



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
March 31, 2012

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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January 2013

The Honourable Ross Wiseman, M.H.A.
Speaker
House of Assembly

Dear Sir:

In compliance with the *Auditor General Act*, I have the honour to submit, for transmission to the House of Assembly, my Report on the Audit of the Consolidated Summary Financial Statements of the Province for the year ended March 31, 2012.

Respectfully submitted,

A handwritten signature in black ink, appearing to be 'Terry Paddon', written over a horizontal line.

TERRY PADDON, CA
Auditor General

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**CHAPTER
1
COMMENTS OF THE
AUDITOR GENERAL**



Auditor General's Report

This Report is my first as Auditor General of Newfoundland and Labrador commenting on the financial statements of the Province of Newfoundland and Labrador. The Consolidated Summary Financial Statements reflect the financial position and annual operating results of all organizations in the Government Reporting Entity (GRE). The statements provide the most complete information about the operating results and financial position of the Province. The Report provides additional information and commentary resulting from the audit, by this Office, of the Consolidated Summary Financial Statements of the Province for the year ended March 31, 2012.

As Auditor General, I am responsible for this Report to the House of Assembly.

Independence

I was appointed Auditor General on June 1, 2012. Prior to this appointment, I was Deputy Minister of Finance for Newfoundland and Labrador and, in that capacity, was in a position to influence the preparation of the 2011-12 Public Accounts. Professional standards prevented me from participating in or influencing the audit of the Consolidated Summary Financial Statements for the year ended March 31, 2012.

As a result, the audit was completed, in accordance with generally accepted auditing standards, by the Deputy Auditor General, Sandra Russell, CA, in conjunction with the professional staff of the Office of the Auditor General.

Accountability

The Public Accounts are one of the most important documents which enable the House of Assembly, and all Newfoundlanders and Labradorians, to hold Government accountable for its stewardship of public funds.

The Consolidated Summary Financial Statements (Public Accounts Volume I) 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 departments, with those of other Government entities.

Economy and Financial Results

Economy

Newfoundland and Labrador has undergone a period of economic growth over the past ten years. Increased activity in the resource sector, aided by major development projects, has resulted in rising gross domestic product (GDP) as well as other related economic indicators. This activity, as well as a substantial increase in commodity prices, has had a positive impact on Provincial government revenues over the period.

Financial Results

The Province recorded a surplus of \$883 million for the year ended March 31, 2012, an increase of \$824 million from the expected surplus of \$59 million which was forecast at the time of Budget 2011. The net cumulative value of the surpluses less deficits from 2002-03 to 2011-12 is \$3.5 billion.

Atlantic Accord

A significant contributor to these surpluses is payments received under both the Atlantic Accord 1985 and the Atlantic Accord 2005. Since 2002-03, the Province has received approximately \$5.0 billion under these agreements. 2011-12 was the last year that the Province received any payments under the Atlantic Accord agreements.

In the absence of revenue from the Atlantic Accords, the net cumulative value of operating results over the ten year period would have been a net cumulative deficit of approximately \$1.5 billion.

Offshore Revenue

In 2002-03, oil royalties were \$82 million, or 2.1% of total revenues, excluding revenues from the Atlantic Accords. In 2011-12, oil royalties were \$2.8 billion, or 34.4% of total revenues, excluding revenues from the Atlantic Accords, an increase of \$2.7 billion.

The impact of oil production on the overall revenues of the Province is even greater considering that a significant portion of corporate income tax, personal income tax, and other direct, indirect or induced revenues result from activity in the offshore sector as well.

While of significant importance to the economy and treasury of Newfoundland and Labrador, it is important to recognize that activity and revenue from the non-renewable resource sector is time limited and will diminish if not replaced.

Comments of the Auditor General

Expenses

Since 2003, the Province's expenses have grown from \$4.7 billion to \$7.8 billion in 2012, an increase of \$3.1 billion, or 66 %. Per capita expenses in Newfoundland and Labrador are the highest in Canada. Furthermore, per capita expenses are approximately 50% higher than the average of all other provinces.

Tangible Capital Assets

From 2003 to 2012, the Province spent a total of \$3.3 billion related to tangible capital assets. Acquisitions of tangible capital assets in 2011 and 2012 averaged approximately \$750 million - more than 3 times greater than the average annual acquisition of tangible capital assets from 2003 to 2010 - which was \$226 million.

Net Debt

The Net Debt of the Province at March 31, 2012 is \$7.8 billion. Net Debt has declined by approximately \$2.8 billion since 2002-03 and by \$4.1 billion from its peak in 2004-05. Despite significant surpluses in 2010-11 and 2011-12, Net Debt has remained relatively constant over the past four years. The beneficial impact of surpluses on Net Debt has been primarily offset by acquisitions of tangible capital assets during these periods.

While the overall level of Net Debt has declined over the past seven years, the component parts show mixed results. The liability for employee future benefits has seen significant variability over the period from 2002-03 to 2011-12. Employee future benefits include obligations related to pension arrangements and group health and life insurance benefits which are cost shared with provincial retirees. The liability related to employee future benefits totaled \$5.2 billion at March 31, 2012 - 67% of the Province's Net Debt.

Employee Future Benefits

The obligation related to employee future benefits declined significantly in 2005-06, the year the \$2 billion advance payment under the Atlantic Accord 2005 was directed to the Teachers' Pension Plan. In addition, further special payments totaling approximately \$1.3 billion were made between 2006 and 2012 to address the unfunded pension liability. Since 2007-08, the obligation has increased, such that, at March 31, 2012 the total obligation is now greater than it was at March 31, 2005, despite in excess of \$3.3 billion in special payments over that period. This reflects the inherent volatility related to these obligations and the risks borne by the taxpayers of the Province.

Looking Forward

The 2012 provincial budget presented a three year outlook which forecast two years of deficits followed by a return to surplus by 2014-15. In its 2012-13 mid-year financial update,

Comments of the Auditor General

Government indicated that the projected budget deficit for 2012-13 is now expected to be \$726 million instead of the projected deficit of \$258 million at the release of Budget 2012. The increase in the projected deficit for 2012-13 is caused primarily by lower than expected revenues from the non-renewable resource sector.

As Government attempts to deal with deficits over the medium term, it will have to consider a number of alternative options - increasing revenue, decreasing expenses, borrowing or a combination of all. A major consideration in determining the response to potential deficits will be whether they are viewed as being temporary or more sustained. The answer will, to a large extent, depend on expectations of commodity prices and production levels.

Demographic change is one of the most significant indicators, or predictors, of the future demands on public services. Demographic issues have impacted the revenues and expenses of the Province in previous years and will continue to do so in the future. These demographic issues include shifts in the population between various regions within the Province, migration to other jurisdictions and an aging population. Such issues will impact delivery of public services and the types of services required as well as their associated costs. The impact of demographic change will also have a significant impact on labour markets.

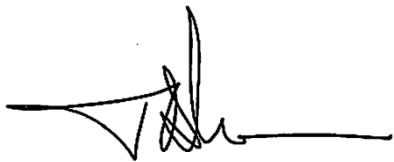
Timeliness of Public Accounts

In order for financial statement information to be useful to users, it should possess four principle characteristics - understandability, relevance, reliability and comparability. One of the ways relevance is achieved is by ensuring the information is received by users and decision makers in a timely manner. The usefulness of information for decision making declines as time elapses.

The Public Accounts for the fiscal year ended March 31, 2012 were released on January 16, 2013, approximately 9½ months after the end of the year. The relevance of this information is considerably diminished and would be more useful if it was released earlier.

Acknowledgements

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



TERRY PADDON, CA
Auditor General

CHAPTER
2
OUR OFFICE

Our Office

The Office of the Auditor General operates from two locations - Mount Pearl and Corner Brook. The staff of the Office contribute, as a team, towards the audit of the Public Accounts of Newfoundland and Labrador.

The following is an alphabetical list of staff of the Office of the Auditor General as of December 31, 2012:

Nicole Abbott	Melissa Lewis
Marc Blake	Ruo Chen Li
Paul Burggraaf, CAPM	Michael MacPhee, CA
Greg Butler	James Mallard, CGA
Keith Butt, CA	Adam Martin, CA
John Casey, CMA	Jayne Martin, CA
Jeff Cook	Leif Martin, CA
Gertrude Critch	Trevor McCormick, FCGA
Tony Dingwell, CA	Patrick Morrissey
Lisa Duffy, CA	Melissa Mullaly
Robert George	Jessica Nugent, CA
Gregg Griffin	Tracy Pelley, CMA
Cayla Hillier	Thomas Pritchard
Jeremy Hynes	Pauline Reynolds, CMA
Claude Janes, CA	Sandra Russell, CA
Brenda Kavanagh	Allison Simms
Trena Keats, CA	Lindy Stanley, CA
Adam Kelloway	Brad Sullivan, CA
Aman Khanna	Scott Walters, FCA
Nancy King	David White, FCGA
Stephanie Leblanc, CA	Tony Wiseman

Our Office

**CHAPTER
3
INTRODUCTION**

Introduction

Background This Report provides information on the Consolidated Summary Financial Statements of the Province of Newfoundland and Labrador for the year ended March 31, 2012. 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 focus of this Report is the Consolidated Summary Financial Statements and presents commentary on certain financial information contained in those financial statements. Two appendices are also included. Appendix I presents answers to questions which are 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 (FAA)*, Government prepares a report called the Public Accounts. In accordance with the *FAA*, 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. The Public Accounts of the Province include:

- Volume I - Consolidated Summary Financial Statements
- Volume II - Financial Statements of the Consolidated Revenue Fund

Treasury Board prescribes the manner and form in which the Public Accounts of the Province are prepared, as provided by the *FAA*.

Section 11 of the *Auditor General Act* requires that the Auditor General express an opinion as to whether the financial statements required by the *FAA* to be 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.

Consolidated Summary Financial Statements

The Consolidated Summary Financial Statements reflect the financial position and annual operating results of all organizations in the Government Reporting Entity (GRE). 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 departments, with those of other Government entities.

The GRE consists of government departments and all organizations the Province controls. Control is defined as the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities.

Organizations in the GRE are shown in Table 1. The organizations in the GRE include Government Business Enterprises (GBEs), school districts, health boards, government not-for-profit organizations, and other government organizations.

Introduction

Table 1

**Consolidated Summary Financial Statements
Government Reporting Entity
March 31, 2012**

Audited by the Office of the Auditor General	Audited by a Private Sector auditor
Business Investment Corporation	Board of Commissioners of Public Utilities
C.A Pippy Park Commission	Central Regional Health Authority
Consolidated Revenue Fund	Chicken Farmers of Newfoundland and Labrador
Heritage Foundation of Newfoundland and Labrador	College of the North Atlantic
Livestock Owners Compensation Board	Conseil scolaire francophone provincial de Terre-Neuve et Labrador
Newfoundland and Labrador Arts Council	Credit Union Deposit Guarantee Corporation
Newfoundland and Labrador Crop Insurance Agency	Dairy Farmers of Newfoundland and Labrador
Newfoundland and Labrador Housing Corporation	Eastern Regional Health Authority
Newfoundland and Labrador Immigrant Investor Fund Limited	Eastern School District
Newfoundland and Labrador Industrial Development Corporation	Egg Producers of Newfoundland and Labrador
Newfoundland and Labrador Legal Aid Commission	Labrador-Grenfell Regional Health Authority
Newfoundland and Labrador Municipal Financing Corporation	Labrador School Board
Provincial Advisory Council on the Status of Women - Newfoundland and Labrador	Marble Mountain Development Corporation
Provincial Information and Library Resources Board	Memorial University of Newfoundland
Research and Development Corporation of Newfoundland and Labrador	Multi-Materials Stewardship Board
Student Loan Corporation of Newfoundland and Labrador	Municipal Assessment Agency Inc.
The Rooms Corporation of Newfoundland and Labrador	Nalcor Energy
	Newfoundland and Labrador Centre for Health Information
	Newfoundland and Labrador Film Development Corporation
	Newfoundland and Labrador Liquor Corporation
	Newfoundland and Labrador Sports Centre Inc.
	Newfoundland Hardwoods Limited
	Newfoundland Ocean Enterprises Limited

Introduction

Audited by the Office of the Auditor General	Audited by a Private Sector auditor
	Nova Central School District
	Public Health Laboratory
	Western Regional Health Authority
	Western School District
	Unaudited
	Churchill Falls (Labrador) Corporation Trust
	No financial statements prepared
	Newfoundland and Labrador Farm Products Corporation

GBEs generate their revenues by selling goods or services outside of the GRE. Their operations are self-sustaining - they do not rely on government funding. The GBEs are Nalcor Energy and the Newfoundland and Labrador Liquor Corporation. The accounting for GBEs is significantly different from all of the other organizations in the GRE, reflecting their self-sustaining nature.

The Consolidated Summary Financial Statements are prepared in accordance with Canadian Public Sector Accounting Standards established for governments by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (PSAB). The significant accounting policies of the Province are contained in the notes to the Consolidated Summary Financial Statements.

Under Canadian Public Sector Accounting Standards, a summary reporting model is the only appropriate reporting model for governments. This requires that all entities in the GRE be consolidated in summary financial statements – this model is adopted by the Province of Newfoundland and Labrador.

For the year ended March 31, 2012, Volume I of the Public Accounts contains the Consolidated Summary Financial Statements, the Auditor's Report on those financial statements, and other information which Government is required to include or chooses to include.

Introduction

Responsibility for the Public Accounts

Government, through the Comptroller General, is responsible for providing the House of Assembly with the Province's financial statements (the Public Accounts), prepared in accordance with Canadian Public Sector Accounting Standards, the standards which are considered to be generally accepted accounting principles (GAAP) for Canadian governments.

The Comptroller General is responsible for preparing the Consolidated Summary Financial Statements, including related notes and schedules. To prepare financial statements in accordance with GAAP, the Comptroller General is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses.

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. Government is responsible for maintaining a system of internal control in order to provide reasonable assurance that transactions are properly authorized, assets are safeguarded, financial records are properly maintained, and to prepare summary financial statements that are free from material misstatement whether due to error or fraud.

Auditor's Report

The responsibility of the Office of the Auditor General is to perform an audit of the Consolidated Summary Financial Statements in accordance with Canadian generally accepted auditing standards (GAAS). The Office forms an opinion based upon the results of the audit and, in accordance with Canadian GAAS, issues an Auditor's Report on the Consolidated Summary Financial Statements.

Some key points about the Auditor's Report are:

Level of Assurance

An audit is designed to obtain reasonable, but not absolute, assurance that the Consolidated Summary Financial Statements, as a whole, are free of material misstatement. It is not possible to provide absolute assurance in a financial statement audit because it is not practical to examine 100% of transactions (due to volume), internal control systems have inherent limitations (due to control override potential), and much audit evidence is persuasive rather than conclusive.

Introduction

Reasonable assurance means that sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level to support the conclusion that the financial statements are free of material misstatement. This is consistent with GAAS requirements.

Materiality

The Auditor's Report provides an opinion on whether the Consolidated Summary Financial Statements present fairly, in all material respects, the consolidated financial position of the Province at a point in time (e.g.; March 31, 2012), and the consolidated results of its operations, the change in its net debt, the change in its accumulated deficit, and its cash flows for the year then ended (e.g.; the year ended March 31, 2012) in accordance with Canadian Public Sector Accounting Standards.

Audit procedures are performed to detect material misstatements in the financial statements. Materiality means how significant a financial statement omission or misstatement, either individually or in the aggregate, would need to be in order for such omissions or misstatements to be expected to influence or change the decisions of reasonably knowledgeable users relying on those financial statements. Guidance is provided by GAAS and professional judgment is exercised in order to set an overall level of materiality for the audit.

All errors or misstatements noted during the audit are accumulated and an assessment is made whether they would individually, or in aggregate, cause the financial statements to be materially misstated, based on the level of materiality chosen for the audit or because of other qualitative considerations associated with the information irrespective of the magnitude of the misstatement or omission.

Audit procedures and evidence

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Summary Financial Statements. The procedures selected depend on the auditor's judgment, including an assessment of risks of material misstatement of the Consolidated Summary Financial Statements, whether due to fraud or error.

Internal controls relevant to the preparation of the Consolidated Summary Financial Statements are considered in order to design audit procedures, but not for the purpose of expressing an opinion on the effectiveness of Government's system of internal controls.

Introduction

The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Government, as well as evaluating the overall presentation of the Consolidated Summary Financial Statements.

Audit Opinion An unqualified audit opinion was issued on the Consolidated Summary Financial Statements for the year ended March 31, 2012, concluding that they were fairly presented, in all material respects, in accordance with Canadian Public Sector Accounting Standards.

We have not provided an opinion on the effectiveness of internal controls or whether Government exercised its fiduciary responsibilities - these are not the focus of a financial statement audit. If we have suggestions of any means to improve controls or management practices during our audit, we discuss them with Government and communicate these findings in writing to Government. This is consistent with GAAS.

Introduction

CHAPTER

4

**UNDERSTANDING THE
CONSOLIDATED SUMMARY
FINANCIAL STATEMENTS**

Understanding the Consolidated Summary Financial Statements

Introduction The Consolidated Summary Financial Statements present the most comprehensive view of the financial position of the Province as at March 31, 2012. Included with the financial statements, the Department of Finance provides a commentary - *Understanding the Financial Health of the Province of Newfoundland and Labrador*. This commentary is intended to provide readers of the financial statements with additional tools to be able to assess the information contained in the financial statements.

The Office of the Auditor General also adds to the understanding and interpretation of the financial results. This report contains additional commentary and highlights specific issues we feel are important to understanding the financial condition of the Province.

Understanding the Consolidated Summary Financial Statements

While the Budget outlines Government's plan for the coming fiscal year, the Consolidated Summary Financial Statements are the financial report card of the actual results for a fiscal year. The Province's fiscal year runs from April 1 to March 31. The financial statements are a comprehensive document consisting of five individual statements as well as explanatory notes and schedules.

The five individual statements are each designed to provide separate pieces of information that are linked together to present an overall financial picture.

Consolidated Statement of Financial Position

This statement provides a snapshot of the financial position of the Province at a point in time - the end of the fiscal year (e.g.; March 31, 2012). Comparative figures are also shown for the same point in time the previous year. There are five main components that make up the financial position of the Province. Table 1 outlines the components of the Consolidated Statement of Financial Position at March 31, 2012.

Understanding the Consolidated Summary Financial Statements

Table 1

**Consolidated Summary Financial Statements
Components of the Consolidated Statement of Financial Position
As at March 31, 2012
(\$000s)**

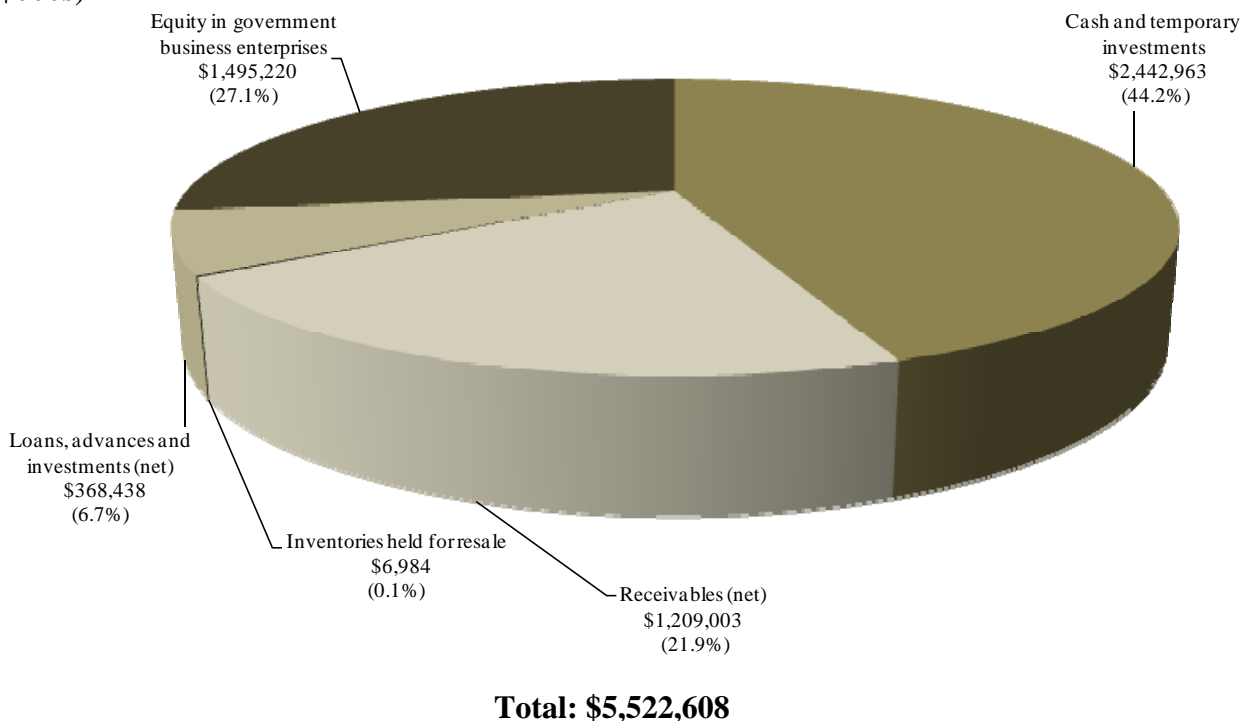
Component	Amount
Financial Assets	\$ 5,522,608
Liabilities	13,347,907
Net Debt	7,825,299
Non-financial Assets	3,582,600
Accumulated Deficit	\$ 4,242,699

Financial Assets

Financial assets are those that could be used to discharge existing liabilities or finance future operations. Chart 1 shows the financial assets of the Province for the year ended March 31, 2012.

Chart 1

**Consolidated Summary Financial Statements
Financial Assets
As at March 31, 2012
(\$000s)**



Understanding the Consolidated Summary Financial Statements

Equity in Government Business Enterprises (GBEs) reflects the assets less the liabilities of Nalcor Energy and the Newfoundland and Labrador Liquor Corporation. This equity is used by these entities to generate a profit each year which accrues to the benefit of the Province.

Liabilities

Liabilities represent amounts that are payable or will be required to be paid to third parties and includes amounts payable in the normal course of operations, deferred revenue, amounts due to bond holders and other lenders that have provided money to finance the Province's previous operations and amounts the Province is responsible for related to employee future benefit obligations. Chart 2 shows the liabilities of the Province as at March 31, 2012.

