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

December 2005

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, 2005* including *A Review of School Division Financial Accounting and Reporting* 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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REFLECTIONS OF THE AUDITOR GENERAL

The year ended March 31, 2005 saw important action on the government commitment to adopt summary budgets and financial statements prepared in accordance with generally accepted accounting principles (GAAP) for the fiscal year ending March 31, 2008. I acknowledge, in particular, the significant improvement in government communications with respect to the release of the public accounts. Their commentary accurately and fairly reflected the actual financial results for the year, while also indicating that the government had continued to comply with balanced budget legislation as it currently exists. I believe that citizens are well served by transparency of this sort.

In its response to my report, the government notes that citizens will still want information on spending by government departments, revenues derived from taxes and fees and transfers from other levels of government. Of course, it is important to note that such information can, and should, be provided within the context of summary financial statements.

Once summary financial statements are in place as the primary source of information, the costs of governmental programs can be made more accurate by including the costs of pensions earned by the employees in budgets and annual reports. This will enhance decision making since legislators will then know the true cost of government programs. This information has never before been available to them.

I commend the government on their continuing commitment to open and transparent financial reporting to citizens in accordance with GAAP.

Jon W. Singleton, CA•CISA

EXECUTIVE SUMMARY

Executive Summary

We commend the Province that, for the first year since Summary Financial Statements were first published in 1988, the Government has prepared Summary Financial Statements which are fully in accordance with Canadian generally accepted accounting principles for senior governments (GAAP). Because of changing GAAP requirements, a qualification will be received for the next two years until school divisions are consolidated. The Province is undertaking significant steps to eliminate this upcoming qualification by 2007/08.

2004/05 Summary Financial Statements prepared in accordance with GAAP.

Summary Financial Statements to incorporate school divisions by 2007/08.

We are encouraged that the Province has undertaken significant planning and preparatory steps toward implementing a complete Summary Financial Statement focus for budgeting and financial reporting for 2007/08. This has involved:

- Early adoption of the PSAB Government Reporting Model for March 31, 2005 prior to the required implementation date of March 31, 2006.
- The elimination of GAAP exceptions in the March 31, 2005 Summary Financial Statements.
- Significant consultation with entities currently consolidated within the Government Reporting Entity, in addition with school divisions and others planned for consolidation by 2007/08.
- Reviewing changes needed for the budgeting process leading to the preparation of a Summary Budget that will enable Members of the Legislative Assembly to fully discuss the planned use of public resources and to fully evaluate the actual results achieved against the budget.
- Refocussing public communication solely from the Special Purpose Operating Fund Statements to the Summary Financial Statements and increasing "Discussion and Analysis" concerning the Summary Financial Statements for the March 31, 2005 publication of the Public Accounts.
- Eliminating the publication of unaudited fourth quarter reports and focussing public communication on audited results for the year ending March 31, 2005.
- Reviewing potential changes needed to The Financial Administration Act and Balanced Budget Legislation. Changes to be considered may include:
  - A reference to public reporting in accordance with GAAP; and
  - Eliminating the requirement for audited Operating Fund Financial Statements.

Early adoption of PSAB Reporting Model.

No GAAP Exceptions.

Expanded Reporting Entity by 2007/08.

Updating Budgeting Process.

Educating the Public.

Eliminated Fourth Quarter Report.

Review of Legislation.

Need to eliminate Special Purpose Statements for Public Reporting Focus.

We believe that the Special Purpose Operating Fund and Special Funds Financial Statements should not be used to assess the Government's performance in managing the Province's financial affairs and public resources because there are significant accounting policies used in the Special Purpose Operating Fund and Special Funds Financial Statements that are not in accordance with GAAP.

GAAP Exceptions.

If Canadian GAAP had been used in the preparation of the Special Purpose Financial Statements for the year ending March 31, 2005, financial assets would increase by $196 million, non-financial assets would increase by $1.640 billion, liabilities would increase by $2.484 billion, net debt would increase by $2.288 billion, accumulated deficit would increase by $648 million, revenues including net income from government business enterprises would increase by $1.854 billion, and expenses would increase by $1.800 billion. As a result, this year, we again excluded the word "fairly" from the opinion paragraph in order to continue to highlight the limitations inherent in the Special Purpose Operating Fund and Special Funds Financial Statements.

Understanding Summary Financial Statements.

In this report, in Changing Focus to the Summary Financial Statements, we also present two segments: Understanding the Summary Financial Statements, and Financial Condition. These segments are intended to assist readers in understanding the Summary Financial Statements. A key focus of Summary Financial Statements involves the concept of net debt and the change in net debt, both in actual and relative terms (to the provincial economy). The consistency of the Province's accounting policies and the completeness of note disclosure are fundamental to understand the Summary Financial Statements. As well, the planned results (budgeted estimates of revenue and expense) are also important in assessing the Province's annual results in relation to the budget.

More Work on Annual Report Needed.

In our follow up review of the Province's Annual Report for the year ended March 31, 2005, we noted that there is still a need for more emphasis on the Summary Financial Statements in the discussion and analysis. There was still no discussion or analysis of risk and how the Province addressed risk. Overall, we believe that the Annual Report can be further enhanced to reflect the recommendations of PSAB's Financial Statement Discussion and Analysis and CCAF's Performance Reporting Principles.

SCHOOL DIVISION FINANCIAL REPORTING

> Steps are being taken by the Province to adopt GAAP for school division public reporting by 2007/08.

Improvements to School Division Financial Reporting Needed.

School divisions in Manitoba receive substantial monies from the Province and citizens (taxpayers, ratepayers and residents). To ensure that school divisions are held accountable for the funds they receive, citizens need to receive appropriate financial reporting and be confident that objective and recognized accounting standards are used. An understandable and accurate picture of a school division's financial position and operations enables both the Province and citizens, as well as the trustees and other stakeholders, to obtain assurance that public monies are being utilized in an appropriate and transparent manner.

School divisions in Manitoba are currently required to follow accepted accounting principles for school divisions which are documented in the Financial Reporting and

Accounting in Manitoba Education Manual (FRAME). Conceptually, FRAME was developed based on Generally Accepted Accounting Principles (GAAP) with a few exceptions. These few exceptions result in the financial statements of Manitoba school divisions to be not in compliance with GAAP.

Non-GAAP Statements Used.

The preparation of financial statements in accordance with GAAP is fundamental to meaningful reporting. These principles are designed to provide for financial reporting that is readily understandable and consistent. They are intended to support transparency and accountability. We believe that citizens are not receiving the quality of financial reporting from their school divisions to which they are entitled, and their ability to hold divisions accountable is thereby impaired.

INFRASTRUCTURE TANGIBLE CAPITAL ASSETS AUDIT

This audit formed part of our audit of the Public Accounts. Our objectives were:

- To determine whether infrastructure capital assets (infrastructure) are recognized in the Operating Fund and Summary Financial Statements, as at April 1, 2004 and for the year ended March 31, 2005, in accordance with Canadian generally accepted accounting principles (GAAP) for senior government as recommended by the Public Sector Accounting Board (PSAB); and
- To determine whether there are effective internal controls supporting the proper accounting for infrastructure.

We confirmed that Manitoba's infrastructure accounting policy is in accordance with Canadian generally accepted accounting principles for senior governments. In addition, the key aspects of Manitoba's accounting policy and practices were consistent with the accounting policies and practices used in other provincial jurisdictions.

Infrastructure was recognized in the Operating Fund, in all material respects, as at April 1, 2004 and for the year ended March 31, 2005, in accordance with Canadian generally accepted accounting principles for senior governments as recommended by the Public Sector Accounting Board.

The Government's internal controls supporting the proper accounting for infrastructure were operating effectively for the year ended March 31, 2005 except for the internal control procedures related to the recognition of when new infrastructure is put in service. We recommended that the Province amend their procedures to record new infrastructure by September 30th of each fiscal year in order to permit the Asset Management Module of SAP to properly calculate the current year's amortization expense.

THE USE OF DERIVATIVE FINANCIAL INSTRUMENTS IN THE PROVINCE OF MANITOBA

The Province has a risk management process for derivatives in place, but as indicated in the general conclusions below, and in the details contained in this report, there are areas that need to be addressed to ensure that this process is operating consistent with industry best practices with respect to management, market, legal, credit, and operational risks.

- The Department of Finance and its Treasury Division **have not formally documented their overall strategic objectives, a strategy on how to achieve those objectives, the strategy on how to identify the risks (risk identification), and the risk of achieving the strategic objectives (risk management strategy)**. Nevertheless, the Division has a working definition of its objectives, risk identification and risk management strategy. The Department and the Division use derivative financial instruments as one mechanism to implement that strategy.
- The **Treasury Division's objectives, risk identification and assessment, and risk management strategy have not been approved**. While there is a Derivative Policy statement, it also has never been approved. We believe that an oversight body should be involved in that approval process.
- **Treasury Division developed a risk management policy referred to as the Derivative Policy. The Derivative Policy is part of the Division's overall Risk Management Policy which is still under development.** We determined that the risk management process to address key risks involving the use of derivatives which include management, market, legal, credit, and operational risks, was generally consistent with industry best practices. However, we have a number of recommendations regarding the controls and procedures addressing operational risk as well market and credit risks.
- We believe that **what constitutes acceptable levels of risk and risk limits need to be documented in a risk management policy statement**. Similarly, there is a need for more documentation of the due diligence process regarding the deliberations and decisions to use derivatives. Additional documentation would provide more adequate audit trails of transactions.
- Because the **Middle Office is still under development and therefore not fully functional**, the risk management process for the Treasury Division as a whole is not fully developed. We recommended that the Department of Finance consider allocating more resources in order to complete the development of the Middle Office's functionality in the near term.
- We believe that the **oversight function should be expanded**. There is no governance equivalent to a board of directors in place to establish the strategic objectives and to set out a broad framework for management to work within and provide oversight. An oversight committee should receive timely and sufficient information to oversee the Treasury Division's activities. In the current organizational structure, the Capital Markets Committee is the senior committee overseeing the risk management process regarding the use of derivative financial instruments. No minutes are recorded at the Committee's meetings and therefore there is no audit trail documenting the Committee's deliberations and decisions.

HIGHLIGHTS OF THE 2004/05 PUBLIC ACCOUNTS

Highlights of the 2004/05 Public Accounts

SUMMARY FINANCIAL STATEMENTS

- Five Year Comparative Results are presented in **Figure 1**.

FIGURE 1

Summary Financial Statements Year Ended March 31	($ millions)				
	2005	**2004 (restated)**	**2003***	**2002***	**2001***
Actual summary annual (deficit) surplus	**599**	(579)	(184)	(10)	431
Budgeted summary annual (deficit) surplus	**(59)**	(110)	(133)	36	N/A
Net borrowings	**(9,360)**	(9,110)	(8,217)	(8,117)	(8,152)
Public borrowing interest expense	**1,281**	1,296	1,449	1,818	1,885
Change in net debt (increase)	**463**	(763)	(437)	(350)	22

Source: *Province of Manitoba Annual Reports for the years ended March 31, 2001 - 2005.*

* The results presented have not been restated to conform to changes in accounting policies which are reflected in the 2005 and 2004 restated results. As such, the reported change in net debt would likely change. Restated figures were not available.

- For the first time since the production of Summary Financial Statements began in 1988, the Summary Financial Statements for the year ended March 31, 2005 were prepared in accordance with Canadian generally accepted accounting principles (GAAP) (eliminating all of the previous year's exceptions to GAAP.)
- The Province recorded infrastructure tangible capital assets in the 2005 Summary Financial Staements.

SPECIAL PURPOSE OPERATING FUND AND SPECIAL FUNDS FINANCIAL STATEMENTS

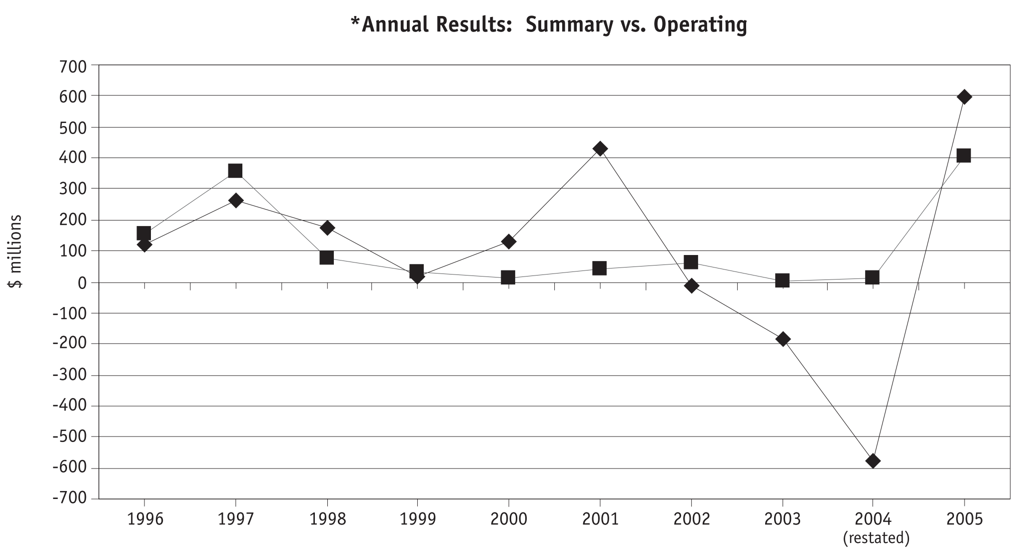
- One significant shortcoming of a focus on these statements are that even though the financial statements reflect a positive balance for the purposes of Balanced Budget Legislation, deficits can (after reflecting the impact of GAAP adjustments, such as for pension expense, to these financial statements), and have occurred, net debt to GDP can, and has gone up, and borrowings can, and have gone up.
- These financial statements are prepared using the Province's accounting policies (which vary from GAAP) for the year ended March 31, 2005 as follows:
  - pension liability of $3.8 billion and pension expense of $192 million were not recorded;

- elimination of deferred charges (asset) of $586 million and the related expense of $89 million were not recorded;
- financial assets of $196 million, non-financial assets of $2,226 million , a reduction in liabilities of $1,277 million and in net debt of $1,473 million, as well as, a reduction in the accumulated deficit of $3,699 million, revenues of $1,854 million and expense of $1,521 million for all of the crown organizations and government business enterprises were not recorded; and
- there was no restatement of the correction of errors and the changes in accounting policies.

• Without the above variations from GAAP, the Special Purpose Operating Fund and Special Funds Financial Statements would have reflected increased financial assets by $196 million, increased non-financial assets by $1.640 billion, increased liabilities by $2.484 billion, increased net debt by $2.288 billion, increased accumulated deficit by $648 million, increased revenues including net income from government business enterprises by $1.854 billion, and expenses would have increased by $1.800 billion.

ANNUAL RESULTS: SUMMARY VS. OPERATING

FIGURE 2



* Figures prior to 2004 have not been restated for the impact of any changes in accounting policies which are reflected in the 2005 and 2004 restated results. Restated figures were not available.

The above figure illustrates the differences between annual results computed for the Summary versus the Operating Fund Financial Statements.

CHANGING FOCUS TO THE SUMMARY FINANCIAL STATEMENTS

Changing Focus to the Summary Financial Statements

When we reflect on the past financial reporting practices of the Province in the context of the worldwide call for improved accountability and transparency, we commend the Government for preparing the Summary Financial Statements in accordance GAAP for the year ended March 31, 2005 as well as for their commitment to focus public discussion on the Summary Financial Statements and to eliminate the need for published, audited Operating Fund Statements. This change also involves preparing a full summary budget for the 2007/08 fiscal year as well as preparing quarterly summary financial statements.

We have been reporting to Manitobans for many years that the Summary Financial Statements are the financial statements that should be used to assess the Government's performance and the Province's financial position including its net debt position. The Special Purpose Financial Statements are not GAAP financial statements and do not include net debt of $2.3 billion ($3.8 billion pension liability offset by other net assets of $1.5 billion) or the additional net annual surplus of $54 million from the operations of crown organizations and government business enterprises (excluding the nets profits from Manitoba Lotteries Corporation and Manitoba Liquor Control Commission which are already reflected in the Special Purpose Financial Statements). The following sections are intended to assist readers in understanding the Summary Financial Statements and how they can be used in assessing the Government's financial condition.

UNDERSTANDING THE SUMMARY FINANCIAL STATEMENTS

We believe the keys* to understanding the Summary Financial Statements are:

- Governments are different than businesses and their financial reporting reflects that difference. A government's goal to provide services through its programs and redistribute the Province's resources, not make a profit;
- All the crown organizations and government business enterprises comprising a government's reporting entity are included (see **Appendix E**);
- The focus is on net debt which is total liabilities less financial assets (financial assets are assets which can be used to pay off liabilities) (see **Appendix B**, page 110); Net debt represents the future revenue requirements needed to pay for existing liabilities (past transactions and events);
- Non-financial assets such as tangible capital assets (i.e., infrastructure, land, buildings, etc.) are used to provide services and cannot be used to pay off liabilities unless they are sold; they are included in the accumulated deficit figures as a reduction of net debt (see **Appendix B**, page 110);
- Accumulated deficit reflects the government's entire net economic shortfall. It means that the government's liabilities are greater than

*Incorporates guidance from CICA Publication, *"20 Questions About Government Financial Reporting, Federal, Provincial and Territorial Governments"*.

their assets and that the government has been financing their annual operating deficits by borrowing. It also reflects the sum of all the annual surpluses and deficits ever reported by a government;

- Borrowings on the Statement of Financial Position (see **Appendix B**, page 110) refer to the total debt issued by the government(past and present);
- Net borrowings on the Statement of Financial Position exclude the debt issued on behalf of government business enterprises such as Manitoba Hydro-Electric Board as well as sinking funds which are used to repay the debt. However, net borrowings are only part of the government's total liabilities;
- Total liabilities represent all the amounts owed by the government including amounts owed to employees for future benefits such as pensions and retirement allowances (severance);
- Government's annual surplus (deficit) (see **Appendix B**, page 111) indicates whether a government has raised sufficient revenues to pay for its expenses for that fiscal year. The expenses reported include the cost of using existing and new capital assets which is referred to as amortization expense. If revenues equal expenses then a government is considered to have maintained its net assets (there is no increase in the accumulated deficit);
- Government's change in net debt (see **Appendix B**, page 113) reflects whether the government's revenues were sufficient to cover their expenses and other spending such as the funds spent on the purchase or construction of tangible capital assets. The level of net capital spending may also be compared to the planned (budgeted) level of capital spending. An increase in net debt indicates that more future revenues will be required to pay for past transactions;
- Government's cash flows are reported on the Statement of Cash Flow and identify the change in cash (and cash equivalents) and the source and use of cash through operating, investing and financing activities. It also highlights net capital spending and how cash was used to acquire capital assets;
- Budgeted and actual figures should be shown on the Statements of Revenue and Expense (Operations) and Change in Net Debt (see **Appendix B**, pages 111 and 113). Unfortunately at this time, only the Special Purpose Financial Statements disclose detailed budgeted figures on the Schedule of Operating Fund Revenue and Expense (Schedule 8); the Summary Financial Statements disclose only net revenues by crown organization (Schedule 9);
- The budget is a guide to the government's public policy decisions. It establishes the estimates of revenues and expenses as well as capital spending for each fiscal year. The budget reflects the government's financing requirements to support both operating and capital spending.

It is also used to determine the extent of new borrowings needed and influences the setting of tax rates and users' fees;

- Government's budget is also an important accountability document and is used as a benchmark against which their performance is measured. Planned spending is compared with actual spending. The government is accountable for their programs, the cost of services (programs) provided as well as their financial position. The cost of services should be reported by function such as Health and Education. As a result, the budget should be presented on a basis that is consistent with or at least reconciled with how the information is presented in the Summary Financial Statements;
- Government's significant accounting policies are disclosed in note 1 to the Summary Financial Statements. These accounting policies are integral to understanding how a government accounts for transactions and events and should indicate whether they are set in accordance with Canadian generally accepted accounting principles;
- In order to have meaningful comparisons between planned and actual results, the same accounting policies must be used to reflect the prior year's and the current year's annual results. The prior's year annual results along with the current year's results must be restated to reflect the effects of any change in accounting policy;
- The Auditor's Report states whether the accounting policies have been applied on a consistent basis with that of the preceding year. A consistent basis means that where there have been changes in accounting policies, the prior years' as well as the current year's results have been restated to show the reader the impact of the changes; and
- Other notes to the Summary Financial Statements also provide disclosure and explanations regarding significant transactions and events in the reporting period as well as information about contingent liabilities and contractual obligations, related party transactions and subsequent events. Note disclosure is not a substitute for proper accounting treatment which means that transactions must be reflected in the Statements of Financial Position and Revenue and Expense (Operations) unless only note disclosure is required under GAAP.

FINANCIAL CONDITION

In order to assess the government's financial condition, the Canadian Institute of Chartered Accountants selected a set of financial indicators which provide an analysis of the state of a government's management of their finances.

The Canadian Institute of Chartered Accountants Research Report on Indicators of Government Financial Condition [1997] (Research Report) also indicates that the Summary Financial Statements should be used to determine the financial indicators. The Research Report defines the financial condition of a government as follows:

> *"The financial condition of the 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. "*

Financial condition focuses on the finances of the government. It is not intended to assess the financial condition of the economy, or overall government performance or current fiscal policy or government solvency. It is not an assessment of the effectiveness of government spending and revenue decisions. The intended outcomes of government activities are important and should be discussed but not as indicators of financial condition. The financial condition of a government needs to be assessed relative to the economy, and benchmarks (targets) should be used to measure the government's relative financial condition as well as assess long term trends. The Government of Manitoba has not established its own targets for such indicators.

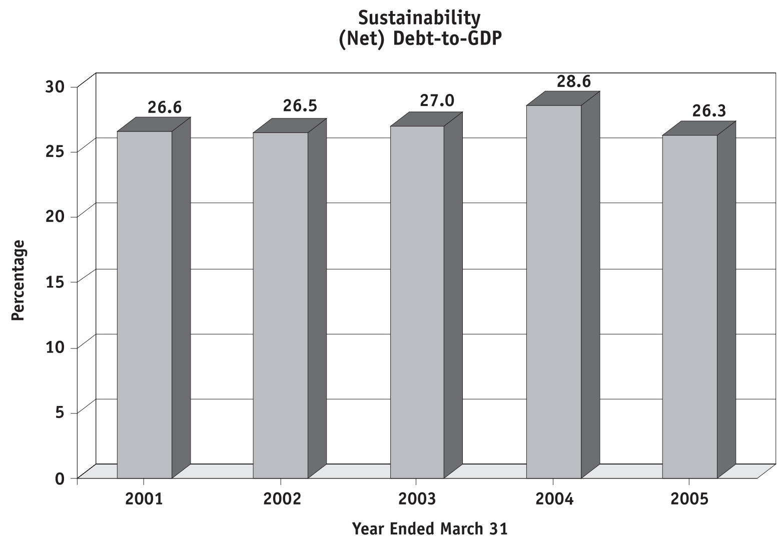
Overall, the financial condition of the government is different from the financial condition of the economy. The benefits that are generated by government financial activities are different from the benefits created by the financial activities of private sector organizations. For the most part, the benefits of the financial activities of private sector organizations accrue to the organizations and increase their net wealth. Most of the benefits that are generated by government financial activities accrue to society and are not reflected on the government's balance sheet (statement of financial position) even though the shortfall or deficit resulting from these activities becomes part of the government's debt. A case in point is the investment in health and education which benefits society as a whole but is not reflected on the government's balance sheet.

For the 2001 – 2005 fiscal years, seven of the ten financial indicators recommended in the CICA Research Report are presented below. Two of the other three indicators are national indicators and their relevance to assessing the Province's financial condition is not clear. The third remaining indicator is the Foreign-Held Government Debt-to-Net Government Debt. Foreign held debt informed (foreign investors holding Manitoba debentures) can only be derived from the paying agents' records. The cost of obtaining this information is considered to outweigh the benefits of presenting it. The Annual Report of the Province of Manitoba for the year ended March 31, 2005 included five of these financial indicators, [Net] Debt-to-GDP, Debt Servicing Charges-to-Revenues, Own Source Revenues-to-GDP, Government-to-Government [Federal] Transfers-to Own Source Revenues and Foreign Currency Debt-to-Net Government Debt which is described as Unhedged Foreign Debt as a percentage of Net Debt.

Sustainability Indicators

- (Net) Debt-to-GDP ratio measures the level of net debt (total liabilities less financial assets) a government carries as percentage of its Gross Domestic Product (see **Appendix I**). An increasing Debt-to-GDP ratio means that the debt burden on taxpayers is growing and more of the government's future revenues will be required to repay that debt. The Province's (Net) Debt-to-GDP ratio had been slowly increasing up to 2004. In 2005, the indicator dropped significantly. The Federal Government's target for this ratio has been recently set at 20%. The Government of Manitoba has not established a target ratio.

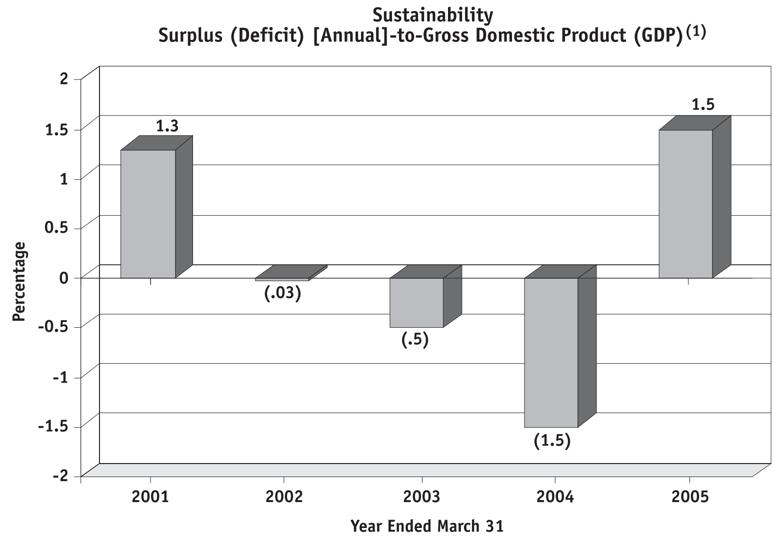
FIGURE 3A



Source: Annual Report of the Province of Manitoba for the year ended March 31, 2005.

- (Surplus) Deficit-to-GDP ratio measures the difference between government annual revenues and expenses as a percentage of GDP. It can be used to identify the annual surplus (deficit) that would be required to stabilize the Debt-to-GDP ratio at a specified rate of economic growth. For instance, if the rate of the growth in the economy is 3% and interest rates are 5%, then if all other factors remaining the same, the Debt-to-GDP ratio will increase. In order to stabilize the Debt-to-GDP ratio in this situation, revenue must exceed program expenses to offset the difference in the rate of growth in the economy compared to the level of interest rates. The target used for the (Surplus) Deficit [Annual]-to-GDP ratio of the Federal Government was 2.0 % (surplus) according the CICA Scorecard (Measuring Progress: The State of Federal Government Finances) prepared in 2001/02. The Government of Manitoba has not established a target ratio.

FIGURE 3B



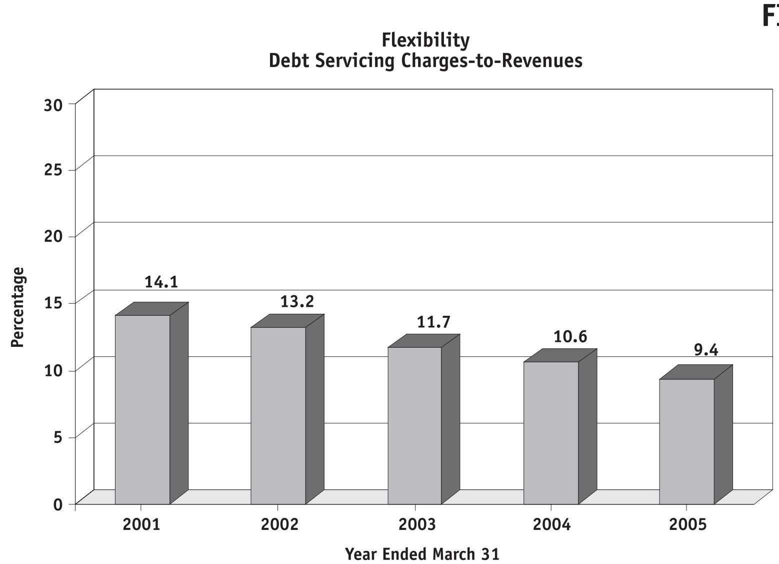
(1) Calculated by the Office of the Auditor General.

Sources: Information Tables from Statistics Canada and Annual Reports of the Province of Manitoba for the years ended March 31, 2001-2005.

Flexibility Indicators

- Debt service charges as a percentage of revenues show the percentage of revenue that is used to service the debt and also show the impact of increasing a government's net debt. Higher net debt puts pressure on interest rates, and increased interest rates result in higher debt servicing costs which reduce the revenue available to spend on programs. The target used for the Debt Servicing Charges-to-Revenues ratio of the Federal Government was 16.0% according the CICA Scorecard (Measuring Progress: The State of Federal Government Finances) prepared in 2001/02. The Province's interest costs as a percentage of revenues have been steadily decreasing. This change is a positive development. The Government of Manitoba has not established its target ratio.

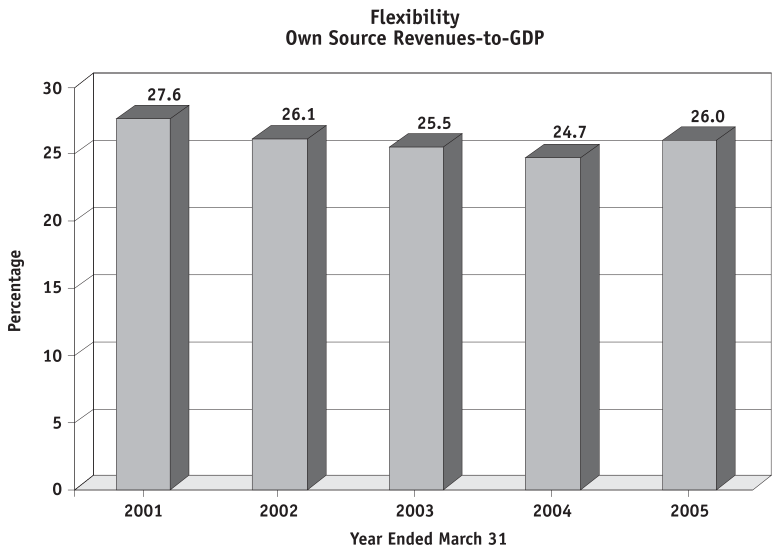
FIGURE 4A



Source: Annual Report of the Province of Manitoba for the year ended March 31, 2005.

- Own Source Revenues-to-GDP shows the impact of raising government revenue as a percentage of income in the economy. A steady increase in this ratio is a warning to a government in terms of its ability to increase these revenues in the future. The Federal Government's target for this used for the Revenues-to-GDP ratio of the Federal Government was 16.0% according the CICA Scorecard (Measuring Progress: The State of Federal Government Finances) prepared in 2001/02. The Province's ratio has been decreasing except for the 2005 fiscal year. The Government of Manitoba has not established its target ratio.

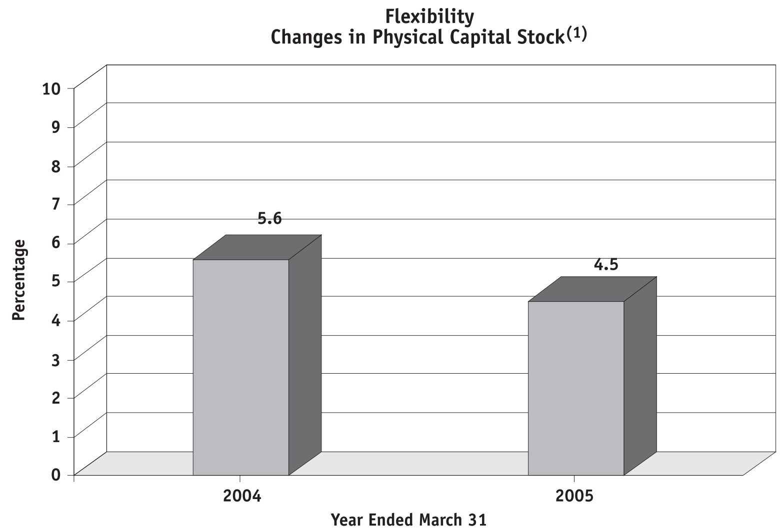
FIGURE 4B



Source: Annual Report of the Province of Manitoba for the year ended March 31, 2005.

- Changes in Physical Capital Stock (tangible capital assets including infrastructure) is an indication of the extent of deferred capital maintenance. Deferring capital maintenance delays when capital stock is maintained or restored, and generally results in higher costs when the maintenance is performed because of an increased level of deterioration. This ratio indicates the pace of the spending to replace tangible capital assets and it is usually reflected as the percentage change in the net book value (cost less accumulated amortization) year over year. The limited trend available indicates a slowing pace of spending by the Province.

FIGURE 4C

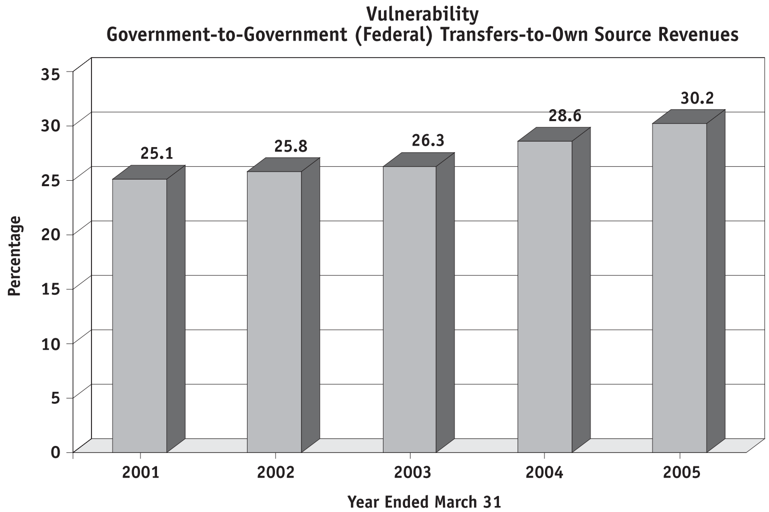


(1) Calculated by the Office of the Auditor General.
Source: Annual Report of the Province of Manitoba for the year ended March 31, 2005.

Vulnerability Indicators

- Government-to-Government Transfers-to-Own Source Revenues is, in a provincial government context, the dependence of a government on federal transfers (revenue). The trend of this ratio indicates an increasing dependence on federal transfers. It should be noted that the increase in federal transfers in essence was provided to restore past funding cuts to all provinces, including Manitoba, and as well some of the federal funding mechanisms have resulted in multi-year transfers being provided in a lump sum that would otherwise have been received as annual transfers. Between 2001 and 2005, the federal government increased its funding for provincial health and social programs so as to substantially restore its share of the costs of delivering these services, which had declined with the introduction of the Canada Health and Social Transfer in 1997. The increase in the ratio for 2005 also reflects a substantial increase in Equalization payments. The increase is comprised of higher entitlements under the new Framework arrangements announced by the federal government in October 2004. The Government of Manitoba has not established its target ratio.

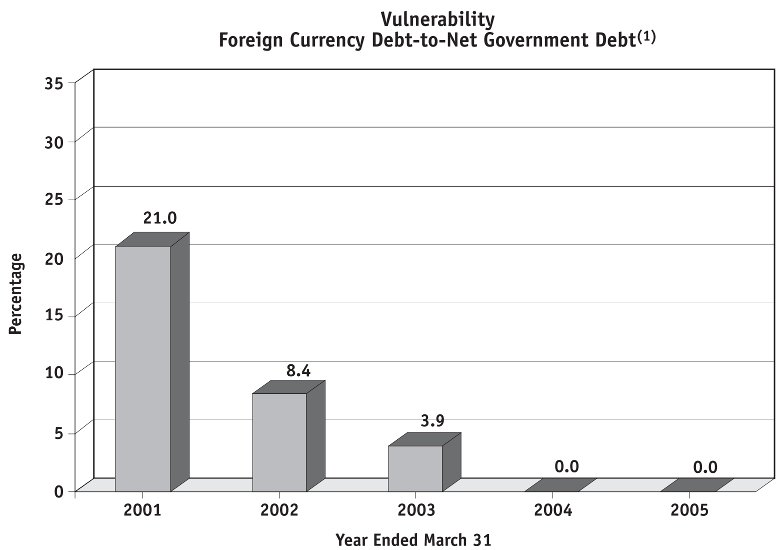
FIGURE 5A



Source: Annual Report of the Province of Manitoba for the year ended March 31, 2005.

- Foreign Currency Debt-to-Net Government Debt is the debt payable in foreign currencies as a percentage of net government debt. It is an indicator of the potential impact of foreign currency exchange rates of the Canadian dollar relative to foreign currencies which can increase debt servicing costs and the cost of repaying the debt. The Province believes that for the past two years that they have fully hedged (eliminated) this risk through their activities. Even without the effects of hedging, the percentage of foreign currency debt to net debt over the past five years has steadily decreased.

FIGURE 5B



(1) Described as Unhedged Foreign Debt-to-Net Debt in the Annual Report of the Province of Manitoba for the year ended March 31, 2005.

Source: Annual Report of the Province of Manitoba for the year ended March 31, 2005.

SUMMARY OF RECOMMENDATIONS

Summary of Recommendations

Discussion leading to the following recommendations is presented in further detail within this report's section "Public Accounts - Improvements and Recommendations".

Recommendation 1

That the Government report progress toward its commitment to implement summary budgeting by 2007/08 to the Members of the Legislative Assembly and the public on a regular basis.

RESPONSE FROM OFFICIALS

The Manitoba Government remains committed to continuing to work with the Office of the Auditor General on a plan that will result in presentation of its Budget and other financial reports on a summary basis. The Government has engaged consultants to assist in its preparations to meet this goal. Progress has already begun to be demonstrated to the Members of the Legislative Assembly and the public in published financial reports, such as the 2004/05 Summary Financial Statements. The Government expects to demonstrate further progress in the 2005/06 and future fiscal years.

Recommendation 2

That the quarterly reports of the Province, a financial reporting tool, be prepared in accordance with the generally accepted accounting principles framework as soon after the full implementation of summary budgeting in 2007/08 as practicable.

RESPONSE FROM OFFICIALS

As indicated in the response to Recommendation 1, the Manitoba Government is working with the Office of the Auditor General on a plan that will result in presentation of its Budget and other financial reports, including its quarterly reports, on a summary basis. This plan will encompass the timing and nature of changes to the quarterly reports, with a view to implementing changes as early as will be practicable following full implementation of summary budgeting in 2007/08.

Recommendation 3

That the Government continue with its commitment to introduce amendments to the Financial Administration Act to eliminate the requirement for separate Consolidated Fund (Operating Fund) financial statements.

RESPONSE FROM OFFICIALS

The Manitoba Government will consider this recommendation in the development of the plan, noted in the responses to Recommendations 1 and 2, to present its Budget and other financial reports on a summary basis by 2007/08. While the Government understands that Manitobans *and other interested parties may have a significant interest in the financial position of the provincial public sector as a whole, it is believed that Manitobans also expect to continue being informed about the spending of Government departments, the revenue derived from taxes, fees, transfers from other Governments and other elements of the present Consolidated Fund.*

Recommendation 4

That consideration be given to amending the Balanced Budget Legislation to refer to the Summary Financial Statements prepared in accordance with GAAP.

RESPONSE FROM OFFICIALS

As part of the plan referenced in the response to earlier Recommendations, the Manitoba Government will be considering changes to Balanced Budget Legislation. The Government is prepared to consult the Auditor General as it develops revised Balanced Budget Legislation that would appropriately reflect the Government's goals of maintaining financial discipline and protecting essential services in the context of Summary Budget reporting.

Recommendation 5

That Internal Auditing and Consulting Services revisit their role and expand their work on an annual basis to systematically, according to a documented plan, review and test SAP controls in the departments and consider providing assurance as to the effectiveness of internals controls within the provincial government.

RESPONSE FROM OFFICIALS

Internal Audit and Consulting Services (IACS) provides internal audit services across the Government. As noted in the Report, IACS will be revisiting its strategic direction. Government will consider this Recommendation in that context, also taking into consideration the availability of resources necessary to implement this and other Recommendations.

Recommendation 6

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, we continue to recommend the Government set a target date for the implementation of this recommendation once the assessments are completed on the above initiatives and the reports released.

RESPONSE FROM OFFICIALS

Executive Financial Officers in each department are charged with the responsibility to ensure that appropriate control processes are in place, including the proper authorization of spending transactions. Where Manager's Desktop is not being used, managers are required to develop off-line control processes that provide Executive Financial Officers with satisfactory assurances that the control environment is appropriate.

With respect to the automation of this control environment through Manager's Desktop, two initiatives have been undertaken by the Government:

- *A review of the roll-out of Manager's Desktop was conducted by the Comptroller's Office in conjunction with all Executive Financial Officers. A survey has been completed by department managers on its use; feedback included suggested improvements as well as perceived limitations.*
- *A review of the overall use of SAP as the government's business management tool was conducted under the direction of the department of Energy, Science and Technology.*

Government will assess these initiatives and determine an appropriate course of action, taking into consideration the availability of resources that would be required to implement this Recommendation.

Recommendation 7

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 these delegated authorities are approved and documented.

RESPONSE FROM OFFICIALS

Delegation of signing authorities is a departmental responsibility. Monitoring of 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. As noted, departments are required to address this issue in their departmental Comptrollership plans. Significant effort is being directed to the completion of the plans, which are critically reviewed as they arrive in the Comptroller's Office and subject to review and audit by Internal Audit and Consulting Services.

Recommendation 8

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 FROM OFFICIALS

Departments are required to address SAP roles in their Comptrollership plans, as well as the processes in place to identify any role incompatibilities and ensure the presence of compensating controls. Significant effort is being directed to the completion of Comptrollership plans, which are critically reviewed as they arrive in the Comptroller's Office and subject to review and audit by Internal Audit and Consulting Services.

As indicated in 2004, the matrix will be comprehensively reviewed in conjunction with the next upgrade to SAP, and the revised matrix, together with its underlying rationale, will be communicated to departments.

Recommendation 9

That a well thought out and effective Business Continuity Plan, one component being disaster recovery having been completed, be developed, documented and tested regularly to minimize the risk of disruptions caused by unforeseen events.

RESPONSE FROM OFFICIALS

Improving disaster recovery capacity has been a focus of significant effort during the last year, as it has been for the last several years. For example, a Disaster Recovery site was established in 2002 and a corresponding Plan has been developed by Manitoba Information and Communication Technology Services (MICT), a division of the Department of Energy, Science and Technology. The Plan addresses the coverage around the SAP application. MICT has completed the Disaster Recovery documentation.

A Business Continuity Plan is currently under development and is expected to be substantially completed in 2006/07.

Recommendation 10

That the Government develop suitable, generally accepted criteria to be used in determining an amount of emergency expenditures to be excluded under Section 3(2) of the Balanced Budget, Debt Repayment, and Taxpayer Accountability Act and communicate these criteria to the Members of the Legislative Assembly.

RESPONSE FROM OFFICIALS

As indicated in the response to Recommendation 4, the Government will be considering changes to Balanced Budget Legislation as part of the plan to present its Budget and other financial reports on a summary basis in 2007/08. The Government is prepared to consult the Auditor General as it *develops revised Balanced Budget Legislation that would appropriately reflect the Government's goals of maintaining financial discipline and protecting essential services in the context of Summary Budget reporting.*

Recommendation 11

That the Province of Manitoba continue to reshape its Annual Report into a document that more closely reflects the recommendations of PSAB's Financial Statement Discussion & Analysis and CCAF's Performance Reporting Principles.

RESPONSE FROM OFFICIALS

Manitoba is committed to advancing the way in which performance is reported to citizens, and has made important progress in this area in 2005 with the release of two public documents -- "Reporting to Manitobans on Performance: A Discussion Document", and "The 2005 Provincial Sustainability Report".

The Discussion Document makes a range of performance information accessible in one document for the first time by reporting in four key areas of government priority - economy, people, community and environment. This document is intended to further Manitoba's approach to performance reporting by illustrating one way in which performance information could be reported on an ongoing basis. It asks citizens to respond to the document by commenting on how the information has been presented, the types of indicators used and the frequency of reporting. These responses will be assessed to help determine the shape of future efforts in this area.

The Manitoba Government will also continue to improve its Annual Report and will work toward that objective in this and future years.

Recommendation 12

That the Government develop a plan to discharge its remaining obligations for vacation and severance pay to the various government organizations involved. That the Government also clearly communicate to these organizations, the portion of the annual funding provided by the Province, if any, that relates to the increase in vacation and severance pay liabilities.

RESPONSE FROM OFFICIALS

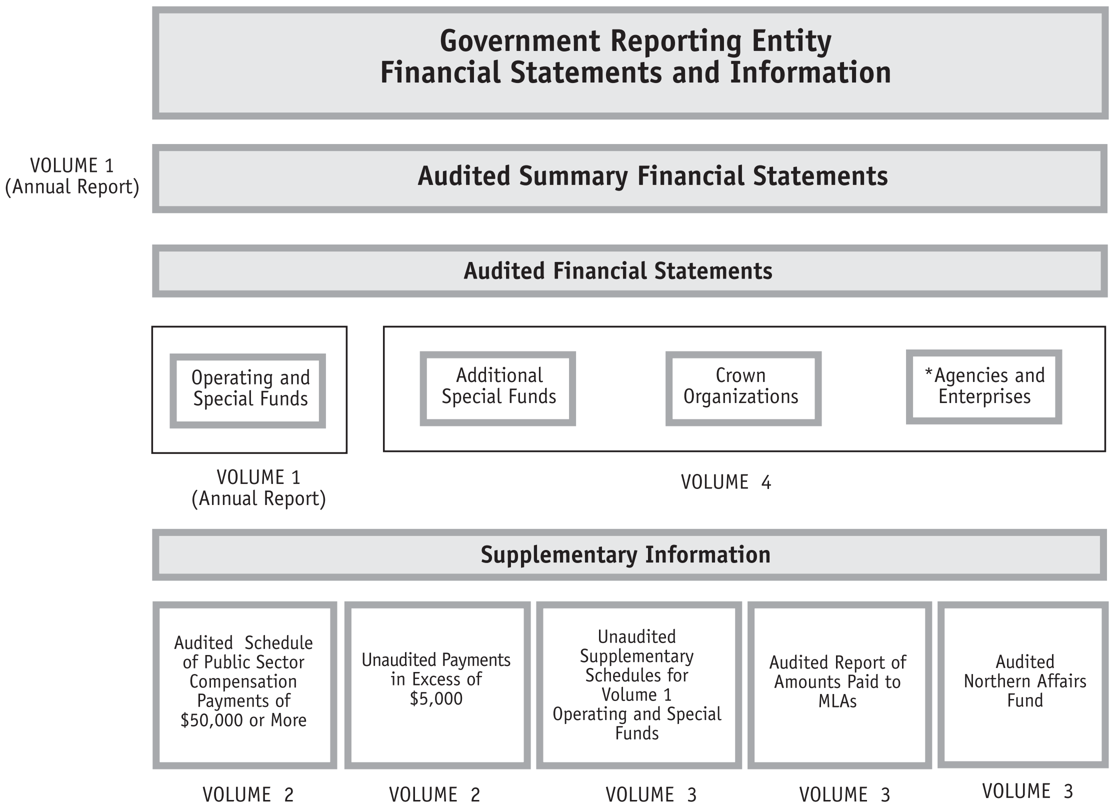
The Manitoba Government is considering options regarding treatment of these liabilities, and will consider this Recommendation in its deliberations. It should be noted that these liabilities are accounting accruals, not cash requirements. The Manitoba Government has communicated to organizations that they are expected to manage increases to these liabilities within their funding.

OVERVIEW OF THE PUBLIC ACCOUNTS

Financial Reporting Structure

FIGURE 6

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. 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 business 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). 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 income reported in the Summary Financial Statements of the Government for 2004/05 was $599 million.

The other set of financial statements presented in the Public Accounts are the Financial Statements of the Operating Fund and Special Funds. They are Special Purpose in nature and are used 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 2004/05 the Government recorded a positive balance of $406 million including the interfund transfer 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 2004/05 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, 2005;
- 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 Organization

FIGURE 7

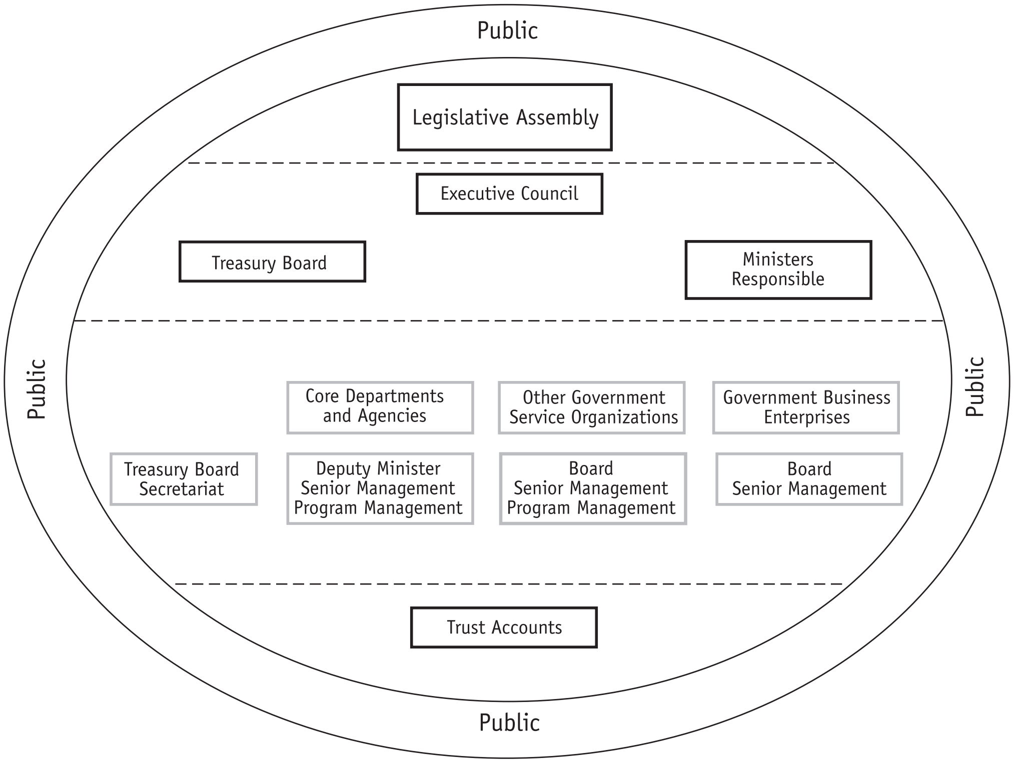


Figure 7 provides an overview of the accountability organization of the provincial public sector. It is not intended to represent all parties or relationships involved, but rather to emphasize that various levels that exist, and that accountability to the public is relevant at all levels.

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

As a member of the legislative audit community, we maintain the highest standards of independence and objectivity in the conduct of our audits. In Manitoba, our audit role has included an involvement with prospectuses as well as the financial statement audit of the Public Accounts and other organizations. 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 maintained our communication with audit committees or their equivalents and continued to take steps to ensure that the private sector auditors of the organizations within the government reporting entity adhered to independence and conflict of interest standards.

We believe that we 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 ensure our independence and objectivity in all our work.

Summary Financial Statements - Auditor's Report

Our Office commends the Government for their full adoption of GAAP in the 2004/05 Summary Financial Statements.

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, 2005 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 third 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.

For the year ended March 31, 2005, the fourth paragraph which was added to the Auditor's Report on the 2003/04 Summary Financial Statements was removed. That fourth paragraph had stated that if Canadian generally accepted accounting principles had been used in the preparation of the Summary Financial Statements, assets, liabilities, the accumulated deficit, revenues, and expenses would have been adjusted. This year, the Government of the Province of Manitoba prepared Summary Financial Statements that were completely in accordance with Canadian generally accepted accounting principles (GAAP) for senior governments. The Government eliminated from their Summary Financial Statements all the previously reported exceptions to GAAP. This year was the first instance since the Summary Financial Statements were first prepared in 1988 that the Auditor's Report attested that the Summary Financial Statements were complete financial statements prepared in accordance with GAAP.

In Manitoba, the Summary Financial Statements are presented in the Annual Report, together with the Auditor General's Report thereon. The audit opinion is now a Generally Accepted Accounting Principles' (GAAP) opinion.

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**, along with an excerpt of the Operating Fund and Special Funds for the year ended March 31, 2005 contained in **Appendix D**.

As mentioned previously, the Financial Statements of the Operating and Special Funds (Operating Fund) are special purpose in nature. They currently 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. These statements focus only on one component of the government reporting entity. Proponents claim they are relevant because they show tax supported activities of government. However, this argument is flawed for at least three reasons:

1. In 2005, $672 million of Operating Fund revenue was from Crown Corporations.
2. The Operating Fund ignores pension costs that will ultimately have to be paid through taxes.
3. "Rainy Day" Fund transfers are essentially left over money from the sale of MTS and multi-year federal transfers (Canada Health Transfers and Equalization Transfers).

