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Winnipeg, Manitoba R3C 0C4

December 2004

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, 2004* 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

For several years, I have encouraged the governments of the day to adopt modern financial budgeting and reporting as the fundamental basis for discussing policy options and the Province's fiscal performance within the Legislative Assembly and with the citizens of Manitoba.

Let's consider the following:

- How much discussion has there been of the fact that in 2003/04 Manitoba had the second largest deficit ($604 million) since Summary Financial Statements were first prepared in 1988? The largest deficit was $822 million in 1993, before the era of balanced budget legislation.
- Why have so few people asked how this past year's deficit came about and the policy implications of it?
- Why instead has the focus of discussion been primarily about the positive balance the Government chose for itself of $13 million? It could have chosen a balance of anywhere between zero and $79 million, but it chose $13 million for reasons that are not apparent to me or, I dare say, to any citizen other than officials in the Province.

The fact remains that it is too late for Manitoba to be a leader in financial reporting. Most other jurisdictions in Canada are already there.

However, the commitment the government makes in this report to actively plan to move toward modern financial budgeting and reporting is a positive and encouraging step.

The need to modernize financial budgeting and reporting in Manitoba is one I have recommended to both the previous and current administration. Therefore, I encourage all Members of the Legislative Assembly to support this and work together to improve Manitoba's financial reporting and bring it to an acceptable standard.

I also think it important that the Government provide the Assembly and the public with periodic updates on the progress being made. Budget presentation, Public Accounts Committee meetings, and annual reports could all be used for such updates. We will also be reporting on the progress of this initiative in next year's Public Accounts Report to the Legislative Assembly.

Jon W. Singleton, CA•CISA

EXECUTIVE SUMMARY

Executive Summary

A key message in this report is that ***public communication on the annual financial results of the province should be understandable, open and transparent***:

- Public communication should focus on the annual results from the Summary Financial Statements;
- A Summary budget should be prepared to enable the Members of the Legislative Assembly to fully debate the planned use of public; resources and to fully evaluate the actual results achieved against the budget;
- The published narrative called "Discussion and Analysis" should more fully emphasize and cover the Summary Financial Statements.

In response to our report, the Manitoba Government indicates that it *"...is committed to work ... on a plan that would see it present its Budget and other financial reports on a Summary basis"*.

We believe that the Special Purpose Operating Fund and Special Funds Financial Statements should not be used to assess the Government's performance managing the Province's financial affairs and public resources. The Summary Financial Statements should be used to assess the Province's financial position and operating results.

Unfortunately, the Government's media communications continue to emphasize the Operating Fund Financial Statements. This portrays an incomplete and "misleading by omission" picture of the Province's financial position and operating results to the citizens of Manitoba. For example, it is unlikely that many Manitobans are aware that the government incurred the second largest deficit ($604 million) since the inception of summary financial statements in 1988. (The largest deficit, including the unrecorded pension expense of $153 million, was $822 million in 1993.) They are also unlikely to be aware that net debt increased by $1.2 billion in 2003/04.

This report contains a review of the press release issued by the Government in September 2004 which highlights this concern with communication to the public. This is included in the section titled, *The Whole Story: The 2003/04 Public Accounts Press Release*.

There are significant accounting policies used in the Special Purpose Operating Fund and Special Funds Financial Statements that are not in accordance with Canadian generally accepted accounting principles (GAAP). If Canadian GAAP had been used, assets would have increased by $2.727 billion, liabilities would have increased by $3.019 billion, the accumulated deficit would have increased by $292 million, revenues would have increased by $705 million, and expenses would have increased by $1.217 billion.

This year, we removed the word "fairly" from the opinion paragraph. This change was made to highlight the above limitations inherent in the Special Purpose Operating Fund and Special Funds Financial Statements.

The Auditor's Report on the Special Purpose Operating Fund and Special Funds Financial Statements also contained a scope limitation regarding the amount of the emergency expenses excluded in the determination of a positive balance under Section 3(2) of The Balanced Budget, Debt Repayment and Taxpayer Accountability Act. Suitable criteria to use in determining an amount for emergency expenditures were absent. As a result, the amount was not auditable and no opinion was expressed on the excluded amount.

This report also highlights that the Government's summary budget continues to lack sufficient detail to enable the Members of the Legislative Assembly to fully debate the planned use of public resources and to fully evaluate the actual results achieved against the budget.

In our review of the province's Annual Report for the year ended March 31, 2004, we noted a lack of emphasis on the Summary Financial Statements in the discussion and analysis. In addition, there was no discussion or analysis of risk and how the Government addressed risk. The Government highlighted the positive actions taken and did not make reference to areas in which the Government had not achieved the intended goals and objectives for the year.

This year's report also includes a review of the narrative in the province's annual report comparing the communication to Public Sector Accounting Board and CCAF reporting standards.

The changes in financial reporting in the world that have resulted from disasters such as Enron and Worldcom have necessitated assurance standards boards to issue updated auditor requirements to consider fraud and error in an audit of financial statements. Our report section titled, *Ethics and Responsibilities in the Preparation of the Public Accounts,* discusses the applicability of such requirements in the public sector.

HIGHLIGHTS OF THE 2003/04 PUBLIC ACCOUNTS

Highlights of the 2003/04 Public Accounts

SUMMARY FINANCIAL STATEMENTS

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

FIGURE 1

Summary Financial Statements
Year Ended March 31

	($ millions)				
	2004	**2003**	**2002**	**2001**	**2000**
Actual summary annual (deficit) surplus	**(604)**	(184)	(10)	431	132
Budgeted summary annual (deficit) surplus	**(110)**	(133)	36	N/A	N/A
Net borrowings	**(8,992)**	(8,217)	(8,117)	(8,152)	(7,660)
Public borrowing interest expense	**1,439**	1,449	1,818	1,885	1,528
Change in net debt (increase)	**(1,200)**	(437)	(350)	22	(175)

Source: *Province of Manitoba Annual Reports for the years ended March 31, 2001 - 2004*
Volume 1 - Financial Statements of the Province of Manitoba, 1999-00

- The Summary Financial Statements for the year ended March 31, 2004 were prepared in accordance with Canadian generally accepted accounting principles (GAAP) except that:
  - $1,138 million of infrastructure tangible capital assets was not recorded;
  - the non-devolved health care facilities were included on a combined basis of accounting instead of being fully consolidated;
  - there was no restatement of the correction of errors; and
  - the presentation of net debt and the change in net debt were not in accordance with GAAP.
- Without the above exceptions, assets would have increased by $986 million, liabilities would have decreased by $135 million, the accumulated deficit would have decreased by $1.121 billion, revenues would have increased by $112 million, and expenses would have increased by $103 million.
- The Government has committed to recording infrastructure tangible capital assets in the 2005 Public Accounts.

SPECIAL PURPOSE OPERATING FUND AND SPECIAL FUNDS FINANCIAL STATEMENTS

- One clear 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, and do, occur and net debt to GDP can, and does, go up.
- These financial statements are prepared using the Government's accounting policies which vary from GAAP for the year ended March 31, 2004 as follows:
  - pension liability of $3.6 billion and pension expense of $182 million were not recorded;
  - employee future benefits liability of $245 million and the related expense of $36 million were not recorded;
  - elimination of deferred charges (asset) of $497 million and the related expense of $51 million were not recorded;
  - assets of $2,086, a reduction in liabilities of $795 million, revenues of $705 million and expense of $958 million for all of the crown organizations and government enterprises were not recorded;
  - $1,138 million of infrastructure tangible capital assets and a reduction of $10 million of expenses were not recorded;
  - there was no restatement of the correction of errors; and
  - the presentation of net debt and the change in net debt were not in accordance with GAAP.
- Without the above variations from GAAP, the Special Purpose Operating Fund and Special Funds Financial Statements would have reflected increased assets by $2.727 billion, increased liabilities by $3.019 billion, increased accumulated deficit by $292 million, increased revenues by $705 million, and expenses would have increased by $1.217 billion.

ETHICS AND RESPONSIBILITIES IN THE PREPARATION OF THE FINANCIAL STATEMENTS OF SENIOR GOVERNMENT

Ethics and Responsibilities in the Preparation of the Financial Statements of Senior Government

There continues to be a wave of change in the world regarding transparency and accountability in financial reporting following financial disasters such as Enron and Worldcom. The financial disasters and professional misconduct that occurred have changed the standards for all audits including those in the public sector. Standards have evolved to meet the public's expectations regarding the auditor's role with respect to fraud and error in financial statements.

The Audit and Assurance Standard Board of the CICA amended Canadian Standard 5135 – The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements. The amendments became effective for year ends ending on or after December 15, 2004.

The Canadian Standard reflects the following which we highlight in the context of a public sector environment:

- More emphasis on responsibilities of auditors (Auditors General), management (Treasury Board equivalents and the Departments of Finance) and those with governance responsibilities (cabinets, governments, Public Accounts Committees, and Legislative Assemblies);
- Eliminates the assumption of management's good faith;
- Significantly more guidance on assessing risk of misstatement due to fraud; including requirements to make enquires of management and others within the entity, and understanding the role of those charged with governance;
- A discussion of earnings management. Fraudulent financial reporting can be caused by the efforts of management to manipulate the entity's financial position or to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's creditworthiness or solvency, or performance and profitability;
- Significantly more emphasis on management's ability to override internal controls and management fraud generally;
- Requires procedures to be performed to address management's ability to override internal controls (i.e., testing journal entries, reviewing accounting estimates for bias, understanding business rationale for significant, unusual transactions);
- Classification of fraud risk factors into factors relating to incentive to commit fraud, opportunity to commit fraud and the ability to rationalize the fraudulent act; and
- Requires procedures to be performed to address the presumed risk of improper revenue recognition.

Fraud in the context of an audit, means a deliberate material misstatement of the financial statements and is not limited to a legal definition of fraud. Fraud, from an audit perspective, could be the manipulation of the annual results or the financial position of an organization by management in order to achieve a certain outcome (earnings management). This could be accomplished by omission in that management fails to disclose key information or transactions, or misrepresents transactions, or management deliberately reports transactions in a manner that is not clear and transparent.

Fraudulent financial reporting involves intentional misstatements, including omissions of amounts or disclosures in financial statements, to deceive financial statement users. Fraudulent financial reporting may be accomplished by the following:

a) manipulation, falsification (including forgery) or alteration of accounting records or supporting documentation from which the financial statements are prepared;

b) misrepresentation in, or intentional omission from, the financial statements of events, transactions or other significant information; and

c) intentional misapplication of accounting principles relating to amounts, classification, manner of presentation, or disclosure.

Our work in this area found no evidence of fraud in either the Summary Financial Statements or the Operating Fund Financial Statements.

When we reflect on the historic financial reporting practices of the Province in the context of the worldwide call for improved accountability and transparency, we believe the Members of the Legislative Assembly should consider the following questions:

- Is issuing **two sets of statements** to the citizens of Manitoba appropriate?

  Considerations are:

  - While the Operating Fund financial statements are required to demonstrate the government is in compliance with balanced budget legislation, using these financial statements could be dangerous if used to influence public policy decisions or to evaluate the fiscal health of the Province.
  - Shareholders of public companies would not tolerate a company that produced two different sets of audited financial statements each year.
  - Should balanced budget legislation be amended to require the government to produce only one set of financial statements that comply with GAAP?
  - Will citizens be able to properly interpret financial statements prepared with "made in Manitoba" accounting rules that no one else in the world uses?

The Province of Manitoba has been issuing two sets of financial statements since 1988. The Government response to our recommendations is intended to address this in the near future.

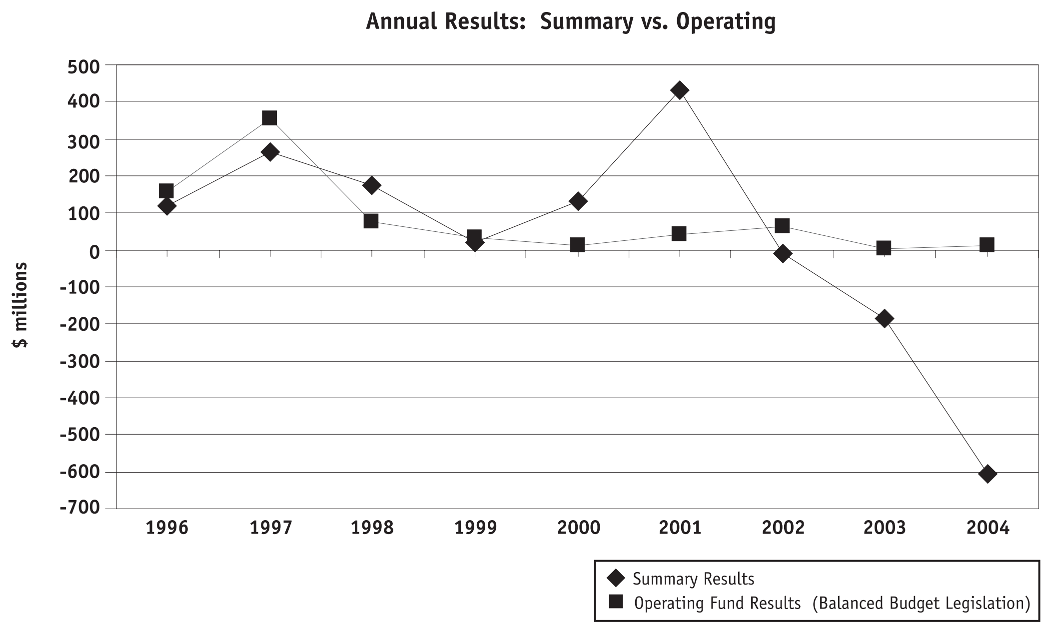
- Is the preparation of statements for the purpose of Balanced Budget Legislation compromising financial decision-making?
- Is it appropriate to issue an unaudited 4th quarter report that differs materially from the audited financial statements?

- Is it appropriate to issue quarterly reports of financial information that are meaningless for purposes of assessing the Province's financial performance?
- Is the use of a Fiscal Stabilization Fund to assist in improved annual reported results as permitted under Balanced Budget legislation a form of earnings management?

THE WHOLE STORY: THE 2003/04 PUBLIC ACCOUNTS PRESS RELEASE

The Whole Story: The 2003/04 Public Accounts Press Release

FIGURE 2



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. We believe that the Government, in its press release, has failed to provide key information in the discussion about the 2003/04 Public Accounts by omitting any reference to the annual results in the Summary Financial Statements. The Government's press release is a powerful communication tool. Manitobans, relying on the information provided in the press release, may have come to the conclusion that there was no annual deficit and that financial picture of the Province had not changed.

When the Government released the Public Accounts for the year ended March 31, 2004 on September 30th, they issued a press release which read, in part, " ….*Positive Operating Balance of $13 million recorded in Public Accounts*". A careful reader of the press release will notice that there was no mention of the $604 million annual deficit reflected in the Summary Financial Statements in that press release. This deficit is the second largest deficit incurred by the Province since 1988 when Summary Financial Statements were first produced. (The largest deficit, including the unrecorded pension expense of $153 million, was $822 million in 1993.)

It is important to note that it is highly unlikely that a deficit of this magnitude will reoccur in the 2004/05 fiscal year. A primary driver of the 2003/04 results were the losses incurred by Manitoba Hydro (a well run company) because of a severe drought in Manitoba. By failing to discuss the negative financial results in its press release, the government missed an opportunity to demonstrate how events beyond the government's control can dramatically change results from those planned. The effect of this significant weather event on the government's finances was not communicated to Manitobans. We believe the failure to communicate information such as this diminishes the quality of public discussion of the government fiscal performance.

The Government did balance the budget in accordance with the provisions of the Balanced Budget, Debt Repayment and Tax Accountability Act (Act) by taking an additional draw on the Fiscal Stabilization Fund. The Government transferred $171 million ($120 million more than budgeted) from the Fiscal Stabilization Fund, which was $13 million more than was needed to balance the budget and which in effect created the $13 million positive balance. The press release states, *"... we recorded a positive result of $13 million compared to the $6 million projected in the Fourth Quarter Financial Report, said Selinger. We will continue to uphold balanced budget Legislation while providing support to important social progress and reducing Manitoban's tax burden"*. The whole story here is that the number could have been $6 million, but the Government chose to withdraw $7 million more from the Fiscal Stabilization Fund in order to report a $13 million positive balance. The government could just as easily have chosen to create a positive balance of anywhere between zero dollars and $79 million.

However, the Government did not mention that they excluded $71 million in emergency expenses in accordance with Section 3(2) of the Act. That section of the Act indicates that a government is not required to include 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, in determining whether there is a positive or negative balance for a fiscal year.

Furthermore, that $171 million transfer, needed to balance the budget, and the $71 million excluded emergency expenses are not considered appropriate accounting treatments under generally accepted accounting principles (GAAP). These non-GAAP accounting treatments, while in compliance with the Act, are important reasons why special purpose financial statements can be so misleading regarding a government's performance and management of resources on an annual basis.

In addition, using the Special Purpose Financial Statements to assess the Government's annual results and the Province's financial position gives an incomplete picture. Only the Summary Financial Statements incorporate the annual results and financial position of all the entities in the Government Reporting Entity of the Province of Manitoba and are more closely prepared in accordance with GAAP. As a result, the Summary Financial Statements provide better information to assess the Government's management of the Province's financial affairs and resources.

In conclusion, the whole story means presenting and discussing the annual results and the financial position as reported in the Summary Financial Statements and not the Special Purpose Financial Statements. We believe the government failed in its duty to communicate accurate information to citizens to enable them to make an informed judgment of the Province's fiscal performance. We believe that the Government should focus, in their communications, on the Summary Financial Statements to explain to Manitobans the 'big picture' both in terms of the annual results and the change in net debt.

SUMMARY OF RECOMMENDATIONS

Summary of Recommendations

The following recommendations are presented in further detail within this report.

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.

RESPONSE FROM OFFICIALS

The Manitoba Government is committed to work with the Office of the Auditor General on a plan that would see it present its Budget and other financial reports on a Summary basis. Such a plan would include developing an appropriate test of fiscal responsibility, identifying the additional resources needed across the government reporting entity to implement this recommendation, and the feasibility of implementing a Summary basis of budgeting and reporting for 2007/08. Any new reporting framework would need to incorporate balanced budget tests that are consistent with the intent of the original Balanced Budget legislation. The Government must also exercise due care to respect the funding and governance relationships that have been established for organizations in the wider Government entity, including universities, schools, and hospitals as it moves toward presenting its Budgets on a Summary Basis. The Government is prepared to work with the Auditor General to ensure that these objectives are met in a clear and appropriate manner.

Recommendation 2

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

RESPONSE FROM OFFICIALS

The Manitoba Government's current quarterly reporting practices have been designed to inform the public on whether or not the Government continues to be on target in relation to its budget plan. As indicated in the response to Recommendation 1, the Government is prepared to work with the Auditor General and to consult with Manitobans to determine what financial information is most valuable to them and to ensure it is presented in the clearest possible fashion within the GAAP framework.

Recommendation 3

That unaudited 4th quarter reports not be issued.

RESPONSE FROM OFFICIALS

The Government accepts this recommendation and will explore opportunities to achieve earlier publication of the final annual report containing the audited statements for the Public Accounts.

Recommendation 4

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

Alternatively, 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.

RESPONSE FROM OFFICIALS

Government has taken the necessary actions to conform to the GAAP treatment of infrastructure assets for 2004-05. Government will also be taking steps to eliminate as many of the other GAAP exceptions in its Summary Statements as are feasible within its resources.

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.

RESPONSE FROM OFFICIALS

The Government is prepared to consider this recommendation as part of the initiative described in the response to Recommendation 1. While the Government understands that Manitobans and other stakeholders have a significant interest in the financial position of the provincial public sector as a whole, the Government also believes that Manitobans 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 6

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

Current Balanced Budget Legislation refers to the Consolidated (Operating) Fund. If the test in this legislation was simply amended to refer to Summary Statement results, there would be no mechanism to absorb large year to year changes in revenue or costs, such as the major revenue decreases suffered by the Manitoba Hydro-Electric Board in 2003-04 or the extraordinary emergency costs that arose in the agriculture sector in the same year. The Government is prepared to work with the Auditor General and to consult with the public to develop proposals for a Balanced Budget test that would appropriately reflect the goals of maintaining financial discipline and protecting essential services in the context of Summary Budget reporting.

Recommendation 7

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.

RESPONSE FROM OFFICIALS

The Manitoba Government accepts this recommendation. This change will be reflected in the 2004-05 public accounts.

Recommendation 8

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.

RESPONSE FROM OFFICIALS

Internal Audit and Consulting Services (IA&CS) provides internal audit services across the Government. As outlined in our response to the recommendation in 2003, a significant amount of testing of SAP controls is built into these ongoing audit plans and these activities were continued in 2003. A government-wide payroll and benefits audit plan was completed in 2004. While the Manitoba Government would like to allocate more to toward this activity, it is concerned that the overall additional resources required for other initiatives outlined in these responses are already significant.

Recommendation 9

We recommend 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.

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 MDT 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 MDT, two initiatives are currently underway in government:

- *A review of the overall use of SAP as the government's business management tool is being conducted under the direction of the department of Energy Science and Technology.*
- *A review of the roll-out of MDT is being 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.*

We expect these reviews to be completed by March 2005. The results of these two reviews will significantly influence the progress for the broader implementation of the MDT.

Recommendation 10

We recommend, 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. Additionally, departments are being required to ensure the issue is satisfactorily addressed in their departmental Comptrollership plans. Significant additional effort is being directed to the completion of Comptrollership plans, which will be critically reviewed, with special emphasis on their full implementation.

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.

RESPONSE FROM OFFICIALS

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.

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

A significant effort is being directed to the completion of the plans, which are being critically reviewed as they arrive in the Comptroller's Office, with special emphasis on ensuring that this requirement is being met.

Recommendation 12

We recommend a well thought out and effective Business Continuity Plan, one component being disaster recovery having been completed, should 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 for the last several years. For example, A Disaster Recovery (D/R) site was established in 2002 and a corresponding Plan has been developed that addresses the coverage around the SAP application. Operating procedures to affect the plan have been developed and tested at the site. The plan was tested this past summer. We are pleased to report that production SAP services were successfully run on the D/R site for a three week period. There were no issues or degradation in service levels. Personnel have been assigned and trained in the execution of the plan. Associated documentation outlining the D/R plan is being revised to reflect the recent hardware upgrade. MICT expects to complete the D/R documentation early in the 2005-06 fiscal year.

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

Recommendation 13

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.

RESPONSE FROM OFFICIALS

The practice of charging government departments with the debt servicing costs for their capital programs, including loans and capital investments requires that departments have an interest in carefully considering interest costs as they make their operating and funding decisions. The Government is prepared to work with the Auditor General to develop an appropriate display of debt servicing costs while ensuring that departments continue to assume responsibility for the interest costs associated with their programs.

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.

RESPONSE FROM OFFICIALS

These criteria are under development and will be discussed with the Auditor General's Office.

Recommendation 15

That the Government of Manitoba 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

Figure 9 in the Auditor's Report recognizes that many of the recommendations of the FSD&A are in place in the annual report which this government introduced for the first time for the 2000-01 fiscal year. The Government acknowledges that further improvements can be made and will work toward that objective in this and future years.

Recommendation 16

That the Government review this situation and develop a plan to discharge its 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.