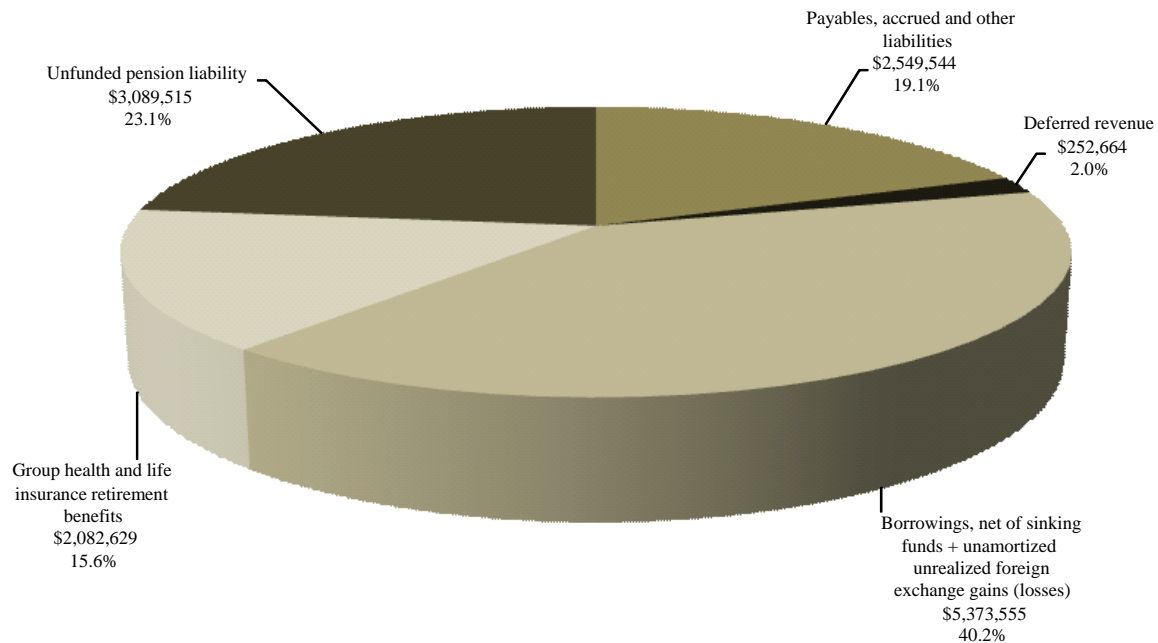
Chart 2

Consolidated Summary Financial Statements

Liabilities

As at March 31, 2012

(\$000s)



Total: \$13,347,907

Understanding the Consolidated Summary Financial Statements

Net Debt

Net Debt represents the difference between liabilities and financial assets. This is one of the key measures that is used to evaluate the financial health of all senior governments in Canada.

The Province's Net Debt at March 31, 2012 was \$7.8 billion. (2011 - \$8.3 billion)

Non-financial assets

The most significant non-financial assets are the Province's investment in tangible capital assets. These are, essentially, the physical assets that Government uses to deliver services to the people of the Province.

Tangible capital assets comprise such things as land, buildings, roads, equipment, vehicles and other items which have a useful life extending beyond one year.

Non-financial assets of the Province at March 31, 2012 were:

• Tangible capital assets	\$3.5 billion
• Prepaid expenses, deferred charges and inventories	<u>0.1 billion</u>
Total Non-financial Assets	<u>\$3.6 billion</u>

Accumulated Deficit

As the name implies, this is the accumulated amount of deficits that the Province has incurred over time less any surpluses.

The accumulated deficit of the Province at March 31, 2012 was \$4.2 billion.

Consolidated Statement of Change in Net Debt

This statement provides information on how Net Debt has changed from one year to the next. There are two main elements that impact Net Debt from year to year:

1. Surplus or deficit for the year

If the Province operates with a surplus for the year, this will reduce Net Debt. Similarly, a deficit will increase Net Debt.

2. Changes in Tangible Capital Assets

The acquisition of tangible capital assets increases Net Debt each year. This amount is adjusted for the net book value of any disposals of tangible capital assets during the year and by the amount of amortization which is already included in determining the surplus or deficit for the year.

Consolidated Statement of Operations

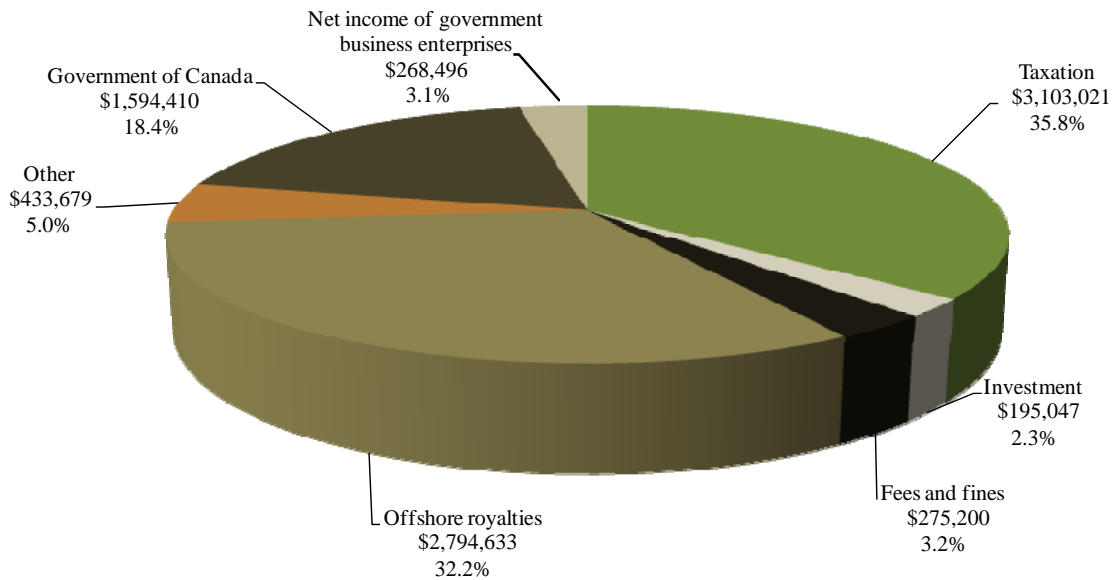
This statement shows the results of the complete operations of the Government Reporting Entity for the year April 1, 2011 to March 31, 2012, including the Consolidated Revenue Fund (central Government, Legislature and departments) and the 45 Crown corporations, boards, and authorities that are controlled by the Government of Newfoundland and Labrador. These results are compared to the original estimates that were presented to the legislature and approved as part of the budget process.

The statement provides the amount of revenue that the Province generated during the year and is broken down by major categories. Chart 3 shows the revenues of the Province by source for the year ended March 31, 2012. Approximately 32% of the Province's total revenues came from offshore royalties.

Understanding the Consolidated Summary Financial Statements

Chart 3

Consolidated Summary Financial Statements Revenues by Source Year Ended March 31, 2012 (\$000s)

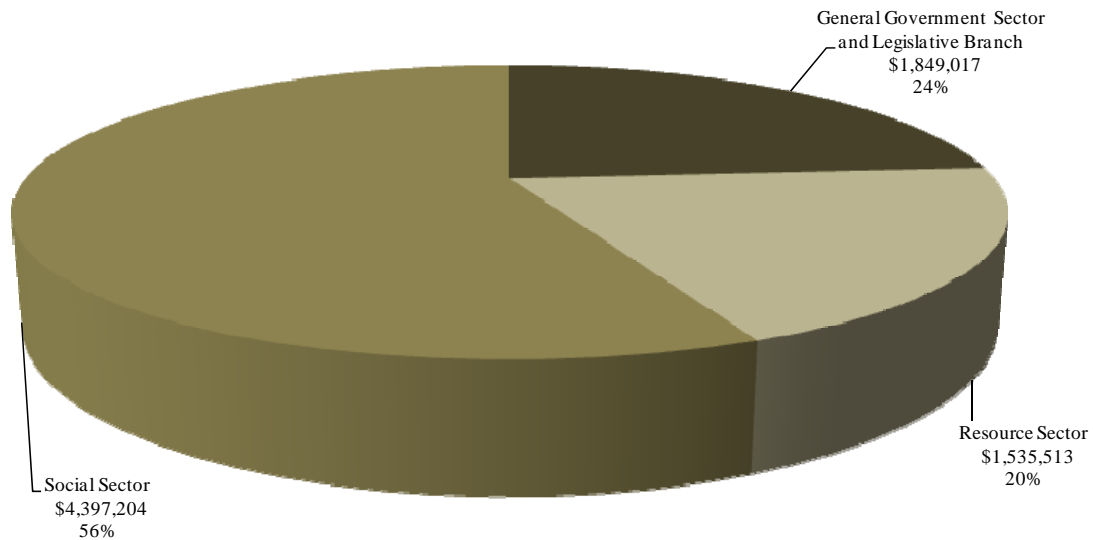


Total: \$8,664,486

The statement also provides information on the expenses incurred by the Province during the year by major functional area. Chart 4 shows the expenses of the Province by major functional area for the year ended March 31, 2012. Approximately 56% of the Province's total expenses of \$7.8 billion were spent in the social sector.

Chart 4

Consolidated Revenue Fund Financial Statements Expenses by major functional area Year Ended March 31, 2012 (\$000s)



Total: \$7,781,734

The difference between revenue and expense for the year is the annual surplus or deficit. When revenue exceeds expenses, a surplus results and, conversely, when expenses exceeds revenue, a deficit is the result.

The Province has recorded a surplus of \$883 million for the year ended March 31, 2012 (2011 - \$594 million).

Consolidated Statement of Changes in Accumulated Deficit

This statement provides the details of what comprises the change in accumulated deficit for the year. In general, the accumulated deficit is impacted by the annual surplus or deficit.

The accumulated deficit at the end of the fiscal year is also impacted by adjustments to the opening balance of accumulated deficit. These adjustments primarily result from:

Understanding the Consolidated Summary Financial Statements

- Changes in amounts reported in the prior year's financial statements of entities forming part of the GRE.
 - Differences between the accounting policies of the Consolidated Revenue Fund and those of a Government Business Enterprise.
-

Consolidated Statement of Cash Flows

This statement provides useful information to the reader regarding how cash resources were generated during the year and how they were used. The 4 main categories that cash is provided from or applied to are:

- Operations
 - Capital Transactions
 - Financing Activities
 - Investing Activities
-

Notes to the Consolidated Financial Statements and Schedules

The Notes and Schedules provide considerable additional detail and explanation around information contained in the financial statements. The notes are an integral part of the financial statements.

CHAPTER
5
FINANCIAL INDICATORS

Introduction

The PSAB has issued a Statement of Recommended Practice on the indicators of financial condition that governments should use to help readers of financial statements understand whether a government is better or worse off than the year or years before.

The commentary prepared by the Department of Finance, *Understanding the Financial Health of the Province of Newfoundland and Labrador*, is included with the Public Accounts Volume I, Consolidated Summary Financial Statements. It highlights certain elements of the financial statements and also provides commentary and analysis on certain key indicators of the financial condition of the Province. Readers are encouraged to read this commentary.

These indicators demonstrate the financial condition of a government as measured by:

- Sustainability
- Flexibility
- Vulnerability

In this section, we discuss certain aspects of these key indicators in the Newfoundland and Labrador context. Where appropriate, comparative information from other provinces in Canada has been included. Users of financial statements should also look at long-term trends which provide further indicators of whether a government is living within its means and whether financial circumstances are improving or deteriorating.

Sustainability

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

- Net Debt as a percentage of Gross Domestic Product (GDP);
- Net Debt as a percentage of total annual revenue;
- surplus or deficit as a percentage of GDP;
- ratio of financial assets to liabilities;

Financial Indicators

- expenses by sector (function) as a percentage of total expenses; and
- expenses as a percentage of GDP.

These sustainability indicators are discussed below in the context of the Consolidated Summary Financial Statements.

Net Debt as a percentage of provincial GDP

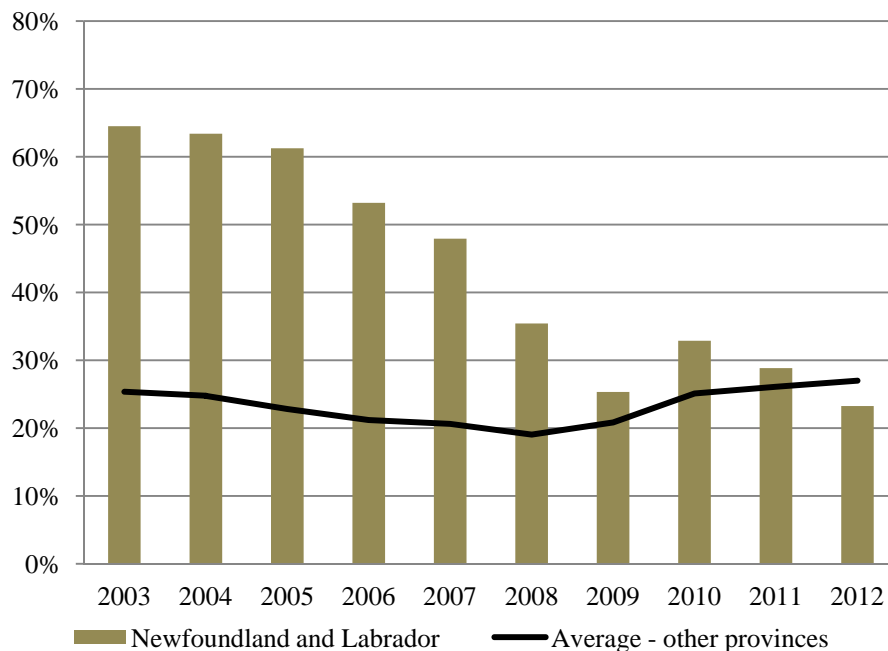
GDP is a measure of the value of goods and services produced in a jurisdiction in one year. It is the measure most often used to indicate the size and strength of a provincial economy. Government must manage its revenue raising and spending practices in the context of the economy of the Province.

GDP provides an indication of the ability of the Province to raise revenue and support debt. The financial demands placed on the economy by Government spending and revenue raising practices can be assessed for sustainability by comparing Net Debt to provincial GDP.

Chart 1 shows Net Debt as a percentage of GDP from 2003 to 2012.

Chart 1

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



Financial Indicators

As Chart 1 indicates, the Province's Net Debt as a percentage of GDP has declined from a high of 64.5% in 2003 to a low of 23.3% in 2012. This indicates that the Province has created some capacity to borrow to support future operations. Furthermore, in 2012 the Province's Net Debt as a percentage of GDP was lower than the average of all other provinces.

Net Debt as a percentage of total annual revenue

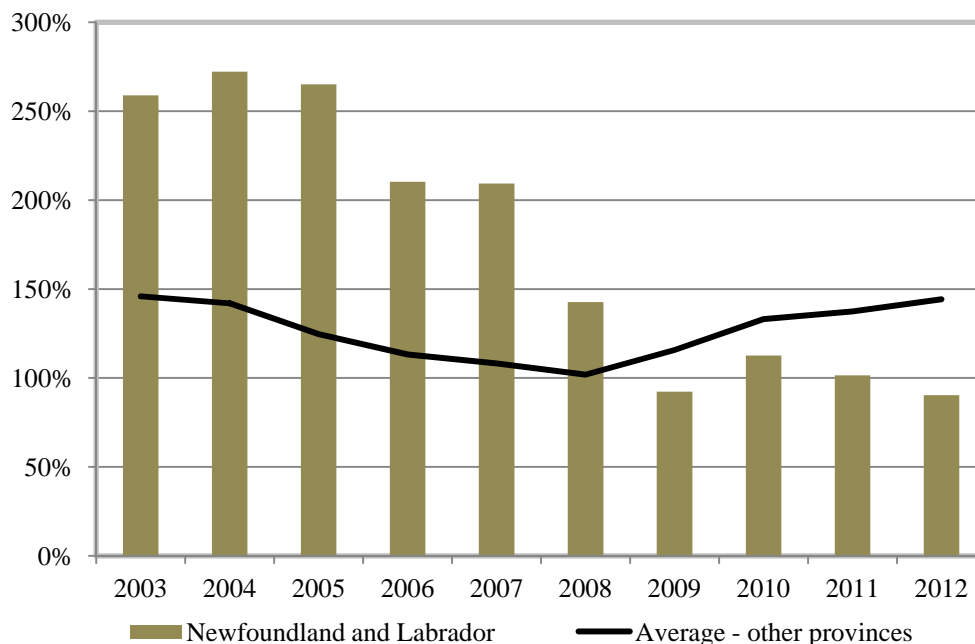
Net Debt is the amount which the government of the day leaves for future governments to repay. The ability to repay this debt is dependent, to a large extent, on the ability of the Province to generate sufficient revenue in the future.

Therefore, it is useful to compare Net Debt to total annual revenue. A percentage that is increasing would indicate that more time will be needed to repay Net Debt and may not be sustainable.

Chart 2 shows Net Debt as a percentage of total annual revenue from 2003 to 2012.

Chart 2

Consolidated Summary Financial Statements Net Debt as a percentage of total annual revenue Years Ended March 31



Financial Indicators

As Chart 2 shows, Net Debt as a percentage of total annual revenue has improved considerably since 2003 and has averaged approximately 99% over the past four years. This would indicate an improved ability to repay Net Debt.

However, the 2012-13 mid-year financial update indicated that the forecast Net Debt was expected to increase to approximately \$8.9 billion and revenue would be approximately \$487 million lower than was originally budgeted. Therefore, the trend of an improving Net Debt as a percentage of total annual revenue will likely reverse in 2012-13. Deficits in the future would continue to see a deterioration in this indicator.

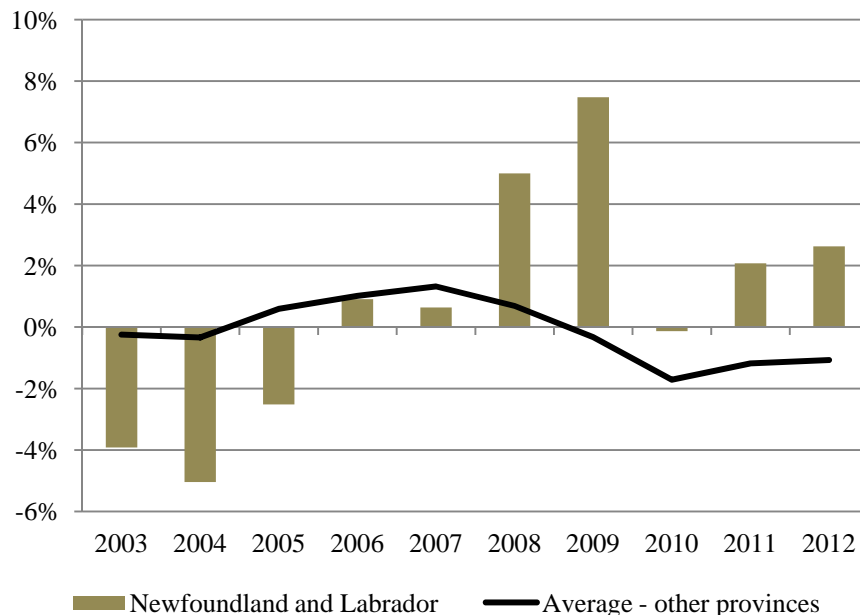
Surplus or deficit as a percentage of GDP

The 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 another indicator of whether a government is living within its means. Comparing the surplus or deficit to GDP provides an indication of the extent to which Government is benefiting from increased economic activity in the Province.

Chart 3 shows surplus or deficit as a percentage of GDP from 2003 to 2012.

Chart 3

Consolidated Summary Financial Statements Surplus or Deficit as a Percentage of GDP Years Ended March 31



As Chart 3 shows, the Province's annual surplus or deficit as a percentage of GDP has fluctuated considerably over the past ten years. Over the past five years, Newfoundland and Labrador has generally outperformed other provinces. The forecast deficit for 2013 may reverse this trend, however, this will depend on the performance of all other provinces in 2012-13.

Over the past ten years the Province has undergone a period of significant economic growth. Consistent with this economic growth, the Province has also recorded surpluses in six of the past ten years and its ability to raise revenue and support debt has improved during this period.

However, the surpluses that the Province has experienced in recent years have primarily been the result of increased offshore royalties and payments under the Atlantic Accords. The amount of revenue received from offshore royalties is dependent upon world oil prices and/or production levels. World oil prices are highly volatile and production levels relating to non-renewable resources can vary significantly and changes in these factors can result in significant changes in revenue from year to year. This may negatively impact the Province's ability to raise revenue or support debt in the future.

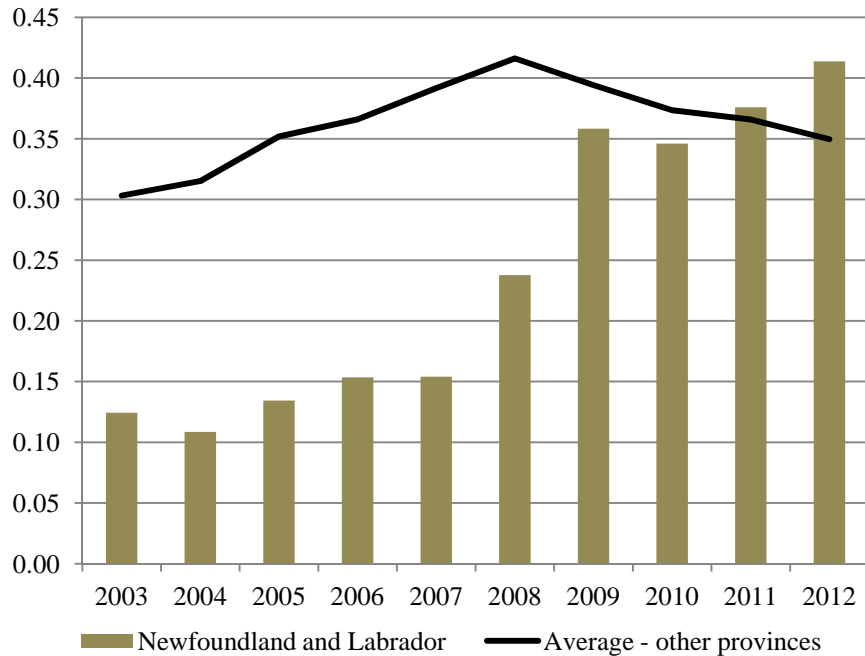
Ratio of financial assets to liabilities

A useful measure of the Province's ability to finance its future operations and repay or refinance its Net Debt is to compare the financial assets (such as cash or accounts receivable) with liabilities. A ratio of less than 1 indicates that liabilities exceed financial assets and a portion of future revenues will be needed to satisfy the liabilities. A ratio of greater than 1 indicates that financial assets exceed liabilities and financial resources are available to finance future operations.

Chart 4 shows the ratio of financial assets to liabilities from 2003 to 2012.

Chart 4

**Consolidated Summary Financial Statements
Ratio of Financial Assets to Liabilities
Years Ended March 31**



As Chart 4 shows, the ratio of the Province's financial assets to liabilities has improved considerably since 2003. This would indicate that the Province's ability to repay its Net Debt and finance its future operations is improving. However, the forecast deficit for 2013 may reverse the upward trend of this indicator.

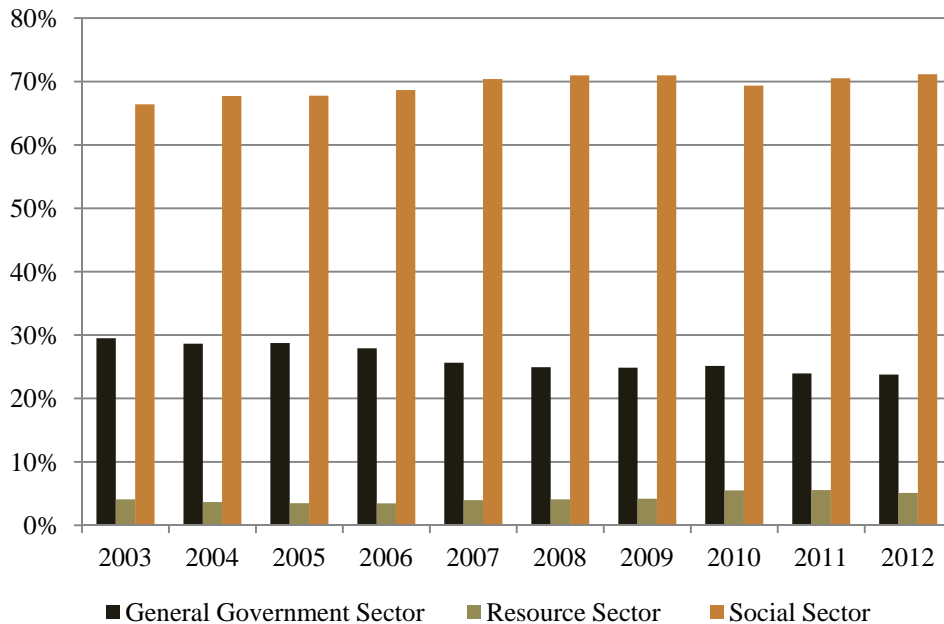
Expenses by sector (function) as a percentage of total expenses

A useful indicator to assess the degree to which a government can maintain existing programs is to examine the trend of government spending in particular functional areas, or sectors, over a period of time. A sector that grows at a much faster rate than total expenses may not be sustainable over the long term. Furthermore, this could impact the sustainability of other sectors or programs.

