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Section 4:

CROWN ORGANIZATIONS (CONTINUED):

GOVERNMENT ENTERPRISES:

Management Report

The accompanying financial statements are the responsibility of the management of the Special Operating Agencies Financing Authority and have been prepared in accordance with Canadian generally accepted accounting principles. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data available up to July 16, 2010.

Management maintains internal controls to properly safeguard the Financing Authority's assets and to provide reasonable assurance that the books and records from which the financial statements are derived accurately reflect all transactions and that established policies and procedures are followed.

The responsibility of the Auditor General is to express an independent opinion on whether the financial statements of the Financing Authority are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditors' Report outlines the scope of the audit examination and provides the audit opinion.

On behalf of Management,

Lynn Cowley
Chairperson
Special Operating Agencies Financing Authority

July 16, 2010

OFFICE OF THE
AUDITOR GENERAL
MANITOBA

AUDITORS' REPORT

To the Legislative Assembly of Manitoba
To the Member of the Special Operating Agencies Financing Authority

We have audited the combined balance sheet of the Special Operating Agencies Financing Authority at March 31, 2010, and the combined statements of income, comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these combined financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2010, and results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Office of the Auditor General

Office of the Auditor General

Winnipeg, Manitoba
July 16, 2010

500 - 330 Portage Avenue Winnipeg, Manitoba R3C 0C4 office: (204) 945-3790 fax: (204) 945-2169
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Special Operating Agencies Financing Authority
Province of Manitoba
Combined Balance Sheet
(In Thousands)

March 31	2010	2009
Assets		
Current:		
Cash and term deposits with the Minister of Finance	$ 35,183	$ 39,016
Customer deposits	1,427	1,452
Receivable from the Province of Manitoba (Note 5)	1,903	-
Accounts receivable (Note 6)	23,492	14,154
Inventories	7,647	4,558
Prepaid expenses	3,780	3,244
	73,432	62,424
Trust assets	12	12
Long-term investments (Note 7)	5,469	5,469
Restricted deposits (Note 8)	750	750
Capital assets (Note 9)	131,272	85,319
Intangible assets (Note 10)	105	59
	$ 211,040	$ 154,033
Liabilities		
Current:		
Working capital advances (Note 11)	$ 13,663	$ 8,516
Accounts payable and accruals	16,701	18,330
Unearned revenue	8,787	6,221
Current portion - capital lease obligations (Note 12)	42	28
Current portion - long-term debt (Note 13)	9,472	7,231
	48,665	40,326
Trust liabilities	12	12
Unearned revenue	724	648
Deferred capital contributions (Note 14)	12,739	10,069
Capital lease obligations (Note 12)	154	171
Long-term debt - Province of Manitoba (Note 13)	71,561	25,257
Severance liability (Note 15)	7,240	5,693
	141,095	82,176
Equity		
Contributed equity (Note 16)	38,093	17,837
Reserve funds (Note 17)	1,690	1,490
Retained earnings (Note 16)	30,162	52,530
	69,945	71,857
	$ 211,040	$ 154,033

Commitments (Note 18)
Contingencies (Note 19)

See accompanying notes to the financial statements.

Special Operating Agencies Financing Authority
Province of Manitoba
Combined Statement of Income, Comprehensive Income and Retained Earnings

(In Thousands)

Year Ended March 31	2010	2009
Revenue		
Annual levy	$ 15	$ 13
Contributed Services Treasury Board Secretariat/Finance	107	101
	122	114
Expenses		
Salaries and benefits	94	83
Other operating	20	24
	114	107
Financing Authority operations	8	7
Special Operating Agency operations – Net Income (Loss) and Comprehensive Income		
Civil Legal Services	337	398
Companies Office	2,358	2,515
Crown Lands and Property Agency	(853)	(820)
Food Development Centre	32	(134)
Green Manitoba Eco Solutions	439	105
Industrial Technology Centre	(71)	86
MERLIN	(121)	131
Manitoba Securities Commission	8,939	8,918
Manitoba Text Book Bureau	39	3
Materials Distribution Agency	201	168
Office of the Fire Commissioner	570	160
Organization and Staff Development	(252)	(172)
Pineland Forest Nursery	(170)	6
The Property Registry	8,131	9,621
The Public Trustee	196	58
Vehicle and Equipment Management Agency/ Fleet Vehicles Agency	2,901	4,059
Vital Statistics Agency	135	45
Net Income and Comprehensive Income for the year	22,819	25,154
Retained earnings, beginning of year	52,530	48,379
Transfer to Reserve Funds (Note 17)	(221)	(8)
Transfer of funds to the Province of Manitoba (Note 20)	(24,710)	(20,995)
Transfer to Contributed Equity (Note 5)	(20,256)	-
Retained earnings, end of year	$30,162	$52,530

See accompanying notes to the financial statements.

Special Operating Agencies Financing Authority
Province of Manitoba
Combined Statement of Cash Flows
(In Thousands)

Year Ended March 31	2010	2009
Cash derived from (applied to):		
Operating		
Net income	$ 22,819	$ 25,154
Amortization	21,266	15,006
Amortization of deferred capital contributions	(750)	(353)
Gain on disposal of capital assets	(697)	(273)
	42,638	39,534
Change in:		
Customer deposit accounts	25	(45)
Accounts receivable	(9,338)	(37)
Inventories	(434)	5
Prepaid expenses	(536)	(286)
Accounts payable and accruals	(2,370)	(329)
Severance liability	385	314
Unearned revenue	2,642	752
Cash derived from operating activities	33,012	39,908
Investing		
Proceeds from disposal of capital assets	2,267	1,473
Acquisition of capital assets	(28,853)	(30,282)
System development and software costs	(51)	(59)
Other deposits	-	554
Change in receivable from the Province of Manitoba	-	5,469
Long-term investments	-	(5,469)
Cash applied to investing activities	(26,637)	(28,314)
Financing		
Proceeds from long-term debt	15,766	16,286
Long-term debt repayments	(9,807)	(7,538)
Capital lease obligations	(3)	199
Transfer of surplus funds	(24,380)	(20,995)
Transfer to reserve funds	(21)	-
Change in deferred capital contributions	3,090	-
Cash applied to financing activities	(15,355)	(12,048)
Increase (decrease) in cash and cash equivalents	(8,980)	(454)
Cash and cash equivalents:		
Beginning of year	30,500	30,954
End of year	$ 21,520	$ 30,500
Represented by:		
Cash and Term deposits with the Minister of Finance	$ 35,183	$ 39,016
Working capital advances	(13,663)	(8,516)
	$ 21,520	$ 30,500

See accompanying notes to the financial statements.

1. Nature of organization

The Special Operating Agencies Financing Authority (the "Financing Authority") is a body corporate established effective April 1, 1992 under ***The Special Operating Agencies Financing Authority Act.*** Under the direction of the Minister of Finance, the Financing Authority consists of the Chairperson as its sole member and receives staff support from the Department of Finance.

The Financing Authority provides a mechanism for funding Special Operating Agencies (SOAs) that operate outside the Consolidated Fund. It functions as a non-operating holding company, with the mandate to hold and acquire assets required for and resulting from SOA operations. It finances SOAs through contributed equity, repayable loans, and working capital advances. This financial framework enables SOAs to operate in a business-like manner within government policy expectations.

SOAs are designated by regulation under the Act and operate under a charter approved by the Lieutenant Governor in Council. A management agreement between the Financing Authority and the Minister responsible for each SOA assigns responsibility to the agency to manage and account for SOA-related assets and operations on behalf of the Financing Authority. SOAs remain accountable to their Minister for the results they achieve with the authority and resources granted.

The Financing Authority is economically dependent on the Province of Manitoba. Currently, the Financing Authority derives most of its revenue and all of its capital financing requirements from the Province.

SOAs in operation during the fiscal year ended March 31, 2010 were as follows:

- Civil Legal Services, Department of Justice
- Companies Office, Department of Family Services and Consumer Affairs
- Crown Lands and Property Agency, Department of Infrastructure and Transportation
- Food Development Centre, Department of Agriculture, Food and Rural Initiatives
- Green Manitoba Eco Solutions, Department of Conservation
- Industrial Technology Centre, Department of Innovation, Energy and Mines
- Manitoba Education, Research and Learning Information Networks (MERLIN), Department of Innovation, Energy and Mines
- Manitoba Securities Commission, Department of Finance
- Manitoba Text Book Bureau, Department of Education
- Materials Distribution Agency, Department of Infrastructure and Transportation
- Office of the Fire Commissioner, Department of Labour and Immigration
- Organization and Staff Development, Civil Service Commission
- Pineland Forest Nursery, Department of Conservation
- The Property Registry, Department of Family Services and Consumer Affairs
- The Public Trustee, Department of Justice
- Vehicle and Equipment Management Agency, Department of Infrastructure and Transportation
- Vital Statistics Agency, Department of Family Services and Consumer Affairs.

2. Change in Accounting Policies

New Accounting Policies:

Section 3064 Goodwill and Intangible Assets

Effective April 1, 2009, the Financing Authority adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3064 Goodwill and Intangible Assets and the updates to CICA Handbook section 1000 Financial Statement Concepts.

This guidance establishes updated standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

These changes do not have a material impact on the Financing Authority's financial statements for the year ended March 31, 2010.

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

During 2010 the Financing Authority adopted the Emerging Issues Committee (EIC) 173 and amendments to Section 3855, Financial Instruments - Recognition and Measurement and 3862, Financial Instruments - Disclosures:

- Section 3855 – Effective Interest Method
- Section 3855 – Embedded Derivatives on Reclassification of Financial Assets
- Section 3855 – Impairment of Financial Assets
- Section 3862 – Fair Value and Liquidity Risk Disclosure

Due to the nature of the Financing Authority's financial instruments, the adoption of these standards and amendments had no material impact on the financial position of the Agency.

Section 3862 Financial Instruments – Disclosure

The Financing Authority has adopted the amendment to the CICA standard, Section 3862 Financial Instruments – Disclosures. This amended section, which was effective, January 1, 2009, requires an entity to classify fair value measurements into a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Financing Authority's investments. The hierarchy of inputs is summarized below:
Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities,
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices), or
Level 3 – inputs for the asset or liability that are not based on observable market data. Changes in valuation methods may result in transfer into and out of an investment's assigned level.

It has been determined that the Financing Authority's investments would be classified as Level 2.

The above noted new standards have no impact on the recognition, measurement or presentation of financial instruments in the Financing Authority's year-end financial statements. The only financial statement impact is to note disclosure.

2. Change in Accounting Policies (continued)

Future Accounting changes:

Convergence with Public Sector Accounting Standards as issued by the Public Sector Accounting Board

Effective April 1, 2011 the Financing Authority will be adopting Public Sector Accounting Standards issued by the Public Sector Accounting Board. The Financing Authority is currently in the process of quantifying the impact these changes will have on its financial position.

3. Significant Accounting Policies

a. General

The financial statements of the Financing Authority are presented in accordance with Canadian generally accepted accounting principles.

b. Basis of reporting

The financial statements of the Financing Authority reflect the financial position and operating results of SOAs currently governed by management agreements with the Financing Authority. These statements are presented on a combined basis. Therefore, inter-agency balances and transactions have not been eliminated.

The following policies apply to the Financing Authority, as well as to all agencies combined herein.

c. Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

d. Inventories

Inventories are valued at the lower of cost and net realizable value.

(In Thousands)

3. Significant Accounting Policies (continued)

e. Amortization of capital assets

Vehicles, fire engines	30%, declining balance
Vehicles (signed lease agreement)	straight line over term of lease
Equipment and furniture	6 2/3% - 20%, straight line 20% - 30%, declining balance
Computer equipment	20%, straight line 20% - 30%, declining balance
Rental equipment (Materials Distribution Agency)	2 - 5 years, straight line
Buildings	15 years, straight line 5% - 10%, declining balance
Practical training site (Office of the Fire Commissioner)	10%, declining balance
Leasehold improvements	5 - 10 years, straight line
Other assets	5 - 10 years, straight line 20%, declining balance

f. Intangible assets

Intangible assets are recorded at cost and amortized over their estimated useful lives as follows:

System development and software costs	5 - 15 years, straight line

g. Administrative expenses paid by the Province of Manitoba

The Treasury Board Secretariat / Finance contribution covers salaries and benefits and certain operating expenses, paid by the Province of Manitoba on behalf of the Financing Authority.

h. Capital disclosures

The Financing Authority's capital consists of contributed equity, retained earnings provided from operations and special purpose reserve funds allocated from retained earnings.

The Financing Authority's capital management policy is to maintain sufficient capital to meet its objectives through its retained earnings by managing transfers of surplus funds to the Province of Manitoba; meet short-term capital needs with working capital advances from the Province of Manitoba; and meet long-term capital needs through long-term debt with the Province of Manitoba. There were no changes in the Financing Authority's approach to capital management during the period.

The Financing Authority is not subject to externally imposed capital requirements.

4. Financial Instruments and Financial Risk Management

Financial assets and liabilities are initially recorded at fair value. Measurement in subsequent periods depends on the financial instrument's classification. Financial instruments are classified into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and other financial liabilities. All financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

The financial assets and liabilities of the Financing Authority are classified and measured as follows:

Financial Asset/Liability	Category	Subsequent Measurement
Cash, term deposits, and customer deposits	Held for trading	Fair value
Receivables	Loans and receivables	Amortized cost
Long-term investments	Held for trading	Fair value
Restricted deposits	Held for trading	Fair value
Working capital advances	Held for trading	Fair value
Accounts payable	Other financial liabilities	Amortized cost
Long term debt	Other financial liabilities	Amortized cost

Amortized cost is determined using the effective interest rate method.

Gains and losses on financial instruments subsequently measured at amortized cost are recognized in the combined statement of income, comprehensive income and retained earnings in the period the gain or loss occurs. Changes in fair value on financial instruments classified as held for trading are recognized in the combined statement of income, comprehensive income and retained earnings for the current period. Changes in fair value on financial instruments classified as available for sale would be recorded in other comprehensive income until realized, at which time they recorded in the combined statement of income, comprehensive income and retained earnings.

Fair value of financial instruments

The fair values of receivables, accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity.

The fair value of the long-term debt is determined using the present value of future cash flows under current financing agreements, based on the Financing Authority's current estimated borrowing rate for loans with similar terms and conditions. The fair value of this long-term debt is $82,408 as at March 31, 2010 (2009 - $33,035).

(In Thousands)

4. Financial Instruments and Financial Risk Management (continued)

Financial risk management - overview

The Financing Authority has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; market risk; interest risk; and foreign currency risk.

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Financing Authority to credit risk consist principally of cash and term deposits and accounts receivable.

The maximum exposure of the Financing Authority to credit risk at March 31, 2010 is:

Cash and term deposits	$ 35,183
Customer deposits	1,427
Receivable from the Province of Manitoba	1,903
Accounts receivable	23,492
Long-term investments	5,469
Restricted deposits	750
	$ 68,224

Cash and term deposits, receivable from the Province of Manitoba, long-term investments, and restricted deposits: The Financing Authority is not exposed to significant credit risk as these amounts are primarily held or owed by the Minister of Finance.

Customer deposits: The Financing Authority is not exposed to significant credit risk as the cash is held by a Chartered Bank.

Accounts receivable: The Financing Authority is not exposed to significant credit risk as the majority of its accounts receivable are with related entities with the balance due from a large client base, and payment in full is typically collected when it is due. The Financing Authority establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off.

The change in the allowance for doubtful accounts during the year was as follows:

Balance, beginning of the year	$ 390
Provision for receivable impairment	329
Amounts written off	(28)
Balance, end of the year	$ 691

4. Financial Instruments and Financial Risk Management (continued)

Liquidity risk

Liquidity risk is the risk that the Financing Authority will not be able to meet its financial obligations as they come due.

The Financing Authority manages liquidity risk by maintaining adequate cash balances and by review from the Province of Manitoba to ensure adequate funding will be received to meet the obligations.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Financing Authority's income or the fair values of its financial instruments.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to funds on deposit and long term debt.

The interest rate risk on funds on deposit is considered to be low because of their short-term nature. The interest rate risk on long term investments is considered low as the original deposits are reinvested at rates for investments with similar terms and conditions.

The Financing Authority manages its interest rate risk on long-term debt through the exclusive use of fixed rate terms for its long-term debt. A change of 100 basis points in the interest rates would have increased or decreased its fair value by $4,262 (2009 - $1,212).

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Financing Authority is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in foreign currency.

5. New SOA - Vehicle and Equipment Management Agency

Effective April 1, 2009, Fleet Vehicles Agency and the Mechanical Equipment Services Branch of the Department of Infrastructure and Transportation were amalgamated into a new Special Operating Agency named Vehicle and Equipment Management Agency (VEMA). Accordingly, Fleet Vehicles Agency effectively ceased operations at the close of business on March 31, 2009, and has since been dissolved.

(In Thousands)

5. New SOA - Vehicle and Equipment Management Agency (continued)

As of the start of business on April 1, 2009, the Financing Authority transferred the net assets of Fleet Vehicles Agency to VEMA, at their carrying value of $24,540. In addition, the Financing Authority's equity in Fleet Vehicles Agency consisting of $20,256 retained earnings and $4,284 contributed equity, was transferred to the contributed equity account of VEMA.

The Financing Authority and the Province of Manitoba entered into a Transfer Agreement in connection with the transfer from the Province to the Financing Authority of the net assets of the Mechanical Equipment Services Branch of the Department of Infrastructure and Transportation. The transfer of these assets, which consisted of $39,931 capital assets and $2,655 parts inventory, was financed with a $42,586 long term debt payable to the Province.

On April 1, 2009, the employees of the Mechanical Equipment Services Branch were transferred to VEMA. As a result, VEMA recorded a receivable from the Province of $1,903 for vacation entitlements and severance pay benefits earned by these employees prior to their transfer. The Province has indicated this amount will be paid in full during 2010/11.

6. Accounts receivable

	2010	2009
Trade	$20,813	$13,174
Insurance agency rebate	543	495
Other	2,136	485
	$23,492	$14,154

Other accounts receivable includes a receivable from the Province of Manitoba and Western Economic Diversification of $1,693 for the expansion of Food Development Centre.

7. Long-term investments

The Province of Manitoba accepted responsibility for the vacation entitlements earned by the employees of the SOA's prior to their designation as SOA's and the severance pay benefits accumulated to March 31, 1998 for certain of the SOA's employees. Accordingly, the SOA's recorded a receivable of $5,469 from the Province of Manitoba for these accumulated benefits. Effective March 31, 2009 the Province of Manitoba paid the receivable balance related to the funding for these liabilities and placed the amount of $5,469 into an interest bearing trust account to be held on the SOA's behalf until the cash is required to discharge the related liabilities.

(In Thousands)

8. Restricted deposits

The Manitoba Securities Commission maintains separate deposits with the Province of Manitoba to fund expenses which may arise with respect to the Reserve Fund (Note 17b).

9. Capital assets

	Cost	Accumulated Amortization	2010 Net Book Value	2009 Net Book Value
Vehicles, fire engines	$198,916	$94,745	$104,171	$60,122
Equipment and furniture	20,868	11,898	8,970	7,995
Rental equipment	8,128	6,607	1,521	1,446
Computer equipment	6,616	5,218	1,398	1,815
Buildings	19,491	7,194	12,297	10,974
Practical training site	2,346	1,303	1,043	1,159
Leasehold improvements	2,616	2,064	552	582
Other assets	3,179	1,859	1,320	1,226
	$262,160	$130,888	$131,272	$85,319

10. Intangible assets

	Cost	Accumulated Amortization	2010 Net Book Value	2009 Net Book Value
System development and software costs	$110	$ 5	$105	$59

(In Thousands)

11. Working capital advances

The Minister of Finance, with Lieutenant-Governor-in-Council approval by Orders in Council, has arranged for working capital advances to be available to the Financing Authority. The aggregate of the outstanding advances is not to exceed $25,070 (2009 - $25,070) at any one time. As at March 31, 2010, $11,407 (2009 - $16,554) of these advances was unused and available.

12. Capital lease obligations

	2010	2009
Polaris Leasing Ltd., capital lease due November 1, 2013, interest at 7.318% per year with annual principal and interest payments of $43 for the first 4 years and a final payment of $79 in 2014	$ 171	$ 199
CTYS Lease and Rental, capital lease due March 15, 2012, interest at 7.486% per year with annual principal and interest payments of $14 for three years	25	-
	196	199
Current portion of capital lease obligations	42	28
	$ 154	$ 171

Capital lease obligations are secured by equipment under lease.

The future minimum lease payments for the next four years are as follows:

2011	$ 42
2012	45
2013	35
2014	74

(In Thousands)

13. Long-term debt - Province of Manitoba

Instalment Amount	Interest Rate	Maturity Date	2010	2009
Repayable in semi-annual instalments of principal and interest:				
159	5.250%	Sep 30, 2009	$ -	$ 155
134	5.625%	Sep 30, 2009	-	131
56	4.125%	Sep 30, 2009	-	55
167	4.000%	Mar 31, 2010	-	324
438	4.375%	Mar 31, 2010	-	849
123	5.125%	Sep 30, 2010	119	350
227	4.750%	Mar 31, 2011	438	857
451	4.750%	Mar 31, 2011	871	1,701
137	4.875%	Sep 30, 2011	391	636
102	4.750%	Sep 30, 2011	293	476
475	4.625%	Mar 31, 2012	1,796	2,634
137	4.750%	Sep 30, 2012	637	871
140	4.050%	Sep 30, 2012	658	900
345	4.000%	Mar 31, 2013	1,933	2,528
140	4.050%	Sep 30, 2013	907	1,143
355	3.875%	Sep 30, 2013	2,304	2,907
376	2.625%	Sep 30, 2014	3,170	-
148	4.875%	Mar 31, 2015	1,295	1,519
215	2.625%	Mar 31, 2015	2,000	-
117	4.125%	Sep 30, 2015	1,140	1,321
237	4.875%	Sep 30, 2023	4,646	4,885
334	5.000%	Mar 31, 2024	6,677	7,000
192	4.875%	Mar 31, 2024	3,863	-
162	4.500%	Sep 30, 2024	3,417	-
2,018	4.875%	Mar 31, 2024	40,603	-
80	5.000%	Mar 31, 2030	2,000	-
Repayable in annual instalments of principal plus interest:				
18	5.800%	Apr 30, 2017	142	160
Repayable in monthly instalments of principal plus interest:				
6	5.125%	Jul 31, 2023	1,011	1,086
3	4.875%	Jul 31, 2023	436	-
2	4.875%	Jul 31, 2023	286	-
			81,033	32,488
	Amount due within one year		(9,472)	(7,231)
			$ 71,561	$ 25,257

(In Thousands)

13. Long-term debt - Province of Manitoba (continued)

Principal repayments in each of the next five years are as follows:

2011	$ 9,472
2012	8,151
2013	7,018
2014	5,838
2015	5,205

Loan authority availability was approved for the five agencies (listed in the following table) during May 2009 in The Loan Act, 2009.

	The Loan Act, 2009
Vehicle and Equipment Management Agency	$ 31,600
The Property Registry	5,000
Companies Office	3,300
Pineland Forest Nursery	300
Vital Statistics Agency	1,272
Total loan authority	$ 41,472

Of the $41,472 in available loan authority, $15,000 was drawn down at various times during the 2009/10 year, leaving $26,472 of loan authority availability unutilized as of March 31, 2010.

14. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of contributions received by the Food Development Centre from the Federal Government and the Province of Manitoba for the purchase of equipment and construction of a building. These amounts will be taken into income to match the amortization of the equipment and building.

15. Severance liability

Effective April 1, 1998 or the date of their creation, whichever is later; SOAs began recording accumulated severance pay benefits for their employees. The amount of their severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

(In Thousands)

15. Severance liability (continued)

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. The special operating agencies' actuarially determined net liability for accounting purposes as at March 31, 2010 was $7,240 (2009 - $5,693). The actuarial loss of $525 based on actuarial reports will be amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2010 present value of the accrued severance benefit obligation were:

Annual rate of return	
inflation component	2.50%
real rate of return	4.00%
	6.50%
Assumed salary increase rates	
annual productivity increase	0.75%
annual general salary increase	3.50%
	4.25%

16. Equity

	2010	2009
Contributed equity		
Green Manitoba Eco Solutions	$ 9	$ 9
Industrial Technology Centre	62	62
Manitoba Text Book Bureau	550	550
Materials Distribution Agency	1,297	1,297
Office of the Fire Commissioner	11,279	11,279
Pineland Forest Nursery	356	356
Vehicle and Equipment Management Agency / Fleet Vehicles Agency (Note 5)	24,540	4,284
	$38,093	$17,837

(In Thousands)

16. Equity (continued)

	2010	2009
Retained earnings		
Civil Legal Services	$ 819	$ 732
Companies Office	3,591	3,733
Crown Lands and Property Agency	(2,845)	(1,992)
Food Development Centre	81	379
Green Manitoba Eco Solutions	494	55
Industrial Technology Centre	437	508
MERLIN	302	423
Manitoba Securities Commission	8,805	7,716
Manitoba Text Book Bureau	233	194
Materials Distribution Agency	3,040	2,839
Office of the Fire Commissioner	1,836	1,487
Organization and Staff Development	354	606
Pineland Forest Nursery	(363)	(193)
The Property Registry	9,798	12,667
The Public Trustee	1,770	1,574
Vehicle and Equipment Management Agency/ Fleet Vehicles Agency	401	20,256
Vital Statistics Agency	1,383	1,528
Financing Authority	26	18
	$30,162	$52,530

17. Reserve funds

a) The Public Trustee

The Public Trustee has allocated a reserve out of retained earnings to provide for short-term fluctuations in revenue due to changes in revenue patterns or extraordinary expenses. The balance of the reserve at March 31, 2010 is $500 (2009 - $500).

b) Manitoba Securities Commission

The Manitoba Securities Commission has allocated a reserve out of retained earnings to provide for extraordinary regulatory expenses and changes in market activity affecting revenue. The balance of the reserve at March 31, 2010 is $750 (2009 - $750).

(In Thousands)

17. Reserve funds (continued)

c) Office of the Fire Commissioner

The Office of the Fire Commissioner received approval from Treasury Board in Fiscal 2004/05 to establish a special reserve fund for water bomber fire suppression activities. This fund is capped at an amount of $200 and will be utilized to cover the costs associated with water bomber deployment for non-forest fire incidents occurring on Rural Municipality property. As at March 31, 2010, the agency has allocated a total of $200 (2009 - $200) to this fund from its retained earnings account.

The agency has established a special reserve fund for replacing and training a rescue dog. The fund is capped at $40, and the balance of this reserve fund as at March 31, 2010 is $40 (2009 - $40).

The agency received approval from Treasury Board during the year to establish a special reserve fund for special rescue activities. The fund is capped at $200. As at March 31, 2010, the agency has allocated $200 to this fund from retained earnings. During the year, an amount of $21 was drawn from the fund, and it was replenished to $200.

18. Commitments

Commitments for SOAs with building lease agreements at March 31, 2010 total $11,111 (2009 - $11,646).

Other commitments entered into by SOAs are as follows:

Crown Lands And Property Agency	Vehicle and equipment leases	$ 6
Office of the Fire Commissioner	Vehicle leases	756
Organization and Staff Development	Learning Management System	276
Pineland Forest Nursery	Vehicle leases	16
The Property Registry	Equipment lease agreements	395
		$ 1,449

Estimated minimum lease payments for each of the next five years are as follows:

2011	$2,601
2012	2,456
2013	2,450
2014	1,773
2015	1,726

(In Thousands)

19. Contingencies

The Manitoba Securities Commission has been named as defendant in one statement of claim, and a potential claim has been filed against Organization and Staff Development for breach of an agreement. At the time of preparation of these financial statements, the outcomes of these claims were undeterminable. The cost of a future settlement, if any, will be reflected as an expense in the year of resolution.

The Property Registry has been named in six lawsuits. The likelihood of damages being awarded and the amount to be awarded is not reasonably estimable for any of the claims. Should any loss result from the resolution of these claims, such loss will be charged to the Assurance Fund of Manitoba in the year of resolution.

20. Transfer of funds to the Province of Manitoba

	2010	2009
Transfer of surplus funds to the Province of Manitoba:		
Civil Legal Services	$ 250	$ 200
Companies Office	2,500	2,000
Manitoba Securities Commission	7,850	7,300
The Property Registry	11,000	9,715
Vehicle and Equipment Management Agency/ Fleet Vehicles Agency	2,500	1,500
Vital Statistics Agency	280	280
	24,380	20,995
Transfer of capital to the Province of Manitoba:		
Food Development Centre	330	-
	$24,710	$20,995

21. Pension benefits

Employees of SOAs are eligible for pension benefits in accordance with the provisions of the Civil Service Superannuation Act (CSSA), administered by the Civil Service Superannuation Board (CSSB). The CSSA established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the Government, including the special operating agencies, through the Civil Service Superannuation Fund.

21. Pension benefits (continued)

Prior to April 1, 2001, only the Industrial Technology Centre and the Food Development Centre matched their employee's current contributions to the CSSB and had no additional liability under the CSSA.

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the remaining SOAs transferred to the Province the pension liability for their employees. These SOAs are required to pay to the Province an amount equal to the current pension contributions of their employees, including those employees transferred to VEMA on April 1, 2009. The amount paid for 2010 was $2,884 (2009 - $1,787). Under this agreement, these SOAs have no further pension liability.

22. Estates and trusts under administration

The Public Trustee has statutory responsibility for administering clients' estates and trusts. The client assets under administration at March 31, 2010 total approximately $211,000 (2009 - $203,000). The trust activities of The Public Trustee are reported in separate audited financial statements for Estates and Trusts under Administration.

23. Related party transactions

The Financing Authority is related in terms of common ownership to all Province of Manitoba created departments, agencies and Crown corporations. The Financing Authority enters into transactions with these entities in the normal course of business. These transactions are recorded at the exchange amount.

24. Public sector compensation

No employee of the Financing Authority received compensation of $50.0 or more during the year ended March 31, 2010.

Compensation information for each SOA is disclosed in the notes to their audited financial statements.

MAGNUS & BUFFIE

CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Special Operating Agencies Financing Authority

We have audited the balance sheet of Civil Legal Services, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2010 and the statements of earnings and retained earnings and cash flow for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2010 and the results of its operations and cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

Magnus & Buffie

May 14, 2010 CHARTERED ACCOUNTANTS

430 Five Donald Street· Winnipeg, Manitoba · R3T 2T4 · Phone (204) 942-4441 · Fax (204) 944-0400

Balance Sheet
(in thousands)
March 31, 2010

	2010	2009
Assets		
Current assets:		
Cash and short term deposits	$ 977	$ 827
Accounts receivable	704	656
	1,681	1,483
Long term investments (Note 5)	379	379
Capital assets (Note 6)	82	78
Trust asset	9	9
	$ 2,151	$ 1,949
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued	$ 79	$ 63
Accrued vacation entitlements	500	496
	579	559
Severance liability (Note 7)	744	649
Trust liability	9	9
	1,332	1,217
Equity:		
Retained earnings	819	732
	$ 2,151	$ 1,949

CIVIL LEGAL SERVICES
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

Statement of Income, Comprehensive Income and Retained Earnings

(in thousands)

Year ended March 31, 2010

	2010	2009
Revenue:		
Recoveries	$ 6,597	$ 6,321
Interest and other	6	4
	6,603	6,325
Expenses:		
Advertising and promotion	1	1
Amortization	34	28
Communications	41	40
Computer	66	57
Desktop management initiative	174	159
Equipment rental	2	4
Government records centre	28	27
Law Society fees	51	52
Miscellaneous	9	6
Occupancy	240	233
Office	30	56
Postage and deliveries	13	12
Professional fees and services	51	45
Publications	37	33
Travel	21	28
Wages and benefits	5,468	5,146
	6,266	5,927
Net income and comprehensive income for the year	337	398
Retained earnings, beginning of year	732	534
	1,069	932
Revenue sharing - Province of Manitoba	250	200
Retained earnings, end of year	$ 819	$ 732

Statement of Cash Flow

(in thousands)

Year ended March 31, 2010

		2010		2009
Cash flow from (used in)				
Operating activities:				
Net earnings for the year	$	337	$	398
Adjustment for				
Amortization		34		28
		371		426
Changes in the following				
Accounts receivable		(48)		(4)
Accounts payable and accrued		16		30
Revenue sharing - Province of Manitoba payable		-		(50)
Accrued vacation entitlements		4		27
Severance liability		95		66
		438		495
Financing activity:				
Revenue sharing - Province of Manitoba		(250)		(200)
Investing activities:				
Capital asset additions		(38)		(39)
Change in long term investments		-		(379)
Change in receivable from Province of Manitoba		-		379
		(38)		(39)
Change in cash and short term deposits		150		256
Cash and short term deposits, beginning of year		827		571
Cash and short term deposits, end of year	$	977	$	827

Notes to Financial Statements

(in thousands)

Year ended March 31, 2010

1. Nature of organization

The role of Civil Legal Services (the "Agency") flows from the constitutional and statutory responsibilities of the Minister of Justice as the Chief Legal Advisor to government and the guardian of the public interest. Acting pursuant to government policy, the Agency is responsible for providing a full range of high quality legal services, on a cost recovery basis, to its clients, namely the Province of Manitoba, the province's agencies, boards and commissions and some Crown organizations.

Effective April 1, 1995, the Agency was designated as a Special Operating Agency pursuant to The Special Operating Agencies Financing Authority Act, Cap. s185, C.C.S.M. and operates under a charter approved by the Lieutenant Governor in Council.

The Agency is financed through the Special Operating Agencies Financing Authority (SOAFA). The Financing Authority has the mandate to hold and acquire assets required for and resulting from Agency operations. It finances the Agency through repayable loans and working capital advances. The financial framework provides increased management authority which, coupled with more rigorous planning and reporting requirements afforded by Special Operating status, assists the Agency to sustain the provision of high quality legal services to its clients.

A Management Agreement between the Financing Authority and the Minister of Justice assigns responsibility to the Agency to manage and account for the Agency related assets and operations on behalf of the Financing Authority.

The Agency continues to be part of Manitoba Justice under the general direction of the Deputy Minister and Minister.

The Agency remains bound by relevant legislation and regulations. It is also bound by administrative policy except where specific exemptions have been provided for in its charter in order to meet business objectives.

The Agency is economically dependent on the Province of Manitoba because it derives most of its revenue from the Province and all of its financing requirements through the Financing Authority.

2. Change in accounting policies

New Accounting Policies

Section 3064 Goodwill and Intangible Assets

Effective April 1, 2009, the Agency adopted the recommendations of the Canadian Institute of Chartered Accountants (“CICA”) Handbook section 3064 Goodwill and Intangible Assets and the updates to CICA Handbook section 1000 Financial Statement Concepts.

This guidance establishes updated standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

These changes did not have an impact on the Agency's financial statements for the year ended March 31, 2010.

(in thousands)

2. Change in accounting policies (continued)

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

During 2009 the Agency adopted the Emerging Issues Committee (EIC) 173 and amendments to Section 3855, Financial Instruments - Recognition and Measurement and 3862, Financial Instruments - Disclosures:

- Section 3855 – Effective Interest Method
- Section 3855 – Embedded Derivatives on Reclassification of Financial Assets
- Section 3855 – Impairment of Financial Assets
- Section 3862 – Fair Value and Liquidity Risk Disclosure

Due to the nature of the Agency's financial instruments, the adoption of these standards and amendments had no material impact on the financial statements of the Agency.

Future Accounting Changes

Convergence with Public Sector Accounting Standards as issued by the Public Sector Accounting Board

Effective April 1, 2011 the Agency will be adopting Public Sector Accounting Standards issued by the Public Sector Accounting Board. The Agency is currently in the process of quantifying the impact these changes will have on its financial statements.

3. Summary of significant accounting policies

Basis of Reporting: The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized as follows:

Capital Assets: Capital assets are recorded at cost and are amortized over their estimated useful lives as follows:

Computer Equipment and Software	20% straight line (10% in year of acquisition)
Furniture and Fixtures	20% straight line (10% in year of acquisition)
Leasehold Improvements	20% straight line (10% in year of acquisition)

Revenue recognition

The percentage of completion method of accounting is used, whereby revenue is recognized proportionately with the degree of completion of the legal services provided.

Capital disclosures

The Agency's capital management policy is to maintain sufficient capital to meet its objectives through its retained earnings by managing transfers of surplus funds to the Province of Manitoba; meet short-term capital needs with working capital advances from the Province of Manitoba; and meet long-term capital needs through long-term debt with the Province of Manitoba. There were no changes in the Agency's approach to capital management during the period. The Agency's capital consists of retained earnings provided from operations and special purpose reserve funds allocated from retained earnings.

The Agency is not subject to externally imposed capital requirements.

3. Summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial instruments - recognition and measurement

Financial assets and liabilities are initially recorded at fair value. Measurement in subsequent periods depends on the financial instrument's classification. Financial instruments are classified into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and other financial liabilities. All financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

The financial assets and liabilities of the Agency are classified and measured as follows:

Financial instrument	Category	Measurement
Cash and short term deposits	Held-for-trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Long term investments	Held-for-trading	Fair value
Accounts payable and accrued	Other financial liabilities	Amortized cost
Accrued vacation entitlements	Other financial liabilities	Amortized cost

Amortized cost is determined using the effective interest rate and method.

Gains and losses on financial instruments subsequently measured at amortized cost are recognized in the statement of income, comprehensive income and retained earnings in the period the gain or loss occurs. Changes in fair value on financial instruments classified as held for trading are recognized in the statement of income, comprehensive income and retained earnings for the current period. Changes in fair value on financial instruments classified as available for sale would be recorded in other comprehensive income until realized, at which time they would be recorded in the statement of income, comprehensive income and retained earnings.

Fair value of financial instruments

The fair values of accounts receivable, accounts payable and accrued and accrued vacation entitlements approximates their carrying values due to their short-term maturity.

4. Financing arrangements

The Special Operating Agencies Financing Authority has provided the Agency with an authorized line of working capital of $200 of which $nil was used at March 31, 2010.

(in thousands)

5. Long term investments

The Province of Manitoba accepted responsibility for the vacation entitlements earned by the employees of the Agency prior to its designation as SOA, and the severance pay benefits accumulated to March 31, 1998 for certain of the Agency's employees. Accordingly, the Agency recorded a receivable of $379 from the Province of Manitoba for these accumulated benefits. Effective March 31, 2009 the Province of Manitoba paid the receivable balances related to the funding for these liabilities and has placed the amount of $379 into a trust account bearing interest at 0.80% and maturing on March 30, 2011 to be held on the Agency's behalf until the cash is required to discharge the related liabilities. However, this is only likely to happen on the dissolution of the Agency. As such, this amount has been classified as a long term asset.

6. Capital assets

	Cost	Accumulated Amortization	Net Book Value 2010	Net Book Value 2009
Computer Equipment and Software	$ 156	$ 129	$ 27	$ 26
Furniture and Fixtures	268	232	36	42
Leasehold Improvements	77	58	19	10
	$ 501	$ 419	$ 82	$ 78

7. Severance liability

Effective April 1, 1998, the Agency began recording accumulated severance pay benefits for its employees. The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the Agency's actuarially determined net liability for accounting purposes as at March 31, 2010 was $744 (2009 - $649), with the actuarial loss being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2010 present value of the accrued severance benefit obligation were:

Annual rate of return	
inflation component	2.50%
real rate of return	4.00%
	6.50%
Assumed salary increase rates	
annual productivity increase	0.75%
annual general salary increase	3.50%
	4.25%

(in thousands)

8. Pension benefits

Employees of the Agency are eligible for pension benefits in accordance with the provisions of the Civil Service Superannuation Act (CSSA), administered by the Civil Service Superannuation Board (CSSB). The CSSA established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the Government, including the Agency, through the Civil Service Superannuation Fund (CSSF).

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the Agency transferred to the Province the pension liability for its employees.

Commencing April 1, 2001, the Agency was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for 2010 was $328 (2009 - $224). Under this agreement the Agency has no further pension liability.

9. Lease commitments

The Agency has not entered into a lease agreement with the Province of Manitoba for rental facilities at 405 Broadway. Occupancy charges for the year ending March 31, 2011 are estimated to be $243.

10. Financial instruments - risk management

In the normal course of operations the Agency is exposed to various financial risks. The financial risk management objectives and policies are as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Agency to credit risk consist principally of cash and short term deposits, accounts receivable and long term investments.

The maximum exposure of the Agency to credit risk at March 31, 2010 is:

Cash and short term deposits	$	977
Accounts receivable		704
Long term investments		379
	$	2,060

Cash and short term deposits and long term investments: The Agency is not exposed to significant credit risk as the cash and term deposits are primarily held by the Minister of Finance.

Accounts receivable: The Agency is not exposed to significant credit risk as the nature of the accounts receivable is with related entities and consists of a large client base and payment in full is typically collected when it is due. The Agency establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off. The balance in the allowance for doubtful accounts at March 31, 2010 was $nil (2009 - $nil)

10. Financial instruments - risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Agency will not be able to meet its financial obligations as they come due.

The Agency manages liquidity risk by maintaining adequate cash balances and by review from the Province of Manitoba to ensure adequate funding will be received to meet the obligations.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Agency's income or the fair values of its financial instruments. The significant market risk the Agency is exposed to is interest rate risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to short term deposits.

The interest rate risk on short term deposits is considered to be low because of their short-term nature.

AUDITORS' REPORT

To the Special Operating Agencies Financing Authority

We have audited the balance sheet of the Companies Office, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2010 and the statements of income, comprehensive income and retained earnings and cash flow for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2010 and the results of its operations and cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

Magnus & Buffie

May 4, 2010 CHARTERED ACCOUNTANTS

430 Five Donald Street · Winnipeg, Manitoba · R3L 2T4 · Phone (204) 942-4441 · Fax (204) 944-0400

COMPANIES OFFICE
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

Balance Sheet

(in thousands)

March 31, 2010

		2010		2009
Assets				
Current Assets:				
Cash and Short Term Deposits	$	3,482	$	3,880
Accounts Receivable (Note 4)		370		175
Prepaid Expenses		35		25
		3,887		4,080
Long Term Investment (Note 5)		218		218
Capital Assets (Note 6)		50		68
Intangible Assets (Note 7)		62		59
	$	4,217	$	4,425
Liabilities and Equity				
Current Liabilities:				
Accounts Payable and Accrued	$	206	$	232
Accrued Vacation Entitlements		199		216
		405		448
Severance Pay Liability (Note 8)		221		244
		626		692
Equity:				
Retained Earnings		3,591		3,733
	$	4,217	$	4,425

See accompanying notes to financial statements.

COMPANIES OFFICE
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

Statement of Income, Comprehensive Income and Retained Earnings

(in thousands)

Year ended March 31, 2010

	2010	2009
Revenue:		
Fees and Services	$ 6,707	$ 6,539
Interest	6	72
	6,713	6,611
Expenses:		
Salaries and Employee Benefits	1,770	1,598
Operating Expenses (Schedule)	2,570	2,483
Amortization - Capital Assets	15	15
	4,355	4,096
Net Income and Comprehensive Income for the Year	2,358	2,515
Retained Earnings, Beginning of Year	3,733	3,218
	6,091	5,733
Revenue Share to Province of Manitoba	2,500	2,000
Retained Earnings, End of Year	$ 3,591	$ 3,733

See accompanying notes to financial statements.

Statement of Cash Flow

(in thousands)

Year ended March 31, 2010

	2010	2009
Cash Flow From (Used In)		
Operating Activities:		
Net Income and Comprehensive Income for the Year	$ 2,358	$ 2,515
Adjustment for		
Amortization - Capital Assets	21	24
	2,379	2,539
Changes in the Following		
Accounts Receivable	(195)	24
Prepaid Expenses	(10)	(2)
Accounts Payable and Accrued	(26)	18
Accrued Vacation Entitlements	(17)	32
Change in Severance Pay Liability	(23)	26
	2,108	2,637
Financing Activity:		
Revenue Share to Province of Manitoba	(2,500)	(2,000)
Investing Activities:		
Capital Asset Additions	(3)	(39)
Change in Long Term Investment	-	(218)
Change in Receivable From Province of Manitoba	-	218
Additions to Intangible Assets	(3)	(59)
	(6)	(98)
Change in Cash and Short Term Deposits	(398)	539
Cash and Short Term Deposits, Beginning of Year	3,880	3,341
Cash and Short Term Deposits, End of Year	$ 3,482	$ 3,880

See accompanying notes to financial statements.

1. Nature of organization

Effective April 1, 1996, the Lieutenant Governor in Council designated the Companies Office (the "Agency") as a special operating agency under The Special Operating Agencies Financing Authority Act (C.C.S.M. cS185) by Order in Council. Another Order also gave approval to the Special Operating Agencies Financing Authority (SOAFA) and the Minister of Consumer and Corporate Affairs, being the Minister responsible for the Agency (at that time), to enter into a management agreement with respect to the Agency. The management agreement assigns responsibility to the Agency to manage and account for the Agency related assets and operations on behalf of SOAFA. SOAFA has the mandate to hold and acquire assets required for and resulting from Agency operations. This financial framework enables the Agency to operate in a business like manner according to public policy expectations.

The Agency is part of Department of Family Services and Consumer Affairs Division in the Department of Finance under the general direction of the Minister of Family Services and Consumer Affairs, the Deputy Minister, and Assistant Deputy Minister who is also Chairperson of the Companies Office Advisory Board.

The Agency remains bound by relevant legislation and regulation. It is also bound by administrative policy except where specific exemptions have been provided for in its charter in order to meet business objectives.

2. Change in accounting policies

New Accounting Policies

Section 3064 Goodwill and Intangible Assets

Effective April 1, 2009, the Agency adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3064 Goodwill and Intangible Assets and the updates to CICA Handbook section 1000 Financial Statement Concepts.

This guidance establishes updated standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

These changes did not have an impact on the Agency's financial statements for the year ended March 31, 2010.

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

During 2009 the Agency adopted the Emerging Issues Committee (EIC) 173 and amendments to Section 3855, Financial Instruments - Recognition and Measurement and 3862, Financial Instruments - Disclosures:

- Section 3855 – Effective Interest Method
- Section 3855 – Embedded Derivatives on Reclassification of Financial Assets
- Section 3855 – Impairment of Financial Assets
- Section 3862 – Fair Value and Liquidity Risk Disclosure

Due to the nature of the Agency's financial instruments, the adoption of these standards and amendments had no material impact on the financial statements of the Agency.

(in thousands)

2. Change in accounting policies (continued)

Future Accounting Changes

Convergence with Public Sector Accounting Standards as issued by the Public Sector Accounting Board

Effective April 1, 2011 the Agency will be adopting Public Sector Accounting Standards issued by the Public Sector Accounting Board. The Agency is currently in the process of quantifying the impact these changes will have on its financial position.

3. Summary of significant accounting policies

Basis of Reporting:

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

Capital Assets

Capital assets are recorded at cost and amortized over their estimated useful lives as follows:

Computer Equipment and Software	20% straight line (10% in year of acquisition)
Office Equipment	20% straight line (10% in year of acquisition)
Furniture and Fixtures	20% straight line (10% in year of acquisition)
Leasehold Improvements	20% straight line (10% in year of acquisition)

Intangible Assets

Intangible assets are recorded at cost and amortized over their estimated useful lives as follows:

System Development (Note 7)	15 year straight line

Revenue Recognition

Revenue is recognized when the service is substantially complete.

Deferred Development Costs

Deferred development costs relate to direct labour and direct external costs incurred on the development of a new systems software. In the event management determines that the project is no longer viable or economically feasible, all deferred costs relating to the project will be expensed. If management determines that expected future net cash flows from the project do not exceed the unamortized deferred costs relating to the project, the excess amount will be expensed. Management assesses the feasibility and expected cash flows relating to deferred development costs on an annual basis.

Amortization of deferred development costs will commence in the period when the new systems software commences commercial use. (Note 7)

3. Summary of significant accounting policies (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Capital disclosures

The Agency's capital consists of retained earnings. The Agency's capital management policy is to maintain sufficient capital to meet its objectives through its retained earnings by managing transfers of surplus funds to the Province of Manitoba; meet short-term capital needs with working capital advances from the Province of Manitoba; and meet long-term capital needs through long-term debt with the Province of Manitoba. There were no changes in the Agency's approach to capital management during the period.

The Agency is not subject to externally imposed capital requirements.

Financial Instruments - Recognition and Measurement

Financial assets and liabilities are initially recorded at fair value. Measurement in subsequent periods depends on the financial instrument's classification. Financial instruments are classified into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and other financial liabilities. All financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

The financial assets and liabilities of the Agency are classified and measured as follows:

Financial instrument	Category	Measurement
Cash and short term deposits	Held-for-trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Long term investment	Held-for-trading	Fair value
Accounts payable and accrued and accrued vacation entitlements	Other financial liabilities	Amortized cost

Amortized cost is determined using the effective interest rate method.

Gains and losses on financial instruments subsequently measured at amortized cost are recognized in the statement of earnings and retained earnings in the period the gain or loss occurs. Changes in fair value on financial instruments classified as held for trading are recognized in the statement of earnings and retained earnings for the current period. Changes in fair value on financial instruments classified as available for sale would be recorded in other comprehensive income until realized, at which time they recorded in the statement of earnings and retained earnings.

Fair Value of Financial Instruments

The fair value of accounts receivable, accounts payable and accrued and accrued vacation entitlements approximates their carrying values due to their short-term maturity.

Notes to Financial Statements

(in thousands)

Year ended March 31, 2010

4. Accounts receivable

	2010	2009
Trade	$ 43	$ 28
Accrued Revenue	327	147
	$ 370	$ 175

5. Long term investment

The Province of Manitoba accepted responsibility for the vacation entitlements earned by the employees of the Agency prior to its designation as SOA, and the severance pay benefits accumulated to March 31, 1998 for certain of the Agency's employees. Accordingly, the Agency recorded a receivable of $218 from the Province of Manitoba for these accumulated benefits. Effective March 31, 2009 the Province of Manitoba paid the receivable balances related to the funding for these liabilities and has placed the amount of $218 into a trust account bearing interest at .8% and maturing on March 31, 2011 to be held on the Agency's behalf until the cash is required to discharge the related liabilities. However, this is only likely to happen on the dissolution of the Agency. As such, this amount has been classified as a long term asset.

6. Capital assets

		Accumulated	Net Book Value	
	Cost	Amortization	2010	2009
Computer Equipment and Software	$ 103	$ 75	$ 28	$ 36
Office Equipment	16	16	-	-
Furniture and Fixtures	134	114	20	24
Leasehold Improvements	40	38	2	8
	$ 293	$ 243	$ 50	$ 68

Amortization charges for the year amounted to $21 (2009 - $24) of which $2 (2009 - $5) was expensed in Manitoba Business Links and $4 (2009 - $4) was expensed in Notaries on the schedule of operating expenses.

(in thousands)

7. Intangible assets

Intangible assets consists of deferred development costs as follows:

		Cost	Accumulated Amortization		Net Book Value 2010		2009
New system development	$	62	-	$	62	$	59

During the year, development costs were capitalized in the amount of $3 (2009 - $59).

