

September 21, 2009

Mr. William MacKenzie  
Clerk  
House of Assembly

Dear Mr. MacKenzie:

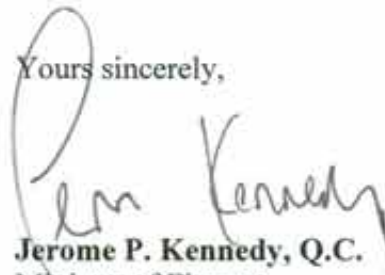
On September 26, 2008 the 2007-08 Annual Report for the Newfoundland and Labrador Government Sinking Fund was tabled in accordance with the *Transparency and Accountability Act*. At that time the audited financial statements had not been finalized and therefore unavailable for inclusion in the Annual Report.

The Board has made it a practice to produce audited financial statements on an annual basis as a means of demonstrating accountability for the management and operation of Government's sinking funds. It should be noted however that this is not a legislative obligation.

I therefore wish to table the amended version of the 2007-08 Annual Report for the Newfoundland and Labrador Government Sinking Fund. The only change in this report is the addition of the audited financial statements. The performance information reported in the original document has not been altered.

I trust this is satisfactory.

Yours sincerely,



**Jerome P. Kennedy, Q.C.**  
Minister of Finance

# **Annual Performance Report 2007-2008**

Newfoundland and Labrador Government  
Sinking Fund

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**BOARD OF TRUSTEES  
NEWFOUNDLAND AND LABRADOR CONSOLIDATED SINKING FUNDS**

NEWFOUNDLAND AND LABRADOR GOVERNMENT SINKING FUND  
NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING  
CORPORATION SINKING FUND

DEBT MANAGEMENT DIVISION  
DEPARTMENT OF FINANCE  
CONFEDERATION BUILDING  
P.O. BOX 8700  
ST. JOHN'S, NL  
A1B 4J6

September 14, 2009

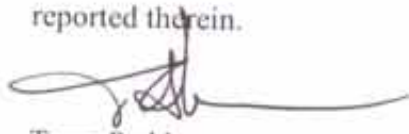
**Message from the Board**

I am pleased to present the revised Annual Performance Report for the Newfoundland and Labrador Government Sinking Fund for the 2007-08 fiscal year, which includes the audited financial statements of the Fund for March 31, 2008.

The Newfoundland and Labrador Government Sinking Fund administers the sinking funds established by the Province of Newfoundland and Labrador for the repayment of the Province's debenture debt. The effective investment and control of these funds is consistent with the Department's responsibilities with respect to stewardship of public money and management of the funded debt and supports the Department's strategic direction and commitment of sound financial management.

This performance report provides an overview of the Newfoundland and Labrador Government Sinking Fund and identifies key issues and results for the Board of Trustees during the fiscal year 2007-08. A report on the investment strategy of the Sinking Fund was completed during the year and consideration of this report by the Board is ongoing. It is anticipated that if changes to the investment strategy are approved, they would be implemented by the end of 2008-09.

The Board of Trustees is accountable for the preparation of this report and for the results reported therein.



Terry Paddon  
Chairman

## 1.0 Overview

The Newfoundland and Labrador Government Sinking Fund was created pursuant to the *Financial Administration Act* to consolidate and administer sinking funds established for the repayment of the Province's debenture debt. The Province has established sinking funds for most of its long term debenture issues and the annual contributions to these sinking funds are invested by the Board of Trustees of the Newfoundland and Labrador Consolidated Sinking Funds, appointed by the Lieutenant Governor in Council to manage and control the day to day operation of the sinking funds. As at 31 March 2008, the Board of Trustees consists of the incumbents in five senior public service positions with the Department of Finance as follows:

Terry Paddon	Deputy Minister
Donna Brewer	Assistant Deputy Minister Financial Planning and Benefits Administration
Ronald Williams	Comptroller General
Earl Saunders	Director, Debt Management
Linda Howell	Manager of Debt Servicing & Financial Risk

The Newfoundland and Labrador Government Sinking Fund operates with a March 31 fiscal year end and the results of its activities are fully consolidated in the Province's annual financial statements.

