Office of the Auditor General
500 - 330 Portage Avenue
Winnipeg, Manitoba R3C 0C4

December 2003

The Honourable George Hickes
Speaker of the House
Room 244, Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Sir:

I have the honour to transmit herewith my report on the *Audit of the Public Accounts for the Year Ended March 31, 2003* to be laid before Members of the Legislative Assembly in accordance with the provisions of Section 28 of The Auditor General Act.

Respectfully submitted,

Jon W. Singleton, CA•CISA
Auditor General

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FUTURE HANDBOOK SECTIONS AFFECTING FINANCIAL REPORTING OF THE PUBLIC ACCOUNTS

APPENDICES

REFLECTIONS OF THE AUDITOR GENERAL

In my report to the Legislature last year, I indicated that I intended to continue to call on the government to use the Summary Budget, which the government prepares using accounting rules that are close to generally accepted accounting principles, as the primary tool for communicating its financial plan to the members of the legislature and the citizens of Manitoba.

The government has continued to use the Operating Fund budget as its primary tool in communicating its fiscal results. Because this budget includes only a part of the activities for which the government is accountable and because it is prepared using accounting rules unique to Manitoba, the Operating Fund Budget gives legislators and citizens a confusing and incomplete picture of the government's fiscal plans.

It is interesting to note that, since 1989, when balanced budget legislation was originally passed, an estimated $2 billion in pension costs have been excluded from the calculation of the balanced budgets of the Operating Fund. I do not believe that the exclusion of these significant costs is what the average citizen understands by the term "Balanced Budget". The exclusion is, however, permitted by the balanced budget legislation.

Another contributor to confusion on the part of citizens is that the Summary Budget for the year ended March 31, 2004 forecasts a deficit of $110 million, while the budget for the Operating Fund forecasts a positive balance of $10 million.

As I indicated last year:

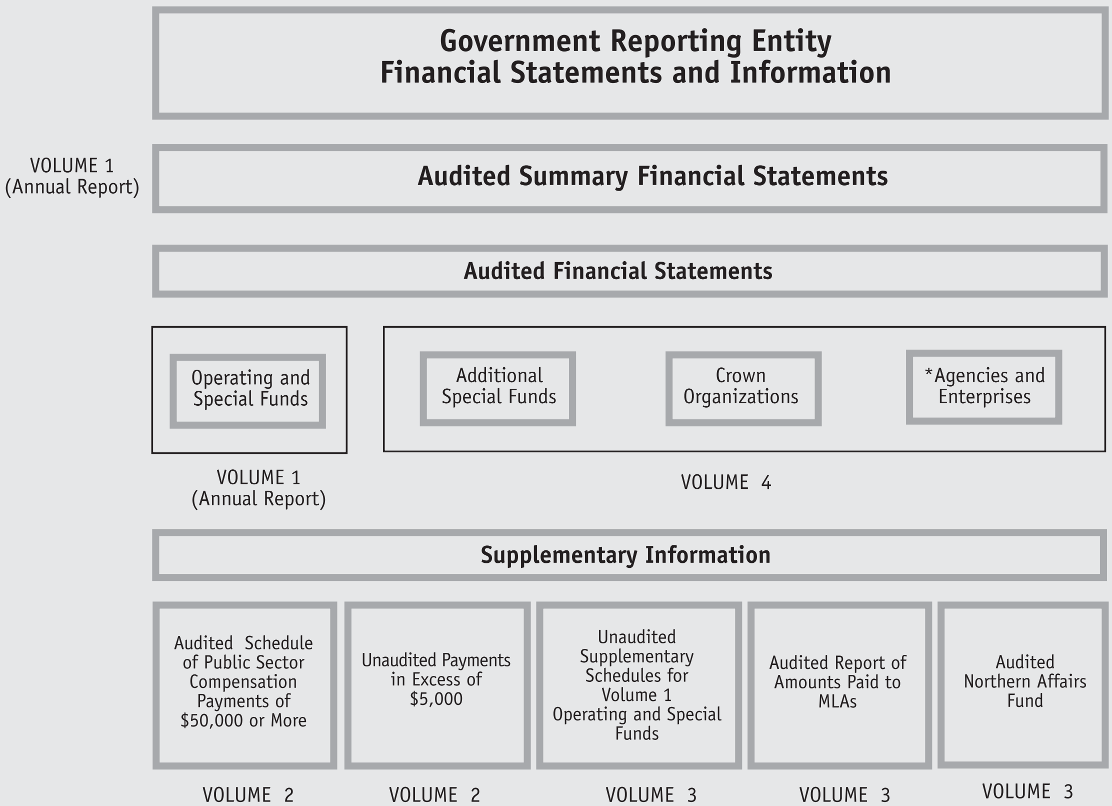
> *"Placing more emphasis on the Summary Budget is important because:*
>
> - *There is considerable financial activity within the overall Government Reporting Entity that is not reflected in the budget for the Operating Fund.*
> - *It would provide a focus for broader debate in the Legislature on government fiscal plans.*
> - *When aligned with reporting used in the Summary Financial Statements, it will facilitate comparison of budget to actual, thereby furthering more informed debate.*
> - *It is prepared on a basis that is close to generally accepted accounting principles.*
> - *It facilitates comparison of Manitoba's results to other jurisdictions. The governments of Canada, British Columbia, Alberta, Ontario, Quebec and New Brunswick have already made the Summary Budget their primary budget.*
>
> *Clear financial reporting and budgeting is a critical component of our system of democracy. As long as the Government continues to give primacy to a budget prepared on a basis different than most other governments in Canada, the Legislature and the citizens of Manitoba will be hindered in their ability to hold the government of the day accountable for its management of public monies."*

Jon W. Singleton, CA•CISA

OVERVIEW OF THE PUBLIC ACCOUNTS

Financial Reporting Structure

Financial Reporting Structure of Manitoba's Public Accounts



* Detailed Audited Financial Statements of Special Operating Agencies (SOAs) are included in a separate annual report prepared for the Special Operating Agencies Financing Authority (SOAFA)

The Public Accounts of Manitoba represent the annual financial statements for the Province of Manitoba (Province). These financial statements provide an important link in an essential chain of public accountability. They are the principal means by which the Government reports to the Legislative Assembly and to all Manitobans on its stewardship of public funds.

The Public Accounts are prepared in accordance with The Financial Administration Act and contain the financial statements and supporting information required by this legislation. The Public Accounts also include information required by other legislation such as the Balanced Budget, Debt Repayment and Taxpayer Accountability Act and by the Public Sector Compensation Disclosure Act.

Public Accounts are represented by two distinct sets of financial statements that satisfy two unique purposes. The Summary Financial Statements are the **General Purpose** statements of the Government. They provide audited information on the aggregate financial affairs and resources for which the Government is responsible, including government enterprises and crown organizations as listed in Appendix E. The Summary Financial Statements are prepared in accordance with public sector accounting standards (as issued by the Public Sector Accounting Board [PSAB]) of the Canadian Institute of Chartered Accountants (CICA) with notable exceptions. These statements are the appropriate statements to use when comparing the operating results and the financial position of the Province to other provinces and the federal government. The consolidated net loss reported in the Summary Financial Statements of the Government for 2002/03 was $184 million.

The other set of financial statements presented for Public Accounts are the Financial Statements of the Operating Fund and Special Funds. They are **Special Purpose** in nature and are intended to serve as the Government's accountability report to the Legislative Assembly on revenues raised and expenditures made as authorized by the Appropriation Act and other statutory spending authorities. These financial statements are also used to reflect the Government's compliance with the Balanced Budget, Debt Repayment and Taxpayer Accountability Act. For 2002/03 the Government achieved a positive balance of $4 million including interfund transfers from the Fiscal Stabilization Fund and to the Debt Retirement Fund and, therefore, was in compliance with balanced budget legislation. These statements do not incorporate the Government's unfunded pension liabilities or the results of other organizations owned and controlled by the Government as included in the Summary Financial Statements.

The Public Accounts for the 2002/03 fiscal year are published in four volumes. The preceding chart illustrates the structure of the Government's financial reporting in the Public Accounts.

Volume 1, *Province of Manitoba Annual Report*, contains:

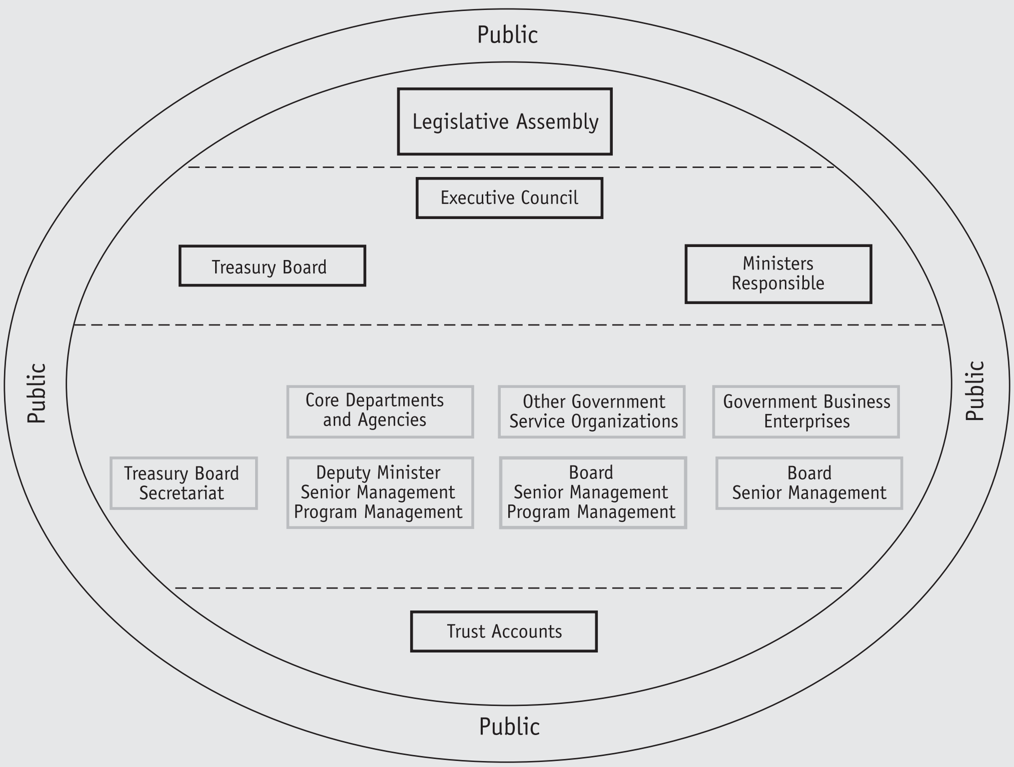
- the audited Summary Financial Statements;
- the audited Special Purpose Financial Statements of the Operating Fund and Special Funds (Operating Fund);
- the Minister of Finance's comments for the year ended March 31, 2003;
- information on the Manitoba economy;
- discussions on financial indicators; and
- variance explanations for both the Summary Financial Statements and the Special Purpose Financial Statements of the Operating Fund.

Volume 2, *Supplementary Information*, contains details of employee compensation of $50,000 or more, as well as information on other payments from the Operating Fund in excess of $5,000 to corporations, firms, individuals, other governments and government agencies. The information on employee compensation of $50,000 or more is audited as required by the Public Sector Compensation Disclosure Act. The information on other payments from the Operating Fund to corporations, firms, individuals, other governments and government agencies is unaudited.

Volume 3, *Supplementary Schedules and Other Statutory Reporting Requirements*, provides additional information on the Operating Fund of the Government. This financial information is unaudited with the exception of the Report of Amounts Paid to MLAs and the Northern Affairs Fund.

Volume 4, *The Financial Statements of Funds, Organizations, Agencies and Enterprises Comprising the Government Reporting Entity*, contains the individual audited financial statements of the various entities owned or controlled by the Government which are included in the Government Reporting Entity for the Province of Manitoba, except for the Operating Fund and Special Operating Agencies (SOAs). (However, Volume 4 contains the financial statements for the Special Operating Agencies Financing Authority). The audited financial statements of SOAs are included in a separate annual report prepared for the Special Operating Agencies Financing Authority.

Accountability Model



This model provides an overview of the accountability organization of the provincial public sector. It is not intended to represent all parties or relationships involved, but rather to emphasize that various levels that exist, and that accountability to the public is relevant at all levels.

It can be used when considering accountability at various levels within Provincial operations reflecting the Government's accountability to citizens, to the Legislative Assembly, Departments' and Provincial public sector entities' accountability to the Government, Deputy Minister's or Board's accountability to a Minister, and management's accountability to a Deputy Minister.

Auditor Independence and Objectivity

In the legislative audit community, we maintain the highest standards of independence and objectivity in the conduct of our audits. In Manitoba, our audit role includes an involvement with prospectuses as well as the financial statement audit of the Public Accounts and other entities. We do not provide non-assurance services such as designing or implementing a hardware or software system, valuation services, financial statement preparation or bookkeeping services, legal services or internal audit services. In the private sector provision of these services by external auditors and inadequate rotation of the audit partner have been identified as contributing to failures to provide the high level of assurance associated with generally accepted auditing standards.

Because legislative auditors report directly to the Legislative Assembly, we are independent of government. Further, because we have no financial interest in organizations we audit, and do not benefit from the audit fees we charge, we are less vulnerable to independence threats existing in the private sector.

Similarly, the threat that we might become too sympathetic to an audited organization's interests to maintain our objectivity is dealt with in the political process by the requirement for periodic general elections as well as the ten year term of the appointment of the Auditor General. In addition, staff rotation on the audit of the Public Accounts and the influence of the broader legislative audit community assist us in maintaining our objectivity.

During the past year we formalized our communication with audit committees or their equivalents and took steps to ensure that the private sector auditors of the entities within the government reporting entity adhered to independence and conflict of interest standards.

We continue to provide a high level of assurance in our reports to the Legislative Assembly, and therefore to the citizens of Manitoba, and we will continue to maintain our independence and objectivity.

Summary Financial Statements - Auditor's Report

The Auditor's Report on the Summary Financial Statements is included for reference in Appendix A at the end of this report, along with an excerpt of the Summary Financial Statements for the year ended March 31, 2003 contained in Appendix B.

The Auditor General Act requires the Auditor General to provide assurance to the Legislative Assembly on the annual Public Accounts and other accountability documents prepared by the Government. To address this mandate, the office issues high level assurance reports in the format of the standard auditor's report recommended by the Canadian Institute of Chartered Accountants (CICA).

The purpose of the auditor's report is to provide the reader with a high level of assurance on the fairness of financial statements, while describing the distinct roles of management and the auditor with respect to these financial statements, and outlining the nature and scope of audit work conducted.

An unqualified auditor's report, where there is no reservation of opinion, contains three standard paragraphs. The introductory paragraph identifies the financial statements that have been audited and reflects management's responsibility for preparing the financial statements as well as the auditor's responsibility for expressing an opinion on the fairness of the balances, transaction totals and overall presentation. The second paragraph describes the nature and extent of the auditor's work and the degree of assurance that the auditor's report provides. It refers to Generally Accepted Auditing Standards (GAAS) and describes some of the important procedures the auditor undertakes. The final paragraph contains the auditor's opinion or conclusion based on the audit conducted.

The Public Sector Accounting Board (PSAB) sets generally accepted accounting principles (GAAP) for the public sector in Canada. PSAB pronouncements represent the consensus of senior government officials, legislative auditors and other experts in public sector accounting across Canada. They represent standards for governments and are the benchmark for acceptable financial reporting.

The auditor's reports issued by Manitoba's Auditor General, as well as by other legislative auditors across Canada reflect the extent to which government financial statements comply with these auditing, accounting and financial reporting standards. In situations where government financial statements do not comply with PSAB standards, legislative auditors consider the need to include a reservation in their opinion. These standards are designed to apply to the Summary Financial Statements of the Government.

In Manitoba, the Summary Financial Statements are presented in the Annual Report, together with the Auditor General's Report thereon. For the seventh consecutive year, the Auditor General's Report on the Government's Summary Financial Statements was issued without reservation. It should be noted, however, that the audit opinion is not a Generally Accepted Accounting Principles' (GAAP) opinion, and the exceptions to GAAP are disclosed in Note 1 to the Summary Financial Statements for the year ended March 31, 2003 as reproduced in Appendix B on page 172.

Our Office is recommending that the Government commit to the adoption of GAAP by a defined date.

Special Purpose Financial Statements of the Operating Fund and Special Funds - Auditor's Report

AUDIT OPINION ON THE SPECIAL PURPOSE FINANCIAL STATEMENTS OF THE OPERATING FUND AND SPECIAL FUNDS

The Auditor's Report on the Special Purpose Financial Statements of the Operating Fund and Special Funds is included for reference in Appendix C at the end of this report, along with an excerpt of the Operating Fund and Special Funds for the year ended March 31, 2003 contained in Appendix D.

As mentioned previously, the Financial Statements of the Operating and Special Funds (Operating Fund) are special purpose in nature. They are intended to serve as the Government's accountability report to the Legislative Assembly on revenues raised and expenditures made as authorized by the Appropriation Act and other statutory spending authorities. These financial statements are specifically used to reflect the Government's compliance with the Balanced Budget, Debt Repayment and Taxpayer Accountability Act and The Financial Administration Act.

Special Purpose Financial Statements are by their nature incomplete and often deviate significantly from GAAP. Hence, while required for reporting on compliance with balanced budget legislation, they are not complete for understanding the Government's management of its financial affairs.

As a result of changes to generally accepted auditing standards for the 2003/04 fiscal year, the Auditor's Report on the Special Purpose Financial Statements of the Operating Fund and Special Funds will include a more detailed reference to the fact that the financial statements are special purpose and not prepared in accordance with Canadian generally accepted accounting principles. There will also be a fourth paragraph following the opinion paragraph, which will emphasize the special purpose nature of the financial statements and the fact that they are intended for the Legislative Assembly as legislators reviewing compliance with Balanced Budget Legislation.

PENSION LIABILITIES EXCLUDED FROM THE OPERATING FUND

In 1990, our office issued our first audit qualification for pension liabilities not being recorded in the Financial Statements of the Operating Fund. Each year since then we have recommended the Government amend its accounting policy for pension costs and liabilities. In 2002/03, the unrecorded pension liability for the Operating Fund approximated $3.4 billion.

In 1999/00, the Government issued the Summary Financial Statements and the Financial Statements of the Operating Fund in a single volume with the Financial Statements of the Operating Fund subordinate to the Summary Financial Statements. As the pension liability is recorded in the Summary Statements, the impact on the entire Government Reporting Entity including the Operating Fund is readily apparent.

Furthermore, the Government committed, starting 2000/01, to set aside funds equal to the pension contributions for all civil servants and teachers hired on or after April 1, 2000. They also committed to set aside additional funds from time to time toward the pension liability. Effective October 1, 2002, departments and certain economically dependent Crown Organizations also began setting aside funds equal to the pension contributions of civil servants hired on or after October 1, 2002, in effect, matching contributions, as part of their annual budget. Total funds set aside since the 2001 fiscal year including net investment income have amounted to $152 million.

EMPLOYEE FUTURE BENEFIT LIABILITIES FOR HEALTHCARE FACILITIES AND CHILD AND FAMILY SERVICE AGENCIES EXCLUDED FROM THE OPERATING FUND

In the 2003 fiscal year, the Government disclosed a further significant exception to GAAP. This exception was for the lack of recognition of the Operating Fund's liability for employee future benefits of health care facilities and child and family services agencies. The liability reported by those entities for the year ended March 31, 2003 totaled $209 million and this liability was disclosed in the notes to the financial statements.

A further discussion of this appears in the "Public Accounts - Improvements and Recommendations" section of this report.

Balanced Budget Legislation

WHAT IS IT?

Balanced Budget Legislation, enacted in the fall of 1995 with amendments in 2000, is a prescribed set of rules incorporated in legislation, in The Balanced Budget Debt Repayment and Taxpayer Accountability Act (Act) (see Appendix F). Those rules (with variations from GAAP) are used to determine if the Government of the day has generated a positive balance in the Operating Fund for a fiscal year, meaning generating more revenue than the expenses incurred and factoring in transfers from the Fiscal Stabilization Fund and to the Debt Retirement Fund. According to the Act, the Government is not to incur a negative balance in the Operating Fund. The main rules are as follows:

- An excess of revenue over expenses is determined according to the accounting policies of the Government as disclosed in the audited financial statements. If there is a reservation in the Auditor's Report to the financial statements resulting from a change in accounting policies not authorized in the Act, then the financial statements must be restated to ensure that the financial effects of that change did not result in a positive balance which would have otherwise, under the former accounting policy(ies), have resulted in a negative balance. If a change in accounting policies did result in a change from a negative to a positive balance, then the government will not have achieved a balanced budget.
- The existing accounting policies are disclosed as Canadian generally accepted accounting principles for senior governments as recommended by the Public Sector Accounting Board of the Canadian Institute of

Chartered Accountants with certain exceptions. One notable exception is the failure to record in the Operating Fund the liability related to the unfunded pension obligations. As a result, the change in the unfunded pension liability is not reflected in the determination of a positive or a negative balance.

- The Act permits a once a year interfund transfer, a transfer into the Operating Fund, from the Fiscal Stabilization Fund, often referred to as the “Rainy Day Fund”, of an amount up to the maximum of the balance of the Fiscal Stabilization Fund. That transfer in is also included in the determination of the balance according to balanced budget legislation.
- The Act also prescribes that as a target, an amount equal to 5% of the year’s expenses in the Consolidated (Operating) Fund or any greater amount that the Minister (of Finance) considers appropriate is to be transferred to the Fiscal Stabilization Fund. Only a positive balance may be transferred back to the Fiscal Stabilization Fund for use in future years. The transfer out is not included in the determination of a positive or negative balance according to balanced budget legislation.
- Any transfers out of the Debt Retirement Fund to the Operating Fund for the repayment of the outstanding debt and pension obligations are not included in the determination of a positive or negative balance according to balanced budget legislation.
- A calculated amount, presently at $96 million, shall be transferred annually, from the Operating Fund to the Debt Retirement Fund to provide for the future retirement of the outstanding debt and pension obligations. That transfer out, an interfund transfer, is also to be reflected in the determination of a positive or negative balance according to balanced budget legislation.
- The above interfund transfers as noted are included for purposes of determining if there is a positive balance in the Operating Fund, according to balanced budget legislation. However, interfund transfers are not included in the determination of an excess of revenue over expenses according to generally accepted accounting principles.
- Should there be a negative balance in a fiscal year then there must be an offsetting positive balance in the next year unless there is a general election and the party forming the Government has changed. Then if, in the year of a general election, the party forming the Government has changed and there is a negative basis, the new government is not required to have an offsetting positive balance in the following year.
- There are financial penalties to the members of the Executive Council for failing to meet the requirements of the Act.
- The Act does not apply in the case of war or a natural disaster that affects the Province which could not be anticipated or if there is greater than a 5% reduction in revenue in the fiscal year, providing the reduction did not result from a change in Manitoba taxation laws. The proceeds from the sale of a Crown Corporation are not to be included in the determination of a positive balance.

Fiscal Stabilization Fund

WHAT IS IT?

The Fiscal Stabilization Fund (Fund) was established under the authority of The Fiscal Stabilization Fund Act (Act) (see Appendix G), which was enacted in 1989 and was amended in 2000. The purpose of the Fund as set out in the Act is to assist in stabilizing the fiscal position of the government from year to year and to improve long-term fiscal planning. The Fund is often referred to as the "Rainy Day Fund".

In 1989, in its first year of existence, the Government of the day transferred $200 million from the Operating Fund into the Fund. That transfer created a $142 million deficit in the Operating Fund where there would otherwise have been $58 million surplus for the year ended March 31, 1989. At the time, we qualified our opinion on the $58 million surplus. Since then there have been other sizable transfers into the Fund including the net proceeds from the sale of the Crown Corporation, Manitoba Telephone System.

Legislative amendments were made to the Act in 2000. Consequently, the Government can no longer deposit in the fund any revenue or other financial assets received by the Government in a fiscal year ending after March 31, 2000 as a result of selling shares or assets of a Crown corporation in the course of a privatization of the Crown Corporation and the Government can only transfer positive balances (from the Operating Fund) - the transfer cannot create an annual deficit in the Operating Fund.

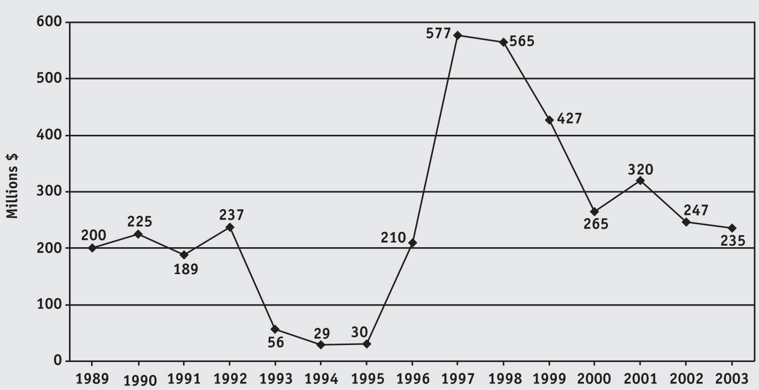
The primary activities of the Fund are interfund transfers. The transfers are either transfers out to the Operating Fund or transfers into the Fund from the Operating Fund. The Fiscal Stabilization Fund also earns income on the investment of the assets of the Fund, which is retained in the Fund until transferred out.

With regard to transfers into the Fund, the Government may deposit in the Fund, any part of revenue or other financial assets received in the Operating Fund in any fiscal year. Furthermore, the target level for the Fund is a minimum of 5% of the expense of the Consolidated (Operating) Fund.

The Government may transfer out of the Fund, all or part of the Fund balance to the Operating Fund, but the Government may only make one transfer out each fiscal year.

This Fund is used to facilitate the balancing of the Government's actual annual financial results.

Fiscal Stabilization Fund Closing Fund Balances
For Years Ending March 31



PUBLIC ACCOUNTS - IMPROVEMENTS AND RECOMMENDATIONS

Improvements in Financial Statement Presentation and Disclosure

SUMMARY FINANCIAL STATEMENT PRESENTATION AND DISCLOSURE

We routinely advise the Comptroller and the Minister of Finance of opportunities to improve financial statement presentation and disclosure in accordance with the current recommendations of the Public Sector Accounting Board (PSAB). The improvements reflected in the Summary Financial Statements for the year ended March 31, 2003 are as follows:

- Recognition of the unfunded liability for employee future benefits of non-devolved health care facilities;
- Revision to the Statement of Net Debt to reflect the deferred charge for non-devolved health care facilities as a component of net debt;
- Disclosure regarding the existence of environmental liabilities;
- Presentation of the Summary Budget figures on a basis consistent with the presentation of the actual figures;
- Separate disclosure of both fixed and floating interest rates on outstanding borrowings;
- Improvements in the disclosure of interest rates and repayment terms (instalments due) on loans and advances;
- Separate disclosure of cash and cash equivalents, temporary and portfolio investments with parallel treatment on the Statement of Cash Flow;
- Separate disclosure of the basis of accounting, market values and investment income regarding cash and cash equivalents, temporary and portfolio investments;
- Separate disclosure of the gross amounts of accounts receivable and the valuation allowances for accounts receivable; and
- Schedule of Tangible Capital Assets reflects separate disclosure of additions and disposals of tangible capital assets

Improving financial statement presentation and disclosure is an ongoing process. We commend the Government for the above improvements made to the Summary Financial Statements.

DISCLOSURE AND RECORDING OF EMPLOYEE FUTURE BENEFIT LIABILITIES FOR HEALTHCARE FACILITIES AND CHILD AND FAMILY SERVICES AGENCIES

During 2003, the Office of the Auditor General conducted a review of the symmetry between the accounting principles of the Regional Health Authorities, Manitoba Health and the Province of Manitoba. The report on this review is presented in a later section. The review provided additional information to our Office.

This information facilitated our discussion on the recording of employee future benefit liabilities for the health care sector in the Special Purpose Financial Statements, the financial statements for the Manitoba Health Services Insurance Plan, and, as well, as improved recording and disclosure in the Summary Financial Statements.

For the fiscal year ending March 31, 2003, the Government disclosed in Note 1 of the Special Purpose Financial Statements, a further significant exception to GAAP. This exception was the non-recognition of the Operating Fund's liability for employee future benefits of health care facilities and child and family service agencies. The liability for the year ended March 31, 2003 totalled $209 million.

We are pleased that the following agreement was reached with the Department of Finance on the accounting policy for employee future benefits for both devolved and non-devolved health care facilities in the Special Purpose Financial Statements, the Summary Financial Statements, and the Manitoba Health Services Insurance Plan Financial Statements, and the related impact on the financial statements of both devolved and non-devolved health care facilities:

For the Special Purpose Financial Statements

- The liabilities for both the devolved and non-devolved health care facilities were not, and will not be, accrued in the fiscal years ended March 31, 2003 and March 31, 2004. This is no change from preceding years. However, continuation of this long-standing practice was, and will be, noted as an exception to GAAP.
- Note 1A.2) now states: "The liabilities for unfunded employee future benefits associated with health care facilities and family service agencies for which the government has funding responsibility are not recorded in the Operating Fund". The Province has committed to record these liabilities for the year ending March 31, 2005.
- Note 1D.5) now states: "Employee Future Benefits - The Province does not presently record liabilities for the unfunded cost of employee future benefits earned by employees of health care facilities and family service agencies". The Province has committed to record these liabilities for the year ending March 31, 2005.
- Note 10) now states: "Various funded organizations, primarily health care facilities and child and family service agencies have recorded liabilities for employee future benefits in their financial statements totalling $209 million (2002 - $182 million)". The Province has committed to record these liabilities for the year ending March 31, 2005.

- The liability for employee future benefits for the devolved and non-devolved health care facilities and child and family service agencies will be recorded for the year ended March 31, 2005 and forward. The change in the liability between March 31, 2004 and March 31, 2005 will be recorded as an expense for the year ending March 31, 2005. The remaining amount will be adjusted to the accumulated deficit. This change will be reflected in the Budget for the year ended March 31, 2005.

For the Summary Financial Statements

- The liability for employee future benefits for the non-devolved health care facilities was recorded in the Summary Financial Statements for the year ended March 31, 2003 and forward. This involved the recording of a liability of approximately $75 million for the employee future benefits at March 31, 2003. This resulted in an increase in expenses of approximately $6 million for the year's then ended and an adjustment to the accumulated deficit for the difference of $69 million.

For the Manitoba Health Services Insurance Plan

- The Manitoba Health Services Insurance Plan will record the liability for employee future benefits of devolved and non-devolved health care facilities together with the related amount receivable from the Province for the years ended March 31, 2003 and March 31, 2004.
- The Manitoba Health Services Insurance Plan will record the liability for employee future benefits of devolved and non-devolved health care facilities together with the related amount receivable from the Province and the resultant expenses and revenue for the year ended March 31, 2005 and forward.

We commend the Government for their commitment to implement the above changes.

Recommendation Implemented

SAP CRITICAL REPORTS

The Province uses SAP R/3 (SAP) as an enterprise solution for its accounting, logistics and human resource processes. SAP is a fully integrated computerized accounting and management information system and functions across multiple departments, agencies, commissions and sites throughout Manitoba. SAP allows for the sharing of common data, so transactions initiated by one business area may have a direct impact on other business areas. The broad and detailed functionality that gives the system its flexibility often results in complex control and security requirements.

Critical Standard Reports

In our review of the initial implementation of SAP and subsequent upgrade to 4.6b we reported that the production and review of critical standard reports had not been established as a required and/or regular activity for some processes. Internal financial information and reporting is important for monitoring the operations and security of the system. Without appropriate reports prepared and monitored, incomplete, inaccurate or unauthorized data may not be detected on a timely basis.

The Comptroller's Office and Manitoba Information and Communication Technology (MICT), formerly Enterprise Systems Management have made progress starting in 2001/02 on this concern through various initiatives including Manager's Desktop (MDT), training classes for Manager's Desktop to departmental staff and a training class for financial reporting.

We conclude that Comptroller's Office and MICT have identified critical standard reports and have communicated to departments the importance of their use.

First recommended in the 1999 Report to the Legislative Assembly.

We commend the Government for identifying critical standard reports and communicating the importance of their use to departments either through an enhanced MDT or other processes.

Previous Recommendations Not Yet Implemented

FINANCIAL STATEMENT PRESENTATION AND DISCLOSURE

Summary Budget Presentation

Over the past two years, we have noted that, in response to our recommendation, the Government has prepared an annual summary budget based on the budgets for all entities included in the Government Reporting Entity and that this budget was presented each year in the Manitoba Budget Address. However, the most recent budget presented in 2003 is still not presented in the same format as the Summary Financial Statements.

In our view, the Summary Financial Statements and therefore, the Summary Budget are the Government's foremost accountability documents. The arguments for the preparation of a detailed summary budget are many. One need only view Schedules 8 and 10 of the Summary Financial Statements to become aware of the number of entities that compose the Government Reporting Entity and the fact that considerable financial activity within the Government Reporting Entity is outside of the Operating Fund. Without a detailed summary budget, the Legislative Assembly is not given the depth of financial information necessary upon which to fully debate the planned use of public funds. As well, it is the comparison of the Summary Financial Statements' actual results with that detailed summary budget which permits a thorough analysis of the Province's financial position compared with planned results, and provides the ability to measure the Government's management of public resources.

Canada and five of the other Provinces produce summary budgets that are tabled in Parliament/Legislatures. The governments of Canada, British Columbia, Alberta, Ontario, Quebec and New Brunswick have already made the summary budget their primary budget. These summary budgets are prepared on the same basis as the Summary Financial Statements of those governments. Three of these six summary budgets are voted on by the members of the Parliament/Legislatures. Manitoba is still not aligned with these jurisdictions in this regard.

We continue to recommend that the Summary Budget should be presented on the same basis as the Summary Financial Statements to enable a reader to fully compare the budget to the Summary Financial Statements.

Recommendation 1

That the Government make the Summary Budget its primary tool for explaining its financial plans to the citizens of Manitoba. This would be consistent with the decision to make the Summary Financial Statements its primary financial reporting tool. In essence, this would mean framing the annual budget documents around the Summary Budget, with the Operating Fund budget being shown in a subsidiary context to demonstrate how the government plans to comply with the Balanced Budget legislation and to highlight those expenditures that will require legislative approval.

First recommended in the 2001 Report to the Legislative Assembly.

RESPONSE OF OFFICIALS

The Government has made significant progress with respect to Summary Financial Statements and Budget presentation for the Province of Manitoba. We introduced The Summary Statements in Volume 1 of Public Accounts. We have given these statements more prominence. We have identified the Operating Fund Statements as Special Purpose Statements, in accordance with the Auditor General's recommendations. We introduced the first Summary Budget presentation in Manitoba's history in the 2001 Manitoba Budget. And we have continued to improve on the information presented in that regard each year.

While only three provinces currently vote their budgets on a summary basis, we are prepared to re-examine the Summary Budget format and consider whether a different presentation would be more helpful and informative to the public, while respecting the Governance framework that Manitoba has established for its Crown organizations, as well as the existing laws of Manitoba with respect to balanced budgets.

Full Adoption of Generally Accepted Accounting Principles

The following recommendations were made previously to the Minister of Finance and have yet to be implemented:

- Tangible capital for infrastructure is not recorded. PSAB requires infrastructure to be recorded. Now that the PSAB Research Study on Infrastructure has been released, the Government should establish a timeline for the valuation and recognition of infrastructure in the Summary Financial Statements.
- The Government still records material adjustments resulting from changes in accounting policy or from the correction of an error which are attributable to and identifiable with prior periods as an adjustment to the accumulated deficit. Prior year balances are not restated. PSAB requires changes in accounting policies or such corrections of an error to be recorded retroactively with prior year balances restated.

Early implementation of the recommendations above would bring Manitoba closer to fully adopting generally accepted accounting principles in the Summary Financial Statements.

Changes to generally accepted auditing standards (GAAS) adopted by the Assurance Standards Board of the CICA effective October 1, 2003 may affect the content of the Auditor's Report for the 2004 fiscal year if the Special Purpose Financial Statements are not prepared in accordance with generally accepted accounting principles (GAAP), without exceptions.

If this change in GAAS had been in effect for the year ended March 31, 2003, we would have included a fourth paragraph in our opinion indicating that the disclosed basis of accounting is not fully in accordance with GAAP (there are presently a number of exceptions to GAAP).

Recommendation 2

First recommended in the 2000 Report to the Legislative Assembly.

That the Government adopt generally accepted accounting principles for the recording of tangible capital assets, changes in accounting policies and correction of errors for both the Summary Financial Statements and the Special Purpose Financial Statements for the 2004 fiscal year.

RESPONSE OF OFFICIALS

Our examination of the implications of introducing capital assets accounting principles for infrastructure is nearing completion. We are hopeful that this examination will provide a basis for further progress on this issue.

With regard to restating prior year's results where they are affected by changes in accounting policy or the discovery of errors as they affect the Summary Financial Statements, to date Manitoba Governments have attached greater importance to the continuity of results from year to year in our Financial Statements in the belief that this is more important to citizens than continual restatements going back ten years or more in response to changes in accounting standards. Changes in prior period numbers could also create doubt in the reader's minds as to the reliability of previously audited and reported results.

Quarterly Reporting

We have indicated previously in this report that we believe the quarterly financial report should be prepared using the same accounting principles as the Summary Financial Statements, as these provide the most complete and accurate indication of the Government's fiscal position. When we have succeeded in persuading the Government to adopt this good management practice, we will again raise the issue of a fourth quarter report. Accordingly, we have modified our recommendation on quarterly reporting to reflect the higher priority issue of encouraging the Government to adopt GAAP in its quarterly reports.

Recommendation 3

That the quarterly reports of the Province, a financial reporting tool, be prepared in accordance with generally accepted accounting principles.

First recommended in the 2001 Report to the Legislative Assembly.

RESPONSE OF OFFICIALS

While this is a laudable objective in its own right, we are concerned that it would require a significant increase in staff resources in the department of Finance as well as other departments of government without adding commensurate value to public services in the Province.

*Our current quarterly reporting practices have been designed to provide the public with a progress report as to whether or not the Government continues to be on target in relation to its original plan. Actual results, be they based fully on GAAP or otherwise, are compared with results planned on **the same basis** to provide the reader with an indication of whether or not results are diverging from the plan.*

FINANCIAL REPORTING STANDARDS OF THE PROVINCE OF MANITOBA

As reported last year, Manitoba prepares its Summary Financial Statements, with a number of notable exceptions, in accordance with Canadian Public Sector Accounting Standards for Senior Governments as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. Those exceptions are disclosed in the first note to the financial statements.

Four jurisdictions, Nova Scotia, Ontario, Saskatchewan and British Columbia prepare the Public Accounts in accordance with generally accepted accounting principles (GAAP) for senior governments.

In the preparation of the Estimates of Expenditures and Revenues and the Budget Address, the Province uses the provisions of The Financial Administration Act (Act) as the basis for financial accounting and reporting considerations.

According to this Act, Treasury Board is responsible under Section 5(a) for preparing the estimates and similarly, under Section 5(f), for ensuring accountability of government departments to the Legislature for the delivery of government programs.

Under Section 8, the Minister of Finance is responsible for the management and administration of the Department of Finance; the management and administration of the Consolidated Fund; the management of public debt; and the control and direction of all matters relating to the financial management of the government that are not assigned to Treasury Board. In addition, Section 9 of this Act states that the Minister of Finance may make regulations and issue directives regarding accounting policies and practices.

Section 65(1) of the Act requires that the Comptroller shall prepare the Public Accounts including the financial statements of the Consolidated Fund in accordance with the accounting policies of the government. However, it does not state that the accounting policies of the government must be in accordance with Canadian Public Sector Accounting Standards for senior governments as recommended by PSAB of the Canadian Institute of Chartered Accountants. The Act does not, however, prohibit the use of Public Sector Accounting Standards for Senior Governments as the basis for financial reporting in the preparation of the Public Accounts, Estimates and Quarterly Reports.

The Province of British Columbia has entrenched in legislation the use of Public Sector Accounting Standards for senior governments as recommended by PSAB of the Canadian Institute of Chartered Accountants, in its Budget Transparency and Accountability Act. This Act creates an accounting policy advisory committee to advise Treasury Board as to the implementation of GAAP for the government reporting entity. Treasury Board is to establish the accounting policies used for preparation of the Main Estimates and the Public Accounts. In addition, Treasury Board is to establish the accounting policies used for the preparation of Quarterly Reports. It is implied that these accounting policies should be GAAP unless otherwise disclosed.

British Columbia's Budget Transparency and Accountability Act, also incorporates that wherever, public sector accounting standards for senior governments are not used either in the Estimates or the Public Accounts, there must be disclosure of any material variances of those policies from GAAP. In addition, with regard to Quarterly Reports, if there is a change in the accounting policies of the government reporting entity which would affect, by a prescribed dollar amount, the forecasted deficit or surplus for the current and next three years, then there must be a public report of it. Commencing in the 2004/05 fiscal year, the Government of the Province of British Columbia will prepare its Public Accounts in compliance with its Budget Transparency and Accountability Act and report whether it has achieved a balanced budget in accordance with the Act.

We believe that entrenching in legislation the requirement to prepare all significant public financial reports in accordance with Canadian Public Sector Accounting Standards for Senior Governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants confirms a government 's intent to fully adopt Canadian Public Sector Accounting Standards as many jurisdictions have done.

Recommendation 4

First recommended in the 2002 Report to the Legislative Assembly.

That the Government consider amending The Financial Administration Act to require that Canadian Public Sector Accounting Standards for Senior Governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, without exceptions (GAAP), be the basis of accounting for all government financial reporting including the Summary Financial Statements, the Summary Budget and the Quarterly Reports.

Alternatively, we recommend that the Government formally commit to the full adoption of GAAP by a certain date.

RESPONSE OF OFFICIALS

The Government is mindful of and accepts the role of PSAB in recommending accounting standards and changes in accounting policies for Senior Governments. As such, the Government continues to develop its accounting policies with due regard to the standards being recommended by that body. However, governments duly elected by the public have a responsibility to study how changes proposed may affect the operations of government rather than automatically implementing changes in standards proposed by an unelected body. The Auditor General's report highlights some of the significant progress the Province has made in improving the Government's accounting practices to PSAB standards without legislation. We will continue to work to build on this progress.

FOREIGN EXCHANGE CLEARING ACCOUNT

During the 2003 fiscal year, the Government began addressing the problems regarding the outstanding balances in the foreign exchange clearing account. In the past we found that the balances in the foreign exchange clearing account, which should have cleared monthly, were being offset by the overstatement of foreign exchange translation of the US dollar bank accounts to arrive at the proper net amount.

As we noted last year, the fundamental problem was the design of SAP together with the fact that no one had been designated to ensure that the account was cleared monthly. Action has been taken with regard to both problems through changes in the use of SAP, and by staff monitoring the account. However, there are still irregularities in the accounts. The clearing account is being cleared on a current basis and the combined total of the Canadian dollar foreign exchange translation of the balances of the US dollar bank accounts is accurate. However, the clearing of the clearing accounts results in the Canadian dollar translation of the individual US dollar bank accounts balances being misstated. In addition, the US dollar bank account balances are translated in accordance with the Province's accounting policy of average exchange rates rather than the year end exchange rate.

Recommendation 5

That the Department of Finance take the additional action necessary to completely address these misstatements and in addition adjust the Canadian dollar translation of the balances of the US dollar bank accounts to the year end exchange rate in accordance with PSAB standards, rather than average exchange rate currently used.

First recommended in the 2002 Report to the Legislative Assembly.

RESPONSE OF OFFICIALS

The Department of Finance has investigated the cause of the translation differential contained within the individual US dollar accounts when translated into Canadian dollar balances. Steps have been taken to ensure that the accounts are translated using the noon spot rate as at March 31, 2004.

CREATION OF A PENSION ASSETS FUND

The Government created a Pension Assets Fund to reflect the designated assets set aside for the future retirement of the Government's unfunded pension liability as we recommended last year.

The Pension Assets Fund properly reflects the existence and ownership of the pension assets as part of the total assets included in the determination of the Accumulated Fund Surpluses (Deficits) of the Province on the Special Purpose Financial Statements. Effectively, by creating the Pension Assets Fund, the Government has improved its net debt position on the Special Purpose Financial Statements by $152 million. Formerly, the opening balance of $107 million was reported as trust assets and trust liabilities.

Recommendation 6

First recommended in the 2002 Report to the Legislative Assembly.

That in accordance with public sector accounting standards, pension asset composition detail should be disclosed in the notes to the Summary Financial Statements. The assets should be reported by their classification, for example, portfolio investments and not be referred to as pension assets on the balance sheet.

RESPONSE OF OFFICIALS

In response to the Auditor General's recommendation last year, the government responded by displaying the pension assets in 2003. We will examine this additional recommendation for the 2003-2004 financial statements.

ROLE OF INTERNAL AUDIT AND CONSULTING SERVICES

The Internal Audit and Consulting Services Branch of the Department of Finance provides internal audit and consulting services to management throughout government. All government departments have access to internal audit services through requesting work/ assistance that Internal Audit may then incorporate into their annual plans for what they assess to be high priority matters.

An effective internal audit function enhances the control environment of the entity.

Internal Audit and Consulting Services was involved initially in the implementation of SAP through participation in the Process and Systems Integrity Team which was responsible for providing expert advice, guidance and integration of all aspects of internal control and system security for the SAP project.

SAP is an extremely complex system. Internal Audit and Consulting Services, given the nature of internal audit work, should play a significant role in providing assurance as to the effectiveness of controls at the department levels since Go–Live. Ongoing involvement would give Internal Audit and Consulting Services the opportunity to add value to the reliability and accuracy of this high priority government-wide system on a continuous basis.

Last year we recommended that Internal Audit and Consulting Services take a lead role on an annual basis in the review and testing of SAP controls at the departmental level.

Over the 2002/03 fiscal year, Internal Audit and Consulting Services' indicated to us that:

> *"... a significant amount of testing of SAP controls is being built into ongoing audit plans. These activities were continued in 2003. Additionally, there was a commencement of a government-wide payroll and benefits audit plan."*

We also noted this year that the revised Comptrollership Framework distributed in October 2003 makes reference to an audit function in monitoring compliance with the authority delegated by the Comptroller to the Departments, related to internal control systems among other responsibilities. The recognition of the need for an audit function is consistent with our belief that Internal Audit and Consulting Services should have significant role in providing assurance as to the effectiveness of controls at the departmental level as they relate to SAP.

Recommendation 7

That Internal Audit and Consulting Services continue to expand its role on an annual basis to systematically, according to a documented plan, review and test SAP controls in the departments.

First recommended in the 2002 Report to the Legislative Assembly.

RESPONSE OF OFFICIALS

Public accounts audit testing has always been the responsibility of the Auditor General's office. Internal Audit and Consulting Services (IA&CS) provides internal audit services across the Government. As outlined in our response to the recommendation in 2002, a significant amount of testing of SAP controls is built into these ongoing audit plans. These activities were continued in 2003. Additionally, there was a commencement of government-wide payroll and benefits audit plan. Presently, there is no plan in place to specifically reallocate resources from current internal audit activities which would allow the Auditor General's Office to reduce public accounts audit testing. We continue to support a cooperative audit approach and IA&CS will continue to share relevant findings with the Auditor General's Office.

SAP VERSION 4.6B UPGRADE

SAP R/3

The Government of Manitoba (Government) uses SAP R/3 (SAP) as an enterprise solution for its accounting, logistics and human resource processes. SAP is a fully integrated computerized accounting and management information system and functions across multiple departments, agencies, commissions and sites throughout Manitoba. SAP allows for the sharing of common data, so transactions initiated by one business area may have a direct impact on other business areas. The broad and detailed functionality that gives the system its flexibility often results in complex control and security requirements.

Our office identified that the complexity of the controls and security requirements of SAP creates a new set of challenges to be addressed, as we need to rely on SAP in the audit of Public Accounts. To this end, we performed a review of the controls over SAP in the initial implementation of SAP version 3.1h, and we issued a report on the results of our review. A summary of this report was included in the March 31, 1999 Public Accounts Report to the Legislature.

The Government upgraded from SAP version 3.1h to version 4.6b in November 2000. We reviewed the upgrade to determine if there were any changes due to the upgrade that would affect our reliance on the controls over SAP in our audit of Public Accounts. A summary of this report was included in the March 31, 2001 Public Accounts Report to the Legislature.

For both the initial SAP implementation as well as the 4.6b upgrade there were three areas which we considered the most critical and were reported on previously. In our 2001 Report to the Legislature we stated that we would provide to the departments reports detailing our recommendations based on review of the 4.6b upgrade. We have issued separate reports to the departments and our follow-up on the implementation of those recommendations indicates that there is still further action that needs to be taken by the departments in this regard. Going forward, we will address the key outstanding issues with the Comptroller's Office to ensure that the appropriate action is taken.

The most critical areas of prior years' recommendations still relate to those provided below.

1. Access to SAP by Departmental Managers

In our prior reviews there were several recommendations regarding access to SAP by Departmental managers.

We had recommended that departmental managers be provided with access to SAP and that the management tasks be removed from administrative staff as soon as possible. During 2001/02 there was an initiative for providing targeted access to SAP through the Manager's Desktop (MDT) program. Manager's Desktop provides managers with immediate access to a defined subset of management reports for human resources and financial information. While approximately 350 managers attended Manager's Desktop training and went "live" on SAP in 2001/02 we understand this increased to only 379 for 2002/03. MDT continues to be rolled out but it is still not mandatory that managers access it. Increasing MDT's use as well as expanding its functionality should continue to be explored.

While MDT provided access to specific reports in SAP, our recommendation in regard to not having administrative staff complete management tasks on SAP, has yet to be met.

Recommendation 8

First recommended in the 1999 Report to the Legislative Assembly.

That Manager's Desktop be expanded to encompass all managers, additional functionality be provided, the use of it encouraged and that management tasks be removed from administrative staff as soon as possible and moved back to departmental managers where they

appropriately belong. In addition, the Government should set a target date for the implementation of this recommendation.

RESPONSE OF OFFICIALS

We accept as a general goal the rollout of Manager's Desktop to every manager in Government with an acknowledgement that this will have to be accomplished over a reasonable time frame. In the interim, we note that there are a number of areas in Government where managers have developed off-line control processes that provide Executive Financial officers in their respective departments with satisfactory assurance that the control environment is appropriate. The pace of moving to more complete rollout will be determined by resource availability and the comparative value that may be added by faster action in this area.

We recommended that the Comptroller's Office reinforce the importance to departments of ensuring the delegated authorities are properly represented in SAP or that differences from the delegated authority levels to the levels set in SAP have been approved and documented. During 2002/03, an SAP report was developed to assist departments to assess the SAP authority levels, and to ensure compatibility and comparability. Distribution of the report to departments occurred at the December 2002 Council of Executive Finance Officers (CEFO) meeting. In accordance with the Comptrollership Framework, it is the responsibility of each individual department, rather than a central function, to review delegated authorities and have the appropriate documentation.

In the past year, we found that while progress has been made with regard to documenting and approving differences from the delegated authority levels, there were still deficiencies. All differences from delegated authorities represented in SAP should be identified and the approval and documentation of that approval is still required.

Recommendation 9

That the Comptroller's Office, through a monitoring of the Departments' accountability, ensure that all departments' delegated authorities are properly represented in SAP or that differences from those delegated authorities are approved and documented.

First recommended in the 1999 Report to the Legislative Assembly.

RESPONSE OF OFFICIALS

This is an ongoing activity, integral to the overall implementation of SAP which continues to be led by the Comptroller's Office. This responsibility has been communicated to all departments. Additionally, departments are being required to ensure the issue is addressed in their departmental Comptrollership plans.

We previously recommended that Manitoba Information and Communication Technology (MICT), formerly ESM prepare lists of incompatible functions by department. Each department should be provided with their specific list for review and approval. This process should be updated on a regular basis to ensure that departments are aware of staff members with incompatible functions and that departments have controls to compensate for the increased exposure to risk.

During 2002/03 an SAP report was developed which assisted departments in identifying incompatible functions. It was first distributed to Departmental Executive Finance Officers in June 2002 for their review. Each individual department is responsible for the review, on a regular basis, of the existence of incompatible functions and for documenting the compensating controls should any incompatibilities exist.

The SAP report used the original role matrix of incompatible functions as of April 1, 1999. There has been some review at the Council of Executive Finance Officers and we understand consideration is being given to further reviewing the role matrix for changes since Go–Live.

During the past year, we found instances in the departments where there are incompatible roles without documentation regarding the compensating controls. As a result of our review, several departments eliminated incompatible roles, either because the roles were found to be no longer necessary, or to address the identified role conflicts.

Recommendation 10

First recommended in the 1999 Report to the Legislative Assembly.

That the Comptroller's Office, through a monitoring of departmental accountability, ensure that departments review the incompatible functions on a regular basis and that departments maintain documentation on compensating controls should incompatibilities exist. The role matrix should be updated, reconcile to incompatibilities noted on MICT's intranet site and should document why a combination of functions/roles is incompatible so that departments can understand why they are incompatible and better able them to document the required compensating controls.

RESPONSE OF OFFICIALS

This activity is continuing. This responsibility has been communicated to all departments. Additionally, departments are being required to address this issue in their departmental Comptrollership plans.