8. Severance pay liability

Effective April 1, 1998, the Agency began recording accumulated severance pay benefits for its employees. The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the Agency's actuarially determined net liability for accounting purposes as at March 31, 2010 was $221 (2009 - $244) with the actuarial loss of $49 being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2010 present value of the accrued severance benefit obligation were:

Annual rate of return	
inflation component	2.50%
real rate of return	4.00%
	6.50%
Assumed salary increase rates	
annual productivity increase	0.75%
annual general salary increase	3.50%
	4.25%

9. Pension benefits

Employees of the Agency are eligible for pension benefits in accordance with the provisions of the Civil Service Superannuation Act (CSSA), administered by the Civil Service Superannuation Board (CSSB). The CSSA established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the Government, including the Agency, through the Civil Service Superannuation Fund (CSSF).

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the Agency transferred to the Province the pension liability for its employees. Commencing April 1, 2001, the Agency was required to pay to the Province an amount equal to its employees’ current pension contributions.

The amount paid for 2010 was $103 (2009 - $78). Under this agreement, the Agency has no further pension liability.

10. Lease commitments

The Agency has not entered into a lease agreement with the Province of Manitoba for rental facilities at 405 Broadway. Occupancy charges for the year ending March 31, 2011 are estimated to be $146 (2010 - $144).

(in thousands)

11. Financial instruments - risk management

In the normal course of operations the Agency is exposed to various financial risks. The financial risk management objectives and policies are as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Agency to credit risk consist principally of cash and short term deposits, accounts receivable and long term investment.

The maximum exposure of the Agency to credit risk at March 31, 2010 is:

Cash and short term deposits	$	3,482
Accounts receivable		370
Long term investment		218
	$	4,070

Cash and short term deposits and long term investment: The Agency is not exposed to significant credit risk as the cash and term deposits are primarily held by the Minister of Finance.

Accounts receivable: The Agency is not exposed to significant credit risk as the nature of the accounts receivable is with related entities and consists of a large client base and payment in full is typically collected when it is due. The Agency establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off. The balance in the allowance for doubtful accounts at March 31, 2010 was $nil (2009 - $nil).

Liquidity risk

Liquidity risk is the risk that the Agency will not be able to meet its financial obligations as they come due.

The Agency manages liquidity risk by maintaining adequate cash balances and by review from the Province of Manitoba to ensure adequate funding will be received to meet the obligations.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Agency's income or the fair values of its financial instruments. The significant market risks the Agency is exposed to are interest rate risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to funds on deposit.

The interest rate risk on short term deposits are considered to be low because of their short-term nature.

Schedule of Operating Expenses

(in thousands)

Year ended March 31, 2010

	2010	2009
Accounting	$ 11	$ 13
Audit	7	6
Bad Debts	2	2
Bank Charges	52	41
Communications	29	26
Computer	114	102
Department Services	31	27
Desktop	86	79
Disaster Recovery	57	44
Equipment Maintenance and Rentals	10	10
Insurance	12	14
Legal Services	5	8
Manitoba Business Links	359	313
Miscellaneous	31	26
Name Search Application	155	156
New System Cost Allocation	1,081	1,122
Notaries	130	129
Office Rent	130	126
Payroll Processing	20	20
Postal and Courier	51	52
Programmers	115	96
Stationery	71	65
System Enhancements	3	-
Transportation	8	6
	$ 2,570	$ 2,483

COMPANIES OFFICE
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

Schedule of Public Sector Compensation Disclosure

(in thousands)

Year ended March 31, 2010

Pursuant to the disclosure required by the Public Sector Compensation Disclosure Act, no remuneration or other benefits were paid to board members.

The Public Sector Compensation Disclosure Act also requires all publicly funded bodies to disclose compensation to any employee or officer when such compensation exceeds $50 per annum. This information follows:

Employee	Title	Compensation 2010	Compensation 2009
Myron Pawlowsky	Chief Operating Officer	$ 95	$ 92
Shane Lasker	Acting Deputy Director - Legal	74	73
Dave Rudy	Controller	72	70
Linda Kalinski	Deputy Director - Operations	65	64
Cathy Shaw	Manager, Manitoba Business Links	64	-
Cari Bowley	Systems Analyst	60	55
Pak-Yan Chan	Management Analyst	56	53
Susan Poseluzney	Manager, Office Systems & Customer Service	51	-
Isabelle Aubin	Assistant Manager	51	-

THE EXCHANGE

chartered accountants LLP

AUDITORS' REPORT

To the Special Operating Agencies Financing Authority of Crown Lands and Property Agency

We have audited the balance sheet of Crown Lands and Property Agency, An Agency of the Special Operating Agencies Financing Authority Province of Manitoba, as at March 31, 2010 and the statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The Exchange

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Winnipeg, Manitoba
June 2, 2010

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CROWN LANDS AND PROPERTY AGENCY

(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Balance Sheet

(In Thousands)

March 31, 2010

	2010	2009
ASSETS		
CURRENT		
Accounts receivable *(Note 5)*	$ 917	$ 666
Work in progress *(Note 3)*	102	307
Prepaid expenses	45	56
	1,064	1,029
CAPITAL ASSETS *(Notes 3, 6)*	188	196
SEVERANCE PAY BENEFITS, VACATION PAY AND BANKED TIME CASH IN TRUST *(Note 7)*	670	670
ASSETS HELD IN TRUST	3	3
	$ 1,925	$ 1,898
LIABILITIES		
CURRENT		
Working capital advance, net of cash *(Note 8)*	$ 3,362	$ 2,576
Accounts payable and accrued liabilities *(Note 9)*	483	467
Client held funds	580	511
	4,425	3,554
SEVERANCE PAY LIABILITY *(Note 10)*	342	333
TRUST FUND LIABILITY	3	3
	4,770	3,890
DEFICIT	(2,845)	(1,992)
	$ 1,925	$ 1,898

LEASE COMMITMENTS *(Note 12)*

CROWN LANDS AND PROPERTY AGENCY

(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Statement of Loss and Deficit

(In Thousands)

Year Ended March 31, 2010

		2010		2009
REVENUE	$	**3,745**	$	3,098
EXPENSES				
Advertising		**8**		8
Amortization		**80**		67
Bad debts		**133**		2
Computer maintenance costs		**136**		128
Consulting fees		**(45)**		98
Contributed services		**482**		20
Desktop operating lease		**142**		131
Insurance		**2**		2
Interest on working capital advance		**33**		60
Meals and accommodations		**6**		4
Meetings and conventions		**-**		2
Office		**180**		174
Professional fees		**154**		126
Relocation expense		**12**		1
Rental		**285**		247
Salaries and wages		**2,937**		2,763
Training		**21**		50
Travel		**32**		35
		4,598		3,918
NET LOSS		**(853)**		(820)
DEFICIT - BEGINNING OF YEAR		**(1,992)**		(1,172)
DEFICIT - END OF YEAR	$	**(2,845)**	$	(1,992)

CROWN LANDS AND PROPERTY AGENCY

(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Statement of Cash Flows

(In Thousands)

Year Ended March 31, 2010

	2010	2009
OPERATING ACTIVITIES		
Cash receipts from customers	**$ 3,361**	$ 3,368
Cash paid to suppliers and employees	**(4,119)**	(3,579)
Interest paid	**(34)**	(62)
Increase (decrease) in client funds held	**69**	(3,578)
Increase in severance pay liability	**9**	42
Cash flow used by operating activities	**(714)**	(3,809)
INVESTING ACTIVITIES		
Purchase of capital assets	**(72)**	(56)
Decrease in due from Province of Manitoba	**-**	670
Increase in long term investment	**-**	(670)
Cash flow used by investing activities	**(72)**	(56)
DECREASE IN CASH	**(786)**	(3,865)
WORKING CAPITAL ADVANCE, NET OF CASH - BEGINNING OF YEAR	**(2,576)**	1,289
WORKING CAPITAL ADVANCE, NET OF CASH - END OF YEAR	**$ (3,362)**	$ (2,576)

1. NATURE OF ORGANIZATION

Effective April 1, 2006, Crown Lands and Property Agency (the "Agency") was designated as a Special Operating Agency by regulation under The Special Operating Agencies Financing Authority Act made by the Lieutenant Governor in Council.

The Agency has transactional authority for all Crown land sales, leases and permits, as well as land appraisal, acquisition, expropriation and other services for the provincial government. The Agency's mission is to provide quality Crown land information and services to the public and government departments that are open, fair and transparent.

The newly designated Agency consolidates the services previously provided by the Lands Acquisition Branch, Lands Branch, Agricultural Crown Land Management and Parks Districts Records departments.

The Agency is financed through the Special Operating Agencies Financing Authority (SOAFA). The Financing Authority has the mandate to hold and acquire assets required for and resulting from Agency operations. It finances the Agency through repayable loans and working capital advances. The financial framework enables the Agency to operate in a business-like manner according to public policy expectations.

A Management Agreement between the Financing Authority and the Minister of Transportation and Government Services assigns responsibility to the Agency to manage and account for the Agency related assets and operations on behalf of the Financing Authority.

The Agency forms part of the Supply and Services Division of Manitoba Infrastructure and Transportation under the general direction of the Chief Operating Officer and the Assistant Deputy Minister of the Supply and Services Division, and ultimately the policy direction of the Associate Deputy Minister and Minister.

The Agency remains bound by relevant legislation and regulations.

The Agency is economically dependent upon the Province of Manitoba, as it derives a significant portion of its revenue from the Province. The transactions with the Province of Manitoba are recorded at the exchange amount, which is the amount agreed upon by both parties.

2. CHANGE IN ACCOUNTING POLICY

New Accounting Policies

Section 3064, Goodwill and Intangible Assets

Effective April 1, 2009 the Agency adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, Goodwill and Intangible Assets, and the updates to CICA Handbook Section 1000, Financial Statement Concepts.

This guidance establishes updated standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

These changes did not have any impact on the Agency's financial statements for the year ended March 31, 2010.

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

Effective April 1, 2009, the Agency adopted the Emerging Issues Committee ("EIC") 173 and amendments to Section 3855 - Financial Instruments - Recognition and Measurement and 3862, Financial Instruments - Disclosures:

Section 3855 - Effective Interest Method
Section 3855 - Embedded Derivatives on Reclassification of Financial Assets
Section 3855 - Impairment of Financial Assets
Section 3862 - Fair Value of Liquidity Risk Disclosure

Due to the nature of the Agency's financial instruments, the adoption of these standards and amendments has no material impact on the financial position of the Agency.

Future Accounting Changes

Convergence with Public Sector Accounting Standards as issued by the Public Sector Accounting Board

Effective April 1, 2011, the Agency will be adopting Public Sector Accounting Standards issued by the Public Sector Accounting Board. The Agency is currently in the process of quantifying the impact of these changes on its financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of reporting

The financial statements of the Agency have been prepared in accordance with Canadian generally accepted accounting principles.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Capital disclosure

The Agency's capital consists of working capital advances from the Province of Manitoba and deficit.

The Agency's capital management policy is to manage its capital to meet its objectives, to meet short-term capital needs with working capital advances from the Province of Manitoba and to meet long-term capital needs through long-term debt with the Province of Manitoba. There were no changes in the Agency's approach to capital management during the period.

The Agency is not subject to externally imposed capital requirements.

Work in progress

Land Acquisition Branch- all costs incurred for a project are initially charged to work in progress and matched to billings using the percentage of completion method. Costs include direct labour at standard rates, direct charges and any reimbursable disbursements incurred on behalf of the client.

Capital assets

Equipment transferred to the Agency on April 1, 2006 assumed a cost equal to its net book value at March 31, 2006.

Capital assets are stated at cost less accumulated amortization. Capital assets are amortized over their estimated useful lives at the following rates and methods:

Equipment	5 years	straight-line method
Computer equipment	5 years	straight-line method
Computer software	5 years	straight-line method
Furniture and fixtures	5 years	straight-line method

Revenue recognition

Land Acquisition Branch: the percentage of completion method of accounting is used, whereby revenue is recognized proportionately with the degree of contracted work completed.

Other branch areas: appropriation funding in Manitoba Agriculture, Food and Rural Affairs (MAFRI) and Manitoba Conservation is continuing in order to pay the Agency the costs it incurs for providing services to the public (on behalf of MAFRI and Manitoba Conservation). The short-term chargeback model provides for the Agency to bill for its costs but not in excess of the approved budgets for MAFRI and Manitoba Conservation. As the Agency costs are expected to exceed MAFRI and Manitoba Conservation's appropriations for the Agency's services, the Agency may not fully recover its costs of delivering the services on behalf of MAFRI and Manitoba Conservation.

4. FINANCIAL INSTRUMENTS

Financial assets and liabilities are initially recorded at fair value. Measurement in subsequent periods depends on the financial instrument's classification. Financial instruments are classified into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and other financial liabilities. All financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

The financial assets and liabilities of the Agency are classified and measured as follows:

Financial Asset/Liability	Category	Subsequent Measurement
Working capital advance, net of cash	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Severance pay benefits, vacation pay and banked time cash in trust	Held for trading	Fair value
Assets held in trust	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Client held funds	Other financial liabilities	Amortized cost
Severance pay liability	Other financial liabilities	Amortized cost
Trust fund liability	Other financial liabilities	Amortized cost

Amortized cost is determined using the effective interest rate method.

Gains and losses on financial instruments subsequently measured at amortized cost are recognized in the statement of earnings and retained earnings in the period the gain or loss occurs. Changes in fair value on financial instruments classified as held for trading are recognized in the statement of earnings and retained earnings for the current period. Changes in fair value on financial instruments classified as available for sale would be recorded in other comprehensive income until realized, at which time they are recorded in the statement of earnings and retained earnings.

Fair value of financial instruments

The fair values of accounts receivable, severance pay benefits, vacation pay and banked time cash in trust, accounts payable and accrued liabilities, assets held in trust, client held funds and trust fund liability approximate their carrying values due to their short-term maturity.

The fair value of the severance pay liability is determined using the effective interest rate method.

(continues)

4. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management - overview

The Agency has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; market risk; interest risk; and foreign currency risk.

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Agency to credit risk consist principally of cash and term deposits and accounts receivable.

The maximum exposure of the Agency to credit risk at March 31, 2010 is:

Accounts receivable	$ 917
Severance pay benefits, vacation pay and banked time cash in trust	670
	$ 1,587

Accounts receivable: The Agency is not exposed to significant credit risk as the customers are mostly government entities and payment in full is typically collected when it is due. The Agency establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off.

Severance pay benefits, vacation pay and banked time cash in trust: The Agency is not exposed to significant credit risk as the trust account is being held on the Agency's behalf by the Province of Manitoba.

The change in the allowance for doubtful accounts during the year was as follows:

Balance, beginning of the year	$ 58
Provision for receivable impairment	133
Balance, end of the year	$ 191

Liquidity risk

Liquidity risk is the risk that the Agency will not be able to meet its financial obligations as they come due.

The Agency manages liquidity risk by maintaining adequate cash balances and by review from the Province of Manitoba to ensure adequate funding will be received to meet the obligations.

(continues)

(In Thousands)

4. FINANCIAL INSTRUMENTS *(continued)*

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Agency's income or the fair values of its financial instruments. The significant market risks the Agency is exposed to are interest rate risk and foreign currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to severance pay benefits cash in trust and working capital balances.

The interest rate risk on severance pay benefits, vacation pay and banked time cash in trust and working capital advances is considered to be low because of their short-term nature.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Agency is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in foreign currency.

5. ACCOUNTS RECEIVABLE

The balance is comprised of the following amounts:

	2010	2009
Trade accounts receivable	**$ 1,108**	$ 724
Allowance for doubtful accounts	**(191)**	(58)
	$ 917	$ 666

6. CAPITAL ASSETS

	2010		2009	
	Cost	**Accumulated amortization**	Cost	Accumulated amortization
Equipment	**$ 52**	**$ 36**	$ 52	$ 25
Computer equipment	**208**	**128**	192	88
Computer software	**127**	**70**	107	47
Furniture and fixtures	**48**	**13**	12	7
	$ 435	**$ 247**	$ 363	$ 167
Net book value	**$ 188**		$ 196	

(In Thousands)

7. SEVERANCE PAY BENEFITS, VACATION PAY AND BANKED TIME CASH IN TRUST

The Province has accepted responsibility for the severance benefits, vacation and overtime accumulated by the employees of Lands Branch, Agricultural Crown Land Management and Parks Districts Records departments, transferred to the Agency March 31, 2006, to March 31, 2006. Additionally, the Province has accepted responsibility for the severance benefits, vacation and overtime accumulated by the employees of Lands Acquisition Branch to March 31, 1998.

Effective March 31, 2010 the Province of Manitoba has paid the receivable balances related to the funding for these liabilities and has placed the amount of $670 into an interest bearing trust account to be held on the Agency's behalf until the cash is required to discharge the related liabilities.

8. WORKING CAPITAL ADVANCE

The Agency has an authorized line of working capital from the Province of Manitoba of $4,000 of which $3,369 was used as at March 31, 2010 (2009 - $2,600).

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2010	2009
The balance is composed of the following amounts:		
Trade accounts payable	**$ 123**	$ 147
Accrued wages, vacation pay and banked time	**357**	317
Goods and services tax	**3**	3
	$ 483	$ 467

10. SEVERANCE PAY LIABILITY

The Agency records accumulated severance pay benefits for its employees. Severance pay is determined by multiplying years of service by the weekly salary, at date of retirement provided that the employee reaches nine years of service and retires from the Agency. Severance pay for service greater than 15 years to a maximum of 35 years is increased by two weeks for every five years of service. The estimate is based upon the method of calculation set by the Province of Manitoba.

(In Thousands)

11. PUBLIC SECTOR COMPENSATION DISCLOSURE

It is a requirement of the Public Sector Compensation Disclosure Act that annual public disclosure be made of individual compensation exceeding $50 annually to any officer or employee of the Province of Manitoba. The following employees received compensation in excess of $50:

		2010	2009
Bernat, Leonard	Appraisal and Acquisition Officer	**$ 59**	$ 57
Burley, Ronald	Property Appraiser	**52**	-
Charles, Jack	Administration Officer	**52**	59
Calder, Dean	Property Appraiser	**-**	55
Delong, Grace	Administration Officer	**50**	-
Dyck, Gary W	Property Appraiser	**56**	53
Dzogan, Ken	Manager, Land Acquisition Services	**66**	60
Kent, Rodney	Manager, Property Sales	**60**	58
Kopytko, Wanda	Administration Officer	**56**	50
Krakowka, Larry	Resource Officer	**61**	59
Kubasiewicz, Michal	Senior Manager	**99**	97
Le Neal, Normand	Financial Officer	**68**	63
Lucky, Rob	Property Appraiser	**-**	57
McMullan, Bernie	Property Appraiser	**74**	-
Millar, Scott	Property Appraiser	**78**	76
Penner, Mary Ann	Appraisal and Acquisition Officer	**59**	57
Pieterse, Debra	Information Technologist	**68**	-
Pishak, Calvin	Information Technologist	**69**	67
Sheridan, Bryan	Administration Officer	**-**	61
Sonley, Judy	Appraisal and Acquisition Officer	**58**	57
Wallcraft, Brian	Information Technologist	**56**	53

12. LEASE COMMITMENTS

The Agency's approved 2010/11 Business Plan calls for $282, to be paid in quarterly instalments during 2010/11, for the rental of the facilities located at 25 Tupper Street North, Portage La Prairie, Manitoba. There is no premise lease agreement in place. Occupancy charges for each fiscal year are established annually by the Province of Manitoba.

The Agency has entered into various leases for vehicles and office equipment. The expected payments are as follows:

2011	$ 3
2012	3

THE EXCHANGE
chartered accountants LLP

AUDITORS' REPORT

To the Special Operating Agencies Financing Authority

We have audited the balance sheet of the Food Development Centre as at March 31, 2010 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Centre's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Centre as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The Exchange

chartered accountants LLP

Winnipeg, Manitoba
May 14, 2010

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FOOD DEVELOPMENT CENTRE

(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Balance Sheet

(In Thousands)

March 31, 2010

		2010		2009
ASSETS				
CURRENT				
Cash and short-term deposits	**$**	**1,223**	$	895
Accounts receivable - trade *(Note 6)*		**196**		160
Accounts receivable - other *(Note 6)*		**1,693**		13
Prepaid expenses and deposits		**172**		78
Due from Food Safety Initiative		**-**		306
Due from Growing Forward Program		**91**		-
		3,375		1,452
PROPERTY AND EQUIPMENT *(Notes 3, 7)*		**10,315**		9,781
SEVERANCE PAY BENEFITS CASH IN TRUST *(Notes 8, 13)*		**41**		41
	$	**13,731**	$	11,274
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities *(Note 9)*	**$**	**478**	$	365
Accrued vacation pay *(Note 10)*		**133**		98
Unearned revenue		**26**		62
Due to Functional Food Cluster		**-**		29
Current portion of long term debt *(Note 11)*		**18**		18
		655		572
LONG TERM DEBT *(Note 11)*		**124**		142
SEVERANCE LIABILITY *(Note 13)*		**132**		112
DEFERRED CONTRIBUTIONS *(Note 14)*		**12,739**		10,069
		13,650		10,895
RETAINED EARNINGS		**81**		379
	$	**13,731**	$	11,274

FOOD DEVELOPMENT CENTRE

(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Statement of Income and Retained Earnings

(In Thousands)

Year Ended March 31, 2010

	2010	2009
REVENUE		
Grants - Province of Manitoba	**$ 2,568**	$ 2,338
Fee for service	**612**	524
Lease income	**84**	124
Interest and other income	**5**	178
Amortization of deferred capital contributions *(Note 14)*	**750**	709
Administration fee - Growing Forward Program *(Note 17)*	**473**	-
	4,492	3,873
DIRECT OPERATING EXPENSES		
Salaries and benefits	**2,064**	1,726
Lab supplies	**96**	138
Purchased services	**165**	141
Transportation	**75**	46
Postage, courier and telephone	**44**	47
Printing and stationery	**21**	13
Marketing	**45**	36
Library	**19**	16
	2,529	2,163
GROSS PROFIT	**1,963**	1,710
ADMINISTRATIVE EXPENSES *(Schedule 1)*	**1,931**	1,844
NET INCOME (LOSS)	**32**	(134)
RETAINED EARNINGS - BEGINNING OF YEAR	**379**	513
	411	379
EXPANSION ALLOCATION	**(330)**	-
RETAINED EARNINGS - END OF YEAR	**$ 81**	$ 379

FOOD DEVELOPMENT CENTRE
(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Statement of Cash Flows

(In Thousands)

Year Ended March 31, 2010

	2010	2009
OPERATING ACTIVITIES		
Cash receipts from customers	$ (741)	$ 914
Cash receipts from grants	2,568	2,338
Cash paid to suppliers and employees	(3,367)	(3,553)
Interest paid	(89)	(102)
Interest received	2	38
Cash flow used by operating activities	(1,627)	(365)
INVESTING ACTIVITIES		
Purchase of equipment	(1,303)	(969)
Deposit on equipment	-	554
Cash flow used by investing activities	(1,303)	(415)
FINANCING ACTIVITIES		
Due from Growing Forward Program	(91)	-
Due from Food Safety Initiative	306	(287)
Due to Functional Food Cluster	(29)	5
Capital contributions received	3,090	355
Repayment of long term debt	(18)	(17)
Cash flow from financing activities	3,258	56
INCREASE (DECREASE) IN CASH FLOWS	328	(724)
CASH - BEGINNING OF YEAR	895	1,619
CASH - END OF YEAR	$ 1,223	$ 895

1. NATURE OF ORGANIZATION

Established in 1978, as part of the Manitoba Research Council, the Food Development Centre (the "Centre") serves the agri-food industry by providing a wide range of services in the food and beverage industries. The Centre offers food product development research, testing services and assistance with technology transfer to enable industry to efficiently and economically produce high quality foods.

Effective April 1, 1996, the Agency was designated as a Special Operating Agency by regulation under The Special Operating Agencies Financing Authority Act made by the Lieutenant Governor in Council.

The Agency is financed through the Special Operating Agencies Financing Authority (SOAFA). The Financing Authority has the mandate to hold and acquire assets required for and resulting from the Agency's operations. It finances the Agency through repayable loans and working capital advances. The financial framework enables the Agency to operate in a business-like manner according to public policy expectations.

A Management Agreement between the Financing Authority and the Minister of Rural Development, being the Minister responsible for the Agency at that time, assigned responsibility to the Agency to manage and account for the Agency related assets and operations on behalf of the Financing Authority.

The Agency is a part of the Department of Agriculture, Food and Rural Initiatives under the general direction of a General Manager/Chief Operating Officer, and ultimately the policy direction of the Deputy Minister and Minister.

The Centre remains bound by relevant legislation and regulations.

An advisory board with representation from the food industry, client's of the Centre, academia and government provides direction on policy and operating activities.

The Centre is economically dependent upon the Province of Manitoba, as it derives a significant portion of its revenue from the Province. The transactions with the Province of Manitoba are recorded at the exchange amount, which is the amount agreed upon by both parties.

2. CHANGE IN ACCOUNTING POLICIES

New Accounting Polices

Effective April 1, 2009, the Centre adopted the following new handbook sections issued by the Canadian Institute of Chartered Accountants (CICA):

Section 3064 Goodwill and Intangible Assets

The Centre adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3064 Goodwill and Intangible Assets and the updates to CICA Handbook section 1000 Financial Statement Concepts.

This guidance establishes updated standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

These changes did not have an impact on the Agency's financial statements for the year ended March 31, 2010.

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

During 2009 the Agency adopted the Emerging Issues Committee (EIC) 173 and amendments to Section 3855, Financial Instruments - Recognition and Measurement and 3862, Financial Instruments - Disclosures:
Section 3855 – Effective Interest Method
Section 3855 – Embedded Derivatives on Reclassification of Financial Assets
Section 3855 – Impairment of Financial Assets
Section 3862 – Fair Value and Liquidity Risk Disclosure

Due to the nature of the Agency's financial instruments, the adoption of these standards and amendments had no material impact on the financial position of the Agency.

Future Accounting Changes

Convergence with Public Sector Accounting Standards as issued by the Public Sector Accounting Board

Effective April 1, 2011, the Agency will be adopting Public Sector Accounting Standards issued by the Public Sector Accounting Board. The Agency is currently in the process of quantifying the impact these changes will have on its financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates include providing for amortization of property and equipment and goodwill. Actual results could differ from these estimates.

Property and equipment

Equipment assumed as part of the conversion to a Special Operating Agency, April 1, 1996 is stated at its estimated fair value as determined by the Province of Manitoba. Property and equipment are stated at cost less accumulated amortization. Property and equipment are amortized over their estimated useful lives at the following rates and methods:

Building improvements	15 years	straight-line method
Equipment - commercial and product development	15 years	straight-line method
Equipment - office	20%	declining balance method
Computer hardware and software	5 years	straight-line method

The Centre regularly reviews its property and equipment to eliminate obsolete items. Government grants are treated as deferred capital contribution and are amortized based on method used for the related asset.

Property and equipment acquired during the year but not placed into use are not amortized until they are placed into use.

Unearned revenue

Unearned revenue represents cash received for projects that were started but not completed by year end.

Revenue recognition

Fee for service revenue is recognized on the percentage of completion basis and when collection is reasonably assured.

Lease income is recognized as revenue according to the terms of the lease.

All grants received have been recognized as income in the current year.

Funds received from the Province of Manitoba and the Government of Canada for the construction of the new building and purchase of equipment have been treated as deferred capital contributions and will be taken into income to match the amortization of the building and equipment.

Administration fee from Growing Forward program have been recognized in accordance with the terms and conditions of the agreement.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Capital disclosure

The Centre's capital consists of retained earnings provided from operations.

The Centre's capital management policy is to maintain sufficient capital to meet its objectives through its retained earnings by managing transfers of surplus funds to the Province of Manitoba; meet short-term capital needs with working capital advances from the Province of Manitoba; and meet long-term capital needs through long-term debt with the Province of Manitoba. There were no changes in the Centre's approach to capital management during the period.

The Centre is not subject to externally imposed capital requirements.

4. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial assets and liabilities are initially recorded at fair value. Measurement in subsequent periods depends on the financial instrument's classification. Financial instruments are classified into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and other financial liabilities. All financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

The financial assets and liabilities of the Centre are classified and measured as follows:

Financial Asset/Liability	Category	Subsequent Measurement
Cash and short-term deposits	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Due from Food Safety Initiative	Loans and receivables	Amortized cost
Due from Growing Forward Program	Loans and receivables	Amortized cost
Severance pay benefits cash in trust	Held for trading	Fair value
Accounts payable	Other financial liabilities	Amortized cost
Accrued liabilities	Other financial liabilities	Amortized cost
Accrued vacation pay	Other financial liabilities	Amortized cost
Due to Functional Food Cluster	Other financial liabilities	Amortized cost
Long term debt	Other financial liabilities	Amortized cost
Severance liability	Other financial liabilities	Amortized cost

Amortized cost is determined using the effective interest rate method.

Gains and losses on financial instruments subsequently measured at amortized cost are recognized in the statement of earnings and retained earnings in the period the gain or loss occurs. Changes in fair value on financial instruments classified as held for trading are recognized in the statement of earnings and retained earnings for the current period. Changes in fair value on financial instruments classified as available for sale would be recorded in other comprehensive income until realized, at which time they recorded in the statement of earnings and retained earnings.

(continues)

4. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(continued)*

Fair value of financial instruments

The fair values of accounts receivable, due from Food Safety Initiative, due from Growing Forward Program, severance pay benefits cash in trust, accounts payable and accrued liabilities, accrued vacation payable and due to Functional Food Cluster approximate their carrying values due to their short-term maturity.

The fair value of the long-term debt is determined using the present value of future cash flows under current financing agreements, based on the Centre's current estimated borrowing rate for loans with similar terms and conditions.

Financial risk management - overview

The Centre has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; market risk; interest risk; and foreign currency risk.

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Centre to credit risk consist principally of cash and term deposits and accounts receivable.

The maximum exposure of the Centre to credit risk at March 31, 2010 is:

Cash and short-term deposits	$ 1,223
Accounts receivable	1,889
Due from Growing Forward	90
Severance pay benefits cash in trust	41
	$ 3,243

Cash and short-term deposits: The Centre is not exposed to significant credit risk as the cash and term deposits are primarily held by the Minister of Finance.

Accounts receivable: The Centre is not exposed to significant credit risk as the customers are mostly government entities and payment in full is typically collected when it is due. The Centre establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off.

Due from Food Safety Initiative: The Centre is not exposed to significant credit risk as the receivable is from a program that is within the Province of Manitoba and funded by the Government of Canada.

(continues)

(In Thousands)

4. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(continued)*

The change in the allowance for doubtful accounts during the year was as follows:

Balance, beginning of the year	$ 81	
Provision for receivable impairment		160
Amounts written off		(12)
Balance, end of the year		$ 229

Liquidity risk

Liquidity risk is the risk that the Centre will not be able to meet its financial obligations as they come due.

The Centre manages liquidity risk by maintaining adequate cash balances and by review from the Province of Manitoba to ensure adequate funding will be received to meet the obligations.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Centre's income or the fair values of its financial instruments. The significant market risks the Centre is exposed to are interest rate risk and foreign currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to funds on deposit and long term debt.

The interest rate risk on funds on deposit is considered to be low because of their short-term nature.

The Centre manages its interest rate risk on long-term debt through the exclusive use of fixed rate terms for its long-term debt. A change of 100 basis points in the interest rates would have increased or decreased its fair value by $6 (2009 - $7).

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Centre is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in foreign currency.

5. WORKING CAPITAL PAYABLE

The Centre has an authorized line of working capital from the Province of Manitoba of $500 of which $10 was used as at March 31, 2010 (2009 - $3 was used).

(In Thousands)

6. ACCOUNTS RECEIVABLE

The accounts receivable balance is comprised of the following amounts:

	2010	2009
Trade accounts receivable	**$ 425**	$ 181
Allowance for doubtful accounts	**(229)**	(81)
Note receivable from tenant	**-**	60
	$ 196	$ 160

Included in the allowance for doubtful accounts is the allowance for the note receivable from tenant, which had central government authorization for the allowance to be recorded.

The $1,693 in accounts receivable - other is receivable from the Province of Manitoba and Western Economic Diversification for the expansion of the Centre.

7. PROPERTY AND EQUIPMENT

	2010		2009	
	Cost	**Accumulated amortization**	Cost	Accumulated amortization
Equipment - commercial and product development	**$ 7,430**	**$ 1,744**	$ 5,858	$ 1,086
Computer hardware and software	**96**	**93**	96	89
Equipment - office	**-**	**-**	369	345
Building improvements	**6,608**	**2,171**	6,608	1,726
Commercial and training expansion	**189**	**-**	96	-
	$ 14,323	**$ 4,008**	$ 13,027	$ 3,246
Net book value	**$ 10,315**		$ 9,781	

8. SEVERANCE RECEIVABLE FROM PROVINCE OF MANITOBA

The Province of Manitoba accepted responsibility for the vacation entitlements earned by the employees of the Centre prior to its designation as SOA, and the severance pay benefits accumulated to March 31, 1998 for certain Centre's employees. Accordingly, the Centre recorded a receivable of $41 from the Province of Manitoba for these accumulated benefits. Effective March 31, 2009, the Province of Manitoba had agreed to pay the receivable balances related to the funding for these liabilities and has placed the amount of $41 into an interest bearing trust account to be held on the Centre's behalf until the cash is required to discharge the related liabilities.

(In Thousands)

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2010	2009
Trade	**$ 294**	$ 222
Interest	**116**	118
Sales tax	**68**	25
	$ 478	$ 365

10. ACCRUED VACATION PAY

The employees of the Centre are entitled to vacation pay in the current year, based on the prior year's employment. A provision for this liability has been recorded in the financial statements.

11. LONG TERM DEBT

	2010	2009
Province of Manitoba loan bearing interest at 5.80% per annum, with annual principal payments of $18 plus interest. The loan matures on April 30, 2017.	**$ 142**	$ 160
Amounts payable within one year	**(18)**	(18)
	$ 124	$ 142

Principal repayment terms are approximately:

2011	$ 18
2012	18
2013	18
2014	18
2015	18

12. DEFICIENCY IN ASSETS

The Special Operating Agencies Financing Authority and the Manitoba Provincial Government entered into a Transfer Agreement respecting the transfer, from the Provincial Government to the Financing Authority, of the net assets required for the continuing operations of the Centre. As at April 1, 1996, the date of transfer, the liabilities assumed exceeded the value of the assets in the amount of $35. This amount was recorded as the deficit at April 1, 1996.

(In Thousands)

13. SEVERANCE LIABILITY

Effective April 1, 1998, the Centre commenced recording accumulated severance pay benefits for its employees. Severance pay is determined by multiplying years of service, to a maximum of twenty three years, by the weekly salary at date of retirement, provided the employee reaches nine years of service and retires from the Centre. The estimate is based upon the method of calculation set by the Province of Manitoba.

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. The Centre's actuarially determined net liability for accounting purposes as at March 31, 2010 was $132 (2009 - $112). Commencing in the 2009 fiscal year, the actuarial gain of $1 is being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2010 present value of the accrued severance benefit obligation were:

Annual rate of return	
inflation component	2.50%
real rate of return	4.00%
	6.50%
Assumed salary increase rates	
annual productivity increase	0.75%
annual general salary increase	3.50
	4.25

(In Thousands)

14. DEFERRED CAPITAL CONTRIBUTIONS

		2010		2009
Balance, beginning of year	$	**10,069**	$	10,422
Add: Contributions received				
Government of Canada		**3,090**		356
Expansion		**330**		-
Less: Amount amortized as revenue		**(750)**		(709)
Balance, end of year	**$**	**12,739**	$	10,069

Deferred capital contributions represent the unamortized amount of contributions received for the purchase of equipment and improvements of a building. The amortization of contributions is recorded as revenue in the statement of income.

In 2004, the Centre received a loan from the Province of Manitoba for $2,625 bearing interest at 5.63% per annum, with annual payments of $175 plus interest. The loan matures on May 18, 2019. The loan is to be repaid through future appropriations from the Province of Manitoba and therefore has been treated as a grant and included in deferred capital contributions to be consistent with the accounting presentation adopted by the Province of Manitoba.

As the future principal and interest payments will be funded by the Province of Manitoba, the annual principal repayment will be netted against the grant revenue received and the interest payment will be reflected as interest expense.

The deferred capital contributions will be brought into income at the same rate as the corresponding equipment and building improvements are being amortized.

15. PENSION BENEFIT

In accordance with the provisions of The Civil Service Superannuation Act, employees of the Centre are eligible for pension benefits under the Civil Service Superannuation Fund. This pension plan is a defined benefit plan, which requires the Centre to contribute an amount equal to the employee's contribution to the Fund for current services. The amount contributed and expensed by the Centre in the current year was $97 (2009 - $89).

The Centre has no further liability associated with the annual cost of pension benefits earned by the Centre's employees.

(In Thousands)

16. PUBLIC SECTOR COMPENSATION DISCLOSURE

It is a requirement of the Public Sector Compensation Disclosure Act that annual public disclosure be made of individual compensation exceeding $50 annually to any officer or employee of the Province of Manitoba. The following employees received compensation in excess of $50:

Utioh, Alphonsus	Process and Product Development Manager	**$**	**95**
Appah, Paulyn	Senior Process Development Consultant		**70**
Lalla, Mike	Manager, Support Services		**89**
Gherasim, Gord	Supervisor, Pilot Plant		**56**
Nivet, Meeling	Product Development Group Leader		**78**
Schultz, Nona	HACCP/Regulatory Affairs Coordinator		**66**
Henuset, Alana	Information Officer		**64**
Templeton, Karen	Group Leader - Administration		**57**
Planinich, Javier	Manager, Pilot Plant and Commercial Activities		**89**
Dean, Sabrina	HACCP/Regulatory Affairs Coordinator		**69**
Ghosh, Prabal	Senior Scientist		**64**
Irvine, Roberta	Business Development Officer		**72**
Kuharski, Shawn	Product Development Consultant		**52**
Lowry, Lynda	Chief Operating Officer/General Manager		**93**
Meseyton, Janice	Senior Product Development Consultant		**64**
Nelson, Corwin	Power Engineer		**50**
Sawyer, Laura	Senior Scientist		**72**
Spencer, Jeremy	Product Development Consultant		**59**

17. ADMINISTRATION FEE - GROWING FORWARD PROGRAM

The Centre has been authorized by Treasury Board to administer the non-business risk management programs under the Canada-Manitoba Growing Forward Framework Agreement on behalf of the federal government and to collect an administrative fee of $3,128,013 or approximately 6% of the federal government's $51,360,265.

Food Development Centre's administration runs April 1, 2009 to March 31, 2013.

FOOD DEVELOPMENT CENTRE

(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Administrative expenses ***(Schedule 1)***

Year Ended March 31, 2010

	2010	2009
Accreditation and licensing fees	**$ 10**	$ 9
Advisory committee fees	**8**	3
Amortization	**770**	719
Bad debts	**160**	60
Computer expenses	**115**	74
Equipment rentals	**95**	62
Expense recoveries	**-**	(222)
Insurance	**70**	71
Interest on long term debt	**89**	100
Legal and accounting fees	**43**	22
Memberships	**11**	10
Occupancy expenses	**296**	639
Property taxes	**150**	150
Repairs and maintenance	**62**	120
Research and development	**33**	6
Staff relocation	**-**	9
Training	**19**	12
	$ 1,931	$ 1,844

FOOD DEVELOPMENT CENTRE

(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

GROWING FORWARD PROGRAM *(Schedule 2)*

Strategic Innovation Suite

Year Ended March 31, 2010

	2010	2009
BUDGETED FUNDING	**$ 1,750**	$ -
PROGRAM EXPENDITURES		
Administering Party Administration Costs	**88**	-
Program Costs *	**1,537**	-
	1,625	-
REPROFILED INTO 2010/2011	**$ 125**	$ -

The Administering Party is the Food Development Centre.

The Administering Party Administration Costs is included in Administration fee revenue on page 3.

* Authorization for the Growing Forward Program is the responsibility of Manitoba Agriculture Food and Rural Initiative and Agriculture and Agri-Food Canada through a federal-provincial management committee.

FOOD DEVELOPMENT CENTRE

(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

GROWING FORWARD PROGRAM *(Schedule 3)*

Industry Innovation

Year Ended March 31, 2010

		2010		2009
BUDGETED FUNDING	**$**	**1,845**	$	-
PROGRAM EXPENDITURES				
Administering Party Administration Costs		**92**		-
Program Costs *		**1,575**		-
		1,667		-
REPROFILED INTO 2010/2011	**$**	**178**	$	-

The Administering Party is the Food Development Centre.

The Administering Party Administration Costs is included in Administration fee revenue on page 3.

* Authorization for the Growing Forward Program is the responsibility of Manitoba Agriculture Food and Rural Initiative and Agriculture and Agri-Food Canada through a federal-provincial management committee.

FOOD DEVELOPMENT CENTRE
(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

GROWING FORWARD PROGRAM ***(Schedule 4)***

Business Development Suite

Year Ended March 31, 2010

	2010	2009
BUDGETED FUNDING	**$ 500**	$ -
PROGRAM EXPENDITURES		
Administering Party Administration Costs	**25**	-
Program Costs *	**133**	-
	158	-
REPROFILED INTO 2010/2011	**$ 342**	$ -

The Administering Party is the Food Development Centre.

The Administering Party Administration Costs is included in Administration fee revenue on page 3.

* Authorization for the Growing Forward Program is the responsibility of Manitoba Agriculture Food and Rural Initiative and Agriculture and Agri-Food Canada through a federal-provincial management committee.

FOOD DEVELOPMENT CENTRE
(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

GROWING FORWARD PROGRAM *(Schedule 5)*

Sector Development: Northern Agriculture Initiative Suite

Year Ended March 31, 2010

	2010	2009
BUDGETED FUNDING	**$ 100**	$ -
PROGRAM EXPENDITURES		
Administering Party Administration Costs	**3**	-
Program Costs *	**1**	-
	4	-
REPROFILED INTO 2010/2011	**$ 96**	$ -

The Administering Party is the Food Development Centre.

The Administering Party Administration Costs is included in Administration fee revenue on page 3.

* Authorization for the Growing Forward Program is the responsibility of Manitoba Agriculture Food and Rural Initiative and Agriculture and Agri-Food Canada through a federal-provincial management committee.

FOOD DEVELOPMENT CENTRE
(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

GROWING FORWARD PROGRAM *(Schedule 6)*

Food Safety Risk Management Suite

Year Ended March 31, 2010

	2010	2009
BUDGETED FUNDING	**$ 1,762**	$ -
PROGRAM EXPENDITURE		
Administering Party Administration Costs	**88**	-
Program Costs *	**1,500**	-
	1,588	-
REPROFILED INTO 2010/2011	**$ 174**	$ -

The Administering Party is the Food Development Centre.

The Administering Party Administration Costs is included in Administration fee revenue on page 3.

* Authorization for the Growing Forward Program is the responsibility of Manitoba Agriculture Food and Rural Initiative and Agriculture and Agri-Food Canada through a federal-provincial management committee.

FOOD DEVELOPMENT CENTRE
(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

GROWING FORWARD PROGRAM *(Schedule 7)*

Environmental Action Suite

Year Ended March 31, 2010

	2010	2009
FUNDING		
Budgeted funding	$ 2,000	$ -
Reprofiled from 2008/09	561	-
	2,561	-
PROGRAM EXPENDITURES		
Administering Party Administration Costs	128	-
Program Costs *	2,072	-
	2,200	-
REPROFILED INTO 2010/2011	$ 361	$ -

The Administering Party is the Food Development Centre.

The Administering Party Administration Costs is included in Administration fee revenue on page 3.

* Authorization for the Growing Forward Program is the responsibility of Manitoba Agriculture Food and Rural Initiative and Agriculture and Agri-Food Canada through a federal-provincial management committee.

FOOD DEVELOPMENT CENTRE
(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

GROWING FORWARD *(Schedule 8)*

Environment Information Suite

Year Ended March 31, 2010

	2010	2009
BUDGETED FUNDING	**$ 980**	$ -
PROGRAM EXPENDITURES		
Administering Party Administration Costs	**49**	-
Program Costs *	**763**	-
	812	-
REPROFILED INTO 2010/2011	**$ 168**	$ -

The Administering Party is the Food Development Centre.

The Administering Party Administration Costs is included in Administration fee revenue on page 3.

* Authorization for the Growing Forward Program is the responsibility of Manitoba Agriculture Food and Rural Initiative and Agriculture and Agri-Food Canada through a federal-provincial management committee.

THE EXCHANGE
chartered accountants LLP

AUDITORS' REPORT

To the Special Operating Agencies Financing Authority of Green Manitoba Eco Solutions

We have audited the balance sheet of Green Manitoba Eco Solutions, An Agency of the Special Operating Agencies Financing Authority Province of Manitoba, as at March 31, 2010 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The Exchange

chartered accountants LLP

Winnipeg, Manitoba
June 1, 2010

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Management's Responsibility for Financial Reporting

Green Manitoba Eco Solutions (Green Manitoba) management is responsible for preparing the financial statements and other financial information in the Annual Report. This responsibility includes maintaining the integrity and objectivity of financial data and the presentation of Green Manitoba's financial position and results of operations and its cash flows in accordance with Canadian generally accepted accounting principles. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data available through June 1, 2010.

Management maintains internal controls to properly safeguard Green Manitoba's assets. These controls also provide reasonable assurance that the books and records from which financial statements are derived accurately reflect all transactions, and that established policies and procedures are followed.

Green Manitoba's financial statements have been audited by The Exchange chartered accountants LLP, independent external auditors. The auditors' responsibility is to express an independent opinion on whether the financial statements of Green Manitoba are presented fairly, in all material respects, in accordance with Canadian generally accepted accounting principles. The Auditors' Report outlines the scope of their audit examination and provides their audit opinion.

On behalf of Green Manitoba's management,

Christina McDonald
Chief Operating Officer

Winnipeg, Manitoba
June 1, 2010

GREEN MANITOBA ECO SOLUTIONS

(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Balance Sheet

(In Thousands)

March 31, 2010

		2010		2009
ASSETS				
CURRENT				
Cash	**$**	**805**	$	890
Accounts receivable *(Note 5)*		**1,619**		579
		2,424		1,469
CAPITAL ASSETS *(Notes 3, 6)*		**4**		6
	$	**2,428**	$	1,475
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities	**$**	**250**	$	779
Deferred revenue *(Note 3)*		**1,665**		632
		1,915		1,411
SEVERANCE LIABILITY *(Note 9)*		**10**		-
		1,925		1,411
EQUITY				
Contributed surplus *(Note 10)*		**9**		9
Retained earnings		**494**		55
		503		64
	$	**2,428**	$	1,475

GREEN MANITOBA ECO SOLUTIONS

(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Statement of Income and Retained Earnings

(In Thousands)

Year Ended March 31, 2010

	2010	2009
REVENUE		
Province of Manitoba - service grant	**$ 997**	$ 1,881
Province of Manitoba - other	**4,109**	3,011
Non government funding	**1,155**	230
	6,261	5,122
EXPENSES		
Advertising and promotion	**37**	22
Amortization	**3**	3
Computer expenses	**35**	29
Contracted services	**44**	76
Moving	**-**	9
Office	**34**	43
Other expenses	**1**	-
Professional fees	**10**	7
Program supplies and services	**4,938**	4,051
Rent	**77**	115
Salaries and wages	**618**	637
Training	**10**	4
Travel	**15**	21
	5,822	5,017
NET INCOME	**439**	105
RETAINED EARNINGS (DEFICIT) - BEGINNING OF YEAR	**55**	(50)
RETAINED EARNINGS - END OF YEAR	**$ 494**	$ 55

GREEN MANITOBA ECO SOLUTIONS

(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Statement of Cash Flows

(In Thousands)

Year Ended March 31, 2010

	2010	2009
OPERATING ACTIVITIES		
Net income	$ 439	$ 105
Item not affecting cash:		
Amortization of capital assets	3	3
	442	108
Changes in non-cash working capital:		
Accounts receivable	(1,040)	(384)
Accounts payable and accrued liabilities	(530)	676
Deferred revenue	1,033	380
Prepaid expenses	-	1
Severance liability	10	-
	(527)	673
INCREASE (DECREASE) IN CASH FLOW	(85)	781
CASH - BEGINNING OF YEAR	890	109
CASH - END OF YEAR	$ 805	$ 890

1. NATURE OF ORGANIZATION

Effective April 1, 2006, Green Manitoba Eco Solutions ("Green Manitoba") was designated as a Special Operating Agency pursuant to the Special Operating Agencies Financing Authority act (C.C.S.M. c.S185). Green Manitoba operates under a charter approved by the Lieutenant Governor in Council.

Green Manitoba promotes sustainability practices by bringing together all partners (governments, business and other stakeholder organizations) and in doing so achieves more than if each had acted alone. Green Manitoba serves as the access point for customers to acquire information about provincial sustainability issues. The Special Operating Agency (SOA) delivers programs and services related to increasing energy efficiency, conserving water, reducing waste, reducing GHG emissions through climate change action, encouraging sustainable transportation practices and Education for Sustainability.

Green Manitoba is financed through the Special Operating Agencies Financing Authority (SOAFA). SOAFA has the mandate to hold and acquire assets required for and resulting from Green Manitoba's operations. It finances Green Manitoba through repayable loans and working capital advances. The financial framework enables Green Manitoba to operate in a business-like manner according to public policy expectations. A management agreement between the Financing authority and the Minister of Innovation, Energy and Mines assigns responsibility to Green Manitoba to manage and account for agency-related assets and operations on behalf of the Financing Authority.

Green Manitoba is part of the Department of Conservation and operates under policy direction of the Assistant Deputy Minister, Programs Division. Green Manitoba remains bound by relevant legislation and regulations, as well as by administrative policy except where specific exemptions have been provided for in its charter in order to meet business objectives.

Green Manitoba derives its revenue from the province and external sources. The transactions with the Province of Manitoba are recorded at the exchange amount, which is the amount agreed upon by both parties.

2. CHANGE IN ACCOUNTING POLICIES

New Accounting Polices

Section 3064, Goodwill and Intangible Assets

Effective April 1, 2009, Green Manitoba adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, Goodwill and Intangible Assets, and the updates to CICA Handbook Section 1000, Financial Statement Concepts.

This guidance establishes updated standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

These changes did not have an impact on Green Manitoba's financial statements for the year ended March 31, 2010

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

Effective April 1, 2009, Green Manitoba adopted the Emerging Issues Committee (EIC) 173 and amendments to Section 3855, Financial Instruments – Recognition and Measurement and 3862, Financial Instruments – Disclosures:

Section 3855 – Effective Interest Method
Section 3855 – Embedded Derivatives on Reclassification of Financial Assets
Section 3855 – Impairment of Financial Assets
Section 3862 – Fair Value and Liquidity Risk Disclosure

Due to the nature of Green Manitoba's financial instruments, the adoption of these standards and amendments had no material impact on the financial position of Green Manitoba.

