

Chapter 2

Comments on the Province's Financial Position

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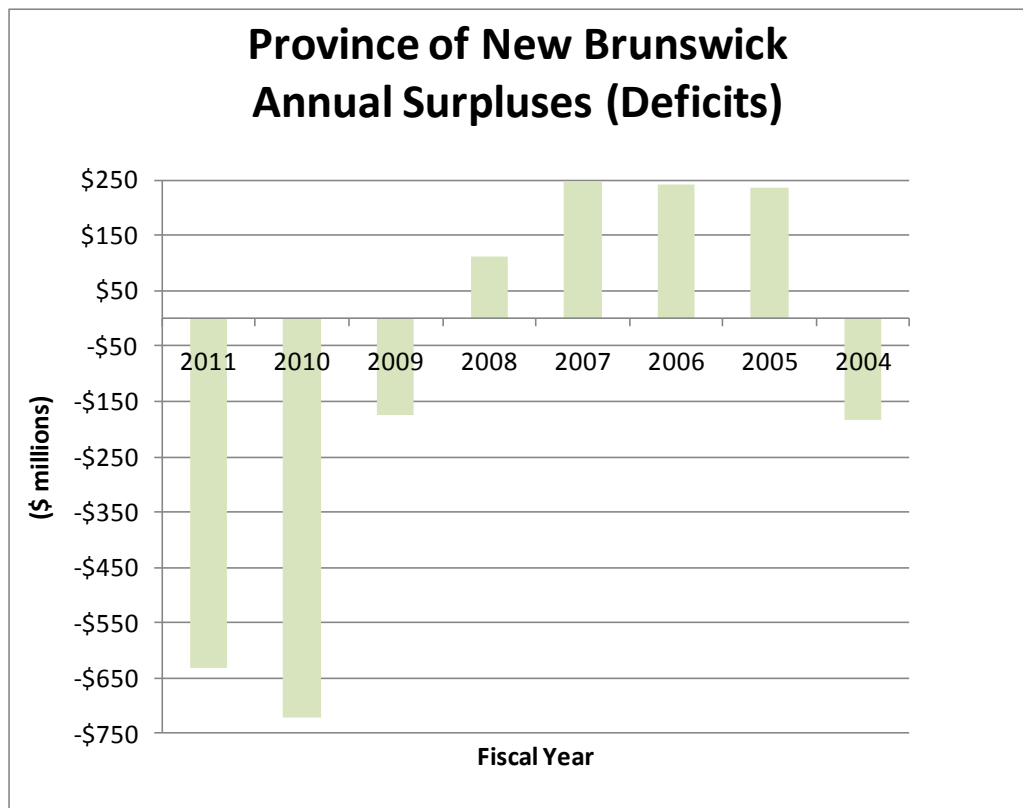
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Comments on the Province's Financial Position

Three Consecutive Years of Deficits

2.1 The Province's 31 March 2011 audited financial statements reported a deficit of \$633.0 million and an increase in Net Debt for the fiscal year of \$1.0 billion. The Province now has a Net Debt of \$9.5 billion.

2.2 After four years of surpluses, the Province has incurred three consecutive years of deficits. To assist in financing these deficits, the Province has incurred additional debt. This trend is very concerning. Significant changes are required to improve the financial health of the Province.



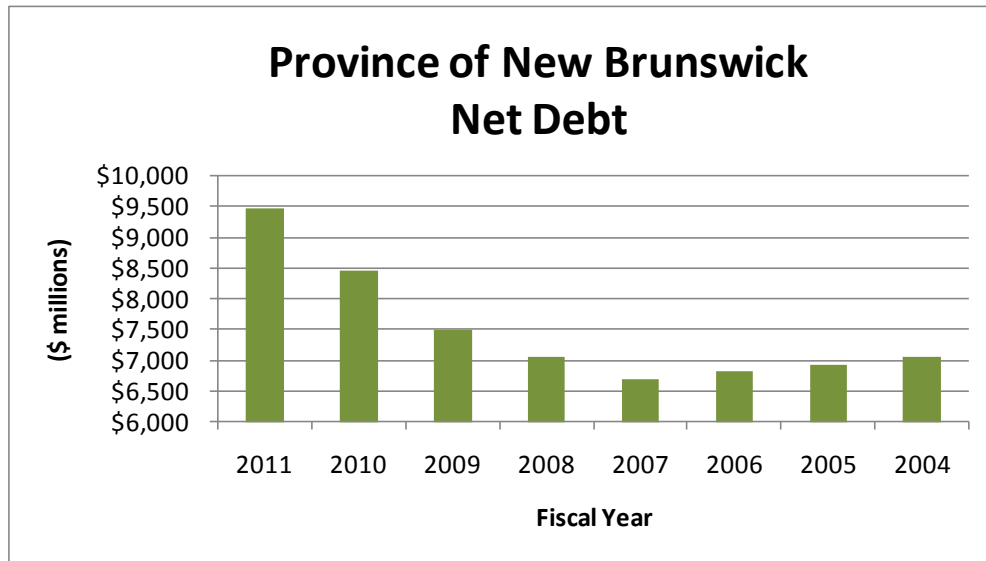
As restated

Annual Surpluses (deficits)								
(\$ millions)								
	2011	2010	2009	2008	2007	2006	2005	2004
As restated	(633.0)	(722.3)	(175.9)	112.1	246.5	241.1	235.3	(182.0)
As originally recorded	(633.0)	(737.9)	(192.3)	86.7	236.8	243.6	242.2	(103.2)

2.3 The above table shows the surplus or deficit for the past eight years. The preceding year's amounts have been restated as per Note 18 of the Province's 31 March 2011 financial statements.

Rapid Growth in Net Debt

2.4 Net Debt is one of the most important measures of the financial position of the Province. The table below shows Net Debt for the past eight years.



As restated

Net Debt								
(\$ millions)								
	2011	2010	2009	2008	2007	2006	2005	2004
As restated	9,480.4	8,471.4	7,501.4	7,058.2	6,680.4	6,809.2	6,918.6	7,052.4
As originally recorded	9,480.4	8,353.0	7,387.8	6,942.9	6,577.9	6,655.7	6,836.0	6,816.1

2.5 We would like to draw attention to the

following facts:

- For the year ended 31 March 2011, Net Debt increased by \$1.0 billion to \$9.5 billion.
- Net Debt has increased \$2.8 billion since 2007.
- The 2011-2012 Main Estimates budgets for an increase in Net Debt of \$630.3 million for the year ended 31 March 2012.
- Based on 2011-2012 Main Estimates, Net Debt of the Province could be in excess of \$10.0 billion for the year ended 31 March 2012.

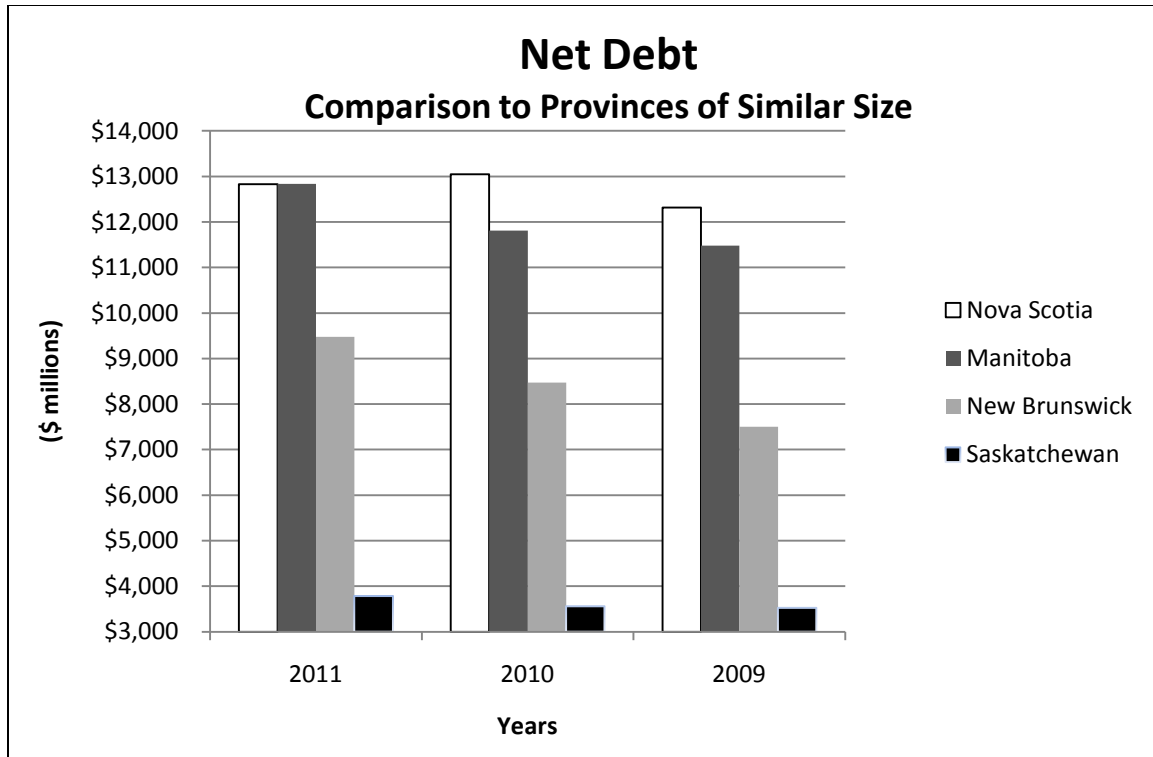
2.6 This significant increase in Net Debt represents a very disturbing trend. An even higher demand will exist on future revenue to pay past expenses. Such rapid negative trends are likely to impact the Province's bond rating which will ultimately result in more expensive borrowing cost. As well, current increased borrowing may constrain future borrowing capacity and affect future provincial operations and delivery of services.