Chart 5 shows expenses by sector as a percentage of total expenses from 2003 to 2012.

Chart 5

**Consolidated Summary Financial Statements
Expenses by Sector as a Percentage of Total Expenses
Years Ended March 31**



Note: During 2011-12, departmental reorganization resulted in certain expenses in the Social Sector being transferred to the Resource Sector. In the Consolidated Summary Financial Statements for the year ended March 31, 2012, the 2011 comparative financial results were also restated to reflect this transfer. For the purposes of this chart, the expenses for both 2010-11 and 2011-12 have been presented in a manner that is consistent with the financial results that were originally published in the Consolidated Summary Financial Statements for the year ended March 31, 2011 to facilitate comparability.

As Chart 5 shows, spending in the Social Sector has exceeded 60% of all Government spending for each year since 2002-03 and has grown from 66% to 71% of total Government spending during this time period. Meanwhile, the percentage of Government spending in the Resource Sector has remained relatively constant since 2002-03. The percentage of Government spending in the General Government Sector has declined since 2002-03.

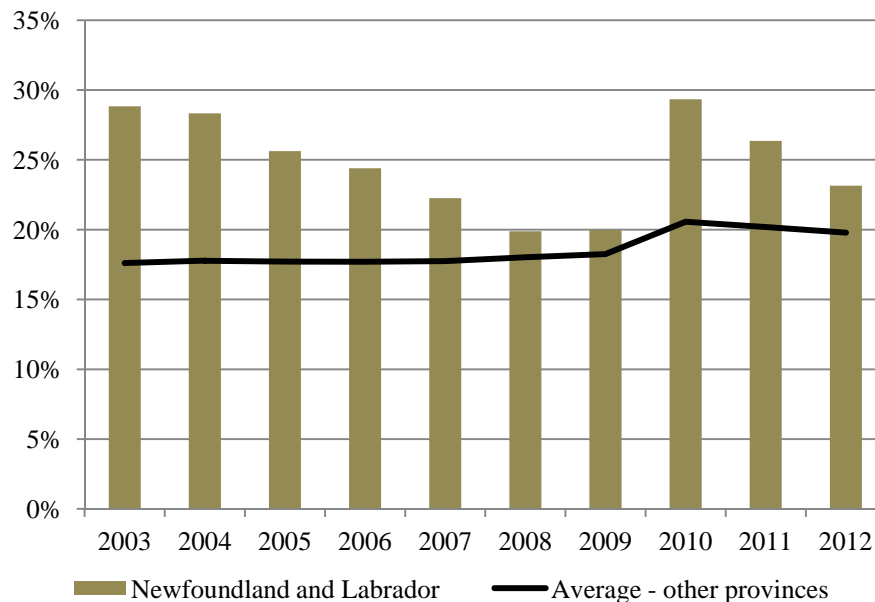
Expenses as a percentage of GDP

Comparing expenses to GDP shows provides an indication of the trend of Provincial spending over time in relation to the growth in the economy. A trend that shows expenses as a percentage of GDP rising may not be sustainable.

Chart 6 shows expenses as a percentage of GDP from 2003 to 2012.

Chart 6

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



As Chart 6 shows, the Province's expenses as a percentage of GDP have declined since 2010, but are still higher than they were in 2008 - which was the lowest point in since 2003. In addition, expenses as a percentage of GDP in Newfoundland and Labrador are consistently higher than other provinces.

Flexibility

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

- interest costs as a percentage of revenue;
- own source revenues as a percentage of GDP; and
- ratio of the net book value of tangible capital assets to the cost of tangible capital assets.

Financial Indicators

Together with GDP, these indicators provide insight into the flexibility a government has 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.

Interest costs as a percentage of revenue

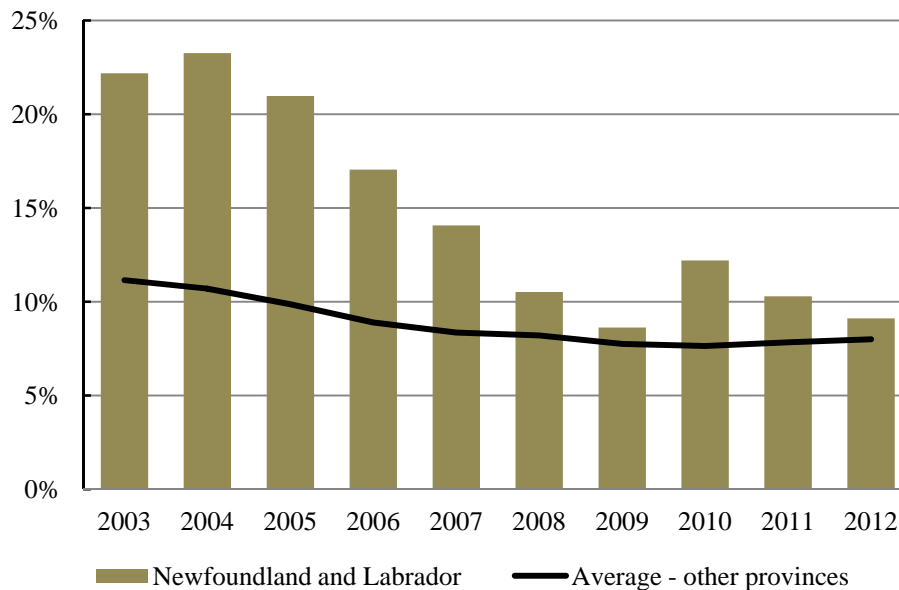
Government incurs interest costs on its borrowings, as well as on its liabilities relating to employee future benefits. At March 31, 2012, Government's long-term borrowings, net of sinking funds, were \$5.4 billion, its unfunded pension liability was \$3.1 billion and its unfunded group health and life insurance retirement benefits liability was \$2.1 billion. In 2012, interest costs (debt expenses) related to these obligations totaled \$789 million. The significance of debt expenses is that this money is not available to fund programs and services.

Interest costs as a percentage of revenue, sometimes called the “interest bite”, is an important indicator of the state of government finances.

Chart 7 provides the debt expenses as a percentage of revenue for the years 2003 to 2012.

Chart 7

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



Financial Indicators

As Chart 7 shows, debt expenses as a percentage of revenue has declined overall since 2003. However, since 2009 debt expenses as a percentage of revenue have increased. These costs continue to be a substantial burden for government. For example, if expenses as a percentage of revenue were reduced from the current level of 9.11% to the average of other provinces, this would result in an annual saving of approximately \$100 million.

Own source revenues as a percentage of GDP

The Government of Newfoundland and Labrador receives revenue from two general sources. The first is from within the Province and is referred to as “own source revenue”. The second source is transfers from the Federal Government.

Own source revenue as a percentage of GDP gives an indication of the amount of revenue a government raises from the economy through such items as taxes, fees, and royalties. It provides an indication of the flexibility a government has to increase its financial resources through own source revenues.

Chart 8 provides information on own source and Federal revenues from 2003 to 2012.

Chart 8

Consolidated Summary Financial Statements Federal and Own Source Revenues Years Ended March 31 (\$ Billions)

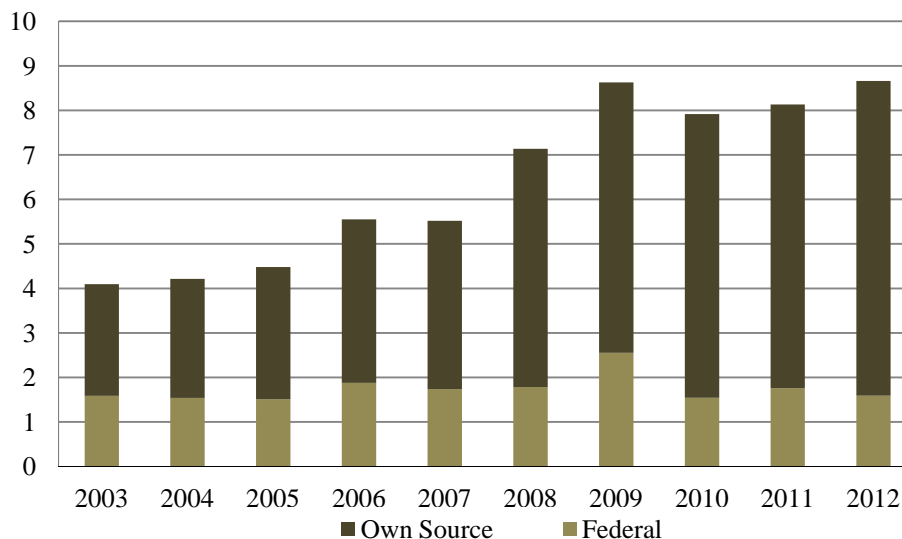


Chart 8 shows that, although a substantial portion of our total revenue continues to come from the Federal Government, it has remained relatively constant for most of the past 10 years. At the same time, however, own source revenues have increased significantly since 2003.

The Province's ability to generate own source revenues in the future depends upon the size and strength of the Provincial economy. Therefore, it is important to consider own source revenue in relation to the Provincial economy.

Chart 9 shows own source revenues as a percentage of GDP from 2003 to 2012.

Chart 9

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

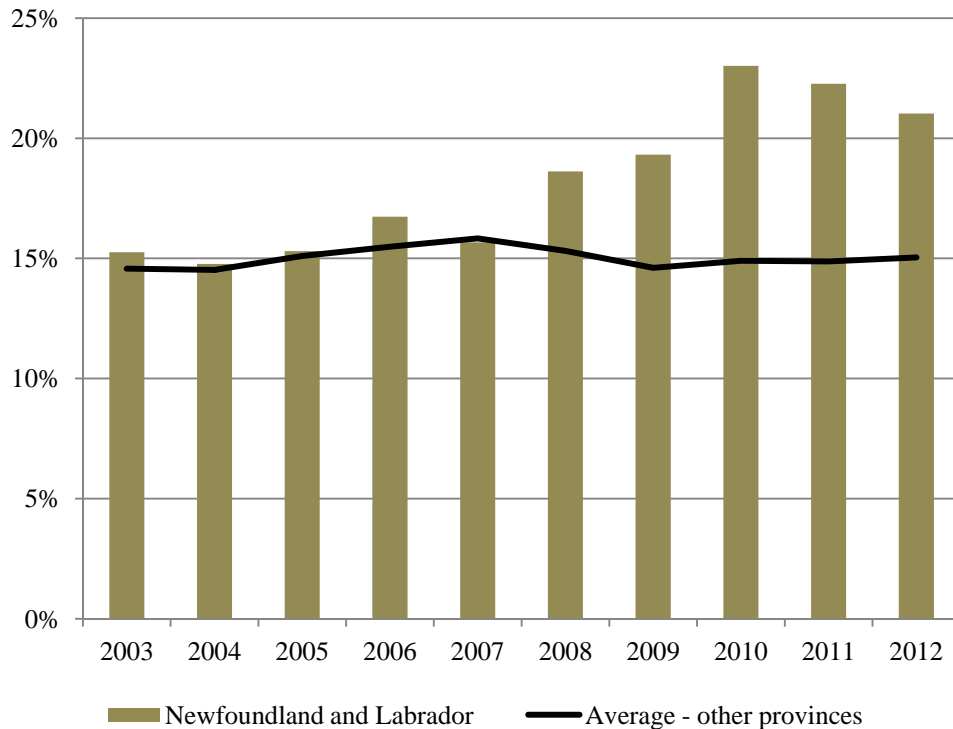


Chart 9 shows that revenue raised from sources within the Province, as a percentage of GDP, has increased from 15.3% in 2003 to 21.0% in 2012. This means that the Province now generates more income from the economy than it did in 2003.

Financial Indicators

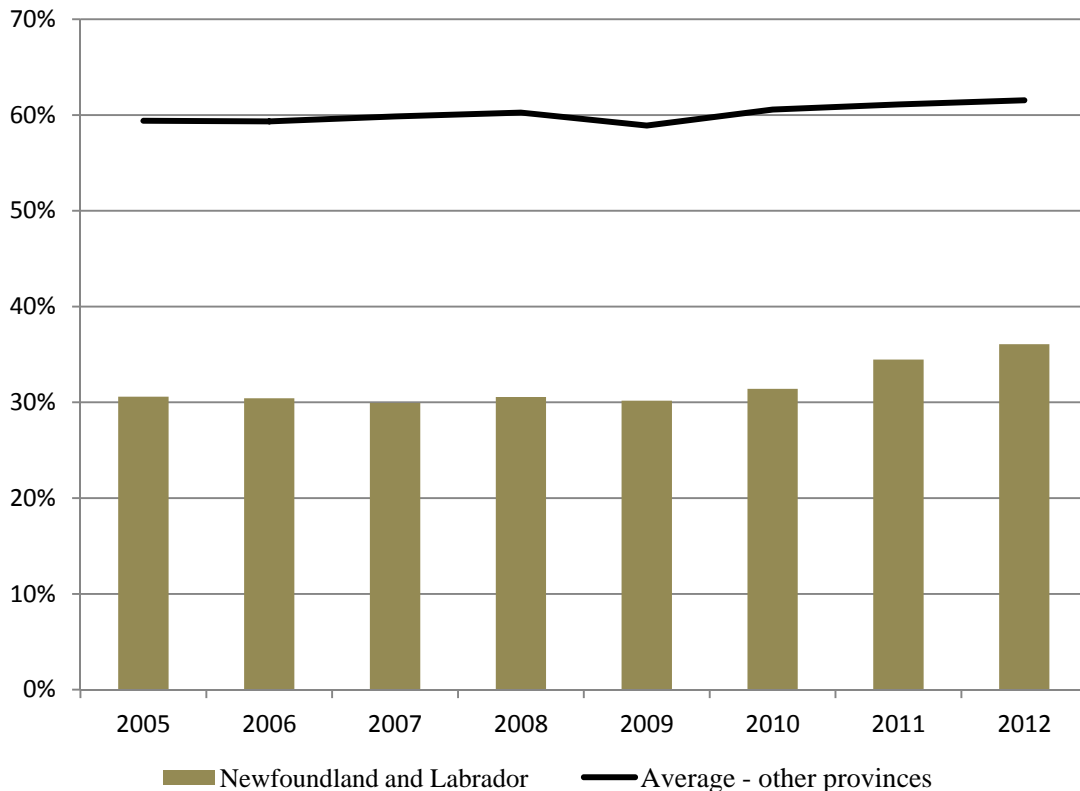
Ratio of the Net book value of tangible capital assets to the cost of tangible capital assets

The net book value of tangible capital assets as a percentage of cost of tangible capital assets measures the extent to which the estimated useful lives of the Province's tangible capital assets are available to provide services to the public. A lower percentage indicates that the Province's tangible capital assets have less remaining useful lives available. If the tangible capital assets have less remaining useful lives available, the Province may have less flexibility when providing services in the future because of the need to spend more of its resources on the repair or replacement of tangible capital assets.

Chart 10 shows the ratio of the net book value of tangible capital assets to the cost of tangible capital assets for 2005 to 2012.

Chart 10

Consolidated Summary Financial Statements Ratio of the Net Book Value of Tangible Capital Assets to the Cost of Tangible Capital Assets Years Ended March 31



As Chart 10 indicates, net book value of tangible capital assets as a percentage of cost of tangible capital assets has averaged approximately 30% from 2005 to 2009. Since 2009, the percentage has increased from 30% to 36%, which can be attributed to the investment in tangible capital assets since that time.

Chart 10 also indicates that, relative to other jurisdictions in Canada, Newfoundland and Labrador infrastructure is considerably older, an indication of future need.

The acquisition of tangible capital assets may be seen as a means to provide better services and reduce future expenditures. However, Government needs to consider the impact that tangible capital asset acquisitions have on the Province's Net Debt and maintain acquisitions at a level which is sustainable over the long term.

Vulnerability

Vulnerability is the degree to which a government is dependent on, and therefore vulnerable to, sources of funding outside its control or influence or is exposed to risks that could impair its ability to maintain existing programs and meet existing creditor requirements. This indicator measures the extent to which a government can manage its financial affairs without having to rely on others. Indicators of vulnerability include:

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

Federal Government revenues compared to total revenues

Federal Government revenues compared to total 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 revenue consists of transfers from the Federal Government such as Health and Social Transfers and cost-shared programs. Newfoundland and Labrador does not currently receive equalization payments and, as such, we are considered to be financially self-reliant. Equalization transfers are affected by each province's performance in relation to the performance of other provincial economies, and, therefore, are subject to change. However, given the current operation of the equalization formula, entitlements do not respond, on a timely basis, to changes in economic circumstances.

Chart 11 provides information on the percentage of Federal revenues compared to the Province's total revenues from 2003 to 2012.

Chart 11

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

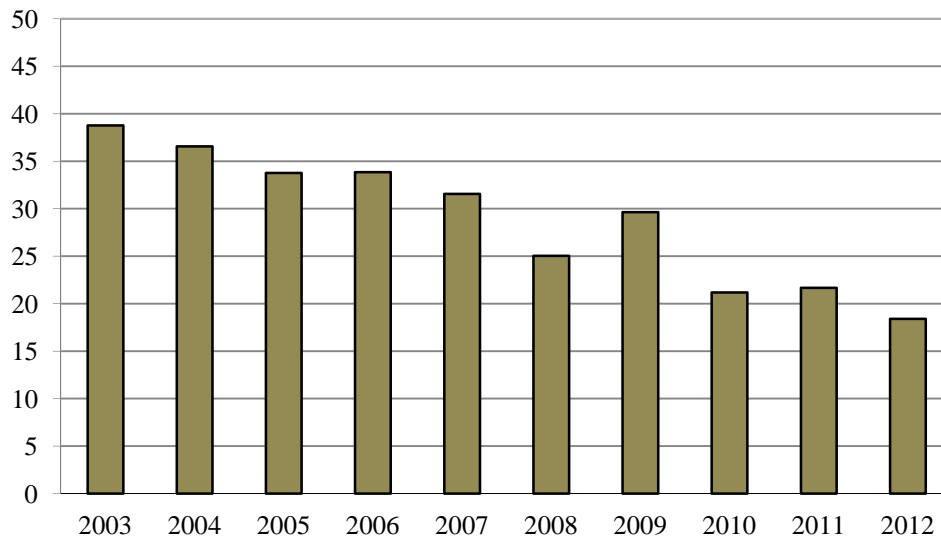


Chart 11 shows that Federal revenue as a percentage of total revenue has declined from 38.8% in 2003 to 18.4% in 2012. As Federal revenues have remained relatively constant over the past ten years, the improvement in the measure of Federal revenues as a percentage of total revenues is attributable to increases in own source revenues. 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.

Offshore royalties as a percentage of own source revenues

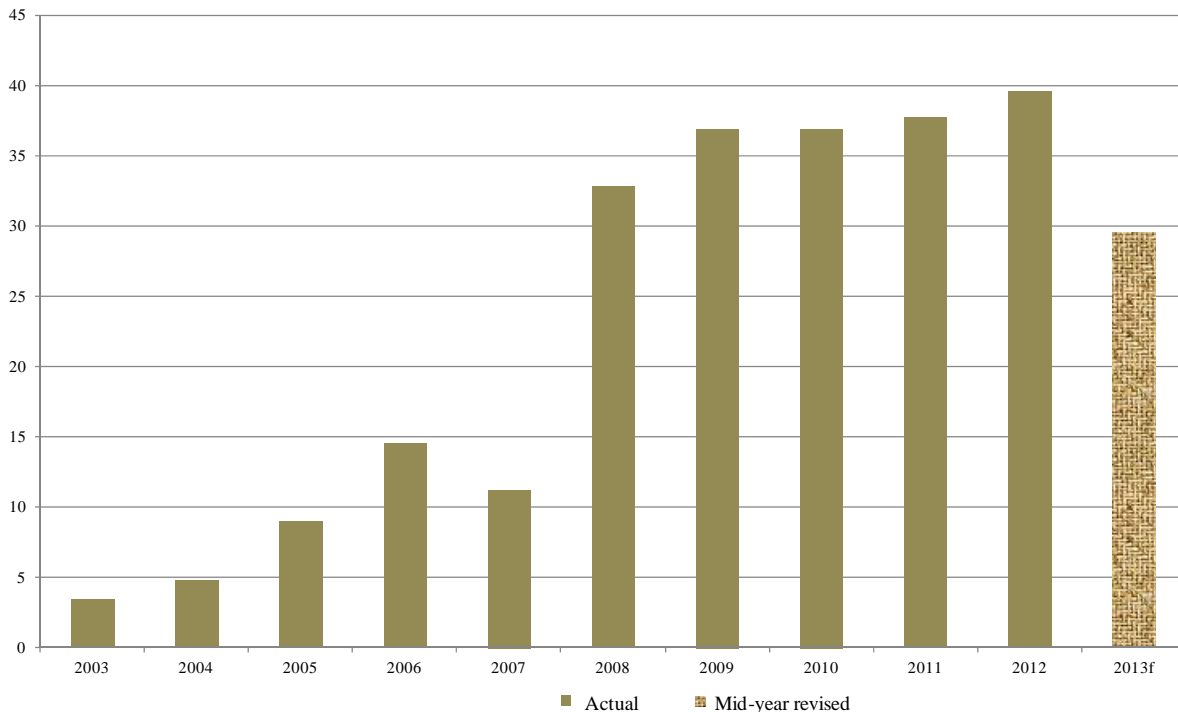
The reliance of the Government on offshore royalties to fund its programs and services has grown significantly in recent years. Offshore royalties have become the single largest source of revenue for Newfoundland and Labrador. In 2003 offshore royalties were \$82 million, while in 2012 offshore royalties were \$2.8 billion.

World oil prices are highly volatile and production levels relating to non-renewable resources can vary significantly. Therefore, changes in these factors can result in significant changes in revenue from year to year and differences between budget forecasts and actual results. As a result, Government's financial position can be significantly impacted by factors which are outside of its control.

Chart 12 shows the actual offshore royalties from 2003 to 2012 as a percentage of own source revenue, along with the forecast for 2013.

Chart 12

Consolidated Summary Financial Statements Offshore Royalties as a Percentage of Own Source Revenues Years Ended March 31



Financial Indicators

As Chart 12 shows, offshore royalties as a percentage of own source revenues have grown from 3.5% in 2003 to 39.5% in 2012 - an increase of 36.0%. However, the forecast of 29.5% in 2013 represents a decline of 10.0 %, as compared to 2012.

