



**PROVINCE OF
NEWFOUNDLAND
AND LABRADOR**

**HIGHLIGHTS
AND
ANALYSIS**

**Consolidated Summary
Financial Statements**

**Public Accounts
31 March 2003**

Table of Contents

Purpose	1
Background	1
The Public Accounts Volumes	1
Financial Summary	3
Cash Result Compared to Accrual Result	3
Financial Position - 31 March 2003	4
Other Information	4
Sustainability	5
<i>Net Debt as a % of GDP</i>	5
<i>Annual Deficit as a % of GDP</i>	6
Flexibility	7
<i>Province's Interest Cost as a % of Revenues</i>	7
<i>Provincial Revenues as a % of GDP</i>	8
Vulnerability	9
<i>Foreign Currency Debt as a % of Net Borrowings</i>	9
<i>Federal Transfers as a % of Provincial Revenues</i>	10
Other Selected Financial Information	11
<i>Revenues by Source - 31 March 2003</i>	11
<i>Expenditures by Category - 31 March 2003</i>	12
<i>Expenditures by Sector - 31 March 2003</i>	13
<i>Net Debt per Capita</i>	14
<i>Net Borrowings per Capita</i>	15
Glossary of Terms	16

Purpose:

- These highlights are based on the audited Public Accounts for the year ended 31 March 2003. The purpose of this document is to provide users with accurate, relevant and understandable information on the financial position of the Province and the results of its operations.

Background:

- Key indicators included in this document are based on Volume I as this volume contains the financial information for the entire government reporting entity and thus provides a complete picture of the Province's financial condition at 31 March 2003.
- Primarily, the common key indicators included herein, were identified in a research report issued by the Canadian Institute of Chartered Accountants entitled *Indicators of Government Financial Condition*. These indicators which are used in assessing a government's financial health in the context of the overall economic and financial environment can be summarized under the headings of *sustainability, flexibility, and vulnerability*.

The Public Accounts Volumes:

Volume I: Consolidated Summary Financial Statements

- These are the combined audited financial statements of the Consolidated Revenue Fund (all departments) and government organizations (including Health and School Boards) which are accountable to Government.

- They present the consolidated financial position of the Province on an accrual basis, in accordance with the accounting standards established for governments by the Canadian Institute of Chartered Accountants.

Volume II: Consolidated Revenue Fund (CRF) Financial Statements

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

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

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

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

- They comprise reproductions of the audited financial statements of each government organization (Crown corporations, boards and authorities).
- The Auditor General issued an unqualified audit opinion on the financial statements for 2002-2003.
- The Public Accounts (excluding Volume IV) can be found on the Government's website at: www.gov.nl.ca/ComptrollerGeneral/Publications.htm
- Copies of all volumes of the Public Accounts can be obtained at the Queen's Printer, Confederation Building.

Financial Summary:

- Volume I: Consolidated Summary (accrual) Deficit - \$690.8 million for the year ended 31 March 2003, Net Debt - \$9.61 billion as at 31 March 2003.
- Volume II: CRF (accrual) Deficit - \$508.1 million for the year ended 31 March 2003, Net Debt - \$9.54 billion as at 31 March 2003.
- Volume III: CRF (cash) Deficit - \$36.2 million for the year ended 31 March 2003; comprised of a Current Account cash surplus of \$88.6 million offset by a Capital Account cash deficit of \$124.8 million.

Cash Result Compared to Accrual Result:

- The difference in the cash deficit as compared to the consolidated accrual deficit was (\$36.2 - \$690.8) \$654.6 million. This change consists of year end accrual adjustments for the CRF and accounting policy adjustments to the annual results of government organizations. For example:
 - \$270.2 million adjustment for interest on the unfunded pension liability;
 - \$42.5 million for other adjustments to the unfunded pension liability;
 - \$182.7 million in net adjustments for accrual deficits of government organizations that include expenditures for capital assets, accrued employee benefits, etc.;
 - \$72.7 million adjustment to Equalization/CHST revenue;

- \$44.0 million adjustment for amortization of foreign exchange gains/losses on debenture debt; and,
- \$42.5 million in net adjustments for other miscellaneous accruals of the CRF.