Comparison to Other Similar Sized Provinces

2.7 Another way to assess the significance of the size of the Province's Net Debt is to compare it to the Net Debt of provinces with similar population sizes as New Brunswick in absolute amount, per capita and as a percentage of GDP. Comparable provinces include Nova Scotia, Manitoba and Saskatchewan.

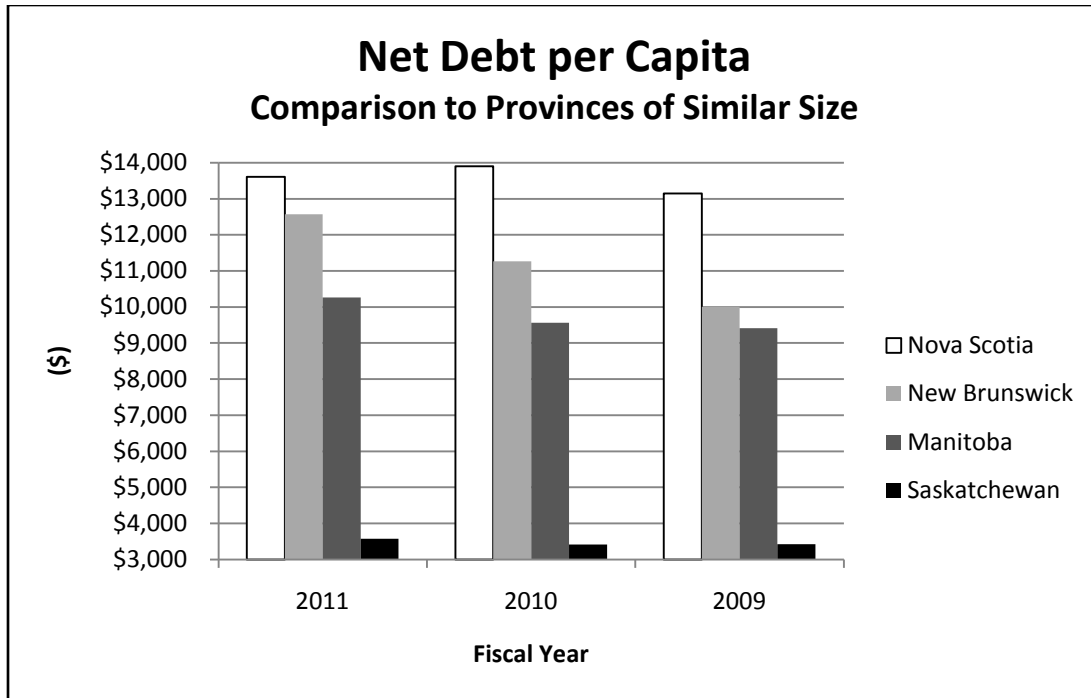
2.8 In the next three tables, Net Debt is taken from:

- the audited summary financial statements of the individual provinces,
- information about population is taken from the Statistics Canada website, and
- GDP figures are from the financial statement discussion and analysis attached to the individual provinces' audited summary financial statements.



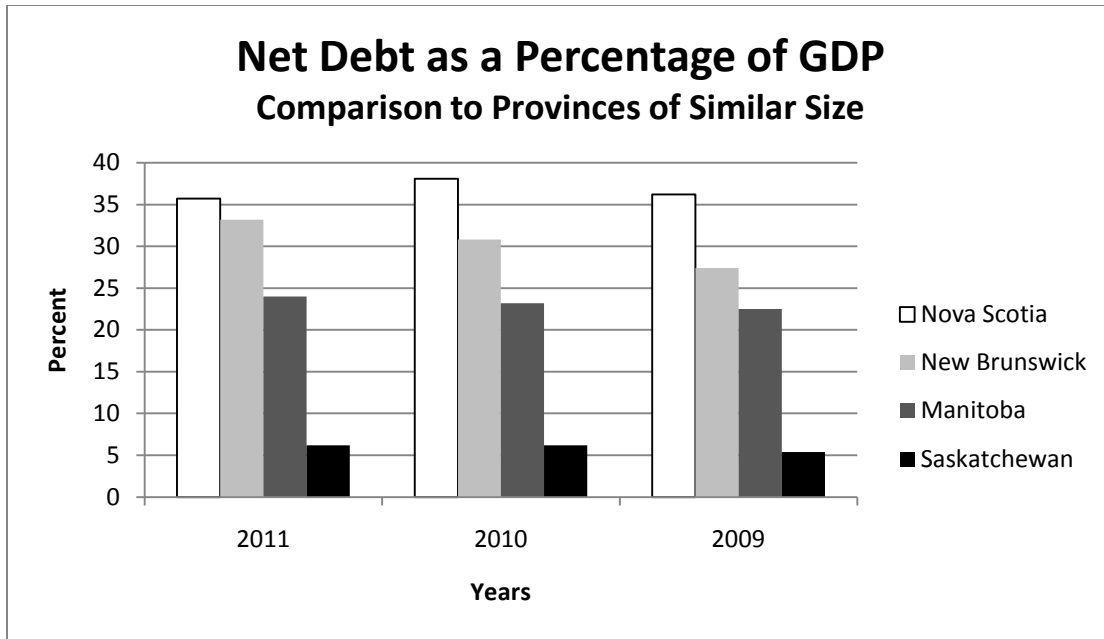
Net Debt (\$ millions)			
Province	2011	2010	2009
Saskatchewan	3,783	3,560	3,524
New Brunswick	9,480	8,471	7,501
Manitoba	12,837	11,810	11,480
Nova Scotia	12,827	13,045	12,318

2.9 For the year ended 31 March 2009, New Brunswick's Net Debt was 60.0% of Nova Scotia's Net Debt. By 31 March 2011 the percentage reached 73.9%. For 31 March 2011, New Brunswick had the highest percentage increase in Net Debt over the previous year of the comparable provinces.



Net Debt per Capita (\$)			
Province	2011	2010	2009
Saskatchewan	3,576	3,410	3,424
Manitoba	10,265	9,567	9,416
New Brunswick	12,574	11,269	10,011
Nova Scotia	13,610	13,907	13,146

2.10 For the year ended 31 March 2009, New Brunswick's Net Debt per capita was 76.2% of Nova Scotia's Net Debt per capita. By 31 March 2011 the percentage reached 92.4%. For 31 March 2011, New Brunswick had the highest percentage increase in Net Debt per capita over the previous year.



Net Debt as a Percentage of GDP (percent)			
Province	2011	2010	2009
Saskatchewan	6.2	6.2	5.4
Manitoba	24.0	23.2	22.5
New Brunswick	33.2	30.8	27.4
Nova Scotia	35.7	38.1	36.2

2.11 For the year ended 31 March 2009, New Brunswick's Net Debt as a percentage of GDP was 75.7% of Nova Scotia's; for the year ended 31 March 2011 it was 93.0%. For 31 March 2011, New Brunswick had the highest percentage increase in Net Debt to GDP over the previous year.

Net Debt Comparison Summary

2.12 In summary, Net Debt comparisons of similarly populated provinces show New Brunswick had the highest percentage increase in Net Debt, Net Debt per capita and Net Debt per GDP from fiscal 2010 to fiscal 2011. Therefore, with respect to Net Debt, New Brunswick's declining fiscal situation is outpacing that of comparable provinces.

Comments on the Province's Financial Health

2.13 For the past number of years, we included in our annual Report a historical trend analysis of the Province's financial condition by looking at measures of sustainability, flexibility and vulnerability.

2.14 Starting in 2009, the Province began reporting some of these measures as part of the section called *Indicators of Financial Health* which is attached to the audited financial statements. As we commented last year, we are pleased to see the Province report this information, and we are also pleased to see that in Volume 1 of the 31 March 2011 Public Accounts the Province expanded the historical timeframe of information provided from seven years to eight years.

2.15 In this section, we report on twelve indicators of financial condition identified by the Canadian Institution of Chartered Accountants (CICA) in a Statement of Recommended Practice (SORP). This analysis is intended to give a broader view of the financial health of the Province as the analysis shows trends. The information augments the audited financial statements which only reflect the Province's fiscal status at a point in time.

Assumptions Used

2.16 We have not audited some of the numbers used in our indicator analysis; instead, we are using numbers the Province restated as per Note 18 of the Province's financial statements. The Province used these restated figures in its Management Discussion and Analysis in Volume 1 of Public Accounts. We have not audited the annualized numbers we obtained from the Province for the years 2004 to 2009. For the 2010 and 2011 numbers, we audited the numbers as part of our 2011 work.

2.17 In some of the tables that follow, we show four years of comparative figures instead of eight. For these cases, restated numbers for prior years are not available because of changes in accounting policies.

**Summary of the
Province's Financial
Condition**

2.18 In the following table, we summarize our analysis of financial indicators. We show the indicators for each element, the purpose of the indicator, the short-term (two year) and long-term (four or eight year) trend, as well as a reference within this chapter of where we discuss the indicator in more detail.