The matrix itself will be revisited in conjunction with the planned upgrade to the next version SAP in 2004-2005 and the revised matrix, together with rationale, will be communicated to departments.

2. Business Continuity Plan for Manitoba Information and Communication Technology (MICT)

We previously recommended that a comprehensive business continuity plan be put in place by the Government covering the SAP application. Business continuity plans are necessary to restore critical business activities in the event of a disaster. They specify how alternate facilities and SAP processing capabilities will be provided to continue and restore operations within a planned timeframe. Without a business continuity plan, users may be unable to access SAP.

An effective disaster recovery plan is one aspect of a business continuity plan. During 2002, MICT (formerly ESM) successfully completed the implementation of a significant step in their Disaster Recovery Plan. This involved establishing an interim facility to house an alternative computing environment for the SAP system.

Furthermore, the presence of this Disaster Recovery site will minimize disruption of access to the SAP system in the event of an unforeseen event or disaster at the primary site. Our understanding last year was that operating procedures relating to the Disaster Recovery plan were to be updated in the near future. Disaster Recovery procedures should include testing as a normal part of operations. Currently, this documentation requires further development.

In addition, we understand that an initial Business Continuity Plan has been drafted for MICT but still requires further development prior to it being approved and implemented. The Business Continuity Plan would address only what would happen should a business interruption occur at MICT.

Recommendation 11

That a well thought out and effective Business Continuity Plan for MICT should be developed, documented and tested to minimize the risk of disruptions caused by unforeseen events.

First recommended in the 1999 Report to the Legislative Assembly.

RESPONSE OF OFFICIALS

Improving disaster recovery capacity has been a focus of significant effort for the last several years. For example, A Disaster Recovery (D/R) site was established in 2002 and a corresponding Plan has been developed that addresses the coverage around the SAP application. Operating procedures to affect the plan have been developed and tested at the site. The plan was tested this past summer. We are pleased to report that production SAP services were successfully run on the D/R site for a three week period. There were no issues or degradation in service levels. Personnel have been assigned and trained in the execution of the plan. Associated documentation outlining the D/R plan is being revised to reflect the recent hardware upgrade. MICT expects to complete the D/R documentation by end of March 2004.

Coincident with this work being completed, and consistent with the Auditor General's recommendation, the newly created MICT intends to re-focus efforts on development of a comprehensive and effective Business Continuity Plan in relation to the Government's SAP installation.

New Recommendations

NEW GOVERNMENT REPORTING MODEL IMPLEMENTATION

The New Government Reporting Model now in the PSAB Handbook is required to be implemented by Provinces no later than the 2005/06 fiscal year. Manitoba has not yet adopted the New Government Reporting Model but has incorporated the recognition of tangible capital assets and an expense basis of accounting. We have provided an example of the application of the New Government Reporting Model to the presentation of the 2003 Summary Financial Statements below. Changes that would be needed from the existing presentation of Manitoba's Summary Financial Statements are highlighted in ***bold italic***.

Recommendation 12

That the Government formally commit to a date for implementation of the new Government Reporting Model.

RESPONSE FROM OFFICIALS

We note that this requirement is not effective until the 2005-2006 fiscal year. In the meantime, we will work diligently to ensure this target date is met and, if possible, exceeded. We believe it is important to ensure that where liabilities of external entities are included in summary statements, the associated assets are reflected as an offset to those liabilities.

PROVINCE OF MANITOBA
EXAMPLE SUMMARY STATEMENT OF FINANCIAL POSITION
As at March 31, 2003

SCHEDULE		($millions) 2003	2002
	Financial Assets		
	Cash and cash equivalents (Note 2)	712	663
	Temporary investment (Note 3)	228	200
1	Amounts receivable	730	880
	Inventories	27	26
	Portfolio Investments (Note 3)	33	30
2	Loans and advances	579	579
3	Equity in government enterprises (Note 6)	1,369	1,528
4	Other long-term investments	7	7
	Pension assets (Note 10)	151	107
	Total financial assets	**3,836**	**4,020**
	Liabilities		
6	Borrowings	19,746	20,682
	Less: Sinking funds (Note 6)	(5,875)	(6,551)
	Less: Debt incurred for and repayable by the Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation	(5,573)	(5,871)
		8,298	8,260
	Less: Unamortized foreign exchange fluctuation	(81)	(143)
	Net Borrowings	8,217	8,117
7	Accounts payable, accrued charges, provisions and deferrals	1,913	1,954
	Pension liability (Note 10)	3,411	3,217
	Liabilities of non-devolved health care facilities (Note 1A) *	698	682
	Total liabilities	**14,239**	**13,970**
	NET DEBT	**(10,403)**	**(9,950)**
	Non-financial assets (Note X)		
	Deferred charge for non-devolved health care facilities (Note 1A)	133	137
5	Tangible capital assets (Note 3)	2,001	1,874
	Assets of non-devolved health care facilities (Note 1A) *	775	759
	Total non-financial assets	**2,909**	**2,770**
	ACCUMULATED DEFICIT	**(7,494)**	**(7,180)**

Information concerning the Government's Guarantees, Financial Commitments, and Contingencies can be found in Notes 7, 8 and 9

Sample Note X:
In the public sector, recognition and measurement of tangible capital and other non-financial assets are based on their service potential. Generally, such assets do not generate future net cash inflows. Therefore, these assets will not provide resources to discharge the liabilities of the Government. For non-financial assets, the future economic benefit consists of their capacity to render service to fulfill the Government's objectives.

*The assets and liabilities of non-devolved health care facilities are accounted for on a combined basis. If the net assets were fully consolidated as are devolved health care facilities, the above presentation would likely change.

PROVINCE OF MANITOBA
EXAMPLE SUMMARY STATEMENT OF REVENUE AND EXPENSE
For the Year Ended March 31, 2003

	($millions) 2003	2002
REVENUE		
Manitoba Collections:		
Retail sales tax	1,007	966
Fuel taxes	231	223
Levy for health and education	257	244
Mining tax	18	9
Other taxes	461	401
Fees and other revenue	1,109	1,034
Government Enterprise Transfers (Schedule 3):		
Liquor Control Commission	166	163
Manitoba Hydro	203	-
Manitoba Lotteries Corporation	266	248
Income taxes:		
Corporation income tax	160	306
Individual income tax	1,636	1,659
Federal transfers:		
Equalization	1,338	1,399
Canada Health and Social Transfer	756	685
Medical Equipment Fund	16	3
Primary Care Transition Fund	1	-
Shared cost and other	294	263
TOTAL REVENUE	7,919	7,603
EXPENSES		
Health	2,955	2,740
Education	2,059	1,998
Family Services	930	893
Community, Economic and Resource Development	960	908
Justice and Other Government	724	685
Debt Servicing (Note 14)	367	502
TOTAL EXPENSES (Schedule 11)	7,995	7,726
NET LOSS BEFORE EXTRAORDINARY ITEM	(76)	(123)
Adjustment to estimate for Federal accounting error (Note 18)	51	-
NET LOSS	(25)	(123)
Increase (decrease) in equity in government enterprises (Schedule 3)	(159)	113
SUMMARY NET LOSS (Schedule 9)	(184)	(10)

PROVINCE OF MANITOBA
EXAMPLE *SUMMARY STATEMENT OF CHANGES IN NET DEBT*
For the Year Ended March 31, 2003

	($millions) 2003	2002
Annual Surplus (Deficit)	(184)	(10)
Net Acquisition of tangible capital assets	(263)	(202)
Amortization of tangible capital assets	130	131
Initial recognition of tangible capital assets	6	(4)
	(127)	(75)
Changes in Accounting Policies/Restatements	(131)	(268)
Equity on initial recognization of non-devolved health care facilities	-	3
Net income in non-devolved health care facilities	-	3
Change in deferred charges for non-devolved health care facilities	4	1
Recognition of other assets in non-devolved health care facilities	(16)	(65)
Repurchase of serial debentures	1	3
	(142)	(323)
(INCREASE) IN NET DEBT	(453)	(408)
Net debt, beginning of year	(9,950)	(9,542)
Net debt, end of year	**(10,403)**	**(9,950)**

PROVINCE OF MANITOBA
EXAMPLE SUMMARY STATEMENT OF CASH FLOWS
For the Year Ended March 31, 2003

	($millions)	
	2003	**2002**
Cash and cash equivalents provided by (used in)		
Operating activities:		
Summary net income (loss) for the year	(184)	(10)
Changes in non-cash items:		
Temporary investments	(28)	472
Amounts receivable	142	33
Valuation allowance	24	8
Inventories	(1)	5
Portfolio investments	(3)	(8)
Accounts payable, accrued charges, provisions and deferrals	(41)	10
Pension liability	194	167
Amortization of foreign currency fluctuation	17	58
Amortization of debt discount	10	14
Amortization of investment discounts and premiums	(14)	(4)
Amortization of tangible capital assets	130	131
Adjustment to Accumulated Deficit- Federal Accounting Error		(287)
Adjustment to Accumulated Deficit- Other	(130)	19
	116	608
Changes in equity in government enterprises	(159)	(113)
	(43)	495
Tangible capital assets		
Acquisition of tangible capital assets	(270)	(202)
	(270)	(202)
Investing activities:		
Made	(1,494)	(1,141)
Realized	2,169	744
	675	(397)
Financing activities:		
Debt issued	2,852	2,443
Debt redeemed	(3,354)	(2,051)
Changes in sinking funds	189	(208)
	(313)	184
Changes in cash and cash equivalents	**49**	**80**
Cash and cash equivalents, beginning of year	**663**	**583**
Cash and cash equivalents, end of year	**712**	**663**

THE ELIMINATION OF A SEPARATE AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENTS

Currently, The Financial Administration Act section 65(1)(a) requires the preparation of financial statements of the Consolidated Fund and that the financial statements be accompanied by a report of the Auditor General on his examination of the financial statements. The Consolidated Fund of the Public Accounts is more commonly known as the Operating Fund and its financial position and annual operations are included in the Special Purpose Operating Fund and Special Funds Financial Statements.

In many respects, the Government of the Province of Manitoba still emphasizes the importance of the Special Purpose Operating Fund and Special Funds Financial Statements over the Summary Financial Statements. The Special Purpose Financial Statements are prepared primarily in order to reflect compliance with the Balanced Budget, Debt Repayment and Taxpayer Accountability Act (Balanced Budget Legislation). While it is important for the Government to determine its compliance with Balanced Budget Legislation, disclosure of that information could easily be provided in the Summary Financial Statements in a note or schedule to the Summary Financial Statements.

In keeping with the appropriateness of emphasizing the Summary Financial Statements, we believe that the Government should reflect any key information from the Special Purpose Financial Statements in the Summary Financial Statements (in the notes to the financial statements) as well as combine in the Summary Financial Statements, budget information from the Operating Fund (Estimates of Expenditure and Revenues) with detailed budget information from Crown organizations. This would eliminate the need for the preparation of the Special Purpose Financial Statements and reduce the risk of confusion caused by having two sets of financial statements publicly presented each year.

Recommendation 13

We recommend that the Government consider introducing amendments to the Financial Administration Act to eliminate the requirement for separate Consolidated Fund (Operating Fund) financial statements and therefore combine the detailed budget information from the Operating Fund with similarly detailed information from Crown organizations to report detailed Summary Budget information in the Summary Financial Statements.

RESPONSE OF OFFICIALS

Previously we indicated that we believe that Manitobans expect a report on the operations of Government and its departments in the same manner that they expect a report on the operations of each Crown Corporation. The details of each entity is contained in the separate financial statements it presents. And the overall operations of the larger Crown entity are fully reflected in the Summary Financial Statements. Thus there is full and complete reporting at the present time. In fact, the Auditor General previously commended the Government for the significant progress achieved on the Summary Financial Statements.

CROSS-JURISDICTIONAL COMPARISON OF THE USE OF FINANCIAL INDICATORS IN THE PUBLIC ACCOUNTS ANNUAL REPORT

In September 1997, the Canadian Institute of Chartered Accountants (CICA) released a formal publication entitled, Indicators of Government Financial Condition. This publication was released as a research report and it directly addresses the need to understand the financial health of governments. The CICA suggests ten financial indicators for consideration when assessing sustainability, flexibility and vulnerability. The CICA offers the following definitions to help guide this initiative:

> *"The financial condition of a government is its financial health as measured by sustainability, vulnerability, and flexibility, looked at in the context of the overall economic and financial environment. These terms are defined as follows:*
>
> - *Sustainability: the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy.*
> - *Flexibility: the degree to which a government can increase its financial resources to respond to rising commitments, by either expanding its revenues or increasing its debt burden.*
> - *Vulnerability: the degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international."*

The cross-jurisdictional comparison indicates that there are only three financial indicators that are used by five or more jurisdictions. They are follows:

Sustainability: Net Debt as a percentage of GDP

Flexibility: Debt Servicing Costs as a percentage of revenues

Vulnerability: Federal Transfers as a percentage of revenues

In comparison with other jurisdictions (see Figure 1), Manitoba ranks positively in terms of the number of financial indicators used in its Annual Report of the Public Accounts, including the provision of indicators from all three categories, sustainability, flexibility and vulnerability.

FIGURE 1

Summary Financial Statements											
	Annual Report 2003					Annual Report 2002					
Financial Indicator	**Canada**	**BC**	**◆ AB**	**SK**	**MB**	**ON**	**QC**	**NB**	**PEI**	**NS**	**NF**
Sustainability											
Net debt as a % of GDP	✓	✓	-	☼	✓	-	-	✓	✓	✓	✓
Expense as a % of GDP	-	-	-	☼	✓	-	-	-	-	-	-
Budgetary balance as a % of GDP	✓	-	-	☼	-	✓	-	-	-	-	-
Total borrowings as a % of GDP	-	-	-	☼	-	-	-	-	-	-	✓
Economic growth compared to G7	-	-	-	☼	-	✓	-	-	-	-	-
Employment growth rate	-	-	✓	☼	-	✓	-	-	-	✓	-
Tax load as a % of GDP compared to G7 countries	-	-	✓	☼	-	-	-	-	-	-	-
Flexibility											
Debt servicing costs as a % of revenue	✓	✓	-	☼	✓	-	-	✓	✓	-	-
Debt service charge as a % of liabilities	-	✓	-	☼	-	✓	-	-	-	-	-
Sources of revenue	✓	-	-	☼	-	✓	-	✓	-	✓	-
Revenue as a % of GDP	✓	-	-	☼	✓	-	-	✓	-	-	-
Expense as a % of GDP	✓	-	-	☼	-	-	-	-	-	-	-
Debt as a % of revenue	✓	✓	-	☼	-	-	-	-	-	-	-
Net debt per capita	-	✓	-	☼	✓	-	-	-	✓	-	-
Vulnerability											
Federal transfers as a % of revenues	N/A	-	-	☼	✓	-	✓	✓	✓	-	✓
Foreign debt to net debt	✓	-	-	☼	✓	-	-	✓	-	-	✓
Debt credit rating	-	✓	✓	☼	-	✓	-	-	-	-	-
Total	8	6	3	☼	7	6	1	4	4	3	4

✓ Financial indicators used in the annual report
◆ Alberta reports performance measures but not financial indicators
☼ Saskatchewan has not provided financial indicators in their annual report
N/A Not applicable

[1] *Financial Statement Discussion and Analysis, Exposure Draft, July 2003, Overview*

[2] *PSAB Current Project Update Summary, September 2003*

Currently, the Public Sector Accounting Board (PSAB) of the CICA has turned its attention to developing a statement of recommended practices on Financial Statement Discussion and Analysis (FSD&A). The statement is expected to provide guidance in *"reporting information useful in evaluating an entity's financial condition and financial and non-financial performance".*[1] *"PSAB has decided FSD&A should be discretionary disclosure and not form part of GAAP".*[2] While it is reasonable to include financial indicators as part of the information provided, it is only part of information planned to be addressed in FSD&A. Complete performance reporting is more broadly based.

The FSD&A has recently completed the exposure draft stage of development and PSAB is considering the feedback provided by respondents to the exposure draft. It is anticipated that the FSD&A will be completed in the near term.

The exposure draft indicates that the intent of the FSD&A is to highlight key information underlying the Summary Statement of Financial Position and the changes in financial position (Summary Statement of Revenue and Expense). This includes identifying significant relationships among the numerical information as well as provide explanations and illustrations of trends and the changes in the annual results.

The exposure draft also recommends providing information on significant risks and uncertainties facing government and the strategies and policies that it has adopted to address those risks and uncertainties. A government's analysis could also include significant changes between the current year's results and the prior year's, and between the current year's actual results and the budget (Estimates of Expenditure and Revenue). In addition, there could also be a discussion of the changes that occurred which are not readily apparent from the numerical information alone.

Further, the exposure draft recommends that the discussion and analysis could be in plain language and center on major issues, thereby providing useful and easy to understand information to the citizens of Manitoba.

We will be encouraging the Government to adopt the FSD&A recommendations when they have been approved by PSAB.

EXAMPLE OF ACCUMULATIVE IMPACT ON OPERATING FUND RESULTS FROM NON-GAAP ACCOUNTING POLICIES OF THE OPERATING FUND

The Province's current accounting policy is not to restate prior year's financial statements as a result of a change in accounting policy or a correction of an error. This accounting policy is not in accordance with GAAP and is disclosed as an exception to GAAP in the Notes of the Special Purpose Operating Fund and Special Funds Financial Statements, and in the Notes of the Summary Financial Statements. The policy not to restate prior years' figures results in all the restatements being applied to the Accumulated Deficit. As well, more importantly, the policy of not recording pension expenses through the Operating Fund has a significant cumulative impact on the Statement of Revenue and Expense. As well, there has never been an adjustment to the Accumulated Deficit of the Operating Fund for pension expenses.

The lack of restatement for a correction of an error or a change in accounting policy improperly affects operating results reported on the Statement of Revenue and Expense and the accumulated surplus. As outlined below, had the excess of revenue over expenses in the Statement of Revenue and Expense been restated, the impact of the restatements that occurred over the previous four fiscal years would have reduced the positive balances thereby requiring a drawdown on the Fiscal Stabilization Fund by an aggregate of $178 million (excluding the effects of the change in interest earned on the Fund's invested balance). The net impact on the draw down from the Fiscal Stabilization Fund reflects the amount that would have required from the Fiscal Stabilization Fund in order to achieve a balanced budget in that particular fiscal year had the errors and changes in accounting policies been restated in accordance with generally accepted accounting principles.

FIGURE 2

Amounts Related to Changes in Accounting Policies and Correction of Errors That Did Not Appear on the Statement of Revenue and Expense

Special Purpose Financial Statements (Operating Fund)	2002	2001	2000	1999 and Prior Years	Total
Adjustments to Accumulated Deficit (by fiscal year) (credit)					
2003					
Tangible Capital Assets				6	6
Municipal Tax Revenue Sharing				23	23
Net Income Stabilization Account	3			16*	19
2002					
Federal Accounting Error		154	133		287
Tangible Capital Assets		(4)			(4)
2001					
Tangible Capital Assets			(2)	(19)	(21)
Amortization of Unrealized Foreign Exchange Fluctuations, Debt Discount and Deferred Income			2	19	21
2000					
Tangible Capital Assets				(153)	(153)
Total by Fiscal Year	**3**	**150**	**133**	**(108)**	**178**
Positive Balance (credit) as Reported	(63)	(41)	(11)	(31)	-
Net Impact on the Statement of Revenue and Expense for Transactions to the Deficit Over the Last 4 Years	-	109	122	-	231

* The impact on the 2001 and 2000 fiscal years, if any, is not available - the full amount has been allocated to fiscal years 1999 and prior.

Pension expense, also not flowed through the Statement of Revenue and Expense, is estimated to exceed $2 billion for the period from 1989 to 2003. The expense related to the effects of restatements for the same period, 1989 through 2003, also not reported on the Statement of Revenue and Expense, combined with the unrecorded pension expense is estimated to exceed $3.0 billion.

If pension expenses and changes in accounting policy or corrections of errors had been recorded in accordance with GAAP in the Operating Fund, the Fiscal Stabilization Fund would be depleted.

Recommendation 14

That pension expense and any restatements affecting the determination of an excess of revenue over expense (positive balance) for purposes of Balanced Budget Legislation be recorded in accordance with GAAP, and that amendments to Balanced Budget Legislation be introduced to reference the Summary Financial Statements, not the Operating Fund Financial Statements, as the financial statements used in the determination of a balanced budget.

RESPONSE OF OFFICIALS

Balanced budget legislation continues to reflect the intentions of the original drafters as enacted by the Legislative Assembly. This proposed change in policy by the Auditor General is a significant deviation from that framework, which could have significant implications for public services.

We are pleased that the Auditor General has reflected positively in the past on the Government's initiatives to address the pension liability issue. Those efforts are continuing.

ACCOUNTING FOR INFRASTRUCTURE ASSETS

At present, while the Summary Financial Statements do reflect the recognition of certain tangible capital assets, that recognition does not extend to tangible capital assets related to infrastructure. The major categories of the Province of Manitoba's infrastructure systems include highways, bridges, and water and sewer systems including the Winnipeg floodway.

The lack of recognition of infrastructure assets was reflected in the Summary Financial Statements as an exception to generally accepted accounting principles for senior governments.

The Government also stated in the Summary Financial Statements for the year ended March 31, 2003 that the process to establish the completeness and reasonableness of the estimated historical cost of infrastructure and to develop reporting policies in order to recognize infrastructure is ongoing.

PSAB Handbook section PS 3150.09 has been amended to require tangible capitals assets to be reported as assets on the statement of financial position effective for fiscal years beginning on or after April 1, 2005. This change is consistent with PSAB's adoption of the new government reporting model, referred to in the Improvements in Financial Statement Presentation and Disclosure (Public Accounts-Improvements and Recommendations) section of this report, which requires the recognition of tangible capital assets including infrastructure.

The Government advised us that it was awaiting the release of the PSAB Research Study on Accounting for Infrastructure in the Public Sector for its expected guidance in developing appropriate accounting policies. The research study was published in early 2003 and its recommendations reinforce the recommendations of section PS 3150.

The key accounting policy recommendation is that infrastructure assets subsequent to acquisition, which encompasses most of the Province of Manitoba's infrastructure assets, should be recorded at historical cost with disclosure of infrastructure costs using current depreciated reproduction cost.

Current depreciated reproduction cost refers to an inflation adjusted valuation using the cost to reproduce the asset reduced by accumulated amortization (depreciation) to reflect the remaining useful life of the asset. Reproduction cost is different from replacement cost in that replacement cost usually includes the impact of technological improvements affecting service potential and/or cost as opposed to reproduction cost which is defined as the cost to reproduce the asset in substantially the identical form.

The challenge for the Government is to accumulate the appropriate information necessary to apply this accounting policy consistently within each of the various infrastructure systems or at least within a component of a system. Now that the research study is available, the Government can use its guidance to assist in defining the detailed application of its accounting policy(ies) including the appropriate amortization policies as well as in developing a range of other useful management information. This information gathering process as mentioned earlier has already commenced.

Recommendation 15

We recommend that the Government set a firm target date for the completion of its information gathering and the establishment of appropriate accounting policies for the recognition of the major infrastructure systems in the Summary Financial Statements.

RESPONSE OF OFFICIALS

We have made a great deal of progress in examining the implications of introducing capital accounting principles for infrastructure. We will re-examine our efforts in this area and determine whether further acceleration is feasible.

CROWN ORGANIZATIONS AND GOVERNMENT ENTERPRISES

Who Conducts the Audits

The Auditor General's Office audits many of the crown organizations and government enterprises included in the Government Reporting Entity, and many others are audited by private sector auditors appointed by the Government. Consequently, we place reliance on the audit work and opinions of the private sector auditors in forming the audit opinion on the Summary Financial Statements. We obtain written representations from the private sector auditors regarding their independence and compliance with generally accepted auditing standards. We also perform additional auditing procedures, as we consider necessary, to fulfill our broader reporting responsibilities to the Legislative Assembly.

Appendix E lists those government entities audited by the Auditor General's Office and those audited by private sector auditors.

Relationship with Private Sector Auditors

THE AUDITOR GENERAL ACT

The Auditor General, as the auditor of the Public Accounts of the Government of the Province of Manitoba, reports on whether the Government's Summary Financial Statements are fairly presented in accordance with public sector accounting standards.

As many of the financial statements of government entities included in the Government Reporting Entity are audited by private sector auditors, the Auditor General must also be able to rely on the work of these external auditors. The Auditor General Act (Act) clarified the Auditor General's authority over the external auditors and the responsibilities of the external auditors to the Auditor General as auditors of government entities. Section 13 of the Act authorizes the Auditor General to rely on the report of an external auditor of a government entity in order to fulfill the Auditor General's responsibilities as the auditor of the government accounts. Professional auditing standards, namely section 6930 of the CICA Assurance Handbook, permit reliance on the work of another auditor provided that the Auditor General is satisfied that the audit conducted has been properly planned, executed, completed and reported.

In addition, as we reported last year, the Act was proclaimed in early May 2002, and since then we have expanded our role in the financial statement audits of government entities audited by the private sector auditors. Our expanded role encompassed a review of the planning, execution and completion stages of the audits performed by these auditors.

Excerpts from the Act are provided below:

Planning

The Auditor General may require the external auditor of government entities to provide the Auditor General with a description of the proposed scope of the audit before the audit is begun. The Auditor General may then require changes to be made in the scope of the audit. **[Section 12(1) of the Act]**

Execution

Before an external auditor issues an audit opinion on the financial statements of a government entity, the Auditor General may require the external auditor conduct additional examinations relating to the financial statements. **[Section 12(2)(b) of the Act]**

Completion

Before an external auditor issues an audit opinion on the financial statements of a government entity, the Auditor General may require the external auditor to provide the Auditor General with a copy of the proposed audit opinion, the draft financial statements, and any recommendations arising out of the audit of the financial statements. **[Section 12(2)(a) of the Act]**

The Auditor General may require an external auditor to give the Auditor General a copy of the audit working papers. **[Section 12(3) of the Act]**

Reporting

As soon as an audit is completed, an external auditor must give the Auditor General a copy of the audit opinion on the financial statements of a government organization and any recommendations arising out of the audit of the financial statements.
[Section 12(4) of the Act]

Report to the Legislative Assembly

The Auditor General has the authority to report to the Legislative Assembly on any matter he or she may wish attention to and make recommendations regarding any audit conducted by an external auditor under Section 12. **[Section 10(3) of the Act]**

RELIANCE ON THE WORK OF PRIVATE SECTOR AUDITORS

Early in the 2002/03 audit cycle, we met with the Chief Executive Officers and the Chief Financial Officers of Crown organizations included in the Government Reporting Entity, as well as representatives from the private sector audit firms conducting the financial statement audits of these entities. At these meetings we clarified the role our Office would be taking in these audits, and set out our specific expectations regarding required correspondence, communications and time-lines.

The Office of the Auditor General then issued letters to the external auditors requiring them to comply with Sections 12(1), 12(2) and 12(4) of the Act. Specifically, the external auditors were to provide to our Office, draft audit plans before the commencement of the audit field work and draft audit opinions and financial statements prior to finalizing the audit. The auditors were also directed to provide signed audit opinions and management letters.

Review of Draft Planning Memoranda, Financial Statements and Auditors' Reports

We received 51 draft planning memoranda from private sector auditors, which we reviewed and made recommendations for changes on 5 of those audit plans.

Similarly, we also received and reviewed 51 draft financial statements and auditors' reports. We provided recommendations on 46 draft financial statements. We had no recommendations on 5 of the draft financial statements.

Of the 46 draft financial statements for which we made recommendations, 35 draft financial statements were amended, 3 draft financial statements were partially amended, deferring certain changes in those 3 draft financial statements until next year. With respect to the other 11 draft financial statements, the changes we recommended were also deferred until next year.

The recommended changes included presentation and disclosure matters in the financial statements and in the notes to the financial statements.

In accordance with our cyclical review schedule, we reviewed 18 of the external auditors' working paper files including the audit working paper files for all of the large government enterprises.

We communicated with the external auditors at each stage of the overview.

As a result of our reliance process regarding Crown organizations' financial statement audits, we increased the involvement of our Office with the audit processes and by attending more Board and Audit Committee meetings. Through our review of the draft financial statements of Crown Organizations prior to finalization, we also contributed to improved public sector financial reporting. Our impact on their financial statements included clearer and expanded note disclosure and improved asset and liability classification and description.

In the case of our overview work with respect to Special Operating Agencies' (SOAs) financial statement audits, we were able to improve the overall disclosure and consistency of presentation among these organizations. Our work with the individual SOAs contributed towards a more accurate and consistent compilation of the results of the individual SOAs in the financial statements of the Special Operating Agencies Financing Authority.

Manitoba Housing and Renewal Corporation

FOLLOW-UP OF LAST YEAR'S RECOMMENDATION

Last year we noted that in conducting our 2001/02 audit of Manitoba Housing and Renewal Corporation (MHRC) that MHRC had significantly drawn down its reserve for Modernization and Improvement (M&I) in order to fund a large portion of its 2001/02 M&I program. We further noted that while the Legislature had appropriated funds for M&I, as set out in the Estimates of Expenditure, a large amount of these funds were not expended.

We reported that a documented policy to guide the use of the M&I reserve fund was not in place. However, we noted that when the fund was initially established, it was management's intention that the funds be used for significant, non-recurring projects throughout the Province. Last year, we found that funds drawn from the reserve in 2001/02 were not specifically linked to non-recurring M&I projects.

Accordingly, we recommended that Manitoba Housing and Renewal Corporation (MHRC) develop a policy regarding the use of the Modernization and Improvement (M&I) Reserve Fund and also develop a multi-year plan for the use of the fund. We further recommended that the Board of MHRC approve the policy and the plan.

During the 2003 fiscal year, we found that the Corporation had addressed our recommendation. The Corporation documented and the Board approved a Policy Statement regarding the use of the M&I Reserve Fund. However, the need for a multi-year plan for the use of the M&I Reserve Fund beyond the 2004 fiscal has become unnecessary because the Reserve Fund is expected to be fully depleted as at March 31, 2004. MHRC does not anticipate that any funds will be available in the near future to replenish the M&I Reserve Fund.

MHRC's Policy Statement is provided below:

> **POLICY STATEMENT**
>
> *The MHRC will determine on an annual basis, as part of the department's annual Estimates process, the level of funding it will use from the Special M&I Provision Fund to complete the major anticipated capital expenditures.*
>
> *Additional requirements to draw on the Special M&I Provision Fund may be identified throughout any fiscal year to address unscheduled or emergency M&I work which were either moved forward due to earlier than anticipated failures or were not included in the multi-year modernization and improvement plan.*
>
> *All annual funding levels, changes or additional funding requirements, including the amounts to be drawn from the Special M&I Provision Fund, will be approved by the Board of Directors of The Manitoba Housing and Renewal Corporation.*

Performance Reporting by Crown Entities

In December 2002, the Auditor General released a report entitled, *Performance Reporting In Annual Reports: Current Practices Among Crown Entities*[1]. The report presents a set of attributes of effective performance reporting and an assessment of a sample of 40% of 2000/01 annual reports of crown entities in relation to those attributes. The report concluded that while there is widespread support for performance measurement and reporting among the crowns we interviewed, crown entities have a long way to go to meet the attributes described in the report. **Figure 3** presents a summary of the key findings in relation to each attribute.

Legislators and the electorate should have easy access to information on the performance of their crown entities. One of the easiest ways to make performance information readily available is to incorporate it into annual reports. In this way, all those who want performance information receive the same information.

[1] In the report, "crown entities" refers to crown organizations and crown enterprises listed in Schedule 8 of the Summary Financial Statements in *The Province of Manitoba Annual Report for the Year Ended March 31, 2001* with the exception of special operating agencies. We excluded special operating agencies from this review because they are part of a departmental structure and do not operate under an appointed board of directors.

FIGURE 3

Performance Reporting in Crown Entity Annual Reports	
Attributes of Performance Information	**Highlights from Findings in Relation to Each Attribute**
EXPECTED RESULTS Performance Information should identify: • The results that an entity intends to achieve (its goals or outcomes). • How expected results relate to the vision, mission and mandate of the entity. • How expected results relate to government's goals and priorities.	• Only one-third of the 26 annual reports included expected results/goals. • 46% of annual reports did not contain either a vision, mission or mandate. • In virtually no cases did crown entity annual reports present government's goals and priorities as they relate to their sector. Likewise there was virtually no attempt to link a crown entity's expected results/goals to those of government.
CRITICAL SUCCESS FACTORS AND STRATEGIES Performance Information should identify: • Activities to achieve expected results. • A description of the operating environment. • Internal and external factors that could impact on the achievement of results. • Actions to mitigate any potential risks.	• 85% of annual reports did not include the following: - linkage between strategies, programs or activities and the organization's expected results/goals; - a description of the organization's operating environment; - identification of key internal and external critical success factors that impact on the organization's ability to carry out activities and ultimately to achieve intended results; and - an explanation of how the organization addresses potential risks.
ACTUAL RESULTS Performance Information should identify: • Actual achievements as outputs and outcomes. • The link between results, activities and costs. • Variances between actual and intended results with explanations of these variances. • The extent to which achievements can be attributed to the activities of an entity.	• Annual reports are not reporting outcomes - 85% of annual reports focus on reporting a mix of activities and outputs while the remaining 15% of annual reports do not include either of these. • In virtually all annual reports: - actual results are not reported in relation to stated expected results/goals; - accomplishments are not presented in relation to performance measures and targets; and - there is no attempt to present or explain variances in performance between expected and actual results. • Annual reports did not attempt to link expected results/goals, activities, outputs and outcomes with costs. • Generally, annual reports do not demonstrate the significant contribution that the crown entity makes to the achievement of expected results/goals.
FUTURE DIRECTIONS Performance Information should identify: • Activities to address the gap between actual and expected results. • Future desired directions. • Internal and external factors that could impact on the achievement of future desired directions. • Actions to mitigate any constraints identified.	• Annual reports do not identify future directions with respect to how the crown entity will address: - the gap between expected and actual performance; and - key factors that could impact on their ability to meet future expected results. • Annual reports do not highlight the overall corporate direction that will be the focus of the next two to five year time frame.

FIGURE 3 (CONT'D.)

Performance Reporting in Crown Entity Annual Reports	
Attributes of Performance Information	**Highlights from Findings in Relation to Each Attribute**
UNDERSTANDABLE Performance Information should: • Use language and a style that is simple, free of jargon and concise. • Use charts, graphs and other visuals in a way that makes a meaningful contribution to explaining performance. • Have a logical flow.	• In almost 70% of the annual reports: - some parts are clear and concise while in other parts there is room for greater clarity; - logical flow is variable; - tables and other visuals do not tend to be used to good effect (i.e., not clear to the reader why the data are included or what they are meant to demonstrate). - 30% of the annual reports are disjointed, making it difficult for the reader to connect one section to the next; (generally these annual reports tended to be concise to the point of compromising their meaningfulness).
RELEVANT Performance Information should: • Relate to expected results, especially outcomes.	• 15% of annual reports attempted to relate their accomplishments to their mission, mandate or vision; less frequently was there some attempt in the annual reports to link activities or outputs to a particular goal. • In 85% of annual reports activities and outputs reported are generally poorly linked or not linked to what the crown entity is attempting to achieve.
RELIABLE Performance Information should: • Identify data sources. • Explain data limitations. • Identify future plans to improve data quality.	• Virtually all the annual reports we reviewed lacked explanations with respect to data sources, data quality and plans for improving data limitations.
COMPLETE AND BALANCED INFORMATION Performance Information should: • Report on successes and shortcomings. • Report against a balanced set of performance measures. • Provide performance data over several years. • Compare performance to other similar entities.	• At least 60% of the annual reports did not demonstrate any of the attributes of completeness and balance in the reporting of performance information. • In slightly over one-third of the annual reports there was some attempt to report against a mix of performance indicators and in some cases data is presented over a time frame of several years and/or compared to similar data from other jurisdictions. • In 8% of annual reports there was some attempt to report on shortcomings in performance.

The report is intended to encourage communication of more performance information of a sort that enables Manitobans to readily determine the contribution and value-added that their crown entities make through their operations. Through enhanced sharing of performance information, accountability is enhanced.

The report contains eight recommendations. Among them:

- That the Government of Manitoba establishes a Government-wide corporate framework within which crown entities can develop their own strategic plans and performance measures.
- That the Government of Manitoba develops a common set of guidelines for annual reporting by crown entities that reflect the attributes of effective performance information contained in the Auditor General's report.
- The guidelines on annual reporting include a disclosure policy that establishes the minimum standards of annual reporting by crown entities.

Auditor's Report on Financial Statements Prepared Using a Basis of Accounting Other Than Generally Accepted Accounting Principles

A new assurance standard CICA Handbook Section 5600 came into effect October 1, 2003 which requires an auditor to issue a qualified auditor's report on financial statements prepared using a basis of accounting other than Canadian generally accepted accounting principles (GAAP) except under limited circumstances. Those circumstances include financial statements prepared in accordance with legislative or regulatory requirements in order to meet the needs of a legislator or regulator.

In the Government Reporting Entity, there are currently eight crown entities, Addictions Foundation of Manitoba, Cooperative Loans and Loans Guarantee Board, Cooperative Promotion Board, Legal Aid Services Society of Manitoba, Northern Affairs Fund, Manitoba Housing and Renewal Corporation, Manitoba Health Services Insurance Plan and Public Trustee Estates and Trusts Under Administration, whose financial statements are prepared using a disclosed basis of accounting that is not GAAP.

Over the 2004 fiscal year, our auditors' reports will be reviewed to determine whether a qualified auditors' report will be required in accordance with the new assurance standard. Part of the assessment will be to determine what accounting policies would need to change in order for the financial statements to be prepared in accordance with GAAP. We will also consider whether the financial statements are prepared in accordance with a legislative or regulatory requirement.

If the financial statements were prepared in accordance with a legislative or regulatory requirement, CICA Handbook Section 5600 would apply and the financial statements should disclose in the notes to the financial statements the purpose of the financial statements as well as the material differences between the basis of accounting used and GAAP.

The auditors' report would also change to include a statement indicating the purpose of the financial statements or a reference to the notes to financial statement which describes that purpose. In addition, there would also be a fourth paragraph following the opinion paragraph, stating that these financial statements "have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use" of legislator or regulator, should also state the purpose(s) of the financial statements , and the fact that the financial statements "are not intended to be and should not be used by anyone other than the specified users, or for any other purpose".

The statements in the fourth paragraph are used to emphasize that the financial statements are not general purpose financial statements and have been prepared to meet the specific needs of a legislator or regulator.

COMPLIANCE WITH AUTHORITY AND AGREEMENTS ISSUES

During the audits of various organizations in the past year, the following case of non-compliance with the respective entity's governing legislation came to our attention.

Le Collège de Saint-Boniface

Excerpt from "*An Examination of Le Collège de Saint-Boniface*", Issued August 18, 2003.

We found during our examination of the Le Collège de Saint-Boniface (the College) that Section 24 of The Council on Post-Secondary Education Act (Act) required that an annual report of operations, along with audited financial statements, be submitted by each post-secondary institution at the end of each fiscal year to The Council on Post-Secondary Education (COPSE) and that the Minister, was required to table such reports before the Legislative Assembly. We noted that this process had not occurred for the College.

As the recipient of significant public funds and as required under Section 24 of the Act, we expected that the College would have produced accountability documents, such as annual reports that include financial information, which would be readily available to the public to demonstrate that public monies are appropriately used. We also expected COPSE to ensure that the process for tabling an annual report for the College would have occurred. By not following the requirements of the Act, the College and COPSE precluded the Members of the Legislative Assembly from carrying out their oversight responsibilities.

We recommended that the College develop and implement a plan to submit an annual report of operations, along with audited financial statements, to COPSE each fiscal year in accordance with the Section 24 of The Council on Post-Secondary Education Act. We further recommended that COPSE monitor that the College has complied with the Act.

The College provided audited financial statements for the year ending March 31, 2003 to COPSE. These audited statements were then tabled by the Minister of Advanced Education in November 2003.

REVIEW OF THE SYMMETRY BETWEEN THE ACCOUNTING PRINCIPLES OF THE REGIONAL HEALTH AUTHORITIES, MANITOBA HEALTH AND THE PROVINCE OF MANITOBA

MAY 2003

Introduction

On April 1, 1997, ten Regional Health Authorities (RHAs) commenced operations in rural Manitoba. On April 1, 1998, three urban RHAs (two in Winnipeg) formally commenced operations. The formation of the thirteen RHAs was the culmination of a strategy and process to move to a regional governance model.

The Province of Manitoba, through Manitoba Health, provides operational and capital funding to the RHAs. The RHAs have an accountability relationship with Manitoba Health and accordingly each of the RHAs prepares budgets and financial statements for submission to Manitoba Health. As well, the financial statements of the RHAs are consolidated with the Summary Financial Statements of the Province of Manitoba and the financial statements of non-devolved facilities are presented on a combined basis in the Summary Financial Statements of the Province of Manitoba.

The purpose of our review is to identify and assess the accounting principles followed by the RHAs in the preparation of their financial statements and the impact of that accounting on the financial statements of the Province of Manitoba and vice versa. Specific issues related to accounting for employee future benefits, accounting for long term debt and the disclosure of foundations will be identified and discussed. As well, this Paper will emphasize the need to reconcile the amount of funding paid by Manitoba Health with the amount of funding received by the RHAs, together with the need to reconcile Manitoba Health's expenses relating to the RHAs with the related revenues of the RHAs.

In addition, the coordination between Manitoba Health and the RHAs relating to the preparation of budgets and estimates and the submission of actual results and projected results will be explained.

A Glossary of Terms is included in Exhibit O.

Background

In May of 1992, Manitoba Health published the *"Quality Health for Manitobans: The Action Plan"*. This was a strategy to ensure the future of the province's health system and to give Manitobans *"health service alternatives and more and better information about those alternatives, so that individuals can play a full role in decisions about their health and the services they receive"*.

The mission of Manitoba Health has been to promote, preserve and protect the health of Manitobans. In the fall of 1992, the Northern/Rural Health Advisory Council was established. Through its review of health in the northern and rural areas, the Council recommended moving to a regional governance model.

In the spring of 1993, 20 health association boundary proposals were received. Manitoba Health recommended ten rural health associations. The decision to regionalize the operation and administration of health in Manitoba was a major change in the way that health care was being planned and delivered. In this model, the regional health authorities would be responsible within the context of broad provincial policy directions, for assessing and prioritizing needs and health goals, and developing and managing an integrated approach for its own health care system.

Public hearings throughout northern and rural Manitoba pertaining to the governance and organization of health associations were held in October, 1994. The Northern/Rural Health Advisory Council made recommendations to the Minister of Health on the hearing issues and in August 1995, the Government accepted the recommendations in principle. A call for nominations of initial board members for Regional Health Authorities (RHAs) was done in October 1995 and then in January 1996, the RHA Board Chairs were announced. Initially, service providers were not eligible to be board members.

Each RHA was incorporated as a not-for-profit corporation. The Regional Health Authorities and Consequential Amendments Act (Bill 49) had its first reading on May 16, 1996 and it received Royal Assent on November 19, 1996. Six Acts were affected by the legislation and they were The District Health and Social Services Act, The Health Services Act, The Health Services Insurance Act, The Hospital Act, The Hospital Capital Financing Authority Act and The Public Health Act. The revisions to the Acts give a Regional Health Authority the responsibility and authority for funding and monitoring the health care services that have been approved by the Minister.

On April 1, 1997, the following rural Regional Health Authorities (RHAs) started to provide service delivery:

- Burntwood Regional Health Authority
- Churchill RHA Inc.
- Interlake Regional Health Authority
- Marquette Regional Health Authority
- NOR-MAN Regional Health Authority
- North Eastman Health Authority
- Parkland Regional Health Authority
- Regional Health Authority - Central Manitoba Inc.
- South Eastman Health/Santé Sud-Est Inc.
- South Westman Regional Health Authority

At that time, Manitoba Health's funding allocations to the Regional Health Authorities were based on historic funding within each region.

The Brandon RHA board members were appointed in April of 1997 and the Brandon RHA started providing services in the fall of 1997. In March 1998, the Winnipeg Community and Long-Term Care and the Winnipeg Hospital Authority Boards were appointed and the Winnipeg Community Health Assessment Process was initiated. On April 1, 1998, the Winnipeg Hospital Authority and Winnipeg Community and Long Term Care Authority started delivering health care services in Winnipeg.

In the 1998/99 fiscal year, Manitoba Health also provided funding to the RHAs to improve inequities that had occurred as the result of the application of previous policies, practices and the consolidation of historical budgets of facilities and community services in the regions.

The Regional Health Authorities of Manitoba (RHAM) was established by the RHAs in October 1998. Its mission has been to foster the development of an efficient and effective interregional health care delivery system that meets the needs of all Manitobans. Its goals are:

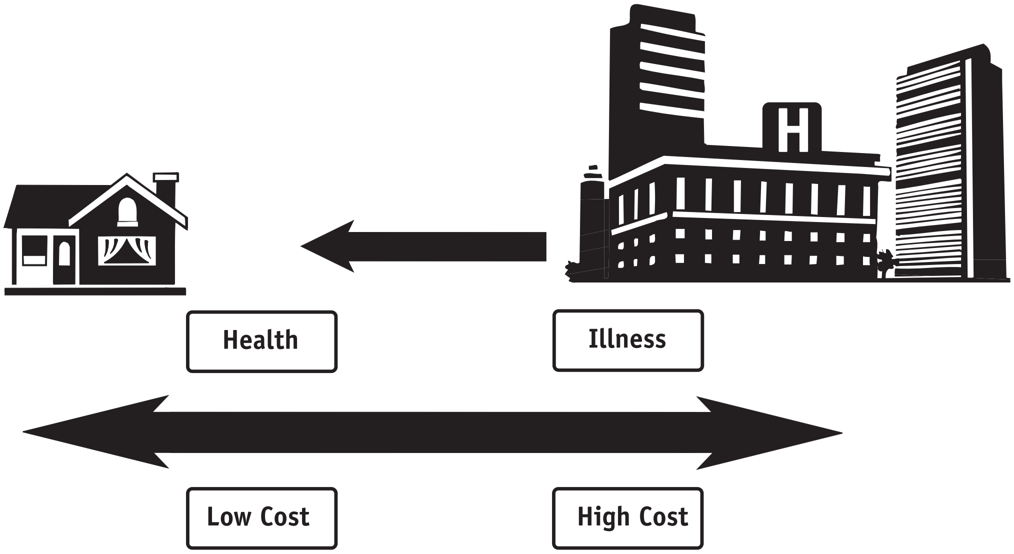
- to act as the umbrella organization for the direct operating divisions of RHAM. It has one division to date and that is the Regional Health Authorities of Manitoba Purchasing Plan (RHAPP). Depending on the needs of the RHAs, other operating divisions may be added on an ad hoc or standing basis; and

- RHAM also enters into contracts with external health service providers as required for services such as the delivery of the Home Oxygen Program to home care clients.

Manitoba Health released the *"Quality Health Care for Manitobans: The Action Plan for the New Millennium"* in 1999. The focus was to integrate services at the regional level to allow for:

- better management of the health care system;
- maintaining high-quality acute care services;
- reducing waiting lists;
- relieving hospital over-crowding;
- aggressively attracting and retaining front-line professionals;
- enhancing long-term care and community care;
- meeting changing pharmaceutical needs; and
- building a strong public health system aimed at the prevention and control of disease and promotion of health and wellness.

The plan also stated that *"prevention and population health strategies will result in a reduction in the disparities in the health status of Manitobans with reduced pressure on the illness care system"*. The intent is to provide alternative opportunities as the system shifts to more community oriented services which are less costly.



In February, 1999, the Winnipeg Hospital Authority and the Winnipeg Community and Long-Term Care Authority amalgamated as the Winnipeg Regional Health Authority (Regulation 165/99 of The Regional Health Authorities Act) and in June 2000, the Regional Health Authority Act's Regulations were amended to allow service providers to be appointed to the RHA Boards. Under Chapter 44 of the Act, an amendment was made to allow RHAs to give direction to a health corporation that provides health services within its health region.

In May 2002, the Minister announced the amalgamation of the South Westman and the Marquette RHAs to form the Assiniboine Regional Health Authority. A map of the Regional Health Authorities is provided in Exhibit A. The majority of the rural facilities have devolved and are now part of the RHAs. A list of those rural facilities that have not devolved is included as Exhibit B. All the funding for the RHAs is provided by Manitoba Health Services Insurance Plan.

Financial Information

COSTS OF HEALTH PRE-RHAS

The expenditures for health care services in 1995/96 and 1996/97 were:

Prior to RHA Funding	000s	
	1995/96	1996/97
Facilities and regional costs	$ 1,179,400	$ 1,167,900
Other	451,200	591,900
Total Expenditures	**$ 1,630,600**	**$ 1,759,800**

Source: Manitoba Health

COSTS OF HEALTH POST-RHAS

On April 1, 1997 the rural RHAs started providing services to their regions. The Brandon RHA started to provide services mid-way through the 1997/98 fiscal year. The Winnipeg Hospital Authority and Winnipeg Community and Long-Term Care Authority were not part of the 1997/98 funding since they commenced operations in 1998/99.

The percentage increase or decrease in funding by Manitoba Health is presented below starting in 1999/00, the year after the Winnipeg Regional Health Authority commenced operations.

Regional Health Authority Funding
1997/98 - 2001/02

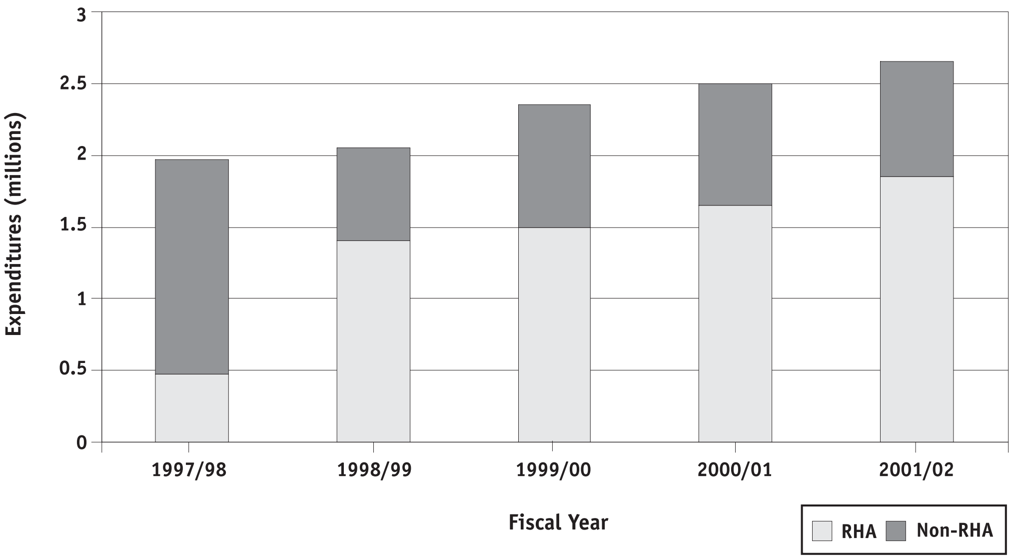
Regional Health Authorities Funding Category	$000s				$000s		$000s	
	1997/98	1998/99	1999/00	% Inc.	2000/01	% Inc.	2001/02	% Inc.
Acute Care Services - Operating	194,733.0	829,402.0	859,556.4	3.6	953,834.7	11.0	1,046,407.1	9.7
Acute Care Services - Capital	16,478.4	42,653.9	38,666.1	(9.3)	34,748.3	(10.1)	40,542.6	16.7
Long-Term Care - Operating	93,793.6	187,422.7	239,193.2	27.6	261,290.9	9.2	282,460.1	8.1
Long-Term Care - Capital	3,753.0	8,738.0	12,816.2	46.7	12,016.3	(6.2)	17,117.4	42.5
Medical	24,257.3	95,114.5	108,165.5	13.7	118,560.0	9.6	132,651.4	11.9
Emergency Response and Transportation	5,583.9	9,869.7	10,013.0	1.5	15,123.0	51.0	18,175.2	20.2
Community and Mental Health	*38,116.9	*66,838.9	100,897.8	51.0	108,732.7	7.8	96,841.1	(10.9)
Home Care	*47,536.9	*134,438.6	149,585.9	11.3	158,041.8	5.7	172,459.7	9.1
Total RHA	**424,253.0**	**1,374,478.3**	**1,518,894.1**	**10.5**	**1,662,347.7**	**9.4**	**1,806,655.6**	**8.7**
Non-RHA	1,480,798.8	673,813.2	777,179.3	15.3	834,525.9	7.4	862,735.5	3.4
Total Manitoba Health Expenditures	**1,903,950.4**	**2,048,291.5**	**2,296,073.4**	**12.1**	**2,496,873.6**	**8.7**	**2,669,391.1**	**6.9**

Source: Manitoba Health

* Note: In Manitoba Health's Annual Reports in 1997/98 and 1998/99, the two services were not reported as RHA funding in the Manitoba Health Services Insurance Plan but were recorded directly in the Department of Health. For the years subsequent to 1998/99 these two services are reported. The Final RHA Funding Documents in 1997/98 and 1998/99 were used to report the community and mental health services and home care funding.

Non-RHA funding includes, among other funding components, proprietary personal care homes, Cancer Care Manitoba, physician fee-for-service, reciprocal billings between provinces, Pharmacare, third party recoveries, provincial health services, Addictions Foundation of Manitoba and Manitoba Health' salaries and operating expenditures. The RHAs started receiving proprietary personal care home funding in the 2002/03 Funding Document.

