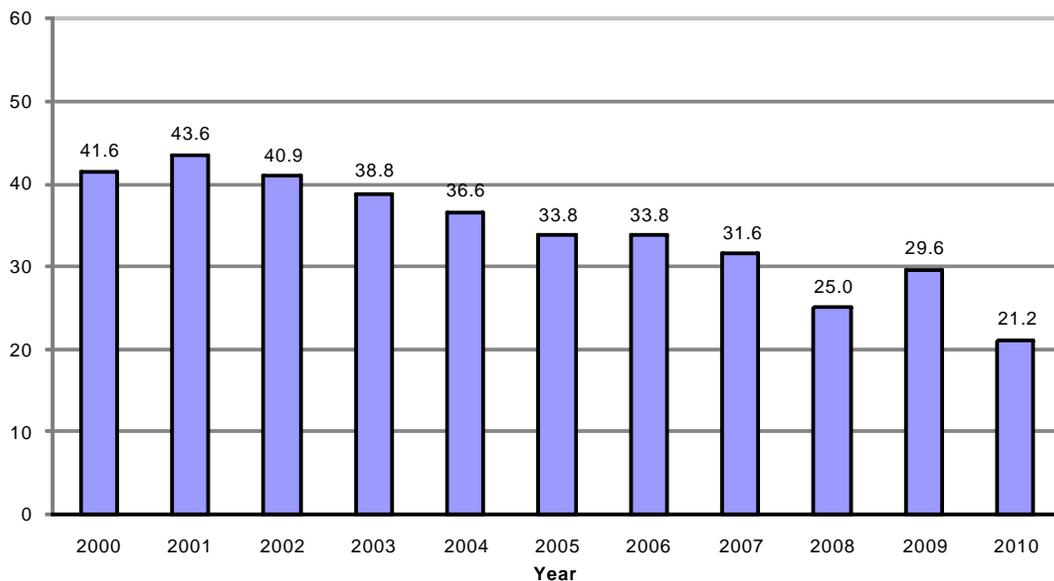


Figure 17 shows that, Federal revenue as a percentage of total revenue has generally declined since 2000.

As indicated in Figure 17, over the past eleven years, Federal revenue as a percentage of total revenue ranged from a high of 43.6% in 2001 to a low of 21.2% for 2010.

The lower the percentage of Federal revenues as a percentage of total revenues, the less potential impact, i.e. the vulnerability the Province has; related to any change in these revenues.

(b) Foreign currency debt to total government debt

Of the \$6.0 billion in total borrowings (net of sinking fund assets) as at 31 March 2010, \$795 million was foreign (U.S.) debt.

A comparison of a government's foreign debt to its total debt reflects the degree to which it is vulnerable to currency swings.

Financial Condition of the Province

Figure 18 provides information on the Province's foreign currency debt as a percentage of its total borrowings from 2000 to 2010.

Figure 18

Consolidated Summary Financial Statements
Foreign Currency Debt as a Percentage of
Total Borrowings (Net of Sinking Funds)
Years Ended 31 March

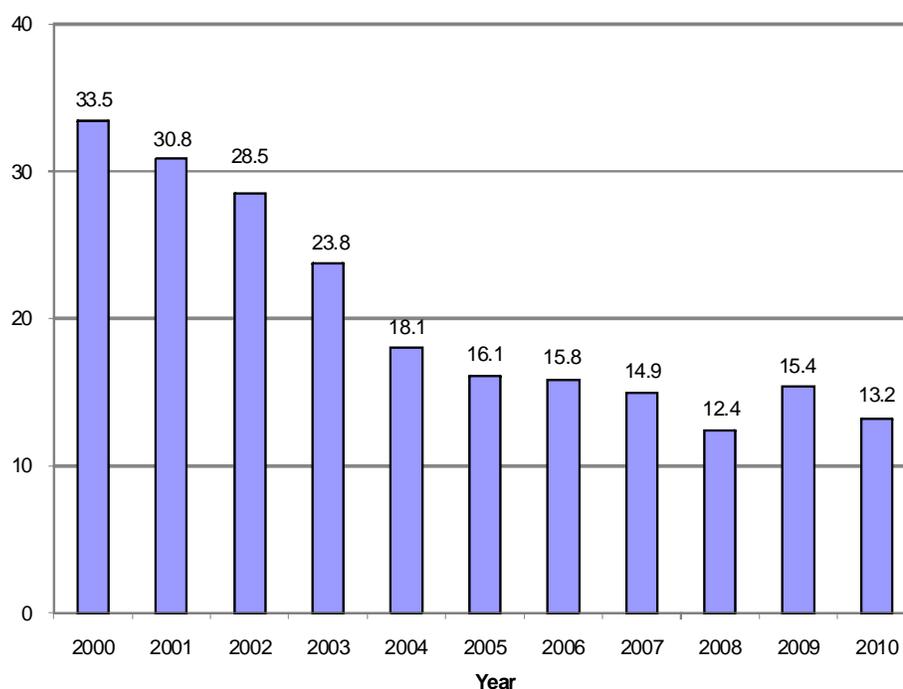


Figure 18 indicates, over the last eleven years, foreign currency debt as a percentage of total debt has been generally decreasing from a high of 33.5% in 2000 to a low of 12.4% in 2008.

Although foreign currency debt is decreasing, Government is still vulnerable to currency swings in relation to this debt. To illustrate, as at 15 December 2010 the foreign exchange rate for one US dollar was \$1.0035. As at 31 March 2010, the foreign exchange rate for one US dollar was \$1.0158. If, as at 31 March 2010, the foreign exchange rate had been \$1.0035, there would have been an increase in foreign exchange gain of \$12.7 million.

(c) Offshore oil royalties as a percentage of own source revenues

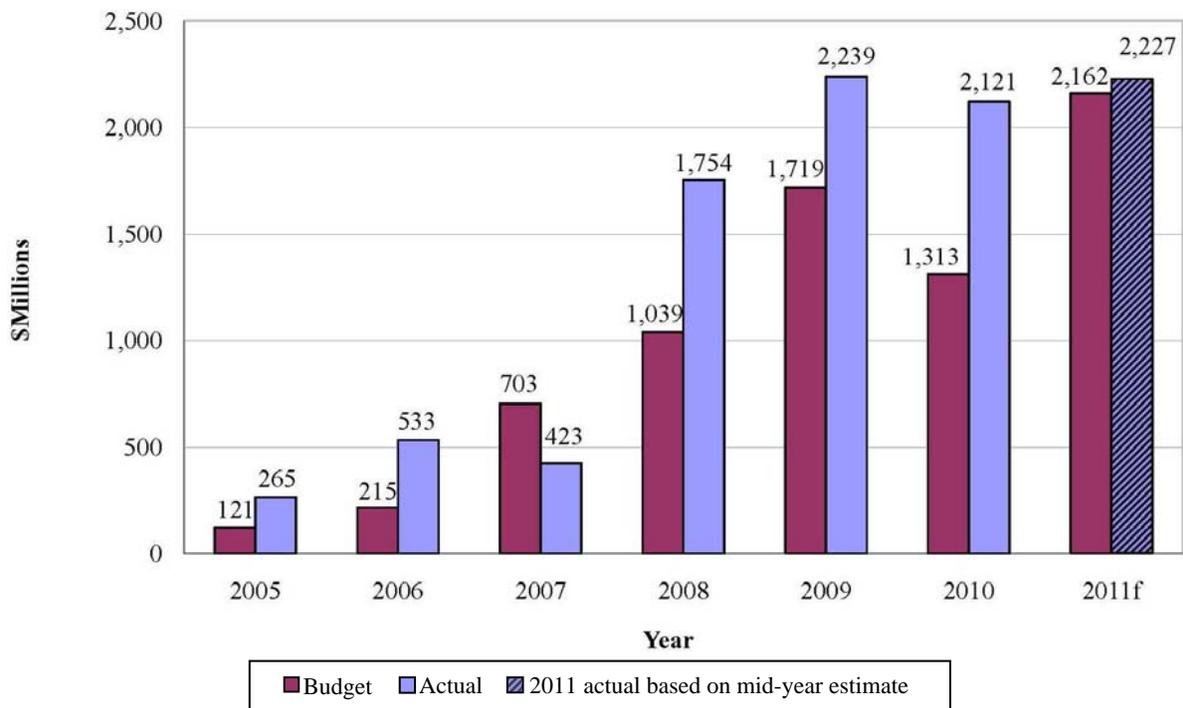
There is a growing reliance by Government on offshore oil royalties to fund its programs and services. This revenue source as a percentage of Provincial revenues has increased substantially in recent years. To illustrate, in 2005 offshore oil royalties were \$265 million (8.9% of own source revenue) while in 2010, offshore oil royalties were \$2.1 billion or 36.9% of own source revenues.

However, world oil prices are highly volatile and production levels relating to such non-renewable resources can vary significantly. Therefore, changes in these factors can result in significant differences between budget forecasts and actual. As a result, Government's financial position can be significantly impacted by factors such as world oil prices, production and foreign exchange fluctuations outside of its control.

Figure 19 shows budget and actual offshore oil royalties from 2005 to 2010, along with budget and revised forecasts for 2011.

Figure 19

Consolidated Summary Financial Statements Offshore Oil Royalties: Budget and Actual Years Ended 31 March (\$ Millions)

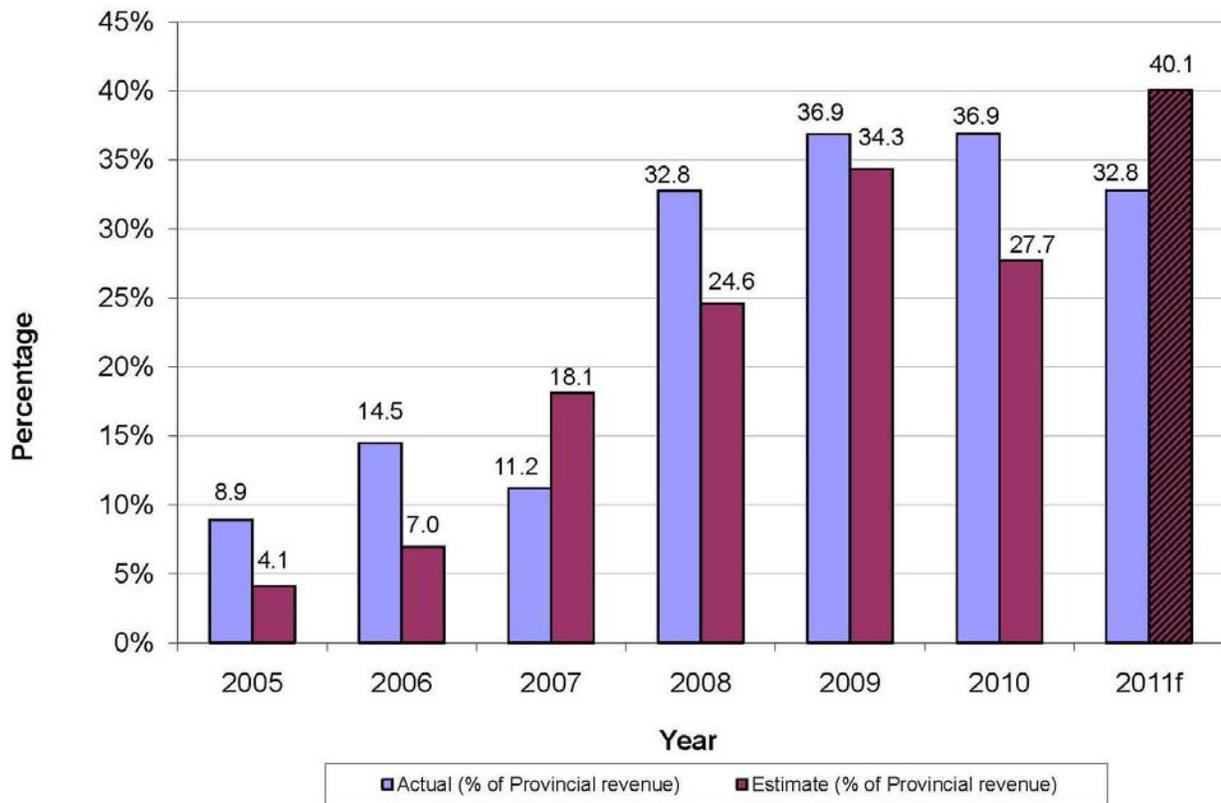


Financial Condition of the Province

Figure 20 shows budget and actual offshore oil royalties from 2005 to 2010 as a percentage of own source revenue, along with budget and revised forecasts for 2011.

Figure 20

Consolidated Summary Financial Statements Oil Revenues: Percentage of Own Source Revenues Years Ended 31 March



As Figures 19 and 20 show, oil revenues and the percentage of own source revenues they represent have increased significantly since 2005. The Figures also show that there have been significant differences between budget forecasts and actual offshore oil royalties from 2005 to 2010 (and forecasted for 2011).