## 2.0 Mandate

The mandate of the Board of Trustees is to manage and control the operational activities of the Newfoundland and Labrador Government Sinking Fund and the sinking funds of certain Crown corporations where the Province has guaranteed the related debt (i.e. Newfoundland and Labrador Municipal Financing Corporation and the Eastern

Regional Integrated Health Authority). These activities include setting investment policy, investment of funds and the monitoring of such. These funds are invested in accordance with the *Financial Administration Act*, primarily in bonds, debentures or other securities issued or guaranteed by the Government of Canada, the government of a province of Canada, or a chartered bank, with the goal of earning the maximum return from investment of the portfolio while ensuring security of the funds.

### **3.0 Sources of Funding**

For debenture issues which have sinking fund requirements, the Province makes the required sinking fund contributions to the Board of Trustees. In 2007-08, these sinking fund payments amounted to \$41.5 million. Sinking fund contributions are invested and the interest earnings, less an amount to cover administrative costs, are re-invested.

The Newfoundland and Labrador Government Sinking Fund's day-to-day activities are managed by employees of the Department of Finance and the Sinking Fund is invoiced quarterly by the Province for reimbursement of these expenses on a cost-recovery basis.

### **4.0 Highlights and Accomplishments**

- During the year 2007-08 the Sinking Fund paid \$224.0 million to the Province to assist in the retirement of debenture debt.

### **5.0 Financial Statements**

The audited financial statements of the Sinking Fund for the year ended March 31, 2008 are attached. These statements reflect a net income for the year of \$31.4 million, which includes a foreign currency translation loss of \$17.6 million.

### **6.0 Issue**

The Newfoundland and Labrador Government Sinking Fund supports the Department of Finance in its responsibilities related to stewardship of public money and fiscal management by the investing of funds in accordance with parameters set out in the



*Financial Administration Act* and the Department's mandate and mission statement. The investment strategy of the fund has not been reviewed for some time and a review was undertaken during 2007-08.

### **Objective**

By March 31, 2008, the Newfoundland and Labrador Government Sinking Fund will have completed a review of the current investment strategy of the Sinking Fund, with a view to determining if the legislative parameters and operating policies are overly restrictive, thereby impacting investment activities and returns.

Measure: Report on Investment Strategy of Sinking Fund

Indicator: Review of the report completed.

Progress: A report on the investment strategy of the Sinking Fund was completed during the year, an initial review of the report was completed and further consideration of the report by the Board is ongoing. It is anticipated that if changes to the investment strategy are approved, they would be implemented by the end of 2008-09.

**NEWFOUNDLAND AND LABRADOR  
GOVERNMENT SINKING FUND**

**FINANCIAL STATEMENTS**

**31 MARCH 2008**



OFFICE OF THE AUDITOR GENERAL  
St. John's, Newfoundland and Labrador


### AUDITOR'S REPORT

To the Board of Trustees  
Newfoundland and Labrador Government Sinking Fund  
St. John's, Newfoundland and Labrador

I have audited the balance sheet of the Newfoundland and Labrador Government Sinking Fund as at 31 March 2008 and the statements of statutory contributions, retained earnings, revenues and expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at 31 March 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

  
**JOHN L. NOSEWORTHY, CA**  
Auditor General

St. John's, Newfoundland and Labrador  
6 February 2009

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**NEWFOUNDLAND AND LABRADOR GOVERNMENT SINKING FUND**  
**INDEX TO FINANCIAL STATEMENTS**  
**31 March 2008**

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Statement of Cash Flows	" 5
Schedule of Investments	Schedule 1