RHA versus Non-RHA Funding
1997/98 - 2001/02



Source: Manitoba Health

Details by year and RHA are found in Exhibit C.

RHA Financial Statement Review

EMPLOYEE FUTURE BENEFITS

Background

The scope of section 3461 of the CICA Handbook on Employee Future Benefits applies to benefits earned by active employees as the funds are expected to be provided to them when they are no longer providing active service, pursuant to the terms of an entity's undertaking to provide such benefits. These benefits include the following:

- Pension and other retirement benefits expected to be provided after retirement to employees and their beneficiaries.
  - Pension income, health care benefits, life insurance and other miscellaneous benefits provided to employees after retirement.
- Post-employment benefits expected to be provided after employment but before retirement to employees and their beneficiaries.
  - Long and short-term disability income benefits (including workers' compensation), severance benefits, salary continuation, supplemental unemployment benefits, job training and counselling, and continuation of benefits such as health care benefits and life insurance.
- Compensated absences for which it is expected employees will be paid.
  - Parental leaves, accumulating sick days that vest or are paid without illness-related absence, and sabbaticals that provide compensated, unrestricted time off for past service.
- Termination benefits.

Findings

- Between 1989 and 1991, Manitoba Health provided a policy to the health care facilities on how to present employee future benefits in the health care facilities' financial statements. Although the staff in Financial Support and Analysis branch at Manitoba Health has not been able to provide a copy of the policy, it is their understanding that the facilities would not record accrued vacation, overtime, statutory holiday pay or pre-retirement costs as an expense, but would only record it on a cash basis, i.e., in the year in which it was paid.
- The recording of the accrual was disclosed in the balance sheet of the facility as an asset (deferred benefit entitlement) and as a liability (accrued benefit entitlement). The RHAs have continued to follow this method of accounting from their inception to the present.
- The changes in the deferred asset and in the accrued benefit entitlement liability are not included in the statement of operations of the RHAs.

- The pre-retirement liability is a contractual commitment to pay out to employees four days salary per year of service up to retirement if they comply with the following conditions:
  - have ten years service and have reached the age of 55; or
  - qualify for the "eighty" rule which is calculated by adding the number of years of service to the age of the employee.
- The RHA financial statements do not disclose the terms of the severance benefits available in the Manitoba Government Employees Union collective bargaining agreement.
- The RHAs have recorded these amounts based on an actuarial valuation that includes employees who qualify at the year-end balance sheet date and an estimate for the remainder of the employees who have not yet met the criteria above.
- The RHA financial statements do not disclose the terms of the pension benefits available under the Civil Service Superannuation Plan. The Province has accepted responsibility for the obligation and is reflecting pension benefit obligations in the Province's financial statements.
- The following are the accrued benefit entitlements payable by the RHAs based on their balance sheets.

RHA	Description by RHA	$000s
Brandon RHA	Accrued vacation entitlements, overtime and retirement obligations	12,097.5
Burntwood RHA Inc.	Accrued employee benefit costs, including vacation pay, unused statutory holiday pay, unpaid overtime and pre-retirement leave	3,408.1
Central	Vacation, overtime, statutory, holiday pay and pre-retirement entitlement	13,138.7
Churchill RHA Inc.	Vacation pay costs and pre-retirement leave	205.0
Interlake RHA Inc.	Accrued vacation pay and pre-retirement costs	5,818.4
Marquette RHA	Vacation pay costs and pre-retirement leave	5,861.6
NOR-MAN RHA	Vacation pay and pre-retirement/severance	4,236.6
North Eastman Inc.	Vacation and retirement entitlements	2,538.3
Parkland RHA Inc.	Vacation pay, unused statutory holiday pay, unpaid overtime and pre-retirement	8,423.1
South Eastman Inc.	Accrued vacation pay and pre-retirement costs	3,771.4
South Westman Inc.	Accrued employee benefits costs, including vacation pay and pre-retirement leave	5,772.4
Winnipeg RHA	Accrued vacation entitlements, accrued overtime, and accrued retirement entitlement	116,023.0
Total		**181,294.1**

Source: Annual Audited Financial Statements for the year ended March 31, 2002

- The 2002 Manitoba Health Service Insurance Plan's financial statements include a note relating to these future benefit entitlements. This liability amount of $181,294,100 has not been recorded as a liability in those financial statements.

- Manitoba Health does not fund the liability or record the cost of accrued employee benefits or the cost of post-employment benefits earned by employees of the health authorities and health care facilities until those benefits are paid to the employees.
- The pre-retirement leave is considered a non-global item by Manitoba Health in its funding policies. Non-global items are assessed on a line-by-line basis. At year-end, subject to Manitoba Health's review and approval, shortfalls will be reimbursed to the RHAs and surpluses will be recovered from the RHAs. Manitoba Health has continued to provide pre-retirement leave funding to the RHAs and the non-devolved facilities.
- The Province of Manitoba, in its 2001/02 Summary Financial Statements, is disclosing in the salaries and benefits line in Schedule 7 for Accounts Payable, Accrued Charges, Provisions and Deferrals a liability of $348.0 million. This liability amount includes $100,108,900 representing the liability for employee future benefits for the devolved health care facilities and RHA employees.
- The reconciliation of the total liability of $181,294,100 included in the table above and the liability of $100,108,900 included in the Summary Financial Statements is as follows:

	$000s	
Total per RHA financial statement which includes both devolved and non-devolved facilities		181,294.1
Less: Non-devolved facilities liabilities included in the following RHA balance sheets:		
Central RHA	1,907.4	
Interlake RHA	731.0	
Parkland RHA	3,363.5	
South Eastman RHA	783.8	6,785.7
Total before deducting non-devolved facilities' liabilities included in the WRHA balance sheet		174,508.4
Less: Non-devolved facilities liability included in the WRHA balance sheet		74,399.5
Liability in the Summary of Financial Statements		100,108.9

- The $6,785,700 amount is also included in the $74,399,567 non-devolved liability exclusion so that the reported liability in the Summary Financial Statements may be understated by the $6,785,700.
- From discussions with the Manager of Financial Analysis and Support branch of Manitoba Health and the CFOs of two of the RHAs, they all agreed that Manitoba Health is funding all pre-retirement costs, including those costs for non-devolved facilities.
- The Province's accounting policy is not to record the unfunded RHA benefit entitlement liability in the Special Purpose Financial Statements (Operating Fund) and it has not identified it as an exception to generally accepted accounting principles in the Significant Accounting Policies Note to the Special Purpose Financial Statements. The Operating Fund is the vehicle through which the government manages and controls the operations of government departments and programs. It is through the

Operating Fund that the government reports on its stewardship of Central government operations, including measurement of its results as compared to voted appropriations and its obligations with respect to The Balanced Budget, the Debt Repayment and the Taxpayer Accountability Act.

- There are at least three RHAs (e.g., North Eastman, Burntwood and South Westman) that have not had an actuarial valuation of the employee future benefits liability prepared since December 31, 2000. In the years between valuations, an extrapolation of the actuarial valuation of the obligation is used. Manitoba Health has not defined the maximum duration of time between actuarial valuations.
- Although the RHAs have not recorded the annual cost of and the related matching annual revenue for employee future benefits on an accrual basis, there are two sub-committees of the Chief Financial Officer's Committee of the RHAs that are reviewing this accounting. Those two committees are the Provincial Data Quality Committee – MIS and the Provincial Accounting and Auditing Committee – Financial Presentation and Audit. The Provincial Accounting and Auditing Committee is considering using accrual accounting for the annual cost of and the related matching annual revenue for employee future benefits. The committee has not met since November 6, 2001.
- Four of the RHAs (Central, Marquette, Parkland and South Westman) have separate disclosure of the pre-retirement entitlement as a non-current liability and the accruals for vacation, holiday and overtime pay as a current liability. Six of the RHAs (Burntwood, Churchill, Interlake, NOR-MAN, North Eastman and South Eastman) have combined the accruals for vacation, holiday and overtime pay with the pre-retirement entitlements and disclosed that combined total as a current liability. Two of the RHAs (Brandon and Winnipeg) have combined the accruals for vacation, holiday and overtime pay with the pre-retirement entitlements and disclosed that combined total as a non-current liability. The details by RHA are presented in Exhibit D.

Conclusions

- *Manitoba Health, through the financial statements of the MHSIP, is accounting for employee future benefit costs for the RHAs and the non-devolved facilities on a cash basis, with note disclosure as to the amount of the liability.*
- *The Province of Manitoba is recording the accrual for employee future benefits in Schedule 7 of the 2001/02 Summary Financial Statements without including the non-devolved liability for employee future benefits. However, the liability for employee future benefits related to the non-devolved health care facilities is included in Liabilities of Non-Devolved Health Care Facilities in the Summary Financial Statements on the statement of financial position, but is offset by deferred charges which are included in Assets of Non-Devolved Health Care Facilities. As a result, the equity in Non-Devolved Health Care Facilities in the Summary Financial Statements is overstated in the amount of $74.0 million.*

- *The Province of Manitoba has not disclosed the fact that because the liability for employee future benefit is not recorded in the Operating Fund Financial Statements that this is an exception to generally accepted accounting principles.*
- *The Province of Manitoba has understated, in their Summary Financial Statements, the aggregate amount of the employee future benefits liability by $6,785,700.*
- *The RHAs have not used accrual accounting to report the expenses and revenue applicable to the fiscal year related to employee future benefits. The RHAs present a deferred charge in their balance sheets in an amount equal to that of the employee future benefit liability.*
- *The practice of Manitoba Health is to fund pre-retirement benefits for both devolved and non-devolved health care facilities.*

CAPITAL FUNDING BY DEPARTMENT OF FINANCE

Background

The Department of Finance can obtain lower borrowing rates than the RHAs. Accordingly, the Department of Finance provides capital financing to the RHAs and non-devolved facilities. This financing includes not only the financing of major projects, but also the re-financing and consolidation of loans payable by the RHAs to financial institutions.

For construction projects where the Department of Finance will be the funding body, financing from the Department of Finance starts only when the construction or project is completed. All short-term borrowing and related interest charged by the lending financial institutions, before the project's completion, are considered capital at the time the Department of Finance takes over the financing.

Findings

- Manitoba Health provides a letter of comfort to the financial institution during the construction phase. On completion of construction, the Chairperson of the Board of Trustees and the Chief Executive Officer of the RHA or the Board Chair and Executive Director of the non-devolved facility complete a promissory note promising to pay to the Government of Manitoba, represented by the Minister of Finance, the repayment of the principal sum and interest on the loan. If the RHA or non-devolved facility fails to make payments of the principal and interest as required, the full principal sum then outstanding, together with interest thereon shall, at Manitoba's option, become due and payable on demand.
- All of the RHAs disclose the liability to the Province as long-term debt.
- All capital funding by the Department of Finance has to be approved as part of the Estimates process. The principal funding is provided through the approved capital borrowing in Capital Grants at Manitoba Health (Sub-appropriation 21-6) and the interest funding is provided through the Funding to Health Authorities (Sub-appropriation 21-4a).

- As an administrative convenience, Manitoba Health pays the principal and interest to the Department of Finance on behalf of the RHAs. This process is also used by Manitoba Health when making payments to external lenders on debentures related to major projects. Manitoba Health still has 6 urban and 7 rural acute care facilities and 2 urban and 8 rural long term care facilities that have debentures on which to make payments of principal and interest.
- When the RHAs receive funding for periodic principal repayments of long-term debt, the RHAs record that funding as a credit to deferred contributions.

The annual amortization of the deferred contributions related to the periodic principal repayments of long-term debt is based on straight line amortization of the total anticipated funding (i.e., the total principal of the long-term debt). The amortization time period used is the same time period used to amortize the related capital asset and therefore results in no impact on the excess of revenue over expenses.

Conclusion

- *The RHAs are classifying capital grants received from the Province of Manitoba as long-term debt instead of classifying them as deferred contributions as required by generally accepted accounting principles (GAAP).*

REPORTING BY RHAS OF REVENUE RECEIVED FROM MANITOBA HEALTH

Findings

- Manitoba Health provides Funding Documents to the RHAs identifying the funding which will be provided during the year. The RHAs' reporting of revenue from Manitoba Health in their 2001/02 audited financial statements does not agree with the RHAs' Funding Documents as summarized in Exhibit E. Only the Central and Interlake RHAs have provided a note to their financial statements explaining the variance:

	2002
Manitoba Health revenue includes the following:	
Revenue as per final approved budget	$106,563,900
Amounts recorded as deferred contributions	(3,424,077)
Current year's estimated out of globe amount (payment to Manitoba Health)	103,139,823
One time funding - fee for service physician billings	(276,727)
One time funding - midwifery	81,390
One time funding - contract settlements	161,507
One time funding - employee assistance program	644,397
One time funding - other	22,376
Total	**$103,772,766**

- Part of the variances in Exhibit E are related to the one-time funding provided by Manitoba Health which was not included in the RHA Funding Document in 2001/02. The remainder of the variance is related to periodic principal repayments on loans which are reported as deferred contributions by the RHAs and out of globe amounts payable to Manitoba Health.
- Manitoba Health is now reporting one-time funding in the 2002/03 RHA Funding Documents. The one-time funding is not allocated by sector (Acute Care, Long-Term Care, Home Care, Community and Mental Health, Emergency Response and Transport Services, Capital and Interest and Medical Remuneration).

Conclusions

- *Central and Interlake RHAs are the only RHAs that are providing a reconciliation of the differences between the reported revenue from Manitoba Health and the payments in the RHA Funding Document provided by Manitoba Health. This information is essential for Manitoba Health staff, RHA staff and others (i.e., external auditors) in order to effectively reconcile Manitoba Health expenses with RHA revenue.*
- *Part of the variance between the revenue from Manitoba Health and the RHA Funding Document in 2001/02 was because the one-time funding provided by Manitoba Health was not included in this document. In 2002/03, the RHA Funding Document includes the one-time funding, but it is not allocated by sector which would be beneficial to the RHAs and to Manitoba Health when analyzing cash flows and reconciling RHA revenue with expenses in the general ledger of the Manitoba Health Services Insurance Plan.*

Financial Statement Presentation and Note Disclosure

BACKGROUND

The March 31, 2002 Regional Health Authorities financial statements were reviewed in order to determine if there was consistency in accounting policies and note disclosure used. A summary of that review is included in Exhibits F - I.

Findings

Amounts Receivable from Manitoba Health

- There was no consistency in presentation of accounts receivable, including amounts due from Manitoba Health. Each RHA used different account breakdowns for receivables, with various degrees of detail. The results of this analysis are detailed in Exhibit F.

- The Financial Services branch of Manitoba Health has advised that for March 31, 2002 they have completed a detailed review of RHA's accounts receivable focusing on amounts due to the RHAs from Manitoba Health. They have now determined what amounts will be recovered by the RHAs from Manitoba Health. For the 2002/03 fiscal year the branch has directed the Chief Financial Officers of the RHA's that no amount shall be established as a receivable from Manitoba Health without proper documentation from Manitoba Health.

Capital Asset Amortization

- There was no consistency among the RHAs with respect to their amortization policies used for capital assets. The amortization policies, as presented in the financial statements are summarized in Exhibit G.

Net Assets

- A comparison of the net asset accounts of the RHAs as summarized in Exhibit H indicated that the RHAs, in segregating their net assets, are disclosing internally restricted and externally restricted net assets.
- Currently five RHAs (Brandon, Churchill, Interlake, North Eastman and South Eastman) disclose external restrictions on net assets.
- In discussions with Central RHA, it was noted that any endowments or donations received by that RHA would be recorded as deferred contributions, until the funds were used. Central RHA would not classify these endowments or donations as externally restricted net assets.
- Currently nine RHAs (Winnipeg, Brandon, Burntwood, Central, Interlake, Marquette, NOR-MAN, Parkland and South Westman) disclose internal restrictions on net assets.
- The use of the terms internally restricted and externally restricted is based on the CICA handbook requirements for not-for-profit organizations. As well, the handbook requires note disclosure to indicate the source and reason for the restrictions. None of the RHAs provided that required note disclosure.

Note Disclosure of Manitoba Health Funding Policies

- It was noted that not all RHAs (i.e., Central, Interlake, Marquette, NOR-MAN and South Eastman) disclose Manitoba Health policy regarding In Globe and Out of Globe surpluses and deficits as summarized in Exhibit I.

Consolidation of Controlled Entities

- A review of the RHA financial statements, as summarized in Exhibit I indicates that eight of the RHAs (Burntwood, Central, Interlake, Marquette, North Eastman, Parkland, South Eastman and South Westman) include note disclosure indicating that they consolidate controlled facilities in their financial statements. Two RHAs do not consolidate controlled facilities, the Winnipeg Regional Health Authority and the

Brandon Regional Health Authority. NOR-MAN RHA and Churchill RHA do not have note disclosure on this item, because it is not applicable to them.

Conclusion

- *There are significant differences in the financial statement presentation and note disclosure between the RHAs. Consistency in presentation and disclosure would improve comparison among RHAs and improve the information value of the financial statements for all users.*

Reporting Issues for Foundations in the Health Care Sector

BACKGROUND

Prior to the formation of the Regional Health Authorities (RHAs) many of the health facilities had foundations. Those foundations were created to receive donations and bequests with the objective of accumulating funds which could be used to supplement the resources of the health facility. After the RHAs were created these foundations continued to operate and in some instances new foundations were created to manage funds without RHA control. The relationship between the foundations and the health facilities and between the foundations and the RHAs may be such that disclosure of the existence of the foundations and the details about the foundations resources should be included in the financial statements of the reporting health care facility and/or the RHA.

In order to obtain an initial assessment of whether appropriate disclosure requirements are being met by the RHAs and by the non-devolved urban hospitals with respect to foundations, we contacted the RHAs and the larger urban health foundations to obtain information about the relationship between the foundations, the urban hospitals and the RHAs. Contact was made with all but one RHA. The results of these enquiries are summarized in Exhibit J.

In assessing the need for disclosure in the facilities and/or in the RHA financial statements with respect to the foundations, we used the criteria set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA). As presented in Exhibit J, we have identified, as column headings the major criteria we have considered in our assessment. The detailed handbook requirements which support the criteria are set out in the section of this paper entitled, *Summary of Handbook Requirements*.

In April 1997, the CICA Handbook introduced provisions to the Not-For-Profit section that expanded the concept of control by an organization over another organization. Under the new standards an organization may be said to be controlled even in situations where there is a separate Board of Directors. The concept of control now includes economic interest by the reporting organization in the other organization. Economic interest relates to the relationship of the reporting organization with respect to resources and organizational objectives of the other organization. It should be noted however that economic interest is not sufficient to create a control situation. The

Handbook states that this economic interest exists in degrees.

These requirements are of particular relevance to the health care sector as there are many urban and rural foundations that, in some instances, hold substantial assets and have an ability to raise significant revenues. The resources of these foundations are used for research, capital projects and equipment purchases. Accordingly, the foundations make resources available to the health facilities that are not otherwise available through provincial funding.

SUMMARY OF HANDBOOK REQUIREMENTS

Where a control relationship exists between a reporting organization and another organization, the disclosure requirements of Section 4450 of the handbook will apply.

The disclosure requirements address three levels of relationship between a reporting organization and another organization; control at the highest level, then significant influence and lastly economic interest. In order to determine which relationship exists the handbook indicates factors such as the appointment of the Board of Directors, transfers of funds between organizations and performance of significant functions that are integral to the reporting organizations objectives. Significant influence exists where there is an ability to affect, rather than control, how another organization's resources are used. When an organization has an economic interest in another organization without control or significant influence this is still an item for disclosure. The handbook also addresses situations where a joint venture or for profit controlled entity is the related organization. A detailed discussion follows.

INDICATORS OF CONTROL

Strategic, operating, investing and financing policies establish the basis for the conduct of the entity's operations. The power to determine an entity's strategic direction and policies would normally exist when:

- The reporting organization has the ability to appoint the majority of the voting members of the Board of Directors; and
- The Board of Directors is the same as that of the reporting organization.

In the absence of the right to appoint the Board of Directors, other characteristics of the reporting organization's relationship with other organizations should be considered.

Possible other indicators of control are:

- *Significant Economic Interest*. Economic interest is defined to exist if the other organization holds resources for the benefit of the reporting organization or the reporting organization is responsible for the other organization's liabilities.

  The following are possible indicators of economic interest.

  - The other organization solicits funds in the name of and with the expressed or implied approval of the reporting organization, and substantially all of the funds solicited are intended by the contributor or are otherwise required to be transferred to the reporting organization or used at its discretion or direction;

- The reporting organization transfers significant resources to the other organization whose resources are held for the benefit of the reporting organization. Note that the flow of resources is into the other organization. Therefore, resources flowing in either direction indicate control;
- The other organization is required to perform significant functions on behalf of the reporting organization that are integral to the reporting organization achieving its objectives; and
- The reporting organization guarantees significant liabilities of the other organization.

However, economic interest exists in varying degrees and does not necessarily indicate a control situation. An economic interest may exist without control or significant influence. At the other extreme the reporting organization would not be able to function without the organization in which it has an economic interest.

- Provisions in the other organizations charter or bylaws that cannot be changed without the reporting organization's consent and that limit the other organization to activities that provide future economic benefits to the reporting organization.
- The other organizations purpose is integrated with that of the reporting organization so that the two organizations have common or complementary objectives.

In some cases a single indicator of control is sufficient to conclude that control exists. This depends on the significance of a particular indicator.

In summary, where control exists disclosure requirements come into play. The CICA Handbook requires that an organization should report each controlled not-for-profit organization as follows:

Section 4450.14 *- An organization should report each controlled not-for-profit organization in one of the following ways:*

a) by consolidating the controlled organization in its financial statements;

b) by providing the disclosure set out in paragraph 4450.22; or

c) if the controlled organization is one of a large number of individually immaterial organizations, by providing the disclosure set out in paragraph 4450.26. [APRIL 1997]

For a controlled not for-profit-organization regardless of whether or not it is consolidated, the following should be disclosed.

Section 4450.15 *- For a controlled not-for-profit organization, regardless of whether or not it is consolidated, the following should be disclosed:*

a) the policy followed in reporting the controlled organization;

b) a description of the relationship with the controlled organization;

c) a clear and concise description of the controlled organization's purpose, its intended community of service, its status under income tax legislation and its legal form; and

d) the nature and extent of any economic interest that the reporting organization has in the controlled organization. [APRIL 1997]

For controlled organizations that are not consolidated the following should be disclosed:

> ***Section 4450.22*** *- For each controlled not-for-profit organization or group of similar controlled organizations not consolidated in the reporting organization's financial statements, the following should be disclosed, unless the group of controlled organizations is comprised of a large number of individually immaterial organizations (see paragraph 4450.26):*
>
> *a) total assets, liabilities and net assets at the reporting date;*
>
> *b) revenues (including gains), expenses (including losses) and cash flows from operating, financing and investing activities reported in the period;*
>
> *c) details of any restrictions, by major category, on the resources of the controlled organizations; and*
>
> *d) significant differences in accounting policies from those followed by the reporting organization. [APRIL 1997]*

Exclusion of Immaterial Organizations (4450.26)

An organization may exclude a group of controlled organizations provided that:

a) the group of organizations is comprised of a large number of organizations that are individually immaterial;

b) the reporting organization discloses the reasons why the controlled organizations have been neither consolidated nor included in the disclosure of any other foundations.

The handbook commentary notes that many not-for-profit organizations may have control over dozens, hundreds or even thousands of individually immaterial organizations. Financial information may not be timely or it may not be in the form of financial statements prepared using GAAP. In some cases information may not be available at all. In such cases, the effort and expense of providing information in 4450.22 (assets, liabilities, revenue, expenses) may not be cost beneficial. Judgment is required in assessing disclosure. In some instances, some controlled organizations would be disclosed, while others would not. For example, a national organization may report provincial branches, but not report operations down to a local level.

Significantly Influenced Not-For-Profit Organizations (4450.40)

In situations where control does not exist, significant influence may be in place. This would take the form of representation on the Board of Directors, economic interest, participation in the policy making process, material inter-entity transactions, or interchange of managerial personnel.

In this case the required disclosure is as follows:

a) a description of the relationship with the significantly influenced organization;

b) a clear and concise description of the significantly influenced organization's purpose, its intended community of service, its status under income tax legislation and its legal form; and

c) the nature and extent of any economic interest that the reporting organization has in the significantly influenced organization.

As significant influence involves the ability to affect, rather than control, information would not be provided about the significantly influenced organizations' resources.

Economic Interest

There is another reporting level where neither control nor significant influence exists, but the reporting organization has an economic interest. In this case "…the nature and extent of this interest should be disclosed." (4450.45)

Findings

Transfers from Regional Health Authorities

- The Pas Health Foundation was formed by transferring funds (possibly donation accounts) from the The Pas Hospital to the Foundation.
- In the region formerly known as Marquette (now part of the Assiniboine RHA) the Chief Financial Officer indicated that foundations were relatively rare until regionalization of the health care sector occurred, at which time funds were transferred from existing facilities to foundations which were created to manage the funds.
- Other information was received that significant funds were transferred to foundations when regionalization occurred. It is not known if these funds were transferred from donation accounts, from appropriately retained surpluses, or from other sources. One individual indicated that the transfers were restricted to donations by Manitoba Health and that transfers of surplus funds arising from Manitoba Health funding were not allowed by Manitoba Health. In order to determine the amount and source of the funds additional investigation would be required by Manitoba Health.

Transfer from Riverview Health Centre Pension Fund Surplus

- In the case of the Riverview Health Centre, the financial statements identify a transfer from the Centre to the Foundation for the March 31, 2002 fiscal year of $1.3 million. The transfer was described as representing the pension fund surplus of the Centre.

Determining Relationship between the Reporting Organization and Foundations

- Almost all the Foundations have separate Boards of Directors. At the Deer Lodge Centre the Chief Operating Officer of the Centre is a non-voting member of the Foundation Board and acts as a liaison between the Centre and the Foundation.

- In the absence of clear indicators, such as shared Boards or Boards appointed by the reporting organization, it is necessary to look to other aspects of the relationship between the health organizations and the foundations. The information obtained in Exhibit J indicated that there was at least an economic interest between those foundations that could be specifically identified and the related health care organization.
- In some instances RHAs could not identify all foundations in their area, partially because the foundations are independent organizations.
- In the urban areas each of the major health facilities has a foundation relationship.

Capital Assets

- In some instances the foundations had contributed funds for significant capital assets used by the facilities. It is not clear what the accounting treatment is for these assets and if they are recorded as assets of the recipient organization.

Current Reporting

- Financial statements were obtained for the ten major urban health facilities. An examination of those financial statements indicated the following note disclosures which are presented in Exhibit J:
  - Four (Children's Hospital, Grace Hospital, Health Sciences Centre and Misericordia Health Centre) report an economic interest in a foundation.
  - One (Concordia Hospital) reports having significant influence in a foundation.
  - Four (Deer Lodge Centre, Riverview Health Centre, St. Boniface Hospital and Victoria Hospital) report transactions with foundations as being related party or related entity transactions.
  - One (Seven Oaks Hospital) statement identifies the foundation as a supporter.
- The Winnipeg RHA disclosed in its financial statement an economic interest in the Health Sciences Foundation and the Children's Hospital Foundation together with the amount of funds received for the fiscal year being reported.
- Financial statements for foundations were not obtained for all rural health care facilities. However a review of the rural RHAs March 31, 2002 financial statements as summarized in Exhibit J, indicated no disclosure of foundation activities, with the exception of the financial statement disclosure of a $293,000 liability to Betel Heritage Foundation Inc. from the Interlake RHA.

Conclusions

- *Current accounting treatment of foundations by the RHAs and the non-devolved health care facilities is not consistent.*
- *The handbook disclosure requirements are sufficiently broad that the RHAs should provide disclosure of their economic interest in the related foundations and the level of support received by the RHA, either directly or indirectly through a health facility, from a foundation. This information is not always being provided by the rural RHAs as indicated in Exhibit J.*
- *The accounting treatment of the foundations by the urban facilities is summarized in Exhibit J. There are a number of variations in the level of detail being disclosed.*

Health/RHA Financial Statements/ Relationship/Policy/Coordination

BACKGROUND

Manitoba Health and the RHAs' Chief Financial Officers meet every second month and have conference calls in those months in which they do not meet. As well, Manitoba Health and the RHAs' Chief Executive Officers meet every second month and have conference calls in the months in which they do not meet. This provides an opportunity for Manitoba Health and the RHAs to discuss policy changes, program concerns and any statistical and financial issues that may arise. Throughout the year, the finance officers of the Financial Support and Analysis branch of Manitoba Health monitor the funding to and expenditures of the RHAs. Exhibit K provides an organizational chart for Manitoba Health and the relationship therein of the Financial Support and Analysis branch of Manitoba Health.

There are a number of reporting requirements of the RHAs and Manitoba Health:

- **Monthly Reporting**
  - RHA's Financial Monitoring (starting in June)
  - RHA's MIS Financial and Statistical Reporting
- **Quarterly Reports**
  - Manitoba Health's Cash Flow to Treasury Board including RHA's Financial Position
- **Annual Reports**
  - RHA's Health Plan (June 1 for the year beginning April 1 of the following year)
  - Preliminary Estimates to Treasury Board (October)
  - Supplementary Supply to Treasury Board (November)
  - RHA's Audited Financial Statements (June 30)
  - RHA's Year-end Settlements (Fall for the March 31 year-end of that year)
  - RHA's MIS Financial Statements (June 30)

Findings

- The RHAs and Manitoba Health are accountable for specific funding requirements throughout the year. The activities are as follows:

Manitoba Health's Funding Policies

- The funding to the RHAs is governed in accordance with Section 3(3) and Section 24(4) of The Regional Health Authorities Act. The provincial expectations are to:
  - improve efficiency and effectiveness in the delivery of services;
  - redirect resources, as appropriate, from the acute care category to other funding categories such as health promotion, disease prevention, primary care, and home-based services;
  - foster multidisciplinary and intersectional strategies to address the determinants of health.
- Unless explicit approval in writing is provided by Manitoba Health, all items should be funded from within the global funding provided. This includes the five sectors:
  - Acute Care
  - Long-Term Care
  - Emergency Response and Transport Services
  - Community and Mental Health
  - Home Care
- The funding to the RHAs is considered global unless stated below:
  - Global – Protected Programs (funding must be used only for the following purposes)
    - Laboratory and Imaging Services
    - Northern Patient Transportation Program
    - Chemotherapy
    - Dialysis (Includes Staff Training)
    - Pan Am Clinic – WRHA
    - South Eastman Surgical Program
- Non-Global
  - Medical Remuneration/Medical Sessional Payments
  - Authorized/Charge Income
  - Pre-Retirement Leave
  - Capital Costs
  - Accreditation Survey Fees

  The non-global items are assessed on a line-by-line basis. At year-end, subject to Manitoba Health's review and approval, shortfalls incurred by the RHA in non-global funding will be funded by Manitoba Health and any surpluses realized by the RHAs will be paid by the RHAs to Manitoba Health.

RHA's Health Plan

- The 2004/05 Health Plan Guidelines were sent out on March 7, 2003 to the Regional Health Authorities. The Plan consists of two components:

  - Strategic Component – submitted every five years
  - Annual Component – submitted annually

  The RHA's Health Plan is submitted electronically by June 1st of each year.

  The RHAs undertake a comprehensive Community Health Assessment every five years with the goal to developing the Strategic Component of the RHA Plan. The next Strategic Component is due in June 2005.

- The intent of the health plan is to convey:

  - Clear Direction – focus on actions required to successfully meet the health needs of Manitobans.
  - Communication and Consultation – to inform Manitobans about the process of planning for the health systems.
  - Public Accountability – to ensure public funds are used in a responsible manner, that services respond to the health needs of the citizens within the region and that services meet standards set by the province and by licensing authorities.

- There are various schedules that must be completed by the RHAs. Those are as follows:

  - **Schedule1 - Funding Request**: is completed for all new or expanded programs, baseline requests and redirections. This includes baseline price, baseline volume, one-time costs, annualizations, new initiatives and reallocations.
  - **Schedule 2 - RHA Budget Allocation**: is the RHA Budget Allocation which includes the prior year's actual, current year RHA Board budget, current year's initial funding as provided by Manitoba Health, current year's reallocation, current year's adjustments, and current year's RHA Adjusted Budget.
  - **Schedule 3 Wage - Settlement Templates**: is the estimated and prior year's unsettled wage settlements, current and prior year's wage settlement increments and pre-retirement costs. Wage settlements arise from contracts negotiations with health care unions.
  - **Schedule 4A and 4B - Summary Reports**: are automatically generated from Schedule 1 to break down requests by type and sector.
  - **Schedule 5 - Specialized Equipment Needs Plan**: outlines the Region's prioritized specialized equipment needs.
  - **Schedule 6 - Regional Capital Management Plan**: outlines the Region's overall capital plan, listing all projects proposed for approval during the health plan timeframe and contemplated for future fiscal years.
  - **Schedule 7 and 7a - Capital Construction Project Brief**: is to provide briefs for the proposed projects in the fiscal year of reference.

- **Schedule 8 - Capital Planning Safety and Security Project Request**: is to provide safety and security project requests.
- **Schedule 9 - Workforce Planning**: is automatically generated from Schedule 3.

Review of the RHA's Health Plan

- The Executive Management Committee (EMC) at Manitoba Health will review the initial proposals in the Health Plan and identify any funding that will not be considered in the review process. The finance officers in Financial Support and Analysis branch are responsible for specific RHAs and will work with the RHA representatives when analyzing the funding requests submitted. Regional Affairs, Capital Finance and program staff are also part of the initial review. Wage Settlements are the responsibility of the Labour Relations Secretariat. The staff will prioritize each of the requests. The new initiatives are the last requests to be reviewed.
- A Health Plan Review Steering Committee which is chaired by the Director of Regional Support Services includes senior staff from the different program and funding areas of Manitoba Health. The Committee reviews the prioritized RHA requests. Ongoing meetings take place at the Committee level until the Committee defines the list of requests that will go forward for Executive Management Committee's (EMC) review. Once EMC has approved the requests, they are entered into the Preliminary Estimates by the Financial Support and Analysis branch staff and by Capital Finance branch staff.

Preliminary and Final Detailed Estimates

- The reallocations, price, volume, annualizations, target reductions, if required, and new initiatives are entered by sub-appropriation, health care sector and type of service delivery in the Preliminary Estimates. The Preliminary Estimates are submitted to Finance and Administration branch staff for review. Once reviewed, the Preliminary Estimates are then forwarded to Treasury Board Secretariat. Any adjustments by Manitoba Health will be included as additions or deletions to the Preliminary Estimates for review by Treasury Board Secretariat. Treasury Board Secretariat perform its analysis and may ask further questions of Manitoba Health. Once the funding is approved by Treasury Board, Estimates Minutes are prepared by Treasury Board Secretariat stating the funding approved. The Printed Estimates of Expenditure and Revenue are prepared by the Treasury Board Secretariat and subsequently tabled in the Legislature by the Minister of Finance. Approval of the Budget is by way of the Appropriation's Act which is approved by the Legislature and receives Royal Assent.

Manitoba Health's Funding to the RHAs

- After the approval of the Final Detailed Estimates, the finance officers in Financial Support and Analysis branch start to prepare a Funding Document for their respective RHAs. All funding changes to an RHA require the signature of the Executive Director of Financial Support and Analysis branch. Approved block funding is provided and the RHAs will identify where in the five sectors (Acute Care, Long-Term Care, Community and Mental Health, Home Care, and Emergency and Transportation Services) the funding will be allocated. The Senior Financial Analyst of Financial Support and Analysis branch prepares the Medical Remuneration (payments to physicians for services rendered) and the Manager of Capital Finance prepares the capital and interest payments for each RHA's Funding Document. One-time funding in each RHA's Funding Document (e.g., initial startup of a service, safety requirements, etc.) is provided by the Accounting Services staff but this funding is not segregated by sector. The Chief Financial Officers of the RHAs can also request re-allocations of the funding between sectors throughout the year.

- The RHAs are funded in 24 semi-monthly payments on the 1st and 15th of each month. Funding adjustment can be done as many as 24 times during the year. The first payment starts on April 1st and the final payment for the fiscal year is March 15th. The RHA Funding Document is the ownership of the Financial Support and Analysis branch. Before the payments can be made through the system and the general ledger of the Manitoba Health Services Insurance Plan, the Executive Director or the Manager of Financial Support and Analysis branch has to sign the Funding Document. The Manager of Capital Finance must sign the Funding Document for debt principal and interest payments.

Reporting Requirements of the RHA (monthly and quarterly reports)

- The RHAs are required to provide full reporting of the RHA's financial position and operating results including both global and non-global information. A summarized administrative report is required electronically in a prescribed format of the RHA's financial position and operating results and a forecast of the anticipated year-end results. The reports are due as follows:

Due Date	Based On Actual As Of
June 28	May 31
July 31	June 30
August 31	July 31
September 30	August 31
October 31	September 30
November 30	October 31
December 31	November 30
January 31	December 31
February 28	January 31
March 31	February 28 (Preliminary Year-end)
June 30	March 31 (Audited Financial Statement)

- The reports must explain any variances from Manitoba Health's RHA Funding Document. Any reallocated funding must be appropriately explained by the Chief Financial Officer of the RHA. A hardcopy and electronic submission of the report must be forwarded to the finance officer at Financial Support and Analysis branch who is assigned to that RHA. The hardcopy must be signed by the RHA's Chief Executive Officer. In the case of any disputes regarding allocations or classifications of funding, the Department will review and confirm a final decision with respect to the allocations of funding or the classification of funding.
- The 2002/03 fiscal year is the first year that RHAs will be reporting on performance in key areas and outlining how such performance will be monitored and measured. It is intended that the performance deliverables and health plan processes will evolve over time, and interface with the reporting requirements.

Manitoba Health's Review of the RHA's Expenditures and Projections

- Starting in June, the staff in the Financial Support and Analysis branch does an extensive review of the RHA's financial position and operating projections to the end of the fiscal year. They review the RHA expenditures through comparison with the funding provided by Manitoba Health. Capital Finance branch staff review the principal and interest payments by comparison with the approved principal and interest funding provided.
- As part of this review, the RHAs are to project their year end position and explain any variances from the agreed budget. This information is split into global and non-global funding. A comparison is made between the RHA's projected funding to the end of the fiscal year and Manitoba Health's RHA Funding Document. Detailed explanations are provided for the variances in each of the five sectors as well as in the non-global items. Finance and Administration staff does a final review of these variances by RHA and a surplus or deficit position per RHA is provided to Treasury Board and senior management of Finance and Regional Affairs divisions of Manitoba Health.
- In the fourth quarter review of the RHAs' financial position, the Financial Support and Analysis staff and Capital Finance staff analyze the variances of the March 31 Preliminary Year-end report and set up accruals or recoveries in Manitoba Health, where necessary, to prepare for the final year-end reporting at Manitoba Health. A draft letter prepared by the Executive Director of Financial Support and Analysis branch regarding the March 31, 2003 Year-End Reporting is to be provided to the Chief Financial Officers of the RHAs stating that:

  > *"It should be noted that any amounts placed on the Balance Sheet, as receivable/payable with the Department, should have the proper documentation and approval. This is to ensure that these amounts can be easily reconciled at year-end when the confirmation letters are sent. The RHA should not assume any amount will be funded without the proper documentation and approval. Please call your Finance Officer and confirm what will be set-up at year-end".*

Cash Flow Process

- Manitoba Health has to submit quarterly cash flow projections to Treasury Board Secretariat for each sub-appropriation. The information is requested by line within a sub-appropriation and explanations are required for any significant projected costs which exceed the Printed Estimates. Variance explanations are required based on the following funding:

Funding Amounts	Variance Requiring Explanation
0 < $500,000	20%
$500,000 < $1,000,000	15%
$1,000,000 < $5,000,000	10%
$5,000,000 <	5%

- The finance officers of Financial Support and Analysis branch provide information to Finance and Administration staff on acute care, long term care, emergency response and transport services, community and mental health services, home care and medical remuneration. The Executive Director or Manager of Financial Support and Analysis branch must approve this information. The Manager of Capital Finance provides and approves the information on the principal and interest payments. This information is then provided to Finance and Administration staff for their final review and their submission to Treasury Board Secretariat.

Year-End Settlements of the RHA Audited Financial Statements

- The process of having the Department ensure that proper documentation and approval is provided by the RHAs for each of the RHA's receivables and payables with Manitoba Health at year end should alleviate many of the discrepancies during the year-end settlement process. As well, this will ensure that the RHA's audited financial statements record only approved funding from Manitoba Health and can be reconciled with the expenses and accruals recorded by the Manitoba Health Services Insurance Plan.

- The finance officers in Financial Support and Analysis branch and the Capital Finance branch staff, together with RHA representatives perform a line by line review of the variance report provided by the Chief Executive Officer of the RHA on the RHA's audited financial statements and Manitoba Health's RHA Funding Document. Variances between the audited financial statement details and Manitoba Health's funding for each RHA are identified and reported and comments are prepared. Manitoba Health staff assess whether there is an amount owing to the RHA or recoverable from the RHA by Manitoba Health. As of 2001/02, no deficits on global funding are being considered for funding by Manitoba Health to the RHAs. Once the 2001/02 year-end settlement is completed for each RHA, the Chief Financial Officer of Manitoba Health signs the settlement letter stating the amount recovered from the RHA by Manitoba Health or the amount to be funded by Manitoba Health to the RHA and that it is the final fiscal year settlement with the RHA.

Management Information System (MIS)

- The MIS Guidelines are a national set of financial and statistical reporting standards administered by the Canadian Institute for Health Information (CIHI). The data is to provide meaningful information to track and monitor the expenditures and activities of the programs and administrative functions of the RHAs. The RHAs are required to report monthly on their statistical and financial information based on the MIS Guidelines format. The balance sheet data is required annually with the 14th month submission. The MIS system verifies that the balance sheet data (debits and credits) is in balance. The system also does some statistical edit checks before the RHAs' year-end MIS data is sent to CIHI for their analysis. At present, the MIS data is not being reconciled by Manitoba Health with the RHA's audited financial statements.
- The MIS data is being received monthly from the RHAs. A status report is sent to each RHA by the MIS Unit identifying which of the RHA's facilities have not provided the monthly data.
- The Provincial MIS Data Quality and Indicator Committee, with representation from each RHA, is a Sub-Committee of the RHA Council of Chief Financial Officers. The purpose of the Committee is to improve the quality, reliability and comparability of MIS data. The Committee holds monthly meetings (except in July and August), with two being face-to-face, and the remainder by teleconference. The MIS Coordinator is also presently working with home care and mental health staff to review the RHAs' financial and statistical data and to resolve discrepancies in reporting. Work is also ongoing with the Regional Directors of Diagnostic Services to review diagnostic services reporting.
- CIHI will be publishing its first report based on the Canadian MIS database (CMDB). CIHI has established an MIS Strategic Steering Committee to provide guidance and expertise for this and future reports from the CMDB. The RHAs are being given an advance opportunity to review the Manitoba data to ensure the data is complete and accurate.

Conclusions

- *The review of the reporting requirements above demonstrates that Manitoba Health has recently implemented significant controls to monitor the RHAs operations and to provide explanations to Treasury Board Secretariat and Manitoba Health's senior management on significant variances between Manitoba Health's funding and the RHA expenditures and/or projected expenditures. The RHAs are monitored on a monthly basis starting in June for the May 31st month-end.*
- *There are controls in place for reviewing and analyzing the RHAs' Health Plans. The RHAs prepare extensive Health Plans which include briefing notes for each funding request made. In the process there is coordination*

with Manitoba Health staff and the RHAs' staff in the prioritization of the requests. Subsequent reviews are made by the Health Plan Review Steering Committee and then the Executive Management Committee.

- *Manitoba Health has a draft letter prepared, which they plan to distribute to the RHAs explaining that the RHAs are not to record any receivables from Manitoba Health unless the receivables have first been approved by Manitoba Health. In the past, the RHAs assumed deficits would be a receivable from Manitoba Health.*
- *The MIS data is still not being reviewed by the RHAs or Manitoba Health to ensure its completeness and accuracy. There is no requirement by the RHA to sign a responsibility statement that the financial and statistical data as stated is correct.*

Public Accounts Issues

GOVERNMENT REPORTING ENTITY

The present definition of the Government Reporting Entity (GRE) as recommended by the Public Sector Accounting Board (PSAB) of the CICA is based on ownership and/or control. (This definition is currently under review by PSAB). PSAB Handbook Section PS 1300.07 states, *"the government reporting entity should comprise the organizations that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature, or local government council, and are owned or controlled by the government"*.

Determination of ownership is relatively uncomplicated, generally speaking, and PSAB offers the following guidance:

> *"A government owns an organization when it has created or acquired the organization and, directly or indirectly, holds title to:*
>
> - *a majority of the organization's shares carrying the right to appoint at least a majority of the members of the board of directors; or*
> - *the organization's net assets such that the government has an ongoing right to access them.*
>
> *Evidence of title to the net assets of an organization may be embodied in the provisions of relevant legislation, such as:*
>
> - *those allowing the transfer of net assets or net liabilities to the government at the government's discretion; or*
> - *those designating the organization as a "Crown" corporation or government agency."*

However, control is often more difficult to define and determine. PSAB's definition is "a government controls an organization when, without requiring the consent of others or changing existing legislative provisions, it has the authority to determine the financial and operating policies of that organization. The authority of a government to determine the financial and operating policies of an organization allows it to establish the fundamental basis for the conduct of the organization's financial affairs, as well as the deployment of its resources". The guidance provided focuses on the authority to appoint the governing board and that the board exercises control over the strategic, financing, investing and operating policies of the organization. In effect, the board thereby controls the organization. But it also considers whether the government can "determine the revenue-raising, expenditure and resource allocation policies of the organization". In that case, the government also controls the entity.

Regional Health Authorities are considered to be owned and controlled by the government along with the health related crown organizations listed in Exhibit L.

Non-devolved entities are considered part of the Government Reporting Entity (GRE) as a result of the Province wanting to recognize deferred charges related to the capital funding provided to the non-devolved health care entities. The largest component of the non-devolved group is the Winnipeg faith based hospitals and certain rural hospitals. These entities are listed in Exhibit M.

CONSOLIDATION OF REGIONAL HEALTH AUTHORITIES AND NON-DEVOLVED HEALTH CARE ENTITIES

Entities in the health care sector are divided into one of two categories – devolved or non-devolved health care facilities and each is accounted for differently on the Summary Financial Statements

Devolved health care facilities' financial statements are restated so their accounting policies are on the same basis as the Province's and the transactions and balances with the Province are eliminated. They are then consolidated on a line by line basis. Devolved entities include all the Regional Health Authorities (RHAs), CancerCare Manitoba, Manitoba Adolescent Treatment Centre Inc., Addictions Foundation of Manitoba and others as listed in Exhibit L.

Non-devolved entities are entities whose ownership and control have not devolved to an RHA. They include Winnipeg faith based hospitals such St. Boniface General Hospital and Grace General Hospital, certain rural hospitals as well as personal care homes. Non-devolved entities' financial statements are not restated and there are no eliminations of transactions or balances with the Province. They are included on a combined basis – total assets and total liabilities are reported on the Summary balance sheet with the change in net assets reflected in the Summary statement of accumulated deficit. As a result, the net income of the non-devolved entities is not part of the Summary net income.

OFFICE OF THE AUDITOR GENERAL'S AUDIT OF THE CONSOLIDATION OF THE RHAS

The Office of the Auditor General (OAG) relies on the work of the external auditors' of the RHAs' financial statements in accordance with CICA Assurance Handbook section 6930. Further, the OAG's process (performed by the Health Sector audit team) also entails a review of the external auditors' audit planning as well a defined involvement with the execution, completion and finalization stages of the audit in accordance with the requirements of The Auditor General Act. In addition, on a cyclical basis, the OAG reviews the working papers files of the external auditors.

The Public Accounts audit team reviews the audited financial statements of the RHAs to consider whether there are qualifications in the auditors' reports that may affect our audit opinion on the Summary Financial Statements. As well, the Public Accounts audit team reviews the audited financial statements of each RHA to gain an understanding of RHA operations and any differences in accounting policies of the RHA from those of the Province. They then review Central Finance's working papers regarding any restatement and elimination journal entries for completeness and propriety, and also review the postings of the financial information to Central Finance's master consolidation worksheet. Similarly, the Public Accounts audit team ensures that all significant note disclosures from the RHA financial statements are carried forward to the Summary Financial Statements.

REGIONAL HEALTH AUTHORITIES' FINANCIAL REPORTING ISSUES AFFECTING THE PUBLIC ACCOUNTS

Deferred Contributions (Assets)

A few years ago, the RHAs began recognizing the liability for employee future benefits in accordance with CICA Handbook Section 3461. The CICA Handbook [PSAB section 3250 and Not-for-Profit Accounting Standards (CICA Handbook Section 4400) include the reference to CICA Handbook Section 3461] recommends recognition of employee future benefits. Therefore, recognition of any unfunded liability is in accordance with Canadian generally accepted accounting principles.

At present, RHAs only record the unfunded employee benefit liability on the statement of financial position. The cash component of the employee benefit expense is reflected on the statement of operations. However, the change in the unfunded liability is only reported on the statement of financial position and is not recorded on the statement of operations. That change (increase) in the unfunded liability is recorded by increasing the deferred benefits (assets) and increasing the liability, but the related expense is not shown on the statement of operations.

Canadian generally accepted accounting principles (accrual accounting) require that the change in the unfunded liability be recorded as an expense on the statement of operations and the liability be correspondingly increased. The current year's expense should be made up of the cash payments during the year plus the change in the unfunded liability.

In addition, the apparent difficulty with this accounting treatment is compounded by the fact that the Province of Manitoba does not record, in the Operating Fund (Consolidated Fund), a payable to the RHAs equal to those deferred contributions (assets), which would then permit the RHAs to record a long term receivable from the Province of Manitoba. The employee benefit liability is an unfunded liability because it is the Province's policy to fund that liability on a cash basis. There is, however, an expectation that there will be sufficient funds on a cash basis to meet the cash requirements related to that unfunded liability as they come due on an annual basis.

Consequently, until the Province recognizes a liability associated with the unfunded employee future benefits, the RHAs are effectively generating operational deficits which are not properly reflected in their financial statements. Using accrual accounting, these entities do not receive sufficient annual contributions to offset the current year's expenses incurred. Assuming the RHAs operate at a break even level, that difference should be represented as an annual operational deficit accumulating over time to an accumulated deficit equal to the unfunded liability.

THE IMPACT ON THE PUBLIC ACCOUNTS OF DEFERRED CHARGES REPORTED ON REGIONAL HEALTH AUTHORITIES' FINANCIAL STATEMENTS

Special Purpose Financial Statements

The present accounting policy of the government with respect to the Special Purpose Financial Statements (Operating Fund) is to not record unfunded long term liabilities related to employee future benefits. Funding is provided on a cash basis. Therefore the corresponding accrued payable related to the RHAs' deferred charges for employee future benefits (RHA assets) is not recorded on the Operating Fund Financial Statements. Consequently, as at March 31, 2002, the unrecorded unfunded liability amounted to $92 million (Exhibit N). Recognition of the change in the unfunded liability would have decreased the Province's 2002 net revenues before transfers from the Fiscal Stabilization Fund by $6.5 million. (Exhibit N)

In addition, Balanced Budget Legislation indicates that the Operating Fund Financial Statements are prepared in accordance with the Government's accounting policies. The Government's accounting policies are disclosed as GAAP with certain exceptions. The notes to the Operating Fund Financial Statements do not disclose the exception of the lack of recognition of the unfunded liabilities related to employee future benefits.

Summary Financial Statements

Devolved

The Summary Financial Statements recognize the unfunded liabilities for employee future benefits recorded on the RHA financial statements. Similarly, the change in the unfunded liability is recorded as an expense in the current year. Therefore, the Summary Financial Statements with respect to this issue are in accordance with GAAP.

Non-Devolved

The Summary Financial Statements recognize the unfunded liabilities for employee future benefits recorded on the RHA financial statements. The change in the unfunded liability is recorded as a change in net assets in the statement of accumulated deficit. However, because the liability is offset by the deferred assets, there is no effect on accumulated deficit. Those accounting policies are exceptions to GAAP.

Application of Deferred Contributions (Assets) in other Jurisdictions

In Manitoba, all of the RHAs are involved in multi-employer pension plans. To date, they have not had an unfunded liability in any of these plans and therefore have not booked any liability.

In the majority of the other jurisdictions, the only employee future benefits disclosed relate to retirement benefits. In Ontario, RHAs are not part of the Government Reporting Entity and the Province does not recognize any unfunded liability associated with RHAs. Only Nova Scotia records, at the RHA level, the entire unfunded liability associated with employee future benefits with a corresponding accounts receivable due from the Province. At the federal level, the entities that operate on a “pay as you go” basis, record the unfunded liability and show an operating/accumulated deficit.

In a number of jurisdictions, the pension plans are funded annually with no outstanding liability. In the case of Bermuda, there is a defined contribution plan which is funded annually. In Saskatchewan, the only employee future benefit provided by the RHAs is a defined benefit pension. In Alberta and British Columbia, the RHA equivalents are involved in multi-employer pension schemes similar to the RHAs in Manitoba. To date, they have not had an unfunded liability in any of these plans and therefore have not booked any liability.