The significant increase in offshore oil royalties, for the most part, is attributable to changes in oil prices and/or production levels. For example, in 2009, while offshore oil royalties were budgeted at \$1.719 billion, actual revenue was \$2.239 billion, an increase of \$520 million or 30%. In 2010,

Financial Condition of the Province

offshore oil royalties were budgeted at \$1.313 billion and actual revenues were \$2.121 billion an increase of \$808 million or 62%. This change could have been in either direction, and highlights the vulnerability associated with this revenue source. In fact, the opposite occurred in 2007 when offshore oil royalties were budgeted at \$703 million, with actual revenues of \$423 million, representing a decrease of \$280 million or 40%. The decrease was due to a longer than anticipated shutdown of the Terra Nova oil production facility. The difference between budget and actual demonstrates the volatility that exists in predicting offshore oil royalties.

Furthermore, although offshore oil royalties were budgeted for 2010 at \$1.313 billion, in December 2009, Government announced an increase in its oil revenue estimates by \$520 million to \$1.833 billion in large part as a result of higher oil prices for a portion of that fiscal year. Also, while offshore oil royalties were budgeted at \$2.162 billion for the 2011 fiscal year, in November 2010 government announced an increase in its oil revenue estimates by \$65 million to \$2.227 billion, in large part as a result of higher oil prices.

Given its lack of control over oil prices and production levels, and its increasing dependence on this revenue source, Government has to carefully consider the degree to which it relies on this revenue source to fund its programs and services.

Credit Rating

The Province's credit rating will affect the debt servicing costs over time because the interest that the Province will have to pay on its borrowing will decrease as the credit rating improves, and conversely, the interest costs will increase as the credit rating declines.

The Province's credit ratings as established by Dominion Bond Rating Services, Moody's Investors Services, and Standard and Poor's are outlined in Figures 21, 22 and 23 respectively.

Figure 21

Province of Newfoundland and Labrador
Credit Ratings Established by
Dominion Bond Rating Service

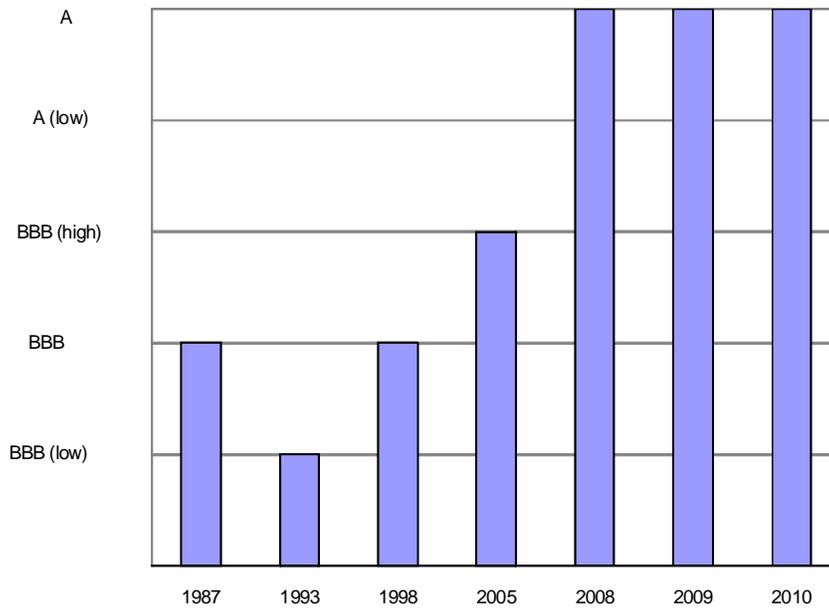


Figure 22

**Province of Newfoundland and Labrador
Credit Ratings Established by
Moody's Investors Service**

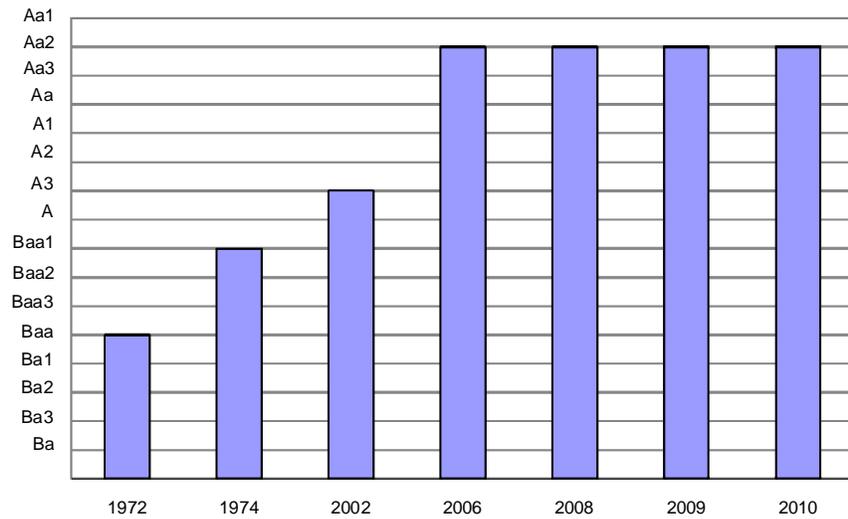
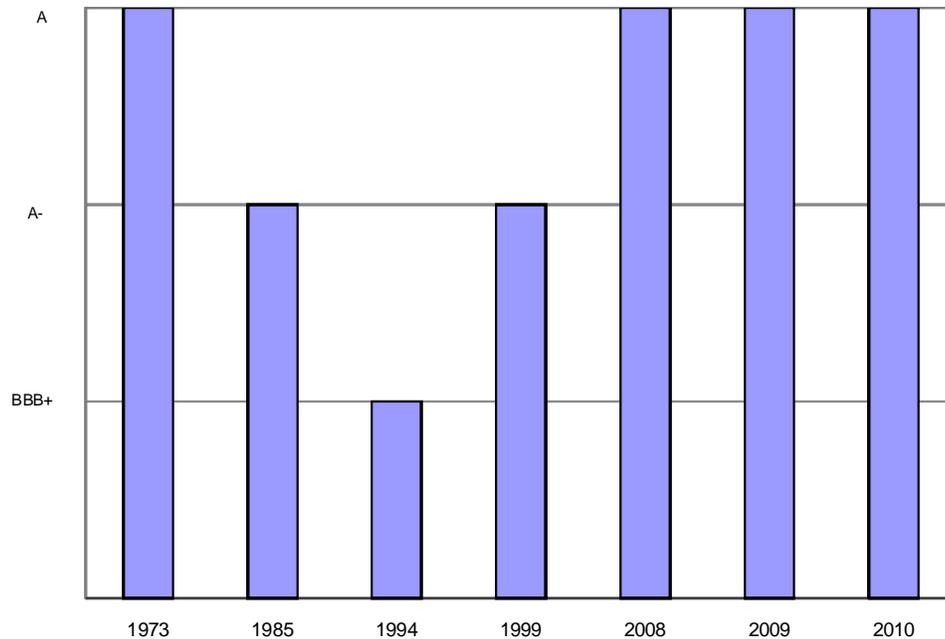


Figure 23

**Province of Newfoundland and Labrador
Credit Ratings Established by
Standard & Poor's**



Although these Figures show that the Province's credit rating has improved significantly in the past five years, there have been no increases in the past three years, Figures 24, 25, and 26 which follow show that, while Newfoundland and Labrador is no longer the lowest rated Province in Canada, it is still among the lowest rated provinces. Improvements in the credit rating would reduce the debt servicing cost over time.

Figure 24

**Credit Ratings Established for Canada and the Provinces by
Dominion Bond Rating Service**

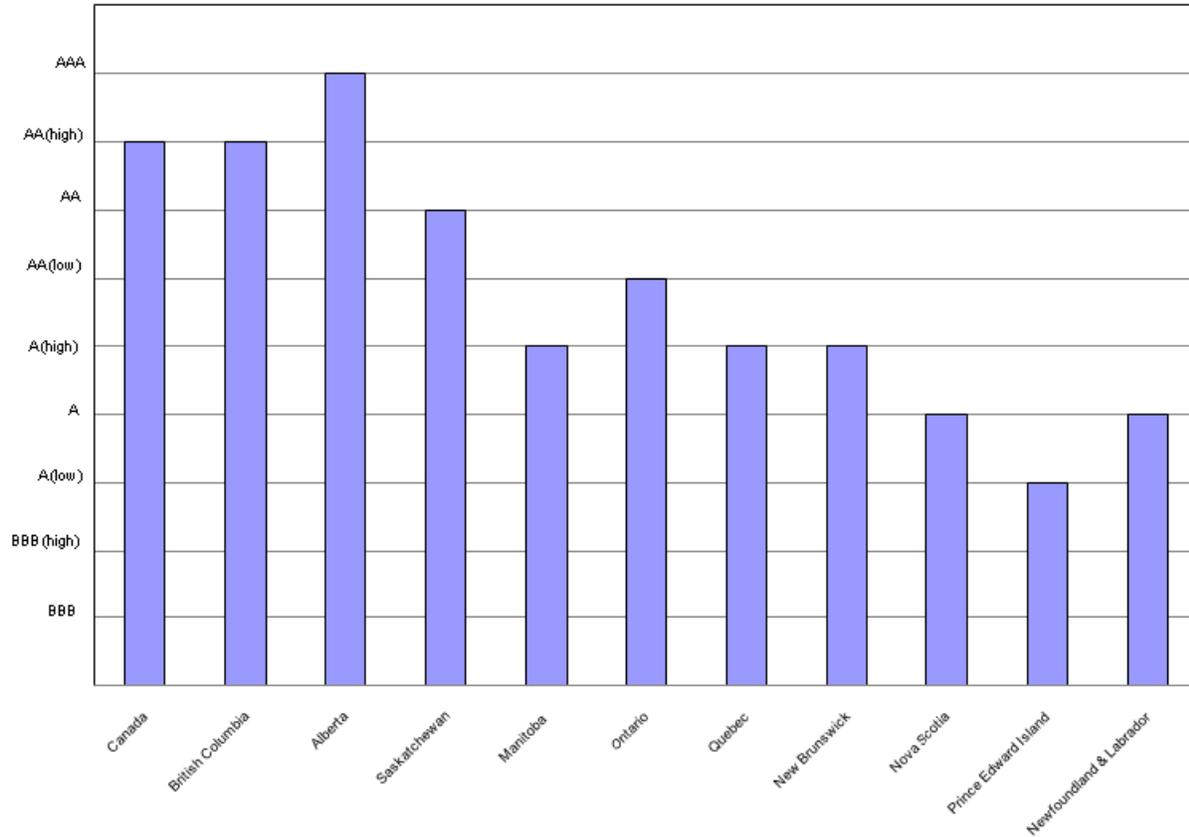
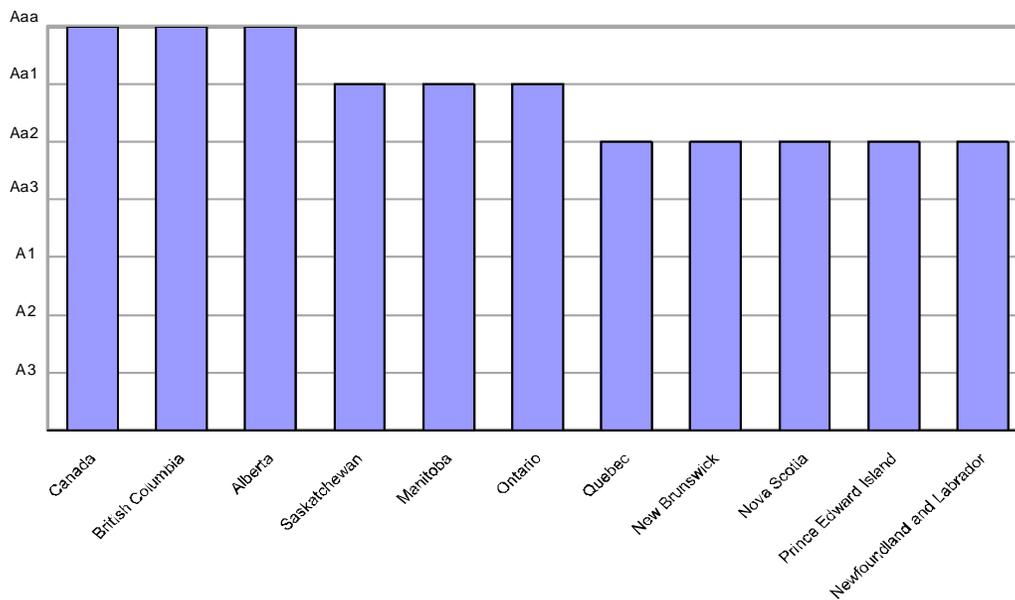