	Indicator	Purpose	Short-term Trend	Term	Long-term Trend	Page
Sustainability	Assets-to-liabilities	Measures extent that government finances its operations by issuing debt	Unfavourable	4 year	Unfavourable	18
	Financial asset-to-liabilities	Measures whether future revenues will be needed to pay for past transactions	Unfavourable	4 year	Unfavourable	18
	Net Debt-to-total annual revenue	Shows whether more time is needed to pay for past transactions	Unfavourable	8 year	Mixed	19
	Expense by function-to-total expenses	Shows the trend of government spending over time	Neutral	4 year	Neutral	20
	Net Debt-to-GDP	Shows the relationship between Net Debt and the activity in the economy	Unfavourable	8 year	Unfavourable	22
	Accumulated deficit-to-GDP	Measures the sum of the current and all prior year operating results relative to the growth in the economy	Unfavourable	4 year	Unfavourable	23
	Total expenses-to-GDP	Shows the trend of government spending over time in relation to the growth in the economy	Unfavourable	8 year	Unfavourable	23
Flexibility	Public debt charges-to-revenues	Measures extent that past borrowing decisions limits ability to meet current financial and service commitments	Neutral	8 year	Favourable	25
	Net book value of capital assets-to-cost of capital assets	Measures the estimated useful lives of tangible capital assets available to provide products /services	Neutral	4 year	Neutral	26
	Own-source revenues-to-GDP	Measures extent income is taken out of the economy	Neutral	8 year	Neutral	27
Vulnerability	Government transfers-to-total revenues	Measures the dependence on another level of government	Unfavourable	8 year	Unfavourable	30
	Foreign currency debt-to-Net Debt	Measures the government's potential vulnerability to currency fluctuations	Favourable	8 year	Favourable	31

Conclusion

2.19 The short and long-term trends show the financial condition of the Province has worsened. Only two of

the twelve financial indicators show favourable results. If the Province continues in this manner, the financial health of the Province will continue to deteriorate. This will have an impact on the Province's ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others. This illustrates the immediate need for the Province to develop a viable plan to improve the financial health of the Province. The current path being followed by the Province is not achieving greater financial success. Interim 2011-12 projections indicate a worsening trend. There are limited signs of the significant change required to deliver improved fiscal health for the Province.

Sustainability Indicators

2.20 Sustainability indicates whether the Province can maintain programs and meet existing creditor requirements without increasing the debt burden on the economy.

Assets-to-Liabilities

2.21 The sustainability indicator assets-to-liabilities is presented in the following table.

Comparison of Assets-to-Liabilities				
Year ended	Total assets (\$ millions)	Total liabilities (\$ millions)	Total assets/total liabilities (percent)	
2008	7,476.7	8,895.4	84.1	
2009	7,705.9	9,428.2	81.7	
2010	7,852.9	10,292.6	76.3	
2011	8,595.5	11,557.7	74.4	

2.22 An assets-to-liability indicator below 100% indicates a government has accumulated deficits and has been financing its operations by issuing debt. For the past four years, the Province's rate was less than 100%. It has declined in both the years ended 31 March 2010 and 31 March 2011. This trend is unfavourable.

Financial Assets-to-Liabilities

2.23 Another sustainability indicator, financial assets-to-

liabilities, is presented in the following table.

Comparison of Financial Assets-to-Liabilities				
Year ended	Total financial assets (\$ millions)	Total liabilities (\$ millions)	Total financial assets/ total liabilities (percent)	
2008	1,837.2	8,895.4	20.7	
2009	1,926.8	9,428.2	20.4	
2010	1,821.2	10,292.6	17.7	
2011	2,077.3	11,557.7	18.0	

2.24 When liabilities exceed financial assets the government is in a Net Debt position, and the implication is that future surpluses will be required to pay for past transactions and events. The Province's percentage declined significantly in the year ended 31 March 2010 because of the large increase in Net Debt incurred in that year. The percentage did show a slight improvement in 2011. The overall trend, however, is unfavourable.

Net Debt-to-Total Annual Revenue

2.25 Net Debt-to-total annual revenue is another indicator of sustainability and is presented in the following table.

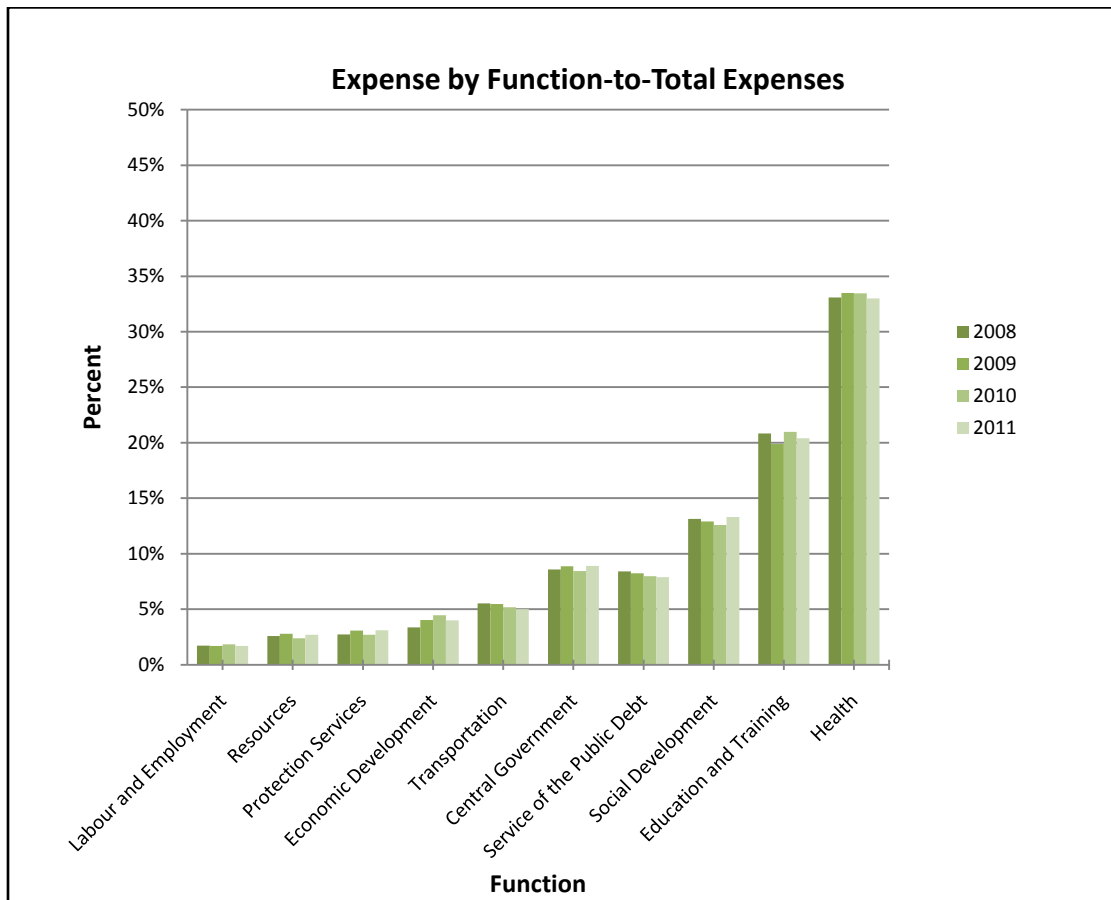
Comparison of Net Debt-to-Total Annual Revenue			
Year ended	Net Debt (\$ millions)	Total revenue (\$ millions)	Net Debt/total revenue (percent)
2004	7,052.4	5,487.0	128.5
2005	6,918.6	6,019.0	114.9
2006	6,809.2	6,362.9	107.0
2007	6,680.4	6,689.1	99.9
2008	7,058.2	7,021.8	100.5
2009	7,501.4	7,166.1	104.7
2010	8,471.4	7,047.9	120.2
2011	9,480.4	7,496.7	126.5

2.26 Net Debt provides a measure of the future revenue required to pay for past transactions and events. A Net Debt-to-total revenue percentage that is increasing indicates that the Province will need more time to eliminate the Net Debt. During the past two years the Province's percentage has increased significantly; however, it is still less than the 128.5% in 2004. If the Province continues in the same manner, the improvements made over the last eight years will be lost. The short-term trend of this indicator is unfavourable, however, we have assessed the long-term trend as mixed.

Expense by Function-to-Total Expenses

2.27 The following table presents expense by function-to-total expenses.

Comparison of Expense by Function-to-Total Expenses								
	2011		2010		2009		2008	
	(\$ millions)	(percent)	(\$ millions)	(percent)	(\$ millions)	(percent)	(\$ millions)	(percent)
Labour and Employment	141.7	1.7	141.5	1.8	124.4	1.7	119.1	1.7
Resources	215.1	2.7	205.8	2.7	204.2	2.8	203.3	2.9
Protection Services	250.6	3.1	209.5	2.7	223.8	3.1	187.5	2.7
Economic Development	328.4	4.0	343.7	4.4	286.3	3.9	226.8	3.3
Transportation	402.7	5.0	381.4	4.9	380.7	5.2	364.0	5.3
Central Government	725.5	8.9	677.7	8.7	671.7	9.1	609.4	8.8
Service of the Public Debt	642.6	7.9	616.6	7.9	602.5	8.2	576.9	8.4
Social Development	1,080.8	13.3	984.4	12.7	947.7	12.9	916.5	13.3
Education and Training	1,655.1	20.4	1,621.7	20.9	1,452.0	19.8	1,430.9	20.7
Health	2,687.2	33.0	2,587.9	33.3	2,448.7	33.3	2,275.3	32.9
Total	8,129.7	100.0	7,770.2	100.0	7,342.0	100.0	6,909.7	100.0



2.28 It is not easy to identify any significant trends from

four years of data when comparing expenses by function-to-total expenses. It is important to remember, however, that the years ended 31 March 2009, 31 March 2010 and 31 March 2011 reported deficits. This means that while individual expense trends may have remained steady, this was achieved by incurring a total level of expenses that was in excess of revenue generated in those years. We have assessed this indicator as neutral.

Net Debt-to-GDP

2.29 The sustainability indicator, Net Debt-to-GDP is presented in the following table. The Province also reports this indicator in Volume 1 of the Public Accounts.