However, in the case of Alberta, the Province does not assume any liability for deficits in the plan and in British Columbia, the Province is responsible for 50% of any liability. In Québec, Newfoundland and Labrador, New Brunswick and in one plan in Prince Edward Island, the RHA equivalents do not report the unfunded liability in their financial statements; the Province reports the liability in its financial statements.

Newfoundland and Labrador account for their pension costs, at the health care board level on a cash basis. In general, they match annual employee contributions and the combined contributions are passed on to the Province. In New Brunswick, the RHAs pay the employer portion of the pension costs with the Province being responsible for any unfunded liability. In Prince Edward Island, the pension costs of RHA staff who continue to be members of the Provincial Civil Service Plan are only accounted for in the Province’s financial statements. In relation to the other pension plan, there is no liability assumed by the Province or the RHAs for deficits.

In summary, a number of jurisdictions (Bermuda, British Columbia, Alberta and Saskatchewan) do not have an unfunded liability for employee future benefits. Of those that do have an unfunded liability for employee future benefits, some jurisdictions (Canada, Manitoba and Nova Scotia) report employee future benefits as an unfunded liability at the RHA level, and Nova Scotia reports a corresponding receivable from the Province. The others (Quebec, New Brunswick, Prince Edward Island, Newfoundland and Labrador) only report the associated unfunded liability in the Province’s financial statements.

Deferred Contributions (Credits) versus Loans Payable

Commencing in 2000, the Province began refunding the debt of RHAs and certain non-devolved health care facilities, as well as providing loans for new capital projects, to take advantage of the lower borrowings rates available to the Province. However, the Province did not want to expense the entire capital funding as a grant in the year it was provided.

The Province’s accounting treatment was to record a deferred charge for the funding provided. The Province borrowed the money to provide the funding to the RHAs. Hence, it is paying interest on the outstanding debt. Therefore the Province has set up an amortization schedule to amortize the deferred charges over the term of the principal payments of the related debt issue. The Province records interest revenue for the interest component of the amortization schedule (debit to health grant expense) and records an additional health grant expense to amortize the deferred charge.

The above accounting treatment was considered appropriate only if the Province recognized the entire health care sector as part of the Government Reporting Entity, which it did. While the deferred charges were then considered appropriate, they still constitute an exception to GAAP (Public Sector Accounting Standards) and are disclosed as such in both the Operating Fund and Summary Financial Statements. The argument was that the accounting treatment should not drive the business decision in that the Government Reporting Entity as a whole benefited from the lower interest rates.

PS 3050.10 loans receivable and PS 3410 government transfers require that "the amount of a loan that is expected to be recovered from future appropriations should be accounted for as an expenditure in the period when a direct relationship can be established between the repayment of the loan and a government's funding to the borrower". The government's accounting policy is not in accordance with GAAP in that the recognition of the grant expense is deferred beyond the year the grant (loan) is provided and the resulting deferred charge is amortized over a number of years.

However, PS 3410.36 indicates that spending authority usually relates to grants for the current year only which in effect is what is, in certain respects, occurring here. The Estimates of Expenditures provide for only the annual component of the loan amortization schedule; there is no recognition in the Estimates for the full amount of the grant in the year the funding is provided.

The parallel accounting treatment using not-for-profit accounting standards would be for the RHAs to record deferred contributions (credits) when the funding is initially received by the RHA and then take into revenue annually (draw down) an amount equal to the amortization expense of the capital asset acquired (refunded) with the funding. The RHAs would also not recognize any interest expense as they do currently nor disclose a loan payable to the Province.

At present, all the RHAs report the financing and refinancing contributions as loans payable on their financial statements.

An understanding of the substance of the transactions is blurred by the attendant paperwork surrounding the funding. RHAs and non-devolved entities sign promissory notes to the Province for the monies provided to them. Similarly, Manitoba Health has elaborate schedules for the 'repayment of the loans' and the related interest on the loans. However, there are no cash repayments required.

Similarly, the RHAs record revenue from Manitoba Health equal to the related interest costs incurred by the Province and defer recognition of the grant revenue related to the principal reduction portion, reporting it as a deferred contribution and bringing it into revenue on the same basis as the capital asset amortization expense.

THE IMPACT ON THE PUBLIC ACCOUNTS OF LOANS PAYABLE/ DEFERRED CONTRIBUTIONS REPORTED ON REGIONAL HEALTH AUTHORITIES' FINANCIAL STATEMENTS

Special Purpose Financial Statements

The impact of this issue on the Special Purpose Financial Statements is that the total grant is not recognized when the funding is provided to the RHAs. Instead, it is reported as a deferred charge on the balance sheet and amortized over the term of the loan. This exception to GAAP is disclosed in the notes to the financial statements. The annual Health expense is made up of the interest costs incurred and an amount equal to the principal reduction of the outstanding debt.

Summary Financial Statements

The impact on the Summary Financial Statements is similar to the Special Purpose Financial Statements' impact except that on consolidation the deferred charges for devolved health care entities are eliminated against the long-term debt of those devolved health care facilities. What remains are the deferred charges related to non-devolved health care entities. The related revenues and expenses are also eliminated. The exception to GAAP is also reported here, except that it is limited to non-devolved facilities.

Public Accounts Findings

- The Special Purpose Financial Statements (Operating Fund) do not reflect the unfunded liability associated with the RHAs' employee future benefits.
- Because the Province does not recognize in the Operating Fund Financial Statements the liability associated with RHA employee future benefits, the RHAs' accounting treatment of recognizing deferred assets related to employee future benefits is not in accordance with GAAP.
- Although the Province accounts for the loans made to the RHAs as grants, we found that the RHAs do not account for the grants in a consistent manner and inappropriately treat them as loans payable.

Public Accounts Conclusions

- *The lack of recognition of the unfunded liability associated with RHAs' employee future benefits is an exception to GAAP which is presently not disclosed on the Special Purpose Financial Statements in the amount of approximately $92.0 million.*
- *The 'loans payable' are in substance grants from the Province and the RHAs should account for them as deferred contributions rather than as loans payable.*

NON-DEVOLVED HEALTH CARE ENTITIES

With respect to the Summary Financial Statements, non-devolved health care entities are included on a combined basis (the Province does not restate the accounting policies used in their financial statements to be on a basis consistent with the accounting policies of the Government Reporting Entity (GRE) and no inter-entity transactions are eliminated).

The matter of the accounting treatment of non-devolved entities in the Summary Financial Statements is a broad issue. PSAB is currently reviewing the definition of the GRE. The revised definition would likely include all hospitals, some of which are presently considered non-devolved entities. When PSAB completes its project, it may clarify whether entities such as personal care homes should be part of the GRE.

Findings

- We found that similar to the RHAs, the non-devolved entities record a deferred contribution asset equal to the unfunded liability associated with employee future benefits.
- Similar to the RHAs, we also found that not all foundations are properly accounted for and/or disclosed in the financial statements of non-devolved entities.

Conclusions

- *The accounting treatment for the deferred contribution asset overstates the non-devolved entities' net assets by approximately $74.0 million.*
- *The accounting treatment for the recognition of foundations is not in accordance with generally accepted accounting principles.*

Recommendations

Province of Manitoba

- **That the Province of Manitoba recognize the liability for employee future benefits of approximately $173.0 million in the Special Purpose Financial Statements (Operating Fund) or alternatively identify the lack of recognition as an exception to generally accepted accounting principles in the notes to the Operating Fund Financial Statement.**
- **That the Province of Manitoba review the estimate of the employee future benefit liability to ensure the completeness of the amount reflected in the Summary Financial Statements given the identified understatement of $6.7 million.**
- **That the Province of Manitoba properly reflect the impact of the non-devolved entities' liability for the employee future benefits in the Summary Financial Statements. This would involve eliminating the offsetting deferred contribution assets of approximately $74.0**

million. The result will be an increase of approximately $74.0 million in the accumulated deficit.

- **That the Province, similar to their action taken regarding the funding of the outstanding pension obligation, should develop a strategy for funding the balance of the employee future benefit liability.**
- **That, given the pervasiveness of health care foundations, the Province assess whether those foundations should be consolidated with the Summary Financial Statements. If it is determined that certain foundations are to be consolidated into the Summary Financial Statements, the Province should advise those related health care entities to consolidate the financial statements of the foundations with the financial statements of the health care entities.**

PROVINCE OF MANITOBA RESPONSE

The Province will begin to record the liabilities for future employee benefits in the Special Purpose Financial Statements effective April 1, 2004, in accordance with the phase-in plan arranged with the Auditor General.

The Province did review the estimated liability in the Summary Financial Statements, and made the required adjustment as at March 31, 2003.

The Summary Financial Statements were adjusted at March 31, 2003 to reflect an accrued liability equal to the deferred contribution asset recorded by the non-devolved Health Care Facilities.

It is unfortunate that this change requires offsetting revenue increases or spending reductions for Balanced Budget purposes despite the fact that there has been no change in practice or substance in this area since Balanced Budget legislation was first enacted.

The Province will consider all of the options available to address the funding issue for these liabilities, including but not restricted to requiring health care facilities to absorb all or part of it through budgetary and operational planning.

Through Manitoba Health, the Province will work with health care facilities to achieve appropriate disclosure of foundations in their financial statements.

Manitoba Health

Financial Statements

- **That the Manitoba Health Services Insurance Plan report the accruals for employee future benefits of the RHAs as a liability in the year in which they occur together with the related account receivable from the Province and the annual resultant expenses and revenue.**

    MANITOBA HEALTH COMMENTS

    For the Manitoba Health Services Insurance Plan for the Years Ended March 31, 2003 and March 31, 2004:

    - *The Manitoba Health Services Insurance Plan will record the liability for employee future benefits of devolved and non-devolved health care facilities together with the appropriate amount receivable from the Province.*

    For the Manitoba Health Services Insurance Plan for the Years Ended March 31, 2005 and Forward:

    - *The Manitoba Health Services Insurance Plan will record the liabilty for employee future benefits of devolved and non-devolved health care facilities together with the appropriate amount receivable from the Province and the resultant expenses and revenue.*

- **That, given the Province's capital financing to the RHAs is a grant in accordance with PSAB Section 3410, the funding should be accounted for by the RHAs as a deferred contribution rather than following the current practice of recording the funding as long-term debt. In the event the RHAs do not adopt this recommendation, the RHAs should disclose, in the notes to the financial statements, the exception to GAAP.**

    MANITOBA HEALTH COMMENTS

    We will ensure that the RHAs are following generally accepted accounting practice for non-profit organizations in relation to these transactions.

- **That Manitoba Health require that each RHA provide a note to its financial statements reconciling the total funding from Manitoba Health based on the RHA Funding Document with the revenue reported from Manitoba Health in the RHA financial statements.**

    MANITOBA HEALTH COMMENTS

    MH will require each RHA to provide a schedule which reconciles the revenue as stated in the financial statements to the RHA final funding document.

- **That Manitoba Health prepare a presentation and disclosure checklist to be used by the RHAs to establish consistent presentation and disclosure guidelines for key areas based on the requirements of Canadian GAAP as provided for in the not-for profit section of the CICA Handbook.**

    MANITOBA HEALTH COMMENTS

    For the 2002/03 year end financial statements, MH provided direction to the RHAs on several areas raised by OAG.

    For 2003/04 MH will work on a checklist to be incorporated in the year end financial reporting package required by Manitoba Finance and Manitoba Health.

- **That Manitoba Health ensure that:**
    - **the RHAs are informed of all CICA handbook requirements with respect to presentation and disclosure of foundations in the RHA financial statements;**
    - **the RHAs identify all foundations in their regions and then assess the foundation relationship and activity in their region against handbook requirements for appropriate reporting; and**
    - **the RHA financial statements for the next fiscal year include appropriate disclosure of the related foundations.**

    MANITOBA HEALTH COMMENTS

    MH informed the RHAs of the above for 2002/03 and will reiterate the need for appropriate disclosures in 2003/04.

- **That Manitoba Health ensure the RHAs are informed of all CICA Handbook requirements for presentation and disclosure of employee future benefits regarding the employer's obligation with respect to the Civil Service Superannuation Plan.**

    MANITOBA HEALTH COMMENTS

    MH informed the RHAs of the above for 2002/03 and will reiterate the need for appropriate disclosures in 2003/04.

Operations

- **That Manitoba Health establish a schedule as to the frequency of the actuarial valuation of the liability for pre-retirement allowances.**

    MANITOBA HEALTH COMMENTS

    MH communicated the required frequency of valuations to the RHAs.

- **That Manitoba Health reconcile, for each RHA, the expenses included in the Manitoba Health Services Insurance Plan financial statements**

relating to RHA funding with the revenue reported by each of the RHAs. This would include all payments made during the year together with the effect of opening and closing accruals.

MANITOBA HEALTH COMMENTS

This will be done in conjunction with the reconciliation schedule to be required of the RHAs and will form part of the working papers supporting the Manitoba Health Services Insurance Plan financial statements.

- **That Manitoba Health review and analyze the nature and amount of funds that were transferred from the facilities to the foundations at the time that RHAs were established to determine if the funds that were transferred should have remained with the RHA.**

MANITOBA HEALTH COMMENTS

MH will review the resources required to complete such a review and analysis.

- **That Manitoba Health has their program staff ensure that the MIS data is complete and accurate. The finance officers should agree the RHA's audited financial statement information and balances with the 14th month MIS financial information.**

MANITOBA HEALTH COMMENTS

MH is continually working to increase the accuracy and consistency of the MIS reporting. The MIS unit together with the Finance Officers reconciles the total 14th month MIS financial information with the RHA audited financial statements.

- **That a letter to the RHAs be sent to them in advance of the finalization of the year-end financial statements advising the RHAs not to record receivables from Manitoba Health without prior approval by the Executive Director of Financial Analysis and Support branch at Manitoba Health.**

MANITOBA HEALTH COMMENTS

The referenced letter was sent to the RHAs for the 2002/03 year end. This issue has also been reinforced several times by MH at the RHA CFO meetings.

Regional Health Authorities

- **That the RHAs use the accrual accounting method to record employee future benefits in accordance with generally accepted accounting principles and accordingly not record a deferred asset. The related annual costs should be recorded in the period in which they are incurred rather than when they are paid. The existing accounting treatment is not GAAP. In the event the RHAs do not adopt this**

recommendation, the RHAs should disclose, in the notes to the financial statements, the exception to GAAP.

MANITOBA HEALTH COMMENTS

For the RHA Financial Statements for the Years Ended March 31, 2003 and March 31, 2004:

- *The RHA Financial Statements will record the liability for employee future benefits of devolved and non-devolved health care facilities together with the appropriate amount receivable from Manitoba Health.*

For the RHA Financial Statements for the Year Ended March 31, 2005 and Forward:

- *The RHA Financial Statements will record the liability for employee future benefits of devolved and non-devolved health care facilities together with the appropriate amount receivable from Manitoba Health and the resultant expenses and revenue.*

- **That pre-retirement entitlements (severance pay) be segregated from other accrued benefits (e.g., vacation, holiday, overtime pay) and disclosed separately as a non-current liability of the RHAs rather than as a current liability.**

MANITOBA HEALTH COMMENTS

MH has instructed the RHAs to show pre-retirement as a non-current liability.

- **That the RHAs disclose the terms of the severance benefits available in the MGEU collective bargaining agreement.**

MANITOBA HEALTH COMMENTS

MH will instruct RHAs accordingly.

- **That although the policies for in-globe and out-of-globe surpluses and deficits are well known to the RHAs, these policies be detailed in all of the RHA financial statements for users who may not be aware of Manitoba Health policies.**

MANITOBA HEALTH COMMENTS

MH has provided appropriate note wording for all RHAs to use. MH will reinforce the standard wording in 2003/04.

- **That the RHAs change the accounting treatment for loans payable to the Province to recognize deferred contributions thereby reflecting the substance of the transactions.**

MANITOBA HEALTH COMMENTS

MH will ensure RHAs follow the appropriate accounting treatment.

- **That the RHAs consolidate their non-devolved facilities such that there is separate columnar disclosure of the financial statement components for devolved and non-devolved health care entities.**

MANITOBA HEALTH COMMENTS

RHAs currently provide this information as part of their year end reporting package to MH and Manitoba Finance. MH will reinforce that this information must be accurate and submitted on a timely basis.

Non-Devolved Health Care Entities

- **That the non-devolved entities use the accrual accounting method to record employee future benefits in accordance with generally accepted accounting principles (GAAP) and not record a deferred asset. The related annual costs should be recorded in the period in which they are incurred rather than when they are paid. The existing accounting treatment is not GAAP. In the event that the non-devolved entities do not adopt this recommendation, the non-devolved entities should disclose, in the notes to the financial statements, the exception to GAAP.**

MANITOBA HEALTH COMMENTS

MH will ask RHAs to ensure their non-devolved entities account for future employee benefits appropriately.

- **That the non-devolved entities assess whether they are in accordance with GAAP with respect to foundations and amend their financial reporting as necessary.**

MANITOBA HEALTH COMMENTS

MH will ask RHAs to encourage their non-devolved entities to review their accounting treatment of foundations.

Map of Manitoba's Regional Health Authorities — EXHIBIT A

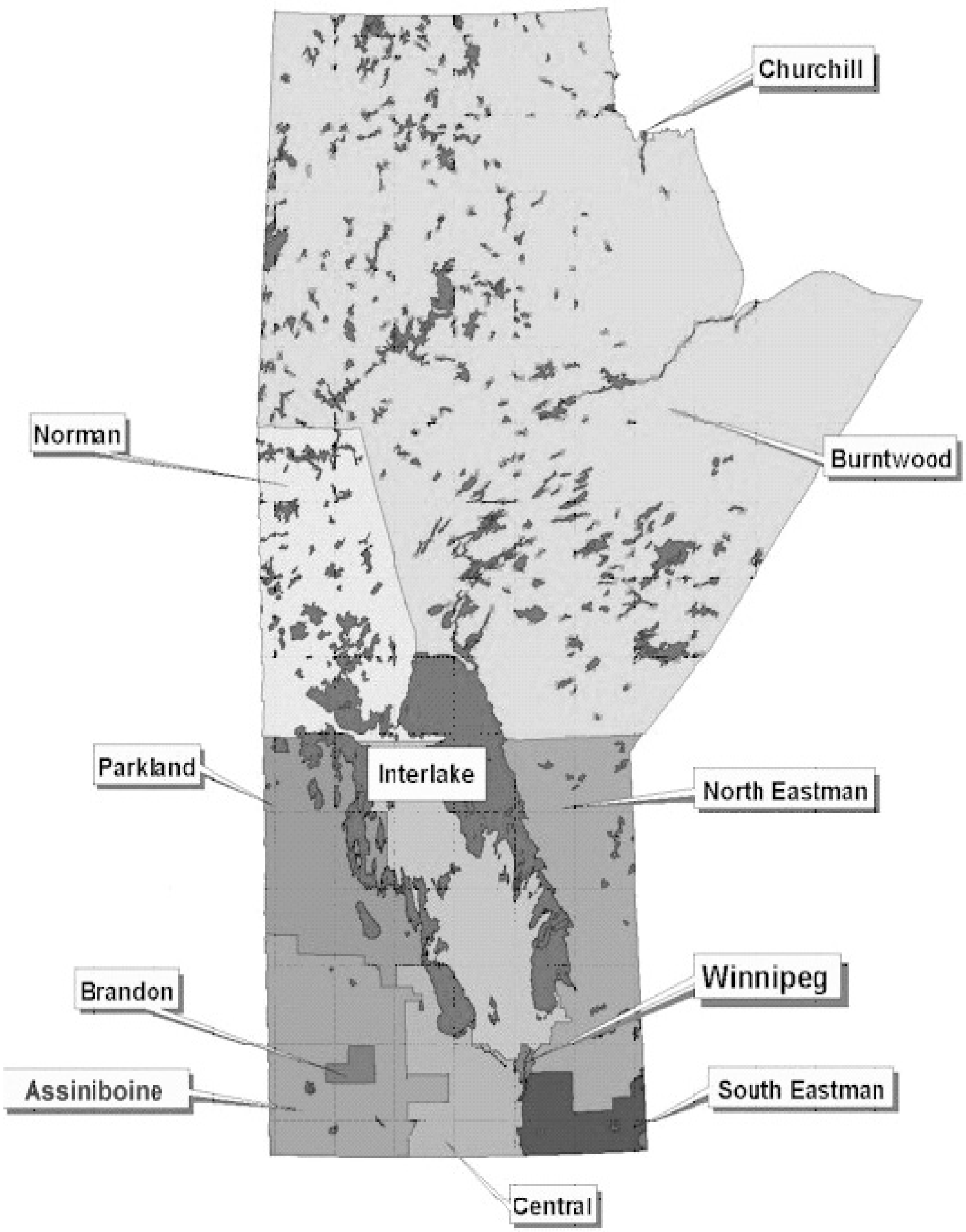


EXHIBIT B Non-Devolved Health Corporations by Region

Winnipeg RHA

- Victoria Hospital – established by Private Act
- St. Boniface Hospital - established by Private Act
- Concordia - established by Private Act
- Seven Oaks - established by Private Act
- Grace General Hospital- established by Private Act
- Riverview – the City of Winnipeg owns the facility and Riverview Health Centre Inc. leases the property from the City
- Manitoba Adolescent Treatment Centre
- Misericordia - established by Private Act
- The Rehabilitation Centre for Children
- All personal care homes in the City with the exception of Deer Lodge Centre (designated as both a hospital and a PCH under The Health Services Insurance Act) which was transferred to the WRHA

Burntwood

- Pinoaw Wachi - personal care home

Central

- Tabor Senior Citizen's Home - personal care home
- Rock Lake Health District - Rock Lake Hospital and Rock Lake PCH - established under The District Health and Social Services Act
- Prairie View Lodge – personal care home
- Salem Home Inc. - personal care home
- Eden Mental Health Centre – established by Private Act

Interlake

- Betel Home Foundation - 2 personal care homes
- Red River Place - personal care home – proprietary (i.e., for-profit)
- Tudor House Ltd. - personal care home - proprietary

Parkland

- St. Paul's Home - personal care home –established by Private Act
- Swan River Hospital District - Swan River Valley Hospital, Swan River Valley Lodge, Swan River Valley PCH Inc., and Benito Health Centre - established under The Health Services Act
- McCreary/Alonsa Health Centre - Hospital and McCreary/Alonsa PCH - established under The District Health and Social Services Act
- Ste. Rose General Hospital - hospital - established by Private Act
- Dr. Gendreau Memorial PCH Inc. - personal care home
- Winnipegosis General Hospital Inc. - Winnipegosis General Hospital Inc. and Winnipegosis -Mossey River PCH Inc.

South Eastman

Menno Home for the Aged - personal care home
St. Adolphe Nursing Home - personal care home - proprietary
Rest Haven Nursing Home - personal care home
Villa Youville Inc. - personal care home

Brandon

Dinsdale Personal Care Home - personal care home
Hillcrest Place Inc. - personal care home - proprietary
Central Park Lodge - personal care home - proprietary

Actual Funding by Manitoba Health Since RHA Inception EXHIBIT C

Review of the Regional Health Authorities (Research Paper)
(in 000's)

Actual Funding by Manitoba Health Since RHA Inception

Annual Report 1997/98	Brandon	Burntwood	Central	Churchill	Interlake	Marquette	Norman	N. Eastman	Parkland	S. Eastman	S. Westman	Winnipeg	Total
Regional Health Authorities Funding													
Acute Care Services - Operating	45,212.2	15,328.0	34,368.2	4,063.6	14,742.0	13,221.9	14,769.6	5,593.8	24,205.7	10,208.9	13,019.1		194,733.0
Acute Care Services - Capital	7,294.4	514.7	2,869.4	56.7	1,126.8	445.3	348.2	481.8	2,545.9	511.1	284.1		16,478.4
Long Term Care - Operating	7,735.4	30.1	22,537.9		9,492.3	11,435.3	3,469.2	4,503.3	15,553.2	7,524.6	11,512.3		93,793.6
Long Term Care - Capital	431.1		620.9		368.8	377.8	141.5	390.5	435.9	426.9	559.6		3,753.0
Medical	3,214.2	4,730.2	4,168.5	150.4	1,724.5	2,125.5	1,821.9	858.9	1,830.9	1,493.2	2,139.1		24,257.3
Emergency Response & Transportation		1,319.0	659.8	192.5	496.4	313.1	1,042.7	459.3	419.3	272.5	409.3		5,583.9
Community and Mental Health	5,024.2	3,683.2	7,964.3	926.3	5,531.2	1,568.0	2,928.7	1,757.4	5,041.7	2,126.4	1,565.5		38,116.9
Home Care	2,705.8	661.9	9,578.2	28.0	10,283.5	3,387.0	2,033.9	3,327.7	6,858.9	5,194.5	3,477.5		47,536.9
Total RHA	71,617.3	26,267.1	82,767.2	5,417.5	43,765.5	32,873.9	26,555.7	17,372.7	56,891.5	27,758.1	32,966.5	-	424,253.0
Non-RHA													1,479,697.4
Total Manitoba Health													1,903,950.4

Annual Report 1998/99	Brandon	Burntwood	Central	Churchill	Interlake	Marquette	Norman	N. Eastman	Parkland	S. Eastman	S. Westman	Winnipeg	Total
Regional Health Authorities Funding													
Acute Care Services - Operating	49,005.8	16,284.9	37,685.4	4,226.3	16,980.1	15,465.8	15,478.1	7,486.4	27,139.9	11,207.7	15,036.2	613,405.4	829,402.0
Acute Care Services - Capital	3,257.8	389.4	1,933.8	132.5	1,006.1	1,123.4	3,372.7	640.6	1,217.5	824.5	680.0	28,075.6	42,653.9
Long Term Care - Operating	10,527.4		23,111.8		10,252.0	11,949.9	3,708.1	4,949.2	15,885.2	8,229.5	12,265.2	86,544.4	187,422.7
Long Term Care - Capital	440.5		1,248.4		321.6	365.3	115.2	351.5	396.5	775.1	596.6	4,127.3	8,738.0
Medical	3,190.9	4,927.5	5,270.7	19.8	2,233.7	2,521.8	2,299.3	1,125.3	2,046.4	2,033.5	2,514.5	66,931.1	95,114.5
Emergency Response & Transportation	201.9	2,157.1	658.3	552.5	511.6	330.8	2,063.5	459.3	419.3	272.5	409.3	1,833.6	9,869.7
Community and Mental Health	5,892.0	3,545.4	5,292.7	14.9	6,239.4	1,859.0	2,957.1	1,607.1	5,755.6	2,487.8	2,022.8	29,165.1	66,838.9
Home Care	2,624.5	802.8	9,031.1	13.6	10,528.6	3,302.1	2,131.9	3,447.9	6,897.6	4,969.3	3,079.5	87,609.7	134,438.6
Total RHA	75,140.8	28,107.1	84,232.2	4,959.6	48,073.1	36,918.1	32,125.9	20,067.3	59,758.0	30,799.9	36,604.1	917,692.2	1,374,478.3
Non-RHA													673,813.2
Total Manitoba Health													2,048,291.5

Annual Report 1999/00	Brandon	Burntwood	Central	Churchill	Interlake	Marquette	Norman	N. Eastman	Parkland	S. Eastman	S. Westman	Winnipeg	Total
Regional Health Authorities Funding													
Acute Care Services - Operating	55,145.6	15,544.8	35,334.2	3,546.2	17,890.5	15,624.4	16,555.8	7,372.5	29,996.5	12,025.1	15,233.2	635,287.6	859,556.4
Acute Care Services - Capital	3,765.0	1,051.4	1,760.1	262.3	1,237.6	760.5	493.7	837.7	1,679.5	1,029.3	289.8	25,499.2	38,666.1
Long Term Care - Operating	11,942.7		24,153.1		11,305.4	12,518.3	4,086.5	5,311.7	17,192.6	8,857.8	12,846.6	130,978.5	239,193.2
Long Term Care - Capital	514.8		1,329.0		531.2	758.9	107.1	378.6	545.7	824.2	644.4	7,182.3	12,816.2
Medical	3,826.1	7,135.6	7,234.7	308.5	3,356.1	4,182.8	3,644.4	1,471.0	2,770.8	2,356.4	3,905.1	67,974.0	108,165.5
Emergency Response & Transportation	201.9	2,008.7	658.3	450.4	513.1	330.8	1,676.5	465.4	438.2	272.5	411.1	2,586.1	10,013.0
Community and Mental Health	12,377.4	4,421.2	9,339.6	808.9	5,945.7	2,133.6	3,481.3	2,047.2	6,385.1	2,784.2	1,960.3	49,213.3	100,897.8
Home Care	3,249.0	953.6	11,234.2	30.4	12,331.3	4,151.5	2,490.2	3,900.3	8,519.0	5,765.3	3,788.0	93,173.1	149,585.9
Total RHA	91,022.5	31,115.3	91,043.2	5,406.7	53,110.9	40,460.8	32,535.5	21,784.4	67,527.4	33,914.8	39,078.5	1,011,894.1	1,518,894.1
Non-RHA													777,179.3
Total Manitoba Health													2,296,073.4

EXHIBIT C (cont'd.) Actual Funding by Manitoba Health Since RHA Inception

Review of the Regional Health Authorities (Research Paper)
(in 000's)

Annual Report 2000/01	Brandon	Burntwood	Central	Churchill	Interlake	Marquette	Norman	N. Eastman	Parkland	S. Eastman	S. Westman	Winnipeg	Total
Regional Health Authorities Funding													
Acute Care Services - Operating	58791.8	16885.6	39297.3	3832.7	18423.1	17839	16804.3	8164.6	30629.8	12319.5	16527.7	714319.3	953834.7
Acute Care Services - Capital	2118.4	553	2072.6	100.6	1406.7	819.6	480.9	579.9	1437.8	603	537.6	24038.2	34748.3
Long Term Care - Operating	12309.3		25922.3		11890.6	13157.9	4241.7	6671.6	18115.9	9199	13710.5	146072.1	261290.9
Long Term Care - Capital	517.2		1,139.7		715.0	432.7	55.2	644.8	380.4	762.5	822.1	6,546.7	12,016.3
Medical	5,069.7	8,223.3	7,853.0	308.5	3,558.3	4,590.2	4,508.8	1,973.7	2,899.0	2,612.8	4,205.1	72,757.6	118,560.0
Emergency Response & Transportation	201.9	2,809.5	913.3	544.6	513.1	512.3	2,461.4	660.2	441.6	343.7	696.1	5,025.3	15,123.0
Community and Mental Health	14,035.7	4,158.9	9,957.9	830.0	6,003.2	2,240.4	3,864.3	2,024.3	6,807.2	2,927.0	2,029.8	53,854.0	108,732.7
Home Care	3,306.9	969.2	11,495.3	31.0	12,489.7	4,221.4	2,792.1	4,005.3	8,665.8	6,378.3	3,842.2	99,844.6	158,041.8
Total RHA	96,350.9	33,599.5	98,651.4	5,647.4	54,999.7	43,813.5	35,208.7	24,724.4	69,377.5	35,145.8	42,371.1	1,122,457.8	1,662,347.7
Non-RHA													834,525.9
Total Manitoba Health													2,496,873.6

Annual Report 2001/02	Brandon	Burntwood	Central	Churchill	Interlake	Marquette	Norman	N. Eastman	Parkland	S. Eastman	S. Westman	Winnipeg	Total
Regional Health Authorities Funding													
Acute Care Services - Operating	70,148.1	19,841.8	45,970.9	4,497.7	22,033.7	19,878.6	19,111.5	9,628.8	32,719.0	13,880.5	18,499.5	770,197.0	1,046,407.1
Acute Care Services - Capital	2,400.2	896.3	3,482.1	197.5	1,594.8	885.1	779.3	802.7	1,818.0	849.8	471.5	26,365.3	40,542.6
Long Term Care - Operating	13,819.8		26,162.6		12,074.6	13,789.7	5,480.5	7,488.3	18,366.1	10,083.0	13,994.2	161,201.3	282,460.1
Long Term Care - Capital	525.8		1,130.0		601.7	555.2	793.4	663.1	403.2	451.8	926.4	11,066.8	17,117.4
Medical	5,430.5	10,131.6	8,372.9	308.5	3,746.7	4,983.5	4,867.5	2,665.6	2,941.8	2,929.2	4,554.3	81,719.3	132,651.4
Emergency Response & Transportation	201.9	2,809.5	1,887.1	583.6	920.9	738.6	2,627.5	1,156.0	751.7	528.1	946.0	5,025.3	18,176.2
Community and Mental Health	11,461.2	4,297.3	9,735.3	842.0	6,587.5	2,413.2	4,232.9	2,944.1	7,826.2	3,602.8	1,532.2	41,366.4	96,841.1
Home Care	4,079.7	1,085.2	11,084.9	31.0	10,906.8	4,407.2	3,263.3	4,432.3	8,679.8	7,291.3	4,811.2	112,387.0	172,459.7
Total RHA	108,067.2	39,061.7	107,825.8	6,460.3	58,466.7	47,651.1	41,155.9	29,780.9	73,505.8	39,616.5	45,735.3	1,209,328.4	1,806,655.6
Non-RHA													862,735.5
Total Manitoba Health													2,669,391.1

Deferred Benefit Entitlements (vacation, severance, retirement), Employee Future Benefits

EXHIBIT D

Review of the Regional Health Authorities (Research Paper)

Deferred Benefit Entitlements (vacation, severance, retirement)
Employee Future Benefits

	Brandon RHA	Burntwood RHA	Central RHA	Churchill RHA	Interlake RHA	Marquette RHA	NOR-MAN RHA	North Eastman RHA	Parkland RHA	South Eastman RHA	South Westman RHA	Winnipeg RHA	Total
ASSETS													
Current Assets													
Deferred Vacation Expenses						2,366,653							2,366,653
Deferred Severance Expenses						3,494,878							3,494,878
Deferred Benefits Entitlement		3,408,147	5,876,700						5,835,843				15,120,690
Deferred Vacation and Retirement Entitlement Costs										3,771,455			3,771,455
Deferred Benefit Entitlement - Vacation											2,512,535		2,512,535
Deferred Charges					5,818,437		4,236,566						10,055,003
													-
Non-Current Assets													-
Deferred Benefit Entitlements			7,262,000	205,026					2,587,323				10,054,349
Deferred Charges Future Employee Benefits	12,097,498											116,023,000	128,120,498
Deferred Charges								2,538,316					2,538,316
Deferred Benefit Entitlement - Pre-retirement											3,259,884		3,259,884
													-
Total Assets	12,097,498	3,408,147	13,138,700	205,026	5,818,437	5,861,531	4,236,566	2,538,316	8,423,166	3,771,455	5,772,419	116,023,000	181,294,261
LIABILITIES													
Current Liabilities													
Accrued Vacation Payable						2,366,653							2,366,653
Accrued Severance Payable						3,494,878							3,494,878
Accrued Benefit Entitlements							4,236,566						4,236,566
Deferred Benefits Entitlement		3,408,147	5,876,700	205,026					5,835,843				15,325,716
Accrued Vacation and Pre-Retirement costs					5,818,437								5,818,437
Accrued Vacation and Retirement pay										3,771,445			3,771,445
Deferred Benefits Entitlements - Vacation											2,512,535		2,512,535
Accrued Liabilities								2,538,316					2,538,316
													-
Non-Current Liabilities													-
Deferred Benefit Entitlements			7,262,000						2,587,323				9,849,323
Accrued Future Employee Benefits	12,097,498											116,023,000	128,120,498
Deferred Benefits Entitlements - Pre-retirement											3,259,884		3,259,884
													-
Total Liabilities	12,097,498	3,408,147	13,138,700	205,026	5,818,437	5,861,531	4,236,566	2,538,316	8,423,166	3,771,445	5,772,419	116,023,000	181,294,251

EXHIBIT E Revenue Reported by the RHAs and the Funding Provided by Manitoba Health for 2001/02

Review of the Regional Health Authorities (Research Paper)

Revenue Reported by the RHAs and the Funding Provided by Manitoba Health for 2001/02

Reported by the RHA as having been received from Manitoba Health	Brandon	Burntwood	Central	Churchill	Interlake	Marquette	Norman	North Eastman	Parkland	South Eastman	South Westman	Winnipeg	Total
Operating	104,992.4	38,228.1	106,563.9	7,274.2	57,888.0	47,792.3	39,529.3	27,908.2	71,330.0	38,639.5	44,310.2	1,163,415.0	1,747,871.1
Other Adjustments	2,826.7		(3,424.1)		(218.6)		3,608.9						2,792.9
Total	107,819.1	38,228.1	103,139.8	7,274.2	57,669.4	47,792.3	43,138.2	27,908.2	71,330.0	38,639.5	44,310.2	1,163,415.0	1,750,664.0

Funding Provided by Manitoba Health as per Financial Support and Analysis staff	Brandon	Burntwood	Central	Churchill	Interlake	Marquette	Norman	N. Eastman	Parkland	S. Eastman	S. Westman	Winnipeg	Total
Sectors	97,232.4	27,479.1	91,918.5	5,938.3	51,776.5	40,396.8	33,773.6	24,669.2	65,490.7	34,842.6	38,696.4	1,051,999.5	1,564,213.6
Other	10,503.4	11,377.5	14,645.3	393.1	6,111.5	7,179.8	7,434.0	5,081.8	7,751.8	4,468.7	7,013.6	152,964.3	234,924.8
Total	107,735.8	38,856.6	106,563.8	6,331.4	57,888.0	47,576.6	41,207.6	29,751.0	73,242.5	39,311.3	45,710.0	1,204,963.8	1,799,138.4
Variance	**83.3**	**(628.5)**	**(3,424.0)**	**942.8**	**(218.6)**	**215.7**	**1,930.6**	**(1,842.8)**	**(1,912.5)**	**(671.8)**	**(1,399.8)**	**(41,548.8)**	**(48,474.4)**

Review of Accounts Receivable

EXHIBIT F

Health Financial Reporting Review
Review of Accounts Receivable

Winnipeg RHA	Brandon RHA	Burntwood RHA	Central RHA	Churchill RHA	Interlake RHA
Operating and Capital Nurse Recruitment and Retention Fund Other	Deficits Recoverable Other Operations Outstanding Commitments Patients Government of Canada GST Sundry Less (Allowance for Doubtful Accounts)	Accounts Receivable 1998/1999 Interest on Approved Borrowings 2001/2001 Preretirement Physician Participation on Regional Committees Midwife Program Emergency Medical Officer Retroactive Pay Interest on Approved Borrowings Medical Remuneration Authorized Charges Excess	Account Receivable Net (Non Manitoba) In Globe 2000/2001 Out of Globe 2001/2002 Out of Globe 2000/2001 Current Year's Operating Funding Approved Capital Project	Account Receivable Net (Non Manitoba) Recoverable From Manitoba Health (Note 3) Deficit Financing March 31, 2000 Capital Asset Financing	Account Receivable Net (Non Manitoba) Due From Manitoba Health Commitments Prior Year's Adjustments 2000/2001 Out of Globe Adjustments and Advances
Marquette RHA	**Norman RHA**	**North Eastman RHA**	**Parkland RHA**	**South Eastman RHA**	**South Westman RHA**
Accounts Receivable - Other Accounts Receivable 2001/2002 Deficit	Ministry of Health Patients Residents and Third Parties Other Less (Allowance for Doubtful Accounts)	Lac Du Bonnet District Health Foundation Manitoba Health Canada Customs and Revenue Ambulance Residents Other	Accounts Receivable Due from Manitoba Health (Out of Globe Deficit)	Accounts Receivable	Accounts Receivable Due from Manitoba Health (Out of Globe Deficit) Accounts Receivable Due to Manitoba Health

EXHIBIT G Analysis of Note Disclosure for Capital Asset Amortization

Health Financial Reporting Review
Analysis of Note Disclosure for Capital Asset Amortization

Accounting Policy or Note	Winnipeg RHA	Brandon RHA	Burntwood RHA	Central RHA	Churchill RHA	Interlake RHA	Marquette RHA	Norman RHA	North Eastman RHA	Parkland RHA	South Eastman RHA	South Westman RHA
Capital Assets	Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the dare of contribution.	Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the dare of contribution. Betterments which extend the useful life of an asset are capitalized. Repairs and maintenance are charged to expense. When an asset no longer contributes to the region's ability to provide service the asset is written down to its residual value	Purchased capital assets are recorded at cost.	Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the dare of contribution. Betterments which extend the useful life of an asset are capitalized. Repairs and maintenance are charged to expense. When an asset no longer contributes to the region's ability to provide service the asset is written down to its residual value	Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the dare of contribution. Betterments which extend the useful life of an asset are capitalized. Repairs and maintenance are charged to expense. When an asset no longer contributes to the region's ability to provide service the asset is written down to its residual value	Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the dare of contribution. Betterments which extend the useful life of an asset are capitalized. Repairs and maintenance are charged to expense. When an asset no longer contributes to the region's ability to provide service the asset is written down to its residual value	Capital Assets are recorded at cost. Normal maintenance and repairs are expensed as occurred. Capital assets are amortized on a straight-line basis over their estimated useful life.	Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the dare of contribution. Betterments which extend the useful life of an asset are capitalized. Repairs and maintenance are charged to expense. When an asset no longer contributes to the region's ability to provide service the asset is written down to its residual value	Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the dare of contribution. Betterments which extend the useful life of an asset are capitalized. Repairs and maintenance are charged to expense. When an asset no longer contributes to the region's ability to provide service the asset is written down to its residual value	Purchased capital assets are recorded at cost. Amortization is based on the estimated useful life of the asset.	Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the dare of contribution. Betterments which extend the useful life of an asset are capitalized. Repairs and maintenance are charged to expense. When an asset no longer contributes to the region's ability to provide service the asset is written down to its residual value	Purchased capital assets are recorded at cost. Amortization is based on the estimated useful life of the asset.
Amortization	Amortized on straight line basis at an annual rate of:	Amortized on straight line basis at an annual rate of:	Amortization is calculated as follows:	Amortized on straight line basis at an annual rate of:	Amortized on straight line basis at an annual rate of:	Amortized on straight line basis at an annual rate of:	Amortized on straight line basis at an annual rate of:	Amortized on straight line basis at an annual rate of:	Amortized on straight line basis at an annual rate of:	Amortized on a straight line basis using an estimated useful life of:	Amortized on straight line basis at an annual rate of:	Amortized on a straight line basis using an estimated useful life of:
Buildings	2.5%	2-5 to 6.67%	40 years straight line	2%	2.5%	3.33% and 5%	2 - 5%	2.5%	2.5%	20 to 40 years	2 to 2.5%	40 Years
Improvements to land and buildings	4-20%	Land only 4%				Land improvements 5%	Land Improvements 2 10%	Land Improvements 2.5%	Land improvements 5-10%			Land Improvements - 15 Years
Equipment	10-33%	Building service equipment/equipment 5-20%	10 years straight line	10 - 20%	Building service Equip 4-10%, Major Equip. 6.7-20%	10 -20%	10 to 20%	Building Service Equipment and Major Equipment 10%	Building Service Equipment 4-10%, Equipment 5-20%	4 to 20 Years	10 to 20%	10 Years
Computer Hardware/Software	20%		4 Years straight line		20%			20%	Software and Licenses 20%			5 years
Furniture	10%											
Leasehold Improvements	Over the Life of the Lease								5%			3 Years
Facility Upgrades	5%											
Start Up Costs	33.1/3%											
Vehicles		Vehicles amortized on a declining balance basis, using 30% and are included in building service equipment/equipment.										
Assets under Capital Lease			Leaseholds 15 years, Equipment 10 years, both straight line		Equipment 20%							
Automotive									Vehicles 8 - 15%			5 years
Ambulance						20%						20 years garages, 5 years radios

Analysis of Net Asset Accounts for RHA's March 31, 2002 Statements

EXHIBIT H

Health Financial Reporting Review
Analysis of Net Asset Accounts for RHA's
March 31, 2002 Statements

Account Titles	Winnipeg RHA		Brandon RHA		Burntwood RHA		Central RHA		Churchill RHA		Interlake RHA		Marquette RHA		NOR-MAN RHA		North Eastman RHA		Parkland RHA	South Eastman RHA		South Westman RHA	
Invested in Capital Assets	$21,974,000		$5,727,541	8	$5,884,311	11	$792,445		$1,236,442	10	$2,654,323	8	$1,141,365		$1,015,091	7	$1,267,887	7	$2,641,128	$648,161	6	#########	
Internally Restricted	2,745,000		3,045,145		196,375		714,041				1,282,577		60,729		55,166	8			585,762			88,926	6
Externally Restricted			25,440								649,721						414,451			480,425			
Externally Restricted Contract Facilities																				[redacted]			
Unrestricted	(2,544,000)		(1,025,556)		(1,342,694)		702,661		(1,705,895)		922,240		(497,382)		(1,882,627)		2,095,324		4,241,140	(1,371,268)		(728,639)	
Contract Facilities							1,696,395	9			416,394												
Externally Restricted Separately Funded Programs									113,610	11													
Total	$22,175,000		$7,772,570		$4,737,992		$3,905,542		($355,843)		$5,925,255		$704,712		($812,370)		$3,777,662		$7,468,030	($204,868)		#########	
Note Number Corresponds to the number of the note in the Financial Statements	The detail is provided in a separate schedule.		8. Breaks down equity in capital assets		11. Breaks down equity in capital assets		9. Note breaks down net assets of contract facilities other than capital assets of contract facilities that have been consolidated.		10 further breaks down capital assets 11. Note describes restrictions on donation accounts and details surpluses and deficits for programs too small to be shown separately on the main financial statement.		8. Note accounts for equity in capital assets. Includes assets for contracted facilities. ($227,274).				7. Note accounts for equity in capital assets 8. Identifies restricted funds as belonging to the a resident trust fund, and a second trust fund.		7. Note accounts for equity in capital assets			6. Note accounts for equity in capital assets		6. Donations received that do not have specific purpose. The Board restricts the donation to the community which provided the donation.	

EXHIBIT I Analysis of Selected Note Disclosure

Review of Regional Health Authorities

Analysis of Selected Note Disclosure

Accounting Policy or Note	Winnipeg RHA	Brandon RHA	Burntwood RHA	Central RHA	Churchill RHA	Interlake RHA	Marquette RHA	Norman RHA	North Eastman RHA	Parkland RHA	South Eastman RHA	South Westman
Indicates Compliant with GAAP	Compliant with GAAP	Yes	Yes, in Audit	Yes	Yes, in Audit	Yes	Yes	Yes	Yes	Yes, in Audit	Yes	Yes, in Audit
Includes Controlled Entities	Contract facilities not consolidated. Included in Note 14 including a list.	Contract facilities not consolidated but are identified in Note 11.	Controlled entities are consolidated in the financial statements and listed in the section on significant accounting policies.	Controlled entities are consolidated in the financial statements and listed in the section on significant accounting policies.	No comment in statement	Controlled entities are consolidated in the financial statements and listed in the section on significant accounting policies.	Controlled entities are consolidated in the financial statements and listed in the section on significant accounting policies.	No controlled entities identified, but does note the RHA took over facilities from previously independent boards in Note 2	Yes, Note 2 identifies facilities included, but does not identify them as contract facilities	Controlled entities are consolidated in the financial statements and listed in the section on significant accounting policies.	Controlled entities consolidated in the financial statement, and listed in notes under significant accounting policies. Notes non-health activities of these entities is excluded.	Controlled entities are consolidated in the financial statements and listed in the section on significant accounting policies.
Deferral Method of Accounting for Contributions	Yes, under Significant Accounting Policies	Yes, under Significant Accounting Policies	Yes, under Significant Accounting Policies	Yes, Under Significant Accounting Policies	Yes, under Note 1b	Yes, under Significant Accounting Policies	Yes, under Significant Accounting Policies	Yes, under Significant Accounting Policies	Yes, under Significant Accounting Policies	Yes, under Significant Accounting Policies	Yes, under Significant Accounting Policies	Yes, under Significant Accounting Policies
Inludes Description of Nature of the Business	Note 1 Nature of Business	Note 1 Purpose of the Organization	Under Significant Accounting Policies	Note 1 Nature of Business	Included at the start of notes.	Note 1 Purpose of the Organization	Note 1 Purpose of the Organization	Note 1 Nature and Purpose of Organization	Note 1 Nature of Operations	Note 1 Organization	Under Entity Definition	Nature and Purpose of Organization
Capital Asset Schedule	Yes, Note 4	Yes, Note 5	Yes, Note 4	Yes, Note 5	Yes, Note 4	Yes, Note 4	Yes, Note 3	Yes, Schedule 1	Yes, Note 4	Yes, Note 5	Yes, Note 2	Yes, Note 3
Includes Standard Note Disclosure re MB Health Surpluses/Deficits*	Yes, under Significant Accounting Policies	Yes, under Significant Accounting Policies	Yes, Note 3	No	Yes, under Significant Accounting Policies	No	No	No	Yes, under Significant Accounting Policies	Yes, Note 4	No	Yes, Under Note 1.

Numbers refer to Note in RHA Financial Statement.

* Note Indicates that the organization is responsible for in globe deficits, but may retain 2% of in globe surpluses and out of globe deficits may be recovered, subject to review by Manitoba Health.

Summary of Information for Foundations Related to the Health Sector

EXHIBIT J

Summary of Information for Foundations Related to the Health Centre Sector

Foundation	Urban Statement of Purpose/Objective Source: Notes to the Audited Financial Statements of the Foundations and Information from Foundations	Total Assets	Fund Balances or Net Assets	Board Appointments	Control Over Funds	Who Benefits	Current Disclosure	Assessment of Disclosure
Children's Hospital Foundation of Manitoba, Inc.	The Children's Hospital Foundation of Manitoba Inc. is an independent agency whose purpose is to raise and distribute funds for the advancement of knowledge and care in the fields of child health and child health research and thereby contribute to the improved health of children everywhere. Per the Finance and Administration Officer of the Foundation. The Foundation is a separate entity from the hospital and in fact the hospital is not a major recipient of funds ($459,000 as disclosed in the March 31, 2002 financial statements of the WRHA). The focus is on research, and they have highly developed criteria and a committee structure for assessing a wide range of requests and funding options. The Children's Hospital may apply for funds but they will be assessed on the merits of the request.	$22,540,342	$21,122,158	Separate Board of Directors.	Determined by the Foundation based on Foundation criteria.	The Children's Hospital is a minor beneficiary. Funds are primarily directed towards research ranging from a research institute and major projects to fellowships. Support for the Children's hospital is for special equipment and pilot projects. This Foundation was also entered into a joint venture with the Health Sciences foundation to fund raise for the Buhler research centre.	Currently disclosed in WRHA financial statements stating an economic interest and the amount of 2001/02 contributions to the Children's Hospital from the Foundation. The legal and income tax status and purpose of the foundation is also disclosed.	Disclosure would be more complete if the net assets of the Foundation were disclosed. The Children's Hospital is a devolved health care entity.

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EXHIBIT J (cont'd.) Summary of Information for Foundations Related to the Health Sector

Summary of Information for Foundations Related to the Health Centre Sector

Foundation	Urban Statement of Purpose/Objective Source: Notes to the Audited Financial Statements of the Foundations and Information from Foundations	Total Assets	Fund Balances or Net Assets	Board Appointments	Control Over Funds	Who Benefits	Current Disclosure	Assessment of Disclosure
Concordia Hospital Foundation	The Concordia Foundation is a non-profit charitable public foundation. The objective of the Foundation is to undertake projects of a capital or other nature recommended and approved by the Board of Directors of Concordia Hospital so as to provide the highest possible standards of health services in the community. Foundation staff provided the information in the columns to the right.	$333,659	$221,274	Separate Board of Directors. Board members are volunteers. Concordia does appoint some Board members as per the financial statements.	The Foundation Charter directs 95% of revenue to the Hospital.	The Concordia Hospital is the only beneficiary.	Disclosed in the hospital financial statements as being under the significant influence of the hospital, with a description of the purpose, legal and income tax status. Discloses net assets of the Foundation and contributions received by the hospital from the foundation. Also discloses other significantly controlled entities, the Concordia Hospital Fund ($1,349,023) and the Parking Operations ($300,743).	Adequately disclosed in hospital financial statements. Not reflected in WRHA Financial Statements, since Concordia Hospital, a non-devolved entity, is not consolidated with the WRHA.

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Summary of Information for Foundations Related to the Health Sector

EXHIBIT J (cont'd.)