**NEWFOUNDLAND AND LABRADOR GOVERNMENT SINKING FUND**  
**BALANCE SHEET**

31 March	2008	2007
	(000's)	(000's)
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 155	\$ 90
Term deposits and short-term investments, at cost	107,352	65,931
Interest and other receivables		
Province of Newfoundland and Labrador - guaranteed	9,213	11,459
Other	1,569	3,797
	<u>118,289</u>	<u>81,277</u>
<b>Investments, at amortized cost (Schedule 1)</b>		
Cost	522,011	772,483
Accumulated amortization of discounts and premiums	86,960	92,678
	<u>608,971</u>	<u>865,161</u>
	<u>\$ 727,260</u>	<u>\$ 946,438</u>
<b>LIABILITIES AND SINKING FUND EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 10	\$ 12
Due to Province of Newfoundland and Labrador	421	14
	<u>431</u>	<u>26</u>
<b>Sinking fund equity</b>		
Statutory contributions (Statement 2)	408,558	496,829
Retained earnings (Statement 3)	318,271	449,583
	<u>726,829</u>	<u>946,412</u>
	<u>\$ 727,260</u>	<u>\$ 946,438</u>

*See accompanying notes*

Signed on behalf of the Board:

  
 Chairperson

  
 Member

**NEWFOUNDLAND AND LABRADOR GOVERNMENT SINKING FUND**  
**STATEMENT OF STATUTORY CONTRIBUTIONS**  
**For the Year Ended 31 March**

	2008	2007
	(000's)	(000's)
<b>Balance, beginning of year</b>	<b>\$ 496,829</b>	<b>\$ 454,350</b>
<u>Statutory contributions for the year</u>	<u>41,515</u>	<u>44,348</u>
	538,344	498,698
Statutory contributions applicable to matured/redeemed debentures	(108,827)	-
<u>Foreign currency translation adjustment (Note 5)</u>	<u>(20,959)</u>	<u>(1,869)</u>
<b>Balance, end of year</b>	<b>\$ 408,558</b>	<b>\$ 496,829</b>

*See accompanying notes*

## STATEMENT 3

**NEWFOUNDLAND AND LABRADOR GOVERNMENT SINKING FUND**  
**STATEMENT OF RETAINED EARNINGS**

For the Year Ended 31 March	2008	2007
	(000's)	(000's)
Balance, beginning of year	\$ 449,583	\$ 394,730
Excess of revenues over expenses	31,381	55,409
	480,964	450,139
Retained earnings applicable to matured/redeemed debentures	(159,339)	-
Foreign currency translation adjustment (Note 5)	(3,354)	(556)
<b>Balance, end of year</b>	<b>\$ 318,271</b>	<b>\$ 449,583</b>

*See accompanying notes*

**NEWFOUNDLAND AND LABRADOR GOVERNMENT SINKING FUND**  
**STATEMENT OF REVENUES AND EXPENSES**  
 For the Year Ended 31 March

	2008	2007
	(000's)	(000's)
<b>REVENUES</b>		
Interest income		
Debtentures	\$ 34,576	\$ 45,209
Term deposits and short-term investments	4,689	1,541
Other	95	17
	39,360	46,767
Foreign currency translation gains and losses (Note 5)	(17,602)	(850)
Amortization of discounts and premiums	10,676	9,734
	32,434	55,651
<b>EXPENSES</b>		
Loss on redemption/sales	831	-
Salaries and benefits	119	125
General	103	117
	1,053	242
<b>Excess of revenues over expenses</b>	<b>\$ 31,381</b>	<b>\$ 55,409</b>

*See accompanying notes*

**NEWFOUNDLAND AND LABRADOR GOVERNMENT SINKING FUND**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended 31 March**

