



# **Province of Newfoundland and Labrador**

## **Public Accounts**

### **Volume I**

#### **Consolidated Summary Financial Statements**

**For The Year Ended  
31 March 2004**

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## INTRODUCTION

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

The consolidated summary financial statements combine the financial statements of the Consolidated Revenue Fund with the financial statements of various Crown Corporations, Boards and Authorities, as approved by Treasury Board, which are controlled by the Government of Newfoundland and Labrador. These organizations are accountable for the administration of their financial affairs and resources either to a Minister of the Government or directly to the Legislature.

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

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

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

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

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

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

### Internet Address

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

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# UNDERSTANDING THE FINANCIAL HEALTH OF THE PROVINCE OF NEWFOUNDLAND AND LABRADOR

## FINANCIAL STATEMENT DISCUSSION AND ANALYSIS REPORT

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

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

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

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

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

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

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

15 October 2004

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## **The Public Accounts Volumes**

The Public Accounts consists of four volumes. These include:

*Volume I: Consolidated Summary Financial Statements*

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

*Volume II: Consolidated Revenue Fund (CRF) Financial Statements*

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

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

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

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

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

## **Changes to the Financial Statements**

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

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

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

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

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

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

### **Glossary of Terms**

To assist in understanding the discussion and analysis to follow in this report, definitions of the various terms used are provided below:

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

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

## **Financial Summary**

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

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

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

## **Cash Result Compared to Consolidated Accrual Result**

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

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

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

### **Consolidated Accrual Result Compared to Original Budget (Accrual)**

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

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

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

### **Financial Position - 31 March 2004**

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

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

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

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

### **Key Indicators**

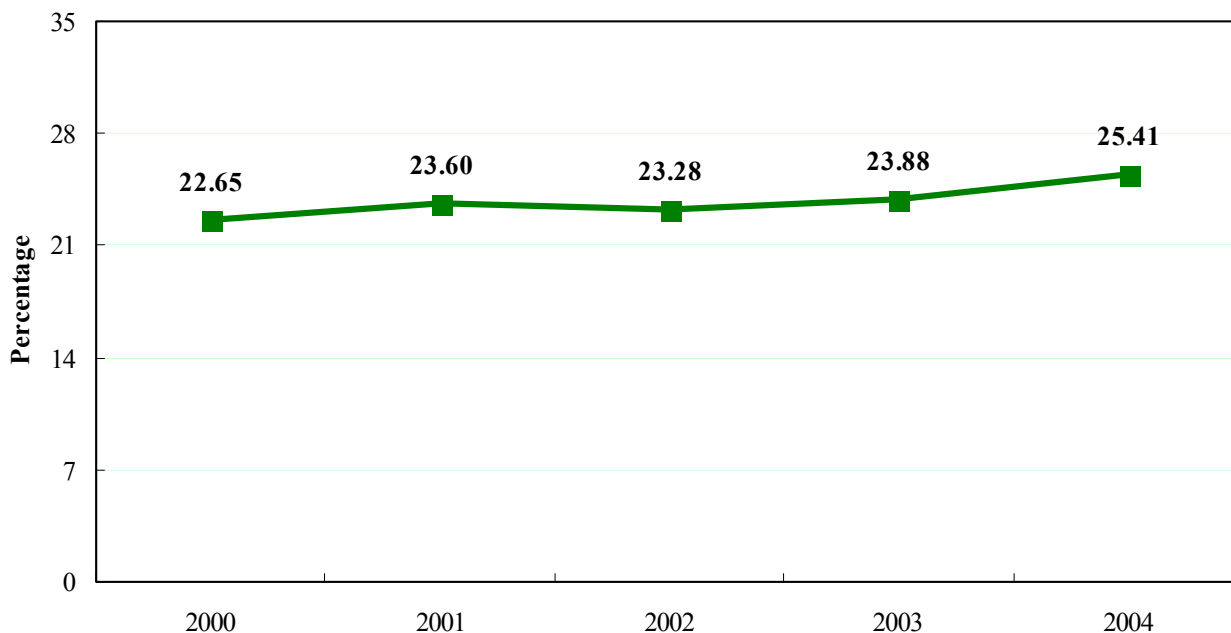
- Key indicators included in this document are applied to Volume I, as this volume contains the financial information for the entire government reporting entity and thus provides a complete picture of the Province's financial condition at 31 March 2004.
- Primarily the common key indicators included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

## Flexibility:

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

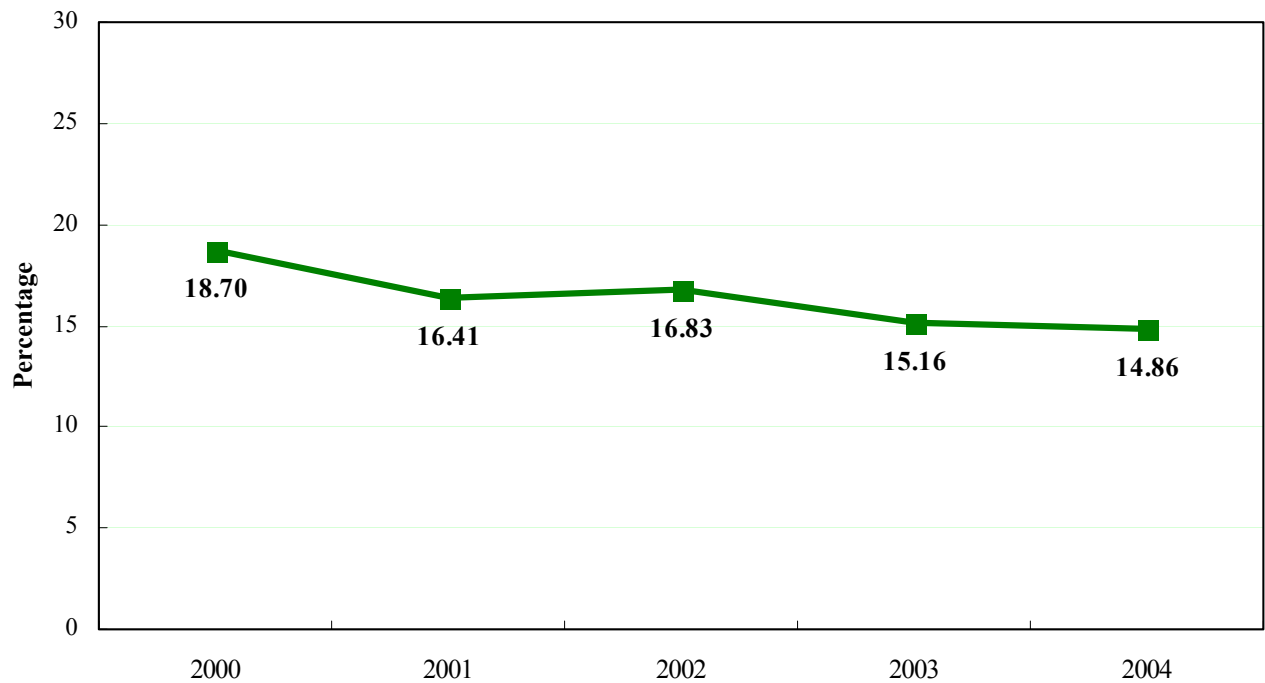
### a) Province's Interest Cost as a Percentage of Revenues