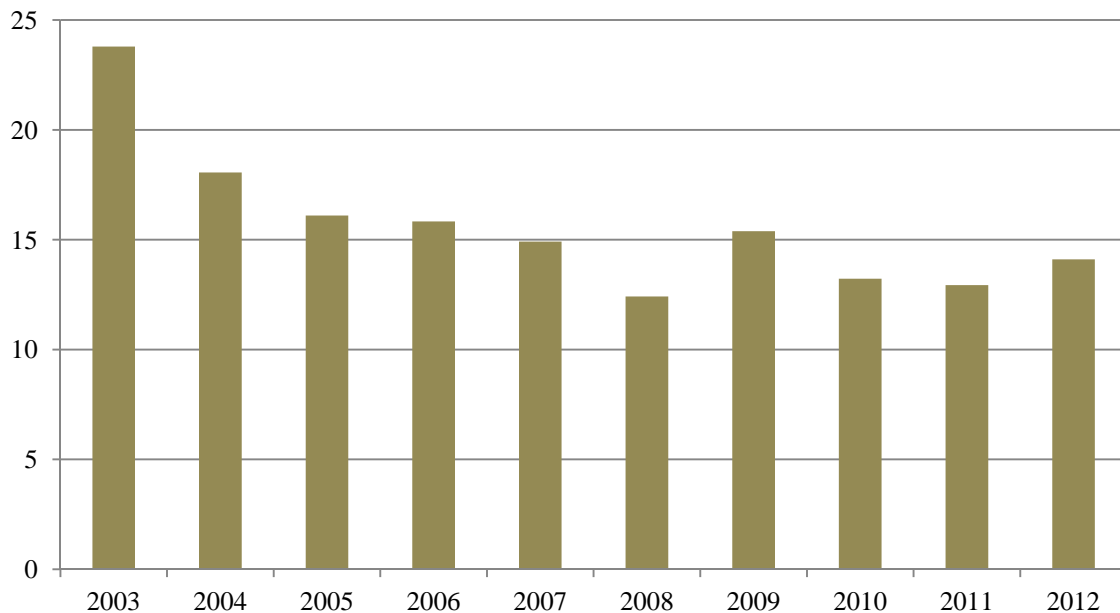
Foreign currency debt to total government debt

A comparison of a government's foreign debt to its total debt (net of sinking fund assets) reflects the degree to which it is vulnerable to foreign currency swings.

Chart 13 shows foreign currency debt to total government borrowings for 2003 to 2012.

Chart 13

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



Financial Indicators

As Chart 13 shows, foreign currency debt as a percentage of total borrowings has declined overall since 2003. Foreign currency debt as a percentage of total borrowings has increased in 2012 due to an overall decrease in net borrowings. As the foreign debt borrowings have remained unchanged from the prior year, the Province is no more vulnerable to changes in foreign currency exchange rates than in the previous years. However, as foreign currency debt still represents a significant portion of the Province's total borrowings, the Province is still vulnerable to changes in the exchange rates associated with this debt.

Financial Indicators

**CHAPTER
6
COMMENTS ON THE
FINANCIAL CONDITION OF THE PROVINCE**

Overview

Significant growth in GDP

Newfoundland and Labrador has undergone a period of significant economic growth over the past ten years. Increased activity in the resource sector, aided by major development projects, has resulted in growth in gross domestic product (GDP) and other related economic indicators. This activity, as well as a substantial increase in commodity prices, has impacted Government revenues over the period.

GDP is a measure of the value of goods and services produced in Newfoundland and Labrador in one year. GDP can be reported in nominal terms (without adjusting for inflation) or it may be reported in real terms (discounted for the effects of inflation).

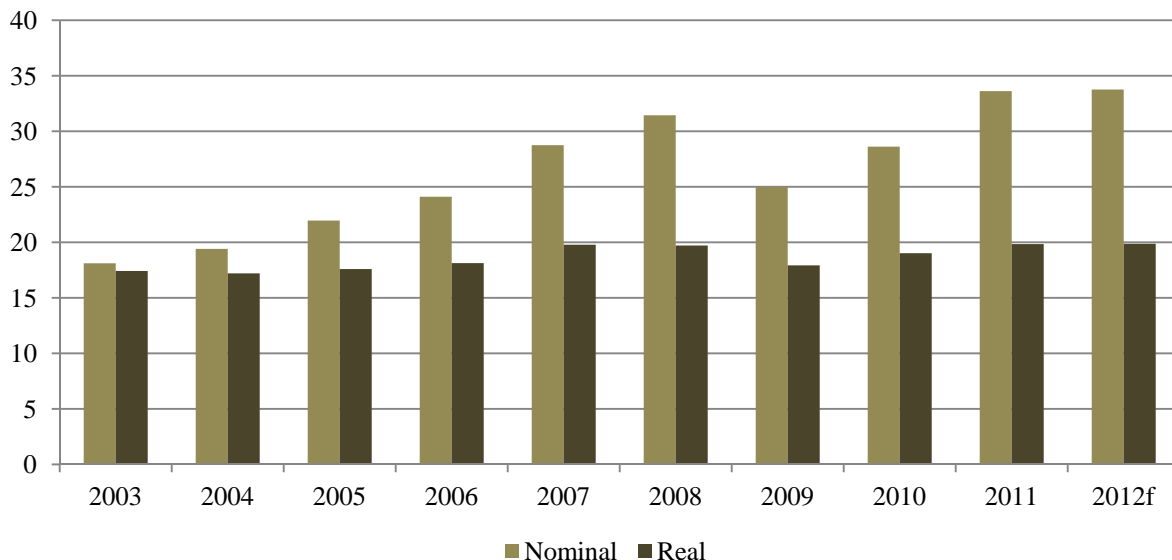
Real GDP indicates the effect of changing levels of production of goods and services in the Province each year. Changes in real GDP has a direct correlation to changes in other key macroeconomic indicators such as employment, income and retail trade.

Nominal GDP is affected by both changes in the levels of production of goods and services and changes in prices. In periods of rising prices, particularly resource prices, increases in nominal GDP may be caused more from rising prices rather than actual increases in the levels of production of goods and services in the Province.

Chart 1 shows real and nominal GDP for the Province for the years 2003 to 2012.

Chart 1

**Province of Newfoundland and Labrador
Nominal and Real GDP
Years ended
(\$ Billions)**



Source: Statistics Canada

As Chart 1 shows, real GDP increased from \$17.4 billion in 2003 to a forecast amount of \$19.9 billion in 2012, which represents an average annual growth of approximately 2% per year over the past ten years. During the same period, nominal GDP increased from \$18.1 billion to \$33.8 billion, representing an average annual growth of about 8% per year.

Changes in levels of oil and mineral production are a major contributor to the change in real GDP over the past ten years. During the same period, the increase in nominal GDP has been greater than the increase in real GDP, which highlights the significant impact that increasing commodity prices have had on GDP growth during the past ten years.

Chart 1 also highlights the impact of the volatility of commodity prices on the Province's GDP. For example, from 2009 to 2010, nominal GDP increased by \$3.6 billion while the real GDP only increased by \$1.1 billion. Also, from 2008 to 2009, nominal GDP decreased by \$6.5 billion, which is significantly more than the decrease of \$1.8 billion in real GDP.

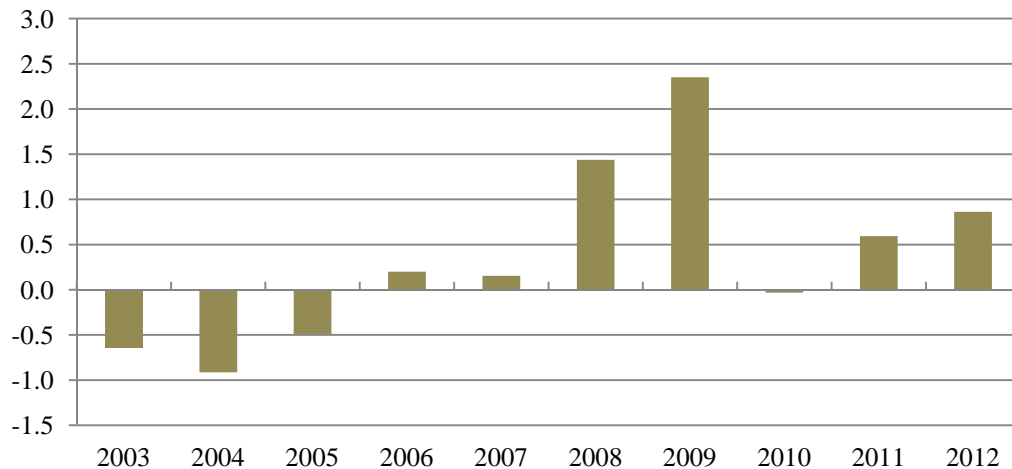
Comments on the Financial Condition of the Province

Increased GDP has contributed to increased surpluses

Consistent with the economic growth over this period, particularly nominal GDP growth, the Province has also recorded surpluses in six of the past ten years as shown in Chart 2.

Chart 2

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



The net cumulative value of the surpluses less deficits over this period of time is \$3.5 billion. This has contributed to the reduction in Net Debt of \$2.8 billion since 2002-03.

Atlantic Accord payments contributed significantly to the cumulative surpluses since 2002-03

A significant contributor to these surpluses were payments received under both the Atlantic Accord 1985 and the Atlantic Accord 2005. Since 2002-03, the Province has received approximately \$5.0 billion under these agreements.

The equalization offset arrangements under the Atlantic Accord agreements were time limited and designed, among other things, to allow the Province to more fully benefit from the financial rewards of the offshore oil industry. 2011-12 was the last year that the Province received any payments under the Atlantic Accord agreements.

Table 1 shows the impact of the Atlantic Accord payments on the surplus (deficit) since 2002-03.

Comments on the Financial Condition of the Province

Table 1

**Consolidated Summary Financial Statements
Atlantic Accord Revenue - Impact on Surplus (Deficit)
Years Ended March 31
(\$ Millions)**

Surplus/(Deficit) Including and Excluding Atlantic Accord Revenue			
Year	Surplus/(Deficit) as Recorded	Atlantic Accord Revenue	Surplus(Deficit) Without Atlantic Accord Payments
2003	(644)	208	(852)
2004	(913)	205	(1,118)
2005	(489)	129	(618)
2006	199	322	(123)
2007	154	329	(175)
2008	1,421	494	927
2009	2,350	1,710	640
2010	(33)	465	(498)
2011	594	642	(48)
2012	883	536	347
Total	3,522	5,040	(1,518)

The net cumulative value of surpluses over the past ten years of \$3.5 billion would have been a net cumulative deficit of approximately \$1.5 billion in the absence of revenue from the Atlantic Accord agreements.

**Province is
impacted by
global
economy**

Another important factor when considering the financial condition of the Province is the volatility of revenue sources, particularly the larger revenue sources such as oil royalties and mining tax. A major factor affecting revenues related to commodity based sources is the price of those commodities. Commodity prices are impacted, to a large extent, by the strength of the global economy.

The global recession of 2009 had a significant impact on Newfoundland and Labrador. The economy contracted and Provincial revenues declined considerably - the result of an associated decline in commodity prices. Economic forecasters still see a period of low to moderate growth ahead, reflecting the continued fragility of the global economy. This uncertainty will impact provincial finances in the short to medium term.

Deficit for 2012-13 projected to be higher than expected

Budget 2012 presented a three year outlook which forecast two years of deficit followed by a return to surplus by 2014-15. In its 2012-13 mid-year financial update, Government indicated that the projected budget deficit for 2012-13 is now expected to be \$725.8 million instead of the projected deficit of \$258.4 million at the release of Budget 2012. The increase in the projected deficit for 2012-13 is primarily a result of lower than expected revenues from oil royalties and mining taxes reflecting lower prices.

Government will have to deal with deficits over the medium term

While there was no update to the forecast deficit/surplus for 2013-14 and 2014-15 in the mid-year update, it is reasonable to expect that lower commodity prices will also impact these 2 years as well. As Government plans for the medium term, it will have to consider a number of alternative options to deal with potential deficits - increasing revenue, decreasing expenses, borrowing or a combination of all. A major consideration in determining a response will be whether any expected deficit is viewed as being temporary or more sustained. The answer will, to a large extent, depend on expectations of commodity prices and production levels.

In order to gain a better understanding of the financial condition of the Province, it is useful to examine specific items included in the Consolidated Summary Financial Statements and other factors which may impact the financial well being of Newfoundland and Labrador. Further detail is provided in the following areas:

- Net Debt
- Net Debt Per Capita
- Revenues
- Expenses
- Tangible Capital Assets
- Demographics

Net Debt

The Consolidated Statement of Financial Position provides details of the components of Net Debt. In simple terms, Net Debt equals all the Province's liabilities less its financial assets. Net Debt of the Province at March 31, 2012 was \$7.8 billion.

Comments on the Financial Condition of the Province

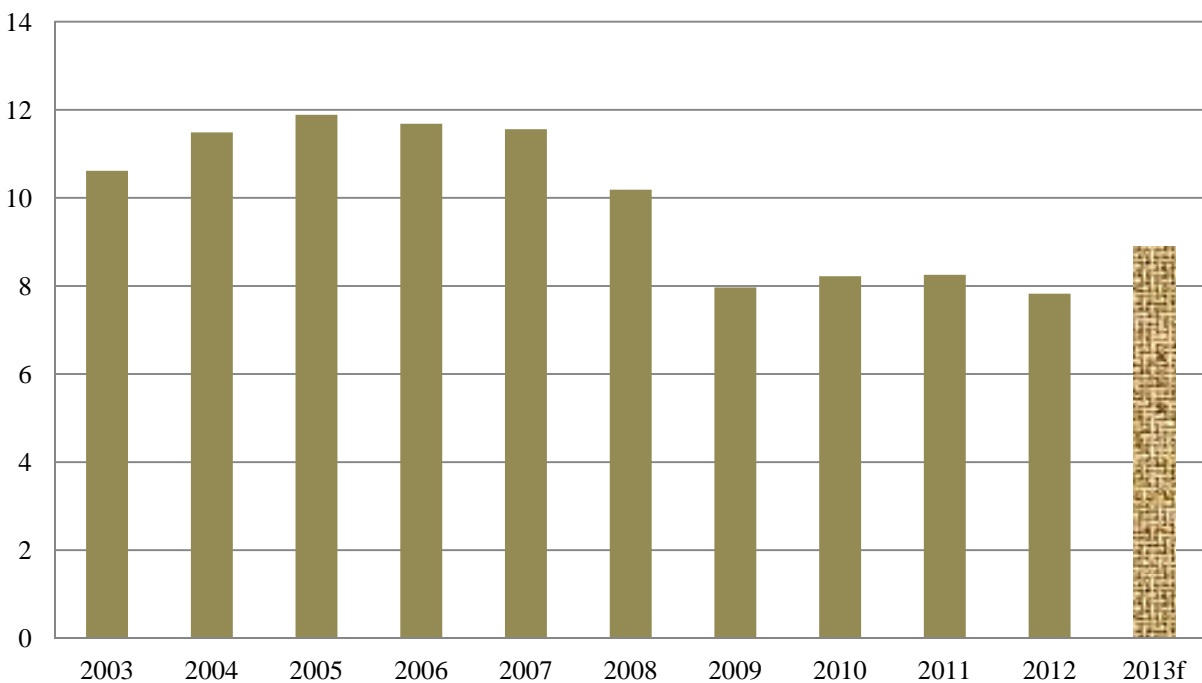
Liabilities consist of those items which are payable for items purchased in the ordinary course of doing business, amounts borrowed and which will be repaid over a longer time frame and obligations related to employee future benefits. These benefits include pensions and group health and life insurance.

Financial assets consist of cash and temporary investments, amounts receivable from third parties, inventories held for resale and equity in government business enterprises (GBEs). Financial assets are assets that could be used to discharge existing liabilities or finance future operations. The GBEs of the Province of Newfoundland and Labrador are Nalcor Energy and the Newfoundland and Labrador Liquor Corporation.

Chart 3 shows Net Debt for the years ended March 31, 2003 through to March 31, 2013.

Chart 3

Consolidated Summary Financial Statements
Net Debt
Years Ended March 31
(\$ Billions)



Comments on the Financial Condition of the Province

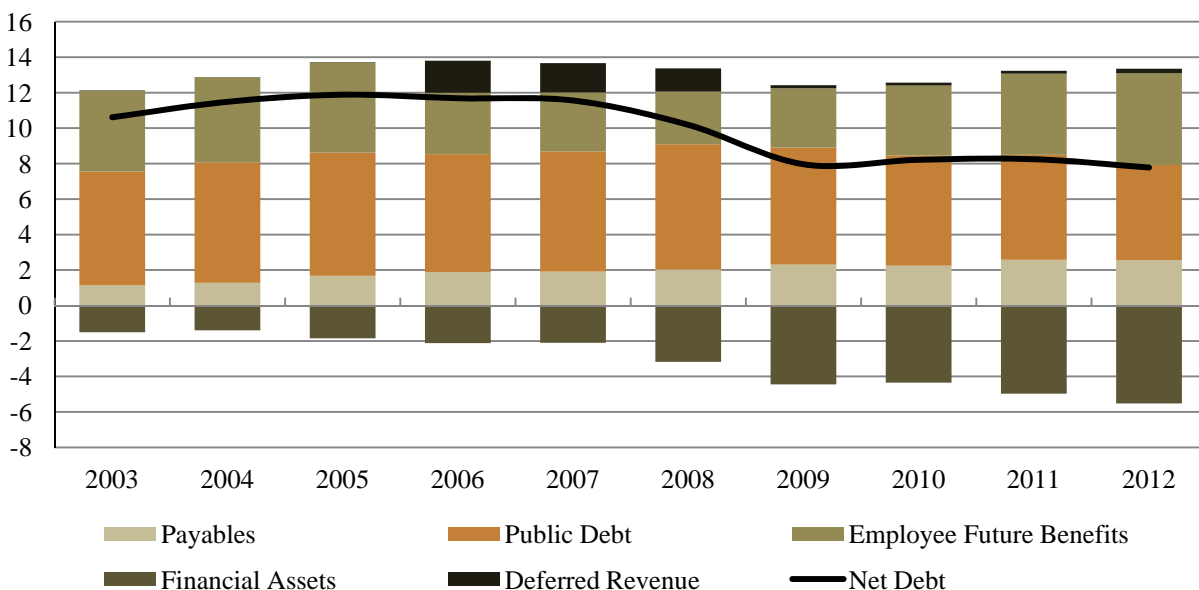
As Chart 3 indicates, at March 31, 2012, Net Debt had declined by approximately \$2.8 billion since 2002-03 and by \$4.1 billion from its peak in 2004-05. Net debt has remained relatively constant over the past four years despite significant surpluses in 2010-11 and 2011-12. The beneficial impact of surpluses on Net Debt has been primarily offset by acquisitions of tangible capital assets during these periods.

The 2012-13 mid-year update provided by the Province indicates that Net Debt is expected to rise to \$8.9 billion by March 31, 2013, reflecting a forecast deficit of \$726 million and spending on tangible capital assets.

While the overall level of Net Debt has declined since its peak at March 31, 2005, the component parts show mixed results. Chart 4 shows the components of Net Debt for the years ended March 31, 2003 to 2012.

Chart 4

Consolidated Summary Financial Statements Net Debt and its Components Years Ended March 31 (\$ Billions)



Financial Assets

As Chart 4 indicates, financial assets have increased by approximately \$4.0 billion from 2002-03 to 2011-12. Cash and temporary investments have increased by approximately \$2.0 billion, other financial assets have increased by approximately \$1.1 billion, and equity in government business enterprises has increased by approximately \$0.9 billion over this period.

Public Debt

Chart 4 indicates that the Public Debt component, the actual borrowing of Government, has decreased by approximately \$1 billion from 2002-03 to 2011-12. This has occurred, primarily, because debt has been repaid as it has come due.

Employee Future Benefits

On the other hand, Chart 4 also indicates that the liability for employee future benefits has seen significant variability over the same period. Employee future benefits include obligations related to Provincial employee pension arrangements and group health and life insurance benefits which are cost shared with provincial retirees.

Pension Plans

The unfunded liability related to Government sponsored pension plans arises from the nature of the plans and the legislative framework around the plans. The Province provides its employees with a “defined benefit” plan which promises to pay specified amounts upon retirement. If there are insufficient funds available to meet this obligation, the Province is responsible for any shortfall. The *Pension Funding Act* provides that the Province guarantees pension obligations under the Government employee pension plans.

Note 7 to the Consolidated Summary Financial Statements provides detail as to the determination of the unfunded pension liability. Six pension plans are included in the determination of the liability:

- Public Service
- Teachers’
- Memorial University of Newfoundland

Comments on the Financial Condition of the Province

- Uniformed Services
- Members of the House of Assembly
- Provincial Court Judges'

Actuaries measure the expected pension benefits to be paid to employees over time. This measurement would take into consideration such factors as expected changes in wage rates, expected retirement dates and mortality rates. Actuaries estimate the assets required today, and which would be expected to earn a return over the long term, in order to be able to pay the expected benefits as they come due. If the assets which are currently available are less than the actuary indicates should be available, the difference represents the unfunded pension liability. In other words, insufficient money is available today to be able to meet future obligations.

The money that currently is available for pensions is invested in a variety of areas - equities, bonds and real estate. Actuaries make an assumption as to the overall annual expected earnings of these investments. The current assumptions range from 6.5% to 7.25%.

Table 2 shows the Province's unfunded pension liability for the year ended March 31, 2012.

Table 2

Consolidated Summary Financial Statements
Unfunded Pension Liability
Year ended March 31, 2012
(\$ Millions)

Pension Plan	Estimated Accrued Benefit Obligation	Fund Assets	Unfunded Liability Excluding Unamortized Experience Losses	Unamortized Experience Losses	Net Unfunded Liability
Public Service	6,401.9	3,771.8	2,630.1	(800.5)	1,829.6
Teachers'	3,950.0	2,413.4	1,536.6	(631.3)	905.3
Memorial University	1,206.9	886.4	320.5	(226.2)	94.3
Uniformed Services	359.6	152.9	206.7	(27.5)	179.2
Members of the House of Assembly	103.9	14.7	89.2	(18.4)	70.8
Provincial Court Judges'	16.1	4.0	12.1	(1.8)	10.3
Total	12,038.4	7,243.2	4,795.2	(1,705.7)	3,089.5

Comments on the Financial Condition of the Province

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 life insurance plans. Once an employee retires, the Province continues to cost share these benefits.

As at March 31, 2012, the plans provided benefits to a total of 21,121 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 for retirees are a form of compensation offered for current services rendered by employees and accrue over the years employees work.

Table 3 shows the group health and life insurance liability for the year ended March 31, 2012.

Table 3

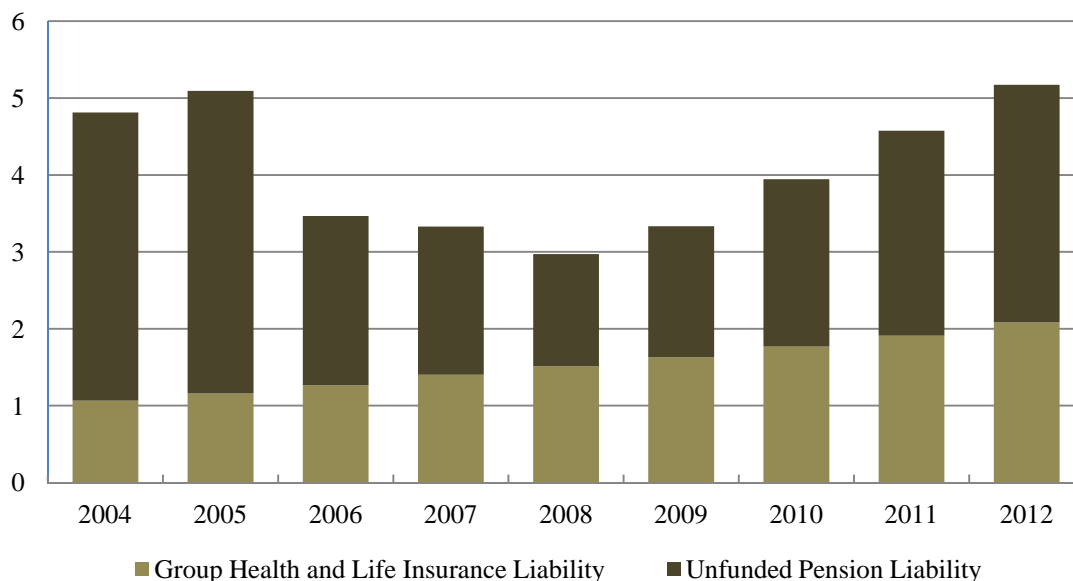
**Consolidated Summary Financial Statements
Group Health and Life Insurance Liability
Year Ended March 31, 2012
(\$ Millions)**

Pension Plan	Estimated Accrued Benefit Obligation	Fund Assets	Unfunded Liability Excluding Unamortized Experience Losses	Unamortized Experience Losses	Net Unfunded Liability
Group health retirement benefits	2,719.7	0	2,719.7	(723.1)	1,996.6
Group life insurance retirement benefits	112.3	0	112.3	(26.3)	86.0
Total	2,832.0	0	2,832.0	(749.4)	2,082.6

Chart 5 shows total employee future benefits for the years ended March 31, 2003 to 2012.