FIGURE 8

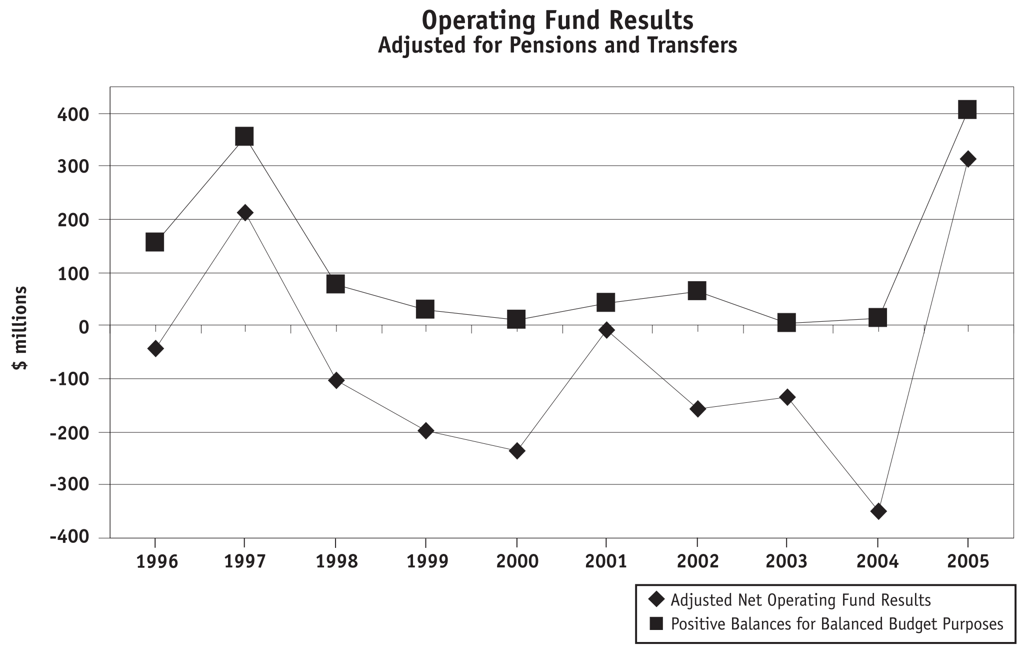
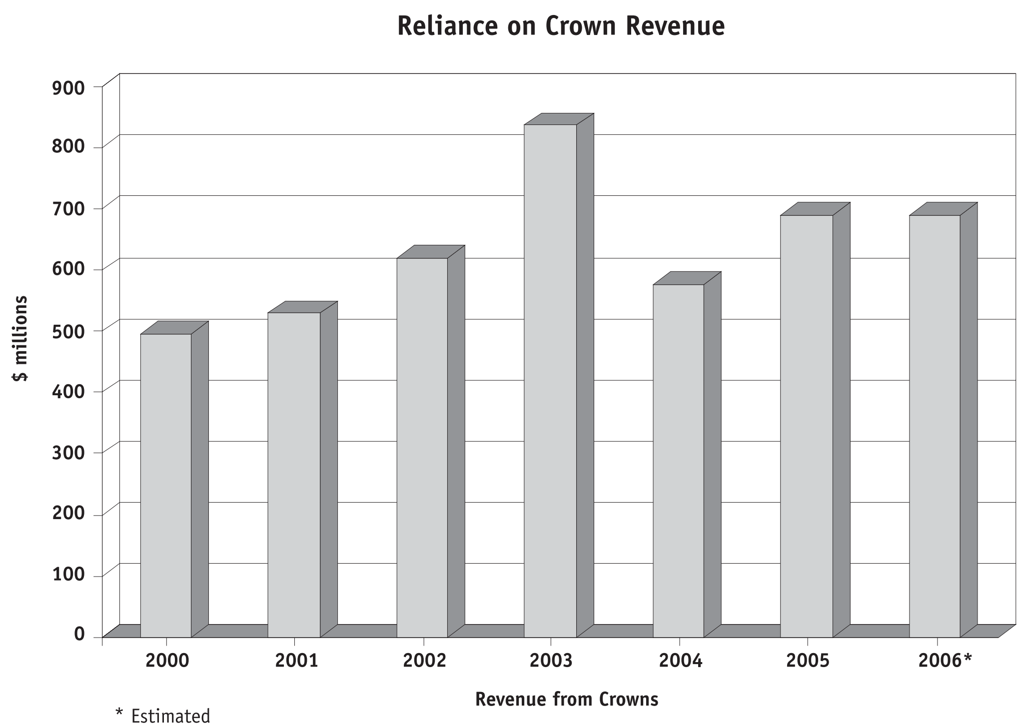


FIGURE 9



Because of the changes to generally accepted auditing standards last year, for the 2004/05 fiscal year the Auditor's Report on the Special Purpose Financial Statements of the Operating Fund and Special Funds again included 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. The Auditor's Report no longer states that the Special Purpose Financial Statements are fairly presented chiefly because of the limitations of the Special Purpose Financial Statements, which are discussed in the opinion as follows:

> ***"These financial statements report transactions and events of the Operating Fund and Special Funds only. Significant financial activities of the Government occur outside of these funds. Therefore, readers should not use these special purpose financial statements to understand and assess the Government's overall management of public financial affairs and provincial resources.***
>
> ***The Summary Financial Statements are complete financial statements. Their purpose is to report the full nature and extent of the overall financial affairs and resources of the Province of Manitoba for which the Government is responsible.***
>
> ***Please refer to the Summary Financial Statements to understand and assess the Government's management of public financial affairs and provincial resources as a whole."***

In addition, there are also paragraphs following the opinion paragraph, which emphasized 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 and identified exceptions from GAAP as follows:

> ***"Exceptions from Generally Accepted Accounting Principles***
>
> *These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles for the public sector (GAAP), are solely for the information and use of the Members of the Legislative Assembly for the purpose of determining compliance with the Balanced Budget, Debt Repayment and Taxpayer Accountability Act. The financial statements are not intended to be and should not be used by lenders, bond rating agencies, citizens, or anyone other than the specified users or for any other purpose. Specifically, these statements should not be used to assess the fiscal performance of the government as this information is only available in the Summary Financial Statements.*
>
> *The Special Purpose Statement of Revenue and Expense along with the Special Purpose Statement of Calculation of Balance under the Balanced Budget, Debt Repayment and Taxpayer Accountability Act should be analyzed in two parts. The first part, showing the calculation of Net Result for the year, has been determined using the accounting policies described in Note 1 to the Special Purpose Financial Statements. These accounting policies differ materially from Canadian GAAP as described in Note 1, and therefore do not result in fair presentation. The second part*

is where the Net Result for the year is adjusted as authorized by The Balanced Budget, Debt Repayment and Taxpayer Accountability Act to determine a Positive Balance as defined by the Act. These adjustments, specifically inter-fund transfers, would not be included in the Special Purpose Statement of Revenue and Expense and a Special Purpose Statement of Calculation of Balance under the Balanced Budget, Debt Repayment and Taxpayer Accountability Act would not be produced had Canadian GAAP been used.

If Canadian GAAP had been used in the preparation of the Special Purpose Financial Statements, financial assets would increase by $196 million, non-financial assets would increase by $1.640 billion, liabilities would increase by $2.484 billion, net debt would increase by $2.288 billion, accumulated deficit would increase by $648 million, revenues including net income from government business enterprises would increase by $1.854 billion, and expenses would increase by $1.800 billion."

The details of the exceptions to GAAP are separately disclosed and where possible, quantified, in Note 1 to the Special Purpose Financial Statements for the year ended March 31, 2005 as reproduced in **Appendix D**.

Opinion Paragraph

Our opinion paragraph this year again excluded the word 'fairly' from 'presents fairly'. This elimination is because of the limitations inherent in the Special Purpose Financial Statements in terms of presenting the financial position and operations of the government reporting entity of Province of Manitoba. It was also used to re enforce to the reader that only the Summary Financial Statements should be used to assess the Government's management of the Province of Manitoba's financial affairs and resources.

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 2004/05, the unrecorded pension liability for the Operating Fund approximated $3.8 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 transparent.

Starting in 2000/01, the Government committed 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 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 $382 million or 10% of the unrecorded pension liability outstanding at March 31, 2005.

EMPLOYEE FUTURE BENEFIT LIABILITIES FOR HEALTHCARE FACILITIES AND CHILD AND FAMILY SERVICE AGENCIES INCLUDED IN THE OPERATING FUND

In the 2003 fiscal year, the Government began disclosing a further significant exception to GAAP. This exception was the lack of recognition of the Operating Fund's liability for employee future benefits of health care facilities and child and family services agencies. In accordance with an agreement reached in 2003, the Government began recording the additional $234 million liability in the 2004/05 Special Purpose (Operating Fund) Financial Statements.

PUBLIC ACCOUNTS - IMPROVEMENTS AND RECOMMENDATIONS

Note: All official Provincial responses to our recommendations are contained in the Summary of Recommendations Section.

Significant Improvements in Financial Statement Reporting

SUMMARY FINANCIAL STATEMENT PRESENTATION AND DISCLOSURE

While improving financial statement presentation and disclosure is an ongoing process, we have advocated for a considerable number of years for the full adoption of GAAP in the preparation of the Summary Financial Statements. We therefore highly commend the Government for the preparation of Summary Financial Statements in accordance with GAAP in 2004/05.

We routinely advise the Comptroller, the Deputy Minister of Finance, and the Minister of Finance of opportunities to improve financial statement reporting in accordance with the current recommendations of the Public Sector Accounting Board (PSAB). There were very significant improvements reflected in the Summary Financial Statements for the year ended March 31, 2005 and they are as follows:

- Elimination of all the exceptions to Canadian generally accepted accounting principles (GAAP) by:
  - Recognition of the infrastructure tangible capital assets;
  - Full adoption of the new Government Reporting model;
  - Full consolidation of non-devolved health facilities and the elimination of the deferred charges related to them;
  - Changes in accounting policies and correction of errors being restated;
  - Expanded disclosure of the Province's related party transactions, contingent liabilities related to environmental liabilities, and the settlement of obligations under Treaty Land Entitlement agreements; and
- Full disclosure of public debt expense.

RECOGNITION IN THE OPERATING FUND OF BORROWINGS INCURRED TO FINANCE CAPITAL FUNDING TO HEALTH CARE FACILITIES

We commend the Government for the recognition of the capital grants to health care facilities and the related debt incurred to finance the grants, in accordance with public sector accounting standards.

During the 2005 fiscal year, we identified that the Government's accounting policy related to the recognition of third party borrowings of health care facilities was not in accordance with public sector accounting standards for senior governments. We found that the Estimates of Expenditure provided for annual grants to health care facilities to enable them to repay their loans from private sector financial institutions. Public sector accounting standards state that where a government provides future funding to enable an entity to repay its debt, in substance, the government is guaranteeing the repayment of that debt. As such, that debt should be recognized as the government's debt and the government should account for these loans from third parties as borrowings incurred by the government to provide capital funding.

As a result, the Government, in the 2005 Special Purpose Financial Statements, recognized $274 million in borrowings offset by sinking fund investments of $122 million and an increase in the accumulated deficit of $152 million for past transactions. In the current year, this accounting resulted in the reduction of grants to health care facilities of $17 million and an increase in the deferred charge for health care facilities of $32 million. No adjustment was needed to the Summary Financial Statements.

SIGNIFICANT ACCOUNTING IMPROVEMENTS IN THE 2004/05 PUBLIC ACCOUNTS

Recognition of Infrastructure Tangible Capital Assets

The Government of the Province of Manitoba first began recognizing tangible capital assets in the Public Accounts in the 1999/00 fiscal year. That year the Government recognized all its tangible capital assets except for land and infrastructure. In 2000/01, the Government recognized land. In the 2004/05 fiscal year, the Government completed its recognition of tangible capital assets with the inclusion of infrastructure. Infrastructure tangible capital assets consist of such assets as provincial roads and highways, provincial bridges, provincial parks, the Red River floodway, and provincial dams. The Government recorded the opening net book value (cost less accumulated amortization) of infrastructure at $1.183 billion with an offsetting credit to the accumulated deficit. In the current year, the recognition of infrastructure resulted in a decrease in capital expense and an increase in tangible capital assets of $90 million offset by an increase in amortization expense and accumulated amortization of $69 million.

We performed an audit to determine whether the Government recognized infrastructure tangible capital assets in accordance with Canadian generally accepted accounting principles for senior governments and to determine whether there are effective internal controls supporting the proper accounting for infrastructure.

Our report of the results of that audit is included in a later section in this Report.

Recognition of Liabilities Associated With the Long Term Disability Income Plan

In accordance with the new public sector accounting standard, the Government recognized the liability for post employment benefits under the Long Term Disability Income Plan. This liability as at March 31, 2005 amounted to $28 million; the opening balance of $27 million was charged to the accumulated deficit and $1 million was recorded as a current year expense.

Previous Recommendations Implemented

Figure 10 summarizes the implementation of OAG recommendations made in the last five years.

We commend the Government for the implementation of these recommendations.

FIGURE 10

Recommendations Implemented Over the Past Five Years		
Year First Recommended	**Recommendation**	**Year Recommendation Implemented**
1997	That the Operating Fund Financial Statements be included as subordinate financial statements clearly labeled "Special Purpose" in Volume 1 of the Public Accounts.	2001
1997	That the Government commit to preparing an annual report on overall government operations that includes high-level summarized financial information, commentary on significant budget fluctuations, and long-term graphical trend analysis of government debt, taxation and program levels.	2001
1997	That the Government adopt the concepts suggested by the Canadian Institute of Chartered Accountants 1997 formal publication titled, *Indicators of Government Financial Condition* for disclosure of financial indicators in the annual report for government.	2001
1997	That the Government prepare a Summary Budget in accordance with accounting principles used for the Summary Financial Statements and to include all the activities of government in this budget.	2002 (partially)
1999	That the Province identify critical standard SAP reports and communicate the importance of their use to departments either through an enhanced Manager's Desktop or other processes.	2003
2002	That the Government create a Pension Assets Fund in the Special Purpose Financial Statements to reflect designated assets set aside for the future retirement of the Government's unfunded pension liability.	2003
2002	That the Department of Finance take the additional action necessary to completely address the foreign exchange clearing account 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.	2004
2002	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.	2004
2001	That unaudited 4th quarter reports not be issued.	2005
2002	That the Government eliminate all the present exceptions from GAAP for the fiscal year ended March 31, 2005 and formally commit to the full adoption of GAAP for the fiscal year ended March 31, 2006.	2005
2002	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 shown on the balance sheet by their classification, for example, portfolio investments rather than as pension assets on the balance sheet.	2005
2004	That the Government discontinue the practice of recording interest recoveries on all capital grants provided and report public debt expense net of interest recoveries from government business enterprises on the Statement of Revenue and Expense for both the Special Purpose and Summary Financial Statements. In addition, that the Government separately disclose the gross amount of public debt expense and report revenue from other loans receivable and investments as revenue and not net those revenues against the amount reported as public debt expense.	2005 (partially)

FINANCIAL REPORTING

Adoption of GAAP

2004/05 Summary Financial Statements are Complete GAAP Financial Statements

Four other jurisdictions, Nova Scotia, Ontario, Saskatchewan and British Columbia prepare the Public Accounts in accordance with GAAP for senior governments. For the year ended March 31, 2005, Manitoba has also prepared its Summary Financial Statement in accordance with GAAP.

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 of the Act, 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.

In contrast, 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. 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.

While the Manitoba Government has not introduced legislation to entrench the requirement to prepare significant public financial reports, in accordance with Canadian Public Sector Accounting Standards for Senior Governments as recommended by the PSAB of the Canadian Institute of Chartered Accountants, it has adopted GAAP for the preparation of the 2004/05 Summary Financial Statements.

NEW GOVERNMENT REPORTING MODEL IMPLEMENTED IN 2004/05

GAAP requires the adoption of the new Government Reporting Model no later than the 2005/06 fiscal year. As part of the Government's full adoption of GAAP in the preparation of the 2004/05 Summary Financial Statements, Manitoba has also adopted the new Government Reporting Model.

ADOPTION OF THE NEW GOVERNMENT REPORTING ENTITY DEFINITION

As a result of changes to public sector accounting standards, the Government must use a new definition to determine the entities included in their reporting entity. This standard set by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants is effective for fiscal years beginning on or after April 1, 2005 (2006 fiscal year). The new definition is based solely on control, not accountability and ownership and/or control which were the bases of the former standard. Control is defined by PSAB as follows:

> *"the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities … a government may choose not to exercise its power; nevertheless, control exists by virtue of the government's ability to do so. Control must exist at the financial statement date, without the need to amend legislation or agreements."*

The existence of control can be viewed as working along a continuum. At one end of the continuum, it is clear that the entity does not have the power to act independently and is controlled by the government. At the other end, the entity has the power to act independently and while the government may influence the entity, it is evident that the government does not control the entity. For entities falling between the two ends of the continuum, PSAB has offered guidance as to what indicators of control might be considered in evaluating whether control exists.

In addition, PSAB has provided a listing of the more persuasive indicators of control as well as suggested other indicators that could be used to evaluate whether control exists. PSAB's more persuasive indicators are:

- *"government has the power to unilaterally appoint or remove a majority of the members of the governing body of the organization;*

- *government has ongoing access to the assets of the organization, has the ability to direct the ongoing use of those assets, or has ongoing responsibility for losses;*
- *government holds the majority of the voting shares or a "golden share" that confers the power to govern the financial and operating policies of the organization; and*
- *government has the unilateral power to dissolve the organization and thereby access its assets and become responsible for its obligations".*

Other indicators recommended by PSAB for consideration are:

- *"provide significant input into the appointment of members of the governing body of the organization by appointing a majority of those members from a list of nominees provided by others or being otherwise involved in the appointment or removal of a significant number of members;*
- *appoint or remove the CEO or other key personnel;*
- *establish or amend the mission or mandate of the organization;*
- *approve the business plans or budgets for the organization and require amendments, either on a net or line-by-line basis;*
- *establish borrowing or investment limits or restrict the organization's investments;*
- *restrict the revenue-generating capacity of the organization, notably the sources of revenue; and*
- *establish or amend the policies that the organization uses to manage, such as those relating to accounting, personnel, compensation, collective bargaining or deployment of resources".*

However, in order to determine whether control exists, each indicator would be evaluated in the circumstances and the degree of government influence would determine how important the indicator is in terms of providing evidence of control. The weight given to an indicator also depends on the circumstances. For example, an entity's compliance with regulatory authority does not, in and of itself, constitute control if the government's interest in the entity only extends to the regulated aspects of its operations.

Another example is that financial dependence of an organization also does not constitute control, in and of itself. The governing body of the entity could be independent with respect to establishing its financial and operating policies. The government may require reporting from the entity to demonstrate compliance with the terms and conditions of the funding provided and if that is the extent of the government's interest in the organization, it does not constitute control. The organization retains the right to decide whether it accepts the government funding and the conditions attached to that funding.

As a result, indicators should be considered collectively as well as individually such that it is the sum of all the evidence that should lead to a conclusion as to whether the government controls an entity.

This new standard is, in many respects, more inclusive than the former standard as it looks at the fundamentals of the relationship between the government and the organization. Whereas, under the former standard, the entity could be excluded if the government did not have the power to appoint the majority of the governing body. The Government's evaluation, in consultation with us, has determined that school divisions, the University of Winnipeg, Le Collège de Saint-Boniface, the North, South and Metis Child and Family Services Authorities (the proportionate share of operations for children in care within the Province's jurisdiction), Sport Manitoba, Tire Stewardship Board and certain other health care facilities previously excluded, are now part of the Government's reporting entity.

Notwithstanding that the Government does not appoint the majority of the governing boards of these entities or in the case of school divisions does not appoint any school trustees, the Government does control these entities through other means. For instance, school divisions will be included in the Government's reporting entity because of the control exerted by the Government through the Department of Education and Public Schools Finance Board in such areas as the budgeting process, accounting and financial reporting practices, capital plans, curricula and ability to borrow for capital purposes.

Similarly, the University of Winnipeg, and Le Collège de Saint-Boniface are controlled by the Government through the powers of the Council on Post-Secondary Education regarding operating and capital budgets, changing policies for tuition fees charged, capital financing as well as the requirement for approval of any new program of study or changes to a program delivered at the institution, if funded by the Province. The Child and Family Services Authorities are considered controlled by the Government because the Province will be responsible for the Authorities' operating losses, the Province must approve their operating plans and capital budgeting and the Authorities have restricted alternate revenue generating capacity.

The Government plans to adopt this redefined Province of Manitoba Government Reporting Entity in the 2005/06 fiscal year.

Previous Recommendations Not Yet Implemented

Figure 11 is a summary of OAG recommendations not yet implemented by the Department of Finance and/or the Government of Manitoba.

FIGURE 11

Recommendations Not Yet Implemented

Year of Recommendation	Recommendation
1999 (Recommendation #9)	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, we continue to recommend the Government set a target date for the implementation of this recommendation once the assessments are completed on the above initiatives and the reports released.
1999 (Recommendation #10)	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 these delegated authorities are approved and documented.
1999 (Recommendation #11)	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.
1999 (Recommendation #12)	That a well thought out and effective Business Continuity Plan, one component being disaster recovery having been completed, be developed, documented and tested regularly to minimize the risk of disruptions caused by unforeseen events.
2001 (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.
(Modified in 2005)	That the Government report progress toward its commitment to implement summary budgeting by 2007/08 to the Members of the Legislative Assembly and the public on a regular basis.
2001 (Recommendation #2) (Modified in 2005)	That the quarterly reports of the Province, a financial reporting tool, be prepared in accordance with the generally accepted accounting principles framework as soon after the full implementation of summary budgeting in 2007/08 as practicable.
2002 (Recommendation #8) (Modified in 2005)	That Internal Audit and Consulting Services revisit their role and expand their work on an annual basis to systematically, according to a documented plan, review and test SAP controls in the departments and consider providing assurance as to the effectiveness of internals controls within the provincial government.
2003 (Recommendation #5)	That the Government consider introducing amendments to the Financial Administration Act to eliminate the requirement for separate Consolidated Fund (Operating Fund) financial statements.
2003 (Recommendation #6)	That consideration be given to amending the Balanced Budget Legislation to refer to the Summary Financial Statements prepared in accordance with GAAP.
2004 (Recommendation #14)	That the Government develop suitable, generally accepted criteria to be used in determining an amount of emergency expenditures to be excluded under Section 3(2) of the Balanced Budget, Debt Repayment, and Taxpayer Accountability Act and communicate these criteria to the Members of the Legislative Assembly.
2004 (Recommendation #15)	That the Government of Manitoba continue to reshape its Annual Report into a document that more closely reflects the recommendations of PSAB's Financial Statement Discussion & Analysis and CCAF's Performance Reporting Principles.
2004 (Recommendation #16)	That the Government develop a plan to discharge its remaining obligations for vacation and severance pay to the various government organizations involved. That the Government also clearly communicate to these organizations, the portion of the annual funding provided by the Province, if any, that relates to the increase in vacation and severance pay liabilities.

SUMMARY BUDGET

Over the past four 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. The most recent budget presented in 2005 is, however, still not presented with the appropriate level of detail needed to compare with the results in 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 discuss 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.

However, the Government has committed to preparing a full summary budget for the 2007/08 fiscal year. This summary budget will also incorporate all the entities defined in the new government reporting entity. To date, the Province has completed an assessment of the capacity of the crown organizations to provide the Government with the information necessary to prepare a full summary budget for the 2007/08 fiscal year.

Recommendation 1

That the Government report progress toward its commitment to implement summary budgeting by 2007/08 to the Members of the Legislative Assembly and the public on a regular basis.

First recommended in the 2001 Report to the Legislative Assembly. (Modified in 2005.)

Quarterly Reporting

We believe that 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. Our recommendations on quarterly reporting reflect the higher priority issue of encouraging the Government to adopt the GAAP Framework in its quarterly reports.

The Government has committed to prepare quarterly reports on a summary basis after the 2007/08 fiscal year, as soon as is practicable. To that end, this year the Government undertook an evaluation of the capacity of crown organizations to provide the information needed to prepare quarterly reports on a summary basis as well as develop a plan to ensure that crown organizations can provide the necessary information in a timely manner.

In addition, in the 2004/05 fiscal year, the Government discontinued the release of a 4th quarter report.

Recommendation 2

First recommended in the 2001 Report to the Legislative Assembly.

That the quarterly reports of the Province, a financial reporting tool, be prepared in accordance with the generally accepted accounting principles framework as soon after the full implementation of summary budgeting in 2007/08 as practicable.

THE ELIMINATION OF SPECIAL PURPOSE FINANCIAL STATEMENTS

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 a defined subset of 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 $99 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.
- If there is 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.

For the first time since the legislation was passed, the Government invoked in 2003/04 Section 3(2) of the Act to exclude the expenses related to a natural disaster that affects the Province which could not be anticipated, in the Government's determination of a positive balance under the Act. A further discussion of this matter appears later in this section of the Report.

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, as well as from the greater than budgeted federal transfers, including multi-year transfers that were paid out in lump sum.

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.

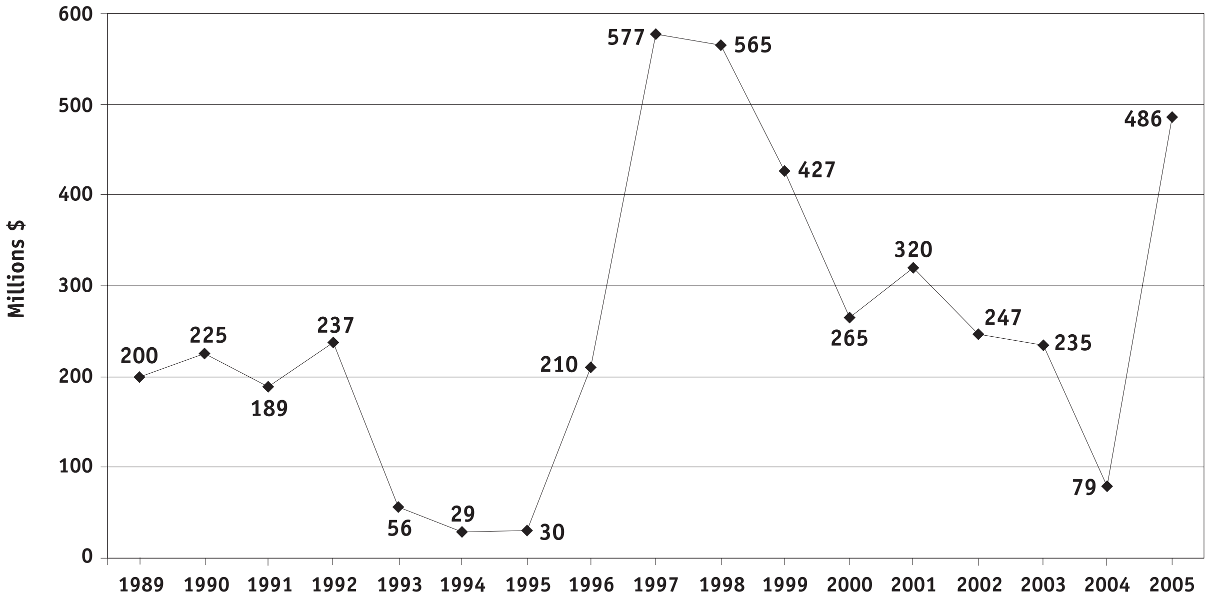
With regard to transfers into the Fund, the Government may deposit in the Fund, any part of revenue or other financial assets received in the Operating Fund in any fiscal year. Furthermore, the target level for the Fund is a minimum of 5% of the expense of the Consolidated (Operating) Fund.

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 create a positive balance in the Operating Fund in an amount chosen each year by government.

FIGURE 12

Fiscal Stabilization Fund Closing Fund Balances For Years Ending March 31



Conclusion

The Financial Administration Act section 65(1)(a) requires the preparation of financial statements of the Consolidated Fund. It also requires that the Auditor General report on his examination of these 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.

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).

Only Saskatchewan, Prince Edward Island and Manitoba, include audited Special Purpose Financial Statements or General (Operating Fund) Financial Statements in their Public Accounts.

However, as we have noted elsewhere in this report, the Special Purpose Financial Statements are not appropriate for assessing the government's fiscal performance. In essence, therefore, it is illogical to have balanced budget legislation refer to an inappropriate set of financial statements. It would be more appropriate to have the balanced budget legislation refer to the Summary Financial Statements prepared in accordance with GAAP.

In keeping with the appropriateness of emphasizing the Summary Financial Statements, we continue to 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). We also believe that the Summary Financial Statements/ Summary Budget should combine budget information from the Operating Fund (Estimates of Expenditure and Revenues) with detailed budget information from Crown organizations. The Government would, therefore, 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 3

First recommended in the 2003 Report to the Legislative Assembly.

That the Government continue with its commitment to introduce amendments to the Financial Administration Act to eliminate the requirement for separate Consolidated Fund (Operating Fund) Financial Statements.

Recommendation 4

First recommended in the 2003 Report to the Legislative Assembly.

That consideration be given to amending the Balanced Budget Legislation to refer to the Summary Financial Statements prepared in accordance with GAAP.

ROLE OF INTERNAL AUDIT AND CONSULTING SERVICES

The Internal Audit and Consulting Services (Internal Audit) 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 is assessed as high priority matters.

In addition, Internal Audit was also 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 was first implemented six years ago and is an extremely complex system. Internal Audit, we believe should play a significant and active role in providing assurance as to the effectiveness of controls at the departmental level. Ongoing involvement would give Internal Audit the opportunity to add confidence in the reliability and accuracy of this importance government-wide system on a continuous basis.

Moreover, an effective internal audit function enhances the control environment of the entity. The United States (US) passed legislation, the Sarbanes-Oxley Act, to address concerns created by Enron and other financial disasters. Those new US standards apply to publicly traded companies. One of the US requirements being implemented is that public companies must make representations regarding the effectiveness of their internal controls over financial reporting among others.

In Canada, management of publicly traded companies will also be required to make representations on the effectiveness of the organization’s internal controls over financial reporting. While the regulations of provincial securities commissions requiring reporting on the effectiveness of a company's internal controls over financial reporting only apply to publicly traded companies, we believe that the public expectation that governments provide these same assurances will soon follow. As well, the Federal Government, in response to the sponsorship scandal, is expanding the internal audit function throughout government in order to provide additional assurance on the adequacy of internal controls within departments affecting financial management and financial reporting.

As a result, we continue to believe that the internal audit function of the Province should plan for the expansion of testing of internal controls to enable the Government to make representations on the effectiveness of their internal control systems. The Province's government-wide information system is SAP and would be a primary focus for internal control testing. In past years, we recommended that Internal Audit take a lead role on an annual basis in the review and testing of SAP controls at the departmental level.

This year, we understand that the Internal Audit and Consulting Services will be revisiting its strategic direction to focus a greater effort on the internal audit function. In the past, we have recommended that Internal Audit and Consulting Services have a more significant role in providing assurance as to the effectiveness of controls at the departmental level as they relate to SAP.

Further, as we noted in past two years, the revised Comptrollership Framework was distributed in October 2003 and made reference to an audit function in monitoring compliance with the authority delegated by the Comptroller to the Departments. That delegated authority includes ensuring effective internal control systems among other responsibilities. There have been further delays in the completion of the Comptrollership Plans by some of the Departments and Internal Audit has not been involved with that audit function in the 2005 fiscal year.

Recommendation 5

That Internal Auditing and Consulting Services revisit their role and expand their work on an annual basis to systematically, according to a documented plan, review and test SAP controls in the departments and consider providing assurance as to the effectiveness of internals controls within the provincial government.

First recommended in the 2002 Report to the Legislative Assembly. (Modified in 2005.)

INFORMATION SYSTEMS

The Province of Manitoba (Province) has various information systems of major and minor significance both centrally and in the departments. Information systems are integral to the administration of Province and successful management of their programs. Identification and review of these information systems are critical.

The components of a good information system include proper design, sufficient documentation, identification and use of internal controls as well as the ongoing monitoring of results as intended. Change is inherent within all information systems and therefore change management is also important.

As part of our financial statement audit methodology, we gain an understanding of controls relevant to financial reporting. This understanding includes controls over business processes that are significant to financial reporting. They are called application controls. Some application controls are manual activities performed by people.

However, business processes are generally automated and referred to as information systems. As the processes are automated, the application controls tend to be automated, that is the controls are built into the computer logic or programs. For example, a computer program automatically assigns sequential numbers to invoices.

Therefore, proper functioning of these computer programs is important to financial reporting. The computer programs operate in a computer environment. A well-controlled computer environment provides assurance that the computer programs are functioning properly. The components of control over the computer environment are called general computer controls.

The general computer controls relate to the following:

- Computer management environment;
- Computer operations;
- Acquisition and development of information systems;
- Changes to information systems;
- Logical access to programs and data; and
- Physical computer environment.

Our approach is to assess the general controls for the computer environments supporting information systems significant to financial reporting. Some general computer controls, such as management practices and security policies, are common across the various computer environments.

Other general computer controls are specific to a computer environment, such as the configuration of system software that enables the controlled functioning of computers on which automated information systems reside. This system software includes the particular computer operating system and database management system software that support an information system.

Our approach also includes assessing application controls, both automated and manual. We review the business process activities to determine the controls to be assessed for the audit.

Some of the more significant information systems within the Province include SAP, GenTax, Treasury Manager, Social Allowance Management Information Network, public health systems such as Pharmacare, Medical and Hospital information systems in addition to numerous departmental revenue systems.

One of the most critical information systems in place for the Province is the SAP System which is used by all government departments, special operating agencies and certain crown organizations. Our Office has commented previously on various SAP internal control issues since it was implemented on April 1, 1999.

SAP R/3 Version 4.6b

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.

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 Province 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. Our recommendation regarding the use of critical standard reports was addressed in 2003 and now two areas remain. In our 2001 Report to the Legislature we also stated that we would provide reports to the departments detailing our recommendations based on a review of the 4.6b upgrade. We have issued separate reports to the departments and our follow-up on the implementation of those recommendations has indicated that there was still further action that needed to be taken by the departments in this regard. As we have reported in prior years, we will continue to address the key outstanding issues with the Comptroller's Office to ensure that the appropriate action is taken.

The two remaining areas of recommendations made in prior years are:

1. Access to SAP by Departmental Managers

There were several recommendations regarding access to SAP by Departmental managers as follows:

- 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 there have been only marginal increases in its use by managers since then. While MDT continues to be rolled out, 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.

We understand for 2005, that with respect to the automation of this control environment through MDT, there were two initiatives undertaken. The current status of these initiatives is the following:

- A review of the overall use of SAP as the government's business management tool was completed by the Coordinated Services Unit of the Department of Energy, Science and Technology (EST) and a draft report (as of October 2005) is currently being reviewed by senior officials before its release.
- A review of the rollout of MDT was conducted by the Comptroller's Office in conjunction with all executive financial officers to determine what actions could be taken to accelerate the implementation of MDT. The MDT review and survey has been completed by all department managers which contained feedback on its use including suggested improvements including comments on its perceived limitations. A team, consisting of department and central government representatives will provide support to the lead of EST officials who will report back with the results of the survey and the next steps to take toward regarding expanding the functionality.

Recommendation 6

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, we continue to recommend the Government set a target date for the implementation of this recommendation once the assessments are completed on the above initiatives and the reports released.

- 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.

While we commend the Government for having made progress with regard to documenting and approving differences from the delegated authority levels, our concern remains. All differences from delegated authorities represented in SAP should be identified and the approval and documentation of that approval is still required.

We understand that departments are required to ensure this issue is satisfactorily addressed in their Comptrollership Plans and indicate how they satisfy themselves that delegated authorities are properly represented in SAP, as well as ensure that they are updated on a timely basis and highlight any incompatibilities. We understand that departments are required to address the SAP role matrix in their Comptrollership plans to identify any role incompatibilities. At March 31, 2005 there were a number of Comptrollership plans that had not been completed and filed with the Comptroller's Office. We have been informed that the Comptrollership plans are subject to review and audit by Internal Audit and Consulting Services.

Recommendation 7

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

First recommended in the 1999 Report to the Legislative Assembly.

- 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. We understand that in accordance with revised Comptrollership Framework, it is the responsibility of each department to ensure that the existence of any incompatible roles and the compensating controls are identified and documented. However, the departmental Comptrollership plans which are the mechanism for reporting to the Comptroller's Office have not all been completed.

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

In 2004, we were informed the matrix would be comprehensively reviewed in conjunction with the next upgrade and then the revised matrix, together with its underlying rationale, would be communicated to departments. We understand this responsibility has been communicated to all departments. Additionally, departments are being required to address this issue in their departmental Comptrollership plans. We were informed a significant effort is being directed to completion of the plans, which are critically reviewed as they arrive in the Comptroller's Office, with special emphasis on ensuring that this requirement is being met.

There has not been another SAP upgrade as yet. As a result, we understand that no revisions will be made to the matrix until the next SAP upgrade is undertaken.

Recommendation 8

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, when updated on the next upgrade, should 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.

2. Business Continuity Plan for Manitoba Information and Communication Technology

We previously recommended that a comprehensive business continuity plan be put in place by the Province 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, Manitoba Information and Communication Technology (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. We understand that operating procedures relating to the disaster recovery plan have been completed, tested successfully in the summer of 2004 for a 3 week period and will be amended as future conditions warrant. Disaster recovery procedures should include testing as a normal part of operations and any changes in conditions should be reflected in amendments to the disaster recovery plan. We understand that associated documentation outlining the D/R plan is being revised to reflect the recent hardware upgrade. MICT expects to complete the D/R documentation in the 2005/06 fiscal year.

In 2004 we were also informed that MICT intended to refocus efforts on development of a comprehensive and effective Business Continuity Plan in relation to the Government's SAP installation. We understand Manitoba Information and Communication Technology as a branch of the Department of Energy, Science and Technology has planned for the development of their own Business Continuity Plan as it applies to the Government's SAP installation as one of its projects to be completed during the 2005/06 fiscal year.

Recommendation 9

That a well thought out and effective Business Continuity Plan, one component being disaster recovery having been completed, be developed, documented and tested regularly to minimize the risk of disruptions caused by unforeseen events.

First recommended in the 1999 Report to the Legislative Assembly.

INVOKING SECTION 3(2) FOR EMERGENCY EXPENSES

For the first time in the 2003/04 fiscal year, the Government invoked Section 3(2) of the Balanced Budget, Debt Repayment, and Taxpayer Accountability Act (Act) to exclude emergency expenses in determining whether there was a positive or negative balance. The Government did not invoke Section 3(2) of the Act during the 2004/05 fiscal year. However, our concerns regarding of the invocation of Section 3(2) of the Act remain.

Although we reported in 2003/04 that the Government did comply with Section 3(2) of the Act, we also placed a scope limitation in the 2003/04 Auditor's Report on the Special Purpose (Operating Fund) Financial Statements because we could not express an opinion on the amount of the emergency expenses. We found that there was an absence of suitable, generally accepted criteria for use in determining an amount for emergency expenditures as called for by the Act. As a result, the amount, although declared in accordance with the provisions of the Act, is not susceptible to audit verification and no opinion was expressed on the amount of the emergency expenditures.

Representatives of the Department of Finance and Treasury Board Secretariat provided us with the following documented rationale for the use of Section 3(2):

"Balanced Budget Legislation (BBL) Disaster Exemption Background for 2003/04 Public Accounts

- *Section 3(2) of the Balanced Budget, Debt Repayment and Taxpayer Accountability Act states that, '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 tax laws'.

- *While this clause has existed since the inception of BBL, it has not been used to declare any expenditure as disaster-related and not included in the determination of the balance.*
- *Certainly as to the amount to be excluded under Section 3(2) may be provided by way of a declaration of the Lieutenant Governor in Council under Section 3(3) of the BBL, which states, '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'. This declaration can only be made after the amounts are known.*
- *Key criteria for invoking the clause in 2003/04 are the magnitude of the emergency, the availability of other sources of revenue, and the remaining balance of the Fiscal Stabilization Fund (FSF). As indicated in the following **Figure 13**, the available FSF balance was the lowest since the inception of the BBL in terms of the total balance and as a percent of total expenditure. Revenue also declined from budget in 2003/04.*

FIGURE 13

Fiscal Stabilization Fund - Remaining Balance

Year	($ Millions)			
	Emergency Expenditures Variance from Budget	Total Revenue Variance from Budget	FSF Balance at Close of Year	FSF Balance as % of Total Expenditure
1995/96	26.1	158.2	210.4	3.8
1996/97	11.6	440.5	577.5	10.7
1997/98	197.5	330.1*	565.0	9.9
1998/99	(39.4)	(27.1)*	427.3	7.3
1999/00	112.7	440.3*	264.8	4.1
2000/01	4.4	337.8	320.5	4.8
2001/02	17.9	(56.6)	247.3	3.7
2002/03	14.4	80.0	235.5	3.4
2003/04 Prel. Actual	71.1	(8.3)	118.0	1.6

* Includes Disaster Financial Assistance flood related revenue of $168.2 million in 1997/98, $26.8 million in 1998/99, and $19.1 million in 1999/00 related to the 1997 flood.

- *The criteria of revenue availability and FSF capacity were applied to ensure that flexibility existed in the Operating Fund for future years. The FSF capacity as at March 31, 2004 is currently at $118 million on a preliminary actual basis, or 1.6% versus the fund balance target established in BBL of 5% of total 2004/05 expenditure.*
- *Legal opinion on the expenditures that could be declared indicated that, to the extent that Emergency Expenditures exceed the $25,000,000 provided for in the Main Estimates, they could be excluded in determining the balance for the year under the BBL."*

In **Figure 13** above, provided by the Government, the Emergency Expenditures Variance from Budget column shows actual expenses but the third party recoveries are included in the Total Revenue Variance from Budget column for the 2003/04 year, but not for the years 1997/98 to 1999/00. **Figure 14** shows what **Figure 13** would look like if third party recoverables were listed consistently.

FIGURE 14

Fiscal Stabilization Fund - Remaining Balance

Year	($ Millions)			
	Emergency Expenditures Variance from Budget	Total Revenue Variance from Budget	FSF Balance at Close of Year	FSF Balance as % of Total Expenditure
1995/96	26.1	158.2	210.4	3.8
1996/97	11.6	440.5	577.5	10.7
1997/98	29.3	161.9	565.0	9.9
1998/99	(66.2)	(53.9)	427.3	7.3
1999/00	93.6	421.2	264.8	4.1
2000/01	4.4	337.8	320.5	4.8
2001/02	17.9	(56.6)	247.3	3.7
2002/03	14.4	80.0	235.5	3.4
2003/04 Prel. Actual	71.1	(8.3)	118.0	1.6

The $71 million in emergency expenses excluded under Section 3(2) of the Act was, as noted above, net of the budgeted amount of $25 million provided in the 2003/04 Estimates (of Expenditures). The $71 million emergency expenses were also net of approximately $2 million in third party recoveries from the Federal Government.

The two largest categories of costs included emergency expenses related to the bovine spongiform encephalopathy (BSE) crisis and forest fire suppression activity. The BSE crisis costs were $42 million which incorporated $9 million for a provision for bad debts for the BSE Recovery Loan Program and $33 million for a shared cost program to support producers affected. As well, there was $52 million spent on forest fire suppression activities.

The other categories included were spring flood costs of approximately $1 million and a further $1 million for various departmental emergency expenses.

Analysis

We reviewed the justification for this transaction before concluding that the amount of the excluded emergency expenses was not susceptible to audit verification because of a lack suitable lack of generally accepted criteria to be used in determining the amount.

In our view, appropriate criteria for determining the amount of emergency expenses would not include the amount available to be drawn from the Fiscal Stabilization Fund or the availability of other sources of revenue.

However, the criterion of the magnitude of the costs related to emergency expenses is relevant as the Government must manage unforeseen circumstances on an ongoing basis. Similarly, there is the issue of the amount budgeted as a baseline over which any additional expenses would be considered of a sufficient magnitude to be excluded.

Another criterion to consider in the appropriateness of the amount budgeted for contingencies. In 2003/04 the government budgeted $25 million (0.3% of budgeted expenses) for contingencies. On this basis, Section 3(2) was invoked for all emergency expenses over $25 million. However, one could argue that $25 million is a very tiny contingency in a $7.3 billion budget. A larger contingency would result in Section 3(2) being invoked only for significant events.

In addition, we found that over the past five years, the highest costs incurred for forest fire suppression activities alone, net of recoveries and adjusted for inflation, were $25 million ($26.2 million in 1999/00 with recoveries of $2.9 million, both in nominal dollars).

We believe that the criteria could also consider the historical trends of expenses incurred and be used to establish a range, outside of which, the emergency expenses would be considered eligible for exclusion under Section 3(2) of the Act. Similarly, the Government might also establish criteria for what constitutes 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.

In summary, we believe that the criteria used to determine the emergency expenses excluded under Section 3(2) of the Act for purposes of determining whether there is a balanced budget should be clearly defined and communicated to the Legislative Assembly.

Recommendation 10

First recommended in the 2004 Report to the Legislative Assembly.

That the Government develop suitable, generally accepted criteria to be used in determining an amount of emergency expenditures to be excluded under Section 3(2) of the Balanced Budget, Debt Repayment, and Taxpayer Accountability Act and communicate these criteria to the Members of the Legislative Assembly.

REVIEW OF THE ANNUAL REPORT OF THE PROVINCE FOR 2004/05

Review of the "Province of Manitoba Annual Report for the Year Ended March 31, 2005" in Relation to Recommended Practices in Performance Reporting

INTRODUCTION

In our report to the Legislature last year on the Audit of the Public Accounts for the year ended March 31, 2004, we made the following recommendation:

> **That the Province of Manitoba reshape its Annual Report into a document that more closely reflects the recommendations of PSAB's Financial Statement Discussion and Analysis and CCAF's Performance Reporting Principles.**

We reviewed the 2005 Annual Report to determine how much progress has been made in implementing this recommendation. Our work was conducted pursuant to the Auditor General's mandate under clause 14(1)(c) of The Auditor General Act which authorizes the examination of whether the Legislative Assembly has been provided with appropriate accountability information. We relied on guidance developed by the Canadian Institute of Chartered Accountants and CCAF to undertake the review of the Province of Manitoba Annual Report for the Year Ended March 31, 2005. The guidance from each of these sources is explained below followed by our conclusions and further recommendations.

GUIDANCE FROM THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS

To encourage governments to effectively report only the most relevant information, the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (PSAB) has developed a Statement of Recommended Practice in regard to the annual reports of the federal, provincial, territorial and local governments. The Statement of Recommended Practice is intended to provide guidance for the development of the Financial Statement Discussion and Analysis (FSD&A). Although not part of the financial statements, FSD&A is information that would accompany the financial statements. FSD&A information also includes narrative explanations and graphic illustrations highlighting the key relationships that exist among the quantitative representations set out in the financial statements, as well as explanations and illustrations of variances and trends.

There are two essential aims of FSD&A information:

- to enhance the users' understanding of a government's financial position and results of operations, enabling them to make more informed decisions and judgments;

- to enable a government to demonstrate accountability for the resources entrusted to it.

Figure 15 presents the key elements from PSAB's FSD&A Statement of Recommended Practice and findings from our review of the Annual Report in relation to the Statement of Practice.

GUIDANCE FROM CCAF

In addition to the FSD&A, there is also a set of Performance Reporting Principles which CCAF released in 2001. CCAF, a national, non-profit research and education foundation that researches public sector accountability, management and audit issues, developed its Performance Reporting Principles through extensive consultation with legislators, managers and auditors.

These Principles are aimed at helping governments and other public sector institutions bring public performance reporting to a new level of excellence. CCAF considers public reporting on performance not an end in itself, but rather an integral part of effective public sector governance and management. **Figure 16** presents the key elements from CCAF's Performance Reporting Principles and the findings from our review of the Annual Report in relation to those Principles.

CONCLUSION

The 2005 Annual Report continues to demonstrate the same limitations as the previous year's report (**Figure 15** and **Figure 16**). As with the previous Annual Report, the 2005 Annual Report is still not outcome oriented and significant work is needed to bring the performance information presented in line with PSAB and CCAF recommendations on reporting. Therefore, we reiterate the recommendation we made last year:

Recommendation 11

That the Province of Manitoba continue to reshape its Annual Report into a document that more closely reflects the recommendations of PSAB's Financial Statement Discussion and Analysis and CCAF's Performance Reporting Principles.

First recommended in the 2004 Report to the Legislative Assembly.

FINDINGS

FIGURE 15

Comparison of Annual Report to PSAB's FSD&A	
FSD&A Recommended Practice	**Province of Manitoba Annual Report - March 31, 2005**
Reference to Financial Statements • Reference to the related financial statements should be clearly made in the Financial Statement Discussion and Analysis (FSD&A).	• Reference to the financial statements is made in the introduction to the section on Financial Indicators Summary Financial Statement (p.24) and the introduction to the Operating Fund Discussion and Analysis (p.31). However, the text on pages 7 to 39 does not link the points that are made to specific financial statements/schedules.
Government Responsibility • Include an acknowledgement of the government's responsibility for preparation of the financial statements.	• A statement of management's responsibility is included.
Qualitative Characteristics *Understandability* • Avoid excessive detail, vague or overly technical descriptions and complex presentation formats. • Use plain language.	• Some of the information presented in the Annual Report assumes users have expert knowledge in accounting and economics (e.g., reference to GDP, nominal GDP, derivatives, hedges, swaps, sinking fund, gross general purpose debt cost, net general purpose debt cost, etc.). • There is unnecessary repetition. In several instances the same topic is covered under more than one section (e.g., Manitoba's population is covered on pages 8 and 18; GDP is covered on pages 8 and 17; investment is covered on pages 8 and 20; manufacturing is covered on pages 8 and 20; farm cash is covered on pages 8 and 21; unhedged foreign debt is covered on pages 27 and 38; and Federal transfers to own-source revenue is covered on pages 28 and 39). • The inclusion on page 10 of a summary financial position that is different than the one on page 53 of the Summary Financial Statements can be confusing to a reader. Among the differences between these two summaries is that the one on page 10 indicates that the 2004 figures are restated while the one of page 53 does not indicate that the 2004 figures are restated.
Relevance • Address significant matters that will likely affect judgments and decisions of users.	• The Annual Report identifies key factors and vulnerabilities that impacted expenditures and revenue. However, relevant risks that had a key impact on expenditures and revenues were not discussed.
Reliability • Narrative explanations are consistent with information in the financial statements. • Information is verifiable by an independent observer. • Neutral and fair representation, free of bias.	• There is no discussion and analysis of the Summary Financial Statements. • Much of the discussion and analysis of the Operating Fund is at a very detailed level and cannot be readily verified to the Special Purpose Financial Statements. • The information presented on pages 31 to 34 is a comparison of budgeted amounts to actual and current year's results to prior year's results with only limited explanations of the causes or the impacts of the variances.
Comparable • Formulae for calculating ratios would be clearly defined and consistently applied. • Disclosure of the effects of changes in calculating figures.	• Page 11 indicates that changes in accounting policies are explained on page 62, note 4. • The Summary Financial Statement financial indicators (pages 24 to 28) have been restated where needed to reflect the effects of the changes in accounting policies. • Pages 11 to 12 provide an explanation of the types of financial indicators and what they measure but the Government has not established targets for the respective ratios.

FIGURE 15 (CONT'D.)

Comparison of Annual Report to PSAB's FSD&A

FSD&A Recommended Practice	Province of Manitoba Annual Report - March 31, 2005
Qualitative Characteristics Trade-Offs • Achieve an appropriate balance between the qualitative characteristics of understandability, relevance, and comparability in order to meet the objective of providing the information.	• The Annual Report needs to become more understandable and to clarify for the reader why the information selected for discussion and analysis is relevant.
Presentation *Highlights* • Provides a concise summary of the significant events affecting the financial statement.	• Page 17 identifies three significant events that impacted economic performance in 2004.
Analysis • Present information on known significant risks and uncertainties inherent in the government's financial position and changes in financial position.	• Limited presentation of risks.
• Outline the strategies, policies and techniques adopted to manage those risks and uncertainties.	• Although there is an attempt to explain in a couple of instances how certain key risks (pages 12 and 27) are mitigated, overall, the document does not include sections that deal with strategies, policies and techniques adopted to manage risks and uncertainties.
• Identify and explain significant variances between current year actual results and budget.	• Variance explanations between actual and budgeted expenses and revenues are provided on pages 32 and 33.
• Identify and explain significant variances between current year actual results and prior year actual results.	• Variance explanations between actual expenses and revenues for the year and those of the previous year are provided on pages 33 and 34.
• Identify and explain changes that have occurred but are not readily apparent from the quantitative analysis.	• The Summary Financial Statements have been restated to reflect the effects of the changes in accounting policies and the impact on net debt as well as the change in net debt. • The Special Purpose Financial Statements have not been restated (the impact of the changes in accounting policies are only reflected as adjustments to the accumulated deficit).
• Analysis of significant trends related to financial assets, liabilities, net debt, tangible capital assets, net assets, revenue, expenses/expenditures, net revenue (expenses/expenditures), and cash flow.	• The Annual report only presents trends data in relation to debt, revenues and expenses.

FIGURE 16

Comparison of Annual Report to CCAF Reporting Principles	
CCAF Reporting Principles	**Province of Manitoba Annual Report - March 31, 2005**
Focus on the Few Critical Aspects of Performance • Focus selectively and meaningfully on a small number of things.	• The Annual Report does not identify those aspects of performance that government judges as critical to the success of its strategies for achieving its core objectives and meeting its performance commitments.
• Focus on core objectives and commitments.	• The Annual Report does not identify Government's core objectives and commitments. The Annual Report refers readers to two Government reports: *Reporting to Manitobans on Performance, A Discussion Document* and *The 2005 Provincial Sustainability Report*. However, these reports identify priority areas as opposed to Government's specific objectives and commitments. Moreover, a reader would not be able to connect the financial statements information with the information presented in these two documents.
Look Forward As Well As Back • Set out the goals and how activities contribute to the goals.	• The Annual Report does not systematically set out the goals and how activities contribute to the goals.
• Track achievements against expectations (goals).	• The Annual Report does not systematically compare planned expectations with actual results. The exception being tax reductions (pages 14-15).
Explain Key Risk Considerations • Identify the key risks.	• Generally the Annual Report does not identify key risks, exception being on page 12 with regard to sources of federal funding.
• Explain the influence of risk on choices and directions and relate achievements to levels of risk accepted.	• Not included in the Annual Report.
Explain Key Capacity Considerations • Discuss capacity factors that affect the ability to meet expectations (goals).	• Not included in the Annual Report.
• Describe plans to align expectations and capacity.	• Not included in the Annual Report.
Explain Other Factors Critical to Performance • Explain general factors such as changes in the economic, social or demographic environment that affect results (goals).	• In some instances the Annual Report identifies the external factors affecting achievements (e.g., page 17, the factors constraining growth; page 23, the increase in housing starts; and page 33 factors explaining higher than budgeted expenses). • Where impacting factors are identified, they are not presented in relation to Government's policies, programs, and expected results in various sectors. Consequently, a reader would have difficulty in determining how Government policies and programs may have contributed to changes in economic, financial and other sectors. • In many instances, explanations for achievements are not provided (e.g., page 18, population growth; page 19, changes in employment statistics; page 20, increase in manufacturing shipments; page 21, increases in farm cash receipts; and page 25, the increase in GDP per capita).
• Discuss specific factors such as standards of conduct, ethics, and values, or performance of other organizations that influence performance.	• Only presented in relation to factors affecting revenues (e.g., page 32).
• Describe unintended impacts of activities.	• Not included in the Annual Report.
Integrate Financial and Non-Financial Information • Link the format for reporting financial information to reporting on performance.	• Not included in the Annual Report.
• Show spending on actual results and explain how changes in spending affect results.	• Not included in the Annual Report.

FIGURE 16 (CONT'D.)

Comparison of Annual Report to CCAF Reporting Principles	
CCAF Reporting Principles	**Province of Manitoba Annual Report - March 31, 2005**
Provide Comparative Information	
• Provide comparative information about past performance and about the performance of similar organizations when relevant, reliable and consistent information is reasonably available.	• Comparative data over a five year period is only provided in relation to economic and financial information.
Present Credible Information Fairly	
• Present information that is relevant and accurate in a manner that is understandable.	• It is difficult to determine if the Annual Report focuses on what is relevant since the information is presented outside the context of goals. • The Annual Report uses technical terms without providing explanations of such terms.
• Explain management's involvement, judgment, and basis for interpretation of performance.	• The Annual Report includes a statement of management's responsibility only with respect to the financial statements. There is no statement of management's responsibility with respect to the discussion and analysis section of the Report.
Disclose the Basis for Reporting	
• Explain the basis for selecting the few critical aspects of performance on which to focus.	• Not included in the Annual Report.
• Describe changes in the way performance is measured or presented.	• Three new financial indicators are presented with clear definitions (pages 11 and 12).
• Set out the basis on which those responsible for the report hold confidence in the reliability of the information being reported.	• Included only with respect to the financial statements.

CROWN ORGANIZATIONS AND GOVERNMENT BUSINESS ENTERPRISES

Who Conducts the Audits

The Auditor General's Office audits many of the crown organizations and one of the government business 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. As discussed below The Auditor General Act also provides us with specific authority over Government appointed auditors. 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 for senior governments.

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 previously, 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

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.

For year ended March 31, 2005, the Office of the Auditor General continued to issue 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 53 draft planning memoranda from private sector auditors, which we reviewed and made recommendations for changes on two of these audit plans.

Similarly, we also received and reviewed 53 draft financial statements and auditors' reports. We provided recommendations on 44 of the draft financial statements. We had no recommendations on 9 of the draft financial statements.

Of the 44 draft financial statements for which we made recommendations, 29 draft financial statements were amended in 2005. With respect to the other 15 draft financial statements, some of the changes we recommended were 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 annual and cyclical review schedule, we reviewed 17 of the external auditors' working paper files including the audit working paper files for all of the large government business enterprises.

We continued to communicate with the external auditors at each stage of the overview.

As a result of our reliance process regarding Crown organizations' financial statement audits, we continued our involvement with the audit processes of Crowns including attendance at Board and Audit Committee meetings. Through our review of the draft financial statements of Crown Organizations prior to finalization, we also continued to contribute 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.

Furthermore, in the case of our overview work with respect to Special Operating Agencies' (SOAs) financial statement audits, we were able to assist them to improve the overall disclosure and consistency of presentation among these organizations. As well, that work also contributed to the improved consistency of the financial reporting of the Special Operating Agencies Financing Authority.

Management Letter Issues

On an annual basis the OAG reviews the management letters issued within the Government Reporting Entity. These audits are conducted by the OAG or by private sector accounting firms with overviews of the external audits performed by the OAG.

Management Letters deal with matters that come to the attention of an auditor during the course of a financial statement audit. The matters communicated do not necessarily include all those matters which a more extensive or special examination might uncover. The objective of a financial statement audit is to express an opinion on the financial statements of an entity based on the audit procedures. A financial statement audit is not designed to identify matters to communicate and may not identify all such matters. Management is responsible for the preparation of the financial statements, which includes responsibilities related to internal control, such as designing and maintaining accounting records, selecting and applying accounting policies, safeguarding assets and preventing and detecting error and fraud.

OAG reviewed 81 organizations in the Government Reporting Entity (see **Figure 17**). There were 36 Management Letters issued. Management Letters were not issued for 45 entities. For these entities, it was the auditors' opinion that no significant items came to their attention during the course of the financial statement audit that should be brought to the attention of management, and/or their Board/Audit Committee.