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



### b) Provincial Revenues as a Percentage of GDP

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

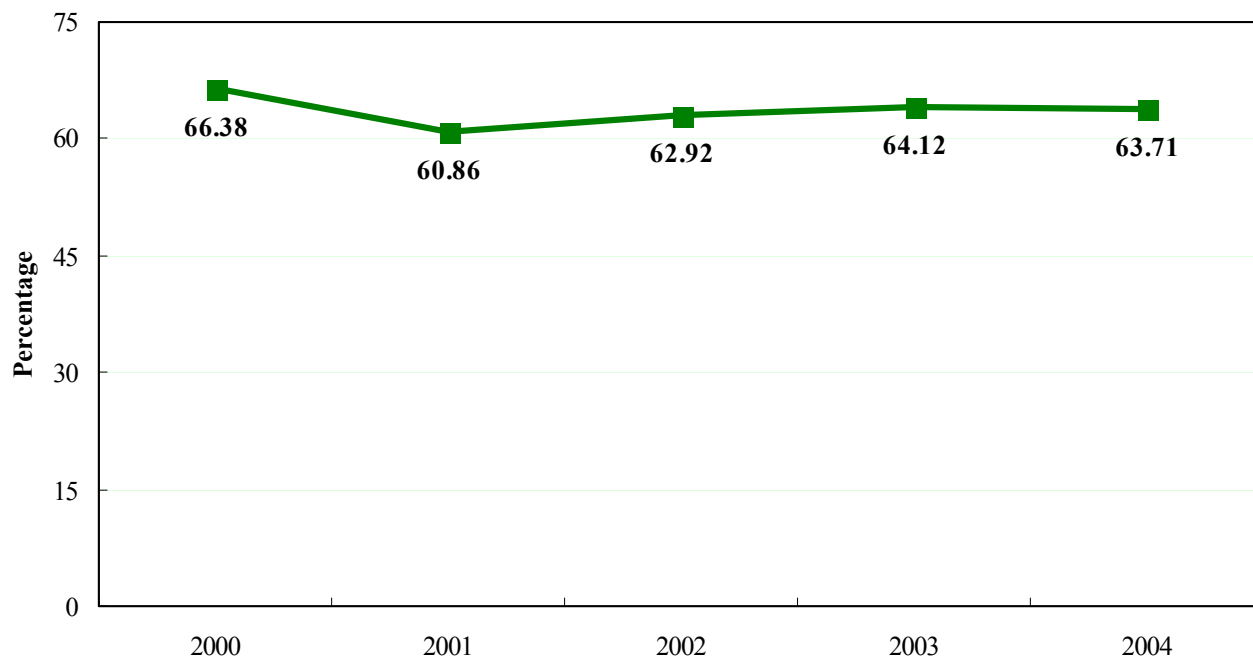


### **Sustainability:**

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

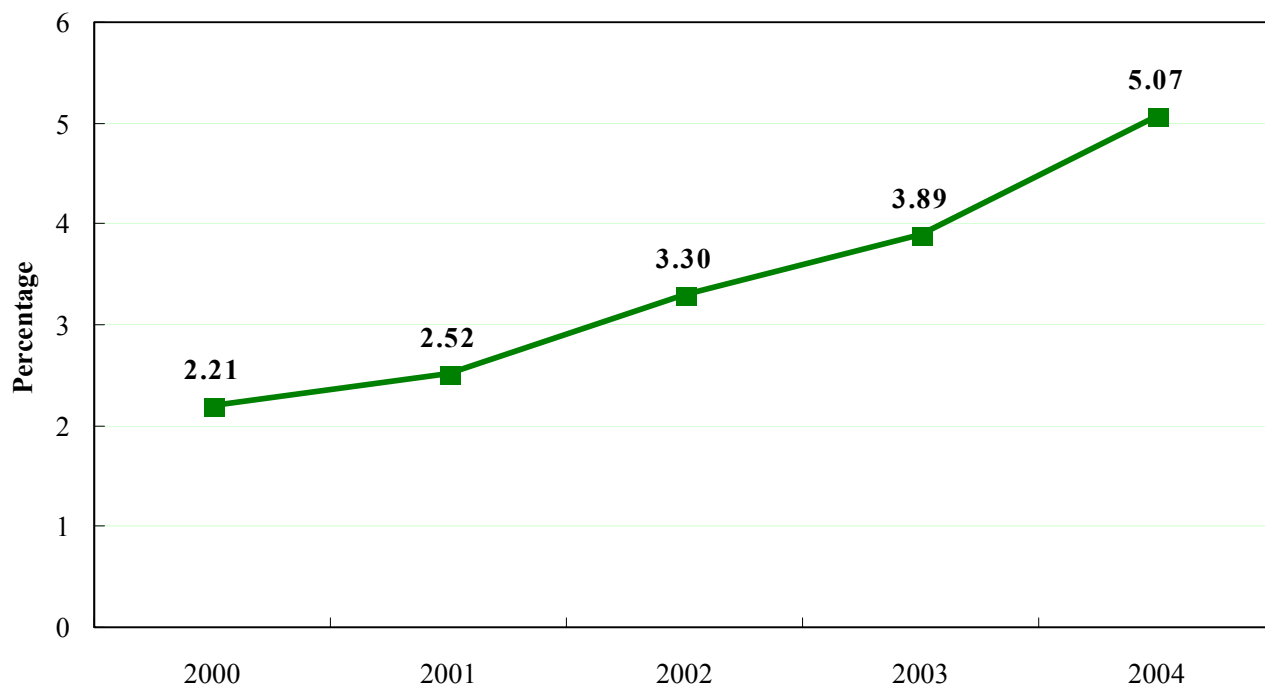
#### **a) Net Debt (liabilities less financial assets) as a Percentage of GDP**