Summary of Information for Foundations Related to the Health Centre Sector

Foundation	Urban Statement of Purpose/Objective Source: Notes to the Audited Financial Statements of the Foundations and Information from Foundations	Total Assets	Fund Balances or Net Assets	Board Appointments	Control Over Funds	Who Benefits	Current Disclosure	Assessment of Disclosure
Deer Lodge Foundation Inc.	The objectives of the Foundation are: To provide funds for demonstration projects approved by the Board of Directors of Deer Lodge Centre Inc. for which funding is not normally obtainable from the normal government funding agencies. To sponsor educational programs and research activities related to the specialty of Gerontology. To support the mission and stated objectives of Deer Lodge Centre. To actively foster public awareness towards an appreciation and understanding of the role of Deer Lodge Inc. in the health community. To do all such things as are incidental or conducive to the attainment of the above objectives bearing in mind the charitable nature of the Foundation. The Foundation is also a vehicle for volunteers to provide services to Deer Lodge Centre.	$3,896,381	$3,648,141	Separate Board of Directors. Not appointed by Deer Lodge or by the WRHA. The Board is described as self-perpetuating group. CEO of Deer Lodge Centre sits as an ex Officio (Non-voting member) to provide a link to the priorities of Deer Lodge Centre. Per CEO of Deer Lodge Centre: the Board of the Foundation may consult with him in regard to Deer Lodge Centre requirements, but ultimately the decisions are made by the Board of the Foundation.	CEO of Deer Lodge Centre is there to communicate priorities, but the Foundation Board makes the final decision.	The Foundation provides funds for capital, equipment and services for Deer Lodge Centre, which are not normally subject to government funding. The Foundation also provides operating support for the Crane Library, which is housed in Deer Lodge Centre.	Hospital financial statements disclose the purpose and legal status of the Foundation and amounts received from the Foundation for 2001/02 under a related parties section. The net assets of the Foundation are not disclosed. A $7,308 grant from the auxiliary is also disclosed.	Incomplete as there is no disclosure of foundation net assets in the hospital financial statements. The relationship between the Hospital and the Foundation is not categorized as one of control, significant influence or economic interest. The income tax status of the foundation is not described. Not reflected in WRHA financial statements, since as at March 31, 2002 Deer Lodge Centre was not owned or controlled by the WRHA.

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EXHIBIT J (cont'd.) Summary of Information for Foundations Related to the Health Sector

Summary of Information for Foundations Related to the Health Centre Sector

Foundation	Urban Statement of Purpose/Objective Source: Notes to the Audited Financial Statements of the Foundations and Information from Foundations	Total Assets	Fund Balances or Net Assets	Board Appointments	Control Over Funds	Who Benefits	Current Disclosure	Assessment of Disclosure
Grace General Hospital (Winnipeg) Foundation Inc.	The Foundation's aims and objectives are to raise, invest and allocate funds generally to or for the benefit of The Salvation Army Grace General Hospital. Per Foundation Director: Currently they have completed two larger projects, and will be taking it more slowly for the next year or two. The Foundation has separate financial statements that are included in the Hospital Annual Report.	$1,467,899	$1,112,485	Separate volunteer Board of Directors. Directors are nominated through a membership committee. The foundation has membership criteria for membership so as to include a lawyer a doctor and so on. The CEO of the Grace Hospital sits on the Foundation Board and the Foundation has a member on the Hospital Board.	CEO of the Hospital communicates the hospital needs to the Foundation Board. The Foundation Board then pursues projects based on Hospital requirements.	All funds benefit the Grace Hospital.	Hospital financial statements disclose economic interest in the Foundation, and indicate the net resources of the Foundation and 2001/02 contributions to the hospital from the Foundation. Under the same note the hospital discloses net resources of the auxiliary ($209,080).	Disclosure in Hospital financial statements would be more complete if the purpose and income tax status of the foundation were included. Not reflected in WRHA financial statements, since the Grace Hospital, non-devolved entity, is not consolidated with the WRHA.

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Summary of Information for Foundations Related to the Health Sector

EXHIBIT J (cont'd.)

Summary of Information for Foundations Related to the Health Centre Sector

Foundation	Urban Statement of Purpose/Objective Source: Notes to the Audited Financial Statements of the Foundations and Information from Foundations	Total Assets	Fund Balances or Net Assets	Board Appointments	Control Over Funds	Who Benefits	Current Disclosure	Assessment of Disclosure
Health Sciences Centre Foundation Inc.	The Foundation's mandate is to raise, invest and allocate funds in support of medical research and health care excellence.	$6,993,423	$6,658,051	Separate Board of Directors. Board members are volunteers.	The Foundation has an internal process for distributing funds.	Focus is on research. Funds flow to researchers who have numerous affiliations – HSC, U. of M., and St. Boniface Hospital. Also has had influence over a second Foundation for raising capital for the Buhler Research Centre.	Currently disclosed in WRHA financial statements stating an economic interest and the amount of 2001/02 contributions to the Health Sciences Centre from the Foundation. The legal and income tax status and purpose of the foundation is also disclosed.	Disclosure would be more complete if the net assets of the Foundation were disclosed. The Health Sciences Centre is a devolved health care entity.
Misericordia Health Centre Foundation Inc.	The Foundation's aims and objectives are to raise, invest and allocate funds generally to or for the benefit of the Misericordia Health Centre.	$1,236,892	$1,174,770	Board is independent from the facility. Board members are selected through a nominating committee.	The Board decides how funds will be spent based on a list of needs provided by senior Centre management, and the Centre Board. The Foundation then makes a decision on how to expend funds.	Misericordia Health Centre Foundation funds are used for capital projects that benefit the Misericordia Health Centre.	Hospital financial statements under related parties heading discloses an economic interest the Foundation, net resources and contributions to the hospital. The legal and income tax status, and foundation aims and objectives are included.	Adequately disclosed in Hospital financial statements. Not reflected in WRHA financial statements, since the Misericordia Health Centre, a non-devolved entity, is not consolidated with the WRHA.

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EXHIBIT J (cont'd.)

Summary of Information for Foundations Related to the Health Sector

Summary of Information for Foundations Related to the Health Centre Sector

Foundation	Urban Statement of Purpose/Objective Source: Notes to the Audited Financial Statements of the Foundations and Information from Foundations	Total Assets	Fund Balances or Net Assets	Board Appointments	Control Over Funds	Who Benefits	Current Disclosure	Assessment of Disclosure
Riverview Health Centre Foundation Inc.	The Foundation's purpose is to support Riverview Health Centre Inc. (The Centre) in its efforts to improve the quality of life for residents and patients in its care. Per CFO of Riverview Health Centre: There was revenue of $1.3 million in the December 31, 2001 Foundation financial statements arising from a transfer of pension fund surplus to the Foundation. The CFO indicated the pension fund is still governed by the City of Winnipeg Employee Benefit Board. Prior to regionalization the Centre was part of the City of Winnipeg. There is a Princess Elizabeth Guild at the Centre. They raise approximately $20,000 a year. However guild member-ship is dwindling.	$3,529,528	$3,483,528	Board is independent. There is some overlap with the Centre's board, but these are not the Centre's appointees.	The management of the Centre communicates the Centre approved requests to the Foundation's CEO. All requests to the Foundation must be approved by the Centre's senior management.	In 2001 the Foundation was the recipient of a $1,380,397 transfer from the Centre's pension fund surplus. In 2000 the Foundation made a $1.0 million grant to the Centre for capital projects. No grants were made in 2001.	Disclosed in the hospital financial statements as a related party. Disclosure includes revenue, expenses, and fund balances (net assets), as well as the $1.0 million contribution from the foundation to the Centre and the transfer of the pension fund surplus to the Foundation from the Centre. The purpose of the organization is described.	Disclosure would be improved if the relationship between the Hospital and the Foundation is categorized as one of control, significant influence or economic interest. The income tax status of the Foundation is not disclosed. Not reflected in WRHA financial statements, since the Riverview Health Centre, a non-devolved entity, is not consolidated with the WRHA.

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Summary of Information for Foundations Related to the Health Sector

EXHIBIT J (cont'd.)

7

Summary of Information for Foundations Related to the Health Centre Sector

Foundation	Urban Statement of Purpose/Objective Source: Notes to the Audited Financial Statements of the Foundations and Information from Foundations	Total Assets	Fund Balances or Net Assets	Board Appointments	Control Over Funds	Who Benefits	Current Disclosure	Assessment of Disclosure
St. Boniface Hospital and Research Foundation Inc.	Per financial statements of the St. Boniface Hospital and Research Foundation Inc.: The Foundation is a self-funded organization which raises funds to provide quality health care research as well as programs for improved quality of life and respect for individuals. As the primary funding organization for the St. Boniface General Hospital the Foundation is an integral part of the Hospital's continuing threefold objective of providing excellence in patient care, education and research.	$20,914,943	$12,989,676	Separate Board, ultimately responsible to the Grey Nuns corporate entity.	The Foundation works with the hospital to determine needs of the hospital.	Funds are directed to research and to hospital capital projects.	St. Boniface Hospital financial statements currently show transactions with the Foundation under the related parties section. The note discloses revenue and deferred contributions received from the Foundation, contributions to the Foundation endowment fund from the hospital and amounts due from the Foundation to the hospital. The net assets, purpose, income tax status and legal status of the Foundation are not disclosed.	Incomplete as there is no disclosure of foundation net assets. The purpose, legal and income tax status of the foundation are not disclosed. The relationship between the Hospital and the Foundation is not categorized as one of control, significant influence or economic interest. Not reflected in WRHA financial statements, since the St. Boniface Hospital, a non-devolved entity, is not consolidated with the WRHA.

EXHIBIT J (cont'd.) Summary of Information for Foundations Related to the Health Sector

Summary of Information for Foundations Related to the Health Centre Sector

Foundation	Urban Statement of Purpose/Objective Source: Notes to the Audited Financial Statements of the Foundations and Information from Foundations	Total Assets	Fund Balances or Net Assets	Board Appointments	Control Over Funds	Who Benefits	Current Disclosure	Assessment of Disclosure
Seven Oaks General Hospital Foundation Inc.	Per FS: The objectives of the Foundation are to advance the welfare and good of the Seven Oaks Hospital and to raise funds primarily for the purpose of that Hospital. The Hospital also has a gift shop committee, but the gift shop had no significant activity in this area.	$1,133,847	$1,060,858	Volunteer Board of Directors from the community. The Foundation also has an active committee structure, which can include non-members of the Board and a small full-time staff.	Hospital approved needs are communicated to the Foundation. Annually the hospital comes up with a "wish list", which is approved by the hospital CEO and the hospital Board, of items that are needed, and a suggestion for a larger project. The Foundation Board also approves the list.	All funds are used for the benefit of the Seven Oaks General Hospital. Past projects include a purchase of a laser and CT scanner. Currently they are raising funds for emergency room renovations.	Note 3 to the March 31, 2002 financial statements of the hospital discloses the Foundation's objectives, net donations received by the hospital Foundation net assets and income tax status. The Foundation is described as supporting the hospital.	Disclosure would be complete if the relationship was categorized as one of control, significant influence or economic interest. Not reflected in WRHA financial statements, since the Seven Oaks Hospital, a non-devolved entity, is not consolidated with the WRHA.

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Summary of Information for Foundations Related to the Health Sector

EXHIBIT J (cont'd.)

Summary of Information for Foundations Related to the Health Centre Sector

Foundation	Urban Statement of Purpose/Objective Source: Notes to the Audited Financial Statements of the Foundations and Information from Foundations	Total Assets	Fund Balances or Net Assets	Board Appointments	Control Over Funds	Who Benefits	Current Disclosure	Assessment of Disclosure
Victoria General Hospital Foundation Inc.	The Foundation has been organized to carry on the scientific, charitable, and educational and research activities. Per Administrative Coordinator: Fundraising is strictly for the hospital. The Foundation runs the ancillary services, which are the hospital parking lot, the ATM machine, the TV rental and Victoria Lifeline. The Foundation does submit proposals to the Hospital Board, but for all intents and purposes the Board directs the funds. The Fund has been in existence for approximately 23 years, not necessarily in the current form.	$8,547,712	$6,965,176	Separate Board of Directors. The board is formed of volunteers. The Foundation tries to have a mix of backgrounds such as financial, legal and medical experts.	The Foundation turns over revenue to the hospital. A list of projects will be forwarded to the hospital Board and that Board will decide how to spend the money. The funds are directed more towards research and very specific equipment requirements. Revenue source includes parking lot operations, TV rentals and Victoria Lifeline.	Only the Victoria General Hospital. Funds are expended for capital, equipment and research.	The hospital financial statements currently disclose that the Foundation is a related entity. The purpose, legal and income tax status is disclosed. Net Assets of the Foundation and contributions received from the Foundation are disclosed.	Disclosure would be complete if the relationship was categorized as one of control, significant influence or economic interest. Not reflected in WRHA financial statements, since the Victoria Hospital, a non-devolved entity, is not consolidated with the WRHA.

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EXHIBIT J (cont'd.) Summary of Information for Foundations Related to the Health Sector

Summary of Information for Foundations Related to the Health Centre Sector

Foundation	Rural Statement of Purpose/Objective Source: Enquiries of the CFO of the RHA	Total Assets	Fund Balances	Board Appointments	Control Over Funds	Who Benefits	Current Disclosure	Assessment of Disclosure In RHA Financial Statement
Assiniboine Regional Health Authority								
Various Community Foundations	Per CFO: She is familiar with only the northern part of the region. She is aware of foundations in the community and with separate Boards. These foundations may fund items the RHA will not fund, on a community related basis. She thinks the start of foundation activity in the area began with regionalization, when the previous facility Boards transferred funds to the foundations. As Assiniboine is formed of two of the original RHAs she is not as familiar with the southern region.	Not known		Separate Boards	Determined by Boards	The foundations provide funding based on community affiliation.	Effective April 1, 2002 the Assiniboine RHA was established by merging the Marquette and South Westman RHAs. The financial statements for the previous RHAs do not disclose any foundation activity.	Adequate disclosure if there is no material support from foundations. A note similar to the note included in the Parkland RHA financial statement, which discloses the existence of fund raising entities in the RHA would be acceptable. A disclosure of economic interest would be appropriate if material support is received by the RHA.

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Summary of Information for Foundations Related to the Health Sector

EXHIBIT J (cont'd.)

Summary of Information for Foundations Related to the Health Centre Sector

Foundation	Rural Statement of Purpose/Objective Source: Enquiries of the CFO of the RHA	Total Assets	Fund Balances	Board Appointments	Control Over Funds	Who Benefits	Current Disclosure	Assessment of Disclosure In RHA Financial Statement
Brandon Regional Health Authority								
Brandon Regional Health Centre Foundation Inc.	The Foundation distributes funds within the community for health care research, education, program development and special equipment. Per CFO of the Brandon RHA: Although they do have an appointee the Foundation is at arm's length. The Foundation can donate to any health related activity. The community sees the Foundation as a conduit for funds, as the Foundation can also make direct donations for a specific purpose. The Foundation requires the RHA to apply for funds like any other group.	$5,956,179	$4,141,422	The Board of Directors has one person appointed by the RHA.	Foundation decides independently.	Any health related activity in the community. The March 31, 2002 Financial Statements indicate $357,852 amount due to the Brandon RHA. Other support may be included but is not specifically identified.	Brandon Regional Health Centre is a consolidated entity included in the Brandon RHA financial statements. There is no disclosure of any relationship or transactions between the RHA and the Foundation.	Possible inadequate disclosure. If material support is received from the Foundation by an entity consolidated in the RHA financial statement a disclosure of economic interest is required.
Fairview Home Foundation Inc.	The Fairview Home Foundation is a non-profit organization formed to receive donations in trust. The Foundation grants funds for equipment and supplies for the enrichment of the lives of the residents of Fairview Homes. (Personal Care Home). Per CFO of Brandon RHA: This Foundation is a separate entity. Fairview had a donation account of around $200,000 and did not want the $200,000 transferred to the RHA. Accordingly a Foundation was set up.	$549,559	$549,559	Separate Board of Directors. No overlap of Board of Directors with the RHA. No attendance at meetings by RHA representatives.	Board of Foundation. The RHA may requests funds, but others make requests as well (e.g., Residents Council), but the decision is made by the Board of the Foundation.	Funds go only to Fairview PCH.	Fairview Personal Care Home is a consolidated entity included in the Brandon RHA financial statements. There is no disclosure of any relationship or transactions between the RHA and the Foundation.	Adequate disclosure. The Fairview Foundation financial statements indicate grants of approximately $23,000 for the year ended March 31, 2002. This is not likely to be material to the RHA.

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EXHIBIT J (cont'd.)

Summary of Information for Foundations Related to the Health Sector

Summary of Information for Foundations Related to the Health Centre Sector

Foundation	Rural Statement of Purpose/Objective Source: Enquiries of the CFO of the RHA	Total Assets	Fund Balances	Board Appointments	Control Over Funds	Who Benefits	Current Disclosure	Assessment of Disclosure In RHA Financial Statement
Hospital Auxiliary (Incorporated)	Per CFO Brandon RHA: This group gives only to the RHA (approximately $100,000 per annum) although the RHA still applies for funds. The auxiliary operates a gift shop, used clothing store and is opening a coffee shop. The auxiliary also provides volunteer services for the Hospital. The auxiliary works beside the RHA, in a much closer relationship than the foundations. They have their own financial statements, and charitable donation number.	Not known	Not Known	Separate Board of Directors.	RHA applies for funds.	Brandon Regional Health Authority.	No disclosure on the Brandon RHA financial statements of transactions with the Auxiliary, except for note on contributed services from volunteers.	Possible inadequate disclosure. Given the close relationship of the RHA and the auxiliary disclosure of the net assets, revenue and expenses and the purpose, and legal and income tax status would be appropriate.
Burntwood Regional Health Authority								
An incorporated foundation.	This foundation was wound down in 1999. An April 1999 letter to the RHA transferred the funds from the Foundation to the RHA to be held in trust. The initial amount was approximately $335,000. The bulk of this money is gone, as it was spent on computers, the pharmacy, mental health and other projects specified in the wind down letter. The CFO indicates that the remaining funds are reflected in the RHA financial statements. On initial review of the RHA financial statements these funds are not evident as a separate item.	Minimal assets. Per the Burntwood RHA CFO recorded on financial statements of the Burntwood RHA.	See comment under Total Assets.	No Board at present as the Foundation is inactive. The community is trying to reactivate the Foundation.	Not applicable. Not active.	Not applicable. Not active.	Remaining funds are included in the financial statements of Burntwood RHA per the RHA CFO.	Adequate disclosure. Funds are not material, based on information provided by CFO.
Central Regional Health Authority								
Various Foundations	Per VP Finance of RHA: Each Foundation is separate from the RHA. The RHA does not receive the Foundations' financial statements, does not attend Foundation meetings and does not appoint the Foundation boards. If a facility within the region has needs the request would be made at the local level. The Foundations are also very small, with the exception of the Portage Foundation, which has approximately $4.0 million in assets.	Financial Statements not obtained.	Financial Statements not obtained.	Separate Boards of Directors.	Foundations' decision.	Beneficiaries depend on the affiliation of the individual foundations.	No disclosure of foundation activity in the Central RHA financial statements.	Inadequate disclosure if there is material support from foundations. A disclosure of economic interest would be appropriate if material support is received by the RHA.

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Summary of Information for Foundations Related to the Health Sector

EXHIBIT J (cont'd.)

Summary of Information for Foundations Related to the Health Centre Sector

Foundation	Rural Statement of Purpose/Objective Source: Enquiries of the CFO of the RHA	Total Assets	Fund Balances	Board Appointments	Control Over Funds	Who Benefits	Current Disclosure	Assessment of Disclosure In RHA Financial Statement
Churchill Regional Health Authority								
No Foundation	Per CFO Churchill: There are no active Foundations.	Not applicable.	Not applicable.	Not applicable.	Not applicable.	Not applicable.	Not applicable.	Not applicable.
Interlake Regional Health Authority								
Arborg Hospital Foundation Betel Foundation Inc.	The only foundations identified are Arborg and District Health Centre Foundation and the Betel Foundation Inc.	Financial statements not obtained for all foundations.	Financial statements not obtained for all foundations.	The CFO of Interlake is not aware of any crossover in RHA Board membership and the foundation boards. The Arborg Foundation was formed when the RHA structure was implemented, using donation funds from the Arborg hospital.	The CFO for Interlake has indicated that the foundations determine how funds will be spent.	Currently they are using the funds to help recruit doctors to the areas. The foundations have a long history of providing support for physician recruitment. In the past this has included providing houses, relocation costs and help to establish a practice.	The Interlake RHA financial statements disclose a loan from the Betel Foundation to the RHA for $293,000. Betel Home is a non-devolved entity and this is a debt on the Betel PCH statement that appears on the RHA statement as a result of consolidation.	Possible inadequate disclosure. If material support is received from the Foundation by an entity consolidated in the RHA financial statement a disclosure of economic interest is required.
NOR-MAN Regional Health Authority								
The Pas Health Complex Foundation Inc. (NOR-MAN RHA)	Per CFO NOR-MAN RHA: No audited financial statements are available, but unaudited information has been provided. The CFO of NOR-MAN RHA prepares a charitable tax return for the Foundation. The Foundation was established when regionalization occurred. Seed money came from donations held by the Pas Hospital. The purpose of the foundation was to maintain control over the funds. The CFO of NOR-MAN RHA has never seen the Foundation's terms of reference and feels they are an arm's length organization, controlled only by the Board and are not a candidate for consolidation.	$756,885	$756,885	Separate Board of Directors formed out of the former The Pas Hospital Board. The Board is not appointed by the RHA. There is no overlap with the RHA Board.	The Foundation may be provided with a list of RHA capital requirements that is available to all service groups in the community, but the Board decides on the allocation of funds.	The Pas Hospital, the Auxiliary and health related projects in the community.	The Pas Health Complex is a devolved facility. There no disclosure of foundation activity in the NOR-MAN RHA Financial Statements.	Possible inadequate disclosure. If material support is received from the Foundation by an entity consolidated in the RHA financial statement a disclosure of economic interest is required.

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EXHIBIT J (cont'd.)

Summary of Information for Foundations Related to the Health Sector

Summary of Information for Foundations Related to the Health Centre Sector

Foundation	Rural Statement of Purpose/Objective Source: Enquiries of the CFO of the RHA	Total Assets	Fund Balances	Board Appointments	Control Over Funds	Who Benefits	Current Disclosure	Assessment of Disclosure In RHA Financial Statement
North Eastman Regional Health Authority								
	Per CFO of North Eastman: Only community foundations in this region. There may be RHA staff on the Boards, but they are there as community members. The Foundation Boards make their own decisions.	Not known	Not known	Separate Board of Directors. No direct appointments by the RHA.	Determined by Foundation Boards.	The related communities.	No disclosure of Foundation activity in the North Eastman RHA financial statements.	Inadequate disclosure if there is material support from foundations. A disclosure of economic interest would be appropriate if material support is received by the RHA.

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Summary of Information for Foundations Related to the Health Sector

EXHIBIT J (cont'd.)

Summary of Information for Foundations Related to the Health Centre Sector

Foundation	Rural Statement of Purpose/Objective Source: Enquiries of the CFO of the RHA	Total Assets	Fund Balances	Board Appointments	Control Over Funds	Who Benefits	Current Disclosure	Assessment of Disclosure In RHA Financial Statement
Parkland Regional Health Authority								
Dauphin General Hospital Foundation Inc. Incorporated by Special Act (Parkland RHA)	No Statement of Purpose in the Financial Statement. A copy of the private act was obtained from the internet. The corporation was created: To receive donations of real or personal property ("donated property") to be held in trust for the purpose of assisting in; The advancement of charitable objects on behalf of the Dauphin General Hospital. The provision of care, benefit, and comfort to patients of the Hospital. To act where necessary as a responsible trustee having custody and management of donated property and expenditures of capital or income that is derived from donated property.	$978,622	$965,711	One Board Member each to be appointed by the Town of Dauphin, the Rural Municipality of Dauphin, Dauphin General Hospital Health Care Auxiliary, Dauphin General Hospital medical Staff, and Parkland Regional Health Authority, and six members-at-large, elected by the members at the annual meeting of the Board. (Source: Foundation Act). The RHA CFO indicated the Parkland RHA does have staff member on the Board.	The RHA is requested to provide a list of needs. Donations may also be directed to specific purposes.	The majority of funds would go to the hospital, but other health related entities can benefit.	The Dauphin Hospital is a devolved facility and is reported in the Parkland RHA financial statements. The RHA financial statements include a disclosure that they receive funding from various fundraising drives in the regions for the use of the RHA or its related entities.	Possible inadequate disclosure. If material support is received from the Foundation by an entity consolidated in the RHA financial statement a disclosure of economic interest is required. The inclusion of note on fundraising is a positive step.

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EXHIBIT J (cont'd.) Summary of Information for Foundations Related to the Health Sector

Summary of Information for Foundations Related to the Health Centre Sector

Foundation	Rural Statement of Purpose/Objective Source: Enquiries of the CFO of the RHA	Total Assets	Fund Balances	Board Appointments	Control Over Funds	Who Benefits	Current Disclosure	Assessment of Disclosure In RHA Financial Statement
Swan River Valley Health Facilities Foundation Inc.	The purpose of the Foundation is to support and foster the operation, conduct maintenance of and management of hospitals and/or extended care homes and related facilities for the health, care benefit and comfort of the patients and residents of the Swan River Valley Health Facilities residing in the Swan River Valley region of Manitoba. (Note: Capital is listed as "Contributed Capital" and is from Swan River Valley Hospital and other area facilities).	$3,646,768	$3,128,151	Separate Board of Directors. There is overlap between the Swan River Facility and the Foundation. Board members are appointed by the municipality.	Determined by the Board.	The various facilities in the Swan Valley area are the beneficiaries. The March 31, 2002 reports $667,022 in grants to area facilities. The Swan Valley Hospital, Lodge and Personal Care Home and the Benito Health Centre show an unspecified amount of revenue from the Foundation. There is no disclosure of the relationship between the Foundation and the facilities in the statements.	The Swan River Valley Hospital and Swan River Valley Personal Care Home are non-devolved facilities. Non-devolved facilities are included in the Parkland RHA financial statements. The financial statements includes a note disclosing that the RHA also receives fundraising revenue from independent fundraising organizations.	Disclosure not adequate. The inclusion of note on fundraising is a positive step. A disclosure of economic interest would be more appropriate given the level of support for 2001/02 fiscal year, as this amount is material.

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Summary of Information for Foundations Related to the Health Sector

EXHIBIT J (cont'd.)

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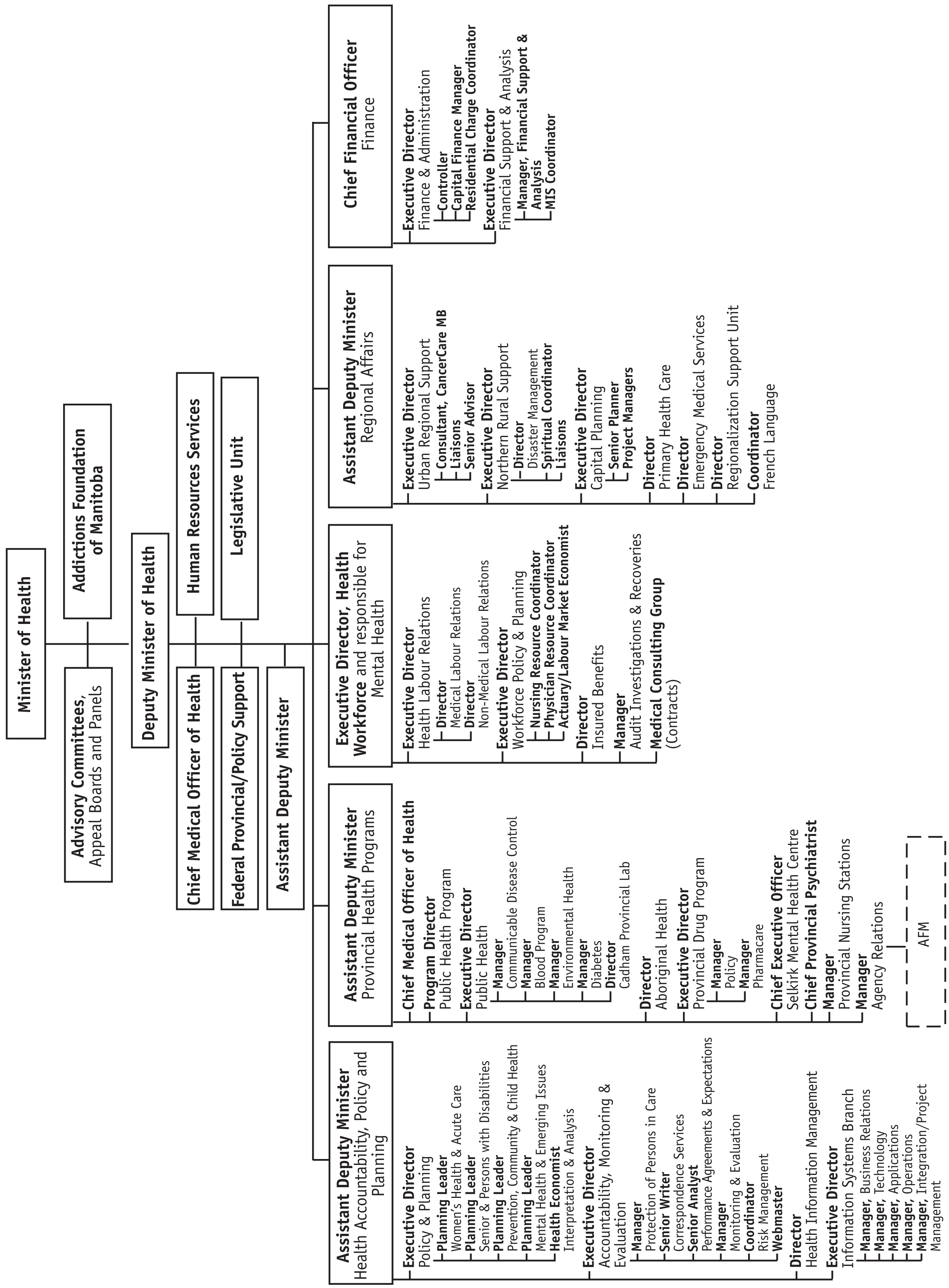
Summary of Information for Foundations Related to the Health Centre Sector

Foundation	Rural Statement of Purpose/Objective Source: Enquiries of the CFO of the RHA	Total Assets	Fund Balances	Board Appointments	Control Over Funds	Who Benefits	Current Disclosure	Assessment of Disclosure In RHA Financial Statement
South Eastman Regional Health Authority								
Foundations identified in Vita, Desalaberry, Betheseda and Ste Anne	Per CFO of South Eastman RHA: These foundations each have their own board, and make their own decisions. The entities exist to serve their own hospitals. Request for projects come from the Hospital CFO to the Foundation. Although the RHAs may have an economic interest in the Foundations, they have no control over the Foundations. The Foundations are quite fierce in their independence. The Foundations do not share information such as annual reports. Ladies auxiliaries are also active and work very closely with the RHA. Steinbach has a very active auxiliary that is incorporated as a non-profit organization. The auxiliary does a lot of the projects that are basic to the Steinbach Hospital.	Financial statements not available from RHA.	See comment under Total Assets.	Separate Board, with no RHA appointees.	These Foundations make their own decisions.	Not known for certain because of their independence, but generally the support is given to the community based on the foundation affiliation.	No disclosure in the South Eastman RHA financial statements of Foundation activity.	Inadequate disclosure if there is no material support from foundations. A disclosure of economic interest would be appropriate if material support is received by the RHA.
Total Known Assets		$82,482,639	$67,977,845					

EXHIBIT K Organizational Chart



Province of Manitoba - Devolved Health Care Facilities — EXHIBIT L
As at March 31, 2002

Health Care Facilities

Addictions Foundation of Manitoba
CancerCare Manitoba
Deer Lodge Centre Inc.
Manitoba Adolescent Treatment Centre Inc.
Manitoba Health Research Council
Manitoba Health Services Insurance Plan
Manitoba Hospital Capital Financing Authority

Regional Health Authorities (Devolved Facilities)

- Brandon Regional Health Authority Inc.
- Burntwood Regional Health Authority Inc.
- Churchill RHA Inc.
- Interlake Regional Health Authority
- Marquette Regional Health Authority Inc.
- NOR-MAN Regional Health Authority Inc.
- North Eastman Health Authority Inc.
- Parkland Regional Health Authority Inc.
- Regional Health Authority – Central Manitoba Inc.
- South Eastman Health/Sante• Sud-Est Inc.
- South Westman Regional Health Authority Inc.
- Winnipeg Regional Health Authority

Rehabilitation Centre for Children Inc.

EXHIBIT M

Province of Manitoba - Non-Devolved Healthcare Facilities As at March 31, 2002

Non-Devolved Components in Rural Regional Health Authorities

Central RHA (Contracted Facilities)
- Salem Home Inc.
- Tabor Senior Citizens Homes Inc.
- Eden Mental Health Centre
- Rock Lake Health District
- Prairie View Lodge Inc.

South Eastman RHA (Contracted facilities)
- Rest Haven Nursing Home
- Menno Home for the Aged
- Villa Youville Inc.

Parklands RHA (Contracted Facilities)
- McCreary/Alonsa Health Centre
- Ste. Rose General Hospital
- Swan River Valley Hospital
- Swan River Valley Personal Care Home Inc.
- Benito Health Centre
- Winnipegosis – Mossey River Personal Care Home Inc.
- Winnipegosis General Hospital
- St. Paul's Home Inc.
- Dr. Gendreau Personal Care Home Inc.
- Swan River Hospital District No. 1

Interlake Regional Health Authority Inc.
- Betel Home (Gimli)
- Betel Home (Selkirk)

Winnipeg Hospitals

Concordia Hospital
Grace General Hospital
Misericordia Health Center
Riverview Health Center
St. Boniface General Hospital
Seven Oaks General Hospital
Victoria General Hospital

EXHIBIT M
(cont'd.)

Major Personal Care Homes

St. Joseph's Residence Inc.
Bethania Mennonite Personal Care Home Inc.
Donwood Manor Personal Care Home
Tache Centre
Fred Douglas Personal Care Home
Sharon Home
Foyer Valade Inc.
Holy Family Home
Mount Carmel Clinic
The Middlechurch Home of Winnipeg
Golden West Centennial Lodge
Park Manor Personal Care Home Inc.

Minor Personal Care Homes

The Golden Links Lodge
Pembina Place Mennonite Personal Care Home
Luther Home
Pinaow Wachi Inc.
Dinsdale Personal Care Home
Lions Personal Care Home
The Convalesent Home of Winnipeg
Meadowood Manor Personal Care Home

Other

Westman Regional Laboratory
Village Clinic Inc.
Sexuality Education Resource Center
Hope Center Health Care Inc.
MFL Occupational Health and Safety Center
Norwest Coop Community Health Center Inc.
Klinic Community Health Centre
Main Street Project
Women's Health Clinic

EXHIBIT N

Regional Health Authorities
Employee Future Benefits (Deferred Assets)
March 31, 2002

Extract from Summary Financial Statements Working Papers		
Aggregation after deducting rural non-devolved facilities identified on page 66 of this Research Paper	$	174,508,426
Less: Accruals recorded by WRHA for their non-devolved facilities		(74,399,567)
Net liability after deducting accruals for non-devolved facilities		100,108,859
Less: Accrual for severance pay of the RHAs recorded in the Operating Fund		(7,932,352)
Net increase in liability - Operating Fund Financial Statements	$	92,176,507
Effect on 2002 operating fund net revenue (decrease)	$	**(6,505,424)**

Glossary of Terms

EXHIBIT O

Devolved and Non-Devolved Health Care Facilities of the RHAs
All health care facilities that are owned and operated by the RHA are considered devolved. All health care facilities which are separate legal entities and receive health care service funding through a contractual relationship with the RHA are non-devolved.

Global Funding
Funding approved by Manitoba Health for programs at the RHA unless otherwise specified as protected and/or non-global. This includes volume changes and price increases for the five service categories:

- Acute Care
- Long-Term Care
- Community and Mental Health
- Home Care
- Emergency Response and Transport (Land Ambulance/North Patient Transportation Program)

All additional costs in these five service categories must be absorbed from within the global funding provided. The only exceptions are funding approved by Manitoba Health for changes in the level of care costs at the non-proprietary and proprietary personal care homes and contracts negotiated.

Global Protected Funding
Protected funding is for specifically designated programs at the RHA. The funding is provided as part of the global funding. Program funds may not be reallocated by the RHA without prior approval by Manitoba Health. Additional funding may be allocated to the RHA by Manitoba Health to meet these service needs. The programs included as "protected" in 2002/03 are:

- Laboratory and Imaging Services
- Northern Patient Transportation Program
- Dialysis (including staff training)
- Pam Am Clinic – WRHA
- South Eastman Surgical Program

Non-Global Funding
Non-global funding is approved by Manitoba Health for specific programs. Subject to Manitoba Health's review and approval, shortfalls will be reimbursed by Manitoba Health and surpluses will be recovered by Manitoba Health. The following programs are designated as "non-global" for 2002/03.

- Medical Remuneration/Medical Sessional Payments
- Authorized/Charge Income for personal care residents, patients paneled in hospital for admission to personal care home and chronic care and respite care patients.
- Pre-Retirement Leave
- Capital Costs for basic equipment, specialized equipment, personal care home reserve for major repairs, principal repayment of approved borrowings, provision for initial down payment on CMHC mortgages (bed grants) and interest on approved capital debt.
- Accreditation Survey Fees for the original survey fees only. All membership and re-survey costs are part of the global funding.

A REVIEW OF GENTAX: AN INTEGRATED TAX PROCESSING SOFTWARE APPLICATION

(Implemented by the Department of Finance, Taxation Division)

Introduction

The Taxation Division (Division) of the Department of Finance of Manitoba is responsible for the effective and efficient administration of various Provincial Taxation Acts and the proper collection of taxes due to the province as required by legislation. This includes the administration, collection, processing and reporting of taxation revenues, as well as the provision of tax expertise to government, businesses collecting taxes and taxpayers. The Division also investigates and audits taxpayers to ensure compliance.

The Division administers the following tax Acts: The Retail Sales Act (RST), The Health and Education Post Secondary Education Tax Levy Act (HET), The Corporation Capital Tax Act (CCT), The Gasoline Tax Act (GT), The Motive Fuel Tax Act (MF), The Tobacco Tax Act (TT), The Revenue Act (RT), and the Mining Tax Act (MT) and the continuing phase-out of The Manitoba Succession Duty and Gift Tax Acts.

For March 31, 2003 fiscal year, total Division revenues were $1.9 billion of which the three largest (RST, HET, and CCT) statutes accounted for $1.4 billion for Manitoba and comprise the vast majority of work done by the Division. In 1997, the Division began seeking an integrated solution for the administration of the RST, HET, and CCT with the capacity to extend to the other remaining tax statutes in order to replace the existing legacy systems.

By December 1, 2002, the RST, CCT and HET systems had been converted from separate Information Systems Management Corporation (ISM) Mainframe Legacy systems to the Fast Canadian Enterprise Ltd.'s (Fast Enterprises) GenTax software application for integrated tax processing. The original plan to develop a system in-house was unsuccessful so GenTax, a commercial off the shelf tax-processing product from Fast Enterprises was purchased with some modifications specific to Manitoba's needs. GenTax is a complete integrated tax processing software package. It is designed to support an agency implementing multiple taxes, with associated business and processing rules.

Since implementing GenTax, the Division is no longer uploading taxpayer information to ISM for processing but is now able to process the information themselves. This has had a significant impact on systems and procedures in the Division, in areas such as remittance processing, error correct, collections, refunds and audit.

Because this was a major system change that could affect our test of controls approach in the audit of the Division's systems, we reviewed the following:

- The data conversion from the old legacy systems to the new integrated GenTax system; and
- The existence and effectiveness of the internal controls in the new computer software application, GenTax.

Background

In 1997, Treasury Board approved the Better Systems Initiative (BSI), as one of several initiatives within the Province's strategic plan to improve government's ability to deliver better service. BSI was a government–wide approach to providing the public with single window access to services and information. The Taxation Division (Division) joined the Better Systems Initiative in 1997 with the intention to build an integrated tax system utilizing emerging technologies such as Object Orientation techniques, Java programming, and the Internet. The first two years in BSI, working with the prime contractor, IBM, primarily involved the discovery and documentation of the Division "as is" and "to be" worlds.

In 1999, the project team led by IBM completed an application scope document and authorization was given to proceed to build a system within BSI. In March 2000, IBM provided an estimate to build the integrated taxation to completion. Based on the substantial cost, resources, and timelines within the estimate, the Division pursued the viability of purchasing a tax system as an alternative to building a system within BSI through the budget approval process for the fiscal year ended March 31, 2001. The number of taxation packages within the market place at this time supported this decision.

The Division project team led by provincial employees, with IBM in a support role, proceeded to complete a Request for Proposal (RFP) which consisted of a review of best practices and an extensive review of the RFP product by the management team within the Division and the Information Technology management team of BSI.

In August, 2000, the Division issued the RFP for an integrated tax application. Four proposals were received. A software evaluation team was established. This evaluation team identified the two leading proposals and requested the vendors to demonstrate their products. In November 2000, demonstrations of the products were made to a larger evaluation team and a lead vendor was identified, Fast Canadian Enterprises Ltd. (Fast Enterprises). Final due diligence of the Fast Enterprises team and their product, GenTax, was performed by the Division project team through a technical review held in Winnipeg and two site visits to Boise, Idaho, and Victoria, British Columbia in early December 2000.

These reviews validated:

- the high degree of functionality met by the GenTax product;
- the soundness of the GenTax product's technical solution;
- the minimized impact to operations and maintenance with this technology;
- the quality project management skills of the Fast Enterprises Team; and
- the successful performance of the GenTax product.

FORMER LEGACY SYSTEMS

Taxation's computer processing environment had consisted of three standalone Cobol (programming language) based applications for processing of tax returns and payments relating to RST, HET, and CCT. These systems had been developed internally and dated back to 1967. To date, the other remaining statutes are still being delivered manually through Clipper (programming language) based applications although additional GenTax applications are under development. The Division wanted to progress from these systems, their process and service inhibitors. The Division had many system inhibitors including:

- the inability to deal with a business across statutes and systems;
- very limited retention of taxpayer account information;
- paper based data entry (labour intensive);
- overnight and or scheduled processing;
- static reports with limited data (no ability to manipulate);
- the inability to have on line or ad hoc reports, only the Information Technology (IT) staff had report generating capabilities;
- limited access by staff to some or all of the statutes delivered by the stand-alone environments;
- restricted environment to implement new policy and business rules within the system;
- risk to support and maintain aging Cobol systems; and
- inability to achieve progressive client service with these systems, (i.e., e-filing, internet access).

OBJECTIVES IN TEAMING UP WITH BETTER SYSTEMS INITIATIVE

The Division's business goals upon joining BSI included:

- Replacement of the Taxation legacy systems with a solution that provided additional functionality as well as a consolidated view of business with obligations under multiple statutes;
- Functionality to be gained with a new taxation application included:
    - Comprehensive financial transaction view of a business across accounts or by account;
    - On line adjustments;
    - System automation of workflow, financial calculations (i.e., commissions);
    - Increased accuracy in reporting; and
    - Web enablement;
- Business clients having the ability to file, pay and contact utilizing one business number;
- Business clients having the ability to file, pay and view on-line via the web through the BSI single portal;
- The Division streamlining their processes on-line to enable quicker more accurate service to the business client;

- Workflow enabling a single view to the business activity on a business client (this would enable more effective results both from a service and compliance perspective);
- Enabling business clients to have dual registration with the Companies Office Branch and the Division (this objective was dependent upon the Common Business Identifier (CBI) and the Companies Office projects achieving the common goal of dual registration);
- Utilization of the federal Business Number (BN) through the CBI project to enable the sharing of business information with the Canada Custom and Revenue Agency (CCRA) to achieve enhanced quality of audit and collection data generating increased program revenues; and
- Development of Manitoba IT staff.

ROLL OUT

Integrated Taxation Project

The project was governed under an overriding IT Products and Services Agreement, which was supplemented by the RFP, the Fast Enterprises Proposal, Implementation Plan, Release Plans and Statement of Works within each release plan. The project governed under the IT Products and Service Agreement with Fast Enterprises commenced June 4, 2001 and concluded on March 31, 2003.

The integrated taxation project originally consisted of three releases, RST, HET and CCT, all statute based. Subsequently the project was extended to include a fourth release – the taxation audit module for use by the Taxation Audit branch of the Division. During the same time frame, the development and implementation of Taxation Manitoba Business Links (common business identifier solution) technical solution with Fast Enterprises resources in a support role.

Product Released	#	Go Live
Health and Post Secondary Education Tax Levy Act (Payroll Tax)	1	February 4, 2002
Retail Sales Tax Act	2	July 2, 2002
Corporation Capital Tax Act	3	December 2, 2002
Taxation Audit Module	4	March 17, 2003
Manitoba Business Links (MBL) Technical Solution	5	May 12, 2003

The Division's driving principle was to maintain the base GenTax Core product and limit site specific configurations to ensure ease of future enhancements and restrict support and maintenance requirements. The integrated tax project achieved this goal with the Manitoba site specific configurations being primarily limited to reports and letters.

The Integrated Tax Project team primarily consisted of members from the Division, BSI, and Fast Canadian Enterprises Ltd. The primary roles from each area were:

- **Division**: Project Manager, Subject Matter Experts, IT staff (business analysts, developers, technical support);
- **Fast Enterprises**: Project Manager, Release Manager, Technical Lead, Team Leads, Developers; and
- **BSI**: Communications, Organization Transformation, and Technical support (implementation lead, architect, and environment support).

The project team was supplemented by additional staff users participating in configuration, testing, and training. The Division committed these resources as required with impacts to production and program delivery.

A management sponsor team consisting of the Division and BSI Management supported and governed the Integrated Tax project. This sponsorship team met weekly with project management if required to ensure necessary direction and decisions were made on a timely basis to meet project deadlines.

PROJECT HIGHLIGHTS

- All four releases were completed on time.
- The integration of accounts across the three statutes (HET, RST, CCT) under one business entity was achieved. Originally the adoption of the federal business number was to have achieved the integration. However the implementation of the federal business number proceeded later than original planned, nearer the completion of the implementation of GenTax, therefore the Division proceeded to integrate within the database.
- The Integrated Tax Project was located on site within the Division.
- Decisions and support were provided by the Project Sponsors on a timely basis which did not compromise release deadlines.
- A decision request process was implemented which enabled the tracking and recording of decisions outstanding and completed.
- The integrated project team maintained a good working relationship with the vendor, Fast Canadian Enterprises Ltd.
- The project sponsor team contracted a human resource consultant to manage the organizational change impacts of the project on the Division and work as the primary support and transition expert with the Division.
- Transition of the training responsibility to Manitoba business staff as early as Release 2 (RST); this included completion of the training plan, delivery of the courses, compilation of the training material and documentation.
- Data cleansing of taxpayer information became a necessary workload as some of the information in the existing database was incorrect or inconsistent. This was accomplished through out the releases in order to deliver the goal of data integrity into the new GenTax system.

- A mentoring commitment by Fast Enterprises and Manitoba IT staff was established to transition the necessary skills and knowledge from Fast Enterprises to Manitoba to support the GenTax product post project.
- Simple easy to follow project plans were communicated and implemented. Detailed statements of works were adhered to and risk mitigated on an ongoing basis.

Data Conversion

The three taxes, HET, RST and CCT were converted to GenTax in stages and a new release was rolled out for each as described above.

The data for HET was converted to GenTax on January 25, 2002. Since this date was in the previous fiscal year, the HET conversion was reviewed as part of the Public Accounts audit for the year ended March 31, 2002. RST data was converted on June 27, 2002 and CCT data was converted on November 29, 2002. The RST and CCT conversions were reviewed as part of the Public Accounts audit for the year ended March 31, 2003.

The GenTax Taxation Audit Module went live on March 17, 2003. Therefore, the implementation of the audit module had a minimal impact on the Taxation Audit branch's operations for the year ended March 31, 2003.

The Manitoba Business Links (MBL) Technical Solution went live on May 12, 2003. The implementation of MBL Technical Solution and the Audit Module will be reviewed as part of the March 31, 2004 Public Accounts audit.

The conversion of the remaining tax statutes are scheduled to take place during the 2004 fiscal year, and therefore will be reviewed as part of the Public Accounts audit for the year ended March 31, 2004.

Our audit procedures for the conversion of the HET, RST, and CCT included reviewing the conversion process as documented by the project team including signoffs, reviewing and reconciling ending balances in the legacy systems with opening balances in GenTax.

Based on the results of the audit procedures performed, we concluded that the data from the legacy systems for the three statutes was successfully converted to GenTax.

GenTax System Description

The GenTax application consists of a suite of integrated modules which support the core processes of Taxation for multiple taxes. The user interface is a standard Windows environment. Across the top of the main window are manager icons for access to the different functions of the application. Access to the manager icons depends on users' level of security.

Each user logs on to the system with a unique password. Each user is assigned a "role" within a "group" (e.g., role=clerk; group=Tax Roll Maintenance). Functions performed in

GenTax are assigned function numbers. Each role within each group has access (either "read only" or "permit changes") to a set of function numbers. Through this assignment process, certain users have access to certain functions required to do their job and are prohibited from other functions. A summary of the functions and roles/groups is set out in a functional access matrix. The functional access matrix establishes a framework for controls surrounding the segregation of incompatible functions and change capability within the program. A change management system exists for changes or amendments related to GenTax.

Each transaction entered in the system is assigned a transaction number generated by the system. GenTax tracks each transaction by the person who logged in and entered the transaction.

The following modules and support functions exist within GenTax: Registration Module, Work Items Function, Financials View Function, Transactions Module, Collections Module, Letters Function, Refunds Module, Payments Module, Returns Module, Reports Function, and Revenue Account Module.

GenTax System Controls Testing

We documented our understanding of the controls within the Gentax system for each of the RST, HET and CCT taxation revenue systems.

Walk-through tests for taxation revenue systems were done in relation to significant audit assertions related to these systems. These included testing the key controls involving the occurrence, measurement and completeness of revenue as well as the existence, ownership and valuation of accounts receivable and payable.

Our testing included enquiry, inspection, observation and re-performance. We assessed that the controls identified as part of our documentation process are in place and are operating effectively.

We concluded that we can place reliance on the internal controls in the Gentax system for each of the RST, HET and CCT revenue systems.

Other Processes

FINE LINE 2000 INC. PROCESSING

Fine Line 2000 Inc. (Fineline) began remittance processing for RST effective March 1, 2001.

The processing of RST returns under the Fineline system includes:

- Mail collection;
- Sorting of Payments (RST only, Nil returns, 1 cheque with 2 returns);
- Verification of payment acceptability (scanned and sent to Fineline);
- Data entry;

- Imaging of Returns and Cheques (Kept at Fineline);
- Transmission output to Taxation each day; and
- Deposit of funds received.

Fineline transmits all information from returns processed to the Division. The Division is responsible for uploading the information into GenTax. After the upload, GenTax will create a work item to be resolved for anything that GenTax cannot process.

Until the implementation of GenTax, out of province batches did not receive a late filing penalty on the 20th because the paperwork did not get to Fineline until the 26th. GenTax allows a four day grace period before late penalties are assessed for all accounts.

RST remitters are also able to make their payments and submit their returns through their financial institution by using a transaction called Acceptance Payment on Account (APA). Remittances and returns are submitted to the remitter's bank or credit union. APA returns received by banks are forwarded to Fineline to be processed and the funds are transferred to the Division's RST APA bank account. There may be a delay at Fineline between the deposit of APA funds and the processing of returns. Fineline sends the processed returns and a summary of payments received to the Division. Returns are transferred direct to Fineline and are processed through their system. A report is received each day from Fineline which includes the APA transactions processed.

WIRE TRANSFER

Wire transfer returns are faxed by the taxpayers to the division and the funds are deposited to a Division bank account. Faxed returns and the Royal Bank list of daily wire transfer returns are forwarded to the Division to be processed in-house.

DEPARTMENT OF FINANCE IN-HOUSE PROCESSING SYSTEM

Fineline processes most RST returns and payments. However, HET, CCT and some RST are processed in-house.

Returns that are received in person (cash, cheque, or interac) at the division are processed through the Finance Department's RST system. If there is no return with the payment, a voucher is prepared in GenTax by Cash Control and sent to Fineline for processing. These are usually related to small dollar or seasonal remitters.

The Cashier receives remittances paid in person or postdated cheques:

- For cash and interac payments a voucher is created in GenTax for the payment. Voucher media number is scanned into POS+ to record payment; and
- For postdated cheque payments:
    - Postdated cheques are accompanied by a voucher;
    - The vouchers are scanned into POS+ and cheques and vouchers are validated; and
    - A batch header is attached and the batch is forwarded to the deposit desk.

Remittance Processing receives the returns, cheques and vouchers in batches from Cash Control and the vouchers and returns in batches from the Cashier.

In Remittance Processing Area

For each individual payment in the batch, the cheque amount is entered and the return/voucher is scanned into POS+. If the cheque amount differs from the return, the cheque amount is written on the return. Tracer numbers are automatically assigned by the POS+ system. Returns or vouchers are validated by the POS+ system.

The return and remittance information entered into POS+ by remittance processing and the electronic information received from FineLine is uploaded to the GenTax database during the night. After the upload to the database, GenTax compares the information uploaded from POS+ with the batch headers that were entered manually into GenTax. GenTax checks to see if the number of items and the total amount of each payment batch equals the amounts on the payment batch header and if the number of returns in each return batch uploaded equals the number of items added to the return batch header. GenTax also checks that each individual payment or return can be matched to a taxpayer account in GenTax. If a problem is detected, a work item is generated in GenTax. Follow-up is done on any work items generated by GenTax. Work items may be generated for payment and return batches.

DAILY/MONTHLY BALANCING AND RECONCILIATIONS

In GenTax, report **MB_PR101 Batch Detail Report** is run for the prior business day. This report lists all the batches processed by GenTax which are entered in the cashbook under the "Computer Processed" column and are matched to the amounts in the "Office Processed" column, which amounts are entered for each batch processed by Fineline (from Fineline report) or by Remittance Processing (from deposit summary). If they do not match, the difference is entered in the not processed column.