FIGURE 17

Summary of Management Letters Issued in the Government Reporting Entity

	Crown Organizations	Government Business Enterprises	Special Operating Agencies	Total
Management Letter Issued	**25**	**4**	**7**	**36**
No Management Letter Issued	31	4	10	45
Total	56	8	17	81

Among the 36 Management Letters that were issued OAG noted three major themes as highlighted in **Figure 18**:

FIGURE 18

Summary of Matters Noted in 36 Management Letters Issued in the Government Reporting Entity

	Crown Organizations	Government Business Enterprises	Special Operating Agencies	Total
Internal Controls	55	8	9	72
Governance	20	4	2	26
Information Technology	36	8	1	45
Total	111	20	12	143

1. Internal Controls Weaknesses

There were 72 instances of internal controls weaknesses reported. Internal controls assist with safeguarding of assets and are designed to prevent and/or detect errors or irregularities. The internal control weaknesses identified involved the revenues, expenses, capital assets and payroll functions within the entities. Some of the items noted were:

- Poor controls over financial reporting;
- Poor controls over inventory counts;
- Lack of a capital asset listing;
- Unreconciled accounts;
- Improper segregation of duties; and
- Inadequate review and approval of transactions.

2. Governance

There were 26 instances of governance weaknesses reported. Governance practices relate to how a governing body, most often the Board of Directors, leads and oversees an organization. Some of the items noted were:

- Lack of minutes from Board of Director and Audit Committee meetings;
- Inadequate polices and procedures regarding code of conduct and conflict of interest;
- Inadequate and untimely financial information provided to the Board;
- Lack of review of budget to actual comparison of revenues and expenses; and
- Lack of review and approval of financial statements.

3. Information Technology

There were 45 instances of information technology (IT) weaknesses reported. IT policies and procedures are important as they help prevent unauthorized access to sensitive information and play a vital role in ongoing government operations. Some of the items noted were:

- Poor computer system access controls;
- Poor computer password controls;
- Inadequate segregation of duties in the IT Department; and
- Outdated and untested disaster recovery plans.

During 2006/07, we will follow up the recommendations made in the Management Letters to determine and report on the status of implementation of the recommendations.

Workers Compensation Board

Last year, we reported that during 2003, the CICA issued a new accounting recommendation, entitled Generally Accepted Accounting Principles (GAAP). This standard clarified what constituted Canadian GAAP as well as the primary sources of Canadian GAAP and was effective for fiscal years beginning on or after October 1, 2003. This standard affected the Workers Compensation Board's (WCB) 2004 fiscal year financial statements and eliminated the WCB option of accounting for investments and investment income using the five year moving average method which was the WCB's current accounting policy. Instead, long-term investments were to be accounted for on the cost basis and gains and losses recognized in income when realized through sale.

However, the cost basis of accounting for investments was also under review. The CICA exposure draft issued in 2004 entitled, Financial Instruments – Recognition and Measurement (HB 3855) recommended the following:

1) Fair value is the most useful measure of financial instruments and similar items; and

2) All changes in the fair value of these instruments should be recognized in the period in which they arise.

If this standard related to financial instruments had not been approved in 2004, the WCB would have been required to adopt the cost basis of accounting for investments in 2004 to comply with GAAP and subsequently adopt fair value accounting for investments in 2005 or 2006 in accordance with the new financial instrument recommendation.

Last year, we reported that the WCB was monitoring developments at the CICA closely and had consulted with its auditors, the OAG and the provincial Comptroller's Office in formulating its decision to address this financial reporting issue.

CICA Handbook, Section 3855 - Financial Instruments–Recognition and Measurement, and Section 1530 - Comprehensive Income, are effective for fiscal years beginning on or after October 1, 2006. Early adoption was permitted for fiscal years ending on or after December 31, 2004. The Workers Compensation Board elected to early adopt these standards on a prospective basis effective January 1, 2004.

Under the previous accounting policy, investments were initially recorded at cost and adjusted to market using the moving average market method. Unrealized and realized gains and losses were deferred and amortized on a straight line basis over 60 months. Interest and dividend income were recognized in the period earned.

Under the new accounting policy, the WCB has elected to classify all investments that meet the *CICA Handbook* definition of a financial asset as "available for sale" and carry those investments at fair value. Realized gains and losses are recognized as investment income in the year they occur. Unrealized gains and losses are recognized in other comprehensive income until the investment is sold or becomes impaired at which time the cumulative gain or loss is reclassified to operating surplus.

The change in accounting policy has been applied prospectively from January 1, 2004 in accordance with the new Handbook sections. The issuance of these new accounting standards allowed WCB to prepare its financial statements in accordance with GAAP without the need to change its investment related accounting policies two years in a row.

Regional Health Authorities

The Regional Health Authorities (RHAs) have third party long term debt (owed to private sector financial institutions) which was incurred to finance capital projects and is being repaid with funding from the Province of Manitoba. In substance, under public sector accounting standards, that debt is considered the debt of the Province. As mentioned earlier in this report, this year the Province recognized in the Special Purpose Financial Statements that third party debt as borrowings of the Province. However, since the RHAs have also recorded this long term debt as their debt, the RHAs were directed by Manitoba Health Services Insurance Plan to change their financial reporting to reflect this third party long term debt as deferred contributions (reflecting that the funding represents capital grants from the Province) in the their financial statements for the year ended March 31, 2005.

For the most part, the RHAs did not record that third party long term debt as deferred contributions in their March 31, 2005 financial statements due to time constraints. However, the RHAs are expected to restate that third party long term debt as deferred contributions in their March 31, 2006 financial statements.

Receivables from the Province of Manitoba for Severance and Vacation Pay Liabilities

Last year we reported that several years ago the Province of Manitoba instructed various crown organizations (organizations) to accrue their vacation and severance pay liabilities in accordance with Canadian generally accepted accounting principles. At that time, the Province recognized that it would be an unfair imposition on the organizations' financial position to record those liabilities without financial support from the Province. As a result, the Province acknowledged responsibility for the liabilities for vacation and severance pay entitlements incurred up to the time of the directive and recorded the liability owing to the organizations in the Special Purpose (Operating Fund) Financial Statements.

This year, the Province has also recognized in the Special Purpose (Operating Fund) Financial Statements, the remaining liability of $234 million for employee future benefits (severance and vacation benefits) owed to health care facilities (Regional Health Authorities and Non-devolved health care facilities) and child and family services agencies as at March 31, 2004.

Similarly, when these liabilities were recognized by the Province, the entities also set up offsetting receivables from the Province for these amounts. The current liabilities to the organizations of approximately $268 million for severance and vacation pay entitlements set up by the Province are listed in **Appendix H**. The Province's liabilities to the organizations and the organizations' receivables from the Province are eliminated when their financial statements and the Operating Fund Financial Statements are consolidated into the Summary Financial Statements.

Although the Province has recorded these liabilities, there is only a plan to pay $239 million (the balances owed to health care facilities). The Department of Health has indicated that they will fund the payment of the balances due to health care facilities over a 25 year period commencing in the 2006/07 fiscal year. However, for the remaining organizations, the Province has directed the organizations to budget for the annual change in the liability which might be included in part of the annual provincial funding provided to the respective entities. In discussion with government organizations, we noted that this annual funding of the change in the liability has not been clearly communicated to the respective organizations.

In addition, the Province's decision not to repay, in the foreseeable future, the receivables set up by certain crown organizations for vacation and severance pay liabilities, raises questions as to the valuation of those receivables from the Province reflected in the financial statements of these organizations. From the perspective of the crown organizations, the accounting treatment is defensible because related parties can enter into transactions with terms and conditions different from those of unrelated parties. The balances due from the Province should be reflected at carrying value by the crown organizations with note disclosure of the terms and conditions.

However, without a plan from the Province to discharge the remaining liabilities, the crown organizations must also consider the cash flow issue regarding collection of these long-term receivables. Many of the organizations are starting to pay out large severance benefits as staff retire. The organizations have to provide the funding from within the organization. We understand that the Province has no plans at present to fund the remaining balance of these amounts, unless the organizations experience an overall cash shortfall. This shortfall would be likely to occur only if the respective organizations ceased operations.

Recommendation 12

First recommended in the 2004 Report to the Legislative Assembly.

That the Government develop a plan to discharge its remaining obligations for vacation and severance pay to the various government organizations involved. That the Government also clearly communicate to these organizations, the portion of the annual funding provided by the Province, if any, that relates to the increase in vacation and severance pay liabilities.

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

An auditor's report on general purpose financial statements under the relatively new audit standard (in place for the past two years) must be qualified if the financial statements are not prepared in accordance with Canadian GAAP. A qualified auditor's report indicates that the financial statements are found significantly lacking either because an accounting issue has not been handled properly or because important note disclosure is missing.

This auditing standard also provides that if the financial statements are prepared for legislative or regulatory purposes, then the auditor's report would only include a fourth paragraph and would not be qualified. In addition, this fourth paragraph indicates the limitations placed on the assurance provided in the report as follows:

> *"These financial statements, which 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 .... 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."*

Two years ago we identified eight crowns in the Government Reporting Entity whose auditor's reports could be affected by this change in audit standards. During the 2004 fiscal year, we met with the representatives of seven of the entities. As their auditors, we discussed whether their organizations could adopt Canadian generally accounting principles as the basis of accounting for their financial statements. As a result, Cooperative Promotion Board, Legal Aid Services Society of Manitoba, Manitoba Housing and Renewal Corporation and Northern Affairs Fund adopted GAAP as the basis of accounting for their 2004 financial statements and we were able to issue unqualified auditors' reports on their 2004 and 2005 financial statements.

For Manitoba Health Services Insurance Plan (MHSIP), this year we issued an unqualified auditors' report as the financial statements were prepared in accordance with GAAP. MHSIP eliminated the GAAP exception that was in place in their 2003/04 financial statements in order to be in a position to receive a GAAP opinion in 2004/05.

In the case of the Cooperative Loans and Loans Guarantee Board, we continued to issue an unqualified Section 5805 auditor's report on their financial information. Statements of financial information are not considered financial statements and are not affected by the new audit standard.

As well, for the Public Trustee Estates and Trusts Under Administration, we also continued to issue a fourth paragraph to the auditor's report as described above and indicated that the financial statements are only for use of the Members of the Legislative Assembly for the purpose of compliance with Section 19 of The Public Trustee Act. The auditors of Addictions Foundation of Manitoba again issued a similar fourth paragraph to their 2004/05 auditors' report.

COMPLIANCE WITH AUTHORITY AND AGREEMENTS

Audit Opinion on Compliance with Legislative Authorities

Compliance with legislative authorities is essential for governments and government entities. We believe there is an increasing need for positive assurance of compliance to be provided by the government and its entities.

Accordingly, we have drafted guidelines for auditing compliance with authorities. The guidelines detail management's and auditor's responsibilities in providing assurance on compliance with authority for the government entity. Management is responsible for ensuring the entity complies with legislative authorities. The guideline requires management to prepare a certification addressed to the Board of Directors confirming the entity's compliance with specific legislative authorities identified that relate to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.

The responsibility of the auditor is to form an opinion on the government entity's compliance with its legislative authorities as identified in management's certification.

We piloted the guideline on one of our direct audits of a government entity. The results of the pilot were very favourable. The senior management and the Board were very receptive to the process and found that it was a useful exercise.

We intend to pilot the draft guidelines on two more entities we directly audit, as well as one entity where we use an agent in the audit and one entity audited by an auditor external to our Office.

Based on the results of the pilots and further discussions with the Department of Finance, external auditors, and entity senior management we intend to finalize the guidelines. We will then require audits of compliance with authorities to be conducted for the Province and public sector entities for fiscal year ends ending on or after March 31, 2007. The compliance opinion will be separate from the audit opinion on the financial statements but will have the same deadline requirements as the financial statement audit opinion.

FUTURE HANDBOOK SECTIONS AFFECTING THE PUBLIC ACCOUNTS

Public Sector Accounting Board

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*.

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 reflects 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 Handbook* or *CICA Accounting 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 AND OTHER GUIDANCE

Government Reporting Entity for Senior Governments - Section PS1300

What entities should be consolidated in the Summary Financial Statements? In August 2003, the definition of the Government Reporting Entity (GRE) for senior governments was amended with the issuance of the revised *PSAB Handbook,* Government Reporting Entity, Section PS1300. The revised *PSAB Handbook* section 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.

Effective date – The new standards are effective for all fiscal years beginning on or after April 1, 2005. However, in June 2004, PSAB added a transitional provision to PS1300. The transitional provision allows governments to consolidate government organizations, not previously included in the GRE in the previous fiscal year, on a modified equity basis until fiscal years beginning on or after April 1, 2008. At that time, these organizations have to be fully consolidated in the GRE. To be eligible for the transitional provision, government organizations have to have the following characteristics:

- they are separate legal entities with the power to contract in their own name, and that can sue and be sued;
- they have the financial and operational authority to provide a government service within a defined service area;
- there is a governance framework of appointed or elected local board representatives from the defined service area; and
- there are significant restrictions on the government's ability to access their assets.

The Province of Manitoba strategy for its government reporting entity is discussed in the section of this report titled, Public Accounts – Improvements and Recommendations.

Generally Accepted Accounting Principles (GAAP) – Section PS1150

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.

In February 2005, PSAB issued a new section establishing standards for financial reporting in accordance with GAAP. It describes what constitutes Canadian GAAP and its sources for governments and public sector entities that consider the *CICA Public Sector Accounting Handbook* appropriate.

The primary source of GAAP for a public sector entity is *PSAB Handbook*. When a matter is not dealt with explicitly in the *PSAB Handbook*, a public sector entity adopts accounting policies and disclosures that are consistent with the primary source of GAAP. The accounting policies and disclosures are developed through the exercise of professional judgment and the application of the accounting concepts described in the *PSAB Handbook*. The standards identify some other sources that an entity might consult to assist in selecting accounting policies and disclosures when a matter is not dealt with explicitly in the *PSAB Handbook*.

If the basis of accounting used to prepare financial statements in accordance with regulatory, legislative or contractual requirements conflicts with the requirements of the Section, that basis cannot be described as being in accordance with GAAP.

The section is effective for fiscal years beginning on or after April 1, 2005.

In September 2005, an exposure draft was approved for release that would extend the effective date for this section to April 1, 2006 for local governments only.

Measurement Uncertainty, PS2130

In February 2005, PSAB issued a new section establishing standards relating to measurement uncertainty in the government financial statements.

The standards require that an entity disclose material measurement uncertainty and the extent of the measurement uncertainty if the amount could change by a material amount in the near term. The amount of the item subject to measurement uncertainty should be disclosed unless the disclosure of the amount would have a significant adverse impact on the entity. In which case, the reason for non-disclosure should be disclosed.

The section defines measurement uncertainty as *"uncertainty in the determination of the amount at which an item is recognized or disclosed in financial statements. Such uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount"*.

The section is effective for fiscal years beginning on or after April 1, 2005.

Sale and Lease Transactions Guideline

This guideline provides guidance on accounting for sale-leaseback transactions for senior governments to comply with the new expense based government reporting model. The new model differs from the previous model because it is full accrual instead of modified accrual.

PSAB issued Public Sector Guideline #5 - Sale-Leaseback Transactions - Expense-Based.

PSAB PROJECTS

Government Transfers

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 2002, a Statement of Principles (SOP) was issued.

Responses to the SOP and the subsequent Associates Exposure Draft in June 2004 were mixed. A second Associates Exposure Draft was deemed necessary to build a consensus on accounting and reporting issues related to the project. This draft was released in June 2005.

The major issues in the project include:

- resolving the debate over the appropriate accounting for multi-year funding provided by governments;
- clarifying the nature and extent of the authorization needed to be in place for a transfer to be recognized;
- clarifying the degree to which stipulations imposed by a transferring government should impact the timing of recognition of the transfer by both the transferor and recipient governments; and
- addressing the appropriate accounting for capital transfers received under expense-based accounting.

Status: Responses have been received from the second Associates draft. A public exposure draft is under development.

Financial Instruments

Derivative and other sophisticated non-traditional financial instruments are increasingly being used by governments to manage financial exposures such as interest rate exposures.

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

Accordingly, PSAB approved a project on financial instruments and set up a task force to manage the project. The main objective of the project is to develop standards that will make reporting by governments on the use of financial instrument derivatives as transparent and understandable as possible. The scope of the project provides for consideration of public sector reporting implications of the breadth of guidance offered by the recently approved standards in the *CICA Accounting Handbook* for the private sector that addresses the reporting of financial instruments and related hedge accounting provisions.

In August 2005, PSAB approved a Draft Guideline for comment addressing the adjustments necessary for consolidating government entities that report financial instruments based on the new CICA standards for the private sector.

The task force is also continuing its deliberations on the reporting of derivatives by governments. It expects to communicate its proposals in a Statement of Principles.

Status: A draft guideline released and a Statement of Principles is under development.

Performance Reporting

PSAB has an ongoing project to provide a set of basic principles for the development of performance reports. PSAB completed the first step in this project - Statement of Recommended Practice (SORP) on Financial Statement Discussion and Analysis - in June 2004.

However, government financial statements alone are not sufficient to demonstrate the government's accountability and performance. Accordingly PSAB, as a second step in the project, is developing guidance to enhance the usefulness of the public sector's financial and non-financial performance information. The project has been undertaken to help provide some consistency in performance reporting. While there are a number of efforts currently underway, there exists no national, generally accepted approach to the development of overall performance measurement and reporting in the public sector. The long-term goal of the project is to develop a set of overarching recommended practices that will guide the future development of performance reporting, including a framework for identifying specific performance indicators.

This project will result in a new SORP that will provide a general framework for public performance reporting. SORPs are not part of generally accepted accounting principles, but serve to provide guidance for the development and acceptance of performance reporting recommendations.

Status: In March 2005, PSAB approved a draft SORP for comment by its Associates. PSAB is scheduled to approve an Exposure Draft at its meeting in November 2005.

Revenue

Detailed standards outlining the accounting for and reporting of government revenues are needed to fill a strategic gap in government GAAP in Canada. The *PSAB Handbook* does not currently include a definition of revenue for governments. A general revenue recognition principle is included in the general standards of financial statement presentation for both senior and local governments. The *PSAB Handbook* also has a specific section that details the accounting and reporting requirements for restricted assets and revenues and specific guidance for the recognition of revenue arising from government. However, the accounting and reporting guidance for revenues in the existing *PSAB Handbook* is incomplete in that it does not specifically address many other types of government revenues, such as income and property taxes.

In July 2005, the International Public Sector Accounting Standards Board considered a revised version of a proposed public Exposure Draft on revenue recognition. Their review is scheduled to be completed at its November 2005 meeting.

When finally approved by the international body, PSAB will develop a version amended for Canadian circumstances for comment.

Status: PSAB is waiting on international developments.

Segment Disclosures

PSAB has undertaken this project because concerns have been raised about the level of aggregation of government summary financial statements. With the new definition of the reporting entity, there are a number of organizations previously not included that are likely to be part of the reporting entity as of April 1, 2005. Providing guidance about the relevant disclosures is important. As more and more governments look to including these organizations, the need for additional disclosures increases.

The objective of requiring disclosures on governmental segments is to help users of financial statements better understand the different types of activities that government engage in.

This project will result in a new *PSAB Handbook* section that prescribes disclosures for government summary financial statements.

Status: In June 2005, PSAB issued an Exposure Draft for public comment.

New and Future CICA Assurance (Auditing) Standards Affecting Audits in the Public Sector

The new Handbook sections, exposure drafts and other projects highlighted below have a potential affect on generally accepted auditing standards (GAAS) for auditing the public sector in Manitoba.

NEW ASSURANCE (AUDITING) STANDARDS

Terms of the Engagement - Section 5110

This new Section establishes standards and provides guidance on establishing an understanding and agreeing with the client on the terms of the engagement for the audit of financial statements.

The Section requires the auditor to establish an understanding of the terms of the engagement with the entity and to document this understanding in a written agreement with the entity. The agreement is to include:

- the objective, scope and limitations of the engagement;
- the responsibilities of the auditor;
- the responsibilities of the entity's management; and
- other relevant and important matters.

The new Recommendations are effective for periods beginning on or after August 1, 2005.

Management Representations - Section 5370

This new Section establishes standards and provides guidance on the use of management's representations as audit evidence and on obtaining written representations from management.

The new Section emphasizes that the auditor:

- should corroborate management's representations when obtaining sufficient appropriate audit evidence;
- discusses the relevance of management representations to the audit evidence and the need to obtain written representations with both management and the audit committee when planning the engagement;
- obtains management's written representations for all financial periods covered by the auditor's report;
- obtains written representations from current management even if current management was not present for part or all of the financial periods covered by the auditor's report; and
- should express a qualified opinion or deny an opinion if there is a scope limitation as a result of management's refusal to provide written representations requested by the auditor.

The new Recommendations are effective for periods beginning on or after August 1, 2005.

Authority of Auditing and Assurance Standards and Other Guidance - Section 5021

This new section provides guidance on the authority of the CICA auditing and assurance recommendations and other sources of auditing and assurance guidance that a practitioner may refer to when performing an assurance engagement.

The new Recommendations are effective with respect to financial statements and financial reports for periods beginning on or after September 1, 2005.

Audit Risk – Various Sections

A number of sections of the CICA Assurance and Auditing Standards Handbook have been updated to harmonize Canadian standards with international auditing standards. Fundamentally, the current risk-based approach to auditing in Canada has not changed. However, there are changes related to the auditor's understanding of the entity and its internal control in order to improve the auditor's risk assessments and to better link assessed risks of material misstatement to the auditor's evidence gathering procedures.

The revision to the Handbook includes new and revised standards for defining the concepts of reasonable assurance and audit risk, understanding the entity and its environment, including internal control, assessing the risks of material misstatement, and designing audit procedures that are responsive to assessed risks and for audit evidence.

The new standards identify specific requirements for understanding the entity, its environment and business risks relevant to the financial statements. The auditor must obtain an understanding of the design and implementation of controls. The auditor must also obtain an understanding of the entity's risk assessment and its monitoring of controls.

There are clear requirements for an auditor to assess the risk of material misstatement at the financial statement level and the assertion level. Audit procedures must be linked to the assertions.

Tests of control must be completed to support the assessment a control risk assessment below maximum. In some situations tests of controls must be completed – only completing substantive tests is not sufficient.

The new requirements are all to be applied at the same time and are effective with respect to financial statements and financial reports for periods beginning on or after January 1, 2006.

ASSURANCE AND AUDITING PROJECTS

Auditor's Report on Financial Statements of Public Sector Reporting Entities

The objective of this project is to develop guidance on the auditor's report for the financial statements of a public sector entity that uses public sector accounting recommendations.

In 2003, the CICA issued standards requiring that the financial statements had to be based on GAAP except in special circumstances. One of these circumstances was the financial statements of federal, provincial and local governments. They were allowed to be presented on a disclosed basis of accounting because the *PSAB Handbook* does not have a GAAP hierarchy. PSAB now has a section on GAAP that is effective for fiscal years beginning on or after April 1, 2005.

An Exposure Draft was issued in May 2005. Responses focused on two key aspects of the proposals:

- the effective date of the changes; and
- the scope and content of the proposed Guideline.

Status: A Handbook section is under development.

Reporting on Internal Control over Financial Reporting

The objective of this project is to provide standards and guidance necessary to issue a report on the effectiveness of an entity's internal control over financial reporting in conjunction with a financial statement audit. A report on the effectiveness of internal control over financial reporting includes both a report on management's assertion on internal controls and the auditor's direct report on the effectiveness of internal control over financial reporting.

The project is also intended to ensure that Canadian standards are harmonized with the equivalent US standards for internal control reporting engagements, including those required to meet the needs of both Canadian and US securities regulators.

In February 2005, the AASB approved, subject to written ballot, a new standard - An Audit of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements. This standard describes an engagement that is the same in nature, scope and work effort as that set out in US standards. The AASB has not yet determined an effective date for this standard.

Status: Final standard approved, subject to written ballot which is pending finalization of the Canadian Securities Administrators' Proposed Multilateral Instrument 52-111 and Companion Policy 52-111CP.

Date of Auditor's Report and Subsequent Events

The purpose of this project is to consider possible revisions to Section 6550, Subsequent Events, and Section 5405, Date of the Auditor's Report, in light of:

- recently revised International Standards;
- proposed changes to *CICA Handbook* – Accounting Section 3820, Subsequent Events;
- the introduction of Canadian Securities Administrator's National Instrument 51-102, "Continuous Disclosure Obligations"; and
- other changes to security legislation.

Status: Final Handbook material has been approved - effective January 1, 2006.

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, 2005 and the summary statements of revenue and expense, accumulated deficit, change in net debt 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, 2005 and the results of its operations and its cash flow for the year then ended, in accordance with Canadian generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

Winnipeg, Manitoba
August 19, 2005

Jon W. Singleton, CA•CISA
Auditor General

Manitoba

Appendix B

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2005"

(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, 2005

SCHEDULE		($ millions) 2005	2004
	FINANCIAL ASSETS		
	Cash and cash equivalents (Note 2)	1,107	706
	Temporary investments (Note 2)	277	207
1	Amounts receivable	896	765
	Inventories	36	38
	Portfolio investments (Note 3)	527	369
2	Loans and advances	626	642
3	Equity in government business enterprises (Note 5)	1,235	949
4	Other long-term investments	4	7
	Total Financial Assets	4,708	3,683
	LIABILITIES		
6	Borrowings	18,388	18,206
	Less: Sinking funds (Note 6)	(2,729)	(3,070)
	Less: Debt incurred for and repayable by the Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation	(6,215)	(5,937)
		9,444	9,199
	Less: Unamortized foreign currency fluctuation	(84)	(89)
	Net borrowings	9,360	9,110
7	Accounts payable, accrued charges, provisions and deferrals	2,142	2,020
	Pension liability (Note 12)	3,761	3,571
	Total Liabilities	15,263	14,701
	NET DEBT	(10,555)	(11,018)
	NON-FINANCIAL ASSETS (Note 1D13)		
5	Tangible capital assets	3,848	3,684
	ACCUMULATED DEFICIT	(6,707)	(7,334)

Information concerning the Government's Guarantees, Financial Commitments, Contingencies and Obligations can be found in Notes 7, 8, 9 and 10.

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SUMMARY FINANCIAL STATEMENTS

SUMMARY STATEMENT OF REVENUE AND EXPENSE

For the Year Ended March 31, 2005

	($ millions) 2005	2004
REVENUE		
Manitoba Collections:		
Retail sales tax	1,125	1,064
Fuel taxes	235	233
Levy for health and education	287	268
Mining tax	-	22
Other taxes	572	480
Fees and other revenue	1,793	1,710
Income taxes:		
Corporation income tax	374	289
Individual income tax	1,787	1,720
Federal transfers:		
Equalization	1,699	1,414
Canada Health and Social Transfer	1,006	917
Medical Equipment Fund	30	21
Health Reform Fund	55	37
Primary Care Transition Fund	9	7
Shared cost and other	352	320
TOTAL REVENUE	9,324	8,502
EXPENSES		
Health	3,559	3,408
Education	2,254	2,168
Family Services and Housing	1,020	961
Community, Economic and Resource Development	1,087	979
Justice and Other Government	754	755
Debt Servicing (Note 16)	767	799
TOTAL EXPENSES (Schedule 11)	9,441	9,070
Net (loss) before net income (loss) from government business enterprises	(117)	(568)
Net income (loss) from government business enterprises (Schedule 3)	716	(11)
SUMMARY NET INCOME (LOSS) (Schedule 9)	599	(579)

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(cont'd.)

SUMMARY FINANCIAL STATEMENTS

SUMMARY STATEMENT OF ACCUMULATED DEFICIT

For the Year Ended March 31, 2005

	($ millions)	
	2005	**2004**
Opening accumulated deficit, as previously reported	(8,762)	(8,158)
Restatements (Note 4)	1,428	1,403
Opening accumulated deficit, as restated	(7,334)	(6,755)
Workers Compensation Board Investment Premium (Note 4)	28	-
Summary net income (loss) for the year	599	(579)
Closing accumulated deficit, as restated	(6,707)	(7,334)

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(cont'd.)

SUMMARY FINANCIAL STATEMENTS

SUMMARY STATEMENT OF CHANGE IN NET DEBT

For the Year Ended March 31, 2005

	2005	2004
	($ millions)	
Annual Surplus (Deficit)	599	(579)
Acquisition of Tangible Capital Assets	(418)	(431)
Amortization of Tangible Capital Assets	250	243
Disposal of Tangible Capital Assets	4	4
	(164)	(184)
Workers Compensation Board Investment Premium (Note 4)	28	-
(Increase) Decrease in Net Debt	463	(763)
Net Debt, beginning of year	(11,018)	(10,255)
Net Debt, end of year	(10,555)	(11,018)

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(cont'd.)

SUMMARY FINANCIAL STATEMENTS

SUMMARY STATEMENT OF CASH FLOW

For the Year Ended March 31, 2005

	($ millions) 2005	2004
Cash and cash equivalents provided by (used in)		
Operating activities:		
Summary net income (loss) for the year	599	(579)
Changes in non-cash items:		
Temporary investments	(70)	21
Amounts receivable	(127)	(12)
Valuation allowance	4	19
Inventories	2	(1)
Portfolio investments	(158)	(133)
Accounts payable, accrued charges, provisions and deferrals	122	5
Pension liability	190	141
Amortization of foreign currency fluctuation	6	3
Amortization of debt discount	8	8
Amortization of investment discounts and premiums	(1)	(2)
Workers Compensation Board Investment premium	28	-
Disposal of tangible capital assets	4	4
Amortization of tangible capital assets	250	246
	857	(280)
Changes in equity in government business enterprises	(286)	420
	571	140
Tangible capital assets		
Acquisition of tangible capital assets	(418)	(431)
Investing activities:		
Made	(584)	(1,163)
Realized	140	542
	(444)	(621)
Financing activities:		
Debt issued	2,675	2,967
Debt redeemed	(2,180)	(2,776)
Changes in sinking funds	197	637
	692	828
Increase (decrease) in cash and cash equivalents	401	(84)
Cash and cash equivalents, beginning of year	706	790
Cash and cash equivalents, end of year	1,107	706

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(cont'd.)

SUMMARY FINANCIAL STATEMENTS

NOTES TO THE SUMMARY FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

1. SIGNIFICANT ACCOUNTING POLICIES

A. General Basis of Accounting

The Summary Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) for senior Governments as recommended by the Canadian Institute of Chartered Accountants (CICA).

B. The Reporting Entity

Various funds, crown organizations and government business 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, including funds of certain crown organizations and government business enterprises 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.

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 business 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 business 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 are also consolidated on the same basis as crown organizations.

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(cont'd.)

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 expense on self-sustaining debt of government business enterprises are recorded as a reduction of debt servicing costs.

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.

Expenses include provisional amounts recorded in anticipation of 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-sustaining debt of government business enterprises 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 amount of the liabilities for severance, Long Term Disability Income Plan liability and workers compensation claims is based upon actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations because actual

Appendix B
(cont'd.)

experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

4) 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.

5) 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. Valuation allowances are made when the collection is considered doubtful or when the value of the investment is impaired. 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.

6) 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.

7) 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.

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

9) The cost of tangible capital assets purchased includes the purchase price as well as costs such as installation costs, design and engineering fees, survey and site preparation costs and other costs incurred to put the asset in service. The cost of tangible capital assets constructed by the Province include all direct construction costs such as materials, labour, design, installation, engineering, architectural fees, and survey and site preparation costs, as well as overhead costs directly attributable to the construction activity such as licenses, inspection fees, indirect labour costs, and amortization expense of any equipment which was used in the construction project. Any carrying cost associated with the development and construction of tangible capital assets is included for projects whose cost exceeds $20 million.

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. 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. Intangible assets and items inherited by right of the Crown, such as Crown lands, forests, water and other mineral resources are not recognized in Government financial statements.

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

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(cont'd.)

General Tangible Assets:

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

Infrastructure Assets

Land	Indefinite
Land Improvements	30 years
Transportation	
Bridges and Structures	40 years
Provincial Highways, Roads and Airstrips	20 to 40 years
Dams and Water Management Structures	40 years

One-half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available to be put into service.

11) 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.

During the 2002/03 fiscal year, the Federal Government created a Diagnostic and Medical Equipment Fund for investment in new medical equipment. The Province's share of this fund was $54 million. Funding from the Diagnostic and Medical Equipment Fund has been treated as deferred revenue and will be brought into revenue based on actual purchase of equipment according to a defined schedule.

12) 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.

13) 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.

E. Use of Estimates

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

2. CASH AND TEMPORARY INVESTMENTS

Cash equivalents included in cash are recorded at cost. Market values approximate cost. Investment revenue

Appendix B
(cont'd.)

earned during the year was $35 million (2004 - $18 million).

Temporary investments are recorded at the lower of cost and market value. As at March 31, 2005, the cost of temporary investments was $277 million (2004 - $207 million) with a market value of $277 million (2004 - $207 million). Investment revenue earned on the temporary investments funds during the year was $12 million (2004 - $10 million).

3. **PORTFOLIO INVESTMENTS**

Portfolio investments are recorded at the lower of cost and net realizable value. As at March 31, 2005, the carrying value of portfolio investments was $527 million (2004 - $369 million). Portfolio investments earned $58 million during the year (2004 - $40 million).

Portfolio investments include amounts invested with the Civil Service Superannuation Fund and the Teachers' Retirement Allowances Fund. These investments represent funds set aside for the future retirement of the pension liability. These investments earn the respective Fund's annual rate of return and reflect both the realized gains (losses) on sale of investments and unrealized market gain (loss) for the year. Investment income earned for the year was $30 million (2004 - $38 million). The fair value of these investments as at March 31, 2005 was $382 million (2004 - $267 million). These Funds are balanced funds and the investments consist primarily of cash equivalents, equities, bonds, mortgages and real estate.

4. **ADJUSTMENTS TO ACCUMULATED DEFICIT**

In the March 31, 2005 fiscal year, restatements to the March 31, 2004 accumulated deficit and loss for the year were made to apply changes in accounting policies and due to correction of errors.

Adjustments were made to the opening accumulated deficit for the March 31, 2004 fiscal year to recognize the impact of changing accounting policies. These adjustments were made to recognize infrastructure tangible capital assets, such as provincial highways, bridges and land acquired for public use ($1,171 million decrease); to recognize the liability associated with the Province of Manitoba Long Term Disability Income Plan in accordance with changes to public sector accounting standards for post employment benefits ($26 million increase); and to fully consolidate the non-devolved health care facilities on a basis consistent with other Government reporting entities ($260 million decrease).

Adjustments were made to the opening accumulated deficit for the March 31, 2004 fiscal year to apply changes due to correction of errors. These adjustments were made: to recognize the liability associated with long term workers compensation claims ($6 million increase); to recognize the Crop Reinsurance Fund of Manitoba ($22 million decrease); and to recognize accrued interest payable on school and hospital debentures ($18 million increase).

The net effect of these adjustments is a $1,403 million decrease to March 31, 2004 opening accumulated deficit.

In the March 31, 2005 fiscal year further adjustments were made to the March 31, 2004 accumulated deficit. These adjustments were made: to recognize infrastructure tangible capital assets ($15 million decrease); to recognize the liability associated with the Province of Manitoba Long Term Disability Income Plan ($1 million increase); to recognize the consolidation of the non-devolved health care facilities ($2 million decrease); to recognize the liability associated with long term workers compensation claims ($1 million increase); and to recognize a loan provision for a loan loss related to advances to Manitoba Agriculture Credit Corporation ($10 million decrease). The net effect of these changes is a $25 million decrease to the March 31, 2004 summary net loss.

In the March 31, 2005 fiscal year the Workers Compensation Board elected to change its accounting policies on the recognition of gains and losses in accordance with changes to accounting standards on the recognition of these gains and losses. As a result of this change the accumulated deficit for March 31, 2005 decreased by $28 million.

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(cont'd.)

5. EQUITY IN GOVERNMENT BUSINESS 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.

Included in the equity in government business 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 business enterprises is comprised of:

	($ millions) 2005	2004
Restricted Equity in Government Business Enterprises:		
Manitoba Hydro-Electric Board	870	734
Manitoba Public Insurance Corporation	223	144
Workers Compensation Board	131	56
	1,224	934
Unrestricted Equity in Government Business Enterprises:		
Leaf Rapids Town Properties Ltd	-	1
Manitoba Hazardous Waste Management Corporation	-	1
Manitoba Lotteries Corporation	5	5
Manitoba Product Stewardship Corporation	2	4
Manitoba Public Insurance Corporation	4	4
	11	15
Equity in Government Business Enterprises	1,235	949

6. SINKING FUNDS

Sinking funds are recorded at the lower of cost and market value. As at March 31, 2005, sinking funds had a cost of $2,729 million (2004 - $3,070 million) and a market value of $2,828 million (2004 - $3,307 million). Investment revenue earned on the sinking funds during the year was $219 million (2004 - $231 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

Appendix B
(cont'd.)

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) 2005	2004
Province of Manitoba	2,148	2,340
Manitoba Hydro-Electric Board	579	728
University of Manitoba	2	2
Total sinking funds	2,729	3,070

Sinking funds are invested as follows:

	($ millions) 2005	2004
Cash and temporary investments	268	460
Portfolio investments	2,461	2,610
	2,729	3,070

7. **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:

	Authorized Limit	($ millions) 2005	2004
Canada Mortgage and Housing Corporate Mortgages	1	-	1
Manitoba Business Start Program	5	1	1
Manitoba Agriculture Credit Corporation (Note a)		56	52
Manitoba Housing & Renewal Corporation (Note b)		7	6
Rural Entrepreneur Assistance Program (Note c)	15	4	4
Manitoba Student Financial Assistance Program (Note d)	20	8	12
Rural Municipality of Richot	1	1	1
Winnipeg Symphony Orchestra Inc.	-	-	1
		77	78
Manitoba Grow Bonds		6	8
Total guarantees outstanding		83	86

The provisions for losses on guaranteed loans are determined by a review of individual guarantees. The provision represents the best estimate of probable claims against the guarantee. Where circumstances indicate the likelihood of claims arising, provisions are established for those loan guarantees. Provision for future losses on guarantees in the amount of $18 million (2004 - $20 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.

Note a – The Manitoba Agriculture Credit Corporation has guaranteed loans under the following programs:
Guaranteed Operating Loan Program – guarantees each participating lending institution 12 ½% of the respective value of loans made under this program.
Manitoba Cattle Feeder Associations Loans Guarantees – for each association guarantee 25% of the loan to a maximum guarantee of $1 million.
Diversification Loan Guarantee Program – guarantees 25% of loans made by participating lenders, for the diversification or farm value-added activities, to a maximum individual guaranteed loan allowable of $3 million.
Enhanced Diversification Loan Guarantee Program – eliminated lender pooling of guarantees and the maximum of $3 million for qualifying loans.

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(cont'd.)

Note b – The Manitoba Housing and Renewal Corporation has guaranteed the repayment of mortgages and has issued letters of credit which guarantee the terms and conditions of land development agreements and construction contracts.

Note c – The Province provides guarantees on new and expanding small or home business loans, with a five year term.

Note d – The Government guarantees three types of student loans issued in the past ten years:
- i. Guaranteed loans: issued by the Canadian Imperial Bank of Commerce (CIBC) from April 1, 1993 to December 31, 1994. These loans are fully guaranteed should the loan be deemed to be in default.
- ii. Limited risk loans: issued by the CIBC from January 2, 1995 to December 31, 1997 and issued by the Royal Bank from June 2, 1997 to July 31, 2000. The Government only guarantees those loans in default that have been issued to credit abusers, insolvent creditors and minors.
- iii. Non-risk loans: issued by the Royal Bank from August 1, 2000 to July 31, 2001. The Government has agreed to guarantee and purchase any loan deemed to be in default.

8. FINANCIAL COMMITMENTS

A. Funding Commitments

The Government reporting entity has approved long-term financial arrangements. The Government reporting entity has also made future commitments under long-term contracts that cover the rental of tangible capital assets. These financial commitments as at March 31 are as follows:

Future commitments:	Government Business Enterprises	Other	($ millions) Total 2005	2004
Tangible capital assets, infrastructure and capital grants	131	151	282	355
Rental of tangible capital assets	57	165	222	211
Approved mortgages	-	7	7	11
	188	323	511	577

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 (2004 - $86 million).

The Manitoba Hydro-Electric Board made a commitment to commence construction of an office building in downtown Winnipeg on or before September 3, 2007.

The Province has undertaken to expand the Red River Floodway. Through the Manitoba Floodway Authority (formerly, the Manitoba Floodway Expansion Authority Inc.), the Province is a party to a funding agreement with the Government of Canada for a $240 million (2004 - $240 million) expansion project and has committed to provide $120 million (2004 - $120 million) towards the $240 million (2004 - $240 million) expansion project.

B. Capital Commitments

The Government has made commitments against future appropriations that cover the purchase or development of tangible capital assets. Funding is provided annually from appropriations of the Capital Budget. These commitments as at March 31 are as follows:

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(cont'd.)

	($ millions) 2005	2004
Buildings	2	-
Transportation	14	-
Dams and Water Management Structures	2	-
Computer Hardware and Software	-	1
Construction and Maintenance Equipment	-	3
Equipment	1	2
	19	6

9. CONTINGENCIES

The Government has been named in various legal actions, including treaty land entitlements. No provision has been made at March 31, 2005 in the accounts where the final results are uncertain.

A. Disaster Financial Assistance

A provision has been made at March 31, 2005 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 (Hydro) related northern development projects. The outcome of these claims is not determinable at this time.

Hydro is party to an agreement dated December 16, 1977, with Canada, the Province of Manitoba and the Northern Flood Committee Inc., representing the five First Nations in the communities of Cross Lake, Nelson House, Norway House, Split Lake and York Landing. This agreement, in part, provides for compensation and remedial measures necessary to ameliorate the impacts of the Churchill River diversion and the Lake Winnipeg Regulation projects. Comprehensive settlements have been reached with all communities except Cross Lake.

In recognition of all anticipated payments, Hydro has recorded a total liability of $104 million (2004 - $121 million). Reassessments of these liabilities will be made as settlements are achieved. There are other mitigation issues, the outcomes of which are not determinable at this time.

10. TREATY LAND ENTITLEMENT OBLIGATIONS

To meet Manitoba's obligation under treaty land entitlement (TLE) agreements, approximately 39,406 acres of provincial Crown land will be transferred to the Government of Canada (Canada) for First Nations, as follows;

God's Lake First Nation	7,514
Norway House Cree Nation	18,796
Nisichawayasihk Cree Nation	8,304
Sapotaweyak Cree Nation	4,566
Buffalo Point First Nation	266

This will help strengthen their economic development. Manitoba continues to work with Canada and First Nations on a number of initiatives leading to greater self-government in areas such as land and child and family services delivery.

Appendix B
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Manitoba's obligations under the Treaty Land Entitlement Framework Agreement requires the setting aside of 985,949 acres of Crown land. To date 837,764 acres have been selected by the Entitlement First Nations. The Crown lands will be transferred according to the Natural Resources Transfer Agreement, including mines and minerals and other interests normally reserved for the Province under the *Crown Land Act* or any other statute.

11. ENVIRONMENTAL ISSUES

The Public Sector Accounting Board of the Canadian Institute of Chartered Accountants introduced changes to public sector accounting standards, effective for the 2006 fiscal year, regarding the recognition and measurement of liabilities and contingent liabilities, including environmental liabilities. 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. That process will be completed over the 2006 fiscal year and the Government will determine the appropriate accounting treatment for the recognition of any resulting liabilities. In addition, the Manitoba Hydro-Electric Board will incur future costs associated with the assessment and remediation of contaminated lands and for the phase-out and destruction of polychlorinated biphenyl contaminated mineral oil from electrical equipment.

12. PENSION PLANS

The Government of the Province of Manitoba supports eight 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), the Brandon University Retirement Plan, the Judges' Supplemental Pension Plan, and the Winnipeg Child and Family Services Employee Benefits Retirement Plan (WCFSP). 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 for the year ended March 31, 2005 was $17 million (2004 - $17 million), the Government set aside $79 million (2004 - $75 million) in the Pension Assets Fund. These funds are separately invested and maintained in trust accounts with Civil Service Superannuation Fund (CSSF) and Teachers' Retirement Allowances Fund (TRAF) for the Government and are increased by the rate of return of the funds. Portfolio investments held in the CSSF and in the TRAF for the Government, from funds that it set aside for the future retirement of its pension liability amount to $382 million at March 31, 2005 (2004 - $267 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, 2004	4.0%	2.50%	6.50%
Teachers'	January 1, 2004	4.25%	2.50%	6.75%
MLA	March 31, 2003	4.0%	2.75%	6.75%
University of Manitoba	December 31, 2003	4.0%	2.50%	6.50%
Brandon University	December 31, 2003	3.5%	2.50%	6.00%
HEPP	December 31, 2003	3.5%	3.00%	6.50%
Judges' Supplemental	March 31, 2003	3.25%	2.75%	6.00%

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(cont'd.)

The WCFSP was established effective December 29, 2003 and the actuarial valuation of this plan has not yet been completed. During the year, no amendments were made to any of the plans.

The components of the unfunded pension liability and expense are as follows:

	($ millions) Pension Expense 2005	Pension Liability 2005	2004
Civil Service Plan			
Pension Liability	144	1,606	1,497
Unamortized Net Actuarial Gains		19	48
Teachers' Plan			
Pension Liability	215	2,168	2,066
Unamortized Actuarial Losses		(90)	(95)
Members of the Legislative Assembly			
Pension Liability	2	29	28
Unamortized Actuarial Gains		4	4
Judges' Supplemental Pension Plan	3	23	21
Other Plans	18	2	2
	382	3,761	3,571

The pension liabilities of government business enterprises are disclosed in Schedule 3.

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, 2005, the CSP had approximately 41,800 (2004 - 39,800) 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, 2005 was $38 million (2004 - $34 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, 2005 amounted to $72 million (2004 - $68 million).

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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, 2005, payments of $90 million (2004 - $85 million) were made to the CSSF.

An actuarial report was completed for CSSF as of December 31, 2004, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's net liability for accounting purposes has been calculated to be $1,625 million as at March 31, 2005 (2004 - $1,545 million), which includes net unamortized actuarial gains of $19 million (2004 - $48 million). The December 31, 2004 report disclosed an actuarial loss of $22 million which will be amortized over the 15 year expected average remaining service life of the employee groups. This actuarial loss has been combined with the actuarial loss from the December 31, 2001 actuarial report and the actuarial gain from the December 31, 1998 actuarial report. The 2005 combined amortization was a $7 million decrease to expenses (2004 - $7 million).

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, 2005, the Teachers' Retirement Allowances Fund (TRAF) had approximately 31,800 (2004 - 30,900) 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. 83.5% of contributions are used to fund basic benefits and 16.5% 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, 2005, amounted to $52 million (2004 - $51 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, 2005, payments of $108 million (2004 - $102 million) were made to TRAF.

An actuarial report was completed for TRAF as of January 1, 2004, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. For the year ended March 31, 2005, the actuary provided a calculation of the Government's liability

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on an indexed basis. The Government's net liability for accounting purposes has been calculated to be $2,078 million as at March 31, 2005 (2004 - $1,971 million), which includes unamortized actuarial losses of $90 million (2004 - $95 million). The actuary's calculation disclosed an actuarial loss of $4 million which will be amortized over the 12.5 year expected average remaining service life of the employee groups, commencing in the 2005/06 fiscal year. This actuarial loss has been combined with the actuarial loss from the January 1, 2001 actuarial report and actuarial loss from the 2004 funding valuation. The 2005 amortization expense was $8 million (2004 - $4 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, 2005, there are 116 (2004 - 116) 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 report was completed for the MLA plan as of March 31, 2003, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's net liability for accounting purposes has been calculated to be $33 million as at March 31, 2005 (2004 - $32 million), which includes unamortized actuarial gains of $4 million (2004 - $4 million). The March 31, 2003 report disclosed an actuarial gain of $2 million which will be amortized over the 10 year expected average remaining service life of the MLAs. This actuarial gain has been combined with the actuarial gain from the March 31, 2000 actuarial report. The 2005 combined amortization was a $0.6 million decrease to expenses (2004 - $0.6 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.

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 plans and the current level of funding satisfies the requirements of *The Manitoba Pensions Benefit Act*. The plans are not indexed.

As at December 31, 2004, the University of Manitoba Pension Plans had 5,215 active members (2003 - 5,119), and 953 pensioners (2003 - 846). 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, 2003 was completed in 2004 by Eckler Partners Ltd., a firm of consulting actuaries. The results of this valuation have been extrapolated by Eckler Partners Ltd. to December 31, 2004. As at December 31, 2004, the University of Manitoba Pension Plan (1970) and The University of Manitoba Pension Plan (1993) were in an actuarial surplus of $1 million (2003 - $1 million) and $8 million (2003 - $10 million), respectively. The University of Manitoba cannot access this surplus and, as a

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result, no asset has been recorded in the Province's Summary Financial Statements.
The University of Manitoba recognized expenses equal to its contributions of $13 million (2003 - $12 million) for the 1970 Plan and for the 1993 Plan for the fiscal year ended March 31, 2005. Employee contributions equalled the employer contributions.

The next full actuarial valuation of the plans will be as at December 31, 2005 and will be completed in 2006.

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 $1 million in 2005 (2004 - $1 million).

E. Brandon University

The Brandon University administers the Brandon University Retirement 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 Retirement 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, 2004, the Brandon University Retirement Plan had 469 active members (2003 - 458), 189 pensioners (2003 - 183), and 40 deferred pensioners (2003 - 38).

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 completed as at December 31, 2003 by Eckler Partners Ltd., a firm of consulting actuaries. As at December 31, 2004, the Brandon University Retirement Plan had no actuarial surplus (2003 - surplus $3 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 (2004 - $1 million). Employee contributions equalled the employer contributions.

The next full actuarial valuation of the plan will be as at December 31, 2006 and will be completed in 2007.

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

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hoc COLA effective January 1, 2002. COLAs were not granted for year ended December 31, 2004. As at December 31, 2004, HEPP had 35,635 active and disabled members (2003 - 34,865), 6,221 deferred vested members (2003 - 4,822), and 9,505 retired members (2003 - 8,971). There are currently 180 participating employers (2003 - 185).

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, 2003, using the projected unit credit actuarial cost method. As at December 31, 2003, HEPP had a going concern actuarial surplus of $5 million (2003 - $11 million). The employers cannot access this surplus and, as a result no asset has been recorded in the Province's Summary Financial Statements.

G. Judges' Supplemental Pension Plan

The supplemental pension benefit for judges was determined to be the difference between the total pension benefits for judges, including the amendments introduced by Judicial Compensation Committees, and the formula pension available under the Civil Service Superannuation Act (CSSA) as described above in note 12A.

The present supplemental pension benefit for judges was effective July 1, 1992. It was based upon the first Judicial Compensation Committee report of June 7, 1991. Since that time, four successive Judicial Compensation Committees have been duly appointed and amendments have been implemented to the supplemental benefits available under the Judges' Supplemental Pension Plan.

The current supplemental pension, including amendments introduced by the most recent Judicial Compensation Committee, is summarized as follows:

- The supplemental pension plus the pension provided under the CSSA results in an accrual rate of 3.00% for each year of service as a judge,
- A cap of 70% of earnings on the combined judge's supplemental pension and Civil Service Superannuation Pension,
- The overall limit that the judge's supplemental service not exceed 23.5 years.

As at March 31, 2005, there are 61 (2004 - 61) plan members who are entitled to receive future pension benefits in accordance with the plan.

An actuarial report was completed for the Judges' Supplemental Pension Plan as at March 31, 2003, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's liability for accounting purposes has been calculated to be $23 million as at March 31, 2005 (2004 - $21 million).

H. Winnipeg Child and Family Services Employee Benefits Retirement Plan

The Winnipeg Child and Family Services Employee Benefits Retirement Plan (the WCFSP) was established effective December 29, 2003. The WCFSP applies to employees of the former Winnipeg Child and Family Services who transferred to the Department of Family Services and Housing and the terms apply to those who retire or terminate employment on or after December 29, 2003. These employees were previously members of the United Way Agencies' Employee Benefits Retirement Plan (UWARP). Under a Special Pension Transfer Agreement, the services and benefits earned by those employees were transferred from UWARP to the WCFSP.

At March 31, 2005, the WCFSP had 567 active members (2004 - 562), 133 pensioners (2004 - 129) and 56 deferred pensioners (2004 - 69).

The lifetime pension calculation equals 2% of the member's highest average pensionable earnings in any three non-overlapping periods of 12 consecutive months, less 0.6% of the average CPP earnings for the same period multiplied by years of pensionable service.

Members are required to contribute 4.5% of pensionable earnings up to the CPP maximum and 6% on pensionable earnings over the maximum.

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The employer is required to make monthly contributions actuarially determined to provide for the normal cost of the benefits accruing to members and to provide for the proper amortization of any unfunded liability or solvency deficiency. Currently that contribution has been established at an amount equal to employee contributions. In addition, the Government will be required to make a one-time payment to cover an estimated solvency deficiency of $1.9 million. This amount has been accrued in these statements. With this one-time payment, the plan is expected to be fully funded as at March 31, 2005.

The WCFSP will reflect the pension benefits earned by its members for service until June 27, 2004. No further pensionable service entitlements will accrue in the WCFSP after June 27, 2004. Subsequent to June 27, 2004, the active members of the WCFSP will become members of the Civil Service Plan (CSP) and will begin earning pension benefit entitlements under the CSP. The pension benefits for all future service of the former WCFSP members will accrue under the CSP.

13. LONG TERM DISABILITY INCOME PLAN

The Government guarantees payments of long term disability benefits for all employees covered by the Long Term Disability Income Plan that was established on April 1, 1984. An actuarial valuation report was completed for the Long Term Disability Plan as of September 1, 2003 with projections to March 31, 2004 and March 31, 2005 which determine the Government's liability. The report provides a formula to update the liability on an annual basis. The Government's actuarially determined liability for accounting purposes as at March 31, 2005 was $28 million (2004 - $27 million).

14. SEVERANCE PAY OBLIGATIONS

The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group. An actuarial report was completed for the severance pay liability as of March 31, 2005. The report provides a formula to update the liability on an annual basis. The Government's actuarially determined net liability for accounting purposes as at March 31, 2005 was $243 million (2004 - $239 million).

15. AMOUNTS HELD IN TRUST

The Government held certain fiduciary trusts for investment or administration at March 31, 2005, totalling $355 million (2004 - $399 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, 2005 totalling $113 million (2004 - $125 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) 2004	2003
Civil Service Superannuation Fund	3,096	2,758
University of Manitoba Pension Plans	891	846
Brandon University Retirement Plan	84	77
	4,071	3,681

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16. **DEBT SERVICING**

Debt servicing costs of $767 million (2004 - $799 million) is net of interest recoveries from government business enterprises of $436 million (2004 - $461 million) and includes $97 million (2004 - $102 million) representing interest expense of crown organizations (Schedule 11). Government business enterprises debt servicing costs of $514 million (2004 - $497 million) are reported on Schedule 3.

17. **WATER POWER RENTALS**

Water power rental revenue from the Manitoba Hydro-Electric Board (Hydro), in the amount of $105 million (2004 - $65 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) (2004 - $3.34 per MW.h).

18. **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, 2005 were $70 million (2004 - $70 million).

19. **REVENUE FROM GOVERNMENT BUSINESS 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, 2005 was $6 million (2004 - $6 million).

The Manitoba Lotteries Corporation provided $2 million in funding for the year ended March 31, 2005 (2004 - $2 million) to the Addictions Foundation of Manitoba for problem gambling services programming. Hydro paid Corporation Capital Tax of $34 million for the year ended March 31, 2005 (2004 - $33 million).

20. **PURCHASE OF WINNIPEG HYDRO**

The Purchase of Winnipeg Hydro Act received Royal Assent on August 9, 2002. In the 2003 fiscal year, the Manitoba Hydro-Electric Board entered into an agreement with the City of Winnipeg to purchase all of the net assets of Winnipeg Hydro. The consideration principally consisted 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.

21. **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. It is reflected as a reduction in individual and corporation income tax revenues. This amounted to $86 million for the year ended March 31, 2005 (2004 - $80 million). The Province has accrued a liability of $21 million (2004 - $21 million) for the municipal share of individual and corporate income taxes for the first quarter of 2005.