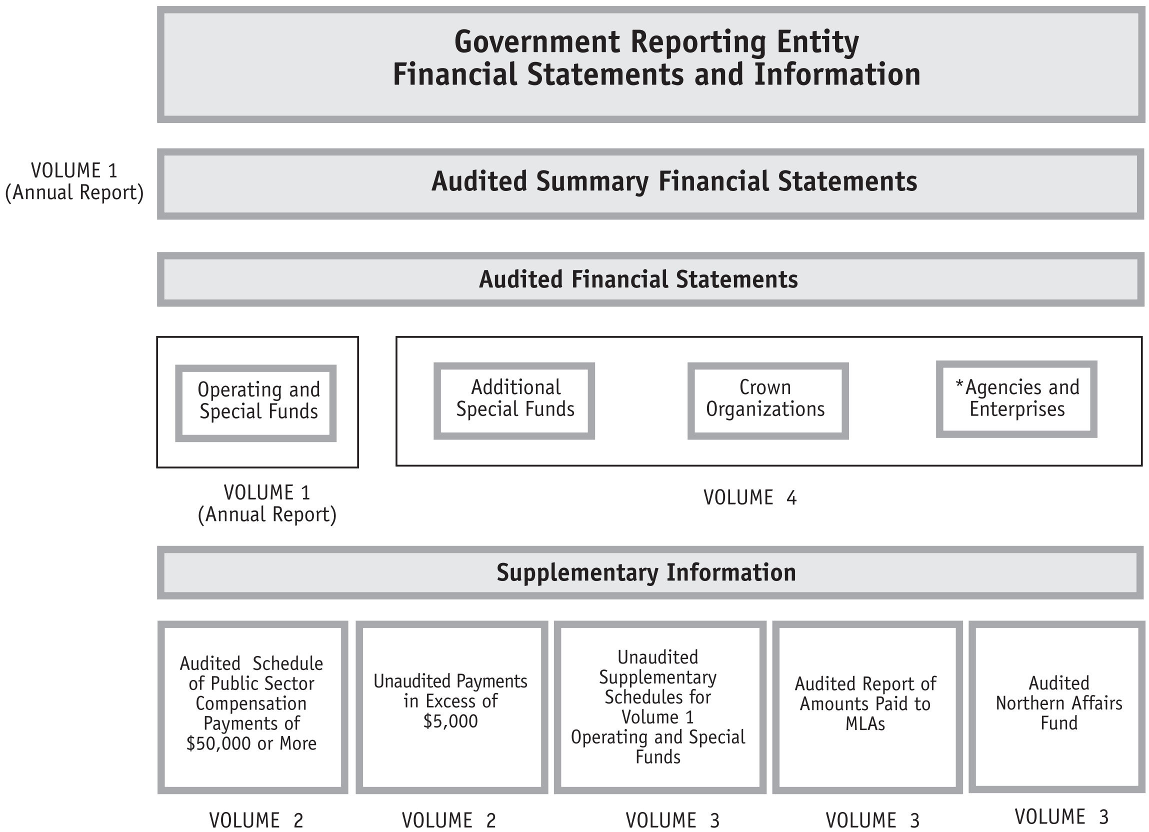
RESPONSE FROM OFFICIALS

Cash is flowed to the organizations when it is needed. It must be understood that the liabilities, to which these receivable amounts are related, are accounting accruals, not cash requirements. It is not government practice to provide cash for this purpose before it is required. The Manitoba Government has communicated to organizations, at the time that these benefits liabilities were accrued, that they were expected to manage increases to those liabilities within their funding framework, and subsequent communications have been sent to various organizations who have requested clarification. Officials will undertake to craft an up-to-date communication of the arrangement respecting these liabilities, and forward to all organizations affected.

OVERVIEW OF THE PUBLIC ACCOUNTS

Financial Reporting Structure

Financial Reporting Structure of Manitoba's Public Accounts



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

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

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

Public Accounts are represented by two distinct sets of financial statements. The Summary Financial Statements are the General Purpose statements of the Government. They provide audited information on the aggregate financial affairs and resources for which the Government is responsible, including government enterprises and crown organizations as listed in **Appendix E**. The Summary Financial Statements are prepared in accordance with public sector accounting standards (as issued by the Public Sector Accounting Board [PSAB]) of the Canadian Institute of Chartered Accountants (CICA) with notable exceptions. These statements are the appropriate statements to use when comparing the operating results and the financial position of the Province to other provinces and the federal government. The consolidated net loss reported in the Summary Financial Statements of the Government for 2003/04 was $604 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 2003/04 the Government recorded a positive balance of $13 million including interfund transfers from the Fiscal Stabilization Fund and to the Debt Retirement Fund and, therefore, was in compliance with balanced budget legislation. These statements do not incorporate the Government's unfunded pension liabilities or the results of other organizations owned and controlled by the Government as included in the Summary Financial Statements.

The Public Accounts for the 2003/04 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:

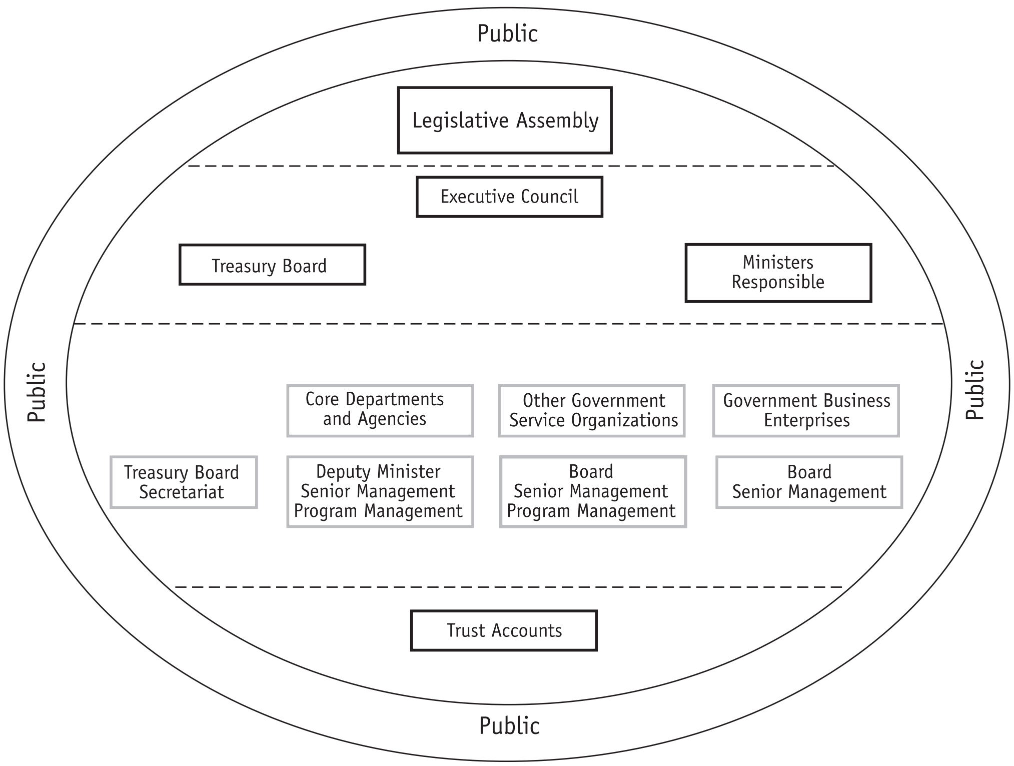
- the audited Summary Financial Statements;
- the audited Special Purpose Financial Statements of the Operating Fund and Special Funds (Operating Fund);
- the Minister of Finance's comments for the year ended March 31, 2004;
- information on the Manitoba economy;
- discussions on financial indicators; 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



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

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

Auditor Independence and Objectivity

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

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

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

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

We 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

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, 2004 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, 2004, a fourth paragraph was added to the Auditor's Report on the Summary Financial Statements. This fourth paragraph states that if Canadian generally accepted accounting principles had been used in the preparation of the Summary Financial Statements, assets would increase by $986 million, liabilities would decrease by $135 million, the accumulated deficit would decrease by $1.121 billion, revenues would increase by $112 million, and expenses would increase by $103 million. The reason for the adjustments is because tangible capital assets related to infrastructure are not recorded in the Summary Financial Statements (the Government has committed to recognize infrastructure tangible capital assets in the 2004/05 Summary Financial Statements), and because the Government's policy for accounting for non-devolved health care facilities on a combined basis of accounting is not in accordance with generally accepted accounting principles. The assets, liabilities, revenues and expenses of non-devolved health care facilities should be fully consolidated in the Summary Financial Statements.

In Manitoba, the Summary Financial Statements are presented in the Annual Report, together with the Auditor General's Report thereon. For the eighth consecutive year, the Auditor General's Report on the Government's Summary Financial Statements was issued without reservation. As was noted above, however, the audit opinion is not a Generally Accepted Accounting Principles' (GAAP) opinion, and the exceptions to GAAP are separately disclosed and where possible, quantified, in Note 1 to the Summary Financial Statements for the year ended March 31, 2004 as reproduced in **Appendix B**.

Our Office continues to recommend that the Government commit to the full adoption of GAAP by a defined date.

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

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

The Auditor's Report on the Special Purpose Financial Statements of the Operating Fund and Special Funds is included for reference in **Appendix C**, along with an excerpt of the Operating Fund and Special Funds for the year ended March 31, 2004 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 2004, $577 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.

FIGURE 3

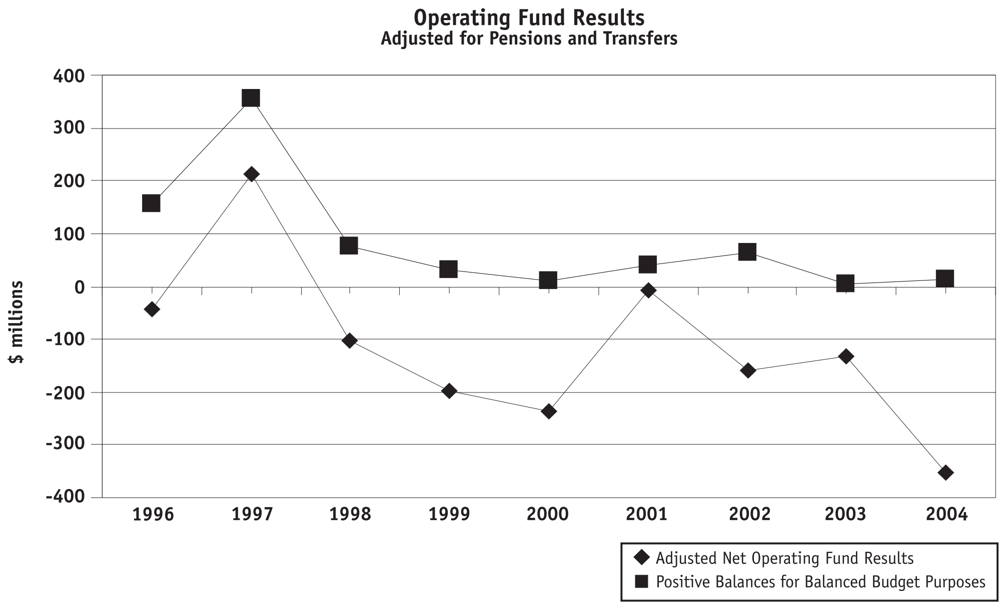
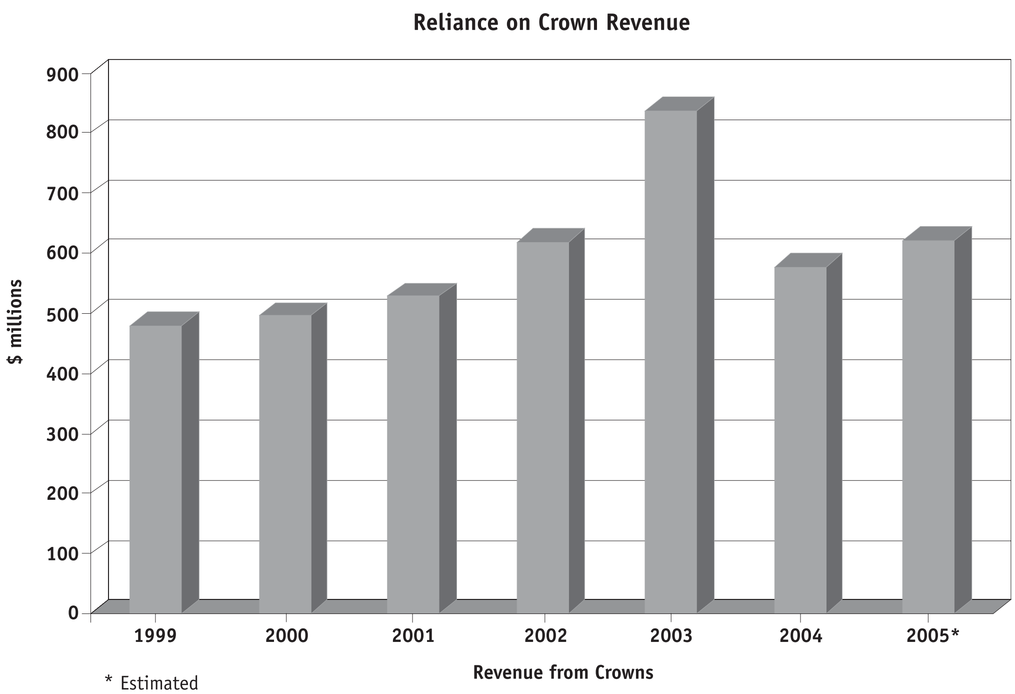


FIGURE 4



As a result of changes to generally accepted auditing standards for the 2003/04 fiscal year, the Auditor's Report on the Special Purpose Financial Statements of the Operating Fund and Special Funds 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 more 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 is also a paragraph 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 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 and the elimination of disaster related expenses, 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 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, assets would increase by $2.727 billion, liabilities would increase by $3.019 billion, the accumulated deficit would increase by $292 million, revenues would increase by $705 million, and expenses would increase by $1.217 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, 2004 as reproduced in **Appendix D**.

Opinion Paragraph

The opinion paragraph was changed this year and the word 'fairly' was excluded from 'presents fairly'. This change was 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.

The Auditor's Report also included a scope limitation on the audit of the Special Purpose Financial Statements related to the exclusion of emergency expenses under Section 3(2) of balanced budget legislation. The scope limitation section of the Report stated:

> **"Scope Limitation**
>
> *My opinion on these financial statements does not include an opinion on the amount recorded as emergency expenses excluded in the determination of a positive balance under Section 3(2) of The Balanced Budget, Debt Repayment and Taxpayer Accountability Act. There is an absence of suitable, generally accepted criteria for use in determining an amount for emergency expenditures as called for by the Balanced Budget, Debt Repayment and Taxpayer Accountability Act (Act). As a result, the amount is not susceptible to audit verification and I express no opinion on the amount.*
>
> *Section 3(2) of the Act indicates that the government is not required to include 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, in determining whether there is a positive or negative balance for a fiscal year.*

Section 3(3) of the Act indicates that a declaration by the Lieutenant Governor in Council that, in the opinion of the Lieutenant Governor in Council, an expenditure as described in the preceding paragraph has occurred is conclusive for the purposes of the Act of the fact that the expenditure occurred and in that amount.

Section 3(4) of the Act indicates that the declaration as described in the preceding paragraph shall include a description of the expenditure and why it was necessary.

The government has complied with the above sections in preparing these special purpose financial statements."

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

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 2003/04, the unrecorded pension liability for the Operating Fund approximated $3.6 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 $267 million or 7% of the unrecorded pension liability outstanding at March 31, 2004.

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

In the 2003 fiscal year, the Government 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. The liability reported by those entities for the year ended March 31, 2004 totaled $245 million and this liability was disclosed in the notes to the financial statements. In accordance with an agreement reached last year, the Government will begin recording this liability in the Special Purpose (Operating Fund) Financial Statements in the 2005 fiscal year. This liability is recorded in the Summary Financial Statements.

PUBLIC ACCOUNTS - IMPROVEMENTS AND RECOMMENDATIONS

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

Improvements in Financial Statement Reporting

SUMMARY FINANCIAL STATEMENT PRESENTATION AND DISCLOSURE

We routinely advise the Comptroller 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). The improvements reflected in the Summary Financial Statements for the year ended March 31, 2004 are as follows:

- Recognition of capital grants to school boards and the borrowings incurred to fund these capital grants;
- Recognition of the loan payable to Manitoba Liquor Control Commission;
- Disclosure and quantification, where possible, of the differences between the Government's accounting policies and generally accepted accounting principles (GAAP) in Note 1 to the financial statements;
- Disclosure of foreign exchange risk in accordance with the new accounting standard;
- Expanded disclosure regarding the Province's contingent liabilities related to membership in Canadian Blood Services and the settlement of obligations under Treaty Land Entitlement agreements; and
- Expanded disclosure of interest rates and repayment terms (instalments due) on loans and advances receivable.

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

RECOGNITION OF CAPITAL GRANTS TO PUBLIC SCHOOLS AND HEALTH CARE FACILITIES

During the 2004 fiscal year, we identified that the Government's accounting policy related to the recognition of certain capital grants to health care facilities and schools boards was not in accordance with public sector accounting standards for senior governments or the government's stated accounting policies. We found that the Estimates of Expenditure provided for annual grants to school boards and health care facilities to enable them to redeem debentures held by the Province and crown organizations. Public sector accounting standards state that where a government provides the funding to enable an entity to repay its debt and the government and/or crown organizations that are part of the government's reporting entity, hold the debt as an investment, the investment is, in substance, a grant. In addition, the government should account for these monies as grants in the fiscal year when the initial funding flows and record any borrowings incurred by the government to finance the grants.

As a result, the Government, in the Special Purpose Financial Statements, recognized $526 million in capital grants, $456 million for schools and $70 million for health care facilities, during the 2004 fiscal year. The correction of this error involved the recognition of past transactions and current year grants. $230 million in portfolio investments held in sinking funds were recorded as grants and the debt owed to Manitoba Public Insurance Corporation and Manitoba Hydro-Electric Board in the amount of $296 million was recorded. In addition, $24 million in capital grants was recorded as an expense in the 2004 fiscal year with the balance of $502 million ($433 for schools and $69 million for health care facilities) charged to the accumulated deficit.

A similar adjustment was made to the Summary Financial Statements.

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

OTHER SIGNIFICANT ACCOUNTING ISSUES IN THE 2003/04 PUBLIC ACCOUNTS

Manitoba Liquor Control Commission

In the 1999/00 fiscal year, Manitoba Liquor Control Commission (MLCC) first began recognizing its pension liability. The initial recognition of the liability was offset with a long-term funding commitment asset from the Province. Each fiscal year thereafter, MLCC continued to increase the long-term asset (receivable) and record revenue from the Province by the annual increase in the pension liability.

However, the Province did not recorded this liability to MLCC in the Special Purpose (Operating Fund) Financial Statements because the Province treated it as a pension liability which, in accordance with the Province's accounting policy, is not recognized in the Operating Fund Financial Statements. This liability is only disclosed in the notes to the financial statements. But the Province did record the liability in the Summary Financial Statements as part of its pension liability.

In the 2003/04 fiscal year, we reviewed this accounting treatment and concluded that as a government business enterprise MLCC is self-sustaining and should be responsible for all of its operating costs including its pension costs. We did not consider it appropriate for the Province to assume MLCC's pension liability. In substance, MLCC had overstated its net profits in prior years for the unrecorded pension costs. As a result, the revenue reported in the Special Purpose Financial Statements had also been overstated.

Therefore, the Operating Fund, as the recipient of the net profits (revenue) from MLCC, recorded the cumulative overpayment of profits which as at April 1, 2003 amounted to $41 million. As well, the Government reduced the 2003/04 net profits reported from MLCC by $2 million to reflect the effect of eliminating the revenue from the Province recorded on MLCC's financial statements and which was included in determining MLCC's net profits.

For the year ended March 31, 2004, the Government recorded the loan payable to MLCC and charged the accumulated deficit for $41 million to correct its previous accounting treatment and reflect the cumulative overstatement of net profits. In addition, the Government consolidated other balances owing to MLCC to arrive at a total loan payable of $45 million; the Province's net revenue from MLCC's 2003/04 net profits was also reduced by $2 million to $174 million.

Red River College

During the 2004 fiscal year, we identified, in the Special Purpose Financial Statements, that the Government was not accounting for the $34 million capital grant to Red River College for the purpose of the purchasing the Princess Street campus, in accordance with its stated accounting policy. The Province's accounting policy is that all capital grants to Colleges are recorded as an expense in the year the funding is provided. The Government had departed from this practice and had recorded a loan receivable from the College.

Furthermore, the Government had intended to provide future appropriations to Red River College to permit the College to 'repay' the Government for the loan. In accordance with public sector accounting standards, a loan receivable held by a government which is to repaid through future appropriations is in substance a grant and should be recorded as a grant in the fiscal year the initial funding flows.

As a result, the Government recognized that the loan receivable from Red River College was in substance a capital grant, recorded a charge of $13 million to the accumulated deficit and recorded $21 million to grant expense to correct the accounting for the capital grant to Red River College.

Manitoba Housing and Renewal Corporation

During the 2004 fiscal year, Manitoba Housing and Renewal Corporation (MHRC) restated the accumulated amortization of its housing tangible capital assets according to the estimated useful life of the housing stock. The amortization had previously been based on the term of the principal repayment of the related debt incurred to acquire the property. This change resulted in a $230 million charge to the accumulated deficit on MHRC's financial statements. The valuation of the provision of doubtful accounts related to the loan receivable from MHRC is based on the accumulated deficit of MHRC. Therefore, the increase in MHRC's accumulated deficit was also reflected as an increase to the accumulated deficit on the Summary Financial Statements and Operating Fund Financial Statements.

Previous Recommendations Implemented

Figure 5 summarizes the implementation of recommendations made in the last five years.

FIGURE 5

Recommendations Implemented Over the Past Five Years

Year First Recommended	Recommendation	Year Recommendation Implemented
1999	That the Government stop the practice of recording transfers from the Fiscal Stabilization Fund as revenue in the Operating Fund Financial Statements.	2000
1997	That the Government should include both the Summary Financial Statements and the Operating Fund Financial Statements in Volume 1 of the Public Accounts.	2000
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

We commend the Government for the implementation of the above recommendations.

FOREIGN EXCHANGE CLEARING ACCOUNT

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

As we noted in prior years, the fundamental problem was the design of SAP together with the fact that no one had been designated to ensure that the account was cleared monthly. Action has been taken with regard to both problems through changes in the use of SAP, and by staff monitoring the account. However, there were still irregularities in the accounts in the 2002/03 fiscal year. The clearing account was being cleared on a current basis and the combined total of the Canadian dollar foreign exchange translation of the balances of the US dollar bank accounts was accurate. But the clearing of the clearing accounts resulted in the Canadian dollar translation of the individual US dollar bank accounts balances being misstated. In addition, the US dollar bank account balances were translated in accordance with the Province's accounting policy of average exchange rates rather than the year end exchange rate.

However, this year we found that the Department of Finance had taken the additional action necessary to completely address these misstatements. In addition, they adjusted 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 used in prior years.

We commend the Government for the action taken to address the problems associated with the accounting for the foreign exchange clearing account.

ACCOUNTING FOR INFRASTRUCTURE ASSETS

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

In addition, the lack of recognition of infrastructure assets was reflected in the Summary Financial Statements as an exception to generally accepted accounting principles for senior governments and is estimated at $1,138 million as at March 31, 2004. The Government also stated in the Summary Financial Statements for the year ended March 31, 2004 that the process to establish the completeness and reasonableness of the estimated historical cost of infrastructure and to develop reporting policies in order to recognize infrastructure is ongoing.