Chart 5

**Consolidated Summary Financial Statements
Employee Future Benefits
Years Ended March 31
(\$ Billions)**



Obligations for employee future benefits continue to increase

As Chart 5 indicates, the obligation related to employee future benefits declined significantly in 2005-06, the year the \$2 billion advance payment under the Atlantic Accord 2005 was directed to the Teachers' Pension Plan. In addition, further special payments totaling approximately \$1.3 billion were made between 2006 and 2012 to address the unfunded pension liability. Since 2007-08, the obligation has increased, such that, at March 31, 2012 the total obligation is now greater than it was at March 31, 2005, despite in excess of \$3.3 billion in special payments over that period.

The increase in the obligation for employee future benefits since 2005 was primarily caused by the following factors:

- Market risk associated with the pension fund assets. Pension assets are subject to market risk and were impacted dramatically by the stock market correction that occurred during 2008 and 2009. A significant portion of the Province's additional contributions to the pension assets were offset by the decline in the value of the assets resulting from this market correction. This highlights the inherently volatile nature of this liability. The impact of this market correction is presently being amortized into the liability over the estimated average remaining service life of the active participants of the retirement benefit plans.

Comments on the Financial Condition of the Province

- The obligation for group health and life insurance continues to increase each year as employees continue to earn benefits for services rendered. This obligation is not funded. Since 2004-05, the group health and life insurance obligation has increased from \$1.2 billion to \$2.1 billion - an increase of approximately 75%. The increase results from the increased cost of these plans and the increased number of provincial employees earning benefits.
- The liability for employee future benefits also increases each year because of the interest on the unfunded portion of the liability. Since 2004-05, the obligation has increased by \$2.3 billion as a result of interest.

The liability for employee future benefits may change because actual experiences are different than those assumed by the actuary or if there are changes to the assumptions used by the actuary. Differences of this nature are referred to as experience gains and losses. Current accounting standards require that any experience gains and losses on employee future benefits be amortized over the estimated average remaining service life of the active participants. In other words, the full impact of the experience gains and losses on the liability is recognized over a longer period of time.

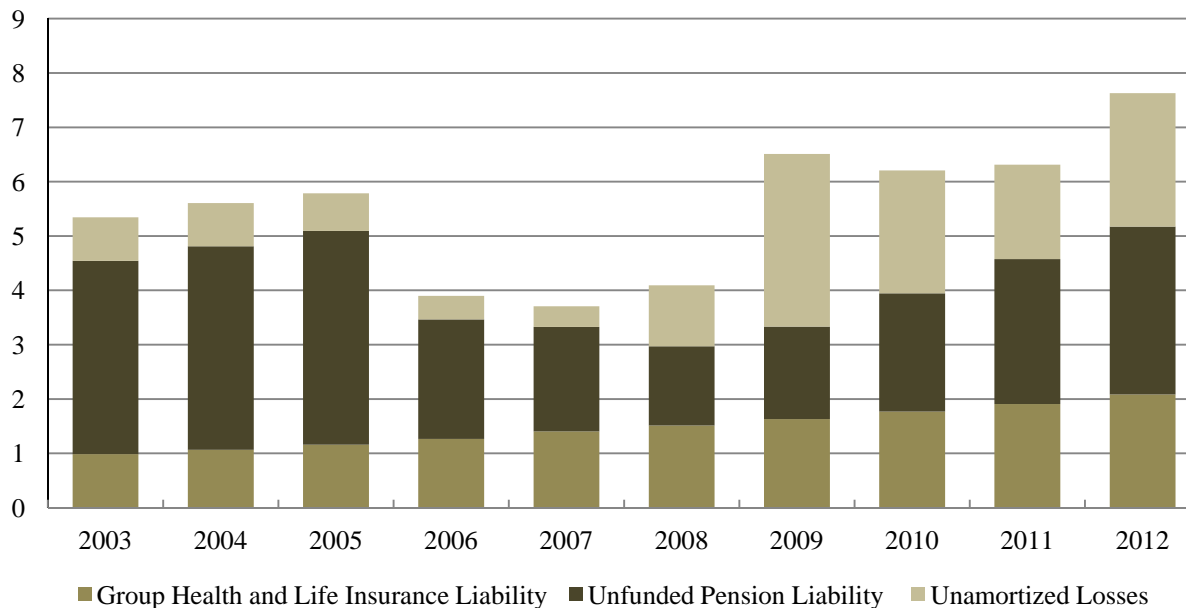
For the pension plans, this presently ranges from 7 to 12 years, depending on the pension plan. The amortization commences in the year subsequent to the year in which the experience gain or loss arose.

For the group health and life insurance benefits liability, the amortization period is 15 years. The amortization commences in the year subsequent to the year in which the experience gain or loss arose.

Chart 6 shows total employee future benefits for the years ended March 31, 2003 through March 31, 2012, including unamortized losses.

Chart 6

**Consolidated Summary Financial Statements
Employee Future Benefits, including Unamortized Losses
Years Ended March 31
(\$ Billions)**



As Chart 6 indicates the unamortized losses on employee future benefits ranged from \$0.8 billion to \$2.5 billion for the years ended March 31, 2003 to 2012. Without the ability to defer and amortize the experience losses, the employee future benefits liability would be much higher each year. For example, for the year ended March 31, 2012, the employee future benefits liability would have been \$7.6 billion, instead of \$5.2 billion as reported.

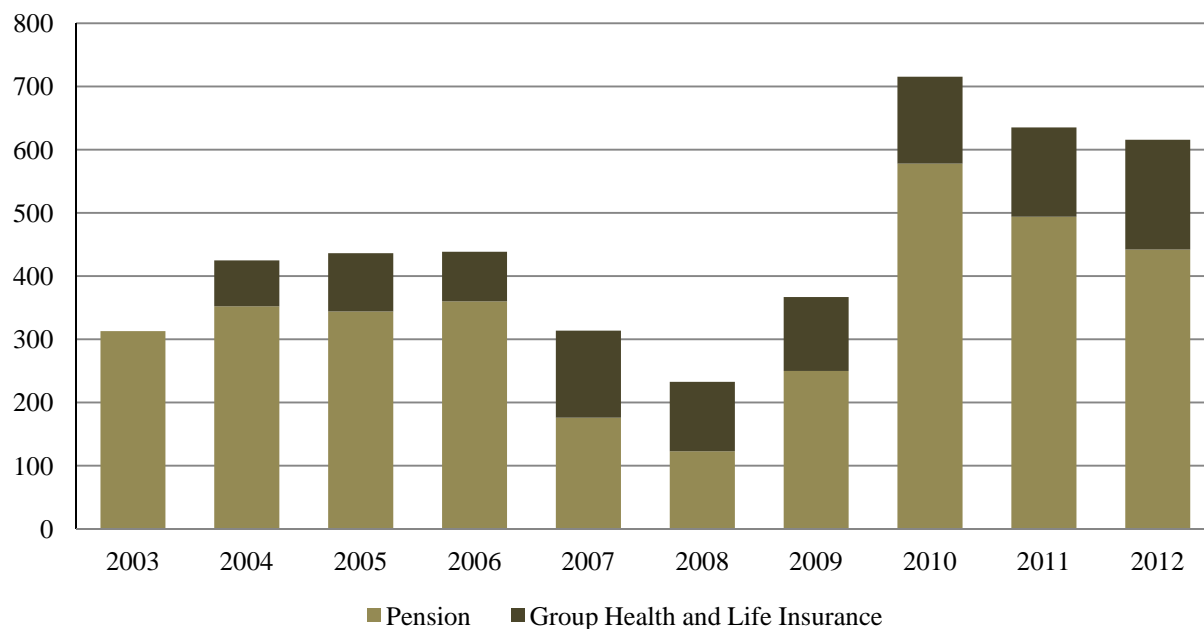
The amortization of these unamortized experience losses of \$2.5 billion over the next several years will result in a substantial increase in the unfunded liability for employee future benefits. Furthermore, additional experience gains or losses may occur in the future as previous actuarial assumptions are revised to reflect actual experiences or there are changes to the assumptions used by the actuary. These experience gains or losses will also impact the unfunded liability for employee future benefits.

Employee future benefits expense

Chart 7 shows the employee future benefits expense for the years ended March 31, 2003 to 2012.

Chart 7

Consolidated Summary Financial Statements
Employee future benefits expense
Years Ended March 31
(\$ Millions)



Employee future benefits are part of the compensation package offered to employees for current services rendered and accrue over the years an employee works. The fundamental accounting task is to determine the amount of the total obligation for employee future benefits and to determine the cost of future benefits for each year of employee service (current service cost).

Employee future benefits expense consists of the current period benefit costs, the current period amortization of experience gains or losses and the interest expense on the unfunded portion of the liability related to employee future benefits.

As Chart 7 indicates employee future benefits expense has increased from \$233 million in 2007-08 to \$616 million in 2011-12 - an increase of \$383 million or 164%.

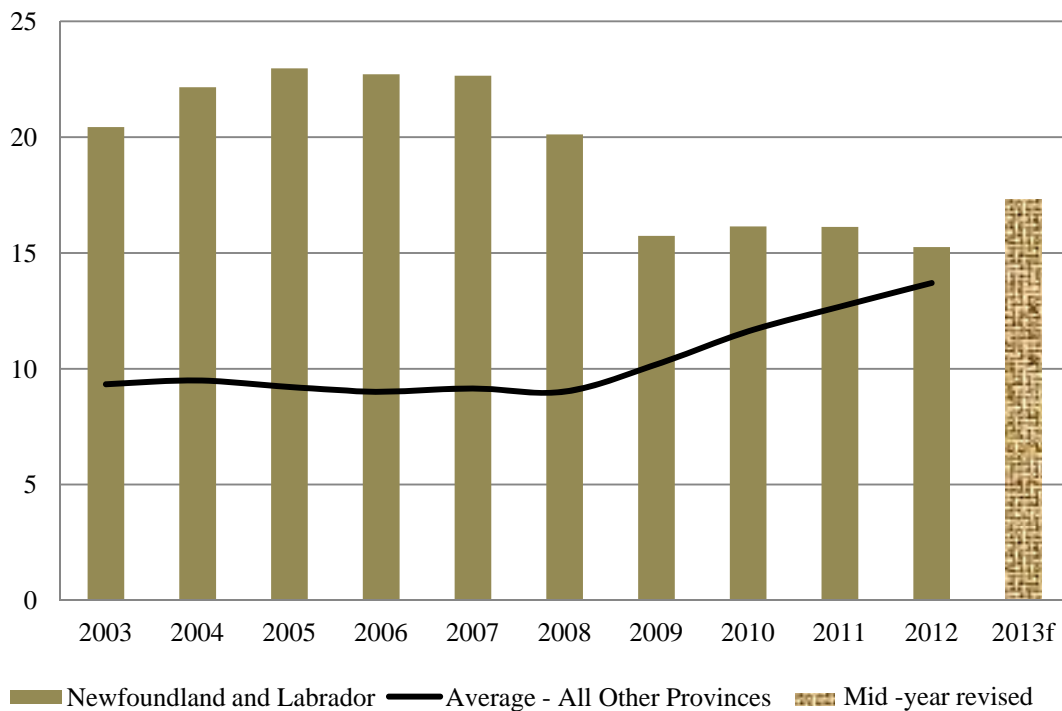
Net Debt Per Capita

Government target for Net Debt per capita

In Budget 2012, Government established a target of having Net Debt per capita equal the average of all other provinces within 10 years. Chart 8 shows the Province's Net Debt per capita as compared to the average of all other provinces for the years March 31, 2003 to 2012.

Chart 8

Province of Newfoundland and Labrador
Net Debt per Capita Compared to Average of All Other Provinces
Years Ended March 31
(\$000s)



Source: Public Accounts - all provinces; Statistics Canada

As Chart 8 indicates, by March 31, 2012, the Province's Net Debt per capita is nearing the average of that of all other provinces. While the Province's Net Debt per capita has improved considerably since 2007-08, the average of all other provinces' has increased since that time. If Government incurs deficits in the future, it may become more difficult to achieve and maintain its target. Based on a forecasted Net Debt of approximately \$8.9 billion at March 31, 2013, the Province's Net Debt per capita is estimated to be approximately \$17,329, an increase of \$2,072 from March 31, 2012.

Comments on the Financial Condition of the Province

Factors impacting Net Debt

In the future, Net Debt will be impacted by any surpluses or deficits and the purchase of tangible capital assets less related amortization.

In order to reduce Net Debt and Net Debt per capita, Government will need to record surpluses greater than the net change in its tangible capital assets.

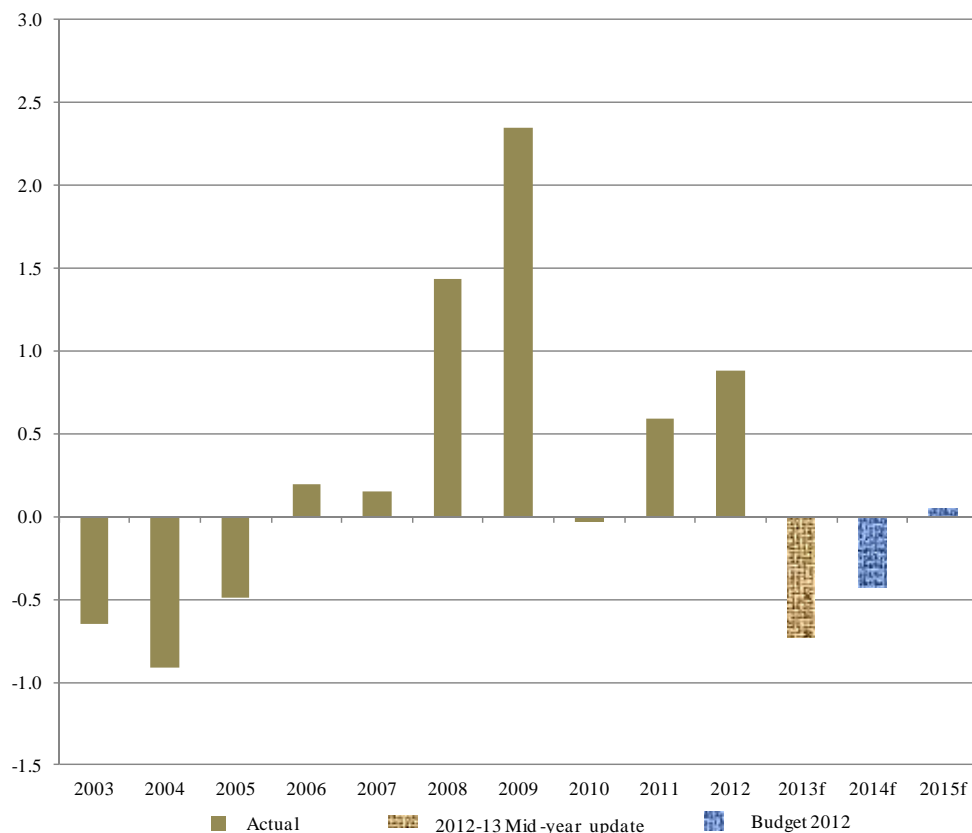
Surplus/(Deficit)

Deficits projected in 2 of the next 3 fiscal years

Chart 9 shows the actual surplus (deficit) for the years ended March 31, 2003 to 2012 and the projected surplus (deficit) for the years ending March 31, 2013 to 2015.

Chart 9

Consolidated Summary Financial Statements Surplus (Deficit) Years Ended March 31 (\$ Billions)



Comments on the Financial Condition of the Province

In its budget for the year ending March 31, 2013, Government projected that there would be deficits totaling \$691.3 million for the years ending March 31, 2013 and 2014, followed by a surplus of \$44.3 million for the year ending March 31, 2015. In its mid-year financial update, Government indicated that the projected budget deficit for 2012-13 is now expected to be \$725.8 million instead of the originally projected deficit of \$258.4 million.

To obtain a greater understanding of the Province's annual operating results and what may happen to the annual operating results in the future it is important to examine the significant components of Provincial revenues and expenses.

Revenues

Significance of oil royalties

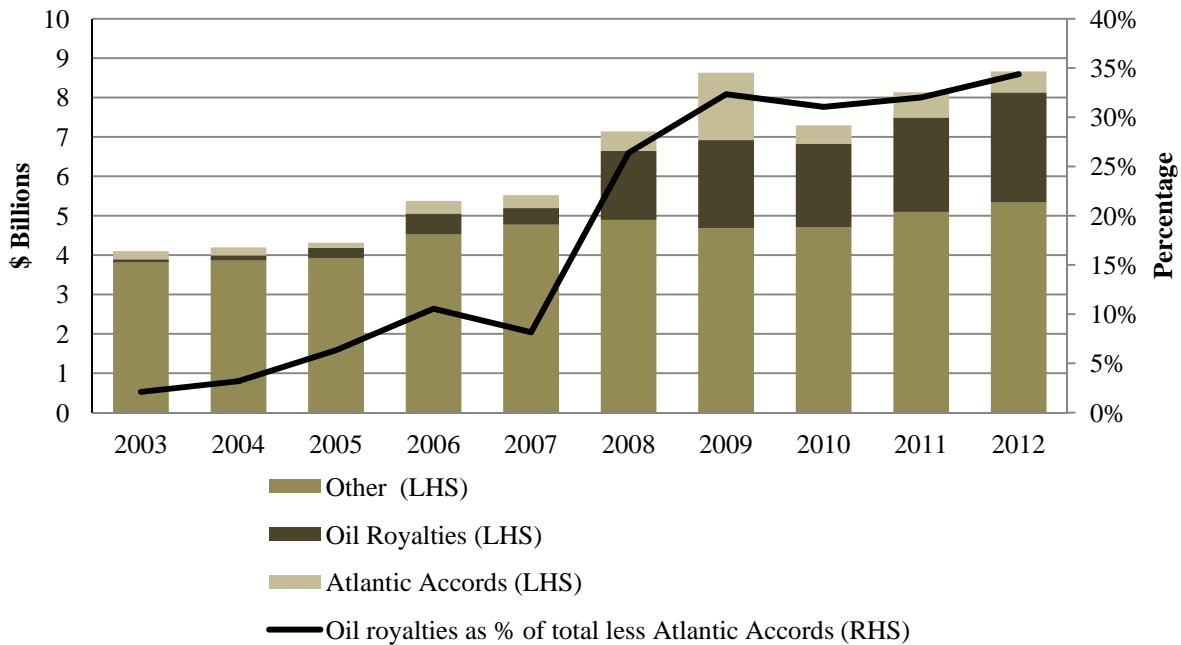
As the significance of the offshore oil sector has impacted the overall economy of Newfoundland and Labrador, there is a corresponding growing reliance by Government on oil royalties to fund its programs and services. This revenue source as a percentage of revenues has increased substantially in recent years. In 2002-03, oil royalties were \$82 million, or 2.1% of total revenues, excluding revenues from the Atlantic Accords. In 2011-12, oil royalties were \$2.8 billion, or 34.4% of total revenues, excluding revenues from the Atlantic Accords, an increase of \$2.7 billion.

The impact of oil production on the overall revenues of the Province is even greater considering that a significant portion of corporate income tax, personal income tax, and other direct, indirect and induced revenues result from activity in the offshore sector as well.

Chart 10 shows total revenues for the years ended March 31, 2003 to March 31, 2012.

Chart 10

**Consolidated Summary Financial Statements
Revenues
Years Ended March 31**



Oil royalties are a very volatile source of revenue for Government. The revenue that the Province receives from oil royalties depends on the level of oil production, the price of oil and the Canada-US dollar exchange rate. These factors are all outside Government's control, are subject to significant variability and are a challenge to predict. In addition, oil is a non-renewable resource and, by its very nature, will decline over time.

Given its lack of control over the factors that impact oil royalties, and its increasing reliance 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 in the future.

Royalties difficult to forecast

Chart 11 shows the budget estimate and actual offshore royalties from 2005 to 2012, along with the budget and revised forecast for 2013.