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22. AMOUNTS DUE TO THE FEDERAL GOVERNMENT

The March 31, 2003 financial statements disclosed that the net impact of the federal settlement related to the Federal Accounting Error for the period of 1997 to 1999 was a $91 million loan payable owing to the Federal Government over a ten-year period commencing in 2004/05. As at March 31, 2005, this loan payable has been reduced to $80 million by offsetting an adjustment to unapplied taxes and the payment of the first instalment of $9 million.

To offset negative adjustments to the 2004 Equalization payments, the Federal Government provided to the Province a net loan payable of $38 million. Repayment of this loan payable is scheduled to begin in April, 2005 and continue over a five year period. Similarly, to offset negative adjustments to the 2004 Canada Health and Social Transfer (CHST) entitlements, the Federal Government provided to the Province a net loan payable of $9 million. Repayment of this loan payable is scheduled to begin in April, 2005 and continue over a five year period.

Through the Manitoba Opportunities Fund Ltd., the Province holds and invests deposits made through the Federal Department of Citizenship and Immigration Canada's (CIC) Immigrant Investor Program. The Federal Immigrant Investor Program seeks to attract experienced persons and capital to Canada. Investors must demonstrate business experience and make an investment into the program. The funds are distributed among participating Provinces. These funds are returned to the investor after a period of 5 years. As at March 31, 2005 the Province has loans payable of $39 million (2004 - $1 million) to be repaid to the Federal Government five years after receipt.

23. FOREIGN EXCHANGE RISK

The Province of Manitoba recognizes that currency risks can be inherent to normal business operations. The Province's general philosophy is to minimize any foreign currency risks associated with capital market activities. The Province uses derivative financial instruments such as swaps and forward foreign exchange contracts as well as US dollar sinking funds to hedge these risks. Derivatives must be related to specific underlying liability or investment requirements and are not used for activities such as trading, speculation, leveraging or any other activities that are not related to the Province's normal business activities. The current portfolio of foreign debt is fully hedged through the use of derivatives and US dollar sinking funds, except for the impact of the unamortized foreign exchange fluctuation account of $84 million (2004 - $89 million). In accordance with the Province's accounting policies reflected in Notes 1(D)4 and (D)6, the balance of the unamortized foreign exchange fluctuation account will be charged to debt servicing expense over the remaining term of the related debt. The Canadian dollar equivalent of the aggregate amount, by major currency, estimated to be required in each of the next five years and thereafter to meet sinking fund or retirement provisions for the foreign denominated debt is disclosed in Schedule 6.

In accordance with the Manitoba Hydro-Electric Board's (Hydro) Exposure Management Program, revenues used as hedges are firm US dollar export revenues which are translated at the historical book value exchange rates of the respective US dollar denominated debt obligations to which the firm revenues are linked and for which they, together, form an effective hedge. For purposes of bridging the timing of US dollar denominated debt maturities and the US dollar revenue streams used to hedge those debt maturities, Hydro utilizes US dollar sinking funds.

24. CANADIAN BLOOD SERVICES

Most provinces including Manitoba are members of, and provide funding to, Canadian Blood Services, which operates the Canadian blood system. Their March 31, 2004 audited financial statements indicate that a wholly owned subsidiary, CBS Insurance Company Limited, provides for the contingent liabilities for risks related to operation of the blood system. The actuarially determined provision for future insurance claims, reported and unreported, related to insured events that occurred prior to March 31, 2004 is $163 million (2003 - $135 million). The related assets as at March 31, 2004 total $187 million (2003 - $171 million). The subsidiary also had a re-insurance contract for additional coverage of $750 million.

Appendix B
(cont'd.)

SUMMARY FINANCIAL STATEMENTS

Based upon the above, as at March 31, 2004, the Province of Manitoba's share of the provision for future claims is offset with designated assets which at that point exceed the provision. In addition, there is re-insurance to cover an additional $750 million in claims of insured events occurring on or before March 31, 2004. March 31, 2005 figures are not available for comparison.

25. DRIVER LICENCING OPERATIONS

Effective October 4, 2004, the Province of Manitoba transferred management and administration of driver licencing to the Manitoba Public Insurance Corporation (MPIC), including all aspects pertaining to driver safety, vehicle registration and driver licencing including all related financial, administrative and data processing services.

The Province of Manitoba has agreed to provide funding to MPIC in the amount of $21 million annually, into perpetuity, to defray the cost borne by MPIC as a result of the transfer. For the six month period ended March 31, 2005 these fees totalled $10 million.

MPIC, on behalf of the Province of Manitoba, collects and transfers motor vehicle registration fees to the Province. For the fiscal year ended March 31, 2005, these fees totalled $90 million (2004 - $76 million). Effective October 4, 2004, MPIC is also responsible for collecting and transferring driver licencing fees to the Province of Manitoba. For the six month period ended March 31, 2005 these fees totalled $9 million.

26. SUBSEQUENT EVENT

On June 16, 2005, *The Manitoba Agricultural Services Corporation Act* (Bill 30) was passed in the Manitoba Legislature. This legislation created the Manitoba Agricultural Services Corporation through the amalgamation of the Manitoba Crop Insurance Corporation and the Manitoba Agricultural Credit Corporation.

27. COMPARATIVE FIGURES

Certain of the 2004 financial statement figures have been reclassified to be consistent with the 2005 presentation.

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Appendix C

SPECIAL PURPOSE OPERATING FUND AND SPECIAL FUNDS FINANCIAL STATEMENTS - AUDITOR'S REPORT

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 Members of the Legislative Assembly of the Province of Manitoba

These financial statements report transactions and events of the Operating Fund and Special Funds only. Significant financial activities of the Government occur outside of these funds. Therefore, readers should not use these special purpose financial statements to understand and assess the Government's overall management of public financial affairs and provincial resources.

The Summary Financial Statements are complete financial statements. Their purpose is to report the full nature and extent of the overall financial affairs and resources of the Province of Manitoba for which the Government is responsible. Please refer to the Summary Financial Statements to understand and assess the Government's management of public financial affairs and provincial resources as a whole.

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, 2005 and the special purpose statements of revenue and expense, calculation of balance under the Balanced Budget, Debt Repayment and Taxpayer Accountability Act, accumulated (deficits) surpluses, change in net debt, 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.

Opinion

In my opinion, these Special Purpose Financial Statements present in all material respects, the financial position of the Operating Fund and Special Funds as at March 31, 2005, 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, except as described in Note 5 to these financial statements.

Appendix C
(cont'd.)

Exceptions from Generally Accepted Accounting Principles

These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles for the public sector (GAAP), are solely for the information and use of the Members of the Legislative Assembly for the purpose of determining compliance with the Balanced Budget, Debt Repayment and Taxpayer Accountability Act. The financial statements are not intended to be and should not be used by lenders, bond rating agencies, citizens, or anyone other than the specified users or for any other purpose. Specifically, these statements should not be used to assess the fiscal performance of the government as this information is only available in the Summary Financial Statements.

The Special Purpose Statement of Revenue and Expense along with the Special Purpose Statement of Calculation of Balance under the Balanced Budget, Debt Repayment and Taxpayer Accountability Act should be analyzed in two parts. The first part, showing the calculation of Net Result for the year, has been determined using the accounting policies described in Note 1 to the Special Purpose Financial Statements. These accounting policies differ materially from Canadian GAAP as described in Note 1, and therefore do not result in fair presentation. The second part is where the Net Result for the year is adjusted as authorized by The Balanced Budget, Debt Repayment and Taxpayer Accountability Act to determine a Positive Balance as defined by the Act. These adjustments, specifically inter-fund transfers, would not be included in the Special Purpose Statement of Revenue and Expense and a Special Purpose Statement of Calculation of Balance under the Balanced Budget, Debt Repayment and Taxpayer Accountability Act would not be produced had Canadian GAAP been used.

If Canadian GAAP had been used in the preparation of the Special Purpose Financial Statements, financial assets would increase by $196 million, non-financial assets would increase by $1.640 billion, liabilities would increase by $2.484 billion, net debt would increase by $2.288 billion, accumulated deficit would increase by $648 million, revenue including net income from government business enterprises would increase by $1.854 billion, and expenses would increase by $1.800 billion.

Winnipeg, Manitoba
August 19, 2005

Jon W. Singleton, CA•CISA
Auditor General

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Appendix D

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2005"

(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 FINANCIAL STATEMENTS

OPERATING FUND AND SPECIAL FUNDS
SPECIAL PURPOSE STATEMENT OF FINANCIAL POSITION

As at March 31, 2005

SCHEDULE		($ millions) 2005	2004
	FINANCIAL ASSETS		
	Cash and Cash Equivalents (Note 2)	602	72
	Portfolio Investments (Note 3)	382	267
1	Amounts Receivable	611	559
2	Loans and Advances	653	603
4	Trust Assets (Note 1F)	2,264	2,265
	Total Financial Assets	4,512	3,766
	LIABILITIES		
6	Borrowings	18,165	17,700
	Less: Sinking Funds (Note 4)	(2,703)	(2,946)
	Less: Debt Incurred For and Repayable By The Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation	(6,215)	(5,937)
		9,247	8,817
	Less: Unamortized Foreign Currency Fluctuation	(84)	(89)
	Net Borrowings	9,163	8,728
7	Accounts Payable, Accrued Charges, Provisions and Deferrals	1,352	1,034
		10,515	9,762
4	Amounts Held in Trust for Investment or Administration (Note 1F)	2,264	2,265
	Total Liabilities	12,779	12,027
	NET DEBT	(8,267)	(8,261)
	NON-FINANCIAL ASSETS (Note 1E11)		
	Deferred Charge for Health Care Facilities (Note 1A4)	586	497
5	Tangible Capital Assets	1,622	415
		2,208	912
	ACCUMULATED DEFICIT	(6,059)	(7,349)

Information concerning Long Term Investments can be found on Schedule 3.
Information concerning the Government's Guarantees, Financial Commitments, Contingencies and Pension Liability can be found in Notes 7, 8, 9 and 12.

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(cont'd.)

OPERATING FUND AND SPECIAL FUNDS
SPECIAL PURPOSE STATEMENT OF REVENUE AND EXPENSE

For the Year Ended March 31, 2005

($ millions)

	Operating Fund Budget	Operating Fund Actual	Fiscal Stabilization Fund	Debt Retirement Fund	Pension Assets Fund	Other Special Funds	Total 2005	Total 2004
OPERATING REVENUE (Schedule 8)								
Manitoba Collections	2,586	2,583	-	-	-	7	2,590	2,365
Income Taxes	2,101	2,161	-	-	-	-	2,161	2,009
Federal Transfers	2,447	2,920	-	-	-	-	2,920	2,515
Crown Organizations	436	476	-	-	6	-	482	425
Interest Earned	-	-	1	2	30	-	33	48
	7,570	8,140	1	2	36	7	8,186	7,362
OPERATING EXPENSES (Schedules 8 & 10)	7,471	7,635	-	-	-	6	7,641	7,445
NET RESULT FOR THE YEAR	99	505	1	2	36	1	545	(83)
INTERFUND TRANSFERS								
Transfer to Debt Retirement Fund	(96)	(99)	-	99	-	-	-	-
Transfer for Pensions	-	-	-	(79)	79	-	-	-
Transfer from Mining Community Reserve	-	-	-	-	-	(1)	(1)	(2)
Transfer from Positive Balance to Fiscal Stabilization Fund under Section 9 (a) of the Act	-	(406)	406	-	-	-	-	-
	(96)	(505)	406	20	79	(1)	(1)	(2)
NET RESULT FOR THE YEAR AFTER INTERFUND TRANSFERS	3	-	407	22	115	-	544	(85)

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(cont'd.)

OPERATING FUND AND SPECIAL FUNDS
SPECIAL PURPOSE STATEMENT OF CALCULATION OF BALANCE UNDER THE BALANCED BUDGET, DEBT REPAYMENT AND TAXPAYER ACCOUNTABILITY ACT

For the Year Ended March 31, 2005

	($ millions) 2005	2004
Operating Fund Revenue	8,140	7,306
Operating Fund Expenses	7,635	7,439
NET RESULT FOR THE YEAR BEFORE ADJUSTMENT UNDER SECTION 3 (2) OF THE ACT	505	(133)
Elimination of Disaster Expenditures as Declared under Section 3 (2) of the Act	-	71
NET RESULT FOR THE YEAR AFTER ADJUSTMENT UNDER SECTION 3 (2) OF THE ACT	505	(62)
INTERFUND TRANSFERS		
To the Debt Retirement Fund	(99)	(96)
From the Fiscal Stabilization Fund	-	171
	(99)	75
POSITIVE BALANCE FOR PURPOSES OF BALANCED BUDGET LEGISLATION	406	13

Appendix D
(cont'd.)

OPERATING FUND AND SPECIAL FUNDS SPECIAL PURPOSE STATEMENT OF ACCUMULATED (DEFICITS) SURPLUSES

For the Year Ended March 31, 2005

($ millions)

	Operating Fund	Fiscal Stabilization Fund	Debt Retirement Fund	Pension Assets Fund	Other Special Funds (Schedule 9)	Total 2005	Total 2004
Accumulated (Deficits) Surpluses, Beginning of Year	(7,897)	79	180	267	22	(7,349)	(6,475)
Recognition of Infrastructure (Note 5A)	1,183	-	-	-	-	1,183	-
Unfunded Employee Future Benefits (Note 5B)	(234)					(234)	-
Long Term Disability Income Plan (Note 5C)	(27)					(27)	-
Health Care Facilities Debt (Note 6A)	(152)					(152)	-
Interest Accruals (Note 6B)	(18)					(18)	-
Workers Compensation Claims Liability (Note 6C)	(6)					(6)	-
Tangible Capital Assets	-					-	3
Devolution of Winnipeg Child and Family Services	-	-	-	-	-	-	(2)
Legal Aid Private Bar Fees	-	-	-	-	-	-	(4)
Valuation Allowance	-	-	-	-	-	-	(230)
Pension Adjustment	-	-	-	-	-	-	(41)
Red River College Loan	-	-	-	-	-	-	(13)
School Debentures	-	-	-	-	-	-	(433)
Hospital Debentures	-	-	-	-	-	-	(69)
Net Result for the Year after Interfund Transfers	-	407	22	115	-	544	(85)
Accumulated (Deficits) Surplus before Interfund Transfer	(7,151)	486	202	382	22	(6,059)	(7,349)
Transfer for Debt Retirement Payment (Note 16)	202	-	(202)	-	-	-	-
Accumulated (Deficits) Surpluses, End of Year	(6,949)	486	-	382	22	(6,059)	(7,349)

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(cont'd.)

OPERATING FUND AND SPECIAL FUNDS
SPECIAL PURPOSE STATEMENT OF CHANGE IN NET DEBT

For the Year Ended March 31, 2005

	($ millions) 2005	2004
Annual Surplus (Deficit):		
Operating Fund	-	(71)
Fiscal Stabilization Fund	407	(156)
Debt Retirement Fund	22	28
Pension Assets Fund	115	116
Other Special Funds (Schedule 9)	-	(2)
	544	(85)
Acquisition of Tangible Capital Assets	(133)	(42)
Assets Acquired in Prior Years	-	(4)
Recognition of Infrastructure (Note 5A)	(1,183)	-
Disposals and Write Downs	9	-
Amortization of Tangible Capital Assets	100	30
	(1,207)	(16)
Increase in Deferred Charge for Health Care Facilities	(89)	(51)
Changes in Accumulated Deficit		
Recognition of Infrastructure (Note 5A)	1,183	-
Unfunded Employee Future Benefits (Note 5B)	(234)	-
Long Term Disability Income Plan (Note 5C)	(27)	-
Health Care Facilities Debt (Note 6A)	(152)	-
Interest Accruals (Note 6B)	(18)	-
Workers Compensation Claims Liability (Note 6C)	(6)	-
Tangible Capital Assets	-	3
Devolution of Winnipeg Child and Family Services	-	(2)
Legal Aid Private Bar Fees	-	(4)
Valuation Allowance	-	(230)
Pension Adjustment	-	(41)
Red River College Loan	-	(13)
School Debentures	-	(433)
Hospital Debentures	-	(69)
	746	(789)
(Increase) in Net Debt	(6)	(941)
Net Debt, beginning of year	(8,261)	(7,320)
Net Debt, end of year	(8,267)	(8,261)

Appendix D
(cont'd.)

OPERATING FUND AND SPECIAL FUNDS
SPECIAL PURPOSE STATEMENT OF CASH FLOW

For the Year Ended March 31, 2005

	($ millions) 2005	2004
Cash and Cash Equivalents Provided by (Used in)		
Operating transactions		
Net Result for the year after Interfund Transfers - Operating Fund	-	(71)
- Special Funds	544	(14)
Changes in non-cash items:		
Amounts Receivable	(52)	4
Valuation Allowance	4	242
Accounts Payable, Accrued Charges, Provisions and Deferrals	318	(71)
Amortization of Foreign Currency Fluctuation	6	3
Amortization of Debt Discount	8	8
Amortization of Investment Discounts and Premiums	(1)	(2)
Amortization of Tangible Capital Assets	98	28
Amortization of Tangible Capital Assets Charged to Special Operating Agencies	2	2
Recognition of Infrastructure	(1,183)	-
Tangible Capital Assets Adjustment	-	(4)
Adjustment to Accumulated Deficit - Other	746	(789)
Cash provided by operating transactions	490	(664)
Capital transactions		
Acquisition of Tangible Capital Assets	(133)	(42)
Disposal of Tangible Capital Assets	9	-
Cash provided by capital transactions	(124)	(42)
Investing transactions		
Made	(822)	(1,362)
Realized	178	577
Cash provided by investing transactions	(644)	(785)
Financing transactions		
Debt Issued	2,962	3,343
Debt Redeemed	(2,180)	(2,776)
Changes in Sinking Funds	26	829
Cash provided by financing transactions	808	1,396
Increase (Decrease) in Cash and Cash Equivalents	530	(95)
Cash and Cash Equivalents, beginning of year	72	167
Cash and Cash Equivalents, end of year	602	72

Appendix D
(cont'd.)

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

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 (GAAP) 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 Special Purpose Financial Statements. If Canadian GAAP had been used in the recording of pension transactions, liabilities and the accumulated deficit would increase by $3,761 million (2004 - $3,569 million) and expenses would increase by $190 million (2004 - $182 million).

2) The financial statements do not reflect the financial results for all of the government business 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 Special Purpose Financial Statements. If Canadian GAAP had been used to record these transactions, financial assets would increase by $196 million (2004 - $160 million), non-financial assets would increase by $2,226 million (2004 - $1,926 million), liabilities would decrease by $1,277 million (2004 - $795 million), net debt would decrease by $1,473 million (2004 - $955 million), the accumulated deficit would decrease by $3,699 million (2004 - $2,881 million), revenue including net income (loss) from government business enterprises would increase by $1,854 million (2004 - $705 million) and expenses would increase by $1,521 million (2004 - $958 million).

3) Material adjustments may result from changes in accounting policies 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. If Canadian GAAP had been used to record changes in accounting policies and correction of errors, the comparative figures of the financial statements and the opening balance of the accumulated deficit would have changed.

4) 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 borrowings. The related asset for health care facilities is recorded as a deferred charge and amortized over the same period of time as the term of the debt issue. If Canadian GAAP had been used to record these transactions, the deferred charge asset would decrease by $586 million (2004 - $497 million) and the accumulated deficit would increase by $586 million (2004 - $497 million) and expenses would increase by $89 million (2004 - $51 million).

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 business 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 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, loans and advances to crown organizations and government business enterprises 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, loans and advances to crown organizations and government business enterprises 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 item 4) 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 Plan. The Government does not record its liability for the unfunded cost of pension benefits earned by employees, teachers, judges and Members of the Legislative Assembly.

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.

2) The amount of the liabilities for severance, Long Term Disability Income Plan liability and workers compensation claims is based upon actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations because actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

Appendix D
(cont'd.)

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. Valuation allowances are made when the collection is considered doubtful or when the value of the investments is impaired. 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.

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) The cost of tangible capital assets purchased includes the purchase price as well as costs such as installation costs, design and engineering fees, survey and site preparation costs and other costs incurred to put the asset in service. The cost of tangible capital assets constructed by the Province includes all direct construction costs such as materials, labour, design, installation, engineering, architectural fees, and survey and site preparation costs, as well as overhead costs directly attributable to the construction activity such as licenses, inspection fees, indirect labour costs, and amortization expense of any equipment which was used in the construction project. Any carrying cost associated with the development and construction of tangible capital assets is included in cost for projects whose cost exceeds $20 million.

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. 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. Intangibles assets and items inherited by right of the Crown, such as crown lands, forests, water, and mineral resources are not recognized in Government financial statements.

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

Appendix D
(cont'd.)

General Tangible Assets:

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

Infrastructure Assets:

Land	Indefinite
Land Improvements	30 years
Transportation	
Bridges and Structures	40 years
Provincial Highways, Roads and Airstrips	20 to 40 years
Dams and Water Management Structures	40 years

One-half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available to be put into service.

9) 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.

During the 2002/03 fiscal year, the Federal Government created a Diagnostic and Medical Equipment Fund for investment in new medical equipment. The Province's share of this fund was $54 million. Funding from the Diagnostic and Medical Equipment Fund has been treated as deferred revenue and will be brought into revenue based on actual purchases of equipment according to a defined schedule.

10) 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.

11) 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.

F. Amounts Held in Trust for Investment or Administration

These amounts primarily represent sinking funds and surplus cash of government business 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 business 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. Use of Estimates

In the preparation of these financial statements, estimates are sometimes necessary because a precise determination of certain assets, liabilities, revenues and expenses 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 $9 million (2004 - $3 million). Cash and cash equivalents include cash and short term investments that can be converted to cash.

3. PORTFOLIO INVESTMENTS

Portfolio investments include amounts invested with the Civil Service Superannuation Fund and the Teachers' Retirement Allowances Fund. These investments represent funds set aside for the future retirement of the pension liability. These investments earn the respective Fund's annual rate of return and reflect both the realized gains (losses) on sale of investments and unrealized market gain (loss) for the year. Investment income earned for the year was $30 million (2004 - $38 million). The fair value of these investments as at March 31, 2005 was $382 million (2004 - $267 million). These Funds are balanced funds and the investments consist primarily of cash equivalents, equities, bonds, mortgages and real estate.

4. SINKING FUNDS

Sinking funds are recorded at the lower of cost and market value. As at March 31, 2005, sinking funds had a cost of $2,703 million (2004 - $2,946 million) and a market value of $2,803 million (2004 - $3,183 million). Investment revenue earned on the sinking funds during the year was $219 million (2004 - $231 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.

The sinking funds are allocated as follows:

	($ millions)	
	2005	**2004**
Province of Manitoba	2,122	2,216
Manitoba Hydro-Electric Board	579	728
University of Manitoba	2	2
Total sinking funds	2,703	2,946

Sinking funds are invested as follows:

	($ millions)	
	2005	**2004**
Cash and cash equivalents	251	467
Portfolio investments	2,452	2,479
	2,703	2,946

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(cont'd.)

5. CHANGES IN ACCOUNTING POLICY

A. Recognition of Infrastructure

As a result of the completion of the process of establishing the completeness and reasonableness of the estimated historical cost of the tangible capital assets, the Government has changed its accounting policy to recognize infrastructure tangible capital assets, such as provincial highways, bridges and land acquired for public use. This recognition has resulted in an increase in the opening net book value of tangible capital assets of $1,183 million and a decrease in accumulated deficit of $1,183 million. In addition, for the year ended March 31, 2005, this change also resulted in a decrease in capital expense and an increase in tangible capital assets of $90 million offset by an increase in amortization expense and accumulated amortization of $69 million.

B. Unfunded Employee Future Benefits

During the year, the Government changed its accounting policy to recognize, in the Special Purpose Financial Statements, the liability for unfunded employee future benefits associated with health care facilities and family service agencies for which the Province has a funding responsibility. This change has resulted in an increase in liabilities of $234 million and a corresponding increase in accumulated deficit of $234 million. There is no effect on expense for the year ended March 31, 2005.

C. Long Term Disability Income Plan

During the year, the Government changed its accounting policy to recognize the liability associated with the Province of Manitoba Long Term Disability Income Plan in accordance with the changes to public sector accounting standards for post employment benefits. This change has resulted in an increase in liabilities of $28 million, an increase in expense of $1 million and a corresponding increase in accumulated deficit of $27 million.

6. ADJUSTMENTS TO ACCUMULATED DEFICIT

A. Health Care Facilities Debt

The Government finances through borrowings, capital projects undertaken by the Regional Health Authorities and non-devolved health care facilities. Where the Authorities have acquired third party debt to finance these projects, the Province has committed to provide future appropriation funding to support the payment of this debt. These borrowings therefore are considered to be debt of the Province. This adjustment resulted in an increase in liabilities of $274 million, an increase in assets of $122 million and a corresponding increase in accumulated deficit of $152 million. As well, this adjustment has resulted in a reduction in grants to health care facilities of $17 million and an increase in deferred charge for Health Care facilities of $32 million, for the year ended March 31, 2005.

B. Interest Accruals

It is the Government's policy to accrue interest payable on debt and to record interest receivable on investments held, from the last interest payment date. As the Government accepted the liability for school and hospital debentures, which was recorded in the prior year, the Government should also have recorded the accrued interest on those debentures. As a result of this correction there has been an increase in liabilities of $13 million, a decrease in assets of $5 million and an increase in accumulated deficit of $18 million. There is no impact on the current year revenue and expense.

Appendix D
(cont'd.)

C. Workers Compensation Claims Liability

During the year the Government recognized the liability associated with long term workers compensation claims. This adjustment has resulted in an increase in liabilities of $7 million, an increase in expense of $1 million and a corresponding increase in accumulated deficit of $6 million.

7. GUARANTEES

The Government has guaranteed the repayment of debt, promissory notes, bank loans, lines of credit, mortgages and other securities issued by government business enterprises and crown organizations. The outstanding guarantees are as follows:

	Authorized	($ millions) 2005	2004
Debt issued by government business enterprises (Note a)		654	914
Manitoba Grow Bonds		6	8
Promissory notes, bank loans, lines of credit and other			
Manitoba Business Start Program (Note b)	5	1	1
Rural Entrepreneur Assistance Program (Note b)	15	4	4
Manitoba Student Financial Assistance Program (Note c)	20	8	12
Assiniboine Community College	2	-	-
University College of The North	2	-	-
Red River College	5	-	-
Manitoba Opportunities Fund Ltd.	68	39	-
Manitoba Housing and Renewal Corporation	2	-	-
Venture Manitoba Tours Ltd.	10	9	8
Miscellaneous	2	1	3
		722	950
Less: Sinking funds		8	30
Total guarantees outstanding		714	920

Provision for future losses on guarantees in the amount of $17 million (2004 - $18 million) has been recorded in the accounts. The provision for losses on guaranteed loans is determined annually by a review of individual guarantees. The provision represents the best estimate of probable claims against the guarantee. Where circumstances indicate the likelihood of claims arising, the provisions are established for those loan guarantees. Debt guaranteed by the Province is guaranteed as to principal and interest until the debt is matured or redeemed.

Note a – The Government guarantees and administers Manitoba HydroBonds. The bonds carry fixed and variable coupon rates that range from 3.1% to 10.0%. Manitoba HydroBonds are redeemable at the option of the holder.

Note b – The Government provides guarantees on new and expanding small or home business loans, with a five year term.

Note c – The Government guarantees three types of student loans issued in the past ten years:

i. Guaranteed loans: issued by the Canadian Imperial Bank of Commerce (CIBC) from April 1, 1993 to December 31, 1994. These loans are fully guaranteed should the loan be deemed to be in default.
ii. Limited risk loans: issued by the CIBC from January 2, 1995 to December 31, 1997 and issued by the Royal Bank from June 2, 1997 to July 31, 2000. The Government only guarantees those loans in default that have been issued to credit abusers, insolvent creditors and minors.
iii. Non-risk loans: issued by the Royal Bank from August 1, 2000 to July 31, 2001. The Government has agreed to guarantee and purchase any loan deemed to be in default.

Appendix D
(cont'd.)

8. FINANCIAL COMMITMENTS

A. Funding Commitments for Capital Acquisitions

The Government has made future commitments against appropriations under long-term contracts regarding tangible capital assets. These financial commitments as at March 31 are as follows:

	($ millions) 2005	2004
Future commitments:		
Infrastructure and capital grants	7	41
Rental of tangible capital assets	90	101
	97	142

The Province has undertaken to expand the Red River Floodway. Through the Manitoba Floodway Authority, formerly the Manitoba Floodway Expansion Authority Inc., the Province is a party to a funding agreement with the Government of Canada for a $240 million (2004 - $240 million) expansion project and has committed to provide $120 million (2004 - $120 million) towards the $240 million (2004 - $240 million) expansion project.

B. Capital Commitments

The Government has made commitments against future appropriations that cover the purchase or development of tangible capital assets. Funding is provided annually from appropriations of the Capital Budget. These commitments as at March 31 are as follows:

	($ millions) 2005	2004
Buildings	2	-
Computer Hardware and Software	-	1
Construction and Maintenance Equipment	-	3
Equipment	1	2
Transportation	14	-
Dams and Water Management Structures	2	-
	19	6

C. Operating Commitments

The Government has made commitments against future appropriations that cover operating commitments and agreements through future contracts. Funding is provided annually from appropriations of the Operating Budget. These commitments as at March 31 are $60 million (2004 - $6 million).

9. CONTINGENCIES

The Government has been named in various legal actions, including treaty land entitlements. No provision has been made at March 31, 2005 in the accounts where the final results are uncertain.

A. Disaster Financial Assistance

A provision has been made at March 31, 2005 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.

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(cont'd.)

B. Northern Development Projects

The Province is contingently liable for legal claims associated with past Manitoba Hydro-Electric Board related northern development projects. The Province has provided for all claims that have been settled to date. The outcome of unsettled claims is not determinable at this time.

10. TREATY LAND ENTITLEMENT OBLIGATIONS

To meet Manitoba's obligation under treaty land entitlement (TLE) agreements, approximately 39,406 acres of provincial Crown land will be transferred to the Government of Canada (Canada) for First Nations, as follows:

God's Lake First Nation	7,514
Norway House Cree Nation	18,796
Nisichawayasihk Cree Nation	8,304
Sapotaweyak Cree Nation	4,566
Buffalo Point First Nation	226

This transfer will help strengthen the economic development of these First Nations. Manitoba continues to work with Canada and First Nations on a number of initiatives leading to greater self-government in areas such as land and child and family services delivery.

Manitoba's obligations under the Treaty Land Entitlement Framework Agreement requires the setting aside of 985,949 acres of Crown land. To date, 837,764 acres have been selected by the Entitlement First Nations. The Crown lands will be transferred according to the Natural Resources Transfer Agreement, including mines and minerals and other interests normally reserved for the Province under the *Crown Land Act* or any other statute.

11. ENVIRONMENTAL ISSUES

The Public Sector Accounting Board of the Canadian Institute of Chartered Accountants introduced changes to public sector accounting standards, effective for the 2006 fiscal year, regarding the recognition and measurement of liabilities and contingent liabilities, including environmental liabilities. Because of its role, the 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. That process will be completed over the 2006 fiscal year and the Government will determine the appropriate accounting treatment for the recognition of any resulting liabilities.

12. PENSION LIABILITY

The Government of the Province of Manitoba supports five separate pension plans. These include the Civil Service Plan (CSP), the Teachers' Plan (TP), the Members of the Legislative Assembly Plan (MLAP), the Judges' Supplemental Pension Plan, and the Winnipeg Child and Family Services Employee Benefits Retirement Plan (WCFSP).

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 for the year ended March 31, 2005 was $17 million (2004 - $17 million), the Government set aside $79 million (2004 - $75 million) in the Pension Assets Fund. These funds are separately invested and maintained in trust accounts with Civil Service Superannuation Fund (CSSF) and Teachers' Retirement Allowances Fund (TRAF) for the Government and are

Appendix D
(cont'd.)

increased by the rate of return of the funds. The Pension Assets Fund's balance as at March 31, 2005 was $382 million (2004 - $267 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, 2004	4.0%	2.50%	6.50%
Teachers'	January 1, 2004	4.25%	2.50%	6.75%
MLA	March 31, 2003	4.0%	2.75%	6.75%
Judges' Supplemental	March 31, 2003	3.25%	2.75%	6.0%

The WCFSP was established effective December 29, 2003 and the actuarial valuation of this plan has not yet been completed. 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, 2005, the CSP had approximately 28,000 (2004 - 27,600) 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, 2005, was $38 million (2004 - $34 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, 2005 amounted to $49 million (2004 - $45 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, 2005, payments of $64 million (2004 - $60 million) were made to the CSSF.

Appendix D
(cont'd.)

An actuarial report was completed for CSSF as of December 31, 2004, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's net liability has been calculated to be $1,623 million as at March 31, 2005 (2004 - $1,543 million), which includes net unamortized actuarial gains of $19 million (2004 - $48 million).

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, 2005, the Teachers' Retirement Allowances Fund (TRAF) had approximately 31,800 (2004 - 30,900) 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. 83.5% of contributions are used to fund basic benefits and 16.5% 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, 2005, amounted to $52 million (2004 - $51 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, 2005, payments of $108 million (2004 - $102 million) were made to TRAF.

An actuarial report was completed for TRAF as of January 1, 2004, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. For the year ended March 31, 2005, the actuary provided a calculation of the Government's liability on an indexed basis. The Government's net liability has been calculated to be $2,078 million as at March 31, 2005 (2004 - $1,971 million), which includes unamortized actuarial losses of $90 million (2004 - $95 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

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those elected after the 35th Legislature in April 1995, the LAA provides for matching contributions. As at March 31, 2005, there are 116 (2004 - 116) 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 report was completed for the MLA plan as of March 31, 2003, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's net liability has been calculated to be $33 million as at March 31, 2005 (2004 - $32 million), which includes unamortized actuarial gains of $4 million (2004 - $4 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.

D. Judges' Supplemental Pension Plan

The supplemental pension benefit for judges was determined to be the difference between the total pension benefits for judges, including the amendments introduced by Judicial Compensation Committees, and the formula pension available under the *Civil Service Superannuation Act* (CSSA) as described above in note 12A.

The present supplemental pension benefit for judges was effective July 1, 1992. It was based upon the first Judicial Compensation Committee report of June 7, 1991. Since that time, four successive Judicial Compensation Committees have been duly appointed and amendments have been implemented to the supplemental benefits available under the Judges' Supplemental Pension Plan.

The current supplemental pension, including amendments introduced by the most recent Judicial Compensation Committee, is summarized as follows:

- The supplemental pension plus the pension provided under the CSSA results in an accrual rate of 3.00% for each year of service as a judge,
- A cap of 70% of earnings on the combined judge's supplemental pension and Civil Service Superannuation Pension,
- The overall limit that the judge's supplemental service not exceed 23.5 years.

As at March 31, 2005, there are 61 (2004 - 61) plan members who are entitled to receive future pension benefits in accordance with the Plan.

An actuarial report was completed for the Judges' Supplemental Pension Plan as at March 31, 2003, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's liability for accounting purposes has been calculated to be $23 million as at March 31, 2005 (2004 - $21 million).

E. Winnipeg Child and Family Services Employee Benefits Retirement Plan

The Winnipeg Child and Family Services Employee Benefits Retirement Plan (the WCFSP) was established effective December 29, 2003. The WCFSP applies to employees of the former Winnipeg Child and Family Services who transferred to the Department of Family Services and Housing and the terms apply to those who retire or terminate employment on or after December 29, 2003. These employees were previously members of the United Way Agencies' Employee Benefits Retirement Plan (UWARP). Under a Special Pension Transfer Agreement, the services and benefits earned by those employees were transferred from UWARP to the WCFSP.

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(cont'd.)

At March 31, 2005, the WCFSP had 567 active members (2004 - 562), 133 pensioners (2004 - 129) and 56 deferred pensioners (2004 - 69).

The lifetime pension calculation equals 2% of the member's highest average pensionable earnings in any three non-overlapping periods of 12 consecutive months, less 0.6% of the average CPP earnings for the same period multiplied by years of pensionable service.

Members are required to contribute 4.5% of pensionable earnings up to the CPP maximum and 6% on pensionable earnings over the maximum.

The employer is required to make monthly contributions actuarially determined to provide for the normal cost of the benefits accruing to members and to provide for the proper amortization of any unfunded liability or solvency deficiency. Currently that contribution has been established at an amount equal to employee contributions. In addition, the Government will be required to make a one-time payment to cover an estimated solvency deficiency of $1.9 million (2004 - $1.9 million). This amount has been accrued in these statements. With this one-time payment, the plan is expected to be fully funded as at March 31, 2005.

The WCFSP will reflect the pension benefits earned by its members for service until June 27, 2004. No further pensionable service entitlements will accrue in the WCFSP after June 27, 2004. Subsequent to June 27, 2004, the active members of the WCFSP will become members of the Civil Service Plan (CSP) and will begin earning pension benefit entitlements under the CSP. The pension benefits for all future service of the former WCFSP members will accrue under the CSP.

13. LONG TERM DISABILITY INCOME PLAN

The Government guarantees payments of long term disability benefits for all employees covered by the Long Term Disability Income Plan that was established on April 1, 1984. An actuarial valuation report was completed for the Long Term Disability Plan as of September 1, 2003 with projections to March 31, 2004 and March 31, 2005 which determined the Government's liability. The report provides a formula to update the liability on an annual basis. The Government's actuarially determined liability for accounting purposes as at March 31, 2005 was $28 million (2004 - $27 million).

14. SEVERANCE PAY OBLIGATIONS

The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group. An actuarial report was completed for the severance pay liability as of March 31, 2005. The report provides a formula to update the liability on an annual basis. The Government's actuarially determined net liability for accounting purposes as at March 31, 2005 was $225 million (2004 - $117 million). Commencing in the 2005 fiscal year the actuarial loss of $5 million will be amortized over the 15 year expected average remaining service life of the employee group.

15. EXPENSES IN EXCESS OF LEGISLATIVE AUTHORITY

The budget estimate amounts disclosed in the Special Purpose Statement of Revenue and Expense (originally published in the Estimates of Expenditure) exclude $232 million in supplemental estimates and special warrants. The original budget estimate amounts plus the $232 million in supplemental estimates and special warrants becomes the revised estimates, against which expenses in excess of Legislative Authority is determined.

Based upon the revised estimates, the following voted appropriations were over expended as a result of adjustments after March 31, 2005:

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(cont'd.)

OPERATING FUND AND SPECIAL FUNDS – SPECIAL PURPOSE FINANCIAL STATEMENTS

	($ millions)
Energy, Science and Technology	
Manitoba Information and Communication Technologies	7
Agriculture, Food and Rural Initiatives	
Risk Management and Income Support Programs	2
Agriculture Development and Marketing	2

16. **TRANSFER FOR DEBT RETIREMENT AND PENSION OBLIGATIONS**

The Government transferred $99 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 $79 million from the Debt Retirement Fund for the specific purpose of providing for the future retirement of 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 as at March 31, 2005 was $382 million (2004 - $267 million).

In accordance with subsection 8 (6) of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*, which requires the balance in the Debt Retirement Fund to be transferred to the Operating Fund at least once every 5 years for the purpose of reducing general purpose debt, the Government transferred $202 million from the Debt Retirement Fund to the Operating Fund. This transfer comprised the fund balance of $180 million as at March 31, 2004 plus the 2004/05 net transfer in of $22 million including interest earned to the date of transfer in April 2004.

17. **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 special purpose financial statements of the Operating Fund for each fiscal year. The Special Purpose Statement of Calculation of Balance under the Balanced Budget, Debt Repayment and Taxpayer Accountability Act shows a positive balance of $406 million. Using the disclosed basis of accounting, the Government is therefore in compliance with the Act.

18. **DEBT SERVICING**

Debt servicing expense totals $731 million (2004 - $758 million) which is net of interest recoveries from government business enterprises of $436 million (2004 - $461 million).

Net debt servicing expense is disclosed in the financial statements in Schedule 8 as $241 million (2004 - $310 million) representing net debt servicing costs and is net of amounts charged to the departments, as well as net of interest recoveries from crown organizations including guarantee fees and interest revenue earned on investments including sinking funds. These recoveries and allocations total $405 million (2004 - $421 million). The disclosed $241 million (2004 - $310 million) is also net of debt servicing cost of $85 million (2004 - $27 million) allocated to departments for the imputed cost to finance the purchase or construction of tangible capital assets.

Schedule 10 discloses separately net debt servicing costs of $241 million (2004 - $310 million) and the debt servicing costs of $85 million (2004 - $27 million) charged to the departments for the imputed cost of financing the purchase or construction of tangible capital assets.

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19. WATER POWER RENTALS

Water power rental revenue from the Manitoba Hydro-Electric Board (Hydro), in the amount of $105 million (2004 - $65 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) (2004 - $3.34 per MW.h).

20. 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, 2005 were $70 million (2004 - $70 million).

21. 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, 2005 was $6 million (2004 - $6 million).

22. RELATED PARTY BORROWINGS

Borrowings include $306 million (2004 - $286 million) owed to Manitoba Public Insurance Corporation related to the financing of capital grants to school board and health care facilities as well as $197 million (2004 - $142 million) for the financing of general government programs. $10 million (2004 - $10 million) is owed to Manitoba Hydro-Electric Board for the financing of capital grants to health care facilities and $45 million (2004 - $45 million) is payable to the Manitoba Liquor Control Commission. As well, $32 million (2004 - $1 million) is payable to Manitoba Opportunities Fund Ltd.

These loans and debentures are repayable over a term from 2006 to 2025 at varying interest rates ranging from 0% to 14.75%.

23. 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. It is reflected as a reduction in individual and corporation income tax revenues. This amounted to $86 million for the year ended March 31, 2005 (2004 - $80 million). The Province has accrued a liability of $21 million (2004 - $21 million) for the municipal share of individual and corporate income taxes for the first quarter of 2005.

24. AMOUNTS DUE TO THE FEDERAL GOVERNMENT

The March 31, 2003 financial statements disclosed that the net impact of the federal settlement related to the Federal Accounting Error for the period of 1997 to 1999 was a $91 million loan payable owing to the Federal Government over a ten-year period commencing in 2004/05. As at March 31, 2005, this loan payable has been reduced to $80 million by offsetting an adjustment to unapplied taxes and the payment of the first instalment of $9 million.

Appendix D
(cont'd.)

To offset negative adjustments to the 2004 Equalization payments, the Federal Government provided to the Province a net loan payable of $38 million. Repayment of this loan payable is scheduled to begin in April, 2005 and continue over a five year period. Similarly, to offset negative adjustments to the 2004 Canada Health and Social Transfer (CHST) entitlements, the Federal Government provided to the Province at net loan payable of $9 million. Repayment of this loan payable is scheduled to begin in April, 2005 and continue over a five year period.

25. FOREIGN EXCHANGE RISK

The Province of Manitoba recognizes that currency risks can be inherent to normal business operations. The Province's general philosophy is to minimize any foreign currency risks associated with capital market activities. The Province uses derivative financial instruments such as swaps and forward foreign exchange contracts as well as US dollar sinking funds to hedge these risks. Derivatives must be related to specific underlying liability or investment requirements and are not used for activities such as trading, speculation, leveraging or any other activities that are not related to the Province's normal business activities. The current portfolio of foreign debt is fully hedged through the use of derivatives and US dollar sinking funds, except for the impact of the unamortized foreign exchange fluctuation account of $84 million (2004 - $89 million). In accordance with the Province's accounting policies reflected in Notes 1(E)3 and 1(E)5, the balance of the unamortized foreign exchange fluctuation account will be charged to debt servicing expense over the remaining term of the related debt. The Canadian dollar equivalent of the aggregate amount, by major currency, estimated to be required in each of the next five years and thereafter to meet sinking fund or retirement provisions for the foreign denominated debt is disclosed in Schedule 6.

26. CANADIAN BLOOD SERVICES

Most provinces, including Manitoba, are members of, and provide funding to, Canadian Blood Services, which operates the Canadian blood system. Their March 31, 2004 audited financial statements indicate that a wholly owned subsidiary, CBS Insurance Company Limited, provides for the contingent liabilities for risks related to operations of the blood system. The actuarially determined provisions for future insurance claims, reported and unreported, related to insured events that occurred prior to March 31, 2004 is $163 million (2003 - $135 million). The related assets as at March 31, 2004 total $187 million (2003 - $171 million). The subsidiary also had a re-insurance contract for additional coverage of $750 million.

Based upon the above, as at March 31, 2004, the Province of Manitoba's share of the provision for futures claims is offset with designated assets which at that point exceed the provision. In addition, there is re-insurance to cover an additional $750 million in claims of insured events occurring on or before March 31, 2004. March 31, 2005 figures are not available for comparison.

27. DRIVER LICENCING OPERATIONS

Effective October 4, 2004, the Province of Manitoba transferred management and administration of driver licencing to the Manitoba Public Insurance Corporation (MPIC), including all aspects pertaining to driver safety, vehicle registration and driver licencing including all related financial, administrative and data processing services.

The Province of Manitoba has agreed to provide funding to MPIC in the amount of $21 million annually, into perpetuity, to defray the cost borne by MPIC as a result of the transfer. For the six month period ended March 31, 2005 these fees totalled $10 million.

MPIC, on behalf of the Province of Manitoba, collects and transfers motor vehicle registration fees to the Province. For the fiscal year ended March 31, 2005, these fees totalled $90 million (2004 - $76 million). Effective October 4, 2004, MPIC is also responsible for collecting and transferring driver licencing fees to the Province of Manitoba. For the six month period ended March 31, 2005 these fees totalled $9 million.

Appendix D
(cont'd.)

OPERATING FUND AND SPECIAL FUNDS – SPECIAL PURPOSE FINANCIAL STATEMENTS

28. COMPARATIVE FIGURES

Certain of the 2004 financial statement figures have been reclassified to be consistent with the 2005 presentation.

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Appendix E

SUMMARY OF WHO CONDUCTS THE AUDITS

(OAG - Office of the Auditor General; PSA - Private Sector Auditors)

	Audit Conducted By	
	OAG	**PSA**
Government Business 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
Diagnostic Services of Manitoba Inc.		X
Economic Innovation and Technology Council	X	
General Child and Family Services Authority		X
Helen Betty Osborne Foundation	X	
Horse Racing Commission	X	
Insurance Council of Manitoba		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 Floodway Authority		X
Manitoba Gaming Control Commission	X	
Manitoba Habitat Heritage Corporation	X	

Appendix E
(cont'd.)

	Audit Conducted By	
	OAG	PSA
Manitoba Health Research Council		X
Manitoba Health Services Insurance Plan	X	
Manitoba Hospital Capital Financing Authority	X	
Manitoba Housing and Renewal Corporation	X	
Manitoba Opportunities Fund Ltd.		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 College of the North	X	
University of Manitoba	X	
Venture Manitoba Tours Ltd.		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

Appendix F

THE BALANCED BUDGET, DEBT REPAYMENT AND TAXPAYER ACCOUNTABILITY ACT

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")

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(cont'd.)

"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.

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(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 1[er] 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 1er 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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

Costs of referendum
11(4) The costs of conducting a referendum shall be paid from the Consolidated Fund.

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.

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.**

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.**

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.

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.

Coming into force
15 This Act comes into force on the day it receives royal assent.

Entrée en vigueur
15 La présente loi entre en vigueur le jour de sa sanction.

The Queen's Printer
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du Manitoba

THE FISCAL STABILIZATION FUND ACT

Appendix G

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.

10/00

Appendix G
(cont'd.)

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.

Constitution du Fonds
2(1) Est constitué le Fonds de stabilisation des recettes. Le ministre en est responsable.

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.

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.

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*.

Administration du Fonds
2(3) Le ministre détient le Fonds en fiducie et l'administre en conformité avec la *Loi sur l'administration financière*.

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*.

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*.

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.

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.

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.

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.

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.

Définition
3.1(1) Pour l'application du présent article, le « **niveau cible** » correspond à 5 % des dépenses du fonds de fonctionnement du Trésor.

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.

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.

2 — 10/00

Appendix G
(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.

Appendix G
(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.

The Queen's Printer
for the Province of Manitoba

L'Imprimeur de la Reine
du Manitoba

ACCOUNTS RECEIVABLE FOR SEVERANCE AND VACATION PAY DUE FROM THE PROVINCE

Appendix H

Province of Manitoba
Accrued Liability - Severance, Crown Organizations
March 31, 2005

Crown Agencies	
Addictions Foundation of Manitoba	$ 1,435,499
Assiniboine Community College	1,104,350
CancerCare Manitoba	1,646,660
Communities Economic Development Fund	65,400
Council on Post-Secondary Education	104,141
Horse Racing Commission	18,702
Legal Aid Services Society of Manitoba	716,166
Manitoba Adolescent Treatment Centre Inc.	553,058
Manitoba Agricultural Credit Corporation	229,449
Manitoba Centennial Centre Corporation	307,561
Manitoba Crop Insurance Corporation	199,452
Manitoba Gaming Control Commission	146,079
Manitoba Housing and Renewal Corporation	1,446,105
Red River College	5,184,881
Rehabilitation Centre for Children, Inc.	259,607
University College of the North	827,228
Sub-total	14,244,338
Regional Health Authorities	
Assiniboine Regional Health Authority Inc.	8,669,925
Brandon Regional Health Authority Inc.	8,636,465
Burntwood Regional Health Authority Inc.	1,758,851
Churchill Regional Health Authority Inc.	197,540
Interlake Regional Health Authority Inc.	5,277,128
NOR-MAN Regional Health Authority Inc.	2,654,372
North Eastman Health Association Inc.	1,859,090
Parkland Regional Health Authority Inc.	1,926,278
Regional Health Authority - Central Manitoba Inc.	9,115,360
South Eastman Health/Saute Sud-Est Inc.	1,898,575
Winnipeg Regional Health Authority Inc.	70,544,746
Sub-total	112,538,330
SOAs	
Civil Legal Services	248,300
Companies Office	170,800
Fleet Vehicles Agency	294,868
Food Development Centre	82,800
Industrial Technology Centre	142,200
Land Management Services	187,500
Mail Management Agency	88,800
Manitoba Text Book Bureau	62,700
Manitoba Securities Commission	137,344
Manitoba Education, Research and Learning Information Networks (MERLIN)	26,400
Materials Distribution Agency	253,900
Office of the Fire Commissioner	281,700
Organization and Staff Development	33,100
Pineland Forest Nursery	142,300
Property Registry	1,041,400
Public Trustee	403,200
Vital Statistics Agency	126,300
Experience gain SOAs per Actuarial Valuation	(405,382)
Sub-total	3,318,230
Total March 31, 2005	$130,100,898

Appendix H
(cont'd.)

Province of Manitoba
Accrued Liability - Vacation Pay, Crown Organizations
March 31, 2005

Crown Agencies	
Addictions Foundation of Manitoba	$ 940,611
Assiniboine Community College	875,000
CancerCare Manitoba	1,715,083
Centre Culturel Franco-Manitobain	25,891
Child and Family Services of Central Manitoba	158,850
Child and Family Services of Western Manitoba	434,869
Council on Post-Secondary Education	26,963
Horse Racing Commission	10,149
Manitoba Adolescent Treatment Centre Inc.	706,940
Manitoba Centennial Centre Corporation	199,964
Manitoba Crop Insurance Corporation	169,369
Manitoba Housing and Renewal Corporation	410,280
Red River College	4,090,000
Rehabilitation Centre for Children, Inc.	138,650
University College of the North	742,665
Sub-total	10,645,284
Regional Health Authorities	
Assiniboine Regional Health Authority Inc.	6,484,052
Brandon Regional Health Authority Inc.	8,335,117
Burntwood Regional Health Authority Inc.	2,589,257
Churchill Regional Health Authority Inc.	348,158
Interlake Regional Health Authority Inc.	3,901,625
NOR-MAN Regional Health Authority Inc.	2,839,934
North Eastman Health Association Inc.	1,926,024
Parkland Regional Health Authority Inc.	7,582,679
Regional Health Authority - Central Manitoba Inc.	6,814,484
South Eastman Health/Saute Sud-Est Inc.	2,653,549
Winnipeg Regional Health Authority Inc.	82,708,311
Sub-total	126,183,190
SOAs	
Civil Legal Services	140,144
Companies Office	93,211
Land Management Services	132,925
Mail Management Services	46,870
Manitoba Text Book Bureau	32,726
Manitoba Securities Commission	116,332
Manitoba Education, Research and Learning Information Networks (MERLIN)	6,562
Office of the Fire Commissioner	235,447
Pineland Forest Nursery	98,833
Property Registry	525,853
Public Trustee	224,974
Sub-total	1,653,877
Total March 31, 2005	$138,482,351

GLOSSARY

Appendix I

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.
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 Business 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.
Government reporting entity	The group of organizations that are consolidated in the government's main summary financial statements.

Appendix I
(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 debt	Defined as government's total liabilities less its financial assets, this is the residual liability amount that will have to be paid by future taxpayers.
Non-devolved Health Care Facilities	These facilities are controlled by a Regional Health Authority. They include faith based hospitals as well as personal care homes.
Public debt	Borrowings of the government. Debt generally consists of debentures, notes payable, capital leases and mortgages.
Public debt expense	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.

A REVIEW OF SCHOOL DIVISION FINANCIAL ACCOUNTING AND REPORTING

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Executive Summary

School divisions in Manitoba receive substantial monies from the Province and citizens (taxpayers, ratepayers and residents). To ensure that school divisions are held accountable for the funds they receive, citizens need to receive appropriate financial reporting and be confident that objective and recognized accounting standards are used. An understandable and accurate picture of a school division's financial position and operations enables both the Province and citizens, as well as the trustees and other stakeholders, to obtain assurance that public monies are being utilized in an appropriate and transparent manner.

The questions researched in this review were concluded on as follows:

- What legislation governs school division accounting and what are the required school division accounting standards in Manitoba?
  - As per Section 41(11.2) of The Public Schools Act, Manitoba school divisions are required to follow accepted accounting principles for school divisions. Accepted accounting principles for school divisions are outlined in the Financial Reporting and Accounting in Manitoba Education Manual (FRAME Manual) as those developed by the Department of Education, Citizenship and Youth (Department) through the Schools' Finance Branch (Branch).
- Are current Manitoba school division accounting policies in accordance with Generally Accepted Accounting Principles (GAAP)?
  - There are several areas where the accounting policies of Manitoba's school divisions do not comply with GAAP. These areas are highlighted in **Figure 1**.
- Is compliance with GAAP as issued by the Canadian Institute of Chartered Accountants (CICA) required in legislation across Canada and are CICA accounting recommendations being applied by other Provinces?
  - The accounting for school divisions in Canada is varied and appears to be in transition with a direction of movement toward compliance with GAAP as specified by PSAB recommendations, or alternatively the Not-for-Profit – deferral method.
  - Four Canadian Provinces have implemented, or have taken steps to implement, new accounting policies in accordance with either the Not-for-Profit – deferral method or Public Sector Accounting Board (PSAB) recommendations; British Columbia and Alberta have adopted Not-for-Profit deferral recommendations and Saskatchewan and Nova Scotia have adopted PSAB recommendations. Ontario, Prince Edward Island, and Newfoundland acknowledge that accounting policies for school divisions in their provinces need to be overhauled, but have made no decision as to which form of GAAP to adopt. Quebec has no plans to change current accounting policies. New Brunswick's school

districts do not prepare financial statements. All financial reporting is prepared by the provincial government.

- What is the Branch doing to ensure that the school divisions in Manitoba are in compliance with Sections 41(11) through 41(14) of The Public Schools Act?
    - The updated supplementary report (June 2003) is now providing a higher level of assurance. The report is no longer derivative in nature and the expectation gap has been closed as a result of the new process implemented by the Branch.

The preparation of financial statements in accordance with GAAP is fundamental to meaningful reporting. These principles are designed to provide for financial reporting that is readily understandable and consistent. They are intended to support transparency and accountability. We believe that citizens are not receiving the quality of financial reporting from their school divisions to which they are entitled, and their ability to hold divisions accountable is thereby impaired.