The Government has advised us that they intend to record infrastructure tangible capital assets in the 2005 fiscal year. We will review the Government accounting policies and the documentation to support the initial recognition of the infrastructure during the 2005 fiscal year.

Furthermore, according to the PSAB Research Study on Accounting for Infrastructure in the Public Sector, the key accounting policy should be that infrastructure assets subsequent to acquisition, which encompasses most of the Province of Manitoba's infrastructure assets, should be recorded at historical cost with disclosure of infrastructure costs using current depreciated reproduction cost.

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

The challenge for the Government will be to accumulate the appropriate information necessary to apply this accounting policy consistently within each of the various infrastructure systems or at least within a component of a system. In addition, the Government could also consider using the Research Study's guidance to assist them in defining the detailed application of their accounting policy(ies) including the appropriate amortization policies as well as in developing a range of other useful management information. This information gathering process as mentioned earlier is well underway.

We commend the Government for setting the 2005 fiscal year as the 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.

Previous Recommendations Not Yet Implemented

Figure 6 is a summary of OAG recommendations not yet implemented by the Department of Finance and/or the Government of Manitoba.

FIGURE 6

Recommendations Not Yet Implemented	
Year of Recommendation	**Recommendation**
1999 (Recommendation #9)	We recommend 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.
1999 (Recommendation #10)	We recommend, 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)	We recommend a well thought out and effective Business Continuity Plan, one component being disaster recovery having been completed, should 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.
2001 (Recommendation #2)	That the quarterly reports of the Province, a financial reporting tool, be prepared in accordance with generally accepted accounting principles.
2001 (Recommendation #3)	That unaudited 4th quarter reports not be issued.
2002 (Recommendation #4)	That the Government consider amending The Financial Administration Act to require that Canadian Public Sector Accounting Standards for Senior Governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, without exceptions (GAAP), be the basis of accounting for all government financial reporting including the Summary Financial Statements, the Summary Budget and the Quarterly Reports. Alternatively, 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.
2002 (Recommendation #7)	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.
2002 (Recommendation #8)	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.
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.

SUMMARY BUDGET

Over the past three 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 2004 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 debate the planned use of public funds. As well, it is the comparison of the Summary Financial Statements' actual results with that detailed summary budget which permits a thorough analysis of the Province's financial position compared with planned results, and provides the ability to measure the Government's management of public resources.

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

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

Recommendation 1

First recommended in the 2001 Report to the Legislative Assembly.

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.

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 GAAP in its quarterly reports. As well, we believe that unaudited 4th quarter reports should not be issued.

Recommendation 2

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

First recommended in the 2001 Report to the Legislative Assembly.

Recommendation 3

That unaudited 4th quarter reports not be issued.

First recommended in the 2001 Report to the Legislative Assembly.

FINANCIAL REPORTING

Exceptions to GAAP in the Summary Financial Statements

The notes to the Summary Financial Statements indicate the following exceptions to GAAP:

1. Changes in accounting policy and correction of errors

   "Material adjustments may result from changes in accounting policy or from the correction of an error which are attributable to and identifiable with prior periods. It is the Government's practise 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."

2. Infrastructure Costs

   "The process of establishing the completeness and reasonableness of the estimated historical cost of the tangible capital assets is ongoing. Reporting policies are currently being developed and information is being gathered for other expenditures which include infrastructure such as highways, bridges, and land acquired for public use. If Canadian GAAP had been used to record the infrastructure tangible capital assets, management estimates that, at March 31, 2004, the tangible capital assets would increase by $1,138 million, the accumulated deficit would decrease by $1,128 million and expenses would decrease by a net amount of $10 million."

As noted elsewhere in this report, the government has advised that it intends to eliminate this exception in the year ended March 31, 2005.

3. Disclosure of Net Debt

   "The CICA recommends certain standards for reporting tangible capital assets and net debt. Although the Government has adopted the standards related to tangible capital assets, it has not fully adopted the recommended presentation of net debt. Summary Net Debt (Schedule 12) provides a reconciliation from accumulated deficit to net debt. If Canadian GAAP was used net debt would appear on the Summary Statement of Financial Position and there would be a Summary Statement of Changes in Net Debt."

4. Non-devolved health care facilities

   "The Government has adopted a policy of including the assets, liabilities and equity of health care facilities, which have not devolved their ownership to Regional Health Authorities in its financial statements on a combined basis. In 2000/01, the Province began a program of financing the debt for major capital acquisitions of the non-devolved health care facilities. This debt is included as part of the Province's general purpose borrowings. The related asset for non-devolved health care facilities is recorded as a deferred charge and is amortized over the same period as the term of the debt issue. The annual net income (loss) of the non-devolved health care facilities is recorded in the Summary Statement of Accumulated Deficit instead of the Summary Statement of Revenue and Expense. The assets and liabilities are not adjusted on a basis consistent with the accounting policies of the Government reporting entity. If Canadian GAAP had been used to record these transactions, assets would decrease by $152 million (2003 - $155 million), liabilities would decrease by $135 million (2003 - $146 million), accumulated deficit would increase by $17 million (2003 - $9 million), revenues would increase by $112 million (2003 - $103 million) and expenses would increase by $113 million (2003 - $103 million)."

Adoption of GAAP

Four jurisdictions, Nova Scotia, Ontario, Saskatchewan and British Columbia prepare the Public Accounts in accordance with GAAP for senior governments. Manitoba has yet to do so and the exceptions are noted in the above section, "Exceptions to GAAP in the Summary Financial Statements".

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.

Commencing in the 2004/05 fiscal year, the Government of the Province of British Columbia will prepare its Public Accounts in compliance with its Budget Transparency and Accountability Act and report whether it has achieved a balanced budget in accordance with the Act.

We believe that the idea of entrenching in legislation the requirement to prepare all significant public financial reports, in accordance with Canadian Public Sector Accounting Standards for Senior Governments as recommended by the PSAB of the Canadian Institute of Chartered Accountants, is worth considering.

During a Public Accounts Committee meeting of September 7, 2004, the Minister of Finance, the Honourable Greg Selinger undertook to have his staff examine the impact of restating prior years' balances according to Canadian Generally Accepted Accounting Practices (GAAP) and providing summary financial statements in full accordance with GAAP for the summary financial statements dated March 31, 2006. The Minister of Finance indicated he would advise the Committee on this matter once his staff had completed their analysis.

First recommended in the 2002 Report to the Legislative Assembly.

Recommendation 4

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

Alternatively, 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.

NEW GOVERNMENT REPORTING MODEL IMPLEMENTATION

GAAP requires the adoption of a the new Government Reporting Model no later than the 2005/06 fiscal year. Manitoba has not yet adopted the new Government Reporting Model. **Appendix I** provides an example of the application of the new Government Reporting Model to the presentation of the 2004 Summary Financial Statements as follows. Changes that would be needed from the existing presentation of Manitoba's Summary Financial Statements are highlighted in ***bold italics***.

Acceptance of the above recommendation to adopt GAAP for financial statements would include adopting the new 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."*

However, establishing the existence of control might be seen 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 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. Therefore, the evaluation will also determine whether school divisions and other entities previously excluded, should be part of the Government's reporting entity.

The Government has advised us that they intend to consult with us on redefining the Government Reporting Entity prior to completion of the budget for 2005/06.

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 $96 million, shall be transferred annually, from the Operating Fund to the Debt Retirement Fund to provide for the future retirement of the outstanding debt and pension obligations. That transfer out, an interfund transfer, is also to be reflected in the determination of a positive or negative balance according to balanced budget legislation.
- The above interfund transfers as noted are included for purposes of determining if there is a positive balance in the Operating Fund, according to balanced budget legislation. However, interfund transfers are not included in the determination of an excess of revenue over expenses according to generally accepted accounting principles.
- Should there be a negative balance in a fiscal year then there must be an offsetting positive balance in the next year unless there is a general election and the party forming the Government has changed. Then if, in the year of a general election, the party forming the Government has changed and there is a negative basis, the new government is not required to have an offsetting positive balance in the following year.
- There are financial penalties to the members of the Executive Council for failing to meet the requirements of the Act.
- The Act does not apply in the case of war or a natural disaster that affects the Province which could not be anticipated or if there is greater than a 5% reduction in revenue in the fiscal year, providing the reduction did not result from a change in Manitoba taxation laws. The proceeds from the sale of a Crown Corporation are not to be included in the determination of a positive balance.

For the first time since the legislation was passed, the Government invoked 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.

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.

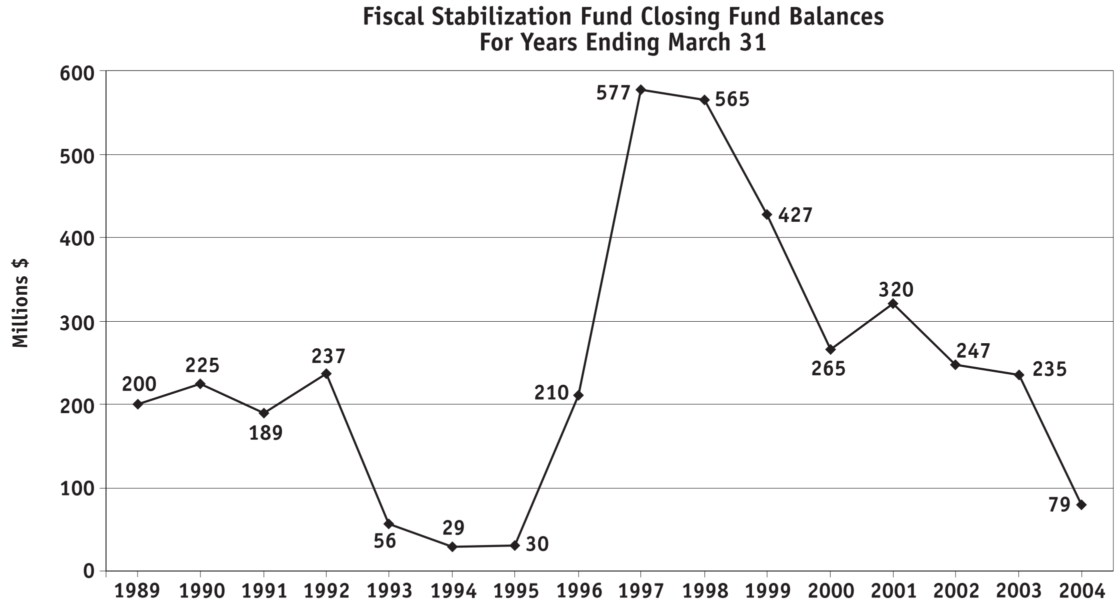
The primary activities of the Fund are interfund transfers. The transfers are either transfers out to the Operating Fund or transfers into the Fund from the Operating Fund. The Fiscal Stabilization Fund also earns income on the investment of the assets of the Fund, which is retained in the Fund until 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 7



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 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 5

First recommended in the 2003 Report to the Legislative Assembly.

That the Government consider introducing amendments to the Financial Administration Act to eliminate the requirement for separate Consolidated Fund (Operating Fund) financial statements.

Recommendation 6

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.

DISCLOSURE OF PENSION ASSETS COMPOSITION

The Government created a Pension Assets Fund in the 2002/03 fiscal year to reflect the designated assets set aside for the future retirement of the Government's unfunded pension liability as we recommended in our 2001/02 Report. The Pension Assets Fund properly reflects the existence and ownership of the pension assets as part of the total assets included in the determination of the Accumulated Fund Surpluses (Deficits) of the Province on the Special Purpose Financial Statements. However, these assets should be shown by their classification such as investments on the balance sheet and not reported as pension assets.

In addition, the Government has effectively improved its net debt position on the Special Purpose Financial Statements by $267 million (2003, $151 million), by creating the Pension Assets Fund. Formerly, the assets were reported as trust assets and trust liabilities.

Recommendation 7

First recommended in the 2002 Report to the Legislative Assembly.

That in accordance with public sector accounting standards, pension asset composition detail should be disclosed in the notes to the Summary Financial Statements. The assets should be shown on the balance sheet by their classification, for example, portfolio investments rather than as pension assets on the balance sheet.

ROLE OF INTERNAL AUDIT AND CONSULTING SERVICES

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

In addition, Internal Audit and Consulting Services (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 five 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.

In Canada, there is a similar move toward the requirement for management to make representations on the effectiveness of the organization's internal controls. While the regulations of provincial securities commissions requiring reporting on the effectiveness of a company's internal controls will first apply to publicly traded companies, the public expectation that governments also make these same representations will likely soon follow.

As a result, the internal audit function of the Province should consider the need to 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.

Last year 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. Over the 2003/04 fiscal year, Internal Audit began a government wide project testing payroll controls including the review and testing of certain SAP controls.

Further, as we noted last year, 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 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 2004 fiscal year.

We acknowledge that there was some change in Internal Audit's role in the 2003/04 fiscal year in relation to the testing SAP controls. However, we continue to believe that Internal Audit and Consulting Services should have a more significant role in providing assurance as to the effectiveness of controls at the departmental level as they relate to SAP.

Recommendation 8

First recommended in the 2002 Report to the Legislative Assembly.

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.

INFORMATION SYSTEMS

The Government of Manitoba (Government) has various information systems of major and minor significance both centrally and in the departments. Information systems are integral to the administration of Government 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.

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

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

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

For both the initial SAP implementation as well as the 4.6b upgrade there were three areas which we considered the most critical and were reported on previously. In our 2001 Report to the Legislature we 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 reported last year, we will continue to address the key outstanding issues with the Comptroller's Office to ensure that the appropriate action is taken. Our recommendation regarding the use of critical standard reports was addressed last year.

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.

Recommendation 9

We recommend 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.

First recommended in the 1999 Report to the Legislative Assembly.

- 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.

Recommendation 10

First recommended in the 1999 Report to the Legislative Assembly.

We recommend, 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.

- 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.

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.

First recommended in the 1999 Report to the Legislative Assembly.

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

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

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

Furthermore, the presence of this disaster recovery site will minimize disruption of access to the SAP system in the event of an unforeseen event or disaster at the primary site. We understand that operating procedures relating to the disaster recovery plan have been completed, tested 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.

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

Recommendation 12

First recommended in the 1999 Report to the Legislative Assembly.

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

New Recommendations

PUBLIC DEBT EXPENSE AND INTEREST RECOVERIES

The Government's disclosed accounting policy for recognizing public debt expense includes the following:

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

However, the Government's actual accounting policy, in effect, is to charge the debt servicing costs for capital financing for devolved and non-devolved health care facilities and public schools to grants/transfer payments expense by sector such as Health or Education and not include those debt servicing costs in Public Debt expense. This is accomplished by recording an interest revenue recovery as a reduction in public debt expense.

For example, the Province sets out in the 2003 Estimates (of Expenditure) for the 2003/04 fiscal year that public debt expense will be $1,290 million which will be reduced by $959 million in interest revenue recoveries. The largest component of the recoveries is $560 million from Manitoba Hydro-Electric Board (Hydro) followed by $232 million from interest earned on sinking fund investments and $145 million from loans to Crowns and other investments.

In accordance with public sector accounting standards, public debt expense is to be reported net of interest recovered from government business enterprises, "*when there is sufficient evidence that debt has been issued by a government specifically on behalf of a government business enterprise*". This is the case for Hydro debt. However, the Government continues to inappropriately reduce its reported public debt expense by interest recoveries on portfolio investments which are not investments, but are recorded as capital grants.

For the 2003/04 fiscal year, the Government, on a cumulative basis, recognized capital grants to health care facilities and school boards in the amount of $526 million. $231 million of these grants had been previously reported as sinking fund portfolio investments. In addition, $18 million was inappropriately recorded as an interest recovery on the sinking fund portfolio investments related to these capital grants and therefore understated public debt expense by the same amount.

Similarly, the Government also reduced the amount reported as public debt expense for imputed interest revenue recoveries related to the $497 million of deferred charges for devolved and non-devolved health care facilities reflected on the Statement of Financial Position in the Special Purpose Financial Statements. The Government treats the deferred charges similar to a loan receivable and reduces the deferred charge asset on an annual basis equal to the reduction of the related debt incurred to fund the capital grant (recorded as a deferred charge).

To explain further, the Government periodically borrows on the capital market to finance a capital grant to a Regional Health Authority (RHA) or non-devolved health care facility for construction of a facility or for major renovations. When the funding flows to the RHA or non-devolved health care facility, the Government records a deferred charge. On an annual basis, as the debt (borrowings) is repaid by the Government, the Government charges to health expense an amount equal to the annual amortization of the deferred charge and the imputed interest revenue recovery.

In addition, the Department of Health manages, on behalf of the RHAs (devolved) and the non-devolved health care facilities, the accounting entries for this elaborate process. As we understand it, the Department of Health spends a significant amount of time doing the administration to account for the deferred charges (capital grants) as if they were loans receivable. That time could be spent on other activities.

The interest recovery related to these deferred charges matches the interest paid during the year to service that debt. That means that interest expense to service the debt is effectively shown as health expense (grants/transfer payments) rather than as public debt expense. During the 2003/04 fiscal year, $26 million was paid to service the debt related to those deferred charges and was recorded in the Special Purpose (Operating Fund) Financial Statements as health expense rather than as public debt expense.

Similarly, debt servicing costs of $1.4 million associated with the debt incurred to finance the $34 million capital grant to Red River College were recorded as Advanced Education grants not public debt expense because the capital grant had been treated nominally as a loan receivable during the fiscal year.

In accordance with public sector accounting standards public debt expense on the Statement of Revenue and Expense should be reported net of the interest recoveries from government business enterprises on debt borrowed specifically for them. As well, the gross amount of public debt expense should be disclosed in the notes to the financial statements. Furthermore, interest revenue from investments and other loans receivable should be reported as revenue and not netted against public debt expense reported on the Statement of Revenue and Expense.

In summary, the full cost of debt servicing should be clearly reported. The capital financing costs associated with capital grants to health care facilities, school boards and colleges could be shown as debt servicing costs incurred for the Departments of Health, Education and Advanced Education. But these costs, estimated at $45 million for the 2003/04 fiscal year, would be included in the total public debt expense reported on the Statement of Revenue and Expense.

Recommendation 13

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.

INVOKING SECTION 3(2) FOR EMERGENCY EXPENSES

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 for the first time in the 2003/04 fiscal year.

Although we reported that the Government did comply with Section 3(2) of the Act, we placed a scope limitation in the 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) this year:

"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 8A****, 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 8A

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 8A** 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 8B** shows what **Figure 8A** would look like if third party recoverables were listed consistently.

FIGURE 8B

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 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.

REVIEW OF THE ANNUAL REPORT OF THE PROVINCE FOR 2003/04

Review of the "Province of Manitoba Annual Report for the Year Ended March 31, 2004" in Relation to Recommended Practices in Performance Reporting

INTRODUCTION

The Office of the Auditor General has reviewed the *Province of Manitoba's Annual Report for the Year Ended March 31, 2004* in order to examine progress made in relation to performance reporting by the Government. This examination is in keeping with 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 Accounts, and CCAF to undertake the review of the *Province of Manitoba Annual Report for the Year Ended March 31, 2004*. The guidance from each of these sources is explained followed by our conclusions and recommendations.

BACKGROUND

Over the past five years the Government of Manitoba has reiterated its support of performance reporting. In July 2000 when the Auditor General's Report to the Legislature on *Business Planning and Performance Measurement* was released, the Government stated in the Report that it *"is committed to the advancement of performance measurement within the government management processes with a strong focus on the measurement of outcomes and results"*. In 2002 when our Office released the report on *Performance Reporting in Annual Reports: Current Practices Among Crown Entities*, part of the statement from Government Officials included in the Report was that, *"the government remains committed to continuous improvement in its public reporting, not only for central government, but also for its crown entities. We agree that annual reports are an appropriate vehicle for open and transparent communication. We also agree with the concept of standardization, but with due care to providing sufficient flexibility to reflect the uniqueness of each organization"*. Subsequently, in 2004, when the Auditor General released *Attributes of Managing and Reporting Results*, Government's commentary in the Report included the observations that the contents are *"a valuable contribution to ongoing thoughtful review of such issues by government"* and that *"the findings of this Report will be added to the feedback the Government has received as part of this process"*.

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

Figure 9 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 are 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 10** 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

While the *Province of Manitoba Annual Report For The Year Ended March 31, 2004* demonstrates some of the recommended practices of PSAB's FSD&A and CCAF's Performance Reporting Principles, the Annual Report needs significant changes in order for the Report to demonstrate greater transparency and accountability in reporting. In its current form, the information contained in the Annual Report does not enable the reader to draw conclusions on the Government's performance relative to the goals it sets for itself in each of the fourteen topic areas presented between pages 1 to 21. This is because the Government's goals in each of these fourteen areas are not included in the Annual Report. As such, the Annual Report is not outcome oriented.

Recommendation 15

That the Government of Manitoba 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.

FINDINGS

FIGURE 9

Comparison of Annual Report to PSAB's FSD&A	
FSD&A Recommended Practice	**Province of Manitoba Annual Report - March 31, 2004**
Reference to Financial Statements ● Reference to the related financial statements should be clearly made in the FSD&A.	● Reference to the financial statements is made in the introduction to the section on Financial Indicators Summary Financial Statement (p.29) and the introduction to the Operating Fund Discussion and Analysis (p.37). However, there is no linkage to specific financial statements/schedules in relation to the discussion and analysis presented.
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., GDP, references to hedged foreign debt, derivatives, swaps). While some terminology is defined in the notes to the financial statements, it would make the Annual Report more user friendly to either provide explanations of technical terms when they are used in the discussion and analysis or to provide a glossary. ● Does not explain to the reader or provide a link between two different messages in the Annual Report – one being that at the end of March 31, 2004 there was $3.0 million more in the Operating Fund than budgeted; the other being that due to disaster related expenditures, $71 million was excluded from the calculation of the balance for 2003/04 as provided for under *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act* (p.38).
Relevance ● Address significant matters that will likely affect judgments and decisions of users.	● The Annual Report identifies key factors that have impacted expenditures and revenues. However, relevant risks that have a key impact on expenditures and revenues are not discussed. ● The Annual Report does not explain to the reader why the fourteen topic areas selected for discussion between pages 1 to 21 are relevant. ● There is a lack of emphasis on the Summary Financial Statements which are the general purpose financial statements.
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, only financial indicators are presented. ● The level of detailed information provided cannot be readily verified to the Special Purpose Financial Statements. ● The information on pages 7 to 21 highlights the positive actions taken and does not make reference to areas in which Government may not have achieved the intended goals and objectives for the year.
Comparable ● Formulae for calculating ratios would be clearly defined and consistently applied. ● Disclosure of the effects of changes in calculating figures.	● The Annual Report explains change in the reporting of the accumulated deficit due to Government's gradual implementation of Canadian Generally Accepted Accounting Principles (pp.18–19). ● Provides a chart to show impact of change in reporting accumulated deficit on the ratio of net debt to GDP. Restated figures compared to former approach of doing the calculation over a five year period from 2000 – 2004 (p.19). ● Explains that the practice of netting the revenues and expenses of government business enterprises when calculating summary financial indicators was changed in 2002/03. These indicators now reflect the revenues and expenses on a gross basis (p.29).

FIGURE 9 (CONT'D.)