Comparison of Net Debt-to-GDP			
Year ended	Net Debt (\$ millions)	GDP (\$ millions)	Net Debt/ GDP (percent)
2004	7,052.4	22,366	31.5
2005	6,918.6	23,672	29.2
2006	6,809.2	24,716	27.5
2007	6,680.4	25,847	25.8
2008	7,058.2	27,044	26.1
2009	7,501.4	27,376	27.4
2010	8,471.4	27,497	30.8
2011	9,480.4	28,597	33.2

2.30 This indicator compares the Province's Net Debt, the difference between its liabilities and its financial assets, to its GDP. This ratio declined from 31 March 2004 to 31 March 2007 indicating that over that time period the level of the Province's debt became less onerous on the economy. The ratio has increased each of the past four years because the rate of growth of Net Debt has exceeded the rate of growth in GDP over that time period. This ratio's current growth trajectory is concerning as the ratio of Net Debt-to-GDP is greater than the level of the ratio for the year ended 31 March 2004. This means the Net Debt of the Province is increasing faster than the growth in the economy thus becoming more of a burden on the economy. We have assessed the long-

term trend for the Net Debt to GDP indicator as unfavourable as the percentage has been steadily increasing over the last five years and now exceeds the percentage reported in 2004.

***Accumulated
Deficit-to-GDP***

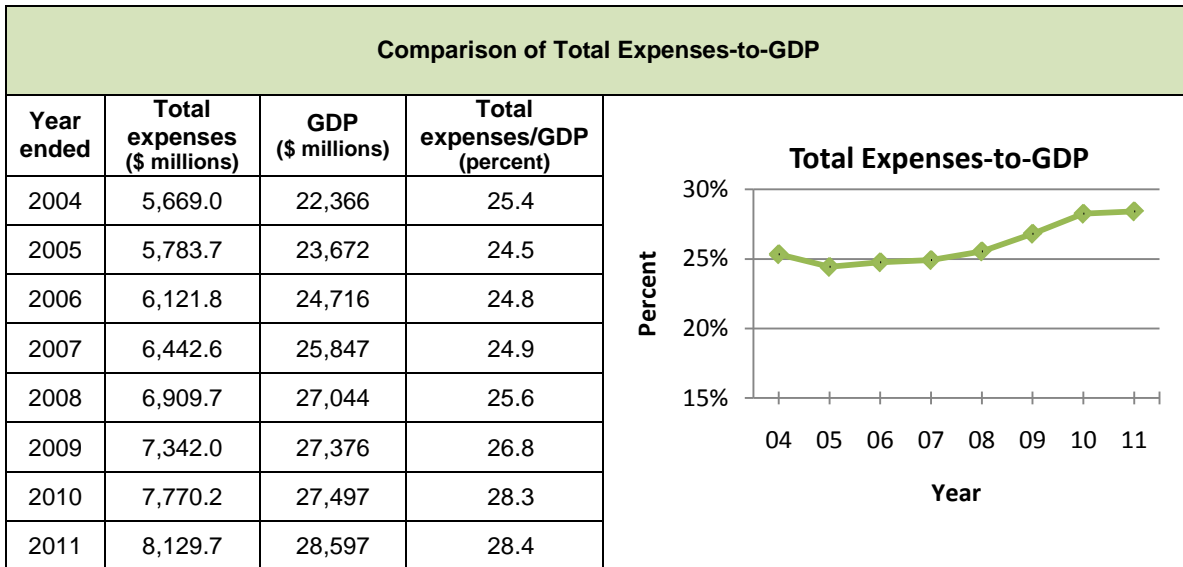
2.31 In the next table, we present the sustainability indicator accumulated deficit-to-GDP.

Comparison of Accumulated Deficit-to-GDP				
Year ended	Accumulated deficit (\$ millions)	GDP (\$ millions)	Accumulated deficit/GDP (percent)	
2008	1,418.7	27,044	5.2	
2009	1,722.3	27,376	6.3	
2010	2,439.7	27,497	8.9	
2011	2,962.2	28,597	10.4	

2.32 The accumulated deficit is the extent to which annual revenues have been insufficient to cover the annual costs of providing services. The information above shows that the accumulated deficit is increasing faster than the growth of the economy. This represents an unfavourable trend as spending rates are increasing faster than the economy is expanding.

Total Expenses-to-GDP

2.33 The following table presents the total expenses-to-GDP indicator.



2.34 This indicates that after five years of holding government expenses to about 25% of GDP, the past three years have seen the ratio increase. This represents an unfavourable trend as expenses are growing faster than the economy is expanding.

Summary of Sustainability Indicators

2.35 This year, we have reported on the two-year trend for seven sustainability indicators.

Two-year Trend for Sustainability Indicators	
Sustainability indicator	Two-year trend
Assets-to-liabilities	Unfavourable
Financial assets-to-liabilities	Unfavourable
Net Debt-to-total annual revenue	Unfavourable
Expense by function-to-total expenses	Neutral
Net Debt-to-GDP	Unfavourable
Accumulated deficit-to-GDP	Unfavourable
Total expenses-to-GDP	Unfavourable

2.36 We can also assess long-term trends for the sustainability indicators. We have reported the long-term trend over eight years, and four years where prior year comparative numbers are not available.

Long-term Trend for Sustainability Indicators	
Sustainability indicator	Long-term trend
Assets-to-liabilities	Unfavourable
Financial assets-to-liabilities	Unfavourable
Net Debt-to-total annual revenue	Mixed
Expense by function-to-total expenses	Neutral
Net Debt-to-GDP	Unfavourable
Accumulated deficit-to-GDP	Unfavourable
Total expenses-to-GDP	Unfavourable

2.37 In summary, our overall assessment of the sustainability indicators is unfavourable. This negative trend should be of concern to New Brunswickers.

Flexibility Indicators

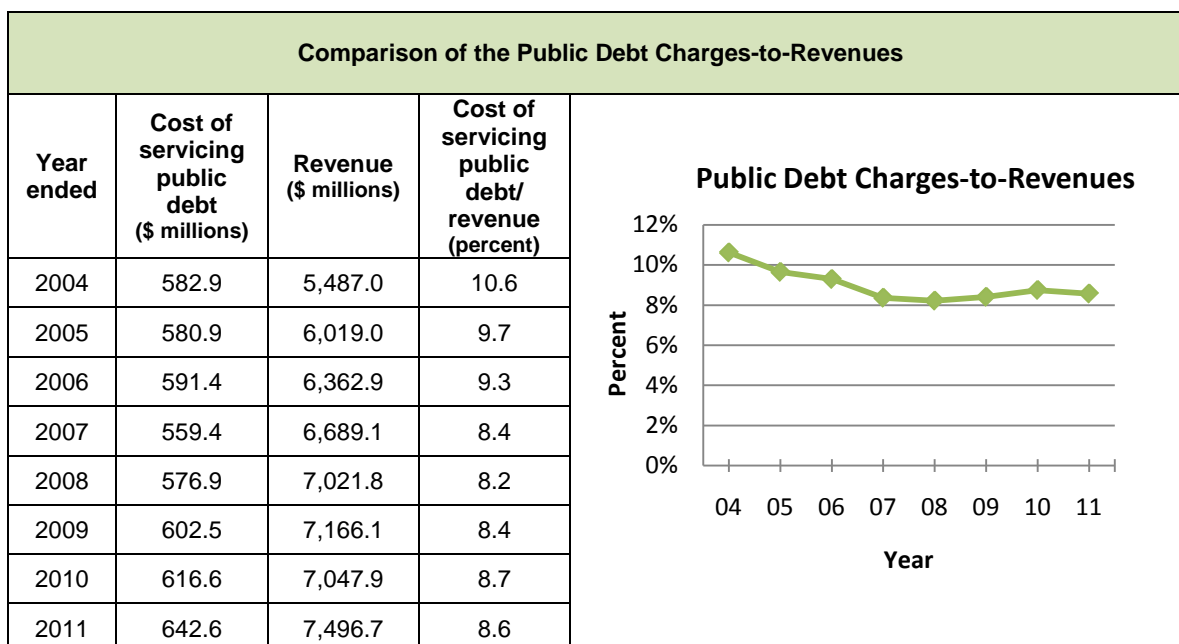
2.38 Flexibility is the degree to which the government can change its debt or tax burden on the economy to maintain programs and meet existing creditor requirements.

Public Debt Charges-to-Revenues

2.39 One of the most publicized factors which affects the flexibility of governments is the cost of servicing the public debt. This is considered to be an indicator of flexibility, since the Province's first payment commitment is to service its debt, leaving no flexibility in the timing of these payments.

2.40 The cost of servicing the public debt is comprised mainly of interest on the funded debt of the Province. It also includes foreign exchange paid on interest and maturities during the year, the amortization of foreign exchange gains and losses, and the amortization of discounts and premiums which were incurred on the issuance of provincial debt. It does not include principal repayments on the funded debt of the Province.

2.41 In the following table, we present the public debt charges-to-revenues. The Province also reports this indicator in Volume 1 of the Public Accounts.



2.42 This table shows that the cost of servicing the public debt as a percentage of the Province's total revenues is significantly lower in the year ended 31 March 2011 than it was in the year ended 31 March 2004. This means that the Province is spending less of its current year revenue to cover debt charges resulting in more current year revenue available to cover services to the public. For the past two years, the ratio has remained relatively stable thus we are assessing the short-term trend as neutral. We are assessing the long-term trend as favourable as the current year's ratio is less than the ratio in 2004. Although we are assessing this indicator as favourable, caution is needed when looking at this indicator. The cost of servicing the Province's debt is increasing in a time when interest rates have declined and the Province's debt is increasing significantly.