In GenTax, report **MB_TR508 Balancing Summary** is run for the prior business day. This report provides a listing of transactions by type for the day. From the Revenue Manager, revenue reports are run for the day and year-to-date (YTD). The daily cycle is balanced by reconciling the daily and YTD revenue to the prior day YTD.

Entries are posted from the Finance Departmental Receipt Distributions to SAP general ledger (SAP) and a copy of the entry from SAP is printed. This entry records the daily deposit as revenue.

REVENUE AND ACCOUNTS RECEIVABLE

The Daily deposits are recorded in revenue in the appropriate tax revenue account. RST and HET deposits that are deposited in April per SAP are accrued as Accounts Receivable as at the March 31 year end. In the case of CCT, the Finance Department has taken the position that most companies have a December 31 fiscal year end and by the following March 31 would have filed their annual remittances. An accrual for the 3 month period is not prepared in the case of CCT. The effect year over year is considered minimal.

Accounts in Arrears are also set up as Accounts Receivable as at March 31 for RST, HET and CCT. GenTax produces Arrears reports which are used to record the accounts receivable at year-end.

REFUNDS

There is an automatic upload from GenTax to SAP for refunds. Once a refund has been appropriately authorized in GenTax through the work items and review criteria, it is electronically batched and uploaded to SAP. The refund cheques are issued from this upload.

RETURNED ITEMS (NSF CHEQUES/CHARGEBACKS)

When a deposit item is returned NSF or charged back to the bank account, the recorded revenue is reversed. This is different than the recording of NSFs in other departments where a receivable is set up for the NSF amount until the amount is collected or written off.

NSF cheques are recorded in both GenTax and SAP. In GenTax, an adjustment is made to remove the original payment and an NSF fee is charged to the taxpayer's account. The **TR_501 A/R Bad Cheque Report** lists all the returned items processed by date posted. This report is the support for the reversing entry in SAP or for the MB cheque required to deposit to the Fineline chargeback account.

Items may be charged back from deposits to the main bank account or deposits to Fineline and APA accounts. NSFs and Chargebacks to the main account are processed differently than NSF chargebacks to the Fineline and APA accounts:

- Items deposited to the main account are returned to a chargeback account which is automatically cleared with a month end transfer from the main account. These NSFs are recorded as accounts receivable and then reversed effectively reversing the revenue. The reversing entry is based on the Chargeback report produced in GenTax; and
- Items deposited to the Fineline and APA bank accounts that are returned NSF are charged back to a separate bank account. Amounts charged back to this account must be reimbursed by a cheque from the main account. The returned items are recorded in GenTax and the information is used to issue a cheque to this account to the main account. The amount of the cheque is charged to the revenue account effectively reversing the revenue. The activity in the chargeback account is not reflected in SAP and the account is not automatically cleared to the main account. The chargeback is recorded in SAP when the funds are reimbursed from the main account to the chargeback account.

MONTHLY RETURNS/STATEMENTS

Returns and statements are generated automatically by GenTax for each taxpayer and an electronic file is produced. This file is produced and sent to Mail Management Agency (MMA) to be printed and mailed to the taxpayers.

Improvements

The implementation of GenTax has provided many improvements over the legacy system:

- Comprehensive financial transaction view of a business across accounts or by account;
- Real time, on-line adjustments and account maintenance;
- Common penalty and interest across statutes. The interest calculated is now accruing daily with a monthly allocation and results in more stringent compliance enforcement;
- System automation of workflow (approvals and tracking) and financial calculations (i.e., retail sales tax commissions);
- Real time view of a business across the Division, this includes:
  - actions in progress, (i.e., audit, collections, waivers);
  - documentation through the notes function- the audit and collection journals which is basically central repositories of information not previously accessible on-line;
  - suspend returns or returns in error notifications; and
  - work items in progress.

  This enhances the ability of the Division to deliver one-stop client services and reduces the need for the paper file;
- Automated system offsets. The system within policy guidelines automatically offsets liabilities with credits between accounts under one taxpayer, reducing manual intervention on accounts for more effective use of resources. In addition, any credit is prohibited from being refunded where there is a debt outstanding under a taxpayer;
- Collections improved tools include:
  - Collection visuals (provides a snapshot view of a taxpayer filing and payment habits);
  - Collection risk code provides an indication of potential/risk to the Division;
  - Automated storing of revenue reports;
  - Automated assignment of accounts;
  - Improved process to issue notice of estimates; and
  - Improved statistical reports on compliance action and results (better assessment of program success).
- Ability to create real time reports on-line;
- Improved information reporting by the amount of data stored within an account and taxpayer.
- Ability to create reports and or queries within defined parameters. This enables the Division to better assess program delivery;

- Audit standalone function (allows Audit to download audits and time sheets including core information about the client, and financial extracts and then upload the audit which automatically updates GenTax);
- Audit financial information extracts (allows auditors to use the information electronically in customized spreadsheets);
- Automation of account inhibitors (i.e., stop mail indicators, stop interest, stop returns, etc.); and
- Business staff involved in the project met face to face weekly with their work areas to update the project status and decisions. This was implemented after release 1 and was well received by the Division staff.

Lessons Learned

Upon completion of the integrated tax project, the project team noted several lessons learned during the project. Some items have also affected operations after conversion. A summary of those learnings and items follow:

- The project team felt that timelines should be have been extended to include increased mentoring of IT staff by Fast Enterprises. The timelines did not offer sufficient knowledge transfer to Manitoba IT staff. The aggressive schedule to implementation and the contractual obligations of Fast Enterprises did not allow for the necessary time to train the Manitoba IT staff. As a result, it took longer for Manitoba IT staff to learn the product to enable support and maintenance and proceed with implementation of the remaining statutes;
- Change requests from the Division staff were accepted soon after the initial release. The project team felt this was too early and it encouraged staff to continually look to change the product. Many of the change requests were a result of unfamiliarity of the program. The Division should have been advised to utilize what had been implemented, become familiar with the product, and then been advised of the opportunity to change the product. This would have resulted in more quality change requests and allowed for more efficient use of Manitoba IT's staff time. The volume of change requests has resulted in backlogged workload for Manitoba IT;
- The project team noted a large number of incident reports submitted in error. It felt that desk side support resources needed to be on the production floor longer with more hands on support. This would have reduced the number of incident reports submitted erroneously and the resources committed to the investigation of same;
- Regular written communications were issued during the project. However, the project team noted that staff claimed to be unaware of key work products, policy, and changes to process;
- Business Activity Charts (BACs) were developed for each area in the Division. The BACs were developed to predict processes using GenTax based on processes in place prior to GenTax. The project team felt the

development of BACs utilized valuable project resources in attempting to predict what may occur when the predictions were often proved to be wrong. New business processes and process changes could not be identified until after implementation into production;

- The project used a Human Resources consultant to assist the project team on organizational change. The project team found that the accelerated timelines of the project severely affected the ability to successfully deliver organizational change. Further, the project team noted that organization and process transition continues long after the project ends and needs to be a quantified workload to be resourced within the Division. This ongoing workload includes new position descriptions, new organization structure and procedures; and
- The processes prior to conversion had been in place for many years under the legacy system. The project team felt that it failed to assess the depth of the resistance to the implementation of GenTax. Adaptation to the change is ongoing.

Limitations

Certain limitations in Gentax were noted as follows:

- GenTax does not allow for converted financial information to be adjusted in an efficient manner. Many problems were encountered by staff after conversion when trying to make adjustments to converted data. The project team felt that an improved technical solution to deal with converted data should have been included in the program. It was a problem that was not anticipated so a solution was not requested at the beginning of the project. The Division is requesting that changes to the core GenTax program in the future will allow changes to converted data; and
- Gentax does not interface with SAP and as a result, manual journal entries must be prepared by the Division to record in SAP the transactions processed in GenTax. In addition, the Division has not revised its accounting treatment to record daily transactions on an accrual basis of accounting and only records accounts receivable and payable at year end.

Conclusion

Overall, we concluded that the implementation of Gentax, an integrated tax processing software application, with respect to Health and Education Tax, Retail Sales Tax and Corporation Capital Tax and the attendant data conversion, was successful. In addition, based on our review of the internal controls in Gentax, we were satisfied with the existence and effectiveness of sufficient internal controls in Gentax to permit the use of a test of controls approach in our audit of this tax processing system. A detailed report with recommendations was provided to the Division to assist with specific internal control improvements.

FUTURE HANDBOOK SECTIONS AFFECTING FINANCIAL REPORTING OF THE PUBLIC ACCOUNTS

Public Sector Accounting Board (PSAB)

The Canadian Institute of Chartered Accountants (CICA) sets out Generally Accepted Accounting Principals (GAAP) for entities in Canada. The recommendations and guidance on accounting for businesses and not-for-profit entities are detailed in the CICA Accounting Handbook.

However there are unique accounting issues encountered in the public sector that are different from the issues encountered in the private sector. The CICA recognized the unique characteristics of accounting in the public sector and established the Public Sector Accounting Board (PSAB) to issue recommendations and guidance regarding GAAP in the public sector. These recommendations and guidance strengthen accountability in the public sector through developing, recommending and gaining acceptance of accounting and financial reporting standards. PSAB recommendations and guidance are detailed in the PSAB Handbook.

The PSAB defines the public sector to include federal, provincial, territorial and local governments, government organizations, government partnerships and school boards.

The public sector reported on by the Office of the Auditor General in Manitoba is comprised of the Summary Financial Statements of the Province of Manitoba and the government organizations consolidated in these statements. This is described as the Government Reporting Entity.

PSAB recommendations directly apply to the Summary Financial Statements of the Government of Manitoba. The Auditor's Report issued by the Office of the Auditor General in Manitoba on the Summary Financial Statements reflect the extent to which government financial statements comply with PSAB standards.

Our Office and private sector auditors report on the financial statements of the government organizations making up the Government Reporting Entity. These government organizations may base their accounting on the PSAB Handbook or the CICA Accounting Handbook depending on the nature of the organization. Government business-type organizations and government not-for-profit organizations adhere to the recommendations in CICA Accounting Handbook. Other government organizations base the accounting policies on those that most appropriately reflect to their objectives and circumstances - based on the accounting recommendations of PSAB or on the recommendations in CICA Accounting Handbook. Where PSAB or CICA Handbook is silent on a particular issue, the entity obtains guidance from other acceptable sources.

PSAB is responsible for developing Generally Accepted Accounting Principles (GAAP) for the public sector. Accordingly, it has approved a number of projects to develop these standards.

After developing the draft standards, PSAB then issues exposure drafts on the proposed standards to be included in the Handbook. Comments on the proposed standards are requested from interested parties. Depending on the comments received the standards in the exposure drafts may be adopted, changed, reissued as another exposure draft or withdrawn. Once adopted the standards are included in the Handbooks and are then considered GAAP.

PSAB also issues research studies to provide guidance on specific areas.

New and Future PSAB Handbook Sections Affecting Financial Reporting in Public Accounts

The new Handbook sections, exposure drafts and other projects highlighted below have a potential affect on GAAP for the Public Accounts of the Province of Manitoba.

NEW PSAB HANDBOOK SECTIONS

1. **Government Reporting Model for Senior Governments - Sections PS 1000, PS 1100 and PS 1200**

   The reporting model is the basis by which financial statements are presented for governments. The new sections revise the existing standards that describe the objectives and reporting requirements for senior (federal, provincial and territorial governments) governments.

   Previously, PSAB required the Summary Financial Statements of senior governments to be reported using a net debt model which focused on debt and effectively removed tangible capital and other non-financial assets in determining the net position of government. The new reporting model is an expensed-based model tailored to highlight the unique characteristics of government. Under the new model, both the net debt position and the expense based accumulated surplus/deficit are presented in the Statement of Financial Position. The Statement of Financial Position includes tangible capital and other assets. The Statement of Operations (Revenue and Expenses) reports the annual surplus/deficit as the difference between revenues and expenses.

   The new reporting model is consistent with the way Manitoba is currently reporting in its financial statements. The Summary Financial Statements of the Province of Manitoba are on an expense basis with information on net debt disclosed. Therefore, there will only be minor changes necessary to the Summary Financial Statements. We have provided an example of the application of the new government reporting model as it would apply to the presentation of the 2003 Summary Financial Statements in this report.

   Effective date – The new standards are effective for all fiscal years beginning on or after April 1, 2005.

2. Government Reporting Entity for Senior Governments – Definition - Section PS 1300

What entities should be consolidated in the Summary Financial Statements? The revised PSAB Handbook Section PS 1300 recommends that the GRE should be comprised of entities that are controlled by the government. Control is defined as the power to govern the financial and operating policies of another entity with expectation of benefit or the risk loss to the government from the entity's activities. The section provides indicators of control to guide governments in assessing whether control exists for financial reporting purposes. Some indicators of control are more persuasive than others but on balance it is the preponderance of evidence that would be considered in determining whether control exists.

The Province of Manitoba will need to determine if entities previously excluded, such as school boards, should be included in the Summary Financial Statements.

Effective date – The new standards are effective for all fiscal years beginning on or after April 1, 2005.

3. Foreign Currency Translation - Section PS 2600

The new PSAB Handbook section on foreign currency translation revises the standards in the public sector for recognition, measurement, presentation and disclosure of transactions and balances denominated in a foreign currency. The new section continues the deferral and amortization of gains and losses on long term monetary items. This concept is relatively unchanged from previous recommendations. However, the international community is moving toward immediate recognition of the foreign currency gains and losses. Recognizing this trend, PSAB will revisit this issue in three years.

The new section also recommends certain conditions that must be present for hedge accounting to be present and disclosure requirements designed to highlight a government's exposure to currency risk and the policies for managing that risk.

There is no major impact on Public Accounts beyond the requirement for further disclosure, as foreign currency exchange gains/losses are presently deferred and amortized.

Effective date – Recommendations of the new Handbook Section PS 2600 are applicable for fiscal years beginning on or after January 1, 2003.

PSAB PROJECTS

4. Liabilities, Contingent Liabilities and Commitments

PSAB has released a Statement of Principles (SOP) related to liabilities, contingent liabilities and commitments. The SOP proposes changes to the definitions of liabilities, contingent liabilities and commitments.

In general, the liability definition was broadened to include those obligations that result from transactions and events beyond those related to agreements, contracts and legislation in force as at the accounting date.

A definition of a contingent liability was provided to assist in assessing contingent liabilities. In the past, PSAB has only provided a general definition of a contingency. The SOP also proposes that contingent liabilities should be accrued when it is likely that a future event will confirm that a liability existed as at the accounting date.

The SOP expands the disclosure of information related to commitments.

The resulting exposure draft and eventual PSAB Handbook section will have a direct impact on how the Government records and discloses liabilities, contingent liabilities and commitments.

Status: Statement of Principles was released and comments were received. It is expected that a draft exposure draft will released for comments shortly.

5. Government Transfers

A Statement of Principles (SOP) was released concurrently with the SOP related to liabilities, contingent liabilities and commitments due to interrelated reporting requirements. The government transfers project was initiated because governments and their auditors were interpreting the existing standard differently and some new transfer issues had arisen since the original standard was issued.

In preparing the SOP, the PSAB task force was divided on certain issues, the most controversial of which was multi-year funding. Should funding that is transferred to a recipient in one year, but relates to future years, be recognized in the current year, or future years, by the transferring government? The two points of view can be characterized as:

- Asset/Liability – immediate recognition of expense; or
- Revenue/Expense – recognize as expense over the period funded.

The PSAB task force decided to prepare the SOP based on the Asset/ Liability position and issued the SOP to the public sector community to receive comments and determine the most generally accepted conclusion.

The resultant position, based on the comments received, on government transfers will have a direct impact on how the Government records government transfers.

Status: Statement of Principles was released and comments were received.

6. Financial Statement Discussion and Analysis

PSAB has undertaken a project to develop guidance for the presentation of financial statement discussion and analysis (FSD&A) as supplementary information in a government's financial report. The objective of the FSD&A would be to enhance the usefulness of accountability information presented by the public sector.

PSAB decided that FSD&A should be discretionary disclosure and not form part of GAAP. Accordingly, PSAB released a draft Statement of Recommended Practice (SORP). PSAB reached this decision based on responses to the Statement of Principles (SOP) previously issued. The respondents to the SOP indicated that the government community was concerned that the inclusion of FSD&A information would slow down the production of the financial statements and would pose a resource issue for preparers. PSAB concluded that FSD&A was the first stage of its performance reporting initiative. Providing discretionary guidance would encourage governments to prepare FSD&A information in the manner suggested by the SORP without imposing a mandatory additional reporting burden on government.

FSD&A information would include narrative explanations and graphical depiction of the period reported on highlighting the significant events and conditions that shaped the information presented in the financial statements. It would include an analysis of key variances and trends in the financial information.

Status: Draft Statement of Recommended Practices was released and responses received.

7. GAAP

PSAB provides the generally accepted accounting principles (GAAP) for the public sector. However, there are instances where PSAB is silent in particular areas. Where this happens, the entities have to look to other sources for guidance. A GAAP hierarchy would identify those other sources and the level of authority they have.

This project will address those issues directly involved in identifying and determining the acceptable sources, and levels of authority those sources have, in a hierarchy.

Status: A Statement of Principles was sent to PSAB Associates for comment.

8. Government Reporting Entity - Accounting

As a result of feedback from constituents on the Exposure Draft regarding the definition of the government reporting entity, PSAB directed the task force on the government reporting entity to also consider the accounting issues related to the government reporting entity. As a result of this, the task force developed, and PSAB approved, an issues paper on the accounting issues to be sent to PSAB's Associates for comment.

Currently, entities are fully consolidated into the Summary Financial Statements with the exception of government business enterprises (GBEs) which are consolidated on a modified equity basis. Respondents to the Exposure Draft questioned whether "SUCH" (school boards, universities, colleges and hospitals) sector entities should also be consolidated on a modified equity basis. These entities do not meet the definition of a GBE but are fairly autonomous.

PSAB released an issue paper setting out the characteristics of organizations that typically have a different relationship with the government and therefore are somewhat distinct and the accounting for them.

Based on the responses from the issue paper, PSAB decided not to propose modified equity as a basis of consolidating "SUCH" sector entities. However, PSAB has released an Exposure Draft proposing transitional provisions that would allow an exception to full consolidation for some government organizations that are brought in the government reporting entity (GRE) as a result of applying the revised GRE definition in the PSAB Section PS 1300. In limited cases, a government may choose to defer fully consolidating certain government organizations until fiscal years beginning on or after April 1, 2007 and could apply modified equity accounting instead during the transitional period.

The proposed transitional provisions would apply only to government organizations that have not been included as part of the government reporting entity in the financial statements of the previous fiscal year, and that have specific characteristics, as set out in the Exposure Draft. Many of these would be organizations in the SUCH sector.

If approved as PSAB standards, the recommendations from the exposure may affect how the Province of Manitoba accounts for new entities included in the Summary Financial Statements due to the application of revised definition of the GRE in PS 1300.

Status: Exposure Draft released.

9. Financial Instruments

PSAB has approved a project on financial instruments.

The PSAB Handbook does not have presentation and disclosure standards for sophisticated, non-traditional financial instruments. As a result, inconsistent recognition and measurement practices have developed and there is concern that reported information of financial instruments is inadequate to enable users of financial statements to understand fully the financial effects of a government's use of financial instruments.

The CICA Handbook for accounting standards of the private sector has presentation and disclosure standards but does not yet include recognition and measurement principles. However, in April 2003 the Accounting Standards Board approved three Exposure Drafts: "Financial Instruments – Recognition and Measurement", "Comprehensive Income", and "Hedges". Responses on these Exposure Drafts were requested by July 31, 2003 and the effective date of the new standards would be for fiscal years beginning on or after October 1, 2004. These new standards in the CICA Handbook will be applicable to government business enterprises and government business-type enterprises for the purposes of preparing their own financial statements.

The PSAB project on financial instruments will contribute to a better understanding of government financial instruments and their use. After this understanding is obtained, they will look at recognition, measurement, presentation and disclosure principles for financial instruments.

This project will establish recognition, measurement, presentation and disclosure principles for the Government's financial instruments.

Status: Project proposal was approved.

10. Funds and Reserves

Many senior governments have stabilization funds or financial reserves that are used as tools for managing government finances. These funds or reserves take a variety of forms with varied presentation and disclosure. PSAB has issued a draft guideline providing guidance on presenting information related to stabilization funds or financial reserves that will apply to senior governments.

Basically, the draft Guideline requires that information on these funds and reserves should be disclosed in notes to the financial statements and not on the Statement of Financial Position. The guideline does not apply to restricted funds.

This guideline will not require the Province of Manitoba to change its presentation on the Summary Financial Statements as they do not disclose their special funds on the Statement of Financial Position except for pension assets which as described in this report should be disclosed by the classification of assets held and not as pension assets.

Status: A draft guideline has been issued.

11. Infrastructure Research Study

PSAB Handbook Section PS 3150 paragraph 09 requires that *"tangible capital assets should be accounted for and reported as assets in the statement of financial position"*. Infrastructure assets form a significant component of tangible capital assets. However, many governments have not recorded the infrastructure assets in their financial statements because of issues faced in valuing and recording infrastructure assets.

PSAB approved a research study with the objective of exploring approaches to accounting and reporting infrastructure assets.

The research study has now been completed and released and should be a very valuable tool for the Province of Manitoba in developing accounting and reporting standards on infrastructure assets. The research study should provide guidance on the accounting and valuation issues.

A summary of the research study conclusions follows:

- Financial information about infrastructure should be provided.
- Infrastructure should be reported as an asset.
- Infrastructure acquired in lieu of developer charges or other fees, and other "acquired" infrastructure should be included in the stock of infrastructure.

- The cost of using infrastructure should be reported.
- Information about the stock of infrastructure should be accounted for on a component basis.
- Infrastructure should be depreciated over its useful life. At acquisition, acquired or self-constructed infrastructure should be measured at cost.
- At acquisition, "contributions" of infrastructure should be measured at estimated cost.
- Subsequent to acquisition, infrastructure should be measured at current depreciated reproduction cost. Until the issue of accounting for inflation is addressed for all assets and liabilities, however, measurement subsequent to acquisition would remain on a historical cost basis with disclosures of current depreciated reproduction costs.
- Information about infrastructure condition should be provided.
- Information related to deferred maintenance should be provided as part of the infrastructure condition information.
- Information about a government's infrastructure management plan should be provided.

NEW ASSURANCE (AUDITING) STANDARDS

12. Auditor's Reports on Financial Statements Prepared Using a Basis of Accounting Other Than Generally Accepted Accounting Principles - Section 5600

CICA Assurance Handbook Section 5600 establishes standards for an auditor providing opinions issued after October 1, 2003 on financial statements prepared using a basis of accounting other than generally accepted accounting principles. Recommendations from this section may affect the opinion on the Province's Special Purpose Financial Statements and on certain public sector entity financial statements of the Province of Manitoba.

13. Auditor Involvement With Offering Documents of Public and Private Entities – Section 7110 and Auditor Involvement With Offering Documents of Private Entities – Current Legislation Legislative and Regulatory Requirements – Section 7115

These two new CICA Assurance Handbook sections revise and replace existing Section 7100. These standards set out the auditor's professional responsibilities with respect to offering documents and related security requirements of security legislation and regulation.

These standards will affect the auditor's responsibilities for information provided with the auditor's consent for Provincial debt issues and filings with securities regulatory authorities.

These sections are effective for an auditor's consent letter dated on or after November 1, 2003.

14. Audit of Government Financial Statements - Section PS 5200

CICA Assurance Handbook provides guidance for some of the special circumstances that may apply to audits of public sector entities.

One of these special circumstances is the basis of accounting on which financial statements of governments are prepared. Many government financial statements, including the Province of Manitoba, are prepared and issued on a disclosed basis of accounting. CICA Assurance Handbook Section PS 5200 Audit of Government Financial Statements and related reporting standards under Section 5100 Generally Accepted Auditing Standards (GAAS) were amended to specifically exclude Government Summary Financial Statements from the new reporting standards under GAAS, including Section 5600 Auditor's Reports on Financial Statements Prepared Using a Basis of Accounting Other Than Generally Accepted Accounting Principles.

The GAAS reporting standard in paragraph 5100.02(d) states;

"Where an opinion is expressed, it should indicate whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles, except when the financial statements:

- *are prepared as described in AUDITOR'S REPORT ON FINANCIAL STATEMENTS PREPARED USING A BASIS OF ACCOUNTING OTHER THAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph 5600.09, or are financial statements of a federal, provincial, territorial or local government, and the auditor is required to express an opinion on the fair presentation of the financial statements in accordance with a disclosed basis of accounting, when the auditor would refer to AUDIT OF GOVERNMENT FINANCIAL STATEMENTS, Section PS 5200, for guidance.*

The report should provide adequate explanation with respect to any reservation contained in such opinion".

Section PS 5200 Audit of Government Financial Statements paragraph .04 states;

"GENERALLY ACCEPTED AUDITING STANDARDS, paragraph 5100.02, requires the expression of an opinion whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles except when the financial statements are financial statements of a federal, provincial, territorial or local government and the auditor is required to express an opinion on the fair presentation of the financial statements in accordance with a disclosed basis of accounting, when the auditor would refer to this Section".

Sections PS 5200 and 5100 specifically exclude the Province of Manitoba Summary Financial Statements from the new reporting standards under GAAS. These Summary Financial Statements can still be prepared and issued on a disclosed basis. However, we continue to recommend full adoption of GAAP for the Summary Financial Statements.

APPENDICES

SUMMARY FINANCIAL STATEMENTS - AUDITOR'S REPORT

Appendix A

Office of the Auditor General

500 - 330 Portage Avenue
Winnipeg, Manitoba
CANADA R3C 0C4

AUDITOR'S REPORT

**On the Summary Financial Statements for the Government Reporting Entity
Province of Manitoba**

To the Legislative Assembly of the Province of Manitoba

I have audited the summary statement of financial position of the Province of Manitoba as at March 31, 2003 and the summary statements of revenue and expense, accumulated deficit and cash flow for the year then ended. These financial statements are the responsibility of the Government of Manitoba. 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 Summary Financial Statements for the Government Reporting Entity present fairly, in all material respects, the financial position of the Province of Manitoba as at March 31, 2003 and the results of its operations and its cash flow for the year then ended, in accordance with the accounting policies disclosed in Note 1 to the financial statements applied on a basis consistent with that of the preceding year.

Winnipeg, Manitoba
September 22, 2003

Jon W. Singleton, CA•CISA
Auditor General

Manitoba

Appendix B

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2003"

(Schedules associated with these financial statements have not been replicated in this report. To review these Schedules, refer to the annual report noted above.)

SUMMARY FINANCIAL STATEMENTS

SUMMARY STATEMENT OF FINANCIAL POSITION

As at March 31, 2003

SCHEDULE		($ millions) 2003	2002
	ASSETS		
	Cash and cash equivalents (Note 2)	712	663
	Temporary investments (Note 3)	228	200
1	Amounts receivable	730	880
	Inventories	27	26
	Portfolio investments (Note 3)	33	30
2	Loans and advances	579	579
3	Equity in government enterprises (Note 6)	1,369	1,528
4	Other long-term investments	7	7
	Deferred charge for non-devolved health care facilities (Note 1A5)	133	137
5	Tangible capital assets	2,001	1,874
	Pension assets (Note 12)	151	107
	Assets of non-devolved health care facilities (Note 1A4)	775	759
	TOTAL ASSETS	6,745	6,790
	LIABILITIES		
6	Borrowings	19,746	20,682
	Less: Sinking funds (Note 7)	(5,875)	(6,551)
	Less: Debt incurred for and repayable by the Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation	(5,573)	(5,871)
		8,298	8,260
	Less: Unamortized foreign currency fluctuation	(81)	(143)
	Net borrowings	8,217	8,117
7	Accounts payable, accrued charges, provisions and deferrals	1,913	1,954
	Pension liability (Note 12)	3,411	3,217
	Liabilities of non-devolved health care facilities (Note 1A4)	698	682
	TOTAL LIABILITIES	14,239	13,970
12	**ACCUMULATED DEFICIT**	7,494	7,180

Information concerning the Government's Guarantees, Financial Commitments, and Contingencies can be found in Notes 8, 9, and 10.

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(cont'd.)

SUMMARY FINANCIAL STATEMENTS

SUMMARY STATEMENT OF REVENUE AND EXPENSE

For the Year Ended March 31, 2003

	($ millions)	
	2003	2002
REVENUE		
Manitoba Collections:		
Retail sales tax	1,007	966
Fuel taxes	231	223
Levy for health and education	257	244
Mining tax	18	9
Other taxes	461	401
Fees and other revenue	1,109	1,034
Government Enterprise Transfers (Schedule 3):		
Liquor Control Commission	166	163
Manitoba Hydro	203	-
Manitoba Lotteries Corporation	266	248
Income taxes:		
Corporation income tax	160	306
Individual income tax	1,636	1,659
Federal transfers:		
Equalization	1,338	1,399
Canada Health and Social Transfer	756	685
Medical Equipment Fund	16	3
Primary Care Transition Fund	1	-
Shared cost and other	294	263
TOTAL REVENUE	7,919	7,603
EXPENSES		
Health	2,955	2,740
Education	2,059	1,998
Family Services and Housing	930	893
Community, Economic and Resource Development	960	908
Justice and Other Government	724	685
Debt Servicing (Note 14)	367	502
TOTAL EXPENSES (Schedule 11)	7,995	7,726
NET LOSS BEFORE EXTRAORDINARY ITEM	(76)	(123)
Adjustment to estimate for Federal accounting error (Note 18)	51	-
NET LOSS	(25)	(123)
Increase (decrease) in equity in government enterprises (Schedule 3)	(159)	113
SUMMARY NET LOSS (Schedule 9)	(184)	(10)

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(cont'd.)

SUMMARY FINANCIAL STATEMENTS

SUMMARY STATEMENT OF ACCUMULATED DEFICIT

For the Year Ended March 31, 2003

	($ millions) 2003	2002
Opening accumulated deficit	(7,257)	(6,982)
Federal accounting error (Note 18)	-	(287)
Accrual of employee future benefits	-	14
Net income stabilization account (Note 4C)	(19)	-
Tangible capital assets (Note 4A)	(6)	4
Restatement of pension liability related to RHA employees (Note 4B)	(11)	-
Municipal Tax Sharing (Note 4D)	(23)	-
Net assets of devolved health care facilities		
Adjustment re accrual of employee future benefits (Note 4E)	(7)	6
Restatement of net assets to liabilities (Note 4E)	4	(5)
Employee future benefits of non-devolved health care facilities (Note 4F)	(69)	-
Repurchase of serial debentures (Note 1E)	1	3
Summary net loss for the year	(184)	(10)
	(7,571)	(7,257)
Equity in non-devolved health care facilities (Note 1C and Note 5)		
Balance, beginning of year	77	71
Recognition of non-devolved health care facilities	-	3
Net income for the year	-	3
	77	77
Closing accumulated deficit (Schedule 12)	(7,494)	(7,180)

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(cont'd.)

SUMMARY STATEMENT OF CASH FLOW

For the Year Ended March 31, 2003

	($millions) 2003	2002
Cash and cash equivalents provided by (used in)		
Operating activities:		
Summary net loss for the year	(184)	(10)
Changes in non-cash items:		
Temporary investments	(28)	472
Amounts receivable	142	33
Valuation allowance	24	8
Inventories	(1)	5
Portfolio investments	(3)	(8)
Accounts payable, accrued charges, provisions and deferrals	(41)	10
Pension liability	194	167
Amortization of foreign currency fluctuation	17	58
Amortization of debt discount	10	14
Amortization of investment discounts and premiums	(14)	(4)
Amortization of tangible capital assets	130	131
Adjustment to Accumulated Deficit - Federal Accounting Error	-	(287)
Adjustment to Accumulated Deficit - Other	(130)	19
	116	608
Changes in equity in government enterprises	(159)	(113)
	(43)	495
Investing activities:		
Made	(1,494)	(1,141)
Realized	2,169	744
Acquisition of tangible capital assets	(270)	(202)
	405	(599)
Financing activities:		
Debt issued	2,852	2,443
Debt redeemed	(3,354)	(2,051)
Changes in sinking funds	189	(208)
	(313)	184
Changes in cash and cash equivalents	49	80
Cash and cash equivalents, beginning of year	663	583
Cash and cash equivalents, end of year	712	663

Appendix B
(cont'd.)

NOTES TO THE SUMMARY FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2003

1. **SIGNIFICANT ACCOUNTING POLICIES**

A. General Basis of Accounting

The Summary Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles for senior governments as recommended by the Canadian Institute of Chartered Accountants (CICA), with the following exceptions:

1) Material adjustments may result from changes in accounting policy or from the correction of an error which are attributable to and identifiable with prior periods. It is the government's practice to reflect the effects of such adjustments in the accumulated deficit. Prior year balances are not restated.

2) The process of establishing the completeness and reasonableness of the estimated historical cost of the tangible capital assets is ongoing. Reporting policies are currently being developed and information is being gathered for other expenditures which include infrastructure such as highways, bridges, and land acquired for public use.

3) The CICA recommends certain standards for reporting tangible capital assets and net debt. Although the government has adopted the standards related to tangible capital assets, it has not fully adopted the recommended presentation of net debt. Summary Net Debt (Schedule 12) provides a reconciliation from accumulated deficit to net debt.

4) The government has adopted a policy of including the assets, liabilities and equity of health care facilities, which have not devolved their ownership to Regional Health Authorities in its financial statements on a combined basis. However, the annual net income (loss) is recorded in the Summary Statement of Accumulated Deficit instead of the Summary Statement of Revenue and Expense. The assets and liabilities are not adjusted on a basis to be consistent with the accounting policies of the government reporting entity.

5) Prior to the 2000/01 fiscal year, individual health care facilities issued long-term debt in their own name to finance major capital acquisitions. In 2000/01, the Province began a program to finance such debt directly, taking advantage of its superior borrowing power and rates, and lowering the cost of health related borrowings for Manitoba. This debt is included as part of the Province's general purpose borrowings. The related asset for non-devolved health care facilities is recorded as a deferred charge and amortized over the same period as the term of the debt issue.

These accounting policies have been developed and are applied in accordance with the provisions of *The Financial Administration Act* of the Province of Manitoba.

B. The Reporting Entity

Various funds, Crown organizations and government enterprises comprising the government reporting entity are listed in Schedule 8.

The Operating Fund and Special Funds Special Purpose financial statements report amounts recorded as government revenue, expense on government programs, the lending and investment of government funds and the borrowing and repayment of debt.

To be considered a part of the government reporting entity, an organization must be accountable for the administration of its financial affairs and resources to a minister of the government, or directly to the Legislature, and must be owned and/or controlled by the government, as determined by legislative provisions or by a majority holding of voting share capital.

Appendix B
(cont'd.)

All educational institutions receive most of their financial resources from voted appropriations which are recorded as expenses. Some of these institutions are separately incorporated, not owned or controlled by the government and are required to report separately on their stewardship. Accordingly, they are not consolidated in these financial statements. Those educational institutions that are consolidated in these financial statements are listed in Schedule 8.

C. Basis of Consolidation

Crown organizations are consolidated after adjusting their accounting policies to a basis consistent with the accounting policies of the government reporting entity. Inter-entity accounts and transactions are eliminated upon consolidation, except for retail sales tax and the levy for health and education. Where the fiscal year end dates of Crown organizations are not the same as that of the government reporting entity and their transactions significantly affect the financial statements, their financial results are updated to March 31.

Government enterprises, whose principal activity is carrying on a business, maintain their accounts in accordance with accounting principles which are generally accepted for business enterprises and which are considered appropriate to their individual objectives and circumstances. They derive the majority of their revenue from sources outside the government reporting entity. They are reported in these Summary Financial Statements using the modified equity method of accounting without adjusting their accounting policies to a basis consistent with that of the government reporting entity. The financial results of enterprises are not updated to March 31 where their fiscal year end is not the same as that of the government reporting entity, except when transactions which would significantly affect the summary financial statements occur during the intervening period. Inter-entity accounts and transactions with government enterprises are not eliminated, nor are normal operating inter-entity transactions disclosed separately. Supplementary financial information describing the financial position and results of operations of these enterprises is presented in Schedule 3.

All health care facilities are included in the summary financial statements. Certain facilities that were previously owned and operated by health corporations have transferred their ownership and operating control to Regional Health Authorities. These devolved facilities are consolidated on the same basis as Crown organizations. The assets, liabilities and equity of non-devolved health care facilities have not been consolidated herein but are disclosed on a combined basis.

D. Basis of Specific Accounting Policies

Government of Canada Receipts

Generally, entitlements from the Government of Canada for transfer payments, the transfer having been authorized and any eligibility criteria met, as well as for the Province's share of individual and corporation income tax pursuant to the Federal-Provincial Tax Collection Agreements are recorded on a cash basis for cash receipts received up to March 31 plus an accrual of prior period adjustments determined before June 30 each year.

Other Revenue

All other revenues are recorded on an accrual basis except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable. Recoveries of the debt servicing costs on self-supporting debt and revenue earned on investments and advances are recorded as a reduction of debt servicing expense.

Expenses

All expenses incurred for goods or services received are recorded on an accrual basis. Exceptions to this policy involve the acquisition of inventories acquired for the government's use that are reflected as expenses when incurred.

Appendix B
(cont'd.)

Expenses include provisional amounts recorded in anticipation of future costs which are quantifiable and have been identified as obligations. Government transfers are recognized as expenses in the period during which the transaction is authorized and any eligibility criteria are met.

Gross Accounting Concept

Revenues and expenses are recorded in gross amounts with the following exceptions:

1) The municipal share of individual and corporation income taxes, which is collected through the Government of Canada and remitted by the Province of Manitoba to municipalities in accordance with *The Provincial-Municipal Tax Sharing Act*, is not recorded as revenue or expense. It is reflected as a reduction in individual and corporation income tax revenues.

2) Refunds of revenue are treated as reductions of current year revenue.

3) Decreases in valuation allowances previously provided are treated as reductions to expense.

4) Recoveries of the debt servicing costs on self-supporting debt and revenue earned on investments and advances are recorded as a reduction of debt servicing expense.

Liabilities and Assets

1) All borrowings are expressed in Canadian dollars and are shown net of sinking funds, unamortized debt issue costs and debt of the Province of Manitoba held as provincial investments. Foreign borrowings are converted at the exchange rate in effect at March 31 adjusted for any forward foreign exchange contract entered for settlement after the fiscal year end. Discounts or premiums, and commissions incurred at the time of the issue of debt are amortized monthly to debt servicing expense over the term of the debt.

2) The amount of the pension liability is based on actuarial calculations. When actual experience varies from actuarial estimates, the adjustments needed are amortized over the expected average remaining service life of the employee groups.

3) The year end translation adjustments reflecting the foreign currency fluctuation from the value at the issue date are recorded through the unamortized foreign currency fluctuation account and amortized monthly to debt servicing expense over the remaining term of the debt. The unamortized portion of foreign currency fluctuation also reflects the gains or losses on the conversion of foreign currency debt called prior to maturity using the rates in effect at the time of the call and these gains and losses are amortized over the original remaining term of the debt or over the term of the replacement issue, whichever is shorter.

4) Loans, advances and long-term investments are recorded at cost less valuation allowances. A valuation allowance is provided to reduce the value of the assets to their estimated realizable value or to reflect the impact of significant concessionary terms on outstanding loans. Premiums that may arise from the early repayment of loans or advances are reflected as deferred revenue and are amortized monthly to debt servicing expense over the term of the related debt issue.

5) Investments denominated in foreign currency are translated to the Canadian dollar equivalent at the exchange rate in effect at March 31, unless the rate of exchange or a forward foreign exchange contract fixing the value has been negotiated, in which case that rate or amount is used. The year end investment translation adjustments reflecting the foreign currency fluctuation between year ends are amortized monthly over the remaining life of the investment and included with debt servicing expense. Expenses and other transaction charges incurred on the purchase of investments during the year are charged to debt servicing expense. Those expenses incurred in foreign currency are translated at the exchange rate in effect on the transaction date.

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(cont'd.)

6) Premiums paid on interest rate options are amortized monthly starting from the date the income is received over the period of the applicable agreement. If the option is exercised, the premium is amortized over the period from the date of receipt to the maturity date of the agreement. If the option is not exercised, any unamortized premium will be immediately taken into revenue.

7) Inventories held for resale are recorded at the lower of cost and net realizable value.

8) Tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Land	Indefinite
Buildings	25 to 40 years
Vehicles	5 years
Aircraft and vessels	
- Aircraft frames	24 years
- Aircraft motors	5 years
- Vessels	24 years
Machinery, equipment and furniture	10 years
Maintenance and road construction equipment	15 years
Computer hardware and software	4 to 15 years
Leasehold improvements	Life of lease

One-half of the annual amortization is charged in the year of acquisition and in the year of disposal. Certain assets which have historical or cultural value including works of art, historical documents as well as historical and cultural artifacts are not recognized as tangible capital assets because a reasonable estimate of the future benefits associated with such property cannot be made.

9) All intangibles and items inherited by right of the Crown, such as Crown lands, forests, water, and mineral resources, are not recognized in government financial statements. A tangible capital asset received as a donation is recorded at its fair market value with the same amount being shown as a deferred contribution which is amortized to revenue on the same basis as the asset is amortized. Where the acquisition cost of a tangible capital asset is shared with other jurisdictions under a shared cost agreement, such contributions are deducted from the cost of the related asset with any amortization calculated on the net amount.

10) During the 2000/01 fiscal year, the Federal Government created a Health Equipment and Infrastructure Fund for investment in new medical equipment. The Province's share of this fund was $37 million. Funding from the Health Equipment and Infrastructure Fund has been treated as deferred revenue and will be brought into revenue based on actual purchases of equipment according to a defined schedule.

11) Guarantees of the government are made through specific agreements or legislation to repay promissory notes, bank loans, lines of credit, mortgages and other securities. Provision for losses on guarantees are recorded when it is likely that a loss will occur. The amount of the loss provision represents the government's best estimate of future payments less recoveries.

E. Serial Debentures of School Divisions and Districts

The accumulated deficit of the government reporting entity includes amounts related to serial debentures of school divisions and districts, acquired by the government in prior years. The government is primarily responsible for funding the redemption of these debentures, accordingly these amounts are not reflected as assets. As the funding for annual redemptions flow from the appropriations of the government, to the school divisions and districts, and then back to the Province, the accumulated deficit of the government reporting entity is reduced by the amount of such redemptions.

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(cont'd.)

F. **Use of Estimates**

In the preparation of these financial statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. These estimates have been based on management's best judgements applied to available information.

2. **CASH AND CASH EQUIVALENTS**

Cash equivalents are recorded at cost. Market values approximate cost. Investment revenue earned on cash equivalents during the year was $12 million (2002 - $23 million).

3. **TEMPORARY AND PORTFOLIO INVESTMENTS**

Temporary investments are recorded at the lower of cost and market value. As at March 31, 2003, the cost of temporary investments was $228 million (2002 - $200 million) with a market value of $228 million (2002 - $200 million). Investment revenue earned on the temporary investments funds during the year was $6 million (2002 - $7 million). Portfolio investments are recorded at the lower of cost and net realizable value. As at March 31, 2003, the carrying value of portfolio investments was $33 million (2002 - $30 million). Portfolio investments earned $2 million during the year (2002 - $2 million).

4. **ADJUSTMENTS TO ACCUMULATED DEFICIT**

A. **Tangible Capital Assets**

In 2000/01, the capitalization of the government's Tangible Capital Assets was expanded to include the capitalization of land. As a result, $19 million was recorded as land in the 2000/01 financial statements. Subsequently, it was determined that although the methodology or process used to determine the cost of the land was satisfactory, an error occurred in the selection of the correct costing amounts. As a result of this error, capitalized land was overstated by $6 million. Accordingly, the adjustment to the valuation of land results in a $6 million increase to the accumulated deficit.

During the year, Tangible Capital Assets acquired in prior fiscal years having a cost of $12 million and accumulated amortization of $12 million (nil net book value) were identified and recorded (2002 - $4 million NBV).

B. **RHA Pension Liability**

When Regional Health Authorities were created, the Civil Service Regulation was amended to designate the transferred civil service employees and the new hires as employees for the purpose of The Civil Services Superannuation Act. This resulted in the government recording and disclosing the related pension liability for these employees as part of the Civil Service Plan (see note 12A).

However, while the pension liability was recorded based on a December 31, 1998 Actuarial Report, an error occurred in the process by which the liability was updated annually. This error resulted in an annual understatement of the associated pension liability and also the annual pension expense by a similar amount. The pension liability and expense relating to the 2002/03 fiscal year has been properly recorded in the Summary Statement of Financial Position and the Summary Statement of Revenue and Expense. The amount relating to fiscal years 1998/99 to 2001/02 inclusive, $11 million, has been adjusted to the accumulated deficit.

C. **Net Income Stabilization Account**

When the Net Income Stabilization Account (NISA) program was introduced in 1991, producers were only eligible to receive matching government funding, one-third of which is provided by the Province and two-thirds by the Government of Canada, if they made "matchable deposits." On that basis, liabilities under the program were recorded in the accounts based on applicants meeting the two eligibility criteria, specifically

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(cont'd.)

having made a "matchable deposit" and being in a claim position (having incurred a qualifying loss). However, in 1997, the agreement was amended to incorporate "automatic" deeming, which effectively removed the requirement for the producer to make a "matching deposit". This amendment was not brought to the attention of the government until this year and therefore the prior years' financial statements did not reflect the additional liability incurred commencing in 1997 when the amendment was approved. The net effect is an increase in the Province's liability at March 31, 2002 of $19 million, which is recorded as an increase to the accumulated deficit.

D. Municipal Tax Sharing

In accordance with *The Provincial-Municipal Tax Sharing Act*, the Province remits to municipalities the municipal share of individual and corporation income taxes, which is initially collected through the Government of Canada and then forwarded to the Province. Amounts are advanced to municipalities based on the estimated tax collections for the calendar year. As more accurate data is received on actual tax revenues, these advances are adjusted in subsequent payments. In order to properly reflect this arrangement, entitlements related to tax collections for the first three months of the next calendar year should be accrued in the accounts of the government. This was not done previously. Furthermore, it has been determined that amounts advanced for years prior to 2002 exceeded actual entitlements. The net effect of these two items is the accrual of a net payable to municipalities and a corresponding increase to the accumulated deficit of $23 million.

E. Devolved Health Care Facilities

As a result of a restatement of unrestricted net assets for certain devolved health care facilities, the accumulated deficit as at March 31, 2003 was decreased by $4 million (2002 - $5 million increase).

In addition, the liabilities for employee future benefits were adjusted for certain devolved health care facilities as at March 31, 2001 and 2002. This resulted in an increase to accumulated deficit of $7 million at March 31, 2003 and a decrease to accumulated deficit of $6 million as at March 31, 2002.

F. Non-Devolved Health Care Facilities

Non-devolved health care facilities record deferred charges for entitlements that relate to employee future benefits. Since these employee future benefit entitlements are reflected as liabilities of the government, the April 1, 2002 opening balance of $69 million has been restated resulting in a corresponding increase to accumulated deficit.

5. EQUITY IN NON-DEVOLVED HEALTH CARE FACILITIES

There has been no change to the equity of the non-devolved health care facilities for the year ended March 31, 2003 with an increase in the equity of $3 million for the year ended March 31, 2002. Net income (loss) has not been reflected in the Summary Statement of Revenue and Expense.

6. EQUITY IN GOVERNMENT ENTERPRISES

The category definitions are as follows:

Utility:
An enterprise which provides public utility services for a fee.
Insurance:
An enterprise which provides insurance coverage services to the public for a fee.
Finance:
Enterprises which provide regulatory control and are revenue generating, or enterprises which use economy of scale to deliver goods and services to non-government clients.
Resource Development:
Enterprises charged with the development of various industries and/or the delivery of various goods and services which will assist the provincial economy.

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(cont'd.)

Included in the equity in government enterprises are equities which are restricted for use by provincial legislation and thereby not available to discharge government liabilities or to finance other government programs.

Equity in government enterprises is comprised of:

	($ millions) 2003	2002
Restricted Equity in Government Enterprises:		
Manitoba Hydro-Electric Board	1,170	1,302
Manitoba Public Insurance Corporation	108	130
Workers Compensation Board	75	75
	1,353	1,507
Unrestricted Equity in Government Enterprises:		
Leaf Rapids Town Properties Ltd	1	2
Manitoba Hazardous Waste Management Corporation	2	5
Manitoba Lotteries Corporation	5	5
Manitoba Product Stewardship Corporation	5	6
Manitoba Public Insurance Corporation	3	3
	16	21
Equity in Government Enterprises	1,369	1,528

7. SINKING FUNDS

Sinking funds are recorded at the lower of cost and market value. As at March 31, 2003, sinking funds had a cost of $5,875 million (2002 - $6,551 million) and a market value of $6,151 million (2002 - $6,946 million). Investment revenue earned on the sinking funds during the year was $254 million (2002 - $312 million).

Section 60 of *The Financial Administration Act* authorizes the Minister of Finance to provide for the creation and management of sinking funds for the orderly retirement of debt. The Minister of Finance may authorize, by directive, the amount, if any, to be allocated to the Province's sinking fund. The Province's sinking fund currently provides for the repurchase of foreign debt and the pre-funding of maturing debt issues. In addition, the Province's sinking fund is invested principally in securities issued or guaranteed by Canadian provinces.

As provided by *The Manitoba Hydro Act*, the Manitoba Hydro-Electric Board (Hydro) is required to provide, prior to its fiscal year end in each year, amounts for sinking funds which are not less than the sum of i.) 1% of the principal amount of Hydro's outstanding debt on the preceding March 31 and, ii.) 4% of the balance of cash and book value of securities in the sinking fund at such date. Sinking funds are invested in government bonds and the bonds of highly rated corporations and financial institutions. Interest earned on money and securities in the sinking fund is paid to Hydro.

The sinking funds are allocated as follows:

	($ millions) 2003	2002
Province of Manitoba	4,827	4,961
Manitoba Hydro-Electric Board	976	1,520
Regional Health Authorities	70	66
University of Manitoba	2	4
Total sinking funds	5,875	6,551

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SUMMARY FINANCIAL STATEMENTS

8. **GUARANTEES**

The government reporting entity has guaranteed the repayment of debt, promissory notes, bank loans, lines of credit, mortgages and other securities. The outstanding guarantees are as follows:

	($ millions) 2003	2002
Promissory notes, bank loans, lines of credit and other	67	53
Manitoba Grow Bonds	8	8
Total guarantees outstanding	75	61

Provision for future losses on guarantees in the amount of $17 million (2002 - $16 million) has been recorded in the accounts. Debt guaranteed by the Province is guaranteed as to principal and interest until the debt is matured or redeemed.

9. **FINANCIAL COMMITMENTS**

The government reporting entity has approved long-term financial arrangements of various entities wherein indebtedness has been issued that is not guaranteed by the government, but funding assistance is provided annually from appropriations of the Operating Fund. The government reporting entity has also made future commitments against appropriations under long-term contracts that cover the rental of tangible capital assets. These financial commitments as at March 31 are as follows:

			($ millions) 2003	2002
Financial arrangements for completed projects:				
Public Schools			441	416
Future commitments:	Government Enterprises	Other		
Tangible capital assets, infrastructure and capital grants	185	191	376	374
Rental of tangible capital assets	34	111	145	189
Housing construction and approved mortgages	-	12	12	17
	219	314	533	580
			974	996

The government reporting entity has commitments which are not capital in nature, related primarily to future loans and grants and the maintenance of desktop equipment totalling $77 million (2002- $73 million).

In December of 2001, the government entered into a funding agreement with the City of Winnipeg and the TN Arena Limited Partnership regarding the True North Entertainment Complex. The Province's maximum commitment, after Federal Infrastructure contributions, is $14 million (2002 - $13 million). The Province has funded $3 million to March 31, 2003 (2002 - $1 million).

10. **CONTINGENCIES**

The government has been named in various legal actions, including treaty land entitlements. No provision has been made at March 31, 2003 in the accounts where the final results are uncertain.

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A. Disaster Financial Assistance

A provision has been made at March 31, 2003 for all flood claims and other disaster financial assistance. The final amount of the government's share of these costs under shared cost agreements is uncertain at the date these financial statements were issued.

B. Northern Development Projects

The Province is contingently liable for legal claims associated with past Manitoba Hydro-Electric Board related northern development projects. The outcome of these claims is not determinable at this time.

11. ENVIRONMENTAL ISSUES

There are currently no accounting standards for environmental liabilities recommended for senior governments by the CICA, other than those that apply to corporate entities related to environmental damage they have created. Because of its role, government will in all probability assume costs where those responsible cannot or will not accept liability for their actions. The Province is in the process of cataloguing suspected contaminated mine and petroleum sites. This catalogue will include a determination of the liable party, an assessment of the nature and level of contamination, the need for clean-up versus containment, and a quantification of the estimated cost for clean-up. Once standards are established by the CICA for senior governments for the recognition and disclosure of these liabilities, their application in the Manitoba setting will be reviewed to determine the appropriate accounting treatment.

12. PENSION PLANS

The government of the Province of Manitoba supports six separate pension plans. These include the Civil Service Plan (CSP), the Teachers' Plan (TP), the Members of the Legislative Assembly Plan (MLAP), the University of Manitoba Pension Plan, the Healthcare Employees Pension Plan (HEPP) and the Brandon University Retirement Plan. HEPP offers retirement benefits to employees of health care facilities. The pension plans for the universities of Manitoba and Brandon and HEPP are fully funded. There is no unfunded liability reported by the actuaries of the university pension plans and HEPP.