Comparison of Annual Report to PSAB's FSD&A	
FSD&A Recommended Practice	**Province of Manitoba Annual Report - March 31, 2004**
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.	● Identifies four unforeseen events that impacted the financial statements for 2003/04. These were: the impact of a single case of Bovine Spongiform Encephalopathy (BSE), forest fires, Manitoba Hydro losses, and unrealized federal revenues (p.1 and p.22).
Analysis ● Present information on known significant risks and uncertainties inherent in the government's financial position and changes in financial position.	● There is no discussion or analysis of risk.
● Outline the strategies, policies and techniques adopted to manage those risks and uncertainties.	● The Annual Report does not include this type of information.
● Identify and explain significant variances between current year actual results and budget.	● Explains that the draw from the Fiscal Stabilization Fund was greater than budgeted due to lower revenues than projected from Manitoba Lotteries and Manitoba Hydro (p.20). ● Variance explanations on actual compared to budgeted expenditures are only provided in relation to the Operating Fund Statement and not the Summary Financial Statement.
● Identify and explain significant variances between current year actual results and prior year actual results.	● The Annual Report compares actual revenues to prior year actuals providing reasons and identifying the main program areas that had significant expenditure increases (p.39). ● Variances between current and prior year expenditures are provided, however, the reasons are not given (pp.39-40). ● Variance explanations on actual compared to prior year actuals are only provided in relation to the Operating Fund Statement and not the Summary Financial Statement.
● Identify and explain changes that have occurred but are not readily apparent from the quantitative analysis.	● The effect of the corrections of errors on the current year is not readily apparent as the comparative figures on the Summary Financial Statements have not been restated. The impact on the current year's change in net debt is not evident (i.e., the change in liabilities less financial assets such as cash and investments available to pay for those liabilities).
● 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, and revenues and expenses.

FIGURE 10

Comparison of Annual Report to CCAF Reporting Principles

CCAF Reporting Principles	Province of Manitoba Annual Report - March 31, 2004
Focus on the Few Critical Aspects of Performance ● Focus selectively and meaningfully on a small number of things.	● The Annual Report focuses on fourteen topic areas such as health care, safer communities, water policy, and transportation among others (pp.1-21).
● Focus on core objectives and commitments.	● The Annual Report does not identify specific, measurable objectives or commitments.
Look Forward As Well As Back ● Set out the goals and how activities contribute to the goals.	● Goals are not included.
● Track achievements against expectations (goals).	● The Annual Report largely presents the inputs and activities for the year in relation to the fourteen topic areas (pp.1-21). The information is not presented in relation to Government's goals.
Explain Key Risk Considerations ● Identify the key risks.	● Not included in the Annual Report.
● 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).	● Expected results (goals) are not articulated in the Annual Report. As a result, the discussion of key factors that affected the financial position of government, does not deal with the impact of those factors on the achievement of specific goals.
● 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).	● The Annual Report presents information on the economy and demographics (pp.22-28). However, the Report does not identify expected results and explain the impact of the economic and demographic situation on these results.
● Discuss specific factors such as standards of conduct, ethics, and values, or performance of other organizations that influence performance.	● Only discussed in relation to factors that affect revenues (p.1, p.20, p.22).
● Describe unintended impacts of activities.	● Not included in the Annual Report.
Integrate Financial and Non-Financial Information ● Explain the link between activities and desired results (goals).	● The Annual Report attempts to link expenditures to Government's strategies rather than desired results.
● Show spending on key strategies and explain how changes in spending affect results (goals).	● Government's strategies are referenced at a very high level (e.g., p.9 refers to investments *"to rebuild Manitoba's health system and sustain medicare"*; p.11 refers to the *"five-year plan for affordable, accessible and high quality child care"*; p.13 refers to *"Manitoba's strategy of involving employers, labour, and community groups in immigration recruitment"*.) ● The Annual Report does not explain how changes in spending affect results (goals).
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.

FIGURE 10 (CONT'D.)

Comparison of Annual Report to CCAF Reporting Principles

CCAF Reporting Principles	Province of Manitoba Annual Report - March 31, 2004
Present Credible Information Fairly ● Present information that is relevant and accurate in a manner that is understandable.	● It is difficult to determine if the 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.	● Explanations are provided in relation to changes in accounting practices and the impact of those on calculations in the financial statements.
● 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 ENTERPRISES

Who Conducts the Audits

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

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

Relationship with Private Sector Auditors

THE AUDITOR GENERAL ACT

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

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

In addition, as we reported 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, 2004, 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 52 draft planning memoranda from private sector auditors, which we reviewed and made recommendations for changes on one of these audit plans.

Similarly, we also received and reviewed 52 draft financial statements and auditors' reports. We provided recommendations on 45 of the draft financial statements. We had no recommendations on 7 of the draft financial statements.

Of the 45 draft financial statements for which we made recommendations, 34 draft financial statements were amended. With respect to the other 11 draft financial statements, 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, except for 4 draft financial statements, where the accounting issues were more substantive. This was the case for Manitoba Liquor Control Commission's financial statements which is discussed later in this section of the report.

In accordance with our cyclical review schedule, we reviewed 14 of the external auditors' working paper files including the audit working paper files for all of the large government 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 to expand our involvement with the audit processes of Crowns including attendance at more 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. Several of the Financial Officers of SOAs contacted us early in the audit process, in most cases to ask advice on disclosure or note wording covering new circumstances or operational changes.

As a result, our work with the individual SOAs contributed towards more consistent accounting treatment in the financial statements of individual SOAs. As well, we contributed to the improved consistency of the financial reporting of the Special Operating Agencies Financing Authority.

Manitoba Housing and Renewal Corporation

REPORT ON THE IMPACT OF NEW SECTION 5600 AND REVISIONS TO SECTION 5100 OF THE HANDBOOK OF THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS AS IT RELATES TO MANITOBA HOUSING AND RENEWAL CORPORATION

Background

Manitoba Housing and Renewal Corporation (MHRC) operates under the authority of The Housing and Renewal Corporation Act. The objectives of the Act are to

- ensure that there is an adequate supply of housing stock in Manitoba;
- enhance the affordability of, and accessibility to, adequate housing for Manitobans, particularly those of low and moderate income and those with specialized needs;
- maintain and improve the condition of existing housing stock; and
- stimulate and influence the activities of the housing market to the benefit of Manitobans as a whole.

One of the ways MHRC meets the objectives of the Act is to own housing projects. In order to properly account for these projects it is necessary to record, as an expense in MHRC's financial statements, annual amortization of the capital cost of the projects. MHRC has been recording annual amortization expense in an amount that is equal to the annual principal reduction of the related long-term debt. Although this was not in accordance with Canadian generally accepted accounting principles (GAAP) it was acceptable under a disclosed basis of accounting.

Issue

In October 2003 the Canadian Institute of Chartered Accountants (CICA) released a new assurance standard, Section 5600, which does not allow the use of a disclosed basis of accounting except under very specific conditions. MHRC does not meet those conditions and accordingly it must now prepare its financial statements in accordance with GAAP.

As indicated above, the exception to GAAP is that the amortization of buildings is equal to the annual principal reduction in the related long-term debt and is not based on the estimated useful life of the asset. Amortization per Section 4430.16 of the CICA Handbook states that the cost, less any residual value, of a capital asset with a limited life should be amortized over its estimated useful life in a rational and systematic manner appropriate to its nature and use by the organization.

MHRC chose to move to a GAAP presentation.

Effective April 1, 2003, amortization for housing projects and housing investment is recorded on a straight-line basis over their estimated useful lives as follows.

Wood buildings – 25 years
Brick buildings – 40 years

The effects of the above change in accounting policy, which has been retroactively applied with restatement, are to increase accumulated amortization for housing projects by \$227,431,674 (2003 - \$228,421,555), to decrease housing investment by \$10,891,891 (2003 - \$11,721,341), to decrease financing provided by CMHC for housing projects by \$8,931,272 (2003 - \$9,730,193), to increase the original cost for housing projects by \$386,641 (2003 - \$386,976), to decrease the deficiency of revenue over expenses transferred to The Manitoba Housing and Renewal Fund by \$1,020,075 (2003 - \$506,290) and to increase the opening balance in The Manitoba Housing and Renewal Fund Deficit as at April 1, 2003 has been increased by \$230,025,727 (April 1, 2002 - \$230,532,017).

Conclusion

As a result of this change in accounting policy, MHRC received an unqualified audit opinion for March 31, 2004 which stated that the financial statements were presented fairly, in all material respects, in accordance with Canadian generally accepted accounting principles.

Council on Post-Secondary Education

The Province of Manitoba initially advanced to Red River College funds to purchase the Princess Street Campus. These funds were secured by demand notes. The Council on Post-Secondary Education (COPSE) granted funds annually to Red River College to enable the College to repay the principal and interest due the Province on the demand notes.

As mentioned earlier in the Report, it was determined that these advances should have been treated as capital grants.

Conclusion

The Government has appropriately expensed them in the 2004 Special Purpose Financial Statements. COPSE's 2004 fiscal year financial statements were also revised to reflect approximately \$2 million reduction in the annual grants provided to Red River College for these annual principal and interest repayments as well as revised to reflect a reduction in the revenue received from the Province by the same amount.

Manitoba Health Services Insurance Plan

LONG-TERM DEBT OF THE REGIONAL HEALTH AUTHORITIES AND NON-DEVOLVED HEALTH CARE FACILITIES

Background

The Manitoba Hospital Capital Financing Authority (Authority) was established in June 1972 by The Hospital Capital Financing Authority Act. The objectives of the Authority are:

- to approve the issuance of securities for capital expenditure by operators of health care facilities;
- to assist such operators by ensuring an orderly market for the sale of securities issued by health care facilities; and
- to purchase securities issued by health care facilities with money borrowed by the Authority where the health care facilities could not trade their securities on the open market.

Health care facilities include hospitals, not-for-profit personal care homes and other designated health care related service institutions.

During the fiscal year 2001, the Authority began to approve direct loans made by the Department of Finance, Province of Manitoba to the Regional Health Authorities (RHAs) and non-devolved health care facilities. A promissory note was signed by the RHA or non-devolved health care facility for the direct loan received by the RHA or non-devolved health care facility. As well, an amortization schedule was prepared detailing the required principal and interest payments. These payments were to be made by the RHA or non-devolved health care facility over the duration of the loan, usually 20 years, to the Province of Manitoba.

Issue

The RHAs and non-devolved health care facilities receive virtually all of their funding from the Manitoba Health Services Insurance Plan (MHSIP). This funding includes amounts for the payment of the principal and interest on the direct loans. These payments are made to the Province of Manitoba. Thus, the Province is funding principal and interest payments to themselves, since the long-term debt owed by the RHAs and non-devolved health care facilities is held by the Province of Manitoba.

The substance of the transactions, whereby the Province provides funding in the form of direct loans and then provides funding for the payment of principal and interest related to those direct loans, is that the Province is making a grant to the RHAs and non-devolved health care facilities. The accounting for this grant, received by the RHAs and non-devolved health care facilities, should be that the grant is recorded, by the RHAs and non-devolved health care facilities, as a deferred contribution and not as a loan payable. The funding received and the payments made for principal and interest related to these contributions should be eliminated.

Action Steps

During the 2004 fiscal year, MHSIP instructed the RHAs and non-devolved health care facilities to change their method of accounting for the long-term debt held by the Department of Finance, Province of Manitoba. This long-term debt would now be classified as deferred contributions.

As a result, each RHA and non-devolved health care facility adjusted their long-term debt and transferred the balance related to these direct loans to deferred contributions. The change was applied retroactively so that the March 31, 2004 and 2003 balances on the RHAs' and non-devolved health care facilities' financial statements were adjusted. Additionally, all related principal and interest receipts and payments were eliminated from the financial statements for both the March 31, 2004 and March 31, 2003 year ends.

The Manitoba Health Services Insurance Plan's financial statements for March 31, 2004 and 2003 were also adjusted to eliminate the principal and interest, related to these direct loans, received from the Province of Manitoba and paid to the RHAs and non-devolved health care facilities.

Conclusion

This matter has been satisfactorily resolved.

Manitoba Liquor Control Commission

As we mentioned earlier in this Report, Manitoba Liquor Control Commission (MLCC) first recognized its pension liability in the year ended March 31, 2000. Prior to 2000, the auditors' report had been qualified for a number of years to reflect the non recognition of the pension obligations. The recognition of the pension liability in the 2000 fiscal year resulted in the elimination of the reservation in the auditors' report. The liability recorded as at March 31, 2000 was $37 million.

This initial recognition of the liability was offset with a long-term funding commitment asset from the Province. In accordance with Section 31(2) of the Liquor Control Act, MLCC transfers all of its net profits back to the Province and as a result retains no surplus. Therefore, in substance, MLCC had overstated its net profits in prior years for the unrecorded pension costs and needed to recover that overpayment of profits from the Province to fund its pension liability. The long-term funding commitment receivable from the Province was recorded to reflect that recovery.

However, each fiscal year thereafter, MLCC had continued to increase the long-term asset (receivable) and record revenue from the Province by the annual increase in the pension liability. In the 2003/04 fiscal year, we reviewed this accounting treatment. As a government business enterprise MLCC is self-sustaining and should be responsible for all of its operating costs including its pension costs. We did not consider it appropriate for the Province to assume MLCC's pension liability.

As a result, the adjustment for MLCC is to stop recording revenue from the Province to offset the expense associated with the increase in the pension liability. Without that revenue from the Province, MLCC's net profits will be properly calculated to reflect all of its operating costs including its pension costs. In addition, MLCC will also need to restate its long-term funding commitment asset from the Province to a loan receivable.

For the year ended March 31, 2004, the Government, as indicated earlier in this report, recorded the loan payable to MLCC and charged the accumulated deficit for $41 million to correct its previous accounting treatment and reflect the cumulative overstatement of net profits. In addition, the Government consolidated other balances owing to MLCC to arrive at a total loan payable of $45 million; the Province's net revenue from MLCC's 2003/04 net profits was also reduced by $2 million to $174 million.

Next year, having issued its annual report for the year ended March 31, 2004, MLCC will restate its comparative figures for the effects of the above changes. MLCC will also stop recording revenue from the Province to offset the costs associated with the increase in its pension liability. In the interim, MLCC will discuss with the Province the terms for the collection of its loan receivable due from the Province.

Workers Compensation Board

During 2003, the CICA issued a new accounting recommendation, entitled Generally Accepted Accounting Principles (GAAP). This standard clarifies what constitutes Canadian GAAP as well as the primary sources of Canadian GAAP. This standard is effective for fiscal years beginning on or after October 1, 2003 and will affect the Workers Compensation Board's (WCB) 2004 fiscal year financial statements. This standard denies the WCB the option of accounting for investments and investment income using the five year moving average method which is the WCB's current accounting policy. Instead, long-term investments must 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 is also currently under review. The CICA exposure draft issued in 2004 entitled, *Financial Instruments – Recognition and Measurement* (HB 3855) recommends 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 is not approved in 2004, the WCB would be 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. This would mean the WCB would undergo two significant accounting policy changes within a very short period of time.

The WCB is monitoring developments at the CICA closely and is consulting with its auditors, the OAG and the provincial Comptroller's Office in formulating its decision to address this financial reporting issue.

Accounts Receivable from the Province of Manitoba for Severance Pay and Vacation Pay Liabilities

Several years ago the Province of Manitoba instructed various government crown entities (entities) to accrue their vacation and severance pay liabilities in accordance with Canadian generally accepted accounting principles. The Province recognized that it would be an unfair imposition on the entities' 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 entities in the Special Purpose (Operating Fund) Financial Statements.

Similarly, at the time these liabilities were recognized by the Province, the entities set up offsetting receivables from the Province for these amounts. The current liabilities to the entities of approximately $35 million for severance and vacation pay entitlements set up by the Province are listed in **Appendix H**. The Province's liabilities to the entities and the entities' receivables from the Province are eliminated when the entities' financial statements and the Operating Fund Financial Statements are consolidated into the Summary Financial Statements.

Although the Province has recorded these liabilities, there is no schedule of repayments of the balances owed to the crown organizations. However, the Province has directed the entities 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 entities, we noted that this annual funding of the change in the liability has not been clearly communicated to the respective entities.

In addition, the Province's decision not to repay, in the foreseeable future, the receivables set up by crown organizations for vacation and severance pay liabilities, raises questions as to the valuation of the receivables from the Province reflected in the financial statements of these entities.

From the perspective of the crown entities, 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.

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

Recommendation 16

That the Government review this situation and develop a plan to discharge its 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

As we reported last year, there is a new audit standard affecting auditors' reports. An auditor's report on general purpose financial statements under the new audit standard 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.

The new 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."*

Last year 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 financial statements and we were able to issue unqualified auditors' reports on their financial statements.

For Manitoba Health Services Insurance Plan (MHSIP), we issued a qualified auditors' report as the financial statements were not prepared in accordance with GAAP. MHSIP will be adjusting their statements for the GAAP exception next year with the intent of being in a position to receive a GAAP opinion.

In the case of the Cooperative Loans and Loans Guarantee Board, we issued 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.

For the Public Trustee Estates and Trusts Under Administration, we issued 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 issued a similar fourth paragraph to their auditors' report.

COMPLIANCE WITH AUTHORITY AND AGREEMENTS

Audit Opinion on Compliance with Legislative Authorities

Compliance with legislative authorities is essential for governments, crown corporations and crown organizations. We believe there is an increasing need for positive assurance of compliance to be provided by organizations. Therefore, the Office of the Auditor General will be initiating discussions that lead to seeking assurance from each government entity that they are in compliance with their legislative authorities. This will also involve requesting external auditors to form an opinion on the government entity's compliance with its legislative authorities.

We are currently in the process of finalizing the draft guidelines for auditing compliance with legislative authorities. Once the guideline is completed, we will meet with public sector entities and external auditors to discuss their responsibilities. An implementation plan is being developed with anticipated applicability for fiscal years ending on or after March 31, 2006.

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 Model for Senior Governments - Sections PS 1000, PS 1100 and PS 1200

The reporting model is the basis by which financial statements are presented for senior governments. In January 2003, new standards were issued revising the reporting model for senior (federal, provincial and territorial governments) governments.

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

The new reporting model is consistent with the way Manitoba is currently reporting in its financial statements. The Summary Financial Statements of the Province of Manitoba are on an expense basis with information on net debt disclosed. Therefore, there will only be minor changes necessary to the Summary Financial Statements. We have provided an example of the application of the new government reporting model as it would apply to the presentation of the 2004 Summary Financial Statements in **Appendix I** of this report.

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

Government Reporting Entity for Senior Governments - Section PS 1300

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 PS 1300. 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.

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

Effective date – The new standards are effective for all fiscal years beginning on or after April 1, 2005. However, in June 2003, PSAB added a transitional provision to PS 1300. 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.

Liabilities, Contingent Liabilities and Commitments – Sections PS 3200, PS 3300 and PS 3390

In September 2004, PSAB approved three new Handbook sections for federal, provincial and local governments: Liabilities – Section PS 3200; Contingent Liabilities – Section PS 3300 and Contractual Obligations – Section PS 3390.

Liabilities Section PS 3200 defines liabilities as present obligations of a government to others, arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefit. The definition of a liability includes constructive and equitable obligations. Liabilities should be recognized when they meet the general recognition criteria. When the liability cannot be estimated, the nature of the liability and the reason the liability cannot be recognized should be disclosed.

The new Contingent Liabilities Section PS 3300 establishes recognition and disclosure standards dealing with contingent liabilities in government summary financial statements. The Section defines contingent liabilities as possible obligations that may result in the future sacrifice of economic benefit arising from existing conditions or situations involving uncertainty. The Section requires a contingent liability to be accrued when the expected future confirming event is likely to occur. A contingent liability should be disclosed unless the occurrence of the future confirming event is unlikely.

The new Contractual Obligations Section PS 3390 establishes disclosure standards for contractual obligations in government summary financial statements. The Section defines contractual obligations as obligations of a government to others that will become liabilities when the terms of those contracts or agreements are met. The Section also requires a government to disclose information about the nature, extent and expected timing of the related expenditures.

Effective date – The new standards are effective for all fiscal years beginning on or after September 1, 2004.

Funds and Reserves

Public Sector Guideline PSG-4, Funds and Reserves, was issued June 2004. The guideline provides guidance on presenting information related to stabilization funds or financial reserves for senior governments.

Basically, the Guideline requires that information on these funds and reserves to be disclosed in notes to the financial statements and not on the Statement of Financial Position.

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

Financial Statement Discussion and Analysis

PSAB issued a Statement of Recommended Practice (SORP) in June 2004 for Financial Statement Discussion and Analysis (FSD&A).

The SORP provides guidance for presenting FSD&A when a government includes this information in its financial report. PSAB decided that FSD&A should be discretionary disclosure and not form part of GAAP. Accordingly, PSAB released a Statement of Recommended Practice that provides discretionary guidance to encourage governments to prepare FSD&A information in the manner suggested by the SORP without imposing a mandatory additional reporting burden on government.

The objective of the FSD&A is to enhance the usefulness of accountability information presented by the public sector. FSD&A information would include narrative explanations and graphical depiction of the period reported on highlighting the significant events and conditions that shaped the information presented in the financial statements. It would include an analysis of key variances and trends in the financial information.

PSAB PROJECTS

Government Transfers

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

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

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

The PSAB task force decided to prepare the SOP based on the Asset/Liability position and issued the SOP to the public sector community to receive comments and determine the most generally accepted conclusion. PSAB held a forum on October 29, 2003 for interested members of the public sector community to discuss the SOP on government transfers and responses to it. Input received at the forum indicated that there was wide spread support for deferral of prepaid government transfers in some instances. Based on the forum and the responses to the SOP, PSAB issued an exposure draft to its Associates.

The main proposal in the Associates' Draft was that the government that pays a transfer (transferor) acquires an asset (deferral of prepaid government transfers) with an "exchange-type transfer". To be an "exchange-type transfer" that qualifies for asset treatment, the transfer must have conditions that define the nature of the future economic benefits acquired by the transferor. The conditions must be such that specific purpose restrictions, time requirement and accountability requirements together detail how the transferor maintains control of the economic benefit.

Status: Responses have been received from the Associates draft. A public exposure draft is expected to be released shortly.

Generally Accepted Accounting Principles (GAAP)

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

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

Status: A public Exposure Draft was released with a request for comments by August 31, 2004.

Measurement Uncertainty

PSAB does not have a measurement uncertainty section in the handbook. This lack became evident during the Liabilities, Contingent Liabilities and Contractual Obligations project. Consequently, PSAB approved a project on measurement uncertainty.

The project will result in recommendations and guidance for the disclosure of measurement uncertainty in public sector financial statements.

Status: A public Exposure Draft was issued in June 2004 with a response date of September 30, 2004.

Financial Instruments

PSAB has approved a project on financial instruments.

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

The *CICA Handbook* for accounting standards of the private sector has presentation and disclosure standards but does not yet include recognition and measurement principles. However, in April 2003 the Accounting Standards Board (AcSB) approved three Exposure Drafts: "Financial Instruments – Recognition and Measurement", "Comprehensive Income", and "Hedges". Based on responses received on these exposure drafts, "Hedges" was re-exposed in June 2004 and "Financial Instruments – Recognition and Measurement" was re-exposed in July 2004. The AcSB expects to issue the resulting Handbook sections in early 2005 with implementation for fiscal years starting on or after October 1, 2006.

These new standards in the *CICA Handbook* will be applicable to government business enterprises and government business-type enterprises for the purposes of preparing their own financial statements.

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

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

Status: Project proposal was approved.

Performance Reporting

PSAB has started a project to provide a set of basic principles for the development of performance reports. The resulting framework will be in a Statement of Recommended Practice (SORP) that will provide guidance to the public sector.