Net Book Value of Capital Assets-to-Cost of Capital Assets

2.43 We present the net book value of capital assets-to-cost of capital assets in the following table.

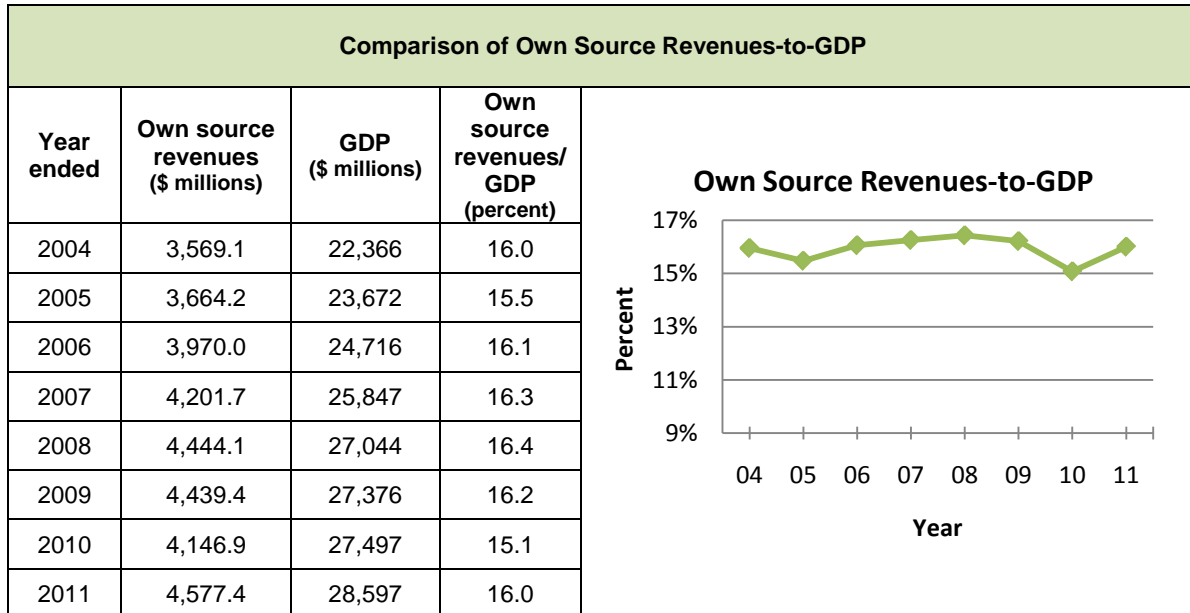
Comparison of Net Book Value of Capital Assets-to-Cost of Capital Assets			
Year ended	Net book value (\$ millions)	Capital cost (\$ millions)	Net book value/ capital cost (percent)
2008	6,261.9	9,947.8	62.9
2009	6,429.5	10,387.7	61.9
2010	6,706.0	10,959.3	61.2
2011	7,241.7	11,733.2	61.7

Year	Percent
2008	62.9
2009	61.9
2010	61.2
2011	61.7

2.44 This data indicates that the Province's inventory of capital assets as at 31 March 2011 has 61.7% of its average useful life remaining. This roughly means that on average any Provincial assets that were originally expected to be useable for ten years still had just over six years of remaining useful life at 31 March 2011, and assets with original useful lives of twenty years were still considered useable for just over twelve years on average. As the ratios have remained relatively the same over the past four years, we are assessing the short-term trend as neutral.

***Own Source
Revenues-to-GDP***

2.45 We present own source revenues-to-GDP in the following table. The Province also reports this indicator in Volume 1 of the Public Accounts.



2.46 The own source revenues-to-GDP indicator measures the extent to which the Province is raising its revenue through extracting it from the provincial economy. If the ratio increases, more of the Province's revenue is generated from the provincial economy. For example, an increase in this ratio could result if the Province increased taxes. If the ratio decreases, less of the Province's revenue is generated from the provincial economy. A decreasing ratio increases the Province's ability to raise taxes. Thus, making the Province more flexible in how it can generate revenue.

2.47 Generally, this ratio has stayed the same over the long-term. There was a decrease in the year 2010 mostly as a result of a large loss by the New Brunswick Electric Finance Corporation (EFC), so the reduction in own source revenue was not as a result of lower fees or taxes.

2.48 In 2011, own source revenue increased as a result of the EFC having a surplus of \$10.8 million resulting in an increase in own source revenue of approximately \$223 million. The prior year loss was largely due to the write down of the Dalhousie Generating Station. Also, taxes increased by \$141 million, the majority of which results from an increase in HST revenue of \$120.8 million. We have assessed both the long-term

and short-term trend as neutral.

2.49 A note of caution should be taken when looking at this indicator for the last three years. The Province incurred deficits which means it did not generate enough revenue in any of those years to finance its expenses.

Summary of Flexibility Indicators

2.50 This year, we have reported on the two-year trend for three flexibility indicators from the SORP.

Two-year Trend for Flexibility Indicators	
Flexibility indicator	Two-year trend
Public debt charges-to-revenues	Neutral
Net book value of capital assets-to-cost of capital assets	Neutral
Own source revenues-to-GDP	Neutral

2.51 We can also assess long-term trends for three of the indicators.

Long-term Trend for Flexibility Indicators	
Flexibility indicator	Long-term trend
Public debt charges-to-revenues	Favourable
Net book value of capital assets-to-cost of capital assets	Neutral
Own source revenues-to-GDP	Neutral

2.52 The cost of servicing the public debt as a percentage of revenues is lower than it was in the year ended 31 March 2004, resulting in a favourable long-term trend, while own source revenue as a percentage of GDP was higher in the year ended 31 March 2011 than in the year ended 31 March 2010. The increase in the percentage was because of the return to an annual surplus position for the New Brunswick Electric Finance Corporation (EFC) from a deficit in 2010 and the increase in taxation revenue in 2011. Therefore, we have judged the long-term trend to be neutral.

Vulnerability Indicators

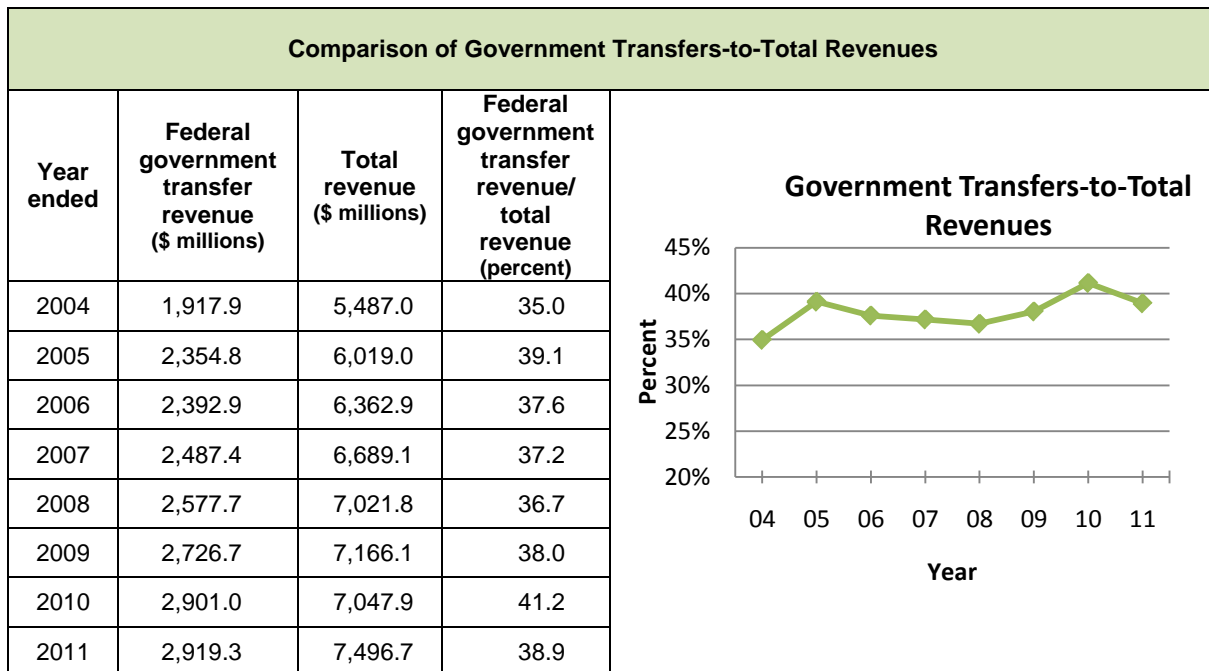
2.53 Vulnerability is the degree to which a government is dependent on sources of funding outside its control

or influence.

**Government
Transfers-to-Total
Revenues**

2.54 By comparing the proportion of total revenue that comes from the federal government to the total revenue of the Province, we get a measure of the degree to which the Province is dependent on the federal government. If that dependence increases, the Province is more vulnerable to funding decisions made by the federal government. This indicator highlights the degree to which one indicator can be impacted by another indicator. For example, if the Province were in a position to reduce its dependence on the federal government by generating more own source revenue, the Province's vulnerability position might improve, but its sustainability position might become worse.

2.55 The following table presents the comparison of government transfers-to-total revenues. The Province also reports this indicator in Volume 1 of the Public Accounts.



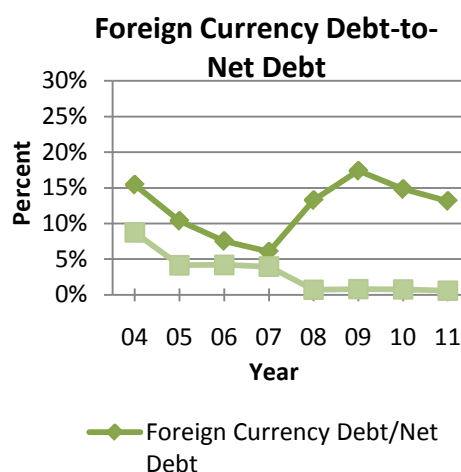
2.56 The above table shows that the Province's reliance on government transfers has been steadily increasing over the years. The decrease in 2011 from the prior year was mostly the result of the decrease in total revenue in 2010 from the EFC loss and should not be factored into the analysis of this indicator. For the

2011 year, revenues increased because of the surplus of \$10.8 million in EFC, compared to a loss of \$212.2 million in the prior year, as well as an increase of \$120.8 million in HST revenue. Thus we are assessing both the long-term and short-term trend as unfavourable.