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



**b) Annual Deficit as a Percentage of GDP**

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



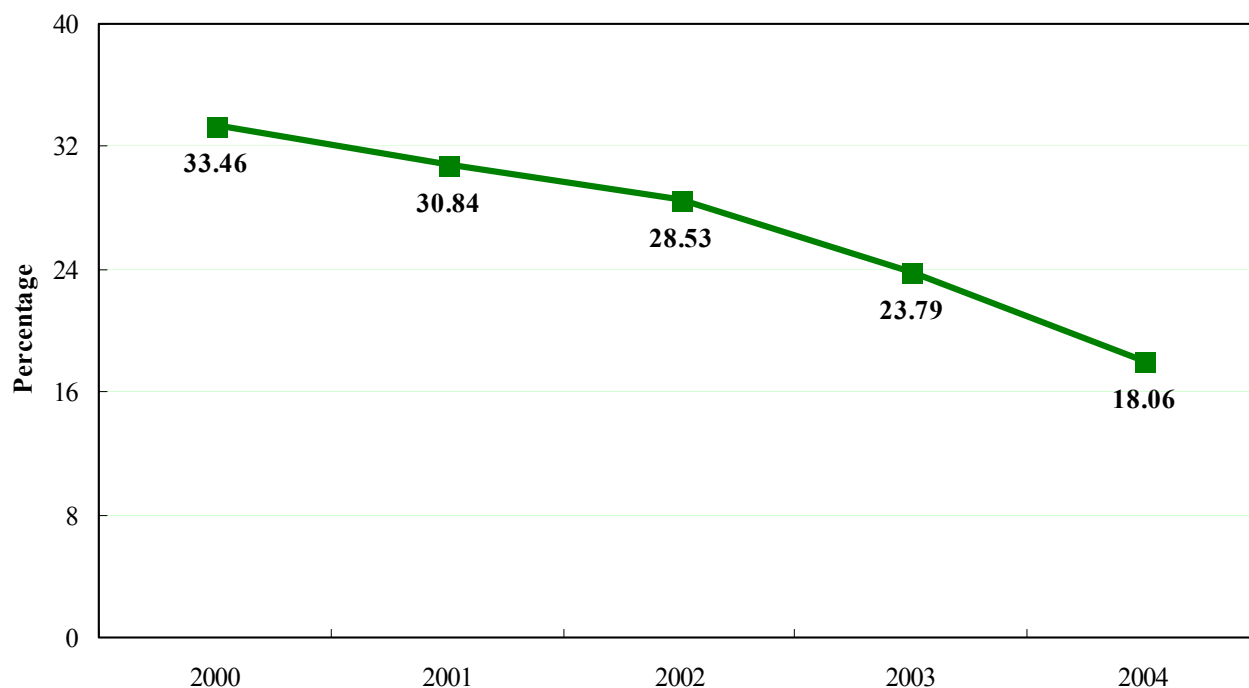


## Vulnerability:

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

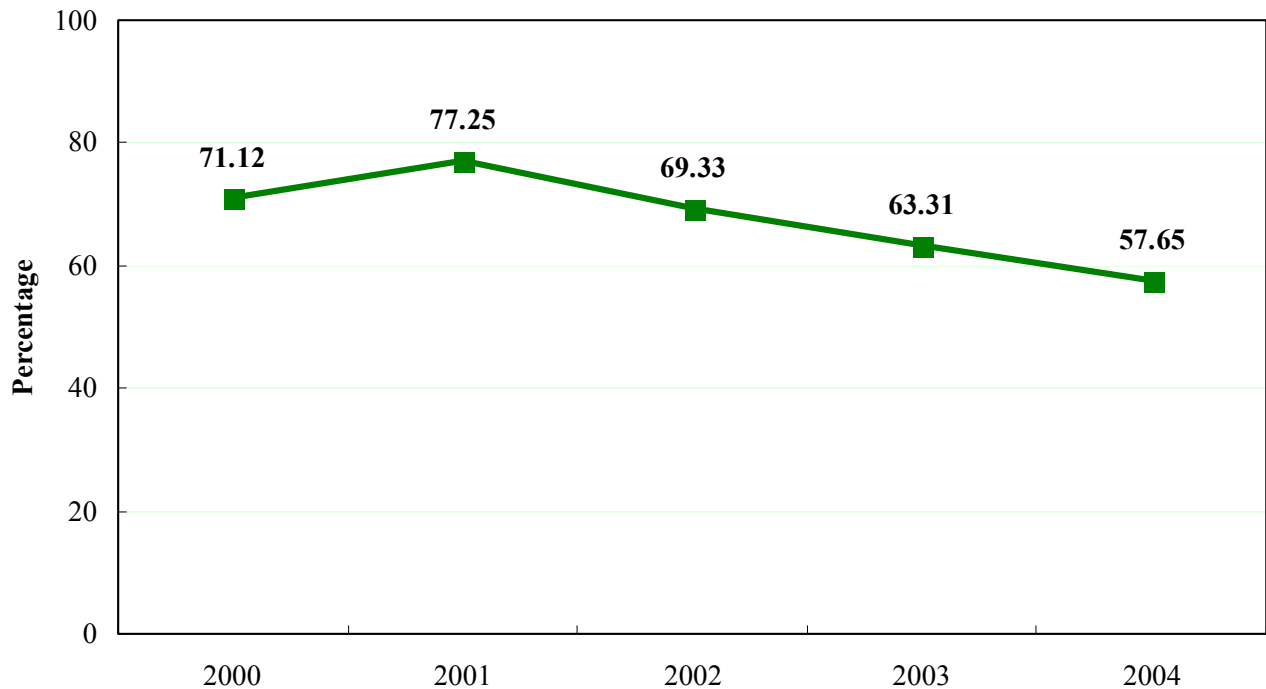
### a) Foreign Currency Debt as a Percentage of Net Borrowings