Future Accounting Changes

Convergence with Public Sector Accounting Standards as issued by the Public Sector Accounting Board

Effective April 1, 2011, Green Manitoba will be adopting Public Sector Accounting Standards issued by the Public Sector Accounting Board. Green Manitoba is currently in the process of quantifying the impact these changes will have on its financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of reporting

The financial statements of Green Manitoba have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Capital disclosure

Green Manitoba's capital consists of retained earnings (deficit) and contributed surplus provided from operations.

Green Manitoba's capital management policy is to maintain sufficient capital to meet its objectives through its retained earnings by managing transfers of surplus funds to the Province of Manitoba; meet short-term capital needs with working capital advances from the Province of Manitoba; and meet long-term capital needs through long-term debt with the Province of Manitoba. There were no changes in the Green Manitoba's approach to capital management during the period.

Green Manitoba is not subject to externally imposed capital requirements.

Capital assets

Capital assets transferred to Green Manitoba on April 1, 2006 assumed a cost equal to their net book value at March 31, 2006.

Capital assets are stated at cost less accumulated amortization. Capital assets are amortized straight-line over a period of 5 years. Green Manitoba regularly reviews its capital assets to eliminate obsolete items. Government grants are treated as a reduction of capital asset cost.

Deferred revenue

Deferred revenue represents cash received for projects that were started but not completed by year end.

Revenue recognition

Grants are recognized as income in the year in which they are received. Special program funding is taken into income to match the program expenditures. Any remaining program funding is deferred.

4. FINANCIAL INSTRUMENTS

Financial assets and liabilities are initially recorded at fair value. Measurement in subsequent periods depends on the financial instrument's classification. Financial instruments are classified into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and other financial liabilities. All financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

The financial assets and liabilities of Green Manitoba are classified and measured as follows:

Financial Asset/Liability	Category	Subsequent Measurement
Cash	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

Amortized cost is determined using the effective interest rate method.

Gains and losses on financial instruments subsequently measured at amortized cost are recognized in the statement of earnings and retained earnings in the period the gain or loss occurs. Changes in fair value on financial instruments classified as held for trading are recognized in the statement of earnings and retained earnings for the current period. Changes in fair value on financial instruments classified as available for sale would be recorded in other comprehensive income until realized, at which time they are recorded in the statement of earnings and retained earnings.

Fair value of financial instruments

The fair values of accounts receivable, accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity.

Financial risk management - overview

Green Manitoba has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; market risk; interest risk; and foreign currency risk.

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject Green Manitoba to credit risk consist principally of cash and term deposits and accounts receivable.

(continues)

4. FINANCIAL INSTRUMENTS *(continued)*

The maximum exposure of Green Manitoba to credit risk at March 31, 2010 is:

Cash	$ 805
Accounts receivable	1,619
	$ 2,424

Cash: Green Manitoba is not exposed to significant credit risk as the cash and term deposits are primarily held by the Minister of Finance.

Accounts receivable: Green Manitoba is not exposed to significant credit risk as the customers are mostly government entities and payment in full is typically collected when it is due. Green Manitoba establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off.

Liquidity risk

Liquidity risk is the risk that Green Manitoba will not be able to meet its financial obligations as they come due.

Green Manitoba manages liquidity risk by maintaining adequate cash balances and by review from the Province of Manitoba to ensure adequate funding will be received to meet the obligations.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect Green Manitoba's income or the fair values of its financial instruments. The significant market risks Green Manitoba is exposed to are interest rate risk and foreign currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to funds on deposit.

The interest rate risk on funds on deposit is considered to be low because of their short-term nature.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Green Manitoba is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in foreign currency.

(In Thousands)

5. ACCOUNTS RECEIVABLE

The accounts receivable balance is comprised of the following amounts:

	2010	2009
Waste (E-Waste and HHW)	**$ 242**	$ 5
Eco-calendar	**2**	1
Eco-energy audit	**319**	-
Expense recoveries	**44**	-
Drive Greener - Natural Resources Canada	**16**	-
Low Income Residential Efficiency Program	**951**	531
PRAC	**45**	-
Severance	**-**	42
	$ 1,619	$ 579

6. CAPITAL ASSETS

	2010		2009	
	Cost	**Accumulated amortization**	Cost	Accumulated amortization
Computer equipment	**$ 4**	**$ 2**	$ 4	$ 2
Furniture and fixtures	**9**	**7**	9	5
	$ 13	**$ 9**	$ 13	$ 7
Net book value	**$ 4**		$ 6	

7. DEFERRED REVENUE

	2010	2009
Energy / Climate Change	**$ 981**	$ 327
Green Schools	**128**	197
Low Income Residential Efficiency Program	**378**	-
Operating	**40**	40
Transportation	**72**	-
Water	**66**	68
	$ 1,665	$ 632

8. WORKING CAPITAL ASSETS

Green Manitoba has an authorized line of working capital from the Province of Manitoba of $500 of which $Nil was used at March 31, 2010 (2009 - $Nil).

(In Thousands)

9. SEVERANCE LIABILITY

Effective April 1, 2006, Green Manitoba commenced recording accumulated severance pay benefits for its employees. The amount of their severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. Green Manitoba's actuarially determined net liability for accounting purposes as at March 31, 2010 was $10 (2009 - $NIL).

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2010 present value of the accrued severance benefit obligation were:

Annual rate of return	
inflation component	2.50%
real rate of return	4.00%
	6.50%
Assumed salary increase rates	
annual productivity increase	0.75%
annual general salary increase	3.50%
	4.25%

10. CONTRIBUTED SURPLUS

Green Manitoba and the Department of Innovation, Energy and Mines entered into a Transfer Agreement to transfer existing assets used in Green Manitoba Eco Solutions program of the Innovation, Energy and Mines. They consist primarily of equipment, furniture and other items having an estimated value of $9. Green Manitoba has capitalized these assets with a corresponding increase in contributed surplus.

11. PENSION BENEFIT

In accordance with the provisions of The Civil Service Superannuation Act, employees of Green Manitoba are eligible for pension benefits under the Civil Service Superannuation Fund. The pension plan is a defined benefit plan, which requires Green Manitoba to contribute an amount equal to the employee's contribution to the Fund for current services. The amount expensed by Green Manitoba in the current year is $27 (2009 - $29).

Green Manitoba has no further liability associated with the annual cost of pension benefits earned by Green Manitoba's employees.

(In Thousands)

12. PUBLIC SECTOR COMPENSATION DISCLOSURE

		2010	2009
Ferguson, James	Planning program analyst 3	**$ 72**	$ 70
Jonasson, John	Planning consultant	**86**	86
McDonald, Christina	Senior manager 1	**86**	-
McKenzie, Shane	Planning program analyst 2	**-**	55
Shymko, Randall	Planning program analyst 3	**63**	59
Storey, Marie	Planning program analyst 1	**54**	51

It is a requirement of the Public Sector Compensation Disclosure Act that annual disclosure be made of individual compensation exceeding $50 annually to any officer or employee of the Province of Manitoba. The above employees received compensation in excess of $50.

Industrial Technology Centre

200-78 Innovation Drive | Winnipeg, MB | R3T 6C2
TEL: (204) 480-3333 | FAX: (204) 480-0345 | 1-800-728-7933
www.itc.mb.ca

May 21, 2010

For the year ended March 31, 2010

The accompanying financial statements of the Industrial Technology Centre are the responsibility of management and have been prepared by ITC in accordance with Canadian generally accepted accounting principles. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data available up to May 21, 2010.

Management maintains internal controls designed to indicate responsibility, provide reasonable assurance of the reliability and accuracy of the financial statements, and properly safeguard ITC's assets.

The responsibility of the external audit is to express an independent, professional opinion lending assurance and objectivity as to whether the financial statements of ITC are fairly presented in accordance with Canadian generally accepted accounting principles. The auditors' report outlines the scope of the audit examination and provides the audit opinion.

On behalf of management,

Trevor Cornell	David Olafson
Chief Operating Officer	Manager, Corporate Services

BDO

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BDO Canada LLP/s.r.l.
700 - 200 Graham Avenue
Winnipeg MB R3C 4L5 Canada

Auditors' Report

To the Special Operating Agencies Financing Authority

We have audited the balance sheet of the **INDUSTRIAL TECHNOLOGY CENTRE** as at March 31, 2010 and the statements of earnings, comprehensive income (loss) and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Centre's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Centre as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba
May 21, 2010

INDUSTRIAL TECHNOLOGY CENTRE
An Agency of the
Special Operating Agencies Financing Authority
Province of Manitoba
Balance Sheet
As at March 31, 2010

(in thousands)	2010	2009
Assets		
Current		
Cash and funds on deposit with Minister of Finance net of working capital advance (note 6)	$ 265	$ 373
Accounts receivable	198	242
Prepaid expenses	54	58
	517	673
Long-term investment (note 5)	103	103
Capital assets (notes 3 and 7)	619	665
	722	768
	$ 1,239	$ 1,441
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 290	$ 406
Deferred revenue	236	218
	526	624
Severance liability (note 8)	214	247
	740	871
Equity		
Contributed Equity (note 9)	62	62
Retained Earnings	437	508
	499	570
	$ 1,239	$ 1,441

The accompanying notes are an integral part of these financial statements.

INDUSTRIAL TECHNOLOGY CENTRE
An Agency of the
Special Operating Agencies Financing Authority
Province of Manitoba

Statement of Earnings, Comprehensive Income (Loss) and Retained Earnings

For the year ended March 31, 2010

(in thousands)	2010	2009
Revenue		
Province of Manitoba	$ 700	$ 750
Fee for service	1,831	1,953
Other	135	133
	2,666	2,836
Operating expenses		
Advertising and promotion	56	89
Amortization	169	139
Audit and legal	10	9
Bad debts	-	1
Building maintenance	63	55
Computer	51	47
Equipment	99	85
Fees and memberships	31	33
Insurance	43	41
Library	10	10
Office	56	68
Professional development	9	13
Project supplies and subcontract	131	95
Purchased services	5	8
Rent and property tax	329	321
Salaries and benefits	1,603	1,647
Travel	22	38
Utilities	50	51
	2,737	2,750
Net earnings (loss)	(71)	86
Retained earnings at beginning of period	508	422
Retained earnings at end of period	$ 437	$ 508

The accompanying notes are an integral part of these financial statements.

INDUSTRIAL TECHNOLOGY CENTRE

An Agency of the
Special Operating Agencies Financing Authority
Province of Manitoba

Statement of Cash Flow

For the year ended March 31, 2010

(in thousands)	2010	2009
Cash derived from (applied to):		
Operating activities		
Net earnings (loss)	($ 71)	$ 86
Items not involving cash		
Amortization	169	139
	98	225
Changes in non-cash working capital balances		
Accounts receivable	44	216
Due from Province of Manitoba	-	103
Prepaid expenses	4	(42)
Accounts payable and accrued liabilities	(116)	(231)
Deferred revenue	18	182
Severance liability	(33)	18
	15	471
Investing activities		
Long term investment	-	(103)
Acquisition of capital assets	(123)	(171)
	(123)	(274)
Net increase (decrease) in cash and cash equivalents	(108)	197
Cash and cash equivalents at beginning of period	373	176
Cash and cash equivalents at end of period	$ 265	$ 373
Represented by:		
Cash and bank	$ 94	$ 47
Funds on deposit with the Minister of Finance	171	326
	$ 265	$ 373
Interest revenue included in cash flow from operating activities	$ 1	$ 6

The accompanying notes are an integral part of these financial statements.

1. Nature of Organization

The Industrial Technology Centre (ITC) was established in 1979 under "Enterprise Manitoba", a joint Federal/Provincial cost-shared funding agreement. ITC was managed by the Manitoba Research Council until September 1992 when responsibility for ITC was transferred to the Economic Innovation & Technology Council (EITC). ITC was created as a technical resource for Manitoba industry and government and continues to provide a wide range of technical services to both the private and public sectors.

Effective April 1, 1996, ITC was designated as a Special Operating Agency under The Special Operating Agencies Financing Authority Act, Cap. S185, C.C.S.M., and operates under a charter approved by the Lieutenant Governor in Council. ITC operates as part of Manitoba Innovation, Energy and Mines under the general direction of the Deputy Minister.

ITC is financed through the Special Operating Agencies Financing Authority (SOAFA). SOAFA has the mandate to hold and acquire assets required for and resulting from Agency operations. It finances ITC through working capital advances. The financial framework allows the Agency to operate in a business-like manner, which is facilitated by SOA status.

A Management Agreement between SOAFA and the Minister of Innovation, Energy and Mines assigns responsibility to the Agency to manage and account for the Agency-related assets and operations on behalf of SOAFA.

An Economic Development Contribution Agreement between ITC and Manitoba Innovation, Energy and Mines defines expected public policy benefits generated from ITC's operations.

ITC has full delegated authority for all administrative, financial and operational matters. This delegation is subject to any limitations, restrictions, conditions and requirements imposed by legislation or by the Minister.

2. Change in Accounting Policies

New Accounting Policies

Section 3064 Goodwill and Intangible Assets
Effective April 1, 2009, the Agency adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3064 Goodwill and Intangible Assets and the updates to CICA Handbook section 1000 Financial Statement Concepts.

This guidance establishes updated standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

These changes did not have an impact on the Agency's financial statements for the year ended March 31, 2010.

Credit Risk and Fair Value of Financial Assets and Financial Liabilities
During 2009 the Financing Authority adopted the Emerging Issues Committee (EIC) 173 and amendments to Section 3855, Financial Instruments - Recognition and Measurement and 3862, Financial Instruments - Disclosures:

- Section 3855 – Effective Interest Method
- Section 3855 – Embedded Derivatives on Reclassification of Financial Assets
- Section 3855 – Impairment of Financial Assets
- Section 3862 – Fair Value and Liquidity Risk Disclosure

Due to the nature of the Agency's financial instruments, the adoption of these standards and amendments had no material impact on the financial position of the Agency.

Future Accounting Changes

Convergence with Public Sector Accounting Standards as issued by the Public Sector Accounting Board
Effective April 1, 2011 the Agency will be adopting Public Sector Accounting Standards issued by the Public Sector Accounting Board. The Agency is currently in the process of quantifying the impact these changes will have on its financial position.

3. Significant Accounting Policies

Basis of Reporting

The financial statements are prepared in accordance with Canadian generally accepted accounting principles.

Capital Assets

Capital assets are recorded at cost. Amortization, intended to write off the assets over their estimated useful lives, is recorded at the following annual rates and methods:

Furniture and fixtures	20% declining balance
Office and laboratory equipment	20% declining balance
Computer equipment and software	20% straight-line
Leasehold improvements	10% straight-line

Capital Disclosures

The Agency's capital consists of contributed equity and retained earnings provided from operations.

The Agency's capital management policy is to maintain sufficient capital to meet its objectives through its retained earnings by managing transfers of surplus funds to the Province of Manitoba; meet short-term capital needs with working capital advances from the Province of Manitoba; and meet long-term capital needs through long-term debt with the Province of Manitoba. There were no changes in the Agency's approach to capital management during the period.

The Agency is not subject to externally imposed capital requirements.

Government Assistance

Non-repayable government assistance relating to capital expenditures is reflected as a reduction of the cost of such assets.

Revenue Recognition

Province of Manitoba funding is recognized over the term for which it applies. Fees for service are recognized as the service is performed.

3. Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

4. Financial Instruments and Financial Risk Management

Financial assets and liabilities are initially recorded at fair value. Measurement in subsequent periods depends on the financial instrument's classification. Financial instruments are classified into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and other financial liabilities.

All financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

The financial assets and liabilities of the Agency are classified and measured as follows:

Financial Asset/Liability	Category	Subsequent Measurement
Cash and funds on deposit	Held for trading	Fair value
Long term investment	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost
Accrued liabilities	Other financial liabilities	Amortized cost

Amortized cost is determined using the effective interest rate method.

Gains and losses on financial instruments subsequently measured at amortized cost are recognized in the statement of earnings and retained earnings in the period the gain or loss occurs. Changes in fair value on financial instruments classified as held for trading are recognized in the statement of earnings and retained earnings for the current period. Changes in fair value on financial instruments classified as available for sale would be recorded in other comprehensive income until realized, at which time they recorded in the statement of earnings and retained earnings.

4. Financial Instruments and Financial Risk Management (continued)

Fair Value of Financial Instruments

The fair values of accounts receivable, accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity. The fair value of the Agency's financial instruments has been determined based on quoted prices from active markets.

Financial Risk Management – Overview

The Agency has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; market risk; interest risk; and foreign currency risk.

Credit Risk
Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Agency to credit risk consist principally of cash and term deposits and accounts receivable.

The maximum exposure of the Agency to credit risk at March 31, 2010 is:

Cash and funds on deposit	$ 265
Accounts receivable	198
Long-term investment	103
	$ 566

Cash and funds on deposits: The Agency is not exposed to significant credit risk as the cash and term deposits are primarily held by the Minister of Finance.

Accounts receivable: The Agency is not exposed to significant credit risk as payment in full is typically collected when it is due. The Agency establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off.

There was no change in the allowance for doubtful accounts during the year and the balance at March 31, 2010 was $20.

Liquidity Risk
Liquidity risk is the risk that the Agency will not be able to meet its financial obligations as they come due.

4. Financial Instruments and Financial Risk Management (continued)

The Agency manages liquidity risk by maintaining adequate cash balances and by review from the Province of Manitoba to ensure adequate funding will be received to meet the obligations.

Market Risk
Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, which affect the Agency's income or the fair values of its financial instruments. The significant market risks the Agency is exposed to are interest rate risk and foreign currency risk.

Interest Rate Risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to funds on deposit and the long-term investment.

The interest rate risk on funds on deposit and the long-term investment is considered to be low because of their short-term nature.

Foreign Currency Risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Agency is not exposed to significant foreign currency risk as it does not have any significant financial instruments denominated in foreign currency.

5. Long-term Investment

The Province of Manitoba accepted responsibility for the vacation entitlements earned by the employees of the Agency prior to its designation as SOA, and the severance pay benefits accumulated to March 31, 1998 for certain of the Agency's employees. Accordingly, the Agency recorded a receivable of $103 from the Province of Manitoba for these accumulated benefits. Effective March 31, 2009 the Province of Manitoba had agreed to pay the receivable balances related to the funding for these liabilities and has placed the amount of $103 into an interest bearing trust account to be held on the Agency's behalf until the cash is required to discharge the related liabilities.

6. Working Capital Advance

The Agency has an authorized line of working capital advances up to a maximum of $300. As at March 31, 2010 working capital advances were nil (nil in 2009). The line bears interest at prime less 1% and is not secured by specific assets.

(In Thousands)

7. Capital Assets

	2010		2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture and fixtures	$ 16	$ 8	$ 16	$ 7
Office and laboratory equipment	1,314	875	1,192	780
Computer equipment and software	681	625	680	572
Leasehold improvements	200	84	200	64
	$ 2,211	$ 1,592	$ 2,088	$ 1,423
Net book value	$ 619		$ 665	

8. Severance Liability

Effective April 1, 1998, the Agency began recording accumulated severance pay benefits for its employees. The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. The Industrial Technology Centre's actuarially determined net liability for accounting purposes as at March 31, 2010 was $214 ($247 in 2009), with an actuarial gain or loss being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2010 present value of the accrued severance benefit obligation were:

Annual rate of return	
Inflation component	2.50%
Real rate of return	4.00%
	6.50%
Assumed salary increase rates	
Annual productivity increase	0.75%
Annual general salary increase	3.50%
	4.25%

(In Thousands)

9. Contributed Equity

A Transfer Agreement between the Special Operating Agencies Financing Authority (SOAFA) and Manitoba effected a transfer of capital assets, current assets and current liabilities from Manitoba to SOAFA as at March 31, 1996. Net assets in the amount of $124 were transferred to continue the operations of ITC. ITC has repaid SOAFA the debt portion of $62 (50% of the value of the net assets) and recorded the remaining $62 (50% of the value of the net assets) as Manitoba's equity in SOAFA as related to the Agency's operations.

10. Commitment

The Agency has entered into a lease agreement for the rental of a building at Smartpark, with space of 24,118 square feet. Of this space, ITC occupies 19,032 square feet, with 5,086 square feet being sublet to the Composites Innovation Centre (CIC). Occupancy costs pertaining to the CIC will be recoverable from them. This ten-year lease requires lease payments as follows:

	ITC	CIC	Total
FY 2010/11 - FY 2014/15 (per year)	$189	$51	$240
FY 2015/16 (7 months)	110	30	140

11. Pension Benefits

In accordance with the provisions of the Civil Service Superannuation Act, employees of the Centre are eligible for pension benefits under the Civil Service Superannuation Fund. This pension plan is a defined benefit plan, which requires the Centre to contribute an amount equal to the employee's contribution to the Fund for current services. The amount contributed and expense by the Centre for 2010 is $81 ($78 in 2009).

The Centre has no further liability associated with the annual cost of pension benefits earned by the Centre's employees.

12. Related Party Transactions

The Agency is related in terms of common ownership to all Province of Manitoba created departments, agencies and Crown corporations. The Agency enters into transactions with these entities in the normal course of business.

The accompanying financial statements are the responsibility of the Management of Manitoba Education, Research and Learning Information Networks (MERLIN) and have been prepared in accordance with Canadian generally accepted accounting principles. In Management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating Management's best judgement regarding all necessary estimates and all other data available up to May 19, 2010.

Management maintains internal controls to properly safeguard MERLIN's assets. These controls also provide reasonable assurance that the books and records from which financial statements are derived accurately reflect all transactions, and that established policies and procedures are followed.

The Auditors' responsibility is to express an independent opinion on whether the financial statements of MERLIN are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditors' report outlines the scope of the audit examination and provides an audit opinion.

On behalf of Management,

Greg Baylis	David Olafson
Chief Operating Officer	*Controller*

Manitoba Education, Research and Learning Information Networks (MERLIN)

May 19, 2010

BDO

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Auditors' Report

To the Special Operating Agencies Financing Authority:

We have audited the balance sheet of **MANITOBA EDUCATION, RESEARCH AND LEARNING INFORMATION NETWORKS**, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2010 and the statements of income, comprehensive income and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba
May 19, 2010

MANITOBA EDUCATION, RESEARCH AND LEARNING INFORMATION NETWORKS

An Agency of the Special Operating Agencies Financing Authority

Province of Manitoba

Balance Sheet

(In Thousands)

March 31		2010		2009
Assets				
Current Assets				
Cash and funds on deposit	$	469	$	371
Accounts receivable		1,260		622
Prepaid expense		435		289
		2,164		1,282
Long term investment (Note 4)		47		47
Capital assets (Note 5)		450		622
	$	2,661	$	1,951
Liabilities and Equity				
Current Liabilities				
Accounts payable and accrued expenses	$	359	$	484
Unearned revenue		1,902		960
		2,261		1,444
Severance pay liability (Note 8)		98		84
		2,359		1,528
Commitments (Note 10)				
Retained earnings (Page 4)		302		423
	$	2,661	$	1,951

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

MANITOBA EDUCATION, RESEARCH AND LEARNING INFORMATION NETWORKS

An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Statement of Income, Comprehensive Income and Retained Earnings
(In Thousands)

For the year ended March 31		2010		2009
Revenue				
Province of Manitoba - Innovation, Energy and Mines Funding	$	**396**	$	446
Fee for goods and services		**3,284**		3,207
Other		**4**		14
Community Connections		**783**		783
		4,467		4,450
Expenses				
Advertising and promotion		**24**		47
Amortization		**174**		147
Audit and legal fees		**10**		9
Communication		**349**		197
Community Connections		**757**		759
Cost of purchases for resale		**1,690**		1,653
Equipment repair and maintenance		**168**		160
Occupancy		**59**		60
Office and miscellaneous		**26**		33
Professional development		**43**		58
Purchased services		**33**		45
Salaries and benefits		**1,217**		1,105
Travel		**38**		46
		4,588		4,319
Net income (loss) and comprehensive income for the year		**(121)**		131
Retained earnings, beginning of year		**423**		292
Retained earnings, end of year (Page 3)	$	**302**	$	423

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

MANITOBA EDUCATION, RESEARCH AND LEARNING INFORMATION NETWORKS

An Agency of the Special Operating Agencies Financing Authority

Province of Manitoba

Statement of Cash Flows

(In Thousands)

For the year ended March 31	2010	2009
Cash Flows from Operating Activities		
Net income (loss) for the year	$ (121)	$ 131
Adjustment for		
Amortization	174	147
	53	278
Changes in non-cash working capital		
Accounts receivable	(638)	(405)
Prepaid expenses	(146)	(15)
Receivable from the Province of Manitoba	-	47
Accounts payable	(125)	270
Unearned revenue	942	(68)
	33	(171)
Severance liability	14	9
	100	116
Cash Flows from Investing Activities		
Capital assets	(2)	(302)
Purchase of long term investment	-	(47)
	(2)	(349)
Net increase (decrease) in cash and cash equivalents	98	(233)
Cash and cash equivalents, beginning of year	371	604
Cash and cash equivalents, end of year	$ 469	$ 371

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Summary of Significant Accounting Policies

For the year ended March 31, 2010

Basis of Reporting

The financial statements of the Agency are presented in accordance with Canadian generally accepted accounting principles.

Capital Assets

Capital assets are recorded at cost and are amortized annually on a straight-line basis as follows:

Computer hardware	20%
Computer software	20%
Equipment and furniture	20%
Leaseholds	20%

In the year of acquisition, amortization is calculated at one-half the rate indicated.

Revenue Recognition

Provincial funding is recognized over the term for which it applies.

Fees for service are recognized as the service is performed or ownership of goods has been transferred. Special projects are billed based on the terms of the contract.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Capital Management

The Agency's capital consists of retained earnings provided from operations.

The Agency's capital management policy is to maintain sufficient capital to meet its objectives through its retained earnings by managing transfers of surplus funds to the Province of Manitoba; meet short-term capital needs with working capital advances from the Province of Manitoba; and meet long-term capital needs through long-term debt with the Province of Manitoba. There were no changes in the Agency's approach to capital management during the period.

The Agency is not subject to externally imposed capital requirements.

1. Nature of Organization

Effective April 1, 1995, Manitoba Education, Research and Learning Information Networks (MERLIN) was designated as a Special Operating Agency pursuant to The Special Operating Agencies Financing Authority Act, Cap S185, C.C.S.M. and operates under a charter approved by the Lieutenant Governor in Council. Effective September 25, 2002, the Agency operates as part of Innovation, Energy and Mines under the general direction of the Deputy Minister.

The Agency is financed through the Special Operating Agencies Financing Authority (SOAFA). SOAFA has the mandate to hold and acquire assets required for and resulting from Agency operations. It finances the Agency through repayable loans and working capital advances. This financial framework enables the Agency to operate in a business like manner according to public policy expectations.

A Management Agreement between SOAFA and the Minister of Innovation, Energy and Mines assigns responsibility to the Agency to manage and account for the Agency related assets and operations on behalf of SOAFA.

The Agency remains bound by relevant legislation and regulations. It is also bound by administrative policy except where specific exemptions have been provided in its charter in order to meet business objectives.

The Agency is economically dependent on the Province of Manitoba as it derives much of its revenue and all of its financing requirements from the Province.

2. Change in Accounting Policies

Section 3064, Goodwill and Intangible Assets

Effective April 1, 2009, the Agency adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3064 Goodwill and Intangible Assets and the updates to CICA Handbook section 1000 Financial Statement Concepts.

This guidance establishes updated standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

These changes did not have an impact on the Agency's financial statements for the year ended March 31, 2010.

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

During 2009 the Agency adopted the Emerging Issues Committee (EIC) 173 and amendments to Section 3855, Financial Instruments - Recognition and Measurement and 3862, Financial Instruments - Disclosures:

Section 3855 - Effective Interest Method

Section 3855 - Embedded Derivatives on Reclassification of Financial Assets

Section 3855 - Impairment of Financial Assets

Section 3862 - Fair Value and Liquidity Risk Disclosure

Due to the nature of the Agency's financial instruments, the adoption of these standards and amendments had no material impact on the financial position of the Agency.

Convergence with Public Sector Accounting Standards as issued by the Public Sector Accounting Board

Effective April 1, 2011 the Agency will be adopting Public Sector Accounting Standards issued by the Public Sector Accounting Board. The Agency is currently in the process of quantifying the impact these changes will have on its financial position.

3. Financial Instruments and Financial Risk Management

Financial assets and liabilities are initially recorded at fair value. Measurement in subsequent periods depends on the financial instrument's classification. Financial instruments are classified into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and other financial liabilities. All financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

The financial assets and liabilities of the Agency are classified and measured as follows:

Financial Asset/Liability	**Category**	**Subsequent Measurement**
Cash and funds on deposit and long term investment	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued expenses	Other financial liabilities	Amortized cost

Amortized cost is determined using the effective interest rate method.

Gains and losses on financial instruments subsequently measured at amortized cost are recognized in the statement of earnings and retained earnings in the period the gain or loss occurs. Changes in fair value on financial instruments classified as held for trading are recognized in the statement of earnings and retained earnings for the current period. Changes in fair value on financial instruments classified as available for sale would be recorded in other comprehensive income until realized, at which time they recorded in the statement of earnings and retained earnings.

3. Financial Instruments and Financial Risk Management (continued)

Fair value of financial instruments

The fair values of accounts receivable, accounts payable and accrued expenses approximate their carrying values due to their short-term maturity. The fair value of the Agency's financial instruments has been determined based on quoted prices from active markets.

Financial risk management - overview

The Agency has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; market risk; interest risk; and foreign currency risk.

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Agency to credit risk consist principally of cash and funds on deposit, trust account and accounts receivable.

The maximum exposure of the Agency to credit risk at March 31, 2010 is:

Cash and funds on deposit	$ 469
Accounts receivable	1,260
Long term investment	47
Maximum exposure to credit risk	$ 1,776

Cash and funds on deposits and long term investment: The Agency is not exposed to significant credit risk as the cash and term deposits are primarily held by the Minister of Finance.

Accounts receivable: The Agency is not exposed to significant credit risk as payment in full is typically collected when it is due. The Agency establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off.

The change in the allowance for doubtful accounts during the year was as follows:

Balance, beginning of year	$ 21
Amounts written off in the year	(2)
Balance, end of year	$ 19

3. Financial Instruments and Financial Risk Management (continued)

Liquidity risk

Liquidity risk is the risk that the Agency will not be able to meet its financial obligations as they come due.

The Agency manages liquidity risk by maintaining adequate cash balances and by review from the Province of Manitoba to ensure adequate funding will be received to meet the obligations.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Agency's income or the fair values of its financial instruments. The significant market risks the Agency is exposed to are interest rate risk and foreign currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to funds on deposit.

The interest rate risk on funds on deposit (including cash and long-term investments) is considered to be low because of their short-term nature (less than 1 year).

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Agency is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in foreign currency.

4. Long Term Investment

The Province accepted responsibility for the vacation entitlements earned by the employees of the Agency prior to its designation as a Special Operating Agency, and the severance pay benefits accumulated to March 31, 1998 for certain of the Agency's employees. Accordingly, the Agency recorded a receivable of $47 from the Province of Manitoba for these accumulated benefits. Effective March 31, 2009 the Province of Manitoba paid the receivable balances related to the funding for these liabilities and has placed the amount of $47 into an interest bearing trust account to be held on the Agency's behalf until the cash is required to discharge the related liabilities.

(in Thousands)

5. Capital Assets

	2010 Cost	2010 Accumulated Amortization	2009 Cost	2009 Accumulated Amortization
Computer hardware	$ 733	$ 352	$ 773	$ 249
Computer software	92	49	92	31
Equipment and furniture	39	23	39	16
Leaseholds	20	10	20	6
	$ 884	$ 434	$ 924	$ 302
Cost less accumulated amortization		$ 450		$ 622

6. Working Capital Advances

These advances are provided to the Agency through the Special Operating Agencies Financing Authority pursuant to the Management Agreement. The Agency has an authorized line of working capital advances of $2.0 million of which $NIL was used at March 31, 2010 (2009 - $NIL).

During the year, the Agency incurred interest charges of $NIL (2009 - $NIL).

7. Accrued Vacation Entitlements

The Agency follows the policy of the Department of Finance to recognize accumulated vacation entitlement liability. The liability is offset by a receivable from the Province of $19, which was the balance as at March 31, 1998. Any subsequent changes to the entitlement are reflected as a current year expense to the Agency. At March 31, 2010, the accrued vacation entitlement was $123 (2009 - $113), which is included in accounts payable and accrued expenses on the balance sheet.

(in Thousands)

8. Severance Pay Liability

Effective April 1, 1998, the Agency began recording accumulated severance pay benefits for its employees. The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from that expected and/or because of changes in actuarial assumptions used.

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. The Agency's actuarially determined net liability for accounting purposes as at March 31, 2010 was $98 (2009 - $84), with the actuarial loss of $18 being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2010 present value of the accrued severance benefit obligation were:

Annual rate of return	
inflation component	2.50%
real rate of return	4.00%
	6.50%
Annual salary increase rates	
annual productivity increase	0.75%
annual general salary increase	3.50%
	4.25%

9. Revenue - Manitoba Education

The Agency is responsible for the delivery of distance education and technology programs formerly provided through Manitoba Education. The Agency receives a fee from the Department, established annually and paid quarterly, in exchange for delivery of these services.

10. Commitments

The Agency leases office space under a long-term lease which expires March 31, 2013. The future minimum payments required under this lease are:

2011	$	39
2012		39
2013		39

11. Pension Benefits

Employees of the Agency are eligible for pension benefits in accordance with the provisions of the Civil Service Superannuation Act (CSSA), administered by the Civil Service Superannuation Board (CSSB). The CSSA established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the Government, including the Manitoba Education, Research & Learning Information Network, through the Civil Service Superannuation Fund (CSSF).

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the Agency transferred to the Province the pension liability for its employees. Commencing April 1, 2001, the Agency was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for 2010 was $64 (2009 - $48). Under this agreement, the Agency has no further pension liability.

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Auditors' Report

To The Special Operating Agencies Financing Authority:

We have audited the balance sheet of **THE MANITOBA SECURITIES COMMISSION**, An Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2010 and the statements of income and comprehensive income, retained earnings, reserve fund and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba
May 18, 2010

THE MANITOBA SECURITIES COMMISSION
Balance Sheet
(in thousands)

March 31		2010		2009
Assets				
Current Assets				
Cash and short-term deposits (Note 4)	**$**	**8,978**	$	7,813
Accounts receivable (Note 5)		**15**		19
Prepaid expenses		**45**		44
		9,038		7,876
Restricted short-term deposits (Note 6)		**750**		750
Long-term investments (Note 7)		**269**		269
Capital assets (Note 8)		**63**		113
	$	**10,120**	$	9,008
Liabilities and Equity				
Current Liabilities				
Accounts payable and accrued liabilities	**$**	**56**	$	67
Accrued vacation entitlements (Note 9)		**227**		239
Accrued salaries and benefits		**31**		21
		314		327
Severance pay liability (Note 10)		**251**		215
		565		542
Commitments and contingency (Notes 11 and 14)				
Reserve Fund (Note 12) (Page 5)		**750**		750
Retained earnings (Page 5)		**8,805**		7,716
		9,555		8,466
	$	**10,120**	$	9,008

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

THE MANITOBA SECURITIES COMMISSION
Statement of Income and Comprehensive Income
(in thousands)

For the year ended March 31		**2010**		2009
Revenue				
Fees	**$**	**13,121**	$	12,751
Interest		**11**		146
Miscellaneous		**1**		1
		13,133		12,898
Expenses				
Salaries and benefits		**2,836**		2,759
Staff development and professional dues		**26**		39
Premises		**245**		244
Contract services		**292**		262
Professional services		**135**		122
CSA initiatives*		**89**		82
Travel		**67**		75
Telecommunications		**60**		57
Office materials and supplies		**79**		143
Education/Information initiatives		**198**		81
Amortization - capital assets		**52**		68
Research resources		**90**		29
Miscellaneous		**25**		19
		4,194		3,980
Net income and comprehensive income for the year (Page 5)	**$**	**8,939**	$	8,918

* Canadian Securities Administrators

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

THE MANITOBA SECURITIES COMMISSION
Statement of Retained Earnings
(in thousands)

For the year ended March 31		2010		2009
Retained earnings, beginning of year	**$**	**7,716**	$	6,098
Net income and comprehensive income for the year (Page 4)		**8,939**		8,918
Disposition of surplus operating funds (Note 13)		**(7,850)**		(7,300)
Retained earnings, end of year (Page 3)	**$**	**8,805**	$	7,716

Statement of Reserve Fund
(in thousands)

For the year ended March 31		2010		2009
Balance, beginning of year	**$**	**750**	$	750
Allocation from (to) retained earnings		**-**		-
Balance, end of year (Page 3)	**$**	**750**	$	750

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

THE MANITOBA SECURITIES COMMISSION
Statement of Cash Flows
(in thousands)

For the year ended March 31		2010		2009
Cash Flows from Operating Activities				
Net income and comprehensive income for the year	**$**	**8,939**	$	8,918
Adjustment for				
Amortization - capital assets		**52**		68
		8,991		8,986
Changes in non-cash working capital				
Accounts receivable		**4**		11
Receivable from the Province of Manitoba		**-**		269
Prepaid expenses		**(1)**		(15)
Accounts payable and accrued liabilities		**(11)**		(8)
Accrued vacation entitlements		**(12)**		1
Accrued salaries and benefits		**10**		12
		(10)		270
Severance pay liability		**36**		4
		9,017		9,260
Cash Flows from Investing Activities				
Acquisition of capital assets		**(2)**		(5)
Purchase of long-term investments		**-**		(269)
		(2)		(274)
Cash Flows from Financing Activities				
Disposition of surplus operating funds		**(7,850)**		(7,300)
Net increase in cash and cash equivalents		**1,165**		1,686
Cash and cash equivalents, beginning of year		**7,813**		6,127
Cash and cash equivalents, end of year	**$**	**8,978**	$	7,813
Supplementary information:				
Interest received	**$**	**16**	$	168

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

THE MANITOBA SECURITIES COMMISSION
Summary of Significant Accounting Policies

For the year ended March 31, 2010

Basis of Reporting

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Capital Assets

Capital assets are recorded at cost and amortized over their estimated lives as follows:

Office equipment	20% straight-line
Furniture and fixtures	20% straight-line
Leasehold improvements	10% straight-line
Computer hardware	20% straight-line
Computer software	20% straight-line

The half-year rule is used in the year of acquisition.

Revenue Recognition

Fees and cost recoveries are recognized when received. Investment income is recorded in accordance with terms of the related investment.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

For the year ended March 31, 2010

1. Nature of Organization

Effective April 1, 1999 the Lieutenant Governor in Council designated the The Manitoba Securities Commission as a special operating agency under The Special Operating Agencies Financing Authority Act (C.C.S.M. c.S185) by Order in Council No. 144/1999. The Order also gave approval to the Special Operating Agencies Financing Authority and the Minister of Consumer and Corporate Affairs, being the Minister responsible for the Commission, at that time, to enter into a management agreement with respect to the Commission.

The Management Agreement between the Financing Authority and the Minister of Consumer and Corporate Affairs assigns responsibility to manage the assets transferred to The Manitoba Securities Commission in delivering regulated services to clients.

2. Change in Accounting Policies

Effective April 1, 2009, the Commission adopted the following new handbook sections issued by the Canadian Institute of Chartered Accountants (CICA):

Section 3064 Goodwill and Intangible Assets

Effective April 1, 2009, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3064 Goodwill and Intangible Assets and the updates to the CICA Handbook section 1000 Financial Statement Concepts.

These changes did not have an impact on the Commission's financial statements for the year ended March 31, 2010.

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

During 2009 the agency adopted the Emerging Issues Committee (EIC) 173 and amendments to Section 3855, Financial Instruments - Recognition and Measurement and 3862, Financial Instruments - Disclosures:
- Section 3855 - Effective Interest Method
- Section 3855 - Embedded Derivatives on Reclassification of Financial Assets
- Section 3855 - Impairment of Financial Assets
- Section 3862 - Fair Value and Liquidity Risk Disclosure

Due to the nature of the Commission's financial instruments, the adoption of these standards and amendments had no material impact on the financial position of the Commission.

Future Accounting Changes

Effective April 1, 2011 the Commission will be adopting Public Sector Accounting Standards by the Public Sector Accounting Board. The Commission is currently in the process of quantifying the impact these changes will have on its financial position.

3. Financial Instruments and Financial Risk Management

Financial assets and liabilities are initially recorded at fair value. Measurement in subsequent periods depends on the financial instrument's classification. Financial instruments are classified into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and other financial liabilities. All financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost. Amortized cost is determined using the effective interest rate method.

Class of Financial Instruments	Held for Trading	Loans and Receivables	Other Financial Liabilities
Cash and short-term deposits	$ 8,978	$ -	$ -
Long-term investments	269	-	-
Restricted short-term deposits	750	-	-
Accounts receivable	-	15	-
Accounts payable and accrued liabilities	-	-	56
Accrued salaries and benefits	-	-	31

Gains and losses on financial instruments subsequently measured at amortized cost are recognized in the statement of earnings and retained earnings in the period the gain or loss occurs. Changes in fair value on financial instruments classified as held for trading are recognized in the statement of earnings and retained earnings for the current period. Changes in fair value on financial instruments classified as available for sale would be recorded in other comprehensive income until realized, at which time they recorded in the statement of earnings and retained earnings.

<u>Fair value of financial instruments</u>

The fair values of accounts receivable, accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity.

<u>Financial risk management - overview</u>

The Commission has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; market risk; interest risk; and foreign currency risk.

<u>Credit risk</u>

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Commission to credit risk consist principally of cash and short-term deposits and accounts receivable.

3. Financial Instruments and Financial Risk Management (continued)

The maximum exposure of the Agency to credit risk at March 31, 2010 is:

Cash, short-term deposits and long-term investments	$	9,997
Accounts receivable		15
	$	10,012

Cash, short-term deposits and long-term investments: The Commission is not exposed to significant credit risk as the cash and term deposits are primarily held by the Minister of Finance.

Accounts receivable: The Commission is not exposed to significant credit risk as receivables consist of accrued interest owing from the Province of Manitoba and trade amounts owed primarily from other entities within the Government of the Province of Manitoba and payment in full is typically collected when it is due. The Commission establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off.

The change in the allowance for doubtful accounts during the year was as follows:

Balance, beginning of the year	$	Nil
Provision for receivable impairment		-
Amounts written off		-
Balance, end of the year	$	Nil

Liquidity risk

Liquidity risk is the risk that the Commission will not be able to meet its financial obligations as they come due.

The Commission manages liquidity risk by maintaining adequate cash balances and by review from the Province of Manitoba to ensure adequate funding will be received to meet the obligations.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Commission's income or the fair values of its financial instruments. The significant market risks the Commission is exposed to are interest rate risk and foreign currency risk.

3. Financial Instruments and Financial Risk Management (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to funds on deposit.

The interest rate risk on funds on deposit (cash, short and long-term deposits) is considered to be low because of their short-term nature (less than 1 year).

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Commission is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in foreign currency.

4. Cash and Short-term Deposits

The Commission invests all surplus cash in short-term deposits with the Province of Manitoba, which are made up of thirty, sixty and ninety day callable term deposits.

5. Accounts Receivable

	2010	2009
Accrued interest	**$ 3**	$ 8
Trade	**12**	11
	$ 15	$ 19

6. Restricted Short-term Deposits

The Commission maintains separate short-term deposits with the Province of Manitoba to fund expenses which may arise with respect to the Reserve Fund (Note 12).

(in thousands)

7. Long-term Investments

Long-term investments are valued at cost and represent long-term investments held with the Province of Manitoba in a trust account earning a market rate of interest. The investments are to be utilized to repay employee vacation and severance balances which existed at the time the Manitoba Securities Commission became a Special operating agency. The funds can only be used with the consent of the Province of Manitoba.

8. Capital Assets

	2010		2009	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Office equipment	**$ 40**	**$ 34**	$ 40	$ 31
Furniture and fixtures	**151**	**142**	151	138
Leasehold improvements	**41**	**11**	41	7
Computer hardware	**140**	**131**	139	127
Computer software	**863**	**854**	863	818
	$ 1,235	**$ 1,172**	$ 1,234	$ 1,121
Cost less accumulated amortization		**$ 63**		$ 113

9. Accrued Vacation Entitlements

The Commission follows the policy of the Department of Finance to recognize the vacation entitlement liability accumulated to March 31, 1999. The liability at this date was offset by a receivable from the Province and was $117 as at March 31, 1999. Any subsequent changes to the entitlement are reflected as a current year expense to the Commission. The accrued vacation entitlement was $227 as of March 31, 2010 (2009 - $239).

(in thousands)

10. Severance Pay Liability

Effective April 1, 1999, the Commission began recording accumulated severance pay benefits for its employees. The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when the actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. The Commission's actuarially determined net liability for accounting purposes as at March 31, 2010 was $251 (2009 - $215). Commencing in the 2009 fiscal year, the accumulated actuarial loss of $27 based on the actuarial reports will be amortized over the 15 year expected remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2010 present value of the accrued severance benefit obligation were:

Annual rate of return	
Inflation component	2.50 %
Real rate of return	4.00 %
	6.50 %
Assumed salary increase rate	
Annual productivity increase	0.75 %
Annual general salary increase	3.50 %
	4.25 %

11. Lease Commitment

The Commission has entered into a lease agreement commencing October 1, 2005 for rental of facilities at 400 St. Mary Avenue, which expires September 30, 2020. Occupancy charges for the year ended March 31, 2010 were $245. Minimum annual lease payments total $257 per year for each of the next five years.

12. Reserve Fund

The Commission has established a Reserve Fund to finance extraordinary expenses for isolated and unanticipated purposes that are regulatory in nature and for changes in market activity that has a negative effect on revenues. The amount of the Reserve Fund has remained unchanged in the current year.

13. Disposition of Surplus Operating Funds

The disposition of surplus operating funds consists of payments made to the Consolidated Revenue Fund of the Province of Manitoba according to Treasury Board Directives.

14. Contingency

The Commission has been named as defendant in one statement of claim. At the time of preparation of these financial statements, the outcome of these claims were undeterminable. The cost of a future settlement, if any, will be reflected as an expense in the year paid.

15. Pension Benefits

Employees of The Manitoba Securities Commission are eligible for pension benefits in accordance with the provisions of the Civil Service Superannuation Act (CSSA), administered by the Civil Service Superannuation Board (CSSB). The CSSA established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the Government, including the Manitoba Securities Commission, through the Civil Service Superannuation Fund (CSSF).

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, The Manitoba Securities Commission transferred to the Province the pension liability for its employees.

Commencing April 1, 2001, The Manitoba Securities Commission was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for 2010 was $145 (2009 - $95). Under this Agreement, the Manitoba Securities Commission has no further pension liability.

16. Working Capital Advances

These advances are provided to the Commission through the Special Operating Agencies Financing Authority pursuant to the Management Agreement. The Commission has an authorized line of working capital advances of $500,000 which were unutilized at March 31, 2010 (2009 - $Nil).

The Commission incurred no interest charges during the year (2009 - $Nil).

17. Capital Disclosures

The Commission's capital consists of its reserve fund and retained earnings.

The Commission's capital management policy is to maintain sufficient capital to meet its objectives through its retained earnings by managing transfers of surplus funds to the Province of Manitoba; meet short-term capital needs with working capital advances from the Province of Manitoba; and meet long-term capital needs through long-term debt with the Province of Manitoba. There were no changes in the Commission's approach to capital management during the period.

The Commission is not subject to externally imposed capital requirements.

THE MANITOBA SECURITIES COMMISSION
Schedule of Public Sector Compensation Disclosure
(in thousands)

For the year ended March 31, 2010

Employee	Title	Compensation
Don Murray	Chairman and CEO	$ **141**
Doug Brown	Director and Secretary to the Commission	**133**
Steven Gingera	Assistant Legal Counsel	**129**
Chris Besko	Assistant Legal Counsel	**129**
Kim Laycock	Assistant Legal Counsel	**129**
Bob Bouchard	Director and CAO	**103**
William Baluk	Registrar	**91**
Marlene Nemes	Controller	**89**
Wayne Bridgeman	Senior Analyst	**79**
Paula White	Senior Compliance Officer	**81**
Jason Roy	Senior Investigator	**74**
Ainsley Cunningham	Information Officer	**70**
Isilda Tavares	Registration Officer	**62**
Patrick Weeks	Analyst	**63**
Terry Kirkham	Investigator - Real Estate	**64**
Leonard Terlinski	Investigator	**59**
Liz Klippenstein	Programmer Analyst	**56**
Timothy Tapley	Investigator	**66**
Carla L Buchanan	Compliance Auditor	**66**

The Public Sector Compensation Disclosure Act requires all publicly funded bodies to disclose compensation to any employee or board member when such compensation exceeds $50 per annum.

OFFICE OF THE
AUDITOR GENERAL
MANITOBA

AUDITORS' REPORT

To the Legislative Assembly of Manitoba
To the Manitoba Text Book Bureau
To the Special Operating Agencies Financing Authority

We have audited the balance sheet of the Manitoba Text Book Bureau, an agency of the Special Operating Agencies Financing Authority as at March 31, 2010, and the statements of income, comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Bureau's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bureau as at March 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Office of the Auditor General

Office of the Auditor General

Winnipeg, Manitoba
May 17, 2010

500 - 330 Portage Avenue Winnipeg, Manitoba R3C 0C4 office: (204) 945-3790 fax: (204) 945-2169
www.oag.mb.ca

Manitoba Text Book Bureau
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Balance Sheet

(in thousands)

March 31	**2010**	2009
Assets		
Current		
Cash	**$ 5**	$ 5
Accounts receivable	**649**	669
Inventory	**2,361**	1,952
Prepaid expenses	**51**	11
	3,066	2,637
Long-term investment (Note 5)	**64**	64
Capital assets (Note 6)	**35**	51
Intangible assets (Note 7)	**43**	0
	$ 3,208	$ 2,752
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 494**	$ 478
Interest payable – Province of Manitoba	**2**	4
Customer deposit accounts	**73**	100
Working capital advance (Note 8)	**1,804**	1,375
	2,373	1,957
Accrued severance liability (Note 9)	**52**	51
	2,425	2,008
Equity		
Contributed equity (Note 10)	**550**	550
Retained earnings	**233**	194
	783	744
	$ 3,208	$ 2,752

See accompanying notes to the financial statements.