Foreign Currency Debt-to-Net Debt

2.57 The foreign currency debt-to-Net Debt indicator measures the Province's potential vulnerability to currency fluctuations and is presented below.

Comparison of Foreign Currency Debt-to-Net Debt				
Year ended	Foreign currency debt (\$ millions)	Net Debt (\$ millions)	Foreign currency debt/ Net Debt (percent)	Foreign currency debt/ Net Debt after hedge (percent)
2004	1,088.9	7,052.4	15.4	8.7
2005	717.5	6,918.6	10.4	4.1
2006	512.9	6,809.2	7.5	4.2
2007	403.5	6,680.4	6.0	4.0
2008	937.0	7,058.2	13.3	0.7
2009	1,304.8	7,501.4	17.4	0.8
2010	1,255.8	8,471.4	14.8	0.8
2011	1,247.3	9,480.4	13.2	0.6



2.58 The above information shows that the Province's foreign currency debt has increased over the years. The risk of exposure to foreign currency fluctuations, however, is offset by the Province's hedging strategy. The Province uses several alternatives to reduce (hedge) risk associated with debt repayable in foreign currencies:

- purchasing assets denominated in foreign currencies for the Province's sinking fund;
- entering into debt swap agreements which allows repayment of the debt in Canadian dollars; and
- entering into forward contracts (which allows the Province to purchase foreign currency at a stipulated price on a specified future date).

2.59 From the table above, we can see the risk of exposure to foreign currency fluctuations is very low at

less than 1% for the last three years. Because of the effectiveness of the Province's hedging strategy, we assess this indicator as favourable.

Summary of Vulnerability Indicators

2.60 We are able to assess the short-term two-year trend for both indicators:

Two-year Trend for Vulnerability Indicators	
Vulnerability indicator	Two-year trend
Government transfers-to-total revenues	Unfavourable
Foreign currency debt-to-Net Debt	Favourable

2.61 We can also assess long-term trends for the two indicators.

Long-term Trend for Vulnerability Indicators	
Vulnerability indicator	Long-term trend
Government transfers-to-total revenues	Unfavourable
Foreign currency debt-to-Net Debt	Favourable

2.62 In summary, the Province's vulnerability exposure is mixed. Over the last few years the Province's reliance on federal revenue has increased. The Province is doing a good job, however, at limiting its exposure to fluctuations in foreign currency.

Comments on Components of the Province's Financial Statements

2.63 In this section, we discuss significant trends we have observed in the Province's financial statements. We have highlighted these trends to raise public awareness and to provide legislators with an independent assessment of the areas we believe should be a focus for the government.

Deficit

2.64 For the year ended 31 March 2011, the Province reported a deficit of \$633.0 million. This is a decrease of \$89.3 million from the \$722.3 million deficit reported for the year ended 31 March 2010.

2.65 The following table shows, at a high level, the reasons for the change in the deficit from 31 March 2010 to 31 March 2011.

Analysis of Deficit Decrease	
	(millions)
2010 Deficit	\$722.3
Increase in provincial source revenue	(430.5)
Increase in federal source revenue	(18.3)
Increase in expense	359.5
2011 Deficit	\$633.0

2.66 Increases in provincial source revenue are mainly attributable to an increase in Harmonized Sales Tax of \$120.8 million and an increase in earnings of New Brunswick Electric Finance Corporation (EFC) of \$223.0 million.

2.67 The largest increases in expenses are in Health of \$99.3 million and in Social Development of \$96.4 million.

2.68 The results for the year and major variance analysis contained in Volume 1 of the Public Accounts explain the reasons for the variances:

- Harmonized Sales Tax revenue is higher mainly due to the strengthened economy.
- Investment income is higher because the EFC reported a positive net income of \$10.8 million in 2011, after recording a loss of \$212.2 million in 2010, due primarily to NB Power's write-down of the Dalhousie Generating Station.
- Health expenses were higher due to increased expenses under the Medicare and Prescription Drug programs, as well as increased expenses in the Regional Health Authorities associated with wages, energy costs, medical supplies and drugs.
- Social Development expenses were higher due to increases in Nursing Home Services, Long Term Care, Social Assistance, and Housing Services.

Expenses

2.69 The following table shows the one year growth rate for the past three years.

Growth of Expenses by Function (percent)				
Average annual growth rate	Function	2011 growth rate	2010 growth rate	2009 growth rate
5.0	Education and training	2.1	11.7	1.5
5.7	Health	3.8	5.7	7.6
5.7	Social development	9.8	3.9	3.4
10.2	Protection services	19.6	(6.4)	19.4
13.1	Economic development	(4.5)	20.0	26.2
6.0	Labour and employment	0.1	13.7	4.5
1.9	Resources	4.5	0.8	0.4
3.4	Transportation	5.6	0.2	4.6
6.0	Central government	7.1	0.9	10.2
3.7	Service of the public debt	4.2	2.3	4.4
5.6	Total	4.6	5.8	6.3

2.70 This table shows that the Province's expenses have been growing at a significant rate over the past three years. The annualized growth rate for 2011 was 5.6%. This increase in expense growth is concerning given the Province's budget reduction initiative that was in place for the 2010-2011 fiscal year. From the table above, we can see expenses increased from prior year in nine of ten function areas.

2.71 We noted the growth rate has slowed down over the past two years in health, the largest expense function area. This trend is encouraging as health accounts for 33% of total expenses. We also noted a large decrease in the growth rate in education and training. This decrease is deceiving as the 31 March 2010 expenses were higher than usual due to grant payments to the Maritime Provinces' Higher Education Commission.

2.72 We noted a number of expense function areas had growth increases from prior years. The large growth rate of 19.6% in protection services was a result of increased expenses associated with the December 2010 flood and storm surges, as well as an increase in the provision for losses expense. We noted that the growth rate of 9.8% in social development was caused by

increased expenses in the areas of long term care, social assistance, nursing home services and housing services. This trend could continue given the aging population of New Brunswickers.

2.73 Another concerning growth rate increase is for the service of the public debt. This growth rate for 2011 was 4.2% with an annual average growth rate of 3.7%. These costs will continue to increase if the Province's Net Debt continues to increase.

Receivables, Advances, Loans and Allowances

2.74 Our focus on receivables, advances, loans, and allowances go hand in hand. There are significant amounts of money owed to the Province by taxpayers, businesses, and the federal government. As shown in the table below at 31 March 2011, over \$1.5 billion was owed to the Province, gross of allowances that had been set up for receivables, advances, and loans. There was an additional \$1.1 billion in taxes receivable.

Amounts Owed to the Province										
(\$ millions)										
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Accounts receivable and advances	690.0	733.0	622.7	607.7	522.8	590.5	543.0	476.3	439.3	382.8
Loans	858.5	822.4	736.8	626.0	560.6	512.9	262.7	255.6	292.3	291.2
Total A/R, advances, loans	1,548.5	1,555.4	1,359.5	1,233.7	1,083.4	1,103.4	805.7	731.9	731.6	674.0
Taxes Receivable	1,144.6	1,112.0	1,122.9	954.2	1,046.6	554.9	488.9	553.2	507.0	471.9

2.75 We continue to believe the management of the amounts owed to the Province is critical to reducing interest costs. Assuming an interest rate of 5%, we calculate interest cost associated with the balances of receivables, advances and loans to be approximately \$77.0 million annually.

Receivables and Advances

2.76 Through the following analysis, we note there have been decreases in both the amounts owed to the Province and the related allowances. This was mostly due to the authorization by the Board of Management to delete the assets of the Province that were no

longer considered collectible.

2.77 The following table provides details of the Province's receivables and advances:

Receivables and Advances (\$ millions)								
	2011	2010	2009	2008	2007	2006	2005	2004
Total accounts receivable and advances before allowance for doubtful accounts	690.0	733.0	622.7	607.7	522.8	526.4	543.0	476.3
Less receivables from the federal government	(216.7)	(204.5)	(182.0)	(205.0)	(169.7)	(164.0)	(141.6)	(132.3)
Less advances of grants	(10.7)	(37.6)	(13.0)	(12.7)	(21.9)	(51.5)	(55.2)	-
Subtotal	462.6	490.9	427.7	390.0	331.2	375.0	346.2	344.0
Allowance for doubtful accounts	(250.2)	(306.0)	(244.0)	(201.3)	(155.7)	(140.7)	(132.9)	(118.5)
Allowance percentage	54.0%	62.3%	57.0%	51.6%	47.0%	37.5%	38.4%	34.4%

2.78 The total amount of accounts receivables and advances at 31 March 2011 was \$690.0 million, a decrease of 5.9% over the amount owing at the end of the previous year.

2.79 The amount receivable from the federal government increased by \$12.2 million during the year ended 31 March 2011. Details of the amounts due from the federal government are found in the following table.

Receivables from the Federal Government (\$ millions)						
	2011	2010	2009	2008	2007	2006
Central Government Services	76.4	50.4	69.1	45.2	46.4	39.9
Economic Development	69.8	45.1	32.8	21.9	26.1	19.8
Education	24.6	28.7	49.5	63.8	47.2	49.9
HST Rebate	22.7	24.4	12.6	14.2	16.1	17.3
Transportation	13.5	46.0	6.6	16.6	22.8	25.7
Health	0.5	0.7	1.3	31.5	1.2	4.5
Other	9.2	9.2	10.1	11.8	9.9	6.9
Total	216.7	204.5	182.0	205.0	169.7	164.0

2.80 One of the larger components of the receivable from the federal government is for Economic Development. The amount owing for Economic Development increased by \$24.7 million to \$69.8 million at 31 March 2011. This receivable relates to federal-provincial cost shared agreements. Most of these agreements require the Province to submit a claim to the federal government for reimbursement of expenses. The collectability of the amounts due from the federal government should not be in question; however, this receivable still needs to be managed to ensure timely collection. It is imperative that the Province prepare and submit claims on a timely basis so that the Province is not bearing the interest costs with the outstanding amounts.