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



### b) Federal Transfers as a Percentage of Provincial Revenues

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

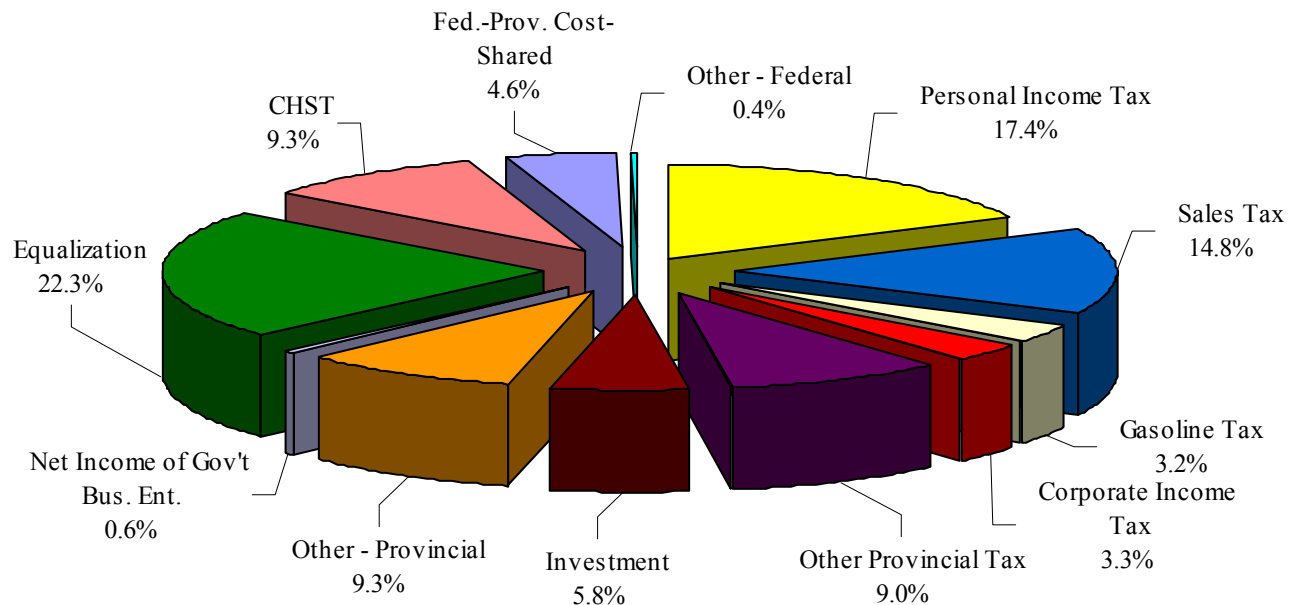


## Financial Highlights

### Revenues:

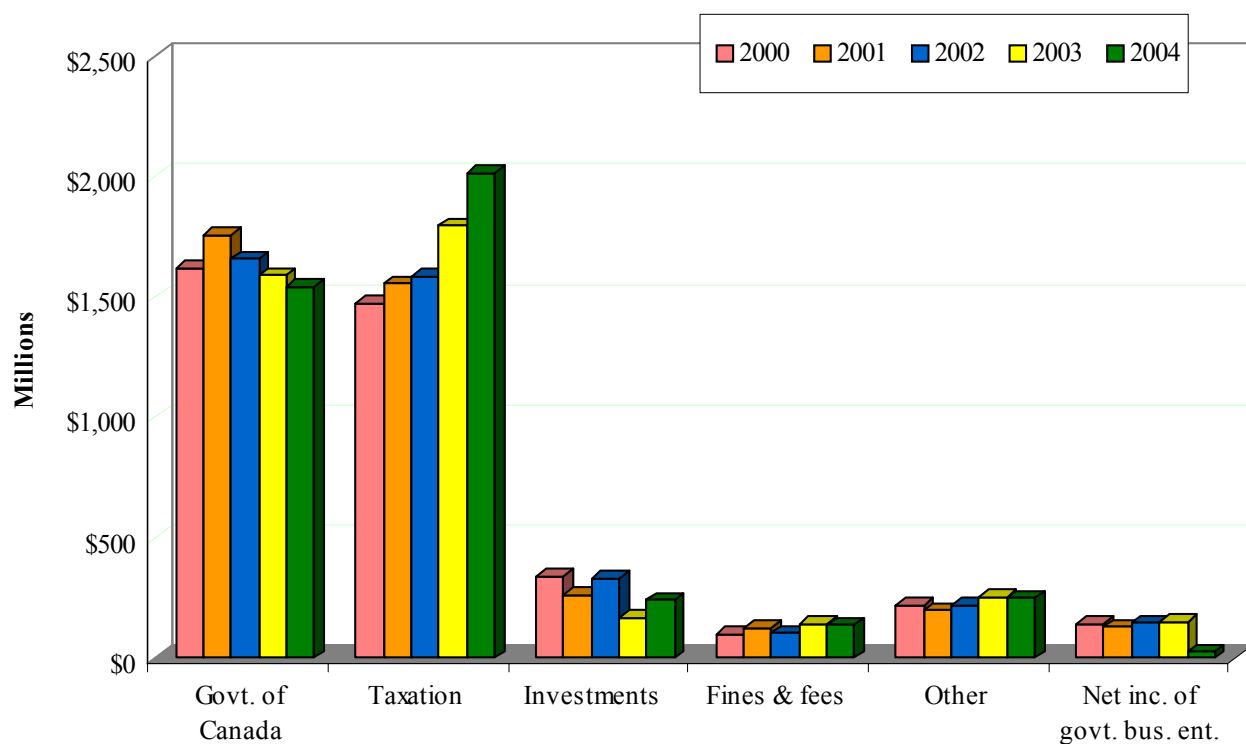
For the fiscal year ended 31 March 2004, total revenue amounted to \$4.22 billion. Of this amount, 36.6% came from Federal Government sources, while 63.4% was the result of provincial revenue sources. Details on these sources of revenue, including five-year historical comparisons, are provided below.

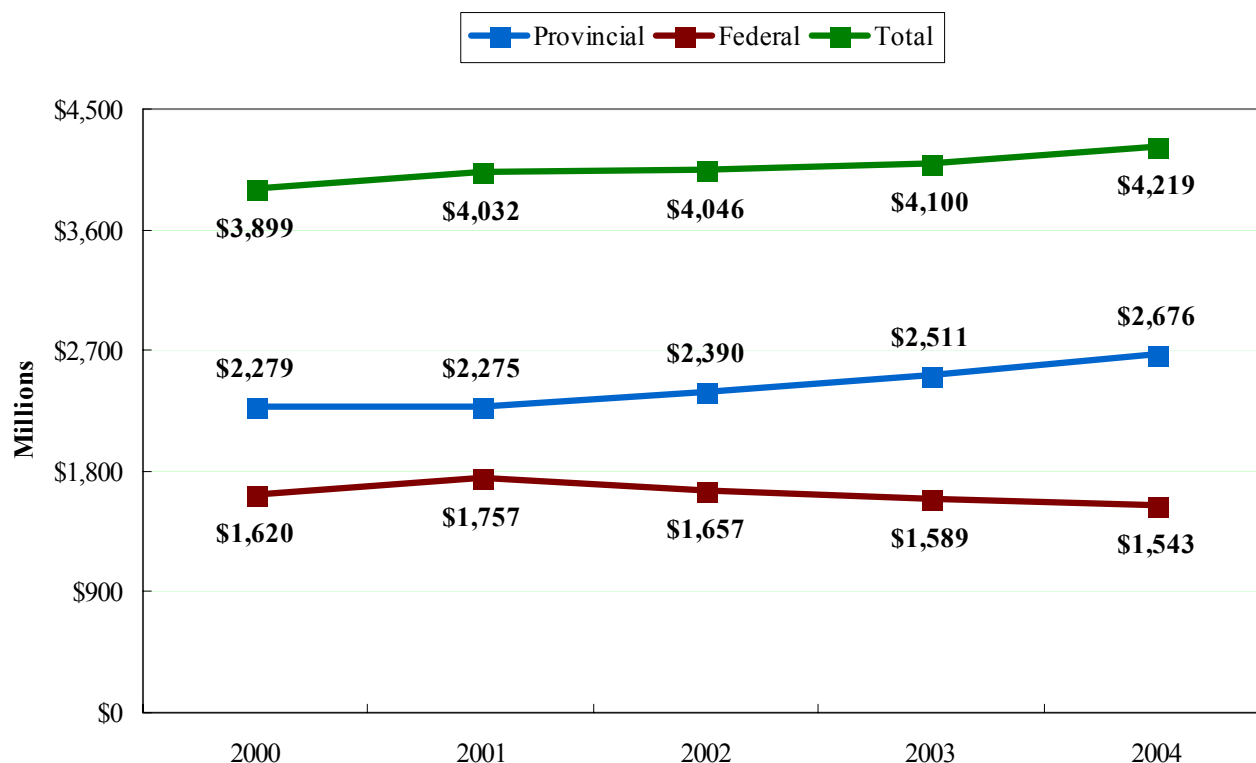
#### a) Revenues by Source - 31 March 2004