Chart 11

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

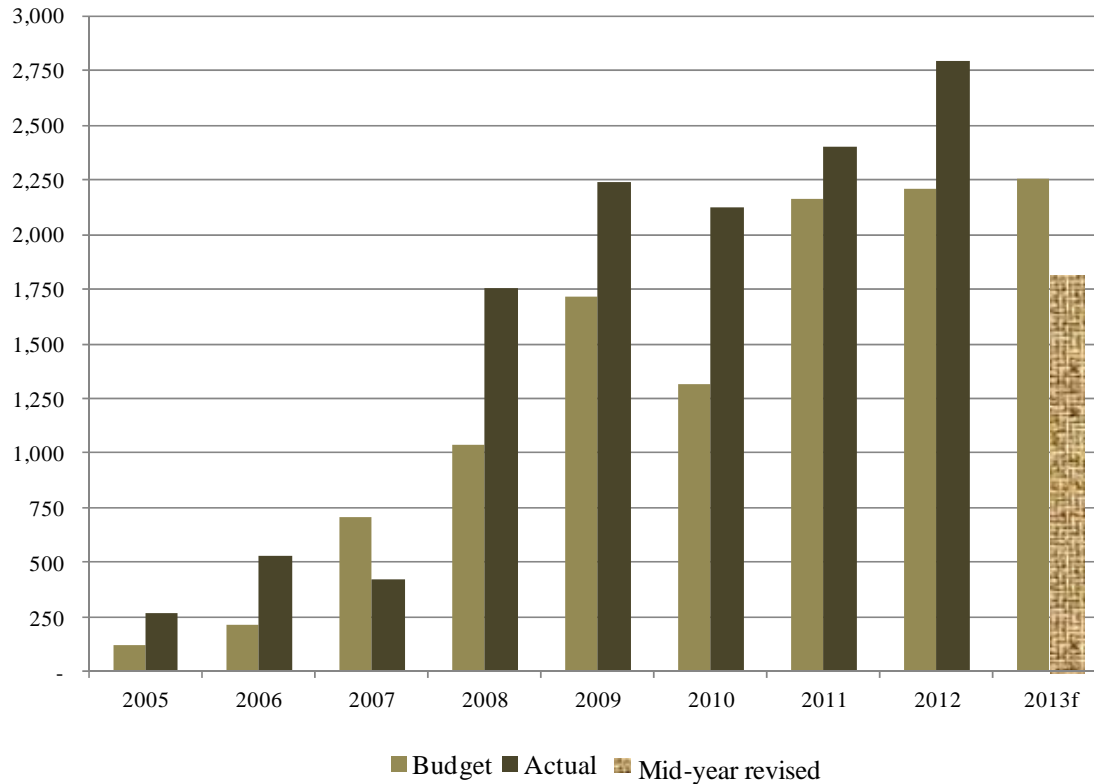


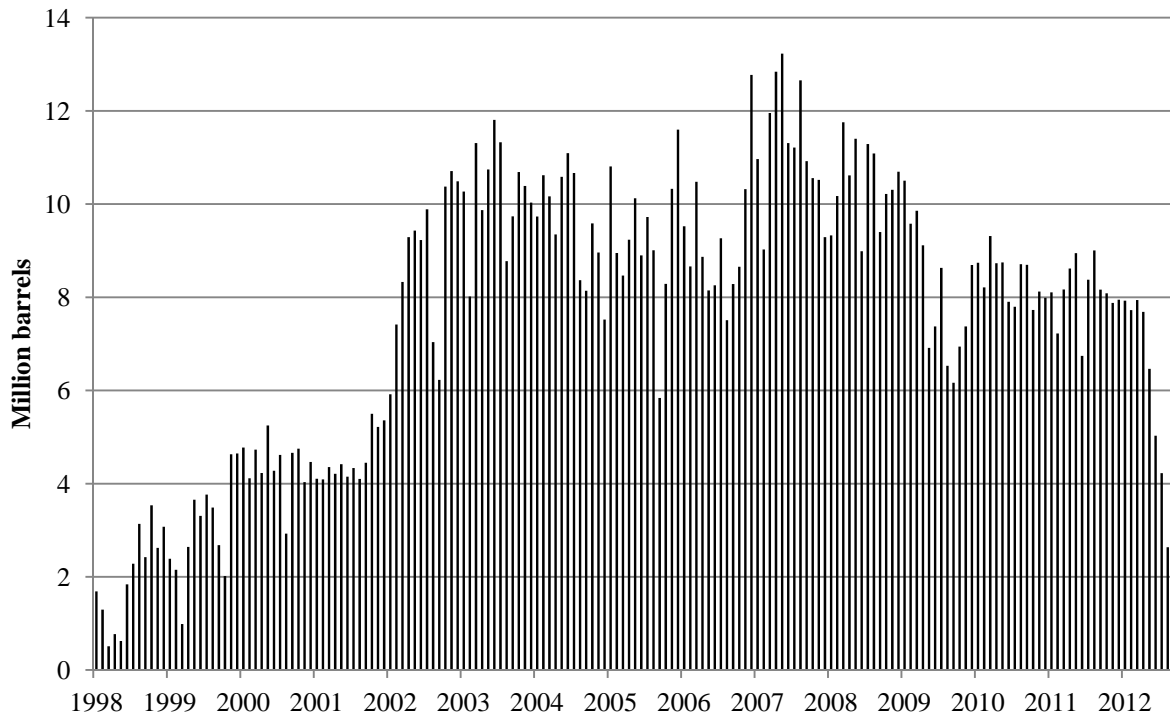
Chart 11 shows that there have been significant differences between budget estimates and actual offshore royalties from 2005 to 2012 (and forecasted for 2013). Actual revenue from offshore royalties has exceeded the budget estimate for each year since 2005 with the exception of 2007. For 2013, the actual revenue from offshore royalties is expected to be less than the budget estimate.

The significant increase in offshore royalties from 2005 to 2013, for the most part, is attributable to changes in oil prices and/or production levels. The difference between budget and actual demonstrates the uncertainty that exists in predicting offshore royalties.

Chart 12 shows monthly oil production for the period of November 1997 to September 2012.

Chart 12

Province of Newfoundland and Labrador
Monthly Oil Production
November 1997 to September 2012
(Million barrels)



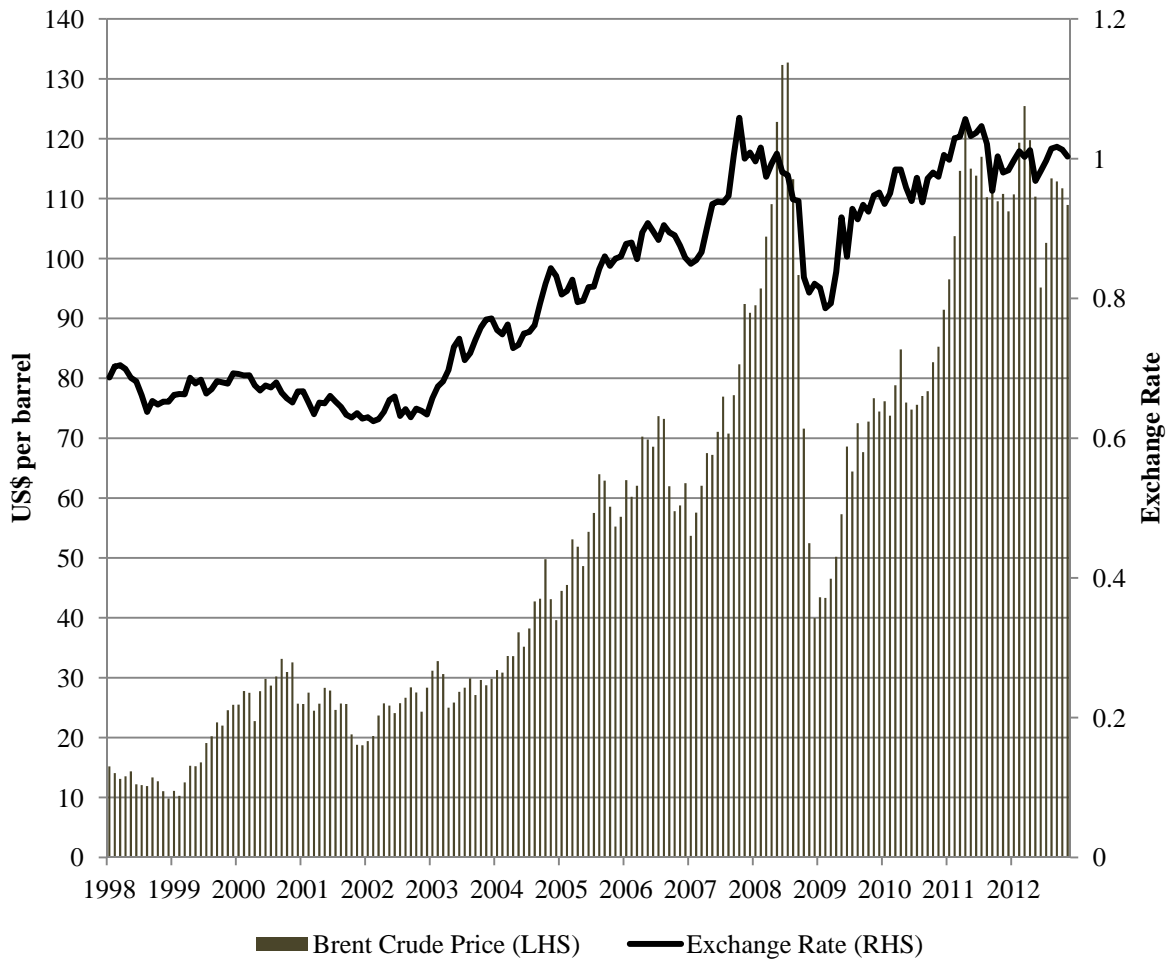
Source: Canada-Newfoundland and Labrador Offshore Petroleum Board, November, 2012

As Chart 12 indicates, monthly oil production is subject to significant variation. In addition, monthly oil production has shown an overall downward trend since 2007.

Chart 13 shows the average monthly spot price of Brent Crude and the Canada-US exchange rate from January 1998 to November 2012.

Chart 13

**Brent Crude - Average Monthly Spot Price
Canada - US exchange rate
January 1998 to November 2012**



Source: US Department of Energy – Energy Information Administration (Brent Crude price)
Statistics Canada; Bank of Canada – (Canada-US Exchange Rate)

As Chart 13 shows, there have been significant fluctuations in the price of Brent Crude and the Canada-US exchange rate during this period.

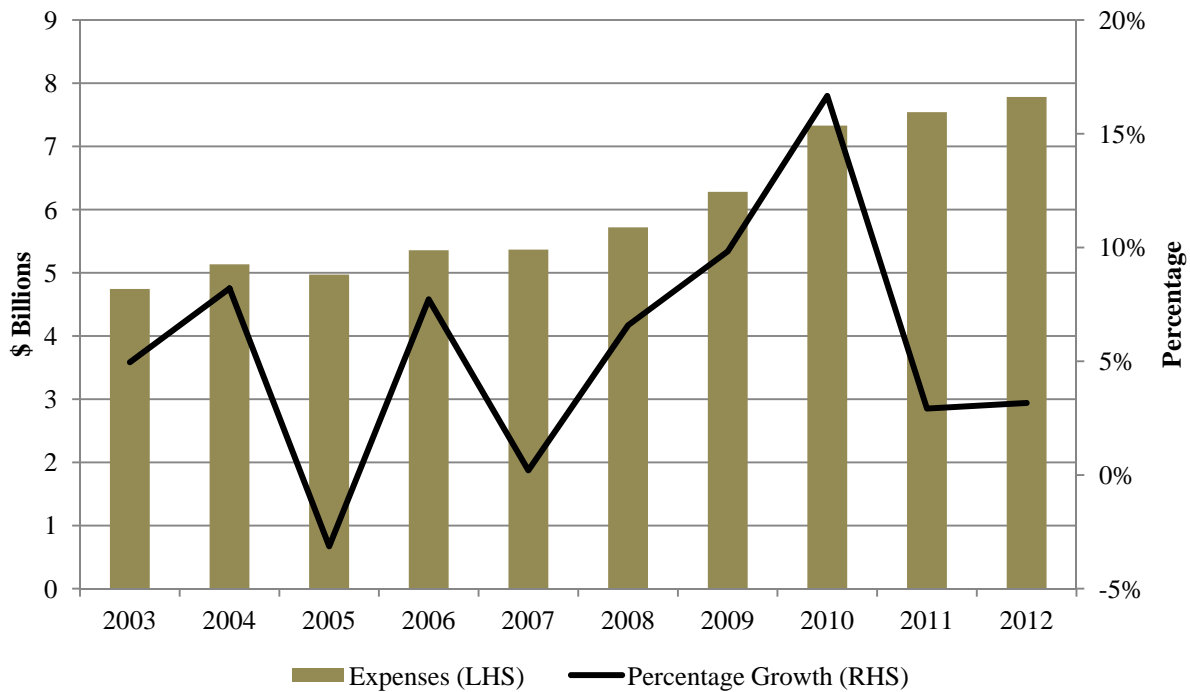
Expenses

In its Budget for the year ending March 31, 2013, Government projected that there would be deficits for the 2013 and 2014 fiscal years, meaning that expenses are expected to be at a level that exceed revenues.

Chart 14 shows expenses, and the growth in expenses, for the years ended March 31, 2003 to 2012.

Chart 14

**Consolidated Summary Financial Statements
Expenses and growth in expenses
Years Ended March 31**



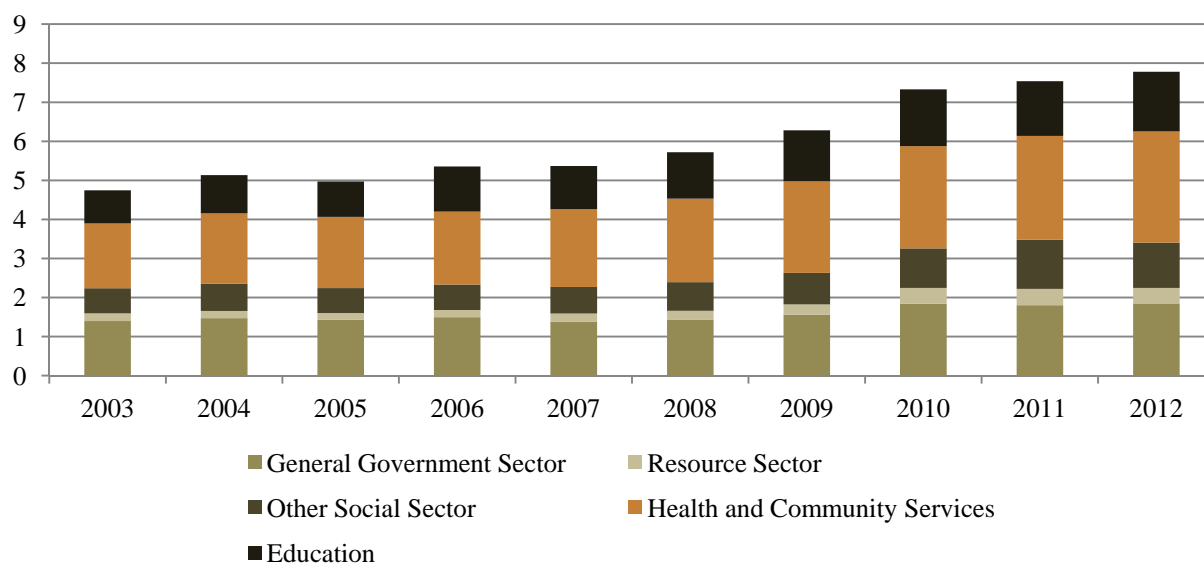
Since 2003, expenses have grown from \$4.7 billion to \$7.8 billion, an increase of \$3.1 billion, or 66.0 %.

Comments on the Financial Condition of the Province

Chart 15 shows expenses by sector, for the years ended March 31, 2003 to 2012.

Chart 15

Consolidated Summary Financial Statements
Expenses by sector
Years Ended March 31
(\$ Billions)



Note: During 2011-12, departmental reorganization resulted in certain expenses in the Social Sector being transferred to the Resource Sector. In the Consolidated Summary Financial Statements for the year ended March 31, 2012, the 2011 comparative financial results were also restated to reflect this transfer. For the purposes of this chart, the expenses for both 2010-11 and 2011-12 have been presented in a manner that is consistent with the financial results that were originally published in the Consolidated Summary Financial Statements for the year ended March 31, 2011 to facilitate comparability.

Since 2003, there has been a significant increase in spending in the Social Sector, where expenses have grown from \$3.2 billion to \$5.5 billion, an increase of \$2.3 billion or 72%. The Social Sector represented 71 % of total spending for the year ended March 31, 2012. This growth in spending has occurred primarily in the areas of Health and Community Services and Education.

Spending for the Department of Health and Community Services has increased from \$1.7 billion (35.0% of total expenses) in 2003 to \$2.8 billion in 2012 (37% of total expenses). This increase of \$1.1 billion represents 36% of the total increase in all expenses of \$3.1 billion since 2003.

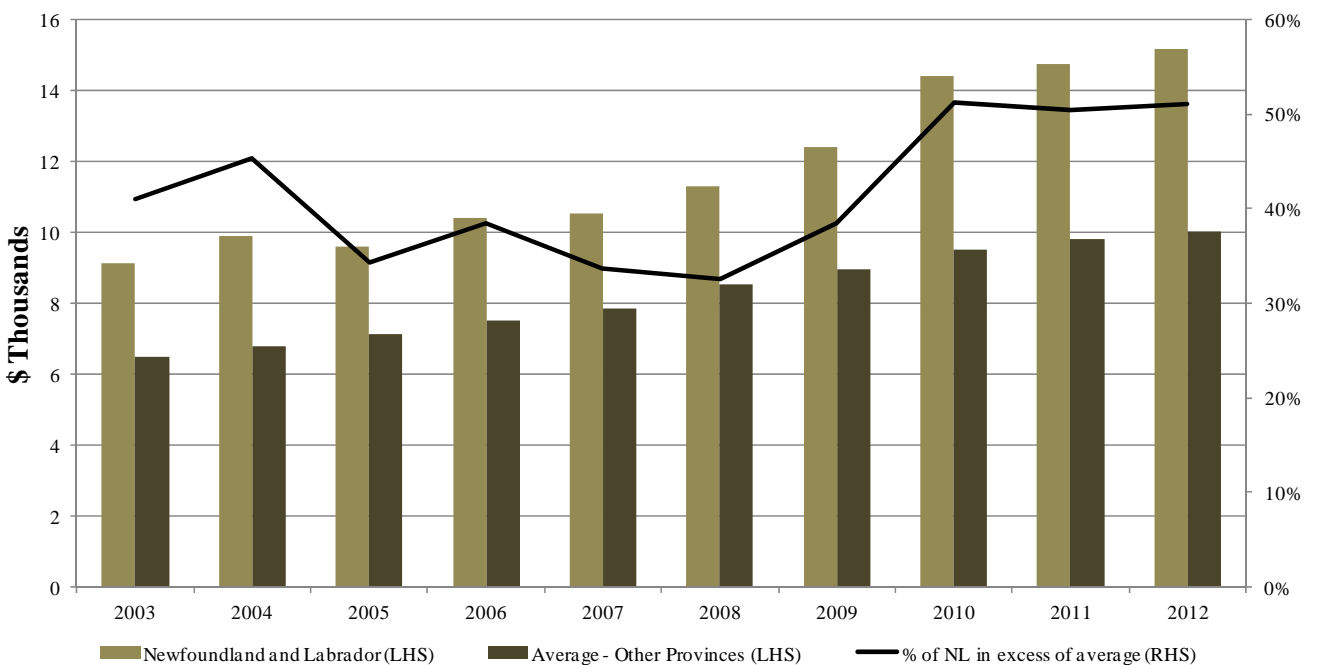
Comments on the Financial Condition of the Province

Spending for Education has increased from \$0.8 billion (18% of total expenses) in 2003 to \$1.5 billion in 2012 (19% of total expenses). This increase of \$0.7 billion represents 23% of the total increase in all expenses of \$3.1 billion since 2003.

Chart 16 shows the Province's per capita expenses for the years ended March 31, 2003 to 2012, together with a comparison of these per capita expenses to the average of other provinces in Canada.

Chart 16

Province of Newfoundland and Labrador
Per capita expenses compared to the average of other provinces
Years Ended March 31



Source: Public Accounts - all provinces; Statistics Canada

Province has the highest per capita expenses in Canada

As Chart 16 indicates, per capita expenses in Newfoundland and Labrador are the highest in Canada. Furthermore, our per capita expenses are approximately 50% higher than the average of other provinces.

Certain factors would contribute to the Newfoundland and Labrador per capita expenses being higher than those of other provinces. For example, the Government has to provide services to a relatively small population that is disbursed over a large geographical area. The appropriate level of expenses will have to balance factors such as need and affordability.

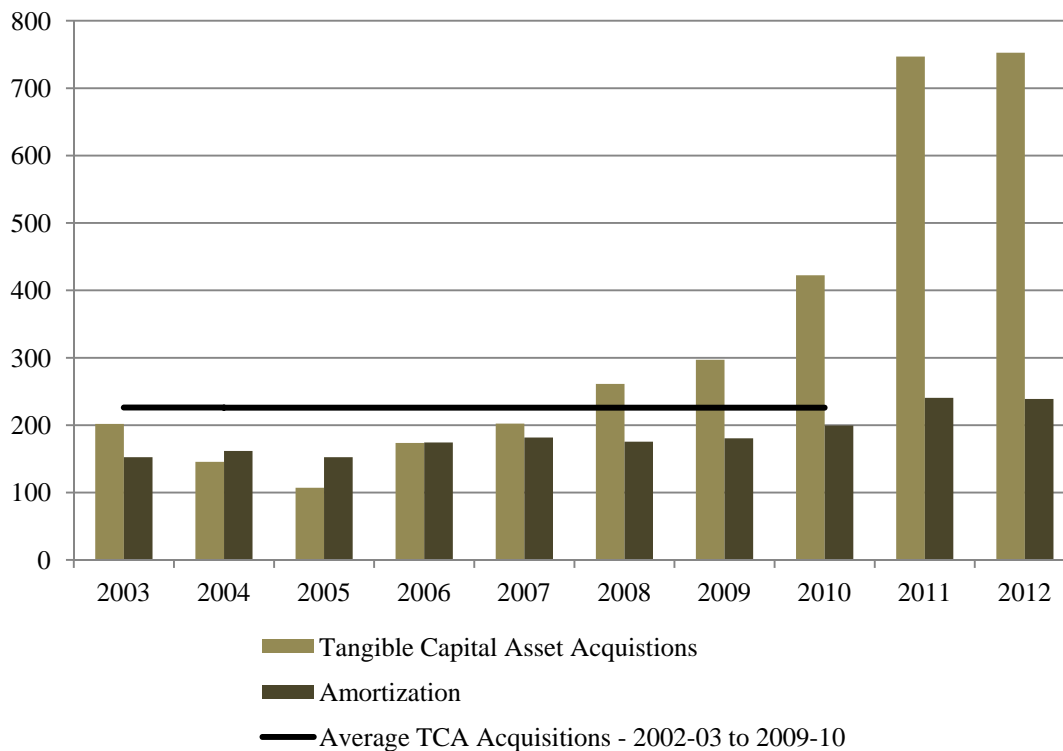
Tangible Capital Assets

Tangible capital assets generally relate to the physical infrastructure of the Province and include roads, buildings and major equipment. A tangible capital asset has a useful life that extends beyond one year. The acquisition is recorded as an asset of the Province in the year acquired and the cost is amortized (recorded as an expense) over the life of the asset.

Chart 17 outlines the acquisition of tangible capital assets and the related amortization for the years ended March 31, 2003 to 2012.

Chart 17

**Consolidated Summary Financial Statements
Tangible Capital Asset Acquisition and Related Amortization
Years Ended March 31
(\$ Millions)**



Comments on the Financial Condition of the Province

Government has increased capital spending dramatically in recent years, in large part due to an announced Infrastructure Strategy. From 2003 to 2012, the Province spent a total of \$3.3 billion related to tangible capital assets. Acquisitions of tangible capital assets in 2011 and 2012 averaged approximately \$750 million - more than 3 times greater than the average annual spending on tangible capital assets from 2003 to 2010 - which was \$226 million.

The acquisition of tangible capital assets may be seen as a means to provide better services and reduce future expenditures. However, the acquisition of tangible capital assets increases Net Debt as the tangible capital assets have to be acquired through either the use of financial assets or the assumption of additional liabilities.

During the next two years, Government expects to incur deficits from its operations, which will increase Net Debt. The acquisition of tangible capital assets, also increases Net Debt. Therefore, Government will need to carefully consider whether the level of tangible capital asset acquisitions that has occurred in recent years is sustainable in the future.

In addition, Government has established a target of having Net Debt per capita equal the average of all other provinces within 10 years. Government will also need to consider the impact that a significant level of tangible capital asset acquisitions on an annual basis combined with potential deficits will have on the achievement of this target.

Demographics

Demographic change is one of the most significant factors which will affect future demands for public services and the delivery of those services. Demographic issues have impacted the revenues and expenses of the Province in previous years and will continue to do so in the future. Demographic issues include shifts in the population between various regions within the Province and an aging population. Such issues will impact service delivery, the types of services required and the associated costs. The impact of demographic change will also have a significant impact on labour markets.