Manitoba Text Book Bureau
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Statement of Income, Comprehensive Income and Retained Earnings

(in thousands)

Year Ended March 31	**2010**	2009
Sales	**$ 7,991**	$ 7,347
Cost of goods sold		
Inventory, beginning of year	**1,952**	1,893
Purchases	**7,352**	6,336
Transportation in	**29**	30
Transportation out	**101**	95
	9,434	8,354
Inventory, end of year	**2,361**	1,952
Cost of goods sold	**7,073**	6,402
Gross profit	**918**	945
General and administrative expenses		
Amortization – capital and intangible assets	**21**	24
Bad debts	**18**	31
Computer expense	**53**	53
Employee benefits	**57**	57
Interest	**19**	35
Marketing	**6**	7
Office	**19**	22
Office occupancy	**36**	37
Postage	**3**	3
Professional Services	**13**	12
Salaries	**327**	350
Telephone	**8**	8
Training	**2**	2
Travel	**7**	11
Warehouse occupancy	**89**	89
Warehouse service	**201**	201
	879	942
Net income and comprehensive income	**$ 39**	$ 3

Retained earnings, beginning of year	**$ 194**	$ 191
Net income and comprehensive income	**39**	3
Retained earnings, end of year	**$ 233**	$ 194

See accompanying notes to the financial statements.

Manitoba Text Book Bureau
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Statement of Cash Flows

(in thousands)

Year Ended March 31	**2010**	2009
Increase (decrease) in cash		
Operating		
Net income and comprehensive income	**$ 39**	$ 3
Amortization – capital and intangible assets	**21**	24
	60	27
Changes in		
Accounts receivable	**20**	(102)
Inventory	**(409)**	(59)
Receivable from Province of Manitoba	**-**	64
Prepaid expenses	**(40)**	(5)
Long-term investments	**-**	(64)
Accounts payable and accrued liabilities	**16**	51
Interest Payable – Province of Manitoba	**(2)**	-
Customer deposit accounts	**(27)**	(17)
Accrued severance liability	**1**	4
	(381)	(101)
Investing		
Acquisition of capital assets	**-**	(2)
Acquisition of intangible assets	**(48)**	-
	(48)	(2)
Financing		
Receipt of working capital advance	**429**	103
Net increase (decrease) in cash	**-**	-
Cash, beginning of year	**5**	5
Cash, end of year	**$ 5**	$ 5

See accompanying notes to the financial statements.

Manitoba Text Book Bureau
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Notes to the Financial Statements

(in thousands)
For the year ended March 31, 2010

1. Nature of operations

In 1931, the Manitoba Text Book Bureau (MTBB) was created as a branch of the Department of Education. It was established to achieve economies of scale and reduce the cost of learning resources for schools in Manitoba.

Effective April 1, 1996, the MTBB was designated as a Special Operating Agency under The Special Operating Agencies Financing Authority Act, Chapter S 185, C.C.S.M. and operates under a charter approved by the Lieutenant-Governor in Council.

The MTBB is financed through the Special Operating Agencies Financing Authority (SOAFA). SOAFA has the mandate to hold and acquire assets required for and resulting from Agency operations. It finances the MTBB through working capital advances. This financial framework enables the MTBB to operate in a business-like manner according to public policy expectations.

A Management Agreement between the Special Operating Agencies Financing Authority and the Minister of Education and Training, being the Minister responsible for the Agency at that time, assigns responsibility to the MTBB to manage and account for the MTBB related assets and operations on behalf of SOAFA.

The MTBB continues to be part of the Department of Education under the general direction of the Assistant Deputy Minister, School Programs Division, and ultimately the policy direction of the Deputy Minister and Minister.

The MTBB remains bound by relevant legislation and regulations. It is also bound by administrative policy except where specific exemptions have been provided in its charter in order to meet business objectives.

2. Change in Accounting Policies

New Accounting Policies

Section 3064 Goodwill and Intangible Assets

Effective April 1, 2009, the Financing Authority adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3064 Goodwill and Intangible Assets and the updates to CICA Handbook section 1000 Financial Statement Concepts.

This guidance establishes updated standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

2. Change in Accounting Policies (continued)

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

During 2009 the Agency adopted the Emerging Issues Committee (EIC) 173 and amendments to Section 3855, Financial Instruments - Recognition and Measurement and 3862, Financial Instruments - Disclosures:

- Section 3855 – Effective Interest Method
- Section 3855 – Embedded Derivatives on Reclassification of Financial Assets
- Section 3855 – Impairment of Financial Assets
- Section 3862 – Fair Value and Liquidity Risk Disclosure

Due to the nature of the Agency's financial instruments, the adoption of these standards and amendments had no material impact on the financial position of the Agency.

Section 3862 Financial Instruments – Disclosure

The Agency has adopted the amendment to the CICA standard, Section 3862 Financial Instruments – Disclosures. This amended section, which was effective, January 1, 2009, requires an entity to classify fair value measurements into a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Agency's investments. The hierarchy of inputs is summarized below:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices), or
Level 3 – inputs for the asset or liability that are not based on observable market data. Changes in valuation methods may result in transfer into and out of an investment's assigned level.

The above noted new standards have no impact on the recognition, measurement or presentation of financial instruments in the Agency's year-end financial statements. The only financial statement impact is to note disclosure.

Future Accounting changes

Convergence with Public Sector Accounting Standards as issued by the Public Sector Accounting Board

Effective April 1, 2011 the Agency will be adopting Public Sector Accounting Standards issued by the Public Sector Accounting Board. The Agency is currently in the process of quantifying the impact these changes will have on its financial position.

3. Significant accounting policies

a) General

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

b) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

c) Cash and funds on deposit

Cash and funds on deposit include cash on hand and bank balance.

d) Inventories

Inventories are valued using the average unit cost method and are measured using lower of cost and net realizable value.

e) Capital assets

Capital assets are recorded at cost in the year of acquisition. Rates and basis of amortization applied to write off the cost of capital assets over their estimated useful lives are as follows:

Office equipment, furniture and video recording equipment	20% declining balance
Computer equipment	20% straight line

One-half year's amortization is applied in the year of acquisition.

f) Intangible Assets

Intangible assets are stated at cost less accumulated amortization. Amortization based on the estimated useful life of the assets is calculated as follows:

Computer Software	20% straight line

g) Revenue recognition

Revenue is recognized upon transfer of title to the customer.

3. Significant accounting policies (continued)

h) Capital disclosures

The Agency's capital consists of contributed equity and retained earnings provided from operations.

The Agency's capital management policy is to maintain sufficient capital to meet its objectives through its retained earnings by managing transfers of surplus funds to the Province of Manitoba; meet short-term capital needs with working capital advances from the Province of Manitoba; and meet long-term capital needs through long-term debt with the Province of Manitoba. There were no changes in the Agency's approach to capital management during the period.

The Agency is not subject to externally imposed capital requirements.

4. Financial Instruments and Financial Risk Management

Financial assets and liabilities are initially recorded at fair value. Measurement in subsequent periods depends on the financial instrument's classification. Financial instruments are classified into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and other financial liabilities. All financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

The financial assets and liabilities of the Agency are classified and measured as follows:

Financial Asset/Liability	Category	Subsequent Measurement
Cash and funds on deposit	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Long-term investments	Held for trading	Fair value
Accounts payable	Other financial liabilities	Amortized cost
Accrued liabilities	Other financial liabilities	Amortized cost
Working capital advance	Other financial liabilities	Amortized cost
Interest payable – Province of Manitoba	Other financial liabilities	Amortized cost

Amortized cost is determined using the effective interest rate method.

4. Financial Instruments and Financial Risk Management (continued)

Gains and losses on financial instruments subsequently measured at amortized cost are recognized in the statement of income and retained earnings in the period the gain or loss occurs. Changes in fair value on financial instruments classified as held for trading are recognized in the statement of income and retained earnings for the current period. Changes in fair value on financial instruments classified as available for sale would be recorded in other comprehensive income until realized, at which time they are recorded in the statement of earnings and retained earnings.

Fair value of financial instruments

The fair values of accounts receivable, accounts payable and accrued liabilities, interest payable and working capital advance approximate their carrying values due to their short-term maturity. It has been determined that the Agency's investments are classified as Level 2 because they are invested with the Department of Finance.

Financial risk management - overview

The Agency has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; market risk; interest risk; and foreign currency risk.

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Agency to credit risk consist principally of cash and term deposits and accounts receivable.

The maximum exposure of the Agency to credit risk at March 31, 2010 is:

Cash and funds on deposit	$ 5
Long-term investments	64
Accounts receivable	649
	$ 718

Cash and funds on deposit: The Agency is not exposed to significant credit risk as the cash and term deposits are primarily held by the Minister of Finance.

Long-term investment: The Agency is not exposed to significant credit risk as the long-term investments are primarily held by the Minister of Finance.

Accounts receivable: The Agency is not exposed to significant credit risk as the receivables are primarily with provincially funded school divisions and independent schools, Province of Manitoba departments, and Aboriginal Educational Authorities and payment in full is typically collected when it is due. The Agency establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off.

4. Financial Instruments and Financial Risk Management (continued)

The change in the allowance for doubtful accounts during the year was as follows:

Balance, beginning of the year	$ 31
Provision for receivable impairment	18
Amounts written off	-
Balance, end of the year	$ 49

Liquidity risk
Liquidity risk is the risk that the Agency will not be able to meet its financial obligations as they come due.

The Agency manages liquidity risk by maintaining adequate cash balances and by review from the Province of Manitoba to ensure adequate funding will be received to meet the obligations.

Market risk
Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Agency's income or the fair values of its financial instruments. The significant market risks that the Agency may be exposed to are interest rate risk and foreign currency risk.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to short-term and long-term investments.

The interest rate risk on short-term investments is considered to be low because of their short-term nature. The interest rate risk on the long-term investment is considered to be low as the original deposit is expected to be re-invested annually at a similar rate.

Foreign currency risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Agency is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in foreign currency.

5. Long-term Investment

The Province of Manitoba accepted responsibility for the vacation entitlements earned by the employees of the Agency prior to its designation as SOA, and the severance pay benefits accumulated to March 31, 1998 for certain of the Agency's employees. Accordingly, the Agency recorded a receivable of $64 from the Province of Manitoba for these accumulated benefits. Effective March 31, 2009 the Province of Manitoba paid the receivable balances related to the funding for these liabilities and has placed the amount of $64 into an interest bearing trust account to be held on the Agency's behalf until the cash is required to discharge the related liabilities.

(in thousands)

6. Capital assets

	2010 Cost	2010 Accumulated Amortization	2009 Cost	2009 Accumulated Amortization
Computer equipment	**$ 262**	**$ 244**	$ 285	$ 256
Office equipment & furniture	**47**	**33**	47	29
Video recording equipment	**51**	**48**	51	47
	$ 360	**$ 325**	$ 383	$ 332
Cost less accumulated amortization		**$ 35**		$ 51

7. Intangible assets

	Cost	Accumulated Amortization	Net Book Value
Computer Software	$ 48	$ 5	$ 43

8. Working capital advance

The MTBB has an authorized line of working capital advances of $3,300, of which $1,804 was used as of March 31, 2010 (2009 - $1,375).

9. Accrued severance liability

Effective April 1, 1998, the Agency began recording accumulated severance pay benefits for its employees. The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

(in thousands)

9. Accrued severance liability (continued)

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. The MTBB's actuarially determined net liability for accounting purposes as at March 31, 2010 was $52 (2009 - $51), with the actuarial gain of $18 being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2010 present value of the accrued severance benefit obligation were:

Annual rate of return	
inflation component	2.50%
real rate of return	4.00%
	6.50%
Assumed salary increase rates	
annual productivity increase	0.75%
annual general salary increase	3.50%
	4.25%

10. Contributed equity

SOAFA and the Government of Manitoba entered into a Transfer Agreement in connection with the transfer from Manitoba to SOAFA of assets valued at $5,240 and liabilities of $4,690 required for the continuing operations of the MTBB as at March 31, 1996. The MTBB recorded the balance of $550 (being the value of the net assets) as Manitoba's Contributed Equity in SOAFA as related to the MTBB's operations.

11. Related party transactions

The MTBB is related in terms of common ownership to all Province of Manitoba created Departments, Agencies and Crown Corporations. The MTBB enters into transactions with these entities in the normal course of business and the transactions are measured at the exchange amount.

(in thousands)

12. Pension benefits

Employees of the MTBB are eligible for pension benefits in accordance with the provisions of the Civil Service Superannuation Act (CSSA), administered by the Civil Service Superannuation Board. The CSSA established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the Government, including the MTBB, through the Civil Service Superannuation Fund.

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the MTBB transferred to the Province the pension liability for its employees. Commencing April 1, 2001, the MTBB was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for 2010 was $19 (2009 - $18). Under this agreement, the MTBB has no further pension liability.

13. Public sector compensation

Pursuant to the disclosure required by The Public Sector Compensation Disclosure Act, no remuneration was paid to Advisory Board members. During the fiscal year ended March 31, 2010, the following employees received compensation in excess of $50.

Name	Position		**2010**		2009
Denis Labossiere	Controller	**$**	**73**	$	76
Brenda McKinny	Chief Operating Officer	**$**	**73**	$	68

MAGNUS & BUFFIE

CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Special Operating Agencies Financing Authority

We have audited the balance sheet of the Materials Distribution Agency, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2010 and the statements of earnings and retained earnings and cash flow for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2010 and the results of its operations and cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

Magnus & Buffie

May 11, 2010 CHARTERED ACCOUNTANTS

430 Five Donald Street · Winnipeg, Manitoba · R3L 2T4 · Phone (204) 942-4441 · Fax (204) 944-0400

MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

Balance Sheet
(in thousands)
March 31, 2010

	2010	2009
Assets		
Current assets:		
Cash and short term deposits	$ 828	$ 910
Accounts receivable	2,635	2,424
Inventories (Note 5)	1,600	1,284
Prepaid expenses	227	179
	5,290	4,797
Long term investments (Note 6)	412	412
Capital assets (Note 7)	1,986	1,764
Other assets (Note 8)	101	153
	$ 7,789	$ 7,126
Liabilities and Equity		
Current liability:		
Accounts payable and accrued liabilities	$ 2,990	$ 2,565
Severance liability (Note 9)	462	425
	3,452	2,990
Equity:		
Contributed equity (Note 11)	1,297	1,297
Retained earnings	3,040	2,839
	4,337	4,136
Commitments (Note 12)		
	$ 7,789	$ 7,126

See accompanying notes to financial statements.

MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

Statement of Income and Comprehensive Income and Retained Earnings
(in thousands)
Year ended March 31, 2010

	2010	2009
Warehouse sales (Schedule 1)	$ 14,388	$ 14,327
Cost of sales	11,225	11,408
Gross profit	3,163	2,919
Service revenue (Schedule 1)	11,635	10,897
Net income before the following	14,798	13,816
Expenses:		
Salaries and benefits	4,514	4,112
Occupancy costs	996	835
Administrative expenses (Schedule 2)	9,087	8,701
	14,597	13,648
Net income and comprehensive income for the year	201	168
Retained earnings, beginning of year	2,839	2,671
Retained earnings, end of year	$ 3,040	$ 2,839

See accompanying notes to financial statements.

MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

Statement of Cash Flow
(in thousands)
Year ended March 31, 2010

	2010	2009
Cash flow from (used in)		
Operating activities:		
Net earnings for the year	$ 201	$ 168
Adjustment for		
Amortization	983	979
	1,184	1,147
Changes in the following:		
Accounts receivable	(210)	564
Inventories	(316)	202
Prepaid expenses	(47)	(9)
Accounts payable and accrued liabilities	422	(757)
Severance liability	37	46
	1,070	1,193
Investing activities:		
Capital asset additions	(1,152)	(1,015)
Change in receivable - Province of Manitoba	-	412
Long term investments	-	(412)
	(1,152)	(1,015)
Change in cash and short term deposits	(82)	178
Cash and short term deposits, beginning of year	910	732
Cash and short term deposits, end of year	$ 828	$ 910

See accompanying notes to financial statements.

1. Nature of organization

The Government of Manitoba established a central warehouse operation in 1974. Its mandate is to effectively meet the cost needs of departments and certain boards, commissions and agencies of the Crown, for a variety of commonly used items.

Effective April 1, 1993, Materials Distribution Agency (the "Agency") was designated as a Special Operating Agency pursuant to The Special Operating Agencies Financing Authority Act, Cap. S185, C.C.S.M. and operates under a charter approved by the Lieutenant Governor in Council.

In 1956 Mail Management (Postal Service) was created as a branch of the Manitoba Provincial Government to provide centralized postal management. Effective April 1, 1996 the Postage Service was renamed Mail Management Agency and designated as a Special Operating Agency ("SOA") pursuant to The Special Operating Agencies Financing Authority Act, Cap. S185, C.C.S.M. and operates under a charter approved by the Lieutenant Governor in Council.

Effective April 1, 2005 the operations of the Materials Distribution Agency and the Mail Management Agency were amalgamated. The amalgamated operations have been operating as the Materials Distribution Agency.

The Agency is financed through the Special Operating Agencies Financing Authority ("SOAFA"). The Financing Authority has the mandate to hold and acquire assets required for and resulting from the Agency's operations. It finances the Agency through repayable loans and working capital advances. This financial framework enables the Agency to operate in a business like manner according to public policy expectations.

A Management Agreement between the Financing Authority and the Minister of Infrastructure and Transportation assigns responsibility to the Agency to manage and account for Agency-related assets and operations on behalf of the Financing Authority.

The Agency continues to be part of Manitoba Infrastructure and Transportation under the general direction of the Assistant Deputy Minister, Supply and Services Division, and ultimately the policy direction of the Deputy Minister and Minister.

The Agency remains bound by relevant legislation and regulations. It is also bound by administrative policy except where specific exemptions have been provided in its charter in order to meet business objectives.

The Agency is economically dependent on the Province of Manitoba and the Manitoba Regional Health Authorities deriving most of its revenue and all of its capital financing requirements from the Province. These transactions are recorded at the exchange amount, which is the amount agreed upon by both parties.

2. Change in accounting policies

New accounting policies

Section 3064 Goodwill and Intangible Assets

Effective April 1, 2009, the Authority adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3064 Goodwill and Intangible Assets and the updates to CICA Handbook section 1000 Financial Statement Concepts.

This guidance establishes updated standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

These changes did not have an impact on the Agency's financial statements for the year ended March 31, 2010.

(in thousands)

2. Change in accounting policies (continued)

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

During 2009 the Authority adopted the Emerging Issues Committee ("EIC") 173 and amendments to Section 3855, Financial Instruments - Recognition and Measurement and 3862, Financial Instruments - Disclosures:

- Section 3855 – Effective Interest Method
- Section 3855 – Embedded Derivatives on Reclassification of Financial Assets
- Section 3855 – Impairment of Financial Assets
- Section 3862 – Fair Value and Liquidity Risk Disclosure

Due to the nature of the Agency's financial instruments, the adoption of these standards and amendments had no material impact on the financial statements of the Agency.

Future accounting changes

Convergence with Public Sector Accounting Standards as issued by the Public Sector Accounting Board

Effective April 1, 2011 the Agency will be adopting Public Sector Accounting Standards issued by the Public Sector Accounting Board. The Financing Authority is currently in the process of quantifying the impact these changes will have on its financial statements.

3. Summary of significant accounting policies

Basis of reporting

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Inventory

Inventory is valued at the lower of cost and net realizable value with the cost being determined on a first-in, first-out basis. During the year, no inventory was valued at net realizable value.

Included in cost of sales is $11,225 (2009 - $11,386) of inventory recognized as an expense during the year.

Capital assets

Capital assets are recorded at cost and amortized over their estimated useful lives as follows:

Computer equipment	20% straight line
Fixtures	20% straight line
Leasehold improvements	5 years straight line
Office equipment	20% straight line
Production equipment	20% declining balance
Rental equipment	2 - 5 years straight line
Warehouse equipment	20% declining balance

Other assets

Other assets are recorded at cost and amortized as follows:

Computer conversion	5 years straight line
Relocation expenses	10 years straight line

3. Summary of significant accounting policies (continued)

Revenue recognition

Warehouse sales are recognized when the products are shipped. Service revenues are recognized based on the provision of services provided.

Capital disclosures

The Agency's capital management policy is to maintain sufficient capital to meet its objectives through its retained earnings by managing transfers of surplus funds to the Province of Manitoba; meet short-term capital needs with working capital advances from the Province of Manitoba; and meet long-term capital needs through long-term debt with the Province of Manitoba. There were no changes in the Agency's approach to capital management during the period. The Agency's capital consists of contributed equity and retained earnings.

The Agency is not subject to externally imposed capital requirements.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Financial Instruments - recognition and measurement

Financial assets and liabilities are initially recorded at fair value. Measurement in subsequent periods depends on the financial instrument's classification. Financial instruments are classified into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and other financial liabilities. All financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

The Agency has designated its financial instruments as follows:

Financial instrument	Category	Measurement
Cash and short term deposits	Held-for-trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Long term investments	Held-for-trading	Fair value
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

Amortized cost is determined using the effective interest rate method.

Gains and losses on financial instruments subsequently measured at amortized cost are recognized in the statement of income, comprehensive income and retained earnings in the period the gain or loss occurs. Changes in fair value on financial instruments classified as held for trading are recognized in the statement of income, comprehensive income and retained earnings for the current period. Changes in fair value on financial instruments classified as available for sale would be recorded in other comprehensive income until realized, at which time they would be recorded in the statement of income, comprehensive income and retained earnings.

(in thousands)

3. Summary of significant accounting policies (continued)

Fair value of financial instruments

The fair values of accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity.

4. Financing arrangements

The Special Operating Agencies Financing Authority has provided the Agency with an authorized line of working capital of $1,000 of which $nil was used at March 31, 2010.

5. Inventories

	2010	2009
Medical supplies	$ 650	$ 607
Equipment	151	30
Stationary	480	439
Janitorial	292	194
New furniture	27	14
	$ 1,600	$ 1,284

6. Long term investments

The Province of Manitoba accepted responsibility for the vacation entitlements earned by the employees of the Agency prior to its designation as SOA, and the severance pay benefits accumulated to March 31, 1998 for certain of the Agency's employees. Accordingly, the Agency recorded a receivable of $412 from the Province of Manitoba for these accumulated benefits. Effective March 31, 2009 the Province of Manitoba paid the receivable balances related to the funding for these liabilities and has placed the amount of $412 into a trust account bearing interest at 0.80% and maturing on March 30, 2011 to be held on the Agency's behalf until the cash is required to discharge the related liabilities. As such, this amount has been classified as a long term asset.

7. Capital assets

	Cost	Accumulated Amortization	Net Book Value 2010	Net Book Value 2009
Computer equipment	$ 230	$ 219	$ 11	$ 19
Fixtures	150	113	37	3
Leasehold improvements	814	731	83	17
Office equipment	64	64	-	-
Production equipment	284	284	-	-
Rental equipment	8,128	6,607	1,521	1,446
Warehouse equipment	918	584	334	279
	$ 10,588	$ 8,602	$ 1,986	$ 1,764

(in thousands)

8. Other assets

	Cost	Accumulated Amortization	Net Book Value 2010	Net Book Value 2009
Computer conversion	$ 337	$ 328	$ 9	$ 30
Relocation	287	195	92	123
	$ 624	$ 523	$ 101	$ 153

9. Severance liability

Effective April 1, 1998, the Agency began recording accumulated severance pay benefits for its employees. The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the Agency's actuarially determined net liability for accounting purposes as at March 31, 2010 was $462 (2009 - $425), with the actuarial loss being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2010 present value of the accrued severance benefit obligation were:

Annual rate of return	
inflation compontent	2.50%
real rate of return	4.00%
	6.50%
Assumed salary increase rates	
annual productivity increase	0.75%
annual general salary increase	3.25%
	4.00%

10. Pension benefits

Employees of the Agency are eligible for pension benefits in accordance with the provisions of the Civil Service Superannuation Act ("CSSA"), administered by the Civil Service Superannuation Board ("CSSB"). The CSSA established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the Government, including the Agency, through the Civil Service Superannuation Fund ("CSSF").

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the Agency transferred to the Province the pension liability for its employees.

Commencing April 1, 2001, the Agency was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for 2010 was $182 (2009 - $170). Under this agreement, the Agency has no further pension liability.

11. Contributed equity

Loan Authority - April 1, 1993

The SOAFA and the Province of Manitoba entered into a Transfer Agreement respecting the transfer from Manitoba to the Financing Authority of inventories and capital assets valued at $1,464 required for the continuing operation of the Agency as at March 31, 1993. The Agency repaid the debt portion of $732 (being one-half of the value of the assets) and recorded the balance, $732, as Manitoba's contributed equity in the Financing Authority as related to the Agency operations.

Loan Authority - April 1, 1996 MMA

SOAFA and the Province of Manitoba entered into a Transfer Agreement respecting the transfer from Manitoba to the Financing Authority of equipment valued at $102 required for continuing operations of the Mail Management Agency as at March 31, 1996. The Mail Management Agency (now Materials Distribution Agency) repaid the debt portion in the amount of $51 (being one-half of the value of the assets) and recorded the balance of $51 as Manitoba's contributed equity in the Financing Authority as related to the Agency's operations.

Loan Authority - April 1, 1997

SOAFA and the Province of Manitoba entered into a Transfer Agreement respecting the transfer from Manitoba to the Financing Authority for the net assets of the Home Care Equipment and Supply Program valued at $1,027 as at April 1, 1997. The Agency repaid the debt portion of $513 (being one-half of the value of the assets) and recorded the balance of $514 as Manitoba's contributed equity in the Financing Authority as related to the Agency's operations.

12. Commitments

Leased Premises

On March 24, 2003, the Agency took partial possession of a rental property consisting of 76,067 square feet at 1715 St. James Street, Winnipeg, Manitoba. The lease is for a term of ten years commencing May 1, 2003 with an additional five year option. The payments over the next five years are $521 per year.

On May 1, 2009, the Agency took possession of a rental property consisting of 18,818 square feet at 1650 Notre Dame Avenue, Winnipeg, Manitoba. The lease will expire on September 30, 2010 and the payments are $16 per month.

On August 11, 2009, the Agency took possession of a rental property consisting of 6,336 square feet at 1680 Notre Dame Avenue, Winnipeg, Manitoba. The lease will expire on September 30, 2010 and the payments are $5 per month.

Rental Agreement

The Agency leases a space from the Province of Manitoba on a monthly basis for the following locations: 450 Broadway, Winnipeg; 340 - 9th Street, Brandon; and 25 Tupper Street, Portage La Prairie. Occupancy charges for the year ended March 31, 2010 were $11 (2009 - $16).

13. Interest received

The Agency received interest during the year of $3 (2009 - $10).

(in thousands)

14. Financial instruments - risk management

In the normal course of operations the Agency is exposed to various financial risks. The financial risk management objectives and policies are as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Agency to credit risk consist principally of cash and short term deposits, accounts receivable and long term investments.

The maximum exposure of the Agency to credit risk at March 31, 2010 is:

Cash and short term deposits	$	828
Accounts receivable		2,635
Long term investments		412
	$	3,875

Cash and short term deposits and long term investments: The Agency is not exposed to significant credit risk as the cash and term deposits are primarily held by the Minister of Finance.

Accounts receivable: The Agency is not exposed to significant credit risk as the nature of the accounts receivable is with related entities and consists of a large client base and payment in full is typically collected when it is due. The Agency establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off. The balance in the allowance for doubtful accounts at March 31, 2010 was $93 (2009 - $96)

Liquidity risk

Liquidity risk is the risk that the Agency will not be able to meet its financial obligations as they come due.

The Agency manages liquidity risk by maintaining adequate cash balances and by review from the Province of Manitoba to ensure adequate funding will be received to meet the obligations.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Agency's income or the fair values of its financial instruments. The significant market risk the Agency is exposed to is interest rate risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to short term deposits.

The interest rate risk on short term deposits is considered to be low because of their short-term nature.

Schedule of Warehouse sales and service revenue
(in thousands)
Year ended March 31, 2010 Schedule 1

	2010	2009
Warehouse sales:		
Medical supplies	$ 5,024	$ 4,835
Stationery	4,261	4,079
Furniture	2,219	3,235
Janitorial	1,969	1,612
Health equipment	485	423
Special projects	430	143
	$ 14,388	$ 14,327
Service revenue:		
Disposal	$ 3	$ 5
Manitoba Textbook Bureau	290	291
Freight	732	693
Moving	724	594
Storage	65	78
Office equipment - maintenance program	17	27
Office equipment - copy centres	300	419
Mail services	6,462	6,108
Home care equipment rentals	2,792	2,484
Other income	250	198
	$ 11,635	$ 10,897

MATERIALS DISTRIBUTION AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

Schedule of Administrative Expenses
(in thousands)
Year ended March 31, 2010

Schedule 2

	2010	2009
Amortization	$ 983	$ 979
Bad debts	13	158
Computer	220	201
Copy centre	211	316
Equipment rentals	186	131
Freight	1,389	1,232
Mail services	4,918	4,672
Miscellaneous	28	18
Moving	488	410
Office	181	187
Professional fees	19	16
Promotion and marketing	111	45
SOAFA fees	2	2
Telephone	59	78
Training	31	26
Vehicle	87	99
Warehouse supplies	161	131
	$ 9,087	$ 8,701

Schedule of Public Sector Compensation Disclosure
(in thousands)
Year ended March 31, 2010

Pursuant to the disclosure required by the Public Sector Compensation Disclosure Act, no remuneration or other benefits were paid to the Advisory Board members. The following employees or officers received compensation of $50 or more.

Employee	Title	Compensation 2010	Compensation 2009
Ailyn Almendral	IT - Systems Administrator	$ 77	$ 73
David Bishop	Chief Operating Officer	81	76
Sherry Batenchuk	Mail Services Coordinator	50	-
Rhonda Boyd	Client Services Manager	57	55
Glenn Dela Cruz	Programmer/Analyst	67	62
Michael Boyak	Business Analyst	53	-
Todd Eisner	Storekeeper	-	73
Becky Fleury	Marketing Manager	-	50
Joel Hershfield	Manager of Finance & Technology, Wellness Co-ordinator	72	71
Michael Langenfeld	Contracts and Purchasing Manager	58	56
Roxane Hutcheson	Marketing Manager	54	-
Arnold McTavish	Sr. Medical Equipment Technician	51	50
Robert Nicholls	Logistics Manager	59	55
Lee Pomfret	Transportation Coordinator	-	51

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BDO Canada LLP/s.r.l.
700 - 200 Graham Avenue
Winnipeg MB R3C 4L5 Canada

Auditors' Report

To the Special Operating Agencies Financing Authority:

We have audited the balance sheet of the **Office of the Fire Commissioner**, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2010 and the statements of operations and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba
May 18, 2010, except as to Note 17 which is as of May 19, 2010

OFFICE OF THE FIRE COMMISSIONER
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Balance Sheet
(In Thousands)

March 31		2010		2009
Assets				
Current Assets				
Cash	$	5,682	$	3,888
Short-term investments		-		3,500
Accounts receivable (Note 4)		3,119		1,803
Prepaid expense		66		60
		8,867		9,251
Non-current Assets				
Long-term investment (Note 5)		559		559
Capital assets (Note 6)		7,890		6,566
		8,449		7,125
	$	17,316	$	16,376
Liabilities and Equity				
Current Liabilities				
Accounts payable	$	10	$	279
Accrued liabilities		1,942		1,465
Deferred revenue		386		352
Current portion of obligation under capital lease (Note 16)		42		28
		2,380		2,124
Non-Current Liabilities				
Obligation under capital lease (Note 16)		154		171
Severance liability (Note 7)		503		427
Deferred contributions (Note 10)		724		648
		1,381		1,246
Equity				
Contributed capital (Note 8)		11,279		11,279
Water Bomber Reserve Fund (Note 11)		200		200
Canine Training Reserve Fund (Note 12)		40		40
Special Rescue Reserve Fund (Note 13)		200		-
Retained earnings		1,836		1,487
		13,555		13,006
	$	17,316	$	16,376

Approved on behalf of the Special Operating Agency Advisory Board:

Chairperson

Fire Commissioner

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

OFFICE OF THE FIRE COMMISSIONER
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Statement of Retained Earnings
(In Thousands)

For the year ended March 31		2010		2009
Opening balance	**$**	**1,487**	$	1,335
Net income and comprehensive income for the year		**570**		160
Canine Training Reserve Fund Allocation (Note 12)		**-**		(8)
Special Rescue Reserve Fund Allocation (Note 13)		**(221)**		-
Closing balance	**$**	**1,836**	$	1,487

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

OFFICE OF THE FIRE COMMISSIONER
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Statement of Operations
(In Thousands)

For the year ended March 31	2010 Actual	2009 Actual	Actual Variance	Budget (Unaudited)	Budget Variance
Revenue					
Levy	$ 5,969	$ 5,719	$ 250	$ 5,326	$ 643
Codes and standards	1,832	1,404	428	1,100	732
Tuition and contract revenue	1,546	1,230	316	1,500	46
Grant - NRCAN Green Building Promotion	650	-	650	650	-
JEPP initiative grant (Note 10)	516	668	(152)	300	216
Grant - Budgeting for Outcomes	400	400	-	400	-
JEPP capital grant (Note 10)	117	142	(25)	200	(83)
Other revenue	95	136	(41)	70	25
Emergency services conference	147	133	14	110	37
Grant - Mutual Aid	130	130	-	130	-
Interest	7	84	(77)	80	(73)
Fire inspections, investigations and reports	131	39	92	25	106
New SAR Initiative (NIF) - Grant (Note 9)	73	34	39	50	23
Rent	4	4	-	-	4
Grant - Health	-	-	-	15	(15)
	11,617	10,123	1,494	9,956	1,661
Expenses					
Salaries and benefits	5,665	5,070	595	5,810	(145)
Amortization	991	853	138	951	40
Supplies	768	421	347	285	483
Travel	527	465	62	500	27
Vehicle lease	464	459	5	320	144
Repairs and maintenance	417	318	99	245	172
Mutual Aid	253	222	31	255	(2)
Desktop management	241	207	34	165	76
Rent	237	208	29	185	52
Minor capital	211	101	110	-	211
Communications	206	170	36	165	41
Property taxes	163	139	24	135	28
Insurance	135	127	8	112	23
Professional services	135	70	65	96	39
Information systems	114	(22)	136	-	114
Clothing	106	42	64	25	81
Labour services	95	95	-	96	(1)
Utilities	76	87	(11)	78	(2)
Fuel - Owned vehicles	43	71	(28)	100	(57)
Other	40	23	17	25	15
Publications	30	21	9	27	3
Postal and courier	28	34	(6)	40	(12)
Professional development	28	32	(4)	31	(3)
Public education material	26	30	(4)	30	(4)
Marketing	21	27	(6)	20	1
Buildings standards board	13	6	7	15	(2)
Memberships and subscriptions	7	11	(4)	3	4
Seminar and conference registration	5	4	1	8	(3)
S.O.A. Board	1	3	(2)	4	(3)
Photofinishing	1	1	-	2	(1)
JEPP and HUSAR initiative	-	668	(668)	30	(30)
Emergency response	-	-	-	60	(60)
Loss on asset disposition	-	-	-	18	(18)
	11,047	9,963	1,084	9,836	1,211
Net income and comprehensive income for the year	$ 570	$ 160	$ 410	$ 120	$ 450

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

OFFICE OF THE FIRE COMMISSIONER
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Statement of Cash Flows
(In Thousands)

For the year ended March 31		2010		2009
Cash Flows from Operating Activities				
Net income for the year	$	**570**	$	160
Items not involving cash				
Amortization of capital assets		**991**		853
Amortization of deferred contributions		**(117)**		(142)
		1,444		871
Net change in non-cash working capital balances		**(1,007)**		206
		437		1,077
Cash Flows from Investing Activities				
Proceeds on disposal of capital assets		**10**		-
Purchase of capital assets		**(2,335)**		(1,290)
		(2,325)		(1,290)
Cash Flows from Financing Activities				
Transfer from Special Rescue Reserve		**(21)**		-
Deferred contributions received		**203**		164
		182		164
Net decrease in cash and cash equivalents		**(1,706)**		(49)
Cash and cash equivalents, beginning of year		**7,388**		7,437
Cash and cash equivalents, end of year	$	**5,682**	$	7,388
Represented by:				
Cash and bank	$	**5,682**	$	3,888
Short-term investments		**-**		3,500
	$	**5,682**	$	7,388

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Summary of Significant Accounting Policies

For the year ended March 31, 2010

Basis of Accounting

The financial statements are presented in accordance with Canadian generally accepted accounting principles (GAAP).

Capital Assets

Buildings, fire engines, other vehicles and air compressors transferred to the SOAFA from the Government of Manitoba on April 1, 1996 were valued at the lower of their amortized cost or estimated market value. All other assets transferred from the Government of Manitoba on April 1, 1996 were valued at their market value.

The Agency provides for amortization of its capital assets on the following basis:

Buildings	5% declining balance
Practical training site	10% declining balance
Equipment	20% declining balance
Fire engines	30% declining balance
Other vehicles	30% declining balance
Air compressors	20% declining balance
Furniture	20% declining balance
Computer equipment and software	30% declining balance

Revenue Recognition

The Fires Prevention Act imposes a special assessment on licensed insurers equal to a set percentage of total property insurance premiums.

The Office of the Fire Commissioner collects this levy based on the value of premiums and assessments in respect to property insurance in a calendar year. Levy revenue with respect to the 2009 calendar year will be recognized as revenue in the fiscal year ending March 31, 2010. The levy rate is set at 1.25%.

Codes and standards, conference, and tuition and contract revenue is recognized when earned. Operating grant revenue is recognized as revenue when receivable. Grant revenue received for the purchase of capital assets is deferred and recognized as revenue in the same fiscal year and at the same rate as the amortization expense of the related capital assets.

For the year ended March 31, 2010

Capital Disclosures

The Agency's capital consists of contributed capital, Water Bomber Reserve Fund, Canine Training Reserve Fund, Special Rescue Reserve Fund and retained earnings provided from operations.

The Agency's capital management policy is to maintain sufficient capital to meet its objectives through its retained earnings by managing transfers of surplus funds to the Province of Manitoba; meet short-term capital needs with working capital advances from the Province of Manitoba; and meet long-term capital needs through long-term debt with the Province of Manitoba. There were no changes in the Agency's approach to capital management during the period.

The Agency is not subject to externally imposed capital requirements.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

Future Accounting Policy Changes

A recent accounting pronouncement that has been issued but is not yet effective, and has a potential implication for the Agency, is as follows:

Convergence with Public Sector Accounting Standards as issued by the Public Sector Accounting Board

Effective April 1, 2011 the Agency will be adopting Public Sector Accounting Standards issued by the Public Sector Accounting Board. The Agency is currently in the process of quantifying the impact these changes will have on its financial position.

1. Nature of the Office of the Fire Commissioner

Effective April 1, 1996, the Office of the Fire Commissioner was designated as a Special Operating Agency (SOA) under The Special Operating Agencies Financing Authority Act, Cap. S185, C.C.S.M. and operates under a charter approved by the Lieutenant Governor in Council.

Effective April 1, 1996, a Transfer Agreement executed between the Government of Manitoba (Labour) and the Financing Authority, a corporation under The Special Operating Agencies Financing Authority (SOAFA) Act, transferred all assets in the Fires Prevention Fund valued at $11,809 to the Financing Authority.

A Management Agreement executed between the Financing Authority and the Government of Manitoba (Labour) assigned responsibility to the Office of the Fire Commissioner to manage and account for the related assets and operations on behalf of the Financing Authority. The Office itself does not hold title to any assets. Effective April 1, 1996, the Financing Authority established a fund account referred to as the Fires Prevention Fund to hold these assets.

The Office of the Fire Commissioner will continue to be part of the Department of Labour and Immigration and ultimately under the policy direction of the Minister of Labour and Immigration.

The Office of the Fire Commissioner will remain bound by relevant legislation and regulations. It will also remain bound by administrative policy except where specific exemptions have been provided for in its charter in order to meet business objectives.

The Office of the Fire Commissioner is economically dependent on the Province of Manitoba, as it derives most of its revenues from the Fires Prevention Levy.

2. Change in Accounting Policies

Section 3064 Goodwill and Intangible Assets

Effective April 1, 2009, the Agency adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook section 3064 Goodwill and Intangible Assets and the updates to the CICA Handbook section 1000 Financial Statement Concepts.

This guidance establishes updated standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

These changes did not have an impact on the Agency's financial statements for the year ended March 31, 2010.

2. Change in Accounting Policies (continued)

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

During 2009, the Agency adopted the Emerging Issues Committee (EIC) 173 and amendments to Section 3855, Financial Instruments - Recognition and Measurement and 3862, Financial Instruments - Disclosures:

- Section 3855 - Effective Interest Method
- Section 3855 - Embedded Derivatives on Reclassification of Financial Assets
- Section 3855 - Impairment of Financial Assets
- Section 3862 - Fair Value and Liquidity Risk Disclosure

Due to the nature of the Agency's financial instruments, the adoption of these standards and amendments had no material impact on the financial position of the Agency.

3. Financial Instruments and Financial Risk Management

Financial assets and liabilities are initially recorded at fair value. Measurement in subsequent periods depends on the financial instrument's classification. Financial instruments are classified into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and other financial liabilities. All financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

The financial assets and liabilities of the Agency are classified and measured as follows:

Financial Asset/Liability	Category	Subsequent Measurement
Cash and short-term investments	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accrued interest	Loans and receivables	Amortized cost
Due from Province of Manitoba	Loans and receivables	Amortized cost
Long term investment	Held for trading	Fair value
Accounts payable	Other financial liabilities	Amortized cost
Accrued liabilities	Other financial liabilities	Amortized cost

Amortized cost is determined using the effective interest rate method.

3. Financial Instruments and Financial Risk Management (continued)

Gains and losses on financial instruments subsequently measured at amortized cost are recognized in the statement of operations and retained earnings in the period the gain or loss occurs. Changes in fair value on financial instruments classified as held for trading are recognized in the statement of operations and retained earnings for the current period. Changes in fair value on financial instruments classified as available for sale would be recorded in other comprehensive income until realized, at which time they recorded in the statement of operations and retained earnings.

Fair Value of Financial Instruments

The fair values of accounts receivable, long-term investments, accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity. The fair value of the Agency's financial instruments has been determined based on quoted prices from active markets.

Financial Risk Management - Overview

The Agency has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; market risk; interest risk; and foreign currency risk.

Credit Risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Agency to credit risk consist principally of cash and term deposits and accounts receivable.

The maximum exposure of the Agency to credit risk at March 31, 2010 is:

Cash and short-term investments	$	5,682
Accounts receivable		3,119
Long term investment		559
	$	9,360

Cash, short-term investments and long term investment: The Agency is not exposed to significant credit risk as the cash and term deposits are primarily held by the Minister of Finance.

3. **Financial Instruments and Financial Risk Management (continued)**

Accounts receivable: The Agency is not exposed to significant credit risk as the majority of the receivables are due from other reliable organizations and payment in full is typically collected when it is due. The Agency establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off.

Management has determined that no allowance for doubtful accounts is required as at March 31, 2010.

Liquidity Risk

Liquidity risk is the risk that the Agency will not be able to meet its financial obligations as they come due.

The Agency manages liquidity risk by maintaining adequate cash balances and by review from the Province of Manitoba to ensure adequate funding will be received to meet the obligations.

Market Risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Agency's income or the fair values of its financial instruments. The significant market risks the Agency is exposed to are interest rate risk and foreign currency risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to short-term and long-term investments.

The interest rate risk on short-term and long-term investments is considered to be low because of their short-term nature.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Agency is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in foreign currency.

(in Thousands)

4. Accounts Receivable

The accounts receivable balance is made up of the following:

		2010		2009
Insurance Branch of Department of Consumer & Corporate Affairs	$	29	$	182
Office of Critical Infrastructure Protection and Emergency Preparedness		1,705		1,090
National Resources Canada		826		176
Manitoba Mutual Aid Grant		260		130
Manitoba STEM		-		3
Manitoba Health		110		110
Other		189		112
	$	3,119	$	1,803

5. Long-term Investment

The Province of Manitoba accepted responsibility for the vacation entitlements earned by the employees of the Agency prior to its designation as SOA, and the severance pay benefits accumulated to March 31, 1998 for certain of the Agency's employees. Accordingly, the Agency recorded a receivable of $559 ($311 for severance pay benefits and $248 for vacation entitlements) from the Province of Manitoba for these accumulated benefits. Effective March 31, 2009 the Province of Manitoba paid the receivable balances related to the funding for these liabilities and has placed the amount of $559 into an interest bearing trust account to be held on the Agency's behalf until the cash is required to discharge the related liabilities.

(in Thousands)

6. Capital Assets

	Opening Balance	Additions	Disposals	Closing Balance
Buildings	$ 5,349	$ 1,326	$ -	$ 6,675
Buildings - JEPP	95	193	-	288
Training site	2,134	-	-	2,134
Training site - JEPP	212	-	-	212
Equipment	1,943	111	-	2,054
Equipment - JEPP	908	10	-	918
Fire engines	989	411	-	1,400
Other vehicles	506	101	38	569
Other vehicles - capital lease	280	56	-	336
Other vehicles - JEPP	193	-	10	183
Air compressors	561	117	-	678
Furniture	70	10	-	80
Computers	383	-	-	383
Computers - JEPP	12	-	-	12
Total cost	$ 13,635	$ 2,335	$ 48	$ 15,922

	Opening Accumulated Amortization	Disposition	Current Year's Amortization	Accumulated Amortization
Buildings	$ 1,699	$ -	$ 249	$ 1,948
Buildings - JEPP	10	-	14	24
Training site	1,125	-	101	1,226
Training site - JEPP	62	-	15	77
Equipment	1,419	-	127	1,546
Equipment - JEPP	592	-	65	657
Fire engines	888	-	154	1,042
Other vehicles	367	28	75	414
Other vehicles - capital lease	84	-	76	160
Other vehicles - JEPP	95	-	23	118
Air compressors	344	-	67	411
Furniture	66	-	2	68
Computers	307	-	23	330
Computers - JEPP	11	-	-	11
Total amortization	$ 7,069	$ 28	$ 991	$ 8,032
Net capital assets	$ 6,566			$ 7,890

(in Thousands)

7. Severance Liability

Effective April 1, 1998, the Office of the Fire Commissioner began recording accumulated severance pay benefits for its employees. The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. The Agency's actuarially determined net liability for accounting purposes as at March 31, 2010 was $503 (2009 - $427), with the actuarial gain or loss being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2010 present value of the accrued severance benefit obligation were:

Annual rate of return	
inflation component	2.50%
real rate of return	4.00%
	6.50%
Annual salary increase rates	
annual productivity increase	0.75%
annual general salary increase	3.50%
	4.25%

8. Contributed Capital

In consideration of the transfer of said assets effective April 1, 1996, the SOAFA shall:

a) not incur or repay to the Government of Manitoba any debt relative to the assets as described in the balance sheet prepared as of March 31, 1996 and verified by the Department of Finance; and

b) record the balance of $11,038 (being the balance of the net assets as described in the balance sheet prepared as of March 31, 1996 and verified by the Department of Finance) as Manitoba's equity in the Financing Authority as related to the Agency's operations.

Due to a change in accounting policy, buildings were being amortized over 40 years as opposed to 30 years. This has resulted in a revaluation of buildings as at April 1, 1996. The value of buildings and contributed equity has increased $241 as at April 1, 1996 to $11,279.

9. New Search and Rescue (SAR) Initiative (NIF)

On a quarterly basis, the Office of the Fire Commissioner applies for a grant from the National Search and Rescue Secretariat of the Department of National Defence. The purpose of this grant is to enhance Manitoba search and rescue capabilities by developing the volunteer search and rescue system aimed at northern and remote areas of Manitoba.

The New SAR Initiative (NIF) Grant line item reflects the grant received for the year ended March 31, 2010 of $73 ($34 in 2009).

10. Joint Emergency Preparedness Program (JEPP) Grant

The Office of the Fire Commissioner applies for grants from the Office of Critical Infrastructure Protection and Emergency Preparedness. The two purposes of these grants are to enhance the Province of Manitoba's ability to respond to hazardous material and heavy urban search and rescue emergency responses through the provision of equipment and training.

JEPP operating grant revenue for the year ended March 31, 2010 is $516 ($668 in 2009). An amount of $117 was taken into revenue from the deferred revenue account for the amortization of the JEPP assets for the year ended March 31, 2010 ($142 in 2009).

No JEPP capital assets have been purchased in the year ended March 31, 2010 ($165 in 2009); however, $193 of buildings cost previously recorded in the regular building account were transferred to the JEPP account. JEPP deferred revenue is equal to the net book value of assets purchased with JEPP capital grants. JEPP deferred revenue as at March 31, 2010 is $724 ($648 in 2009).

(in Thousands)

11. Water Bomber Reserve Fund

The Agency received approval from Treasury Board in the year ended March 31, 2005 to establish a special reserve fund for water bomber fire suppression activities. This fund is capped at an amount of $200 and will be utilized to cover the costs associated with water bomber deployment for non-forest fire incidents occurring on Rural Municipality property. As at March 31, 2010, the Agency has allocated a total of $200 to this fund from its retained earnings account.

12. Canine Training Reserve Fund

The Agency established a special reserve fund for replacing and training a rescue dog. The total cost to train a dog is estimated at $40 and the average time a dog spends in service is six years. The fund was capped at $40 at the end of the March 31, 2009 fiscal year. Once this fund has been used it will be discontinued.

13. Special Rescue Reserve Fund

The Agency received approval from Treasury Board during the year to establish a special reserve fund for special rescue activities. This fund is capped at $200. As at March 31, 2010, the Agency has allocated $200 to this fund from retained earnings. During the year, an amount of $21 was drawn from the fund, and it was replenished to $200.

14. Commitments and Contingencies

The Office of the Fire Commissioner as tenant has entered into a Lease Agreement with the City of Brandon as Landlord for the land upon which the practical training facility has been constructed. The term of the lease expires May 31, 2012. Minimum annual rent is $11 due in equal monthly instalments, plus all operating costs with respect to the subject land.

Office equipment leases exist for four copy machines.

The Office of the Fire Commissioner has entered into leases on a fleet of 38 vehicles.

These three categories of leases give rise to commitments as follows:

2011	$	243
2012		204
2013		181
2014		82
2015		46

For the year ended March 31, 2010

15. Pension Benefits

Employees of the Office of the Fire Commissioner are eligible for pension benefits in accordance with the provisions of the Civil Service Superannuation Act, administered by the Civil Service Superannuation Board (CSSB). The CSSA established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the Government, including the Office of the Fire Commissioner, through the Civil Service Superannuation Fund (CSSF).

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba the Office of the Fire Commissioner transferred to the Province the pension liability for its employees. Commencing April 1, 2001, the Office of the Fire Commissioner was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for March 31, 2010 was $269 ($206 in 2009). Under this agreement, the Office of the Fire Commissioner has no further pension liability.

(in Thousands)

16. Obligation under Capital Lease

		2010		2009
Polaris Leasing Ltd., capital lease due November 1, 2013, interest at 7.318% per year with annual principal and interest payments of $43 for the first 4 years and a final payment of $79 in 2014.	**$**	**171**	$	199
CTS Lease and Rental, capital lease due March 15, 2012, interest at 7.486% per year with annual principal and interest payments of $14 for three years.		**25**		-
		196		199
Current portion of obligation under capital lease		**42**		28
	$	**154**	$	171

Obligations under capital lease are secured by the equipment under lease.