RECOMMENDATIONS FOR THE DEPARTMENT

As a result of this review, the following recommendations are provided:

- That the Department of Education, Citizenship and Youth update the FRAME Manual to ensure that school divisions account and report in accordance with GAAP. GAAP is defined for this purpose as being either accounting recommendations as defined by the PSAB Handbook or Not-for-Profit – deferral method accounting recommendations as defined by the CICA Handbook. However, we believe that there is merit in seriously considering the PSAB model because it is consistent with the government reporting models for local, provincial and federal governments. The following accounting policies should be incorporated into the method of GAAP chosen by the Department:
    - the consolidation of all funds reported in the financial statements;
    - the amortization of capital assets in a systematic manner over their useful life;
    - the recording of all school generated funds with supplementary note disclosure (to facilitate understanding by users, supplementary disclosure in the notes to school board financial statements should describe the nature of schools-generated funds and any limitations or restrictions of the use of such funds);
    - the full recording of employee future benefits;
    - the reporting of trusts and endowments;
    - the accrual of interest on outstanding debenture debt;
    - the retroactive restatement of the financial statements to reflect changes in accounting policies;

  - the segregation of current and long-term assets liabilities;
  - as a minimum, a statement of financial position, a statement of financial activities and a statement of cash flow; and
  - the incorporation of notes to the financial statements that are in accordance with GAAP.
- If GAAP is not followed, that the audit opinion on a school division's audited financial statements contain a fourth paragraph, as per Section 5600 of the CICA Handbook, indicating the financial statements are not prepared in accordance with GAAP.

1.0 Introduction

In performing this review, we explored the following questions:

1. What legislation governs school division accounting and what are the required school division accounting policies in Manitoba?
2. Are current Manitoba school division accounting policies in accordance with generally accepted accounting principles (GAAP)?
3. Is compliance with GAAP recommendations required by legislation across Canada, and are Canadian Institute of Chartered Accountants (CICA) accounting recommendations being applied by other Provinces?
4. What is the Schools' Finance Branch (Branch) doing to ensure that the school divisions in Manitoba are in compliance with Sections 41(11) through 41(14) of The Public Schools Act?

1.1 SCOPE

This review was conducted from October 2002 to December 2002. Information on the Supplementary Report and the impact of recent changes to the CICA Handbook to April 2004 has been reflected in this report. Our work consisted of such examinations, documentation review and procedures that we deemed necessary, including the following:

- Review of the Canadian Institute of Chartered Accountants (CICA)/Public Sector Accounting Handbook recommendations;
- Review of the Financial Reporting and Accounting in Manitoba Education Manual (FRAME Manual) published by the Department of Education, Citizenship and Youth (Department);
- Review of The Public Schools Act (Act);
- Review of the accounting manuals prepared by Departments of Education of other provinces of Canada (British Columbia, Alberta, Saskatchewan, Quebec and Nova Scotia);
- Review of *"Financial Reporting by Canadian School Boards"* 1996 publication by the CICA;
- Analysis of financial statements for various year-ends between August 31, 2000 and June 30, 2002 from selected school divisions in Canada:
    - We reviewed the financial statements of nine school divisions in eight provinces. It should be noted that our review of school division financial statements did not include New Brunswick as they do not prepare financial statements on a divisional basis;
- Analysis of financial statements for the year ended June 30, 2001, for ten Manitoba school divisions:
    - Our sample included four large divisions (instructional budget over $45M), two intermediate divisions ($10M - $45M) and four small divisions (less than $10M); and

- Interviews with staff of the Branch of the Department.

This report was reviewed by a representative of the CICA. Suggestions received were incorporated in this document.

2.0 Background

2.1 SCHOOL DIVISION FINANCIAL REPORTING

All school divisions in Manitoba are formed and dissolved by the Lieutenant Governor in Council, or the Minister, under the Act. The Minister of Education, Citizenship and Youth has statutory responsibility for the Act.

Under the Act, a school division is defined as *"having the responsibility of providing for elementary and secondary public school education and includes a remote school district"*. The Minister can establish, alter or dissolve school divisions and school districts by regulation.

Under the Act, School Divisions must submit certain information, including annual audited financial statements, to the Minister of Education, Citizenship and Youth. A school division's financial statements are a measure of the division's accountability to its stakeholders, and provides stakeholders with the opportunity to scrutinize the financial performance of the school division.

As required under Section 41(8) of the Act, the annual financial statements must be audited by an external auditor who must meet certain professional qualifications. Although an external auditor attests to the financial statements, the statements are the responsibility of management. This responsibility is stated in the first paragraph of the standard auditor's report. This responsibility is further emphasized in the statement of management responsibility, which is generally included in an annual report before the auditor's report and the financial statements. An example of the auditor's report can be found in **Appendix A**.

Section 41(11.2) of the Act states that an auditor's report *"shall include the auditor's opinion as to whether the financial statements present fairly the financial position of the school division at the end of the preceding fiscal year and the results of its operations for the preceding fiscal year, in accordance with accepted accounting principles for school divisions"*.

Manitoba school divisions are given direction as to the format and content of financial statements and other financial information by the FRAME Manual. The FRAME Manual states, *"A school division must follow the standards set out in this manual including accounting principles, fund accounting, and object and function/program definitions"*.

The FRAME Manual defines accepted accounting principles for school divisions in Manitoba. It provides direction and guidance for specific accounting procedures and also for financial statement presentation.

FRAME provides a standardized accounting and reporting system for school divisions in Manitoba.

FRAME is generally based on Generally Accepted Accounting Principles (GAAP) with two major exceptions. Amortization and interest on debt are not reflected in school division audited financial statements. As well, financial statement presentation varies from GAAP in a number of areas. **Figure 1** in this report highlights differences from GAAP.

The FRAME Manual was developed by the FRAME Committee in 1982. The FRAME Committee is made up of representatives from the education community and meets about four times a year to discuss the FRAME Manual and other school accounting issues. The FRAME Manual was overhauled in 1992 and is currently updated annually. Accounting principles are evolving rapidly and accounting policies and procedures need to be monitored and changed on an ongoing basis. The Department, through the Branch and the FRAME committee, has recognized the need for a change to the current School Division accounting practices in Manitoba.

The FRAME Report is published twice annually from the FRAME system to provide financial accountability to the public on school division revenues and expenditures. The first report is based on budget figures and the second reports shows financial statement figures. The FRAME Report consolidates data from all of the school divisions in Manitoba, facilitating comparison between the divisions.

2.2 CURRENT PRINCIPLES AND RECENT CHANGES IN SCHOOL DIVISION LEGISLATION

Accounting Standards are developed by The Canadian Institute of Chartered Accountants - Accounting Standards Board and the Public Sector Accounting Board (PSAB). These standards evolve as the need for more directive or specific information is required and when the ever increasing complexities of financial transactions warrant new standards. The Departments of Education of a number of Canadian provinces have recognized the need for changes to current accounting standards for school divisions, and have implemented, or have begun to implement, new accounting policies for their school divisions. There are two generally accepted accounting principles (GAAP) options for school divisions, Not-for-Profit deferral accounting recommendations, or PSAB recommendations. The two methods are very similar in the way transactions are accounted for, with distinctively different reporting recommendations. In examining accounting policies for school divisions across Canada, one GAAP method does not dominate. Saskatchewan and Nova Scotia have recently implemented PSAB accounting recommendations, British Columbia and Alberta have implemented Not-for-Profit deferral accounting recommendations, Manitoba, Ontario, Prince Edward Island and Newfoundland have not made a decision on changing their accounting policies and New Brunswick's school divisions do not prepare financial statements. Quebec has no plans to change from its current accounting policies.

2.3 RECENT CHANGES TO THE CICA HANDBOOK

Effective October 1, 2003, Section 5600, Auditor's Report on Financial Statements Prepared Using a Basis of Accounting Other than Generally Accepted Accounting Principles, applies. This section recommends that where an audit opinion is provided on financial statements that are prepared using a basis of accounting other than GAAP, a paragraph be added to the auditor's report alerting users to this fact. This fourth paragraph will indicate to users that the financial statements are not, and were not intended to be, prepared in accordance with Canadian GAAP and are for the information and use of the intended users. An example of the resulting audit report appears in **Appendix A.1.**

Until school divisions have adopted accounting policies that result in full GAAP compliance, this additional paragraph will need to appear in all school division auditors' reports. When full GAAP accounting has been adopted by the school divisions, a GAAP audit opinion can be provided. An example of a GAAP opinion appears in **Appendix A.2**.

2.4 PROVINCIAL FINANCIAL ASSISTANCE TO SCHOOL DIVISIONS

School divisions receive financial assistance from the Public Schools Finance Board in the form of conditional and unconditional grants for operating assistance and capital assistance. Provincial support is based on a set of calculations that take into consideration student enrolment and expenditures for the current and preceding years, as well as a variety of other factors. The financial assistance provided by the Province to school divisions for the fiscal year ended June 30, 2002 totaled approximately $789.9 million. This funding is detailed in **Appendix B.**

3.0 What Legislation Governs School Division Accounting And What Are The Required School Division Accounting Standards In Manitoba?

Findings

- Section 41(11.2) of the Act in Manitoba directs that an Auditor's Report should indicate whether the division's financial statements are in accordance with accepted accounting principles for school divisions.
- The Department of Education, Citizenship and Youth, through the Branch has the responsibility to develop accounting principles for school divisions in Manitoba.
- The FRAME Manual prepared by the Department of Education, Citizenship and Youth is the directive for school board accounting standards.
- The financial statement package is prepared by completing forms which are issued by the Department
- The FRAME Manual specifies the following accounting policies:

Reporting

- Required reporting for school divisions consists of:
  - Operating Fund - Statement of Financial Position;
  - Operating Fund - Statement of Revenue, Expenditures and Accumulated Surplus;
  - Capital Fund Statement of Financial Position;
  - Capital Fund – Capital Financing; and
  - Capital Fund – Capital Invested.

(An example of each statement can be found in **Appendix C**).

Revenue Recognition

- All revenue is accrued with the exception of endowments, trust funds and school generated funds, which are not reported in the financial statements.

Contributions Receivable

- Not specifically mentioned, however, all grants from the Province are recorded as revenue and set up as a receivable.

Capital Assets

- Capital assets are defined as identifiable assets that are held for use in the provision of services, for administrative purposes or for the maintenance, repair, development or construction of other capital assets. Capital assets are recorded in the Capital Fund. The FRAME Manual establishes a threshold of $20,000 for the recording of capital assets. Amounts below this threshold are recorded in the Operating Fund.
- There is no amortization recorded on capital assets.

School Generated Funds

- The Department has issued a policy on school funds. Not all school funds are recorded in the financial statements.

Trust Funds

- Trust and endowments are not included in Manitoba school division financial statements.

Employee Future Benefits

- There is no directive for Employee Future Benefits in the Manual.

Fund Accounting

- The FRAME manual directs that a Capital Fund and an Operating Fund must be maintained.

Modified Accrual Accounting

- Defined by the FRAME Manual as full accrual except for the treatment of debenture and other long-term debt. Interest on debentures and other Provincially financed debt is recorded as an expenditure when paid. All other revenue and expenditures, except for amortization and employee future benefits, are accrued.

Changes in Accounting Policies

- Changes in accounting policies or principles are to be accounted for retroactively with no prior year restatement. Corrections of prior period errors are to be reported as a prior year adjustment.

Commitments

- The FRAME Manual states that annual financial statements should not include commitments

Presentation

- There is no segregation of the current portion of long-term liabilities.

Conclusions

- *As per Section 41(11.2) of the Act, Manitoba school divisions are required to follow accepted accounting principles for school divisions. Accepted accounting principles for school divisions are outlined in the FRAME Manual as developed by the Department of Education, Citizenship and Youth through the Branch.*
- *Accepted accounting principles for School Divisions vary in a number of cases from GAAP.*

4.0 Are Current Manitoba School Division Accounting Policies In Accordance With Generally Accepted Accounting Principles (GAAP)?

The Canadian Institute of Chartered Accountants (CICA) Accounting Handbook or the Public Sector Accounting Board (PSAB) Handbook defines Canadian GAAP. School divisions can be classified as Not-for-Profit entities and would fall under the Not-for-Profit accounting recommendations of the CICA Accounting Handbook. School divisions may also report under accounting recommendations as prescribed by the PSAB Handbook. There are few differences in accounting between the two methods, however, there are significant differences in reporting between the two methods.

Findings

Reporting

- Under Not-for-Profit deferral method accounting, the following statements are recommended:
    - a statement of financial position, which should present the following:
        - net assets invested in capital assets;
        - net assets subject to restrictions requiring that they be maintained permanently as endowments;
        - other restricted net assets;
        - unrestricted net assets; and
        - total net assets.
    - a statement of operations, which should present:
        - for each financial statement item, a total that includes all funds reported; and
        - total excess or deficiency of revenues and gains over expenses and losses for the period.
    - a statement of changes in net assets which presents the changes in the following for the period:
        - net assets invested in capital assets;
        - net assets subject to restrictions requiring that they be maintained as endowments;
        - other restricted net assets;
        - unrestricted net assets; and
        - total net assets.
    - a statement of cash flows which reports the total changes in cash and cash equivalents resulting from activities of the organization during the period.
- Under PSAB accounting the following statements are recommended:
    - a statement of financial position, which at a minimum reports all financial assets and liabilities at the end of the accounting period. (Note: financial assets do not include inventories of supplies and other acquired physical assets);
    - a statement of financial activities that accounts for the combined change in the balances of funds in the accounting period; and
    - a statement of changes in financial position.

Revenue Recognition

Not-for-Profit

- Restricted contributions for which the related restrictions remain unfulfilled are accumulated as deferred contributions.

- Endowment contributions should be recognized as direct increases in net assets in the current period.
- Restricted contributions for expenses of one or more future periods should be deferred and recognized as revenue in the same period as the related expenses are recognized.
- Restricted contributions for capital expenses should be deferred and recognized over the same period the respective assets are amortized.
- Unrestricted contributions should be recognized in the current period.

PSAB

- Externally restricted inflows should be recognized as revenue in the period in which the resources are used for the purpose or purposes specified.
- Externally restricted inflows received before the specified use has occurred should be reported as a liability until the resources are used for the purpose or purposes specified.
- Revenues should be accounted for in the period in which the transactions or events occurred that gave rise to the revenues.

Contributions Receivable

Not-for-Profit

- A contribution should be recognized as an asset when it meets the following criteria:
  - the amount to be received can be reasonably estimated; and
  - ultimate collection is reasonably assured.

PSAB

- Receivables should be recognized by the recipient for those grants authorized by the transferring government prior to the end of the accounting period but not yet received, if eligibility requirements have been met.

Capital Assets

Not-for-Profit

- Not-for-Profit accounting recommends that capital assets be recorded on the statement of financial position at cost. For contributed capital assets, cost is considered to be fair value at the date of contribution. In unusual circumstances when the fair value cannot be reasonably determined, the capital asset should be recorded at a nominal value.
- The cost, less any residual value, of a capital asset with a limited life should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use by the organization.

Amortization should be recognized as an expense in the organization's statement of operations.

PSAB

- PSAB recommends that capital assets be accounted for and reported as assets on the statement of tangible capital assets. Tangible capital assets should be recorded at cost.
- The amortization of the costs of the tangible capital assets should be accounted for as expenses in the statement of operations.

School Generated Funds

- GAAP does not specifically mention school generated funds as they are unique to school divisions, however, all transactions should be recorded in the financial statements. One assertion of financial statements is the assertion of completeness – that there are no unrecorded assets, liabilities or transactions.
- Revenues should generally be recognized when performance is achieved and reasonable assurance regarding measurement and collectibility exists.

Trust Funds

Not-for-Profit

- Again, the Handbook does not specifically mention trusts. An organization should include in its financial statements, all areas of activity. Trust funds should be reported in a school division's financial statements if controlled by the school division.
- The completeness assertion also applies here – that there are no unrecorded assets, liabilities or transactions.

PSAB

- PSAB recommends that trusts not be recorded on the financial statements, but rather they be disclosed in the notes to the financial statements.

Employee Future Benefits

- Both Not-for Profit and PSAB require that an entity recognize the cost of retirement benefits and certain post-employment benefits over the periods in which the employees render service to the entity in return for the benefits.

Notes to the Financial Statements

- Review of financial statements for school divisions in Manitoba indicates that there is considerable variation in the notes currently included in the financial statements.
- The number of notes varied from one to ten depending on the school division.

- The Handbooks indicate the required disclosure for each financial statement item depending on the accounting method with which they are prepared.

Benefits of GAAP Prepared Statements

Financial statements that are prepared in accordance with GAAP will be beneficial to School Divisions for a number of reasons:

- *Comparability* – statements, including notes, can be compared to other school divisions in Manitoba.
- *Full disclosure* – statements will present a full accounting of a school division's costs.
- *Fundraising* – statements that present a full accounting of a school division will assist the school division in reporting fundraising conducted.
- *Note consistency* – the Handbooks provide the required disclosure for each financial statement area. Statements prepared under GAAP will result in consistent notes across the Province.
- *Consolidation into Public Accounts* – a PSAB exposure draft on the Government Reporting Model indicates that school divisions may be included in the government reporting entity. As a result, school division results may need to be consolidated into the Public Accounts statements. Financial statements prepared in accordance with PSAB recommendations will facilitate this consolidation.
- *Unqualified audit opinion* – the CICA has issued Section 5600 on non-GAAP auditor's reports. This requires that an audit report issued on financial statements prepared using a basis of accounting other than GAAP should *"in a paragraph following the opinion paragraph, state that these financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are intended for the information and use of (the intended users) and may not be appropriate for any other purpose"*.

CICA Exposure Draft - *"Auditor's Report on Financial Statements Prepared Using a Basis of Accounting Other Than Generally Accepted Accounting Principles"*, October 2002.

Conclusion

- *While FRAME was developed around GAAP, with certain exceptions, there are several areas where the accounting policies in FRAME result in school divisions not being fully in compliance with GAAP. These areas are highlighted in* ***Figure 1****.*

FIGURE 1

Handbook Section	Not-for-Profit Accounting (Deferral Method)	PSAB Handbook Section	PSAB Accounting	Current Manitoba Accounting	Impact of Difference of Manitoba Current Accounting: Not-for-Profit	Impact of Difference of Manitoba Current Accounting: PSAB
Financial Statement Presentation						
4400.05	Financial statements normally include: a) a statement of financial position; b) a statement of operations; c) a statement of changes in net assets; and d) a statement of cash flows.	1800.07	Financial statements should include, as a minimum, a) a statement of financial position; b) a statement of financial activities; and c) a statement of changes in financial position.	a) Statement of financial position for operating and capital funds; b) Statement of revenues, expenditures and accumulated surplus for the operating fund; and c) Various prescribed financial statements (i.e., Operating Fund - Revenue Detail).	No information summarizing changes in net assets provided. No 2 year comparative information in specific instances.	No information summarizing changes in financial position provided. No 2 year comparative information in specific instances.
4400.18	For each financial statement item, the statement of financial position should present a total that includes all funds reported.	1300.40 1300.44	Trusts administered by a government or government organization should be excluded from the government reporting entity. Government financial statements should disclose, in a note or schedule, a description of trusts under administration by a government or government organization, and a summary of trust balances.	Statement of financial position for the capital and operating funds but no consolidated total.	No consolidation; incomplete financial picture.	No consolidation; incomplete financial picture.
4400.19	Statement of Financial Position should present the following: a) net assets invested in capital assets; b) net assets subject to restrictions requiring that they be maintained permanently as endowments; c) other restricted net assets; d) unrestricted net assets; and e) total net assets.	1800.13 1800.16	The statement of financial position should, as a minimum, report all financial assets and liabilities at the end of the accounting period. Financial assets do not include inventories of supplies, equipment and other acquired physical assets.	Trusts and endowments are not reported in the financial statements. There is no disclosure of restrictions, if any.	No information provided for restrictions on net assets, if any.	All financial assets are not reported (trusts and endowments not reported).
4400.33	The statement of operations should present: a) for each financial statement item, a total that includes all funds reported; and b) total excess or deficiency of revenues and gains over expenses and losses for the period.	1800.36	The statement of financial activities should account for the combined change in the balances of funds in the accounting period.	Statement of revenues, expenditures and accumulated surplus for the operating fund; Capital fund reserve accounts; and Capital fund equity.	No consolidation; incomplete financial picture.	No consolidation; incomplete financial picture.
4400.41	The statement of changes in net assets should present changes in the following for the period: a) net assets invested in capital assets; b) net assets subject to restrictions requiring that they be maintained permanently as endowments; c) other restricted net assets; d) unrestricted net assets; and e) total net assets.	1800.63	No statement of change in net assets. Financial statements should disclose changes to current, capital and reserve fund balances in the accounting period.	No statement of changes in net assets.	No statement provided summarizing changes in net assets.	No statement provided summarizing fund balance changes.
4400.44	The statement of cash flows should report the total changes in cash and cash equivalents resulting from the activities of the organization during the period. The components of cash and cash equivalents should be disclosed.	 1800.50 1800.51 1800.52	Statement of changes in financial position should: a) report the changes in cash and cash equivalents; b) classify cash flows by operating, investing and financing activities; and c) report significant non-cash items.	It is disclosed in the notes that no statement of cash flows is presented as it would not be meaningful.	No information showing cash flow provided.	No information showing cash flow provided.

FIGURE 1 (CONT'D.)

Handbook Section	Not-for-Profit Accounting (Deferral Method)	PSAB Handbook Section	PSAB Accounting	Current Manitoba Accounting	Impact of Difference of Manitoba Current Accounting	
					Not-for-Profit	PSAB
Financial Statement Presentation (cont'd.)						
4400.45	Statement of Cash Flow should distinguish at least the following: a) cash from operations....; b) components of cash flows resulting from financing and investing activities, not included in (a) above.		See above.	No statement of cash flows presented.	No information showing cash flow provided.	No information showing cash flow provided.
Contributions - Revenue Recognition						
4410.29	Under the deferral method, restricted contributions for which the related restrictions remain unfulfilled are accumulated as deferred contributions.	3100.11	Externally restricted inflows should be recognized as revenue in financial statements in the period in which the resources are used for the purpose or purposes specified. An externally restricted inflow received before this criterion has been met should be reported as a liability until the resources are used for the purpose or purposes specified.	FRAME manual does not specifically address this, however financial statements do contain an unearned revenue figure.	Direction not clear.	Direction not clear.
4410.29	Endowment contributions should be recognized as direct increases in net assets in the current period.		Endowments are not addressed by PSAB. Where PSAB makes no mention of a particular item, referral should be made to the CICA Handbook.	Endowments are not reported in the financial statements.	Not recording endowments does not give full information.	Not recording endowments does not give full information.
4410.31	Restricted contributions for expenses of one or more future periods should be deferred and recognized as revenue in the same period or periods as the related expenses are recognized.	3100.11	See above.	FRAME manual does not specifically address this, however financial statements do contain an unearned revenue figure.	Direction not clear.	Direction not clear.
4410.33	Restricted contributions for the purchase of capital assets that will be amortized should be deferred and recognized as revenue on the same basis as the amortization expense related to the acquired capital assets.	3410.48	Government transfers received before revenue recognition criteria have been met should be recorded in the recipient government's financial statements as a liability until those criteria have been met.	Grants received from the Province for capital assets are recorded as revenue in the capital fund.	Revenue overstated, Liability understated.	Revenue overstated, Liability understated.
4410.47	Unrestricted contributions should be recognized as revenue in the current period.	1500.83	Revenues should be accounted for in the period in which the transactions or events occurred that gave rise to the revenues, items not practicably measurable until cash is received would be measured at that time.	Recognized as revenue in the current period.	Practise is same.	Practise is same.
Contributions Receivable						
4420.03	A contribution should be recognized as an asset when it meets the following criteria: a) the amount to be received can reasonably be estimated; and b) ultimate collection is reasonably assured.	3410.39	Receivables should be recognized by the recipient for those grants authorized by the transferring government prior to the end of the accounting period but not yet received, if the recipient government has met eligibility criteria, if any, prior to the end of that period.	Grants due from province are recorded as revenue and set up as receivable.	Practise is same.	Practise is same.

FIGURE 1 (CONT'D.)

Handbook Section	Not-for-Profit Accounting (Deferral Method)	PSAB Handbook Section	PSAB Accounting	Current Manitoba Accounting	Impact of Difference of Manitoba Current Accounting	
					Not-for-Profit	PSAB
Capital Assets						
4430.06	A capital asset should be recorded on the statement of financial position at cost. For a contributed capital asset, cost is considered to be fair value at the date of contribution. In unusual circumstances, when fair value cannot be reasonably determined, the capital asset should be recorded at nominal value.	3150.09	Tangible Capital Assets should be accounted for and reported as assets on the statement of tangible capital assets.	a) land, buildings and vehicles are recorded at cost; b) site and building betterments with a value in excess of $20,000 are considered capital expenditures; c) equipment with a useful life greater than three years, and a unit value greater than $20,000 is considered a capital expenditure.	Complete financial picture not shown without full capitalization.	Complete financial picture not shown without full capitalization.
4430.13	The cost, less any residual value, of a capital asset with a limited life should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use by the organization. Amortization should be recognized as an expense in the organization's statement of operations.	3150.23	When an entity reports expenses in its financial statements, the amortization of the costs of tangible capital assets should be accounted for as expenses in the statement of operations.	No amortization of capital assets.	Overstated value for capital assets.	Overstated value for capital assets.
School Generated Funds						
5300.17	Financial statement assertion of completeness - that there are no unrecorded assets, liabilities or transactions.	1400.29	Financial statements should provide an accounting of the full nature and extent of the financial affairs and resources for which the entity is responsible including those related to the activities of government agencies and enterprises.	Certain school generated funds are not recorded on the financial statements of school divisions in Manitoba.	Does not show complete financial picture.	Does not show complete financial picture.
Trust and Endowments						
1000.30	Not specifically addressed by the Handbook. However, assets are defined as having the following characteristics: a) they embody a future benefit that involves a capacity, singly or in combination with other assets...in the case of not-for-profit organizations to provide services; b) the entity can control access to the benefit; c) the transaction or event giving rise to the entity's right to, or control of, the benefit has already occurred.	1300.40 1300.44	Trusts administered by a government or government organization should be excluded from the government reporting entity. Financial statements should disclose, in a note or schedule, a description of trusts under administration, and a summary of trust balances.	Trusts and endowments are currently not recorded or disclosed on school division financial statements in Manitoba.	Does not show complete financial picture. Should be recorded in financial statements.	Does not show complete financial picture. Should be disclosed in notes to financial statements.
Employee Future Benefits						
3461.001	Section requires an entity to recognize the cost of retirement benefits and certain post-employment benefits over the periods in which the employees render the service to the entity.	3250.009	The accounting objective is to measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered.	Employee Future Benefits are not completely recorded by school divisions in Manitoba.	Does not present a true picture of liabilities.	Does not present a true picture of liabilities.

Note: The CICA Study Group of 1996 advocate the consolidation of "funds" for financial statement purposes and conclude that "fund accounting" should not be used as the basis for financial reporting by school boards.

The CICA Study Group of 1996 indicates that financial statements should report a comparison of actual results with the Budget and the Budget information should be presented on a basis consistent with that used for actual results.

5.0 Is Compliance With GAAP Recommendations Required By Legislation Across Canada And Are CICA Accounting Recommendations Being Applied By Other Provinces?

We compared accounting rules for school divisions in Manitoba with accounting rules in other Canadian provinces.

We then examined nine audited financial statements from eight provinces (Alberta, Saskatchewan, Ontario, Quebec, Nova Scotia, Prince Edward Island, Newfoundland and two from British Columbia) to determine the terminology used in indicating the accounting policies the statements were prepared in accordance with. Also, ten audited financial statements were reviewed from within the Province of Manitoba.

Findings

- Alberta requires the Not-for-Profit – deferral method of accounting be used for all school divisions in the Province. The reporting in Alberta is fully in compliance with Not-for-Profit GAAP as recommended by the CICA.
- British Columbia requires the Not-for-Profit - deferral method of accounting be implemented for the June 30, 2003 school division fiscal year.
- Saskatchewan has undertaken steps to implement PSAB accounting. Reporting in Saskatchewan has been changed to accommodate PSAB recommendations. Accounting issues such as school generated funds and employee future benefits have not been addressed in Saskatchewan accounting policies for school divisions.
- Nova Scotia has mandated that accounting policies for school divisions be in accordance with PSAB accounting and reporting recommendations as of March 31, 2003.
- School divisions/board accounting policies in Ontario, Quebec, Prince Edward Island and Newfoundland are currently not in accordance with either Not-for-Profit or PSAB GAAP as a whole. The policies in these provinces vary with respect to whether or not they are GAAP compliant. For example, Prince Edward Island amortizes capital assets, Quebec amortizes furniture and equipment only, and New Brunswick and Ontario do not amortize capital assets.
- In examining the most recently available financial statements from nine school divisions across Canada (one from each province, not including New Brunswick and two from British Columbia), there were no

qualifications issued. However, there were different authorities that the financial statements were in accordance with. The specific wording of the audit opinions were:

- "in accordance with the accounting principles disclosed in note 1 to the financial statements" (British Columbia, Ontario, Prince Edward Island, Newfoundland);
- "in accordance with generally accepted accounting principles" (Alberta);
- "in accordance with Canadian generally accepted accounting principles" (British Columbia);
- "in accordance with generally accepted accounting principles for Quebec school boards, as described in the Manuel de normalisation de la comptabilite scolaire." (Quebec);
- "in accordance with the accounting principles prescribed by the Department of Education" (Saskatchewan);
- "in accordance with accounting principles generally accepted for school boards" (Nova Scotia).

• The wording used on the auditor's report for school divisions in Manitoba is "in accordance with generally accepted accounting policies for school divisions as described in note 1".

• In discussing school division accounting with personnel from the various provinces, there was, for the most part, acknowledgement that, current accounting and reporting policies were not sufficient. Ontario is undertaking a study to determine what changes would be required to current policies to adopt PSAB recommendations. Quebec has no plans to change current school accounting policies.

Conclusions

• *The accounting for school divisions in Canada is varied and appears to be in transition with a direction of movement toward compliance with GAAP as specified for Not-for-Profit – deferral methods and PSAB recommendations.*

• *Four Canadian provinces have implemented or have taken steps to implement new accounting policies in accordance with either the Not-for-Profit – deferral method or PSAB local government recommendations (two Not-for-Profit and two PSAB). Three provinces acknowledge that accounting policies for school divisions in those provinces need to be overhauled, but have made no decision as to which recommendation to adopt. One province has no plans to change current accounting policies. One province has abolished school divisions.*

6.0 What Is The Schools' Finance Branch Doing To Ensure That The School Divisions Are In Compliance With Sections 41(11) Through 41(14) Of The Public Schools Act?

Findings

- Sections 41(11) through 41(14) of The Public Schools Act state the following:
  - 41(11) An auditor for a school division or school district shall, not later than October 31 in each year, make a report to the school board on the annual financial statements that the auditor has examined as at the end of the preceding fiscal year.
  - 41(11.1) Repealed
  - 41(11.2) A report made under subsection (11) shall
    - a) be in accordance with the standards of the CICA for an auditor's standard report; and
    - b) shall include the auditor's opinion as to whether the financial statements present fairly the financial position of the school division at the end of the preceding fiscal year and the results of its operations for the preceding fiscal year, in accordance with accepted accounting principles for school divisions.
  - 41(12) The auditor shall submit to the school board a supplementary report on his or her examination of the annual financial statements and the report shall contain any information required by the regulations.
  - 41(12.1) For the purpose of subsection 12, the minister may make regulations respecting information to be contained in the auditor's supplementary report.
  - 41(13) The auditor shall furnish one copy of each report to the minister.
  - 41(14) Not later than October 31 in each year, each school board shall furnish to the minister, in the form and manner that the minister requires, a duly audited financial statement showing the revenues, expenditures and other financial information relating to its school division or school district for the immediately preceding fiscal year, and the financial position of the school division or school district at the close of the immediately preceding fiscal year.

- The Branch provides a FRAME Manual to all school divisions. The FRAME Manual sets out standards, including accounting principles, fund accounting, and object and function/program definitions that must be followed by all school divisions. The FRAME Manual was originally produced in 1982. The entire manual was reissued 1992. Through the FRAME Committee, the Branch updates and revises the manual on an ongoing basis.
- Under the Act, the following information is to be submitted to the Minister, in care of The School's Finance Branch by October 31 in each year:
  - audited financial statement;
  - auditor's report; and
  - supplementary audit report.
- The Branch maintains a log of all the required submissions that have been received from school divisions and follows-up with those school divisions that have not submitted the required information.
- The Branch reviews the audit reports for all school divisions. All deviations from an unqualified opinion are followed up. The school divisions are contacted and the Branch ensures that changes are implemented to ensure that the reasons for qualifications or reservations in the Auditor's Report are corrected.
- The Branch is responsible for the prescribed form used by the school divisions for financial statement preparation. The Branch electronically sends each school division the prescribed annual financial statement forms, in which the audited statements are to be prepared. Included with the financial statement forms are the Legislative Requirements for the Completion of Financial Statements of School Divisions/Districts of Manitoba and Sections 41(9) through 41(13) of the Act. Also included is a requirement for a supplementary audit report. The Branch provides instructions for the completion of the forms and has a dedicated staff person which specifically deals with school division accounting.
- The Auditor's Supplementary Report Regulation, required under Section 41(12) of the Act (see **Appendix D** for the complete list of requirements), requires the auditors to give an opinion on:
  - the appropriateness of internal controls regarding the school division's assets;
  - the appropriateness and functionality of internal controls regarding the school division's reporting on enrolment;
  - the appropriateness of controls regarding school funds;
  - the appropriateness of the completed Schedule 8 (Calculation of Allowable Expenditures);
  - whether the funds of the school division have been paid and disbursed only under authority of the Act, or authority of a resolution, or by-law of the division; and

  - any significant matters or irregularities or discrepancies in the administration of the school divisions affairs that the auditor feels the school board or minister should be aware of.

- As at December 2002, there were slight variations in the wording of supplementary reports for the school divisions in Manitoba. However, all reports contained the information required by the Regulation. An example of a supplementary report is presented in **Appendix E**.
- The Branch relies on the supplementary report to provide assurance on the compliance with Section 41(12) of the Act.
- The Branch reviews all supplementary reports and notes any significant issues. To follow up on any issues noted in the report, the Branch sends a standard form letter to the chairperson of the school board. Included in the letter are the significant issue(s) noted. Additionally, there are two sections that require responses from the chairperson, a plan of action to resolve the issue(s), and the expected date of resolution.
- This report would be defined by the CICA Handbook (CICA HB AuG-13 Special reports on regulated financial institutions) to be a derivative report, as noted in the following sections:
  - Section 11 - A derivative report is a by-product of the financial statement audit. The auditor is required to communicate in writing transactions or conditions encountered during a financial statement audit that are relevant to the matters specified in legislation.
  - Section 12 - The derivative reporting responsibility does not require the auditor to provide any form of assurance on the matters specified in the legislation. Accordingly, no auditing procedures in addition to those carried out in the normal course of the financial statement audit would be carried out.
- AuG-13, section 14 notes that a derivative reporting requirement would not change the scope of a financial statement audit, because the nature, extent, and timing of auditing procedures performed during a financial statement audit are not changed.
- Inconsistencies in reporting resulted because regulators and auditors likely had different expectations and understandings of what can be reasonably expected from a derivative report. As noted in AuG-13, section 22:

  "When there is no comprehensive and precise interpretation of the matters on which derivative reports are required, there will likely be inconsistencies with respect to the types of transactions or conditions identified and reported by different auditors."

- Beginning with the 2003 school year, the Branch has changed the supplementary report that is required to be submitted by all school division auditors. Auditors must indicate in their engagement letter that the necessary procedures are being performed to issue the supplementary report. An example of the updated supplementary report is presented in **Appendix E.1**. The updated supplementary report is drafted by the Branch and, as a result, all reports received should contain consistent wording.

Conclusions

- *The supplemental report provided by the external auditors provided a low level of assurance due to its derivative nature. However, the Branch relied solely on this report to assess compliance with Section 41(12) of the Act. Thus there was an expectation gap between what the external auditors were providing and what the Branch required.*
- *The updated (June 2003) supplementary report is now providing a higher level of assurance. The report is no longer derivative in nature and the expectation gap has been closed as a result of the new process implemented by the Branch.*
- *The Branch maintains an effective process for monitoring and ensuring compliance with Sections 41(11) through 41(14) of the Act.*

7.0 Recommendation for the Department of Education, Citizenship and Youth

- That the Department of Education, Citizenship and Youth, in consultation with the FRAME Committee and other stakeholders, update the FRAME Manual to ensure that school divisions move to full accounting and reporting in accordance with GAAP. GAAP is defined for this purpose as being either accounting recommendations as defined by the PSAB Handbook or Not-for-Profit – deferral method accounting recommendations as defined by the CICA Handbook. However, we believe that there is merit in seriously considering the PSAB model because it is consistent with the government reporting models for local, provincial and federal governments. The following accounting policies should be incorporated into the method of GAAP chosen by the Department:
  - the consolidation of all funds reported in the financial statements;
  - the amortization of capital assets in a systematic manner over their useful life;
  - the recording of all school generated funds with supplementary note disclosure (to facilitate understanding by users, supplementary disclosure in the notes to school board financial statements should describe the nature of schools-generated funds and any limitations or restrictions of the use of such funds);
  - the full recording of employee future benefits;
  - the reporting of trusts and endowments (where required);

- the accrual of interest on outstanding debenture debt;
- the retroactive restatement of financial statements to reflect changes in accounting policies;
- the segregation of current and long-term assets and liabilities;
- as a minimum, a statement of financial position, a statement of financial activities and a statement of cash flow; and
- the incorporation of notes to the financial statements that are in accordance with GAAP.

- If GAAP is not followed, that the audit opinion on a school division's audited financial statements contain a fourth paragraph, as per Section 5600 of the CICA Handbook, indicating the financial statements are not prepared in accordance with GAAP.

Departmental Response

The FRAME system of accounting and reporting for school divisions in Manitoba provides meaningful, relevant and comparable financial information on school division revenue and expenditures for the benefit of school boards, the department and the public. The department has received many positive comments on the value of FRAME.

FRAME accounting policies were developed to be consistent with generally accepted accounting principles with some exceptions which have been noted in the Auditor General's report. As the Auditor General has noted, school division accounting is in a state of change nationally which is reflective of changing information needs and expectations of public sector bodies. The department is aware of this environment and, through the FRAME Committee, had already taken steps to examine revisions to FRAME that may be necessary. For example the FRAME Committee has examined the reporting of trust funds under the control of school divisions and a trust fund reporting policy was implemented for the 2004/05 reporting period. The FRAME Committee had also established a sub-committee to examine the continued need for a separate capital fund and related asset amortization issues.

In June 2005, the Province of Manitoba announced a commitment to be fully compliant with summary budgeting and reporting standards related to the government reporting entity (GRE) requirements in the PSAB handbook by fiscal year 2007/08. The announcement included the consolidation of school division financial information in the GRE. During the summer of 2005, the department and the FRAME sub-committee evaluated this requirement in discussions with the government Steering Committee for summary budgeting and reporting and developed a broad framework that will lead to compliance with PSAB for local government by

2007/08 for school division accounting and financial reporting. It is expected these changes will address concerns identified in this report.

The Auditor General's recommendations, and in particular the comparisons between PSAB versus not-for-profit accounting standards for school divisions provides useful information for the department and the FRAME sub-committee to consider while continuing its work to meet this requirement.

The department will undertake further consultation with stakeholders to ensure that accounting changes do not result in unintended impacts for school divisions and taxpayers. In particular the recommendation to consolidate school generated funds requires a much closer examination of related audit requirements (and potential cost) and the administrative effort (and training requirements) to collect, compile and report the financial data.

AUDITOR'S REPORTS

Appendix A

AUDITOR'S REPORT

To the Chairperson and Board of Trustees of XYZ School Division

We have audited the Operating Fund and the Capital Fund Balance Sheets of XYZ School Division as at June 30, 20__ and the Statements of Revenue and Expenditures, Surplus (Deficit) Account for the Operating Fund and Capital Financing and Capital Invested Account for the Capital Fund for the Year then ended. These financial statements are the responsibility of the School Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 our opinion, these financial statements present fairly, in all material respects, the financial position of XYZ School Division as at June 30, 20__ and the results of its operations and the changes in its financial position for the year then ended in accordance with the basis of accounting required by the Schools' Finance Branch as disclosed in Note 1 to the financial statements.

Further, in our opinion, the other schedules and exhibits, when considered in relation to the aforementioned financial statements, present fairly the supplemental information shown.

City CHARTERED ACCOUNTANTS

Date

Appendix A.1

AUDITOR'S REPORTS (CONT'D.)

AUDITOR'S REPORT

To the Chairperson and Board of Trustees of XYZ School Division

We have audited the Operating Fund and the Capital Fund Balance Sheets of XYZ School Division as at June 30, 20XX and the Statements of Revenue and Expenditures, Surplus (Deficit) Account for the Operating Fund and Capital Financing and Capital Invested Account for the Capital Fund for the Year then ended. These financial statements have been prepared to comply with the basis of accounting directed by the Manitoba Department of Education. These financial statements are the responsibility of the School Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 our opinion, these financial statements present fairly, in all material respects, the financial position of XYZ School Division as at June 30, 20XX and the results of its operations and the changes in its financial position for the year then ended in accordance with the basis of accounting described in Note 1 to the financial statements.

These financial statements, which 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 the Board of Trustees and the Minister of Education of Manitoba. 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.

City CHARTERED ACCOUNTANTS
Date

AUDITOR'S REPORTS (CONT'D.)

Appendix A.2

AUDITOR'S REPORT

To the Chairperson and Board of Trustees of XYZ School Division

We have audited the Statement of Financial Position of XYZ School Division as at June 30, 20XX and the Statements of Financial Activities and Changes in Financial Position for the Year then ended. These financial statements are the responsibility of the School Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 our opinion, these financial statements present fairly, in all material respects, the financial position of XYZ School Division as at June 30, 20XX and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

City CHARTERED ACCOUNTANTS
Date

Appendix B

FUNDING THROUGH PSFB BY SCHOOL DIVISION

TOTAL PROVINCIAL FUNDING

No.	Division/District	Total Education and Training	Other Provincial Revenue	Total Provincial Revenue
1	Winnipeg	$134,490,056	$1,773,245	$136,263,301
2	St. James - Assiniboia	32,951,523	130,595	33,082,118
3	Assiniboine South	22,466,470	-	22,466,470
4	St. Boniface	23,476,944	4,217	23,481,161
5	Fort Garry	24,692,272	42,692	24,734,964
6	St. Vital	36,463,160	239,263	36,702,423
9	River East	52,258,177	65,368	52,323,545
10	Seven Oaks	38,003,777	102,235	38,106,012
11	Lord Selkirk	19,579,701	14,129	19,593,830
12	Transcona - Springfield	32,278,559	-	32,278,559
13	Agassiz	12,112,410	6,128	12,118,538
14	Seine River	16,375,826	26,938	16,402,764
15	Hanover	24,262,662	103,066	24,365,728
16	Boundary	3,768,612	10,138	3,778,750
17	Red River	2,686,139	-	2,686,139
18	Rhineland	6,230,236	47,652	6,277,888
19	Morris - MacDonald	10,255,255	3,479	10,258,734
20	White Horse Plain	4,728,712	-	4,728,712
21	Interlake	15,320,409	8,607	15,329,016
22	Evergreen	6,858,266	143,140	7,001,406
23	Lakeshore	7,388,782	20,968	7,409,750
24	Portage la Prairie	14,703,673	1,487	14,705,160
25	Midland	6,912,491	13,745	6,926,236
26	Garden Valley	11,763,794	8,485	11,772,279
28	Mountain	4,371,710	5,153	4,376,863
30	Pine Creek	6,429,280	1,295	6,430,575
31	Beautiful Plains	7,192,305	880	7,193,185
32	Turtle River	4,784,366	-	4,784,366
33	Dauphin - Ochre	8,535,747	27,880	8,563,627
34	Duck Mountain	4,357,571	-	4,357,571
35	Swan Valley	9,257,232	57,235	9,314,467
36	Intermountain	4,643,962	7,436	4,651,398
37	Pelly Trail	4,293,962	-	4,293,962
38	Birdtail River	5,380,002	-	5,380,002
39	Rolling River	9,791,791	5,547	9,797,338
40	Brandon	27,867,618	2,959	27,870,577
41	Fort la Bosse	7,001,538	-	7,001,538
42	Souris Valley	4,887,192	23,437	4,910,629
43	Antler River	3,482,503	23,646	3,506,149
44	Turtle Mountain	6,003,092	3,140	6,006,232
45	Kelsey	8,988,152	1,874	8,990,026
46	Flin Flon	6,567,646	-	6,567,646
47	Western	6,103,647	16,974	6,120,621
48	Frontier	28,172,876	136,239	28,309,115
49	D.F.S.M.	22,706,669	116,386	22,823,055
50	Prairie Spirit	9,239,975	17,486	9,257,461
2264	Churchill	1,348,175	-	1,348,175
2309	Snow Lake	1,406,761	7,076	1,413,837
2312	Lynn Lake	1,338,064	-	1,338,064
2355	Mystery Lake	16,181,596	-	16,181,596
2439	Sprague Consolidated	944,920	-	944,920
2460	Leaf Rapids	1,836,078	119,156	1,955,234
3000	Winnipeg Technical College	3,388,487	-	3,388,487
	Provincial Total	$786,530,823	$3,339,376	$789,870,199

REQUIRED FRAME REPORTING SCHEDULES

Appendix C

Manitoba Education, Training and Youth

Schools' Finance Branch
511-1181 Portage Avenue
Winnipeg, Manitoba
R3G 0T3

SCHOOL DIVISION NAME AND SCHOOL DIVISION NO.
Address1
Address2

AUDITED FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION

June 30, 2002

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(cont'd.)

REQUIRED FRAME REPORTING SCHEDULES

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REQUIRED FRAME REPORTING SCHEDULES

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AUDITOR'S SUPPLEMENTARY REPORT

DATE

AUDITOR

DATE

CHAIRPERSON

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REQUIRED FRAME REPORTING SCHEDULES

School Division Name and No.

NOTES TO THE FINANCIAL STATEMENTS

REQUIRED FRAME REPORTING SCHEDULES

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(cont'd.)

School Division Name and No. 17-Apr-03

OPERATING FUND - STATEMENT OF FINANCIAL POSITION

As at June 30

	2002	2001
ASSETS		
Cash	-	-
Short Term Investments	-	-
Due From Provincial Government	-	-
Due From Municipal Government	-	-
Due From Federal Government	-	-
Due From Other School Divisions	-	-
Due From Other Funds	-	-
Accounts Receivable	-	-
Inventories	-	-
Prepaid Expenses	-	-
	0	0
LIABILITIES		
Overdrafts	-	-
Short Term Financing	-	-
Accounts Payable	-	-
Accrued Liabilities	-	-
Due To Provincial Government	-	-
Due To Municipal Government	-	-
Due To Federal Government	-	-
Due To Other School Divisions	-	-
Due To Other Funds	-	-
Unearned Revenue	-	-
	0	0
Accumulated Surplus (Deficit)	0	0
	0	0

Appendix C
(cont'd.)

REQUIRED FRAME REPORTING SCHEDULES

School Division Name and No. 17-Apr-03

OPERATING FUND
STATEMENT OF REVENUES, EXPENDITURES AND ACCUMULATED SURPLUS

For the Year Ended June 30

	2002 Actual	2002 Budget	2001 Actual
REVENUES			
Provincial Government	-	-	-
Federal Government	-	-	-
Municipal Government	-	-	-
Other School Divisions	-	-	-
First Nations	-	-	-
Private Organizations and Individuals	-	-	-
Other Sources	-	-	-
	0	0	0
EXPENDITURES			
Regular Instruction	-	-	-
Exceptional	-	-	-
Adult Learning Centres	-	-	N/A
Community Education and Services	-	-	-
Divisional Administration	-	-	-
Instructional and Pupil Support Services	-	-	-
Transportation of Pupils	-	-	-
Operations and Maintenance	-	-	-
Fiscal	-	-	-
	0	0	0
Current Year Operating Surplus (Deficit)	0	0	0
Less: Net Transfers to Capital Fund	0	0	0
Net Current Year Surplus (Deficit)	0	0	0
Accumulated Surplus (Deficit) Beginning of Year	0		0
Adjustments: ______________________	-		
______________________			-
Accumulated Surplus (Deficit) End of Year	0		0

REQUIRED FRAME REPORTING SCHEDULES

Appendix C
(cont'd.)

School Division Name and No. 17-Apr-03

OPERATING FUND - REVENUE DETAIL
PROVINCE OF MANITOBA
For the Year Ended June 30, 2002

Schools' Finance Program		
Base Support		
Support for Recognized Expenditures	-	
Curricular Materials	-	
Information Technology	-	
Library Services	-	
Level I Special Needs	-	
Counselling and Guidance	-	
Professional Development	-	
Occupancy	-	0
Categorical Support		
Transportation	-	
Board and Room	-	
Special Needs: Coordinator/Clinician	-	
Special Needs: Level II	-	
Special Needs: Level III	-	
Technology (Vocational) Education	-	
English as a Second Language	-	
Aboriginal Academic Achievement	-	
Heritage Language	-	
French Language Programs	-	
Small Schools	-	
Students at Risk	-	
Increasing Enrolment	-	
Remoteness Allowance	-	
Early Behaviour Intervention	-	
Early Childhood Development	-	
Early Identification	-	
Early Literacy	-	
Programme d'accueil	-	0
Supplementary Support		-
Adjustment for Days Closed		-
Other Program Support		
School Buildings Support: "D" Projects	-	
Vocational Equipment Replacement	-	
Environmental Assistance Program	-	
Air Quality Program	-	
Other Minor Capital Support	-	
Prior Year Support		
Finalization of Previous Year Support	-	
Curricular Materials	-	
School Buildings Support: "D" Projects	-	
Vocational Equipment	-	
Environmental Assistance Program	-	0
		0

Appendix C
(cont'd.)

REQUIRED FRAME REPORTING SCHEDULES

School Division Name and No. 17-Apr-03

OPERATING FUND - REVENUE DETAIL
PROVINCE OF MANITOBA (CONT'D)
For the Year Ended June 30, 2002

Other Department of Education, Training and Youth		
Non-Resident	-	
Special Needs	-	
Institutional Programs	-	
Adult Learning Centres	-	
Nursing Supports (URIS)	-	
Evening School	-	
Substitute Fees	-	
General Support Grant	-	
Red River Vocational Area Co-ordinator	-	
New Schools	-	
Other: ______	-	
______		
______		
______		
______		
______		0
Other Provincial Government Departments		
English as a Second Language (Adults)	-	
Driver Training	-	
Employment Programs	-	
Other: ______	-	
______		
______		
______		
______		
______		0
Schools' Finance Program (previous page)		0
TOTAL PROVINCIAL GOVERNMENT REVENUE		0

REQUIRED FRAME REPORTING SCHEDULES

Appendix C
(cont'd.)

School Division Name and No. 17-Apr-03

OPERATING FUND - REVENUE DETAIL
NON-PROVINCIAL GOVERNMENT SOURCES
For the Year Ended June 30, 2002

Federal Government		
Tuition Fees	-	
Transportation of Pupils	-	
French Language Monitor	-	
Other: ______	-	
______		
______		
______		0
Municipal Government		
Special Requirement	-	
Other: ______	-	0
Other School Divisions		
Transfer Fees	-	
Residual Fees	-	
Transportation of Pupils	-	
Other: ______	-	
______		
______		0
First Nations		
Tuition Fees	-	
Transportation of Pupils	-	
Other: ______	-	
______		0
Private Organizations and Individuals		
Regular Tuition	-	
Continuing Education	-	
Driver Education	-	
Other Tuition: ______	-	
Food Service	-	
Other: ______	-	
______		
______		
______		
______		
______		0
Other Sources		
Interest	-	
Donations	-	
Other: ______	-	
______		
______		
______		
______		
______		
______		
______		
______		0
TOTAL NON-PROVINCIAL GOVERNMENT REVENUE		0

Appendix C
(cont'd.)

REQUIRED FRAME REPORTING SCHEDULES

School Division Name and No. 17-Apr-03

OPERATING FUND - EXPENDITURES BY FUNCTION AND BY OBJECT

For the Year Ended June 30

FUNCTION / OBJECT	100 Regular Instruction	200 Exceptional	300 Adult Learning Centres	400 Community Education and Services	500 Divisional Administration	600 Instructional and Pupil Support Services	700 Transportation	800 Operations and Maintenance	900 Fiscal	2002 TOTALS	2001 TOTALS
Salaries	-	-	-	-	-	-	-	-		0	-
Employees Benefits and Allowances	-	-	-	-	-	-	-	-		0	-
Services	-	-	-	-	-	-	-	-		0	-
Supplies, Materials and Minor Equipment	-	-	-	-	-	-	-	-		0	-
Short Term Loan Interest and Bank Charges									-	0	-
Transfers	-	-	-	-	-	-	-		(PAYROLL TAX) -	0	-
TOTALS	0	0	0	0	0	0	0	0	0	0	0

REQUIRED FRAME REPORTING SCHEDULES

Appendix C
(cont'd.)

School Division Name and No.

17-Apr-03

OPERATING FUND - EXPENDITURE DETAIL: FUNCTION 100
For the Year Ended June 30, 2002

FUNCTION 100: REGULAR INSTRUCTION	10	SINGLE TRACK SCHOOLS *			80	90	
		20	50	70			
CODE OBJECT \ PROGRAM	ADMINISTRATION	ENGLISH LANGUAGE	FRANÇAIS	FRENCH IMMERSION	DUAL TRACK SCHOOLS **	SENIOR YEARS TECHNOLOGY EDUCATION	TOTALS
3XX SALARIES							
320 Executive, Managerial and Supervisory							0
330 Instructional - Teaching							0
350 Instructional - Other							0
360 Technical, Specialized and Service							0
370 Secretarial, Clerical and Other							0
390 Information Technology							0
Total Salaries	0	0	0	0	0	0	0
4XX EMPLOYEES BENEFITS AND ALLOWANCES							0
5-6XX SERVICES							
510 Professional, Technical and Specialized							0
520 Communications							0
540 Travel and Meetings							0
560 Tuition							0
570 Printing and Binding							0
590 Maintenance and Repair Services							0
610 Rentals							0
630 Advertising							0
640 Dues and Fees							0
650 Professional and Staff Development							0
680 Information Technology Services							0
Total Services	0	0	0	0	0	0	0
7XX SUPPLIES, MATERIALS AND MINOR EQUIPMENT							
710 Supplies							0
740 Curricular and Media Materials							0
760 Minor Equipment							0
770 Inventory Adjustment							0
780 Information Technology Equipment							0
Total Supplies, Materials and Minor Equipment	0	0	0	0	0	0	0
95X-99 TRANSFERS							
960 School Divisions							0
980 Organizations and Individuals							0
Total Transfers	0	0	0	0	0	0	0
TOTALS	0	0	0	0	0	0	0

* 90% or more of enrolment is in one of the following instructional programs: English Language, Français, French Immersion.

** includes multi-track schools.

Appendix C
(cont'd.)

REQUIRED FRAME REPORTING SCHEDULES

School Division Name and No.

OPERATING FUND - EXPENDITURE DETAIL: FUNCTION 200
For the Year Ended June 30, 2002

17-Apr-03

FUNCTION 200: EXCEPTIONAL CODE OBJECT \ PROGRAM	10 ADMINISTRATION /CO-ORDINATION	20 GIFTED EDUCATION *	30 CLINICAL AND RELATED SERVICES	40 SPECIAL NEEDS CLASSES	50 STUDENTS WITH SPECIAL NEEDS IN REGULAR CLASSES	60 OTHER RESOURCE SERVICES	TOTALS
3XX SALARIES							
320 Executive, Managerial and Supervisory							0
330 Instructional - Teaching							0
350 Instructional - Other							0
360 Technical, Specialized and Service							0
370 Secretarial, Clerical and Other							0
380 Clinician							0
390 Information Technology							0
Total Salaries	0	0	0	0	0	0	0
4XX EMPLOYEES BENEFITS AND ALLOWANCES							0
5-6XX SERVICES							
510 Professional, Technical and Specialized							0
520 Communications							0
540 Travel and Meetings							0
560 Tuition							0
570 Printing and Binding							0
590 Maintenance and Repair Services							0
610 Rentals							0
630 Advertising							0
640 Dues and Fees							0
650 Professional and Staff Development							0
680 Information Technology Services							0
Total Services	0	0	0	0	0	0	0
7XX SUPPLIES, MATERIALS AND MINOR EQUIPMENT							
710 Supplies							0
740 Curricular and Media Materials							0
760 Minor Equipment							0
770 Inventory Adjustment							0
780 Information Technology Equipment							0
Total Supplies, Materials and Minor Equipment	0	0	0	0	0	0	0
95X-99 TRANSFERS							
960 School Divisions							0
980 Organizations and Individuals							0
Total Transfers	0	0	0	0	0	0	0
TOTALS	0	0	0	0	0	0	0

* Does not include enrichment activities undertaken by the School Division.