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

**b) Revenues by Source - 5 Year Comparison**



c) Revenues - 5 Year Comparison

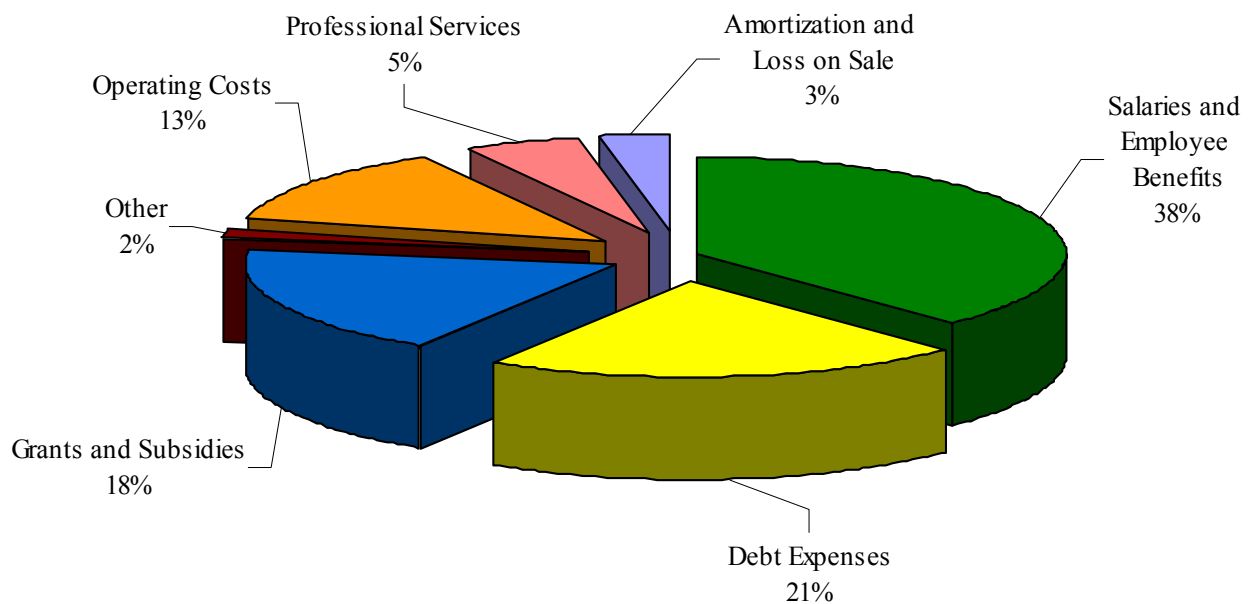
From an analysis of the above table and charts, the following observations can be made:

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

**Expenses:**

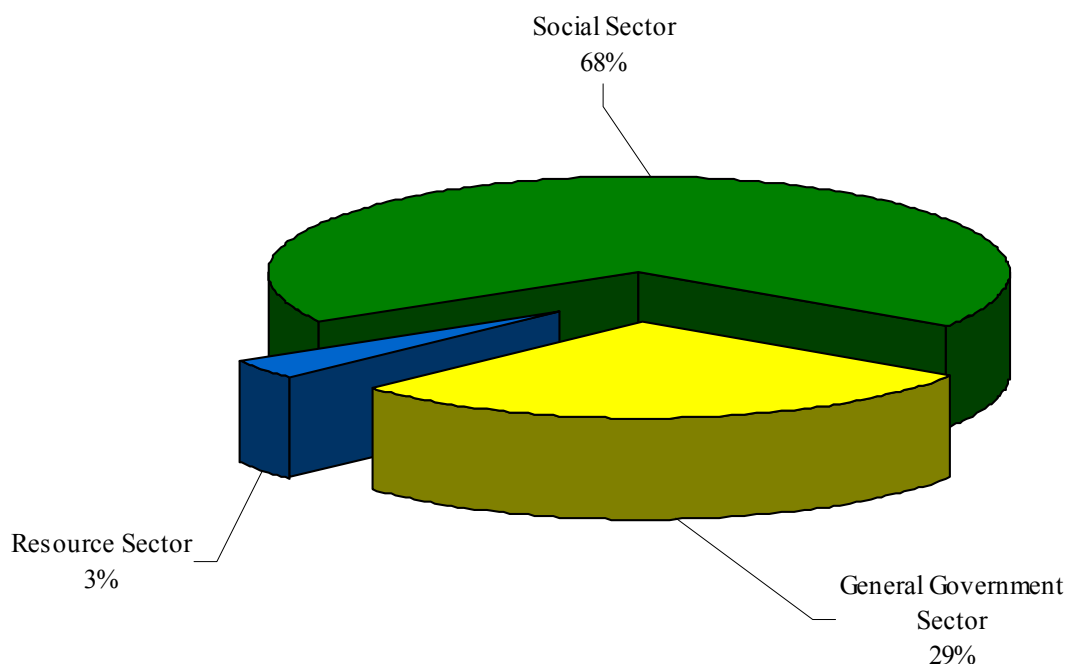
For the fiscal year ended 31 March 2004, total expenses amounted to \$5.13 billion. Provided below are details on the nature of these expenses, the allocation of the expenses to each sector of Government and a five-year historical comparison. The illustrations in (a) and (b) have been presented on an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

**a) Expenses by Category - 31 March 2004**



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

**b) Expenses by Sector - 31 March 2004**

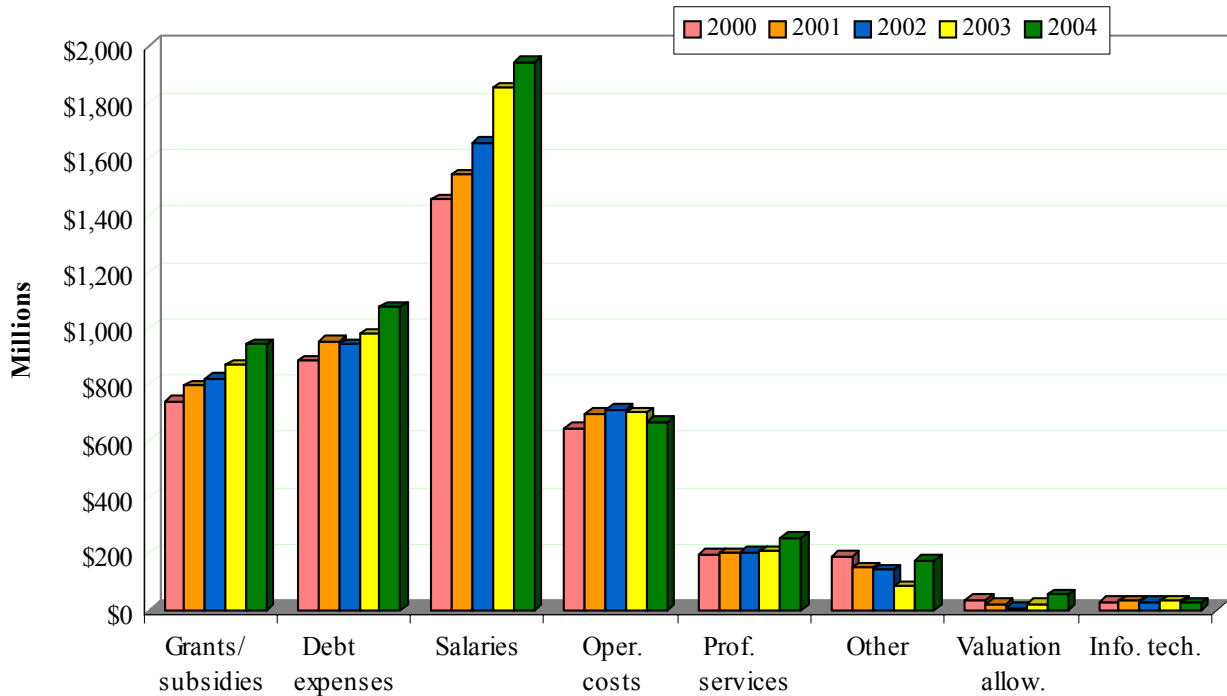


<i>Sector:</i>	<u>(\$000)</u>
Social	3,476,248
General Government	1,473,309
Resource	182,982
<b>TOTAL</b>	<b><u><u>5,132,539</u></u></b>