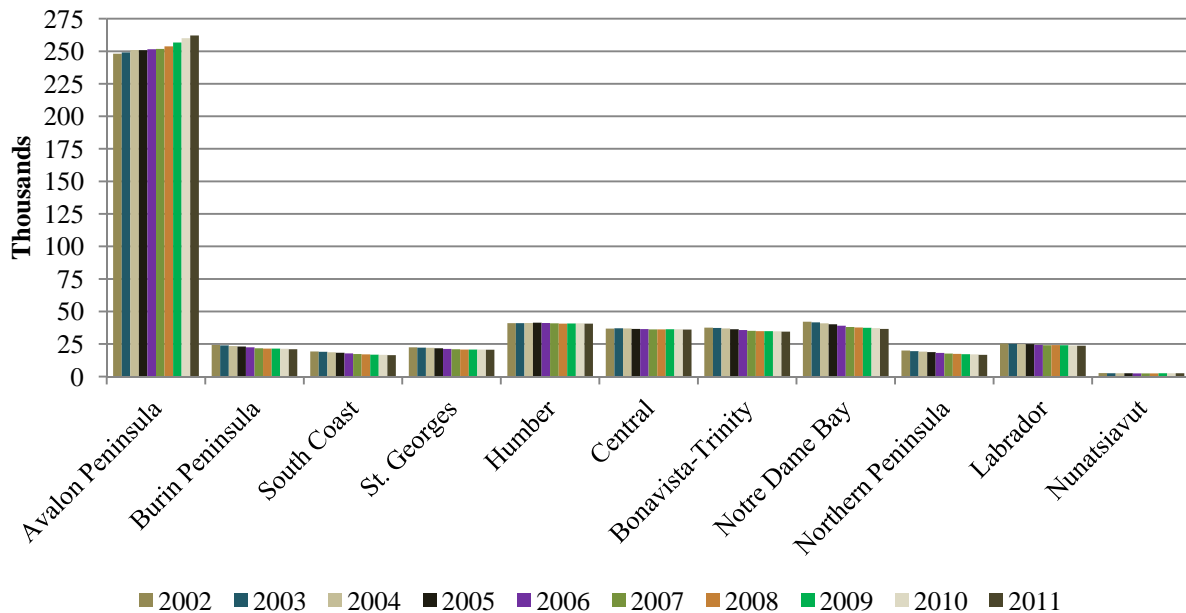
Comments on the Financial Condition of the Province

Population

From 2002 to 2011, the population of Newfoundland and Labrador has decreased from 519,531 to 510,578. Chart 18 shows the population of the Province by region for the years 2002 to 2011.

Chart 18

Province of Newfoundland and Labrador Population by Region 2002 - 2011



Source: Statistics Canada

Population shifts may create challenges for the delivery of public services

During this time period, the population of the Avalon Peninsula region, which includes the St. John's region, increased from 248,127 to 262,079. Meanwhile, during this time period the populations for other regions of the Province, all of which had populations under 50,000, generally declined. This is likely the result of individuals moving to the Avalon Peninsula region, from either within the Province or outside of the Province, to pursue educational or employment opportunities or leaving the Province altogether.

Comments on the Financial Condition of the Province

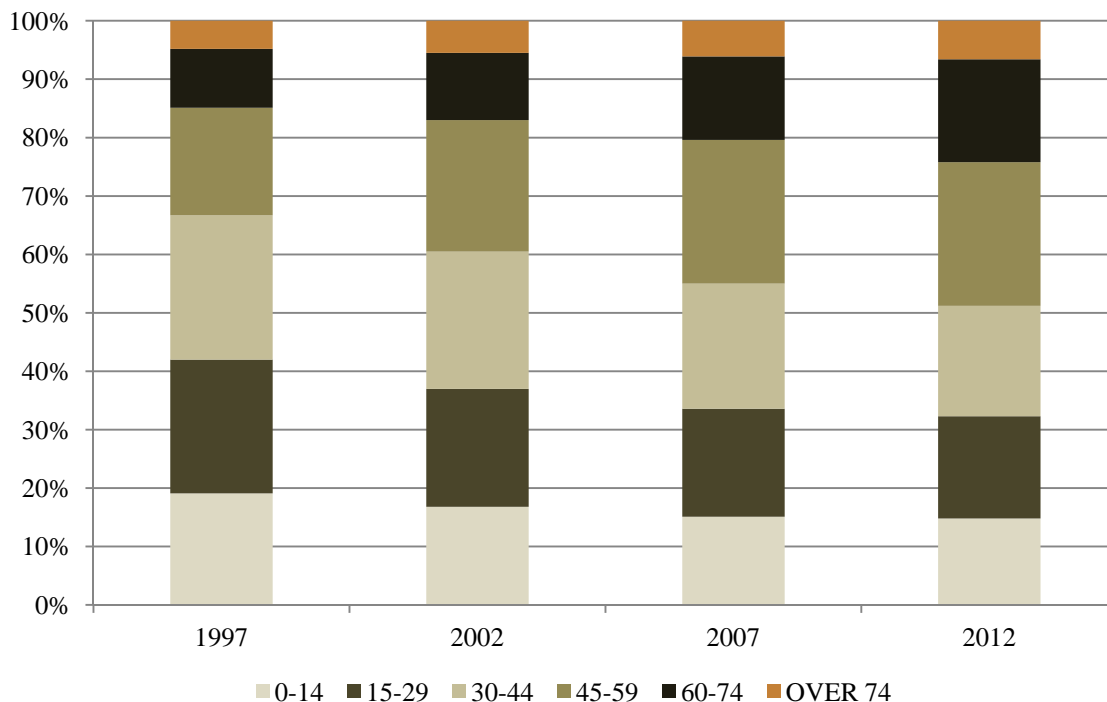
Population shifts between various regions of the Province can create significant challenges for Government and have to be given serious consideration when determining how to deliver public services in a cost effective and efficient manner. This is particularly important when planning for the development of infrastructure including roads and health care and education facilities. Government may find it increasingly challenging to maintain the delivery of public services, such as education, in regions where there are declining populations. This is in contrast to other regions where Government may struggle to keep up with the demands for education services that are created by increasing populations.

Aging population

Chart 19 shows the percent of population by age cohort for 1997, 2002, 2007, and 2012.

Chart 19

Province of Newfoundland and Labrador Percent of Population by Age Cohort 1997, 2002, 2007, 2012



Source: Statistics Canada

Comments on the Financial Condition of the Province

Population is aging

The population of Newfoundland and Labrador is getting older. In 1997, the percentage of the population that was 60 years of age or older was 15%, while in 2012, 24% of the population is 60 years of age or older. Meanwhile, the percentage of the population that is under 30 years of age has declined from 42% in 1997 to 32% in 2012.

Aging population may create challenges for the delivery of public services

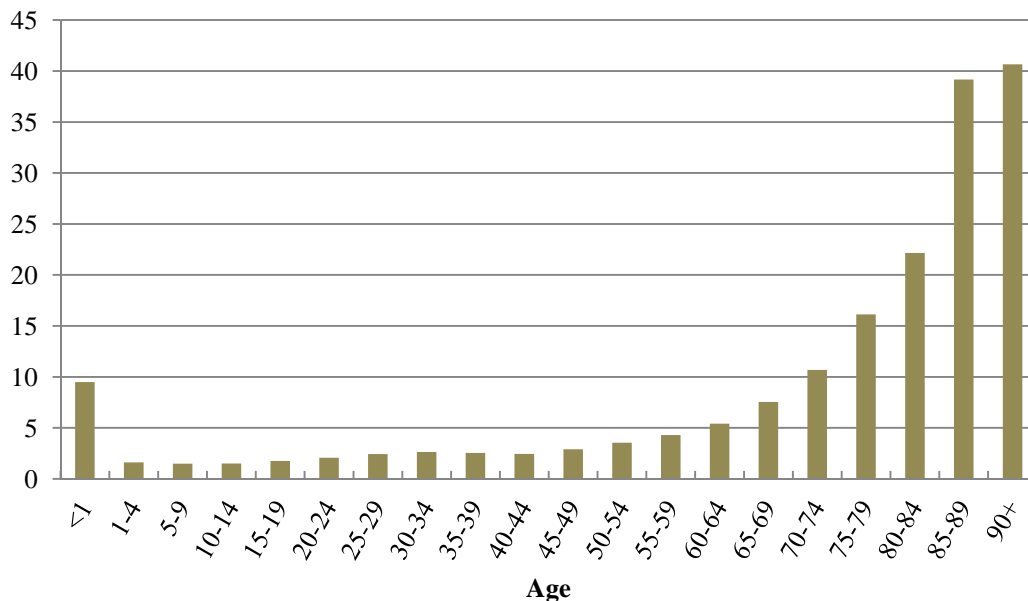
An aging population will create significant challenges for Government and has to be given serious consideration when determining how to deliver public services in a cost effective and efficient manner and in prioritizing expenditures. As the population ages, there will be an increased demand for certain public services such as health care and seniors' housing.

Health care spending is highly correlated to the age of the population. As the population ages, there will be an increase in the prevalence of chronic diseases such as heart disease, cancer, diabetes and arthritis, which will result in higher demands on health care in the future.

Chart 20 shows the expenditures per capita on health care in the Province by age group for 2010.

Chart 20

Province of Newfoundland and Labrador Per Capita Health Care Expenditures by Age Group 2010 (\$000s)



Sources: National Health Expenditure Database, Canadian Institute for Health Information; Statistics Canada

Comments on the Financial Condition of the Province

In addition, aging of the population will likely be more prevalent in certain regions of the Province, as younger people move to larger centers to pursue educational or employment opportunities. This may have significant implications for long term planning of regional health care facilities and service delivery models.

However, the demand for other public services such as education, on an overall basis, will decline as the population ages. As in cases where the demand for a public service is increasing, decreases in the demand for a public service also has implications for long term planning related to the delivery of the service.

Aging population is expected to impact labour markets in the Province

An aging population is also expected to impact labour markets in the Province. As older people leave the labour force there will be fewer younger people available to enter the labour force, potentially resulting in labour shortages. This situation would be most prevalent in regions of the Province where the population is generally older and may impact certain employment categories more than others. These potential labour shortages would be addressed by individuals staying in the labour force longer or increased immigration and will likely result in higher labour costs.

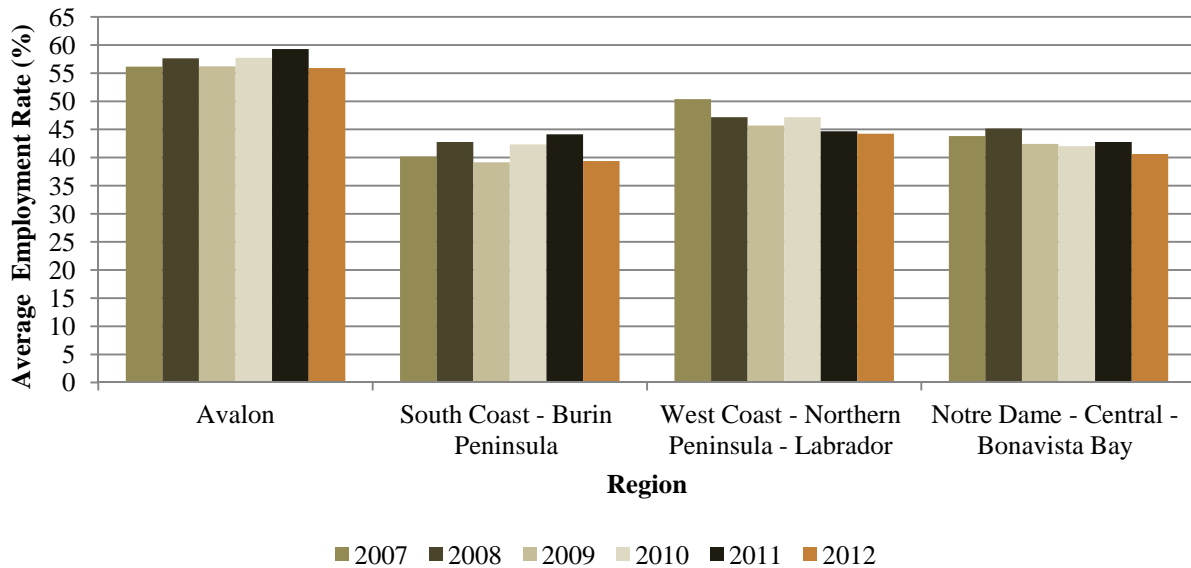
Delivery of public services is impacted by employment rates

The delivery of public services is also impacted by the number of people working in various regions of the Province. The employment rate measures the percentage of a population of working age that is employed. Regions with increased levels of economic activity, such as the Avalon region, would be expected to have a higher employment rate. This creates increased need for infrastructure, such as roads, to support the economic activity and less need for other public services such as income support or employment creation programs. However, in regions where there is lower employment, the need for public services such as income support or employment creation programs increases. Regions with lower employment rates may also experience population declines as people move elsewhere to seek employment opportunities. This shift in the population further compounds the challenges in delivering public services to these regions.

Chart 21 shows the average employment rate by region in the Province for the years 2007 to 2012.

Chart 21

**Province of Newfoundland and Labrador
Average Employment Rate by Region
2007 to 2012**



Source: Statistics Canada, Labour Force Survey, December, 2012

As Chart 21 shows, the employment rate for the Avalon region has exceeded other regions of the Province since 2007. Meanwhile, the employment rate has declined overall in other regions of the Province since 2007.

Comments on the Financial Condition of the Province

CHAPTER
7
OTHER MATTERS

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 responsibility, current 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.

The PSAB has issued a new Section – *PS 3260 Liability for Contaminated Sites*, which becomes effective for fiscal years beginning on or after April 1, 2014. Under this new standard, a liability for remediation of contaminated sites should be recognized when, as at the financial reporting date, all of the following criteria have been satisfied:

- (a) an environmental standard exists;
- (b) contamination exceeds the environmental standard;
- (c) the government:
 - (i) is directly responsible; or
 - (ii) accepts responsibility;
- (d) it is expected that future economic benefits will be given up; and
- (e) a reasonable estimate of the amount can be made.

Therefore, once the new standard becomes effective the Province will have to evaluate whether it is liable for the remediation of any contaminated sites in accordance with these new criteria.

Note 9(c)(vi) to the Province's financial statements for the year ended March 31, 2012, indicates 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 \$29.7 million as at March 31, 2012, relating to 10 sites reported by the departments of Environment and Conservation and Transportation and Works.

Once the Province has established that it is responsible for a contaminated site, it is necessary for an environmental site assessment to be completed to assess the extent and nature of contamination. This site assessment is necessary to determine the methods required to remediate the contamination and the related costs. This assessment will also assist in determining whether a liability exists and the amount of the liability.

In a review conducted in 2010, our Office found that Government did not have a central inventory of contaminated sites. While a database was maintained by the Department of Environment and Conservation, it was neither complete nor accurate. We found that the database was not being updated on a timely basis. In addition, there were no fields in the database to record total estimated remediation costs, costs incurred to date and progress to date, and there was no field in the database to identify who was responsible to pay for remediation costs.

In June 2012, we obtained an update from the Department of Environment and Conservation regarding their progress towards the implementation of the recommendations we made in our 2010 review of contaminated sites. In this update, the Department of Environment and Conservation indicated that:

- It has a complete and accurate listing of all known provincial contaminated sites, which is continually updated.

Other Matters

- It maintains the impacted sites information for Government.
- Remediation costs can only be determined after carrying out detailed engineering, geotechnical and scientific studies. However, funds for contaminated sites are being allocated to remediation projects rather than cost assessments.

Therefore, while progress has been made towards establishing and maintaining a complete and accurate database of contaminated sites, work still remains to determine the extent of remediation required for many of the sites - information that is necessary to determine whether a liability exists and to estimate the associated remediation costs. As the Department's database does not contain information regarding the estimated remediation costs associated with many of the contaminated sites that have been identified, the usefulness of the database to the Office of the Comptroller General in determining environmental liabilities for inclusion in the Province's financial statements is limited. Without an estimate of the remediation costs associated with contaminated sites, a liability cannot be recorded in the Province's financial statements.

The Office of the Comptroller General indicated that it continues to rely on the departments and Crown agencies to identify and provide information related to contaminated sites. The Office of the Comptroller General also indicated that it relies equally on the information provided by the Department of Environment and Conservation and all other departments and Crown agencies and that the information received from one source complements the other. The Office of the Comptroller General further indicated that all material discrepancies between the information provided by the Department of Environment and Conservation and that of all other departments and Crown agencies are investigated.

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.

Muskrat Falls

On December 17, 2012, Government announced the sanction of the Muskrat Falls development. The Muskrat Falls development includes a 824 megawatt hydroelectric generating facility at Muskrat Falls, a 1,100 kilometre Labrador-Island Transmission Link, and a Maritime Link from the Island of Newfoundland to Nova Scotia.

The Muskrat Falls development (including the hydroelectric generating facility and the Labrador-Island Transmission Link) is expected to cost \$6.2 billion and will be financed by Nalcor Energy and the Province of Newfoundland and Labrador. The Maritime Link is estimated to cost \$1.2 billion and will be constructed and financed by Emera Inc. of Nova Scotia.

The size and complexity of the development creates considerable risk that the Province and the proponents will have to carefully manage in the construction phase. Ultimately, any risks related to project execution (including costs and timing) will be borne by the taxpayers, ratepayers, or both.

Timeliness of the Province's Financial Statements

In order for financial statement information to be useful to users, there are four principle characteristics that it should possess - understandability, relevance, reliability and comparability. One of the ways relevance is achieved is by ensuring the information is received by users and decision makers in a timely manner. The usefulness of information for decision making declines as time elapses.

The *Financial Administration Act* states that "... the minister shall lay the Public Accounts before the House of Assembly or submit them to the Clerk of the House of Assembly before February 1 in the following year." The Province's financial statements, both Volume I and Volume II of the Public Accounts, for the year ended March 31, 2012, were released to the public on January 16, 2013, approximately 9½ months after the end of the fiscal year.

Other Matters

The relevance of this information is considerably diminished and would be more useful to the public if it was available to be released significantly earlier. Table 1 outlines the dates on which all provinces and the Federal Government tabled their Summary Financial Statements for the years ended March 31, 2010 to 2012.

Table 1

**Canada and provinces
Release dates - Summary Financial Statements
Years Ended March 31**

Jurisdiction	2012	2011	2010
Newfoundland and Labrador	January 16, 2013	January 6, 2012	January 20, 2011
Nova Scotia	August 2, 2012	July 28, 2011	July 29, 2010
Prince Edward Island	January 4, 2013	August 29, 2011	November 19, 2010
New Brunswick	August 14, 2012	August 16, 2011	August 13, 2010
Quebec	November 20, 2012	October 25, 2011	December 2, 2010
Ontario	September 13, 2012	August 23, 2011	August 23, 2010
Manitoba	September 28, 2012	September 2, 2011	September 27, 2010
Saskatchewan	June 26, 2012	June 24, 2011	June 24, 2010
Alberta	June 28, 2012	June 29, 2011	June 24, 2010
British Columbia	July 25, 2012	July 18, 2011	July 8, 2010
Canada	October 30, 2012	November 3, 2011	October 28, 2010

As Table 1 shows, Newfoundland and Labrador was the last jurisdiction to table its summary financial statements in each of the last three fiscal years.

Government should continue to work towards earlier tabling its financial statements.

Other Matters

**CHAPTER
8
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. Table 1 outlines expenditures, by category, recorded in the Consolidated Revenue Fund financial statements for the years ended March 31.

Table 1

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

Category	2008	2009	2010	2011	2012
Salaries and Employee Benefits	427	483	516	549	628
Retirement Costs	131	201	362	344	326
Transportation and Communications (Tables 12, 13)	45	48	49	47	44
Supplies	107	102	97	102	114
Professional Services (Table 8, 9)	326	368	387	393	431
Purchased Services (Tables 6, 7)	253	295	399	425	415
Property, Furnishings and Equipment (Tables 4, 5)	60	79	70	58	55
Allowances and Assistance (Tables 10, 11)	368	372	461	484	525
Grants and Subsidies (Tables 2, 3)	2,849	3,138	3,579	3,862	4,016
Debt Expenses	689	678	824	775	732
Amortization of tangible capital assets	82	81	94	125	118
Bad Debts	29	2	6	3	-2
Total	5,366	5,847	6,844	7,167	7,402

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.

Expenditures of the Consolidated Revenue Fund

Details of the expenditures in each of these categories are provided as follows:

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 health boards, school districts, the College of the North Atlantic and Memorial University of Newfoundland and 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. Table 2 indicates for the year ended March 31, 2012, grants and subsidies amounted to approximately \$4.0 billion or approximately 54.3% of the total expenditures of the Consolidated Revenue Fund.

Table 2

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

Department	2011	2012
Department of Health and Community Services	2,040,825	2,156,513
Department of Education	686,256	710,765
Department of Advanced Education and Skills	547,291	576,657
Department of Municipal Affairs	231,678	259,887
Department of Child, Youth and Family Services	141,994	90,921
Department of Natural Resources	45,051	80,443
Newfoundland and Labrador Housing Corporation	54,942	52,439
Department of Tourism, Culture and Recreation	33,892	29,835
Executive Council	29,521	29,622
Department of Innovation, Business and Rural Development	24,842	28,926
Department of Justice	14,787	15,357
Department of Fisheries and Aquaculture	8,854	7,470
Department of Transportation and Works	6,253	5,053
Department of Environment and Conservation	2,966	4,526

Expenditures of the Consolidated Revenue Fund

Department	2011	2012
Legislature	123	623
Service NL	68	59
Department of Finance	2,007	2
Accrual adjustments	(9,535)	(33,108)
Total	3,861,815	4,015,990

Source: Financial Management System

Table 3 provides the names of entities which received grants and subsidies in excess of \$5 million for the year ended March 31, 2012 with comparative figures for the year ended March 31, 2011.

Table 3

**Grants and Subsidies
Payments in Excess of \$5 million
Years Ended March 31
(\$000's)**

Entity	2011	2012
Nalcor Energy	4,918	51,238
Labour Market Development Agreement	57,036	35,474
Canadian Blood Services	20,470	21,387
Ontario Minister of Health	8,015	7,068
Shorefast Foundation	2,500	5,994
Nova Scotia Minister of Finance	11,106	5,648
Newfoundland and Labrador Credit Union	5,665	5,113
Colby Management Inc.	13,499	3,860
Corner Brook Pulp and Paper Ltd.	11,460	1,669
Nain Inuit Community Government	5,713	536
Members of the Government Reporting Entity and Municipalities paid in excess of \$5 million	3,458,220	3,627,834
Grants of \$5 million and less paid to over 6,200 entities in 2012 (2011 - over 7,700 entities)	308,371	283,277
Accrual adjustments	(45,158)	(33,108)
Total	3,861,815	4,015,990

Source: Financial Management 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. Payments for property, furnishings and equipment totaled \$55.2 million for the year ended March 31, 2012, and \$58.4 million for the year ended March 31, 2011. Table 4 shows, by department, payments made for property, furnishings and equipment for the year ended March 31, 2012 with comparative figures for the year ended March 31, 2011.

Table 4

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

Department	2011	2012
Department of Health and Community Services	51,700	56,174
Department of Transportation and Works	101,285	55,753
Department of Education	2,941	11,753
Executive Council	6,500	4,980
Department of Natural Resources	37,094	4,690
Department of Justice	2,997	3,439
Department of Advanced Education and Skills	1,712	1,500
Department of Fisheries and Aquaculture	985	1,419
Legislature	425	524
Department of Child, Youth and Family Services	182	484
Service NL	719	438
Department of Environment and Conservation	696	393
Department of Finance	115	156
Department of Municipal Affairs	178	141
Department of Innovation, Business and Rural Development	179	106
Public Service Commission	38	69
Department of Tourism, Culture and Recreation	232	65
Accrual adjustments	(149,619)	(86,888)
Total	58,359	55,196

Source: Financial Management System

Expenditures of the Consolidated Revenue Fund

We also summarized the payments for property, furnishings and equipment to show all entities which received payments in excess of \$500,000 for the year ended March 31, 2012 with comparative figures for the year ended March 31, 2011. These entities are listed in Table 5.