Financial Position - 31 March 2003:

- Net Debt of \$9.61 billion is comprised of:

	<u>(\$ billion)</u>
Unfunded Pension Liability	3.56
Borrowings (net of sinking funds)	6.46
Other Liabilities	1.19
Less: Total Assets*	<u>(1.60)</u>
Net Debt	<u>9.61</u>

- *Tangible Capital Assets of \$2.46 billion are not included.

Other information:

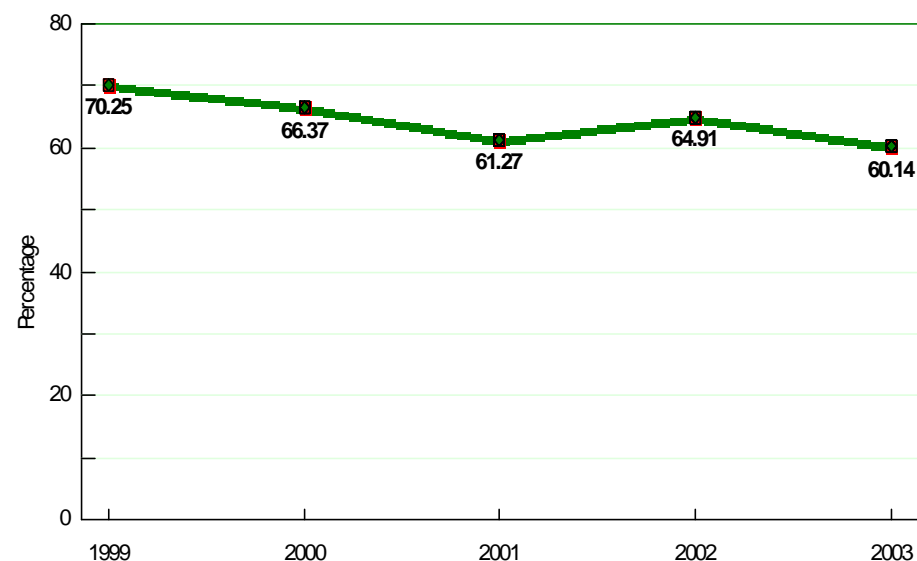
- In addition to its normal required contribution, Government made \$148.5 million in special payments to the pension fund to reduce its unfunded liability.
- This Province accounts for capital acquisitions in the year the payments are made which is the generally accepted practice of most Provinces. In response to evolving accounting standards, the Province plans to adopt a policy of amortizing capital acquisitions over their useful lives commencing in 2003-04.
- Gross Domestic Product (GDP) and Population figures were obtained from Newfoundland and Labrador Statistics Agency. Figures used were the latest non-forecasted information available as of 31 March 2003.

Sustainability:

- Refers to the degree to which a government can meet its existing program commitments and creditor requirements without increasing its accumulated deficit.
- Indicators of Sustainability:

a) Net Debt (liabilities less assets) as a % of GDP

- Measures the level of debt that the Province carries as a percentage of its GDP.