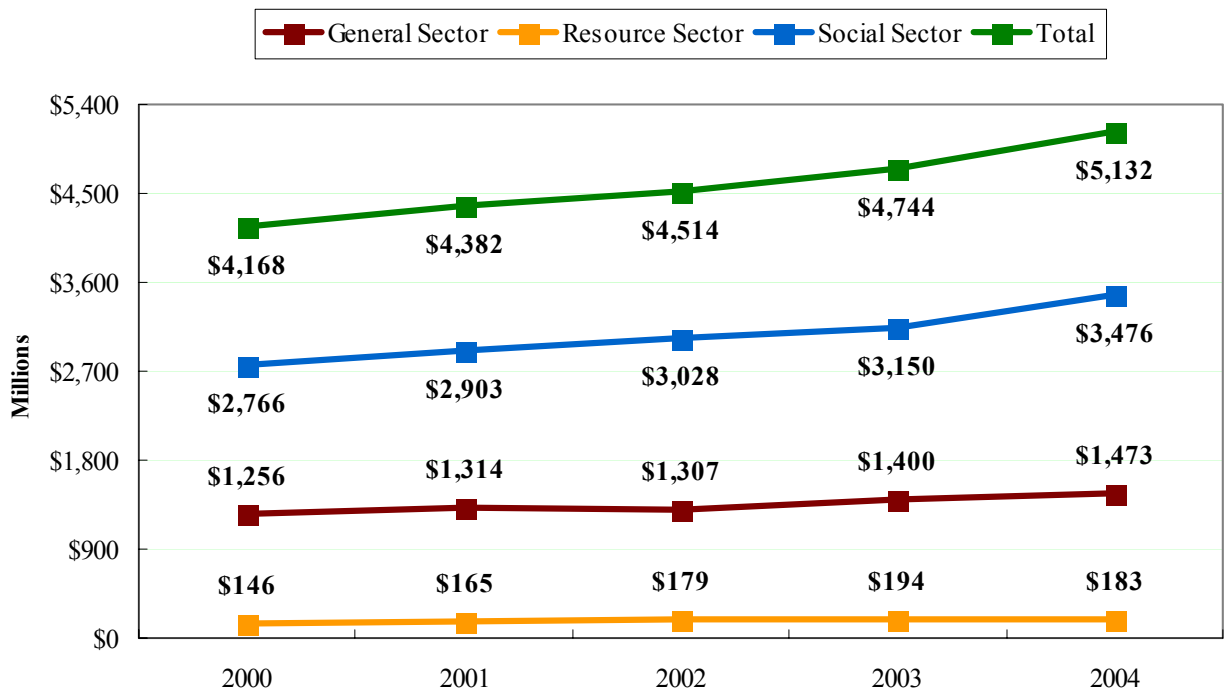
**c) Expenses by Major Category - 5 Year Comparison**

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

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



**d) Expenses by Sector - 5 Year Comparison**



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

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

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

### **Financial Position Highlights**

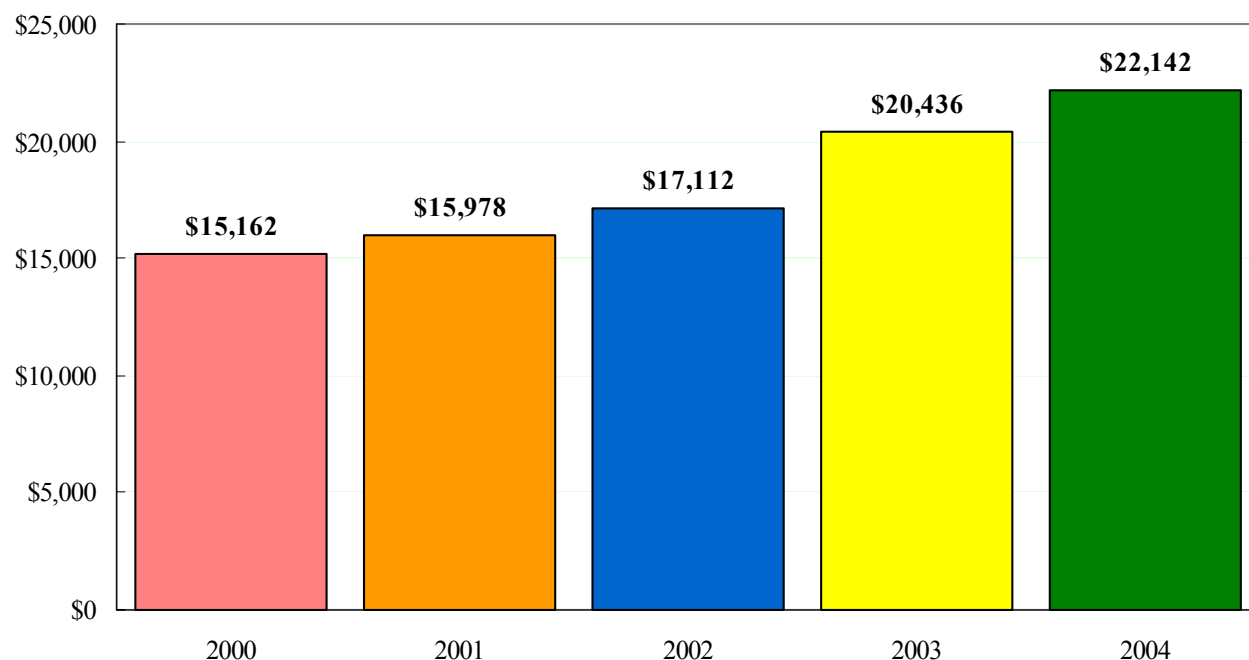
As a result of the new reporting format discussed earlier in this report, there have been a number of changes to the Consolidated Statement of Financial Position. While the traditional reporting of net debt (financial assets less liabilities) has remained, this statement now includes the reporting of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