The government is required, under the amended provisions of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*, to set aside funds beginning in 2000/01, to address the government's unfunded pension liability. The minimum annual contribution must be sufficient to equal the contributions made by employees and teachers hired on or after April 1, 2000. While the minimum contribution was $9 million (2002 - $6 million) for the year ended March 31, 2003, the government set aside $48 million (2002 - $75 million) as pension assets. These funds are separately invested and maintained in trust accounts for the government and are increased by interest earned. The pension assets' balance as at March 31, 2003 was $151 million (2002 - $107 million).

The actuarial valuations were based on a number of assumptions about future events, such as interest rates, wage and salary increases, inflation rates and rates of employee turnover, disability and mortality. Information about the economic assumptions used in the most recent actuarial valuations is provided below. Demographic assumptions used in the valuations reflect the experience of the plans.

Plan	Latest Valuation	Real Rate of Return	Inflation Rate	Investment Rate of Return
Civil Service	December 31, 2001	4.0%	2.75%	6.75%
Teachers'	January 1, 2001	4.0%	3.0%	7.0%
MLA	March 31, 2000	4.0%	3.0%	7.0%
University of Manitoba	December 31, 1999	4.0%	3.0%	7.0%
Brandon University	December 31, 2000	4.0%	3.0%	7.0%
HEPP	December 31, 2002	3.5%	3.0%	6.5%

During the year, no amendments were made to any of the plans.

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(cont'd.)

The components of the unfunded pension liability and expense are as follows:

	Pension Expense	Pension Liability	
	($ millions)		
	2003	2003	2002
Civil Service Plan			
Pension Liability	140	1,446	1,294
Unamortized Net Actuarial Gains		55	112
Teachers' Plan			
Pension Liability	189	1,926	1,833
Unamortized Actuarial Losses		(48)	(53)
Members of the Legislative Assembly			
Pension Liability	2	29	28
Unamortized Actuarial Gains		3	3
Other Plans	17	-	-
	348	3,411	3,217

The pension liabilities of government enterprises are disclosed in Schedule 3 with the exception of the Manitoba Liquor Control Commission which is part of the Civil Service Superannuation Fund amount noted above.

A. Civil Service Plan

The Civil Service Superannuation Act (CSSA) established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the government through the Civil Service Superannuation Fund (CSSF).

As at March 31, 2003, the CSP had approximately 39,500 (2002 - 38,800) participants including active members, retired employees and former employees with entitlements.

Certain amendments to the CSSA were made in 1992 which required that the CSSF establish and fund a separate account in an amount sufficient to cover the government's share of pension costs attributable to the 1992 amendments to the CSSA. The CSSF account maintained on behalf of the government at March 31, 2003 was $30 million (2002 - $29 million).

Effective December 15, 2000, the CSP was amended to include improved benefits. The cost of the plan amendments is fully funded from actuarially determined employee surpluses with no additional cost to the employer. The following describes the current terms of the CSP, with the previous terms indicated within brackets.

The lifetime pension calculation equals 2% of a member's best five years average yearly pensionable earnings multiplied by pensionable service, minus 0.4% (previously 0.6%) of the average Canada Pension Plan (CPP) earnings for the same period multiplied by pensionable service since January 1, 1966. The CSSA requires that employees contribute 6.0% (previously 5.1%) on pensionable earnings up to the CPP maximum earnings, and 7.0% of pensionable earnings above the maximum. 89.8% of contributions are used to fund basic benefits and 10.2% of contributions are allocated for indexing benefits. Contributions continue until the employee's retirement or other termination from service. Employee contributions for the year ended March 31, 2003 amounted to $65 million (2002 - $61 million).

Indexing benefits are not guaranteed and are paid only to the extent that the indexing adjustment account in CSSF can finance one-half of cost-of-living increases granted. The maximum annual adjustment is limited by legislation to two-thirds of the increase in the consumer price index for Canada.

The government does not make contributions to the CSSF during employees' service. By legislation, however, it is required to pay 50% of the pension disbursements made from the CSSF. For the year ended March 31, 2003, payments of $79 million (2002 - $74 million) were made to the CSSF.

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(cont'd.)

An actuarial valuation report of the government's liability to the employees included in the CSSF was completed as of December 31, 2001. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the government's liability has been calculated on an indexed basis to be $1,445 million as at March 31, 2003 (2002 - $1,277 million). The report disclosed an experience loss of $50 million which will be amortized over the 15 year expected average remaining service life of the employee groups. The 2002/03 combined amortization was a $7 million credit to expenses (2002 - $10 million).

The pension liability has been adjusted by $11 million to reflect the correction of the prior year's understatement of the liability for Regional Health Authorities (see Note 4B).

B. Teachers' Plan

The Teachers' Pensions Act (TPA) established a defined benefit plan to provide pension benefits to teachers who have taught in public schools in Manitoba.

As at March 31, 2003, the Teachers' Retirement Allowances Fund (TRAF) had approximately 29,500 (2002 – 29,000) participants including active members, retired teachers and former teachers with entitlements.

The lifetime pension calculation is based upon the lesser of A or B:

A) The years of service prior to July 1, 1980, multiplied by 2% and the average salary of the best 7 of the final 12 years of service and years of service after July 1, 1980, multiplied by 2% and the average salary of the best 5 of the final 12 years of service;

less

The years of service from January 1, 1966, to July 1, 1980, multiplied by .6% and the average annual salary up to the yearly maximum pensionable earnings for the same period and years of service after July 1, 1980, multiplied by .6% and the annual salary up to the yearly maximum pensionable earnings for the same period.

B) 70% of the weighted average annual salary of the member in the 7 and 5 year periods used above.

The TPA requires that teachers contribute 5.7% on pensionable earnings up to the CPP maximum earnings, and 7.3% on pensionable earnings above the maximum. 83.6% of contributions are used to fund basic benefits and 16.4% of contributions are allocated for indexing benefits. Contributions continue until the teacher's retirement or other termination from service. Teacher contributions for the year ended March 31, 2003, amounted to $53 million (2002 - $47 million).

Indexing benefits are not guaranteed and are paid only to the extent that one half of the pension adjustment does not result in an unfunded pension liability in TRAF.

The government does not make contributions to TRAF during teachers' service. By legislation, however, it is required to pay 50% of the pension disbursements and other disbursements made by TRAF as provided for in the TPA. For the year ended March 31, 2003, payments of $91 million (2002 - $84 million) were made to TRAF.

An actuarial report was completed for TRAF as of January 1, 2001, which determined the government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the government's liability has been calculated on an indexed basis to be $1,926 million at March 31, 2003 (2002 - $1,833 million). The report disclosed an experience loss of $57 million which will be amortized over the 13 year expected average remaining service life of the employee groups. The 2002/03 amortization was $5 million (2002 - $4 million).

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C. Members of the Legislative Assembly Plan

The pension plan for Members of the Legislative Assembly (MLAs) is established and governed by *The Legislative Assembly Act* (LAA). For MLAs elected prior to the dissolution of the Assembly of the 35th Legislature, the LAA provides for defined pension benefits based on years of service to April, 1995. For those elected after the 35th Legislature in April 1995, the LAA provides for matching contributions. As at March 31, 2003, there are 119 (2002 - 119) plan members who are entitled to receive future pension benefits in accordance with the LAA.

The calculation for defined pension benefits is equal to 3% of the average annual indemnities for the last five years served as a member or all the years served if less than five multiplied by the number of years of pensionable service up to April 1995. These entitlements are fully indexed to cost of living increases.

An actuarial valuation report of the government's liability to the MLAs included in the pension plan was completed as of March 31, 2000. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the government's liability has been calculated on an indexed basis to be $29 million as at March 31, 2003 (2002 - $28 million). The report disclosed an experience gain of $4 million which will be amortized over the 10 year expected average remaining service life of the MLAs.

Under the matching contributions provisions, MLAs may contribute up to 7% of their remuneration toward a Registered Retirement Savings Plan (RRSP) of their choice. The government matches the member's contributions on a current basis, consequently, there is no liability for past service benefits under this component of the plan. In the event that a member withdraws money from the RRSP while an active member of the Legislative Assembly, the government's contribution would be refundable.

D. University of Manitoba

The University of Manitoba administers the University of Manitoba Pension Plan (1970), The University of Manitoba GFT Pension Plan (1986) and The University of Manitoba Pension Plan (1993). These are trusteed pension plans. The Trustees are responsible for the custody of the Plans' assets and issuance of annual financial statements, which do not form part of the Province's Summary Financial Statements.

The University of Manitoba Pension Plan (1970) and University of Manitoba Pension Plan (1993) are both money purchase plans with a defined benefit minimum. The funding for the plans requires a matching contribution from the University and the employees. The surplus from the Plans and the matching contribution is adequate to fund the Plan and the current level of funding satisfies the requirements of *The Manitoba Pensions Benefit Act*. The plans are not indexed.

As at December 31, 2002, the University of Manitoba Pension Plans had 4,902 active members (2001 - 4,801), and 789 pensioners (2001 - 764). The plans do not offer deferred pension elections.

The actuarial present value of accrued pension benefits has been determined using the projected unit credit actuarial cost method and assumptions developed by reference to expected long-term market conditions. An actuarial valuation effective December 31, 1999 was completed in 2000 by Eckler Partners Ltd., a firm of consulting actuaries. The results of this valuation have been extrapolated by Eckler Partners Ltd. to December 31, 2002. As at December 31, 2002, the University of Manitoba Pension Plan (1970) and The University of Manitoba Pension Plan (1993) were in an actuarial surplus of $1 million (2001 - $1 million) and $4 million (2001 - $23 million), respectively. The University of Manitoba cannot access this surplus and as a result, no asset has been recorded in the Province's Summary Financial Statements.

The University of Manitoba recognized expenses equal to its contributions of $11 million (2002 - $10 million) for the 1970 Plan and for the 1993 Plan for the fiscal year ended March 31, 2003. Employee contributions equalled the employer contributions.

The next full actuarial valuation of the Plans will be effective December 31, 2003 and will be completed in 2004.

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(cont'd.)

The University of Manitoba GFT Pension Plan (1986) is a defined contribution pension plan, therefore there is no requirement for an actuarial valuation of this Plan. The University's contributions to this Plan were $2 million in 2003 (2002 - $2 million).

E. **Brandon University**

The Brandon University administers the Brandon University Pension Plan, which is a trusteed pension plan. The Trustees are responsible for the custody of the Plan's assets and issuance of annual financial statements, which do not form part of the Province's Summary Financial Statements.

The Brandon University Pension Plan is a final average contributory defined benefit pension plan established April 1, 1974 for the benefit of the employees of Brandon University. The funding for the plan requires a matching contribution from the University and the employees. The surplus from the Plan and the matching contribution is adequate to fund the Plan and the current level of funding satisfies the requirements of *The Manitoba Pensions Benefit Act.*

As at December 31, 2002, the Brandon University Pension Plan had 435 active members (2001 - 424), 177 pensioners (2001 - 173), and 37 deferred pensions (2001 - 32).

The actuarial present value of accrued pension benefits has been determined using the accrued benefit method prorated on service and using assumptions recommended by the actuary and approved by the Trustees. An actuarial valuation was made as at December 31, 2000 by Eckler Partners Ltd., a firm of consulting actuaries. The results of this valuation have been extrapolated by Eckler Partners Ltd. to December 31, 2002. As at December 31, 2002, the Brandon University Pension Plan was in an actuarial surplus of $2 million (2001 - $10 million). The Brandon University cannot access this surplus and as a result, no asset has been recorded in the Province's Summary Financial Statements.

The Brandon University recognized expenses equal to its contributions of $1 million (2002 - $1 million). Employee contributions equalled the employer contributions.

The next full actuarial valuation of the Plan will be as at December 31, 2003 and will be completed in 2004.

F. **Healthcare Employees Pension Plan - Manitoba**

The Healthcare Employees Pension Plan - Manitoba (HEPP) was established in 1997 to meet the retirement needs of Manitoba's healthcare employees and their beneficiaries. Benefits accrued from January 1, 1997 are administered in accordance with the HEPP Plan Text and governing agreements. Benefits accrued up to and including December 31, 1996 are administered in accordance with previous Plans. HEPP is governed by an independent, 12 member board of Trustees representing both union and employer participants. The Trustees are responsible for the custody of the Plan's assets and issuance of annual financial statements, which do not form part of the Province's Summary Financial Statements.

HEPP is a defined benefit pension plan. The lifetime pension calculation is based on an amount equal to:

- 1.5% of a member's highest average earnings up to the Canada Pension Plan Yearly Maximum Pensionable Earnings (YMPE), and,
- 2.0% of a member's highest average earnings over the YMPE,
- multiplied by a member's years of contributory service. The highest average earnings are determined by averaging the best five years of annualized pensionable earnings in the past eleven years prior to termination, retirement or death.

Ad hoc cost of living adjustments (COLAs) to pension benefits are reviewed every year. Members who retired on or before July 1, 2000, disabled members and deferred vested members received a 2.34% ad hoc COLA effective January 1, 2002.

As at December 31, 2002, HEPP had 33,178 active and disabled members (2001 – 31,817), 4,961 deferred vested members (2001 – 4,265), and 8,524 retired members (2001 – 8,006). There are currently 187 participating employers (2001 - 175).

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The Plan Text requires that an annual actuarial valuation be performed on both a going concern basis and a solvency basis by an independent actuary. Towers Perrin, a firm of consulting actuaries, prepared the most recent actuarial valuation as at December 31, 2002, using the unit credit actuarial cost method. As at December 31, 2002, HEPP had a going concern actuarial surplus of $67 million (January 1, 2002 - $87 million). The employers cannot access this surplus and as a result, no asset has been recorded in the Province's Summary Financial Statements.

13. **AMOUNTS HELD IN TRUST**

The government held certain fiduciary trusts for investment or administration at March 31, 2003, totalling $455 million (2002 - $435 million). Such deposits are pooled with other available funds of the government for investment purposes and are accorded a market rate of interest.

The government also provides a safekeeping service for various departments, agencies, boards and commissions. In this capacity, it held custodial trust funds in the form of bonds and other securities at March 31, 2003 totalling $138 million (2002 - $135 million).

The Civil Service Superannuation Fund, University of Manitoba Pension Plans and Brandon University Retirement Plan have been established by legislation to administer various pension and insurance trust funds to which the government reporting entity contributes but over which the government reporting entity has no power of appropriation. The total assets as at December 31st are as follows:

	($ millions)	
	2002	2001
Civil Service Superannuation Fund	2,422	2,356
University of Manitoba Pension Plans	751	800
Brandon University Retirement Plan	70	76
	3,243	3,232

14. **DEBT SERVICING**

Debt servicing costs are net of cost recoveries and interest income of $955 million for the year ended March 31, 2003 (2002 - $1,241 million), which includes $582 million as at March 31, 2003 (2002 - $789 million) from government enterprises.

15. **WATER POWER RENTALS**

Water power rental revenue from the Manitoba Hydro-Electric Board (Hydro), in the amount of $97 million (2002 - $109 million), is included in the Summary Statement of Revenue and Expense under the Manitoba Collections category. These rentals are paid for the use of water resources in the operation of Hydro's hydroelectric generating stations. Water rental rates during the year were $3.34 per megawatt hour (MW.h) (2002 - $3.34 per MW.h).

16. **GUARANTEE FEES**

Hydro remits guarantee fees to the government based on the Hydro debt that the Province guarantees on their behalf. The guarantee fees paid by Hydro for the year ended March 31, 2003 were $74 million (2002 - $72 million).

Appendix B
(cont'd.)

17. **REVENUE FROM GOVERNMENT ENTERPRISES**

Under the Workplace Safety and Health Act of Manitoba, The Workers' Compensation Board supports the administrative expenses incurred by the Department of Labour and Immigration for The Workplace Safety and Health program and the Worker Advisor Office. The amount for the year ended March 31, 2003 was $6 million (2002 - $6 million).

The Manitoba Lotteries Corporation provided $2 million in funding for the year ended March 31, 2003 (2002 - $2 million) to the Addictions Foundation of Manitoba for problem gambling services programming. Hydro paid Corporation Capital Tax of $33 million for the year ended March 31, 2003 (2002 - $29 million).

18. **ADJUSTMENT TO ESTIMATE FOR FEDERAL ACCOUNTING ERROR**

The 2001/02 fiscal year included the effects of the federal accounting error. Amounts totalling $287 million were identified as relating to prior years and recorded as an adjustment to the accumulated deficit. Included in that amount was the net impact of the federal settlement related to 1997 to 1999, which was a $91 million payable owing to the Federal Government over a ten-year period commencing in 2004/05. Also recorded at March 31, 2002 was a $112 million payable for the estimated 2001 tax year error. In 2002/03, the Federal Government finalized the amount for the 2001 tax year error at $61 million, resulting in a gain on settlement of $51 million. In 2002/03, the Federal Government also provided a transition payment of $140 million related to Equalization.

19. **PURCHASE OF WINNIPEG HYDRO**

The Purchase of Winnipeg Hydro Act received Royal Assent on August 9, 2002. The Manitoba Hydro-Electric Board has entered into an agreement with the City of Winnipeg to purchase all of the net assets of Winnipeg Hydro. The consideration principally consists of annual payments to the City of Winnipeg of $25 million per annum in years 2002 to 2006, $20 million per annum in years 2007 to 2010, and $16 million per annum in year 2011 and each year thereafter. Winnipeg Hydro was an electric utility with 94,000 customers and annual revenues of $125 million.

20. **THE PROVINCIAL-MUNICIPAL TAX SHARING ACT**

The municipal share of individual and corporation income taxes, which is collected through the Government of Canada and remitted by the Province of Manitoba to municipalities in accordance with *The Provincial-Municipal Tax Sharing Act*, is not recorded as revenue or expense. This amounted to $78 million for the year ended March 31, 2003 (2002 - $82 million).

21. **COMPARATIVE FIGURES**

Certain of the 2002 financial statement figures have been reclassified to be consistent with the 2003 presentation.

SPECIAL PURPOSE OPERATING FUND AND SPECIAL FUNDS FINANCIAL STATEMENTS - AUDITOR'S REPORT

Appendix C

Office of the Auditor General

500 - 330 Portage Avenue
Winnipeg, Manitoba
CANADA R3C 0C4

AUDITOR'S REPORT

On the Special Purpose Operating Fund and Special Funds Financial Statements
Province of Manitoba

To the Legislative Assembly of the Province of Manitoba

In accordance with Section 9 of The Auditor General Act, I have audited the special purpose statement of financial position of the Operating Fund and Special Funds of the Province of Manitoba as at March 31, 2003 and the special purpose statements of revenue and expense, accumulated (deficits) surpluses and cash flow for the year then ended. These special purpose financial statements are the responsibility of the Government of Manitoba. My responsibility is to express an opinion on these special purpose 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 Special Purpose Financial Statements present fairly, in all material respects, the financial position of the Operating Fund and Special Funds as at March 31, 2003 and the results of its operations and its cash flow for the year then ended in accordance with the accounting policies disclosed in Note 1 to the financial statements applied on a basis consistent with that of the preceding year.

Winnipeg, Manitoba
September 22, 2003

Jon W. Singleton, CA•CISA
Auditor General

Manitoba

Appendix D

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2003"

(Schedules associated with these financial statements have not been replicated in this report. To review these Schedules, refer to the annual report noted above.)

OPERATING FUND AND SPECIAL FUNDS
SPECIAL PURPOSE STATEMENT OF FINANCIAL POSITION

As at March 31, 2003

SCHEDULE		($ millions) 2003	2002
	ASSETS		
	Cash and Cash Equivalents (Note 2)	167	127
1	Amounts Receivable	563	712
2	Loans and Advances	785	778
3	Long-Term Investments	-	5
	Pension Assets (Note 19)	151	-
	Deferred Charge for Health Care Facilities (Note 1A7)	446	392
		2,112	2,014
4	Trust Assets (Note 1F)	2,063	2,062
5	Tangible Capital Assets	399	391
	TOTAL ASSETS	4,574	4,467
	LIABILITIES		
6	Borrowings	19,340	20,254
	Less: Sinking Funds (Note 3)	(5,805)	(6,485)
	Less: Debt Incurred For and Repayable By The Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation	(5,573)	(5,871)
		7,962	7,898
	Less: Unamortized Foreign Currency Fluctuation	(81)	(143)
	Net Borrowings	7,881	7,755
7	Accounts Payable, Accrued Charges, Provisions and Deferrals	1,105	1,267
		8,986	9,022
4	Amounts Held in Trust for Investment or Administration (Note 1F)	2,063	2,062
	TOTAL LIABILITIES	11,049	11,084
	ACCUMULATED (DEFICITS) SURPLUSES		
	Operating Fund	(7,037)	(6,990)
	Fiscal Stabilization Fund	235	247
	Pension Assets Fund (Note 19)	151	-
	Debt Retirement Fund	152	100
9	Other Special Funds	24	26
11	**ACCUMULATED DEFICIT**	(6,475)	(6,617)

Information concerning the Government's Guarantees, Financial Capital Commitments, Contingencies and Pension Liability can be found in Notes 5, 6, 7 and 9.

Appendix D
(cont'd.)

OPERATING FUND AND SPECIAL FUNDS
SPECIAL PURPOSE STATEMENT OF REVENUE AND EXPENSE

For the Year Ended March 31, 2003

($ millions) Operating Fund	Special Funds	Total 2002		($ millions) Operating Fund Budget	Operating Fund Actual	Fiscal Stabilization Fund	Debt Retirement Fund	Pension Assets Fund	Other Special Funds	Total 2003
			OPERATING REVENUE (Schedule 8)							
2,151	2	2,153	Manitoba Collections	2,244	2,297	-	-	-	4	2,301
1,965	-	1,965	Income Taxes	1,829	1,796	-	-	-	-	1,796
2,206	-	2,206	Federal Transfers	2,362	2,230	-	-	-	-	2,230
424	-	424	Crown Corporations	506	647	-	-	2	-	649
-	19	19	Interest Earned	-	-	7	4	(6)	1	6
6,746	21	6,767		6,941	6,970	7	4	(4)	5	6,982
6,737	4	6,741	**OPERATING EXPENSES (Schedules 8 & 10)**	6,928	6,944	-	-	-	4	6,948
9	17	26	**NET REVENUE (EXPENSES) BEFORE EXTRAORDINARY ITEM**	13	26	7	4	(4)	1	34
			EXTRAORDINARY ITEM							
-	-	-	Adjustment to estimate for Federal accounting error (Note 18)	-	51	-	-	-	-	51
9	17	26	**NET REVENUE (EXPENSES)**	13	77	7	4	(4)	1	85
			INTERFUND TRANSFERS							
(96)	96	-	Transfer to Debt Retirement Fund	(96)	(96)	-	96		-	-
-	-	-	Transfer for Pensions	-	-	-	(48)	48	-	-
150	(150)	-	Transfer from Fiscal Stabilization Fund	93	23	(23)	-	-	-	-
-	-	-	Transfer from Mining Community Reserve	-	-	-	-	-	(3)	(3)
54	(54)	-		(3)	(73)	(23)	48	48	(3)	(3)
63	(37)	26	**POSITIVE BALANCE FOR PURPOSES OF BALANCED BUDGET LEGISLATION**	10	4	(16)	52	44	(2)	82
			INTERFUND TRANSFER							
(63)	63	-	Less: Transfer to Fiscal Stabilization Fund	(10)	(4)	4	-	-	-	-
-	26	26	**NET RESULT FOR THE YEAR**	-	-	(12)	52	44	(2)	82

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Appendix D
(cont'd.)

OPERATING FUND AND SPECIAL FUNDS SPECIAL PURPOSE STATEMENT OF ACCUMULATED (DEFICITS) SURPLUSES

For the Year Ended March 31, 2003

($ millions)

	Operating Fund	Fiscal Stabilization Fund	Debt Retirement Fund	Pension Assets Fund	Other Special Funds (Schedule 9)	Total 2003	Total 2002
Balance, Beginning of Year	(6,990)	247	100	-	26	(6,617)	(6,288)
Transfer from Trust Liabilities to create Pension Assets Fund (Note 12 and 19)	-	-	-	107	-	107	(75)
Tangible Capital Assets (Note 4A)	(6)	-	-	-	-	(6)	4
Net Income Stabilization Account (Note 4B)	(19)					(19)	-
Municipal Tax Sharing (Note 4C)	(23)	-	-	-	-	(23)	-
Federal Accounting Error (Note 18)	-	-	-	-	-	-	(287)
Repurchase of Serial Debentures (Note 1G)	1	-	-	-	-	1	3
Net Result for the Year	-	(12)	52	44	(2)	82	26
Balance, End of Year (Schedule 11)	(7,037)	235	152	151	24	(6,475)	(6,617)

Appendix D
(cont'd.)

OPERATING FUND AND SPECIAL FUNDS
SPECIAL PURPOSE STATEMENT OF CASH FLOW

For the Year Ended March 31, 2003

	($ millions) 2003	2002
Cash and Cash Equivalents Provided by (Used in)		
Operating Activities:		
Net Result for the year - Operating Fund	-	-
- Special Funds	82	26
Changes in non-cash items:		
Amounts Receivable	149	(22)
Valuation Allowance	25	-
Accounts Payable, Accrued Charges, Provisions and Deferrals	(162)	68
Amortization of Foreign Currency Fluctuation	17	58
Amortization of Debt Discount	10	14
Amortization of Investment Discounts and Premiums	(14)	(4)
Amortization of Tangible Capital Assets	31	34
Land Capitalization Adjustment	6	-
Adjustment to Accumulated Deficit - Federal Accounting Error	-	(287)
Adjustment to Accumulated Deficit - Other	(48)	4
	96	(109)
Investing Activities:		
Made	(651)	(1,298)
Realized	986	744
Acquisition of Tangible Capital Assets	(45)	(45)
	290	(599)
Financing Activities:		
Debt Issued	2,875	2,607
Debt Redeemed	(3,354)	(2,051)
Changes in Sinking Funds	133	(200)
	(346)	356
Changes in Cash and Cash Equivalents	40	(352)
Cash and Cash Equivalents, beginning of year	127	479
Cash and Cash Equivalents, end of year	167	127

Appendix D
(cont'd.)

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2003

1. **SIGNIFICANT ACCOUNTING POLICIES**

A. **General Basis of Accounting**

The special purpose financial statements of the Operating Fund and Special Funds have been prepared in accordance with Canadian generally accepted accounting principles for senior governments as recommended by the Canadian Institute of Chartered Accountants (CICA), with the following exceptions:

1) Liabilities for unfunded pension benefits have not been recorded in the Operating Fund Financial Statements.

2) The liabilities for unfunded employee future benefits associated with health care facilities and family service agencies for which the government has funding responsibility are not recorded in the Operating Fund.

3) The financial statements do not reflect the financial results for all of the government enterprises and Crown organizations comprising the government reporting entity. The financial operations of the latter are reflected only to the extent that their operations were financed from or contributed to the Operating Fund.

4) Material adjustments may result from changes in accounting policy or from the correction of an error which are attributable to and identifiable with prior periods. It is the government's practice to reflect the effects of such adjustments in the accumulated deficit. Prior year balances are not restated.

5) The process of establishing the completeness and reasonableness of the estimated historical cost of the tangible capital assets is ongoing. Reporting policies are currently being developed and information is being gathered for other expenditures which include infrastructure such as highways, bridges, and land acquired for public use.

6) The CICA recommends certain standards for reporting tangible capital assets and net debt. Although the government has adopted the standards related to tangible capital assets, it has not fully adopted the recommended presentation of net debt. Net Debt (Schedule 11) provides a reconciliation from accumulated deficit to net debt.

7) Prior to the 2000/01 fiscal year, individual health care facilities issued long-term debt in their own name to finance major capital acquisitions. In 2000/01, the Province began a program to finance such debt directly, taking advantage of its superior borrowing power and rates, and lowering the cost of health related borrowings for Manitoba. This debt is included as part of the Province's general purpose borrowings. The related asset for devolved and non-devolved health care facilities is recorded as a deferred charge and amortized over the same period as the term of the debt issue.

8) Operating commitments are not disclosed in the Operating Fund Financial Statements.

These accounting policies have been developed and are applied in accordance with the provisions of *The Financial Administration Act*, which is Chapter F55 of the Continuing Consolidation of the Statutes of Manitoba.

B. **The Reporting Entity**

These statements consist of the Operating Fund and Special Funds that on a combined basis reflect the transactions and balances of these funds.

The nature and purpose of the funds reflected in these financial statements is as follows:

Appendix D
(cont'd.)

OPERATING FUND AND SPECIAL FUNDS – SPECIAL PURPOSE FINANCIAL STATEMENTS

Operating Fund - The Operating Fund is the vehicle through which the government manages and controls the operations of government departments and programs, and does not include the results of government enterprises and Crown Organizations except to the extent that they may have received funding from the Operating Fund. It is through the Operating Fund that the government reports on its stewardship of Central government operations, including measurement of its results as compared to voted appropriations, and its obligations with respect to *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*.

Debt Retirement Fund - This Fund was established on November 3, 1995 under the authority of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*. The purpose of the Fund is to assist in the orderly repayment of debt pursuant with section 8(4) of the Act. After March 31, 2000, until the Fund is wound up, the Minister of Finance is required to deposit annually in the Fund a minimum of $96 million or such greater amount as determined by the Act.

Fiscal Stabilization Fund - This Fund was established at March 31, 1989 under the authority of *The Fiscal Stabilization Fund Act*. The purpose of the Fund is to assist in stabilizing the fiscal position of the government from year to year and to improve long-term fiscal planning. Under the provisions of the Act, the government may deposit in the Fund any part of the revenue or other financial assets received in the Operating Fund in any fiscal year and shall credit to the Fiscal Stabilization Fund any earnings from investment of the assets of the Fund. All or part of the Fund balance may be transferred to the Operating Fund in accordance with the provisions of the Act.

Section 9(a) of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act* requires that, if a surplus exists in a fiscal year in the Operating Fund, the Minister of Finance shall transfer an amount sufficient to bring the Fiscal Stabilization Fund to its target level as set out by *The Fiscal Stabilization Fund Act* or any greater amount that the Minister considers appropriate. The target level for the Fiscal Stabilization Fund is a minimum of 5% of the expense of the Operating Fund.

Pension Assets Fund - This Fund was established under the authority of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*. The purpose of the Fund is to set aside designated assets, pursuant to section 8 of the Act, for the future retirement of the government's pension liability.

Mining Community Reserve - This Fund was established to assist with the welfare and employment of people who are directly affected by mine closures in Manitoba. The Lieutenant Governor in Council may transfer to this Fund each year up to 3% of the taxes collected under *The Mining Tax Act*.

Quarry Rehabilitation Reserve Fund - This Fund was established to assist in the rehabilitation of quarries deemed to be depleted. A levy of 10 cents per metric ton of all aggregate quarry mineral production in Manitoba is paid into the Fund each year.

Other Funds - Other funds included reflect the transactions of the Abandonment Reserve Fund, the Farm Machinery and Equipment Act Fund, the Elk Management Fund, the Land Titles Assurance Fund, Manitoba Law Reform Commission, Veterinary Science Scholarship Fund, Mining Rehabilitation Reserve and Victims Assistance Fund.

The combined financial statements of the above funds are also included in the government's Summary Financial Statements which are presented separately.

C. Gross Accounting Concept

Revenues and expenses are recorded in gross amounts with the following exceptions:

1) The municipal share of individual and corporation income taxes, which is collected through the Government of Canada and remitted by the Province of Manitoba to municipalities in accordance with *The Provincial-Municipal Tax Sharing Act*, is not recorded as revenue or expense. It is reflected as a reduction in individual and corporation income tax revenues.

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(cont'd.)

2) Refunds of revenue are treated as reductions of current year revenue.

3) Decreases in valuation allowances previously provided are treated as reductions to expense.

4) Recoveries of the debt servicing costs on self-supporting debt and revenue earned on investments and advances are recorded as a reduction of debt servicing expense.

D. **Modified Accrual Accounting**

The revenues and expenses of the government are recorded on an accrual basis with the following exceptions.

1) **Government of Canada Receipts** - Generally, entitlements from the Government of Canada for transfer payments, the transfer having been authorized and any eligibility criteria met, as well as for the Province's share of individual and corporation income tax pursuant to the Federal-Provincial Tax Collection Agreements are recorded on a cash basis for cash receipts received up to March 31 plus an accrual of prior period adjustments determined before June 30 each year.

2) **Other Revenue** – All other revenues are recorded on an accrual basis except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable. Recoveries of the debt servicing costs on self-supporting debt and revenue earned on investments and advances are recorded as a reduction of debt servicing expense.

3) **Expenses** – All expenses incurred for goods or services received are recorded on an accrual basis. Exceptions to this policy involve the acquisition of inventories acquired for the government's use that are reflected as expenses when incurred as well as items 4) and 5) noted below.

Expenses include provisional amounts recorded in anticipation of future costs which are quantifiable and have been identified as obligations. Government transfers are recognized as expenses in the period during which the transaction is authorized and any eligibility criteria are met.

4) **Pension Benefits** – The annual cost recorded is based on the government's share of pensions paid to retired employees, teachers and Members of the Legislative Assembly, as well as current contributions to Registered Retirement Savings Plan accounts and tax paid trusts on behalf of MLAs and employees who are pensionable outside of the Civil Service Superannuation Fund. The government does not record its liability for the unfunded cost of pension benefits earned by employees, teachers and Members of the Legislative Assembly.

5) **Employee Future Benefits** - The government does not record liabilities for the unfunded cost of employee future benefits earned by employees of health care facilities and family service agencies.

E. **Liabilities and Assets**

1) All borrowings are expressed in Canadian dollars and are shown net of sinking funds, unamortized debt issue costs and debt of the Province of Manitoba held as provincial investments. Foreign borrowings are converted at the exchange rate in effect at March 31 adjusted for any forward foreign exchange contract entered into for settlement after the fiscal year end. Discounts or premiums, and commissions incurred at the time of the issue of debt are amortized monthly to debt servicing expense over the term of the debt.

Appendix D
(cont'd.)

2) The year end translation adjustments reflecting the foreign currency fluctuation from the value at the issue date are recorded through the unamortized foreign currency fluctuation account, and amortized monthly to debt servicing expense over the remaining term of the debt. The unamortized portion of foreign currency fluctuation also reflects the gains or losses on the conversion of foreign currency debt called prior to maturity using the rates in effect at the time of the call and these gains and losses are amortized over the original remaining term of the debt or over the term of the replacement issue, whichever is shorter.

3) Loans, advances and long-term investments are recorded at cost less valuation allowances. A valuation allowance is provided to reduce the value of the assets to their estimated realizable value or to reflect the impact of significant concessionary terms on outstanding loans. Premiums that may arise from the early repayment of loans or advances are reflected as deferred revenue and are amortized monthly to debt servicing expense over the term of the related debt issue.

4) Investments denominated in foreign currency are translated to the Canadian dollar equivalent at the exchange rate in effect at March 31, unless the rate of exchange or a forward foreign exchange contract fixing the value has been negotiated, in which case that rate or amount is used. The year end investment translation adjustments reflecting the foreign currency fluctuation between year ends are amortized monthly over the remaining life of the investment and included with debt servicing expense. Expenses and other transaction charges incurred on the purchase of investments during the year are charged to debt servicing expense. Those expenses incurred in foreign currency are translated at the exchange rate in effect on the transaction date.

5) Premiums paid on interest rate options are amortized monthly starting from the date the income is received over the period of the applicable agreement. If the option is exercised, the premium is amortized over the period from the date of receipt to the maturity date of the agreement. If the option is not exercised, any unamortized premium will be immediately taken into revenue.

6) Tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Land	Indefinite
Buildings – brick, mortar and steel	40 years
Buildings – wood frame	25 years
Vehicles	5 years
Aircraft and vessels	
- Aircraft frames	24 years
- Aircraft motors	5 years
- Vessels	24 years
Machinery, equipment and furniture	10 years
Maintenance and road construction equipment	15 years
Computer hardware and software	4 to 15 years
Leasehold improvements	Life of lease

One-half of the annual amortization is charged in the year of acquisition and in the year of disposal. Certain assets which have historical or cultural value including works of art, historical documents as well as historical and cultural artifacts are not recognized as tangible capital assets because a reasonable estimate of the future benefits associated with such property cannot be made.

7) All intangibles and items inherited by right of the Crown, such as Crown lands, forests, water, and mineral resources are not recognized in government financial statements. A tangible capital asset received as a donation is recorded at its fair market value with the same amount being shown as a deferred contribution which is amortized to revenue on the same basis as the asset is amortized. Where the acquisition cost of a tangible capital asset is shared with other jurisdictions under a shared cost agreement, such contributions are deducted from the cost of the related asset with any amortization calculated on the net amount.

Appendix D
(cont'd.)

8) During the 2000/01 fiscal year, the Federal Government created a Health Equipment and Infrastructure Fund for investment in new medical equipment. The Province's share of this fund was $37 million. Funding from the Health Equipment and Infrastructure Fund has been treated as deferred revenue and will be brought into revenue based on actual purchases of equipment according to a defined schedule.

9) Guarantees of the government are made through specific agreements or legislation to repay promissory notes, bank loans, lines of credit, mortgages and other securities. Provision for losses on guarantees are recorded when it is likely that a loss will occur. The amount of the loss provision represents the government's best estimate of future payments less recoveries.

F. Amounts Held in Trust for Investment or Administration

These amounts primarily represent sinking funds and surplus cash of government enterprises and Crown organizations on deposit with the Minister of Finance for investment. Deposits of surplus cash funds not required to be specifically invested are pooled with other available funds of the Operating Fund for investment purposes and are accorded a market rate of interest. Sinking fund contributions made by government enterprises, Crown organizations and others in respect of their direct debt are deposited with and specifically invested by the Minister of Finance. These investments are recorded at cost.

G. Serial Debentures of School Divisions and Districts

The accumulated deficit of the Operating Fund includes amounts related to serial debentures of school divisions and districts, acquired by the government in prior years. The government is primarily responsible for funding the redemption of these debentures, accordingly these amounts are not reflected as assets. As the funding for annual redemptions flow from the appropriations of the government, to the school divisions and districts, and then back to the Province, the accumulated deficit of the operating fund is reduced by the amount of such redemptions.

H. Use of Estimates

In the preparation of these financial statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. These estimates have been based on management's best judgements applied to available information.

2. CASH AND CASH EQUIVALENTS

Cash equivalents are recorded at cost. Market values approximate cost. Investment revenue earned on cash equivalents during the year was $4 million (2002 - $10 million).

3. SINKING FUNDS

Sinking funds are recorded at the lower of cost and market value. As at March 31, 2003, sinking funds had a cost of $5,805 million (2002 - $6,485 million) and a market value of $6,081 million (2002 - $6,881 million). Investment revenue earned on the sinking funds during the year was $253 million (2002 - $310 million).

Section 60 of *The Financial Administration Act* authorizes the Minister of Finance to provide for the creation and management of sinking funds for the orderly retirement of debt. The Minister of Finance may authorize, by directive, the amount, if any, to be allocated to the Province's sinking fund. The Province's sinking fund currently provides for the repurchase of foreign debt and the pre-funding of maturing debt issues. In addition, the Province's sinking fund is invested principally in securities issued or guaranteed by Canadian provinces.

Appendix D
(cont'd.)

The sinking funds are allocated as follows:

	($ millions) 2003	2002
Province of Manitoba	4,827	4,961
Manitoba Hydro-Electric Board	976	1,520
University of Manitoba	2	4
Total sinking funds	5,805	6,485

4. **ADJUSTMENTS TO ACCUMULATED DEFICIT**

A. Tangible Capital Assets

In 2000/01, the capitalization of the government's Tangible Capital Assets was expanded to include the capitalization of land. As a result, $19 million was recorded as land in the 2000/01 financial statements. Subsequently, it was determined that although the methodology or process used to determine the cost of the land was satisfactory, an error occurred in the selection of the correct costing amounts. As a result of this error, capitalized land was overstated by $6 million. Accordingly, the adjustment to the valuation of land results in a $6 million increase to the accumulated deficit.

B. Net Income Stabilization Account

When the Net Income Stabilization Account (NISA) program was introduced in 1991, producers were only eligible to receive matching government funding, one-third of which is provided by the Province and two-thirds by the Government of Canada, if they made "matchable deposits." On that basis, liabilities under the program were recorded in the accounts based on applicants meeting the two eligibility criteria, specifically having made a "matchable deposit" and being in a claim position (having incurred a qualifying loss). However, in 1997, the agreement was amended to incorporate "automatic" deeming, which effectively removed the requirement for the producer to make a "matching deposit". This amendment was not brought to the attention of the government until this year and therefore the prior years' financial statements did not reflect the additional liability incurred commencing in 1997 when the amendment was approved. The net effect is an increase in the Province's liability at March 31, 2002 of $19 million, which is recorded as an increase to the accumulated deficit.

C. Municipal Tax Sharing

In accordance with *The Provincial-Municipal Tax Sharing Act*, the Province remits to municipalities the municipal share of individual and corporation income taxes, which is initially collected through the Government of Canada and then forwarded to the Province. Amounts are advanced to municipalities based on the estimated tax collections for the calendar year. As more accurate data is received on actual tax revenues, these advances are adjusted in subsequent payments. In order to properly reflect this arrangement, entitlements related to tax collections for the first three months of the next calendar year should be accrued in the accounts of the government. This was not done previously. Furthermore, it has been determined that amounts advanced for years prior to 2002 exceeded actual entitlements. The net effect of these two items is the accrual of a net payable to municipalities and a corresponding increase to the accumulated deficit of $23 million.

Appendix D
(cont'd.)

5. GUARANTEES

The government has guaranteed the repayment of debt, promissory notes, bank loans, lines of credit, mortgages and other securities issued by government enterprises and Crown organizations. The outstanding guarantees are as follows:

	($ millions) 2003	2002
Debt issued by government enterprises and Crown organizations	971	587
Promissory notes, bank loans, lines of credit and other	17	16
Manitoba Grow Bonds and other	8	8
	996	611
Less: Sinking funds	26	25
Total guarantees outstanding	970	586

Provision for future losses on guarantees in the amount of $16 million (2002 - $14 million) has been recorded in the accounts. Debt guaranteed by the Province is guaranteed as to principal and interest until the debt is matured or redeemed.

6. FINANCIAL CAPITAL COMMITMENTS

The government has approved long-term financial arrangements of various entities wherein indebtedness has been issued that is not guaranteed by the government, but funding assistance is provided annually from appropriations of the Operating Fund. The government has also made future commitments against appropriations under long-term contracts that cover the rental of tangible capital assets. These financial commitments as at March 31 are as follows:

	($ millions) 2003	2002
Financial arrangements for completed projects:		
Hospitals and personal care homes	640	615
Public schools	441	416
Manitoba Housing and Renewal Corporation	187	191
Brandon University	2	2
	1,270	1,224
Future commitments:		
Infrastructure and capital grants	76	86
Rental of tangible capital assets	107	103
	183	189
	1,453	1,413

In addition to the approved outstanding debt for hospitals and personal care homes, lines of credit up to $68 million (2002 - $73 million) have been approved to finance capital projects for hospitals and personal care homes currently in process. On completion of these projects, the borrowings will be converted to other financing arrangements.

Appendix D
(cont'd.)

In December of 2001, the government entered into a funding agreement with the City of Winnipeg and the TN Arena Limited Partnership regarding the True North Entertainment Complex. The Province's maximum commitment, after Federal Infrastructure contributions, is $14 million (2002 - $13 million). The Province has funded $3 million to March 31, 2003 (2002 - $1 million).

7. CONTINGENCIES

The government has been named in various legal actions, including treaty land entitlements. No provision has been made at March 31, 2003 in the accounts where the final results are uncertain.

A. Disaster Financial Assistance

A provision has been made at March 31, 2003 for all flood claims and other disaster financial assistance. The final amount of the government's share of these costs under shared cost agreements is uncertain at the date these financial statements were issued.

B. Northern Development Projects

The Province is contingently liable for legal claims associated with past Manitoba Hydro-Electric Board related northern development projects. The outcome of these claims is not determinable at this time.

8. ENVIRONMENTAL ISSUES

There are currently no accounting standards for environmental liabilities recommended for senior governments by the CICA, other than those that apply to corporate entities related to environmental damage they have created. Because of its role, government will in all probability assume costs where those responsible cannot or will not accept liability for their actions. The Province is in the process of cataloguing suspected contaminated mine and petroleum sites. This catalogue will include a determination of the liable party, an assessment of the nature and level of contamination, the need for clean-up versus containment, and a quantification of the estimated cost for clean-up. Once standards are established by the CICA for senior governments for the recognition and disclosure of these liabilities, their application in the Manitoba setting will be reviewed to determine the appropriate accounting treatment.

9. PENSION LIABILITY

The government of the Province of Manitoba supports three separate pension plans. These include the Civil Service Plan (CSP), the Teachers' Plan (TP) and the Members of the Legislative Assembly Plan (MLAP).

The government is required, under the amended provisions of *The Balance Budget, Debt Repayment and Taxpayer Accountability Act*, to set aside funds beginning in 2000/01, to address the government's unfunded pension liability. The minimum annual contribution must be sufficient to equal the contributions made by employees and teachers hired on or after April 1, 2000. While the minimum contribution was $9 million (2002 - $6 million) for the year ended March 31, 2003, the government set aside $48 million (2002 - $75 million) in the pension assets fund (formerly trust account). These funds are separately invested and maintained in trust accounts for the government and are increased by interest earned. The pension assets fund's balance as at March 31, 2003 was $151 million (2002 - $107 million).

Appendix D
(cont'd.)

The actuarial valuations were based on a number of assumptions about future events, such as interest rates, wage and salary increases, inflation rates and rates of employee turnover, disability and mortality. Information about the economic assumptions used in the most recent actuarial valuations is provided below. Demographic assumptions used in the valuations reflect the experience of the plans.

Plan	Latest Valuation	Real Rate of Return	Inflation Rate	Investment Rate of Return
Civil Service	December 31, 2001	4.0%	2.75%	6.75%
Teachers'	January 1, 2001	4.0%	3.0%	7.0%
MLA	March 31, 2000	4.0%	3.0%	7.0%

During the year, no amendments were made to any of the plans.

A. **Civil Service Plan**

The Civil Service Superannuation Act (CSSA) established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the government through the Civil Service Superannuation Fund (CSSF).

As at March 31, 2003, the CSP had approximately 27,900 (2002 - 25,900) participants including active members, retired employees and former employees with entitlements.

Certain amendments to the CSSA were made in 1992 which required that the CSSF establish and fund a separate account in an amount sufficient to cover the government's share of pension costs attributable to the 1992 amendments to the CSSA. The CSSF account maintained on behalf of the government at March 31, 2003, was $30 million (2002 - $29 million).

Effective December 15, 2000, the CSP was amended to include improved benefits. The cost of the plan amendments was fully funded from actuarially determined employee surpluses with no additional cost to the employer. The following describes the current terms of the CSP, with the previous terms indicated within brackets.

The lifetime pension calculation equals 2% of a member's best five years average yearly pensionable earnings multiplied by pensionable service, minus 0.4% (previously 0.6%) of the average Canada Pension Plan (CPP) earnings for the same period multiplied by pensionable service since January 1, 1966.

The CSSA requires that employees contribute 6.0% (previously 5.1%) on pensionable earnings up to the CPP maximum earnings, and 7.0% of pensionable earnings above the maximum. 89.8% of contributions are used to fund basic benefits and 10.2% of contributions are allocated for indexing benefits. Contributions continue until the employee's retirement or other termination from service. Employee contributions for the year ended March 31, 2003 amounted to $45 million (2002 - $39 million).

Indexing benefits are not guaranteed and are paid only to the extent that the indexing adjustment account in CSSF can finance one-half of cost-of-living increases granted. The maximum annual adjustment is limited by legislation to two-thirds of the increase in the consumer price index for Canada.

The government does not make contributions to the CSSF during employees' service. By legislation, however, it is required to pay 50% of the pension disbursements made from the CSSF. For the year ended March 31, 2003, payments of $57 million (2002 - $53 million) were made to the CSSF.

An actuarial valuation report of the government's liability to the employees included in the CSSF was completed as of December 31, 2001. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the government's liability has been calculated on an indexed basis to be $1,500 million as at March 31, 2003 (2002 - $1,414 million).

Appendix D
(cont'd.)

The disclosed pension liability has now been adjusted to include an amount of $18 million (2002 - $11 million) to reflect the correction of the prior year's understatement of the liability for Regional Health Authorities. In addition, the disclosed pension liability has now also been adjusted in the amount of $13 million (2002 - $14 million) to reflect the inclusion of certain government organizations economically dependent on the Province, namely the Council on Post Secondary Education, Legal Aid and Manitoba Agricultural Credit Corporation.

B. Teachers' Plan

The Teachers' Pensions Act (TPA) established a defined benefit plan to provide pension benefits to teachers who have taught in public schools in Manitoba.

As at March 31, 2003, the Teachers' Retirement Allowances Fund (TRAF) had approximately 29,500 (2002 - 29,000) participants including active members, retired teachers and former teachers with entitlements.

The lifetime pension calculation is based upon the lesser of A or B:

A) The years of service prior to July 1, 1980, multiplied by 2% and the average salary of the best 7 of the final 12 years of service and years of service after July 1, 1980, multiplied by 2% and the average salary of the best 5 of the final 12 years of service;

less

The years of service from January 1, 1966, to July 1, 1980, multiplied by .6% and the average annual salary up to the yearly maximum pensionable earnings for the same period and years of service after July 1, 1980, multiplied by .6% and the annual salary up to the yearly maximum pensionable earnings for the same period.

B) 70% of the weighted average annual salary of the member in the 7 and 5 year periods used above.

The TPA requires that teachers contribute 5.7% on pensionable earnings up to the CPP maximum earnings, and 7.3% on pensionable earnings above the maximum. 83.6% of contributions are used to fund basic benefits and 16.4% of contributions are allocated for indexing benefits. Contributions continue until the teacher's retirement or other termination from service. Teacher contributions for the year ended March 31, 2003, amounted to $53 million (2002 - $47 million).

Indexing benefits are not guaranteed and are paid only to the extent that one half of the pension adjustment does not result in an unfunded pension liability in TRAF.

The government does not make contributions to TRAF during teachers' service. By legislation, however, it is required to pay 50% of the pension disbursements and other disbursements made by TRAF as provided for in the TPA. For the year ended March 31, 2003, payments of $91 million (2002 - $84 million) were made to TRAF.

An actuarial report was completed for TRAF as of January 1, 2001, which determined the government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the government's liability has been calculated on an indexed basis to be $1,878 million at March 31, 2003 (2002 - $1,780 million).

C. Members of the Legislative Assembly Plan

The pension plan for Members of the Legislative Assembly (MLAs) is established and governed by *The Legislative Assembly Act* (LAA). For MLAs elected prior to the dissolution of the Assembly of the 35th Legislature, the LAA provides for defined pension benefits based on years of service to April, 1995. For those elected after the 35th Legislature in April 1995, the LAA provides for matching contributions. As at March 31, 2003, there are 119 (2002 – 119) plan members who are entitled to receive future pension benefits in accordance with the LAA.

Appendix D
(cont'd.)

The calculation for defined pension benefits is equal to 3% of the average annual indemnities for the last five years served as a member or all the years served if less than five multiplied by the number of years of pensionable service up to April 1995. These entitlements are fully indexed to cost of living increases.

An actuarial valuation report of the government's liability to the MLAs included in the pension plan was completed as of March 31, 2000. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the government's actuarial liability has been calculated on an indexed basis to be $29 million as at March 31, 2003 (2002- $28 million).

Under the matching contributions provisions, MLAs may contribute up to 7% of their remuneration toward a Registered Retirement Savings Plan (RRSP) of their choice. The government matches the member's contributions on a current basis, consequently, there is no liability for past service benefits under this component of the plan. In the event that a member withdraws money from the RRSP while an active member of the Legislative Assembly, the government's contribution would be refundable.

10. EMPLOYEE FUTURE BENEFITS LIABILITY- HEALTH CARE FACILITIES AND FAMILY SERVICES AGENCIES

Various funded organizations, primarily health care facilities and child and family service agencies have recorded liabilities for employee future benefits in their financial statements totalling $209 million (2002 - $182 million).

11. EXPENSES IN EXCESS OF LEGISLATIVE AUTHORITY

The following voted appropriations were over expended as a result of adjustments after March 31, 2003.

	($ millions)
Finance	
Taxation	5
Education and Youth	
Support to Schools	2
Aboriginal and Northern Affairs	
Aboriginal and Northern Affairs Operation	3
Other Appropriations	
Allowance for Losses and Expenditures Incurred by Crown Corporations and Other Provincial Entities	6

12. TRANSFER FOR DEBT RETIREMENT AND PENSION OBLIGATIONS

The government transferred $96 million to the Debt Retirement Fund from the Operating Fund for the specific purpose of reducing general purpose debt and pension obligations with the Civil Service Superannuation Fund and the Teachers' Retirement Allowances Fund. The transfer was made in accordance with subsection 8 (4) of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*. The government transferred $48 million from the Debt Retirement Fund for the specific purpose of reducing pension obligations with the Civil Service Superannuation Fund and the Teachers' Retirement Allowances Fund. This transfer was made in accordance with subsection 8 (6) of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act.* The balance in the pension assets fund (formerly trust account) as at March 31, 2003 was $151 million (2002 - $107 million).