This project is the second step in PSAB's initiative to enhance the usefulness of the public sector's financial and non-financial performance information. The first step was the issuance of the SORP for Financial Statement Discussion and Analysis in June 2004. However, government financial statements alone are not sufficient to demonstrate the government's accountability and performance. Performance reports will help inform the citizens about the government's performance. It will also allow government to monitor expectations and adjust activities to accomplish its goals.

Status: A project proposal was approved. A statement of principals is expected to be developed shortly.

Sale and Lease Transactions Guideline

The objective of this project is to provide 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.

Status: A draft Guideline was issued with comments requested by November 30, 2004.

Auditor's Responsibility to Consider Fraud and Error

The Canadian Institute of Chartered Accountants (CICA) has issued new standards on the auditor's responsibility to consider fraud and error in a financial statement audit. The new standards reflect the CICA's effort in improving standards and clarifying the auditor's role in fraud detection. The new standards also reflect the need of Canadian standards to keep pace with the US and the international community.

The auditor's responsibility is to consider fraud and error in the audit of financial statements. An auditor conducts an audit in accordance with generally accepted auditing standards to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. But, an auditor cannot obtain absolute assurance. The new standards provide recommendations and guidance on the fraud risks to consider and the procedures to follow.

The standards are in the *CICA Assurance and Auditing Handbook*, Section 5135, "The Auditor's Responsibility to Consider Fraud and Error". The new standards were issued in two phases. The first phase was issued in 2002 and the standards were effective for audits of financial statement with periods ending on or after December 15, 2002.

The standards issued in 2002 retained the concept of professional scepticism. The auditor performs the audit with an attitude of professional scepticism, without which the auditor may not be alert to circumstances which should lead him or her to be suspicious and he or she may then draw inappropriate conclusions from evidence gathered. He or she considers the potential for management override of controls and recognizes the fact that audit procedures that are effective for detecting error may not be appropriate in the context of an identified risk of material misstatement due to fraud.

The new standards provided additional guidance in considering fraud risk factors and the procedures to perform to address those factors. The primary responsibility to prevent and detect fraud rests with management. The auditor performs the audit to determine if the financial statements or information are free of material misstatement due to fraud and error. However, a properly designed audit is less likely to detect fraud than error. The new standards:

- emphasize that the auditor's responsibility in planning the audit is related solely to obtaining reasonable assurance concerning the absence of material misstatements in the financial statements, whether caused by error or fraud;
- set out the nature of the auditor's responsibility to communicate fraud and error encountered during the audit to management and the audit committee or equivalent, whether or not they result in a material misstatement in the financial statements;
- require the auditor to obtain management's assessment of the risk of fraud, and controls in place to prevent and detect it; and
- add specific requirements to obtain management representations concerning fraud and error.

Standards in the second phase were issued in 2004 with an effective date for periods ending on or after December 15, 2004. The following are the principal changes resulting from this phase:

- removal of assumption of management's good faith;
- required discussion by the audit engagement team on the susceptibility of the entity's financial statements to material misstatement due to fraud and error;
- more emphasis on the respective responsibilities of auditors, management, and those charged with governance on fraud;
- significantly more guidance on assessing the risks of misstatement due to fraud, including requirements to make enquiries of management and others within the entity, and understanding the role of those charged with governance;
- required discussion of earnings management;
- significantly more emphasis on management's ability to override internal controls and management fraud generally;

- classification of fraud risk factors into factors relating to incentive to commit fraud, opportunity to commit fraud and the ability to rationalize the fraudulent act;
- required procedures to be performed to address management's ability to override internal controls; and
- required procedures to be performed to address the presumed risk of improper revenue recognition.

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, 2004 and the summary statements of revenue and expense, accumulated deficit and cash flow for the year then ended. These financial statements are the responsibility of the Government of Manitoba. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these Summary Financial Statements for the Government Reporting Entity present fairly, in all material respects, the financial position of the Province of Manitoba as at March 31, 2004 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.

If Canadian generally accepted accounting principles had been used in the preparation of the Summary Financial Statements, assets would increase by $986 million, liabilities would decrease by $135 million, the accumulated deficit would decrease by $1.121 billion, revenues would increase by $112 million, and expenses would increase by $103 million.

Winnipeg, Manitoba
September 27, 2004

Jon W. Singleton, CA•CISA
Auditor General

Manitoba

Appendix B

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2004"

(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, 2004

SCHEDULE		($ millions) 2004	2003
	ASSETS		
	Cash and cash equivalents (Note 2)	624	712
	Temporary investments (Note 3)	206	228
1	Amounts receivable	746	730
	Inventories	28	27
	Portfolio investments (Note 3)	89	33
2	Loans and advances	632	579
3	Equity in Government enterprises (Note 5)	949	1,369
4	Other long-term investments	7	7
	Deferred charge for non-devolved health care facilities (Note 1A4)	121	133
5	Tangible capital assets	1,945	2,001
	Pension assets (Note 12)	267	151
	Assets of non-devolved health care facilities (Note 1A4)	805	775
	TOTAL ASSETS	6,419	6,745
	LIABILITIES		
6	Borrowings	18,042	17,810
	Less: Sinking funds (Note 6)	(3,024)	(3,939)
	Less: Debt incurred for and repayable by the Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation	(5,937)	(5,573)
		9,081	8,298
	Less: Unamortized foreign currency fluctuation	(89)	(81)
	Net borrowings	8,992	8,217
7	Accounts payable, accrued charges, provisions and deferrals	1,890	1,913
	Pension liability (Note 12)	3,571	3,411
	Liabilities of non-devolved health care facilities (Note 1A4)	728	698
	TOTAL LIABILITIES	15,181	14,239
12	**ACCUMULATED DEFICIT**	8,762	7,494

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, 2004

	($ millions) 2004	2003
REVENUE		
Manitoba Collections:		
Retail sales tax	1,064	1,007
Fuel taxes	233	231
Levy for health and education	268	257
Mining tax	22	18
Other taxes	480	461
Fees and other revenue	1,174	1,109
Government Enterprise Transfers (Schedule 3):		
Liquor Control Commission	174	166
Manitoba Hydro	-	203
Manitoba Lotteries Corporation	235	266
Income taxes:		
Corporation income tax	289	160
Individual income tax	1,720	1,636
Federal transfers:		
Equalization	1,414	1,338
Canada Health and Social Transfer	917	756
Medical Equipment Fund	21	16
Health Reform Fund	37	-
Primary Care Transition Fund	7	1
Shared cost and other	320	294
TOTAL REVENUE	8,375	7,919
EXPENSES		
Health	3,301	2,955
Education	2,169	2,059
Family Services and Housing	965	930
Community, Economic and Resource Development	1,042	960
Justice and Other Government	753	724
Debt Servicing (Note 14)	329	367
TOTAL EXPENSES (Schedule 11)	8,559	7,995
NET LOSS BEFORE EXTRAORDINARY ITEM	(184)	(76)
Adjustment to estimate for Federal accounting error	-	51
NET LOSS	(184)	(25)
Decrease in equity in government enterprises (Schedule 3)	(420)	(159)
SUMMARY NET LOSS (Schedule 9)	(604)	(184)

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(cont'd.)

SUMMARY STATEMENT OF ACCUMULATED DEFICIT

For the Year Ended March 31, 2004

	($ millions) 2004	2003
Opening accumulated deficit	(7,571)	(7,257)
Tangible capital assets (Note 4A)	(227)	(6)
Deferred revenue (Note 4B)	16	-
Restatement of amortization of assets under construction (Note 4C)	3	-
Recognition of judges accrued pension (Note 4D)	(19)	-
Restatement of Legal Aid private bar fees (Note 4E)	(4)	-
Restatement of School Board debentures (Note 4F)	(433)	-
Net income stabilization account	-	(19)
Restatement of pension liability related to RHA employees	-	(11)
Municipal Tax Sharing	-	(23)
Net assets of devolved health care facilities		
Adjustment re: accrual of employee future benefits	-	(7)
Restatement of net assets to liabilities	-	4
Employee future benefits of non-devolved health care facilities	-	(69)
Repurchase of serial debentures	-	1
Summary net loss for the year	(604)	(184)
	(8,839)	(7,571)
Equity in non-devolved health care facilities (Note 1C)	77	77
Closing accumulated deficit (Schedule 10)	(8,762)	(7,494)

Appendix B
(cont'd.)

SUMMARY FINANCIAL STATEMENTS

SUMMARY STATEMENT OF CASH FLOW

For the Year Ended March 31, 2004

	2004 ($millions)	2003 ($millions)
Cash and cash equivalents provided by (used in)		
Operating activities:		
Summary net loss for the year	(604)	(184)
Changes in non-cash items:		
Temporary investments	22	(28)
Amounts receivable	(22)	142
Valuation allowance	28	21
Inventories	(1)	(1)
Portfolio investments	(56)	(3)
Accounts payable, accrued charges, provisions and deferrals	(23)	(41)
Pension liability	160	194
Amortization of foreign currency fluctuation	3	17
Amortization of debt discount	8	10
Amortization of investment discounts and premiums	(2)	(14)
Disposal of tangible capital assets	4	13
Restatement of amortization	230	-
Amortization of tangible capital assets	139	130
Adjustment to Accumulated Deficit - Other	(664)	(130)
	(778)	126
Changes in equity in government enterprises	420	159
	(358)	285
Investing activities:		
Made	(1,279)	(640)
Realized	542	986
Acquisition of tangible capital assets	(317)	(270)
	(1,054)	76
Financing activities:		
Debt issued	3,325	2,853
Debt redeemed	(2,776)	(3,354)
Changes in sinking funds	775	189
	1,324	(312)
Changes in cash and cash equivalents	(88)	49
Cash and cash equivalents, beginning of year	712	663
Cash and cash equivalents, end of year	624	712

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NOTES TO THE SUMMARY FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

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), with the following exceptions:

1) Material adjustments may result from changes in accounting policy or from the correction of an error which are attributable to and identifiable with prior periods. It is the Government's practise 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.

2) The process of establishing the completeness and reasonableness of the estimated historical cost of the tangible capital assets is ongoing. Reporting policies are currently being developed and information is being gathered for other expenditures which include infrastructure such as highways, bridges, and land acquired for public use. If Canadian GAAP had been used to record the infrastructure tangible capital assets, management estimates that, at March 31, 2004, the tangible capital assets would increase by $1,138 million, the accumulated deficit would decrease by $1,128 million and expenses would decrease by a net amount of $10 million.

3) The CICA recommends certain standards for reporting tangible capital assets and net debt. Although the Government has adopted the standards related to tangible capital assets, it has not fully adopted the recommended presentation of net debt. Summary Net Debt (Schedule 12) provides a reconciliation from accumulated deficit to net debt. If Canadian GAAP was used net debt would appear on the Summary Statement of Financial Position and there would be a Summary Statement of Changes in Net Debt.

4) The Government has adopted a policy of including the assets, liabilities and equity of health care facilities, which have not devolved their ownership to Regional Health Authorities in its financial statements on a combined basis. In 2000/01, the Province began a program of financing the debt for major capital acquisitions of the non-devolved health care facilities. This debt is included as part of the Province's general purpose borrowings. The related asset for non-devolved health care facilities is recorded as a deferred charge and is amortized over the same period as the term of the debt issue. The annual net income (loss) of the non-devolved health care facilities is recorded in the Summary Statement of Accumulated Deficit instead of the Summary Statement of Revenue and Expense. The assets and liabilities are not adjusted on a basis consistent with the accounting policies of the Government reporting entity. If Canadian GAAP had been used to record these transactions, assets would decrease by $152 million (2003 - $155 million), liabilities would decrease by $135 million (2003 - $146 million), accumulated deficit would increase by $17 million (2003 - $9 million), revenues would increase by $112 million (2003 - $103 million) and expenses would increase by $113 million (2003 - $103 million).

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

B. The Reporting Entity

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

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(cont'd.)

SUMMARY FINANCIAL STATEMENTS

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

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

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

C. Basis of Consolidation

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

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

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

D. Basis of Specific Accounting Policies

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

Other Revenue

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

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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-supporting debt and revenue earned on investments and advances are recorded as a reduction of debt servicing expense.

Liabilities and Assets

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

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

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

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

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

Appendix B
(cont'd.)

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

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

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

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

9) Intangible 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. A tangible capital asset received as a donation is recorded at its fair market value with the same amount being shown as a deferred contribution which is amortized to revenue on the same basis as the asset is amortized. Where the acquisition cost of a tangible capital asset is shared with other jurisdictions under a shared cost agreement, such contributions are deducted from the cost of the related asset with any amortization calculated on the net amount.

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

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.

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

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(cont'd.)

SUMMARY FINANCIAL STATEMENTS

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 CASH EQUIVALENTS**

Cash equivalents are recorded at cost. Market values approximate cost. Investment revenue earned on cash equivalents during the year was $18 million (2003 - $12 million).

3. **TEMPORARY AND PORTFOLIO INVESTMENTS**

Temporary investments are recorded at the lower of cost and market value. As at March 31, 2004, the cost of temporary investments was $206 million (2003 - $228 million) with a market value of $206 million (2003 - $228 million). Investment revenue earned on the temporary investments funds during the year was $10 million (2003 - $6 million). Portfolio investments are recorded at the lower of cost and net realizable value. As at March 31, 2004, the carrying value of portfolio investments was $89 million (2003 - $33 million). Portfolio investments earned $2 million during the year (2003 - $2 million).

4. **ADJUSTMENTS TO ACCUMULATED DEFICIT**

A. **Tangible Capital Assets**

During the year, tangible capital assets acquired in prior fiscal years (cost of $6 million and accumulated amortization of $3 million) were identified and recorded. Accordingly, the accumulated deficit was decreased by $3 million.

During the year, the Province made adjustments to the calculation of the accumulated amortization of the tangible capital assets held by the Manitoba Housing and Renewal Corporation, to be consistent with the Province's accounting policy. This correction has resulted in a decrease in tangible capital assets of $229 million, a decrease in expenses of $1 million and a corresponding increase in accumulated deficit of $230 million.

B. **Deferred Revenue**

During the year, as a result of a change in the designation of certain special funds held by the University of Manitoba from externally restricted funds to internally restricted funds, deferred revenue decreased by $15 million and accordingly the accumulated deficit decreased by $15 million.

Certain Crown organizations adopted a policy of distinguishing restricted contributions from unrestricted contributions. Prior to 2003/04 all contributions were accounted for as restricted contributions. As restricted contributions are recognized as revenue when the related expenses are incurred and unrestricted contributions are recognized as revenue when received, this resulted in a decrease in the accumulated deficit of $1 million.

C. **Amortization of Assets Under Construction**

During the year, amortization on assets under construction, recorded by a Crown organization in prior years, was identified and adjusted to zero in accordance with Government policies for these assets. Accordingly, the accumulated deficit was decreased by $3 million.

D. **Judges Pension Adjustment**

During the year, an actuarial valuation report of the Government's liability to the judges under the Supplemental Pension Benefit Plan was completed as at March 31, 2003. In accordance with the formula, the Government's actuarial liability related to prior fiscal years, of $19 million, was identified and recorded.

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SUMMARY FINANCIAL STATEMENTS

Accordingly, the accumulated deficit was increased by $19 million.

E. Legal Aid Private Bar Fees

During the year, The Legal Aid Service Society of Manitoba changed its accounting policy with respect to private bar fees and disbursements to the accrual basis. Prior to this fiscal year, these fees and disbursements were recognized as expenditures based upon the lawyers billing dates rather than the date of providing the required services. This accounting change has resulted in an increase in accounts payable of $4 million and a corresponding increase in accumulated deficit of $4 million.

F. Restatement of School Board Debentures

The Province has provided funds to school boards to finance capital acquisitions through loans and in turn has held the school board debentures as portfolio investments. The Province provides funding to the school boards to repay these debentures. Canadian GAAP requires the investment in these debentures to be recorded as a grant. This has resulted in an increase in loans payable to MPIC of $271 million, a decrease in sinking funds of $185 million, an increase in expenses of $23 million and a corresponding increase in accumulated deficit of $433 million.

5. EQUITY IN GOVERNMENT ENTERPRISES

The category definitions are as follows:

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

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

Equity in Government enterprises is comprised of:

	($ millions)	
	2004	2003
Restricted Equity in Government Enterprises:		
Manitoba Hydro-Electric Board	734	1,170
Manitoba Public Insurance Corporation	144	108
Workers Compensation Board	56	75
	934	1,353
Unrestricted Equity in Government Enterprises:		
Leaf Rapids Town Properties Ltd	1	2
Manitoba Hazardous Waste Management Corporation	1	1
Manitoba Lotteries Corporation	5	5
Manitoba Product Stewardship Corporation	4	5
Manitoba Public Insurance Corporation	4	3
	15	16
Equity in Government Enterprises	949	1,369

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6. SINKING FUNDS

Sinking funds are recorded at the lower of cost and market value. As at March 31, 2004, sinking funds had a cost of $3,024 million (2003 - $3,939 million) and a market value of $3,261 million (2003 - $4,081 million). Investment revenue earned on the sinking funds during the year was $231 million (2003 - $254 million).

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

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

The sinking funds are allocated as follows:

	($ millions) 2004	2003
Province of Manitoba	2,216	2,891
Manitoba Hydro-Electric Board	728	976
Regional Health Authorities	78	70
University of Manitoba	2	2
Total sinking funds	3,024	3,939

Sinking funds are invested as follows:

	($ millions) 2004	2003
Cash and cash equivalents	460	865
Portfolio investments	2,564	3,074
	3,024	3,939

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) 2004	2003
Canada Mortgage and Housing Corporate Mortgages	1	1	1
Manitoba Business Start Program	5	1	1
Manitoba Agriculture Credit Corporation (Note a)		52	52
Manitoba Housing & Renewal Corporation (Note b)		6	4
Co-operative Loans & Loans Guarantee Board (Note c)	1	0	1
Rural Entrepreneur Assistance Program (Note d)	11	4	4
Manitoba Student Financial Assistance Program (Note e)	20	12	12
Rural Municipality of Richot	1	1	1
Winnipeg Symphony Orchestra Inc.	2	1	1
		78	77
Manitoba Grow Bonds		8	8
Total guarantees outstanding		86	85

Appendix B
(cont'd.)

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 $20 million (2003 - $17 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.

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 Co-operative Loans & Loans Guarantee Board is empowered to make loans or guarantee loans to co-operative organizations in Manitoba. The terms of these guarantees vary per each guarantee and are subject to change on Board approval.

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

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

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

			($ millions)	
			2004	2003
Future commitments:	Government Enterprises	Other		
Tangible capital assets, infrastructure and capital grants	151	174	325	348
Rental of tangible capital assets	49	151	200	145
Housing construction and approved mortgages	-	11	11	12
	200	336	536	505

Appendix B
(cont'd.)

SUMMARY FINANCIAL STATEMENTS

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 $86 million (2003- $77 million).

Subsequent to the year end, Manitoba Lotteries Corporation committed to the replacement of video lottery terminals in locations where admittance is age restricted. The estimated cost of these replacements is $75 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 Expansion Authority Inc., the Province is a party to a funding agreement with the Government of Canada for a $240 million expansion project and has committed to provide $120 million towards the $240 million expansion project.

In December 2001, the Government entered into a funding agreement with the City of Winnipeg and the TN Arena Limited Partnership regarding the True North Entertainment Complex. The Province's maximum commitment, after Federal Infrastructure contributions, is $14 million (2003 - $14 million). The Province has fulfilled its commitment by contributing $14 million as at March 31, 2004 (2003 - $3 million).

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:

	2004 ($ millions)
Computer Hardware and Software	1
Construction and Maintenance Equipment	3
Equipment	2
	6

9. CONTINGENCIES

The Government has been named in various legal actions, including treaty land entitlements. No provision has been made at March 31, 2004 in the accounts where the final results are uncertain.

A. Disaster Financial Assistance

A provision has been made at March 31, 2004 for all flood claims and other disaster financial assistance. The final amount of the Government's share of these costs under shared cost agreements is uncertain at the date these financial statements were issued.

B. Northern Development Projects

The Province is contingently liable for legal claims associated with past Manitoba Hydro-Electric Board related northern development projects. The outcome of these claims is not determinable at this time.

10. TREATY LAND ENTITLEMENT OBLIGATIONS

To meet Manitoba's obligation under treaty land entitlement (TLE) agreements, approximately 2,351 acres of provincial Crown land will be transferred to Canada for the Rolling River First Nation. 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.

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(cont'd.)

Manitoba's obligations under the treaty Land Entitlement Framework Agreement requires the setting aside of 985,949 acres of Crown land. To date 843,650 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

There are currently no accounting standards for environmental liabilities recommended for senior Governments by the CICA, other than those that apply to corporate entities related to environmental damage they have created. Because of its role, Government will in all probability assume costs where those responsible cannot or will not accept liability for their actions. The Province is in the process of cataloguing suspected contaminated mine and petroleum sites. This catalogue will include a determination of the liable party, an assessment of the nature and level of contamination, the need for clean-up versus containment, and a quantification of the estimated cost for clean-up. Once standards are established by the CICA for senior Governments for the recognition and disclosure of these liabilities, their application in the Manitoba setting will be reviewed to determine the appropriate accounting treatment. 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, 2004 was $17 million (2003 - $9 million), the Government set aside $75 million (2003 - $48 million) in the Pension Assets Fund. These funds are separately invested and maintained in trust accounts with Civil Service Superannuation Board (CSSB) and Teachers' Retirement Allowances Fund (TRAF) for the Government and are increased by the rate of return of the funds. The Pension Assets Fund's balance as at March 31, 2004 was $267 million (2003 - $151 million).

The actuarial valuations were based on a number of assumptions about future events, such as interest rates, wage and salary increases, inflation rates and rates of employee turnover, disability and mortality. Information about the economic assumptions used in the most recent actuarial valuations is provided below. Demographic assumptions used in the valuations reflect the experience of the plans.

Plan	Latest Valuation	Real Rate of Return	Inflation Rate	Investment Rate of Return
Civil Service	December 31, 2001	4.0%	2.75%	6.75%
Teachers'	January 1, 2001	4.0%	3.0%	7.0%
MLA	March 31, 2003	4.0%	2.75%	6.75%
University of Manitoba	December 31, 2001	4.0%	3.0%	7.0%
Brandon University	December 31, 2003	3.5%	2.5%	6.0%
HEPP	December 31, 2003	3.5%	3.0%	6.5%
Judges' Supplemental	March 31, 2003	3.25%	2.75%	6.0%

Appendix B
(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 2004	Pension Liability 2004	Pension Liability 2003
Civil Service Plan			
Pension Liability	144	1,497	1,446
Unamortized Net Actuarial Gains		48	55
Teachers' Plan			
Pension Liability	195	2,066	1,926
Unamortized Actuarial Losses		(95)	(48)
Members of the Legislative Assembly			
Pension Liability	2	28	29
Unamortized Actuarial Gains		4	3
Judges' Supplemental Pension Plan	2	21	-
Other Plans	21	2	-
	364	3,571	3,411

The pension liabilities of Government 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, 2004, the CSP had approximately 39,800 (2003 – 39,000) 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, 2004 was $34 million (2003 - $30 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, 2004 amounted to $68 million (2003 - $65 million).

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(cont'd.)

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, 2004, payments of $85 million (2003 - $79 million) were made to the CSSF.

An actuarial report was completed for CSSF as of December 31, 2001, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's net liability for accounting purposes has been calculated to be $1,545 million as at March 31, 2004 (2003 - $1,501 million), which includes net unamortized actuarial gains of $48 million (2003 - $55 million). The December 31, 2001 report disclosed an actuarial loss of $50 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 gain from the December 31, 1998 actuarial report. The 2004 combined amortization was a $7 million decrease to expenses (2003 - $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, 2004, the Teachers' Retirement Allowances Fund (TRAF) had approximately 30,900 (2003 – 29,500) 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, 2004, amounted to $51 million (2003 - $53 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, 2004, payments of $102 million (2003 - $91 million) were made to TRAF.