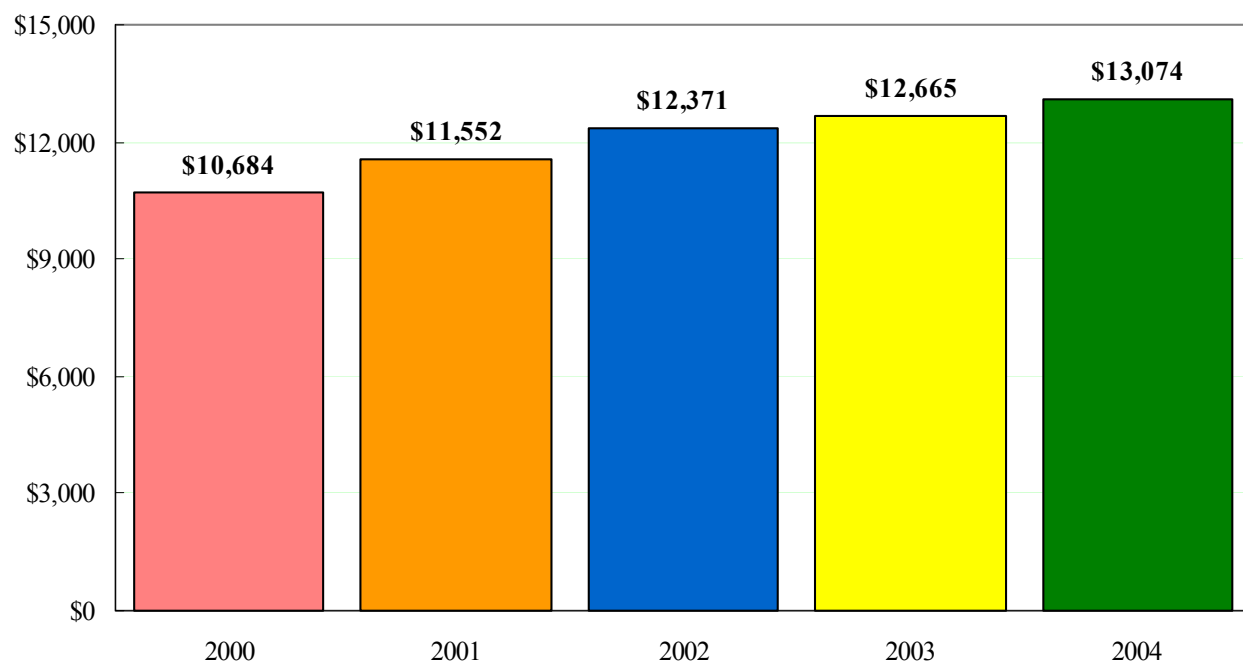
### **Net Debt and Net Borrowings:**

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



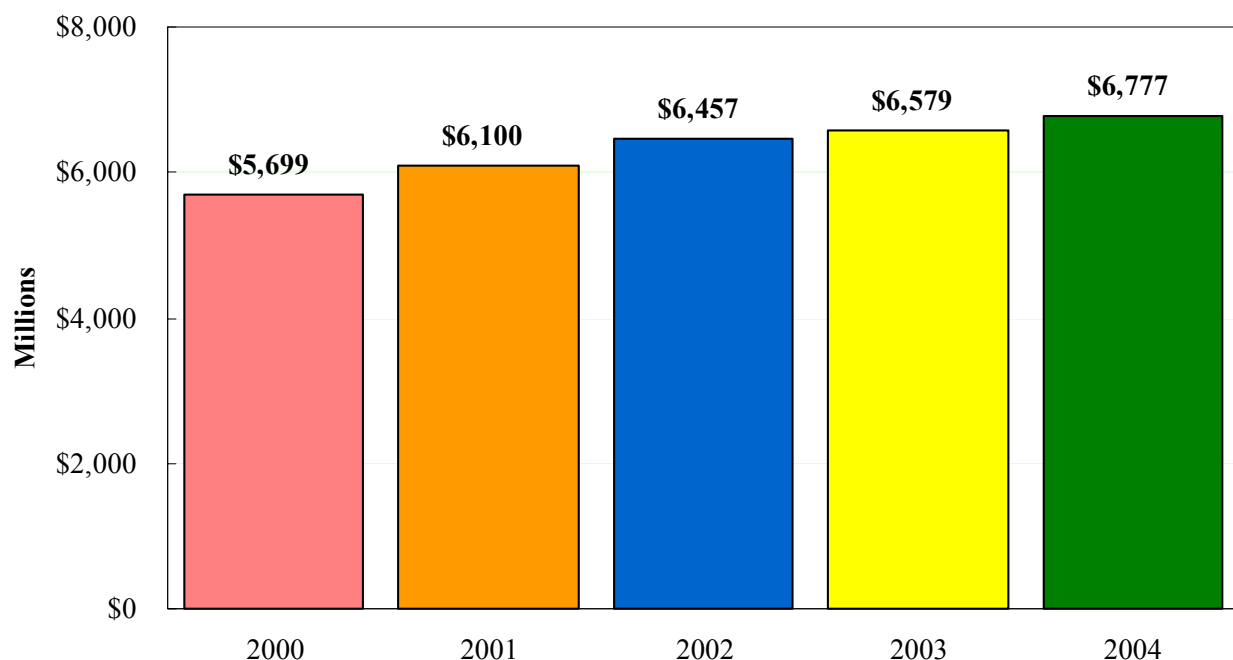
**a) Net Debt per Capita**

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

**b) Net Borrowings per Capita**

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

**c) Net Borrowings - 5 Year Comparison**



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

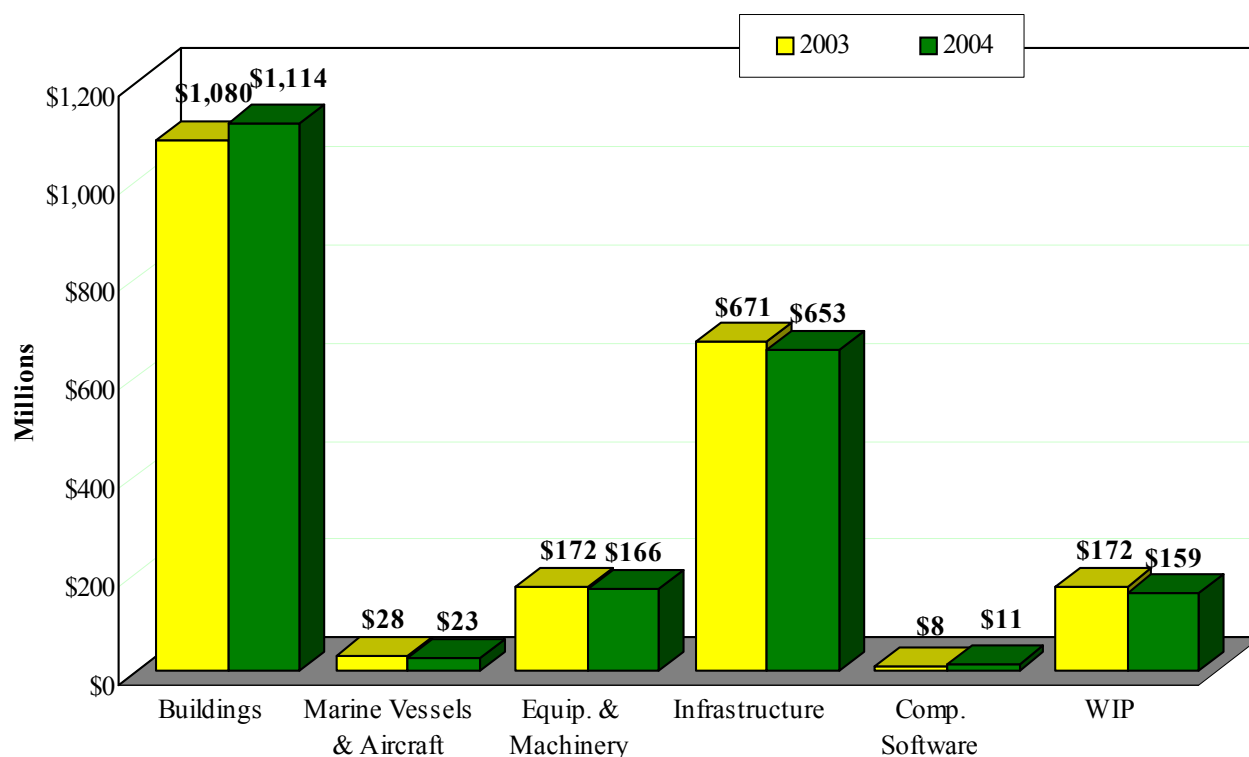
**Non-Financial Assets:**

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

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

a) *Tangible Capital Assets by Asset Category*

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

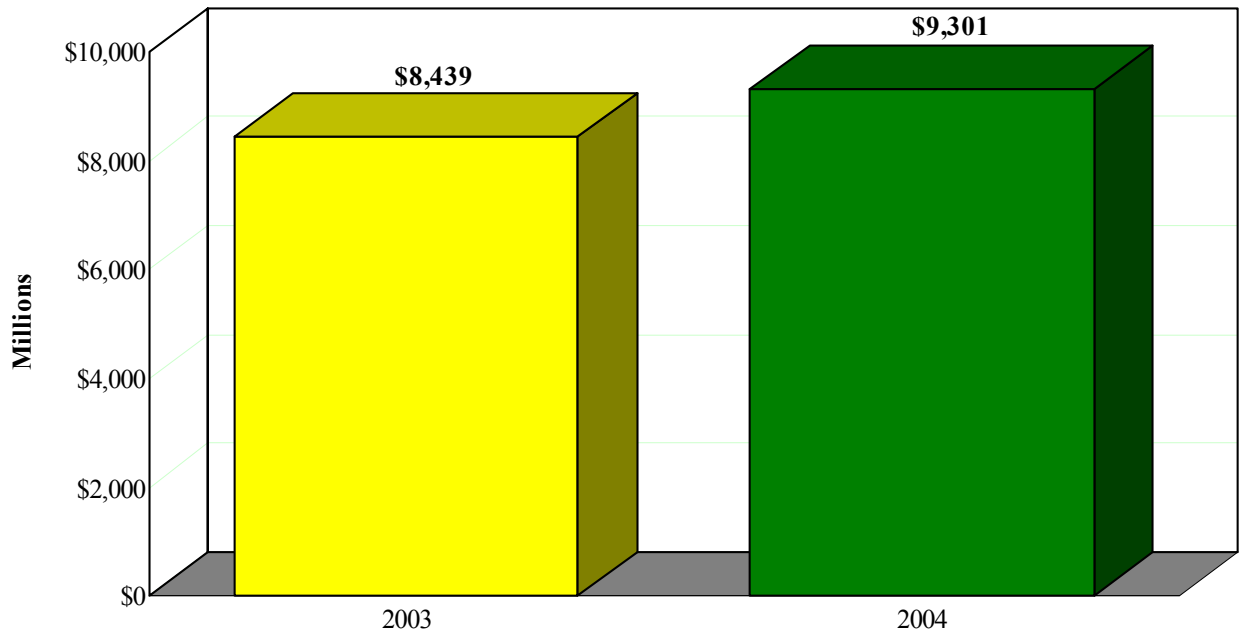