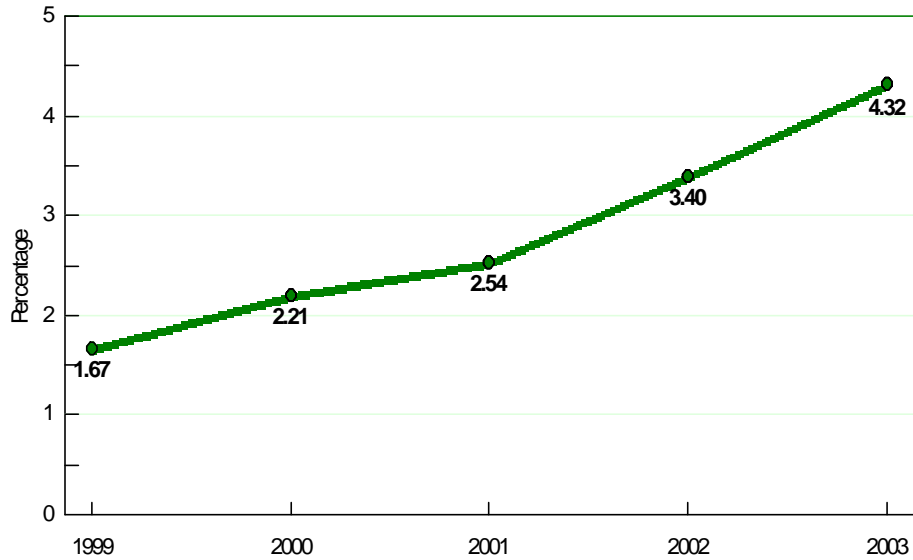


5 year average - 64.59%

- Net debt as a % of GDP has decreased over the last five years.

b) Annual Deficit as a % of GDP

- Measures the difference between revenues and expenditures expressed as a percentage of GDP.



5 year average - 2.83%

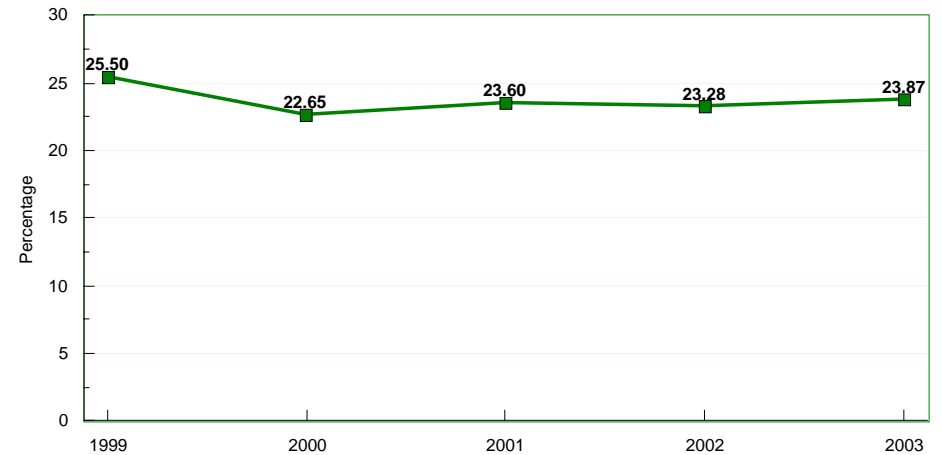
- Annual deficit as a % of GDP has increased over the last five years.

Flexibility:

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

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

- Measures the extent which past borrowings may have on the Province's ability to provide for the economic and social needs of its citizens.