REQUIRED FRAME REPORTING SCHEDULES

Appendix C
(cont'd.)

School Division Name and No.

17-Apr-03

OPERATING FUND - EXPENDITURE DETAIL: FUNCTION 300
For the Year Ended June 30, 2002

FUNCTION 300: ADULT LEARNING CENTRES CODE OBJECT \ PROGRAM	10 ADMINISTRATION AND OTHER	20 INSTRUCTION	TOTALS
3XX SALARIES			
320 Executive, Managerial and Supervisory			0
330 Instructional - Teaching			0
350 Instructional - Other			0
360 Technical, Specialized and Service			0
370 Secretarial, Clerical and Other			0
390 Information Technology			0
Total Salaries	0	0	0
4XX EMPLOYEES BENEFITS AND ALLOWANCES			0
5-6XX SERVICES			
510 Professional, Technical and Specialized			0
520 Communications			0
530 Utility Services			0
540 Travel and Meetings			0
560 Tuition			0
570 Printing and Binding			0
580 Insurance and Bond Premiums			0
590 Maintenance and Repair Services			0
610 Rentals			0
620 Taxes			0
630 Advertising			0
640 Dues and Fees			0
650 Professional and Staff Development			0
680 Information Technology Services			0
Total Services	0	0	0
7XX SUPPLIES, MATERIALS AND MINOR EQUIPMENT			
710 Supplies			0
740 Curricular and Media Materials			0
760 Minor Equipment			0
770 Inventory Adjustment			0
780 Information Technology Equipment			0
Total Supplies, Materials and Minor Equipment	0	0	0
95X-99 TRANSFERS			
960 School Divisions			0
980 Organizations and Individuals			0
Total Transfers	0	0	0
TOTALS	0	0	0

Appendix C
(cont'd.)

REQUIRED FRAME REPORTING SCHEDULES

School Division Name and No.

OPERATING FUND - EXPENDITURE DETAIL: FUNCTION 400

For the Year Ended June 30, 2002

17-Apr-03

FUNCTION 400: COMMUNITY EDUCATION AND SERVICES CODE OBJECT \ PROGRAM	10 CONTINUING EDUCATION	20 ENGLISH AS A SECOND LANGUAGE	30 COMMUNITY SERVICES AND RECREATION	40 PRE-KINDERGARTEN EDUCATION	TOTALS
3XX SALARIES					
320 Executive, Managerial and Supervisory					0
330 Instructional - Teaching					0
350 Instructional - Other					0
360 Technical, Specialized and Service					0
370 Secretarial, Clerical and Other					0
380 Clinician					0
390 Information Technology					0
Total Salaries	0	0	0	0	0
4XX EMPLOYEES BENEFITS AND ALLOWANCES					0
5-6XX SERVICES					
510 Professional, Technical and Specialized					0
520 Communications					0
540 Travel and Meetings					0
560 Tuition					0
570 Printing and Binding					0
590 Maintenance and Repair Services					0
610 Rentals					0
630 Advertising					0
640 Dues and Fees					0
650 Professional and Staff Development					0
680 Information Technology Services					0
Total Services	0	0	0	0	0
7XX SUPPLIES, MATERIALS AND MINOR EQUIPMENT					
710 Supplies					0
740 Curricular and Media Materials					0
760 Minor Equipment					0
770 Inventory Adjustment					0
780 Information Technology Equipment					0
Total Supplies, Materials and Minor Equipment	0	0	0	0	0
95X-99 TRANSFERS					
960 School Divisions					0
980 Organizations and Individuals					0
Total Transfers	0	0	0	0	0
TOTALS	0	0	0	0	0

REQUIRED FRAME REPORTING SCHEDULES

Appendix C
(cont'd.)

School Division Name and No.

17-Apr-03

OPERATING FUND - EXPENDITURE DETAIL: FUNCTION 500
For the Year Ended June 30, 2002

FUNCTION 500: DIVISION ADMINISTRATION CODE OBJECT \ PROGRAM	10 BOARD OF TRUSTEES	20 INSTRUCTIONAL MANAGEMENT & ADMINISTRATION	30 BUSINESS AND ADMINISTRATIVE SERVICES	50 MANAGEMENT INFORMATION SERVICES	TOTALS
3XX SALARIES					
310 Trustees Remuneration					0
320 Executive, Managerial and Supervisory					0
360 Technical, Specialized and Service					0
370 Secretarial, Clerical and Other					0
390 Information Technology					0
Total Salaries	0	0	0	0	0
4XX EMPLOYEES BENEFITS AND ALLOWANCES					0
5-6XX SERVICES					
510 Professional, Technical and Specialized					0
520 Communications					0
540 Travel and Meetings					0
570 Printing and Binding					0
580 Insurance and Bond Premiums					0
590 Maintenance and Repair Services					0
610 Rentals					0
630 Advertising					0
640 Dues and Fees					0
650 Professional and Staff Development					0
680 Information Technology Services					0
Total Services	0	0	0	0	0
7XX SUPPLIES, MATERIALS AND MINOR EQUIPMENT					
710 Supplies					0
740 Curricular and Media Materials					0
760 Minor Equipment					0
770 Inventory Adjustment					0
780 Information Technology Equipment					0
Total Supplies, Materials and Minor Equipment	0	0	0	0	0
95X-99 TRANSFERS					
960 School Divisions					0
980 Organizations and Individuals					0
Total Transfers	0	0	0	0	0
TOTALS	0	0	0	0	0

Appendix C
(cont'd.)

REQUIRED FRAME REPORTING SCHEDULES

School Division Name and No.

17-Apr-03

OPERATING FUND - EXPENDITURE DETAIL: FUNCTION 600

For the Year Ended June 30, 2002

FUNCTION 600: INSTRUCTIONAL AND PUPIL SUPPORT SERVICES CODE OBJECT \ PROGRAM	10 CURRICULUM CONSULTING & DEVELOPMENT	20 LIBRARY / MEDIA CENTRE	30 PROFESSIONAL AND STAFF DEVELOPMENT	40 COUNSELLING AND GUIDANCE	50 HEALTH SERVICES AND ATTENDANCE	60 FOOD SERVICES	70 OTHER	TOTALS
3XX SALARIES								
320 Executive, Managerial and Supervisory								0
330 Instructional - Teaching								0
350 Instructional - Other								0
360 Technical, Specialized and Service								0
370 Secretarial, Clerical and Other								0
390 Information Technology								0
Total Salaries	0	0	0	0	0	0	0	0
4XX EMPLOYEES BENEFITS AND ALLOWANCES								0
5-6XX SERVICES								
510 Professional, Technical and Specialized								0
520 Communications								0
540 Travel and Meetings								0
570 Printing and Binding								0
580 Insurance and Bond Premiums								0
590 Maintenance and Repair Services								0
610 Rentals								0
630 Advertising								0
640 Dues and Fees								0
650 Professional and Staff Development								0
680 Information Technology Services								0
Total Services	0	0	0	0	0	0	0	0
7XX SUPPLIES, MATERIALS AND MINOR EQUIPMENT								
710 Supplies								0
740 Curricular and Media Materials								0
760 Minor Equipment								0
780 Information Technology Equipment								0
Total Supplies, Materials and Minor Equipment	0	0	0	0	0	0	0	0
95X-99 TRANSFERS								
960 School Divisions								0
980 Organizations and Individuals								0
Total Transfers	0	0	0	0	0	0	0	0
TOTALS	0	0	0	0	0	0	0	0

REQUIRED FRAME REPORTING SCHEDULES

Appendix C
(cont'd.)

School Division Name and No. 17-Apr-03

OPERATING FUND - EXPENDITURE DETAIL: FUNCTION 700
For the Year Ended June 30, 2002

FUNCTION 700: TRANSPORTATION OF PUPILS CODE OBJECT \ PROGRAM	10 ADMINISTRATION	20 REGULAR	70 ALLOWANCES IN LIEU OF TRANSPORTATION	80 BOARDING OF STUDENTS/ DORMITORIES	90 OTHER	TOTALS
3XX SALARIES						
320 Executive, Managerial and Supervisory						0
350 Instructional - Other						0
360 Technical, Specialized and Service						0
370 Secretarial, Clerical and Other						0
390 Information Technology						0
Total Salaries	0	0	0	0	0	0
4XX EMPLOYEES BENEFITS AND ALLOWANCES						0
5-6XX SERVICES						
510 Professional, Technical and Specialized						0
520 Communications						0
540 Travel and Meetings						0
550 Transportation of Pupils						0
580 Insurance and Bond Premiums						0
590 Maintenance and Repair Services						0
610 Rentals						0
630 Advertising						0
640 Dues and Fees						0
650 Professional and Staff Development						0
680 Information Technology Services						0
Total Services	0	0	0	0	0	0
7XX SUPPLIES, MATERIALS AND MINOR EQUIPMENT						
710 Supplies						0
740 Curricular and Media Materials						0
760 Minor Equipment						0
770 Inventory Adjustment						0
780 Information Technology Equipment						0
Total Supplies, Materials and Minor Equipment	0	0	0	0	0	0
95X-99 TRANSFERS						
960 School Divisions						0
980 Organizations and Individuals						0
999 Recharge						0
Total Transfers	0	0	0	0	0	0
TOTALS	0	0	0	0	0	0

Appendix C
(cont'd.)

REQUIRED FRAME REPORTING SCHEDULES

School Division Name and No. | 17-Apr-03

OPERATING FUND - EXPENDITURE DETAIL: FUNCTION 800
For the Year Ended June 30, 2002

FUNCTION 800: OPERATIONS AND MAINTENANCE CODE OBJECT \ PROGRAM	10 ADMINISTRATION	20 SCHOOL BUILDINGS MAINTENANCE	50 SCHOOL BUILDINGS REPAIRS AND REPLACEMENTS	70 OTHER BUILDINGS	80 GROUNDS	TOTALS
3XX SALARIES						
320 Executive, Managerial and Supervisory						0
360 Technical, Specialized and Service						0
370 Secretarial, Clerical and Other						0
390 Information Technology						0
Total Salaries	0	0	0	0	0	0
4XX EMPLOYEES BENEFITS AND ALLOWANCES						0
5-6XX SERVICES						
510 Professional, Technical and Specialized						0
520 Communications						0
530 Utility Services						0
540 Travel and Meetings						0
580 Insurance and Bond Premiums						0
590 Maintenance and Repair Services						0
610 Rentals						0
620 Taxes						0
630 Advertising						0
640 Dues and Fees						0
650 Professional and Staff Development						0
680 Information Technology Services						0
Total Services	0	0	0	0	0	0
7XX SUPPLIES, MATERIALS AND MINOR EQUIPMENT						
710 Supplies						0
740 Curricular and Media Materials						0
760 Minor Equipment						0
770 Inventory Adjustment						0
780 Information Technology Equipment						0
Total Supplies, Materials and Minor Equipment	0	0	0	0	0	0
TOTALS	0	0	0	0	0	0

REQUIRED FRAME REPORTING SCHEDULES

Appendix C
(cont'd.)

School Division Name and No. 17-Apr-03

OPERATING FUND - DETAIL OF TRANSFERS TO (FROM) CAPITAL FUND

For the Year Ended June 30, 2002

TRANSFERS TO CAPITAL FUND		
Category "D" School Buildings	-	
Environmental Assistance Program	-	
Bus Reserve	-	
Bus Purchases	-	
Other: ______	-	
______		
______		
______		
______		
______		
______		
______		0
LESS: TRANSFERS FROM CAPITAL FUND		
______		
______		
______		
______		
______		0
NET TRANSFERS TO (FROM) CAPITAL FUND		0

Appendix C
(cont'd.)

REQUIRED FRAME REPORTING SCHEDULES

School Division Name and No. 17-Apr-03

CAPITAL FUND - STATEMENT OF FINANCIAL POSITION

As at June 30

	2002	2001
ASSETS		
Current Assets		
Cash	-	-
Short Term Investments	-	-
Due From Provincial Government	-	-
Due From Federal Government	-	-
Due From Other Funds	-	-
Accounts Receivable	-	-
	0	0
Capital Assets		
Land	-	-
Buildings	-	-
Equipment	-	-
Vehicles	-	-
	0	0
	0	0
LIABILITIES, RESERVE AND EQUITY		
Current Liabilities		
Overdrafts	-	-
Short Term Financing	-	-
Accounts Payable	-	-
Accrued Liabilities	-	-
Due To Provincial Government	-	-
Due To Federal Government	-	-
Due To Other Funds	-	-
	0	0
Debenture Debt	-	-
Other Long Term Debt	-	-
Total Liabilities	0	0
Reserve Accounts	-	-
Equity	-	-
	0	0

REQUIRED FRAME REPORTING SCHEDULES

Appendix C
(cont'd.)

School Division Name and No. 17-Apr-03

CAPITAL ASSETS
For the Year Ended June 30

	TOTAL ASSETS at June 30, 2001	ADDITIONS	DISPOSALS AT ORIGINAL COST	TOTAL ASSETS at June 30, 2002	PROCEEDS FROM SALES	
Schools						
Land	-			0		(1)
Buildings	-			0		(1)
Equipment	-			0		
Administrative Facilities						
Land	-			0		
Buildings	-			0		
Equipment	-			0		
Residences and Dormitories						
Land	-			0		
Buildings	-			0		
Equipment	-			0		
Garages, Repair Shops and Warehouses						
Land	-			0		
Buildings	-			0		
Equipment	-			0		
Vehicles						
School Buses	-			0		
Other Vehicles	-			0		
TOTALS	0	0	0	0	0	

Note (1): Gross proceeds on sale of Land and School building(s)	-
Less transfers to Province of Manitoba	-
Net proceeds	0

Appendix C
(cont'd.)

REQUIRED FRAME REPORTING SCHEDULES

School Division Name and No. 17-Apr-03

CAPITAL FUND - RESERVE ACCOUNTS
For the Year Ended June 30, 2002

	BUSES	OTHER	TOTAL
OPENING BALANCE	-	-	0
Adjustments			
Transfers from Operating Fund	-	-	0
Other:	-	-	0
			0
			0
			0
CLOSING BALANCE	0	0	0

CAPITAL FUND - EQUITY
For the Year Ended June 30, 2002

OPENING BALANCE		-
Adjustments for prior year		-
ADDITIONS:		
Contributed by Provincial Government	-	
Contributed by Federal Government	-	
Investment Income	-	
Gifts or Donations	-	
Transfers from Operating Fund	-	
Transfers from Reserve	-	
Other:	-	
		0
DEDUCTIONS:		
Debenture Debt Interest	-	
Adjustments to Asset Values due to Losses and Obsolescence	-	
Transfers to Operating Fund	-	
Transfers to Reserve	-	
Other:	-	
		0
CLOSING BALANCE		0

REQUIRED FRAME REPORTING SCHEDULES

Appendix C
(cont'd.)

School Division Name and No. 17-Apr-03

CAPITAL FUND - CAPITAL FINANCING

For the Year Ended June 30, 2002

FINANCES ACQUIRED		
Current Assets as at June 30, 2001		-
Provincial Government		
Capital Projects	-	
Debt Servicing - Interest	-	
- Principal	-	
Other Department of Education, Training and Youth	-	
Other Provincial Government Departments	-	0
Federal Government		
Indian Affairs	-	
Other Federal: ______	-	
______	-	0
Investment Income		-
Insurance Proceeds		-
Gifts or Donations		-
Other: ______	-	
______	-	-
Proceeds from the sale of Capital Assets		-
Transfers from Operating Fund		-
Long Term Debt		
Debentures	-	
Other	-	0
Current Liabilities as at June 30, 2002		-
TOTAL FINANCES ACQUIRED		0
FINANCES APPLIED		
Current Liabilities as at June 30, 2001		-
Additions to Capital Assets		-
Debt Services		
Debenture Debt Interest	-	
Debenture Debt Principal	-	
Other Long Term Debt	-	0
Transfers to Operating Fund		-
Current Assets as at June 30, 2002		-
TOTAL FINANCES APPLIED		0

Appendix C (cont'd.)

REQUIRED FRAME REPORTING SCHEDULES

School Division Name and No. 17-Apr-03

STUDENT ENROLMENTS (FRAME) AND TRANSPORTATION STATISTICS (UNAUDITED)

ENROLMENTS BY PROGRAM		F.T.E. Enrolment September 30, 2001
REGULAR INSTRUCTION		
English Language - Single Track		-
Francais - Single Track		-
French Immersion - Single Track		-
Dual Track		
- English Language	-	
- Francais	-	
- French Immersion	-	
- Other Bilingual	-	0.0
Senior Years Technology Education		-
TOTAL REGULAR INSTRUCTION		0.0
EXCEPTIONAL : Special Needs Classes		-
TOTAL NUMBER OF FULL TIME EQUIVALENT K - S4 STUDENTS		0.0
ADULT LEARNING CENTRES		-

TRANSPORTATION OF PUPILS	
TRANSPORTED STUDENTS	-
TOTAL KILOMETERS - LOG BOOK	-
TOTAL KILOMETERS - BUS ROUTES	-
LOADED KILOMETERS	-

REQUIRED FRAME REPORTING SCHEDULES

Appendix C
(cont'd.)

School Division Name and No.

17-Apr-03

FULL TIME EQUIVALENT PERSONNEL (UNAUDITED)

September 30, 2001

CODE OBJECT \ FUNCTION	FUNCTION 100	FUNCTION 200	FUNCTION 300	FUNCTION 400	FUNCTION 500	FUNCTION 600	FUNCTION 700	FUNCTION 800	TOTALS
320 Executive, Managerial, & Supervisory									0.00
330 Instructional - Teaching									0.00
350 Instructional - Other									0.00
360 Technical, Specialized And Service									0.00
370 Secretarial, Clerical And Other									0.00
380 Clinician									0.00
390 Information Technology									0.00
TOTALS (excluding Trustees)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
310 TRUSTEES									

Appendix C
(cont'd.)

REQUIRED FRAME REPORTING SCHEDULES

School Division Name and No. : 2001/2002 FRAME Financial Statements

17-Apr-03

CALCULATION OF ALLOWABLE EXPENDITURES

FUNCTION / PROGRAM	TOTAL EXPENDITURES	ADJUSTMENTS TO EXPENDITURES	REDUCTIONS TO EXPENDITURES					ALLOWABLE EXPENDITURES
			CATEGORICAL AND BASE SUPPORT	OTHER PROGRAM SUPPORT	OTHER PROVINCIAL GOVERNMENT REVENUE	NON-PROVINCIAL SOURCES		
						TUITION, TRANSFER AND RESIDUAL FEES	OTHER	
		<<<<< (from Appendix A) >>>>>			<<<<< (from Appendix B) >>>>>			
100 Regular Instruction	0	0	0		0		0	0
200 Exceptional (1)	0	0	0		0		0	0
300 Adult Learning Centres	0	0			0		0	0
400 Community Education and Services	0		0		0		0	0
500 Administration	0	0	0		0		0	0
600 Instructional & Pupil Support Services								
610 Curriculum Consulting	0	0	0		0		0	0
620 Educational Media	0	0	0		0		0	0
630 Professional and Staff Development	0	0	0		0		0	0
640 Counselling and Guidance	0	0	0		0		0	0
600 Health/Food Services and Other	0	0	0		0		0	0
700 Transportation of Pupils	0	0	0		0		0	0
800 Operations and Maintenance	0	0			0		0	0
900 Fiscal	0							
SUBTOTAL (ALLOCATED)				0	0	0	0	
UNALLOCATED REVENUE/FUNDING					0	0	0	
TOTAL	0	0	0	0	0	0	0	

(1) To determine Allowable Expenditures for Level I.

REQUIRED FRAME REPORTING SCHEDULES

Appendix C
(cont'd.)

School Division Name and No. : 2001/2002 FRAME Financial Statements

17-Apr-03

CALCULATION OF ALLOWABLE EXPENDITURES (refer to "Allow Guide")

APPENDIX A

ADJUSTMENTS TO EXPENDITURES: (enter deductions as negative amounts)	Function/ Program	Amount
Capitalized Energy Mgmt. Systems Costs (add) (1), (2)	800	
Capitalized Section "D" School Bldgs. Costs (add) (1)	800	
Lease costs paid to other School Divisions (deduct)	800	
Transfers from Capital Fund (deduct)	800	0
Leased Non-School Space (deduct)	800	
Other Capitalized Items (2) (please specify item and Function/Program)		
Total Adjustments to Expenditures		0

(1) Net of all related revenues.

(2) For capitalized energy management systems costs and other capitalized items, lease and loan payments for eligible equipment may be included.

OTHER PROGRAM SUPPORT:	
School Buildings Support: "D" Projects	0
Vocational Equipment Support	0
Environmental Assistance Program	0
Air Quality Program	0
Other Minor Capital Support	0
Curricular Materials Prior Year Support	0
Finalization of Previous Year's support	0
Sub-total	0
LESS: Environmental Assistance transferred to Capital	0
Amount carried forward to Allowable Expenditures	0

CATEGORICAL AND BASE SUPPORT TO BE ALLOCATED:		**ELIGIBLE SUPPORT**
Curricular Materials		0
Information Technology		0
Special Needs: Coordinator/Clinician		
(A) Maximum Support		
(B) Eligible Expenditures		
(C) Less related revenues		
(D) Allowable Expenditures (B) - (C)	0	
Eligible Support (lesser of A or D)		0
Special Needs: Level II and III		0
Technology (Vocational) Education		0
English as a Second Language		0
Aboriginal Academic Achievement		0
Heritage Language		0
French Language		0
Small Schools		
(A) Maximum Support		
(B) Program Expenditures		
Eligible Support (lesser of A or B)		0
Students at Risk		0
Early Behaviour Intervention		0
Early Identification		0
Early Literacy		0
Programme d'accueil		0
Total amount to be allocated on page 22 (Allowable Expenditures)		0

CALCULATION OF ALLOWABLE SECTION "D" EXPENDITURES:		
Program 850 School Building Repairs & Replacements		0
PLUS: Capitalized Section "D" Expenditures (net)		0
Grounds		
LESS: Air Quality Program		0
E A P Support less transfers		0
Related revenue other than "D" Support		
Allowable Section "D" Expenditures	**(C)**	0
< OR >		
Expenditures to be used for calculating "D" Grant if different from above (cannot be more than amount on line C)	**(D)**	

Refer to page 2 of the Allowable Expenditures Guide when completing this section.

Appendix C
(cont'd.)

REQUIRED FRAME REPORTING SCHEDULES

School Division Name and No. : 2001/2002 FRAME Financial Statements

17-Apr-03

APPENDIX B

CALCULATION OF ALLOWABLE EXPENDITURES

OTHER PROVINCIAL GOVERNMENT REVENUE:

	Allocated	Unallocated	Total
Other Department of Education, Training & Youth			
General Support Grant		0	0
All other	0		0
Other Provincial Government Departments	0		0
Total Revenue	0	0	0

NON-PROVINCIAL SOURCES:

	Allocated	Unallocated	Total
Federal Government			
Tuition Fees	0		0
All other	0		0
Municipal Government			
Special Requirement		0	0
Other	0		0
Other School Divisions			
Transfer Fees	0		0
Residual Fees	0		0
All other	0		0
First Nations			
Tuition Fees	0		0
All other	0		0
Private Organizations and Individuals			
Tuition Fees	0		0
Ancillary Services	0		0
Other Sources			
Interest		0	0
Donations	0	0	0
Other	0		0
Total Revenue	0	0	0

ALL REVENUES REPORTED ON THIS PAGE, EXCEPT THOSE SHADED, MUST BE DEDUCTED FROM TOTAL EXPENDITURES ON PAGE 22 UNLESS THERE ARE SPECIAL CIRCUMSTANCES WHICH WOULD MAKE AN ALLOCATION IMPRACTICAL OR INAPPROPRIATE. **IN THOSE LIMITED CASES, REASONS FOR NOT ALLOCATING MUST BE PROVIDED BELOW.**

TOTAL FEES (to agree with total tuition, transfer and residual fees on page 22)	0
TOTAL OTHER REVENUE (to agree with total other revenue on page 22)	0

AUDITOR'S SUPPLEMENTARY REPORT REGULATION

Appendix D

THE PUBLIC SCHOOLS ACT
(C.C.S.M. c. P250)

Auditor's Supplementary Report Regulation

Regulation 149/2000
Registered November 6, 2000

Auditor's supplementary report
1 The supplementary report that an auditor for a school board must submit under subsection 41(12) of the Act must state the following:

(a) whether, in the auditor's opinion, appropriate internal controls exist for the school division assets outlined in section 9 of the *Financial Reporting and Accounting in Manitoba Education* (FRAME) manual;

(b) whether, in the auditor's opinion, an appropriate system of internal control existed and functioned effectively for reporting school division enrolment for the purposes of calculating provincial funding according to the definitions and reporting requirements set out in sections 1.1 and 1.2 of the annual Enrolment Reporting Requirements document issued by the Schools' Finance Branch;

(c) whether, in the auditor's opinion, appropriate controls exist for Type A and Type B school funds as outlined in the Policy on School Funds issued by the Schools' Finance Branch on November 15, 1993;

LOI SUR LES ÉCOLES PUBLIQUES
(c. P250 de la C.P.L.M.)

Règlement sur le rapport de vérification complémentaire

Règlement 149/2000
Date d'enregistrement : le 6 novembre 2000

Rapport de vérification complémentaire
1 Le vérificateur d'une commission scolaire doit, dans le rapport complémentaire qu'il doit déposer en vertu du paragraphe 41(12) de la *Loi*, préciser ce qui suit :

a) s'il existe, à son avis, des mécanismes de contrôle interne appropriés relativement aux biens de la division scolaire indiqués à l'article 9 du manuel du système comptable FRAME;

b) s'il existait, à son avis, un système de contrôle interne approprié et conforme aux définitions et aux exigences que prévoient les articles 1.1 et 1.2 du document intitulé *Communication des données sur les écoles publiques* qu'a produit la Direction des finances des écoles pour la communication des inscriptions des divisions scolaires aux fins du calcul des subventions provinciales;

c) s'il existe, à son avis, des mécanismes de contrôle appropriés relativement aux subventions d'écoles de type A et B ainsi qu'il est énoncé dans le document intitulé *Policy on School Funds* que la Direction des finances des écoles a produit le 15 novembre 1993;

11/00 1

Appendix D
(cont'd.)

AUDITOR'S SUPPLEMENTARY REPORT REGULATION

(d) whether, in the auditor's opinion, Schedule 8 (Calculation of Allowable Expenditures) of the audited financial statements has been completed appropriately and in accordance with the Department's instructions included in the annual request for financial statements;

(e) whether the funds of the school division have, to the best of the auditor's knowledge and belief, been paid and disbursed only under authority granted by an Act of the Legislature, or under authority of a resolution or by-law of the division made under the authority of an Act of the Legislature;

(f) whether there are any other significant matters or irregularities or discrepancies in the administration of the school division's affairs that should be brought to the attention of the school board or the minister.

d) si, à son avis, le tableau 8 des états financiers vérifiés a été rempli convenablement et conformément aux recommandations que le ministère a indiquées dans la demande annuelle des états financiers;

e) si, à sa connaissance, les subventions ont été versées à la division scolaire uniquement en vertu d'une loi de la province ou d'une résolution ou d'un règlement administratif que la division a adopté en vertu d'une loi de la province;

f) si d'autres éléments importants, des irrégularités ou des erreurs dans l'administration des affaires de la division scolaire doivent être portés à l'attention de la commission scolaire ou du ministre.

October 25, 2000

Drew Caldwell
Minister of Education and Training

Le ministre de l'Éducation et de la Formation professionnelle,

Le 25 octobre 2000

Drew Caldwell

The Queen's Printer
for the Province of Manitoba

L'Imprimeur de la Reine
du Manitoba

Appendix E

AUDITOR'S SUPPLEMENTARY REPORT

To the Board of Trustees of the XYZ School Division

In accordance with the provisions of Section 41(12) of The Public Schools Act we have made a study of those internal accounting control and administrative control procedures of the XYZ school division that we considered relevant to the requirements of the Act. Our study was made in accordance Canadian generally accepted auditing standards, and accordingly included such tests and other procedures during the year from July 1, 20__ to June 30, 20__ as we considered necessary in the circumstances.

The administration of the Division is responsible for establishing and maintaining a system if internal accounting control. In fulfilling this responsibility, estimates and judgements by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the administration with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with administration's authorization and recorded properly to permit the preparation of financial statements in accordance with a described basis of accounting.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation was made for the limited purpose required by the provision of Section 41(12) of The Public Schools Act, and as such may not disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Division taken as a whole.

We report that in our opinion, during the year from July 1, 20__ to June 30, 20__ taken as a whole:

a) The appropriate internal controls exist for those School Division assets outlined in Section 9 of the FRAME Manual.

b) An appropriate system of internal control existed and functioned effectively for the School Division enrollment for the purpose of calculating provincial funding, per the definitions and reporting requirements established in section 1.1 and section 1.2 of the annual Enrollment Reporting Requirements document issued by the Schools' Finance Branch.

c) The appropriate controls exist for Type A and Type B school funds as outlined in the Policy on School Funds issued by the Schools' Finance Branch on November 15, 1993.

Appendix E
(cont'd.)

AUDITOR'S SUPPLEMENTARY REPORT

d) Schedule 8 (Calculation of Allowable Expenditures) of the audited financial statements has been completed appropriately and in accordance with the Department's instructions included in the annual request for financial statements.

e) The funds of the School Division have, to the best of our knowledge and belief, been paid and disbursed only under authority granted by an Act of Legislature or under authority of a resolution or by-law of the School Division made under the authority of an Act of the Legislature.

f) There are no other significant matters, or any irregularity or discrepancy in the administration of the affairs of the School Division, that should be brought to the attention of the School Board or the Minister. However, we have issued our standard internal control letter to the Board of Trustees under separate cover.

City, Province | Chartered Accountants

Date

AUDITOR'S SUPPLEMENTARY REPORT

Appendix E.1

AUDITOR'S SUPPLEMENTARY REPORT

TO THE BOARD OF TRUSTEES
SCHOOL DIVISION NAME

In accordance with the provisions of Section 41(12) of the Public Schools Act, we have made a study of those internal accounting control and administrative control procedures of School Division Name ("The Division") that we considered relevant to the requirements of the Act and related regulations. Our study was made in accordance with Canadian generally accepted auditing standards, and accordingly included such tests and other procedures for the year ended June 30, 2003 as we considered necessary in the circumstances.

The administration of the Division is responsible for establishing and maintaining a system of internal accounting control. The objectives of a system are to provide the administration with reasonable, but not absolute, assurance that transactions are executed in accordance with administration's authorization and recorded properly to permit the preparation of financial statements in accordance with a described basis of accounting.

Because of inherent limitations in any system of internal accounting and administrative control, only reasonable assurance can be obtained with respect to the adequacy of such internal control procedures.

Our study and evaluation was made solely for the purposes required by the provision of Section 41(12) of The Public Schools Act, and as such may not disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Division taken as a whole.

We report that, during the year ended June 30, 2003, taken as a whole:

(a) in our opinion, an appropriate system of internal control existed and functioned effectively for reporting school division enrolment for the purpose of calculating provincial funding, according to the definitions and reporting requirements set out in sections 1.1 and 1.2 of the document entitled "Public Schools Enrolment Reporting at September 30, 2002" issued by the Schools' Finance Branch;

(b) in our opinion, appropriate controls exist and are in use for Type A school funds as outlined in the Policy on School Funds issued by the Schools' Finance Branch on November 15, 1993;

(c) in our opinion, there are no other significant matters, or irregularities or discrepancies in the administration of the school division's affairs that should be brought to the attention of the school board or the minister.

Further, as result of our financial statement audit procedures and those procedures undertaken to allow us to report under Section 41(12) of the Public Schools Act, we report, to the best of our knowledge and belief, that the funds of the school division have been paid and disbursed only under authority granted by an Act of the Legislature or under authority of a resolution or by-law of the division made under the authority of an Act of Legislature.

________________ Date

________________ Auditor

I hereby certify that the preceding report has been presented to the members of the Board of School Division Name.

________________ Date

________________ Chairperson

Appendix F

SECTIONS OF PROVINCIAL ACTS RELATING TO FINANCIAL REPORTING FOR SCHOOL DIVISIONS

Manitoba

P250 – The Public Schools Act

41(11) Auditor's Report

An auditor for a school division or school district shall, not later than October 31 in each year, make a report to the school board on the annual financial statements that the auditor has examined as at the end of the preceding fiscal year.

41(11.2) Standards of the CICA

A report made in subsection (11) shall

a) comply with the standards of the Canadian Institute of Chartered Accountants for an auditor's standard report; and

b) include the auditor's opinion as to whether the financial statements present fairly the financial position of the school division as at the end of the preceding fiscal year and the results of its operations for the preceding fiscal year, in accordance with accepted accounting principles for school divisions.

41(12) Auditor's Supplementary Report

The auditor shall submit to the school board a supplementary report on his or her examination of the annual financial statements and the report shall contain any information required by the regulations.

41(14) Financial statement to minister

Not later than October 31 in each year, each school board shall furnish to the minister, in the form and manner the minister requires, a duly audited financial statement showing the revenues, expenditures and other financial information relating to its school division or school district for the immediately preceding fiscal year, and the financial position of the school division or school district at the close of the immediately preceding fiscal year.

Saskatchewan

E0.2 The Education Act, 1995

Reports to minister 282

A board of education or the conseil scolaire shall furnish to the minister copies of budget estimates, financial statements and other information in any form and at any times that the minister may consider necessary.

SECTIONS OF PROVINCIAL ACTS RELATING TO FINANCIAL REPORTING FOR SCHOOL DIVISIONS

Appendix F
(cont'd.)

Previous financial statements 283

1) On or before June 30 in each fiscal year, a board of education shall cause to be prepared and presented to the board of education a statement of the public accounts of the school division for the preceding year.

2) On or before June 30 in each fiscal year the conseil scolaire shall cause to be prepared and table at a public meeting of the conseil scolaire a statement of the public accounts of the conseil scolaire for the preceding fiscal year.

3) The public accounts prepared pursuant to subsection (1) or (2) shall:

   a) be open for inspection by any person during regular business hours;

   b) be printed in sufficient quantity and distributed in a manner to satisfy any requests for copies.

4) Subject to any limitations or requirements that may be prescribed in the regulations, the public accounts prepared pursuant to subsection (1) or (2) shall:

   a) in the case of a board of education, incorporate the audited financial statement of the school division prepared pursuant to clause 85(1)(s);

   b) in the case of a conseil scolaire, incorporate the audited financial statement of the conseil scolaire prepared pursuant to clause 86(1)(s);

   c) show clearly and fully the revenues, expenditures, assets and liabilities of the school division or the conseil scolaire as at December 31 of the preceding fiscal year;

   d) show clearly and fully the state of the operating and capital funds, and of any other funds provided for in this Act, of the school division or conseil scolaire as at December 31 of the preceding fiscal year;

   e) set forth all matters that are required to explain the financial transactions and position of the school division or the conseil scolaire during and at the close of the preceding school year; and

   f) show clearly and fully:

      i) the remuneration paid to each employee of the board of education or the conseil scolaire;

      ii) expenditures pursuant to any contract; and

      iii) expenditures, grants and contributions of goods and services made pursuant to section 87 in the case of a board of education, or pursuant to section 88 in the case of a conseil scolaire.

Appendix F
(cont'd.)

SECTIONS OF PROVINCIAL ACTS RELATING TO FINANCIAL REPORTING FOR SCHOOL DIVISIONS

Alberta

The School Act Chapter S-3

Financial reporting 147

1) The fiscal year of a board of a district or division is September 1 to the following August 31.

2) The board of a district or division shall do the following:

   a) on or before November 15 in each year, prepare financial statements for the fiscal year ending on the previous August 31;

   b) on or before May 31 in each year, prepare and submit to the Minister a budget for the fiscal year beginning on the following September 1.

Auditor's report 149

1) An auditor shall perform the auditor's examination and prepare the auditor's report in accordance with generally accepted auditing standards on the financial statements prepared pursuant to this Act and submit the report to the board.

2) The auditor shall at all times be given access to all records, documents, books of account and vouchers of the board by board employees, and the auditor is empowered to request and receive from the board and any employee of the board any information and explanations that in the auditor's opinion may be necessary to enable the auditor to report as required by subsection (1).

3) The Minister may prescribe procedures to be used under this section that differ from generally accepted accounting principles.

British Columbia

School Act Part 8

Financial statements 157

1) The board must cause to be prepared each fiscal year by the secretary treasurer or other person authorized by it, financial statements of the school district respecting the preceding fiscal year.

2) The financial statements must be prepared on or before September 15 of each year, and must include for each fund a balance sheet, statement of income and expenditure and other information that the minister directs or the regulations prescribe.

3) The financial statements may include separate statements of special activities of the board so long as the items of account of a controlling nature appear in the statements referred to in subsection (2).

SECTIONS OF PROVINCIAL ACTS RELATING TO FINANCIAL REPORTING FOR SCHOOL DIVISIONS

Appendix F
(cont'd.)

4) The financial statements referred to in subsection (2) must be signed by the chair of the board and the secretary treasurer, and must be published for distribution to the public before December 31 together with the auditor's report submitted to the board under section 161(1)(d).

5) The secretary treasurer must, not later than September 30 in each year, forward to the minister a copy of the financial statements together with the auditor's report.

Duties of auditor 161

1) In addition to any terms of an auditor's appointment, the auditor

   a) must make an examination that will enable the auditor to report to the board as required under paragraph (d),

   b) has a right of access at all times to every record of the board other than a student record or a record referred to in paragraph (d) of the definition of "student record",

   c) may require from trustees or officers or employees of the board and from any other persons any information or explanation necessary to complete the audit, and

   d) must submit a report to the board respecting the annual financial statements referred to in section 157 and must state in the report

      i) whether his or her examination was made in accordance with generally accepted auditing standards including such tests and other procedures as he or she considered necessary in the circumstances, and

      ii) whether in the auditor's opinion the financial statements present fairly the financial position of the board as of the end of the fiscal year and the results of its operations for that year in accordance with section 156 (1) (b) applied on a basis consistent with that of the preceding fiscal year.

Ontario

Education Act Chapter E.2

Financial statements 252

1) Every year, the treasurer of every board shall prepare the financial statements for the board by the date prescribed under subsection (3) and, on receiving the auditor's report on the financial statements, shall promptly give the Ministry two copies of the financial statements and the auditor's report.

Appendix F
(cont'd.)

SECTIONS OF PROVINCIAL ACTS RELATING TO FINANCIAL REPORTING FOR SCHOOL DIVISIONS

Minister's powers 252

3) The Minister may prescribe the date in each year by which the treasurer of a board shall prepare the financial statements of the board and forward them to the auditor.

Duties of auditor 253

4) An auditor of a board shall perform the duties that are prescribed by the Minister under paragraph 30 of subsection 8(1) and the duties that may be required by the board that do not conflict with the duties prescribed by the Minister.

Quebec

Education Act Chapter I-13.3

Auditor 284

For each fiscal year, every school board shall appoint from among the members of a professional order of accountants governed by the Professional Code (chapter C-26) an external auditor who shall file a report of his audit of the financial transactions of the school board.

The Minister may specify the mandate applicable to all auditors of school boards.

Financial Statements 286

Once the financial activities have been audited, the director general shall submit the financial statements of the school board and the external auditor's report to the council of commissioners at its first sitting following by at least 15 days the date of receipt of the report.

Financial Information 288

At the request of the Minister, the school board, either directly or through the financial institution with which it does business, shall furnish him with any information he may require on its financial position.

Newfoundland

Schools Act, 1997 Chapter 12.2

Accounts and audits 66

1) A board shall keep an accurate record of all receipts and expenditures and ensure that all funds received from the Crown are expended only for the purpose for which they are provided and prepare and submit to the minister at the end of each school year a detailed statement of its accounts audited by a person licensed under the Public Accountancy Act in the form and at a time that the minister may require.

SECTIONS OF PROVINCIAL ACTS RELATING TO FINANCIAL REPORTING FOR SCHOOL DIVISIONS

Appendix F
(cont'd.)

Nova Scotia

Education Act

Financial statements 83

Every school board for each fiscal year shall prepare financial statements in the form prescribed by the Minister and shall submit the statements to the Minister and to each municipality in the school district or school region before July 1st of the ensuing fiscal year.

Auditor 84

1) Every school board shall annually appoint a person who is a licensed public accountant or a firm in which a member is a licensed public accountant to be the auditor of the school board.

2) Where a school board does not appoint an auditor in accordance with subsection (1), the Minister may appoint one on behalf of the school board.

Audit 85

1) Within three months after the end of each fiscal year, the auditor of a school board shall examine and report on the financial statements of the board for the preceding fiscal year, including

    a) a statement of revenue and expenditure for the operating fund and any other fund of the board;

    b) a continuity of the surplus or deficit statement for the operating fund and any other fund of the board;

    ba) those matters that are required to be published pursuant to subsection 65(1);

    c) a statement of assets and liabilities for the operating fund and any other fund of the board as of the end of the fiscal year; and

    d) such other statement or information as may be required by law or by the school board.

2) The auditor shall perform the annual examination in accordance with generally accepted auditing standards.

3) The auditor shall attach to the financial statements a report which shall state

    a) whether the auditor has obtained all the information and explanations the auditor has required;

    b) whether the auditor's examination was made in accordance with generally accepted auditing standards, and accordingly included

Appendix F
(cont'd.)

SECTIONS OF PROVINCIAL ACTS RELATING TO FINANCIAL REPORTING FOR SCHOOL DIVISIONS

such tests and other procedures as the auditor considered necessary in the circumstances; and

c) whether the statements present fairly the financial position of the school board as at the end of the fiscal year and the results of its operations for the preceding fiscal year in accordance with generally accepted accounting principles, as set out by the Minister in the financial management system approved by the regulations.

Prince Edward Island

School Act Chapter S-2.1

Annual Audited financial Statements 126(3)

Each school board shall provide the Minister with annual audited financial statements on the date set by Minister's directives.

INFRASTRUCTURE TANGIBLE CAPITAL ASSETS AUDIT REPORT

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APPENDICES

Appendix A: Infrastructure Recorded by Transportation and Government Services at April 1, 2004

Appendix B: Public Sector Accounting Standards

Appendix C: Infrastructure Project - Flowchart and Key Controls - Costs Accumulation at Transportation and Government Services

Appendix D: Infrastructure Project - Flowchart and Key Controls - Depreciation

Executive Summary

The objective of this audit was to confirm that the Province recognized infrastructure tangible capital assets in accordance with Canadian generally accepted accounting principles (GAAP) for senior governments as recommended by the Public Sector Accounting Board (PSAB), and to determine whether there are effective internal controls supporting the proper accounting for infrastructure.

The Province of Manitoba first began recognizing tangible capital assets in the Public Accounts in the 1999/00 fiscal year. That year the Province recognized all tangible capital assets except for land and infrastructure. In 2000/01, the Province recognized land. In the 2004/05 fiscal year, the Province completed its recognition of tangible capital assets with the recording of infrastructure with a net book value (cost less accumulated amortization) of $1.2 billion. Infrastructure tangible capital assets consist of such assets as provincial roads and highways, provincial bridges, provincial parks, the Red River floodway, and provincial dams.

The vast majority of infrastructure tangible capital assets was constructed by the Department of Transportation and Government Services. To a much lesser extent, infrastructure was also constructed by the Departments of Conservation and Water Stewardship and a very limited amount of infrastructure was built by the Department of Aboriginal and Northern Affairs.

Infrastructure is recognized in the Operating Fund, in all material respects, as at April 1, 2004 and for the year ended March 31, 2005, in accordance with GAAP as recommended by PSAB. However, there were certain misstatements related to the application of the Government's accounting policy. The material misstatements that we identified were adjusted in the 2004/05 Summary and Special Purpose Financial Statements.

We determined that Manitoba's infrastructure accounting policy is in accordance with GAAP. In addition, the key aspects of Manitoba's accounting policy and practices were consistent with the accounting policies and practices used in other provincial jurisdictions.

The Province's internal controls supporting the proper accounting for infrastructure were operating effectively for the year ended March 31, 2005 except for the internal control procedures related to the recognition of when new infrastructure is put in service. We recommended that the Province amend their procedures to record new infrastructure by September 30 of each fiscal year in order to permit the Asset Management Module of SAP to properly calculate the current year's amortization expense.

1.0 Introduction

The Province of Manitoba first began recognizing tangible capital assets in the Public Accounts in the 1999/00 fiscal year. That year the Province recognized all its tangible capital assets except for land and infrastructure. In 2000/01, the Province recognized land. In the 2004/05 fiscal year, the Province completed its recognition of tangible capital assets with the recording of infrastructure with a net book value (cost less accumulated amortization) of $1.2 billion. Infrastructure tangible capital assets consist of such assets as provincial roads and highways, provincial bridges, provincial parks, the Red River floodway, and provincial dams.

The vast majority of infrastructure tangible capital assets was constructed by the Department of Transportation and Government Services. To a much lesser extent, infrastructure was also constructed by the Departments of Conservation and Water Stewardship and a very limited amount of infrastructure was built by the Department of Aboriginal and Northern Affairs.

1.1 OBJECTIVES AND SCOPE

This examination formed part of our audit of the Public Accounts for the year ended March 31, 2005; we conducted this audit because the recognition of infrastructure is a material change in the accounting policies used by the Province in the preparation of the Public Accounts.

Sections of The Auditor General Act Granting Authority to Conduct the Audit

"Audit of government accounts
9(1) The Auditor General is the auditor of the accounts of the government, including those relating to the Consolidated Fund, and must make any examinations and inquiries that he or she considers necessary to enable the Auditor General to report as required by this Act.

Audit of the Public Accounts
9(3) The Auditor General is responsible for examining and auditing the financial statements included in the Public Accounts under The Financial Administration Act, and any other statements the Minister of Finance presents for audit."

Objectives

- To determine whether infrastructure tangible capital assets (infrastructure) are recognized in the Operating Fund, as at April 1, 2004 and for the year ended March 31, 2005, in accordance with Canadian generally accepted accounting principles (GAAP) for senior governments as recommended by the Public Sector Accounting Board (PSAB).
- To determine whether there are effective internal controls supporting the proper accounting for infrastructure.

The sources we used for the development of our audit criteria included:

- Recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (CICA);
- CICA Research Report *"Accounting for Infrastructure in the Public Sector"*;
- Province of Manitoba's accounting policy related to infrastructure; and
- Annual reports of the Public Accounts of other provincial governments.

Our audit objectives and criteria were only applied to the examination of infrastructure. General tangible capital assets were excluded from this audit. Our examination of the internal controls did not include an examination of the general information technology (IT) controls. The general IT controls of the Province were examined separately in the audit of the Public Accounts.

Our examination included such tests and other procedures as we consider necessary in the circumstances.

Scope

The historical infrastructure recorded at April 1, 2004 does not include any fully amortized assets. With the exception of land infrastructure, the Province is not capitalizing any infrastructure costs incurred prior to April 1, 1964. The audit of the historical infrastructure balance at April 1, 2004 examined the 45 year period ending March 31, 2004. Our work was substantially conducted between January and February, 2005.

The audit of the internal controls examined the controls in place during the nine month period ending December 31, 2004. The construction "season" for highways ends on October 31st of each year. Therefore at December 31, 2004, over 80% of the department's infrastructure budget was already capitalized. Our audit work was substantially conducted between January and February, 2005 and was mainly performed at the Finance and Administration office of Transportation and Government Services.

The audit of the final infrastructure balances at March 31, 2005 was completed in June, 2005.

Our audit effort for Objective 1 was primarily directed at the infrastructure capitalized at April 1, 2004. Our audit effort for Objective 2 was primarily directed at the infrastructure capitalized since April 1, 2004.

Approach

Our audit procedures for the historical infrastructure of the three departments, Transportation & Government Services (T&GS), Conservation and Water Stewardship, identified with significant infrastructure, focused primarily on the verification of the existence and valuation of the assets. We reviewed the appropriateness of the methodology used by the three departments to identify and to ensure the completeness of their inventory of historical infrastructure.

The infrastructure constructed by the Departments of Water Stewardship and Conservation is not as significant to the Public Accounts and the net book value of infrastructure constructed by Aboriginal and Northern Affairs prior to April 1, 2004 was less than $1 million. For these three departments, our audit procedures were limited to minimum review procedures. We reviewed the nature of their historical infrastructure and the appropriateness of the amortization rates. For the year ended March 31, 2005, we performed substantive tests including analytical review procedures on the additions, disposals, write-offs and amortization expense recorded. However, we did not adopt a controls reliant approach related to controls affecting the proper accounting at these departments because of the relatively small dollar value of the 2005 fiscal year transactions.

For T&GS, the planned evidence gathering techniques beyond the basic approach of interview/discussion and related document examination were:

Objective 1

- Performance of substantive audit procedures for 100% of the infrastructure population at April 1, 2004. Our substantive tests included recalculating the accumulated amortization and verifying the construction costs to the annual reports of T&GS (1959/60) and the Construction Management System (CMS) (1993/94 to 2003/04).
- Adoption of a controls reliance approach for the audit of infrastructure for the year ended March 31, 2005. We also performed analytical review procedures on the additions, disposals, write downs of infrastructure assets and amortization expense recorded during the year. The key controls supporting this approach were documented and tested as part of our examination for Objective 2.

Objective 2

- Documentation and testing of the key controls at T&GS that ensure that infrastructure costs, capitalized since April 1, 2004 are complete, accurate, and valid.
- Documentation and testing of the key controls at T&GS that ensure amortization expense is complete and accurate.
- Documentation and testing of the key controls at T&GS that ensure that infrastructure is carried at the lower of net book value and the value of future economic benefits.
- Recalculation of the amortization expense at T&GS for the period ended December 31, 2004 for a sample of 16 infrastructure assets selected judgmentally.

2.0 Background

2.1 LEGISLATIVE AUTHORITY

Under the Financial Administration Act (Act) the Financial Statements of the Operating Fund [Consolidated Fund] are prepared using the Government's accounting policies and the Act also provides for the recognition of the amortization of tangible capital assets.

Excerpts from the Act are provided below:

> ***"Preparation of public accounts***
> *65(1) The Comptroller shall, in accordance with the directions of the Minister of Finance, prepare the public accounts in respect of each fiscal year that include*
>
> *a) the financial statements of the Consolidated Fund*
>
> *i) prepared in accordance with the accounting policies of the government as set out in the financial statements, and*
>
> *ii) accompanied by a report of the Auditor General concerning his or her examination of the financial statements;*
>
> ***Payment out of Consolidated Fund***
> *29 No money, other than trust money, shall be paid out of the Consolidated Fund without the authority of this or any other Act of the Legislature*
>
> ***Main estimates***
> *30(2) The main estimates of expenditure for a fiscal year shall*
>
> *(a) provide for expenditures that are incurred by the government in the course of business during the fiscal year and that are required to be voted on by the Legislature; and*
>
> *(b) include the amount of expenditures from statutory appropriations to be incurred in the fiscal year.*
>
> ***Amounts included for amortization of capital investment***
> *30(2.1) Despite clause (2)(a), amounts may be included in the main estimates in respect of the amortization of capital investments and may be charged to the Consolidated Fund in accordance with the accounting policies required to be stated in the public accounts, but shall not be paid out of the Consolidated Fund except to repay debt."*

2.2 ORGANIZATION

The Province of Manitoba, primarily through the Departments of T&GS, Water Stewardship, and Conservation, constructs infrastructure tangible capital assets on behalf of Manitobans and other Canadians.

Infrastructure tangible capital assets (infrastructure) are complex systems and structures needed in society to provide a wide range of goods and services.

Infrastructure is distinguished from general tangible capital assets based on:

- Consumption (use) of the assets; and
- Ability to control access to the asset.

Infrastructure is consumed by the general public and its access is generally not restricted. General tangible capital assets are consumed by the Province to provide services to the general public. Access to general tangible assets is usually restricted.

2.3 PROGRAM DELIVERY STRUCTURE

Capital projects including infrastructure projects are budgeted in the Estimates of Expenditure each year. The Estimates specify the expenditures under Part B – Capital Investment; General Assets and Infrastructure Assets are listed separately. The construction of infrastructure assets is the responsibility of the Departments of T&GS, Conservation and Water Stewardship, respectively.

TG&S uses a Construction Management System to manage its projects. It is a subsidiary system which tracks the different asset classes as well as aggregates the costs by project or by region.

The Departments of Conservation and Water Stewardship use the internal orders system within SAP to manage their projects except for the Red River Floodway expansion project which is being managed by the Manitoba Floodway Authority, a crown organization, on behalf of the Province.

2.4 PROGRAM COSTS

The net book value (cost less accumulated amortization) of infrastructure recorded at April 1, 2004 was $1,183 million. T&GS accounted for 92% of the recorded infrastructure with $1,086 million net book value (NBV). Infrastructure constructed by Water Stewardship amounted to 6% at $67 NBV and Conservation's share of the opening net book value of infrastructure was 2% or $29 million. Aboriginal and Northern Affairs also recorded infrastructure having a net book value of $1 million at April 1, 2004.

The capital investment budgeted for the 2005 fiscal year was $86 million with $79 million allocated to T&GS, $4 million allocated to Water Stewardship and $3 million allocated to Conservation. The Estimates of Expenditure also allocated $9 million (enabling appropriation) for the Red River Floodway Expansion.

3.0 Findings and Conclusions

OBJECTIVE 1

To determine whether infrastructure tangible capital assets (infrastructure) are recognized in the Operating Fund, as at April 1, 2004 and for the year ended March 31, 2005, in accordance with Canadian generally accepted accounting principles (GAAP) for senior governments as recommended by the Public Sector Accounting Board (PSAB).

Findings

3.1 The accounting policies used by the Province to capitalize infrastructure are in accordance with GAAP.

- Manitoba has adopted the practice of setting minimum threshold amounts for the capitalization of assets. We reviewed this practice in other provincial jurisdictions. We found that setting minimum thresholds for capitalization is an accepted practice in five other provinces, British Columbia, Quebec, Alberta, Nova Scotia and Newfoundland and Labrador. Saskatchewan and Ontario do not use thresholds. New Brunswick has not recorded infrastructure in its financial statements.
- The thresholds used by the Province of Manitoba (listed below) are reasonable in comparison to other jurisdictions:

- land	$0
- traffic/lighting facilities and equipment	$10,000
- roads, bridges, dams and water structures	$100,000

  British Columbia also uses $100,000 as the threshold for roads, bridges, dams and water structures. Quebec and Nova Scotia use a $500,000 threshold for roads and bridges.
- We compared the asset classes used by Manitoba to those of other jurisdictions and found that most provincial governments define five major classes, road/trunk highway surface, road/trunk highway grade, bridges, and dams/water structures.
- We also evaluated whether the estimate of the useful life of the respective asset classes and the amortization methods used by the Province are appropriate to the nature and use of the asset. The Province indicated that the rates used were in accordance with industry standards but did not provide any documentation specifically supporting their assertions. We compared the Province's amortization

policies and rates to other jurisdictions. We observed that several key areas of the Province's amortization policies were consistent with other jurisdictions:

- All provincial governments, with the exception of Nova Scotia, use the straight line method to amortize their infrastructure assets;
- Four provincial governments, British Columbia, Quebec, Newfoundland and Labrador and Manitoba, amortize their bridges as a single asset over 40 years;
- All provincial governments, with the exceptions of Alberta and Newfoundland and Labrador, amortize their roads and highways on a component basis rather than as a single asset;
- Four provincial governments, British Columbia, Saskatchewan, Ontario and Manitoba, amortize their road beds over 40 years;
- With the exception of Alberta and Newfoundland and Labrador, the provinces amortize their road surfaces faster than Manitoba; and
- All provincial governments, including Manitoba, amortize their dams and water structures over 40 years or longer.

3.2 Infrastructure properly included only direct construction or development costs, indirect costs, overhead costs and capitalized interest directly attributable to the construction or development activity; however, the Government's calculations required adjustment as at April 1, 2004 for overstatement of $6.1 million.

The net difference between the $26.4 million understatement for survey and design cost, and the $32.5 million overstatement due to the use of incorrect CMS data, is $6.1 million NBV (cost - $37.9 million, accumulated amortization - $31.8 million) overstatement of the total $1.1 billion NBV of T&GS's infrastructure at April 1, 2004 (**Appendix A**).