Figure 25

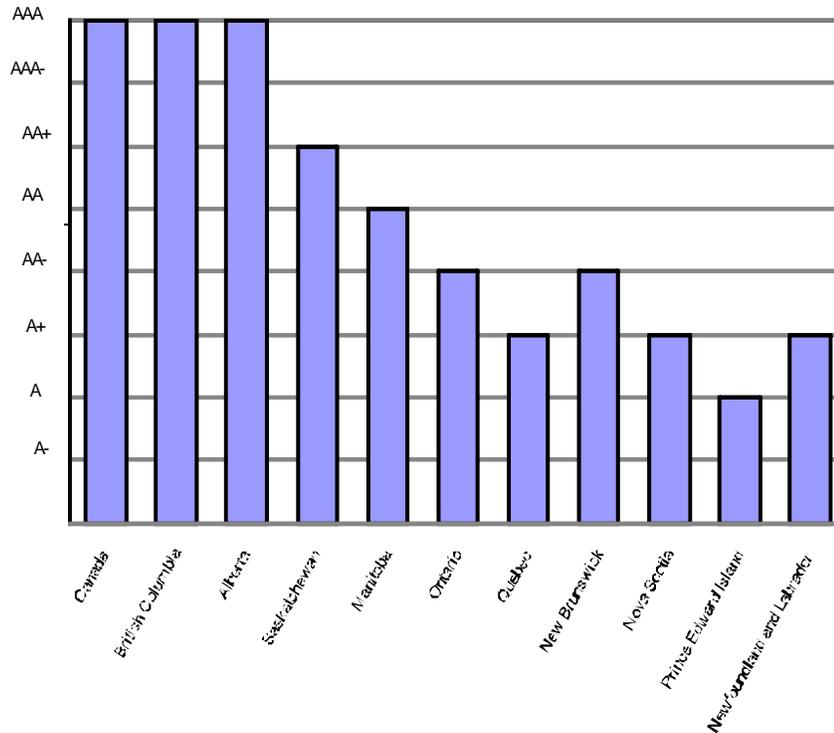
Credit Ratings Established for Canada and the Provinces by Moody's Investors Service



Financial Condition of the Province

Figure 26

Credit Ratings Established for Canada and the Provinces by Standard & Poor's



**CHAPTER
4
COMMENTS ON SELECTED
FINANCIAL INFORMATION**

Comments on Selected Financial Information

Retirement Benefits - Pensions

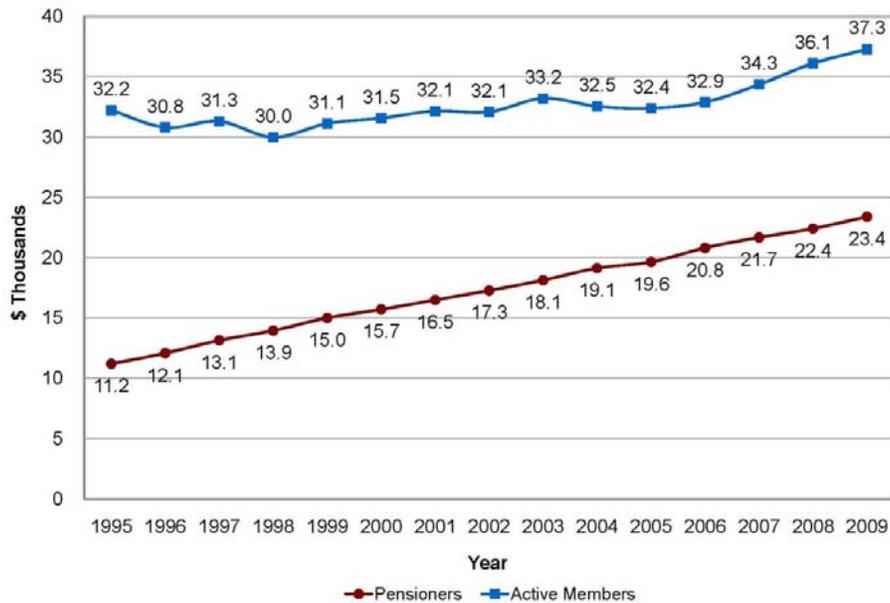
Pensions Administered under the Newfoundland and Labrador Pooled Pension Fund

Prior to 1967, public service salaries and pension benefits were paid under the authority of the *Civil Service Act*. Under that legislation there were no employee or employer contributions to a pension plan and pension benefits were paid out of the Consolidated Revenue Fund. In 1967, legislation was enacted which required that employees contribute to a pension plan. Employees' pension premiums were paid into the Consolidated Revenue Fund and pension benefits continued to be paid out of it.

In 1981, legislation was enacted which created the Province of Newfoundland and Labrador Pooled Pension Fund and required that employee and employer pension premium contributions be paid into the Fund. Subsequent to the establishment of the Fund, pension benefits were paid by the Fund irrespective of whether the employee had contributed pension premiums to it. Figure 1 provides historical data for the Fund relating to pensioners and active members for the past 15 years.

Figure 1

Province of Newfoundland and Labrador Pooled Pension Fund Population History: Pensioners and Active Members Years Ended 31 December (000's)



Comments on Selected Financial Information

As at 31 December 2009, the Province of Newfoundland and Labrador Pooled Pension Fund was comprised of the following five pension plans:

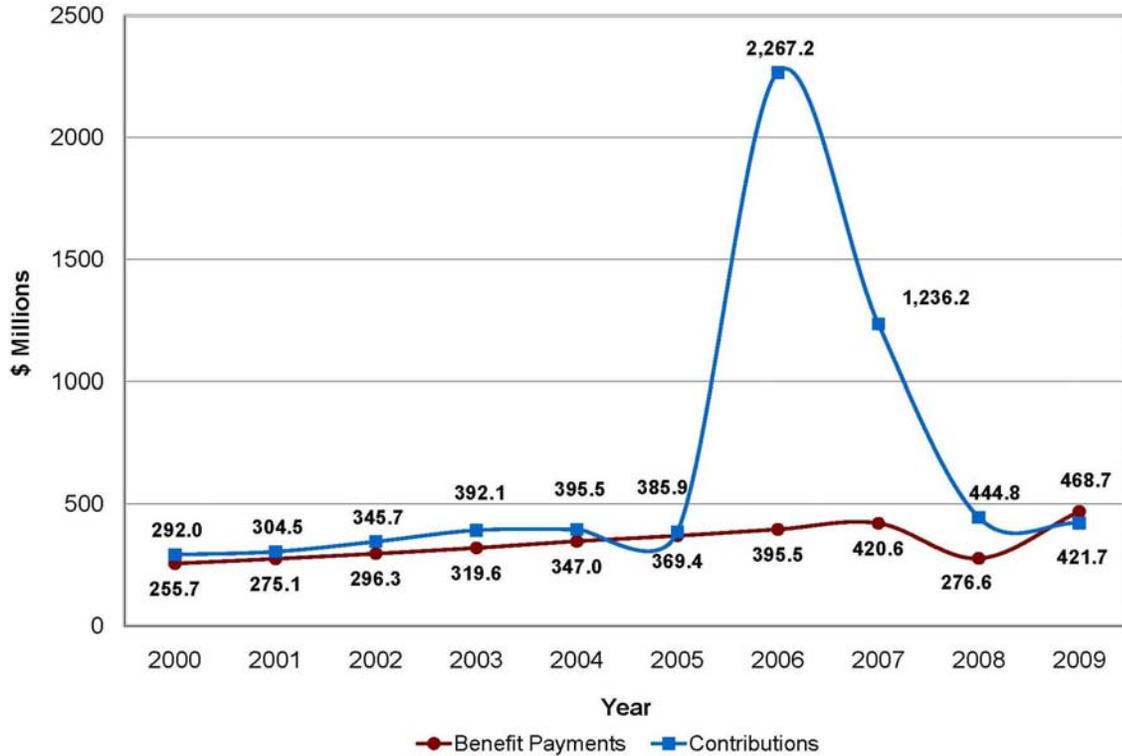
- Public Service Pension Plan;
- Teachers' Pension Plan;
- Uniformed Services Pension Plan;
- Members of the House of Assembly Pension Plan; and
- Provincial Court Judges' Pension Plan.

All employee and employer contributions are deposited into the Fund and pension benefits to plan members and other pension payments are made from it.

For the year ended 31 December 2009, approximately 37,300 employees, Members of the House of Assembly, and the employer paid pension contributions totalling \$421.7 million into the Pension Fund under the five pension plans. During the same period, the Fund provided benefits totalling \$468.7 million to approximately 23,400 retirees. Figure 2 provides historical data for the Fund relating to pension benefits paid and pension contributions received for the past 10 years.

Figure 2

**Province of Newfoundland and Labrador Pooled Pension Fund
Pension Benefit Payments and Contributions
Years Ended 31 December
(\$ Millions)**



Memorial University of Newfoundland Pension Plan

Commencing with the year ended 31 March 2006, the Province included Memorial University of Newfoundland (MUN) in its reporting entity.

MUN’s plan is a defined benefit pension plan for its full-time employees and is administered separately from the plans administered under the Province of Newfoundland and Labrador Pooled Pension Fund.

As at 31 March 2010, the MUN plan had 3,636 active participants and 1,178 pensioners. For the year ended 31 March 2010, the employer and employees paid pension premiums totalling approximately \$48 million, and provided benefits to pensioners of approximately \$37 million.

Comments on Selected Financial Information

Unfunded Pension Liability

The unfunded pension liability as at 31 March 2010, including the unfunded liability of the MUN plan of \$62.5 million, totalled \$2.177 billion. This is an increase of \$473 million from the balance of \$1.704 billion as at 31 March 2009.

The \$2.177 billion unfunded pension liability continues to represent a significant debt for Government. Information on the overall unfunded pension liability from 2000 to 2010 is outlined in Figure 3.

Figure 3

Consolidated Summary Financial Statements Unfunded Pension Liability As at 31 March (\$ Billions)

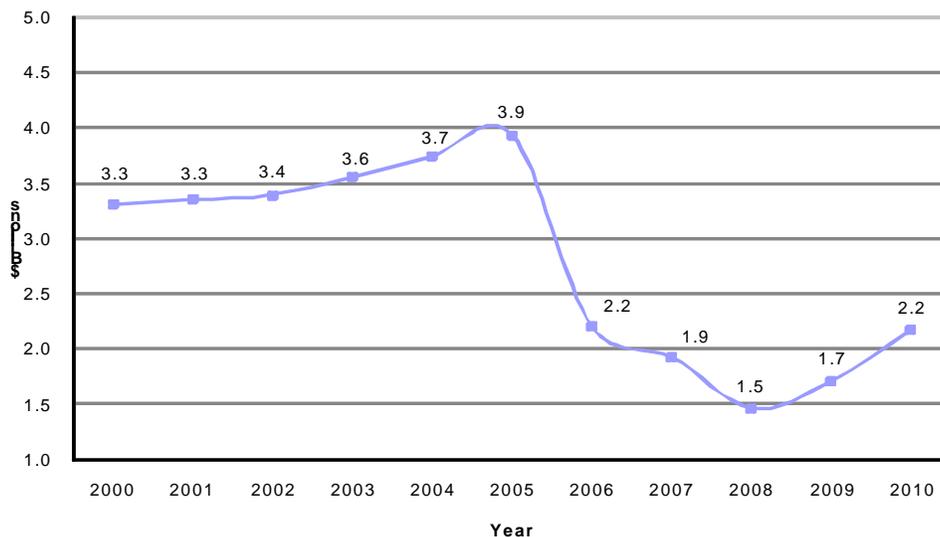
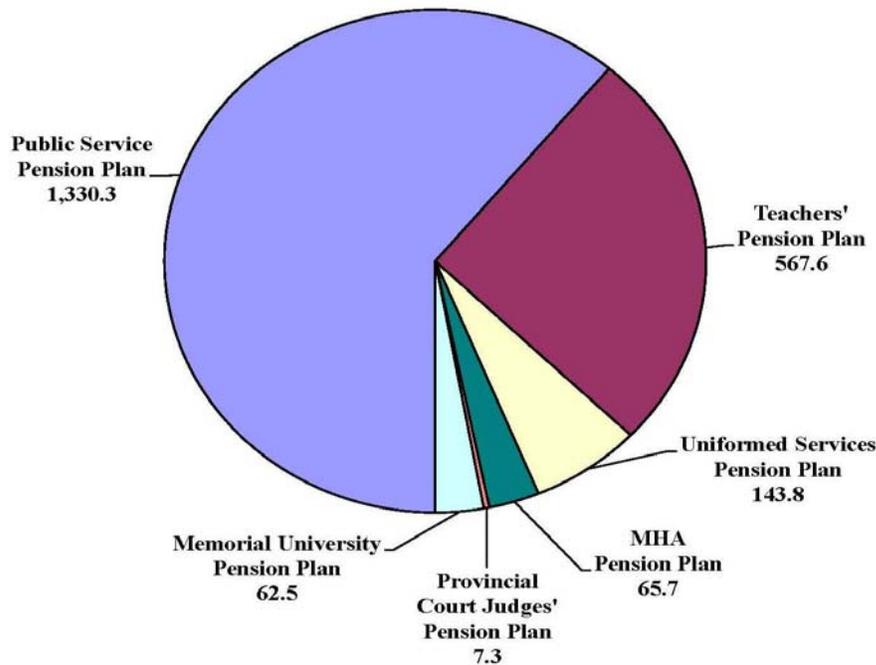


Figure 4 shows the unfunded pension liability by plan as at 31 March 2010.