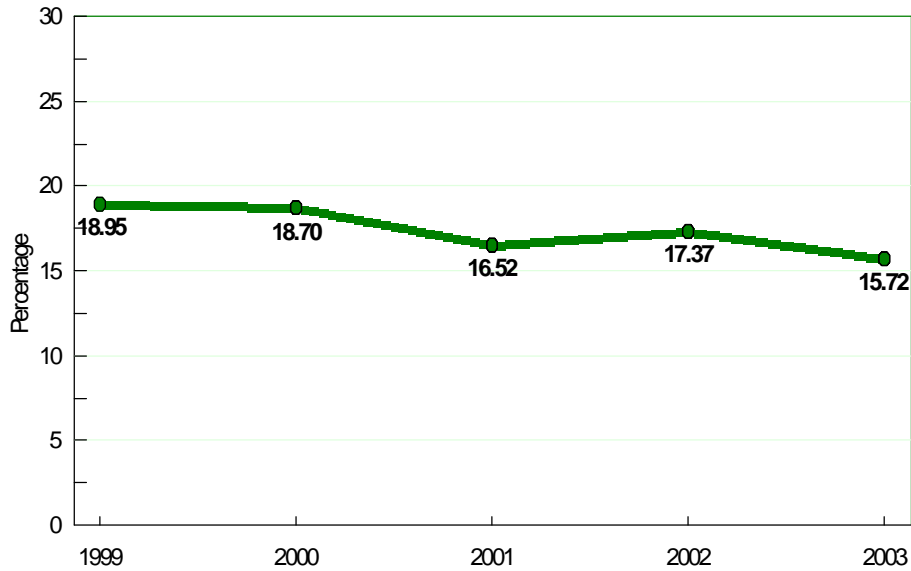


5 year average - 23.78%

- The Province's interest cost as a % of revenues has decreased over the last five years.

b) **Provincial Revenues as a % of GDP**

- Measures the extent to which a government is taking income out of the economy of its own jurisdiction.



5 year average - 17.45%

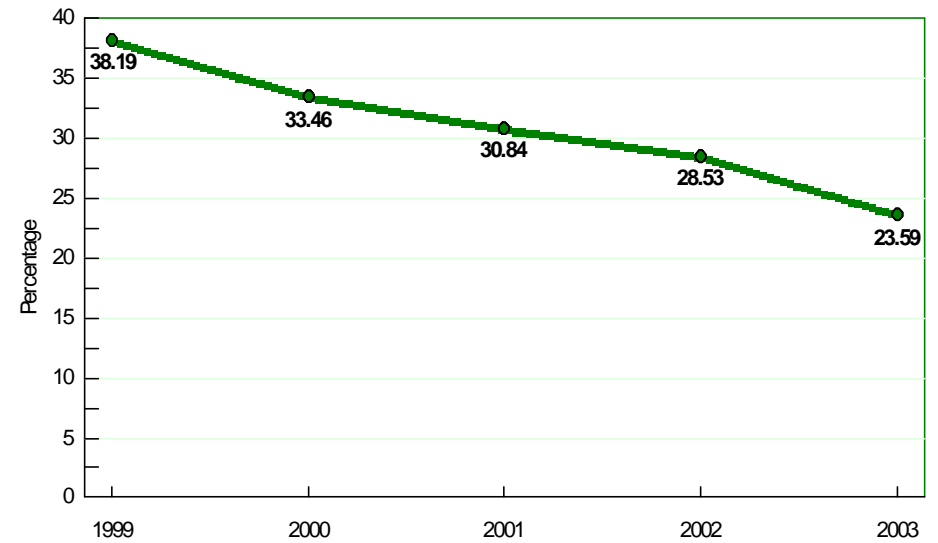
- Provincial revenues as a % of GDP has decreased over the last five years.

Vulnerability:

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

a) **Foreign Currency Debt as a % of Net Borrowings**

- Measures the amount of the Province's foreign currency debt relative to the Province's net borrowings.
- Reflects the degree of vulnerability to foreign currency swings.