- The Department of Finance made a presentation to senior financial officers of all the departments on the nature of infrastructure and the eligible costs. Each department was then responsible for identifying its infrastructure at April 1, 2004. Only four departments, T&GS, Conservation, Water Stewardship, and Aboriginal and Northern Affairs reported that they had infrastructure at April 1, 2004.
- In order to develop a methodology to determine the historical cost of infrastructure constructed before April 1, 2004, T&GS analyzed the costs incurred during the fiscal years from 1994 to 2002. T&GS used the information from their Construction Management System (CMS) to arrive

at an average percentage for their maintenance (Part A) and construction (Part B) programs for that period. Using CMS information, they were able to further determine an average expenditure rate for each of the major transportation infrastructure classes. The total construction and maintenance costs for the fiscal years 1960 to 1993 were derived from the departmental annual reports. The Part B rates for each infrastructure class were multiplied by the total construction costs to arrive at the historical cost of the various infrastructure asset classes.

Incorrect CMS Data Used

- Based on that methodology, T&GS were not able to use minimum capitalization thresholds as set out in the Government's accounting policy. However, we found that the cost of most T&GS projects exceeded the minimum thresholds and therefore the cost of the infrastructure recorded would not be significantly overstated.
- In applying that methodology, T&GS incorrectly combined Part A with Part B costs to arrive at the percentages of costs incurred for each of their major infrastructure classes. Part A costs should have been excluded. We recalculated the percentages for each infrastructure class using the appropriate CMS data and then recalculated the infrastructure balances for fiscal years 1960 to 1993. The effect of this error resulted in an overstatement of $32.5 million in the net book value (NBV) of T&GS's infrastructure (cost - $82.2 million, accumulated amortization- $49.7 million).
- For fiscal years 1994 to 2004, the actual CMS data was used to determine the amounts capitalized for each major transportation infrastructure class. T&GS properly calculated the infrastructure balances for fiscal years 1994 to 2004.

Survey and Design Costs

- T&GS did not capitalize any survey and design costs as part of their historical infrastructure at April 1, 2004. The data in the CMS did not make a distinction between survey and design cost which should be capitalized and the portion which should be expensed. Survey and design costs are often incurred for capital projects which would not proceed for several years or could be eventually cancelled. Survey and design costs must be incurred within two years of the start of project to be treated as part of the cost of infrastructure according to the Province's accounting policy. A historical analysis of survey and design cost was considered difficult by T&GS because of the number of work orders involved and the difficulty in determining if the survey and design cost related to a capital project which was started within two fiscal years of the costs being incurred.
- Based on the results for the year ended March 31, 2005, 54.4% of survey and design costs were incurred for infrastructure projects which will commence within two fiscal years. Using a capitalization rate of 54.4%,

T&GS estimated that the NBV of survey and design costs at April 1, 2004 was $26.4 million (cost - $44.3 million, accumulated amortization-$17.9 million). We estimated, based on our sensitivity analysis, that a 1% change in the capitalization rate used for the survey and design costs only has a $0.5 million effect on the NBV of the infrastructure.

- Conservation and Water Stewardship also used their annual reports to identify and cost their historical infrastructure as at April 1, 2004. A lack of information in their annual reports for the period from 1960 to 1980 impaired their ability to properly recognize the cost of all the infrastructure assets constructed during that period. They recorded the larger and highly visible infrastructure assets constructed during that period such as the Red River Floodway, the Shellmouth Dam and the Portage Diversion.
- At April 1, 2004, the cost of the existing Red River Floodway, net of the federal government contributions, was $32.8 million and the accumulated amortization was $19.3 million. The assets under construction for the floodway expansion at April 1, 2004, net of the federal government contributions, amounted to $2.1 million. The total net book value was therefore $15.6 million. This information was reported in the audited financial statement of the Manitoba Floodway Authority for the year ended March 31, 2004.
- The Departments of Conservation and Water Stewardship used a threshold of $500,000 for the capitalization of their historical infrastructure assets. This cut-off was done to reduce the amount of work required to identify and cost their historical infrastructure assets. The thresholds used by the Departments of Conservation and Water Stewardship are significantly higher than the amounts prescribed by the Province's accounting policies for infrastructure. The Province's threshold for the recognition of land improvements, dams and water structures is set at $100,000.
- We selected judgmentally a small sample of infrastructure assets recorded by Conservation and Water Stewardship; we vouched the records of the historical cost of the infrastructure to the departmental annual reports or other supporting documentation. We found that all the amounts recorded were valid infrastructure assets and there was adequate support for their historical cost.
- We reviewed the Estimates of Expenditures for the Departments of Conservation, Water Stewardship, and Aboriginal and Northern Affairs (or former departments) for the period from 1964 to 1980 and found no evidence of significant spending on projects than those already identified such as the Red River Floodway and the Portage Diversion.
- In the case of Aboriginal and Northern Affairs' Estimates, we also found reference to a federal -provincial government cost sharing agreement for infrastructure constructed in northern Manitoba. We found that this infrastructure was constructed on behalf of northern Community Councils (local governments) and is held in trust by the Province for the

Community Councils. This infrastructure, with an estimated cost (replacement cost) of $ 53 million (the $53 million figure also includes certain buildings), was not reflected in the Public Accounts as a trust liability.

- We found that because no fully amortized assets are recognized as April 1, 2004 and because of the misapplication of the Government's accounting policy regarding recording one half of annual amortization expense in the year of acquisition/construction, which resulted in the overstatement of accumulated amortization at April 1, 2004 noted below, assets in the amount of $47 million were not properly reflected in the cost of infrastructure reported as at April 1, 2004. These assets were treated as fully amortized at April 1, 2004 and therefore not reported.
- We found that all the capitalized costs met the definition of infrastructure according to the Government's accounting policy and infrastructure at April 1, 2004 properly includes direct construction or development costs, and overhead costs directly attributable to the construction or development activity. We also found that infrastructure was properly classified in accordance with the asset classes established in the Government's accounting policy.
- The infrastructure costs recorded by T&GS properly did not include any indirect overhead such as salaries and wages from the Finance and Administration branch of the department or the Minister's salary.
- It is the Province's accounting policy to capitalize interest where the projected cost of a project is expected to exceed $20 million before the asset is ready for productive use. There was no past or current project at T&GS that exceeded or was expected to exceed the $20 million threshold.

  We also found that the only project at Water Stewardship where it is likely that interest will be capitalized is the Red River Floodway expansion. Major construction and borrowings to finance the construction are expected to start in the summer of 2005.

Cost of Infrastructure properly recorded for the year ended March 31, 2005

- Starting April 1, 2004, T&GS capitalized survey and design costs for capital projects that will commence within two years. Survey and design costs were capitalized as assets under construction (AUC). Survey and design costs in the operating budget (Part A) were recovered from the capital assets - infrastructure budget (Part B).
- Based on our analytical review procedures, we found that the cost of infrastructure was properly recorded during the year ended March 31, 2005.

3.3 Infrastructure, with a limited life, is properly amortized over its useful life in a rational and systematic manner appropriate to its nature and use by the Province; however, the Province's calculations required adjustment.

Accumulated amortization recorded at April 1, 2004 required adjustment for an increase of $17 million

- We recalculated the accumulated amortization of 100% of T&GS' infrastructure assets recorded at April 1, 2004. For each asset class, we vouched the total accumulated amortization calculated to the balances recorded in general ledger accounts in SAP. We also selected a sample of 24 infrastructure assets and vouched the accumulated amortization at April 1, 2004 to the posted amounts in the Fixed Asset Management System module (SAP).
- We found that the accounting for the calculation of accumulated amortization as April 1, 2004 did not reflect the half year rule in the year of acquisition. The Province's accounting policy is to take one-half of the annual amortization in the year of acquisition. As a consequence, accumulated amortization as at April 1, 2004 was estimated to be understated by $13 million ($15 million for assets recorded by T&GS offset by $2 million for assets recorded by Conservation, Aboriginal and Northern Affairs and Water Stewardship).
- The errors we found regarding the cost of T&GS infrastructure also affected the calculation of accumulated amortization at April 1, 2004. The accumulated amortization overstatement (net of the effects for understatement for survey and design cost, and the overstatement due to the use of incorrect CMS data) was estimated at $31.8 million.
- For several historical infrastructure assets recorded by Conservation and Water Stewardship, we observed that the capitalization date used was often several years after the costs had been incurred. Conservation's and Finance's position is that these assets were under construction and thus amortization should commence only after the project was completed. However, we found that the nature and circumstances of the infrastructure assets involved indicated that the extended asset under construction period was likely not warranted. Examples include:
    - The Whiteshell Provincial Park land improvements was a project that began in 1982, however amortization did not begin until the year ended March 31, 1988.
    - One hundred percent of the capitalized cost for the Shellmouth Dam was incurred in 1969; however amortization of the asset did not begin until the 1973 fiscal year.
    - The Valley Town Dikes, which were betterments to the existing dikes of several communities, have capitalized costs from 1983 to 2002. The recorded date for the capitalization of the Valley Town Dikes was March 31, 1991.

- Information at Conservation and Water Stewardship as to the date when an asset was put in service was difficult to obtain and was often not available. Based on the results of our testing, we estimated the extrapolated error to be a $4 million understatement of accumulated amortization related to the infrastructure recorded by Conservation and Water Stewardship at April 1, 2004.

Amortization expense recorded for the year ended March 31, 2005 required adjustment for increase of $2 million

- We found that T&GS not recorded amortization expense on new infrastructure. (Conservation and Water Stewardship did not complete any new infrastructure in 2004/05). T&GS's construction period ends in October; however, the department did not record any amortization expense on these assets for the year ended March 31, 2005. This understatement of amortization expense is estimated at $1 million.
- In addition, the impact of the overstatement of the accumulated amortization of infrastructure recognized as at April 1, 2004 is that the amortization expense for the 2005 fiscal year is understated. We estimate the understatement at $1 million.

3.4 The financial statement presentation and disclosure of infrastructure are in accordance with GAAP.

- We reviewed the recommendations of the PSAB and of the CICA Research Report "Accounting for Infrastructure in the Public Sector" regarding financial statement presentation and disclosure (**Appendix B**).
- PSAB's standards related to infrastructure include a recommendation for the disclosure of deferred maintenance. Our value for money report on *Planning for Highway Construction, Rehabilitation and Maintenance* (Highways) issued in 1998 stated, *"Deferred maintenance, a.k.a. infrastructure deficit, is the difference between expenditures required to maintain the normal operating capacity of infrastructure and any lesser amount of maintenance and replacement actually incurred".*
- Based on the findings of the 1998 Highways report and the level of spending on maintenance and replacement since then, we found that it is likely that there is a significant deferred maintenance balance.
- We also noted that the Research Report included three recommendations which are not included in PSAB's standards. They are as follows:
  - Disclosure of the current depreciated [amortized] reproduction costs;
  - Information about a government's infrastructure management plan should be provided; and
  - Information about infrastructure condition should be provided.

- The Research Report defined current depreciated [amortized] reproduction cost as an inflation adjusted valuation using the cost to reproduce the asset reduced by accumulated depreciation (amortization) 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 supposed to reproduction cost which is defined as the cost to reproduce the asset in substantially the identical form.
- The Research Report also indicated that the infrastructure management plan (IMP), which includes information about infrastructure condition, should be made available for each major network of assets. An IMP is fundamental for providing information as to the effects of government decisions are having on the stock of infrastructure. An IMP would include:
  - the government's strategy that sets out the overall objective related to infrastructure;
  - an extensive description or inventory [of infrastructure];
  - life cycle needs and costs of the infrastructure network;
  - preventative strategies;
  - description of condition assessment models; and
  - overall condition of the infrastructure network.
- We compared all of these recommendations to the Province's revised financial statement presentation and disclosure and found that information regarding deferred maintenance, current depreciated [amortized] reproduction cost and the infrastructure management plan was excluded.
- The Government participated in a shared cost program with the Federal Government to construct infrastructure and other tangible capital assets for northern Community Councils. The Province holds title to these assets in trust for the northern communities until the Community Councils become municipalities. These trust assets were not disclosed in the Public Accounts.

Conclusions

- Infrastructure is recognized in the Operating Fund, in all material respects, as at April 1, 2004 and for the year ended March 31, 2005, in accordance with GAAP as recommended by the PSAB. However, there were certain misstatements related to the application of the Government's accounting policy which were adjusted when brought to the Province's attention.
- The combination of the following errors in the application of the Province's accounting policies results in a $24 million understatement of the net book value of infrastructure as at April 1, 2004.

- T&GSs' estimate of the cost of their infrastructure at April 1, 2004 was overstated by $38 million based on the $1.8 billion cost of assets capitalized. T&GS's estimate of the accumulated amortization of their infrastructure at April 1, 2004 was overstated by $32 million based on $792 million of accumulated amortization recorded. As a result of these errors, the net book value of infrastructure as at April 1, 2004 was overstated by $6 million.
- Conservation and Water Stewardship understated accumulated amortization (overstated net book value) by an estimated $4 million because of the use of inappropriate dates (year) marking when the infrastructure constructed before April 1, 2004 was first put in service.
- All four departments further understated both the cost of infrastructure by $47 million and accumulated amortization of infrastructure at April 1, 2004 by an additional $13 million (T&GS - $15 million, offset by the $2 million overstatement by Conservation, Water Stewardship and Aboriginal and Northern Affairs). This overstatement occurred because the calculation of accumulated amortization as April 1, 2004 did not reflect the half year rule in the year of acquisition. The Province's accounting policy is to take one-half of the annual amortization in the year of acquisition. This error results in the understatement of the net book value of infrastructure by $34 million.
- Furthermore, amortization expense for the year ended March 31, 2005 was also understated and the net book value was overstated because no amortization was taken in the 2005 fiscal year on new infrastructure. This incorrect application of the Province's accounting policy understated the 2005 fiscal year amortization expense and overstated net book value by $2 million.

• Manitoba's infrastructure accounting policy is in accordance with GAAP. Key aspects of Manitoba's accounting policy and practices are consistent with the accounting policies and practices used in other provincial jurisdictions and that the Government's accounting policy was appropriate regarding:

  - the cost components of infrastructure assets capitalized;
  - the major asset classes prescribed; and
  - the estimate of the useful life of the various asset classes and amortization methods used in relation to the nature and use of the key infrastructure.

  Furthermore, in accordance with the Government's accounting policy, capitalized assets also met the definition of infrastructure and were properly classified according to the prescribed asset classes.

OBJECTIVE 2

To determine whether there are effective internal controls supporting the proper accounting for infrastructure.

Findings

3.5 Internal controls and procedures are sufficient to ensure that infrastructure costs recorded are complete, accurate, and valid.

- We documented and tested the key processing controls at T&GS that ensure infrastructure costs are complete, accurate (valuation) and valid (exists) (**Appendix C**). We found that the internal controls and procedures are sufficient to ensure infrastructure costs are complete, accurate, and valid.

3.6 Internal controls and procedures to ensure that amortization expense is complete and accurate, need improvement.

- We documented and tested the key controls at T&GS that ensure amortization expense is complete and accurate (measurement) (**Appendix C**). Key controls include management and monitoring controls as well as processing controls. We found that internal controls and procedures are sufficient to ensure that amortization expense is complete and accurate for existing infrastructure.
- We found, however, that the internal controls regarding the recognition of the date(s) new infrastructure assets were put in service did not address the need to record new infrastructure by September 30 of the fiscal year. Their procedures need to ensure that all new assets put in service in the current year are recorded in the Asset Management Module by September 30. T&GS's procedures failed to ensure that roads and highways completed in the 2005 fiscal year (the costs were incurred and the work completed prior to October 31, 2004) were reflected as in service effective September 30 in accordance with the Province's accounting policy to record one-half of the annual amortization in the year of acquisition.

  The use of an inappropriate date recognizing when the assets were put in service resulted in the understatement of amortization expense for the 2005 fiscal year by an estimated $1 million.

3.7 Internal controls and procedures are sufficient to ensure that infrastructure is carried at the lower of net book value and the value of future economic benefits.

- We discussed the controls over write-downs/write-offs with management at T&GS. We found that the circumstances which would require the write off of an infrastructure asset are considered to be rare. A write off would happen only if a road was taken out of service or transferred to a local government (for nil proceeds). In either case, this event would only likely happen with infrastructure assets that were fully amortized and would also require ministerial approval. If a write off was required, the net book value of the infrastructure asset would be estimated. The cost and accumulated depreciation for the asset class by year would be adjusted in the Asset Management System module of SAP. We found that there were no write-downs/ write offs during the 2005 fiscal year.

Conclusions

- The Province's internal controls supporting the proper accounting for infrastructure were operating effectively for the year ended March 31, 2005 except for the internal control procedures related to the recognition of when new infrastructure is put in service.
- The internal controls related to the determination of amortization expense on new infrastructure were not effective. Amortization expense for the 2004/05 fiscal year was complete and accurate on existing infrastructure but was not properly calculated on new infrastructure because the dates used to reflect when the assets were put in service were incorrect. This failing resulted in no amortization expense being recorded on new infrastructure for the 2005 fiscal year. Transportation and Government will need to amend their procedures to properly record amortization expense on new infrastructure assets.
- For the year ended March 31, 2005, T&GS's internal controls and procedures were operating effectively to ensure that:
    - infrastructure costs recorded are complete, accurate, and valid; and
    - infrastructure is properly carried at the lower of net book value and the value of future economic benefits.

4.0 Recommendations

The following recommendations were implemented in the 2004/05 Summary and Special Purpose Financial Statements. Therefore no response from officials was needed.

- That the Operating Fund as at April 1, 2004, the cost of infrastructure estimated at $47 million which was treated as fully amortized and therefore not properly reported in the opening balances be adjusted to the opening April 1, 2004 balance.
- That the calculation of accumulated amortization of infrastructure as at April 1, 2004 incorporate the Province's accounting policy to take one-half of the annual amortization in the year of acquisition and that the $13 million overstatement of accumulated amortization be adjusted accordingly.
- That the calculation of amortization expense of infrastructure for the year ended March 31, 2005 be adjusted to reflect the Government's accounting policy to take one-half of the annual amortization in the year of acquisition and that the accumulated amortization is also adjusted accordingly. This cumulative adjustment is estimated at $2 million.
- That the disclosure of accounting policies for tangible capital assets be improved. The significant accounting policy note should be expanded to disclose what costs are capitalized and the basis of valuation of the assets.
- That the presentation of the tangible capital asset schedule be improved. Smaller (dollar value) asset classes should be combined together to accommodate expanded disclosure of the large transportation infrastructure classes.

The following recommendations have been put forward for the 2005/06 fiscal year:

- That note disclosure on deferred maintenance be added to the financial statements.
- That information on the infrastructure management plan (IMP) is included in the financial statements or in text of the annual report of the Public Accounts.
- That the infrastructure constructed on behalf of the northern Community Councils, estimated $53 million, be disclosed as a trust asset and liability in the Public Accounts for the year ended March 31, 2006.
- That T&GS as well as Conservation and Water Stewardship amend their procedures to record new infrastructure by September 30 of each fiscal year in order to permit the Asset Management Module of SAP to properly calculate the current year's amortization expense.

Response from Officials

The Government acknowledges that while deferred maintenance has been addressed in a Canadian Institute of Chartered Accountants (CICA) Research Report and that the Public Sector Accounting Board (PSAB) has encouraged the measurement of deferred maintenance, there is no requirement under GAAP to record or note disclose these amounts in the Public Accounts. As noted in the PSAB Handbook, section PS3150.43, "Governments may want to consider providing this information ... as supplementary disclosure in the notes or schedules to the financial statements." The recommendation will therefore be reviewed considering the needs of financial statement users and best practices in other jurisdictions.

This recommendation will be reviewed and any decision to implement or not will be made after considering the needs of financial statement users and best practices in other jurisdictions.

We will review the treatment of infrastructure constructed on behalf of northern Community Councils and, if appropriate, will reflect the amounts as trust assets and liabilities.

For the March 31, 2005 fiscal year, the application of the accounting policy was amended under the recommendation of the Auditor General and all new infrastructure assets were subject to six months amortization regardless of when it was put into service. As a result, this issue has been effectively addressed.

Appendix A

INFRASTRUCTURE RECORDED BY TRANSPORTATION AND GOVERNMENT SERVICES AT APRIL 1, 2004

Comparative Findings

T&GS - Per GL	Total Land	Buildings	Traffic	Bridges	Weighscales	Surfaces	Grade	Survey & Design	Total Grade	Airstrips	Total
Cost	133,875,594	150,000	12,429,545	289,512,082	396,220	785,320,092	615,618,970	-	615,618,970	8,929,000	1,846,231,503
Accumulated Depreciation	-	(52,500)	(5,952,356)	(115,138,355)	(188,569)	(403,636,432)	(260,924,552)	-	(260,924,552)	(6,524,868)	(792,417,632)
NBV	**133,875,594**	**97,500**	**6,477,189**	**174,373,727**	**207,651**	**381,683,660**	**354,694,418**	-	**354,694,418**	**2,404,133**	**1,053,813,871**

OAG	Total Land	Buildings	Traffic	Bridges	Weighscales	Surfaces	Grade	Survey & Design		Airstrips	Total
Cost	131,566,192	150,000	10,896,180	289,148,263	396,220	761,329,303	561,618,605	44,321,606	605,940,211	8,929,000	1,808,355,369
Accm Depreciation	-	(52,500)	(4,777,027)	(114,936,844)	(188,569)	(385,254,459)	(230,990,510)	(17,886,390)	(248,876,900)	(6,524,868)	(760,611,167)
NBV	**131,566,192**	**97,500**	**6,119,153**	**174,211,419**	**207,651**	**376,074,844**	**330,628,095**	**26,435,216**	**357,063,311**	**2,404,133**	**1,047,744,203**

Differences (T&GS - OAG)	Total Land	Buildings	Traffic	Bridges	Weighscales	Surfaces	Grade			Airstrips	Total
Cost	2,309,402	-	1,533,365	363,819	-	23,990,789	54,000,365	(44,321,606)	9,678,759	-	37,876,134
Accumulated Depreciation	-	-	(1,175,329)	(201,511)	(0)	(18,381,973)	(29,934,042)	17,886,390	(12,047,652)	-	(31,806,465)
NBV	**2,309,402**	-	**358,036**	**162,308**	**(0)**	**5,608,816**	**24,066,323**	**(26,435,216)**	**(2,368,893)**	-	**6,069,669**
NBV %	**1.76%**	**0.00%**	**5.85%**	**0.09%**	**0.00%**	**1.49%**	**7.28%**	**-100.00%**	**-0.66%**	**0.00%**	**0.58%**

PUBLIC SECTOR ACCOUNTING STANDARDS

Appendix B

Section PS 3150

Paragraph 41:

"Financial statements should also disclose the following information about tangible capital assets:

(a) the amortization method used, including the amortization period or rate for each major category of tangible capital asset;

(b) the net book value of tangible capital assets not being amortized because they are under construction or development or have been removed from service;

(c) the nature and amount of contributed tangible capital assets received in the period and recognized in the financial statements;

(d) the nature and use of tangible capital assets recognized at nominal value;

(e) the nature of the works of art and historical treasures held by the government; and

(f) the amount of interest capitalized in the period."

Paragraph 42:

"If a government has an accounting policy of capitalizing interest, disclosure of the amount of interest capitalized would assist readers of the financial statements to assess the impact of that policy on the government's reported results."

Paragraph 43:

"Governments are encouraged to measure the extent to which maintenance has been deferred on their material and complex network assets, such as highways. Governments may want to consider providing this information in their financial statements because it can add to the picture given of the financial condition of a government. Deferred maintenance information, like information on contractual obligations and contingencies, is useful for understanding and assessing future revenue requirements and could be presented as supplementary disclosure in the notes or schedules to the financial statements."

Section PS 1200.061

"The financial statements should disclose, for each major category of tangible capital assets and in total:

(a) cost at the beginning and end of the accounting period;

(b) additions in the period;

(c) disposals in the period;

(d) the amount of any write-downs in the period;

Appendix B
(cont'd.)

(e) the amount of amortization of the costs of tangible capital assets for the period;

(f) accumulated amortization at the beginning and end of the period; and

(g) net carrying amount at the beginning and end of the period. [APRIL 2005]"

CICA Research Report "Accounting for Infrastructure in the Public Sector" (2002) excerpt:

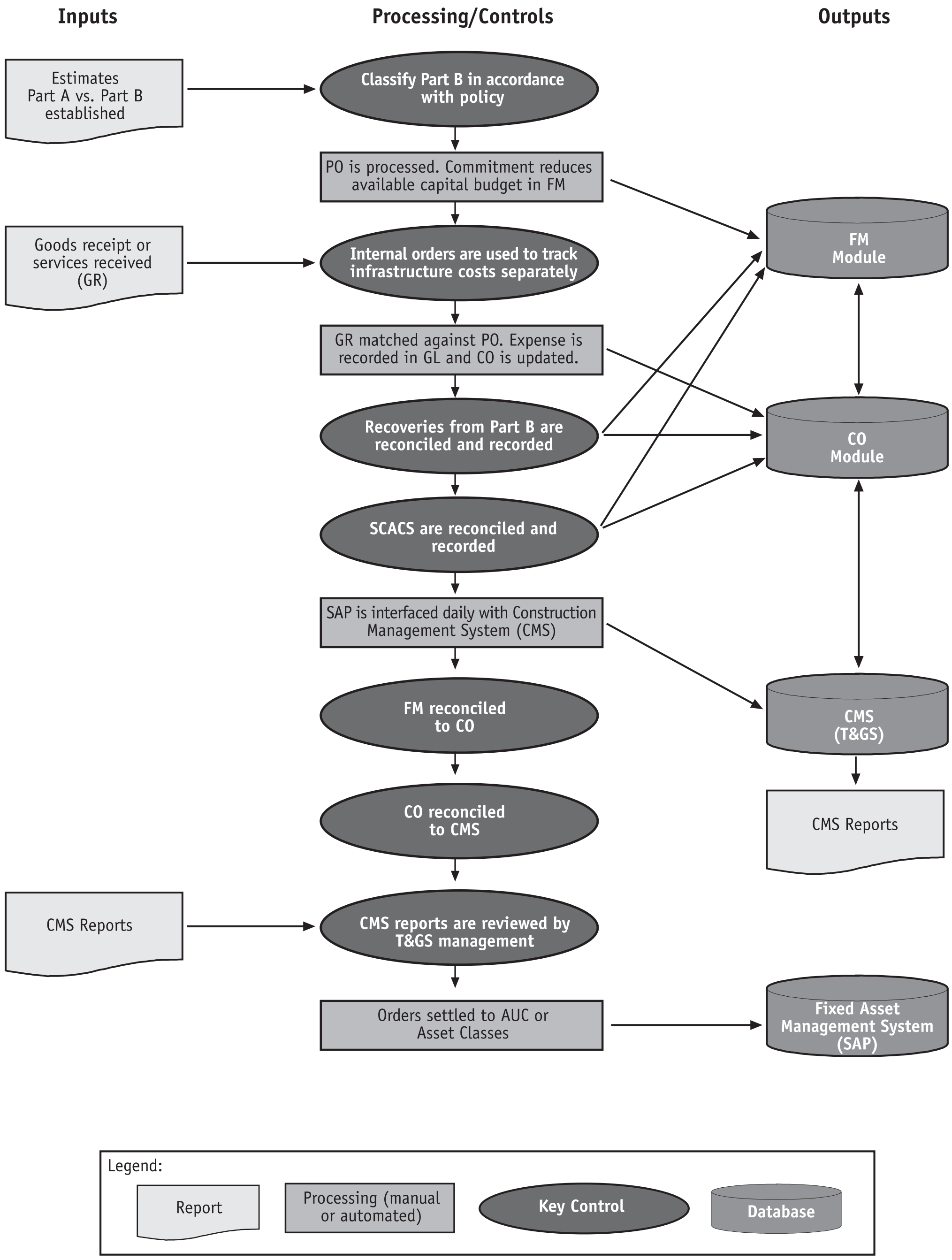
"Summary of Findings

The Study Group concluded that

- *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; and*
- *Information about a government's infrastructure management plan should be provided."*

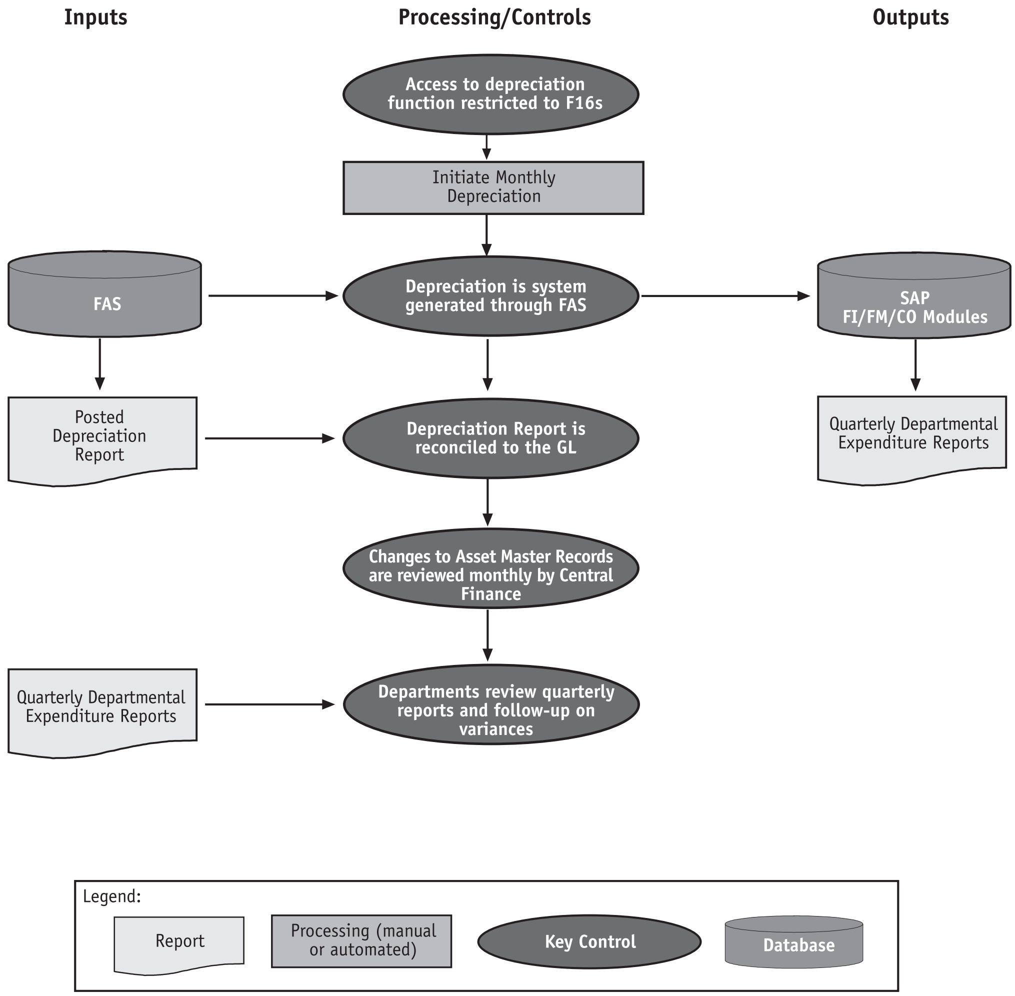
Appendix C

Infrastructure Project
Flowchart and Key Controls - Costs Accumulation at T&GS
December 31, 2004



Appendix D

Infrastructure Project
Flowchart and Key Controls - Depreciation
December 31, 2004



THE USE OF DERIVATIVE FINANCIAL INSTRUMENTS IN THE PROVINCE OF MANITOBA

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Executive Summary

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are *"financial arrangements between parties whose payments or value is derived from the performance of some agreed-upon, underlying benchmark. Derivative financial instruments (derivatives) can be issued based on currencies, commodities, government or corporate debt, home mortgages, stocks, interest rates weather, or any combination."* Some examples of derivatives include swaps (currency and interest rate) and forward contracts (see Glossary of Terms - **Appendix B**).

Derivatives can be used to increase the return on an investment and/or to hedge against (reduce) the risk of loss. The Province of Manitoba (the Province) uses derivatives in managing the Province's debt (borrowings) and investment portfolios.

OBJECTIVE OF REVIEW

The focus of our review was to determine whether the Province has a risk management process (derivative risks include management, market, legal, credit, and operational risk) in place, and whether that risk management process used by the Treasury Division with respect to derivatives (with respect to debt and investments) is consistent with industry best practices.

Our review of the risk management process regarding the use of derivatives was a review of only one component of the overall risk management process used by Treasury Division and the Department of Finance.

BEST PRACTICES OUTLINED

In broad terms, industry best practices define the risk management process as involving a number of activities and assigned responsibilities including:

- The strategic identification of objectives, along with the risks in achieving those objectives (Management in conjunction with, and approval by an Oversight Body);
- The development and action on a strategy to address the identified risks (Management);
- The development of policies and procedures for the conduct of its activities (Management);
- The establishment of benchmarks against which to measure its performance (Management in conjunction with, and approval by an Oversight Body);
- Monitoring of performance and compliance with policies and procedures (Management); and
- Oversight of management's activities (Oversight Body).

BACKGROUND

The Treasury Division of the Department of Finance manages the use of derivatives. In July, 2003, the Division began a reorganization process to realign their operational structure in accordance with industry best practices. The reorganization created a **front office, middle office** and **back office**. Generally speaking, the offices are assigned responsibilities as follows:

- **Front office** is responsible for market analysis, and recommending and executing trading activity related to debt and investments including master agreements with derivative counterparties.
- **Back office** is responsible for the settlement and confirmation of the trades as well as the accounting and financial reporting functions.
- **Middle office** is responsible for policy development, monitoring and reporting compliance with policies and procedures, and risk and performance measurement and reporting.

GENERAL CONCLUSIONS

The Province has a risk management process for derivatives in place, but as indicated in the general conclusions below, and in the details contained in this report, there are areas that need to be addressed to ensure that this process is operating consistent with industry best practices with respect to management, market, legal, credit, and operational risks.

- The Department of Finance and its Treasury Division **have not formally documented their overall strategic objectives, a strategy on how to achieve those objectives, the strategy on how to identify the risks (risk identification), and the risk of achieving the strategic objectives (risk management strategy)**. Nevertheless, the Division has a working definition of its objectives, risk identification and risk management strategy. The Department and the Division use derivative financial instruments as one mechanism to implement that strategy.
- The **Treasury Division's objectives, risk identification and assessment, and risk management strategy have not been approved**. While there is a Derivative Policy statement, it also has never been approved. We believe that an oversight body should be involved in that approval process.
- **Treasury Division developed a risk management policy referred to as the Derivative Policy. The Derivative Policy is part of the Division's overall Risk Management Policy which is still under development.** We determined that the risk management process to address key risks involving the use of derivatives which include management, market, legal, credit, and operational risks, was generally consistent with industry best practices. However, we have a number of recommendations regarding the controls and procedures addressing operational risk as well market and credit risks.

- We believe that **what constitutes acceptable levels of risk and risk limits need to be documented in a risk management policy statement**. Similarly, there is a need for more documentation of the due diligence process regarding the deliberations and decisions to use derivatives. Additional documentation would provide more adequate audit trails of transactions.
- Because the **Middle Office is still under development and therefore not fully functional**, the risk management process for the Treasury Division as a whole is not fully developed. We recommended that the Department of Finance consider allocating more resources in order to complete the development of the Middle Office's functionality in the near term.
- We believe that the **oversight function should be expanded**. There is no governance equivalent to a board of directors in place to establish the strategic objectives and to set out a broad framework for management to work within and provide oversight. An oversight committee should receive timely and sufficient information to oversee the Treasury Division's activities. In the current organizational structure, the Capital Markets Committee is the senior committee overseeing the risk management process regarding the use of derivative financial instruments. No minutes are recorded at the Committee's meetings and therefore there is no audit trail documenting the Committee's deliberations and decisions.

1.0 Introduction

Derivative financial instruments are *"financial arrangements between parties whose payments or value is derived from the performance of some agreed-upon, underlying benchmark. Derivative financial instruments (derivatives) can be issued based on currencies, commodities, government or corporate debt, home mortgages, stocks, interest rates weather, or any combination."* Some examples of derivatives include swaps (currency and interest rate) and forward contracts.

Derivatives can be used to increase the return on an investment and/or to hedge against (reduce) the risk of loss. The Province of Manitoba (the Province) uses derivatives in managing the Province's debt (borrowings) and investment portfolios. We conducted this review because of the nature and extent of the Province's use of derivative financial instruments and because of the risks associated with the use of derivatives.

Sections of the Auditor General Act Granting Authority to Conduct the Audit

> ***Audit of Government Accounts***
> *9(1) The Auditor General is the auditor of the accounts of the government, including those relating to the Consolidated Fund, and must make any examinations and inquiries that he or she considers necessary to enable the Auditor General to report as required by this Act.*
>
> ***Audit of the Public Accounts***
> *9(3) The Auditor General is responsible for examining and auditing the financial statements included in the Public Accounts under The Financial Administration Act, and any other statements the Minister of Finance presents for audit.*

1.1 OBJECTIVE, SCOPE AND APPROACH

Objective

The objective of our review was:

> To determine whether the Province has a risk management process (derivative risks include management, market, legal, credit, and operational risk) in place, and whether that risk management process used by the Treasury Division with respect to derivatives (with respect to debt and investments) is consistent with industry best practices.

Our review of the risk management process regarding the use of derivatives was a review of only one component of the overall risk management process used by Treasury Division and the Department of Finance.

Scope

We examined the risk management process regarding the use of derivatives that was in place during the period of April 1, 2003 and December 31, 2004, and also included an examination of all types of derivative instruments used by the Province during the period of April 1, 2003 and December 31, 2004.

Our work was substantially conducted between January and March, 2005. The fieldwork took place at the Treasury Division offices of the Department of Finance.

Our review did not include an examination of:

- The risk management process that relates specifically to other activities of the Treasury Division such as investing or financing activities.
- The general information technology controls. The general information technology controls of the Province are examined as part of the audit of the Public Accounts; and
- The human resource processes of recruitment, remuneration, training, and evaluation of staff. Our examination of human resources was limited to a review of the organizational structure and an evaluation of the segregation of duties.

Internal Audit and Consulting Services of the Department of Finance had not conducted any audits on the use of derivatives and therefore this review did not consider any reliance on their work.

Approach

Our work included such tests and other procedures as we consider necessary in the circumstances. We conducted research, reviewed documentation, and conducted interviews as follows:

- obtained information on industry best practices on the risk management process for the use of derivatives by engaging a consultant;
- reviewed the work flow analysis resulting in a process flowchart;
- reviewed minutes of Capital Markets and Risk (Credit) Committees' meetings;
- reviewed Treasury Division files and records relating to derivative transactions (one transaction per quarter for the period under review);
- performed an internal control system walkthrough;
- tested the effectiveness of internal controls in a sample of derivative transactions;
- tested the accuracy and completeness of information included in a sample of management reports; and
- interviewed various Treasury Division staff.

We developed our review criteria using the following sources:

- COSO Internal Control-Integrated Framework - Committee of Sponsoring Organizations of the Treadway Commission 1992.
  - Internal Control Issues in Derivatives Usage: An Information Tool For Considering the COSO Internal Control-Integrated Framework in

Derivatives Applications - Deloitte and Touche LLP.

- The IIA Handbook Series - The Institute of Internal Auditors.
  - Auditing Derivative Strategies - Barbara Davison, CIA, CISA, FLMI.

We engaged a consultant to assist us in developing a review program, and in researching and understanding what constitutes industry best practices regarding the risk management process involving the use of derivatives.

In July 2003, Treasury Division of the Department of Finance was reorganized into a front-middle-back office structure: **Front Office** –trading; **Back Office** - processing of transactions accounting, and reporting; and **Middle Office** - risk management.

A report issued in February 2004 by the consultant hired by the Province to review its organizational structure made recommendations regarding the implementation of a middle office. Treasury Division is in the process of implementing the recommendations from that report. The resulting changes that affect the derivatives risk management process have been considered in our review. Recommendations that did not directly relate to the risk management program concerning derivatives were not considered during our review.

2.0 Background

2.1 LEGISLATIVE AUTHORITY FOR THE USE OF DERIVATIVES

The Financial Administration Act (Act) provides the authority to borrow on the credit of the government and provides for the use of derivatives under section 10(1). Excerpts of the Act follow:

> ***Authority to raise money***
> *50(1) When this or any other Act of the Legislature confers on the government the power to raise money on the credit of the government, the Lieutenant Governor in Council may by Order authorize the Minister of Finance or may designate and authorize an officer of the Department of Finance to raise money to a specified maximum amount on the credit of the government.*
>
> ***Manner of raising money***
> *50(2) An Order of the Lieutenant Governor in Council under subsection (1) authorizes the Minister of Finance or designated officer to raise money by way of loan in any of the following ways:*
>
> *(a) by the issue and sale of provincial securities;*
> *(b) from a bank, trust company, credit union or other financial institution;*
> *(c) in any other manner.*
>
> ***Powers re raising money***
> *50(3) When the Minister of Finance or designated officer raises money by the issue and sale of provincial securities, he or she may determine*
>
> *(a) the principal amount of the provincial securities to be issued;*
> *(b) the rate of interest payable and the rate of any premium or discount*

applicable on the provincial securities;
- *(c) the currency in which the principal amount of the provincial securities and any interest or premium are payable;*
- *(d) the sale price of the provincial securities;*
- *(e) the form, denomination and dates of issue and maturity of the provincial securities; and*
- *(f) any other terms and conditions of the provincial securities.*

Terms and conditions of securities
50(4) The terms and conditions of provincial securities may include any provision that in the opinion of the Minister of Finance or designated officer is necessary or advisable to facilitate the sale of the provincial securities, including, without limiting the generality of the foregoing, a provision that

- *(a) the interest rate payable on the provincial securities or the amount of principal payable at maturity be calculated and paid with reference to the value of a share or commodity or with reference to an index or some other basis;*
- *(b) the provincial securities may be redeemed before maturity at the option of the government or the holder; or*
- *(c) the holder of the provincial securities be reimbursed by the government for withholding taxes, duties, assessments or charges imposed by law on or with respect to a payment under the provincial securities by the government to the holder.*

Financial agreements
10(1) The Minister of Finance may enter into and execute agreements or engage in activities of a financial nature respecting the investment of public money or the management of the public debt including, without limiting the generality of the foregoing, agreements for management of risks relating to currency, interest rates and other matters, swap agreements, futures agreements, option agreements and rate agreements.

2.2 TREASURY DIVISION MANDATE/MISSION

Treasury Division Mandate and Vision/Mission Statements are currently in draft form (pending approval) as follows:

Treasury Division's *Mandate* is:

- *Manage the borrowing programs of the government and its agencies;*
- *Develop and maintain the debt management program of the government;*
- *Manage the cash resources and investment activities of the government and its agencies;*
- *Service the debt of the government; and*
- *Manage the banking operations of the government.*

Treasury Division's *Vision/Mission* is:

- *Maintaining the exceptional reputation of the Province of Manitoba in the global marketplace is the primary goal of the Treasury Division, and,* *therefore, that of each of the employees within the Division.*

- *Employees fulfill that responsibility in their regular contact with financial institutions, regulatory and rating agencies as well as the general public in order to ensure the Province's integrity and reputation is maintained.*

2.3 TREASURY DIVISION PROGRAM SERVICES

Treasury Division manages and administers the cash resources, borrowing programs, and all investment and debt management activities of the government. It also manages the borrowing programs and investment activities for all of its Crown corporations and government agencies. Treasury Division assists in the financing of municipalities, schools and hospitals and it is the Division's responsibility to ensure that such financing is arranged.

The Treasury Division uses derivatives to support the achievement of Treasury Division strategies and objectives. Treasury Division will execute derivative transactions consistent with the specific liability and investment objectives approved by management.

2.4 PROGRAM DELIVERY STRUCTURE

Treasury Division, under the Deputy Minister of Finance, is divided into four functional areas:

- **Administration** - Responsible for the general management of the Division and for providing advice to the Minister and Deputy Minister on all policy and program matters of a financial nature.
- **Capital Markets (designated Front Office)** - Responsible for managing and administering the cash resources, borrowing programs, and all investment and debt management activities of the government including managing the borrowing programs and investment activities for all of its Crown corporations and government agencies.
- **Risk Management and Banking (designated Middle Office)** - Responsible for the effective measuring, monitoring and reporting on the Division's market, credit, operational and liquidity risks ensuring compliance with predetermined rules and regulations.
- **Treasury Services (designated Back Office)** - Responsible for servicing & administering the public debt of the Province as well as servicing and safekeeping the investments of the Province and certain Crown corporations and government agencies.

In addition to the functional areas, Treasury Division has five committees with different responsibilities:

Executive Management Committee

- Meets monthly to discuss matters relating to personnel, operations, planning, budgeting, information technology, legislation and administrative matters so as to maximize the use of all resources provided to the Treasury Division, prioritize activities and ensure effective and efficient delivery of treasury functions.

Capital Markets Committee
- Meets weekly to review world capital markets, investment and foreign currency markets and ensures that Treasury management and professional staff are conversant with current events and expectations respecting these markets. The Committee is responsible for the tactical execution to achieve Treasury Division's risk management objectives.

Risk Committee (formerly Credit Committee)
- Meets quarterly to review the financial status and exposure to individual financial institutions, establishes approved lists of financial counterparties as well as limits for exposure to individual financial institutions, reviews documentation standards for financial agreements, and assesses the risks related to investment classes and transactions. Responsible for the risk oversight function of the Treasury Division ensuring that policies, processes, procedures and controls are properly documented and that they are consistently communicated to staff and understood by everyone responsible for their implementation and monitoring.

Operations Committee
- Responsible for implementing processes and procedures to minimize operational risk and ensure the smooth running of the day to day operations of the Division. Meets monthly to discuss matters relating to operational policies and procedures, business and staff continuity planning, and, system and reporting issues. This Committee addresses issues affecting the daily operations of the Treasury Division and proposes solutions leading to an efficient and effective workplace. It is responsible for monitoring and coordinating all processes and procedures relating to treasury operations.

2.5 SIGNIFICANT RECENT CHANGES TO THE PROGRAM

In July 2003, Treasury Division was reorganized into a front-middle-back office structure. This resulted in the amalgamation of all trading activities and the development of a segregated middle office with new roles and responsibilities to measure, monitor, and report on the Treasury Division's financial risks and exposures.

To assist the Treasury Division with the design and implementation of the middle office, the Province engaged a consultant to provide a 'middle office blueprint' indicating appropriate structure, practices, controls, and information flows. The report was provided to the Division in February 2004 and the implementation of the recommendations is ongoing.

The number of derivative financial instrument agreements administered by the Treasury Division has increased since 1999. **Figure 1** indicates the approximate number of debt issues and investments which had associated derivative financial instrument agreements outstanding in each fiscal year.

FIGURE 1

	1999	2000	2001	2002	2003	2004
Debt issues	125	160	About 150	About 250	266	270
Investments	130	162	>150	About 150	150	122
Total	255	322	300	400	416	392

3.0 Conclusions and Findings

THE OBJECTIVE

To determine whether the Province has a risk management process (derivative risks include management, market, legal, credit, and operational risk) in place, and whether that risk management process used by the Treasury Division with respect to derivatives (with respect to debt and investments) is consistent with industry best practices.

WHAT WE CONCLUDED

The Province has a risk management process for derivatives in place, but as indicated in the conclusions below, and in the details contained in this report, there are areas that need to be addressed to ensure that this process is operating consistent with industry best practices with respect to management, market, legal, credit, and operational risks.

The Treasury Division has a working definition of its objectives, risk identification and a strategy to address the risks faced by the Division in achieving its goals, in accordance with industry best practices. The implementation of their strategy incorporates the use of derivative financial instruments (derivatives). However, Treasury Division of the Department of Finance has not documented their objectives, risk identification and strategy using that terminology or framework.

- The Treasury Division's Derivative Policy identifies the key risks associated with the use of derivatives. This Derivative Policy is modeled after an illustrative policy example in the publication Internal Control Issues in Derivatives Usage: An Information Tool For Considering the COSO Internal Control-Integrated Framework in Derivatives Applications - Deloitte and Touche LLP.
- The Derivative Policy clearly defines intent and activities; it also generally specifies the types of authorized derivatives and inappropriate uses of derivatives are identified. However, the Division needs to establish more clearly within the Derivative Policy the acceptable levels of risk and specify risk limits.
- It is management's intention that the Derivative Policy will form part of the Division-wide Risk Management Policy which has not yet been completed. This Risk Management Policy will outline the Division's

structure, controls, roles and responsibilities, measurement and reporting guidelines. Accompanying the Division-wide Risk Management Policy is the restructuring of the Division including the implementation of a middle office function. We noted that the implementation of the middle office is also not complete. That functionality is integral to the full development of an effective Division-wide risk management process which includes the risk management process affecting the use of derivatives.

- Risk management procedures and controls over the use of derivatives need improvement in certain areas. The procedures and controls addressing operational risk could be enhanced for the initiation of transactions and the execution of transactions. Risk management procedures and controls related to market risk could be expanded as well by developing sensitivity analysis to separately evaluate market risk for derivatives. Risk management controls and procedures effectively address legal risk and generally address credit risk.
- Certain key controls were in effect during the period under review which also included the period in which the Treasury Division began its reorganization to a front office, middle office and back office structure. However, monitoring controls need strengthening and exception reporting should be standardized.
- Governance practices in the risk management process should be enhanced. The oversight function at an oversight level needs to be expanded and the Risk and Capital Markets Committees could enhance their risk management processes as well. The Risk Committee could consider meeting monthly instead of quarterly and Capital Markets Committee should record minutes of the weekly meetings. Both Committees should maintain formal records of meeting agendas and material submitted for review.

WHAT WE FOUND

3.1 OBJECTIVES, RISKS AND STRATEGY IDENTIFICATION - The Division's objectives are established, key risks are identified and a risk management strategy is developed

- In the absence of an approved document stating the objectives of Treasury Division, we were unable to directly link documented objectives of the Department of Finance to documented objectives of the Treasury Division. However, based on our review of Treasury Division's operations including interviews with senior management, we determined that their implied objectives are:
  - Ensuring sufficient cash resources are available to meet the financing needs of the government reporting entity through the management of the borrowings program and investment activities; and

- Managing public debt expense within the budgeted amounts set out in the annual Estimates of Expenditure.

Both of these implied objectives are linked to the objectives set for the Department of Finance and the Government.

- The risks that the Treasury Division faces in achieving its objectives are interest rate risk, exposure to foreign currency fluctuations and to some extent, the capacity of capital markets. The Treasury Division developed a strategy to address these risks, which is to use both fixed and variable interest rate debt instruments and to eliminate exposure to foreign currency fluctuations. The Treasury Division addressed the risk of the capacity of capital markets by developing the strategy of maintaining its presence in the capital market place including using both short-term and long-term strategies. Treasury Division implemented these strategies partly through the use of derivative financial instruments. As well, there are risks associated with derivative financial instruments.

- The risks associated with using derivative financial instruments (derivatives) include:

  - **Credit risk** - the risk of counterparty defaults on the derivative contracts. This risk is addressed through identifying a minimum credit rating acceptable for dealing with a counterparty, and by setting counterparty credit limits to establish the maximum exposure for a counterparty.

  - **Legal risk** - the risk that the counterparty's performance obligations (legal contracts) are unenforceable. This risk is addressed through the use of agreements developed in accordance with the standards set by the International Swaps and Derivatives Association (ISDA).

  - **Market risk** - the risk associated with a change in a derivative contract value due to an adverse movement in price, index or interest rate; the risk that changes in the market will adversely affect the value of a derivative. This risk is addressed by monitoring counterparty exposures against acceptable limits.

  - **Management risk** – the risk that management is ineffective in overseeing the risks associated with the use of derivatives. This risk is addressed by the setting of objectives, strategies, policy and procedures, and performing the oversight function-monitoring of compliance with policy and procedures and measuring the achievement of objectives and the effectiveness of the strategies employed to achieve the objectives.

  - **Operational risk** - the risk that errors occur in the processing of transactions as a result of deficiencies in the system of internal controls. This risk is addressed by establishment of appropriate policies and procedures, segregation of duties between the initiating/authorizing of transactions, and the settlement, processing and recording of transactions.

3.2 OBJECTIVE LINKAGE - The Treasury Division's objectives are linked to the Department of Finance's objectives

- As a result of the restructuring of Treasury Division and the implementation of the consultant's recommendations, the Treasury Division is drafting a document which will state its mandate, vision/mission, role/objective, new organizational chart, accountabilities/responsibilities, activities, and committees. For the period under review, this document had not been finalized. According to the minutes of the March 17, 2005 management meeting to discuss the ongoing implementation of the consultant's report, finalization of this document is receiving immediate priority.

- We reviewed the Department of Finance's 2004 annual report and noted the overall responsibilities of the Minister and the Department included:

  - Managing daily cash requirements, the public debt, the investment of public money, and of loans and advances made, and guarantees given, by the government.
  - Insuring government assets and managing risk; and
  - Fostering business and consumer confidence in the marketplace and administering a regulatory framework that contributes to a competitive Manitoba economy.

- We also reviewed the Treasury Division's Derivative Policy to determine if strategies, operating plans and policies are linked back to the broad objectives. We found confirmation that there is a linkage as follows:

  - The Division's Derivative Policy states that, "Treasury Division will execute derivative transactions consistent with the specific liability and investment objectives approved by Management".

3.3 RISK IDENTIFICATION - Risk identification and measurement is an ongoing process

- We reviewed the Division's Derivative Policy to evaluate the adequacy of the Division's identification and understanding of risks resulting from business activities. We found that in the Derivative Policy, business risk is defined as "...*the quantifiable or identifiable risk relating to normal Capital Markets operations and to activities that are a by product of the normal activities of the Province that relate to the management of provincial debt including financing and debt servicing. Such risk is necessary to the management of provincial debt of the Province and cannot be avoided without the Province incurring substantial economic disadvantage to the province"*.

- The Derivative Policy contains a section on risk identification which states that the capital markets and risk management (formerly credit) committees are charged with ensuring the procedures are in place to identify and assess all risk exposures to the Province and to manage those exposures within tolerable limits. Business exposures that have been identified but are not limited to:

- Interest rate risk inherent in maintaining the debt portfolio;
- Foreign currency risk from financing activities outside Canada;
- Credit risk;
- Transactional risk;
- Legal risk;
- Liquidity risk; and
- Operational risk.

- We conducted interviews and discussions with management to determine what process was in place to identify and document identified risks. Based on discussions with management, during the period of our review, we found that the Treasury Division had begun the process of implementing the recommendations in their consultant's report.
- Risk evaluation and measurement were identified as key roles for the middle office in the consultant's report. The report recommended that the middle office develop risk evaluation frameworks and methodologies to identify and assess the risk within Treasury Division.
- Treasury Division has formed a committee to oversee the implementation of the recommendations in consultant's report which meets to discuss progress and priorities. At the meeting on March 17, 2005, the status of recommendations was discussed, and it was reported that information is being collected for inclusion in a Risk Management Policy which will outline structure, controls, roles and responsibilities, measurement and reporting guidelines.

3.4 RISK MANAGEMENT STRATEGY - Risk management strategy employed addresses the identified risks

- Although the Treasury Division's risk management strategy is not documented and therefore not approved, we found that the strategy implemented does clearly address the identified risks. The overall strategy used to address interest rate risk and foreign currency fluctuation exposure is to have both fixed and variable interest rates on debt and investments and to eliminate the exposure to foreign currency fluctuations. This strategy is implemented by using derivatives and by maintaining the Province's position in the capital markets through refinancing a certain amount of debt annually.
- As identified in the Derivative Policy, the Treasury Division has defined its risks to achieve its objectives as interest rate risk and foreign currency fluctuation exposure. To address these risks, Treasury Division has implemented a risk management strategy whereby interest rates of the debt portfolio of the Operating Fund should be within a defined percentage of fixed and variable interest rates. The current strategy also requires the reduction of foreign currency fluctuation exposure to nil.
- Another risk that was not identified in the Derivative policy is the capacity of capital markets. The Division addresses this risk with short

and long term strategies such as maintaining a presence in the capital markets by refinancing $1.0 - 1.5 billion of debt annually.

- The strategy to manage interest rate and foreign currency risk is implemented using derivatives. As well, in part, maintaining an active presence in the capital markets also involves using derivatives.

3.5 RISK MANAGEMENT STRATEGY -
Risk Management Strategy is not documented

- For the period under review, Treasury Division did also not have an approved statement of activity level objectives. However, the middle office was developing a mandate document that would provide a clear statement of these objectives. This document will come into effect when it is approved by the Risk Committee.