Figure 4

**Consolidated Summary Financial Statements
Unfunded Pension Liability by Plan
As at 31 March 2010
(\$ Millions)**



The total unfunded pension liability increased from 2009 by a total of \$473 million. Five of the six pension plans included in Figure 4 had increases – Public Service Plan (\$292.5 million), the Teachers’ Pension Plan (\$216.3 million), Memorial University Pension Plan (\$38.4 million), the Members of the House of Assembly Pension Plan (\$3.6 million), and the Provincial Court Judges’ Pension Plan (\$1.3 million). The sixth plan, Uniformed Services Pension Plan had a decrease of \$79.1 million.

Interest Costs

The interest costs relating to the pension plans each year from 2000 to 2010 are outlined in Figure 5.

Figure 5

**Consolidated Summary Financial Statements
Interest Costs on the Unfunded Pension Liability
Years Ended 31 March
(\$ Millions)**

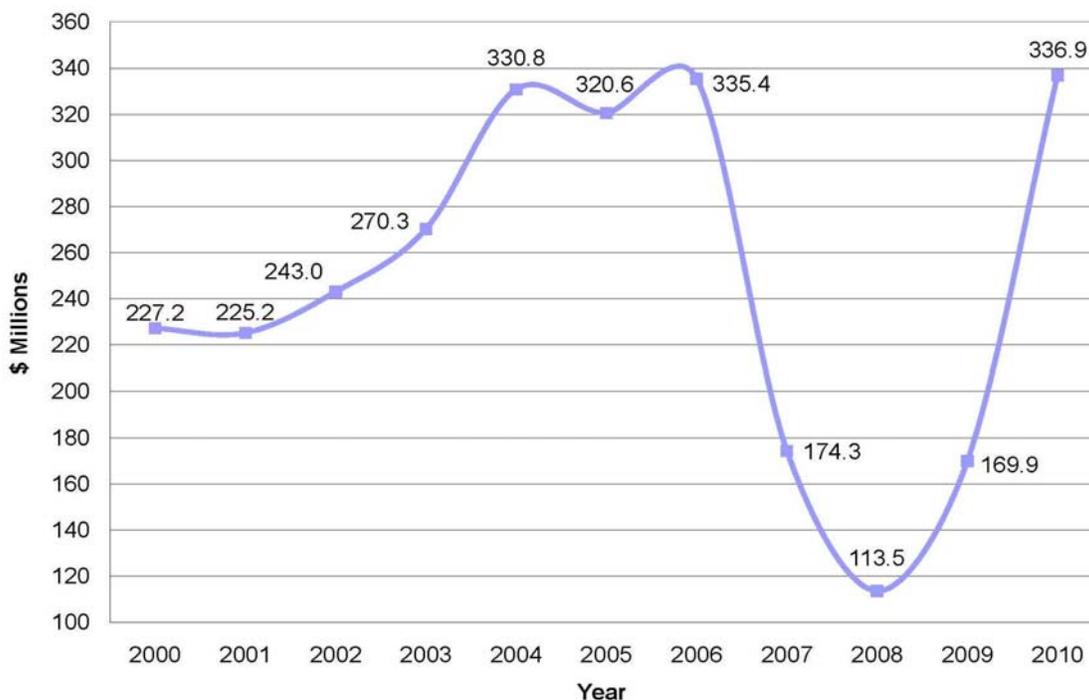


Figure 5 indicates that from 2000 to 2006 there was a significant increase in interest costs associated with the Province’s unfunded pension liability. In 2001, interest costs amounted to \$225.2 million while in 2006 interest costs were \$335.4 million, an increase of \$110.2 million or 49%. In 2007 and 2008, there were large decreases in interest costs and significant increases in 2009 and 2010.

Government will have to continue to closely monitor this significant unfunded liability and the interest related to it.

Retirement Benefits - Group Health and Life Insurance

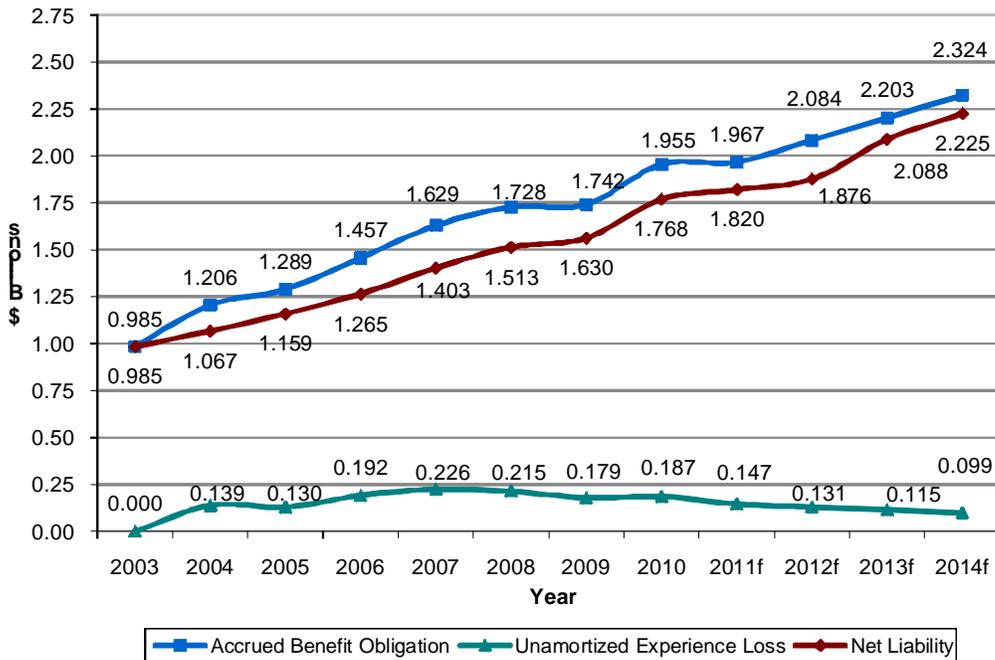
Active and retired public sector employees and Members of the House of Assembly are eligible to participate in group health and group life insurance plans. Plans for active and retired Government employees, Members of the House of Assembly and Provincial Court Judges are managed by Government. Plans for teachers are managed by the Newfoundland and Labrador Teachers' Association and plans for employees of Memorial University of Newfoundland are managed by the University.

As at 31 March 2010, the plans provided benefits to a total of 19,630 retirees. Obligations for retirement benefits result from a commitment by Government to provide benefits to employees on retirement in return for their current services. Extended health care and life insurance benefits are a form of compensation offered for current services rendered by employees and accrue over the years employees work. The fundamental accounting task is to determine the amount of the total obligation for future retirement benefits and to determine the cost of future benefits for each year of employee service (current service cost).

The net liability relating to group health and group life insurance retirement benefits recognized in the Province's Consolidated Summary Financial Statements as at 31 March 2010 was \$1.8 billion (2009 - \$1.6 billion).

Figure 6 provides information regarding the projected net liability as extrapolated to 31 March 2014.

Figure 6
Province of Newfoundland and Labrador
Group Health and Group Life Insurance
Net Liability
As at 31 March
(\$ Billions)



f – The forecasted amounts relate to CRF only.
 Source: Public Accounts and Actuarial Valuation

The liability for retirement benefits other than pensions has added to the already considerable debt load of the Province and, as Figure 6 shows, is expected to increase in each of the next four years. By 2014 the net liability is expected to total \$2.2 billion, an increase of \$457 million over the 2010 balance of \$1.8 billion, if action is not taken to address it.

Government will have to continue to closely monitor this significant liability.

**CHAPTER
5
COMMENTS ON GOVERNMENT'S
FINANCIAL REPORTING**

Comments on Government's Financial Reporting

Generally Accepted Accounting Principles

The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants prescribes generally accepted accounting principles (GAAP) for the public sector in Canada. PSAB pronouncements represent the consensus of senior government officials, legislative auditors and other experts in public sector accounting across Canada. They represent minimum standards for governments and are the benchmark for acceptable financial reporting.

Government in this Province has made significant progress by preparing financial statements that provide information about the operating results and financial position of the Province in accordance with GAAP. However, there are still issues that should be addressed which would improve its overall financial reporting.

Government Reporting Entity

Under the standards established for governments by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants, the Province's Consolidated Summary Financial Statements are required to include all organizations that are controlled by Government. A detailed listing of organizations and enterprises included as part of the Government reporting entity is presented in a schedule to the statements.

Government considers the Workplace Health, Safety and Compensation Commission to be a form of trust and has disclosed information on the Commission's net fund deficiency (\$105.9 million) and accumulated operating deficit (\$104.7 million) as at 31 December 2009 in a note to the Schedule of Trust Accounts in the Consolidated Summary Financial Statements. Accounting for entities similar to the Workplace Health, Safety and Compensation Commission continues to evolve, with variations among jurisdictions in Canada.

Government should continue to monitor how other jurisdictions in Canada account for entities similar to the Workplace Health, Safety and Compensation Commission.

Environmental Liabilities

There are many sites in the Province which have environmental contamination resulting from such things as PCBs and old fuel storage tanks. These sites include, for example, the old Harmon air force base, the Marystown Shipyard, former mining properties and the former Abitibi-Consolidated sites.

Government will ultimately have involvement with all contaminated sites in the Province; however, the extent of the involvement and resulting financial costs may vary. Costs associated with remediation are usually significant - for example Government spent approximately \$18.9 million to complete remediation at the former Hope Brook Gold Mine property. While it is possible that the Province may be able to recover some of the remediation costs from other parties, the remaining remediation costs associated with contaminated sites would likely be significant.

In the case of contaminated sites for which the Province has responsibilities, generally accepted accounting principles require that if a reasonable estimate of environmental remediation costs can be determined, and it is likely that the Province will be liable for these costs, the amount should be recorded in the Province's financial statements. Note 9(c)(vi) to the Province's financial statements for the year ended 31 March 2010 reflects this requirement by indicating that *"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."* The note also indicates that *"It is the responsibility of the departments and entities 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."*

The Province's financial statements include an environmental liability of \$21.1 million as at 31 March 2010, relating to 16 sites reported by the departments of Environment and Conservation, Education and Transportation and Works. In addition, information is provided in note 9(c)(vi) on other contaminated sites the Province is aware of, but for which the full extent of remediation costs was not readily determinable.

In my 2002 Annual Report to the House of Assembly, I concluded that *"There is no central inventory of contaminated sites The lack of a central inventory makes it more difficult for Government to determine the nature and extent of contaminated sites in the Province, the extent of progress of remediation efforts, and estimated future remediation costs to be incurred by Government."*

We now find that, eight years later, Government still does not have a central inventory of contaminated sites. While a database is maintained by the Department of Environment and Conservation, it is neither complete nor accurate. The database does not include all contaminated sites in the Province, e.g. we found four contaminated sites that were included in the recorded environmental liability in the Province's financial statements for the 2010 fiscal year which were not included in the database. Furthermore, when contaminated sites are identified, the information is not always properly recorded in the database, e.g. we found sites that were listed as open (active) on the database which were closed (remediated) and sites that were listed as closed which were still open, and active sites where there was no indication as to who owned the contaminated site or no indication as to who was responsible for contaminating the site. We also found that the database is not being updated on a timely basis. In addition, there are no fields in the database to record total estimated remediation costs, costs incurred to date and progress to date, and there is no field in the database to identify who is responsible to pay for remediation costs.

As the Department's database does not contain complete and accurate information, including costs associated with contaminated sites, it cannot be used to provide the Office of the Comptroller General with the information required to determine environmental liabilities for inclusion in the Province's financial statements.

Given the lack of a centralized database which can be used to obtain the information required, the Office of the Comptroller General relies on the departments and Crown agencies to identify any other potentially contaminated sites and to provide the information necessary to assess the extent or likelihood of any environmental damage. However, our review indicated that information provided to the Office of the Comptroller General is also incomplete. Therefore, that Office has incomplete information on which to determine the Province's environmental liabilities for inclusion in the Province's financial statements. For example, even though the Department of Natural Resources incurred a total of \$6.4 million over the last two years on remediation costs for four sites, and has budgeted a further \$4.2 million to be spent for three of these four sites in the fiscal year 2011, it did not initially provide the Office of the Comptroller General with any information for possible environmental liabilities reporting or related note disclosure. In response to our request for information relating to contaminated sites, the Department of Natural Resources indicated that they estimated costs totalling \$136 million for remediation relating to two former mining sites. Based on this information, disclosure related to these two sites was subsequently added to note 9(c)(vi) in the Province's financial statements.

Overall, our review of information provided to the Office of the Comptroller General by the departments and Crown agencies indicates that Government's environmental liability is likely higher than the \$21.1 million reported. A financial report made public by Government in January 2004 also indicated that *"The Province is facing environmental issues requiring more than \$237 million for compliance with legislation and for remediation...."* The report indicated that the issues were spread across several departments and agencies, each of which had indicated an inability to handle remediation costs within the current expenditure levels. The most significant environmental issue reflected in the report related to regional waste sites.

Government should continue with its efforts to identify all contaminated sites in the Province for which it is potentially liable, determine the estimated liability associated with remediation cost, and comply with generally accepted accounting principles by recording any resulting liability in the Province's financial statements.