From an analysis of the above, we can make the following observations:

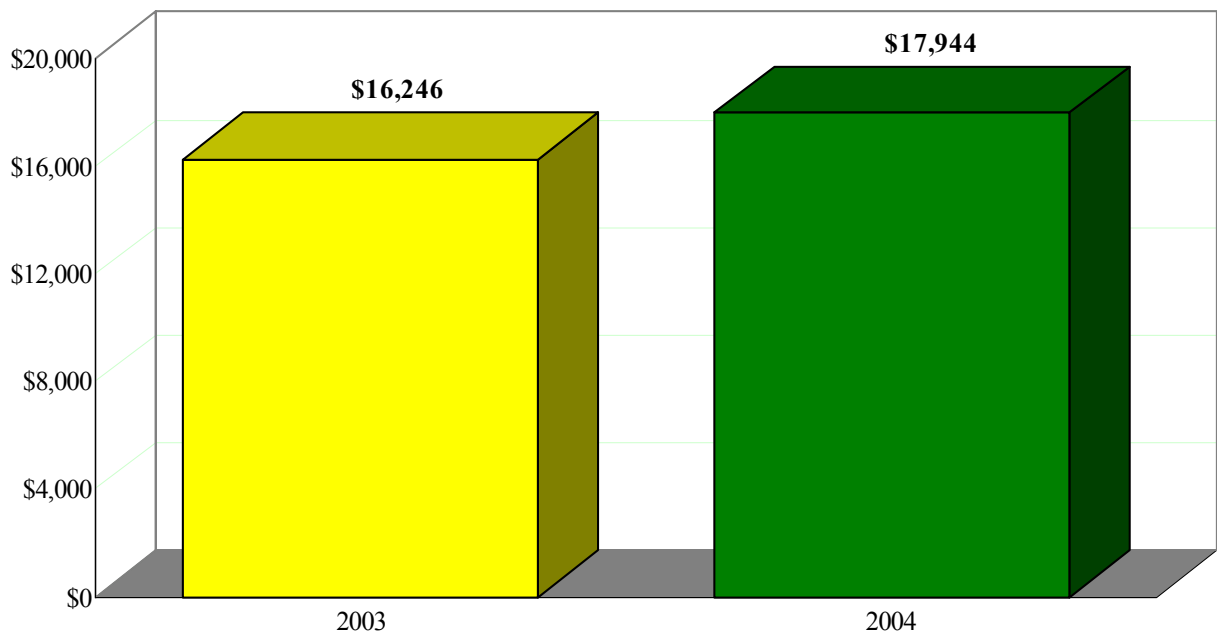
- The net book value of tangible capital assets has remained fairly stable from 2003 to 2004, decreasing by \$2.9 million.
- Buildings represent 52.4% of the total net book value of tangible capital assets for the year ended 31 March 2004.

**Accumulated Deficit:**

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

**a) Accumulated Deficit from 2003 to 2004**

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

**b) Accumulated Deficit per Capita**

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

### **Improving Financial Performance**

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

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