An actuarial report was completed for TRAF as of January 1, 2001, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. For the year ended March 31, 2004, the actuary provided a calculation of the Government's liability on an indexed basis. The Government's net liability for accounting purposes has been calculated to be

Appendix B
(cont'd.)

$1,971 million as at March 31, 2004 (2003 - $1,878 million), which includes unamortized actuarial losses of $95 million (2003 - $48 million). The actuary's calculation disclosed an actuarial loss of $51 million which will be amortized over the 13 year expected average remaining service life of the employee groups, commencing in the 2004/05 fiscal year. This actuarial loss has been combined with the actuarial loss from the January 1, 2001 actuarial report. The 2004 amortization expense was $4 million (2003 - $5 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, 2004, there are 116 (2003 - 119) plan members who are entitled to receive future pension benefits in accordance with the LAA.

The calculation for defined pension benefits is equal to 3% of the average annual indemnities for the last five years served as a member or all the years served if less than five multiplied by the number of years of pensionable service up to April 1995. These entitlements are fully indexed to cost of living increases.

An actuarial 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 $32 million as at March 31, 2004 (2003 - $32 million), which includes unamortized actuarial gains of $4 million (2003 - $3 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 2004 combined amortization was a $0.6 million decrease to expenses (2003 - $0.4 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. 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, 2003, the University of Manitoba Pension Plans had 5,119 active members (2002 - 4,902), and 846 pensioners (2002 - 789). 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, 2001 was completed in 2002 by Eckler Partners Ltd., a firm of consulting actuaries. The results of this valuation have been extrapolated by Eckler Partners Ltd. to December 31, 2003. As at December 31, 2003, the University of Manitoba Pension Plan (1970) and The University of Manitoba Pension Plan (1993) were in an actuarial surplus of $1 million (2002 - $1 million) and $17 million (2002 - $4 million), respectively. The University of Manitoba cannot access this surplus and as a result, no asset has been recorded in the Province's Summary Financial Statements.

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The University of Manitoba recognized expenses equal to its contributions of $12 million (2003 - $11 million) for the 1970 Plan and for the 1993 Plan for the fiscal year ended March 31, 2004. Employee contributions equalled the employer contributions.

The next full actuarial valuation of the plans will be as at December 31, 2003 and will be completed in 2004.

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 2004 (2003 - $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, 2003, the Brandon University Retirement Plan had 458 active members (2002 - 435), 183 pensioners (2002 - 177), and 38 deferred pensioners (2002 - 37).

The actuarial present value of accrued pension benefits has been determined using the accrued benefit method prorated on service and using assumptions recommended by the actuary and approved by the Trustees. An actuarial valuation was made as at December 31, 2003 by Eckler Partners Ltd., a firm of consulting actuaries. As at December 31, 2003, the Brandon University Retirement Plan was in an actuarial surplus of $3 million (2002 - $2 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 (2003 - $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.

Appendix B
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Ad hoc cost of living adjustments (COLAs) to pension benefits are reviewed every year. Members who retired on or before July 1, 2000, disabled members and deferred vested members received a 2.34% ad hoc COLA effective January 1, 2002. COLAs were not granted for year ended December 31, 2003.

As at December 31, 2003, HEPP had 34,865 active and disabled members (2002 – 33,178), 4,822 deferred vested members (2002 – 4,961), and 8,971 retired members (2002 – 8,524). There are currently 185 participating employers (2002 - 187).

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 $11 million (2002 - $67 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, 2004, there are 61 (2003 – 57) 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 $21 million as at March 31, 2004 (2003 - $19 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, 2004, the WCFSP had 562 active members, 129 pensioners and 69 deferred pensioners.

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.

Appendix B
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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. 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, 2004.

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. AMOUNTS HELD IN TRUST

The Government held certain fiduciary trusts for investment or administration at March 31, 2004, totalling $399 million (2003 - $455 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, 2004 totalling $125 million (2003 - $138 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)	
	2003	**2002**
Civil Service Superannuation Fund	2,758	2,422
University of Manitoba Pension Plans	846	751
Brandon University Retirement Plan	77	70
	3,681	3,243

14. DEBT SERVICING

Debt servicing costs of $561 million (2003 - $494 million) are net of cost recoveries and interest income of $878 million for the year ended March 31, 2004 (2003 - $955 million), which includes $530 million as at March 31, 2004 (2003 - $582 million) from Government enterprises. Government enterprises debt servicing costs of $497 million (2003 - $489 million) are reported on Schedule 3.

15. WATER POWER RENTALS

Water power rental revenue from the Manitoba Hydro-Electric Board (Hydro), in the amount of $65 million (2003 - $97 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) (2003 - $3.34 per MW.h).

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16. **GUARANTEE FEES**

Hydro remits guarantee fees to the Government based on the Hydro debt that the Province guarantees on their behalf. The guarantee fees paid by Hydro for the year ended March 31, 2004 were $70 million (2003 - $74 million).

17. **REVENUE FROM GOVERNMENT ENTERPRISES**

Under the *Workplace Safety and Health Act of Manitoba*, The Workers' Compensation Board supports the administrative expenses incurred by the Department of Labour and Immigration for The Workplace Safety and Health program and the Worker Advisor Office. The amount for the year ended March 31, 2004 was $6 million (2003 - $6 million).

The Manitoba Lotteries Corporation provided $2 million in funding for the year ended March 31, 2004 (2003 - $2 million) to the Addictions Foundation of Manitoba for problem gambling services programming. Hydro paid Corporation Capital Tax of $33 million for the year ended March 31, 2004 (2003 - $33 million).

18. **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.

19. **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 $80 million for the year ended March 31, 2004 (2003 - $78 million). The Province has accrued a liability of $21 million (2003 - $21 million) for the municipal share of individual and corporate income taxes for the first quarter of 2004.

20. **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, 2004, this loan payable has been reduced to $89 million by offsetting an adjustment to unapplied taxes.

To offset negative adjustments to the 2004 Equalization payments, the Federal Government provided a net loan payable to the Province 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 a net loan payable to the Province of $9 million. Repayment of this loan payable is scheduled to begin in April, 2005 and continue over a five year period.

21. **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 instruments such as swaps and forward foreign exchange contracts as well as uses

Appendix B
(cont'd.)

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 derivative instruments and US dollar sinking funds, except for the impact of the unamortized foreign exchange fluctuation account of $89 million (2003 - $81 million). In accordance with the Province's accounting policies reflected in Notes 1(E)2 and (E)4, 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.

22. CANADIAN BLOOD SERVICES

Most provinces including Manitoba are members of and provide funding to Canadian Blood Services, which operates the Canadian blood system. The March 31, 2003 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, 2003 is $135 million. The related assets as at March 31, 2003 total $171 million. The subsidiary also had a re-insurance contract for additional coverage of $750 million.

Based upon the above, as at March 31, 2003, 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, 2003. March 31, 2004 numbers are not available for comparison.

23. COMPARATIVE FIGURES

Certain of the 2003 financial statement figures have been reclassified to be consistent with the 2004 presentation.

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 more 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, 2004 and the special purpose statements of revenue and expense, calculation of balance under the balance budget act, accumulated (deficits) surpluses and cash flow for the year then ended. These special purpose financial statements are the responsibility of the Government of Manitoba. My responsibility is to express an opinion on these special purpose financial statements based on my audit.

Except as explained in the following paragraph, 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.

Scope Limitation

My opinion on these financial statements does not include an opinion on the amount recorded as emergency expenses excluded in the determination of a positive balance under section 3(2) of The Balanced Budget, Debt Repayment and Taxpayer Accountability Act. There is an absence of suitable, generally accepted criteria for use in determining an amount for emergency expenditures as called for by the Balanced Budget, Debt Repayment and Taxpayer Accountability Act (Act). As a result, the amount is not susceptible to audit verification and I express no opinion on the amount.

Manitoba

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(cont'd.)

Section 3(2) of the Act indicates that the government is not required to include 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, in determining whether there is a positive or negative balance for a fiscal year.

Section 3(3) of the Act indicates that a declaration by the Lieutenant Governor in Council that, in the opinion of the Lieutenant Governor in Council, an expenditure as described in the preceding paragraph has occurred is conclusive for the purposes of the Act of the fact that the expenditure occurred and in that amount.

Section 3(4) of the Act indicates that the declaration as described in the preceding paragraph shall include a description of the expenditure and why it was necessary.

The government has complied with the above sections in preparing these special purpose financial statements.

Opinion
In my opinion, which does not include an opinion on the amount of the emergency expenditures, these Special Purpose Financial Statements present in all material respects, the financial position of the Operating Fund and Special Funds as at March 31, 2004, 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.

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 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 and the elimination of disaster related expenses, 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 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, assets would increase by $2.727 billion, liabilities would increase by $3.019 billion, the accumulated deficit would increase by $292 million, revenues would increase by $705 million, and expenses would increase by $1.217 billion.

Winnipeg, Manitoba
September 27, 2004

Jon W. Singleton, CA•CISA
Auditor General

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(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2004"

(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, 2004

SCHEDULE		($ millions) 2004	2003
	ASSETS		
	Cash and Cash Equivalents (Note 2)	72	167
1	Amounts Receivable	559	563
2	Loans and Advances	603	785
	Pension Assets (Note 1B)	267	151
	Deferred Charge for Health Care Facilities (Note 1A7)	497	446
		1,998	2,112
4	Trust Assets (Note 1F)	2,265	2,063
5	Tangible Capital Assets	415	399
	TOTAL ASSETS	4,678	4,574
	LIABILITIES		
6	Borrowings	17,700	17,404
	Less: Sinking Funds (Note 3)	(2,946)	(3,869)
	Less: Debt Incurred For and Repayable By The Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation	(5,937)	(5,573)
		8,817	7,962
	Less: Unamortized Foreign Currency Fluctuation	(89)	(81)
	Net Borrowings	8,728	7,881
7	Accounts Payable, Accrued Charges, Provisions and Deferrals	1,034	1,105
		9,762	8,986
4	Amounts Held in Trust for Investment or Administration (Note 1F)	2,265	2,063
	TOTAL LIABILITIES	12,027	11,049
	ACCUMULATED (DEFICITS) SURPLUSES		
	Operating Fund	(7,897)	(7,037)
	Fiscal Stabilization Fund	79	235
	Pension Assets Fund	267	151
	Debt Retirement Fund	180	152
9	Other Special Funds	22	24
11	**ACCUMULATED DEFICIT**	(7,349)	(6,475)

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 5, 6, 7 and 10.

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(cont'd.)

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

For the Year Ended March 31, 2004

($ millions)

	Operating Fund Budget	Operating Fund Actual	Fiscal Stabilization Fund	Debt Retirement Fund	Pension Assets Fund	Other Special Funds	Total 2004	Total 2003
OPERATING REVENUE (Schedule 8)								
Manitoba Collections	2,336	2,360	-	-	-	5	2,365	2,301
Income Taxes	1,973	2,009	-	-	-	-	2,009	1,796
Federal Transfers	2,508	2,515	-	-	-	-	2,515	2,230
Crown Corporations	497	422	-	-	3	-	425	649
Interest Earned	-	-	2	7	38	1	48	6
	7,314	7,306	2	7	41	6	7,362	6,982
OPERATING EXPENSES (Schedules 8 & 10)	7,256	7,439	-	-	-	6	7,445	6,948
NET RESULT FOR THE YEAR BEFORE EXTRAORDINARY ITEM	58	(133)	2	7	41	-	(83)	34
EXTRAORDINARY ITEM								
Adjustment to estimate for Federal accounting error	-	-	-	-	-	-	-	51
NET RESULT FOR THE YEAR	58	(133)	2	7	41	-	(83)	85
INTERFUND TRANSFERS								
Transfer to Debt Retirement Fund	(96)	(96)	-	96		-	-	-
Transfer for Pensions	-	-	-	(75)	75	-	-	-
Transfer from Fiscal Stabilization Fund	48	171	(171)	-	-	-	-	-
Transfer from Mining Community Reserve	-	-	-	-	-	(2)	(2)	(3)
Transfer from Positive balance to Fiscal Stabilization Fund under Section 9 (a) of the Act	(10)	(13)	13	-	-	-	-	-
	(58)	62	(158)	21	75	(2)	(2)	(3)
NET RESULT FOR THE YEAR AFTER INTERFUND TRANSFERS	-	(71)	(156)	28	116	(2)	(85)	82

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(cont'd.)

OPERATING FUND AND SPECIAL FUNDS
SPECIAL PURPOSE STATEMENT OF CALCULATION OF BALANCE
UNDER THE BALANCED BUDGET ACT
For the Year Ended March 31, 2004

	($ millions)	
	2004	**2003**
Operating Revenue	7,306	6,970
Operating Expenses	7,439	6,944
NET RESULT FOR THE YEAR BEFORE EXTRAORDINARY ITEM	(133)	26
EXTRAORDINARY ITEM		
Adjustment to estimate for Federal accounting error	-	51
NET RESULT FOR THE YEAR BEFORE ADJUSTMENT UNDER SECTION 3 (2) OF THE ACT	(133)	77
Elimination of Disaster Expenditures as Declared under Section 3 (2) of the Act (Note 23)	71	-
NET RESULT FOR THE YEAR AFTER ADJUSTMENT UNDER SECTION 3 (2) OF THE ACT	(62)	77
INTERFUND TRANSFERS		
To the Debt Retirement Fund	(96)	(96)
From the Fiscal Stabilization Fund	171	23
	75	(73)
POSITIVE BALANCE FOR PURPOSES OF BALANCED BUDGET LEGISLATION	13	4

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(cont'd.)

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

For the Year Ended March 31, 2004

($ millions)

	Operating Fund	Fiscal Stabilization Fund	Debt Retirement Fund	Pension Assets Fund	Other Special Funds (Schedule 9)	Total 2004	Total 2003
Accumulated (Deficits) Surpluses, Beginning of Year	(7,037)	235	152	151	24	(6,475)	(6,617)
Tangible Capital Assets (Note 4A)	3	-	-	-	-	3	(6)
Devolution of Winnipeg Child and Family Services (Note 4B)	(2)	-	-	-	-	(2)	-
Legal Aid Private Bar Fees (Note 4C)	(4)	-	-	-	-	(4)	-
Valuation Allowance (Note 4D)	(230)	-	-	-	-	(230)	-
Pension Adjustment (Note 4E)	(41)	-	-	-	-	(41)	-
Red River College Loan (Note 4F)	(13)	-	-	-	-	(13)	-
School Debentures (Note 4G)	(433)	-	-	-	-	(433)	-
Hospital Debentures (Note 4H)	(69)	-	-	-	-	(69)	-
Net Income Stabilization Account	-	-	-	-	-	-	(19)
Municipal Tax Sharing	-	-	-	-	-	-	(23)
Transfer from Trust Liabilities to create Pension Assets Fund	-	-	-	-	-	-	107
Repurchase of Serial Debentures	-	-	-	-	-	-	1
Net Result for the Year after Interfund Transfers	(71)	(156)	28	116	(2)	(85)	82
Accumulated (Deficits) Surpluses, End of Year (Schedule 11)	(7,897)	79	180	267	22	(7,349)	(6,475)

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OPERATING FUND AND SPECIAL FUNDS
SPECIAL PURPOSE STATEMENT OF CASH FLOW

For the Year Ended March 31, 2004

	($ millions) 2004	2003
Cash and Cash Equivalents Provided by (Used in)		
Operating Activities:		
Net Result for the year after Interfund Transfers - Operating Fund	(71)	-
- Special Funds	(14)	82
Changes in non-cash items:		
Amounts Receivable	4	149
Valuation Allowance	242	(27)
Accounts Payable, Accrued Charges, Provisions and Deferrals	(71)	(162)
Amortization of Foreign Currency Fluctuation	3	17
Amortization of Debt Discount	8	10
Amortization of Investment Discounts and Premiums	(2)	(14)
Amortization of Tangible Capital Assets	28	30
Amortization of Tangible Capital Assets charged to Special Operating Agencies	2	1
Tangible Capital Assets Adjustment	(4)	6
Adjustment to Accumulated Deficit - Other	(789)	(48)
	(664)	44
Investing Activities:		
Made	(1,362)	(599)
Realized	577	986
Acquisition of Tangible Capital Assets	(42)	(45)
	(827)	342
Financing Activities:		
Debt Issued	3,343	2,875
Debt Redeemed	(2,776)	(3,354)
Changes in Sinking Funds	829	133
	1,396	(346)
Changes in Cash and Cash Equivalents	(95)	40
Cash and Cash Equivalents, beginning of year	167	127
Cash and Cash Equivalents, end of year	72	167

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(cont'd.)

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

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 $3,569 million (2003 - $3,411 million) and expenses would increase by $182 million (2003 - $183 million).

2) The liabilities for unfunded employee future benefits associated with health care facilities and family service agencies for which the Government has funding responsibility are not recorded in the Special Purpose Financial Statements. If Canadian GAAP had been used in the recording of the employee future benefits transactions, liabilities and the accumulated deficit would increase by $245 million (2003 - $209 million) and expenses would increase by $36 million (2003 - $27 million).

3) The financial statements do not reflect the financial results for all of the Government enterprises and Crown organizations comprising the Government reporting entity. The financial operations of the latter are reflected only to the extent that their operations were financed from or contributed to the Special Purpose Financial Statements. If Canadian GAAP had been used to record these transactions, assets would increase by $2,086 million, liabilities would decrease by $795 million, the accumulated deficit would decrease by $2,881 million, revenue would increase by $705 million and expenses would increase by $958 million.

4) Material adjustments may result from changes in accounting policy or from the correction of an error which are attributable to and identifiable with prior periods. It is the Government's practise 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.

5) The process of establishing the completeness and reasonableness of the estimated historical cost of the tangible capital assets is ongoing. Reporting policies are currently being developed and information is being gathered for other expenditures which include infrastructure such as highways, bridges, and land acquired for public use. If Canadian GAAP had been used to record the infrastructure tangible capital assets, management estimates that, at March 31, 2004, the tangible capital assets would have increased by $1,138 million, accumulated deficit would have decreased by $1,128 million and expenses would have decreased by a net amount of $10 million.

6) The CICA recommends certain standards for reporting tangible capital assets and net debt. Although the Government has adopted the standards related to tangible capital assets, it has not fully adopted the recommended presentation of net debt. Net Debt (Schedule 11) provides a reconciliation from accumulated deficit to net debt. If Canadian GAAP was used net debt would appear on the Special Purpose Statement of Financial Position and there would be a Special Purpose Statement of Changes in Net Debt.

7) Prior to the 2000/01 fiscal year, individual health care facilities issued long-term debt in their own name to finance major capital acquisitions. In 2000/01, the Province began a program to finance such debt directly, taking advantage of its superior borrowing power and rates, and lowering the cost of health related borrowings for Manitoba. This debt is included as part of the Province's general

Appendix D
(cont'd.)

purpose borrowings. The related asset for devolved and non-devolved health care facilities is recorded as a deferred charge and amortized over the same period 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 $497 million (2003 - $446 million) and the accumulated deficit would increase by $497 million (2003 - $446 million) and expenses would increase by $51 million (2003 - $54 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:

Operating Fund - The Operating Fund is the vehicle through which the Government manages and controls the operations of Government departments and programs, and does not include the results of Government enterprises and Crown Organizations except to the extent that they may have received funding from the Operating Fund. It is through the Operating Fund that the Government reports on its stewardship of Central Government operations, including measurement of its results as compared to voted appropriations, and its obligations with respect to *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act.*

Debt Retirement Fund - This Fund was established on November 3, 1995 under the authority of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act.* The purpose of the Fund is to assist in the orderly repayment of debt pursuant with section 8(4) of the Act. After March 31, 2000, until the Fund is wound up, the Minister of Finance is required to deposit annually in the Fund a minimum of $96 million or such greater amount as determined by the Act.

Fiscal Stabilization Fund - This Fund was established at March 31, 1989 under the authority of *The Fiscal Stabilization Fund Act.* The purpose of the Fund is to assist in stabilizing the fiscal position of the Government from year to year and to improve long-term fiscal planning. Under the provisions of the Act, the Government may deposit in the Fund any part of the revenue or other financial assets received in the Operating Fund in any fiscal year and shall credit to the Fiscal Stabilization Fund any earnings from investment of the assets of the Fund. All or part of the Fund balance may be transferred to the Operating Fund in accordance with the provisions of the Act.

Section 9(a) of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act* requires that, if a surplus exists in a fiscal year in the Operating Fund, the Minister of Finance shall transfer an amount sufficient to bring the Fiscal Stabilization Fund to its target level as set out by *The Fiscal Stabilization Fund Act* or any greater amount that the Minister considers appropriate. The target level for the Fiscal Stabilization Fund is a minimum of 5% of the expense of the Operating Fund.

Pension Assets Fund - This Fund was established under the authority of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act.* The purpose of the Fund is to set aside designated assets, pursuant to section 8 of the Act, for the future retirement of the Government's pension liability.

Mining Community Reserve - This Fund was established to assist with the welfare and employment of people who are directly affected by mine closures in Manitoba. The Lieutenant Governor in Council may transfer to this Fund each year up to 3% of the taxes collected under *The Mining Tax Act.*

Quarry Rehabilitation Reserve Fund - This Fund was established to assist in the rehabilitation of quarries deemed to be depleted. A levy of 10 cents per metric ton of all aggregate quarry mineral production in Manitoba is paid into the Fund each year.

Appendix D
(cont'd.)

Other Funds - Other funds included reflect the transactions of the Abandonment Reserve Fund, the Farm Machinery and Equipment Act Fund, the Elk Management Fund, the Land Titles Assurance Fund, Manitoba Law Reform Commission, Veterinary Science Scholarship Fund, Mining Rehabilitation Reserve and Victims Assistance Fund.

The combined financial statements of the above funds are also included in the Government's Summary Financial Statements which are presented separately.

C. Gross Accounting Concept

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

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

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

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

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

D. Modified Accrual Accounting

The revenues and expenses of the Government are recorded on an accrual basis with the following exceptions.

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

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

3) **Expenses** – All expenses incurred for goods or services received are recorded on an accrual basis. Exceptions to this policy involve the acquisition of inventories acquired for the Government's use that are reflected as expenses when incurred as well as items 4) and 5) noted below.

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

4) **Pension Benefits** – The annual cost recorded is based on the Government's share of pensions paid to retired employees, teachers and Members of the Legislative Assembly, as well as current contributions to Registered Retirement Savings Plan accounts and tax paid trusts on behalf of MLAs and employees who are pensionable outside of the Civil Service Superannuation Fund. The Government does not record its liability for the unfunded cost of pension benefits earned by employees, teachers and Members of the Legislative Assembly.

Appendix D
(cont'd.)

5) **Employee Future Benefits** - The Government does not record liabilities for the unfunded cost of employee future benefits earned by employees of health care facilities and family service agencies.

E. Liabilities and Assets

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

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

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

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

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

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

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

Appendix D
(cont'd.)

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

7) 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. 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.

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

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.

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

F. Amounts Held in Trust for Investment or Administration

These amounts primarily represent sinking funds and surplus cash of Government enterprises and Crown organizations on deposit with the Minister of Finance for investment. Deposits of surplus cash funds not required to be specifically invested are pooled with other available funds of the Operating Fund for investment purposes and are accorded a market rate of interest. Sinking fund contributions made by Government enterprises, Crown organizations and others in respect of their direct debt are deposited with and specifically invested by the Minister of Finance. These investments are recorded at cost.