The future minimum lease payments for the next four years are as follows:

2011	$	42
2012		45
2013		35
2014		74
	$	196

17. Contingencies

The Office of the Fire Commissioner has been named in a lawsuit. The likelihood of damages being awarded and the amount to be awarded is not reasonably estimable for the claim. Should any loss result from the resolution of this claim, such loss will be charged to operations in the year of resolution.

Management's Responsibility for Financial Reporting

The accompanying financial statements are the responsibility of the management of Organization and Staff Development and have been prepared in accordance with Canadian generally accepted accounting principles. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data available to May 20, 2010.

Management maintains internal controls to properly safeguard the assets and to provide reasonable assurance that the books and records from which the financial statements are derived accurately reflect all transactions, and that established policies and procedures are followed.

The responsibility of the Auditor General is to express an independent opinion on whether the financial statements of Organization and Staff Development are fairly represented in accordance with Canadian generally accepted accounting principles. The Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

On behalf of Management,

Organization and Staff Development

Anna Schmidt, Director
May 20, 2010

OFFICE OF THE
AUDITOR GENERAL
MANITOBA

AUDITORS' REPORT

To the Legislative Assembly of Manitoba
To Organization and Staff Development
To the Special Operating Agencies Financing Authority

We have audited the balance sheet of Organization and Staff Development, an Agency of The Special Operating Agencies Financing Authority as at March 31, 2010, and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2010, and results of its operations and changes in its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Office of the Auditor General

Office of the Auditor General

Winnipeg, Manitoba
May 20, 2010

500 - 330 Portage Avenue Winnipeg, Manitoba R3C 0C4 office: (204) 945-3790 fax: (204) 945-2169
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ORGANIZATION AND STAFF DEVELOPMENT - AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
Balance Sheet

March 31		2010		2009
		(000's)		
Assets				
Current Assets				
Cash and bank	$	**333**	$	203
Short-term investments - Province of Manitoba		**-**		460
Accounts receivable		**192**		222
Inventories		**24**		24
		549		909
Long-term investment (Note 5)		**39**		39
Capital assets (Note 6)		**31**		36
		70		75
	$	**619**	$	984
Liabilities and Equity				
Current Liabilities				
Accounts payable and accrued liabilities (Note 7)	$	**209**	$	320
Severance liability (Note 8)		**56**		58
		265		378
Equity				
Retained earnings		**354**		606
	$	**619**	$	984

The accompanying notes are an integral part of these financial statements.

ORGANIZATION AND STAFF DEVELOPMENT - AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
Statement of Operations and Retained Earnings

For the year ended March 31

(000's)

	2010 Actual	2009 Actual	Variance	Revised Budget	Variance
Revenue					
Revenue	**$ 2,027**	$ 2,223	$ (196)	$ 1,686	$ 341
Interest	**1**	13	(12)	1	-
	2,028	2,236	(208)	1,687	341
Expenses					
Professional fees	**884**	1,087	(203)	883	1
Salaries and benefits	**723**	746	(23)	716	7
Food and beverages	**139**	137	2	80	59
Accommodations	**136**	137	(1)	45	91
Operitel Learning Systems	**95**	-	95	120	(25)
Books and course materials	**92**	83	9	80	12
Travel	**42**	45	(3)	40	2
Desk top management	**30**	29	1	25	5
Occupancy costs	**29**	29	-	30	(1)
Rentals	**28**	37	(9)	20	8
Office supplies	**20**	17	3	10	10
Marketing	**19**	9	10	5	14
Communications	**19**	20	(1)	14	5
Other	**10**	10	-	4	6
Professional development	**7**	15	(8)	5	2
Amortization	**7**	7	-	7	-
	2,280	2,408	(128)	2,084	196
Net income (loss) and comprehensive income (loss) for the year	**(252)**	(172)	$ (80)	$ (397)	$ 145
Retained earnings, beginning of year	**606**	778			
Retained earnings, end of year	**$ 354**	$ 606			

The accompanying notes are an integral part of these financial statements.

ORGANIZATION AND STAFF DEVELOPMENT - AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
Statement of Cash Flows

For the year ended March 31		2010		2009
		(000's)		
Cash Flows from Operating Activities				
Net loss and comprehensive income (loss) for the year	$	**(252)**	$	(172)
Adjustment for				
Amortization of capital assets		**7**		7
		(245)		(165)
Changes in non-cash working capital balances				
Accounts receivable		**30**		(41)
Inventories		**-**		(10)
Accounts payable and accrued liabilities		**(111)**		201
Severance liability		**(2)**		6
		(83)		156
		(328)		(9)
Cash Flows from Investing Activities				
Purchase of capital assets		**(2)**		(7)
Decrease in cash and cash equivalents		**(330)**		(16)
Cash and cash equivalents, beginning of year		**663**		679
Cash and cash equivalents, end of year	$	**333**	$	663
Represented by				
Cash and bank	$	**333**	$	203
Short-term investments		**-**		460
	$	**333**	$	663

The accompanying notes are an integral part of these financial statements.

1. Nature of Organization

Effective April 1, 1994, Organization and Staff Development of the Civil Service Commission was designated by regulation as a Special Operating Agency under The Special Operating Agencies Financing Authority Act and operates under a charter approved by the Lieutenant Governor in Council. Its mandate is to provide consulting and training services to support the implementation of the government's human resource policies and priorities.

The Agency is financed through the Special Operating Agencies Financing Authority. The Financing Authority has the mandate to hold and acquire assets required for and resulting from Agency operations. It finances the Agency through repayable loans and working capital advances. This financial framework enables the Agency to operate in a business-like manner according to public policy expectations.

A Management Agreement between the Financing Authority and the Minister responsible for the Civil Service Commission assigns responsibility to the Agency to manage and account for the Agency related assets and operations on behalf of the Financing Authority.

Organization and Staff Development continues to be part of the Civil Service Commission under the general direction of the Commissioner and ultimately the policy direction of the Minister responsible for The Civil Service Act.

Organization and Staff Development remains bound by relevant legislation and regulations. It is also bound by administrative policy except where specific exemptions have been provided for in its charter in order to meet business objectives.

Organization and Staff Development is economically dependant on the Province of Manitoba. Currently, the Agency derives most of its revenue from the Province of Manitoba and all of its capital financing requirements through the Financing Authority.

2. Change in Accounting Policies

Section 3064 Goodwill and Intangible Assets

Effective April 1, 2009, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3064 Goodwill and Intangible Assets and the updates to the CICA Handbook section 1000 Financial Statement Concepts.

This guidance establishes updated standards for the recognition, measurement, presentation, and disclosure of goodwill and intangible assets.

These changes did not have an impact on the Agency's financial statements for the year ended March 31, 2010.

2. Change in Accounting Policies (continued)

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

During 2009 the agency adopted the Emerging Issues Committee (EIC) 173 and amendments to Section 3855, Financial Instruments - Recognition and Measurement and 3862, Financial Instruments - Disclosures:

- Section 3855 - Effective Interest Method
- Section 3855 - Embedded Derivatives on Reclassification of Financial Assets
- Section 3855 - Impairment of Financial Assets
- Section 3862 - Fair Value and Liquidity Risk Disclosure

Due to the nature of the Agency's financial instruments, the adoption of these standards and amendments had no material impact on the financial position of the Agency.

Section 3862 Financial Instruments – Disclosure

The Agency has adopted the amendment to the CICA standard, Section 3862 Financial Instruments – Disclosures. This amended section, which was effective, January 1, 2009, requires an entity to classify fair value measurements into a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Agency's investments. The hierarchy of inputs is summarized below:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices), or
Level 3 – inputs for the asset or liability that are not based on observable market data. Changes in valuation methods may result in transfer into and out of an investment's assigned level.

The above noted new standards have no impact on the recognition, measurement or presentation of financial instruments in the Agency's year-end financial statements. The only financial statement impact is to note disclosure.

Future Accounting Changes

Effective April 1, 2011 the Agency will be adopting Public Sector Accounting Standards issued by the Public Sector Accounting Board. The Agency is currently in the process of quantifying the impact these changes will have on its financial position.

(000's)

3. Significant Accounting Policies

Basis of Reporting

The financial statements of the Agency are presented in accordance with Canadian generally accepted accounting principles.

Revenue Recognition

Training and consulting revenue is recorded on an accrual basis by specific project.

Use of Estimates

In preparing the Agency's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Capital Assets

Rates of amortization applied to write off the cost of capital assets over their estimated life are as follows:

Office equipment	20% declining balance
Furniture and fixtures	20% declining balance
Computer equipment	20% straight-line

In the year of acquisition, amortization is calculated at one half of the rate indicated above.

Capital Disclosures

The Agency's capital consists of its retained earnings, provided from operations.

The Agency's capital management policy is to maintain sufficient capital to meet its objectives through its retained earnings by managing transfers of surplus funds to the Province of Manitoba; meet short-term capital needs with working capital advances from the Province of Manitoba; and meet long-term capital needs through long-term debt with the Province of Manitoba. There were no changes in the Agency’s approach to capital management during the period.

The Agency is not subject to externally imposed capital requirements.

(000's)

4. Financial Instruments and Financial Risk Management

Financial assets and liabilities are initially recorded at fair value. Measurement in subsequent periods depends on the financial instrument's classification. Financial instruments are classified into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and other financial liabilities. All financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost. The financial assets and liabilities of the Agency are classified and measured as follows:

Financial Asset/Liability	Category	Subsequent Measurement
Cash and bank	Held for trading	Fair value
Short-term investments	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Long-term investment	Held for trading	Fair value
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

Amortized cost is determined using the effective interest rate method.

Gains and losses on financial instruments subsequently measured at amortized cost are recognized in the statement of operations and retained earnings in the period the gain or loss occurs. Changes in fair value on financial instruments classified as held for trading are recognized in the statement of operations and retained earnings for the current period. Changes in fair value on financial instruments classified as available for sale would be recorded in other comprehensive income until realized, at which time they recorded in the statement of operations and retained earnings.

Fair Value of Financial Instruments

The fair value of accounts receivable, accounts payable and accrued liabilities approximates their carrying values due to their short-term maturity. It has been determined that the Agency's investments are classified as Level 2 because they are invested with the Department of Finance.

Financial Risk Management - Overview

The Agency has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; market risk; interest risk; and foreign currency risk.

(000's)

4. Financial Instruments and Financial Risk Management (continued)

Credit Risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Agency to credit risk consist principally of cash and term deposits and accounts receivable.

The maximum exposure of the Agency to credit risk at March 31, 2010 is:

Cash and bank	$ 333
Accounts receivable	192
Long-term investment	39
	$ 564

Cash and bank, short-term investments and long-term investment: The Agency is not exposed to significant credit risk as the cash and term deposits are primarily held by the Minister of Finance.

Accounts receivable: The Agency is not exposed to significant credit risk as the majority of the receivables are due from other reliable organizations and payment in full is typically collected when it is due. The Agency establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off.

Management has determined that no allowance for doubtful accounts is required as at March 31, 2010.

Liquidity Risk

Liquidity risk is the risk that the Agency will not be able to meet its financial obligations as they come due.

The Agency manages liquidity risk by maintaining adequate cash balances and by review from the Province of Manitoba to ensure adequate funding will be received to meet the obligations.

Market Risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Agency's income or the fair values of its financial instruments. The significant market risks the Agency is exposed to are interest rate risk and foreign currency risk.

(000's)

4. Financial Instruments and Financial Risk Management (continued

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to short-term and long-term investments.

The interest rate risk on short-term investments is considered to be low because of their short-term nature. The interest rate risk on the long-term investment is considered to be low as the original deposit is expected to be re-invested annually at a similar rate.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Agency is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in foreign currency.

5. Long-term Investment

The Province of Manitoba accepted responsibility for the vacation entitlements earned by the employees of the Agency prior to its designation as a Special Operating Agency, and the severance pay benefits accumulated to March 31, 1998 for certain of the Agency's employees. Accordingly, the Agency recorded a receivable of $39 from the Province of Manitoba for these accumulated benefits. Effective March 31, 2010 the Province of Manitoba paid the receivable balances related to the funding for these liabilities and has placed the amount of $39 into an interest bearing trust account to be held on the Agency's behalf until the cash is required to discharge the related liabilities.

6. Capital Assets

	2010			2009		
	Cost	**Accumulated Amortization**	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value
Office equipment	**$ 6**	**$ 4**	**$ 2**	$ 6	$ 3	$ 3
Furniture and fixtures	**52**	**29**	**23**	50	24	26
Computer equipment	**20**	**14**	**6**	20	13	7
	$ 78	**$ 47**	**$ 31**	$ 76	$ 40	$ 36

(000's)

7. Accounts Payable and Accrued Liabilities

		2010		2009
Trade accounts payable and accrued liabilities	**$**	**145**	$	242
Accrued salaries		**8**		6
Accrued vacation and overtime		**56**		72
	$	**209**	$	320

8. Severance Liability

Effective April 1, 1998, the Agency began recording accumulated severance pay benefits for its employees. The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. The Agency's actuarially determined net liability for accounting purposes as at March 31, 2010 was $56 (2009 - $58), with the actuarial gain or loss being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2010 present value of the accrued severance benefit obligation were:

Annual rate of return	
Inflation component	2.50%
Real rate of return	4.00%
	6.50%
Annual salary increase rates	
Annual productivity increase	0.75%
Annual general salary increase	3.50%
	4.25%

(000's)

9. Related Party Transactions

The Agency is related in terms of common ownership to all Province of Manitoba created Departments, Agencies and Crown Corporations. The Agency enters into transactions with these entities in the normal course of business and the transactions are measured at the exchange amount.

10. Contingencies

A potential claim has been filed against the Agency for breach of an agreement. In the opinion of management and legal counsel, the amount of the potential loss cannot be estimated, and the outcome of the claim is not determinable. Should any loss result from the resolution of this claim, such loss will be charged to operations in the year of resolution.

11. Commitments

The Agency has entered into an agreement with Operitel for an online Learning Management System until March 2013. The minimum annual payments for the next three years are as follows:

2011	$	92
2012		92
2013		92

12. Pension Benefits

Employees of Organization and Staff Development are eligible for pension benefits in accordance with the provisions of the Civil Service Superannuation Act ("CSSA"), administered by the Civil Service Superannuation Board. The CSSA established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the Government, including Organization and Staff Development, through the Civil Service Superannuation Fund.

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the Agency transferred to the Province of Manitoba the pension liability for its employees. Commencing April 1, 2001, the Agency was required to pay to the Province of Manitoba an amount equal to its employees' current pension contributions. The amount paid for 2010 was $37 ($25 in 2009). Under this agreement, the Agency has no further pension liability.

Auditors' Report

To the Special Operating Agencies Financial Authority:

We have audited the balance sheet of Pineland Forest Nursery, an Agency of the Special Operating Agencies Financial Authority as at March 31, 2010 and the statements of earnings (loss) and comprehensive income and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Nursery's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Nursery as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Winnipeg, Manitoba

May 20, 2010

Chartered Accountants

Pineland Forest Nursery
An Agency of the Special Operating Agencies Financing Authority
Balance Sheet
As at March 31, 2010

	2010 **(In thousands)**	2009 (In thousands)
Assets		
Current		
Accounts receivable *(Note 4)*	**1,384**	582
Inventory	**136**	154
Prepaid expenses	**27**	37
Unbilled revenue	**327**	445
	1,874	1,218
Property, plant and equipment *(Note 5)*	**3,182**	2,733
Investments *(Note 6)*	**187**	187
	5,243	4,138
Liabilities and Equity		
Current		
Working capital advances *(Note 7)*	**2,200**	2,263
Accounts payable and accruals	**230**	362
Unearned revenue	**825**	18
Current portion of long-term debt	**130**	76
	3,385	2,719
Long-term debt *(Note 8)*	**1,603**	1,010
Severance pay liability *(Note 9)*	**262**	246
	5,250	3,975
Deficit	**(363)**	(193)
Contributed surplus *(Note 11)*	**356**	356
	(7)	163
	5,243	4,138

Approved on behalf of the Special Operating Agencies Financing Authority

Director **Director**

The accompanying notes are an integral part of these financial statements

Pineland Forest Nursery
An Agency of the Special Operating Agencies Financing Authority
Statement of Earnings (Loss) and Comprehensive Income and Deficit
For the year ended March 31, 2010

	2010 ***(In thousands)***	*2009* *(In thousands)*
Revenues - Private sector		
Overwinter	**1,005**	1,263
Current	**338**	464
Seed services	**60**	94
Tree improvement	**-**	4
Other	**26**	26
	1,429	1,851
Revenues - Province of Manitoba		
Overwinter	**1,127**	1,016
Current	**122**	69
Seed services	**36**	36
Trees for tomorrow	**20**	192
Other	**76**	18
	1,381	1,331
Total revenues	**2,810**	3,182
Operating expenses *(Schedule 1)*	**1,010**	1,248
General administrative expenses		
Amortization	**314**	209
Interest - operating and capital loan	**109**	100
Salaries, wages and benefits	**1,547**	1,619
	1,970	1,928
Total expenses	**2,980**	3,176
Net earnings (loss) and comprehensive income	**(170)**	6
Deficit, beginning of year	**(193)**	(199)
Deficit, end of year	**(363)**	(193)

The accompanying notes are an integral part of these financial statements

Pineland Forest Nursery
An Agency of the Special Operating Agencies Financing Authority
Statement of Cash Flows
For the year ended March 31, 2010

	2010 **(In thousands)**	2009 (In thousands)
Cash provided by (used for) the following activities		
Operating activities		
Net earnings (loss) and comprehensive income	**(170)**	6
Amortization	**314**	209
	144	215
Changes in working capital accounts		
Accounts receivable	**(802)**	373
Unbilled revenue	**118**	(37)
Inventory	**18**	(38)
Prepaid expenses	**10**	(3)
Accounts payable and accruals	**(132)**	96
Unearned revenue	**807**	(324)
Severance pay liability	**16**	14
	179	296
Financing activities		
Advances of long-term debt	**766**	1,137
Repayments of long-term debt	**(119)**	(51)
	647	1,086
Investing activities		
Purchases of property, plant and equipment	**(763)**	(1,433)
Purchase of investments	**-**	(187)
Repayment from Province of Manitoba	**-**	187
	(763)	(1,433)
Increase (decrease) in cash resources	**63**	(51)
Cash deficiency, beginning of year	**(2,263)**	(2,212)
Cash deficiency, end of year	**(2,200)**	(2,263)
Supplementary cash flow information		
Interest paid	**109**	100

The accompanying notes are an integral part of these financial statements

1. Nature of the organization

In 1953, Pineland Provincial Forestry Nursery (the "Nursery") was established to meet all the nursery stock requirements of the Province at one location. Prior to 1953 there were several small nurseries located throughout the Province. Effective April 1, 1995, Pineland Forest Nursery was designated as a special operating agency under The Special Operating Agencies Financing Authority Act (C.C.S.M. c.S185) and operates under a charter approved by the Lieutenant Governor in Council.

A management agreement between the Financing Authority and the Minister of Conservation assigns responsibility to the Nursery to manage and account for the agency related assets and operations on behalf of the Financing Authority. Pineland Forest Nursery continues to be part of Manitoba Conservation under the general direction of the Assistant Deputy Minister of Conservation Programs and ultimately the policy direction of the Deputy Minister and the Minister. Pineland Forest Nursery remains bound by relevant legislation and regulations. It is also bound by administrative policy, except where specific exemptions have been provided for in its charter in order to meet business objectives.

2. Significant accounting policies

The financial statements of the Nursery have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies.

Inventory

Supplies inventory is valued at the lower of cost and replacement cost.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is provided using the declining balance method at rates intended to amortize the cost of assets over their estimated useful lives.

	Rate
Greenhouses, coldframes, freezers, holding area, minor service buildings, major pump-house, major service buildings, propane conversion	10%
Equipment	20-30%

Amortization on current year additions is pro-rated on the length of time in use in the current year.

Revenue recognition

Revenue is recognized on a percentage of completion basis. Any excess of revenue recorded on a percentage of completion basis over amounts billed is recorded as unbilled revenue. Any excess of amounts billed over revenue recorded on a percentage of completion basis is recorded as unearned revenue.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Inventory is evaluated and is stated at the lower of the cost and the net realizable value. Amortization is based on the estimated useful lives of property, plant and equipment.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

2. Significant accounting policies *(Continued from previous page)*

Accrued vacation entitlement

The Nursery follows the policy of the Department of Finance to recognize the vacation entitlement liability accumulated to March 31, 1995. The liability at this date is offset by a receivable from the Province and was $99,000 as at March 31, 1995. Any subsequent changes to the entitlement are reflected as a current year expense to the Nursery. The accrued vacation entitlement was $118,190 as of March 31, 2010 (2009 - $123,912) and is included in accounts payable and accruals.

Donated materials and services

Donated materials and services are recorded in the accounts at their fair value. Fair value is based on the amounts that would be paid if these materials and services were purchased in the normal course of business. No amount has been included in cases when fair value could not be reasonably estimated.

Capital disclosures

The Nursery's capital consists of contributed surplus and retained earnings (deficit) provided from operations.

The Nursery's capital management policy is to maintain sufficient capital to meet its objectives through its retained earnings by managing transfers of surplus funds to the Province of Manitoba; meet short-term capital needs with working capital advances from the Province of Manitoba; and meet long-term capital needs through long-term debt with the Province of Manitoba. There were no changes in the Nursery's approach to capital management during the period.

The Nursery is not subject to externally imposed capital requirements.

Recent accounting pronouncements

Section 3064 Goodwill and Intangible Assets

Effective April 1, 2009, the Nursery adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3064 Goodwill and Intangible Assets and the updates to CICA Handbook section 1000 Financial Statement Concepts.

This guidance establishes updated standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

These changes did not have an impact on the Nursery's financial statements for the year ended March 31, 2010.

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

During 2009 the Nursery adopted the Emerging Issues Committee (EIC) 173 and amendments to Section 3855, Financial Instruments - Recognition and Measurement and 3862, Financial Instruments - Disclosures:

Section 3855 – Effective Interest Method
Section 3855 – Embedded Derivatives on Reclassification of Financial Assets
Section 3855 – Impairment of Financial Assets
Section 3862 – Fair Value and Liquidity Risk Disclosure

Due to the nature of the Nursery's financial instruments, the adoption of these standards and amendments had no material impact on the financial statements of the Agency.

Convergence with Public Sector Accounting Standards as issued by the Public Sector Accounting Board

Effective April 1, 2011 the Nursery will be adopting Public Sector Accounting Standards issued by the Public Sector Accounting Board. The Financing Authority is currently in the process of quantifying the impact these changes will have on its financial statements.

3. Financial instruments and financial risk management

Financial assets and liabilities are initially recorded at fair value. Measurement in subsequent periods depends on the financial instrument's classification. Financial instruments are classified into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and other financial liabilities. All financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

The financial assets and liabilities of the Nursery are classified and measured as follows:

Financial Asset/Liability	Category	Subsequent Measurement
Accounts receivable	Loans and receivables	Amortized cost
Long-term investments	Held for trading	Fair value
Working capital advances	Held for trading	Fair value
Accounts payable and accruals	Other financial liabilities	Amortized cost
Long term debt	Other financial liabilities	Amortized cost
Severance pay liability	Other financial liabilities	Amortized cost

Amortized cost is determined using the effective interest rate method.

Gains and losses on financial instruments subsequently measured at amortized cost are recognized in the statement of earnings and retained earnings in the period the gain or loss occurs. Changes in fair value on financial instruments classified as held for trading are recognized in the statement of earnings and retained earnings for the current period. Changes in fair value on financial instruments classified as available for sale would be recorded in other comprehensive income until realized, at which time they will be recorded in the statement of earnings and retained earnings.

Fair value of financial instruments

The fair values of accounts receivable and accounts payable and accruals approximate their carrying values due to their short-term maturity. The fair value of the fixed rate long-term debt is also approximated by its carrying value, as there have been no significant changes in lending rates or other conditions.

Financial risk management - overview

The Nursery has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; market risk; interest risk; and foreign currency risk.

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Nursery to credit risk consist principally of cash and term deposits and accounts receivable.

The maximum exposure of the Nursery to credit risk at March 31, 2010 (in thousands) is:

Accounts receivable	1,384
Long-term investment	187
Maximum exposure to credit risk	1,571

3. Financial instruments and financial risk management *(Continued from previous page)*

Credit risk *(Continued from previous page)*

Accounts Receivable: The Nursery is not exposed to significant credit risk due to the large customer base and payment in full is typically collected when it is due. The Nursery establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off.

Long-Term Investment: The Nursery is not exposed to significant credit risk as the investment is held with the Minister of Finance.

The change in the allowance for doubtful accounts during the year (in thousands) was as follows:

Balance, beginning of the year	43
Provision for receivable impairment	6
Amounts written off	-
Balance, end of the year	49

Liquidity risk

Liquidity risk is the risk that the Nursery will not be able to meet its financial obligations as they come due.

The Nursery manages liquidity risk by maintaining adequate cash balances and by review from the Province of Manitoba to ensure adequate funding will be received to meet the obligations.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Nursery's income or the fair values of its financial instruments. The significant market risks the Nursery is exposed to are interest rate risk and foreign currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to working capital advances, long term debt and long-term investment.

The Nursery manages its interest rate risk on long-term debt through the exclusive use of fixed rate terms for its long-term debt. The interest rate risk on the long-term investment is low due to its short-term nature.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Nursery is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in foreign currency.

4. Accounts receivable

	2010 (In thousands)	*2009 (In thousands)*
Trade receivables		
Province of Manitoba	**1,035**	144
Other	**398**	481
	1,433	625
Allowance for doubtful accounts	**(49)**	(43)
	1,384	582

5. Property, plant and equipment

			2010 (In thousands)
	Cost	***Accumulated amortization***	***Net book value***
Buildings	**5,920**	**3,051**	**2,869**
Equipment	**1,952**	**1,639**	**313**
	7,872	**4,690**	**3,182**

			2009 (In thousands)
	Cost	*Accumulated amortization*	*Net book value*
Buildings	5,200	2,843	2,357
Equipment	1,908	1,532	376
	7,108	4,375	2,733

6. Long-term investments

The Province of Manitoba accepted responsibility for the vacation entitlements earned by the employees of the Nursery prior to its designation as SOA, and the severance pay benefits accumulated to March 31, 1998 for certain Nursery employees. Accordingly, the Nursery recorded as a receivable of $186,872 from the Province of Manitoba for these accumulated benefits. Effective March 31, 2009 the Province of Manitoba had agreed to pay the receivable balances related to the funding for these liabilities and has placed the amount of $186,872 into an interest bearing trust account to be held on the Nursery's behalf until the cash is required to discharge the related liabilities.

7. Working capital advances

The Financing Authority has provided the Nursery with an authorized line of working capital of $3,000,000 of which $2,200,000 was advanced at March 31, 2010 (2009 - $2,263,000). The indebtedness bears interest at prime less 1%.

8. Long-term debt

	2010 (In thousands)	*2009 (In thousands)*
Capital purchase loan payable in monthly installments of $6,317, plus interest at 5.125%, due July 2023.	**1,011**	1,086
Capital purchase loan payable in monthly installments of $2,727, plus interest at 4.875%, due July 2023.	**436**	-
Capital purchase loan payable in monthly installments of $1,786, plus interest at 4.875%, due July 2023.	**286**	-
	1,733	1,086
Less: current portion	**130**	76
	1,603	1,010

Principal repayments on long-term debt in each of the next five years (in thousands) are estimated as follows:

2011	130
2012	130
2013	130
2014	130
2015	130

9. Severance pay liability

Effective April 1, 1998, the Nursery began recording accumulated severance pay benefits for its employees. The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from that expected and/or because changes in actuarial assumptions used. The resulting actual gains or losses are amortized over the expected average remaining service life of the related employee group.

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. The Nursery's actuarially determined net liability for accounting purposes as at March 31, 2010 was $262,000 (2009 - $246,000), with an actuarial loss being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2010 present value of the accrued severance benefit obligation were:

Annual rate of return:	
Inflation component	2.50%
Real rate of return	4.00%
	6.50%
Assumed salary increase rates	
Annual productivity increase	0.75%
Annual general salary increase	3.50%
	4.25%

10. Pension benefits

Employees of the Nursery are eligible for pension benefits in accordance with the provisions of The Civil Service Superannuation Act (CSSA), administered by the Civil Service Supperannuation Board (CSSB). The CSSA established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service Superannuation Fund (CSSF).

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the Nursery transferred to the Province the pension liability for its employees. Commencing April 1, 2001, the Nursery was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for 2010 was $71,391 (2009 - $60,000). Under this agreement, the Nursery has no further pension liability.

11. Contributed surplus

The Special Operating Agencies Financing Authority and the Province of Manitoba entered into a Transfer Agreement respecting the transfer from the Province to the Financing Authority of inventory and capital assets values at $712,000 required for the continuing operations of Pineland Forest Nursery as at March 31, 1995. The Nursery was responsible to repay the Special Operating Agencies Financing Authority the debt portion, in the amount of $356,000 (being half of the value of the assets) and to record the remainder as the Province's equity in the Financing Authority as related to the Nursery's operations. The debt portion was fully repaid during the 2005 fiscal year.

12. Economic dependence

The Nursery is economically dependent on the Province of Manitoba, because it derives a significant portion of its revenue from the Province and all of its financing requirements through the Financing Authority.

13. Commitments

The Nursery has entered into a vehicle lease agreement with estimated minimum annual payments (in thousands) as follows:

2011	8
2012	8
	16

Pineland Forest Nursery
An Agency of the Special Operating Agencies Financing Authority
Schedule 1 - Schedule of Operating expenses
For the year ended March 31, 2010

	2010 ***(In thousands)***	*2009* *(In thousands)*
Operating expenses		
Departmental services and professional fees	**29**	31
Freight	**34**	53
Bad debts	**6**	-
Marketing	**3**	12
Natural gas and hydro	**332**	392
Office	**65**	67
Property taxes and insurance	**76**	80
Repairs and maintenance	**142**	131
Supplies	**303**	461
Travel	**20**	21
	1,010	1,248

Pineland Forest Nursery
An Agency of the Special Operating Agencies Financing Authority
Schedule 2 - Schedule of Public Sector Compensation Disclosure
For the year ended March 31, 2010

Pursuant to the disclosure required by The Public Sector Compensation Disclosure Act, no remuneration was paid to the Advisory Board members. During the fiscal year ended March 31, 2010, the following employees received compensation of $50,000 or more:

Employee	Title	Compensation
Trevor Stanley	General Manager	$ 94,552
David Flight	Manager	56,784
Richard Lepage	Manager	56,784
David Turchyn	Manager	59,865
Linda Rzyhak	Manager	50,028

BDO

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Auditors' Report

To the Special Operating Agencies Financing Authority

We have audited the balance sheet of **THE PROPERTY REGISTRY**, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2010 and the statements of income, comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba
May 5, 2010

THE PROPERTY REGISTRY
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Balance Sheet
(in thousands)

March 31		2010		2009
Assets				
Current Assets				
Cash and short-term investments	$	9,803	$	12,507
Customer deposits		1,422		1,447
Accounts receivable (Note 5)		571		477
Prepaid expense		53		77
		11,849		14,508
Long-term Investment (Note 6)		1,602		1,602
Capital assets (Note 7)		569		699
	$	14,020	$	16,809
Liabilities and Equity				
Current Liabilities				
Accounts payable and accrued expenses	$	1,268	$	1,165
Deferred revenue		1,422		1,447
Land titles assurance fund (Note 9)		23		61
		2,713		2,673
Severance pay liability (Note 10)		1,509		1,469
		4,222		4,142
Commitments (Note 12)				
Retained earnings		9,798		12,667
	$	14,020	$	16,809

The accompanying notes are an integral part of these financial statements.

THE PROPERTY REGISTRY
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Statement of Income, Comprehensive Income and Retained Earnings
(in thousands)

For the year ended March 31		2010		2009
Revenue				
Land transfer tax (Note 11)	$	**53,676**	$	49,555
Fee revenue - Land Titles		**15,560**		15,947
- Personal Property Registry		**5,284**		5,787
Cost recoveries and fee waiver (Note 3)		**541**		523
Interest income		**26**		230
		75,087		72,042
Less: Tax revenues transferred to Province		**(53,676)**		(49,555)
		21,411		22,487
Expenses				
Salaries and employee benefits		**8,717**		8,516
Operating expenses (per schedule)		**4,020**		3,803
Amortization		**283**		293
Contributed services		**260**		254
		13,280		12,866
Net income and comprehensive income for the year	$	**8,131**	$	9,621
Retained earnings, beginning of year	$	**12,667**	$	12,761
Net income and comprehensive income for the year		**8,131**		9,621
Net earnings paid to the Province of Manitoba		**(11,000)**		(9,715)
Retained earnings, end of year	$	**9,798**	$	12,667

The accompanying notes are an integral part of these financial statements.

THE PROPERTY REGISTRY
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Statement of Cash Flows
(in thousands)

For the year ended March 31	2010	2009
Cash Flows from Operating Activities		
Net income and comprehensive income for the year	$ **8,131**	$ 9,621
Adjustment for amortization	**283**	293
	8,414	9,914
Changes in non-cash working capital		
Customer deposits	**25**	(43)
Accounts receivable	**(94)**	32
Prepaid expenses	**24**	1
Receivable from the Province of Manitoba	**-**	1,602
Accounts payable	**103**	38
Deferred revenue	**(25)**	43
Land titles assurance fund deposits	**(38)**	(32)
Severance payable	**40**	(50)
	35	1,591
	8,449	11,505
Cash Flows from Investing Activities		
Capital assets	**(153)**	(150)
Cash Flows from Financing Activities		
Net earnings paid to the Province of Manitoba	**(11,000)**	(9,715)
Net increase (decrease) in cash and cash equivalents	**(2,704)**	1,640
Cash and cash equivalents, beginning of year	**14,109**	12,469
Cash and cash equivalents, end of year	$ **11,405**	$ 14,109
Represented by		
Cash and short-term investments	$ **9,803**	$ 12,507
Long term investment	**1,602**	1,602
	$ **11,405**	$ 14,109

The accompanying notes are an integral part of these financial statements.

1. Nature of Organization

Effective April 1, 1997, the Lieutenant Governor in Council designated The Property Registry as a Special Operating Agency under The Special Operating Agencies Financing Authority Act. The order also directed the Special Operating Agencies Financing Authority (SOAFA) and the Minister of Consumer and Corporate Affairs, being the Minister responsible for the Agency at that time, to enter into a management agreement with respect to The Property Registry. The Property Registry was established to operate the Land Titles and Personal Property Registry 7 offices on a self-sustaining financial basis while providing a standard of service that will meet the needs of its clients.

The Property Registry is part of the Department of Family Services and Consumer Affairs under the general direction of the Assistant Deputy Minister for Consumer and Corporate Affairs, who is also Chairperson of The Property Registry's Advisory Board. The Property Registry remains bound by relevant legislation, regulation and administrative policy as specified in its operating charter.

The Property Registry's financial contribution to the Province of Manitoba is included in the Manitoba Estimates of Revenue and Expenditure – Special Operating Agencies.

2. Change in Accounting Policies

Section 3064 Goodwill and Intangible Assets

Effective April 1, 2009, the Agency adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3064 Goodwill and Intangible Assets and the updates to the CICA Handbook section 1000 Financial Statement Concepts.

This guidance establishes updated standards for the recognition, measurement, presentation, and disclosure of goodwill and intangible assets.

These changes did not have an impact on the Agency's financial statements for the year ended March 31, 2010.

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

During 2009 the Agency adopted the Emerging Issues Committee (EIC) 173 and amendments to Section 3855, Financial Instruments - Recognition and Measurement and 3862, Financial Instruments - Disclosures:

- Section 3855 - Effective Interest Method
- Section 3855 - Embedded Derivatives on Reclassification of Financial Assets
- Section 3855 - Impairment of Financial Assets
- Section 3862 - Fair Value and Liquidity Risk Disclosure

2. Change in Accounting Policies (continued)

Due to the nature of the Agency's financial instruments, the adoption of these standards and amendments had no material impact on the financial position of the Agency.

Future Accounting Changes

Effective April 1, 2011 the Agency will be adopting Public Sector Accounting Standards issued by the Public Sector Accounting Board. The Agency is currently in the process of quantifying the impact these changes will have on its financial position.

3. Significant Accounting Policies

Basis of Reporting

The financial statements of the Agency have been prepared in accordance with Canadian generally accepted accounting principles.

Cash and Cash Equivalents

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

Capital Assets

Capital assets are recorded at cost and amortization is computed using the straight-line method based on remaining estimated useful lives, after allowance for salvage value, where applicable as follows:

Computer system	20%
Office equipment	20%
Leasehold improvements	10%
Equipment under capital lease	20%

In the year of acquisition, amortization is calculated at one-half the rate indicated.

Revenue Recognition

Revenue is recognized when the services have been performed. Investment income is recognized in the year it is received or receivable.

3. Significant Accounting Policies (continued)

Cost Recoveries and Fee Wavier

Included in revenues are recoveries of costs or fees for services provided to other provincial government offices where no statutory provision precludes cost recovery.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates as additional information becomes available in the future.

Capital Disclosures

The Agency's capital consists of retained earnings provided from operations.

The Agency's capital management policy is to maintain sufficient capital to meet its objectives through its retained earnings by managing transfers of surplus funds to the Province of Manitoba; meet short-term capital needs with working capital advances from the Province of Manitoba; and meet long-term capital needs through long-term debt with the Province of Manitoba. There were no changes in the Agency's approach to capital management during the period.

The Agency is not subject to externally imposed capital requirements.

4. Financial Instruments and Financial Risk Management

Financial assets and liabilities are initially recorded at fair value. Measurement in subsequent periods depends on the financial instrument's classification. Financial instruments are classified into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and other financial liabilities. All financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

The financial assets and liabilities of the Agency are classified and measured as follows:

Financial Asset/Liability	Category	Subsequent Measurement
Cash, short-term investments, customer deposits and long- term investment	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued expenses	Other financial liabilities	Amortized cost

4. Financial Instruments and Financial Risk Management (continued)

Amortized cost is determined using the effective interest rate method.

Gains and losses on financial instruments subsequently measured at amortized cost are recognized in the statement of earnings and retained earnings in the period the gain or loss occurs. Changes in fair value on financial instruments classified as held for trading are recognized in the statement of earnings and retained earnings for the current period. Changes in fair value on financial instruments classified as available for sale would be recorded in other comprehensive income until realized, at which time they recorded in the statement of earnings and retained earnings.

Fair Value of Financial Instruments

The fair values of accounts receivable, accounts payable and accrued expenses approximate their carrying values due to their short-term maturity. The fair value of the Agency's financial instruments has been determined based on quoted prices from active markets.

Financial Risk Management - Overview

The Agency has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; market risk; interest risk; and foreign currency risk.

Credit Risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Agency to credit risk consist principally of cash and term deposits and accounts receivable.

The maximum exposure of the Agency to credit risk at March 31, 2010 is:

Cash and short-term investments	$	9,803
Customer deposits		1,422
Accounts receivable		571
Long-term investment		1,602
	$	13,398

Cash and short-term investments, customer deposits and long-term investment: The Agency is not exposed to significant credit risk as the cash and short-term investments, customer deposits and the long-term investment are primarily held by the Minister of Finance.

4. Financial Instruments and Financial Risk Management (continued)

Customer deposits: The Agency is not exposed to significant credit risk as the cash is held by a Chartered Bank.

Accounts receivable: The Agency is not exposed to significant credit risk as the majority of accounts receivable are due from customers which the Agency has experience with and payments from these customers are typically made in full and collected when they are due. The Agency establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off.

Management has determined that no allowance for doubtful accounts is required as at March 31, 2010.

Liquidity Risk

Liquidity risk is the risk that the Agency will not be able to meet its financial obligations as they come due.

The Agency manages liquidity risk by maintaining adequate cash balances and by review from the Province of Manitoba to ensure adequate funding will be received to meet the obligations.

Market Risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Agency's income or the fair values of its financial instruments. The significant market risks the Agency is exposed to are interest rate risk and foreign currency risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to short-term and long-term investments.

The interest rate risk on short-term and long-term investments is considered to be low because of their short-term nature.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Agency is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in foreign currency.

For the year ended March 31, 2010

5. Accounts Receivable

		2010		2009
Trade receivables	$	**451**	$	382
Receivable from government and departments		**120**		95
	$	**571**	$	477

6. Long-term Investment

The Province of Manitoba accepted responsibility for the vacation entitlements earned by the employees of the Agency prior to its designation as a Special Operating Agency, and the severance pay benefits accumulated to March 31, 1998 for certain of the Agency's employees. Accordingly, the Agency recorded a receivable of $1,602 from the Province of Manitoba for these accumulated benefits. Effective March 31, 2009 the Province of Manitoba paid the receivable balances related to the funding for these liabilities and has placed the amount of $1,602 into an interest bearing trust account to be held on the Agency's behalf until the cash is required to discharge the related liabilities.

7. Capital Assets

		2010 Cost		2010 Accumulated Amortization		2009 Cost		2009 Accumulated Amortization
Computer system	$	**724**	$	**533**	$	621	$	452
Office equipment		**1,377**		**1,168**		1,331		1,006
Leasehold improvements		**585**		**416**		581		376
Equipment under capital lease		**70**		**70**		70		70
	$	**2,756**	$	**2,187**	$	2,603	$	1,904
Cost less accumulated amortization			$	**569**			$	699

8. Land Titles Assurance Fund

Claims for loss as provided for in *The Real Property Act* are paid from this fund. The Agency's Land Titles Branch is responsible for the collection of deposits and the defence against claims on this fund. Claims in excess of the fund balance are paid out of the Consolidated Revenue Fund of the Province of Manitoba.

9. Severance Pay Liability

Effective April 1, 1998, the Agency began recording accumulated severance pay benefits for its employees. The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from that expected and/or because of changes in actuarial assumptions used.

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. The Agency's actuarially determined net liability for accounting purposes as at March 31, 2010 was $1,509 ($1,469 in 2009) with the actuarial gain or loss being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2010 present value of the accrued severance benefit obligation were:

Annual rate of return	
Inflation component	2.50%
Real rate of return	4.00%
	6.50%
Annual salary increase rates	
annual productivity increase	0.75%
annual general salary increase	3.50%
	4.25%

10. Land Transfer Tax

Land transfer tax is administered and collected by The Property Registry. Tax collected less refunds issued is remitted to the Consolidated Revenue Fund of the Province of Manitoba. Adjustments and refunds of land transfer tax are paid out of the Department of Finance under the advice of the Registrar General.

11. Commitments

The Agency has entered into a Memorandum of Understanding with Manitoba Infrastructure and Transportation (MIT) to lease it premises. The accommodation charges are established annually by MIT, and are based on its approved budget.

The Agency has also entered into agreements to lease equipment. These agreements carry various terms and conditions.

The estimated minimum lease payments for the premises and equipment in aggregate for each of the next five years are as follows:

	Premises	Equipment	Total
2011	$ 982	$ 79	$ 1,061
2012	1,011	79	1,090
2013	1,041	79	1,120
2014	1,072	79	1,151
2015	1,104	79	1,183
Total minimum lease payments	$ 5,210	$ 395	$ 5,605

12. Pension Benefits

Employees of The Property Registry are eligible for pension benefits in accordance with the provisions of the Civil Service Superannuation Act (CSSA), administered by the Civil Service Superannuation Board (CSSB). The CSSA established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the Government, including The Property Registry, through the Civil Service Superannuation Fund (CSSF).

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, The Property Registry transferred to the Province the pension liability for its employees.

Commencing April 1, 2001, The Property Registry was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for 2010 was $432 ($308 in 2009). Under this agreement, the Agency has no further pension liability.

13. Contingencies

The Property Registry has been named in six lawsuits. The likelihood of damages being awarded and the amount to be awarded is not reasonably estimable for any of the claims. Should any loss result from the resolution of these claims, such loss will be charged to the Assurance Fund of Manitoba in the year of resolution.

THE PROPERTY REGISTRY
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Schedule of Operating Expenses
(in thousands)

For the year ended March 31		2010		2009
Better Systems Initiative	$	**1,044**	$	1,086
Computer processing		**446**		397
Department services		**68**		68
Desktop services		**502**		414
Equipment lease		**84**		83
Interest and bank charges		**49**		39
Occupancy cost		**855**		846
Office supplies		**198**		174
Postage and delivery		**127**		119
Professional fees		**24**		23
Publications and subscriptions		**24**		23
Records preservation project		**63**		65
Repairs and maintenance		**32**		41
Software licensing		**28**		25
Special surveys		**96**		33
Sundry		**10**		17
Survey remonumentation program		**234**		186
Telephone		**82**		80
Training and staff development		**41**		53
Travel		**13**		31
	$	**4,020**	$	3,803

Public Trustee of Manitoba

155 Carlton St, Suite 500
Winnipeg, MB R3C 5R9
CANADA

MANAGEMENT REPORT

The accompanying financial statements are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available up to July 21, 2010. The financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

Management maintains internal controls to provide reasonable assurance that the financial information is reliable and accurate and that the assets of The Public Trustee are properly safeguarded.

The responsibility of the Auditor General is to express an independent, professional opinion on whether the financial statements are fairly stated in accordance with the accounting policies stated in the financial statements. The Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

The Public Trustee has reviewed and approved these financial statements and the Annual Report in advance of its release and has approved its content and authorized its release.

Joanna K. Knowlton
Public Trustee

OFFICE OF THE
AUDITOR GENERAL
MANITOBA

AUDITORS' REPORT

To the Legislative Assembly of Manitoba,
To the Public Trustee of Manitoba, and
To the Special Operating Agencies Financing Authority

We have audited the balance sheet of the Public Trustee of Manitoba, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2010, and the statements of income, comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Public Trustee's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2010, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Office of the Auditor General

Office of the Auditor General

Winnipeg, Manitoba
July 21, 2010

500 - 330 Portage Avenue Winnipeg, Manitoba R3C 0C4 office: (204) 945-3790 fax: (204) 945-2169
www.oag.mb.ca

PUBLIC TRUSTEE OF MANITOBA
(An Agency Of The Special Operating Agencies Financing Authority - Province of Manitoba)

BALANCE SHEET
(In Thousands)
AS AT MARCH 31, 2010

ASSETS

	2010	2009
Current		
Cash	$ 214	$ 254
Accounts receivable (Note 5)	836	807
Prepaid expenses	3	4
Short-term investments	1,625	1,370
	2,678	2,435
Trust Account – Severance (Note 6)	515	515
Capital Assets (Note 7)	81	107
	$ 3,274	$ 3,057

LIABILITIES

	2010	2009
Current		
Accounts payable and accrued liabilities (Note 8)	$ 540	$ 530
Severance pay benefits (Note 17)	464	453
	1,004	983

EQUITY

	2010	2009
Revenue stabilization reserve (Note 16)	500	500
Retained earnings	1,770	1,574
	2,270	2,074
	$ 3,274	$ 3,057

PUBLIC TRUSTEE OF MANITOBA

(An Agency Of The Special Operating Agencies Financing Authority - Province of Manitoba)

STATEMENT OF INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS
(In Thousands)
YEAR ENDED MARCH 31, 2010

	2010	2009
Revenue		
Fees (Note 10)	$ 6,095	$ 5,560
Interest	9	41
Other	107	98
	6,211	5,699
Expenses		
Amortization of capital assets	31	34
Accommodation costs (Note 12)	360	362
Other administration expenses (Note 11)	1,219	964
Salaries and benefits	4,183	4,148
Pension benefits (Note 18)	222	133
	6,015	5,641
Net Income and comprehensive Income	196	58
Retained earnings, beginning of year	1,574	1,516
Retained earnings, end of year	$ 1,770	$ 1,574

PUBLIC TRUSTEE OF MANITOBA
(An Agency Of The Special Operating Agencies Financing Authority - Province of Manitoba)

STATEMENT OF CASH FLOWS
(In Thousands)
YEAR ENDED MARCH 31, 2010

	2010	2009
Cash derived from (applied to)		
Operating		
Net income and comprehensive income	$ 196	$ 58
Items not involving cash		
Amortization of capital assets	31	34
	227	92
Change in		
Accounts receivable	(29)	(56)
Prepaid expenses	(1)	0
Accounts payable and accrued liabilities	10	50
Severance pay benefits	11	29
	218	115
Investing		
Acquisition of capital assets	(3)	(2)
Net increase in cash and cash equivalents	215	113
Cash and cash equivalents		
Beginning of year	1,624	1,511
End of year	$ 1,839	$ 1,624
Cash and cash equivalents consist of:		
Cash	$ 214	$ 254
Short-term investments	1,625	1,370
	$ 1,839	$ 1,624

Supplemental Cash Flow Information

Interest received	$ 7	31

PUBLIC TRUSTEE OF MANITOBA
(An Agency Of The Special Operating Agencies Financing Authority - Province of Manitoba)

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2010

1. Nature of organization

The Public Trustee protects the interests of Manitobans by providing trust, legal, financial and personal services on a last resort basis to people who are mentally incompetent, under the age of majority, or whose estates would otherwise be unadministered upon their death.

Effective April 1, 1996, The Public Trustee was designated as a Special Operating Agency pursuant to The Special Operating Agencies Financing Authority Act, Cap. s185, C.C.S.M. and operates under a charter approved by the Lieutenant Governor in Council.

The Public Trustee is financed through the Special Operating Agencies Financing Authority (SOAFA). SOAFA has the mandate to hold and acquire assets required for and resulting from Public Trustee operations. It finances The Public Trustee through repayable loans and working capital advances. The financial framework provides increased management authority which, coupled with more rigorous planning and reporting requirements afforded by Special Operating Agency status, assists The Public Trustee to sustain the provision of high quality service to her clients.

A Management Agreement between SOAFA and the Minister of Justice assigns responsibility to The Public Trustee to manage and account for Public Trustee related assets and operations on behalf of SOAFA.

The Public Trustee continues to be part of Manitoba Justice. The Public Trustee is a corporation sole with perpetual succession. As a corporate entity, The Public Trustee functions separately from government and is capable of suing or being sued on behalf of the clients, trusts and estates which are administered by her.

The Public Trustee remains bound by relevant legislation and regulations. The Public Trustee is also bound by administrative policy except where specific exemptions have been provided for in her charter in order to meet business objectives.

2. Change in Accounting Policies.

Effective April 1, 2009, the Agency adopted the following new handbook sections issued by the Canadian Institute of Chartered Accountants (CICA).

Section 3064 Goodwill and Intangible Assets

Effective April 1, 2009, the Agency adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook section 30674 Goodwill and Intangible Assets and the updates to CICA Handbook section 1000 Financial Concepts. This guidance establishes updated standards for the recognition, measurement presentation and disclosure of goodwill and intangible assets.