	2008	2007
	(000's)	(000's)
<b>Cash flows from operating activities</b>		
Excess of revenues over expenses	\$ 31,381	\$ 55,409
Adjustment for non-cash items		
Amortization of discounts and premiums	(10,676)	(9,734)
Foreign currency translation gains and losses (Note 5)	17,602	850
Loss on redemption/sales	831	-
	39,138	46,525
Change in non-cash working capital	4,879	(653)
	44,017	45,872
<b>Cash flows from financing activities</b>		
Statutory contributions	41,515	44,348
	41,515	44,348
<b>Cash flows from investing activities</b>		
Purchase of investments	(53,708)	(43,210)
Proceeds from redemption and sale of investments	241,230	6,549
Payments to redemption bank accounts	(221,061)	-
Payments of excess to Province upon maturing debentures	(2,980)	-
	(36,519)	(36,661)
Net increase in cash and cash equivalents	49,013	53,559
Effect of foreign currency translation adjustment (Note 5)	(7,527)	208
Cash and cash equivalents, beginning of year	66,021	12,254
Cash and cash equivalents, end of year	\$ 107,507	\$ 66,021
<b>Cash and cash equivalents include:</b>		
Cash	\$ 155	\$ 90
Term deposits and short-term investments	107,352	65,931
	\$ 107,507	\$ 66,021

*See accompanying notes*



**NEWFOUNDLAND AND LABRADOR GOVERNMENT SINKING FUND**  
**SCHEDULE OF INVESTMENTS**

31 March

2008

2007

	<u>Face Value or Par</u> (000's)	<u>Amortized Cost</u> (000's)	<u>Face Value or Par</u> (000's)	<u>Amortized Cost</u> (000's)
<b>Canadian</b>				
Province of Newfoundland and Labrador - guaranteed				
Province of Newfoundland and Labrador	\$ 128,769	\$ 137,094	\$ 186,946	\$ 196,964
Newfoundland and Labrador Municipal Financing Corporation	24,790	24,787	50,773	50,787
Coupons and residuals	290,228	158,310	324,612	181,204
	443,787	320,191	562,331	428,955
Other securities	54,008	55,526	83,087	85,302
Other coupons and residuals	48,207	32,749	58,567	40,863
	546,002	408,466	703,985	555,120
<b>U.S.</b>				
Province of Newfoundland and Labrador - guaranteed				
Province of Newfoundland and Labrador	122,298	139,708	155,534	176,411
Other securities	44,977	52,951	114,767	124,271
Other coupons and residuals	14,543	7,846	17,512	9,359
	181,818	200,505	287,813	310,041
<b>Total investments</b>	<b>\$ 727,820</b>	<b>\$ 608,971</b>	<b>\$ 991,798</b>	<b>\$ 865,161</b>

*See accompanying notes*

**NEWFOUNDLAND AND LABRADOR GOVERNMENT SINKING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
31 March 2008

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**Authority**

The Province of Newfoundland and Labrador issues debentures, most of which have sinking fund requirements. For debentures which have sinking fund requirements, the Province makes the required sinking fund payments (statutory contributions) to the Board of Trustees of the Newfoundland and Labrador Government Sinking Fund. This is an unincorporated body formed under the *Financial Administration Act*. All members of the Board are full-time employees of the Province and are appointed by the Lieutenant-Governor in Council.

**1. Basis of accounting**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Outlined below are the significant policies followed.

(a) Cash and cash equivalents

Cash and cash equivalents include balances with banks, and term deposits and short-term investments with original maturities of three months or less.

(b) Investment transactions

- (i) Purchases: Investments are initially recorded at cost.
- (ii) Amortization: Discounts and premiums are amortized on a straight-line basis from the date of purchase until maturity.
- (iii) Sales: Sales of investments are at a negotiated selling price. Sales are recorded at the proceeds less the investment's average amortized cost, with any resulting gain or loss also recorded.
- (iv) Redemptions: On occasion, investments held in the Fund will be called for redemption by the issuer. In such instances, a gain is recorded equal to the redemption proceeds less the investment's average amortized cost.