G. 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 $3 million (2003 - $4 million).

Appendix D
(cont'd.)

3. SINKING FUNDS

Sinking funds are recorded at the lower of cost and market value. As at March 31, 2004, sinking funds had a cost of $2,946 million (2003 - $3,869 million) and a market value of $3,183 million (2003 - $4,011 million). Investment revenue earned on the sinking funds during the year was $231 million (2003 - $253 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) 2004	2003
Province of Manitoba	2,216	2,891
Manitoba Hydro-Electric Board	728	976
University of Manitoba	2	2
Total sinking funds	2,946	3,869

Sinking funds are invested as follows:

	($ millions) 2004	2003
Cash and cash equivalents	467	865
Portfolio investments	2,479	3,004
	2,946	3,869

4. ADJUSTMENTS TO ACCUMULATED DEFICIT

A. Tangible Capital Assets

During the year, tangible capital assets acquired in prior fiscal years (cost of $6 million and accumulated amortization of $3 million) were identified and recorded. Accordingly, the accumulated deficit was decreased by $3 million.

B. Transfer of Net Liabilities

Under Order in Council #114/2003, as of April 1, 2003, Winnipeg Child and Family Services Agency was dissolved and the assets, liabilities and responsibilities of the agency were assumed by the Province of Manitoba. Prior to this date the agency was operated as a Government organization and was consolidated in the Summary Financial Statements. It was not included as part of the Special Purpose Financial Statements. The inclusion into the Special Purpose Financial Statements has resulted in an increase in assets of $1 million, tangible capital assets of $1 million, liabilities of $4 million and a corresponding increase in accumulated deficit of $2 million.

Appendix D
(cont'd.)

C. Legal Aid Private Bar Fees

During the year, the Legal Aid Services Society of Manitoba changed its accounting policies with respect to private bar fees and disbursements to the accrual basis. Prior to this fiscal year, these fees and disbursements were recognized as expenditures based upon the lawyers billing dates rather than the date of providing services. It is the policy of the Province to record any changes in the annual operations of the Legal Aid Services Society in the Special Purpose Financial Statements. This accounting change has resulted in an increase in accounts payable of $4 million and a corresponding increase in accumulated deficit of $4 million.

D. Valuation Allowance

It is the policy of the Government to create or change valuation allowances to reflect the estimated realizable value of loans made to crown agencies, boards and commissions. This assessment is based on a review of the organization's most recent financial statements and any accumulated deficit adjusted by prospective recoveries from future operations. Because it was determined that Manitoba Housing and Renewal Corporation (MHRC), in prior years, had not been amortizing their tangible capital assets in accordance with Canadian GAAP, MHRC's accumulated deficit, for the year ended March 31, 2003, was understated and had to be increased to reflect additional accumulated amortization. As a result, there was an increase made to the MHRC valuation allowance of $229 million, an increase in accumulated deficit of $230 million and a decrease in expense of $1 million.

E. Pension Adjustment

Revenue from the Manitoba Liquor Control Commission (MLCC) was recorded at the gross amount as allocated by MLCC. MLCC does not reduce the revenue allocation for the revenue received from the Province offsetting the change in their pension liability. This has resulted in the recognition of a loan payable of $43 million to MLCC, an increase in accumulated deficit of $41 million, and a decrease in revenue of $2 million.

F. Red River College Loan

The Province undertook to finance through borrowings, the downtown campus for Red River College (RRC). The proceeds of the borrowing were then advanced to RRC and a commitment given to RRC to provide future appropriation funding to support the repayment of the advances to the Province. This advance should have been treated as a grant when advanced. This has resulted in a decrease in assets of $34 million, an increase in accumulated deficit of $13 million and an increase in expenses of $21 million.

G. School Debentures

The Province has provided funds to school boards to finance capital acquisitions through loans and in turn has held the school board debentures as portfolio investments. The Province provides funding to the school boards to repay these debentures. Canadian GAAP requires the investment in these debentures to be recorded as a grant. This has resulted in an increase in loans payable to MPIC of $271 million, a decrease in sinking funds of $185 million, an increase in accumulated deficit of $433 million and an increase in expenses of $23 million.

H. Hospital Debentures

The Province has provided funds to hospitals to finance capital acquisitions through loans and in turn has held the hospital debentures as portfolio investments. The Province provides funding to the hospitals to repay these debentures. Canadian GAAP requires the investment in these debentures to be recorded as a grant. This has resulted in an increase in accounts payable of $24 million, a decrease in sinking funds of $46 million, an increase in accumulated deficit of $69 million and an increase in expenses of $1 million.

5. GUARANTEES

Appendix D
(cont'd.)

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

		($ millions)	
	Authorized	2004	2003
Debt issued by Government enterprises and Crown organizations (Note a)		914	971
Manitoba Grow Bonds		8	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)	11	4	4
Manitoba Student Financial Assistance Program (Note c)	20	12	12
Assiniboine Community College	2	0	0
Keewatin Community College	2	0	0
Red River College	5	0	0
Manitoba Housing and Renewal Corporation	2	0	0
Venture Manitoba Tours Ltd.	9	8	8
Miscellaneous	3	3	2
		950	1,006
Less: Sinking funds		30	26
Total guarantees outstanding		920	980

Provision for future losses on guarantees in the amount of $18 million (2003 - $16 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 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.

6. FINANCIAL COMMITMENTS

A. Funding Commitments for Capital Acquisitions

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

	($ millions) 2004	2003
Financial arrangements for completed projects:		
Hospitals and personal care homes	210	194
Manitoba Housing and Renewal Corporation	184	187
Brandon University	2	2
	396	383
Future commitments:		
Infrastructure and capital grants	41	48
Rental of tangible capital assets	101	107
	142	155
	538	538

In addition to the approved outstanding debt for hospitals and personal care homes, lines of credit up to $98 million (2003 - $68 million) have been approved to finance capital projects for hospitals and personal care homes currently in process. On completion of these projects, the borrowings will be converted to other financing arrangements.

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

In December 2001, the Government entered into a funding agreement with the City of Winnipeg and the TN Arena Limited Partnership regarding the True North Entertainment Complex. The Province's maximum commitment, after Federal Infrastructure contributions, is $14 million (2003 - $14 million). The Province has fulfilled its commitment by contributing $14 million as at March 31, 2004 (2003 - $3 million).

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) 2004
Computer Hardware and Software	1
Construction and Maintenance Equipment	3
Equipment	2
	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 $6 million.

7. CONTINGENCIES

Appendix D
(cont'd.)

The Government has been named in various legal actions, including treaty land entitlements. No provision has been made at March 31, 2004 in the accounts where the final results are uncertain.

A. Disaster Financial Assistance

A provision has been made at March 31, 2004 for all flood claims and other disaster financial assistance. The final amount of the Government's share of these costs under shared cost agreements is uncertain at the date these financial statements were issued.

B. Northern Development Projects

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

8. TREATY LAND ENTITLEMENT OBLIGATIONS

To meet Manitoba's obligation under treaty land entitlement (TLE) agreements, approximately 2,351 acres of provincial Crown land will be transferred to Canada for the Rolling River First Nation. 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.

Manitoba's obligations under the Treaty Land Entitlement Framework Agreement requires the setting aside of 985,949 acres of Crown land. To date, 843,650 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.

9. ENVIRONMENTAL ISSUES

There are currently no accounting standards for environmental liabilities recommended for senior Governments by the CICA, other than those that apply to corporate entities related to environmental damage they have created. Because of its role, Government will in all probability assume costs where those responsible cannot or will not accept liability for their actions. The Province is in the process of cataloguing suspected contaminated mine and petroleum sites. This catalogue will include a determination of the liable party, an assessment of the nature and level of contamination, the need for clean-up versus containment, and a quantification of the estimated cost for clean-up. Once standards are established by the CICA for senior Governments for the recognition and disclosure of these liabilities, their application in the Manitoba setting will be reviewed to determine the appropriate accounting treatment.

10. 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, 2004 was $17 million (2003 - $9 million), the Government set aside $75 million (2003 - $48 million) in the Pension Assets Fund. These funds are separately invested and maintained in trust accounts with Civil Service

Appendix D
(cont'd.)

Superannuation Board (CSSB) and Teachers' Retirement Allowances Fund (TRAF) for the Government and are increased by the rate of return of the funds. The Pension Assets Fund's balance as at March 31, 2004 was $267 million (2003 - $151 million).

The actuarial valuations were based on a number of assumptions about future events, such as interest rates, wage and salary increases, inflation rates and rates of employee turnover, disability and mortality. Information about the economic assumptions used in the most recent actuarial valuations is provided below. Demographic assumptions used in the valuations reflect the experience of the plans.

Plan	Latest Valuation	Real Rate of Return	Inflation Rate	Investment Rate of Return
Civil Service	December 31, 2001	4.0%	2.75%	6.75%
Teachers'	January 1, 2001	4.0%	3.0%	7.0%
MLA	March 31, 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, 2004, the CSP had approximately 27,600 (2003 – 27,900) participants including active members, retired employees and former employees with entitlements.

Certain amendments to the CSSA were made in 1992 which required that the CSSF establish and fund a separate account in an amount sufficient to cover the Government's share of pension costs attributable to the 1992 amendments to the CSSA. The CSSF account maintained on behalf of the Government at March 31, 2004, was $34 million (2003 - $30 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, 2004 amounted to $45 million (2003 - $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

Appendix D
(cont'd.)

March 31, 2004, payments of $60 million (2003 - $57 million) were made to the CSSF.

An actuarial report was completed for CSSF as of December 31, 2001, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's net liability has been calculated to be $1,543 million as at March 31, 2004 (2003 - $1,500 million), which includes net unamortized actuarial gains of $48 million (2003 - $55 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, 2004, the Teachers' Retirement Allowances Fund (TRAF) had approximately 30,900 (2003 - 29,500) 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, 2004, amounted to $51 million (2003 - $53 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, 2004, payments of $102 million (2003 - $91 million) were made to TRAF.

An actuarial report was completed for TRAF as of January 1, 2001, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. For the year ended March 31, 2004, the actuary provided a calculation of the Government's liability on an indexed basis. The Government's net liability has been calculated to be $1,971 million as at March 31, 2004 (2003 - $1,878 million), which includes unamortized actuarial losses of $95 million (2003 - $48 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

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(cont'd.)

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, 2004, there are 116 (2003 – 119) plan members who are entitled to receive future pension benefits in accordance with the LAA.

The calculation for defined pension benefits is equal to 3% of the average annual indemnities for the last five years served as a member or all the years served if less than five multiplied by the number of years of pensionable service up to April 1995. These entitlements are fully indexed to cost of living increases.

An actuarial 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 $32 million as at March 31, 2004 (2003 - $32 million), which includes unamortized actuarial gains of $4 million (2003 - $3 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 10A.

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, 2004, there are 61 (2003 – 57) 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 $21 million as at March 31, 2004 (2003 - $19 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

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(cont'd.)

Special Pension Transfer Agreement, the services and benefits earned by those employees were transferred from UWARP to the WCFSP.

At March 31, 2004, the WCFSP had 562 active members, 129 pensioners and 69 deferred pensioners.

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. 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, 2004.

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.

11. EMPLOYEE FUTURE BENEFITS LIABILITY - HEALTH CARE FACILITIES AND FAMILY SERVICES AGENCIES

Various funded organizations, primarily health care facilities and child and family service agencies have recorded liabilities for employee future benefits in their financial statements totalling $245 million (2003 - $209 million).

12. 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 $177 million in supplemental estimates and special warrants. The original budget estimate amounts plus the $177 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, 2004.

	($ millions)
Finance	
Taxation	2
Education, Citizenship and Youth	
Support to Schools	25
Agriculture, Food and Rural Initiative	
Risk Management and Income Support Programs	3
Advanced Education and Training	
Support for Universities and Colleges	21

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(cont'd.)

13. TRANSFER FOR DEBT RETIREMENT AND PENSION OBLIGATIONS

The Government transferred $96 million to the Debt Retirement Fund from the Operating Fund for the specific purpose of reducing general purpose debt and pension obligations with the Civil Service Superannuation Fund and the Teachers' Retirement Allowances Fund. The transfer was made in accordance with subsection 8 (4) of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*. The Government transferred $75 million from the Debt Retirement Fund for the specific purpose of reducing pension obligations with the Civil Service Superannuation Fund and the Teachers' Retirement Allowances Fund. This transfer was made in accordance with subsection 8 (6) of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*. The balance in the pension assets fund as at March 31, 2004 was $267 million (2003 - $151 million).

14. 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 shows a positive balance of $13 million. Using the disclosed basis of accounting, the Government is therefore in compliance with the Act.

In April 2004 an amount of $96 million was transferred from the Operating Fund in accordance with subsection 8 (4) of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*. The Debt Retirement Fund Allocation Committee approved an allocation of $75 million for the future retirement of the pension obligation. Subsequently, 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.

15. WATER POWER RENTALS

Water power rental revenue from the Manitoba Hydro-Electric Board (Hydro), in the amount of $65 million (2003- $97 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) (2003 - $3.34 per MW.h).

16. GUARANTEE FEES

Hydro remits guarantee fees to the Government based on the Hydro debt that the Province guarantees on their behalf. The guarantee fees paid by Hydro for the year ended March 31, 2004 were $70 million (2003 - $74 million).

17. 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, 2004 was $6 million (2003 - $6 million).

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(cont'd.)

18. DISTRIBUTION FROM MANITOBA HYDRO-ELECTRIC BOARD

The Manitoba Hydro Amendment Act was proclaimed on August 9, 2002. This amendment required the Manitoba Hydro-Electric Board to distribute up to $288 million of its retained earnings to the Government by the end of its 2003/04 fiscal year. No distribution was received in 2003/04 fiscal year (2003 - $203 million) due to the required threshold level of net income was not achieved by the Manitoba Hydro-Electric Board.

19. 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 $80 million for the year ended March 31, 2004 (2003 - $78 million). The Province has accrued a liability of $21 million (2003 - $21 million) for the municipal share of individual and corporate income taxes for the first quarter of 2004.

20. 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, 2004, this loan payable has been reduced to $89 million by offsetting an adjustment to unapplied taxes.

To offset negative adjustments to the 2004 Equalization payments, the Federal Government provided a net loan payable to the Province 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 a net loan payable to the Province of $9 million. Repayment of this loan payable is scheduled to begin in April, 2005 and continue over a five year period.

21. 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 instruments such as swaps and forward foreign exchange contracts as well as uses 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 derivative and US dollar sinking funds, except for the impact of the unamortized foreign exchange fluctuation account of $89 million (2003 - $81 million). In accordance with the Province's accounting policies reflected in Notes 1(E)2 and (E)4, 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.

22. CANADIAN BLOOD SERVICES

Most provinces, including Manitoba, are members of and provide funding to Canadian Blood Services, which operates the Canadian blood system. The March 31, 2003 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, 2003 is $135 million. The related assets as

Appendix D
(cont'd.)

at March 31, 2003 total $171 million. The subsidiary also had a re-insurance contract for additional coverage of $750 million.

Based upon the above, as at March 31, 2003, 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, 2003. March 31, 2004 numbers are not available for comparison.

23. DISASTER EXPENDITURES

Under Section 3 (2) of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*, the Government is not required to include in the determination of the annual operating balance, 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. Expenditures totalling $71 million that relate primarily to excessive forest fire suppression expenses and Bovine Spongiform Encephalopathy (BSE) are considered to qualify for exemption under this section.

24. COMPARATIVE FIGURES

Certain of the 2003 financial statement figures have been reclassified to be consistent with the 2004 presentation.

Appendix E

SUMMARY OF WHO CONDUCTS THE AUDITS

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

	Audit Conducted By	
	OAG	PSA
Government Enterprises		
Leaf Rapids Town Properties Ltd.	X	
Manitoba Hazardous Waste Management Corporation		X
Manitoba Hydro-Electric Board		X
Manitoba Liquor Control Commission		X
Manitoba Lotteries Corporation		X
Manitoba Product Stewardship Corporation		X
Manitoba Public Insurance Corporation		X
Workers Compensation Board		X
Crown Organizations		
Addictions Foundation of Manitoba		X
Assiniboine Community College		X
Board of Administration under the Embalmers and Funeral Directors Act	X	
Brandon University	X	
CancerCare Manitoba		X
Centre Culturel Franco-Manitobain	X	
Child and Family Services of Central Manitoba		X
Child and Family Services of Western Manitoba		X
Communities Economic Development Fund		X
Cooperative Loans and Loans Guarantee Board	X	
Cooperative Promotion Board	X	
Council on Post-Secondary Education	X	
Crown Corporations Council		X
Economic Innovation and Technology Council	X	
Helen Betty Osborne Foundation	X	
Horse Racing Commission	X	
Insurance Council of Manitoba		X
Keewatin Community College		X
Legal Aid Services Society of Manitoba	X	
Manitoba Adolescent Treatment Centre Inc.		X
Manitoba Agricultural Credit Corporation	X	
Manitoba Arts Council		X
Manitoba Boxing Commission		X
Manitoba Centennial Centre Corporation	X	
Manitoba Community Services Council Inc.		X
Manitoba Crop Insurance Corporation	X	
Manitoba Development Corporation		X
Manitoba Film and Sound Development Corporation		X
Manitoba Floodway Expansion Authority Inc.		X
Manitoba Foundation	X	
Manitoba Gaming Control Commission	X	

Appendix E
(cont'd.)

	Audit Conducted By OAG	PSA
Manitoba Habitat Heritage Corporation	X	
Manitoba Health Research Council		X
Manitoba Health Services Insurance Plan	X	
Manitoba Hospital Capital Financing Authority	X	
Manitoba Housing and Renewal Corporation	X	
Manitoba Trade and Investment Corporation	X	
Manitoba Water Services Board	X	
Public Schools Finance Board	X	
Red River College		X
Rehabilitation Centre for Children, Inc.		X
Special Operating Agencies Financing Authority	X	
University of Manitoba	X	
Venture Manitoba Tours Ltd.		X
4719671 Manitoba Ltd. - Manitoba Opportunities Fund	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 »)

10/00

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")

Appendix F
(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.

Appendix F
(cont'd.)

Proceeds from sale of Crown corporation not included in determining balance
3(1.1) Revenue or other financial assets received by the government in a fiscal year ending after March 31, 2000 as a result of selling shares or assets of a Crown corporation in the course of a privatization of the Crown corporation shall not be included in determining whether there is a positive or negative balance for the fiscal year.

Other amounts not required to be included in determining balance
3(2) The government is not required to include the following in determining whether there is a positive or negative balance for a fiscal year:

(a) an expenditure required in the fiscal year as a result of a natural or other disaster in Manitoba that could not have been anticipated and affects the province or a region of the province in a manner that is of urgent public concern;

(b) an expenditure required in the fiscal year because Canada is at war or under apprehension of war;

(c) a reduction in revenue of 5% or more in the fiscal year, other than a reduction resulting from a change in Manitoba's taxation laws.

Declaration of L. G. in C.
3(3) A declaration by the Lieutenant Governor in Council that, in the opinion of the Lieutenant Governor in Council, an expenditure or reduction of revenue as described in subsection (2) has occurred is conclusive for the purposes of this Act of the fact that the expenditure or reduction occurred and in that amount.

Content of declaration
3(4) A declaration under subsection (3) shall include a description of the expenditure and why it was necessary and of the reduction in revenue and why it occurred.

Accounting policies
3(5) Subject to subsection (6), expenditure and revenue of a fiscal year shall be determined in accordance with the accounting policies that are observed for the fiscal year as disclosed in the audited financial statements of the operating fund for that fiscal year.

Détermination du solde — vente de sociétés de la Couronne
3(1.1) Pour la détermination du solde, positif ou négatif, des exercices postérieurs au 31 mars 2001, il n'est pas tenu compte des recettes ni des autres actifs financiers que le gouvernement obtient en contrepartie de la vente d'actions ou d'actifs de sociétés de la Couronne faisant l'objet d'une privatisation.

Détermination du solde — autres sommes
3(2) Le gouvernement n'est pas obligé de tenir compte des circonstances mentionnées plus bas pour déterminer le solde, positif ou négatif, d'un exercice :

a) la survenance, au Manitoba, d'un sinistre imprévu, notamment un sinistre naturel, qui a touché la totalité ou une partie de la province d'une manière telle qu'il constitue une question urgente d'intérêt public;

b) le Canada était en guerre ou se préparait à la guerre;

c) la réduction d'au moins 5 % des recettes au cours de l'exercice qui n'est pas attribuable à des modifications apportées aux lois fiscales de la province.

Déclaration du lieutenant-gouverneur
3(3) Le fait que le lieutenant-gouverneur en conseil déclare estimer qu'il y a eu engagement de dépenses ou réduction de recettes, ainsi qu'il est indiqué au paragraphe (2), constitue, aux fins de la présente loi, une preuve des dépenses ou de la réduction et de leur montant.

Contenu de la déclaration
3(4) Sont énoncées dans la déclaration visée au paragraphe (3) les dépenses engagées et les raisons de leur engagement ainsi que la réduction des recettes et les raisons de cette réduction.

Principes comptables
3(5) Sous réserve du paragraphe (6), les dépenses et les recettes d'un exercice sont déterminées en conformité avec les principes comptables précisés aux états financiers vérifiés annuels du fonds de fonctionnement.

Appendix F
(cont'd.)

Concerns of Auditor General
3(6) If the audited financial statements of the operating fund for a fiscal year contain a reservation of the Auditor General that results directly from a change in accounting policies occurring after March 31, 1995 that is not authorized by this Act, the government will not be considered to be in compliance with this Act unless a restatement of the financial statements of the operating fund for that fiscal year, excluding the effect of the change in accounting policies, would show the government to be in compliance with this Act.

S.M. 2000, c. 42, s. 5; S.M. 2001, c. 39, s. 31.

Negative balance requires offsetting positive balance in following year
4(1) If there is a negative balance in a fiscal year, the government is required to achieve at least an offsetting positive balance in the next fiscal year.

Application to government change
4(2) If there is a general election and the party forming the government after the election is different from the party forming the government before the election, subsection (1) does not require the government after the election to achieve an off-setting positive balance in connection with a negative balance incurred in the fiscal year during which the election took place.

S.M. 2000, c. 42, s. 6.

Audited financial statements
5 The audited financial statements of the operating fund for a fiscal year shall be completed and made public within six months after the end of that fiscal year.

Reporting requirements
6 The minister shall include a report on compliance with this Act in the third-quarter financial report and in the audited financial statements of the operating fund for a fiscal year.

Failure to meet requirements: third-quarter projection
7(1) If in respect of a fiscal year ending after March 31, 2000 the government is projecting a negative balance in the third-quarter financial report, the amount payable to each member of the Executive Council as remuneration for service as a member of the Executive Council, for the 12-month period commencing on April 1 of the fiscal year immediately following the fiscal year to which the third-quarter financial report relates, shall be reduced by

Opinion du vérificateur
3(6) Si les états financiers annuels vérifiés du fonds de fonctionnement contiennent une restriction du vérificateur général découlant directement d'une modification des principes comptables, adoptée après le 31 mars 1995, qui va à l'encontre de la présente loi, le gouvernement n'est réputé se conformer à la présente loi que s'il refait les états financiers du fonds de fonctionnement de l'exercice en ne tenant pas compte de ces modifications de façon à qu'ils indiquent qu'il s'est conformé à la présente loi.