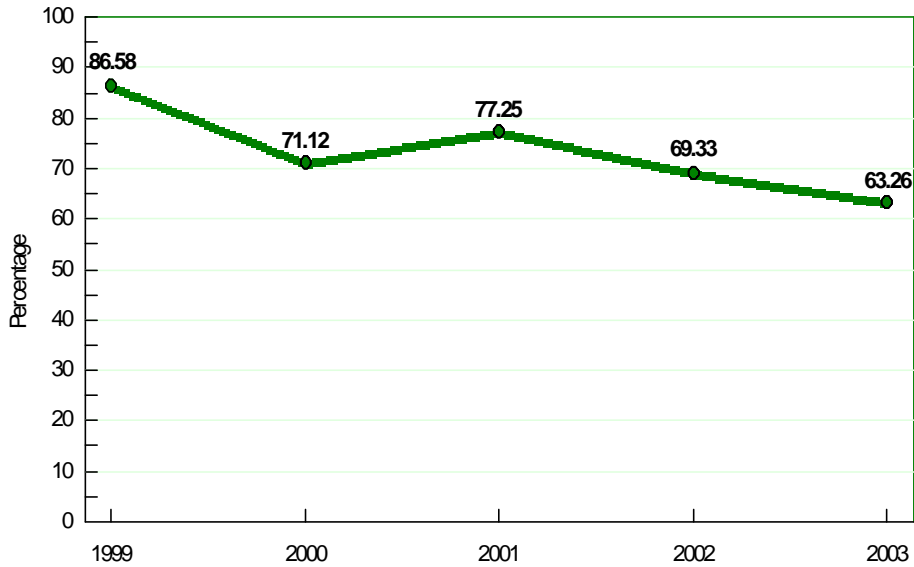


5 year average - 30.92%

- Foreign currency debt as a % of net borrowings has decreased over the last five years.

b) Federal Transfers as a % of Provincial Revenues

- Measures the extent to which the Province raises its own revenue as compared to the extent it receives funds from the federal government.

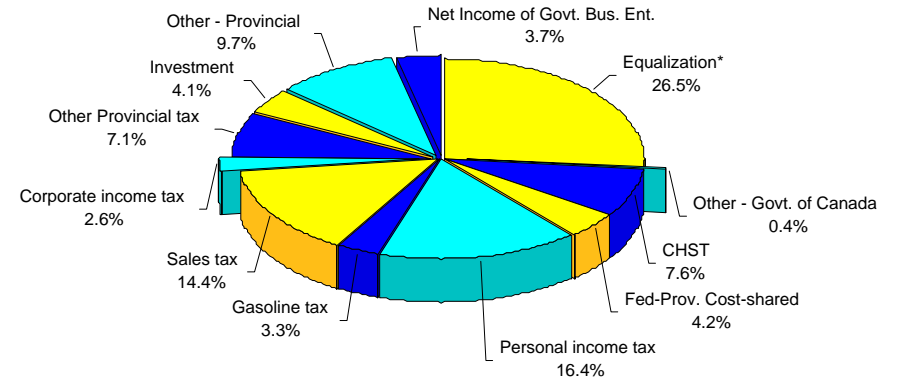


5 year average - 73.51%

- Federal transfers as a % of provincial revenues has decreased over the last five years.

Other Selected Financial Information:

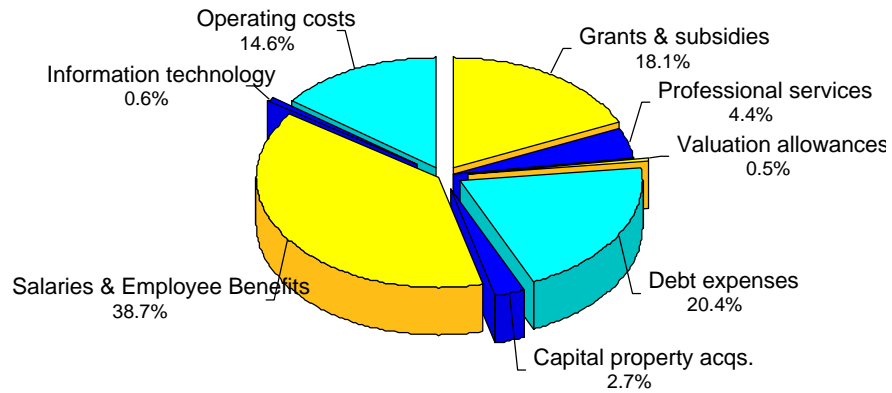
Revenues by Source - 31 March 2003



Federal - 38.7%; Provincial - 61.3%

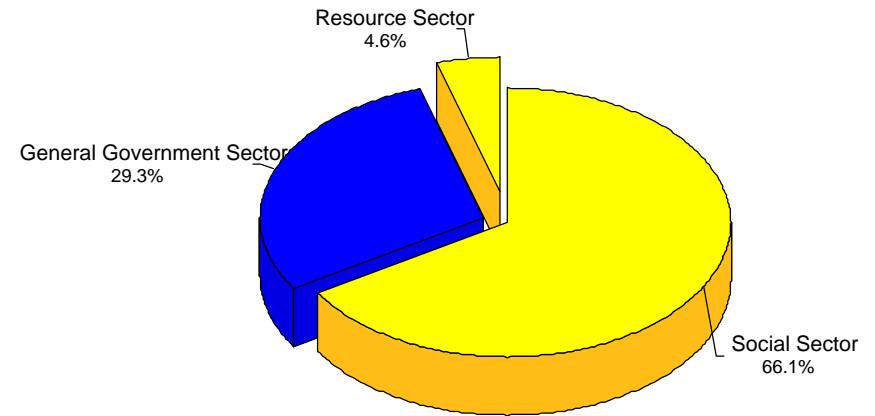
	(\$ 000)
Provincial:	
Personal Income Tax	671,419
Sales Tax	589,998
Gasoline Tax	135,926
Corporate Income Tax	108,645
Other Provincial Tax	290,230
Investment	167,415
Other - Provincial	398,551
Net Income of Govt. Bus. Ent	150,374
Total: Provincial	<u>2,512,558</u>
Federal:	
Equalization	1,085,963
CHST	312,868
Cost-shared	173,813
Other - Gov.	16,767
Total: Federal	<u>1,589,411</u>
TOTAL	<u>4,101,969</u>

Expenditures by Category - 31 March 2003



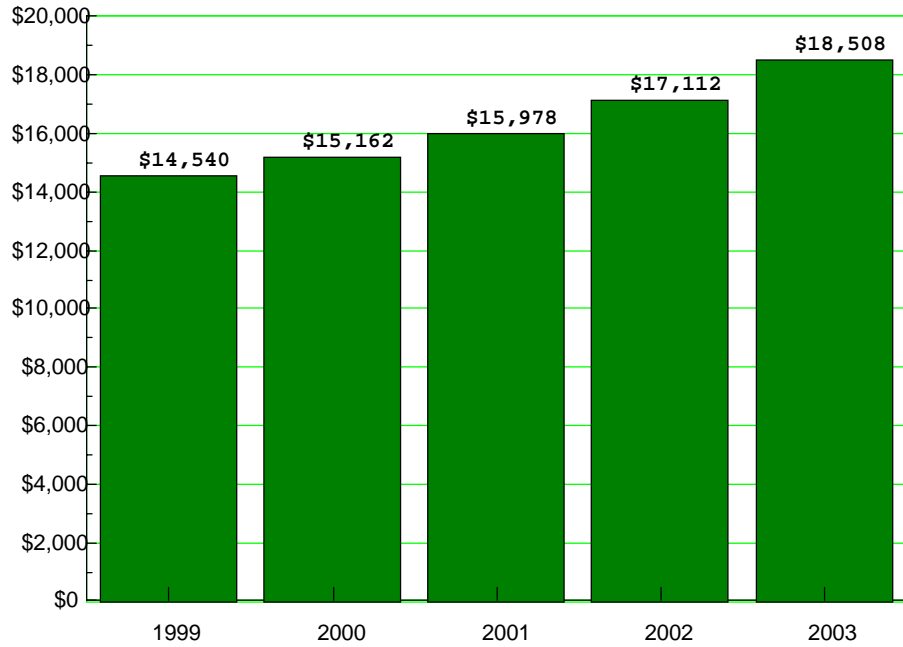
Expenditure:	<u>(\$ 000)</u>
Salaries and Benefits	1,852,486
Debt Expenses	978,996
Grants and Subsidies	869,500
Operating Costs	699,628
Professional Services	208,964
Capital Property Acquisitions	130,783
Information Technology	30,646
Valuation Allowances	<u>21,792</u>
TOTAL	<u>4,792,795</u>