**NEWFOUNDLAND AND LABRADOR GOVERNMENT SINKING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 March 2008**

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**1. Basis of accounting (cont.)**

- (c) Maturity of a Province of Newfoundland and Labrador debenture issue for which a sinking fund has been provided.

(i) General

Provision is made for redemption at debenture maturity by investing statutory contributions in interest bearing securities and other investments. Both the contributions and the interest are used to pay debenture holders when debentures mature.

A record is maintained of statutory contributions received on account of each issue and of income allocated to each issue (retained earnings). The dollar total of an issue's statutory contributions and allocated income is called its Sinking Fund Value.

At maturity, statutory contributions are reduced by the total amount of statutory contributions received over the life of the issue. Retained earnings are reduced by the excess of the debenture's Sinking Fund Value over statutory contributions received.

(ii) Cash flow

At maturity, cash is paid into a redemption bank account in an amount equal to the lesser of the total face value of the issue or the Sinking Fund Value of the issue, less the face value of the issue held in the Fund's investments. If the issue's Sinking Fund Value exceeds the total face value, the excess is paid to the Consolidated Revenue Fund of the Province of Newfoundland and Labrador. If the issue's Sinking Fund Value is less than the total face value, the difference is paid into the redemption bank account by the Province.

- (d) Cancellation of Province of Newfoundland and Labrador debentures held by the Sinking Fund upon related sinking fund debentures becoming fully funded

When the value of a sinking fund for a debenture issue equates to the outstanding principal amount of that issue, the Sinking Fund will return to the Province for cancellation any debentures of that issue held by the Sinking Fund. The cancellation of sinking fund assets results in a corresponding reduction in sinking fund equity. Interest income continues to be allocated to the sinking fund until maturity of the related debenture issue and is returned to the Province annually.

- (e) Interest income

Interest income is recorded on an accrual basis.

**NEWFOUNDLAND AND LABRADOR GOVERNMENT SINKING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 March 2008**

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**1. Basis of accounting (cont.)**

(f) Foreign currency translation

Assets, liabilities, revenues and expenses denominated in U.S. currency are translated as follows:

- (i) assets and liabilities are translated at the rate of exchange in effect at the balance sheet date; and
- (ii) revenues and expenses are translated at the rate of exchange in effect on the dates on which such items are recognized in income during the year, or an average of such.

Net sinking fund assets of \$726,829,000 Canadian at 31 March 2008 includes \$224,658,000 U.S. translated to \$230,612,000 Canadian.

Net sinking fund assets of \$946,412,000 Canadian at 31 March 2007 includes \$291,292,000 U.S. translated to \$336,325,000 Canadian.

**2. Accounting policy change**

In prior financial reporting periods, the financial statements of the Newfoundland and Labrador Government Sinking Fund were not prepared in accordance with Canadian generally accepted accounting principles because the impact of foreign currency translation adjustments arising from the translation of U.S. denominated investments was not recognized in income during the year. Translation gains and losses resulting due to currency fluctuations were included in retained earnings rather than amortized into income as it was not the intention of the Sinking Fund that these investments, which are held in US funds, would ever be converted into Canadian dollars.

Beginning on 1 April 2007, the Sinking Fund changed its accounting policies and recognized its foreign currency translation gains and losses, by amortizing them on a straight-line basis over the remaining life of the issue's sinking fund. For purposes of these statements and for comparability, the prior year results have been restated to show the impact of amortizing these gains or losses in the period.

The impact of these changes to the financial statements was to reduce the excess of revenues over expenses on the Statement of Revenues and Expenses by \$17,602,000 (2007 - \$850,000) due to the recognition of the foreign currency translation gains/losses.



**NEWFOUNDLAND AND LABRADOR GOVERNMENT SINKING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 March 2008**

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**3. Related party transactions**

The Newfoundland and Labrador Government Sinking Fund and the Province absorb all of the operating costs, with the exception of banking and custodial fees, of the Newfoundland and Labrador Municipal Financing Corporation Sinking Fund, which is administered by the same Board as the Newfoundland and Labrador Government Sinking Fund.