- For the period under review, Treasury Division did not have formally documented strategies. However, through discussions with staff and management, it was apparent that there was a general understanding of strategies used. Having no documented strategies is contrary to their Derivative Policy which does address the need for clearly stated policies. The Derivative Policy states that the duties and responsibilities of the Capital Markets and Credit (Risk) Committees include: *"...ensuring that policies, strategies, procedures, and controls are fully documented in writing, clearly and unambiguously, and that they are consistently communicated to and understood by everyone responsible for their implementation and monitoring"*.

3.6 RISK MANAGEMENT POLICY -
Risks associated with using derivatives are identified in the Derivative Policy

- We reviewed the derivative policy to determine if risks associated with derivatives are identified.

- The Overview section states:

  "Risks associated with derivatives include market, credit, liquidity, as well as various other risks described below. In addition to these technical risks, there is the fundamentals risk that the use of these products may not be consistent with Divisional objectives.

  This Derivative Policy is intended to provide adequate assurance that necessary controls are in place and the derivative use will support the achievement of Divisional strategies and objectives."

- The Risk Identification section of the Derivative Policy includes:

  "In addition to the interest rate and foreign exchange risks associated with financing and investing activities, the risk identification area of the policy identifies credit risk, transactional risk, legal risk, liquidity risk, and operational risk as key risks. These key risks are applicable to the use of derivative financial instruments."

- Expectations of Treasury Division states:

  "Treasury Division is expected to understand fully the extent to which their decisions and actions expose the Province to risk. Any activities that are not related to the Province's normal business activities and have the effect or potential of increasing risk generally will be avoided."

- Counterparty Risk:

  "The Province will enter into a derivative agreement only with counterparties that are currently rated AA low or better or the equivalent rating by recognized rating agencies as approved by the Credit Committee or are Canadian Schedule A banks.

  Where the counterparty is rated AA mid or higher, no term restrictions will be placed on the counterparty. Should the counterparty have a credit rating of AA minus; the Province will require a one-way option to terminate at 5 years. Canadian Schedule A banks will not be required to agree to the one way termination clause.

  With the exception of the Canadian Schedule A [Schedule I] banks the Province generally will review any derivative transaction if the counterparty's credit rating is downgraded to A high. Appropriate steps will be taken to minimize risks if any counterparty's credit rating is downgraded below A high. Such steps may include obtaining collateral or some other acceptable form of credit enhancement, or terminating the transactions. The Credit Committee will be notified of all credit downgrades. The Credit Committee must approve the actions proposed to be taken with respect to a transaction in which any counterparty's credit rating is downgraded below A high.

  The Province will not enter into a new derivative transaction with a counterparty if the new transaction will result in credit exposure exceeding limits specified by the Credit Committee."

- The Derivative Policy, includes under the duties of the Credit Committee:

  "Ensuring that all personnel responsible for the Province's involvement with derivatives are suitably qualified by training and experience to fulfill their responsibilities."

3.7 DERIVATIVE POLICY -

Derivative Policy clearly defines intent and activities

- The first section of the Division's Derivative Policy provides an effective overview of the policy which clarifies the intent of the policy. The first section states that:

  "Derivatives are financial contracts that derive their value from the performance of underlying assets such as a stock, bond, physical commodity, interest or currency exchange rates, or a variety of indices.

  Derivatives include a wide assortment of financial contracts, including swaps, futures, forwards, options, caps, floors and collars, whose values are derived based on defined formulas that apply to notional amounts.

Derivatives can also include certain assets and liabilities whose value and cash flows are directly determined by an underlying instrument or index.

Risks associated with derivatives include market, credit, liquidity, as well as various other risks described below. In addition to these technical risks, there is the fundamentals risk that the use of these products may not be consistent with Divisional objectives.

This Derivative Policy is intended to provide adequate assurance that necessary controls are in place and the derivative use will support the achievement of Divisional strategies and objectives."

- The Derivative Policy contains a section which provides definitions of some key terms which are used in the policy. It provides the following definitions of terms: Risk Management, Business Risk, Speculative Risk, and Hedging. Consistent with the recommendation of the COSO report, the use of definitions will assist in avoiding possible misunderstanding and confusion about the intent of the policy and the use of derivatives.

3.8 RISK LEVELS AND LIMITS - Risk levels and limits need to be clearly specified in the Derivative Policy

- We reviewed the Treasury Division's Derivative Policy to determine if the use of derivatives to manage risks is based on the assessment of risks, and is expected to manage the risks effectively.
- The Risk Management Objectives section in the Derivative Policy states:

  "Treasury Division will execute derivative transactions consistent with the specific liability and investment objectives approved by Management. For example the debt portfolio should be maintained with fixed - and variable - rate debt established by the Capital Markets Committee, to diversify the impact of interest rate changes on the public debt expenditure and on cash flows relating to interest payments. The Capital Markets Committee may also decide to give more weight to the effect on cash flow from potential changes in interest rates than on the changes in the market value of the portfolio."
- The Risk Measurement section in the Derivative Policy states:

  "Market risks that can be managed should be assessed at least monthly and in response to significant market movements and changes in activities that expose the Province to risk."

  During the period under review, the Treasury Division was performing a sensitivity analysis on a quarterly basis on the effect of market movements.
- The Derivative Policy broadly identifies risk areas and assigns the identification and assessment of risks to the Capital Markets and Credit (Risk) Committee. While the Derivative Policy states that derivative use is based on specific liability and investment objectives, the Policy does not clearly link the risks identified to derivative usage. The

implementation of the consultant's recommendations involves risk evaluation and measurement. Since the implementation of these recommendations was an ongoing process during our examination period, it is expected that a more defined link between the risks and derivative usage will form part of the risk management policy that will be developed from that process.

- We reviewed the Province's Derivative Policy and related policies to determine if maximum acceptable levels of risk are specified. We found that while the Derivative Policy identifies risks, it does not specify limits or maximum acceptable levels of risk. We noted that the Treasury Division does monitor certain risk exposures, but the tolerable limits are determined by the Credit committee. We also found that the Derivative Policy was integrated with the investment policy which sets limits on the mark to market exposure for a counterparty.
- The Risk Identification section of the policy indicates, *"The Capital Markets and Credit Committees are charged with ensuring that procedures are in place to identify and assess all risk exposures to the Province and to manage those exposures within tolerable limits"*. However, the policy does not specify what tolerable limits are.
- The Derivative Policy does not specify acceptable limits for credit or market risk. However, we noted that the Policy states, *"Treasury Division will execute derivative transactions consistent with the specific liability and investment objectives approved by Management. For example, the Capital Markets Committee may also decide to give more weight to the effect on cash flow from potential changes in interest rates than on the changes in the market value of the portfolio"*. This policy establishes a link between liability and investment objectives and the use of derivatives. While the Derivative Policy does not itself specify limits to address counterparty credit risk, we noted that the Treasury Division does specify limits for short and long term investments. Specific limits for a counterparty's mark to market exposure have been approved by the Credit Committee as part of the investment policy. All financial institutions that are approved for current derivative transactions are be approved to a maximum of $50 million in securities such as bonds and are subject to a $75 million limit including the mark to market exposure of the derivatives. This limit is not specified in the Derivative Policy but is documented in a Credit Committee submission which was approved in September 1997. No rationale or supporting documentation was found on the appropriateness of the limits. We discuss these limits in another section of the report.
- To address market risk, the Derivative Policy states, *"Sensitivity analysis could be used on an interim basis to expedite responses to effects of significant day-to-day market movements. Such analysis could assess the impact of outstanding derivative positions on the hedged items, showing results if interest rates and prices move up and down by 100, 200, and 300 basis points, or by such other factors as may be specified by the Credit*

Committee". However, the policy does not specify acceptable limits regarding the results of the sensitivity analysis.

- To address interest rate risk inherent in the maintenance of the debt portfolio, the Policy states that, *"the debt portfolio should be maintained with fixed - and variable - rate debt established by the Capital Markets Committee, to diversify the impact of interest rate changes on the public debt expenditure and on cash flows relating to interest payments"*. The Policy addresses the risk but does not specify an acceptable level. This decision is left to the discretion of the Capital Markets Committee. Based on discussions with senior management, we have determined that the Division's strategy is to maintain interest rates of the debt portfolio within a defined percentage of fixed and variable rates. Minutes are not kept for Capital Markets Meetings and we did not find any documentation supporting the appropriateness of the ratio. Therefore, we cannot determine whether the defined variable fixed interest rate strategy is within the Division's maximum acceptable level of risk.

3.9 AUTHORIZED DERIVATIVES -
Types of authorized derivative financial instruments are generally specified

- We reviewed the Division's Derivative Policy to determine if it defines authorized types of derivative instruments.
- The policy states:

  "The Province may use derivative instruments authorized by the Capital Markets Committee, provided these can qualify as a hedge as defined in this policy and such use is not prohibited elsewhere by this policy. The following are examples of approved derivatives for use by the Province:

  - *Foreign currency derivatives:*
    - *Currency forwards.*
    - *Currency options.*
    - *Cross Currency swaps.*
    - *Combination foreign currency options, in which the notional amount and maturity date exactly match the underlying transaction being hedged.*
  - *Interest rate derivatives:*
    - *Interest rate swaps, options and swaptions.*
    - *Interest rate forwards, futures and options.*
    - *Interest rate collars and caps."*

- We noted that the policy effectively defines the types of authorized derivative instruments to be used. However, there is no specific reference in the Derivative Policy to distinctive characteristics such as liquidity and customization to be considered.

3.10 INAPPROPRIATE USE OF DERIVATIVES - What constitutes inappropriate uses of derivatives is identified in the Derivative Policy

- We reviewed the province's Derivative Policy to determine if it has identified activities and strategies that might be considered controversial and provide a clear and formal interpretation of what they mean to the entity. We found that the Derivative Policy identifies prohibited uses of derivatives. The following excerpt from the policy outlines prohibitions and restrictions on derivative use:

  "General - Derivatives must be related to specific underlying liability or investment requirements and cannot be used for activities that increase risk to the Province, such as trading, speculation, or any other purpose in which the objective is solely to generate profits. Derivative activities are considered speculative if they increase risk, if their use has no relation to objectives specified by the policy, or if their use is not intended and expected to reduce business risks that have been identified.

  Unusual and complex transactions - Derivative instruments can become extremely complex when combinations of components and features are embedded in a single instrument. Complex derivative transactions are prohibited by this policy if they are not essential to accomplishing the objectives specified in the risk management policy or if they cannot be readily valued and determined to be effective in reducing risk. These transactions must be understood and approved by the Capital Markets Committee.

  Leverage - Derivative transactions are considered to be leveraged if they expose the Province to loss or gains higher than expected to be generated by the underlying transaction.

  Valuation - Use of any derivative is specifically prohibited if a market quotation cannot be obtained from more than one source or it cannot be valued internally by the financial staff, using available internal models that have been approved for use by the Capital Markets and Credit Committee."

3.11 OPERATIONAL RISK - Risk management procedures and controls regarding the use of derivatives need improvement. The procedures and controls addressing operational risk could be enhanced.

3.11.1 Initiation of Transactions - Initiation of transactions require further documentation

- We found that according to Treasury Division policies, factors involved in entering into a derivative agreement with a counterparty include current exposure risk, swap spreads, sensitivity of the trade, strategy being employed, the type of instrument being used and consistency with the Treasury Division's Derivative Policy. Further, the decision to use a derivative instrument is made by the Director and the Assistant Director of Capital Markets of Treasury Division based on discussions held with the Management Team at the weekly Capital Markets Committee (CMC) meetings. However, we found there was not an appropriate audit trail of the initiation of derivative deals to confirm that this policy was followed.

- The Capital Markets Committee meets weekly to review world capital markets, investment and foreign currency markets and ensures that Treasury Division management and professional staff is conversant with current events and expectations regarding these markets. They are responsible for the tactical execution of the Treasury Division's risk management strategies.
- We found that there was a lack of an appropriate audit trail for the initiation of derivative deals arising from the CMC meetings because no minutes are recorded at these meetings. The only documented evidence we could find from the CMC meetings was copies of the information that was presented for discussion. We examined this information for a sample of meetings held during the audit period. We found the information package that was prepared contained information on:
  - F/X rates and range;
  - Cash flow requirements for the province;
  - Balances of trust, portfolios, promissory notes;
  - Synopses of market activity for past few weeks;
  - The economic highlights of the previous week;
  - Movement of the Canadian dollar;
  - Money market interest rates;
  - Bond market activity;
  - Funding levels and LIBOR targets; and
  - FX and Fixed Income commentary.
- Management informed us that discussions regarding the potential use of a derivative take place during the CMC meetings. However, any decisions to initiate a deal are made by the Assistant Deputy Minister, Director and Assistant Director of Capital Markets. There are no records of these decisions or the exercise of due diligence regarding the decisions to use a derivative financial instrument.
- From interviews with management, we were informed that decisions regarding the type of derivative to be used are also made by the Director of Capital Markets and Assistant Deputy Minister. Considerations of the distinctive characteristics are part of the process of selecting type of derivative instrument.

3.11.2 Execution of Transactions - Authorization procedures and controls need strengthening

- We found the Treasury Division's documented risk management procedures for authorizing derivative financial transactions to be appropriate. However, in the course of our audit we noted that the procedures were not always followed.

- Authority to enter into derivative financial transactions is granted under Section 10(1) of the Financial Administration Act and delegated to persons by the Minister of Finance.
- The Treasury Division Risk Management Procedures indicate that, "two authorized signing officers, one of which is the trader, signs the trade".
- We reviewed the Risk Management Sheets and Investment Trade Reports prepared for a sample of deals in the period under audit to test whether all the deals have been appropriately signed off in accordance with approval authority.
- In the sample selected, all deals had been appropriately signed off in accordance with the risk management procedures, with one exception. The Risk Management Sheet for one of the deals selected was signed on behalf of the trader by an employee who had not been delegated authority. The second signatory however did have delegated authority.

3.11.3 Trader's log book records need more detail

- We found the risk management sheets (RMS) and investment trade reports (ITR) contain the relevant details of the deals. However, the 'trader's log book' did not provide a reliable audit trail for derivative financial instrument agreements (derivative) transactions.
- For the sample selected, we matched the details of the deal to the RMS or the ITR. For every transaction selected, the deals were accurately recorded on the RMS or ITR.
- The RMS and ITR are prepared from the details of the derivate deal transacted by the trader. We obtained the trader's log book to compare the details of each deal to the trader's notes. We noted that an audit trail for the deal was not always apparent in the trader's notes.
- We noted four instances where the details of the deal did not match the trader's notes. In two instances, the swap was done when the debt was issued; therefore a term sheet is used for details and there were no trader notes. In another instance, the trader wrote the wrong date in the log and in the last instance, the trade dates did not match.
- We also noted that amendments are not recorded in the 'Trader's log book'. Minor changes to dates, rates are dealt with in the middle office. The Senior Treasury Officer makes changes on the confirmation before faxing the authorized confirmation back to the counterparty.

3.11.4 Risk Management Sheets should be pre-numbered

- Risk Management Sheets (RMS) record the details of all debt swaps. We found that we could not use the RMS to test for completeness of recorded debt swaps. We were also unable to determine the date the RMS was created or approved.

- A RMS is created for each debt swap by debt issue. The sheet details not only the most recent swap, but also the previous swaps and forward rate agreements done on the debt issue. The original signed RMS is kept on file in the front office. Copies are kept in a binder in the back office.
- We reviewed all Risk Management Sheets for the period under examination and noted the following:
  - Risk Management Sheets (RMS) are numerically sequenced with the exception of one number which was used twice and one number was missing.
  - None of the RMS was dated with either the creation or approval date.
  - Amended RMS was clearly identified as Amended with the amendments in bold if applicable.
  - Contrary to Treasury Division procedures, 4 RMS were not signed by a trader and 4 RMS were signed by someone other than an authorized signing officer.

3.11.5 Hedge Transactions are properly documented

- A hedge sheet is prepared for a debt issue which has several swaps on it. The hedge sheet calculates the net effect of all swaps.
- We found that there is appropriate documentation of swap transactions classified as hedges. For swaps with “hedge sheets” we vouched the details on the “hedge sheet” to the Risk Management Sheet. We recalculated the hedging to ensure that there is full coverage for the debt. No exceptions were noted in the vouching of the details or the recalculations.

3.11.6 Timing of the Recording of Transactions need improvement

- We found that derivative transactions were recorded accurately in the Treasury Manager System (TMAN). However, we noted that in several instances, the deal was entered into TMAN after the effective date.
- For the selected sample of derivative deals done during the period of examination, we tested to ensure that the deals were recorded in the TMAN system. We vouched the details of the derivative deal to the information. We also made note of the date the entry was created, by whom and dates of modification. We noted that the details of all deals tested matched the information recorded in TMAN. We also noted that entries were made by appropriate persons. However, in six instances the deal was entered into TMAN after the effective date of the trade.
- We also tested a sample of deals to determine that the date confirmation from the counterparty is received is before date entered into TMAN. We found that in five instances, the deal was entered to TMAN before the confirmation was received.

3.11.7 Confirmations of Trades need monitoring

- We found the Treasury Division has procedures to match all terms of the deals between the risk management sheet and the counterparty confirmation. We also noted that the confirmations were not received on a timely basis.
- We selected a sample to test to ensure that all terms of the deals between the risk management sheet and the counterparty confirmation have been appropriately checked and initialed as reviewed. We found that details on the Risk Management Sheet matched the confirmation sheets with no exceptions.
- For the sample selected, we also noted the date that the confirmations were received from the counterparty. We found that final confirmations were received from the counterparty anywhere from 1 to 123 days after the trade date, without any explanation of the delay(s), although 123 days following the trade date was not the norm.

3.11.8 Communications with Counterparties need monitoring

- We selected a sample of deals and reviewed documentation on file to find evidence that the confirmation has been appropriately communicated to the counterparty. We found that confirmations of trade were appropriately communicated back to the counterparty. All except one item had evidence of the confirmation being faxed back to the counterparty.
- Confirmations were faxed back to counterparty anywhere from the same day to 50 days later.
- For deals in the sample where there were discrepancies between the risk management ticket and the counterparty confirmation, we noted that the process includes verbal follow up with the trader and/or the counterparty. From discussions with the Treasury Division's management, this is usually sufficient to reach a resolution. An amendment is then made accordingly. There is no more formal process in place to deal with discrepancies.

3.11.9 Settlement of Transactions controls are operating effectively

- We found that the Treasury Division has instituted appropriate controls surrounding the payments and settlements required in derivative contracts.
- We selected a sample of payments and performed tests on the sample. As a result of our tests, we found that:
    - All payments tested had appropriate authorizations for both the amount of payment, as well as for the wire transfer of funds;
    - Floating rate resets for the payments tested were agreed with the counterparties;

    - All payments tested accurately were recorded in the general ledger (SAP) and had appropriate supporting SAP documentation; and
    - For all items tested, payment and settlement amounts were traced to the bank statement on a daily basis. Further all amounts paid and received per the bank were agreed to the amounts recorded in TMAN.

- Controls surrounding payments and settlements are needed to ensure the amount paid is authorized, accurately calculated, and recorded correctly. We found all such controls and procedures to be functioning as intended.

3.12 LEGAL RISK - Procedures and controls effectively address legal risk

- Through interviews with management and a review of Treasury Division procedures we noted that to address legal risk, all counterparties are required to have a signed agreement in accordance with International Swap Dealer Association Inc. (ISDA) documentation standards. The Treasury Division uses the Civil Legal Services Special Operating Agency (Civil Legal Services) to provide legal counsel in the negotiation and finalization of ISDA agreements. Civil Legal Services and legal counsel for the counterparty prepare and sign separate legal opinions on the ISDA agreement. These opinions are exchanged with the counterparties and retained on file.
- We selected a sample of four counterparties and their ISDA agreements. For all samples, signed agreements conforming to ISDA documentation standards were on file. Three of the four files selected had legal opinions on the agreements signed by legal counsel from Civil Legal Services and the counterparty. We followed up with Civil Legal Services and determined that opinions had been prepared but were awaiting approval from the counterparty's legal counsel before the opinions were signed and exchanged.
- The involvement of Civil Legal Services and the use of ISDA documentation standards provide adequate controls and procedures to address the legal risk associated with the use of derivatives.

3.13 MARKET RISK - Procedures and controls addressing market risk could be expanded

- We found that no sensitivity analysis was prepared by management to evaluate the effect of changes in foreign currency and interest rates on the mark to market value of derivative financial instruments. However, a sensitivity analysis is performed to determine the sensitivity of public debt expense to interest rates and foreign exchange rates which includes the effect of derivative transactions on debt.

- Analysis is performed to determine the effect that 1% change in interest rates would have on the public debt expense reported at year-end. All debt issues are included in the analysis. The sensitivity of each debt issue is calculated by including the effect of all derivative instruments on that debt. If the effect of the derivatives is such that it fixes the rate of the debt, that debt issue is not included in the analysis of the overall debt's sensitivity to interest rate and foreign exchange rates.
- Not all derivatives are in the sensitivity analysis because the analysis is actually on the sensitivity of public debt expense and not on mark to market values of derivatives. Therefore, only debt swaps are included in the analysis. No sensitivity analysis is performed for investment derivatives, because the interest rate risk is hedged by offsetting debt instruments.
- While Treasury Division does not report the sensitivity of derivative mark to market values, if a counterparty approaches the credit limit, they will look at the effect of changes in interest rates and foreign exchange rates on the value of the derivatives. The mark to market exposure to the majority of counterparties is a negative value. The negative exposure (the Province owes the counterparty) lowers the risk of counterparty default.

3.14 CREDIT RISK - Procedures and controls generally address credit risk

3.14.1 Counterparties' credit ratings are monitored

- We found that Treasury Division does restrict dealings to only highly rated counterparties and the ratings are monitored on a regular basis. We noted that the Derivative Policy addresses counterparty credit ratings as follows:

  "The Province will enter into a derivative agreement only with counterparties that are currently rated AA low or better or the equivalent rating by recognized rating agencies approved by the Credit Committee or is a Canadian Schedule A bank. Where the counterparty is rated AA mid or higher, no term restrictions will be placed on the counterparty. Should the counterparty have a credit rating of AA minus; the Province will require a one-way option to terminate at 5 years. Canadian Schedule A banks will not be required to agree to the one way termination clause.

  With the exception of the Canadian Schedule A banks the Province generally will review any derivative transaction if the counterparty's credit rating is downgraded to A high. Appropriate steps will be taken to minimize risks if any counterparty's credit rating is downgraded below A high. Such steps may include obtaining collateral or some other acceptable form of credit enhancement, or terminating the transactions. The Credit Committee will be notified of all credit downgrades. The Credit Committee must approve the actions proposed to be taken with respect to a transaction in which any counterparty's credit rating is downgraded below A high."

3.14.2 Established Credit limits should be reviewed periodically

- Credits limits are used to manage the credit risk associated with single events or correlated credit events such as defaults or downgrades, by restricting the exposure to any one counterparty or group of counterparties. The setting of credit limits is determined from a Division-wide perspective using a top down approach. For example, the ceiling could be the maximum credit limit acceptable for the debt (borrowings) and investment portfolios taken as a whole. The total credit limit could then subdivided by geographic region and then within the geographic region by country and then by counterparty. The sum of the credit limits of the components should not exceed the overall maximum acceptable credit limit.
- The credit exposure related to a derivative counterparty is generally the current credit exposure plus a factor for the potential credit exposure after considering the impact of a netting (amount owed net of amount due) agreement and any collateral obtained. Current exposure is the replacement cost of the derivative transactions (positive mark to market value) and potential exposure is an estimate of the future replacement cost of the derivative using probability analysis over the remaining term of transaction. The probability analysis would reflect both an expected (likely) exposure and the maximum worst case scenario.
- We noted that Treasury Division has established a credit limit for all the financial institutions which are approved for derivative transactions. However, the limit has not been updated since it was approved in 1997. We noted that credit criteria were outlined for the purchase of securities in a Credit Committee Submission on Securities Investments and were approved by the Minister of Finance on September 15, 1997. The recommendations include limits for all financial institutions which are approved for current derivative transactions. These institutions are approved to a maximum of $75 million for the combined security and derivatives values. While the combined value is $75 million, the value of securities is limited to $50 million. From discussions with management, there has been no update or review of the appropriateness of these limits since that date.

3.14.3 Credit limits are monitored

- We found that the Treasury Division is monitoring the mark to market value of derivative (a measure of the credit exposure) dealings, for each counterparty, on a monthly basis, to ensure that no counterparty exceeds the credit limit established. During the period audited, the Treasury Department began producing a Derivatives Exposure Report each month which is provided to senior management of the Treasury Division. However, we noted that the Treasury Division is not calculating the value of all the derivatives but relying on the values provided by the counterparties.
- The Treasury Division is obtaining a mark to market valuation of its derivative financial instruments on a monthly basis. During the period

audited, the Treasury Division tested and implemented an in-house system to value derivatives called ConjecSure. We noted that after ConjecSure was implemented, it remains unable to calculate the mark to market value for certain derivatives. However, the values that are calculated by ConjecSure are reasonable compared to the values provided by the counterparties. For derivatives which are unable to be valued by ConjecSure, the Treasury Division uses the mark to market valuations provided from the counterparty to monitor counterparty credit limits.

- We looked at the Derivative Exposure Report prepared for November 30, 2004. We also obtained the spreadsheet where the ConjecSure values are compared to the values provided by the counterparties. We noted that counterparty confirmations were received from all derivatives counterparties except for one. For each counterparty, we traced the amounts reported on the Derivative Exposure Report to the client prepared spreadsheets which compares the mark to market value per ConjecSure and the counterparty.
- We noted that some of the values “per ConjecSure” on the spreadsheet had been overridden with the value provided by the counterparty. The values overridden were for derivatives that were unable to be priced in ConjecSure. ConjecSure is unable to price options. Therefore, swaptions are not priced by ConjecSure and ConjecSure cannot calculate the value of swaps with step up rates which is the option to increase rates. While there would be a cost for the implementation, Treasury Division may include optionality in pricing at a future date.
- We tested whether the values from the ConjecSure system are reasonable compared to the values reported by the counterparties. For derivatives that were valued by ConjecSure, we noted that there were some differences to the values provided by the counterparties but the values used were reasonable. Differences arise due to differences in assumptions and methods in the calculations by the counterparty. Except for one counterparty, all the differences are within 10% of the reported exposure. The exposure for the counterparty greater than 10% is insignificant as it represents .06% of the derivative exposure total reported.
- We tested the input data into the ConjecSure system for valuing the swaps to the underlying sources. We found that input data used agreed to rates provided by the Bloomberg System used by Treasury Division. We also found that the yield curve generated by Treasury Manager System (TMAN) agreed to curve used in ConjecSure for valuing derivative contracts. During the testing, we noted that the cash curve data for a 0 to 12 month timeline (CDOR or BA rates) is entered every month into TMAN. The amount is overridden every month but is used for the calculation price. As such, there is no audit trail in the TMAN for the rates used for that month.
- We tested input control to ensure that inputs into the ConjecSure system are appropriately validated. During the testing and implementation

phases of the ConjecSure system, one staff member would enter and check all amounts input into TMAN and ConjecSure to produce the mark to market values. This approach was also used for the November, 2004 report which was sampled above. We also noted that subsequent to the audit period, the amounts have been entered by one staff member and another checks the entries. However, there is no record maintained of preparer/reviewer or signoff.

- We tested whether the valuation has been carried out independently by the middle office and signed off. The only staff member doing the valuations for the period under review was a staff member in the Middle Office.
- We tested that the mark-to-market values have been appropriately reported to senior management. The Derivatives Exposure Report for November, 2004 was circulated to the Directors, Assistant Directors, and Assistant Deputy Minister. It was also discussed extensively at the Credit Committee meeting on December 14, 2004 as noted in the minutes.

3.15 MANAGEMENT RISK -
Procedures and controls address certain management risk

- While we noted a lack of formal management reporting, we also noted that the existing monitoring controls provide management the ability to supervise and oversee the activities relating to derivatives.
- We enquired whether there have been any breaches of credits limits and, if so, what action has been taken. We also reviewed minutes of the Risk (credit) Committee for documentation of action to be taken to avoid any potential breach of credit limits.
- We found that according to the November 30, 2004 Derivative Exposure Report, two counterparties were identified to have exceeded the established credit limit.
- The report was circulated to all senior management and was discussed at the Credit Committee meeting on December 16, 2004. Corrective action discussed at the meeting involved three options: unwind swaps, re-coupon the transactions (change the interest rates used for the related transactions) and capture positive mark-to-market, or sell investments in bonds.
- The decision was made to suspend bond purchases for those counterparties sell the bonds held at that time. Additionally, the Risk (Credit) Committee indicated that they want research to determine if they should change credit (exposure) limits.
- We followed up the action taken with the first counterparty and confirmed that the two bonds had been sold in December, 2004. Per a memo to management on December 20, 2004, the valuation of one counterparty's derivatives had decreased below the threshold. The sale of the bonds combined with increase in the value of the Canadian dollar

decreased the exposure within the specified counterparty credit limit. The memo also stated that this counterparty should be monitored by risk management every two weeks and further action would be necessary if the exposure started to increase.

- We followed up on the action to be taken with the second counterparty and determined that the Division was currently in negotiations with the counterparty to either provide additional collateral to the Province or to re-coupon the transactions at a lower rate and receive funds for the difference.

3.16 MIDDLE OFFICE -

Key controls were in effect throughout the period under review and key controls were in effect throughout the reorganization transition regarding the middle office function

- In July 2003, Treasury Division was reorganized into a front-middle-back office structure. The intended result was an amalgamation of all trading activities, and the development of a segregated, middle office, with new roles and responsibilities to measure, monitor and report on the Division's financial risks and exposures. However, while the reorganization was effective July 2003, the actual transition is taking place over a number of years. To assist the Treasury Division with the design and implementation of the middle office, a consultant was engaged to provide a 'middle office blueprint' indicating appropriate structure, practices, controls, and information flows. The report was provided to the division in February, 2004 and the implementation of the recommendations is ongoing.

- Through interviews with management regarding the reorganization and implementation of the consultant's recommendations we found that the reorganization is still in process and going at a slower pace than expected. The main priority throughout the reorganization is the continued operation of the Treasury Division. New positions have been created and new staff have been hired. The Division has also been training staff for the new positions. The Division has had to find a balance between implementing the consultant's recommendations, while at the same time, mentoring the back office where there are several new hires.

- During the development of the middle office processes, some of the controls became the responsibility of different areas or persons during this transition time. Additionally, Treasury Division is currently working on developing a new mandate, risk management policy, investment and debt policies.

- The mandate of the middle office includes new procedures and controls to address risk. Some of these controls were started during the period under review and some will commence after the review date. However, the operational controls and procedures surrounding the initiation, confirmation, and servicing of derivative agreements have existed throughout the examination period (although the responsibility for the controls may have changed areas or persons).

- We tested whether operational controls surrounding the initiation, confirmation, settlement and recording of derivative transactions remained in effect for the period under review and during the reorganization. When selecting our sample to test operational controls, we included trade dates covering the whole examination period. The controls that tested to be effective were in place for the entire period of examination.
- We found that for the period under examination, the full role of middle office was not yet implemented. They are currently working on risk management: developing a new mandate as well as risk management, investment and debt policies. However, we determined that the key operational controls on the initiation, confirmation, recording and servicing of the derivatives remained in place during the period under examination.

3.17 MIDDLE OFFICE - Monitoring controls over the use of derivatives needs strengthening and the middle office transition should be completed as soon as possible

3.17.1 Standardized exception reporting is needed

- We found that a number of monitoring activities and analysis were being performed to ensure the use of derivatives is effective and consistent with the divisional objectives. However we noted that there was a lack of standardized reports prepared for management and therefore a lack of documentation of the information provided for monitoring and analysis.
- We found that there are no minutes from the weekly Capital Markets Committee meeting, no standardized exception reports, and no reporting on derivative activity other than the derivatives exposure report. Much of the reporting is done on an ad hoc basis, so we were unable to obtain documentation of all the information considered by senior management for their monitoring activities. The only management information report relating specifically to derivatives that was prepared regularly was the monthly Derivatives Exposure Report. Also, minutes were kept for the Risk (Credit) Committee meetings and we were able to review them for decisions relating specifically to derivatives activity. The Division produces a weekly financial status report and a Treasury Services Report which do not include specific information relating to derivatives activities.
- We were unable to follow any audit trail for exception reporting. There is no standard process for exception reporting. Any exception noted is handled on an ad hoc basis by the Treasury Division. Examples of

exceptions handled in this manner are; counterparty credit limits exceeded, confirmations not received, and a change in credit rating.

- The Treasury Division's senior management indicated that because the Treasury Division consists of a small staff, monitoring is addressed through good communication among all levels of staff. Information is shared at the weekly Capital Markets Committee meetings and the less frequent Credit (Risk) Committee meetings. The former Assistant Deputy Minister stated that he always knew what was happening through his daily interaction with the staff and if there was a problem, he would know about it.

3.17.2 Full Implementation of Middle Office functionality is crucial

- The middle office is still under development. The middle office is responsible for a range of functions for the entire Treasury Division pertaining to risk management. The role of the middle office includes policy development, monitoring and reporting compliance with policy and procedures, risk performance measurement and reporting, risk limit calculations and monitoring, approval of valuations(models, methodologies and parameters),and approval of master agreements (with counterparties).
- We understand that there is considerably more effort needed to fully establish the full Middle Office functionality. The staff working in the middle office is in the process of redeveloping the Treasury Division–wide risk management policies, against which the current Derivative policy will be considered. Once the Division's risk management policy is revamped, roles and responsibilities must be reviewed as well as a review of other aspects of the Treasury Division's risk management process.
- Because of the key importance of the middle office functions, the Department of Finance should consider whether the time frame to complete the development of the Middle Office is appropriate as well as the level of assigned resources. We understand that the implementation process is taking longer than anticipated.

3.18 GOVERNANCE OVERSIGHT -

Governance practices in the risk management process should be enhanced

- Industry best practices recommend an oversight body (a board of directors in industry) in conjunction with management establish Treasury Division objectives. This body would also set out a broad framework for management to work within and provide oversight. The oversight body should receive timely and sufficient information to oversee the Treasury Division's activities. We found that there is no such oversight body in place.
- In the current organizational structure, the Capital Markets Committee is the senior committee overseeing the risk management process regarding the use of derivatives. No minutes are taken at the Committee's

meetings, and therefore there is no audit trail documenting the Committee's deliberations and decisions.

- We also found that the Risk Management (formerly Credit) Committee did not meet quarterly throughout the period under review. They met three times during the period under review (April, 2003 to December 31, 2004). While there were minutes of the meetings held, consideration should be given to this Committee meeting monthly to consider exception reports and to document discussions and the decisions arrived at.
- In addition, we found that the record keeping of the operations of the Committees could be more formal in that meeting agendas and material submitted to the Committees for review and discussion should be retained for reference purposes.

4.0 Recommendations

Strategic Objectives for the Treasury Division and the Related Risk Management Strategy

- That the Division's objectives, risk identification and assessment, and risk management strategy be documented and approved. We also recommend that the Derivative Policy statement be approved.
- That the formulation and approval of the Treasury Division-wide Risk Management Policy statement be targeted as a key priority.
- That the risk management strategy be documented and approved by management and the Board of Directors (equivalent).
- That maximum acceptable levels of risk and risk limits be specified in the Derivative (Risk Management) Policy.
- That the Derivative Policy should document any distinctive characteristics such as liquidity and customization that may be used with the authorized types of derivatives.

Operational Risk

- That the exercise of due diligence regarding the decision to enter into a derivative financial instrument agreement be documented. We also recommend that the deliberation of the type of derivative financial instrument to be used and its distinctive characteristics should be documented.
- That the internal control procedures be adhered to in order to ensure that documents supporting the execution of derivative transactions are duly authorized by staff who has delegated authority.
- That the trader's log book maintains a complete and accurate account of the relevant details of each derivative financial instrument contract.

- That pre-numbered risk management sheets be used and accounted for to ensure the completeness of the records of derivative financial instrument agreements.
- That the derivative transaction in the Treasury Manager System be recorded after receiving the counterparty confirmation but before the effective date of the derivative financial instrument contract.
- That the internal controls regarding the confirmation of trades be strengthened by assigning responsibility to a staff person for the follow-up of outstanding confirmations.
- That the internal controls regarding the communication with counterparties following confirmation of trades be strengthened by assigning responsibility to a staff person for the monitoring of these communications.

Market Risk

- That Treasury Division expands their sensitivity analysis to separately evaluate the market risks associated with derivative financial instruments.

Credit Risk

- That a review of the current credit limits should be undertaken within the context of the Treasury Division-wide credit risks.

Management Risk

- That an audit trail be established for the preparation and review of the monthly mark to market (valuation of derivatives) reports.
- That the risk management reporting process being developed requires standard exception reports to be produced at defined intervals.
- That the Department of Finance strongly considers providing additional resources in the short-term to facilitate the full implementation of the Middle Office functionality.
- That the Department establishes an active and effective Board of Directors (equivalent) to determine Department-wide objectives set the framework for Treasury Division management to work within and to provide oversight of Treasury Division's operations and performance.
- That the Capital Markets Committee record minutes of their meetings in order to document their deliberations and risk management activities. That the Risk Committee consider meeting monthly to review exception reports and thereby document their governance activities. All meeting agendas and material submitted to the Committees should be retained for reference purposes.

Response from Officials

Treasury Division management has reviewed the report, and we are in general agreement with the recommendations. Since the completion of your audit, most of your recommendations have either already been implemented or are currently being worked on.

Your recommendations are valuable input into the ongoing development of the Department's use of Derivative Financial Instruments.

Appendix A

DETAILED CRITERIA

Objective: To determine whether the Province has a risk management process (derivative risks include management, market, legal, credit, and operational risk) in place, and whether that risk management process used by the Treasury Division with respect to derivatives (with respect to debt and investments) is consistent with industry best practices.

Main Criteria	Sub-Criteria	Expectation Discussion	Source
Is there a risk management policy on the use of derivatives?	Have Department of Finance objectives been linked to Treasury Division's operations?	The Department's objectives are linked to objectives set for Treasury Division. The Division's strategies, operating plans and policies can be linked back to the broad objectives.	COSO Internal Control-Integrated Framework in Derivatives Applications.
	Are risks clearly identified and measured?	A process should exist to assess and understand fully the nature and extent of risks that result from business activities before derivatives are used for risk management purposes. The risk management policy should specify that the use of derivatives to manage risks should be based on such assessment and is expected to manage the risks effectively.	COSO Internal Control-Integrated Framework in Derivatives Applications.
	Does the policy specify acceptable levels of risk or other measurable limits?	Policy should specify maximum acceptable levels of risk in terms that are clear and can be quantified. The policy concerning derivatives may also be integrated with policies dealing with related business activities, e.g., maintaining a balance between fixed and variable rate instruments in the management of the debt or investment portfolio.	COSO Internal Control-Integrated Framework in Derivatives Applications.
	Are risk management activities and the intent of the policy clear?	Definition of all key terms used to describe risk management activities to avoid possible misunderstanding and confusion about the intent of the policy and the use of derivatives.	COSO Internal Control-Integrated Framework in Derivatives Applications.
Is there a risk management strategy on the use of derivatives?	Does the risk management strategy address the identified risks?	The risk management strategy clearly addresses the identified risks.	Province of Manitoba Treasury Division Derivatives Policy.
	Is the risk management strategy documented and communicated?	A clear statement of objectives decreases confusion and misunderstanding of policies and provides a foundation for specifying control activities that govern their use. Activity-level objectives governing the use of derivatives should be clearly specified and documented in a policy to avoid confusion about the purpose for using derivatives.	COSO Internal Control-Integrated Framework in Derivatives Applications.
	Does the plan to implement the risk management strategy identify risks associated with the use of derivative financial instruments?	The risks associated with the use of derivative financial instruments are clearly defined and understood. A minimum level of expertise should be required within the entity dealing with derivatives. Management, credit, market, operational and legal risks are identified as the key risks.	Province of Manitoba Treasury Division Derivatives Policy. COSO Internal Control-Integrated Framework in Derivatives Applications.
	Are the types of authorized derivatives clearly identified?	Derivatives have distinctive characteristics that should be considered in the formulation of policies governing their use, e.g., leverage, liquidity, customization. Clear definition of what derivative instruments are authorized to be used, e.g., interest rate swaps, foreign exchange forward contracts.	COSO Internal Control-Integrated Framework in Derivatives Applications.

Appendix A
(cont'd.)

Main Criteria	Sub-Criteria	Expectation Discussion	Source
Is there a risk management strategy on the use of derivatives? (cont'd.)	Are inappropriate uses of derivatives clearly identified?	A clear statement of objectives decreases confusion and misunderstanding of policies and provides a foundation for specifying control activities that govern their use. Activity-level objectives governing the use of derivatives should be clearly specified and documented in a policy to avoid confusion about the purpose for using derivatives. Derivatives have distinctive characteristics that should be considered in the formulation of policies governing their use, e.g., leverage, liquidity, customization. Clear definition of what derivative instruments are authorized to be used, e.g., interest rate swaps, foreign exchange forward contracts. The risks associated with the use of derivative financial instruments are clearly defined and understood. A minimum level of expertise should be required within the entity dealing with derivatives. Management, credit, market, operational and legal risks are identified as the key risks. Derivatives have distinctive characteristics that should be considered in the formulation of policies governing their use, e.g., leverage, liquidity, customization. Clear definition of what derivative instruments are authorized to be used, e.g., interest rate swaps, foreign exchange forward contracts. Policies should also clearly identify activities and strategies that might be considered controversial and provide a clear and formal interpretation of what they mean to the entity, e.g., classifying activities as "appropriate", "inappropriate' or require ad hoc consideration and specific approval.	COSO Internal Control-Integrated Framework in Derivatives Applications.
Are there risk management procedures and controls on the use of derivatives?	Do the risk management procedures and controls implement the risk management policies?	The procedures and controls are in place to implement the objectives and strategies of the risk management policy.	Province of Manitoba Treasury Division Derivatives Policy. COSO Internal Control-Integrated Framework in Derivatives Applications.
	Do the procedures and controls address credit risk?	In order to limit credit risk, dealings with counterparties are restricted to only highly rated counterparties. Moreover, limits are also established with counterparties to limit total exposure to individual counterparties.	COSO Internal Control-Integrated Framework in Derivatives Applications.
	Do the procedures and controls address operational risk?	An appropriate organizational structure with clear delineation of responsibilities is in place. Derivative instruments are transacted by authorized traders, appropriately authorized and recorded. Confirmations are received for all derivative deals and settlement amounts.	Documentation and understanding of system and processes relating to derivative transactions.
	Do the procedures and controls address market risk?	A sensitivity analysis should be prepared by management to to evaluate the effect of changes in foreign currency and interest rates.	Documentation and understanding of system and processes relating to derivative transactions.
	Do the procedures and controls address legal risk?	In order to reduce legal risks, all derivative contracts should conform to the ISDA documentation standards.	COSO Internal Control-Integrated Framework in Derivatives Applications. Documentation and understanding of system and processes relating to derivative transactions.

Appendix A
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Main Criteria	Sub-Criteria	Expectation Discussion	Source
Are the key controls in effect throughout the period under review?	Did the controls remain in effect during the reorganization?	During the period under review, Treasury Division implemented a middle office. As a result some processes and staff responsibilities may have changed. However, the key controls surrounding derivative transactions should be in effect during the reorganization.	Documentation and understanding of system and processes relating to derivative transactions.
Is the process of monitoring controls effective?	Are there monitoring controls in place?	Periodic monitoring activities and analysis is required to document that the use of derivatives is effective and consistent with the activity-level and entity wide objectives.	COSO Internal Control-Integrated Framework in Derivatives Applications.
	Do the monitoring controls address management risk?	Monitoring controls provide management the ability to supervise and oversee the activities relating to derivatives. Management information reports are prepared on a timely basis, are reviewed by appropriate levels of management and timely action was taken. Management should review the results against any limits established or against their overall financial positions.	COSO Internal Control-Integrated Framework in Derivatives Applications.
Are governance practices in the risk management process appropriate?	Are the governance practices consistent with industry best practices?	Entity-wide objectives are established by the Board of Directors or equivalent and senior management. An active and effective Board or equivalent provides the oversight and lays down the broad framework for management to work on. At the Board or equivalent and executive management levels, there should be a clear understanding and documentation of the purpose for using derivatives. Sufficient and timely information is provided to the Board or equivalent to assist them in their oversight role. An independent review of derivative activities is performed to determine whether the policies are being implemented in accordance with management objectives as well as there is compliance with control procedures and risk exposure limits.	COSO Internal Control-Integrated Framework in Derivatives Applications.
	Is there a risk management group or risk committee to establish policy and oversee management of risk?	The risk management group or risk committee is responsible for establishing the risk management policies and to over see the entity's management of risk and use of derivatives. The risk management group/risk committee's role may include: - Specifying authorized strategies and permitting uses of and limitations on derivatives. - Ensuring that policies, procedures and controls are fully documented in writing and communicated to everyone. - Establishing a general framework for monitoring results of derivative activities and compliance with policies and procedures. - Evaluating and approving new transactions and strategies. - Ensuring that approval of new transactions is based on an understanding of the underlying contracts and that the contracts have been read and approved and that accounting, credit, legal, and operational considerations have been fully documented before execution. - Approving all counterparties and specifying limitations on counterparty risks, such as minimum credit rating and credit exposure limitations. - Specifying reports to be prepared on a periodic basis for monitoring derivative activities, e.g., sensitivity analysis, analysis of the effectiveness of derivatives in accomplishing objectives. - Periodically reporting derivative activities and results, including both gains and losses and any deficiencies to the Board.	COSO Internal Control-Integrated Framework in Derivatives Applications.

GLOSSARY OF TERMS

Appendix B

Banker's Acceptance (BA)	A short-term credit investment created by a non-financial firm and guaranteed by a bank. Acceptances are traded at a discount from face value on the secondary market. Banker's acceptances are very similar to T-bills and are often used in money market funds.
Basis Point	A unit that is equal to 1/100th of 1%, and is used in denoting the change in a financial instrument. The basis point is commonly used for calculating changes in yield of a fixed-income security, interest rates and equity indexes. The relationship between percentage changes and basis points can be summarized as follows: 1% change = 100 basis points, and 0.01% = 1 basis point. So, a bond whose yield increases from 5.0% to 5.5% is said to increase by 50 basis points; or interest rates that have increased by 1% are said to have increased by 100 basis points.
Bond Rating	A specification of a bond issuer's probability of defaulting based on an analysis of the issuer's financial condition and profit potential. Bond rating service companies provide ratings for various debt and preferred stock issues for safety of payment of principal, interest, or dividends. Bond ratings start at AAA (denoting the highest investment quality) and usually end at D (meaning payment is in default).
Cap or Capped Option	An option with a pre-established profit cap. A capped option is automatically exercised when the underlying security closes at or above (for a call) or at or below (for a put) the Option's cap price. This can also be referred to as a capped-style option.
CDOR	The Canadian Dollar Offered Rate, named CDOR, is the recognized benchmark index for bankers' acceptances with a term-to-maturity of one year or less. CDOR serves both money and derivative markets: it is employed for the final settlement price for the over-the-counter (OTC) derivatives market synthetic instrument calculations like forward rate agreements (FRAs) and swaps. CDOR is determined daily from a survey of nine market makers in bankers' acceptances (BA). The daily survey of money market rates is derived from bid side prices provided by survey participants.

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Collar	A protective options strategy that is implemented after a long position in a stock has experienced substantial gains. It is created by purchasing an out of the money put option while simultaneously writing an out of the money call option.
Collateral	Something of value that is pledged for a loan or other financial obligation. The lender or holder of the collateral can repossess the collateral if the loan is repaid or the obligation fulfilled. When the obligation is fulfilled, the creditor must return the collateral. Also, collateralize – to provide collateral.
ConjecSure	Software used by Treasury Division to calculate the market value of derivatives. It was developed by the creators of the TMAN software.
COSO	The Committee of Sponsoring Organizations of the Treadway Commission. Members of COSO are: American Accounting Association, American Institute of Certified Public Accountants, Financial Executives Institute, Institute of Internal Auditors, and the Institute of Management Accountants.
Counterparty	The party on the other side of a transaction such as a swap agreement. The transaction is traded over the counter (not on a stock exchange).
Currency Forward	A forward contract that locks-in the price an entity can buy or sell currency on a future date. In currency forward contracts, the contract holders are obligated to buy or sell the currency at a specified price, at a specified quantity, and on a specified future date. These contracts cannot be transferred. Also known as "outright forward currency transaction".
Currency Option	A contract that grants the holder the right, but not the obligation, to buy or sell currency at a specified price during a specified period of time. An entity against foreign currency risk by purchasing a currency option put or call.
Currency Swaps	A swap that involves the exchange of an amount in one currency for the same in another currency.
Derivative	A security, such as an option or futures contract, whose value depends on the performance of an underlying security or asset. Futures contracts, forward contracts, options, and swaps are the most common types of derivatives. Derivatives are generally used by institutional investors to increase overall portfolio return or to hedge portfolio risk.

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Floor	Common name for an interest rate floor. Interest rate floors are agreements between two parties in which the seller, in return for a premium, agrees to limit the risk associated with a decline in interest rates. If interest rates fall below a specified level, known as the strike price, the floor buyer is entitled to receive cash payments equal to the difference between the market rate and the strike price multiplied by the notional principal amount. A floor is a type of option; therefore, the buyer has the right but not the obligation to exercise it.
Futures	A financial contract that obligates the buyer (seller) to purchase (sell and deliver) financial instruments or physical commodities at a future date, unless the holder's position is closed prior to expiration. Futures are often used by mutual funds and large institutions to hedge their positions when the markets are rocky, preventing large losses in value. The primary difference between options and futures is that options provide the holder the right to buy or sell the underlying asset at expiration, while futures contracts holders are obligated to fulfill the terms of their contract.
FX	The foreign-exchange market ("forex" or "FX") is the place where currencies are traded. The forex market is the largest, most liquid market in the world with an average traded value that exceeds $1.9 trillion per day. There is no central marketplace for currency exchange, rather, trade is conducted over-the-counter. The forex is open 24 hours a day, five days a week, with currencies being traded worldwide among the major financial centers of London, New York, Tokyo, Zurich, Frankfurt, Hong Kong, Singapore, Paris and Sydney - spanning most time zones.
Hedge	Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security. An example of a hedge would be if you owned a stock, then sold a futures contract stating that you will sell your stock at a set price, therefore avoiding market fluctuations. Investors use this strategy when they are unsure of what the market will do. A perfect hedge reduces your risk to nothing (except for the cost of the hedge).

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Interest rate swap	A deal between counterparties where borrowers switch floating-rate loan payments for fixed rate loan payments. These can be either the same or different currencies. The advantage to this is that one party may have access to lower fixed rates and another company may have access to lower floating rates... so they trade.
Interest rate swaption	The option to enter into an interest rate swap. In exchange for an option premium, the buyer gains the right but not the obligation to enter into a specified swap agreement with the issuer on a specified future date. The agreement will specify whether the buyer of the swaption will be a fixed-rate receiver (like a call option on a bond) or a fixed-rate payer (like a put option on a bond).
ISDA	The International Swaps and Derivatives Association is the global trade association representing participants in the privately negotiated derivatives industry, a business covering swaps and options across all asset classes (interest rate, currency, commodity and energy, credit and equity). ISDA was chartered in 1985, and today numbers over 650 member institutions from 47 countries on six continents. These members include most of the world's major institutions who deal in, as well as leading end-users of, privately negotiated derivatives. Since its inception, ISDA has pioneered efforts to identify and reduce the sources of risk in the derivatives and risk management business. Among its most notable accomplishments are: developing the ISDA Master Agreement; publishing a wide range of related documentation materials and instruments covering a variety of transaction types; producing legal opinions on the enforceability of netting and collateral arrangements (available only to ISDA members); securing recognition of the risk-reducing effects of netting in determining capital requirements; promoting sound risk management practices, and advancing the understanding and treatment of derivatives and risk management from public policy and regulatory capital perspectives.
Leverage	The use of various financial instruments or borrowed capital, such as margin, to increase the potential return of an investment. Leverage can be created through options, futures, margin and other financial instruments. The use of leverage increases risk because the potential losses are greater than they would have been without leverage - leverage magnifies not only gains but also losses.

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	Derivative transactions are considered to be highly leveraged if they expose the entity to loss in excess of gains expected to be generated by positions and transactions they modify.
LIBOR	The London Interbank Offer Rate is the rate of interest at which banks borrow funds, in marketable size, from other banks in the London interbank market. In other words, LIBOR is the international rate used when banks borrow from other banks. This is the most widely used benchmark or reference rate for short term interest rates.
Liquidity	The capability of ready conversion to cash.
Mark to market	The process of valuing (market value or fair value) derivative positions for purposes of determining accounting gains or losses.
Mark to market exposure (of a swap counterparty)	The net positive market value of all swap agreements with a given counterparty. Higher exposure indicates increased credit risk for that counterparty.
Notional Amount	A theoretical or stipulated principal amount, agreed upon by the counterparties, upon which many derivative contracts are based.
Option	An option is a contract whereby the contract buyer has a right to exercise a feature of the contract (the option) on or before a future date (the exercise date). The 'writer' (seller) has the obligation to honour the specified feature of the contract. Since the option gives the buyer a right and the seller an obligation, the buyer has received something of value. The amount the buyer pays the seller for the option is called the option premium.
Recoupon	To change the periodic payments required by a financial instrument. Usually this is done in exchange for a lump sum payment at the time of the recoupon.
Schedule A bank	A federally regulated Canadian bank as listed in Schedule I of The Bank Act.
Sensitivity Analysis	A technique for determining the outcome of a decision if a key prediction turns out to be wrong.
Speculation	An aggressive strategy designed to increase profits by accepting more market risk than generated by underlying business operations or financial instruments funding the company's capital structure. Highly leveraged derivatives also are signs of speculating activities.

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Step Up Bonds	A bond that pays an initial coupon rate for the first period, and then a higher coupon rate for the following periods (step up rates). In other words, the coupon "steps up". For example, a five-year bond may pay a 4% coupon for the first two years of its life and a 6% coupon for the final three years. The difference between the negotiated and fixed rate of a swap. The spread is determined by characteristics of market supply and creditor worthiness.
Swap	A periodic exchange (or swap) of payments between two counterparties for a specified period of time. The exchange of payments can be based on such things as Interest rates, currency rates, commodity prices, stock indices, temperature.
Swap Spread	The difference between the swap rate and the lending rate offered through other investment vehicles with comparable characteristics. Similar to equity spreads, the swap spread adjusts for every contract and the different participating parties.
Swaptions	A combination of a swap and an option. In its basic form, the swaption gives the buyer the right, but not the obligation to buy (call) or sell (put) a swap.
TMAN (Treasury Manager)	Software used by Treasury Division to track investment and debt activity and the resulting cash flows. Reports from TMAN are used to support amounts reported the G/L.
Unwind	To terminate or sell a derivative position, or achieve the same effect by entering into another derivative contract that offsets the first position.
Yield curve	The yield curve or the term structure of interest rates is the relationship between the cost of borrowing money and the amount of time the money is being borrowed for. The yield of a financial instrument is the amount of money to be made per year by investing in that instrument. For instance, a bank account that promises an interest rate of 4% per year has a 4% yield. In general the amount per year that can be made is dependent on the length of time that the money is invested. For example, a bank may offer a "savings rate" higher than the normal checking account rate if the customer is prepared to leave money untouched for five years. Generalizing, investing for a period of time t gives a yield Y(t). This function Y is called the yield curve. The nomenclature "curve" is used rather than

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"yield function" because when plotted on a graph, the function is a curve.

Y is often an increasing function, but that need not always be the case - yield curves are used by fixed income analysts, who analyse bonds and related securities, to understand conditions in financial markets and to seek trading opportunities. Economists use the curves to understand economic conditions.

The yield curve function Y is actually only known with certainty for a few specific periods of time, the other periods are calculated by interpolation (see Construction of the full yield curve from market data below).

Yield curves carry an implicit forecast of future short-term interest rates: for example if the annual yield on a 10-year bond is 5%, and on an 11-year bond is 5.5%, then the implicit yield in year 11 is a graphic line chart that shows interest rates at a specific point for all securities having equal risk, but different maturity dates. For bonds, it typically compares the two- or five-year Treasury with the 30 year Treasury.

Securities with longer maturities usually have a higher yield. If short term securities offer a higher yield, then the curve is said to be inverted.