These changes did not have an impact on the Agency's financial statements for the year ended March 31, 2010.

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

During 2009 the Agency adopted the Emerging Issues Committee (EIC) 173 and amendments to Section 3855, Financial Instruments – Recognition and Measurement and 3862, Financial Instruments – Disclosures:

Section 3855 – Effective Interest Method

Section 3855 – Embedded Derivatives on Reclassification of Financial Assets

Section 3855 – Impairment of Financial Assets

Section 3862 – Fair Value and Liquidity Risk Disclosure

Due to the nature of the Agency's financial instruments, the adoption of these standards and amendments had no material impact on the financial position of the Agency.

Section 3862 Financial Instruments – Disclosure

The Agency has adopted the amendment to the CICA standard, Section 3862 Financial Instruments – Disclosures. This amended section, which was effective, January 1, 2009, requires an entity to classify fair value measurements into a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Agency's investments. The hierarchy of inputs is summarized below:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices), or
- Level 3 – inputs for the asset or liability that are not based on observable market data.

Changes in valuation methods may result in transfer into and out of an investment's assigned level.

It has been determined that the Agency's investments would be classified as Level 2.

The above noted new standards have no impact on the recognition, measurement or presentation of financial instruments in the Agency's year-end financial statements. The only financial statement impact is to note disclosure.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2010

3. Significant accounting policies

a) Basis of reporting

The financial statements of the Agency are presented in accordance with Canadian generally accepted accounting principles.

b) Revenue recognition

i. Administration fees are charged to client accounts quarterly based on the anniversary date of the account in accordance with provisions of *The Public Trustee Act*. The fees revenue recognized in a year consists of all fees charged, accruals and adjustments made to accounts.

ii. Other fees are recognized as revenue when charged to an account and could be subject to adjustment on closing.

iii. Statutory fees are recognized as revenue when received.

c) Capital assets

Capital assets are recorded at cost and are amortized annually at the following rates and methods:

Furnishings and equipment	-	20%, declining balance
Computer equipment	-	20%, straight-line, 10% in year of acquisition,
Leasehold improvements	-	20%, straight-line

d. Intangible Assets
Intangible assets are stated at cost less accumulated amortization. Amortization based on the estimated useful life of the asset is calculated as follows:

Computer software	30% declining balance basis

Software purchases less than $1 are expensed in year of acquisition

e) Use of estimates

In preparing the Agency's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

f) Capital disclosures

The Agency's capital consists of retained earnings provided from operations and revenue stabilization reserve funds allocated from retained earnings.

The Agency's capital management policy is to maintain sufficient capital to meet its objectives through its retained earnings and revenue stabilization reserve. The Agency has developed approximate risk management strategies, as described in Note 4, to preserve the retained earnings and revenue stabilization reserve of the Agency. There were no changes in the Agency's approach to capital management during the period.

The Agency is not subject to externally imposed capital requirements.

4. Financial Instruments and Financial Risk Management

Financial assets and liabilities are initially recorded at fair value. Measurement in subsequent periods depends on the financial instrument's classification. Financial instruments are classified into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and other financial liabilities. All financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recoded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

The financial assets and liabilities of Agency are classified and measured as follows:

Financial Asset/Liability	Category	Subsequent Measurement
Cash and Short Term Investments	Held for trading	Fair value
Long Term Investments	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost
Accrued liabilities	Other financial liabilities	Amortized cost

Amortized cost is determined using the effective interest rate method.

Gains and losses on financial instruments subsequently measured at amortized cost are recognized in the statement of income, comprehensive income and retained earnings in the period the gain or loss occurs. Changes in fair value on financial instruments classified as held for trading are recognized in the statement of income, comprehensive income and retained earnings for the current period. Changes in fair value on financial instruments classified as available for sale would be recorded in a statement of changes in net assets or other comprehensive income until realized, at which time they recorded in the statement of income, comprehensive income and retained earnings.

Fair value of Financial Instruments

The fair values of accounts receivable, accounts payable and accrued liabilities approximates their carrying values due to their short-term maturity.

The Agency's investments are classified as Level 2 because they are invested with the Department of Finance. The fair value of long term investments approximates it's carrying value as the original deposit is re-invested annually at rates for investments with similar terms and conditions.

Financial risk management - overview

The Agency has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- Interest risk; and
- Foreign currency risk

The Agency manages its exposure to risks associated with financial instruments that have the potential to affect its operating performance. The Agency's management has overall responsibility for the establishment and oversight of the Agency's objectives, policies and procedures for measuring, monitoring and managing these risks.

The Agency has exposure to the following risks associated with its financial instruments. Analysis of sensitivity to specified risks is provided where there may be an effect on the results of operations or financial position. Sensitivity analysis is performed by relating the reasonably possible changes in risk variables as at March 31, 2010 to the financial instruments outstanding on that date.

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Agency to credit risk consist principally of cash and term deposits, Trust Accounts and accounts receivable.

The maximum exposure of the Agency to credit risk at March 31, 2010 is:

Cash and funds on deposit	$1,839
Accounts receivable	836
Trust Account – Severance	515
	$3,190

Cash and funds on deposits: Agency is not exposed to significant credit risk as the cash and term deposits are primarily held by the Minister of Finance.

Accounts receivable: The Agency is not exposed to significant credit risk as the receivable is composed of fees due from clients and payment in full is typically collected when it is due. The Agency establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is calculated at 5% of accrued fees.

(In Thousands)

The aging of accounts receivable and allowance for doubtful accounts as at March 31, 2010 was:

	Gross	Allowance
Current	$872	$ 36
30-60 days past billing date		
61-90 days past the billing date		
Greater than 90 days past the billing date		
	$872	$ 36

Long Term Investment: Agency is not exposed to significant credit risk as the trust account is held by the Minister of Finance.

Liquidity risk

Liquidity risk is the risk that the Agency will not be able to meet its financial obligations as they come due.

The Agency manages liquidity risk by maintaining adequate cash balances. The Agency prepares and monitors detailed forecasts of cash flows from operations and anticipated investing and financing activities. The Agency continuously monitors and reviews both actual and forecasted cash flows through periodic financial reporting.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect The Agency's income or the fair values of its financial instruments. The significant market risks the Agency is exposed to is: interest rate risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to funds on deposit.

The interest rate risk on funds on deposit is considered to be low because of their short-term nature.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Agency is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in foreign currency.

PUBLIC TRUSTEE OF MANITOBA
(An Agency Of The Special Operating Agencies Financing Authority - Province of Manitoba)

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2010

5. Accounts receivable

	2010	2009
Fees receivable	$ 857	$ 829
Allowance for doubtful accounts	(36)	(35)
	821	794
Interest receivable	4	2
Miscellaneous receivable	0	0
Advances to client accounts	5	5
Cost recoveries	6	6
	$ 836	$ 807

6. Long Term Investments: Receivable from Province of Manitoba

The Province of Manitoba accepted responsibility for the severance pay benefits accumulated to March 31, 1998 for certain of its employees. Accordingly, the Agency recorded a receivable of $515 from the Province of Manitoba, which is an amount equal to the estimated liability for accumulated severance pay benefits at March 31, 1998.

Effective March 31, 2009 the Province of Manitoba paid the receivable balances related to the funding for these severance pay liabilities and has placed the amount of $515 into an interest bearing trust account to be held on the Agency's behalf until the cash is required to discharge the related liabilities.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2010

7. Capital Assets

	2010		2009	
	Cost	**Accumulated Amortization**	**Cost**	**Accumulated Amortization**
Furnishings & equipment	$ 312	$ 253	$ 308	$ 238
Computer equipment	118	105	118	96
Leasehold Improvements	34	25	34	19
	$ 464	$ 383	$ 460	$ 353
Cost less accumulated amortization		$ 81		$ 107

8. Accounts payable and accrued liabilities

	2010	2009
Operating expenses payable	$ 137	$ 126
Salaries and benefits payable	48	32
Vacation entitlements earned	331	346
GST payable to Canada Revenue Agency	24	27
	$ 540	$ 530

9. Working capital

The Agency has an authorized line of working capital of $1,000 through SOAFA, which was unused and available at March 31, 2010.

10. Fees revenue

	2010	2009
Administration	$ 5,199	$ 4,741
Legal	366	333
Income tax	335	304
Inspection	195	182
	$ 6,095	$ 5,560

(In Thousands)

11. Other Administration expenses

	2010	2009
Computer expenses	$ 556	$ 508
Courier charges	6	6
Insurance, loss, damage	230	85
Office supplies	79	60
Other	8	11
Personnel	16	21
Photocopy	9	10
Postage	61	56
Professional fees	53	37
Publications	6	7
Public communications	25	7
Records Centre Charges	33	26
Rentals, equipment	4	3
Repairs and maintenance	4	5
SAP costs	6	8
Support services - Department of Justice	21	21
Telephone	49	49
Travel	53	44
	$ 1,219	$ 964

12. Commitments

The Public Trustee has an arrangement with the Province of Manitoba, through the Department of Infrastructure and Transportation, for rental of its facilities at 155 Carlton Street in Winnipeg and its facility in the Provincial Building in Brandon. Accommodation costs are estimated to be $401 for the year ended 2010/2011.

13. Related party transactions

The Agency is related in terms of common ownership to all Province of Manitoba created departments, agencies and Crown corporations. The Agency enters into transactions with these entities in the normal course of business and they are recorded at the exchange amount.

14. Escheats to the Crown

Escheats to the Crown, received by The Public Trustee during the year and remitted to the Minister of Finance, amounted to $1,165 (2009 - $ 221). These amounts are not reflected in these financial statements.

(In Thousands)

15. Estates and trusts under administration

The client assets under administration at March 31, 2010 total approximately $211,000 (2009 - $203,000). The trust activities of The Public Trustee are reported in a separate Estates and Trusts under Administration financial statements.

16. Revenue stabilization reserve

The Public Trustee has allocated a reserve out of retained earnings to provide for short-term fluctuations in revenue due to changes in revenue patterns or extraordinary expenses.

17. Severance pay benefits

Effective April 1, 1998, the Agency began recording accumulated severance pay benefits for its employees. The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. The Public Trustee's actuarially determined net liability for accounting purposes as at March 31, 2010 was $464 (2009 - $453) with the actuarial loss being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2010 present value of the accrued severance benefit obligation were:

Annual rate of return	
Inflation component	2.50%
Real rate of return	4.00%
	6.50%
Assumed salary increase rates	
Annual productivity increase	0.75%
Annual general salary increase	3.50%
	4.25%

18. Pension benefits

Employees of The Public Trustee are eligible for pension benefits in accordance with the provisions of the Civil Service Superannuation Act (CSSA), administered by the Civil Service Superannuation Board. The CSSA established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the Government, including The Public Trustee, through the Civil Service Superannuation Fund.

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, The Public Trustee transferred to the Province the pension liability for her employees. Commencing April 1, 2001, The Public Trustee was required to pay to the Province an amount equal to her employees' current pension contributions. The amount paid at March 31, 2010 was $222 (2009 - $133). Under this agreement, The Public Trustee has no further pension liability.

(In Thousands)

19. Public Sector Compensation Disclosure Act

It is a requirement of *The Public Sector Compensation Disclosure Act* that annual public disclosure be made of individual compensation in an amount equal to or exceeding $50 annually to any officer or employee of the Agency. For the year ended March 31, 2010, the following employees received compensation in excess of $50:

Employee	Position	Amount
Carroll, Jori	Investment Officer	$ 57
Clark, Dwane	Estates Officer 3	58
Darrach, Bruce	Information Technologist 3	73
Derwin, George	Legal Counsel 3	75
Fergusson, John	Legal Counsel 3	132
Fredborg, Darren	Estates Officer 3	57
Henderson, Karen	Estates Officer 3	64
Hyman, Bryan	Legal Counsel 1	93
Hupe, Paul	Estates Officer 2	51
Inouye, Donna	Finance Officer 2	60
Lovallo, Lindsay	Estates Officer 3	50
Lelond, Lorie	Estates Officer 3	57
Kihn, Shirley	Estates Officer 3	58
Knowlton, Joanna	Senior Legal Officer	135
Kozusko, Norman	Information Technologist 4	82
Mosley, James	Estates Officer 3	58
Ranson, Keri	Legal Counsel 3	53
Regier, Barbara	Estates Officer 3	58
Sabourin, Marcelle	Estates Officer 2	74
Samagalski, Michelle	Estates Officer 4	64
Sohor, Richard	Finance Officer 6	78
Stephenson, Brian	Estates Officer 2	51
Taylor, Jana	Legal Counsel 2	97
Tessier, Rachelle	Estates Officer 4	64
Winning, Marla	Estates Officer 4	64

THE EXCHANGE
chartered accountants LLP

AUDITORS' REPORT

To the Special Operating Agencies Financing Authority of Vehicle and Equipment Management Agency

We have audited the balance sheet of the Vehicle and Equipment Management Agency, An Agency of the Special Operating Agencies Financing Authority Province of Manitoba, as at March 31, 2010 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The Exchange

chartered accountants LLP

Winnipeg, Manitoba
May 16, 2010

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VEHICLE AND EQUIPMENT MANAGEMENT AGENCY

(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Management's Responsibility for Financial Reporting

The Vehicle and Equipment Management Agency's (the Agency) management is responsible for preparing the financial statements and other financial information in the Annual Report. This responsibility includes maintaining the integrity and objectivity of financial data and the presentation of the Agency's financial position and results of operations and its cash flows in accordance with Canadian generally accepted accounting principles. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data available through May 16, 2010.

Management maintains internal controls to properly safeguard the Agency's assets. These controls also provide reasonable assurance that the books and records from which financial statements are derived accurately reflect all transactions, and that established policies and procedures are followed.

The Agency's financial statements have been audited by The Exchange chartered accountants LLP, independent external auditors. The auditors' responsibility is to express an independent opinion on whether the financial statements of the Agency are presented fairly, in all material respects, in accordance with Canadian generally accepted accounting principles. The Auditors' Report outlines the scope of their audit examination and provides their audit opinion.

On behalf of the Agency's management,

Al Franchuk
Chief Operating Officer

Albert Ogonoski
Manager, Finance

Winnipeg, Manitoba
May 16, 2010

VEHICLE AND EQUIPMENT MANAGEMENT AGENCY

(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Balance Sheet

(In Thousands)

March 31, 2010

ASSETS		
CURRENT		
Receivables *(Note 5)*	$	**7,007**
Inventory *(Note 3)*		**2,968**
Prepaids		**2,517**
		12,492
CAPITAL ASSETS *(Notes 3, 6)*		**103,954**
SEVERANCE PAY BENEFITS CASH IN TRUST *(Note 7)*		**270**
SEVERANCE PAY BENEFITS, VACATION PAY AND BANKED TIME RECEIVABLE FROM THE PROVINCE *(Note 7)*		**1,903**
	$	**118,619**
LIABILITIES		
CURRENT		
Working capital payable, net of cash *(Note 8)*	$	**6,099**
Accounts payable and accrued liabilities *(Note 9)*		**4,814**
Unearned revenue		**1,898**
Current portion of long term debt *(Note 10)*		**9,324**
		22,135
LONG TERM DEBT *(Note 10)*		**69,834**
SEVERANCE PAY LIABILITY *(Note 7)*		**1,709**
		93,678
EQUITY		
Contributed equity *(Note 11)*		**24,540**
Retained earnings		**401**
		24,941
	$	**118,619**

VEHICLE AND EQUIPMENT MANAGEMENT AGENCY

(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Statement of Earnings and Retained Earnings

(In Thousands)

Year Ended March 31, 2010

REVENUE		
Vehicle and equipment utilization	$	**46,926**
Fuel billings		**17,108**
Insurance and other billings		**4,351**
Other revenue *(Page 15)*		**9,158**
		77,543
EXPENSES		
Salaries and wages		**9,619**
Vehicle and equipment operating expenses *(Page 15)*		**54,882**
Administrative expenses *(Page 15)*		**6,339**
Community service		**34**
Interest expense		**3,768**
		74,642
NET EARNINGS		**2,901**
RETAINED EARNINGS - BEGINNING OF YEAR		**-**
		2,901
REVENUE SHARING TO THE CONSOLIDATED FUND		**(2,500)**
RETAINED EARNINGS - END OF YEAR	**$**	**401**

VEHICLE AND EQUIPMENT MANAGEMENT AGENCY

(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Statement of Cash Flows

(In Thousands)

Year Ended March 31, 2010

OPERATING ACTIVITIES	
Net earnings	**$ 2,901**
Items not affecting cash:	
Amortization	**16,961**
Gain on disposal of vehicles and equipment, net	**(697)**
Increase in severance pay liability	**156**
Payment of severance pay benefits	**(103)**
	19,218
Changes in non-cash working capital:	
Receivables	**(3,349)**
Inventory	**(76)**
Prepaids	**(244)**
Accounts payable and accrued liabilities	**(2,244)**
Unearned revenue	**149**
	(5,764)
Cash flow from operating activities	**13,454**
INVESTING ACTIVITIES	
Proceeds on disposal of vehicles and equipment	**2,257**
Acquisition of vehicles and equipment for lease	**(22,414)**
Acquisition of equipment for operations	**(81)**
Acquisition of leasehold improvements	**(4)**
Cash flow used by investing activities	**(20,242)**
FINANCING ACTIVITIES	
Proceeds from Loan Act Authority drawdowns	**15,000**
Repayment of long term debt	**(9,670)**
Revenue sharing to the Consolidated Fund	**(2,500)**
Cash flow from financing activities	**2,830**
DECREASE IN CASH FLOW	**(3,958)**
WORKING CAPITAL PAYABLE, NET OF CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	**(2,141)**
WORKING CAPITAL PAYABLE, NET OF CASH AND CASH EQUIVALENTS - END OF YEAR	**$ (6,099)**

1. NATURE OF ORGANIZATION

In 1934, Fleet Vehicles was created as a branch of the Manitoba provincial government to provide a centralized fleet management program. On April 1, 1992, the branch was approved as a special operating agency, the first such agency at the provincial level in Canada. Since inception, Fleet Vehicles Agency primarily provided light duty vehicles and equipment services, with ambulances becoming a part of the fleet starting in 2001/02. On April 1, 2003, the Agency assumed responsibility for Radio Services, a division that evaluates and supplies the fixed and mobile radio requirements of its provincial and other clients.

Following the completion of the Trans-Canada highway and the advent of engineering-based highway management in the 1960s, the Province established a highways department. The Mechanical Equipment Services branch emerged as an integral and important part of the department, primarily providing heavy duty vehicles and equipment, as well as warehousing services. The provided services support the safe and efficient delivery of the department's construction, maintenance and preservation programs, and its remote airport programs, in a manner that incorporates the principles of sustainable development and environmental awareness.

Effective April 1, 2009, Fleet Vehicles Agency and the Mechanical Equipment Services branch were amalgamated into a new special operating agency named Vehicle and Equipment Management Agency (VEMA). VEMA combines the acquisition, management and disposal of both light duty and heavy duty vehicles and equipment under common management.

The Agency is financed through the Special Operating Agencies Financing Authority (SOAFA). SOAFA has the mandate to hold and acquire assets required for and resulting from Agency operations. It finances the Agency through repayable loans and working capital advances. This financial framework enables VEMA to operate in a business-like manner according to public policy expectations.

A Management Agreement between SOAFA and the Minister of Infrastructure and Transportation assigns responsibility to VEMA to manage and account for the Agency-related assets and operations on behalf of SOAFA.

VEMA continues to be part of the Department of Infrastructure and Transportation under the general direction of the Assistant Deputy Minister, Supply and Services Division, and ultimately the policy direction of the Associate Deputy Minister, the Deputy Minister, and the Minister, of Infrastructure and Transportation.

The Agency remains bound by relevant legislation and regulations. It is also bound by administrative policy except where specific exemptions have been provided in its charter in order to meet business objectives.

VEMA is economically dependent on The Government of Manitoba, as it derives most of its revenue and all of its capital financing requirements from the Province.

2. CHANGE IN ACCOUNTING POLICIES

New Accounting Policies

Section 3064, Goodwill and Intangible Assets

Effective April 1, 2009, the Agency adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, Goodwill and Intangible Assets, and the updates to CICA Handbook Section 1000, Financial Statement Concepts.

This guidance establishes updated standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

These changes did not have an impact on the Agency's financial statements for the year ended March 31, 2010.

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

Effective April 1, 2009, the Agency adopted the Emerging Issues Committee (EIC) 173 and amendments to Section 3855, Financial Instruments – Recognition and Measurement and 3862, Financial Instruments – Disclosures:

Section 3855 – Effective Interest Method
Section 3855 – Embedded Derivatives on Reclassification of Financial Assets
Section 3855 – Impairment of Financial Assets
Section 3862 – Fair Value and Liquidity Risk Disclosure

Due to the nature of the Agency's financial instruments, the adoption of these standards and amendments had no material impact on the financial position of the Agency.

Future Accounting Changes

Convergence with Public Sector Accounting Standards as issued by the Public Sector Accounting Board

Effective April 1, 2011, the Agency will be adopting Public Sector Accounting Standards issued by the Public Sector Accounting Board. The Agency is currently in the process of quantifying the impact these changes will have on its financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of reporting

The financial statements of the Agency have been prepared in accordance with Canadian generally accepted accounting principles.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and equivalents

Cash and cash equivalents include cash on hand and balances with banks, net of bank overdrafts and short term investments with original maturities of six months or less. Bank borrowings are considered to be financing activities.

Inventory

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis.

Capital assets

Rates and bases of amortization applied to write off the cost less estimated salvage value of capital assets over their estimated lives are as follows:

Vehicles	30%	declining balance method
Vehicles and equipment (signed lease agreement)		straight-line over term of lease
Office and shop equipment	20%	declining balance method
Computer software and equipment	20%	straight-line method
Leasehold improvements	10%	straight-line method

Pension benefits

Employees of VEMA are eligible for pension benefits in accordance with the provisions of the Civil Service Superannuation Act (CSSA), administered by the Civil Service Superannuation Board. The CSSA established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the provincial government, including the Agency, through the Civil Service Superannuation Fund.

Pursuant to an agreement with the Province of Manitoba, the Agency has transferred the pension liability for its employees to the Province. Under the agreement, the Agency is required to pay to the Province an amount equal to its employees' current pension contributions. Under this agreement, the Agency has no further pension liability.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Fixed rate lease revenue is recognized on a straight-line basis over the term of the lease. Variable rate lease revenue is recognized monthly based on equipment usage. Service revenue is recognized when the services have been performed.

Capital disclosures

The Agency's capital consists of retained earnings provided by operations and contributed equity.

The Agency's capital management policy is to maintain sufficient capital in retained earnings to meet its objectives, while transferring surplus funds to the Province of Manitoba; meet short term capital needs through working capital advances from the Province of Manitoba; and meet long term capital needs through long term debt with the Province of Manitoba. There were no changes in the Agency's approach to capital management during the 2009/10 year.

The Agency is not subject to externally imposed capital requirements.

4. FINANCIAL INSTRUMENTS

Financial assets and liabilities are initially recorded at fair value. Measurement in subsequent periods depends on a financial instrument's classification.

Financial instruments are classified into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and other financial liabilities. All financial instruments classified as held for trading or available for sale are subsequently measured at fair value, with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

The financial assets and liabilities of the Agency are classified and measured as follows:

Financial asset / liability	Category	Subsequent measurement
Cash and cash equivalents, net of working capital payable	Held for trading	Fair value
Receivables	Loans and receivables	Amortized cost
Severance pay benefits cash in trust	Loans and receivables	Amortized cost
Severance pay benefits, vacation pay and banked time receivable from the Province	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Long term debt	Other financial liabilities	Amortized cost
Severance pay liability	Other financial liabilities	Amortized cost

Amortized cost is determined using the effective interest rate method.

(continues)

(In Thousands)

4. FINANCIAL INSTRUMENTS *(continued)*

Gains and losses on financial instruments subsequently measured at amortized cost are recognized in the statement of earnings and retained earnings in the period the gain or loss occurs. Changes in fair value on financial instruments classified as held for trading are recognized in the statement of earnings and retained earnings for the current period. Changes in fair value on financial instruments classified as available for sale would be recorded in other comprehensive income until realized, at which time they would be recorded in the statement of earnings and retained earnings.

Fair value of financial instruments

The fair value of receivables, accounts payable and accrued liabilities approximates their carrying values due to their relatively short term maturity.

The fair value of severance pay benefits cash in trust, severance pay benefits, vacation pay and banked time receivable from the Province, and its related severance pay liability is determined using the effective interest rate method.

The fair value of the long term debt is determined using the present value of future cash flows under current financing agreements, based on the Agency's current estimated borrowing rate for loans with similar terms and conditions. The fair value of this long term debt is $80,486 as of March 31, 2010.

Financial risk management

The Agency has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; market risk; interest risk; and foreign currency risk.

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Agency to credit risk consist principally of cash, cash equivalents and receivables.

The maximum exposure of the Agency to credit risk as of March 31, 2010, is:

Receivables	$	7,007
Severance pay benefits cash in trust		270
Severance pay benefits, vacation pay and banked time receivable from the Province		1,903
	$	9,180

Receivables: The Agency is not exposed to significant credit risk since the receivables are with departments, agencies and crown corporations within the Manitoba provincial government, or are with organizations within the broader public sector that are funded in part by the provincial or federal governments. An allowance for doubtful accounts was not recorded as of March 31, 2010.

Severance pay benefits cash in trust: The Agency is not exposed to significant credit risk as the cash is held in trust with the Province of Manitoba.

(continues)

4. FINANCIAL INSTRUMENTS *(continued)*

Severance pay benefits, vacation pay and banked time receivable from the Province: The Agency is not exposed to significant risk since the receivable is from the Province of Manitoba.

Liquidity risk

Liquidity risk is the risk that the Agency will not be able to meet its financial obligations as they come due.

The Agency manages liquidity risk by balancing its cash flow requirements through its available working capital payable limit and its long term debt draw downs from Loan Act Authority. Regular determinations of the Agency's working capital payable limit and long term debt requirements are reviewed by the Province of Manitoba to ensure that adequate funding is available as required to enable the Agency to meet its obligations as they come due.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Agency's net earnings or the fair values of its financial instruments. The significant market risks the Agency is exposed to are interest rate risk and foreign currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to cash, cash equivalents and long term debt.

The interest rate risk on cash and cash equivalents is considered to be low because of their short term nature.

The Agency manages its interest rate risk on long term debt through the exclusive use of fixed rate terms for its long term debt. A change of 100 basis points in the interest rates would have increased or decreased its fair value by $4,164 as of March 31, 2010.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Agency is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in foreign currency.

5. RECEIVABLES

Trade	**$ 3,828**
Accrued trade	**2,636**
Insurance rebate receivable	**543**
	$ 7,007

(In Thousands)

6. CAPITAL ASSETS

	Cost	Accumulated amortization
Vehicles and equipment for lease	$ 196,428	$ 93,011
Office and shop equipment	1,761	1,332
Leasehold improvements	711	603
	$ 198,900	$ 94,946
Net book value	$ 103,954	

7. SEVERANCE PAY LIABILITY

The Agency records accumulated severance pay benefits for its employees. Severance pay is determined by multiplying years of service, to a maximum of 15 years, by the weekly salary at date of retirement, provided the employee has reached nine years of service and retires from the Province. There is also additional severance pay for employees with 20 or more years of accumulated service. The estimate is based upon the method of calculation set by the Province of Manitoba.

The Province has accepted responsibility for the severance benefits accumulated by the Agency's employees through specific dates. For the Fleet Vehicles Agency employees, that responsibility is reflected by the payment by the Province of $270 on March 31, 2009, with the funds held in an interest bearing trust account until it is required to discharge the related liability. For the Mechanical Equipment Services employees, that responsibility is currently reflected by a receivable from the Province estimated at $1,163.

An actuarial valuation report was completed for the severance pay liabilities as of March 31, 2008. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the Agency's liability is recalculated annually, with payments to retiring employees no longer with the Agency or the Province charged against the liability. The Agency's actuarially determined net liability for accounting purposes as of March 31, 2010, was $1,709.

8. WORKING CAPITAL PAYABLE

The Agency has an authorized line of working capital advances of $9,270, $6,290 of which was used as of March 31, 2010.

9. ACCOUNTS PAYABLE

Trade	$ 3,150
Accrued liabilities	1,164
Revenue sharing to the Consolidated Fund	500
	$ 4,814

(In Thousands)

10. LONG TERM DEBT

By virtue of the Management Agreement, the Agency is responsible for the repayment of debts assumed by the Special Operating Agencies Financing Authority (SOAFA) on its behalf. SOAFA holds the debt instruments listed in this Note on behalf of Vehicle and Equipment Management Agency.

Loan Act Authority long term debt is repayable in semi-annual instalments of principal and interest, as follows:

Interest Rate	Instalment Amount	Maturity date		
5.125%	123	September 30, 2010	$	**119**
4.75%	227	March 31, 2011		**438**
4.75%	451	March 31, 2011		**871**
4.875%	137	September 30, 2011		**391**
4.75%	102	September 30, 2011		**293**
4.625%	475	March 31, 2012		**1,796**
4.75%	137	September 30, 2012		**637**
4.05%	140	September 30, 2012		**658**
4%	345	March 31, 2013		**1,933**
4.05%	140	September 30, 2013		**907**
3.875%	355	September 30, 2013		**2,304**
2.625%	376	September 30, 2014		**3,170**
4.875%	148	March 31, 2015		**1,295**
2.625%	215	March 31, 2015		**2,000**
4.125%	117	September 30, 2015		**1,140**
4.875%	237	September 30, 2023		**4,646**
5%	334	March 31, 2024		**6,677**
4.875%	192	March 31, 2024		**3,863**
4.5%	162	September 30, 2024		**3,417**
5%	80	March 31, 2030		**2,000**
				38,555
Long term debt in connection with the transfer of Mechanical Equipment Services Branch net assets on April 1, 2009				
4.875%	2,018	March 31, 2024		**40,603**
				79,158
Amounts payable within one year				**(9,324)**
			$	**69,834**

(continues)

(In Thousands)

10. LONG TERM DEBT *(continued)*

Unused loan authority of $8,600 was available to Fleet Vehicles Agency as of March 31, 2009, and was transferred to VEMA as of April 1, 2009. An additional $23,000 of loan authority availability was approved during May 2009 in The Loan Act, 2009. Of the $31,600 in available loan authority, $15,000 was drawn down at various times during the year ended March 31, 2010.

The Special Operating Agencies Financing Authority (SOAFA) and the Government of Manitoba entered into a Transfer Agreement in connection with the transfer from the Government to SOAFA of the net assets of the Mechanical Equipment Services branch of the Department of Infrastructure and Transportation. The transferred net assets have been recorded in the books and records of VEMA as of the start of business on April 1, 2009, at their carrying value of $42,586.

All long term debt is payable in instalments of principal and interest on March 31 and September 30 each year.

As of March 31, 2010, principal repayments in each of the next five years on the combined outstanding balances of long term debt are as follows:

2011	$	9,324
2012		8,003
2013		6,870
2014		5,690
2015		5,057

11. CONTRIBUTED EQUITY

The Special Operating Agencies Financing Authority (SOAFA) transferred the net assets of Fleet Vehicles Agency to VEMA as of the start of business on April 1, 2009, at their carrying value of $24,540 as of March 31, 2009. The $24,540 balancing amount in connection with the transferred assets and liabilities has been recorded in VEMA's book and records as contributed equity.

12. INVENTORY

The amount of inventory recognized as an expense during the year was $7,049. This entire amount has been included in repairs and maintenance, page15.

13. COMMITMENTS

(a) VEMA has arrangements with the Government of Manitoba for the rental of facilities in Beausejour, Brandon, Dauphin, The Pas, Thompson and Winnipeg, Manitoba. Occupancy charges for each fiscal year including 2009/10 are established annually based on the approved budget for the Department of Infrastructure and Transportation. Occupancy charges for 2010/11 are estimated at $2,412 for the year, to be paid in quarterly instalments during 2010/11.

(b) VEMA's approved 2010/11 Business Plan calls for $2,500 in revenue sharing to be paid in quarterly instalments to the Consolidated Fund during 2010/11.

VEHICLE AND EQUIPMENT MANAGEMENT AGENCY

(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Schedule of Other Revenue and Expenses

(In Thousands)

Year Ended March 31, 2010

Other revenue		
Autopac service	**$**	**656**
Gain on disposal of vehicles and equipment, net		**697**
Garage regular service		**4,818**
Insurance premium rebates		**1,197**
Interest income		**1**
Other service revenue		**131**
Radio Services		**1,658**
	$	**9,158**
Vehicle and equipment operating expenses		
Amortization	**$**	**16,829**
Fuel		**17,329**
Insurance premiums		**4,680**
Licenses		**160**
Repairs and maintenance *(Note 12)*		**15,884**
	$	**54,882**
Administrative expenses		
Amortization	**$**	**132**
Fleet management information system		**356**
Human resource overhead		**2,145**
Occupancy costs		**2,525**
Other costs		**665**
Professional fees		**27**
SOAFA charges		**6**
Supplies and materials		**342**
Telephone and communication		**141**
	$	**6,339**

AUDITORS' REPORT

TO THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY

We have audited the balance sheet of **Vital Statistics Agency**, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at **March 31, 2009** and the statements of earnings and comprehensive income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BULAT & POUSTIE

Bulat & Poustie

CHARTERED ACCOUNTANTS

Winnipeg, Manitoba
May 7, 2009

VITAL STATISTICS AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

BALANCE SHEET
(in thousands)
AS AT MARCH 31, 2009

	2009	2008
ASSETS		
CURRENT		
Cash and short term deposits, notes 6 and 14	$ 688	$ 1,326
Accounts receivable, note 7	80	134
Receivable from Province of Manitoba	-	94
Inventory, note 3	155	96
Prepaid expenses	53	42
	976	1,692
LONG TERM INVESTMENTS, note 8	94	-
CAPITAL ASSETS, notes 3 and 9	1,636	1,261
	$ 2,706	$ 2,953
LIABILITIES		
CURRENT		
Accounts payable and accrued	$ 42	$ 297
Deferred revenue, notes 3 and 10	783	590
Accrued unused vacation entitlements	167	140
	992	1,027
SEVERANCE PAY LIABILITY, note 12	186	163
	1,178	1,190
COMMITMENTS, note 13		
EQUITY		
RETAINED EARNINGS	1,528	1,763
	$ 2,706	$ 2,953

The accompanying notes are an integral part of the financial statements

VITAL STATISTICS AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME
(in thousands)

FOR THE YEAR ENDED MARCH 31, 2009		**2009**		2008
REVENUE				
Net sales	**$**	**3,268**	$	3,441
Proceeds from government departments		**291**		197
Interest		**19**		56
		3,578		3,694
EXPENSES				
Salaries and employee benefits		**2,112**		1,866
Operating expenses, Schedule 1		**1,094**		1,009
Amortization		**327**		210
		3,533		3,085
NET EARNINGS AND COMPREHENSIVE INCOME FOR THE YEAR	**$**	**45**	$	609

The accompanying notes are an integral part of the financial statements

VITAL STATISTICS AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

STATEMENT OF RETAINED EARNINGS
(in thousands)
FOR THE YEAR ENDED MARCH 31, 2009

		2009		2008
RETAINED EARNINGS, BEGINNING OF YEAR	**$**	**1,763**	$	1,434
Net earnings and comprehensive income for the year		**45**		609
		1,808		2,043
Revenue sharing payment to Province of Manitoba		**280**		280
RETAINED EARNINGS, END OF YEAR	**$**	**1,528**	$	1,763

The accompanying notes are an integral part of the financial statements

STATEMENT OF CASH FLOWS
(in thousands)
FOR THE YEAR ENDED MARCH 31, 2009

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings and comprehensive income for the year	**$ 45**	$ 609
Adjustments for		
Amortization	**327**	210
Severance pay expenses	**24**	36
	396	855
Changes in the following:		
Accounts receivable	**148**	329
Inventory	**(59)**	(51)
Prepaid expenses	**(11)**	(25)
Accounts payable	**(255)**	232
Deferred revenue	**193**	67
Accrued unused vacation entitlements	**27**	4
	439	1,411
CASH FLOWS FROM FINANCING ACTIVITIES		
Revenue sharing payment to Province of Manitoba	**(280)**	(280)
Severance pay payments	**-**	(49)
	(280)	(329)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets	**(703)**	(908)
Long term investments	**(94)**	-
	(797)	(908)
INCREASE (DECREASE) IN CASH AND SHORT TERM DEPOSITS	**(638)**	174
CASH AND SHORT TERM DEPOSITS, BEGINNING OF YEAR	**1,326**	1,152
CASH AND SHORT TERM DEPOSITS, END OF YEAR	**$ 688**	$ 1,326
Supplementary information:		
Interest received	**$ 24**	$ 55

The accompanying notes are an integral part of the financial statements

NOTES TO FINANCIAL STATEMENTS
(in thousands)
MARCH 31, 2009

1. ENTITY DEFINITION

Effective April 1, 1994, the Lieutenant Governor in Council designated the Vital Statistics Agency (the "Agency") as a special operating agency under The Special Operating Agencies Financing Authority Act (C.C.S.M. cS185) by Order in Council 232/1994. The Order also gave approval to the Special Operating Agencies Financing Authority (SOAFA) and the Minister of Consumer and Corporate Affairs, being the Minister responsible for the Agency at that time, to enter into a Management Agreement with respect to the Agency.

A Management Agreement between the Financing Authority and the Minister of Consumer and Corporate Affairs assigns responsibility to manage the assets transferred to the Agency in delivering regulated services to clients through administration of three major Acts; The Vital Statistics Act, The Change of Name Act, and The Marriage Act. The Agency also handles disinterment's under the Public Health Act. The ownership of the vital events records is excluded from this agreement, as their ownership is considered Crown property and should not be alienated from Government protection in the the public interest.

The Agency is part of Manitoba Consumer and Corporate Affairs Division in the Department of Finance under the general direction of the Minister of Finance, the Deputy Minister and Assistant Deputy Minister who is also Chairperson of Vital Statistics Advisory Board.

The Agency remains bound by relevant legislation and regulation. It is also bound by administrative policy except where specific exemptions have been provided for in its charter in order to meet business objectives.

2. CHANGE IN ACCOUNTING POLICIES

Effective April 1, 2008, the Agency adopted the following new handbook sections issued by the Canadian Institute of Chartered Accountants (CICA):

Section 1535 Capital Disclosures

Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. These standards require an entity to disclose its objectives, policies and processes for managing capital, a summary of quantitative data about what it manages as capital and whether it complied with any externally imposed capital requirements to which it is subject and, if not, the consequences of such non-compliance.

Section 3862 Financial Instruments – Disclosures

Section 3862 modifies the disclosure requirements for financial instruments that were included in Section 3861, Financial Instruments – Disclosure and Presentation. The new standards require an entity to provide disclosures in its financial statements that enable users to evaluate the significance of financial instruments on its financial position and performance, the nature and extent of the risks to which it is exposed during the period and at the balance sheet date, and how those risks are managed.

Section 3863 Financial Instruments – Presentation

Section 3863 carries forward the presentation requirements of Section 3861, Financial Instruments – Disclosure and Presentation, unchanged.

The above noted new standards have no impact on the recognition, measurement or presentation of financial instruments in the Agency's year end financial statements.

(in thousands)

Change in Accounting Policies - continued

Section 3031 Inventories

Section 3031 Inventories replaces Section 3030 Inventories. It provides more guidance on the measurement and disclosure requirements for inventories. The adoption of Section 3031 did not have an impact on the recognition, measurement or presentation of inventory in the Agency's year end financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are in accordance with Canadian generally accepted accounting principles and reflect the following policies:

Inventory

Inventory of certificates and pre-printed forms are valued at cost. Cost is generally determined on a first-in, first-out method.

Capital Assets

Capital assets are recorded at cost. Amortization is provided for as follows:

	Rate	Method
Data conversion	20 %	Declining balance
Furniture and fixtures	20 %	Straight line
Information system	20 %	Declining balance
Leasehold improvements	20 %	Straight line
National Routing System - computer equipment	20 %	Declining balance
Office equipment	20 %	Straight line
NRS - software	10 %	Straight line
Security equipment	20 %	Straight line

Deferred Revenue and Revenue Recognition

The Agency receives cash payments at the time various certificates are ordered and the cash payments are reflected as deferred revenue. Revenue is recognized at the time the service is completed and the certificate is issued.

Capital Disclosures

The Agency's capital consists of retained earnings provided from operations and special purpose reserve funds allocated from retained earnings.

The Agency's capital management policy is to maintain sufficient capital to meet its objectives through its retained earnings by managing transfers of surplus funds to the Province of Manitoba; meet short-term capital needs with working capital advances from the Province of Manitoba; and meet long-term capital needs through long-term debt with the Province of Manitoba. There were no changes in the Agency's approach to capital management during the period.

The Agency is not subject to externally imposed capital requirements.

Significant Accounting Policies - continued

Measurement Uncertainty

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. Actual amounts could differ from these estimates.

4. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial assets and liabilities are initially recorded at fair value. Measurement in subsequent periods depends on the financial instrument's classification. Financial instruments are classified into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and other financial liabilities. All financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

The financial assets and liabilities of the Agency are classified and measured as follows:

Financial Asset/Liability	Category	Subsequent Measurement
Cash and short term deposits	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Receivable from the Province of Manitoba	Loans and receivables	Amortized cost
Long term investments	Held for trading	Fair value
Accounts payable	Other financial liabilities	Amortized cost
Accrued liabilities	Other financial liabilities	Amortized cost
Long term debt	Other financial liabilities	Amortized cost

Amortized cost is determined using the effective interest rate method.

Gains and losses on financial instruments subsequently measured at amortized cost are recognized in the statement of earnings and retained earnings in the period the gain or loss occurs. Changes in fair value on financial instruments classified as held for trading are recognized in the statement of earnings and retained earnings for the current period. Changes in fair value on financial instruments classified as available for sale would be recorded in other comprehensive income until realized, at which time they recorded in the statement of earnings and retained earnings.

(in thousands)

Financial Instruments and Financial Risk Management - continued

Fair Value of Financial Instruments

The fair values of accounts receivable, receivable from the Province of Manitoba, accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity.

Financial Risk Management - overview

The Agency has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; market risk; interest risk; and foreign currency risk.

Credit Risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Agency to credit risk consist principally of cash and short term deposits, accounts receivable and long term investments.

The maximum exposure of the Agency to credit risk at year end is:

	2009	2008
Cash and short term deposits	**$ 688**	$ 1,326
Accounts receivable	**80**	134
Receivable from the Province of Manitoba	**-**	94
Long term investments	**94**	-
	$ 862	$ 1,554

Cash and short term deposits: The Agency is not exposed to significant credit risk as the cash and short term deposits are primarily held by the Minister of Finance.

Receivable from the Province of Manitoba: The Agency is not exposed to significant credit risk as the receivable is from the Province of Manitoba.

Accounts receivable: The Agency is not exposed to significant credit risk as no one party accounts for a significant balance and payment in full is typically collected when it is due. The Agency establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off.

Long term investments: The Agency is not exposed to significant credit risk as the long term investments are primarily held by the Minister of Finance.

The change in the allowance for doubtful accounts during the year was as follows:

	2009	2008
Balance, beginning of the year	**$ 5**	$ 6
Provision for receivable impairment	**1**	1
Amounts written off	**(1)**	(2)
Balance, end of the year	**$ 5**	$ 5

Financial Instruments and Financial Risk Management - continued

Liquidity Risk

Liquidity risk is the risk that the Agency will not be able to meet its financial obligations as they come due.

The Agency manages liquidity risk by maintaining adequate cash balances and by review from the Province of Manitoba to ensure adequate funding will be received to meet the obligations.

Market Risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Agency's income or the fair values of its financial instruments. The significant market risks the Agency is exposed to are interest rate risk and foreign currency risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to short term deposits and long term investments.

The interest rate risk on short term deposits and long term investments is considered to be low because of their short term nature.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Agency is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in foreign currency.

5. WAIVER OF FEES

The Agency charges no fee for services in exchange for services from the following organizations:

(a) The Manitoba Development Centre, health care facilities, the Chief Medical Examiner's Office (Manitoba Justice), the Manitoba Funeral Association and the Department of Anatomy of the University of Manitoba as they provide services in accordance with The Vital Statistics Act.
(b) Child and Family Services Regional Operations of Manitoba Family Services to act as issuers of Marriage Licences and handling related administrative duties.
(c) Vital Statistics Offices in other jurisdictions through agreements to exchange information between jurisdictions as it relates to one another's residency or birthplace.
(d) Statistics Canada for national tabulation and statistical information. Statistics Canada provides payment for the microdata and microfilm records from the Vital Statistics Agency and provides half of the cost of printing registration forms.
(e) Health and Welfare Canada (Indian and Northern Affairs).

Services provided under the above agreements are valued at $5 for the year ended March 31, 2009 (2008 - $5).

(in thousands)

Waiver of Fees - continued

The Agency provides services without compensation to victims of crimes as follows:

In March of 1998, the Ministers of Justice, Consumer and Corporate Affairs, and Highways and Transportation agreed that the fees for replacement documents should be waived. Representatives of Vital Statistics and the Division of Driver and Vehicle Licensing met to coordinate the process so the public would receive the same program from both agencies.

Effective January 1, 1999, members of the public who have had their birth certificate stolen during a criminal act can request replacement certificates and have the fee waived. This does not apply to members of the public who have lost their identification or individuals who are non-residents of Manitoba. Clients are asked to indicate that they are requesting a waiver of fees as a result of a criminal act and to provide police incident number.

Service provided under the above arrangement are valued at $10 for the year ended March 31, 2009 (2008 - $13).

6. CASH AND SHORT TERM DEPOSITS

		2009		2008
Cash on hand and balances in bank	$	80	$	38
Short term deposits		608		1,288
	$	688	$	1,326

Short term deposits interest rates range from 0.25% to 0.75% and maturity dates range from April 13, 2009 to June 29, 2009.

7. ACCOUNTS RECEIVABLE

		2009		2008
Trade	$	85	$	80
Interest		-		6
Federal government - Statistics Canada		-		53
		85		139
Allowance for doubtful accounts		5		5
	$	80	$	134

8. LONG TERM INVESTMENTS

The Province of Manitoba accepted responsibility for the vacation entitlements earned by the employees of the Agency prior to its designation as SOA, and the severance pay benefits accumulated to March 31, 1998 for certain of the Agency's employees. Accordingly, the Agency recorded a receivable of $94 from the Province of Manitoba for these accumulated benefits. Effective March 31, 2009 the Province of Manitoba paid the receivable balances related to the funding for these liabilities and has placed the amount of $94 into an interest bearing trust account to be held on the Agency's behalf until the cash is required to discharge the related liabilities.

The long term investments earns interest at 0.55%, matures on March 30, 2010, at that time the original deposit will be re-invested. The interest income earned on this deposit is available to be withdrawn and used for operating purposes.

NOTES TO FINANCIAL STATEMENTS
(in thousands)
MARCH 31, 2009

9. CAPITAL ASSETS

	2009		2008	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Data conversion	**$ 2,154**	**$ 1,081**	$ 1,509	$ 894
Furniture and fixtures	**118**	**114**	118	111
Information system	**1,249**	**1,038**	1,220	989
Leasehold improvements	**92**	**86**	86	84
National Routing System - Computer equipment and software	**410**	**114**	402	41
Office equipment	**192**	**170**	179	163
Security equipment	**75**	**51**	74	45
	4,290	**2,654**	3,588	2,327
Net Book Value	**$ 1,636**		$ 1,261	

10. DEFERRED REVENUE

	2009	2008
Trade	**$ 139**	$ 207
Federal government	**310**	383
Manitoba Public Insurance Corporation	**334**	-
	$ 783	$ 590

Federal government - Statistics Canada

The Agency agreed on March 7, 2007 with Statistics Canada to join the National Routing System (NRS) where the Agency is responsible for the procurement, development testing and implementation of the messaging solution to enable secure and timely notification of vital events data between provinces and federal organizations. Funds advanced to the Agency are to be used for the specific purpose of the agreement. The Agency is matching the amortization of the capital expenditures purchased with these restricted funds. The amount deferred represents the total funds advanced of $424 (2008 - $424) less $114 (2008 - $41) amortized into income. Total income recognized for the year was $73 (2008 - $41) and is included in proceeds from government departments on the statement of earnings.

Manitoba Public Insurance Corporation

The Agency entered into an information sharing agreement with Manitoba Public Insurance Corporation (MPIC) starting on January 2, 2009 which enabled MPIC to access certain data related to applicants for enhanced identification cards. The amount deferred represents the total funds advanced of $400 (2008 - $nil) less $66 (2008 - $nil) amortized into income. Revenue is being recognized on a straight-line basis over 18 months, which is the length of the agreement. Total income recognized for the year was $66 (2008 - $nil) and is included in proceeds from government departments on the statement of earnings.

(in thousands)

11. PENSION BENEFITS

Employees of the Vital Statistics Agency are eligible for pension benefits in accordance with the provisions of the Civil Service Superannuation Act (CSSA) administered by the Civil Service Superannuation Board (CSSB). The CSSA established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the Government, including the Vital Statistics Agency, through the Civil Service Superannuation Fund (CSSF).

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the Vital Statistics Agency transferred to the Province the pension liability for its employees. Commencing April 1, 2001, the Agency was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for 2009 was $55 (2008 - $60). Under this agreement, the Agency has no further pension liability.

12. SEVERANCE PAY LIABILITY

Effective April 1, 1998, the Agency began recording accumulated severance pay benefits for its employees. The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

An actuarial report was completed for the severance pay liability as of March 31, 2005. The report provides a formula to update the liability on an annual basis. The Vital Statistics Agency's actuarially determined net liability for accounting purposes as at March 31, 2009 was $186 (2008 - $163). Commencing in the 2006 fiscal year, the actuarial loss of $37 is being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2005 valuation, and in the determination of the March 31, 2009 present value of the accrued severance benefit obligation were:

Annual rate of return	
Inflation component	2.50 %
Real rate of return	4.00 %
	6.50 %
Assumed salary increase rates	
Annual productivity increase	0.75 %
Annual general salary increase	3.25 %
	4.00 %

NOTES TO FINANCIAL STATEMENTS
(in thousands)
MARCH 31, 2009

13. COMMITMENTS

The Agency has not entered into a lease agreement with the Province of Manitoba for rental of facilities at 254 Portage Avenue. Occupancy charges for the year ending March 31, 2010 are estimated to be $204 (2009 - $200).

The Agency has entered into an agreement with an unrelated party who is to convert all marriage and death registration forms to a useable electronic format to be imported into its electronic records management system. The Agency has agreed to total payments of an amount not to not exceed $723. The Agency has not recorded or capitalized any of these data conversion costs related to marriage and death registrations to March 31, 2009.

14. FINANCING ARRANGEMENTS

Working capital advances and long term financing for significant capital purchases are provided to the Agency through the Special Operating Agencies Financing Authority. The Financing Authority has approved a $250 limit for working capital advances for the Agency. The Agency has not accessed working capital advances at March 31, 2009 (2008 - $42).