Loans

2.81 The following table provides details of the Province's loans receivable.

Loans Receivable										
(\$ millions)										
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Loans to students	415.1	391.0	369.2	336.4	296.0	258.3	0.2	0.2	0.2	0.2
<i>Economic Development Act</i>	314.3	303.6	246.3	169.8	146.0	135.5	135.8	124.1	155.7	144.0
<i>New Brunswick Housing Act</i>	33.8	35.9	35.5	34.0	34.8	34.5	33.6	32.7	31.8	30.9
Energy efficiency upgrade loans	14.3	11.1	7.3	3.6	2.3	0.2	-	-	-	-
<i>Fisheries Development Act</i>	29.4	35.2	36.4	40.1	39.2	40.1	42.6	48.8	54.4	56.9
<i>Agricultural Development Act</i>	9.8	11.2	5.4	4.4	4.2	18.1	21.3	21.7	20.3	18.1
Beaverbrook Art Gallery	7.6	6.6	6.6	4.5	4.5	1.0	1.0	-	-	-
Loans to municipalities	1.6	3.4	5.4	7.3	9.2	1.0	1.6	1.6	1.9	1.7
Fundy Trail Endowment Fund	3.5	3.3	3.1	2.9	2.8	2.6	4.0	3.8	3.6	3.2
Unsatisfied judgements	9.4	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
L'Office de Stabilisation	4.0	4.1	4.1	4.0	-	-	-	-	-	-
La Fondation du quotidien francophone	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Provincial Holdings Ltd.	7.6	2.6	2.9	4.1	6.2	6.0	6.5	6.7	8.1	8.5
Other loans	4.1	0.9	1.1	1.4	1.9	2.1	2.6	2.5	2.8	3.1
Subtotal	858.5	822.4	736.8	626.0	560.6	512.9	262.7	255.6	292.3	280.1
Allowance for doubtful loans receivable	(269.1)	(313.3)	(297.9)	(229.3)	(207.2)	(192.9)	(142.6)	(129.3)	(143.9)	(133.7)
Total	589.4	509.1	438.9	396.7	353.4	320.0	120.1	126.3	148.4	146.4
(percent)										
Percentage of doubtful loans receivable	31.3	38.0	40.4	36.6	37.0	37.6	54.1	50.6	49.2	47.7

2.82 The increase in loan balances is concerning. Since 31 March 2006, the year the Province added student loans to its loan portfolio, total loans have increased over 67%, an average increase of over 13%

per year.

Allowances

2.83 The following table accumulates all of the different allowances for losses to provide a comprehensive picture.

Allowances										
(\$ millions)										
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Allowance for losses	165.3	95.5	101.8	103.1	95.8	84.0	67.1	75.8	50.2	44.7
Allowance for doubtful loans receivable	269.1	313.3	297.9	229.3	207.2	192.9	142.6	129.3	143.9	133.7
Allowance for doubtful taxes receivable	43.8	61.8	56.5	55.1	77.0	85.4	96.9	86.6	89.5	89.5
Allowance for doubtful receivables and advances	250.2	306.0	244.0	201.3	155.7	140.7	132.9	118.5	113.3	97.7
Total	728.4	776.6	700.2	588.8	535.7	503.0	439.5	410.2	396.9	365.6

2.84 The total of all of the Province's allowances continues to be concerning. The balance decreased at 31 March 2011, after the Board of Management's authorization to write-off uncollectible accounts of \$155.1 million.

2.85 The following table analyzes the total allowance for the past four years.

Allowance Summary				
(\$ millions)				
	2011	2010	2009	2008
Opening balance	776.6	700.2	588.7	535.7
New allowance	109.6	103.8	108.3	59.0
Write offs	(155.1)	(16.3)	(7.5)	(5.6)
Adjustment	2.7	(11.1)	10.7	(0.4)
Closing balance	728.4	776.6	700.2	588.7

2.86 We are pleased collectability of provincial receivables is being reviewed with required allowances and write offs assessed. We hope this process continues annually. However, it is troubling to see \$155.1 million written off as unrecoverable. We understand this amount is generated from several years of not writing off old amounts previously allowed for.

Overall, it is concerning that this magnitude of write off is required, especially when the Province is experiencing financial difficulty.

NB Electric Finance Corporation

2.87 The Province's financial statements include the results of many Crown Agencies. One of the largest and most complex is the NB Power group of companies (NB Power). These companies are included in the Province's financial statements through the New Brunswick Electric Finance Corporation (EFC). This company was set up to hold the debt of NB Power and to some degree controls the strategic long-term operations of NB Power. The accounting for these companies in the Province's financial statements is based on the principle that EFC will be able to receive sufficient income from the NB Power group to repay the debt taken on by the EFC. We have decided to provide an analysis of the operating results of the EFC and NB Power group due to the complexity of the underlying accounting issues and because these entities' financial results can have a significant impact on the Province.

2.88 The New Brunswick Electric Finance Corporation (EFC) began operations in the fiscal 2005 year. Since it began, the EFC has shown a total income of \$95.6 million. The only year where a loss was recorded was 2010, which was the result primarily of the write down of the Dalhousie Generating Station. The EFC's results for the past seven years are provided in the following table:

NB Electric Finance Corporation Net Earnings (loss)							
(\$ millions)							
	2011	2010	2009	2008	2007	2006	2005
EFC	10.8	(212.2)	34.4	104.5	18.7	131.5	7.8

2.89 The EFC's only source of income and cash generation is from the NB Power group of companies. The EFC is also responsible for the debt of NB Power and is dependent on income and cash flows from NB Power to pay down this debt. It is difficult to analyse the results of NB Power's operations because of:

- continued recognition of regulatory assets for certain normal period costs and replacement power costs

associated with the refurbishment of the Point Lepreau Generating Station, and for the benefits from the lawsuit settlement with Petróleos de Venezuela S.A. (PDVSA); and

- mark-to-market accounting for the PDVSA long-term receivable which the notes to the combined financial statements of NB Power describe as temporary and which will reverse when all the related fuel shipments have been received.

2.90 The following table provides information about NB Power's earnings for the past five years. The effects of rate regulated accounting, mark-to-market adjustments for the long-term receivable and payments to the EFC (payments in lieu of tax) are factored out to try to give as clear a year-to-year comparison of net earnings as possible.

	NB Power				
	(\$ millions)				
	2011	2010	2009	2008	2007
Net earnings (loss) per financial statements	67	(117)	70	89	21
Net earnings (loss) before special payments in lieu of income taxes	99	(170)	104	138	29
Net earnings (loss) before special payments in lieu of income taxes adjusted to remove the effects of regulatory accounting	(117)	(317)	(282)	211	29
Net earnings (loss) before special payments in lieu of income taxes adjusted to remove the effects of regulatory accounting and the effects of temporary mark-to-market adjustments on long term receivable	(95)	(366)	(137)	118	29
Net earnings (loss) before special payments in lieu of income taxes adjusted to remove the effects of regulatory accounting, the effects of temporary mark-to-market adjustments on long term receivable, and the write down on the Dalhousie Generating Station	(95)	(205)	(137)	118	29

2.91 NB Power's net earnings per financial statements show surpluses in the years ended 31 March 2007 through 2009 and again in 2011. If one removes the write down of the Dalhousie Generating Station of \$161 million, the net earnings for the year ended 31 March 2010 would also be positive. The adjusted earnings figure at the bottom of the preceding table reflects less favourable results from 2009 to present, which is what would be expected with the extra costs incurred during the refurbishment shut down of the

Point Lepreau Generating Station. The year ended 31 March 2007 provides a good base year comparison because the Point Lepreau Generating Station was operational, there was no long term receivable to mark-to-market, and NB Power was not recording regulatory assets.

2.92 The next table shows the reasons why NB Power's adjusted earnings have changed over the past three years.

NB Power				
Year over Year Increase (Decrease) in Earnings				
(\$ millions)				
	2011	2010	2009	2008
Net earnings (loss) before special payments in lieu of income taxes adjusted to remove the effects of regulatory accounting, the effects of temporary mark-to-market adjustments on long term receivable, and the write down on the Dalhousie Generating Station – in 2010	(205)	(137)	118	29
More (less) revenue from sales of power	60	-	3	72
More (less) transmission revenue	-	2	2	3
More (less) miscellaneous revenue	(8)	(14)	(26)	32
(More) less expense for fuel and purchased power	13	(18)	(284)	(25)
(More) less expense for transmission	(4)	(4)	3	-
(More) less expense for operations, maintenance and administration	31	(32)	(18)	(8)
(More) less expense for amortization and decommissioning	-	(13)	30	4
(More) less taxes	-	3	-	6
(More) less finance charges	18	8	35	5
Net earnings (loss) before special payments in lieu of income taxes adjusted to remove the effects of regulatory accounting, the effects of temporary mark-to-market adjustments on long term receivable, and the write down on the Dalhousie Generating Station – in 2010	(95)	(205)	(137)	118

2.93 This table provides information about the year-to-year changes in NB Power's core results:

- The year 2009 had worse results than the year 2008 because the Point Lepreau Generating Station was taken off line, resulting in higher costs for replacement fuel.
- The year 2010 had worse results than the year 2009 for a number of smaller reasons: fuel costs increased but sales of power did not change, miscellaneous

revenue declined for the second year in a row, and the cost of operations, maintenance and administration increased by 7.8%.