**4. Cancellation of debt issue 5R**

During 2007-08 the value of the sinking fund for the Province of Newfoundland and Labrador issue 5R 9.375% debentures due 25 February 2010 became equal to the outstanding principal amount of the issue (\$100 million). At that time, the sinking fund held \$44,125,000 in debentures of that issue and these debentures were returned to the Province and cancelled. As a result of this sinking fund becoming fully funded, in accordance with the terms and conditions of the debentures, the Province is no longer required to make an annual sinking fund contribution relating to this debenture. This transaction is reflected in these financial statements through a reduction in investments and a reduction in sinking fund equity in the amount of \$44,125,000. It is not reflected in the statement of cash flows because it did not have an impact on cash and cash equivalents.

**5. Effect of foreign currency translation**

At 31 March 2008, the fund held \$608,971,000 (2007 - \$865,161,000) in investments as shown in Schedule 1. These investments include \$200,505,000 in U.S. investments (2007 - \$310,041,000).

The fund assets, liabilities, statutory contributions and retained earnings denominated in U.S. currency are translated at the rate of exchange in effect at the balance sheet date. The Fund's revenues and expenses are translated at the rate of exchange in effect on the dates on which such items are recognized in income during the year, or an average of such. It is not the intention of the Fund that its U.S. assets will be converted into Canadian dollars.

In 2007 and 2008, translation of the U.S. assets at year end resulted in a net foreign exchange loss due to a decline in the value of the U.S. dollar. Any gains or losses resulting from foreign currency translations will not become realized until such time that U.S. assets should ever actually be converted to Canadian dollars.

	<u>2008</u>	<u>2007</u>
The effect of the translation is as follows:		
Statutory contributions have been reduced by	\$ 20,959,000	\$ 1,869,000
Retained earnings have been reduced by	3,354,000	556,000
Income has been reduced by	17,602,000	850,000
	<hr/>	<hr/>
Total impact of foreign currency translation	41,915,000	3,275,000
The effect of this amount on the Fund Assets is as follows:		
Investments have been reduced by	34,388,000	3,483,000
Cash and cash equivalents have been reduced (increased) by	\$ 7,527,000	\$ (208,000)
	<hr/>	<hr/>

**NEWFOUNDLAND AND LABRADOR GOVERNMENT SINKING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 March 2008**

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**5. Effect of foreign currency translation (cont.)**

The \$7,527,000 is reflected in the Statement of Cash Flows because of its impact on the Fund's cash flow position. However, the other transactions did not impact on the Fund's cash flow position and are, therefore, not reflected in the Statement of Cash Flows.

**6. Financial instruments**

The Newfoundland and Labrador Government Sinking Fund's short-term financial instruments recognized on the balance sheet consist of cash, term deposits and short-term investments, interest and other receivables, accounts payable and accrued liabilities and due to Province of Newfoundland and Labrador. The carrying values of these instruments approximate current fair value due to their nature and the short-term maturity associated with them.

The Fund holds short-term investments with a cost of \$107,352,000 (2007 - \$65,931,000). The cost approximates the face value as these investments are made in term deposits and guaranteed bonds with maturity occurring within 3 months or less after the initial investment. Therefore, their reported value is fair value to the Fund and there is no rate risk associated with these investments.

The Fund holds long-term investments which have an amortized cost of \$608,971,000 (2007 - \$865,161,000). The face value of these investments is \$727,820,000 (2007 - \$991,798,000). The policy and intention of the Board is to hold these long-term investments to maturity. Therefore, their reported value is current fair value to the Fund and there is no rate risk associated with these investments.

**7. Income taxes**

The Newfoundland and Labrador Government Sinking Fund is a Crown entity of the Province of Newfoundland and Labrador and as such is not subject to Provincial or Federal income taxes.