Table 5

**Property, Furnishings and Equipment
Payments in Excess of \$500,000
Years Ended 31 March
(\$000's)**

Entity	2011	2012
Bombardier Inc., Canadair Group	48,790	33,439
Micro-Tech Computer Centre Inc.	2,053	6,050
Pinnacle Office Solutions Limited	28	5,499
Hickman Truck Centre	0	4,590
Bell Canada	3,143	2,667
Nortrax Canada Inc.	1,564	2,594
Kiewit Offshore Services	21,491	2,295
Terra Nova Motors Ltd.	667	2,101
Hickman Motors Ltd.	621	1,352
Fraize Law Offices	1,380	1,274
George Parsons & Son Plumbing Ltd.	0	1,112
Juanita Lester	0	939
Harvey & Company Ltd.	4,698	813
Sisters of Mercy Generalate	750	750
Hickman Chrysler	16	743
Royal Garage Limited	476	674
Onx Enterprise Solutions Ltd.	0	669
Curtis Dawe (in Trust)	0	660
ABM Systems Limited	0	599
Strongco Equipment	849	433
Triware Technologies Inc.	1,277	421
Rolls Royce	1,124	79
3D Datacomm Inc.	1,081	51
Burgess Law Office	600	43
Stone Valley Equipment and Recreation Ltd.	1,555	18

Expenditures of the Consolidated Revenue Fund

Entity	2011	2012
Bracs Holdings and Development Co. Limited	764	0
Canadian Imperial Bank of Commerce	600	0
CHI Hydroelectric Company Inc.	32,800	0
Hawker Beechcraft Corporation	7,739	0
McInnes Cooper (in Trust)	2,554	0
Ottenheimer Baker (in Trust)	515	0
Unifund Assurance Company	2,639	0
Members of the Government Reporting Entity paid in excess of \$500,000	51,710	55,556
Payments of \$500,000 and less to over 700 entities in 2012 (2011 - over 710 entities)	16,494	16,663
Accrual adjustments	(149,619)	(86,888)
Total	58,359	55,196

Source: Financial Management 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 Table 6, payments for purchased services totaled \$415 million for the year ended March 31, 2012 (\$425 million March 31, 2011). Table 6 shows, by department, payments made for purchased services for the year ended March 31, 2012 with comparative figures for the year ended March 31, 2011.

Table 6

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

Department	2011	2012
Department of Transportation and Works	306,590	299,249
Department of Health and Community Services	61,369	141,352
Department of Education	80,600	51,244
Department of Justice	17,221	24,873
Department of Tourism, Culture and Recreation	16,226	16,585
Department of Natural Resources	29,089	15,078
Department of Advanced Education and Skills	11,925	12,330

Expenditures of the Consolidated Revenue Fund

Department	2011	2012
Executive Council	6,829	8,306
Department of Environment and Conservation	10,126	7,744
Service NL	5,345	6,212
Department of Municipal Affairs	3,411	5,303
Department of Child, Youth and Family Services	438	3,043
Department of Fisheries and Aquaculture	12,782	2,620
Department of Innovation, Business and Rural Development	5,621	2,246
Legislature	1,110	1,819
Department of Finance	1,666	1,737
Public Service Commission	1,168	1,278
Consolidated Fund Services	18	61
Accrual adjustments	(146,073)	(186,502)
Total	425,461	414,578

Source: Financial Management System

We also summarized the payments for purchased services to show all entities which received payments in excess of \$1 million for the year ended March 31, 2012 with comparative figures for the year ended March 31, 2011. These entities are listed in Table 7.

Table 7

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

Entity	2011	2012
Marco Services Ltd.	31,048	62,001
Johnson's Construction Limited	41,099	35,734
Pomerleau Inc.	11,229	30,776
Humber Valley Paving Ltd.	28,468	30,377
Olympic Constuction Limited	23,712	24,968
Bluebird Investments	13,571	17,042
J-1 Contracting Limited	12,372	15,230
Pennecon Heavy Civil Ltd.	8,975	14,221
Municipal Construction Ltd.	13,674	13,048

Expenditures of the Consolidated Revenue Fund

Entity	2011	2012
St. John's Dockyard Limitd.	6,417	12,965
Farrell's Excavating Ltd.	6,889	12,706
Federal-Provincial Contractors Security	10,791	10,078
Target Marketing	10,008	9,998
Newfoundland Power	8,423	9,536
Marine Contractors Ltd.	2,867	9,449
Nortech Construction Company Ltd.	7,512	9,430
Cai Nunatsiavut Marine Inc.	0	8,671
Labrador Marine Inc.	14,138	8,483
Brook Construction Inc.	13,013	7,712
Concord Paving Ltd.	6,378	4,844
Marsh Canada Limited	4,332	4,430
Eastern Contracting Ltd.	8,373	4,416
Bell Canada	3,498	3,614
Ultramar Ltd.	2,995	3,561
Pavex LTEE	11,000	3,518
Goose Bay Airport Corporation	5,017	3,323
Weirs Construction Co. Ltd.	4,018	3,288
Triple A Excavating Ltd.	55	2,882
Trident Construction Limited	3,246	2,801
Gtrey Rock Mining Inc.	0	2,798
Penny Paving Ltd.	4,158	2,635
Arts & Culture Centre	2,263	2,585
Corner Brook Pulp and Paper Ltd.	14,876	2,509
Puddister Trading Company Ltd.	1,982	2,452
Puddister Shipping Ltd.	1,429	2,294
J & T Construction Ltd.	3,121	2,165
Norcon Marine Services Ltd.	1,462	2,019
Can-Am Platforms & Construction	0	1,996
Kelloway's Construction Ltd.	1,250	1,993
Cougar Engineering & Construction	232	1,939
Station Steakhouse	2,129	1,866
Mike Kelly & Sons Ltd.	2,631	1,856
Can-Am Construction Ltd.	1,480	1,680

Expenditures of the Consolidated Revenue Fund

Entity	2011	2012
Fortis Properties Corporation	1,698	1,663
Chard's Construction Ltd.	2,763	1,573
Southwest Properties Partnership	1,573	1,567
Harvey Gale & Son Limited	227	1,481
Safeguards of Canada Inc.	0	1,476
C Barnes Excavating	1,483	1,466
Rolls Royce Canada Limited	506	1,437
Anchorage Contracting Ltd.	537	1,425
Moneris Solutions	1,175	1,410
R J G Construction Limited	0	1,342
Newfound Construction Limited	970	1,331
Western Petroleum Newfoundland Ltd.	1,078	1,312
Challenger Construction Limited	1,264	1,307
Redwood Construction Ltd.	85	1,302
Bennett's Construction & Supplies	86	1,236
Coady Construction Ltd.	4,437	1,209
Transcontinental Atlantic Media	1,058	1,169
Central Holdings Inc.	667	1,163
Academy Canada	1,243	1,102
Granco Construction Ltd	2,056	1,076
Premiere Atlantic Ltd.	797	1,072
John Howard Society	1,105	1,179
Derek Penney Electrical Ltd.	180	1,042
Goobie Rentals & Contracting Limited	3,079	1,013
AMD Holdings Ltd.	1,350	792
Armtec Ltd.	2,047	1
B&R Enterprises Ltd.	1,283	83
Baine Johnston Insurance	1,444	775
Deer Lake Regional Airport Authority Inc.	3,219	4
Enviro Clean Ltd.	1,991	495
Flynn Canada Ltd.	1,162	142
G & R Contracting	1,163	69
H J Bartlett Electric Inc.	1,601	716

Expenditures of the Consolidated Revenue Fund

Entity	2011	2012
Integral Energy Services Ltd.	1,211	224
Island Roofing Company Ltd.	1,381	328
J & T Welding & Construction Ltd.	1,073	37
Melville Trucking & Excavating Ltd.	2,536	283
Northlinks Construction	11,155	220
P & B Trucking & Rentals Inc.	3,261	323
Piercon Ltd.	3,253	12
Pittman's Enterprises Limited	5,919	584
RSM Mining Services Inc.	1,576	637
Seagull Constuction Ltd.	2,198	196
Sheppard Case Architect Inc.	1,021	0
Superior Office Interiors Ltd.	1,286	519
Members of the Government Reporting Entity and Municipalities paid in excess of \$1 million	30,110	48,433
Payments of \$1 million and less to over 6,450 entities in 2012 (2011 - over 6,121 entities)	112,096	104,965
Accrual adjustments	(146,073)	(186,502)
Total	425,461	414,578

Source: Financial Management System

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 Table 1, payments for professional services totaled \$431.4 million for the year ended March 31, 2012 (\$393.1 million March 31, 2011). Table 8 shows, by department, payments made for professional services for the year ended March 31, 2012 with comparative figures for the year ended March 31, 2011.

Expenditures of the Consolidated Revenue Fund

Table 8

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

Department	2011	2012
Department of Health and Community Services	321,212	326,148
Department of Justice	66,527	70,359
Executive Council	38,416	37,144
Department of Transportation and Works	13,385	13,635
Department of Education	8,640	8,995
Department of Advanced Education and Skills	5,865	3,988
Department of Environment and Conservation	3,099	3,510
Department of Natural Resources	5,750	3,335
Department of Municipal Affairs	3,112	2,498
Department of Fisheries and Aquaculture	1,031	996
Department of Innovation, Business and Rural Development	1,284	982
Department of Tourism, Culture and Recreation	706	722
Department of Finance	410	472
Legislature	363	421
Public Service Commission	236	364
Service NL	615	308
Consolidated Fund Services	220	223
Department of Child, Youth and Family Services	77	155
Accrual adjustments	(77,801)	(42,896)
Total	393,147	431,359

Source: Financial Management System

We also summarized the payments of professional services to show all entities or individuals who received payments in excess of \$500,000 for the year ended March 31, 2012 with comparative figures for the year ended March 31, 2011. These entities or individuals are listed in Table 9.

Expenditures of the Consolidated Revenue Fund

Table 9

**Professional Services
Payments in Excess of \$500,000
Years Ended 31 March
(\$000's)**

Entity	2011	2012
Receiver General of Canada	62,723	66,437
Bell Canada	19,080	18,902
Plato Consulting Inc.	0	7,710
Price Waterhouse Coopers Inc.	11,147	7,089
Amec Americas Limited	938	6,768
Deloitte Inc.	11,391	5,529
Crosbie Engineering Ltd.	261	4,139
Nephrology Partnership	4,200	4,090
Marco Services Ltd.	0	3,500
Pediatric Diagnostic Imaging Services	3,004	3,271
Fleetway Inc.	431	2,269
Hatch Mott Macdonald Ltd.	3,584	2,257
BAE Newplan Group Ltd.	1,119	1,470
Hearn Fougere Architects Inc.	1,876	1,434
Stantec Consulting Ltd.	555	1,409
PHB Group Inc. Architects Inc.	425	1,105
The Idea Factory	1,307	1,037
Design Management Group Ltd.	930	942
Gibbons Snow Architects	1,688	931
Hampton Architects Inc.	599	931
Ron Fougere Associates Ltd.	514	801
CBCL Limited	659	789
Weirfoulds	740	692
Sheppard Case Architects Inc.	587	651
Chesley F. Crosbie Barristers	86	643
Newlab Engineering Ltd.	199	557
Harris & Associates Ltd.	515	543
Bridger Design Associates Limited	670	446
Atlantic Engineering Consultants Ltd.	762	295
A. E. Consultants Limited	931	166
Delcan Corporation	1,293	141

Expenditures of the Consolidated Revenue Fund

Entity	2011	2012
Crawford Adjusters Canada Incorporated	628	134
Cunningham Lindsey Canada Ltd.	583	117
MPH Consulting Limited	2,585	39
Environment Canada	713	20
Amec Earth & Environmental Ltd.	5,824	0
L-1 Secure Credentialing Canada Co.	521	0
Quadratec Inc.	522	0
Aggregate Payments for Physician Service	280,745	283,076
Members of the Government Reporting Entity and Municipalities paid in excess of \$500,000	20,238	16,596
Payments of \$500,000 and less to over 790 entities in 2012 (2011 - over 730 entities)	26,375	27,329
Accrual adjustments	(77,801)	(42,896)
Total	393,147	431,359

Source: Financial Management System

Allowances and Assistance

Allowances and assistance expenditures include costs relating to such items as: allowances for Members of the House of Assembly, social assistance allowances paid to individuals, out of court settlements, and allowances paid on behalf of individuals to organizations. As indicated in Table 1, payments for allowances and assistance totaled \$524.9 million for the year ended March 31, 2012 (\$484.2 million March 31, 2011). Table 10 shows, by department, payments made for allowances and assistance for the year ended March 31, 2012 with comparative figures for the year ended March 31, 2011.

Expenditures of the Consolidated Revenue Fund

Table 10

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

Department	2011	2012
Department of Advanced Education and Skills	318,218	317,635
Department of Health and Community Services	151,063	164,836
Department of Child, Youth and Family Services	3,277	32,678
Department of Education	6,245	6,613
Legislature	1,481	1,584
Department of Justice	1,558	1,333
Department of Municipal Affairs	160	180
Service NL	123	165
Department of Transportation and Works	1,764	114
Executive Council	20	20
Department of Natural Resources	19	18
Department of Finance	127	16
Accrual adjustments	134	(280)
Total	484,189	524,912

Source: Financial Management System

We also summarized the payments of allowances and assistance to show all entities which received payments in excess of \$100,000 for the year ended March 31, 2012 with comparative figures for the year ended March 31, 2011. These entities are listed in Table 11.

Expenditures of the Consolidated Revenue Fund

Table 11

**Allowances and Assistance
Payments in Excess of \$100,000
Years Ended March 31
(\$000's)**

Entity	2011	2012
Bell Aliant	136,419	144,531
Ontario Minister of Finance	1,893	2,666
Medical Services Insurance of Nova Scotia	1,456	1,782
Alberta Minister of Finance	1,700	1,736
The Salvation Army	960	1,062
University Health Network	1,448	1,038
Budden Morris	0	542
Choices for Youth Inc.	374	401
Lewis, Sinnott, Shortall, Hurley, Bruce Barristers, Solicitors, Notaries	0	400
Harvey's Travel Limited	452	397
Campus Notre Dame De Foy	286	313
Mokami Travel Service Limited	298	265
The Newfound Cab Company	190	255
Health Insurance BC	205	250
St. John's Native Friendship Centre	127	216
Maritime Provinces Higher Education Commission	178	208
Leonard Phair	147	177
Aids Committee of Newfoundland and Labrador	89	175
New Brunswick Minister of Finance	298	174
College Saint-Charles Garnier	160	169
Caul's Funeral Home	103	154
South Shore Community Service	143	147
Bonavista Cabs Ltd.	145	143
Academy Canada	277	141
Gateway Enterprises	187	140
Wiseman's Taxi Limited	101	131
Maritime Travel Inc.	1	126
Extended Stay Hotels	154	125
CBS Taxi Limited	102	125

Expenditures of the Consolidated Revenue Fund

Entity	2011	2012
Dorman Roberts Ltd.	122	124
Labrador Friendship Centre	69	121
Jiffy Cabs	143	119
Terkel's Accessibility Services Ltd.	136	119
Rochester Institute of Technology	66	114
Hillview Terrace	72	107
Star Taxi	92	106
Fillatre's Funeral Homes Ltd.	109	89
Ralph O'Brien	101	83
Colemans Food Centre	144	81
Double Decker Taxi	103	65
Provincial Learning Centres	105	62
KMD Educational Services	134	51
Legrow's Travel	144	46
Bay St. George Community Employment	752	26
Humber Valley Community Employment	723	11
Burin-Marystown Community Training	171	10
EBC Inc.	1,573	0
Nati-Nf & Lab Association of Technology	674	0
Avalon Employment Inc.	621	0
Gambo & Area Employment Corporation	504	0
Sedler Community Employment	433	0
Exploits Community Employment Corporation	390	0
Vera Perlin Society	366	0
Poole Althouse	300	0
Green Bay Community Employment	269	0
Genesis Employment Corporation	254	0
Learmonth, Dunne & Boulos	250	0
Lewis Day Law Firm	235	0
Ability Employment Corporation	229	0
Mariner Resource Opportunities	206	0
Easton Hillier Lawrence Preston	200	0
PAB Community Employment Corporation	185	0
David Day, Derek Lewis "in trust"	145	0

Expenditures of the Consolidated Revenue Fund

Entity	2011	2012
Visions Employment Plus Inc.	131	0
Ottenheimer Baker	125	0
Bridges Employment Corporation	103	0
Members of the Government Reporting Entity and Municipalities paid in excess of \$100,000	279,859	318,593
Payments of \$100,000 and less to over 5,320 entities in 2012 (2011 - over 5,220 entities)	45,924	47,276
Accrual adjustments	134	(280)
Total	484,189	524,912

Source: Financial Management 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 Table 1, payments for transportation and communications totalled \$43.7 million for the year ended March 31, 2012 (\$46.9 million March 31, 2011). Table 12 shows, by department, payments made for transportation and communications for the year ended March 31, 2012 with comparative figures for the year ended March 31, 2011.

Table 12

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

Department	2011	2012
Department of Transportation and Works	8,128	6,426
Department of Natural Resources	6,736	5,499
Department of Justice	5,242	5,327
Department of Environment and Conservation	4,983	5,167
Executive Council	4,931	4,519
Department of Advanced Education and Skills	4,040	3,254
Department of Education	3,299	3,198
Service NL	2,765	2,699
Department of Child, Youth and Family Services	271	1,538

Expenditures of the Consolidated Revenue Fund

Department	2011	2012
Department of Innovation, Business and Rural Development	1,563	1,368
Department of Tourism, Culture and Recreation	1,444	1,239
Department of Health and Community Services	1,076	1,238
Department of Municipal Affairs	1,310	1,110
Department of Fisheries and Aquaculture	1,038	1,108
Legislature	493	1,083
Department of Finance	848	861
Public Service Commission	114	149
Accrual adjustments	(1,364)	(2,093)
Total	46,917	43,690

Source: Financial Management System

We also summarized the payments for transportation and communications to show all entities which received payments in excess of \$100,000 for the year ended March 31, 2012 with comparative figures for the year ended March 31, 2011. These entities are listed in Table 13.

Table 13

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

Entity	2011	2012
Bell Aliant	7,372	7,386
Universal Helicopters Newfoundland Ltd.	4,970	4,445
Canada Post	2,721	2,734
Bell Mobility	1,853	1,880
Postage By Phone	1,350	1,450
Canadian Helicopters Ltd.	505	773
Bragg Communications Incorporated	0	621
Deloitte and Touche Inc.	1,184	467
Newfoundland Helicopters Ltd.	702	466
Harvey's Travel Ltd.	486	435
Maritime Travel Inc.	7	343
Bell Island Radio Equipment Lease	397	293

Expenditures of the Consolidated Revenue Fund

Entity	2011	2012
Provincial Airlines Ltd.	192	253
Day & Ross Inc.	52	236
Household Movers & Shippers Ltd.	72	181
Air Labrador	154	179
Legrow's Travel	425	167
Milennium Express	30	156
Clarenville Aviation Limited	66	142
Mokami Travel Services Limited	80	133
Supermarine Aircraft Inc.	915	125
Purolator Inc.	0	109
Innu Mikun Airlines	56	101
Canadian Aerospace Corporation	169	59
Roger's Business Solutions	174	54
Cougar Helicopters Ltd.	133	0
Labrador Marine Inc.	928	0
Sameday Worldwide	136	0
Eastlink	612	0
Members of the Government Reporting Entity and Municipalities paid in excess of \$100,000	887	623
Payments of \$100,000 and less to over 8,790 entities in 2012 (2011 - over 8,430 entities)	21,653	21,972
Accrual adjustments	(1,364)	(2,093)
Total	46,917	43,690

Source: Financial Management 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 the year ended on that date.

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 March 31, 2012, are 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. The Consolidated Summary Financial Statements are prepared on the accrual basis of accounting in accordance with the accounting standards (*i.e.*; Canadian Public Sector Accounting Standards) established for governments by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (PSAB), and as outlined in the significant accounting policies of the Province.

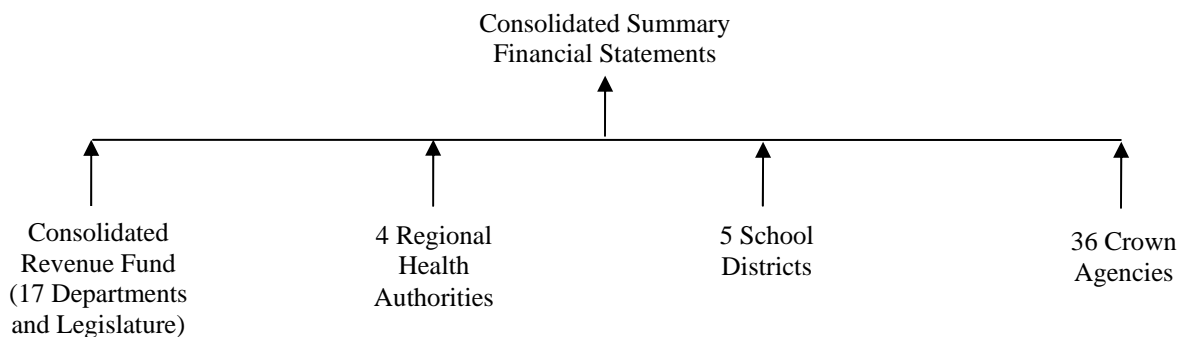
Answers to Frequently Asked Questions about the Public Accounts

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 17 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:

Chart 1

Entities included in the Consolidated Summary Financial Statements March 31, 2012



As Chart 1 shows, the Consolidated Summary Financial Statements include the financial activities of the Consolidated Revenue Fund as well as 45 other entities (4 regional health authorities, 5 school districts and 36 Crown agencies).

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 17 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.

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

Consolidated 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 discharge existing liabilities or finance future operations. Liabilities include borrowings as well as liabilities relating to employee future 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.

Consolidated 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.

Consolidated 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.

Answers to Frequently Asked Questions about the Public Accounts

Consolidated Statement of Change in Accumulated Deficit

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

Consolidated 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 PSAB, 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 recommendations relating to financial reporting by governments are generally accepted within Canada, section 59 of the *Financial Administration Act (FAA)* 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 employee future 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 financial statements required by the *FAA* to be included in the Public Accounts. Section 11 of the *Auditor General Act* requires that the Auditor General express an opinion as to whether the financial statements 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.

The House of Assembly uses the services of the Auditor General to assist it in carrying out its oversight responsibilities by providing assurance to the Members of the House of Assembly that the information provided in the Public Accounts is appropriate, credible, complete, and accurately reflects the results of the activities of Government.

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. Materiality means how significant financial statement omissions or misstatements, either individually or in the aggregate, would need to be in order for such omissions or misstatements to be expected to influence or change the decisions of reasonably knowledgeable users relying on those financial statements. The tolerable level of error or misstatement is a matter of judgment.

It is not possible to provide absolute assurance in a financial statement audit because it is not practical to examine 100% of transactions (due to volume), internal control systems have inherent limitations (due to control override potential), and much audit evidence is persuasive rather than conclusive.

Answers to Frequently Asked Questions about the Public Accounts

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 regarding 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.

**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, regardless of when cash is received or paid.
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 includes the financial operations of 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 and cost-shared programs.
Financial assets	Assets of a government (such as cash, investments, loans and accounts receivable) that could be used to discharge existing liabilities or finance future operations.
Generally accepted auditing standards (GAAS)	This refers to the auditing standards that auditors, including the Office of the Auditor General, follow 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.

Glossary

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 unless otherwise indicated.</i>
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 Canadian Institute of Chartered Accountants. 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.