Periodic Financial Statements

Periodic financial statements, while not specifically required by generally accepted accounting principles, are considered to be an important component of any financial accountability framework. These statements are important to effectively monitor and control Government's financial operations.

From September 2002 until March 2009, Government had been preparing periodic financial statements to show the Province's results of operations and financial position. Officials of the Department of Finance indicated that these financial statements were only distributed to the Minister of Finance/President of Treasury Board, other Treasury Board Ministers, the Deputy Minister of Finance, the Comptroller General, various officials of the Department of Finance, and the Auditor General. Officials of the Department of Finance advised that for the year ended 31 March 2010, periodic financial statements were only distributed to the Deputy Minister of Finance.

While I have commended the Office of the Comptroller General in the past for preparing such financial statements; in my opinion, these financial statements should be more widely distributed. Ideally, these financial statements should be part of accountability information provided on an on-going basis to all Members of the House of Assembly and senior Government officials.

Periodic financial statements should be provided to Members of the House of Assembly and senior Government officials as part of Government's accountability framework.

**Accounting for
Federal
Revenues**

Government currently records Federal revenues based on regular entitlements received for the current year, with adjustments made against future years' revenues when known. These revenues include health and social transfers, personal income taxes, corporate income taxes, and Harmonized Sales Taxes (HST). As I noted in past Reports, financial reporting would be improved if Government provided a reasonable estimate of future revisions, rather than wait until actual adjustments become known.

Government should develop a reasonable basis for estimating future revisions to entitlements, which could be used as a basis for recording Federal Government revenues.

**CHAPTER
6
EXPENDITURES OF THE
CONSOLIDATED REVENUE FUND**

Expenditures of the Consolidated Revenue Fund

Introduction

As part of our audit of the financial statements of the Consolidated Revenue Fund (CRF), we perform tests and reviews of the expenditures made by the various departments. Figure 1 outlines expenditures, by category, recorded in the Consolidated Revenue Fund financial statements for the years ended 31 March.

Figure 1

**Consolidated Revenue Fund Expenditures
By Category
Years Ended 31 March
(\$ Millions)**

| Consolidated Revenue Fund Expenditures | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|
| Category | 2006 | 2007 | 2008 | 2009 | 2010 |
| Salaries and Employee Benefits | 385 | 371 | 427 | 483 | 516 |
| Retirement Costs | 102 | 146 | 131 | 201 | 362 |
| Transportation and Communications (See Figures 13, 14) | 35 | 40 | 45 | 48 | 49 |
| Supplies | 70 | 84 | 107 | 102 | 97 |
| Professional Services (See Figures 9, 10) | 285 | 304 | 326 | 368 | 387 |
| Purchased Services (See Figures 7, 8) | 197 | 216 | 253 | 295 | 399 |
| Property, Furnishings and Equipment (See Figures 5, 6) | 48 | 17 | 60 | 79 | 70 |
| Allowances and Assistance (See Figures 11, 12) | 354 | 361 | 368 | 372 | 461 |
| Grants and Subsidies (See Figures 2, 3, 4) | 2,429 | 2,614 | 2,849 | 3,138 | 3,579 |
| Debt Expenses | 877 | 711 | 689 | 678 | 824 |
| Amortization (tangible capital assets) | 88 | 87 | 82 | 81 | 94 |
| Bad Debts | 4 | 12 | 29 | 2 | 6 |
| Total | 4,874 | 4,963 | 5,366 | 5,847 | 6,844 |

Source: Consolidated Revenue Fund financial statements

During the past year, we obtained expenditure information from the Government's financial management information system relating to all expenditures of the Consolidated Revenue Fund. We performed a general review and analysis of amounts paid relating to: grants and subsidies; property, furnishings and equipment; purchased services; professional services; allowances and assistance; and transportation and communications. Details of the expenditures in each of these categories are provided as follows:

Expenditures of the Consolidated Revenue Fund

Grants and Subsidies

Government has established programs which provide grants or subsidies to various Crown agencies, private corporations and individuals. These payments are made to regional health authorities, to school districts, to the College of the North Atlantic and Memorial University of Newfoundland, and to certain Crown agencies for operational funding. Other grants and subsidies are paid to private corporations and individuals in accordance with Government support programs.

During the year we continued our process of monitoring and reviewing payments made for grants and subsidies. Figure 2 indicates for the year ended 31 March 2010, grants and subsidies amounted to approximately \$3.58 billion or approximately 52.3% of the total expenditures of the Consolidated Revenue Fund. For the year ended 31 March 2009, payments for grants and subsidies were approximately \$3.14 billion and represented approximately 53.7% of the total expenditures of the Consolidated Revenue Fund.

Expenditures of the Consolidated Revenue Fund

Figure 2

**Grants and Subsidies Expenditures
By Department
Years Ended 31 March
(\$000's)**

| Grants and Subsidies Expenditure by Department | | |
|---|------------------|------------------|
| Department | 2009 | 2010 |
| Department of Health and Community Services | 1,810,300 | 2,006,707 |
| Department of Education | 999,464 | 1,068,165 |
| Department of Municipal Affairs | 166,268 | 242,123 |
| Department of Innovation, Trade and Rural Development | 14,630 | 61,667 |
| Newfoundland and Labrador Housing Corporation | 42,505 | 50,356 |
| Department of Human Resources, Labour and Employment | 27,034 | 36,301 |
| Department of Tourism, Culture and Recreation | 23,281 | 34,642 |
| Department of Natural Resources | 21,456 | 31,018 |
| Department of Justice | 13,532 | 14,635 |
| Department of Environment and Conservation | 1,265 | 11,203 |
| Department of Fisheries and Aquaculture | 4,820 | 7,361 |
| Department of Transportation and Works | 5,666 | 6,771 |
| Executive Council | 2,610 | 4,365 |
| Department of Finance | 2,340 | 1,953 |
| Department of Business | 1,048 | 1,772 |
| Department of Labrador and Aboriginal Affairs | 1,711 | 1,343 |
| Department of Child, Youth and Family Services | 0 | 105 |
| Legislature | 210 | 91 |
| Department of Government Services | 127 | 66 |
| Accrual adjustments | -672 | -1,941 |
| Total | 3,137,595 | 3,578,703 |

Source: Government's Financial Information System

We also summarized the payments of grants and subsidies by the type of entity for the year ended 31 March 2010, with comparative figures for the year ended 31 March 2009. The results of this summary are outlined in Figure 3.

Expenditures of the Consolidated Revenue Fund

Figure 3

**Grants and Subsidies Expenditures
By Type of Entity
Years Ended 31 March
(\$000)**

| Types of Entities Receiving Grants and Subsidies | | |
|---|------------------|------------------|
| Type of Entity | 2009 | 2010 |
| Regional Health Authorities and Related Entities | 1,771,700 | 1,962,775 |
| School Districts – Teachers’ Payroll | 463,683 | 498,398 |
| Memorial University of Newfoundland | 294,327 | 331,771 |
| Municipalities | 166,268 | 240,478 |
| School Districts and Related Entities – Other Payments | 157,458 | 159,966 |
| College of the North Atlantic | 92,754 | 100,620 |
| Economic Renewal, Labour Market and Industry Support | 37,464 | 98,215 |
| Newfoundland and Labrador Housing Corporation | 42,505 | 50,356 |
| Educational Agencies and Post Secondary Education Support | 31,937 | 30,962 |
| Other Miscellaneous Grants | 11,034 | 24,773 |
| Culture and Heritage | 16,341 | 20,699 |
| Newfoundland and Labrador Legal Aid Commission | 12,495 | 13,905 |
| Provincial Information and Library Resources Board | 10,654 | 11,606 |
| Agriculture Development | 6,523 | 10,039 |
| Canada-Newfoundland Offshore Petroleum Board | 6,650 | 8,700 |
| Recreation and Sport | 5,494 | 8,665 |
| Transportation grants | 5,184 | 6,090 |
| Labrador Agreement and Native Peoples Support | 1,711 | 1,343 |
| Newfoundland and Labrador Film Development Corporation | 585 | 700 |
| Newfoundland and Labrador Hydro | 3,500 | 583 |
| Accrual adjustments | -672 | -1,941 |
| Total | 3,137,595 | 3,578,703 |

Source: Government’s Financial Information System

Figure 4 provides the names of all entities which received grants and subsidies funding in excess of \$10 million for the year ended 31 March 2010, with comparative figures for the year ended 31 March 2009.

Expenditures of the Consolidated Revenue Fund

Figure 4

**Grants and Subsidies Expenditures
Payments in Excess of \$10 million
Years Ended 31 March
(\$000's)**

| Entities Which Received in Excess of \$10 Million | | |
|--|------------------|------------------|
| Entity | 2009 | 2010 |
| Eastern Regional Health Authority | 1,029,315 | 1,140,668 |
| Teachers Payroll | 463,683 | 498,398 |
| Memorial University of Newfoundland | 294,327 | 331,771 |
| Central Regional Health Authority | 255,611 | 285,219 |
| Western Regional Health Authority | 254,369 | 281,416 |
| Labrador-Grenfell Regional Health Authority | 135,660 | 151,521 |
| College of the North Atlantic | 92,754 | 100,620 |
| Eastern School District | 77,207 | 78,000 |
| City of St. John's | 46,629 | 61,134 |
| Newfoundland and Labrador Housing Corporation | 42,505 | 50,356 |
| Grant Thornton LLP (Abitibi Severance) | 2 | 41,998 |
| Nova Central School District | 35,091 | 35,803 |
| Municipal Financing Corporation - Payments to Municipalities | 35,411 | 34,828 |
| Western School District | 33,367 | 33,310 |
| Canadian Blood Services | 21,017 | 20,580 |
| Corner Brook City Council | 9,555 | 17,851 |
| Newfoundland and Labrador Legal Aid Commission | 12,495 | 13,905 |
| Newfoundland and Labrador Centre for Health Information | 9,365 | 13,787 |
| Central Regional Services Board | 1,277 | 11,633 |
| Provincial Information & Library Resources Board | 10,654 | 11,606 |
| Labrador School District | 12,972 | 11,259 |
| City of Mount Pearl | 3,618 | 11,241 |
| Grants \$10 million and less paid to over 6,400 entities in 2010 (2009 – over 6,400 entities) | 304,689 | 370,884 |
| Accrual Adjustments | (43,978) | -29,085 |
| Total | 3,137,595 | 3,578,703 |

Source: Government's Financial Information System

Expenditures of the Consolidated Revenue Fund

Property, Furnishings and Equipment

The Property, Furnishings, and Equipment category generally includes capital items such as equipment purchased for use by Government departments. This category also includes funding provided by the Department of Health and Community Services to the various regional health authorities for the purchase of equipment. During the year ended 31 March 2010, the Province paid \$50.9 million (2009 - \$54.7 million) to the regional health authorities for equipment which is included in the property, furnishings and equipment category. As indicated in Figure 1, payments for property, furnishings and equipment totalled \$69.6 million for the year ended 31 March 2010, and \$79.1 million for the year ended 31 March 2009. Figure 5 shows, by department, payments made for property, furnishings and equipment for the year ended 31 March 2010, with comparative figures for the year ended 31 March 2009.

Figure 5

**Property, Furnishings and Equipment Expenditures
By Department
Years Ended 31 March
(\$000's)**

| Property, Furnishings and Equipment Expenditures by Department | | |
|---|-------------|-------------|
| Department | 2009 | 2010 |
| Department of Transportation and Works | 30,201 | 60,676 |
| Department of Health and Community Services | 54,680 | 50,856 |
| Executive Council | 7,518 | 6,212 |
| Department of Justice | 3,952 | 5,228 |
| Department of Natural Resources | 5,579 | 4,513 |
| Department of Education | 5,201 | 2,766 |
| Department of Tourism, Culture and Recreation | 245 | 1,452 |
| Department of Government Services | 855 | 1,125 |
| Department of Environment and Conservation | 1,463 | 1,058 |
| Department of Human Resources, Labour and Employment | 1,069 | 904 |
| Department of Fisheries and Aquaculture | 718 | 449 |
| Department of Municipal Affairs | 437 | 410 |
| Legislature | 738 | 290 |
| Department of Finance | 189 | 195 |
| Department of Innovation, Trade and Rural Development | 5,094 | 129 |
| Department of Business | 16 | 106 |

Expenditures of the Consolidated Revenue Fund

| Property, Furnishings and Equipment Expenditures by Department | | |
|---|---------------|---------------|
| Department | 2009 | 2010 |
| Public Service Commission | 81 | 50 |
| Department of Child, Youth and Family Services | 0 | 47 |
| Department of Labrador and Aboriginal Affairs | 79 | 10 |
| Accrual adjustment for acquisition of tangible capital assets | -39,064 | -66,871 |
| Total | 79,051 | 69,605 |

Source: Government's Financial Information System

We also summarized the payments for property, furnishings and equipment to show all entities which received payments in excess of \$1 million in either the year ended 31 March 2009 or the year ended 31 March 2010. These entities are listed in Figure 6.