Schedule 1

SCHEDULE OF OPERATING EXPENSES
(in thousands)
FOR THE YEAR ENDED MARCH 31, 2009

		2009		2008
Accommodation	**$**	**200**	$	205
Advertising		**27**		24
Central government charges		**56**		68
Computer information system		**246**		193
Office equipment support		**24**		24
Office supplies		**30**		24
Other operating expenses		**41**		45
Printed material supplies		**142**		103
Professional fees		**60**		61
Supplies for mechanized systems		**24**		18
Telecommunications		**47**		39
Training		**14**		6
Transportation and freight		**183**		199
	$	**1,094**	$	1,009

KPMG LLP
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AUDITORS' REPORT

To the Board of Directors of Sport Manitoba Inc.

We have audited the statement of financial position of Sport Manitoba Inc. as at March 31, 2010 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the organization as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Winnipeg, Canada

May 28, 2010

SPORT MANITOBA INC.

Statement of Financial Position

March 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Current assets:		
Cash	$ 974,013	$ 2,421,106
Accounts receivable	1,057,200	753,913
Inventories	24,300	22,468
Prepaid expenses and deposits	126,544	104,572
	2,182,057	3,302,059
Marketable securities [note 2(e)]	104,280	105,660
Long-term accounts receivable	70,367	70,367
Capital assets (note 4)	16,555,900	4,520,630
	$ 18,912,604	$ 7,998,716

	2010	2009

Liabilities, Deferred Contributions and Net Assets

	2010	2009
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,918,659	$ 1,590,393
Current portion of loan payable (note 8)	533,334	166,667
	2,451,993	1,757,060
Loans payable (note 8)	15,163,888	4,819,434
Deferred contributions relating to (note 9):		
Expenses of future periods	163,185	862,421
Capital assets	448,959	–
	612,144	862,421
Net assets:		
Unrestricted	48,498	144,495
Internally restricted [note 2(d)]:		
Initiatives program	93,207	94,707
Coaching	28,875	30,875
Princess Royal Pan Am Scholarship endowment [note 2(e)]	104,280	105,660
Invested in capital assets (note 13)	409,719	184,064
	684,579	559,801
Facility Development Fund trust assets (note 5)		
KidSport Canada trust assets (note 6)		
Commitments (note 10)		
Subsequent event (note 16)		
	$ 18,912,604	$ 7,998,716

See accompanying notes to financial statements.

On behalf of the Board:

_________________ Director

_________________ Director

SPORT MANITOBA INC.

Statement of Operations

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Revenue:		
Province of Manitoba:		
Program support	$ 11,117,000	$ 10,998,000
Bingo allocation	163,443	170,600
2010 Olympics grant	538,199	–
Other grants	354,507	255,811
Government of Canada support	165,000	150,000
Other income	245,860	326,839
Bilateral funding:		
Province of Manitoba	200,000	200,000
Federal Government	200,000	200,000
	12,984,009	12,301,250
Expenses:		
Grants:		
Sport groups for sport development	7,883,837	7,516,190
Bilateral sport development programs	440,052	398,934
Administration and services provided to sport groups:		
Occupancy	1,442,099	1,698,764
Operating	519,020	425,881
Administration	1,635,491	1,508,618
Member services	1,558,137	1,524,126
Costs recovered from sport groups	(773,420)	(860,818)
Amortization	152,635	86,445
	12,857,851	12,298,140
Excess of revenue over expenses	$ 126,158	$ 3,110

See accompanying notes to financial statements.

SPORT MANITOBA INC.

Statement of Changes in Net Assets

Year ended March 31, 2010, with comparative figures for 2009

	Unrestricted	Internally restricted initiatives program	Internally restricted coaching fund	Princess Royal Pan Am Scholarship endowment	Invested in capital assets	2010 Total	2009 Total
Net assets, beginning of year	$ 144,495	$ 94,707	$ 30,875	$ 105,660	$ 184,064	$ 559,801	$ 555,071
Excess (deficiency) of revenue over expenses	254,475	(1,500)	(2,000)	–	(124,817)	126,158	3,110
Capital assets acquired	(12,187,905)	–	–	–	12,187,905	–	–
Proceeds from loan used for land and building additions	11,649,535	–	–	–	(11,649,535)	–	–
Principal payments on loan payable	(288,879)	–	–	–	288,879	–	–
Change in unrealized gain on endowment investments	–	–	–	(1,380)	–	(1,380)	1,620
Increase in deferred contributions related to capital assets	476,777	–	–	–	(476,777)	–	–
Net assets, end of year	$ 48,498	$ 93,207	$ 28,875	$ 104,280	$ 409,719	$ 684,579	$ 559,801

See accompanying notes to financial statements.

SPORT MANITOBA INC.

Statement of Cash Flows

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	$ 126,158	$ 3,110
Items not involving cash:		
Amortization of capital assets	152,635	86,445
Amortization of deferred contributions related to capital assets	(27,818)	–
Change in non-cash operating working capital	(698,061)	728,131
	(447,086)	817,686
Investing activities:		
Additions to capital assets	(12,187,905)	(4,480,453)
Increase in deferred contributions related to capital assets	476,777	–
	(11,711,128)	(4,480,453)
Financing activities:		
Proceeds from loan payable	11,000,000	5,000,000
Principal repayments of loan payable	(288,879)	(13,899)
	10,711,121	4,986,101
Increase (decrease) in cash	(1,447,093)	1,323,334
Cash, beginning of year	2,421,106	1,097,772
Cash, end of year	$ 974,013	$ 2,421,106
Supplementary cash flow information:		
Interest paid	$ 503,967	$ 28,288

See accompanying notes to financial statements.

1. General:

Sport Manitoba Inc. (the organization) is a not-for-profit organization which has been empowered by the Province of Manitoba to play the lead role in the implementation of the Province's sport policy. The organization's purpose is to lead and support participation and achievement in sport by all Manitobans. The organization is exempt from income taxes and is funded through an agreement with the Province of Manitoba which expired on March 31, 2010. The organization and the Province are currently finalizing the provisions of an agreement which would expire March 31, 2015.

2. Significant accounting policies:

(a) Revenue recognition:

The organization follows the deferral method of accounting for contributions, which include government grants.

Unrestricted contributions and operating grants are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated.

Externally restricted contributions and grants are recognized as revenue in the year in which the related expenses are recognized.

Contributions restricted for the purchase of capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets.

Endowment contributions are recognized as an increase in net assets when received.

(b) Inventories:

Inventories are valued at the lower of cost and estimated realizable value with cost being determined on the first-in, first-out basis.

2. Significant accounting policies (continued):

(c) Capital assets:

Capital assets are stated at cost. Amortization is recorded on a straight-line basis using the following terms:

Asset	Term
Building	40 years
Computers	3 years
Furniture and equipment	5 years
Print shop equipment	15 years

Leasehold improvements are recorded at cost and are amortized on a straight-line basis over the remaining term of the lease.

Interest is capitalized on payments for major capital asset additions made prior to them being ready for use and is included in the cost of the asset.

Any gain or loss on disposal of these assets is charged to operations in the year of disposal.

(d) Internally restricted funds:

The initiatives program represents net assets restricted by the Board of Directors. These net assets are to be used to meet exceptional or one time initiatives and to support Sport Manitoba's pro-active participation in collaborative projects with partners in sport. All expenditures greater than $5,000 must be approved by the Board. During the year, the Board authorized expenditures of $1,500.

The Board of Directors has also internally restricted certain net assets to be used for coaching initiatives. During the year, the Board authorized expenditures of $2,000.

(e) Princess Royal Pan Am Scholarship endowment:

The organization received $100,000 to establish the Princess Royal Pan Am Scholarship endowment. The principal cannot be used to fund programs. The investment income earned is used to provide annual scholarships to one male and one female athlete, up to $3,000 each, who are competing in sport at a national or international level and who are enrolled in a post-secondary education program at a Manitoba post-secondary institution. The endowment is recorded at fair value.

2. Significant accounting policies (continued):

(f) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(g) Financial instruments:

Financial assets and liabilities classified as held-for-trading are measured at fair value with both realized and unrealized gains and losses recognized in the statement of operations. Financial instruments classified as held-to-maturity, loans and receivables and other liabilities are measured at amortized cost. Available-for-sale financial instruments are measured at fair value, with unrealized gains and losses not recognized in the statement of operations, but recognized directly in unrestricted net assets.

The organization has designated cash and marketable securities as held-for-trading; accounts receivable as loans and receivables; and accounts payable and accrued liabilities and loan payable as other liabilities. The organization has neither available-for-sale nor held-to-maturity financial instruments.

Except for held-for trading designated financial instruments, transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset or liability's carrying value at inception and amortized over the expected life of the financial instrument using the effective interest method. For held-for trading financial assets and liabilities, transaction costs are recorded in the statement of operations as incurred.

The organization has adopted the Canadian Institute of Chartered accountants (CICA) Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*. In accordance with the Accounting Standards Board's decision to exempt not-for-profit organizations from the disclosure requirements with respect to financial instruments contained within Section 3862, *Financial Instruments - Disclosures*, and Section 3863, *Financial Instruments - Presentation*, the organization has elected not to adopt these standards in the financial statements.

2. Significant accounting policies (continued):

(h) Allocation of general administration expenses:

The organization classifies expenses on the statement of operations by function. The organization allocates certain costs by identifying the appropriate basis of allocation and applying that basis consistently each year. Allocated expenses consist of salaries and benefits which are allocated 65 percent to member services expenses and 35 percent to administration expenses on the basis of the average of individual job positions responsibilities.

3. Change in accounting policies:

Effective April 1, 2009, the organization adopted the Canadian Institute of Chartered Accountants (CICA) amendments to the 4400 Sections of the CICA Handbook. These amendments eliminate the requirement to show net assets invested in capital assets as a separate component of net assets, clarify the requirement for revenue and expenses to be presented on a gross basis when the not-for-profit organization is acting as principal and require a statement of cash flow. Adoption of these recommendations had no significant impact on the financial statements for the year ended March 31, 2010.

4. Capital assets:

	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
Land	$ 1,200,000	$ –	$ 1,200,000	$ 1,200,000
Building	15,062,022	27,854	15,034,168	3,150,465
Computers	288,167	221,970	66,197	34,315
Furniture and equipment	521,245	368,723	152,522	98,061
Print shop equipment	356,254	282,335	73,919	37,789
Leasehold improvements	36,368	7,274	29,094	–
	$ 17,464,056	$ 908,156	$ 16,555,900	$ 4,520,630

During the year, interest of $468,916 (2009 - $28,288) was capitalized as part of the cost of the building.

5. Facility Development Fund trust assets:

In accordance with the previous funding agreement with the Province of Manitoba, the organization is holding at March 31, 2010 $12,044 (2009 - $12,044) of cash in trust for the Facility Development Fund. The Facility Development Fund is administered by advisory representatives from Sport Manitoba Inc. and the Provincial Government. These trust assets together with the related obligation, interest income and administrative expenses have not been recorded in these financial statements for financial reporting purposes.

Facility Development Fund trust assets are comprised of the following:

Initial contribution	$ 4,137,303
Interest earned to date	1,892,555
Administrative expenses paid to date	(292,236)
Projects funded	(5,725,578)
	$ 12,044

The previous Advisory Board approved 102 rural sport facility capital projects under Phase I, II, III and IV of the rural sport facility program which have been fully funded in the amount of $5,725,578.

6. KidSport Canada trust assets:

In accordance with a Delegation of Authority agreement with KidSport Canada signed March 19, 2008, the organization is holding $467,349 of assets in trust for KidSport Canada as at March 31, 2010 (2009 - $559,488). The agreement delegates authority to the organization to issue tax receipts for qualifying donations on behalf of KidSport Canada. These trust assets together with the related obligation, donation income and grant expenses have not been recorded in these financial statements for financial reporting purposes.

7. Sport For Life Centre:

In February 2009, the organization purchased land and building at 145 Pacific for $3,700,000 which has become home to the new Sport for Life Centre. The Phase 1 renovations have been completed. Sport Manitoba moved in to the new building on March 4, 2010. Phase 2 which will include the activity space is anticipated to be complete by the end of 2012.

8. Loans payable:

	2010	2009
Province of Manitoba:		
Loan payable bearing interest at 5.90%, unsecured, repayable in monthly principal instalments of $13,889 plus interest, maturing February 24, 2039	$ 4,819,444	$ 4,986,101
Loan payable bearing interest at 5.95%, unsecured, repayable in monthly principal instalments of $30,555 plus interest, maturing November 2039	10,877,778	–
	15,697,222	4,986,101
Current portion of loans payable	533,334	166,667
	$ 15,163,888	$ 4,819,434

Principal repayments over the next five years are as follows:

2011	$ 533,334
2012	533,334
2013	533,334
2014	533,334
2015	533,334

9. Deferred contributions:

Deferred contributions related to expenses of future periods represent restricted funding received for future expenses.

	2010	2009
Balance, beginning of year	$ 862,421	$ 491,092
Contributions in the current year	30,799	453,500
Amounts amortized to revenue	(730,035)	(82,171)
Balance, end of year	$ 163,185	$ 862,421

9. Deferred contributions (continued):

Deferred contributions for expenses of future periods are comprised of the following:

		2010		2009
Sport Heritage	$	–	$	41,155
Western Canada Summer Games, future bids and cost for storage of equipment		143,185		113,477
2010 Olympics		–		538,189
Manitoba Games		–		99,600
KidSport Canada		20,000		70,000
	$	163,185	$	862,421

Deferred contributions related to capital assets represent unamortized amount and unspent amount of externally restricted contributions that have been received for the construction of the Sport for Life Centre.

		2010		2009
Balance, beginning of year	$	–	$	–
Contributions in the current year		476,777		–
Amounts amortized to revenue		(27,818)		–
Balance, end of year	$	448,959	$	–

10. Commitments:

(a) The organization has made a commitment to fund a best ever project for the National Women Volleyball Centre in the amount of $50,000 for the year ending March 31, 2011, subject to the present levels of funding from the Province of Manitoba being maintained.

(b) The organization has an agreement with Canadian Sport Centre Manitoba Inc. to provide funding for the implementation of programs and services in support of the pursuit of excellence by high performance athletes and coaches in Manitoba. The terms of this agreement have committed the organization to provide funding of $190,000 for the year ending March 31, 2011 subject to the present levels of funding from the Province of Manitoba being maintained.

10. Commitments (continued):

(c) The organization has an agreement with the Manitoba Games Council to provide funding in support of The Manitoba Games summer and winter programs. The terms of the agreement had committed the organization to provide funding of $340,680 to the games annually, subject to present levels of funding from the Province of Manitoba being maintained and the annual approval by the Board of Directors. The term of the agreement has expired March 31, 2010. The Board has passed a motion to re-direct $190,000 of unspent funds previously committed to the Manitoba Games to the 2011 Western Canada Games Sport Manitoba Team travel.

11. Manitoba Sports Hall of Fame and Museum Incorporated:

The organization is the sole voting member of the Manitoba Sports Hall of Fame and Museum Incorporated (Hall of Fame), which is a registered charity organized to honour Manitoba athletes and builders. The financial statements of the Hall of Fame have not been consolidated with those of the organization.

On April 1, 2008, the Hall of Fame entered into an occupancy and support agreement with the organization whereby certain services are provided by the organization to the Hall of Fame for a fee equal to the cost of providing such services, minus the sum of $65,000. In 2010, the organization provided total services to the Hall of Fame in the amount of $63,201 under this agreement and, accordingly, a liability of $1,799 has been recorded in these financial statements. During the year, the organization also provided a grant of $41,155 (2009 - nil) to the Hall of Fame.

The accounts receivable from the Hall of Fame in the amount of $76,367 (2009 - $76,367), is non-interest bearing, and has no fixed terms of repayment.

The following represents the financial position and the results of operations of the Hall of Fame as at March 31:

	2010	2009
Assets	$ 135,368	$ 75,300
Liabilities	$ 147,474	$ 93,778
Net assets	(12,106)	(18,478)
	$ 135,368	$ 75,300
Revenues	$ 126,910	$ 154,097
Expenses	120,538	157,507
Excess (deficiency) of revenues over expenses	$ 6,372	$ (3,410)

12. Manitoba Foundation for Sports Inc.:

The organization is the sole voting member of the Manitoba Foundation for Sports Inc. (Foundation), which is a registered charity organized for the purpose of furthering the development of amateur athletics in the Province of Manitoba. The financial statements of the Foundation have not been consolidated with those of the organization.

The following represents the financial position and results of operations of the Foundation as at March 31:

	2010	2009
Assets	$ 1,289,278	$ 1,283,998
Liabilities	$ 3,000	$ 4,000
Deferred contributions	399,313	399,313
Unrestricted net assets	81,965	75,685
Pan Am Games Legacy endowment	805,000	805,000
	$ 1,289,278	$ 1,283,998
Revenue	$ 25,833	$ 60,954
Expenses	19,553	65,914
Excess (deficiency) of revenue over expenses	$ 6,280	$ (4,960)

During the year, the Foundation provided $16,500 (2009 - $22,000) of scholarship grants to Manitoba athletes.

13. Invested in capital assets:

Invested in capital assets is calculated as follows:

	2010	2009
Unspent cash proceeds from loan	$ –	$ 649,535
Capital assets	16,555,900	4,520,630
Loan payable	(15,697,222)	(4,986,101)
Deferred contributions	(448,959)	–
	$ 409,719	$ 184,064

14. Pension plan:

The organization has a defined contribution pension plan. Pension expense for the year ended March 31, 2010 was $98,895 (2009 - $91,906).

15. Financial instruments:

Fair values:

The carrying values of accounts receivable and accounts payable and accrued liabilities approximate their fair value due to their short term to maturity. The fair value of the long-term accounts receivable from the Hall of Fame and the loan payable is not practicable to determine due to the underlying terms and conditions.

Credit risk:

The organization is subject to credit risk related to accounts receivable. This risk is alleviated based on the relationship the organization has with the organizations with which the accounts receivable exist.

16. Subsequent event:

Subsequent to year end, the Manitoba Games Council was dissolved and all assets transferred to Sport Manitoba Inc.

17. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

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Auditors' Report

To the Members of
TRAVEL MANITOBA

We have audited the statement of financial position of **TRAVEL MANITOBA** as at March 31, 2010 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Organization as at March 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba
May 4, 2010

TRAVEL MANITOBA
Statement of Financial Position

As at March 31	2010	2009 (as restated - Note 2)
Assets		
Current Assets		
Cash (Note 3)	$ **575,455**	$ 1,263,319
Short-term deposits (Note 3)	**-**	219,216
Trade accounts receivable	**1,801,605**	401,599
Prepaid expenses	**57,128**	67,245
	2,434,188	1,951,379
Due from the Province of Manitoba (Note 4)	**224,433**	269,550
Capital assets (Note 5)	**148,437**	163,131
	$ **2,807,058**	$ 2,384,060
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	$ **1,761,080**	$ 1,193,088
Retirement allowances and other benefits payable (Note 6)	**491,920**	475,470
	2,253,000	1,668,558
Contingencies and commitments (Note 8)		
Net Assets (Page 5)		
Unrestricted	**330,621**	477,371
Restricted for purchase of capital assets	**75,000**	75,000
Invested in capital assets	**148,437**	163,131
	554,058	715,502
	$ **2,807,058**	$ 2,384,060

Approved on behalf of the Board:

________________________ Director

________________________ Director

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

TRAVEL MANITOBA
Statement of Operations

For the year ended March 31	2010	2009 (as restated - Note 2)
Revenue		
Province of Manitoba		
Operating	**$ 7,602,000**	$ 7,544,300
Other initiatives - federal and provincial funding	**1,950,000**	650,000
Partnership and leveraged marketing	**654,244**	831,897
Western Diversification Program	**-**	105,447
Other	**4,801**	46,206
	10,211,045	9,177,850
Expenditures		
Marketing and product development	**7,704,065**	6,964,700
Visitor services	**1,404,182**	1,389,564
Corporate services	**740,137**	734,316
Contribution to Manitoba Homecoming Inc.	**500,000**	250,000
Amortization	**24,105**	26,466
	10,372,489	9,365,046
Deficiency of revenue over expenditures for the year (Page 5)	**$ (161,444)**	$ (187,196)

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

TRAVEL MANITOBA
Statement of Changes in Net Assets

For the year ended March 31				2010	2009 (as restated - Note 2)
	Unrestricted	Restricted for Purchase of Capital Assets	Invested in Capital Assets	Total	Total
Net assets, beginning of year					
as previously reported	$ 588,894	$ 75,000	$ 163,131	$ 827,025	$ 1,009,298
adjustment to superannuation benefits (Note 2)	(111,523)	-	-	(111,523)	(106,600)
as restated	477,371	75,000	163,131	715,502	902,698
Deficiency of revenue over expenditures for the year (Page 4)	(137,339)	-	(24,105)	(161,444)	(187,196)
Acquisition of capital assets	(9,411)	-	9,411	-	-
Net assets, end of year (Page 3)	$ 330,621	$ 75,000	$ 148,437	$ 554,058	$ 715,502

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

TRAVEL MANITOBA
Statement of Cash Flows

For the year ended March 31	2010	2009 (as restated - Note 2)
Cash Flows from Operating Activities		
Deficiency of revenue over expenditures for the year	$ **(161,444)**	$ (187,196)
Adjustment for non cash items		
Amortization	**24,105**	26,466
	(137,339)	(160,730)
Changes in non-cash working capital		
Trade accounts receivable	**(1,400,006)**	558,474
Prepaid expenses	**10,117**	(32,650)
Accounts payable and accrued liabilities	**567,992**	(189,430)
Deferred revenue	**-**	(30,447)
	(821,897)	305,947
Due from Province of Manitoba	**45,117**	8,923
Retirement allowance and other benefits	**16,450**	(13,091)
	(897,669)	141,049
Cash Flows from Investing Activities		
Acquisition of capital assets	**(9,411)**	(69,832)
Net change in short-term deposits	**219,216**	(5,530)
	209,805	(75,362)
Net increase (decrease) in cash and cash equivalents	**(687,864)**	65,687
Cash and cash equivalents, beginning of year	**1,263,319**	1,197,632
Cash and cash equivalents, end of year	$ **575,455**	$ 1,263,319

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Basis of Reporting

The financial statements of the Organization have been prepared in accordance with Canadian generally accepted accounting principles.

Capital Assets

Capital assets are recorded at cost and amortized on a declining balance basis at the following rates:

Computer hardware	30% straight-line
Computer software	30% straight-line
Furniture and equipment	5% straight-line
Leasehold improvements	5% straight-line

Revenue Recognition

The Organization follows the deferral method of accounting for contributions. Grant revenue is recognized in the period earned. Partnership and marketing revenue are recognized when services are rendered if the amount to be received can be reasonably estimated and collection is reasonably assured.

The Organization recognizes revenue arising from non-monetary transactions in the period when services have been rendered if the amount to be received can be reasonably estimated and collection is reasonably assured.

Financial Instruments

The Organization utilizes various financial instruments. Unless otherwise noted, it is management's opinion that the Organization is not exposed to significant interest, currency or credit risks arising from these financial instruments and the carrying amounts approximate fair values.

All transactions related to financial instruments are recorded on a settlement date basis.

The Organization classifies its financial instruments as follows based on the purpose for which the asset was acquired and follows the disclosed accounting policy for each category.

Assets/Liability	Category	Measurement
Cash	Held for trading	Fair value
Short-term deposits	Held for trading	Fair value
Trade accounts receivable	Loans and receivables	Amortized cost
Due from Province of Manitoba	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

Financial Instruments (continued)

- Held for trading items are carried at fair value, with changes in their fair value recognized in the statement of operations.
- Other financial liabilities are carried at amortized cost, using the effective interest method.
- Loans and receivables are carried at amortized cost, using the effective interest rate method, less any provision for impairment.

Transaction costs are expensed as incurred.

Restricted Fund for Acquisition of Capital Assets

A fund has been established by the Board of Directors in order to finance the future acquisition of capital items which are not funded by the Province of Manitoba through the provision of operating grants. Charges to the fund will occur at the discretion of the President and Chief Executive Officer. Any future redesignation of the fund balance would be subject to approval by the Board of Directors.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

Retirement allowances and other employee future benefits

The organization provides retirement allowance and pension benefits to its employees.

Retirement allowances are provided to certain qualifying employees. The benefits are provided under a final pay plan. The costs of benefits earned by employees are charged to expenses as services are rendered. The costs are actuarially determined using the projected benefit method and reflect management's best estimates of the length of service, salary increases and ages at which employees will retire. Actuarial gains and losses are recognized in income immediately.

Retirement allowances and other employee future benefits (continued)

Employees of the organization are provided pension benefits by the Civil Service Superannuation Fund ("the Fund"). Under paragraph 6 of the Civil Service Superannuation Act, the organization is described as a "matching employer" and its contribution toward the pension benefits is limited to matching the employees' contributions to the Fund.

In addition, one employee is entitled to enhanced pension benefits. The plan is based on final pay and is indexed. The cost of the benefits earned by the employee is charged to expenses as services are rendered. The cost is actuarially determined using the projected benefit method and reflects management's best estimate of salary increases and the age at which the employee will retire.

New Accounting Pronouncements

A recent accounting pronouncement that has been issued but is not yet effective, and has a potential implication for the Organization, is as follows:

Future for Not-for-Profit Organizations (NPO)

The Accounting Standards Board (AcSB) is currently developing new accounting standards for not-for-profit organizations (NPOs). Until such a time that the AcSB makes a final decision, all NPOs will continue to follow accounting standards currently in effect.

1. Nature of Organization

Travel Manitoba was created as a Crown Corporation on April 1, 2005 under The Travel Manitoba Act as the culmination of extensive consultation and leadership from both the tourism industry and the provincial government. Travel Manitoba's mission is to be the leader in stimulating innovative, sustainable tourism growth in Manitoba. Travel Manitoba collaborates closely and in partnership with the tourism industry and governments to attract visitors to Manitoba, sustaining and creating jobs and businesses in the tourism sector in the province.

Travel Manitoba receives core funding from the Province of Manitoba to facilitate operations and to mobilize public and private resources to further foster the growth and professionalism of the tourism industry in Manitoba. Travel Manitoba is economically dependent on the Province of Manitoba, because it derives a significant portion of its revenue from the Province of Manitoba.

2. Adjustment to Retirement Allowance

During the current year, the Organization received an actuarial report valuing the liability of the superannuation pension as at March 31, 2007. Adjustments were required to record this liability as well changes to the estimated liability for the years ended March 31, 2008 and March 31, 2009. The effect on the prior year financial statements as a result of this report are as follows:

	As previously reported	Adjustment	As restated
Opening unrestricted net assets	$ 814,533	$ (106,600)	$ 707,933
Accounts payable and accrued liabilities	1,201,165	(8,077)	1,193,088
Retirement allowances and other benefits payable	-	119,600	119,600
Corporate service expense	729,393	4,923	734,316

3. Cash and Short-term Deposits

The Organization invests all surplus cash into short-term deposits with the Province's Treasury Division. These deposits are made up of 30, 60 and 90 day callable term deposits.

4. Due from the Province of Manitoba

Upon inception on April 1, 2005, the Organization recorded accumulated severance pay benefits receivable and payable of $368,937 transferred from the Province of Manitoba for its employees. This receivable, or portion thereof, for the Organization, will be collected by the organization as severance benefits are paid to employees on record as at April 1, 2005.

During the year, the Organization reduced the receivable from the government in the amount of $45,117 related to employees no longer employed by the Organization. The receivable from the Province of Manitoba as at March 31, 2010 is $224,433 (2009 - $269,550).

5. Capital Assets

	2010		2009	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Computer hardware	**$ 88,429**	**$ 45,547**	$ 80,631	$ 29,668
Computer software	**29,503**	**23,969**	29,503	20,947
Furniture and equipment	**13,666**	**2,045**	12,053	1,494
Leasehold improvements	**97,679**	**9,279**	97,679	4,626
	$ 229,277	**$ 80,840**	$ 219,866	$ 56,735
Cost less accumulated amortization		**$ 148,437**		$ 163,131

6. Retirement allowances and enhanced pension benefits

The organization measures its accrued benefit obligation for each of the retirement allowance and enhanced pension benefits as at March 31 of each year. The most recent actuarial valuation report for the retirement allowance was at March 31, 2010 and the most recent finalized and approved actuarial valuation report for the enhanced pension benefits was at March 31, 2007.

The significant actuarial assumptions adopted in measuring the organization's retirement allowance obligation and costs are as follows:

	2010	2009
Benefit costs for the year ended March 31		
Discount rate	**7%**	7%
Rate of compensation increase	**3.25%**	3.25%
Employer contributions	**$ 115,813**	$ 103,670

The significant actuarial assumptions adopted in measuring the organization's enhanced pension benefit and costs are as follows:

	2010	2009
Benefit costs for the year ended March 31		
Discount rate	**7%**	7%
Rate of compensation increase	**4.25%**	4.25%
Employer contributions	**$ 14,600**	$ 13,000

7. Financial Risk Management

The Organization is exposed to different types of risk in the normal course of operations, including credit risk and market risk. The Organization's objective in risk management is to optimize the risk return trade-off, within set limits, by applying integrated risk management and control strategies, policies and procedures throughout the Organization's activities.

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Organization to credit risk consist principally of accounts receivable.

The Organization's maximum exposure to credit risk without taking account of any collateral or other credit enhancements is as follows:

	2010	2009
Trade accounts receivable	$ **1,801,605**	$ 401,599
Due from the Province of Manitoba	**224,433**	269,550
	$ **2,026,038**	$ 671,149

Trade amounts: The Organization is not exposed to significant credit risk as the receivable is spread among a broad client base and payment in full is typically collected when it is due. The Organization establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off.

Other amounts receivable: The Organization is not exposed to significant credit risk as these receivables are substantially all from provincial and federal governments.

Market Risk

Market risk is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign exchange risk and other price risk.

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Organization is not exposed to significant interest rate risk. Its short-term deposits are held in short-term or variable rate products.

The Organization is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in foreign currency and the number of transactions in foreign currency are minimal and the Organization is not exposed to other price risk.

Fair Value

The carrying values of cash, short-term deposits, trade accounts receivable, due from the Province of Manitoba and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

8. Contingencies and Commitments

The Organization has entered into lease agreements expiring March 2011 for rental of facilities at various locations with total annual payments of $653,487.

The Organization has access to a loan guarantee with the Province of Manitoba for $1,500,000. The guarantee will enable Travel Manitoba to establish a line of credit up to this amount for the purpose of providing advances and profit guarantees as part of bid proposals and preparation efforts being undertaken in attracting various events to take place in Manitoba. As at March 31, 2010, this line of credit had not been drawn upon. However, $400,000 of the loan guarantee is encumbered against the profit guarantee committed to the Brandon Wheat Kings for hosting the 2010 Memorial Cup. In addition, subsequent to March 31, 2010 a further $200,000 was encumbered for Sport Manitoba related to the World Indigenous Games.

9. Non-monetary transactions

In the current year, the Organization entered into contracts with exchanges of non-monetary services for other non-monetary services with little or no monetary consideration involved. These transactions are within normal business activities and were done in order to carry out the mandate of the Organization.

The Organization has used the fair value of the services that have been given up in order to measure the amount of the transaction as this is the more reliable and accurate measure of the revenue and expenses that have been incurred through these transactions. The aggregate amount of all non-monetary transactions in the current year total $73,000 (2008 - $89,600).

The Organization has not incurred any gains or losses in the current year with respect to these non-monetary transactions.

OFFICE OF THE
AUDITOR GENERAL
MANITOBA

AUDITORS' REPORT

To the Lieutenant Governor in Council
To the Legislative Assembly of Manitoba
To the Governing Council of the University College of the North

We have audited the statement of financial position of the University College of the North as at June 30, 2009, and the statements of operations, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the University College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the University College as at June 30, 2009, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Office of the Auditor General

Office of the Auditor General

Winnipeg, Manitoba
September 25, 2009

500 - 330 Portage Avenue Winnipeg, Manitoba R3C 0C4 office (204) 945-3790 fax (204) 945-2169
www.oag.mb.ca

UNIVERSITY COLLEGE OF THE NORTH

STATEMENT 1

STATEMENT OF FINANCIAL POSITION

	General Fund	Capital Campaign Fund	Student Award Fund	Endowment Fund	Total JUNE 30 2009	Total JUNE 30 2008
ASSETS						
CURRENT						
Cash and cash equivalents (Note 13)	$ 8,509,477	$ 22,495	$ 116,906	$	$ 8,648,878	$ 9,616,824
Short-term investments (Note 13)				252,600	252,600	52,600
Accounts receivable (Note 3)	2,522,572	250,001	1,222		2,773,795	2,974,313
Due from Province of Manitoba (Note 5)	752,589				752,589	752,589
Inventory	147,124				147,124	127,315
Prepaid expenses	254,520				254,520	151,918
	12,186,282	272,496	118,128	252,600	12,829,506	13,675,559
LONG TERM						
Capital assets (Note 4)	3,116,891				3,116,891	2,706,175
Due from Province of Manitoba (Note 5)	793,500				793,500	793,500
	3,910,391				3,910,391	3,499,675
TOTAL ASSETS	$ 16,096,673	$ 272,496	$ 118,128	$ 252,600	$ 16,739,897	$ 17,175,234
LIABILITIES						
CURRENT						
Accounts payable and accrued liabilities (Note 6)	$ 1,797,170	$	$ 500	$	$ 1,797,670	$ 2,820,815
Deferred revenue	538,675				538,675	222,712
Deferred contributions (Note 7)	3,435,630				3,435,630	3,387,588
Accrued vacation benefits	2,208,626				2,208,626	1,925,083
	7,980,101		500		7,980,601	8,356,198
LONG TERM						
Deferred contributions related to capital assets (Note 8)	2,126,034				2,126,034	1,686,737
Accrued severance benefits (Note 9)	1,553,154				1,553,154	1,383,051
	3,679,188				3,679,188	3,069,788
FUND BALANCES						
FUND SURPLUS (DEFICIT)						
NET ASSETS INVESTED IN CAPITAL ASSETS	990,859				990,859	1,019,437
NET ASSETS RESTRICTED FOR FUND PURPOSES		272,496	117,628	252,600	642,724	247,592
NET ASSETS INTERNALLY RESTRICTED (Note 12)	3,298,506				3,298,506	4,092,195
UNRESTRICTED NET ASSETS	148,019				148,019	390,024
	4,437,384	272,496	117,628	252,600	5,080,108	5,749,248
TOTAL LIABILITIES & FUND BALANCES	$ 16,096,673	$ 272,496	$ 118,128	$ 252,600	$ 16,739,897	$ 17,175,234

APPROVED BY THE GOVERNING COUNCIL

STATEMENT 2

UNIVERSITY COLLEGE OF THE NORTH

STATEMENT OF OPERATIONS

YEAR ENDED JUNE 30

	General Fund	Capital Campaign Fund	Student Award Fund	Endowment Fund	Total 2009	Total 2008
REVENUES						
Grants						
Council on Post-Secondary Education	$ 23,115,557	$	$	$	$ 23,115,557	$ 23,540,296
Other Province of Manitoba	526,787				526,787	612,443
Government of Canada						16,830
Amortization of deferred contributions related to capital assets	328,228				328,228	203,279
Ancillary sales and services	1,734,795				1,734,795	1,640,844
Donations		273,162	227,668	200,000	700,830	141,740
Investment income	166,773		6,455		173,228	403,947
Contract training	1,845,257				1,845,257	2,911,782
Tuition and student fees	2,718,812				2,718,812	2,504,425
Other revenue	1,223,741				1,223,741	1,038,143
Gain (loss) on disposal of capital assets	23,011				23,011	(4,509)
	31,682,961	273,162	234,123	200,000	32,390,246	33,009,220
EXPENSES						
Advertising	288,993				288,993	249,916
Amortization of capital assets	353,317				353,317	220,418
Bad debts						38,237
Cost of goods sold	986,735				986,735	973,546
Employee benefits	2,265,133				2,265,133	1,917,066
Insurance	197,646				197,646	82,476
Library acquisitions	190,893				190,893	272,627
Facility costs	872,873				872,873	817,388
Furniture and minor equipment	866,991				866,991	1,769,626
Loss to inventory write down						38,848
Maintenance and repairs	137,225				137,225	107,998
Operational supplies and services	3,578,649		187		3,578,836	3,538,593
Property taxes	501,500				501,500	497,329
Rentals and leases	437,168				437,168	400,757
Salaries	19,878,348				19,878,348	18,732,862
Scholarships and bursaries			305,700		305,700	136,721
Telephone and communication	555,437				555,437	531,550
Travel and hospitality	1,524,274				1,524,274	1,393,758
Utilities	118,317				118,317	128,019
	32,753,499		305,887		33,059,386	31,847,735
EXCESS REVENUES (EXPENSES)	$ (1,070,538)	$ 273,162	$ (71,764)	$ 200,000	$ (669,140)	$ 1,161,485

STATEMENT 3

UNIVERSITY COLLEGE OF THE NORTH

STATEMENT OF CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30

	General Fund	Capital Campaign Fund	Student Award Fund	Endowment Fund	Total 2009	Total 2008
FUND SURPLUS, *beginning of year*	$ 5,501,656	$ 5,600	$ 188,900	$ 53,092	$ 5,749,248	$ 4,587,763
EXCESS REVENUES (EXPENSES)	(1,070,538)	273,162	(71,764)	200,000	(669,140)	1,161,485
INTER-FUND TRANSFERS (Note 16)	6,266	(6,266)	492	(492)		
FUND SURPLUS, *end of year*	$ 4,437,384	$ 272,496	$ 117,628	$ 252,600	$ 5,080,108	$ 5,749,248

UNIVERSITY COLLEGE OF THE NORTH

STATEMENT 4

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess Revenues (Expenses)		
University College of the North Fund	$ (1,024,168)	$ 1,191,796
Inter-Universities Services Fund	(46,370)	12,094
Northern Forest Diversification Centre Fund		(58,958)
Student Award Fund	(71,764)	2,953
Capital Campaign Fund	273,162	5,600
Endowment Fund	200,000	8,000
	(669,140)	1,161,485
Add (deduct) items not involving cash		
Loss (gain) on disposal of capital assets	(23,011)	4,509
Amortization of capital assets	353,317	220,418
Amortization of deferred contributions related to capital assets	(328,228)	(203,279)
	(667,062)	1,183,133
Add (deduct) changes in non-cash working capital components related to operating activities		
Accounts receivable	200,519	(586,812)
Inventory	(19,809)	40,769
Prepaid expenses	(102,602)	(101,926)
Accounts payable and accrued liabilities	(1,023,145)	1,044,361
Deferred revenue	71,834	(313,315)
Deferred contributions	292,171	337,434
Accrued vacation benefits	283,543	216,052
Accrued severance benefits	170,103	33,179
	(794,448)	1,852,875
CASH FLOWS FROM FINANCING ACTIVITIES		
Deferred contributions related to capital assets	767,524	855,537
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in investments	(200,000)	(8,000)
Purchase of capital assets	(767,522)	(1,169,765)
Proceeds on disposal of capital assets	26,500	19,400
	(941,022)	(1,158,365)
NET INCREASE (DECREASE) IN CASH FLOWS DURING THE YEAR	(967,946)	1,550,047
CASH AND CASH EQUIVALENTS, *beginning of year*	9,616,824	8,066,777
CASH AND CASH EQUIVALENTS, *end of year*	$ 8,648,878	$ 9,616,824

1. NATURE OF OPERATIONS

The University College of the North operates under the authority of *The University College of the North Act* Chapter U55 of the *Continuing Consolidation of the Statutes of Manitoba*, which came into force July 1, 2004. This Act provides for the continuation of Keewatin Community College, as established under *The Colleges Act* as a board-governed institution on April 1, 1993.

The purpose of the University College of the North is to provide post-secondary education in northern Manitoba. It should be learner and community-centred, be characterized by a culture of openness, inclusiveness and tolerance, and be respectful of Aboriginal and northern values and beliefs.

The educational purposes of UCN are to serve the educational needs of Aboriginal and northern Manitobans and to enhance the economic and social well-being of northern Manitoba.

The university college has tax-exempt status as a registered charity under *The Income Tax Act.*

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the University College of the North (UCN) have been prepared in accordance with Canadian generally accepted accounting principles. University College of the North follows the restricted fund method of accounting for contributions.

a) Funds

The transactions of UCN have been segregated into the following funds in accordance with specified activities or objectives:

General Funds
1. UCN Fund
The UCN Fund consists of transactions related to educational and ancillary activities of UCN.

(i) Capital Assets
The Capital Assets Fund consists of the credit of capital asset acquisitions, net of amounts financed through deferred contributions.

(ii) Internally Restricted
The Internally Restricted Fund consists of transactions related to appropriations made from (to) the Unrestricted Fund.

(iiii) Unrestricted
The Unrestricted Fund consists of transactions related to educational and ancillary activities of UCN and not included in the Restricted Fund

2. Inter-Universities Services Fund (IUS)
The IUS Fund consists of transactions related to the educational programs of the Inter-Universities Services Program which is administered by UCN.

Capital Campaign Fund
The Capital Campaign Fund consists of transactions related to donations received towards the development and capital needs of University College of the North.

Student Award Fund
The Student Award Fund consists of transactions related to donations for student scholarships and bursaries.

Endowment Fund
The Endowment Fund consists of transactions related to endowments for student scholarships and bursaries.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) New Accounting Policies

Effective July 1, 2008 the entity adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA):

Section 1535, *Capital Disclosures*
Section 1535 requires the disclosure of qualitative and quantitative information that enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital. The adoption of this standard only required additional disclosures, which are provided in Note 15.

Section 3031, *Inventories*
Section 3031 provides guidance on the measurement and disclosure required for inventories. The adoption of the standard had no impact on the entity's financial statements for the year ended June 30, 2009.

c) Financial Instruments

The financial instruments at UCN consist of cash and cash equivalents, short-term investments, accounts receivable, due from Province of Manitoba - vacation and severance benefits, accounts payable and accrued liabilities, and accrued vacation benefits.

Initially, all financial assets and liabilities must be recorded on the Statement of Financial Position at fair value. Subsequent measurement is determined by the classification of each financial asset and liability. Under this standard, all financial instruments are classified as one of: held-for-trading; loans and receivables; held-to-maturity; available-for-sale or other liabilities. Financial assets and liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in net earnings. Financial instruments classified as held-to-maturity, loans and receivables and other liabilities are measured at amortized cost. Available-for-sale financial instruments are measured at fair value, with unrealized gains and losses recognized directly in unrestricted net assets until realized, at which time they are recognized in net earnings.

<u>Classification</u>
UCN has designated its financial instruments as follows:

Held-for-trading:	Cash and cash equivalents
	Short-term investments
Loans and receivables:	Accounts receivable
	Due from Province of Manitoba - vacation and severance benefits
Other liabilities:	Accounts payable and accrued liabilities
	Accrued vacation benefits

<u>Fair Value of Financial Instruments</u>
The fair value of cash and short-term investments, accounts receivable, due from Province of Manitoba - vacation benefits, accounts payable and accrued liabilities, and accrued vacation pay approximates their carrying values due to their short-term maturity.

The carrying value of the due from Province of Manitoba - severance benefits approximates its fair value, as the annual interest accretion is funded.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

d) Future Accounting Policy Changes

Disclosure and Presentation of Financial Instruments
The CICA has issued two new standards, CICA 3862 “Financial Instruments – Disclosures” and CICA 3863 “Financial Instruments – Presentation” which are intended to enhance the abilities of users of financial statements to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks.

These new standards, which were effective July 1, 2008, would require additional disclosure in the financial statements. However, the CICA subsequently amended these sections to eliminate the requirement for not-for-profit entities and rate-regulated enterprises to adopt these sections. These entities are permitted to apply CICA 3861 “Financial Instruments - Disclosure and Presentation” in place of sections 3862 and 3863. An entity that does so must disclose this fact.

Not-For-Profit Organizations
The CICA amended a number of standards applicable to not-for-profit organizations (NFPOs) and issued new standard, CICA 4470 *“Disclosures of Allocated Expenses by Not-for-Profit Organizations.”*

CICA 4400 “Financial Statement Presentation by Not-For-Profit Organizations” was amended to:

- eliminate the requirement to treat net assets invested in capital assets as a separate component of net assets and, instead, permit a NFPO to present such an amount as a category of internally restricted net assets when it chooses to do so;
- clarify that revenues and expenses must be recognized and presented on a gross basis when a not-for-profit organization is acting as a principal in transactions;
- make CICA 1540 “Cash Flow Statements” applicable to NFPOs; and
- make CICA 1751 “Interim Financial Statements” applicable to NFPOs that prepare interim financial statements in accordance with GAAP.

CICA 4430 “Capital Assets Held by Not-For-Profit Organizations” was amended to provide additional guidance with respect to the appropriate use of the scope exemption for smaller entities.

CICA 4460 “Disclosure of Related Party Transactions by Not-For-Profit Organizations” was amended to make the language in the standard consistent with CICA 3840 “Related Party Transactions.”

New standard CICA 4470 “Disclosure of Allocated Expenses by Not-For-Profit Organizations” establishes disclosure standards for not-for-profit organizations that choose to classify their expenses by function and allocate expenses from one function to another. The main features of the new standard are:

- a requirement for an entity that allocates its fundraising and general support expenses to other functions to disclose the policies adopted for the allocation of expenses among functions, the nature of the expenses being allocated and the basis on which such allocations have been made; and
- a requirement for an entity to disclose the amounts allocated from each of its fundraising and general support functions and the amounts and functions to which they have been allocated.

These new requirements are effective July 1, 2009 and will only require additional disclosure in the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

e) Revenue Recognition

Tuition and fees are recognized as revenue in the semester or term earned.

Revenue from Contract Training contracts is recognized during the year at a rate approximating the delivery of the contracted programs and services.

Investment income is recognized as revenue when earned.

Contributions:

Unrestricted contributions and grants are recognized as revenue when received or receivable.

Restricted contributions for which a corresponding restricted fund is not presented are recognized as revenue in the year in which the related expenditures are incurred.

Donations are reported as revenue when received. Donations restricted to disbursement as scholarships and bursaries are restricted to that purpose.

Endowment contributions (and/or investment income thereon) that are held in perpetuity according to restrictions placed by the donors are recognized as revenue in the Endowment Fund.

Contributions (or portions permitted thereof) which are designated for the purchase of capital assets are deferred and amortized to revenue at the same rate as the related capital assets are amortized to expenditures.

f) Short-term investments

Investments are recorded at fair market value.

g) Inventory

Inventory is recorded at the lower of cost or net realizable value.

h) Capital Assets

Individual capital assets with a value greater than $5,000 are capitalized and recorded at cost in the year of acquisition. Individual capital assets with a value less than $5,000 are expensed in the year of acquisition. Amortization of capitalized assets is recorded on a straight line basis commencing the year after acquisition over the following periods:

Automotive equipment	5 years
Buildings	40 years
Building improvements	10 years
Computer equipment	5 years
Other equipment	10 years

Library holdings are valued using the "base stock" method and accordingly are recorded at the value transferred upon governance at April 1, 1993. No amortization is taken on library holdings, and subsequent library acquisitions are expensed in the year of acquisition.

Certain capital assets purchased for specific Contract Training contracts are expensed in the year of purchase.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i) Measurement Uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

j) Severance Benefits

The university college accrues its obligation for employee future benefits relating to severance. The cost of severance benefits earned by employees is actuarially determined using the accrued benefits cost method.

Actuarial gains or losses are recongized in the year the gain or loss arises.

3. ACCOUNTS RECEIVABLE

	2009	**2008**
UCN Fund		
Students	$ 759,555	$ 597,180
Contract Training	907,232	1,198,945
Due from COPSE	504,630	464,707
Other	1,004,727	1,199,282
	3,176,144	3,460,114
Less: Allowance for doubtful accounts	(761,475)	(748,456)
	$ 2,414,669	$ 2,711,658
Inter-Universities Services Fund		
Students	$ 89,988	$ 114,072
Other	22,878	150,645
	112,866	264,717
Less: Allowance for doubtful accounts	(4,963)	(2,555)
	$ 107,903	$ 262,162
Capital Campaign Fund		
Other	$ 250,001	$ 1
Student Award Fund		
Other	$ 1,222	$ 492
	$ 2,773,795	$ 2,974,313

4. CAPITAL ASSETS

UCN Fund

		Cost		Accumulated Amortization		Net Book Value 2009
Automotive equipment	$	688,604	$	457,457	$	231,147
Computer equipment		842,408		452,402		390,006
Other equipment		2,144,595		790,255		1,354,340
Buildings/improvements		527,669		194,936		332,733
Library holdings		714,161				714,161
	$	4,917,437	$	1,895,050	$	3,022,387

Inter-Universities Services Fund

		Cost		Accumulated Amortization		Net Book Value 2009
Automotive equipment	$	90,873	$	21,856	$	69,017
Computer equipment		60,174		45,288		14,886
Other equipment		28,448		17,847		10,601
	$	179,495	$	84,991	$	94,504
TOTALS FOR 2009	$	5,096,932	$	1,980,041	$	3,116,891

UCN Fund

		Cost		Accumulated Amortization		Net Book Value 2008
Automotive equipment	$	688,604	$	386,836	$	301,768
Computer equipment		772,571		432,854		339,717
Other equipment		1,674,230		751,336		922,894
Buildings/improvements		512,531		148,702		363,829
Library holdings		714,161				714,161
	$	4,362,097	$	1,719,728	$	2,642,369

Inter-Universities Services Fund

		Cost		Accumulated Amortization		Net Book Value 2008
Automotive equipment	$	82,430	$	51,374	$	31,056
Computer equipment		60,174		40,326		19,848
Other equipment		28,448		15,546		12,902
	$	171,052	$	107,246	$	63,806
TOTALS FOR 2008	$	4,533,149	$	1,826,974	$	2,706,175

5. DUE FROM PROVINCE OF MANITOBA

The Province of Manitoba has recognized its liability to the university college for the opening balances of accrued employee severance benefits and vacation benefits as at April 1, 1998, when Keewatin Community College (precursor to UCN) assumed responsibility for these expenditures.

The amount recorded as due from Province of Manitoba – vacation benefits was initially based on the estimated value of the corresponding liability as at April 1, 1998. Subsequent to April 1, 1998, the Province has included in its ongoing annual funding to UCN, an amount equal to the current year's expense for vacation pay entitlements.