Expenditures by Sector - 31 March 2003



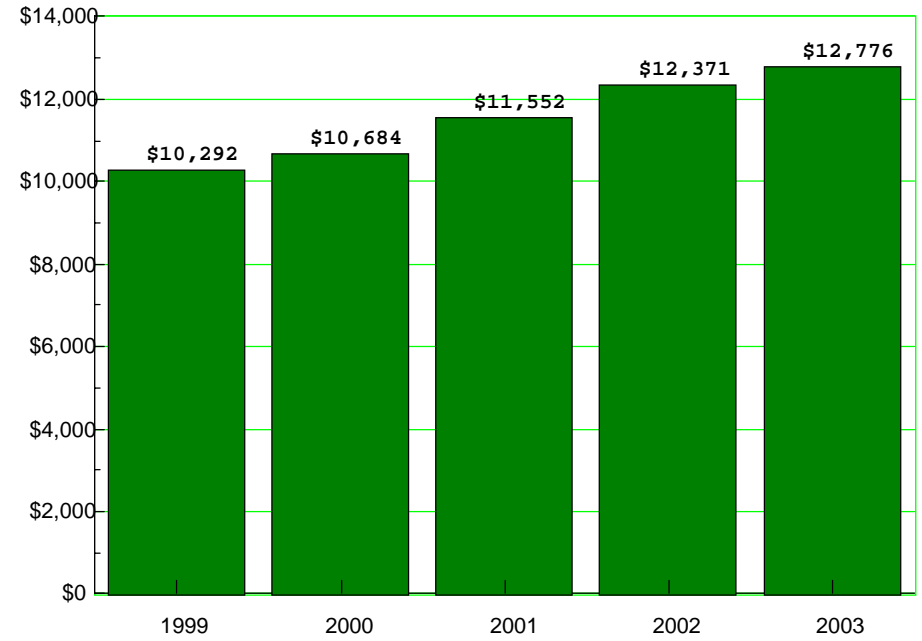
Expenditure:	<u>(\$ 000)</u>
Social Sector	3,170,295
General Government Sector	1,403,791
Resource Sector	<u>218,709</u>
TOTAL	<u>4,792,795</u>

Net Debt per Capita



- Net debt per capita has increased over the past five years.

Net Borrowings per Capita



- Net borrowings per capita has increased over the past five years.

GLOSSARY OF TERMS:

Accrual basis: A method of accounting whereby revenues are recorded when earned/due and expenditures are recorded when liabilities are incurred.

Cash basis: A method of accounting whereby revenues are recorded when received and expenditures are recorded when paid.

Deficit: The excess of annual expenditures over annual revenues. See the Consolidated Statement of Revenue and Expenditure, Volume I.

GDP: Gross domestic product, at market prices, of the Province.

Interest on the Unfunded Pension Liability: Interest calculated on the Unfunded Pension Liability per actuarial review. Represents an accrued cost. See Note 5 to the Consolidated Summary Financial Statements, Volume I.

Net Borrowings: The total borrowings (debentures, Treasury Bills, etc.) less sinking funds. See Schedule 6, Volume I.

Net Debt: The excess of liabilities over assets or, in other words, the accumulated annual surpluses/deficits to date. See the Consolidated Statement of Finance Position, Volume I.

Province's Interest Cost:

The cost of servicing the public debt includes pension interest expense and other debt related expenses.

Unfunded Pension Liability:

The total pension obligation less pension assets as determined by an actuary, as well as unamortized actuarial experience losses. See the Consolidated Statement of Financial Position, Volume I.