Appendix D
(cont'd.)

13. **BALANCED BUDGET LEGISLATION**

Section 6 of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act* requires the Minister of Finance to report on compliance with the Act in the audited financial statements of the Operating Fund for each fiscal year. The Statement of Revenue and Expense shows a positive balance of $4 million in the Operating Fund. The government is therefore in compliance with the Act.

14. **WATER POWER RENTALS**

Water power rental revenue from the Manitoba Hydro-Electric Board (Hydro), in the amount of $97 million (2002 - $109 million), is included in the Special Purpose Statement of Revenue and Expense under the Manitoba Collections category. These rentals are paid for the use of water resources in the operation of Hydro's hydroelectric generating stations. Water rental rates during the year were $3.34 per megawatt hour (MW.h) (2002 - $3.34 per MW.h).

15. **GUARANTEE FEES**

Hydro remits guarantee fees to the government based on the Hydro debt that the Province guarantees on their behalf. The guarantee fees paid by Hydro for the year ended March 31, 2003 were $74 million (2002 - $72 million).

16. **REVENUE FROM WORKERS' COMPENSATION BOARD**

Under *The Workplace Safety and Health Act of Manitoba*, The Workers' Compensation Board supports the administrative expenses incurred by the Department of Labour and Immigration for The Workplace Safety and Health program and the Worker Advisor Office. The amount for the year ended March 31, 2003 was $6 million (2002 - $6 million).

17. **DISTRIBUTION FROM MANITOBA HYDRO-ELECTRIC BOARD**

The Manitoba Hydro Amendment Act was proclaimed on August 9, 2002. This amendment requires the Manitoba Hydro-Electric Board to distribute up to $288 million of its retained earnings to the government by the end of its 2003/04 fiscal year. Operating revenue includes $203 million received from Hydro in the 2002/03 fiscal year.

18. **ADJUSTMENT TO ESTIMATE FOR FEDERAL ACCOUNTING ERROR**

The 2001/02 fiscal year included the effects of the federal accounting error. Amounts totalling $287 million were identified as relating to prior years and recorded as an adjustment to the accumulated deficit. Included in that amount was the net impact of the federal settlement related to 1997 to 1999, which was a $91 million payable owing to the Federal Government over a ten-year period commencing in 2004/05. Also recorded at March 31, 2002 was a $112 million payable for the estimated 2001 tax year error. In 2002/03, the Federal Government finalized the amount for the 2001 tax year error at $61 million, resulting in a gain on settlement of $51 million. In 2002/03, the Federal Government also provided a transition payment of $140 million related to Equalization.

19. **CREATION OF THE PENSION ASSETS FUND**

During the year, this Fund was established as described in note 1B. The Fund opening balance of $107 million has been reflected in the accounts as at April 1, 2002, resulting in a corresponding decrease to the accumulated deficit.

Appendix D
(cont'd.)

20. THE PROVINCIAL-MUNICIPAL TAX SHARING ACT

The municipal share of individual and corporation income taxes, which is collected through the Government of Canada and remitted by the Province of Manitoba to municipalities in accordance with *The Provincial-Municipal Tax Sharing Act*, is not recorded as revenue or expense. This amounted to $78 million for the year ended March 31, 2003 (2002 - $82 million).

21. COMPARATIVE FIGURES

Certain of the 2002 financial statement figures have been reclassified to be consistent with the 2003 presentation.

SUMMARY OF WHO CONDUCTS THE AUDITS

Appendix E

(OAG - Office of the Auditor General; PSA - Private Sector Auditors)

	Audit Conducted By	
	OAG	**PSA**
Government Enterprises		
Leaf Rapids Town Properties Ltd.	X	
Manitoba Hazardous Waste Management Corporation		X
Manitoba Hydro-Electric Board		X
Manitoba Liquor Control Commission		X
Manitoba Lotteries Corporation		X
Manitoba Product Stewardship Corporation		X
Manitoba Public Insurance Corporation		X
Workers Compensation Board		X
Crown Organizations		
Addictions Foundation of Manitoba		X
Assiniboine Community College		X
Board of Administration under the Embalmers and Funeral Directors Act	X	
Brandon University	X	
CancerCare Manitoba		X
Centre Culturel Franco-Manitobain	X	
Child and Family Services of Central Manitoba		X
Child and Family Services of Western Manitoba		X
Communities Economic Development Fund		X
Cooperative Loans and Loans Guarantee Board	X	
Cooperative Promotion Board	X	
Council on Post-Secondary Education	X	
Crown Corporations Council		X
Economic Innovation and Technology Council	X	
Helen Betty Osborne Foundation	X	
Horse Racing Commission	X	
Insurance Council of Manitoba		X
Keewatin Community College		X
Legal Aid Services Society of Manitoba	X	
Manitoba Adolescent Treatment Centre Inc.		X
Manitoba Agricultural Credit Corporation	X	
Manitoba Arts Council		X
Manitoba Boxing Commission		X
Manitoba Centennial Centre Corporation	X	
Manitoba Community Services Council Inc.		X
Manitoba Crop Insurance Corporation	X	
Manitoba Development Corporation		X
Manitoba Film and Sound Development Corporation		X
Manitoba Foundation	X	
Manitoba Gaming Control Commission	X	

Appendix E
(cont'd.)

	Audit Conducted By OAG	PSA
Manitoba Habitat Heritage Corporation	X	
Manitoba Health Research Council		X
Manitoba Health Services Insurance Plan	X	
Manitoba Hospital Capital Financing Authority	X	
Manitoba Housing and Renewal Corporation	X	
Manitoba Trade and Investment Corporation	X	
Manitoba Water Services Board	X	
Public Schools Finance Board	X	
Red River College		X
Rehabilitation Centre for Children, Inc.		X
Special Operating Agencies Financing Authority	X	
University of Manitoba	X	
Venture Manitoba Tours Ltd.		X
Winnipeg Child and Family Services		X
Special Operating Agencies		
Civil Legal Services		X
Companies Office		X
Fire Commissioner, Office of the		X
Fleet Vehicles Agency		X
Food Development Centre		X
Industrial Technology Centre		X
Land Management Services		X
Mail Management Agency		X
Manitoba Education, Research and Learning Information Networks (MERLIN)		X
Manitoba Securities Commission		X
Manitoba Text Book Bureau	X	
Materials Distribution Agency		X
Organization and Staff Development	X	
Pineland Forest Nursery		X
The Property Registry		X
The Public Trustee	X	
Vital Statistics Agency		X
Regional Health Authorities		
Assiniboine Regional Health Authority Inc.		X
Brandon Regional Health Authority Inc.		X
Burntwood Regional Health Authority Inc.		X
Churchill Regional Health Authority Inc.		X
Interlake Regional Health Authority		X
NOR-MAN Regional Health Authority Inc.		X
North Eastman Health Authority Inc.		X
Parkland Regional Health Authority Inc.		X
Regional Health Authority - Central Manitoba Inc.		X
South Eastman Regional/Sante Sud-Est Inc.		X
Winnipeg Regional Health Authority Inc.		X

THE BALANCED BUDGET, DEBT REPAYMENT AND TAXPAYER ACCOUNTABILITY ACT

Appendix F

CHAPTER B5

THE BALANCED BUDGET, DEBT REPAYMENT AND TAXPAYER ACCOUNTABILITY ACT

(Assented to November 3, 1995)

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Manitoba, enacts as follows:

Definitions
1 In this Act,

"allocation committee" means the Debt Retirement Fund Allocation Committee appointed under subsection 8(6.2); (« Comité de répartition »)

"balance" for a fiscal year means the net result as shown on the financial statements after expenditure, as adjusted by section 3, is subtracted from revenue, as adjusted by section 3, and after the application of transfers from the operating fund to the Debt Retirement Fund and from the Fiscal Stabilization Fund to the operating fund; (« solde »)

"Crown corporation" means Manitoba Hydro, The Manitoba Public Insurance Corporation, The Liquor Control Commission and The Manitoba Lotteries Corporation; (« société de la Couronne »)

CHAPITRE B5

LOI SUR L'ÉQUILIBRE BUDGÉTAIRE, LE REMBOURSEMENT DE LA DETTE ET L'OBLIGATION DE RENDRE COMPTE AUX CONTRIBUABLES

(Date de sanction : 3 novembre 1995)

SA MAJESTÉ, sur l'avis et avec le consentement de l'Assemblée législative du Manitoba, édicte :

Définitions
1 Les définitions qui suivent s'appliquent à la présente loi.

« Comité de répartition » Comité de répartition du Fonds de remboursement de la dette nommé en vertu du paragraphe 8(6.2). ("allocation committee")

« dépenses » Dépenses engagées au cours d'un exercice et déclarées dans les états financiers vérifiés du fonds de fonctionnement pour l'exercice. La présente définition ne vise toutefois pas les transferts effectués du fonds de fonctionnement au Fonds de stabilisation des recettes ou au Fonds de remboursement de la dette. ("expenditure")

10/00

Appendix F
(cont'd.)

BALANCED BUDGET S.M. 1995, c.7 - Cap. B5

"Debt Retirement Fund" means the fund established in section 8; (« Fonds de remboursement de la dette »)

"expenditure" in respect of a fiscal year means expenditure as reported in the audited financial statements of the operating fund for that fiscal year, but does not include transfers from the operating fund to the Fiscal Stabilization Fund or the Debt Retirement Fund; (« dépenses »)

"financial statements" means the special purpose statements regarding the operating fund, prepared for the purpose of this Act to show whether the government is in compliance with this Act; (« états financiers »)

"Fiscal Stabilization Fund" means the Fiscal Stabilization Fund established in *The Fiscal Stabilization Fund Act*; (« Fonds de stabilisation des recettes »)

"general purpose debt" means general purpose debt as described in subsection 78(2) of *The Financial Administration Act*, but does not include

(a) debt associated with the acquisition of capital assets by the government for which an amortization allowance has been included in expenditure of the operating fund, or

(b) other debt incurred by the government for which a repayment provision has been included in expenditure of the operating fund; (« dette à portée générale »)

"minister" means the Minister of Finance; (« ministre »)

"net general purpose debt" means general purpose debt less the book value of related sinking funds; (« dette nette à portée générale »)

"net pension liability" means pension liability less the book value of related funds established for the payment of pensions; (« passif net découlant du régime de retraite »)

« dette à portée générale » La dette à portée générale que vise le paragraphe 78(2) de la *Loi sur la gestion des finances publiques*. La présente définition ne vise toutefois pas :

a) les dettes découlant de l'acquisition d'immobilisations, par le gouvernement, pour lesquelles une allocation d'amortissement a été portée aux dépenses du fonds de fonctionnement;

b) les autres dettes que le gouvernement a engagées et dont le remboursement a été prévu dans les dépenses du fonds de fonctionnement. ("general purpose debt")

« états financiers » Les états spéciaux du fonds de fonctionnement dressés pour l'application de la présente loi afin de démontrer si le gouvernement s'est conformé ou non à la présente loi. ("financial statements")

« fonds de fonctionnement » La partie du Trésor dans laquelle sont effectuées les transactions de fonctionnement du gouvernement, mais non celles visant les fonds détenus en fiducie. ("operating fund")

« Fonds de remboursement de la dette » Fonds constitué en vertu de l'article 8. ("Debt Retirement Fund")

« Fonds de stabilisation des recettes » Fonds de stabilisation des recettes constitué en vertu de la *Loi sur le Fonds de stabilisation des recettes*. ("Fiscal Stabilization Fund")

« ministre » Le ministre des Finances. ("minister")

« passif découlant du régime de retraite » Sommes nécessaires pour provisionner totalement les pensions que prévoient la *Loi sur la pension de la fonction publique* et la *Loi sur la pension de retraite des enseignants* qui sont payables sur le fonds de fonctionnement, mais qui ne sont pas déjà provisionnées. ("pension liability")

Appendix F
(cont'd.)

"operating fund" means that part of the Consolidated Fund that records the operational activities of the government and does not record activities relating to moneys that are held in trust; (« fonds de fonctionnement »)

"pension liability" means the amount required to fully fund the pensions provided for under *The Civil Service Superannuation Act* and *The Teachers' Pensions Act* that are payable out of the operating fund and not funded in another manner; (« passif découlant du régime de retraite »)

"revenue" in respect of a fiscal year means revenue as reported in the audited financial statements of the operating fund for that fiscal year, but does not include transfers to the operating fund from the Debt Retirement Fund or the Fiscal Stabilization Fund; (« recettes »)

S.M. 2000, c. 42, s. 3.

« passif net découlant du régime de retraite » Passif découlant du régime de retraite moins la valeur comptable des fonds connexes établis pour le paiement des pensions. ("net pension liability")

« recettes » Recettes obtenues au cours d'un exercice et déclarées dans les états financiers vérifiés du fonds de fonctionnement pour l'exercice. La présente définition ne vise toutefois pas les transferts effectués du Fonds de stabilisation des recettes ou du Fonds de remboursement de la dette au fonds de fonctionnement. ("revenue")

« société de la Couronne » L'Hydro-Manitoba, la Société d'assurance publique du Manitoba, la Société des alcools et la Corporation manitobaine des loteries. ("Crown corporation")

« solde » Résultat net d'un exercice figurant aux états financiers et obtenu en soustrayant les dépenses, rajustées en vertu de l'article 3, des recettes, rajustées en vertu de l'article 3, et après avoir affecté les transferts du fonds de fonctionnement au fonds de remboursement de la dette et du Fonds de stabilisation des recettes au fonds de fonctionnement. ("balance")

L.M. 2000, c. 42, art. 3.

BALANCED BUDGET REQUIREMENT

Fiscal year 2000-01 and thereafter
2 Subject to subsection 4(2), for the fiscal year ending on March 31, 2001 and for each fiscal year thereafter, the government is not to incur a negative balance.

S.M. 2000, c. 42, s. 4.

Transfers from Debt Retirement Fund not included in determining balance
3(1) For greater certainty, transfers from the Debt Retirement Fund to the operating fund shall not be included in determining whether there is a positive or negative balance for a fiscal year.

ÉQUILIBRE BUDGÉTAIRE

Exercices 2000-2001 et subséquents
2 Sous réserve du paragraphe 4(2), le gouvernement s'interdit de terminer l'exercice se terminant le 31 mars 2001 et les exercices subséquents avec un solde négatif.

L.M. 2000, c. 42, art. 4.

Détermination du solde — transferts
3(1) Il est entendu que, pour la détermination du solde, positif ou négatif, d'un exercice, il n'est pas tenu compte des transferts du Fonds de remboursement de la dette au fonds de fonctionnement.

Appendix F
(cont'd.)

Proceeds from sale of Crown corporation not included in determining balance
3(1.1) Revenue or other financial assets received by the government in a fiscal year ending after March 31, 2000 as a result of selling shares or assets of a Crown corporation in the course of a privatization of the Crown corporation shall not be included in determining whether there is a positive or negative balance for the fiscal year.

Other amounts not required to be included in determining balance
3(2) The government is not required to include the following in determining whether there is a positive or negative balance for a fiscal year:

(a) an expenditure required in the fiscal year as a result of a natural or other disaster in Manitoba that could not have been anticipated and affects the province or a region of the province in a manner that is of urgent public concern;

(b) an expenditure required in the fiscal year because Canada is at war or under apprehension of war;

(c) a reduction in revenue of 5% or more in the fiscal year, other than a reduction resulting from a change in Manitoba's taxation laws.

Declaration of L. G. in C.
3(3) A declaration by the Lieutenant Governor in Council that, in the opinion of the Lieutenant Governor in Council, an expenditure or reduction of revenue as described in subsection (2) has occurred is conclusive for the purposes of this Act of the fact that the expenditure or reduction occurred and in that amount.

Content of declaration
3(4) A declaration under subsection (3) shall include a description of the expenditure and why it was necessary and of the reduction in revenue and why it occurred.

Accounting policies
3(5) Subject to subsection (6), expenditure and revenue of a fiscal year shall be determined in accordance with the accounting policies that are observed for the fiscal year as disclosed in the audited financial statements of the operating fund for that fiscal year.

Détermination du solde — vente de sociétés de la Couronne
3(1.1) Pour la détermination du solde, positif ou négatif, des exercices postérieurs au 31 mars 2001, il n'est pas tenu compte des recettes ni des autres actifs financiers que le gouvernement obtient en contrepartie de la vente d'actions ou d'actifs de sociétés de la Couronne faisant l'objet d'une privatisation.

Détermination du solde — autres sommes
3(2) Le gouvernement n'est pas obligé de tenir compte des circonstances mentionnées plus bas pour déterminer le solde, positif ou négatif, d'un exercice :

a) la survenance, au Manitoba, d'un sinistre imprévu, notamment un sinistre naturel, qui a touché la totalité ou une partie de la province d'une manière telle qu'il constitue une question urgente d'intérêt public;

b) le Canada était en guerre ou se préparait à la guerre;

c) la réduction d'au moins 5 % des recettes au cours de l'exercice qui n'est pas attribuable à des modifications apportées aux lois fiscales de la province.

Déclaration du lieutenant-gouverneur
3(3) Le fait que le lieutenant-gouverneur en conseil déclare estimer qu'il y a eu engagement de dépenses ou réduction de recettes, ainsi qu'il est indiqué au paragraphe (2), constitue, aux fins de la présente loi, une preuve des dépenses ou de la réduction et de leur montant.

Contenu de la déclaration
3(4) Sont énoncées dans la déclaration visée au paragraphe (3) les dépenses engagées et les raisons de leur engagement ainsi que la réduction des recettes et les raisons de cette réduction.

Principes comptables
3(5) Sous réserve du paragraphe (6), les dépenses et les recettes d'un exercice sont déterminées en conformité avec les principes comptables précisés aux états financiers vérifiés annuels du fonds de fonctionnement.

Appendix F
(cont'd.)

Concerns of Auditor General
3(6) If the audited financial statements of the operating fund for a fiscal year contain a reservation of the Auditor General that results directly from a change in accounting policies occurring after March 31, 1995 that is not authorized by this Act, the government will not be considered to be in compliance with this Act unless a restatement of the financial statements of the operating fund for that fiscal year, excluding the effect of the change in accounting policies, would show the government to be in compliance with this Act.

S.M. 2000, c. 42, s. 5; S.M. 2001, c. 39, s. 31.

Negative balance requires offsetting positive balance in following year
4(1) If there is a negative balance in a fiscal year, the government is required to achieve at least an offsetting positive balance in the next fiscal year.

Application to government change
4(2) If there is a general election and the party forming the government after the election is different from the party forming the government before the election, subsection (1) does not require the government after the election to achieve an off-setting positive balance in connection with a negative balance incurred in the fiscal year during which the election took place.

S.M. 2000, c. 42, s. 6.

Audited financial statements
5 The audited financial statements of the operating fund for a fiscal year shall be completed and made public within six months after the end of that fiscal year.

Reporting requirements
6 The minister shall include a report on compliance with this Act in the third-quarter financial report and in the audited financial statements of the operating fund for a fiscal year.

Failure to meet requirements: third-quarter projection
7(1) If in respect of a fiscal year ending after March 31, 2000 the government is projecting a negative balance in the third-quarter financial report, the amount payable to each member of the Executive Council as remuneration for service as a member of the Executive Council, for the 12-month period commencing on April 1 of the fiscal year immediately following the fiscal year to which the third-quarter financial report relates, shall be reduced by

Opinion du vérificateur
3(6) Si les états financiers annuels vérifiés du fonds de fonctionnement contiennent une restriction du vérificateur général découlant directement d'une modification des principes comptables, adoptée après le 31 mars 1995, qui va à l'encontre de la présente loi, le gouvernement n'est réputé se conformer à la présente loi que s'il refait les états financiers du fonds de fonctionnement de l'exercice en ne tenant pas compte de ces modifications de façon à qu'ils indiquent qu'il s'est conformé à la présente loi.

L.M. 2000, c. 42, art. 5; L.M. 2001, c. 39, art. 31.

Compensation du déficit
4(1) Lorsque le solde d'un exercice est négatif, le gouvernement est tenu de réaliser, au cours de l'exercice subséquent, un solde positif compensant au moins ce solde négatif.

Changement de gouvernement
4(2) En cas d'élections générales, le paragraphe (1) ne s'applique pas, à l'égard de tout solde négatif enregistré pendant l'exercice au cours duquel ont eu lieu les élections, au nouveau gouvernement s'il est formé d'un autre parti que celui qui était au pouvoir avant les élections.

L.M. 2000, c. 42, art. 6.

États financiers vérifiés
5 Les états financiers vérifiés annuels du fonds de fonctionnement sont rendus publics dans les six mois suivant la fin de chaque exercice.

Respect de la Loi
6 Pour chaque exercice, le ministre joint un rapport de conformité avec la présente loi au rapport financier du troisième trimestre et aux états financiers vérifiés du fonds de fonctionnement.

Prévisions budgétaires du troisième trimestre
7(1) Si le gouvernement prévoit, dans son rapport financier du troisième trimestre d'un exercice se terminant après le 31 mars 2000, un solde négatif, la rémunération que les ministres reçoivent à titre de membres du Conseil exécutif est minorée, pendant la période de 12 mois commençant le 1er avril suivant l'exercice auquel s'applique le rapport financier :

Appendix F
(cont'd.)

(a) 20%, in a case where the government did not incur a negative balance in the fiscal year immediately preceding the fiscal year to which the report relates;

(b) 40%, in a case where the government incurred a negative balance in the fiscal year immediately preceding the fiscal year to which the report relates.

a) de 20 %, si le gouvernement n'a pas obtenu un solde négatif au cours de l'exercice précédant celui auquel s'applique le rapport;

b) de 40 %, si le gouvernement a obtenu un solde négatif au cours de l'exercice précédant celui auquel s'applique le rapport.

Refund
7(2) If the audited financial statements of the operating fund for a fiscal year show that the government is in compliance with this Act and amounts have been deducted from amounts payable to members of the Executive Council in connection with that fiscal year under subsection (1), the amounts so deducted shall be refunded to the members of the Executive Council.

Remboursement
7(2) Toute somme déduite de la rémunération des ministres en vertu du paragraphe (1) à l'égard d'un exercice leur est remboursée si les états financiers vérifiés annuels du fonds de fonctionnement indiquent que le gouvernement s'est conformé à la présente loi.

Failure to meet requirements: year-end
7(3) If in respect of a fiscal year ending after March 31, 2000 the audited financial statements of the operating fund show that the government incurred a negative balance, and no amount is being deducted from amounts payable to members of the Executive Council under subsection (1) in connection with that fiscal year, the amount payable to each member of the Executive Council as remuneration for service as a member of the Executive Council, for the 12-month period commencing on April 1 of the fiscal year immediately following the fiscal year to which the statements relate, shall be reduced by

(a) 20%, in a case where the government did not incur a negative balance in the fiscal year immediately preceding the fiscal year to which the statements relate;

(b) 40%, in a case where the government incurred a negative balance in the fiscal year immediately preceding the fiscal year to which the statements relate.

Défaut
7(3) Si les états financiers vérifiés du fonds de fonctionnement pour tout exercice se terminant après le 31 mars 2000 indiquent que le gouvernement a obtenu un solde négatif et qu'aucune minoration n'ait été effectuée en application du paragraphe (1) pour cet exercice, la rémunération que les ministres reçoivent à titre de membres du Conseil exécutif est minorée, pendant la période de 12 mois commençant le 1[er] avril suivant l'exercice auquel s'appliquent les états financiers :

a) de 20 %, si le gouvernement n'a pas obtenu un solde négatif au cours de l'exercice précédant celui auquel s'applique le rapport;

b) de 40 %, si le gouvernement a obtenu un solde négatif au cours de l'exercice précédant celui auquel s'applique le rapport.

Reduction process
7(4) The reduction required by subsection (3) may be prorated over the months that remain in the fiscal year after the publication of the audited financial statements of the operating fund.

Processus de minoration
7(4) La minoration visée au paragraphe (3) peut être répartie sur la partie de l'exercice qui suit la publication des états financiers vérifiés du fonds de fonctionnement.

Ceasing to be a member of the Executive Council
7(5) A reduction in the amount payable to a member of the Executive Council under this section applies only during the period when he or she serves as a member of the Executive Council.

Titulaires de portefeuille ministériel
7(5) La minoration de rémunération visée au présent article ne s'applique qu'à la période pendant laquelle la personne est membre du Conseil exécutif.

Appendix F
(cont'd.)

New members of the Executive Council
7(6) A reduction in the amount payable to members of the Executive Council under this section applies on a prorated basis to any new member of the Executive Council appointed during the period of the reduction.

S.M. 2000, c. 42, s. 7.

Nouveaux ministres
7(6) La minoration visée au présent article s'applique aux ministres nommés au cours de la période de minoration de façon proportionnelle à la partie de la période au cours de laquelle ils sont ministre.

L.M. 2000, c. 42, art. 7.

DEBT RETIREMENT FUND

FONDS DE REMBOURSEMENT DE LA DETTE

Debt Retirement Fund
8(1) In this section, **"fund"** means the Debt Retirement Fund established in subsection (2).

Définition
8(1) Pour l'application du présent article, **« Fonds »** s'entend du Fonds de remboursement de la dette constitué en application du paragraphe (2).

Fund established
8(2) The Debt Retirement Fund is hereby established under the direction and control of the minister.

Constitution
8(2) Est constitué le Fonds de remboursement de la dette. Le ministre en est responsable.

Management of fund
8(3) The minister shall hold the fund in trust and shall manage the fund in accordance with the provisions of *The Financial Administration Act* and this Act.

Administration du Fonds
8(3) Le ministre détient le Fonds en fiducie et l'administre en conformité avec la présente loi et la *Loi sur l'administration financière*.

Transfers to the fund from the operating fund mandatory
8(4) Despite *The Financial Administration Act*, the minister

(a) may, with the approval of the Lieutenant Governor in Council, transfer to the fund from the operating fund in any fiscal year any amounts that the Lieutenant Governor in Council considers appropriate; and

(b) shall, in each fiscal year ending after March 31, 2000, until the fund is wound up under subsection (12), transfer to the fund from the operating fund an amount equal to the greater of the following amounts:

(i) $96,357,000., as adjusted from time to time under subsection (4.1),

(ii) 1% of the total of the net general purpose debt and the net pension liability as at the end of the immediately preceding fiscal year.

Transferts du fonds de fonctionnement
8(4) Malgré la *Loi sur la gestion des finances publiques*, le ministre :

a) peut, avec l'approbation du lieutenant-gouverneur en conseil, transférer du fonds de fonctionnement au Fonds les sommes que le lieutenant-gouverneur en conseil estime appropriées;

b) pour tout exercice se terminant après le 31 mars 2000 et jusqu'à ce que le Fonds soit liquidé en vertu du paragraphe (12), est tenu de transférer du fonds de fonctionnement au Fonds une somme équivalant au plus élevé des montants qui suivent :

(i) 96 357 000 $, rajusté conformément au paragraphe (4.1),

(ii) 1 % du total de la dette nette à portée générale et du passif net découlant du régime de retraite à la clôture de l'exercice précédent.

Appendix F
(cont'd.)

Adjustment of transfer amount
8(4.1) The amount set out in subclause (4)(b)(i) shall be increased in each fiscal year commencing after March 31, 2001

(a) by 7% of all amounts transferred from the fund to the operating fund after March 31, 2000 for the repayment of general purpose debt; and

(b) if the amount remaining, after the allocation to general purpose debt, is insufficient to match the projected pension contributions of new employees hired on or after April 1, 2000, by any amount the minister considers necessary to ensure that those projected pension contributions can be matched.

Earnings of fund
8(5) The minister shall credit to the fund any earnings from investments of the fund.

Transfers from the fund to the operating fund
8(6) The minister, with the approval of the Lieutenant Governor in Council,

(a) may, from time to time during a fiscal year, transfer to the operating fund all or any part of the amounts standing to the credit of the fund, to be used for the sole purpose of reducing the general purpose debt and the pension liability of the government; and

(b) shall, at least once every five years after March 31, 2000, transfer to the operating fund all of the amounts standing to the credit of the fund, to be used for the sole purpose of reducing the general purpose debt and the pension liability of the government.

Allocation between general purpose debt and pension liability
8(6.1) The amount transferred to the fund under clause (4)(b) shall be allocated between general purpose debt and pension liability as follows:

(a) for the fiscal year ending March 31, 2001, $75,000,000. to general purpose debt and the remainder to pension liability; and

(b) for each fiscal year ending after March 31, 2001, as determined by the allocation committee.

Rajustement annuel
8(4.1) La somme indiquée au sous-alinéa (4)b)(i) est majorée, au cours de chaque exercice commençant après le 31 mars 2001 :

a) de 7 % des sommes transférées du Fonds au fonds de fonctionnement après le 31 mars 2000 pour le remboursement de la dette à portée générale;

b) de la somme que le ministre estime nécessaire pour provisionner les cotisations de contrepartie prévues pour les employés engagés à partir du 1er avril 2000 si le solde, après l'allocation pour la dette à portée générale, n'est pas suffisant pour les provisionner.

Revenus du Fonds
8(5) Le ministre porte au crédit du Fonds les revenus provenant des placements de celui-ci.

Transferts
8(6) Avec l'approbation du lieutenant-gouverneur en conseil, le ministre :

a) peut transférer au fonds de fonctionnement, au cours d'un exercice, la totalité ou une partie des sommes à l'actif du Fonds afin de réduire la dette à portée générale du gouvernement et son passif découlant du régime de retraite;

b) après le 31 mars 2000, est tenu de transférer au fonds de fonctionnement, au moins une fois par cinq ans, les sommes à l'actif du Fonds afin de réduire la dette à portée générale du gouvernement et son passif découlant du régime de retraite.

Répartition entre la dette et le passif
8(6.1) La somme transférée au Fonds en vertu de l'alinéa (4)b) est répartie entre la dette à portée générale et le passif découlant du régime de retraite comme suit :

a) pour l'exercice se terminant le 31 mars 2001, 75 000 000 $ pour la dette à portée générale et le reste pour le passif découlant du régime de retraite;

b) pour les exercices se terminant après le 31 mars 2001, conformément à ce que détermine le Comité de répartition.

Appendix F
(cont'd.)

Debt Retirement Fund Allocation Committee
8(6.2) The Debt Retirement Fund Allocation Committee is established consisting of

(a) the Deputy Minister of Finance, who shall be the chairperson of the allocation committee; and

(b) at least four other individuals appointed by the Lieutenant Governor in Council who, in the opinion of the Lieutenant Governor in Council, demonstrate financial expertise and competence, each of whom may be appointed for any term the Lieutenant Governor in Council considers appropriate.

Comité de répartition du Fonds de remboursement
8(6.2) Est créé le Comité de répartition du Fonds de remboursement de la dette constitué :

a) du sous-ministre des Finances, qui en est le président;

b) d'au moins quatre autres personnes que le lieutenant-gouverneur en conseil nomme pour la durée qu'il juge indiquée et qui, selon lui, ont les connaissances et les compétences financières nécessaires.

Duties of allocation committee
8(6.3) The allocation committee shall determine the allocation between general purpose debt and pension liability of

(a) the amounts transferred to the fund under subsection (4) and clause 9(b); and

(b) any earnings from investments of the fund.

Attributions du Comité de répartition
8(6.3) Le Comité de répartition détermine la répartition des sommes mentionnées plus bas à la dette de portée générale et au passif découlant du régime de retraite :

a) les sommes transférées au Fonds en vertu du paragraphe (4) et de l'alinéa 9b);

b) les gains provenant des investissements du Fonds.

Effective reduction of aggregate amount
8(6.4) In determining the allocation of the amounts transferred to the fund between general purpose debt and pension liability, the allocation committee shall follow investment and debt reduction principles that, subject to subsection (6.5), in the opinion of the committee, will result in the most effective reduction of the aggregate amount owing.

Réduction réelle du montant global
8(6.4) Pour déterminer la répartition des sommes transférées au Fonds au titre de la dette à portée générale et du passif découlant du régime de retraite, le Comité de répartition respecte les principes de placement et de réduction de la dette qui, selon lui et sous réserve du paragraphe (6.5), sont les plus efficaces pour réduire le montant global de la dette.

Requirement regarding matching contributions for new employees
8(6.5) The allocation committee shall ensure that provision exists for matching the projected pension contributions of new employees hired on or after April 1, 2000.

Exigences — cotisation des nouveaux employés
8(6.5) Le Comité de répartition s'assure que sont provisionnées les cotisations de contrepartie prévues pour les employés engagés à partir du 1er avril 2000.

No lapse
8(7) Notwithstanding any other Act or law, amounts standing to the credit of the fund do not lapse at the end of a fiscal year.

Annulation
8(7) Malgré toute autre loi ou règle de droit, les sommes à l'actif du Fonds ne sont pas annulées à la fin de l'exercice.

Fiscal year
8(8) The fiscal year of the fund is the period commencing on April 1 in one year and ending on March 31 in the next year.

Exercice
8(8) L'exercice du Fonds commence le 1er avril d'une année et se termine le 31 mars de l'année suivante.

Appendix F
(cont'd.)

Audit
8(9) The accounts and transactions of the fund shall be audited annually by the Auditor General.

Financial statements
8(10) The minister shall, annually, within six months after the end of the fiscal year, submit to the Lieutenant Governor in Council the audited financial statements of the fund for that fiscal year.

Tabling of statements in Assembly
8(11) The minister shall table in the Legislative Assembly a copy of the financial statements of the fund provided to the Lieutenant Governor in Council pursuant to subsection (10) immediately if the Assembly is then in Session and, if it is not then in Session, within 15 days of the beginning of the next Session.

Winding up of fund
8(12) If, in the opinion of the minister, sufficient money has been set aside to retire the general purpose debt and cover the pension liability of the government, the minister, with the approval of the Lieutenant Governor in Council, may wind up the fund and transfer any amounts remaining in the fund to the operating fund.

S.M. 2000, c. 42, s. 8; S.M. 2001, c. 39, s. 31.

Vérification
8(9) Le vérificateur général examine annuellement les comptes et les opérations du Fonds.

États financiers
8(10) Le ministre présente au lieutenant-gouverneur en conseil, dans les six mois suivant la fin de chaque exercice, les états financiers vérifiés annuels du Fonds.

Dépôt des états financiers à l'Assemblée
8(11) Le ministre dépose immédiatement devant l'Assemblée législative un exemplaire des états financiers du Fonds présentés au lieutenant-gouverneur en conseil en vertu du paragraphe (10); toutefois, si l'Assemblée législative ne siège pas, il les dépose dans les quinze premiers jours de séance ultérieurs.

Liquidation du Fonds
8(12) Le ministre peut, avec l'autorisation du lieutenant-gouverneur en conseil, liquider le Fonds s'il juge que des sommes suffisantes pour éteindre la dette à portée générale du gouvernement et pour provisionner son passif découlant du régime de retraite ont été amassées, puis transférer le solde du Fonds, le cas échéant, au fonds de fonctionnement.

L.M. 2000, c. 42, art. 8; L.M. 2001, c. 39, art. 31.

DISPOSITION OF POSITIVE BALANCE

Disposition of positive balance
9 If a positive balance exists in a fiscal year, the minister shall dispose of the amount of the positive balance as follows:

(a) the amount required to bring the Fiscal Stabilization Fund to its target level as described in section 3.1 of *The Fiscal Stabilization Fund Act*, or any greater amount that the minister, with the approval of the Lieutenant Governor in Council, considers appropriate, shall be transferred to the Fiscal Stabilization Fund;

(b) any amount remaining after a transfer under clause (a) may be left as a positive balance of the operating fund or may, with the approval of the Lieutenant Governor in Council, be transferred to the Debt Retirement Fund.

S.M. 2000, c. 42, s. 9.

UTILISATION DU SOLDE POSITIF

Utilisation du solde positif
9 Le ministre utilise tout solde positif accumulé au cours d'un exercice comme suit :

a) il transfère au Fonds de stabilisation des recettes soit les sommes nécessaires pour atteindre le niveau cible du Fonds visé à l'article 3.1 de la *Loi sur le Fonds de stabilisation des recettes*, soit, avec l'approbation du lieutenant-gouverneur en conseil, les sommes plus élevées qu'il juge appropriées;

b) après les transferts effectués en vertu de l'alinéa a), il peut, avec l'approbation du lieutenant-gouverneur en conseil, transférer le reste du solde positif au Fonds de remboursement de la dette ou le laisser à l'actif du fonds de fonctionnement à titre de solde positif.

L.M. 2000, c. 42, art. 9.

Appendix F
(cont'd.)

TAX REFERENDUM REQUIREMENT

Referendum required for tax changes
10(1) Subject to subsection (2), the government shall not present to the Legislative Assembly a bill to increase the rate of any tax imposed by an Act or part of an Act listed below, unless the government first puts the question of the advisability of proceeding with such a bill to the voters of Manitoba in a referendum, and a majority of the persons who vote in the referendum authorize the government to proceed with the changes:

(a) *The Health and Post Secondary Education Tax Levy Act*;

(b) *The Income Tax Act*;

(c) *The Retail Sales Tax Act*;

(d) Part I of *The Revenue Act*.

Revenue neutral and external changes
10(2) Subsection (1) does not apply to

(a) a bill to increase the rate of a tax if, in the opinion of the minister, the increase results from changes in federal taxation laws and is necessary to maintain provincial revenue or to give effect to a restructuring of taxation authority between the federal government and provincial governments;

(b) a bill to increase the rate of a tax if, in the opinion of the minister, the proposed change is designed to restructure the tax burden and does not result in an increase in revenue.

Procedures for referendum
11(1) A referendum under subsection 10(1) shall be conducted and managed by the Chief Electoral Officer in the same manner, to the extent possible, as a general election under *The Elections Act*, and the provisions of *The Elections Act* apply with necessary modifications to a referendum.

Question to be put to voters
11(2) The question to be put to voters in a referendum under subsection 10(1) shall be determined by Order of the Lieutenant Governor in Council at the commencement of the referendum process.

EXIGENCES EN MATIÈRE DE RÉFÉRENDUM SUR LES TAXES

Référendum – modification des taxes
10(1) Sous réserve du paragraphe (2), le gouvernement peut déposer à l'Assemblée législative un projet de loi prévoyant l'augmentation du taux de taxation ou d'imposition prévu par la totalité ou une partie d'une des lois citées ci-dessous s'il demande au préalable, par voie de référendum, l'avis de l'électorat manitobain sur les modifications proposées et que celui-ci lui donne l'autorisation, par un vote majoritaire, de procéder à l'adoption des modifications

a) la *Loi sur l'impôt destiné aux services de santé et à l'enseignement postsecondaire*;

b) la *Loi de l'impôt sur le revenu*;

c) la *Loi de la taxe sur les ventes au détail*;

d) la partie 1 de la *Loi sur le revenu*.

Exception
10(2) Le paragraphe (1) ne s'applique pas :

a) aux projets de loi prévoyant l'augmentation du taux d'une taxe ou d'un impôt si le ministre juge que l'augmentation résulte de modifications apportées aux lois fiscales fédérales et est nécessaire au maintien des recettes provinciales ou au plein effet d'un transfert de pouvoirs en matière de fiscalité entre les gouvernements fédéral et provinciaux;

b) aux projets de loi prévoyant l'augmentation du taux d'une taxe ou d'un impôt si le ministre juge que les modifications ont pour but de redistribuer le fardeau fiscal sans entraîner une augmentation des recettes.

Processus référendaire
11(1) Le directeur général des élections tient et dirige tout référendum visé au paragraphe 10(1), dans la mesure du possible, de la même façon que sont tenues les élections générales en vertu de la *Loi électorale* dont les dispositions s'appliquent, avec les adaptations nécessaires, aux référendums.

Libellé de la question
11(2) Le lieutenant-gouverneur en conseil détermine, par décret, au début du processus de tout référendum devant être tenu en vertu du paragraphe 10(1), le libellé de la question devant en faire l'objet.

Appendix F
(cont'd.)

Regulations re procedures
11(3) The Lieutenant Governor in Council may make any regulations that the Lieutenant Governor in Council considers necessary respecting the referendum process to give effect to subsection 10(1), including, without limiting the generality of the foregoing,

(a) governing the preparation of a voters list;

(b) governing the expenses, if any, that may be incurred, and the contributions, if any, that may be made, and by whom, in connection with a referendum;

(c) where greater certainty is required, modifying to the extent necessary the provisions of *The Elections Act* to make them applicable to the requirements of a referendum.

Règlement – procédure
11(3) Le lieutenant-gouverneur en conseil peut, par règlement, prendre les mesures nécessaires pour donner plein effet au paragraphe 10(1), et notamment:

a) régir la préparation de la liste électorale pour la tenue d'un référendum;

b) régir le genre de dépenses et de contributions permises, le cas échéant, dans le cadre d'un référendum et régir qui peut les engager ou les faire;

c) effectuer les modifications nécessaires à la *Loi sur les élections* de façon à respecter les exigences d'un référendum.

Costs of referendum
11(4) The costs of conducting a referendum shall be paid from the Consolidated Fund.

Coûts d'un référendum
11(4) Les dépenses engagées pour la tenue d'un référendum sont payées sur le Trésor.

AMENDMENT OR REPEAL

Amendment or repeal
12(1) Any bill introduced in the Legislative Assembly to amend, repeal, override or suspend the operation of this Act shall be referred at the committee stage to a standing committee of the Legislative Assembly which provides the opportunity for representations by members of the public.

Requirements re hearings
12(2) The standing committee reviewing a bill described in this section shall not be scheduled until seven days after the later of

(a) the day the bill is distributed in the Legislative Assembly; and

(b) the day the public is given notice of the date, time and place of the committee meeting.

MODIFICATION OU ABROGATION

Modification ou abrogation
12(1) Les projets de loi déposés à l'Assemblée législative qui visent à modifier ou à abroger la présente loi, à déroger à son application ou à en suspendre l'application sont renvoyés, à l'étape de l'étude en comité, à un comité permanent de l'Assemblée afin de permettre au public de présenter ses observations.

Exigences
12(2) Les séances de tout comité permanent procédant à l'étude d'un projet de loi visé au présent article commencent au plus tôt sept jours après la plus éloignée des dates suivantes :

a) la date de distribution du projet de loi à l'Assemblée législative;

b) la date de communication d'un avis public indiquant l'heure, la date et l'endroit de l'étude du projet de loi.

Appendix F
(cont'd.)

13 NOTE: This section contained consequential amendments to *The Fiscal Stabilization Fund Act* which are now included in that Act.

C.C.S.M. reference
14 This Act may be cited as *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act* and referred to as chapter B5 of the *Continuing Consolidation of the Statutes of Manitoba*.

S.M. 2000, c. 42, s.11.

Coming into force
15 This Act comes into force on the day it receives royal assent.

13 NOTE : Les modifications corrélatives que contenait l'article 13 ont été intégrées à la *Loi sur le Fonds de stabilisation des recettes* à laquelle elles s'appliquaient.

Renvoi à la C.P.L.M.
14 La présente loi constitue la *Loi sur l'équilibre budgétaire, le remboursement de la dette et l'obligation de rendre compte aux contribuables*, chapitre B5 de la *Codification permanente des lois du Manitoba*.

L.M. 2000, c. 42, art. 11.

Entrée en vigueur
15 La présente loi entre en vigueur le jour de sa sanction.

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Appendix G

THE FISCAL STABILIZATION FUND ACT

CHAPTER F85

THE FISCAL STABILIZATION FUND ACT

(Assented to December 13, 1989)

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Manitoba, enacts as follows:

Interpretation
1 In this Act,

"balance" has the same meaning as in *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*; (« solde »)

"Crown corporation" means Manitoba Hydro, The Manitoba Public Insurance Corporation, The Liquor Control Commission and The Manitoba Lotteries Corporation; (« société de la Couronne »)

"fund" means the Fiscal Stabilization Fund established in section 2; (« Fonds »)

"minister" means the Minister of Finance; (« ministre »)

S.M. 2000, c. 42, s. 13.

CHAPITRE F85

LOI SUR LE FONDS DE STABILISATION DES RECETTES

(Sanctionnée le 13 décembre 1989)

SA MAJESTÉ, sur l'avis et du consentement de l'Assemblée législative du Manitoba, édicte :

Définitions
1 Les définitions qui suivent s'appliquent à la présente loi.

« Fonds » Le Fonds de stabilisation des recettes constitué en vertu de l'article 2. ("fund")

« ministre » Le ministre des Finances. ("minister")

« société de la Couronne » L'Hydro-Manitoba, la Société d'assurance publique du Manitoba, la Société des alcools et la Corporation manitobaine des loteries. ("Crown corporation")

« solde » S'entend au sens qui est attribué à ce terme dans la *Loi sur l'équilibre budgétaire, le remboursement de la dette et l'obligation de rendre des comptes aux contribuables*. ("balance")

L.M. 2000, c. 42, art. 13.

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FISCAL STABILIZATION FUND — S.M. 1989-90, c. 16 - Cap. F85

Fund established
2(1) The Fiscal Stabilization Fund is hereby established under the direction and control of the minister.

Purpose of fund
2(2) The purpose of the fund is to assist in stabilizing the fiscal position of the government from year to year and to improve long-term fiscal planning.

Management of fund
2(3) The minister shall hold the fund in trust and shall manage the fund in accordance with the provisions of *The Financial Administration Act*.

Transfers to fund
3(1) Subject to subsection (1.1) and despite *The Financial Administration Act*, the minister may, with the approval of the Lieutenant Governor in Council, transfer to the fund any part of a positive balance, in accordance with *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*.

Proceeds of sale of Crown corporation
3(1.1) For greater certainty, the minister shall not deposit in the fund any revenue or other financial assets received by the government in a fiscal year ending after March 31, 2000 as a result of selling shares or assets of a Crown corporation in the course of a privatization of the Crown corporation.

Earnings of fund
3(2) The minister shall credit to the fund any earnings from investments of the fund.

S.M. 2000, c. 42, s. 13.

Target level
3.1(1) In this section, **"target level"** means an amount equal to 5% of the expenditure of the operating fund of the Consolidated Fund.

Achieving target level
3.1(2) The minister shall make every effort to ensure that the amount standing to the credit of the fund reaches at least the target level.

S.M. 1995, c. 7, s.13.

Constitution du Fonds
2(1) Est constitué le Fonds de stabilisation des recettes. Le ministre en est responsable.

Objet
2(2) Le Fonds a pour objet de faciliter la stabilisation de la situation financière du gouvernement d'année en année et d'améliorer la planification financière à long terme.

Administration du Fonds
2(3) Le ministre détient le Fonds en fiducie et l'administre en conformité avec la *Loi sur l'administration financière*.

Transferts au Fonds
3(1) Sous réserve du paragraphe (1.1) et malgré la *Loi sur la gestion des finances publiques*, le ministre peut, avec l'approbation du lieutenant-gouverneur en conseil, transférer au Fonds toute partie d'un solde positif conformément à la *Loi sur l'équilibre budgétaire, le remboursement de la dette et l'obligation de rendre des comptes aux contribuables*.

Produit de la vente de sociétés de la Couronne
3(1.1) Il est entendu que le ministre s'interdit de déposer dans le Fonds les recettes et les autres actifs financiers que le gouvernement obtient, au cours d'un exercice se terminant après le 31 mars 2000, en contrepartie de la vente d'actions ou d'actifs de sociétés de la Couronne faisant l'objet d'une privatisation.

Revenus du Fonds
3(2) Le ministre porte au crédit du Fonds les revenus provenant des placements de celui-ci.

L.M. 2000, c. 42, art 13.

Définition
3.1(1) Pour l'application du présent article, le « **niveau cible** » correspond à 5 % des dépenses du fonds de fonctionnement du Trésor.

Niveau cible
3.1(2) Le ministre déploie tous les efforts pour que les sommes à l'actif du Fonds atteignent au moins le niveau cible.

L.M. 1995, c. 7, art.13.

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(cont'd.)

Transfers out of the fund
4(1) Subject to subsection (2), the minister may, for the purpose mentioned in subsection 2(2), and with the approval of the Lieutenant Governor in Council, transfer to the Consolidated Fund all or any part of amounts standing to the credit of the fund.

Restriction
4(2) A transfer under subsection (1) may be made only once in each fiscal year.

S.M. 1995, c. 7, s.13; S.M. 2000, c. 42, s. 13.

No lapse
5 Notwithstanding any other Act or law, amounts standing to the credit of the fund do not lapse at the end of any fiscal year.

Fiscal year
6 The fiscal year of the fund shall be the period commencing on April 1 in one year and ending on March 31 in the next year.

Regulations
7 The Lieutenant Governor in Council may make any regulations that the Lieutenant Governor in Council considers necessary respecting the administration of the fund.

Audit
8 The accounts and transactions of the fund shall be audited annually by the Auditor General.

S.M. 2001, c. 39, s. 31.

Financial statements
9(1) The minister shall, annually, within six months of the end of the fiscal year, submit to the Lieutenant Governor in Council the audited financial statements of the fund for that fiscal year.

Tabling of statements in Assembly
9(2) The minister shall table in the Legislative Assembly a copy of the financial statements of the fund provided to the Lieutenant Governor in Council pursuant to subsection (1) forthwith if the Assembly is then in Session and, if it is not then in Session, within 15 days of the commencement of the next ensuing Session.

S.M. 1996, c. 59, s. 93.

Transferts
4(1) Sous réserve du paragraphe (2), le ministre peut, relativement à l'objet mentionné au paragraphe 2(2) et avec l'approbation du lieutenant-gouverneur en conseil, transférer au Trésor tout ou partie des montants compris dans le Fonds.

Restriction
4(2) Le transfert visé au paragraphe (1) ne peut être effectué qu'une fois.

L.M. 1995, c. 7, art.13; L.M. 2000, c. 42, art. 13.

Annulation
5 Malgré toute autre loi ou règle de droit, les montants compris dans le Fonds ne sont pas annulés à la fin de l'exercice.

Exercice
6 L'exercice du Fonds commence le 1er avril et se termine le 31 mars de l'année suivante.

Règlements
7 Le lieutenant-gouverneur en conseil peut prendre les règlements qu'il estime nécessaires relativement à l'administration du Fonds.

Vérification
8 Le vérificateur général examine annuellement les comptes et les opérations du Fonds.

L.M. 2001, c. 39, art. 31.

États financiers
9(1) Le ministre présente annuellement au lieutenant-gouverneur en conseil, dans les six mois suivant la fin de l'exercice, les états financiers vérifiés du Fonds pour cet exercice.

Dépôt des états à l'Assemblée
9(2) Le ministre dépose immédiatement devant l'Assemblée législative un exemplaire des états financiers du Fonds présentés au lieutenant-gouverneur en conseil en vertu du paragraphe (1); toutefois, si l'Assemblée législative ne siège pas, il les dépose dans les 15 premiers jours de séance ultérieurs.

L.M. 1996, c. 59, art. 93.

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(cont'd.)

C.C.S.M.
10 This Act may be cited as chapter F85 of the *Continuing Consolidation of the Statutes of Manitoba.*

Coming into force
11 This Act is retroactive and is deemed to have come into force on March 31, 1989.

C.P.L.M.
10 La présente loi est le chapitre F85 de la *Codification permanente des lois du Manitoba.*

Entrée en vigueur
11 La présente loi a un effet rétroactif et est réputée être entrée en vigueur le 31 mars 1989.

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Appendix H

GLOSSARY

Accumulated surplus/deficit	The total of all past annual surpluses and deficits to date.
Annual surplus/deficit	The difference between the government's annual revenues and expenses.
Derivative contract	A "swap" or other financial instrument that is entered into with a third party, and is used to hedge interest rate, foreign currency or other risk exposures.
Enterprises	Also known as commercial, self-supporting, or modified equity enterprises. These are self-sufficient Crown corporations that sell goods or services to parties outside the government reporting entity.
Federal transfers	Funds received by the Province from the Federal government, such as the Equalization Transfers and the Canada Health and Social Transfer.
Financial assets	Assets of government (such as cash, investments, loans and accounts receivable) that can be converted to cash in order to pay government's liabilities or finance its future operations.
General infrastructure assets	Also known as capital assets, physical assets, tangible assets, non-financial assets, physical capital stock. These general program capital assets form the infrastructure necessary to provide services to citizens.
Generally accepted accounting principles (GAAP)	This refers to the accounting policies that government should follow in order to be consistent in its accounting practices with other, similar, organizations. The accepted authority for GAAP for Canadian governments is the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA).
General programs	Those activities of government which are not carried out by its profit-oriented enterprises.
Government reporting entity	The group of organizations that are consolidated in the government's main summary financial statements.

Appendix H
(cont'd.)

Gross domestic product (GDP)	The money value of goods and services produced within a geographical boundary. GDP can be reported without adjusting for inflation (known as market value, current, or nominal GDP) or it may be discounted for the effects of inflation (real GDP).
Hedging	Reducing potential exposure to foreign currency, interest rate or other risks. Often achieved by entering into derivative contracts with a third party.
Net liabilities	Defined as government's total liabilities less its financial assets, this is the residual liability amount that will have to be paid or financed by future taxpayers.
Public debt	Borrowings of the government. Debt generally consists of debentures, notes payable, capital leases and mortgages.
Public debt charges	Also known as the cost of borrowing, or debt servicing costs, this is the interest incurred by government on its borrowings.
Summary financial statements	The financial statements through which government reports its financial position and operating results.