Figure 6

**Property, Furnishings and Equipment Expenditures
Payments in Excess of \$1 million
Years Ended 31 March
(\$000's)**

| Entities Which Received in Excess of \$1 Million | | |
|---|-------------|-------------|
| Entity | 2009 | 2010 |
| Eastern Regional Health Authority | 21,354 | 32,868 |
| Bombardier Inc., Canadair Group | 0 | 28,660 |
| Kiewit Offshore Services | 4,098 | 13,359 |
| Western Regional Health Authority | 10,653 | 6,794 |
| Western Star Trucks Newfoundland Ltd. | 121 | 5,799 |
| Central Regional Health Authority | 10,735 | 5,126 |
| Labrador Regional Health Authority | 9,354 | 3,408 |
| Bell Aliant - IT Equipment | 2,452 | 2,293 |
| Avalon Ford Sales Ltd. | 2,092 | 2,240 |
| Cargotec | 0 | 1,919 |
| Ernest Boone Law Office | 637 | 1,722 |
| Newfoundland and Labrador Centre for Health Information | 1,625 | 1,689 |
| French, Noseworthy & Associates | 0 | 1,592 |
| Russel Metals Inc. | 0 | 1,410 |
| Ottenheimer Baker, Barristers & Solicitors | 0 | 1,274 |

Expenditures of the Consolidated Revenue Fund

| Entities Which Received in Excess of \$1 Million | | |
|--|---------------|---------------|
| Entity | 2009 | 2010 |
| Stone Valley Equipment & Recreation Ltd. | 412 | 1,240 |
| J W Allen Co. Ltd | 2,661 | 1,019 |
| Hickman Motors Ltd. | 3,151 | 807 |
| Detroit Diesel-Allison Canada East Inc. | 2,561 | 794 |
| Notrax Canada Inc. | 2,082 | 771 |
| Triware Technologies Inc. | 2,059 | 723 |
| Harvey & Co. Ltd. | 5,723 | 414 |
| Royal Bank of Canada | 7,477 | 0 |
| Persona Communications | 5,325 | 0 |
| Rolls Royce Oy Ab (Rauma, Finland) | 2,368 | 0 |
| Payments \$1 million and less to over 690 entities in 2010 (2009 – over 690 entities) | 21,175 | 20,555 |
| Accrual adjustment for acquisition of tangible capital assets | -39,064 | -66,871 |
| Total | 79,051 | 69,605 |

Source: Government's Financial Information System

Purchased Services

Purchased services include such services as heat and light, general maintenance, printing, vehicle rentals and repairs, advertising, and insurance. As indicated in Figure 1, payments for purchased services totalled \$399.0 million for the year ended 31 March 2010 (\$294.6 million 31 March 2009). Figure 7 shows, by department, payments made for purchased services for the year ended 31 March 2010, with comparative figures for the year ended 31 March 2009.

Expenditures of the Consolidated Revenue Fund

Figure 7

**Purchased Services Expenditures
By Department
Years Ended 31 March
(\$000's)**

| Purchased Services By Department | | |
|---|----------------|----------------|
| Department | 2009 | 2010 |
| Department of Transportation and Works | 247,621 | 278,625 |
| Department of Education | 49,210 | 112,806 |
| Department of Health and Community Services | 46,379 | 36,182 |
| Department of Justice | 17,512 | 21,491 |
| Department of Natural Resources | 16,939 | 19,453 |
| Department of Tourism, Culture and Recreation | 15,785 | 17,864 |
| Department of Environment and Conservation | 4,939 | 7,324 |
| Executive Council | 5,785 | 6,037 |
| Department of Human Resources, Labour and Employment | 4,061 | 5,092 |
| Department of Government Services | 4,523 | 4,982 |
| Department of Fisheries and Aquaculture | 1,052 | 3,069 |
| Department of Innovation, Trade and Rural Development | 1,514 | 2,046 |
| Department of Municipal Affairs | 1,191 | 1,510 |
| Public Service Commission | 285 | 1,347 |
| Legislature | 1,171 | 1,309 |
| Department of Finance | 1,285 | 1,260 |
| Department of Business | 300 | 820 |
| Department of Labrador and Aboriginal Affairs | 178 | 231 |
| Department of Child, Youth and Family Services | 0 | 41 |
| Consolidated Fund Services | 74 | 22 |
| Accrual adjustments | (125,227) | -122,466 |
| Total | 294,577 | 399,045 |

Source: Government's Financial Information System

Expenditures of the Consolidated Revenue Fund

We also summarized the payments for purchased services to show all entities which received payments in excess of \$1 million in either the year ended 31 March 2009 or the year ended 31 March 2010. These entities are listed in Figure 8.

Figure 8

**Purchased Services Expenditures
Payments in Excess of \$1 million
Years Ended 31 March
(\$000's)**

| Entities Which Received in Excess of \$1 Million | | |
|---|-------------|-------------|
| Entity | 2009 | 2010 |
| Johnson's Construction Ltd. | 33,088 | 46,740 |
| Marco Services Ltd. | 6,544 | 36,987 |
| Pomerleau Inc. | 19,868 | 24,298 |
| Northlinks Construction | 21,522 | 18,906 |
| Humber Valley Paving Limited | 13,478 | 17,357 |
| Labrador Marine Inc. | 15,630 | 14,968 |
| Municipal Construction Ltd. | 14,483 | 13,064 |
| Nortech Construction Company Ltd. | 9,394 | 12,799 |
| Pennecon Heavy Civil Ltd. | 3,779 | 12,308 |
| J-1 Contracting Limited | 13,394 | 11,601 |
| Allied Construction Ltd. | 8,135 | 10,730 |
| Target Marketing | 8,908 | 9,804 |
| Penney Paving Ltd. | 9,918 | 9,789 |
| Farrell's Excavating Ltd. | 3,453 | 9,363 |
| Federal-Provincial Contractors | 5,364 | 8,592 |
| Mista Shipu Construction Ltd. | 9,748 | 8,557 |
| Olympic Construction Ltd. | 58 | 8,016 |
| Bluebird Investments | 2,870 | 7,991 |
| Newfoundland and Labrador Light and Power | 8,079 | 7,850 |
| Eastern Contracting Ltd. | 4,475 | 7,680 |
| St. John's Dockyard Limited | 6,655 | 6,585 |
| Concord Paving Ltd. | 6,269 | 6,338 |
| Central Regional Health Authority | 2,303 | 5,667 |
| Marine Contractors Ltd. | 3,826 | 4,236 |

Expenditures of the Consolidated Revenue Fund

| Entities Which Received in Excess of \$1 Million | | |
|---|-------------|-------------|
| Entity | 2009 | 2010 |
| Corner Brook Pulp & Paper Ltd. | 1,971 | 4,009 |
| Granco Construction Ltd | 1,077 | 3,864 |
| Brook Construction Inc. | 1,295 | 3,720 |
| Marsh Canada Limited | 1,255 | 3,433 |
| College of the North Atlantic | 3,158 | 2,989 |
| Mike Kelly & Sons Ltd. | 3,123 | 2,963 |
| Eastern School District | 8,970 | 2,863 |
| Deer Lake Reg Airport Authority Inc. | 4 | 2,791 |
| Verhagen Demolition Limited | 0 | 2,784 |
| Trident Construction Limited | 2,353 | 2,678 |
| Bell Aliant | 2,492 | 2,426 |
| Ultramar Ltd. | 2,339 | 2,353 |
| 10736 Nf Inc | 0 | 2,214 |
| Nova Central School District | 2,126 | 2,199 |
| Arts & Culture Centre | 3,242 | 2,192 |
| Chard's Construction Ltd. | 1,020 | 1,990 |
| Bombardier Inc. Canadair Group | 1 | 1,906 |
| Pittman's Enterprises Limited | 811 | 1,893 |
| Hydro-Guard Roofing Systems | 1,375 | 1,799 |
| Kelloways Construction Ltd. | 1,318 | 1,783 |
| Newfoundland & Labrador Hydro | 1,303 | 1,773 |
| Island Roofing Company Ltd. | 476 | 1,739 |
| Can-am Construction Limited | 783 | 1,725 |
| Tech Construction Ltd. | 918 | 1,697 |
| The Telegram | 1,096 | 1,611 |
| Fortis Properties Corporation | 1,513 | 1,581 |
| J & T Construction Ltd. | 238 | 1,557 |
| Clarenville Drydock Ltd. | 1,824 | 1,475 |
| Puddister Trading Company Ltd. | 1,425 | 1,434 |
| RSM Mining Services Inc. | 1,470 | 1,421 |
| Clarkes' Trucking & Excavating Limited | 54 | 1,401 |
| Baine Johnston Insurance | 1,379 | 1,384 |
| Budgell's Equipment & Rental Ltd. | 52 | 1,384 |
| Western School District | 1,533 | 1,360 |

Expenditures of the Consolidated Revenue Fund

| Entities Which Received in Excess of \$1 Million | | |
|---|----------------|----------------|
| Entity | 2009 | 2010 |
| Labrador School Board | 946 | 1,348 |
| Whitestone Group Inc. | 551 | 1,340 |
| Academy Canada | 1,477 | 1,325 |
| Puddister Shipping Ltd. | 1,281 | 1,319 |
| Southwest Properties Partnership | 1,040 | 1,217 |
| Algonquin Bridge Inc. | 0 | 1,210 |
| Carpenters Millwrights College Inc. | 537 | 1,174 |
| Atlantic Catering Ltd. | 1,404 | 1,131 |
| Western Health Care Corporation | 2,903 | 1,127 |
| Cougar Engineering & Construction | 0 | 1,103 |
| Otis Canada Inc. | 63 | 1,093 |
| Moneris Solutions | 960 | 1,077 |
| Newfoundland Electrical Ltd. | 875 | 1,059 |
| Eastern Demolition & Recyclers | 1,381 | 1,054 |
| Harvey Gale & Son Limited | 185 | 1,033 |
| Western Petroleum | 1,226 | 928 |
| H J Bartlett Electric Inc. | 1,205 | 902 |
| Churchill Construction Ltd. | 1,353 | 886 |
| C Barnes Excavating | 1,047 | 792 |
| Redwood Construction Ltd. | 1,111 | 760 |
| P & B Trucking & Rentals Inc. | 1,007 | 697 |
| H J O'Connell Construction Ltd. | 4,337 | 490 |
| Receiver General for Canada | 2,337 | 319 |
| Eastern Health | 1,751 | 281 |
| Brook Enterprises Ltd. | 9,500 | 148 |
| Rock Construction Co Ltd. | 4,401 | 0 |
| Abitibi-Consolidated Inc. | 1,339 | 0 |
| Weirs Constr Co Ltd. | 1,080 | 0 |
| Payments \$1 million and less to over 6,050 entities in 2010 (2009 – over 5,930 entities) | 91,272 | 103,081 |
| Accrual adjustments | -125,227 | -122,466 |
| Total | 294,577 | 399,045 |

Source: Government's Financial Information System

Expenditures of the Consolidated Revenue Fund

Professional Services

Professional services generally include the fees and expenses of those engaged in a specialty profession such as accountants, doctors, lawyers, and engineers who provide a service, a report or advice to government. As indicated in Figure 1, payments for professional services totalled \$387.2 million for the year ended 31 March 2010 (\$367.6 million 31 March 2009). Figure 9 shows, by department, payments made for professional services for the year ended 31 March 2010, with comparative figures for the year ended 31 March 2009.

Figure 9

Professional Services Expenditures By Department Years Ended 31 March (\$000's)

| Professional Services By Department | | |
|---|----------------|----------------|
| Department | 2009 | 2010 |
| Department of Health and Community Services | 242,033 | 259,185 |
| Department of Justice | 65,447 | 64,907 |
| Executive Council | 36,350 | 35,330 |
| Department of Transportation and Works | 10,153 | 10,469 |
| Department of Natural Resources | 3,691 | 10,409 |
| Department of Education | 9,825 | 9,075 |
| Department of Human Resources, Labour and Employment | 2,581 | 3,380 |
| Department of Environment and Conservation | 1,917 | 2,958 |
| Department of Fisheries and Aquaculture | 832 | 1,602 |
| Legislature | 889 | 1,109 |
| Department of Innovation, Trade and Rural Development | 987 | 1,103 |
| Department of Tourism, Culture and Recreation | 1,779 | 1,027 |
| Department of Municipal Affairs | 438 | 568 |
| Department of Finance | 267 | 354 |
| Department of Government Services | 233 | 311 |
| Public Service Commission | 524 | 231 |
| Consolidated Fund Services | 220 | 217 |
| Department of Business | 222 | 101 |
| Department of Labrador and Aboriginal Affairs | 19 | 71 |
| Department of Child, Youth and Family Services | 0 | 26 |
| Accrual adjustments | -10,855 | -15,213 |
| Total | 367,552 | 387,220 |

Source: Government's Financial Information System

Expenditures of the Consolidated Revenue Fund

We also summarized the payments of professional services to show all entities or individuals who received payments in excess of \$600,000 in either the year ended 31 March 2009 or 31 March 2010. These entities or individuals are listed in Figure 10.