L.M. 2000, c. 42, art. 5; L.M. 2001, c. 39, art. 31.

Compensation du déficit
4(1) Lorsque le solde d'un exercice est négatif, le gouvernement est tenu de réaliser, au cours de l'exercice subséquent, un solde positif compensant au moins ce solde négatif.

Changement de gouvernement
4(2) En cas d'élections générales, le paragraphe (1) ne s'applique pas, à l'égard de tout solde négatif enregistré pendant l'exercice au cours duquel ont eu lieu les élections, au nouveau gouvernement s'il est formé d'un autre parti que celui qui était au pouvoir avant les élections.

L.M. 2000, c. 42, art. 6.

États financiers vérifiés
5 Les états financiers vérifiés annuels du fonds de fonctionnement sont rendus publics dans les six mois suivant la fin de chaque exercice.

Respect de la Loi
6 Pour chaque exercice, le ministre joint un rapport de conformité avec la présente loi au rapport financier du troisième trimestre et aux états financiers vérifiés du fonds de fonctionnement.

Prévisions budgétaires du troisième trimestre
7(1) Si le gouvernement prévoit, dans son rapport financier du troisième trimestre d'un exercice se terminant après le 31 mars 2000, un solde négatif, la rémunération que les ministres reçoivent à titre de membres du Conseil exécutif est minorée, pendant la période de 12 mois commençant le 1er avril suivant l'exercice auquel s'applique le rapport financier :

Appendix F
(cont'd.)

(a) 20%, in a case where the government did not incur a negative balance in the fiscal year immediately preceding the fiscal year to which the report relates;

(b) 40%, in a case where the government incurred a negative balance in the fiscal year immediately preceding the fiscal year to which the report relates.

a) de 20 %, si le gouvernement n'a pas obtenu un solde négatif au cours de l'exercice précédant celui auquel s'applique le rapport;

b) de 40 %, si le gouvernement a obtenu un solde négatif au cours de l'exercice précédant celui auquel s'applique le rapport.

Refund
7(2) If the audited financial statements of the operating fund for a fiscal year show that the government is in compliance with this Act and amounts have been deducted from amounts payable to members of the Executive Council in connection with that fiscal year under subsection (1), the amounts so deducted shall be refunded to the members of the Executive Council.

Remboursement
7(2) Toute somme déduite de la rémunération des ministres en vertu du paragraphe (1) à l'égard d'un exercice leur est remboursée si les états financiers vérifiés annuels du fonds de fonctionnement indiquent que le gouvernement s'est conformé à la présente loi.

Failure to meet requirements: year-end
7(3) If in respect of a fiscal year ending after March 31, 2000 the audited financial statements of the operating fund show that the government incurred a negative balance, and no amount is being deducted from amounts payable to members of the Executive Council under subsection (1) in connection with that fiscal year, the amount payable to each member of the Executive Council as remuneration for service as a member of the Executive Council, for the 12-month period commencing on April 1 of the fiscal year immediately following the fiscal year to which the statements relate, shall be reduced by

(a) 20%, in a case where the government did not incur a negative balance in the fiscal year immediately preceding the fiscal year to which the statements relate;

(b) 40%, in a case where the government incurred a negative balance in the fiscal year immediately preceding the fiscal year to which the statements relate.

Défaut
7(3) Si les états financiers vérifiés du fonds de fonctionnement pour tout exercice se terminant après le 31 mars 2000 indiquent que le gouvernement a obtenu un solde négatif et qu'aucune minoration n'ait été effectuée en application du paragraphe (1) pour cet exercice, la rémunération que les ministres reçoivent à titre de membres du Conseil exécutif est minorée, pendant la période de 12 mois commençant le 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.

Comité de répartition du Fonds de remboursement
8(6.2) Est créé le Comité de répartition du Fonds de remboursement de la dette constitué :

a) du sous-ministre des Finances, qui en est le président;

b) d'au moins quatre autres personnes que le lieutenant-gouverneur en conseil nomme pour la durée qu'il juge indiquée et qui, selon lui, ont les connaissances et les compétences financières nécessaires.

Duties of allocation committee
8(6.3) The allocation committee shall determine the allocation between general purpose debt and pension liability of

(a) the amounts transferred to the fund under subsection (4) and clause 9(b); and

(b) any earnings from investments of the fund.

Attributions du Comité de répartition
8(6.3) Le Comité de répartition détermine la répartition des sommes mentionnées plus bas à la dette de portée générale et au passif découlant du régime de retraite :

a) les sommes transférées au Fonds en vertu du paragraphe (4) et de l'alinéa 9b);

b) les gains provenant des investissements du Fonds.

Effective reduction of aggregate amount
8(6.4) In determining the allocation of the amounts transferred to the fund between general purpose debt and pension liability, the allocation committee shall follow investment and debt reduction principles that, subject to subsection (6.5), in the opinion of the committee, will result in the most effective reduction of the aggregate amount owing.

Réduction réelle du montant global
8(6.4) Pour déterminer la répartition des sommes transférées au Fonds au titre de la dette à portée générale et du passif découlant du régime de retraite, le Comité de répartition respecte les principes de placement et de réduction de la dette qui, selon lui et sous réserve du paragraphe (6.5), sont les plus efficaces pour réduire le montant global de la dette.

Requirement regarding matching contributions for new employees
8(6.5) The allocation committee shall ensure that provision exists for matching the projected pension contributions of new employees hired on or after April 1, 2000.

Exigences — cotisation des nouveaux employés
8(6.5) Le Comité de répartition s'assure que sont provisionnées les cotisations de contrepartie prévues pour les employés engagés à partir du 1er avril 2000.

No lapse
8(7) Notwithstanding any other Act or law, amounts standing to the credit of the fund do not lapse at the end of a fiscal year.

Annulation
8(7) Malgré toute autre loi ou règle de droit, les sommes à l'actif du Fonds ne sont pas annulées à la fin de l'exercice.

Fiscal year
8(8) The fiscal year of the fund is the period commencing on April 1 in one year and ending on March 31 in the next year.

Exercice
8(8) L'exercice du Fonds commence le 1er avril d'une année et se termine le 31 mars de l'année suivante.

Appendix F
(cont'd.)

Audit
8(9) The accounts and transactions of the fund shall be audited annually by the Auditor General.

Financial statements
8(10) The minister shall, annually, within six months after the end of the fiscal year, submit to the Lieutenant Governor in Council the audited financial statements of the fund for that fiscal year.

Tabling of statements in Assembly
8(11) The minister shall table in the Legislative Assembly a copy of the financial statements of the fund provided to the Lieutenant Governor in Council pursuant to subsection (10) immediately if the Assembly is then in Session and, if it is not then in Session, within 15 days of the beginning of the next Session.

Winding up of fund
8(12) If, in the opinion of the minister, sufficient money has been set aside to retire the general purpose debt and cover the pension liability of the government, the minister, with the approval of the Lieutenant Governor in Council, may wind up the fund and transfer any amounts remaining in the fund to the operating fund.

S.M. 2000, c. 42, s. 8; S.M. 2001, c. 39, s. 31.

Vérification
8(9) Le vérificateur général examine annuellement les comptes et les opérations du Fonds.

États financiers
8(10) Le ministre présente au lieutenant-gouverneur en conseil, dans les six mois suivant la fin de chaque exercice, les états financiers vérifiés annuels du Fonds.

Dépôt des états financiers à l'Assemblée
8(11) Le ministre dépose immédiatement devant l'Assemblée législative un exemplaire des états financiers du Fonds présentés au lieutenant-gouverneur en conseil en vertu du paragraphe (10); toutefois, si l'Assemblée législative ne siège pas, il les dépose dans les quinze premiers jours de séance ultérieurs.

Liquidation du Fonds
8(12) Le ministre peut, avec l'autorisation du lieutenant-gouverneur en conseil, liquider le Fonds s'il juge que des sommes suffisantes pour éteindre la dette à portée générale du gouvernement et pour provisionner son passif découlant du régime de retraite ont été amassées, puis transférer le solde du Fonds, le cas échéant, au fonds de fonctionnement.

L.M. 2000, c. 42, art. 8; L.M. 2001, c. 39, art. 31.

DISPOSITION OF POSITIVE BALANCE

Disposition of positive balance
9 If a positive balance exists in a fiscal year, the minister shall dispose of the amount of the positive balance as follows:

(a) the amount required to bring the Fiscal Stabilization Fund to its target level as described in section 3.1 of *The Fiscal Stabilization Fund Act*, or any greater amount that the minister, with the approval of the Lieutenant Governor in Council, considers appropriate, shall be transferred to the Fiscal Stabilization Fund;

(b) any amount remaining after a transfer under clause (a) may be left as a positive balance of the operating fund or may, with the approval of the Lieutenant Governor in Council, be transferred to the Debt Retirement Fund.

S.M. 2000, c. 42, s. 9.

UTILISATION DU SOLDE POSITIF

Utilisation du solde positif
9 Le ministre utilise tout solde positif accumulé au cours d'un exercice comme suit :

a) il transfère au Fonds de stabilisation des recettes soit les sommes nécessaires pour atteindre le niveau cible du Fonds visé à l'article 3.1 de la *Loi sur le Fonds de stabilisation des recettes*, soit, avec l'approbation du lieutenant-gouverneur en conseil, les sommes plus élevées qu'il juge appropriées;

b) après les transferts effectués en vertu de l'alinéa a), il peut, avec l'approbation du lieutenant-gouverneur en conseil, transférer le reste du solde positif au Fonds de remboursement de la dette ou le laisser à l'actif du fonds de fonctionnement à titre de solde positif.

L.M. 2000, c. 42, art. 9.

Appendix F
(cont'd.)

TAX REFERENDUM REQUIREMENT

Referendum required for tax changes
10(1) Subject to subsection (2), the government shall not present to the Legislative Assembly a bill to increase the rate of any tax imposed by an Act or part of an Act listed below, unless the government first puts the question of the advisability of proceeding with such a bill to the voters of Manitoba in a referendum, and a majority of the persons who vote in the referendum authorize the government to proceed with the changes:

(a) *The Health and Post Secondary Education Tax Levy Act*;

(b) *The Income Tax Act*;

(c) *The Retail Sales Tax Act*;

(d) Part I of *The Revenue Act*.

Revenue neutral and external changes
10(2) Subsection (1) does not apply to

(a) a bill to increase the rate of a tax if, in the opinion of the minister, the increase results from changes in federal taxation laws and is necessary to maintain provincial revenue or to give effect to a restructuring of taxation authority between the federal government and provincial governments;

(b) a bill to increase the rate of a tax if, in the opinion of the minister, the proposed change is designed to restructure the tax burden and does not result in an increase in revenue.

Procedures for referendum
11(1) A referendum under subsection 10(1) shall be conducted and managed by the Chief Electoral Officer in the same manner, to the extent possible, as a general election under *The Elections Act*, and the provisions of *The Elections Act* apply with necessary modifications to a referendum.

Question to be put to voters
11(2) The question to be put to voters in a referendum under subsection 10(1) shall be determined by Order of the Lieutenant Governor in Council at the commencement of the referendum process.

EXIGENCES EN MATIÈRE DE RÉFÉRENDUM SUR LES TAXES

Référendum – modification des taxes
10(1) Sous réserve du paragraphe (2), le gouvernement peut déposer à l'Assemblée législative un projet de loi prévoyant l'augmentation du taux de taxation ou d'imposition prévu par la totalité ou une partie d'une des lois citées ci-dessous s'il demande au préalable, par voie de référendum, l'avis de l'électorat manitobain sur les modifications proposées et que celui-ci lui donne l'autorisation, par un vote majoritaire, de procéder à l'adoption des modifications

a) la *Loi sur l'impôt destiné aux services de santé et à l'enseignement postsecondaire*;

b) la *Loi de l'impôt sur le revenu*;

c) la *Loi de la taxe sur les ventes au détail*;

d) la partie 1 de la *Loi sur le revenu*.

Exception
10(2) Le paragraphe (1) ne s'applique pas :

a) aux projets de loi prévoyant l'augmentation du taux d'une taxe ou d'un impôt si le ministre juge que l'augmentation résulte de modifications apportées aux lois fiscales fédérales et est nécessaire au maintien des recettes provinciales ou au plein effet d'un transfert de pouvoirs en matière de fiscalité entre les gouvernements fédéral et provinciaux;

b) aux projets de loi prévoyant l'augmentation du taux d'une taxe ou d'un impôt si le ministre juge que les modifications ont pour but de redistribuer le fardeau fiscal sans entraîner une augmentation des recettes.

Processus référendaire
11(1) Le directeur général des élections tient et dirige tout référendum visé au paragraphe 10(1), dans la mesure du possible, de la même façon que sont tenues les élections générales en vertu de la *Loi électorale* dont les dispositions s'appliquent, avec les adaptations nécessaires, aux référendums.

Libellé de la question
11(2) Le lieutenant-gouverneur en conseil détermine, par décret, au début du processus de tout référendum devant être tenu en vertu du paragraphe 10(1), le libellé de la question devant en faire l'objet.

Appendix F
(cont'd.)

Regulations re procedures
11(3) The Lieutenant Governor in Council may make any regulations that the Lieutenant Governor in Council considers necessary respecting the referendum process to give effect to subsection 10(1), including, without limiting the generality of the foregoing,

(a) governing the preparation of a voters list;

(b) governing the expenses, if any, that may be incurred, and the contributions, if any, that may be made, and by whom, in connection with a referendum;

(c) where greater certainty is required, modifying to the extent necessary the provisions of *The Elections Act* to make them applicable to the requirements of a referendum.

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

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.

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.

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.

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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.)

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.

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.

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ACCOUNTS RECEIVABLE FOR SEVERANCE AND VACATION PAY DUE FROM THE PROVINCE

Appendix H

Province of Manitoba Accrued Liability - Severance, Crown Organizations March 31, 2004	
Crown Agencies	
Adolescent Treatment Centre	$ 97,200
Addictions Foundation of Manitoba	1,153,316
Assiniboine Community College	1,104,350
Communities Economic Development Fund	65,400
Council on Post-Secondary Education	104,141
Horse Racing Commission	18,702
Keewatin Community College	827,228
Legal Aid Services Society of Manitoba	716,166
Manitoba Agricultural Credit Corporation	229,449
Manitoba Centennial Centre	307,561
Manitoba Crop Insurance Corporation	199,452
Manitoba Gaming Control Commission	146,079
Manitoba Housing Authority	877,105
Manitoba Housing and Renewal Corporation	569,000
Red River College	5,184,881
Rehabilitation Centre for Children, Inc.	327,152
Sub-total	11,927,182
RHAs	7,932,352
SOAs	
Civil Legal Services	248,300
Companies Office	170,800
Fleet Vehicles	294,868
Food Development Centre	82,800
Industrial Technology Centre	142,200
Land Management Services	187,500
Mail Management	88,800
Manitoba Text Book Bureau	62,700
Manitoba Securities Commission	137,344
Materials Distribution Agency	253,900
Manitoba Education, Research and Learning Information Networks (MERLIN)	26,400
Organization and Staff Development	33,100
Office of the Fire Commissioner	281,700
Pineland Forest Nursery	142,300
Property Registry	1,041,400
Public Trustee	403,200
Vital Statistics	126,300
Experience gain SOAs per Actuarial Valuation	(405,382)
Sub-total	3,318,230
Total March 31, 2004	$ 23,177,764

Appendix H
(cont'd.)

Province of Manitoba Accrued Liability - Vacation Pay, Crown Organizations March 31, 2004	
Crown Agencies	
Adolescent Treatment Centre	$ 281,000
Addictions Foundation of Manitoba	667,567
Assiniboine Community College	875,000
Centre Cultural Franco-Manitobain	25,891
Council on Post-Secondary Education	26,963
Deer Lodge (Winnipeg Regional Health Authority)	1,461,306
Horse Racing Commission	10,149
Keewatin Community College	742,665
Manitoba Cancer Treatment	637,779
Manitoba Centennial Centre	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.	136,392
Sub-total	9,734,325
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, 2004	$ 11,388,202

NEW GOVERNMENT REPORTING MODEL

Appendix I

PROVINCE OF MANITOBA
EXAMPLE SUMMARY STATEMENT OF FINANCIAL POSITION
As at March 31, 2004

SCHEDULE		($millions) 2004	2003
	Financial Assets		
	Cash and cash equivalents (Note 2)	624	712
	Temporary investment (Note 3)	206	228
1	Amounts receivable	746	730
	Inventories	28	27
	Portfolio Investments (Note 3)	89	33
2	Loans and advances	632	579
3	Equity in government enterprises (Note 6)	949	1,369
4	Other long-term investments	7	7
	Pension assets (Note 10)	267	151
	Total financial assets	**3,548**	**3,836**
	Liabilities		
6	Borrowings	18,042	17,810
	Less: Sinking funds (Note 6)	(3,024)	(3,939)
	Less: Debt incurred for and repayable by the Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation	(5,937)	(5,573)
		9,081	8,298
	Less: Unamortized foreign exchange fluctuation	(89)	(81)
	Net Borrowings	8,992	8,217
7	Accounts payable, accrued charges, provisions and deferrals	1,890	1,913
	Pension liability (Note 10)	3,571	3,411
	Liabilities of non-devolved health care facilities (Note 1A) *	728	698
	Total liabilities	**15,181**	**14,239**
	NET DEBT	**(11,633)**	**(10,403)**
	Non-financial assets (Note X)		
	Deferred charge for non-devolved health care facilities (Note 1A)	121	133
5	Tangible capital assets (Note 3)	1,945	2,001
	Assets of non-devolved health care facilities (Note 1A) *	805	775
	Total non-financial assets	**2,871**	**2,909**
	ACCUMULATED DEFICIT	**(8,762)**	**(7,494)**

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

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

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

Appendix I
(cont'd.)

PROVINCE OF MANITOBA
EXAMPLE SUMMARY STATEMENT OF REVENUE AND EXPENSE
For the Year Ended March 31, 2004

	($millions) 2004	2003
REVENUE		
Manitoba Collections:		
Retail sales tax	1,064	1,007
Fuel taxes	233	231
Levy for health and education	268	257
Mining tax	22	18
Other taxes	480	461
Fees and other revenue	1,174	1,109
Government Enterprise Transfers (Schedule 3):		
Liquor Control Commission	174	166
Manitoba Hydro	-	203
Manitoba Lotteries Corporation	235	266
Income taxes:		
Corporation income tax	289	160
Individual income tax	1,720	1,636
Federal transfers:		
Equalization	1,414	1,338
Canada Health and Social Transfer	917	756
Medical Equipment Fund	21	16
Health Reform Fund	37	-
Primary Care Transition Fund	7	1
Shared cost and other	320	294
TOTAL REVENUE	8,375	7,919
EXPENSES		
Health	3,301	2,955
Education	2,169	2,059
Family Services	965	930
Community, Economic and Resource Development	1,042	960
Justice and Other Government	753	724
Debt Servicing (Note 14)	329	367
TOTAL EXPENSES (Schedule 11)	8,559	7,995
NET LOSS BEFORE EXTRAORDINARY ITEM	(184)	(76)
Adjustment to estimate for Federal accounting error	-	51
NET LOSS	(184)	(25)
Increase (decrease) in equity in government enterprises (Schedule 3)	(420)	(159)
SUMMARY NET LOSS (Schedule 9)	(604)	(184)

Appendix I
(cont'd.)

PROVINCE OF MANITOBA
EXAMPLE *SUMMARY STATEMENT OF CHANGES IN NET DEBT*
For the Year Ended March 31, 2004

	($millions) 2004	2003
Annual Surplus (Deficit)	(604)	(184)
Net acquisition of tangible capital assets	(316)	(263)
Amortization of tangible capital assets	139	130
Initial recognition of tangible capital assets	3	6
	(174)	(127)
Changes in Accounting Policies/Restatements	(434)	(131)
Change in deferred charges for non-devolved health care facilities	12	4
Recognition of other assets in non-devolved health care facilities	(30)	(16)
Repurchase of serial debentures	-	1
	(452)	(142)
(INCREASE) IN NET DEBT	(1,230)	(453)
Net debt, beginning of year	(10,403)	(9,950)
Net debt, end of year	**(11,633)**	**(10,403)**

Appendix I
(cont'd.)

PROVINCE OF MANITOBA
EXAMPLE SUMMARY STATEMENT OF CASH FLOWS
For the Year Ended March 31, 2004

	($millions) 2004	2003
Cash and cash equivalents provided by (used in)		
Operating activities:		
Summary net income (loss) for the year	(604)	(184)
Changes in non-cash items:		
Temporary investments	22	(28)
Amounts receivable	(22)	142
Valuation allowance	28	21
Inventories	(1)	(1)
Portfolio investments	(56)	(3)
Accounts payable, accrued charges, provisions and deferrals	(23)	(41)
Pension liability	160	194
Amortization of foreign currency fluctuation	3	17
Amortization of debt discount	8	10
Amortization of investment discounts and premiums	(2)	(14)
Disposal of tangible capital assets	4	13
Restatement of amortization	230	-
Amortization of tangible capital assets	139	130
Adjustment to Accumulated Deficit- Other	(664)	(130)
	(778)	126
Changes in equity in government enterprises	420	159
	(358)	285
Tangible capital assets		
Acquisition of tangible capital assets	(317)	(270)
	(317)	(270)
Investing activities:		
Made	(1,279)	(1,494)
Realized	542	2,169
	(737)	675
Financing activities:		
Debt issued	3,325	2,853
Debt redeemed	(2,776)	(3,354)
Changes in sinking funds	775	189
	1,324	(312)
Changes in cash and cash equivalents	**(88)**	**49**
Cash and cash equivalents, beginning of year	**712**	**663**
Cash and cash equivalents, end of year	**624**	**712**

GLOSSARY

Appendix J

Accumulated surplus/deficit	The total of all past annual surpluses and deficits to date.
Annual surplus/deficit	The difference between the government's annual revenues and expenses.
Derivative contract	A "swap" or other financial instrument that is entered into with a third party, and is used to hedge interest rate, foreign currency or other risk exposures.
Enterprises	Also known as commercial, self-supporting, or modified equity enterprises. These are self-sufficient Crown corporations that sell goods or services to parties outside the government reporting entity.
Federal transfers	Funds received by the Province from the Federal government, such as the Equalization Transfers and the Canada Health and Social Transfer.
Financial assets	Assets of government (such as cash, investments, loans and accounts receivable) that can be converted to cash in order to pay government's liabilities or finance its future operations.
General infrastructure assets	Also known as capital assets, physical assets, tangible assets, non-financial assets, physical capital stock. These general program capital assets form the infrastructure necessary to provide services to citizens.
Generally accepted accounting principles (GAAP)	This refers to the accounting policies that government should follow in order to be consistent in its accounting practices with other, similar, organizations. The accepted authority for GAAP for Canadian governments is the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA).
General programs	Those activities of government which are not carried out by its profit-oriented enterprises.
Government reporting entity	The group of organizations that are consolidated in the government's main summary financial statements.

Appendix J
(cont'd.)

Gross domestic product (GDP)	The money value of goods and services produced within a geographical boundary. GDP can be reported without adjusting for inflation (known as market value, current, or nominal GDP) or it may be discounted for the effects of inflation (real GDP).
Hedging	Reducing potential exposure to foreign currency, interest rate or other risks. Often achieved by entering into derivative contracts with a third party.
Net liabilities	Defined as government's total liabilities less its financial assets, this is the residual liability amount that will have to be paid or financed by future taxpayers.
Non-devolved Health Care Facilities	These facilities are not owned and/or 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.