- The year 2011 showed a more favourable picture, although there was still a loss for the year. For that year, the sales of power increased, while the cost of fuel and purchased power fell.

2.94 While the accounting that NB Power uses for rate regulated assets is consistent with Generally Accepted Accounting Principles, the reader needs to understand what the assets represent. Most of the regulatory assets represent the right of NB Power to collect revenue from ratepayers in the future to cover the normal period costs and replacement power costs associated with the refurbishment of the Point Lepreau Generating Station. Therefore, the asset represents a right to collect the costs of the Point Lepreau refurbishment from future ratepayers. Normally such a situation would be considered to be a deficit. The accounting in the NB Power audited financial statements does not reflect this view.

2.95 As part of our audit work, we confirmed that NB Power and their auditors assessed the ability of NB Power to be able to charge rates in the future at a sufficient level to fully collect the amount of the regulatory asset. As part of our work, we had the opportunity to review NB Power's model of its future financial results; this model covers multiple years into the future. The model forecasts better results than we expected it to, but we found that the forecast held up even when various assumptions were changed. Of course, the forecast is dependent on the Point Lepreau Generating Station successfully being returned to service.

2.96 Essentially NB Power's model forecasts that it can recover its regulatory asset and generate surpluses, thereby allowing it to reduce debt, while at the same time requiring minimal rate increases for the foreseeable future.

2.97 While the accounting adopted by NB Power is supported by accounting standards, we believe significant uncertainty exists for the Province regarding the accounting for this rate regulated asset.

Provincial Pension Plans

2.98 The Province's pension plans are another significant component of the Province's financial statements. Recent market fluctuations have exposed the Province to greater volatility in its financial reporting through required accounting adjustments for pension plans. The following paragraphs illustrate these trends, as well as discuss other issues associated with the plans.

2.99 The following table provides details of the Province's total pension expense for the past ten years. For purposes of illustrating the volatility of this figure, a longer term approach of ten years has been used in our data analysis.

Components of Pension Expense										
(\$ millions)										
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Employer's share of pension benefits earned	137.4	131.6	146.1	133.8	126.1	117.0	124.1	96.1	90.6	82.9
Net interest expense (revenue)	52.9	118.2	20.6	(9.1)	0.4	30.9	17.6	85.4	27.9	3.5
Plan amendments	-	-	-	-	5.9	-	-	-	-	-
Amortization of adjustments	99.7	87.1	159.7	30.3	(31.2)	(40.3)	(31.8)	(55.3)	(26.1)	(80.6)
Change in valuation adjustment	-	(15.5)	(3.3)	(0.5)	(0.1)	2.3	(1.5)	(2.0)	(2.0)	(6.5)
Total	290.0	321.4	323.1	154.5	101.1	109.9	108.4	124.2	90.4	(0.7)

2.100 This table highlights the significant increase in the annual pension expense over the ten year period as well as the volatility of the expense. In the year ended 31 March 2002, the pension expense was a credit of \$.7 million; this had the same effect on the Province's Statement of Operations in that year as a revenue item of \$.7 million. By way of contrast, in the year ended 31 March 2011, the pension expense was \$290.0 million, a decrease of \$31.4 million from the 31 March 2010 total of \$321.4 million.

2.101 The employer's share of pension benefits earned has increased at an annualized rate of 5.8% per year. This is the core expense the Province incurs to provide pension benefits earned by employees during the year.

This rate of increase is contrasted against the provincial GDP 2010 growth rate of 2% (as estimated by the Department of Finance in their June 2011 publication "*The New Brunswick Economy: 2010 in Review*").

2.102 The net interest component of the pension expense depends primarily on the rate of return earned on pension fund assets. These returns are volatile, as illustrated in the following table which reports the rates of return for the New Brunswick Investment Management Corporation (NBIMC) since it diversified the pension funds on 31 March 1997. NBIMC manages the trust funds for the *Public Service Superannuation Act* (PSSA) plan, the *Teachers' Pension Act* (Teachers') plan and the *Provincial Court Act* and *Provincial Court Judges' Pension Act* (Judges') plan.

NBIMC Rates of Return (percentage)	
2011	10.42
2010	19.94
2009	(18.34)
2008	0.79
2007	8.68
2006	15.87
2005	8.51
2004	25.27
2003	(6.95)
2002	3.45
2001	(5.23)
2000	20.57
1999	(0.62)
1998	18.68
14 year average annualized return	7.22

2.103 The returns earned by NBIMC have ranged from a high of 25.27% in the year ended 31 March 2004 to a low of (18.34)% in the year ended 31 March 2009.

Over the fourteen fiscal years the average annual rate of return of NBIMC has been 7.22% which is slightly above the 7.12% rate of return the Province assumes will be earned on the plan assets over the long term. However, a 6.22% average annual rate of return was reported for the prior year (which was below the Province's assumed rate). The volatility in pension asset rates of return is highlighted upon review of the annualized returns in the previous table.

2.104 We note the Province's assumed rate of return has remained unchanged since the 31 March 2010 rate at 7.12%. Further, we note that the last difference in rate was at 31 March 2009 when the rate was previously set at 6.86%. The accuracy of these rates are particularly important given that a small variance in rate can cause a significant effect in the accounting for pension investment returns and expenses and the reporting of pension liabilities for accounting purposes.

2.105 As noted in our provincial audit findings, the assumed rate of return used by the Province should be subject to thorough review, and supporting analysis for the approach taken should be well documented.

2.106 The following table provides the history of the Province's pension liability balance for accounting purposes over the past ten years.

Pension Liability (Surplus) for Accounting Purposes										
(\$ millions)										
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Pension liability (surplus)	(219.9)	(196.6)	(210.2)	(244.7)	(126.4)	30.2	156.7	271.5	362.1	372.6

2.107 The value of the pension liability or surplus for accounting purposes is calculated by comparing the market value of plan assets to the actuarial estimate of accrued benefit obligations owing to present and future pensioners. From this difference an adjustment is made for accounting purposes that reduces the volatility in plan experience. The following table provides the details of these three components of the pension liability or surplus.

Components of the Pension Liability (Surplus) for Accounting Purposes										
(\$ millions)										
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Estimated accrued benefit obligations	8,895.7	8,570.2	8,642.5	8,289.3	7,865.5	7,324.5	6,719.6	6,380.9	5,983.7	5,603.1
Value of plan assets	8,387.0	7,703.1	6,512.4	8,024.1	8,030.5	7,449.3	6,521.7	6,086.5	4,926.3	5,445.1
Subtotal	508.7	867.1	2,130.1	265.2	(165.0)	(124.8)	197.9	294.4	1,057.4	158.0
Accounting adjustments	(728.6)	(1,063.7)	(2,340.3)	(509.9)	38.6	155.0	(41.2)	(22.9)	(695.3)	214.6
Pension liability (surplus)	(219.9)	(196.6)	(210.2)	(244.7)	(126.4)	30.2	156.7	271.5	362.1	372.6

2.108 The previous table shows that while the Province's pension position for accounting purposes has been a surplus for the past five years, the value of the total estimated accrued benefit obligations has actually exceeded the total value of plan assets for the past four years. The Province's pension position before accounting adjustments improved in the year ended 31 March 2011 primarily due to pension plan asset performance and market recovery.

2.109 The accounting adjustment row in the table above provides some information about how actual pension plan experience has compared to assumed plan performance. A negative amount for accounting adjustments (in brackets) represents experience in the past that was worse than assumed experience.

2.110 The following table compares the annual pension expense to the amount of contributions made by the Province to the various pension plans.

Pension Expense and Contributions										
(\$ millions)										
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Pension expense	290.0	321.4	323.1	154.5	101.1	109.9	108.4	124.2	90.4	(0.7)
Employer contributions	313.3	307.8	288.6	272.8	257.7	236.4	223.2	214.8	100.9	69.1
Reduction (increase) in pension liability	23.3	(13.6)	(34.5)	118.3	156.6	126.5	114.8	90.6	10.5	69.8

2.111 The previous table shows that for two of the past three years, the Province has not made enough contributions to its various pension plans to cover the annual pension expense, whereas in the previous seven years the amount of employer contributions exceeded the amount of the pension expense.

2.112 In addition, it should be noted that the liability data presented in this section pertains to liabilities calculated for accounting purposes and should not be used to assess funding or solvency status.

2.113 We further note that while the pension funds held through NBIMC are subject to audit, the Province has ceased to have financial statement audits performed on the larger pension plans. Our Office performed extra work this year in an effort to compensate for the absence of the plans' audits.

2.114 As a result of the additional work our office performed on pension plans this year, we will be reviewing in the future certain matters pertaining to pension plans. A list of a few of the items we expect to examine regarding pension plans follows:

- an assessment of the adequacy of disclosure to provincial pension plan members of the liability calculated for funding purposes, funding shortfalls and solvency shortfalls, and trends over time regarding the funded position and financial position of the pension plan;
- an assessment of the adequacy of disclosure to pension plan governance committees and plan members of funding statistics including an indication of the status of funding normal cost of the plan (whether the current contributions are fully funding current service costs);
- an assessment of the adequacy of disclosure to pension committees, plan members and provincial administrators of the sensitivity of rates selected in calculating the liability and other key calculation variables;
- an assessment of the adequacy of support maintained and reviewed by pension committees and provincial administrators for differences in key calculation variables selected

between plans;

- an assessment of the adequacy of the overall governance and communication to stakeholders pertaining to plan administration and membership matters for provincial pension plans; and
- an assessment of the adequacy of the process to determine the Province's financial responsibilities regarding joint governance or other pension plans.

2.115 Resources and timing did not permit satisfactory review of the above items as part of the regular financial statement audit of the Province. Our intent is to comment on these items in a future report.