Figure 10

**Professional Services Expenditures
Payments in Excess of \$600,000
Years Ended 31 March
(\$000)'s**

| Entities or Individuals Which Received in Excess of \$600 Thousand | | |
|---|-------------|-------------|
| Entity | 2009 | 2010 |
| Receiver General For Canada (RCMP Contract) | 57,353 | 59,634 |
| Bell Aliant | 19,619 | 19,508 |
| Medical Practice Associates | 18,751 | 18,600 |
| Eastern Regional Health Authority | 15,837 | 18,081 |
| MTS Allstream Inc. | 14,172 | 9,554 |
| Weirfoulds LLP | 674 | 6,126 |
| Lemarchant Medical Imaging PMC | 4,798 | 4,984 |
| AMEC Earth & Environmental Limited | 4,020 | 4,500 |
| Deloitte & Touche Inc. | 3,292 | 4,351 |
| Nephrology Partnership | 2,832 | 3,013 |
| Pediatric Diagnostic Imaging Services | 2,995 | 2,811 |
| Hatch Mott Macdonald Ltd. | 2,627 | 2,701 |
| Price Waterhouse Coopers Inc. | 0 | 2,508 |
| Olympic Construction Ltd. | 0 | 2,207 |
| BAE Newplan Group Ltd. | 714 | 1,724 |
| Sheppard Case Architects Inc. | 637 | 1,538 |
| Gibbons Snow Architects Inc. | 1,392 | 1,447 |
| Dr. Joseph F. Coffey Professional Medical | 1,029 | 1,373 |
| Hearn Fougere Architects Inc. | 73 | 1,289 |
| Design Management Group Limited | 1,135 | 1,176 |
| EWA-Canada Ltd. | 1,132 | 1,136 |
| White Ottenheimer & Baker | 749 | 1,103 |
| Dr. Kevin N. Melvin Professional Medical | 1,068 | 1,037 |
| Newfoundland Exchequer Account | 370 | 1,023 |
| Dr. Geoffrey W. Smith | 902 | 997 |
| Ron Fougere Associate Ltd. | 132 | 965 |
| Labrador-Grenfell Regional Health Authority | 977 | 899 |
| Bridger Design Associates Limited | 114 | 889 |
| Retina Services Professional Medical | 831 | 888 |

Expenditures of the Consolidated Revenue Fund

| Entities or Individuals Which Received in Excess of \$600 Thousand | | |
|---|-------------|-------------|
| Entity | 2009 | 2010 |
| Dr. Todd M. McEachren | 141 | 878 |
| Dr. Richard B. Lush | 776 | 870 |
| Grant Thornton LLP | 757 | 863 |
| Dr. Christopher S. Jackman | 718 | 799 |
| CBCL Limited | 468 | 780 |
| AMEC Americas Limited | 1,131 | 756 |
| Dr. Kamel Ohson Professional Medical | 713 | 750 |
| Dr. Yahya Ismail Professional Medical | 641 | 743 |
| Town of Labrador City | 0 | 740 |
| Dr. Yoganathan Wijayanayagam | 615 | 739 |
| Dr. Thomas E. Poole Professional Medical | 675 | 738 |
| Dr. Eng T. Tjan | 675 | 736 |
| Dr. Chandra Sekhar Professional Medical | 649 | 734 |
| Dr. Viki Sahajpal Professional Medical | 711 | 728 |
| Dr. Peter J. Blackwood | 689 | 724 |
| Dr. Mark O'Driscoll Professional Medical | 651 | 723 |
| Dr. Eric W. Stone | 825 | 722 |
| Dr. Michael Furey | 693 | 720 |
| Dr. Thomas Guy Hogan | 694 | 707 |
| Dr. Kenneth J. Burrage | 708 | 702 |
| Dr. Palinder Kamra Profession Medical | 689 | 700 |
| Dr. Robert D. Cook Professional Medical | 167 | 697 |
| Aivek Jacques Whitford Ltd. | 35 | 691 |
| Jacques Whitford Stantec Limited | 640 | 688 |
| Dr. Kenneth Ringer Professional Medical | 613 | 688 |
| Environment Canada | 10 | 685 |
| Dr. S. B. Pilgrim Professional Medical | 454 | 683 |
| Dr. Tony Batten Professional Medical | 647 | 682 |
| Dr. Nasir Mahmood Professional Medical | 55 | 677 |
| Dr. Zohair Tomi | 153 | 671 |
| Dr. David Lacey Professional Medical | 625 | 647 |
| Dr. John Osi Ozoh | 537 | 640 |
| Dr. James Sheridan Professional Medical | 561 | 640 |
| Dr. Kenneth Brett Williams | 395 | 635 |
| Dr. Kam W. Mong | 647 | 629 |
| Dr. John McNicolas Professional Medical | 687 | 625 |
| Dr. Neil J. Pearce | 638 | 588 |
| Central Regional Health Authority | 694 | 562 |
| Dr. John Tucker Professional Medical | 604 | 503 |
| PHB Group Inc. | 1,330 | 493 |
| Hampton Architect Inc. | 1,423 | 465 |

Expenditures of the Consolidated Revenue Fund

| Entities or Individuals Which Received in Excess of \$600 Thousand | | |
|--|----------------|----------------|
| Entity | 2009 | 2010 |
| AE Consultants Limited | 845 | 362 |
| Dr. Amin Mohamed Addetia | 625 | 251 |
| Cox & Palmer | 781 | 77 |
| Applecore Interactive Inc. | 703 | 30 |
| Canadian Policy Research Networks | 1,227 | 0 |
| Payments \$600 thousand and less to over 2,060 entities in 2010 (2009 – over 2,020 entities) | 191,467 | 197,210 |
| Accrual adjustments | -10,855 | -15,213 |
| Total | 367,552 | 387,220 |

Source: Government's Financial Information System

Allowances and Assistance

Allowances and assistance expenditures include costs relating to such items as: allowances for Members of the House of Assembly, income assistance allowances paid to individuals through the Department of Human Resources Labour and Employment, out of court settlements, and allowances paid on behalf of individuals to organizations. As indicated in Figure 1, payments for allowances and assistance totalled \$460.5 million for the year ended 31 March 2010 (\$372.2 million 31 March 2009). Figure 11 shows, by department, payments made for allowances and assistance for the year ended 31 March 2010, with comparative figures for the year ended 31 March 2009.

Figure 11

Allowances and Assistance Expenditures By Department Years Ended 31 March (\$000's)

| Allowances and Assistance By Department | | |
|--|-------------|-------------|
| Department | 2009 | 2010 |
| Department of Human Resources, Labour and Employment | 222,426 | 301,810 |
| Department of Health and Community Services | 139,145 | 147,455 |
| Department of Education | 5,528 | 6,280 |
| Department of Justice | 2,025 | 1,979 |
| Legislature | 1,339 | 1,440 |
| Department of Transportation and Works | 1,163 | 925 |
| Department of Finance | 72 | 346 |
| Department of Government Services | 208 | 175 |

Expenditures of the Consolidated Revenue Fund

| Allowances and Assistance By Department | | |
|--|----------------|----------------|
| Department | 2009 | 2010 |
| Department of Municipal Affairs | 168 | 173 |
| Executive Council | 20 | 20 |
| Department of Natural Resources | 15 | 16 |
| Public Service Commission | 2 | 11 |
| Accrual adjustments | 60 | -107 |
| Total | 372,171 | 460,523 |

Source: Government's Financial Information System

We also summarized the payments of allowances and assistance to show all entities which received payments in excess of \$500,000 in either the year ended 31 March 2009 or the year ended 31 March 2010. These entities are listed in Figure 12.

Figure 12

**Allowances and Assistance Expenditures
Payments in Excess of \$500,000
Years Ended 31 March
(000's)**

| Entities Which Received in Excess of \$500 Thousand | | |
|--|-------------|-------------|
| Entity | 2009 | 2010 |
| Income Assistance | 178,909 | 183,485 |
| Bell Aliant | 121,167 | 127,578 |
| Labour Market Development Agreement | 0 | 70,000 |
| Eastern Regional Health Authority | 4,323 | 4,695 |
| Newfoundland and Labrador Health Boards | 2,297 | 2,297 |
| Minister of Finance (Ontario) (MCP payments) | 2,049 | 2,289 |
| Alberta MCP Payments | 1,852 | 1,895 |
| Medical Services Insurance | 1,390 | 1,752 |
| The Salvation Army | 851 | 891 |
| Learmonth, Dunne & Boulos | 0 | 841 |
| Bay St. George Community Employment Corporation | 771 | 751 |
| Sedler Community Employment Corporation | 561 | 676 |
| Avalon Employment Inc. | 596 | 634 |
| Humber Valley Community Employment Corporation | 666 | 621 |

Expenditures of the Consolidated Revenue Fund

| Entities Which Received in Excess of \$500 Thousand | | |
|---|----------------|----------------|
| Entity | 2009 | 2010 |
| College of the North Atlantic | 563 | 617 |
| Morris Budden (In Trust) | 55 | 600 |
| Memorial University of Newfoundland | 402 | 569 |
| Workplace Health Safety & Compensation Commission | 168 | 559 |
| Harvey's Travel | 533 | 470 |
| Roebothan, McKay & Marshall (Out of Court Settlement) | 1,120 | 100 |
| Payments \$500 Thousand and less to over 5,670 entities in 2010 (2009 – over 4,520 entities) | 53,838 | 59,310 |
| Accrual adjustments | 60 | -107 |
| Total | 372,171 | 460,523 |

Source: Government's Financial Information System

Transportation and Communications

Transportation and communications expenditures include costs relating to such items as: postage, freight, ambulance and air services, telecommunication services and travel for Ministers, Government employees and others. As indicated in Figure 1, payments for transportation and communications total \$48.8 million for the year ended 31 March 2010 (\$48.1 million 31 March 2009). Figure 13 shows, by department, payments made for transportation and communications for the year ended 31 March 2010, with comparative figures for the year ended 31 March 2009.

Expenditures of the Consolidated Revenue Fund

Figure 13

**Transportation and Communications Expenditures
By Department
Years Ended 31 March
(\$000's)**

| Transportation and Communications By Department | | |
|--|---------------|---------------|
| Department | 2009 | 2010 |
| Department of Transportation and Works | 8,883 | 8,907 |
| Department of Natural Resources | 6,961 | 7,389 |
| Department of Justice | 5,295 | 5,398 |
| Department of Environment and Conservation | 5,872 | 5,211 |
| Executive Council | 3,899 | 4,325 |
| Department of Human Resources, Labour and Employment | 2,937 | 3,467 |
| Department of Education | 3,615 | 3,459 |
| Department of Government Services | 2,659 | 2,737 |
| Department of Tourism, Culture and Recreation | 1,575 | 1,827 |
| Department of Health and Community Services | 1,408 | 1,219 |
| Department of Innovation, Trade and Rural Development | 1,173 | 1,143 |
| Department of Fisheries and Aquaculture | 1,054 | 1,080 |
| Department of Municipal Affairs | 950 | 974 |
| Department of Finance | 818 | 783 |
| Legislature | 602 | 586 |
| Department of Labrador and Aboriginal Affairs | 504 | 384 |
| Department of Business | 387 | 259 |
| Public Service Commission | 161 | 139 |
| Department of Child, Youth and Family Services | 0 | 114 |
| Accrual adjustments | -657 | -651 |
| Total | 48,096 | 48,750 |

Source: Government's Financial Information System

We also summarized the payments for transportation and communications to show all entities which received payments in excess of \$100,000 in either the year ended 31 March 2009 or the year ended 31 March 2010. These entities are listed in Figure 14.

Expenditures of the Consolidated Revenue Fund

Figure 14

**Transportation and Communications
Expenditures
Payments in Excess of \$100,000
Years Ended 31 March
(\$000's)**

| Entities Which Received in Excess of \$100 Thousand | | |
|--|-------------|-------------|
| Entity | 2009 | 2010 |
| Bell Aliant | 4,654 | 5,911 |
| Universal Helicopters Newfoundland Ltd. | 4,894 | 5,492 |
| Canada Post Corporation | 2,358 | 2,386 |
| Bell Mobility | 1,554 | 2,053 |
| Rogers Business Solutions | 2,892 | 2,030 |
| Canadian Helicopters Ltd. | 1,614 | 1,304 |
| Postage by Phone | 1,543 | 1,249 |
| Labrador Marine Inc. | 882 | 1,212 |
| Eastlink | 604 | 635 |
| Supermarine Aircraft Inc. | 738 | 630 |
| Harvey's Travel Ltd. | 586 | 512 |
| City of St. John's | 430 | 489 |
| Provincial Airlines Limited. | 476 | 457 |
| Newfoundland and Labrador Hydro | 357 | 369 |
| Bell Island Radio Equipment Lease | 430 | 364 |
| Canadian Aerospace Corporation | 427 | 351 |
| Legrow's Travel | 271 | 341 |
| Rogers Telecom | 276 | 275 |
| Air Labrador | 173 | 228 |
| Newfoundland Helicopters Ltd. | 474 | 162 |
| Sameday Right Way | 130 | 149 |
| Receiver General for Canada | 77 | 135 |
| Household Movers and Shippers Ltd. | 113 | 124 |
| Dynamex Canada Inc. | 33 | 112 |
| Helico Air Services Limited | 0 | 111 |
| Century 2K Cabling System Inc. | 45 | 105 |
| Strait Air 2000 Ltd. | 117 | 39 |
| Millennium Express | 118 | 37 |

Expenditures of the Consolidated Revenue Fund

| Entities Which Received in Excess of \$100 Thousand | | |
|---|---------------|---------------|
| Entity | 2009 | 2010 |
| Aliant Mobility | 159 | 6 |
| Helicopter Transport Services | 258 | 0 |
| Payments \$1 million and less to over 8,500 entities in 2009 (2008 – over 7,740 entities) | 22,070 | 22,133 |
| Accrual adjustments | -657 | -651 |
| Total | 48,096 | 48,750 |

Source: Government's Financial Information System

Expenditures of the Consolidated Revenue Fund

APPENDICES

APPENDIX

I

ANSWERS TO FREQUENTLY ASKED QUESTIONS

ABOUT THE PUBLIC ACCOUNTS

What are the Public Accounts?

The Public Accounts contain the annual financial statements of the Province of Newfoundland and Labrador. They are a representation by Government, of the Province's financial condition as at the end of a fiscal year, and the results of its operations, the changes in its net debt and its cash flows for that year.

The *Financial Administration Act* requires that the Public Accounts show:

- the state of the public debt;
- the revenue and expenditure;
- all compromises, remissions, refunds and amounts written off; and
- those other accounts and statements that may under good accounting practice be required to show the financial position of the Province at the end of the fiscal year.

Why are they Prepared?

The *Financial Administration Act* requires that the Public Accounts be prepared and tabled in the House of Assembly. The Public Accounts provide an important link in an essential chain of public accountability. In an era where, in Canada and throughout the world, there is a heightened need for transparency and accountability, the preparation and audit of Government's financial statements is of increasing importance. These statements are the principal means by which Government reports to the House of Assembly and to all Newfoundlanders and Labradorians on its stewardship of public funds.

What are the Public Accounts "Volumes"?

The Public Accounts for the year ended 31 March 2010 were published in two volumes:

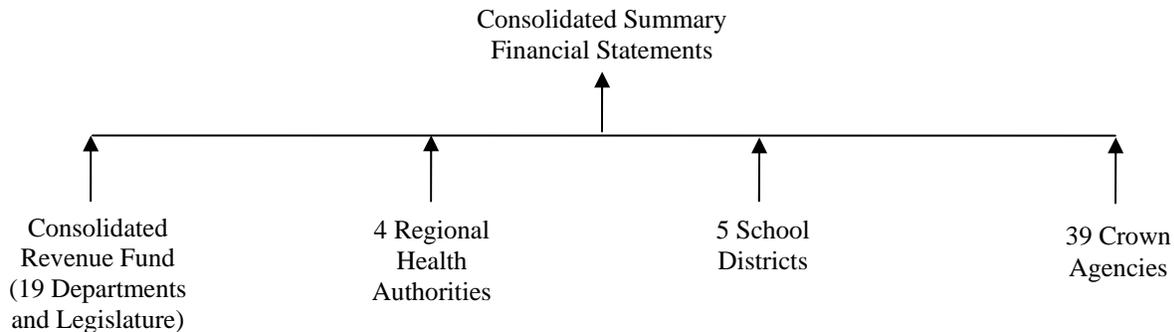
Volume I - Consolidated Summary Financial Statements

This Volume presents the Consolidated Summary Financial Statements of the Province of Newfoundland and Labrador on an accrual basis of accounting. Information contained in this Volume provides the most complete information about the operating results and financial position of the Province and combines the financial activities of the Consolidated Revenue Fund (which accounts for the financial activities of the 19 Government departments and the Legislature) and the various Crown corporations, boards and authorities which are controlled by and therefore accountable to the Government of Newfoundland and Labrador. Government departments and Crown agencies are accountable for the administration of their financial affairs and resources through a Minister.

The types of entities included in these financial statements are outlined as follows:

Figure 1

Entities included in the Consolidated Summary Financial Statements 31 March 2010



As Figure 1 shows, the Consolidated Summary Financial Statements include the financial activities of the Consolidated Revenue Fund as well as 48 other entities (4 regional health authorities, 5 school districts and 39 Crown agencies). There are 18 other entities which are not included in the Consolidated Summary Financial Statements as their financial activities are included with either the Consolidated Revenue Fund or with parent entities already included in the 48 entities, or are not considered to be controlled by Government.

Volume II - Consolidated Revenue Fund Financial Statements

This Volume provides information about the operating results and financial position of the Consolidated Revenue Fund only, comprised of the 19 Government departments and the Legislature. These statements are also prepared on an accrual basis of accounting.

What Statements are Included and what do they Show?

Government's financial statements are intended to reflect a fundamental difference between financial reporting for a government and financial reporting for private sector businesses. Governments use public money to provide services through various programs, with no intent to make a profit. As such, a government's financial statements differ from those of business by focusing on net debt - not profit or loss. Simply put, net debt represents the amount Government will eventually have to raise to pay for incurring past liabilities, and is calculated as total liabilities less total financial assets.

Answers to Frequently Asked Questions about the Public Accounts

The Consolidated Summary Financial Statements are comprised of five main statements:

Statement of Financial Position

This statement shows the Province's financial assets, liabilities, net debt, non-financial assets and accumulated deficit.

Financial assets (such as cash, temporary investments and receivables) are different from non-financial assets (such as roads, schools and hospitals) in that they can be used to reduce liabilities. Liabilities include borrowings as well as liabilities relating to retirement benefits, including the unfunded pension liability. The difference between liabilities and financial assets is the Province's net debt. This is the amount which the government of the day leaves for future governments to either repay or refinance.

Non-financial assets will be used in providing programs and services and therefore are deducted from net debt in calculating the accumulated deficit. It is this accumulated deficit which reflects the difference between past expenses and revenues, i.e. the net accumulation of all annual surpluses and deficits.

Statement of Change in Net Debt

This statement reflects the change in net debt for the year, calculated as the annual surplus or deficit, any changes in the net book value of tangible capital assets and any changes in other non-financial assets.

Statement of Operations

This statement reflects the annual surplus or deficit, along with a comparison of budgeted and actual revenues and expenses. The surplus or deficit is calculated as the difference between revenues and expenses for the year and represents the extent to which Government was able to raise sufficient revenues to provide for the costs of programs and services, and servicing the debt.

Statement of Change in Accumulated Deficit

This statement reflects the change in accumulated deficit resulting from the surplus or deficit for the year.

Statement of Cash Flows

This statement reflects the change in cash (and cash equivalents such as temporary investments) and the source and use of cash through operations, financing and investing activities. It also reflects acquisitions and disposals of capital assets.

In addition to the five main statements, there are also several schedules and notes which are an integral part of the statements, and which provide additional disclosure and explanation regarding significant balances, transactions and events during the year.

What Accounting Policies does Government Follow?

The Consolidated Summary Financial Statements are prepared on the accrual basis of accounting in accordance with the accounting standards established for governments by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), and as outlined in the significant accounting policies of the Province. Revenues are recorded when earned with expenses being recorded when incurred, in accordance with the applicable significant accounting policies.

Since PSAB's recommendations relating to financial reporting by governments are generally accepted within Canada, section 59 of the *Financial Administration Act* requires compliance with these recommendations to properly present the financial position, results of operations and changes in the financial position of the Province at the end of the fiscal year.

The accounting policies used by Government in preparing its financial statements are included in Note 1 to the statements and deal with such things as the method of consolidation and how assets, liabilities, revenues and expenses are recognized. The Province fully complies with PSAB recommendations and standards.

When preparing its financial statements, Government makes significant estimates, as not all information is available or determinable at the time of finalizing the statements. In these cases, estimates are based on the best information available at the time the statements are prepared. Examples of where estimates are used include the accrual of retirement benefits, the amortization of foreign exchange gains or losses, and the allowance for guaranteed debt. As well, estimates have been used in recording some tangible capital assets given that only limited information is available on some older assets. These estimates are audited and are provided for under generally accepted accounting principles.

Who Audits the Public Accounts?

The Auditor General is responsible for auditing the Public Accounts. Section 11 of the *Auditor General Act* requires that the Auditor General express an opinion as to whether the financial statements included in the Public Accounts present fairly the financial position, results of operations and changes in the financial position of the Province in accordance with Government's disclosed accounting policies and on a basis consistent with that of the preceding year, together with any reservations the Auditor General may have.

Why are they Audited?

The House of Assembly is responsible for overseeing the activities of Government and holding Government accountable for its handling of public resources. To assist this process, Government provides information about how it used public resources entrusted to it. One of the main ways Government does this is through the annual preparation, and tabling in the House of Assembly, of the Public Accounts of the Province.

What assurance do Members of the House of Assembly have that the information provided in the Public Accounts is appropriate, credible and complete? How can Members know that the information they receive accurately reflects the results of the activities of Government?

The answer is that the House of Assembly uses the services of the Auditor General to assist it in carrying out its oversight responsibilities.

Consequently, the Auditor General's fundamental role in auditing the Public Accounts is to bring an independent audit and reporting process to bear upon the manner in which the financial statements are prepared and presented.

An audit provides reasonable, but not absolute, assurance that the Province's financial statements are free of material misstatement. Material misstatement refers to an item or group of items that if omitted or misstated, would alter the decisions of reasonably knowledgeable financial statement users. The tolerable level of error or misstatement is a matter of judgment.

We obtain reasonable assurance on the financial statement figures because it would not be cost effective to obtain absolute assurance - we cannot audit every transaction. By applying audit procedures to test the accuracy or reasonableness of the figures appearing in the financial statements, we achieve our desired level of assurance. We use audit procedures such as tracing samples of transactions to supporting documents, testing the effectiveness of certain internal controls, confirming year-end balances with third parties and reviewing the reasonableness of estimates.

We also obtain assurance on the financial information of Crown agencies which are consolidated in the Province's financial statements, by reviewing the agencies' audited financial statements and, in the case of agencies which are not audited by the Auditor General, by obtaining and reviewing information from the auditors of the agencies.

Answers to Frequently Asked Questions about the Public Accounts

**APPENDIX
II
GLOSSARY**

Glossary

| | |
|---|--|
| Accumulated surplus/deficit | This equals the net accumulation of all annual surpluses and deficits experienced by the Province. |
| Accrual basis | A method of accounting whereby revenues are recorded when earned and expenses are recorded when incurred. |
| Annual surplus/deficit | The difference between a government's annual revenues and expenses. |
| CICA | The Canadian Institute of Chartered Accountants. |
| Consolidated Revenue Fund | All revenues over which the Legislature has power of appropriation form one Consolidated Revenue Fund. This currently includes the financial operations of the 19 Government departments and the Legislature. |
| Consolidated Summary Financial Statements | Summary financial statements which consolidate the financial statements of the Consolidated Revenue Fund with the financial statements of various Crown Corporations, Boards and Authorities which are controlled by the Government and which form part of the Province's reporting entity. |
| Debt expenses | Also known as the cost of borrowing, or debt servicing costs, this is the interest cost incurred by a government on its borrowings and liabilities associated with retirement benefits. |
| Environmental liability | An estimate of the cost of remediation that the Province will have to incur in the future. |
| Federal transfers | Funds received by a province from the Federal Government, such as the Canada Health and Social Transfer (CHST) and cost-shared programs. |
| Financial assets | Assets of a government (such as cash, investments, loans and accounts receivable) that can be converted to cash in order to pay government's liabilities or finance its future operations. |
| Generally accepted auditing standards (GAAS) | This refers to the auditing standards that the Office of the Auditor General follows in order to be consistent in its auditing practices with similar organizations and to comply with the standards as proclaimed by the CICA. The authority for GAAS is the CICA. |
| Gross domestic product (GDP) | The money value of goods and services produced within a geographical boundary. It can be reported without adjusting for inflation (known as market value, current or nominal GDP) or it may be discounted for the effects of inflation (real GDP). <i>In this report, GDP information is obtained from the Department of Finance, and is not adjusted for inflation.</i> |

Glossary

| | |
|--------------------------------|--|
| Interest bite | The extent to which a government must use revenue to pay interest costs, rather than to provide new or expanded programs and services, reduce taxation levels or repay debt. |
| Interest cost | Interest on the Province's debt (e.g. borrowings, unfunded pension liability), as well as other debt-related expenses. |
| Net borrowings | Total borrowings (debentures, treasury bills, etc.) less sinking funds. Also referred to as Provincial debt. |
| Net debt | Government's liabilities less its financial assets. This is the residual liability amount that will have to be paid or financed by future taxpayers. |
| Non-financial assets | 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. |
| PSAB | Public Sector Accounting Board of the CICA. The Board issues standards and guidance with respect to matters of accounting and financial reporting in the public sector. |
| Public Accounts | Annual financial accountability document of the Province. It includes Volume I - Consolidated Summary Financial Statements and Volume II - Consolidated Revenue Fund Financial Statements. |
| Public debt | Borrowings of a government. Debt generally consists of debentures, notes payable, capital leases and mortgages. |
| Tangible capital assets | Non-financial assets which are held for use in the production or supply of goods and services and have useful economic lives extending beyond an accounting period. Examples include buildings, roads, infrastructure, marine vessels and heavy equipment and machinery. |