The amount recorded as due from Province of Manitoba – severance benefits is the value of the corresponding actuarial liability for severance benefits as at April 1, 1998. There has been no change to the value subsequent to April 1, 1998 because the Province has provided, in its ongoing annual funding to UCN, an amount equivalent to the change in the post employment liability including annual interest accretion related to the receivable. The receivable will be paid by the Province when it is determined that the funding is required to discharge the related severance benefits,

		2009		2008
Accrued vacation benefits	$	752,589	$	752,589
Accrued severance benefits	$	793,500	$	793,500

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

UCN Fund	2009	2008
Accrued liabilities	$ 417,766	$ 302,800
Wages and benefits payable	239,219	765,796
Trade accounts payable	818,810	1,677,735
Due to Student Associations	9,517	11,282
	$ 1,485,312	$ 2,757,613
Inter-Universities Services Fund		
Trade accounts payable	$ 311,858	$ 62,702
Student Award Fund		
Other	$ 500	$ 500
	$ 1,797,670	$ 2,820,815

7. DEFERRED CONTRIBUTIONS

Deferred contributions reported in each fund relate to designated contributions received in the current year that are related to expenditures of a subsequent year. Changes in deferred contributions during the year are as follows:

	Beginning of Year	Increases	Decreases	End of Year
UCN Fund	$ 3,387,588	$ 983,937	$ 935,895	$ 3,435,630

8. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS

	Beginning of Year	Increases	Decreases	End of Year
UCN Fund	$ 1,622,931	$ 713,077	$ 304,480	$ 2,031,528
Inter-Universities Services Fund	63,806	54,447	23,747	94,506
	$ 1,686,737	$ 767,524	$ 328,227	$ 2,126,034

9. ACCRUED SEVERANCE BENEFITS

UCN Fund		**2009**		**2008**
Balance, beginning of year	$	1,328,675	$	1,302,812
Experience gain		(18,568)		
Benefits accrued		91,709		105,538
Interest on accrued benefits		128,628		91,196
Severance paid		(43,308)		(170,871)
Balance, end of year	$	1,487,136	$	1,328,675

Inter-Universities Services Fund				
Balance, beginning of year	$	54,376	$	47,060
Experience loss		3,215		
Benefits accrued		4,032		4,022
Interest on accrued benefits		4,395		3,294
Balance, end of year	$	66,018	$	54,376
	$	1,553,154	$	1,383,051

An actuarial valuation of the severance obligations as at March 31, 2008 was conducted by Ellement & Ellement Ltd., Consulting Actuaries. The key actuarial assumptions were a rate of return of 7.0% (2005 - 7.0%), 2.5% inflation (2005 - 2.5%), salary rate increases of 3.25% (2005 - 3.25%).The accrued benefit cost method with salary projection was used and the liabilities have been extrapolated to June 30, 2009 using the projection formula provided by the actuary.

10. PENSION COSTS AND OBLIGATIONS

The university college's employees are contributing members of the provincially operated Civil Service Superannuation Plan or the Teacher's Retirement Annuity Fund defined benefit pension plans. Until March 31, 2009, the accumulated superannuation liabilities were funded directly by the Province of Manitoba, rather than the university college itself for all employees hired prior to October 1, 2002.

The benefit to the university college of having its share of pension benefits paid directly by the Province of Manitoba has not been quantified by an actuarial valuation. The total contributions during the fiscal year by employees hired prior to October 1, 2002 were $452,050 (2008 - $505,323). Effective April 1, 2009, the university college was required to make matching contributions for employees hired prior to October 1, 2002. The total matching contributions paid by UCN for employees hired prior to October 1, 2002 was $97,552.

Total contributions during the fiscal year by employees hired after October 1, 2002 (and matched by the university college) were $520,842 (2008 - $388,019). These contributions represent the total pension obligations of the university college. The university college is not required under present legislation to make contributions with respect to any actuarial deficiencies of the plan.

11. CONTRACTUAL OBLIGATIONS

The university college has entered into various contracts to rent office equipment, lease facility space, and for services provided by third parties for security, food services, and snow removal. Contractual obligations over the next five years are as follows:

2009/10	701,318
2010/11	304,585
2011/12	81,014
2012/13	14,561
2013/14	781

12. INTERNALLY RESTRICTED NET ASSETS

Appropriations from the Unrestricted Fund are made to provide for future funding for campus development, innovations funds, fiscal stabilization, conference and the establishment of a science lab.

UCN Fund

	Opening Balance	**Increases**	**Decreases**	**Ending Balance**
Campus Development Fund	$ 160,653	$	$	$ 160,653
Innovations Fund	22,878			22,878
Fiscal Stabilization	843,480		166,970	676,510
Programming Initiatives	2,260,200		580,349	1,679,851
Total	$ 3,287,211	$ -	$ 747,319	$ 2,539,892

Inter-Universities Services Fund

	Opening Balance	**Increases**	**Decreases**	**Ending Balance**
Innovations Fund	$ 654,984		$ 46,370	$ 608,614
Conferences	50,000			50,000
Science Lab	100,000			100,000
Total	$ 804,984	$ -	$ 46,370	$ 758,614
	$ 4,092,195	$ -	$ 793,689	$ 3,298,506

13. RELATED PARTY TRANSACTIONS

The university college is related in terms of common ownership to all Province of Manitoba created departments, agencies and Crown Corporations. The university college enters into transactions with these entities in the normal course of business. These transactions are recorded at the exchange amount. The $872,873 in facility costs was paid to Manitoba Infrastructure and Transportation for the rental of buildings. Funds available for short-term investments are invested with the Province of Manitoba. At June 30, 2009 $7.5 million (2008 - $8.2 million), included in both Cash and Cash Equivalents and Short-term Investments, was invested with the Province of Manitoba.

14. RISK MANAGEMENT

Financial instruments are exposed to risk through the normal course of operations. UCN has exposure to the following risks from its use of financial instruments:
credit risk, liquidity risk, market risk, interest rate risk and foreign currency risk.
These risks are managed through the university college's collection procedures, investment guidelines and other internal policies, guidelines and procedures.

1. <u>Credit Risk</u>
Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. The carrying amount of financial assets represents that maximum credit exposure. The maximum exposure to credit risk as of June 30 was:

		Carrying Amount		
		2009		2008
Financial assets head for trade:				
Cash and cash equivalents	$	8,648,878	$	9,616,824
Short-term investments		252,600		52,600
Loans and receivables:				
Accounts receivable		2,773,795		2,974,313
Due from Province of Manitoba				
- vacation and severance benefits		1,546,089		1,546,089
Totals	$	13,221,362	$	14,189,826

The investments of the university college are purchases made with excess cash intended to be for short periods of time. The investments held by UCN are not exposed to significant credit risk as they are held by the Province of Manitoba.

The credit risk from accounts receivable is relatively low as the majority of receivables are from students, contract training and from government agencies. Credit risk from student receivables is managed through registration cancellation and by maintaining standard collection procedures. Credit risk for contract training is managed through standard collection procedures. UCN establishes an allowance for doubtful accounts that represents it estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, client analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off. Amounts due from the the Province of Manitoba are typically collected when due.

Due from Province of Manitoba – vacation benefits are based on the estimated value of the corresponding liability as at April 1, 1998 when Keewatin Community College (precursor to UCN) assumed responsibility for these expenditures.
Due from Province of Manitoba – severance benefits are based on the corresponding actuarial liability for severance benefits as at April 1, 1998. The receivable will be paid by the Province when it is determined that the funding is required to discharge the related vacation and severance benefits.

14. RISK MANAGEMENT *(continued)*

2. Liquidity Risk
Liquidity risk is the risk that the university college will encounter difficulty in having available sufficient funds to meet its commitments.

The cash flow of operating funds is prepared on a just in time basis. The short term funds of the university college are invested so that maturity dates coincide with cash requirements. Term investments can be withdrawn prior to the maturity date if needed.

3. Market Risk
Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect UCN's income or the fair values of its financial instruments. The significant market risk UCN is exposed to is interest rate risk.

4. Interest Rate Risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. UCN is not exposed to significant interest risk as all investments held are short-term in nature and are held by the Province of Manitoba.

5. Foreign Currency Risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rate. UCN is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in a foreign currency.

15. CAPITAL MANAGEMENT

The university college's capital comprises its fund balances, which include unrestricted funds, internally restricted funds, externally restricted funds, and funds invested in capital assets.

General Fund
The university college's objective in managing its operating capital is to maintain sufficient capital to cover its costs of operations. The university college manages its operating capital through an operating budget which is approved by the Governing Council and the Council on Post Secondary Education (COPSE).

Restricted Funds and Endowment Fund
The university college also maintains externally and internally restricted funds and an endowment fund.

The restricted funds are managed with the objective to spend the funds in accordance with the various terms and not spend beyond the resources that have been provided.

The endowment fund is managed with the long term objective of preserving the capital of the individual endowment accounts. The goal is to earn investment returns, adjusted for inflation, which will support the ongoing expenditure and commitment of the fund.

As at June 30, 2009, the University College of the North has met its objectives with respect to its capital requirements. There have been no significant changes to the university college's capital management objective, policies and processes in the year.

16. INTER-FUND TRANSFERS

Inter-fund transfers at June 30 are as follows:

	Unrestricted			Internally Restricted		Capital Assets	Capital Campaign	Student Award	Endowment
	UCN Fund	IUS Fund	NFDC Fund	UCN Fund	IUS Fund	Fund	Fund	Fund	Fund
Fiscal Stabilization	$ 166,970	$ -	$ -	$ (166,970)	$ -	$ -	$ -	$ -	$ -
Programming Initiatives	580,349			(580,349)					
Innovations		46,370			(46,370)				
Close NFDC to UCN	60,824		(60,824)						
Capital Campaign contribution to UCN	6,266						(6,266)		
Reverse prior year interest transfer								492	(492)
June 30, 2009	$ 814,409	$ 46,370	$ (60,824)	$ (747,319)	$ (46,370)	$ -	$ (6,266)	$ 492	$ (492)
June 30, 2008	$ (2,308,118)	$ (12,094)	$ -	$ 2,322,420	$ 12,094	$ (14,302)	$ -	$ (492)	$ 492

17. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

STATEMENT 1A

UNIVERSITY COLLEGE OF THE NORTH

STATEMENT OF FINANCIAL POSITION - GENERAL

JUNE 30

	UCN Fund	IUS Fund	Total 2009	Total 2008
ASSETS				
CURRENT				
Cash and cash equivalents	$ 7,174,424	$ 1,335,053	$ 8,509,477	$ 9,421,825
Accounts receivable (Note 3)	2,414,669	107,903	2,522,572	2,973,820
Due to/from other funds	234,088	(234,088)		
Due from Province of Manitoba (Note 5)	752,589		752,589	752,589
Inventory	147,124		147,124	127,315
Prepaid expenses	254,520		254,520	151,918
	10,977,414	1,208,868	12,186,282	13,427,467
LONG TERM				
Capital assets (Note 4)	3,022,387	94,504	3,116,891	2,706,175
Due from Province of Manitoba (Note 5)	788,490	5,010	793,500	793,500
	3,810,877	99,514	3,910,391	3,499,675
TOTAL ASSETS	$ 14,788,291	$ 1,308,382	$ 16,096,673	$ 16,927,142
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities (Note 6)	$ 1,485,312	$ 311,858	$ 1,797,170	$ 2,820,315
Deferred revenue	538,675		538,675	222,712
Deferred contributions (Note 7)	3,435,630		3,435,630	3,387,588
Accrued vacation benefits	2,131,240	77,386	2,208,626	1,925,083
	7,590,857	389,244	7,980,101	8,355,698
LONG TERM				
Deferred contributions related to capital assets (Note 8)	2,031,528	94,506	2,126,034	1,686,737
Accrued severance benefits (Note 9)	1,487,136	66,018	1,553,154	1,383,051
	3,518,664	160,524	3,679,188	3,069,788
FUND BALANCES				
FUND SURPLUS (DEFICIT)				
NET ASSETS INVESTED IN CAPITAL ASSETS	990,859		990,859	1,019,437
NET ASSETS INTERNALLY RESTRICTED (Note 12)	2,539,892	758,614	3,298,506	4,092,195
UNRESTRICTED NET ASSETS	148,019		148,019	390,024
	3,678,770	758,614	4,437,384	5,501,656
TOTAL LIABILITIES & FUND BALANCES	$ 14,788,291	$ 1,308,382	$ 16,096,673	$ 16,927,142

STATEMENT 2A

UNIVERSITY COLLEGE OF THE NORTH

STATEMENT OF OPERATIONS - GENERAL

YEAR ENDED JUNE 30

	UCN Fund	IUS Fund	Total 2009	Total 2008
REVENUES				
Grants				
Council on Post-Secondary Education	$ 22,105,234	$ 1,010,323	$ 23,115,557	$ 23,540,296
Other Province of Manitoba	526,787		526,787	612,443
Government of Canada				16,830
Amortization of deferred contributions related to capital assets	304,480	23,748	328,228	203,279
Ancillary sales and services	1,734,795		1,734,795	1,640,844
Investment income	162,228	4,545	166,773	392,153
Contract training	1,845,257		1,845,257	2,911,782
Tuition and student fees	2,421,209	297,603	2,718,812	2,504,425
Other revenue	1,148,237	75,504	1,223,741	1,038,143
Gain (loss) on disposal of capital assets	19,011	4,000	23,011	(4,509)
	30,267,238	1,415,723	31,682,961	32,855,686
EXPENSES				
Advertising	283,220	5,773	288,993	249,916
Amortization of capital assets	329,569	23,748	353,317	220,418
Bad debts (recovery)				38,237
Cost of goods sold	986,735		986,735	973,546
Employee benefits	2,186,129	79,004	2,265,133	1,917,066
Insurance	191,926	5,720	197,646	82,476
Library acquisitions	190,893		190,893	272,627
Facility costs	872,873		872,873	817,388
Furniture and minor equipment	860,019	6,972	866,991	1,769,626
Loss on inventory write down				38,848
Maintenance and repairs	131,872	5,353	137,225	107,998
Operational supplies and services	3,209,226	369,423	3,578,649	3,538,333
Property taxes	501,500		501,500	497,329
Rentals and leases	422,876	14,292	437,168	400,757
Salaries	19,070,913	807,435	19,878,348	18,732,862
Telephone and communication	545,336	10,101	555,437	531,550
Travel and hospitality	1,390,002	134,271	1,524,274	1,393,758
Utilities	118,317		118,317	128,019
	31,291,406	1,462,092	32,753,499	31,710,754
EXCESS REVENUES (EXPENSES)	$ (1,024,168)	$ (46,370)	$ (1,070,538)	$ 1,144,932

STATEMENT 3A

UNIVERSITY COLLEGE OF THE NORTH

STATEMENT OF CHANGES IN FUND BALANCES - GENERAL

YEAR ENDED JUNE 30

	Unrestricted				Internally Restricted		Internally	Net Assets	Total	
	UCN Fund	IUS Fund	NFDC Fund	Unrestricted Total	UCN Fund	IUS Fund	Restricted Total	Invested in Capital Assets	2009	2008
FUND SURPLUS (DEFICIT), *beginning of year*	$ 329,200	$ -	$ 60,824	$ 390,024	$ 3,287,211	$ 804,984	$ 4,092,195	$ 1,019,437	$ 5,501,656	$ 4,356,724
EXCESS REVENUES (EXPENSES)	(1,024,168)	(46,370)		(1,070,538)					(1,070,538)	1,144,932
CHANGE IN NET ASSETS INVESTED IN CAPITAL ASSETS										
Amortization of capital assets	329,569	23,748		353,317				(353,317)		
Amortization of deferred contributions related to capital assets	(304,480)	(23,748)		(328,228)				328,228		
Disposal of capital assets	3,489			3,489				(3,489)		
INTER-FUND TRANSFERS (Note 16)	814,409	46,370	(60,824)	799,955	(747,319)	(46,370)	(793,689)		6,266	
FUND SURPLUS (DEFICIT), *end of year*	$ 148,019	$ -	$ -	$ 148,019	$ 2,539,892	$ 758,614	$ 3,298,506	$ 990,859	$ 4,437,384	$ 5,501,656

UNIVERSITY COLLEGE OF THE NORTH

SCHEDULE 1

SCHEDULE OF OTHER GRANT REVENUE (unaudited)

YEAR ENDED JUNE 30

	2009	2008
Province of Manitoba		
Adult Learning Centre	$ 398,200	$ 387,511
Computer Based Learning System	86,179	114,429
Essential Skills Assessment/Enhancement		25,000
Protection Services	4,811	48,937
Summer Enrichment	37,597	
	$ 526,787	$ 575,877

SCHEDULE 2

SCHEDULE OF ANCILLARY SALES AND SERVICES (unaudited)

YEAR ENDED JUNE 30

	2009	2008
Bookstore	$ 1,095,727	$ 1,109,679
Cafeteria	279,104	234,715
Residence	359,964	288,122
	$ 1,734,795	$ 1,632,516

SCHEDULE 3

SCHEDULE OF TUITION AND STUDENT FEES (unaudited)

YEAR ENDED JUNE 30

	2009	2008
Apprenticeship	$ 977,590	$ 833,467
Core-funded programs	1,360,644	1,265,566
Continuing Educ		
Credit courses	52,284	89,055
Non-credit	30,691	28,927
	$ 2,421,209	$ 2,217,015

UNIVERSITY COLLEGE OF THE NORTH

SCHEDULE 4

SCHEDULE OF UCN EXPENDITURES BY FUNCTION (unaudited)

YEAR ENDED JUNE 30

	Salaries & Benefits	Other	TOTAL 2009	TOTAL 2008
Academic	$ 11,113,282	$ 1,612,863	**$ 12,726,145**	$ 11,768,917
Administration	3,042,587	2,483,215	**5,525,802**	4,624,827
Ancillary Sales & Service	637,349	1,173,129	**1,810,478**	1,647,639
Continuing Education	151,770	12,756	**164,526**	175,981
Library	424,554	337,980	**762,534**	767,805
Contract Training	1,416,338	471,612	**1,887,950**	2,701,736
Insurance Claims		116,160	**116,160**	15,140
MIS	813,907	539,556	**1,353,463**	2,274,417
Plant	618,152	2,160,075	**2,778,227**	2,676,500
Program Support	3,037,374	1,128,747	**4,166,121**	3,616,279
	$ 21,255,313	$ 10,036,093	**$ 31,291,406**	$ 30,269,241

OFFICE OF THE
AUDITOR GENERAL
MANITOBA

AUDITOR'S REPORT

To the Lieutenant Governor in Council
To the Legislative Assembly of Manitoba
To the Board of Governors of the University of Manitoba

We have audited the consolidated statement of financial position of the University of Manitoba as at March 31, 2010, and the consolidated statements of operations and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the University as at March 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

ORIGINAL DOCUMENT SIGNED BY
CAROL BELLRINGER

Winnipeg, Manitoba
May 26, 2010

Carol Bellringer, FCA, MBA
Auditor General

500 - 330 Portage Avenue Winnipeg, Manitoba R3C 0C4 office: (204) 945-3790 fax: (204) 945-2169
www.oag.mb.ca

CONSOLIDATED FINANCIAL STATEMENTS

University of Manitoba
Consolidated Statement of Financial Position
as at March 31
(in thousands of dollars)

Assets	*2010*	*2009*
Current Assets		
Cash	$ 132,864	$ 90,419
Marketable Investments	4,043	30,715
Accounts Receivable (Note 4)	64,548	60,914
Inventories	3,382	3,513
Prepaid Expenses	937	796
	205,774	186,357
Long Term Assets		
Investments (Note 5)	481,847	389,864
Capital Assets, Net of Accumulated Amortization (Note 7)	751,847	710,997
	1,233,694	1,100,861
	$1,439,468	$1,287,218
Liabilities		
Current Liabilities		
Accounts Payable	$ 46,634	$ 49,739
Unearned Revenue	6,523	6,152
Staff Vacation Entitlements	10,590	9,910
Bank Loan	8,800	
Current Portion of Capital Lease Obligations (Note 8)	385	420
Current Portion of Long Term Debt (Note 9)	4,095	4,188
	77,027	70,409
Long Term Liabilities		
Other Long Term Liabilities (Note 10)		2,046
Capital Lease Obligations (Note 8)	440	533
Long Term Debt (Note 9)	191,418	166,748
Employee Future Benefits (Note 11)	61,950	58,888
Pension Obligation (Note 15)	25,311	4,043
	279,119	232,258
Fund Balances	1,083,322	984,551
	$1,439,468	$1,287,218

Contractual Obligations and Contingencies (Note 18)

Terry Sargeant - Chair

Janice Lederman - Vice-Chair

(The accompanying Notes form an integral part of the Consolidated Financial Statements)

Consolidated Statement of Operations and Changes in Fund Balances
for the years ended March 31
(in thousands of dollars)

	General Funds (Note 2e)	*Restricted Funds (Note 2f)*	*Endowment Fund (Note 2g)*	*2010 Total Funds*	*2009 Total Funds*
Revenue:					
Tuition and Related Fees	$ 108,397	$	$	$ 108,397	$ 98,465
Contributions, Donations, Non-Government Grants	1,547	66,212	11,593	79,352	104,269
Net Investment Income (Note 16)	3,103	36,968	17,270	57,341	(62,123)
Miscellaneous Income	14,084	4,698		18,782	6,550
Government Grants:					
Council on Post-Secondary Education	281,132	6,053		287,185	271,784
Other Province of Manitoba	16,519	41,539		58,058	42,262
Government of Canada	8,940	79,501		88,441	74,438
City of Winnipeg					2,827
Sales of Goods and Services	31,252			31,252	29,500
Ancillary Services	32,796			32,796	32,062
	497,770	234,971	28,863	761,604	600,034
Expense:					
Academic	268,785	117,858		386,643	370,357
Libraries	16,973	129		17,102	16,632
Student Affairs	21,460	106		21,566	20,551
Administration	30,665	2,677		33,342	32,345
Plant Maintenance	43,118	13		43,131	38,902
Other Academic Support	20,096	322		20,418	20,534
General	6,300	8,505		14,805	9,108
Property Taxes	408			408	410
Scholarships, Bursaries, Prizes and Awards	6,944	17,008		23,952	24,117
Interest on Bank Loan, Long Term Debt, Capital Advances and Capital Lease Obligations		6,927		6,927	11,988
Amortization of Capital Assets		45,668		45,668	43,675
Ancillary Services	29,038			29,038	27,797
Actuarially Determined Employee Future Benefits	3,062			3,062	410
Actuarially Determined Pension Expense	21,268			21,268	4,043
Staff Benefits Contra	(4,497)			(4,497)	(2,579)
	463,620	199,213		662,833	618,290
Net Revenue (Expense)	34,150	35,758	28,863	98,771	(18,256)
Inter-Fund Transfers (Note 13)	(48,047)	43,055	4,992		
Net (Decrease) Increase to Fund Balances	(13,897)	78,813	33,855	98,771	(18,256)
Fund Balances Beginning of the Year	29,902	791,941	162,708	984,551	1,002,807
Fund Balances End of the Year	$ 16,005	$ 870,754	$ 196,563	$ 1,083,322	$ 984,551
Unrestricted Funds	$ (66,529)	$	$	$ (66,529)	$ (49,068)
Internally Restricted Funds	82,534	40,393		122,927	121,140
Externally Restricted Funds		184,999	196,563	381,562	334,102
Invested in Capital Assets		645,362		645,362	578,377
	$ 16,005	$ 870,754	$ 196,563	$ 1,083,322	$ 984,551

(The accompanying Notes form an integral part of the Consolidated Financial Statements)

Consolidated Statement of Operations and Changes in Fund Balances for the General Funds
for the years ended March 31
(in thousands of dollars)

	General Operating Fund (Note 2e)	Specific Provisions Fund (Note 2e)	Expenses Funded From Future Revenues (Note 2e)	2010 Total General Funds	2009 Total General Funds
Revenue:					
Tuition and Related Fees	$ 108,397	$	$	$ 108,397	$ 98,465
Contributions, Donations, Non-Government Grants	1,547			1,547	2,122
Net Investment Income (Note 16)	3,103			3,103	5,649
Miscellaneous Income	14,084			14,084	2,131
Government Grants:					
Council on Post-Secondary Education	281,132			281,132	266,845
Other Province of Manitoba	16,519			16,519	12,407
Government of Canada	8,940			8,940	9,213
Sales of Goods and Services	31,252			31,252	29,500
Ancillary Services	32,796			32,796	32,062
	497,770			497,770	458,394
Expense:					
Academic	268,785			268,785	250,464
Libraries	16,973			16,973	16,506
Student Affairs	21,460			21,460	20,399
Administration	30,665			30,665	29,443
Plant Maintenance	43,118			43,118	38,892
Other Academic Support	20,096			20,096	20,273
General	6,300			6,300	3,853
Property Taxes	408			408	410
Scholarships, Bursaries, Prizes and Awards	6,944			6,944	6,935
Ancillary Services	29,038			29,038	27,797
Actuarially Determined Employee Future Benefits	3,062			3,062	410
Actuarially Determined Pension Expense	21,268			21,268	4,043
Staff Benefits Contra	(4,497)			(4,497)	(2,579)
	463,620			463,620	416,846
Net Revenue	34,150			34,150	41,548
Inter-Fund Transfers (Note 13)	(34,125)	3,564	(17,486)	(48,047)	(36,084)
Net Increase (Decrease) to Fund Balances	25	3,564	(17,486)	(13,897)	5,464
Fund Balances Beginning of the Year	2,246	78,970	(51,314)	29,902	24,438
Fund Balances End of the Year	$ 2,271	$ 82,534	$ (68,800)	$ 16,005	$ 29,902
Unrestricted Funds	$ 2,271	$	$ (68,800)	$ (66,529)	$ (49,068)
Internally Restricted Funds		82,534		82,534	78,970
	$ 2,271	$ 82,534	$ (68,800)	$ 16,005	$ 29,902

(The accompanying Notes form an integral part of the Consolidated Financial Statements)

Consolidated Statement of Operations and Changes in Fund Balances for the Restricted Funds
for the years ended March 31
(in thousands of dollars)

	Capital Asset Fund (Note 2f)	Research and Special Fund (Note 2f)	Staff Benefits Fund (Note 2f)	Trust Fund (Note 2f)	2010 Total Restricted Funds	2009 Total Restricted Funds
Revenue:						
Contributions, Donations, Non-Government Grants	$ 10,382	$ 48,700	$ 2,040	$ 5,090	$ 66,212	$ 80,664
Net Investment Income (Note 16)	360		4,573	32,035	36,968	(21,825)
Miscellaneous Income	4,584		114		4,698	4,419
Government Grants:						
Council on Post-Secondary Education	6,053				6,053	4,939
Other Province of Manitoba	14,394	27,145			41,539	29,855
Government of Canada	16,442	63,059			79,501	65,225
City of Winnipeg						2,827
	52,215	138,904	6,727	37,125	234,971	166,104
Expense:						
Academic		117,858			117,858	119,893
Libraries		129			129	126
Student Affairs		106			106	152
Administration		2,677			2,677	2,902
Plant Maintenance		13			13	10
Other Academic Support		322			322	261
General			6,203	2,302	8,505	5,255
Scholarships, Bursaries, Prizes and Awards		4,878		12,130	17,008	17,182
Interest on Bank Loan, Long Term Debt, Capital Advances and Capital Lease Obligations	6,927				6,927	11,988
Amortization of Capital Assets	45,668				45,668	43,675
	52,595	125,983	6,203	14,432	199,213	201,444
Net Revenue	(380)	12,921	524	22,693	35,758	(35,340)
Inter-Fund Transfers (Note 13)	67,365	(8,947)	(7,204)	(8,159)	43,055	31,663
Net Increase (Decrease) to Fund Balances	66,985	3,974	(6,680)	14,534	78,813	(3,677)
Fund Balances Beginning of the Year	578,377	100,373	2,796	110,395	791,941	795,618
Fund Balances End of the Year	$ 645,362	$ 104,347	$ (3,884)	$ 124,929	$ 870,754	$ 791,941
Internally Restricted Funds	$	$	$ 4,126	$ 36,267	$ 40,393	$ 42,170
Externally Restricted Funds		104,347	(8,010)	88,662	184,999	171,394
Invested in Capital Assets	645,362				645,362	578,377
	$ 645,362	$ 104,347	$ (3,884)	$ 124,929	$ 870,754	$ 791,941

(The accompanying Notes form an integral part of the Consolidated Financial Statements)

Consolidated Statement of Cash Flows
as at March 31
(in thousands of dollars)

	General Funds	Restricted Funds	Endowment Fund	2010 Total Funds	2009 Total Funds
Cash from Operating Activities:					
Net Revenue (Expense)	$ 34,150	$ 35,758	$ 28,863	$ 98,771	$ (18,256)
Gain on Disposal of Capital Assets		(3,102)		(3,102)	
Amortization of Capital Assets		45,668		45,668	43,675
	34,150	78,324	28,863	141,337	25,419
Net Change in Non-Cash Working Capital Items	11,767	(17,465)		(5,698)	26,348
Net Change in Other Long Term Liabilities		(2,046)		(2,046)	(2,500)
Net Change in Pension Obligation	21,268			21,268	4,043
Net Change in Employee Future Benefits	(4,364)	7,426		3,062	410
Net Cash Generated through Operating Activities	62,821	66,239	28,863	157,923	53,720
Investing Activities:					
Increase in Long Term Investments	(39,172)	(18,956)	(33,855)	(91,983)	(1,428)
Proceeds from Capital Asset Disposals		7,150		7,150	
Purchase of Capital Assets		(90,566)		(90,566)	(85,468)
Net Cash Used in Investing Activities	(39,172)	(102,372)	(33,855)	(175,399)	(86,896)
Financing Activities:					
Proceeds from Capital Lease Obligations		385		385	269
Proceeds from Long Term Debt		31,000		31,000	7,075
Proceeds from Bank Loan		8,800		8,800	
Principal Repayment on Capital Lease Obligations		(513)		(513)	(498)
Principal Repayment on Bank Loan					(3,061)
Principal Repayment on Long Term Debt		(6,423)		(6,423)	(5,550)
Net Cash Generated through (used in) in Financing Activities		33,249		33,249	(1,765)
Net Increase (Decrease) in Cash	23,649	(2,884)	(4,992)	15,773	(34,941)
Inter-Fund Adjustments	(48,047)	43,055	4,992		
Cash Beginning of Year	42,028	79,106		121,134	156,075
Cash End of Year	17,630	119,277	$	136,907	121,134
Cash is defined as:					
Cash	$ 16,813	$ 116,051	$	$ 132,864	$ 90,419
Marketable Investments	817	3,226		4,043	30,715
	17,630	119,277	$	136,907	121,134
Supplemental cash flow information:					
Interest Received	$ 3,933	$ 2,882		$ 6,815	$ 8,816
Dividends Received		$ 5,285		$ 5,285	$ 5,089
Interest Paid		$ 9,197		$ 9,197	$ 9,155

(The accompanying Notes form an integral part of the Consolidated Financial Statements)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31
(in thousands of dollars)

1. AUTHORITY AND PURPOSE

The University of Manitoba was established in 1877. It is governed by a Board of Governors acting under the authority of The University of Manitoba Act, R.S.M. 1987, c. U60. The University of Manitoba is a registered charity and is exempt from income taxes under Section 149 of the Income Tax Act.

The University of Manitoba, as the largest and most comprehensive institution of higher learning in Manitoba, plays a distinctive role within the Province. In addition to offering an undergraduate liberal education in arts, science and education, the University of Manitoba provides programs in a broad range of professional studies, applied sciences and the fine and performing arts and is responsible for the vast majority of graduate education and research in Manitoba. The University of Manitoba reaches out to a variety of constituencies in order to enhance the health, cultural, social and economic life of Manitobans and to provide lifelong learning opportunities for them. Through community service the University makes its expertise available to all Manitobans.

2. SIGNIFICANT ACCOUNTING POLICIES

a. General

These consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as recommended by the Canadian Institute of Chartered Accountants (CICA) for not-for-profit organizations. The University has adopted the restricted fund method of accounting for contributions.

b. Basis of Consolidation

The consolidated financial statements include the accounts of Smartpark Development Corporation, a wholly owned subsidiary of the University of Manitoba. The company has a March 31 year end and its purpose is to develop and operate a research park at the University of Manitoba.

The University has a 12.5% interest in TRIUMF, a joint venture which operates a national laboratory for particle and nuclear physics. The University uses the equity method of accounting to record its interest in TRIUMF.

c. Fund Accounting

The University classifies resources used for various purposes into separate Funds which correspond to its major activities and objectives. The Consolidated Statement of Financial Position combines the assets and liabilities of all Funds.

The University maintains its Funds under three fund categories, General, Restricted and Endowment Funds. The General Funds include the Funds for General Operating, Specific Provisions and Expenses Funded from Future Revenues. The Restricted Funds include the Capital Asset, Research and Special, Staff Benefits and Trust Funds. The Endowment Fund includes endowment funds of the University.

d. Accounting Estimates

Accounting estimates are included in financial statements to approximate the effect of past revenue or expense transactions or events, or to approximate the present status of an asset or liability. Examples include accruals for salaries and benefits, the estimated useful life of an asset and certain actuarial assumptions used in determining employee future benefits. It is possible that changes in future conditions could require changes in the recognized amounts for accounting estimates.

e. General Funds

General Operating Fund:

The General Operating Fund includes the academic, administrative, operational and ancillary costs that are funded by tuition and related fees, government grants, net investment income and miscellaneous income, sales of goods and services to external parties and ancillary income. As such, this Fund reports unrestricted resources and restricted resources earmarked for general operating purposes.

All funds received or accrued by the University for general operating purposes and for equipment and renovation expenses not meeting the University's capitalization criteria are included in the General Operating Fund. The net cost of operating units is determined by including internal cost allocations for certain centrally administered services such as the telephone system in the units' expenses and by deducting these expenses as internal cost recoveries from the total expenses incurred by the unit administering these services.

The University BookStore, Parking, Student Residences and Pharmacy/Post Office are classified as Ancillary Services and are budgeted on a break-even basis. Any surpluses or deficits are transferred to/from the Specific Provisions Fund. Overhead costs have been allocated to all ancillary operations. Amortization of ancillary capital assets and interest expense is recorded in the Capital Asset Fund.

Specific Provisions Fund:
The Specific Provisions Fund records appropriations made from (to) the General Operating, Capital Asset and Research and Special Funds.

These appropriations are made to provide future funding for the replacement, improvement or emergency maintenance of capital assets, unit carryover, a fiscal stabilization provision to offset potential spending in excess of future budgets and other matters. Such appropriations are shown as inter-fund transfers on the Consolidated Statement of Operations and Changes in Fund Balances.

Expenses Funded From Future Revenues:
Expenses Funded from Future Revenues records the amount of unpaid vacation pay for staff which will be funded from future revenues. It also records the actuarially determined expense for employee future benefits and change in pension obligations.

f. Restricted Funds

Capital Asset Fund:
The Capital Asset Fund consists of restricted contributions resulting from capital asset co-funding arrangements with external parties, contributed capital assets, sinking fund investment income and government grants, restricted for the purpose of acquiring capital assets and retiring capital advances. Funding agreements, using promissory notes as a vehicle, entered into with the Provincial Government, for the construction or acquisition of capital assets, which will be repaid from future funding provided by the Provincial Government through the Council on Post Secondary Education (COPSE) are recorded as capital grants. These capital grants, under the restricted fund method of accounting, are reflected as revenue in the Consolidated Statement of Operations and Changes in Fund Balances. The interest expense and the related future funding from COPSE over the terms of the promissory notes, to offset the interest expense and principal payments, are both excluded from the Consolidated Statement of Operations and Changes in Fund Balances. Expenses include interest on debt relating to the acquisition or construction of capital assets, amortization and gains or losses on disposal of capital assets, including write-downs resulting from obsolescence.

Research and Special Fund:
The Research and Special Fund consists of contributions specifically restricted for research or other special activities. Contributions are provided from both federal and provincial granting agencies and other public and private sources. These funds are spent in accordance with the conditions stipulated in the governing contracts and agreements.

Staff Benefits Fund:
The Staff Benefits Fund is divided into Fund Accounts for Pension Reserve, Self-Insured Plans and Benefit Reserve, the revenues of which are restricted for the purposes noted.

(i) Pension Reserve:
This Fund Account is restricted for special payments towards any unfunded liability of the University of Manitoba Pension Plan (1970) and the University of Manitoba Pension Plan (1993) and other pension obligations.

(ii) Self-Insured Plans:
This Fund Account records the assets and liabilities for two self-insured benefit plans, the Long Term Disability Income Plan and the Dental Plan. The Long Term Disability Income Plan is used for long term disability payments arising on and after June 1, 1981 for eligible staff. The Plan contains two funds, one for the payment of Basic Benefits and another for the payment of Cost-of-Living Benefits. The Dental Plan is administered by a contracted third party. Surplus funds are held for the purpose of covering deficits which may occur in this self-insured plan.

(iii) Benefit Reserve:
This Fund Account is used for the support of current and future staff benefit programs. Experience refunds related to the group insurance plans are credited to this Fund Account.

Trust Fund:
The Trust Fund records gifts and bequests received which may be used in their entirety along with net investment income earned on these funds, according to donor restrictions. The majority of these funds are used for scholarships, bursaries, awards, loans, and other scholarly activities.

g. Endowment Fund
The Endowment Fund records gifts and bequests received with the stipulation that these funds be invested in perpetuity and the net realized investment income earned be utilized for designated purposes. The Fund balance also reflects the change in fair value of Endowment Fund investments, which is recorded as a component of net investment income.

h. Revenue Recognition

Restricted contributions are recognized as revenue of the appropriate Fund when received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

Unrestricted contributions, including sales of goods and services and ancillary revenues, are recognized as revenue of the General Operating Fund in the year received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions for endowment purposes are recognized as revenue in the Endowment Fund in the year received. Net realized investment income earned on endowments is recorded in the appropriate Fund depending on the restrictions imposed by the original donor. The change in fair value (unrealized investment income) of Endowment Fund investments is recorded as a component of net investment income in the Endowment Fund.

Net investment income earned on temporary surplus funds is recorded in the appropriate Fund depending on the restrictions imposed. Investment income on unrestricted surplus funds is recorded as unrestricted income in the General Operating Fund.

i. Contributed Materials and Services

Gifts-in-kind are recorded in the consolidated financial statements to the extent that they are eligible for an official donation receipt, since this results in the capture of the information in the University's financial records.

Because of the difficulty involved in tracking and recording contributed services, the market value of these services are not recognized in the consolidated financial statements. Contributed services include activities such as membership on the University's Board of Governors and its various committees, lecturing services and volunteer services at fund raising or sporting events all of which are performed by staff, students and the community at no charge to the University. These services, although not recognized in the consolidated financial statements, are critical to the successful functioning of the University.

j. Investments

Investments are classified as held-for-trading and are carried at fair value. The change in fair value of investments is reflected as a component of net investment income in the consolidated statement of operations. Fair value of investments is determined based on year end quoted market prices.

k. Pledges Receivable

The University does not record pledges receivable in its consolidated financial statements. Revenue from gifts, bequests and donations is recognized on a cash basis because of the uncertainty surrounding collection and in some instances because of the difficulty in determining the valuation of pledges receivable. The University recognizes gifts and donations to be received through the University of Manitoba Foundation U.S.A. Inc. only when the Board of Directors of the Foundation have formalized the transfer with a resolution, collectability is reasonably assured and the valuation of these gifts and donations can be reasonably determined.

l. Inventories

Inventories have been valued at the lower of cost and net realizable value.

m. Capital Assets

Purchased capital assets are recorded at cost. Capital assets which are constructed by the University are recorded as Construction in Progress until the capital asset is put into use. Contributed capital assets are recorded at market value at the date of contribution. Intangibles such as patents and copyrights are recorded at a nominal amount of one dollar in the year the patent or copyright is obtained.

Amortization is provided on a straight-line basis over the assets' estimated useful lives as follows:

Buildings and Major Renovations	15-50 years
Computer Hardware and Electronics	5-10 years
Furniture and Equipment	10 years
Library Books	10 years
Parking Lots	20 years
Vehicles	5 years

Equipment acquired under a capital lease is amortized over the useful life of the asset. Works of art, treasures, rare books and manuscripts are not amortized.

n. Collections

The University holds a number of collections which have been donated to its libraries, faculties and schools over the years. The library, faculty or school receiving the donation assumes responsibility for safeguarding and preserving the collection. The University seldom, if ever, disposes of its collections or of individual pieces in its collections and therefore does not have a formal policy with respect to the use of proceeds of disposal. However, the University abides by all restrictions placed by donors at the time a donation is received, which may include restrictions imposed relating to the sale of a collection or items contained therein.

The University's policy with regard to its collections is to fund maintenance expenses from the General Operating Fund, if monies are not available for such purposes in a Restricted Fund. The cost of maintenance is not tracked and is therefore not determinable.

o. Pension Costs

The University sponsors three pension plans for its employees and retirees:

The University of Manitoba Pension Plan (1970), The University of Manitoba Pension Plan (1993) and The University of Manitoba GFT Pension Plan (1986). The 1970 Plan and 1986 Plan are defined contribution plans and as a result the pension costs are based on contributions required by those plans.

The Pension Costs for the 1993 Plan are determined actuarially using the projected unit credit actuarial cost method and best estimate expectations of investment performance, salary escalation, retirement ages of employees and member mortality. Actuarial gains and losses are amortized on a straight line basis over the expected average remaining service life of the active employees, commencing in the year following the year the respective annual actuarial gains or losses arise.

The funded position of the 1993 plan is disclosed in Note 15.

p. Financial Instruments

The University continues to apply Section 3861 Financial Instruments – Disclosure and Presentation in place of Sections 3862 and 3863.

The financial instruments at the University consist of cash, marketable investments, accounts receivable, investments, accounts payable, bank loan, staff vacation entitlements, other long term liabilities, and long term debt.

Initially, all financial assets and liabilities must be recorded on the Consolidated Statement of Financial Position at fair value. Subsequent measurement is determined by the classification of each financial asset and liability.

Under this standard, all financial instruments are classified as one of: held-for-trading; loans and receivables; held-to-maturity; available-for-sale or other liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in the Consolidated Statement of Operations. Financial instruments classified as held-to-maturity, loans and receivables and other liabilities are measured at amortized cost. Available-for-sale financial instruments are measured at fair value, with unrealized gains and losses recognized directly in unrestricted net assets.

The University has classified its cash, marketable investments and investments as held-for-trading, which are measured at fair market value. Accounts receivables are classified as loans and receivables which are measured at amortized cost and accounts payable, staff vacation entitlements, bank loan and long term debt are classified as other liabilities, which are measured at amortized cost.

The primary risk exposures for investments are foreign currency, interest rate volatility, and market and credit risk. The University, through the work of its investment committees, has formal policies and procedures in place governing asset mix among equity, fixed income and alternative investments, requiring diversification within categories, and setting limits on the size of exposure to individual investments. The University is also exposed to interest rate risk on its long term debt. The University has entered into interest rate swap agreements for a portion of its long term debt obligations.

q. Employee Future Benefits

The University accrues its obligations for employee future benefit plans relating to health, dental, long term disability, and group life insurance. The cost of non-pension post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimates for the discount rate for liabilities, the expected rate of return on assets, retirement ages and expected future cost trends.

(in thousands of dollars)

The University also accrues its obligations relating to post-retirement adjustments to pensions for specifically entitled employees who retired prior to 1993. The cost of such post-retirement pension adjustments is actuarially determined using the projected benefit method and management's best estimate for the discount rate for liabilities and the expected rate of return on assets. Any increase in such adjustments is recognized in the year that it occurs.

Actuarial gains or losses are recognized in the year the gain or loss arises.

r. Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rate. Revenues and expenses are translated at exchange rates on the transaction dates. Gains or losses arising from these translations are included in earnings.

s. Derivative Financial Instruments

From time to time, the University uses derivative financial instruments, including interest rate swap agreements, in its management of exposures to fluctuations in interest rates. An interest rate swap is a derivative financial contract between two parties who agree to exchange fixed rate interest payments for floating rate payments on a predetermined notional amount and term. Hedge accounting is used when there is a high degree of correlation between price movements in the derivative instrument and the item designated as being hedged. Any derivative financial instruments that do not qualify for hedge accounting are adjusted to fair value at each year end with any resulting gains or losses recorded in net revenue.

3. CHANGES IN ACCOUNTING POLICIES

The University has adopted the changes to CICA Handbook section 4400. The primary impact is the applicability of section 1540 "Cash Flow Statements". Adoption of this change has resulted in additional disclosure on the cash flow statement.

The University also adopted the following new standard which affects the fair value valuation of financial assets and liabilities:
The CICA issued ***EIC-173*** regarding the credit risk and the fair value of financial assets and financial liabilities. The EIC requires entities to consider both their own risk and the risk of the counter parties when measuring the fair value of financial assets and financial liabilities for presentation and disclosure purposes.

4. ACCOUNTS RECEIVABLE

	2010	2009
Council on Post-Secondary Education	$ 189	$ 513
General	39,801	30,597
Research and Special	24,558	29,804
	$ 64,548	$ 60,914

5. INVESTMENTS

	2010 Fair Value	2009 Fair Value
Research and Special Funds		
Guaranteed Investment Certificate	$	$ 346
General Funds		
Bonds and Other Fixed Income Securities:		
Province of Manitoba		45,238
Other Provincial	14,895	15,213
Corporate	104,632	19,904
	119,527	80,355
Trust & Endowment		
Bankers Acceptances, Guaranteed Investment Certificates and Cash	13,478	8,023
Bonds and Other Fixed Income Securities:		
Government of Canada	22,784	41,212
Province of Manitoba	2,502	1,425
Other Provincial	12,162	9,666
Corporate	6,444	5,011
Other	85	134
Municipal	2,837	
	46,814	57,448

(in thousands of dollars)

	2010 Fair Value	2009 Fair Value
Equities:		
Canadian Equities	108,989	74,137
US Equities	57,078	46,882
International Equities	43,033	32,717
	209,100	153,736
Pooled Real Estate Fund	43,726	43,532
	313,118	262,739
Capital		
Bankers Acceptances, Guaranteed Investment Certificates and Cash	24,965	19,684
Corporate Bonds	796	832
	25,761	20,516
Staff Benefits		
Money Market Funds and Cash	518	460
Bonds	8,028	8,587
Equities:		
Canadian Equities	5,854	6,680
US Equities	3,418	3,826
International Equities	3,304	3,914
	12,576	14,420
Mortgage Fund	2,319	2,441
	23,441	25,908
Total Investments	$ 481,847	$ 389,864

As at March 31, the average yields and the terms to maturity are as follows:

- Bankers Acceptances, Guaranteed Investment Certificates and Money Market Funds: 0.46% (2009, 0.71%); term to maturity: less than one year
- Government and Corporate bond funds: 3.00% (2009, 3.94%): terms to maturity: range from less than one year to more than 12 years.

The University's investment in real estate consists of units of a pooled real estate investment in the Great West Life Assurance Company – Canadian Real Estate Investment Fund No. 1. Effective December 15, 2008, the Great West Life Assurance Company placed a suspension on redemptions and transfers of units of the Fund. As at May 26, 2010 the suspension of redemptions and transfers of units was still in effect. The Great West Life Assurance Company has publicly disclosed that the suspension will be lifted in July 2010; however, withdrawal requests will be based on the amount of cash available in the fund, so unit holders requesting withdrawals may receive only a portion of their redemption request.

During the year ended March 31, 2010, the University recognized net unrealized gains of $63,517 (2009, net unrealized losses $78,942) on investments classified as held-for-trading, which are recorded in net investment income in the consolidated statement of operations.

6. CREDIT RISK EXPOSURE AND MANAGEMENT

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at March 31 was:

	2010	2009
Financial Assets Held-For-Trading:		
Cash	$ 132,864	$ 90,419
Marketable Investments	4,043	30,715
Investments	481,847	389,864
Loans and Receivables:		
Accounts Receivable	64,548	60,914
Totals	$ 683,302	$ 571,912

(in thousands of dollars)

The University manages the credit risk related to these items as follows:

Cash and marketable investments are held in high quality Canadian money market instruments in Canadian Chartered banks or equivalent. Exposure to risk is managed by considering the rates of return in conjunction with liquidity needs and making investments in a variety of short term instruments with several financial institutions.

Credit risk related to investments is managed by maintaining a diverse portfolio of investments, investing with counterparties considered to be of high quality, and limiting the amount that can be invested in any one holding.

A significant portion of the University's accounts receivable is related to Research and Special Funds as disclosed in Note 4 and is from the federal and provincial governments, not-for-profit organizations, corporations, the US government and other universities. The University also has accounts receivable from students and staff. The credit risk on these receivables is minimal. The remaining accounts receivable are due from a diverse group of customers and are subject to normal credit risks.

7. CAPITAL ASSETS, NET OF ACCUMULATED AMORTIZATION

	2010		2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Assets Under Capital Lease	$ 3,421	$ 2,545	$ 3,285	$ 2,275
Buildings and Major Renovations	707,303	167,589	659,161	155,232
Computer Hardware and Electronics	96,144	74,657	97,186	72,419
Construction in Progress	27,075		24,581	
Furniture and Equipment	196,494	121,655	186,029	109,996
Land	27,315		22,184	
Library Books	160,101	114,507	152,613	108,475
Parking Lots	7,835	1,784	7,074	1,411
Rare Books and Manuscripts	4,992		4,833	
Vehicles	7,576	6,006	7,307	5,533
Works of Art	2,334		2,085	
	1,240,590	488,743	1,166,338	455,341
Less Accumulated Amortization	488,743		455,341	
Net Book Value	$ 751,847		$ 710,997	

In March 2009 the Duff Roblin Building suffered significant damage due to an electrical fire. Work is underway to restore the building and either recover the contents or replace what was lost. The original cost of the Duff Roblin Building is estimated to be $8.1 million with an approximate net book value of $3.0 million. The University maintains insurance coverage. The University has estimated the damages in terms of original costs of the building. As a result, a write down of $300 in the net book value of the building (cost $2,000, accumulated amortization $1,700) has been recorded. The reconstruction costs are being capitalized as incurred and the related insurance proceeds recorded as revenue.

8. CAPITAL LEASE OBLIGATIONS

Minimum lease payments which include principal and interest under the capital lease obligations are as follows:

2011	$ 417
2012	304
2013	141
2014	23
Total Minimum Lease Payments	885
Less: Interest at 4.30%	(60)
	825
Less: Current Portion	(385)
	$ 440

(in thousands of dollars)

9. LONG TERM DEBT

	2010	2009
Province of Manitoba:		
Promissory Note, 5.23% due March 1, 2035	$ 69,093	$ 70,400
Promissory Note, 5.55% due April 1, 2036	70,742	71,918
Promissory Note, 5.35% due February 1, 2040	30,965	
	170,800	142,318
Capital Advances:		
6 7/8% due March 31, 2011	555	555
Term Loans:		
*Smartpark Multi Tenant Facility, 5.975% due October 31, 2012	1,260	1,300
*Smartpark Multi Tenant Facility, 5.95% due January 22, 2014	1,150	3,350
	2,410	4,650
Bankers Acceptances with Interest Rate Swaps:		
*Smartpark Multi Tenant Facility, 3.85% due February 11, 2019	7,075	7,075
Energy Performance Program, 4.31% due November 10, 2009		1,245
Arthur V. Mauro Student Residence, 5.62% due September 5, 2028	14,673	15,093
	21,748	23,413
	195,513	170,936
Less Current Portion:		
Promissory Notes	(3,053)	(2,484)
Capital Advances	(555)	
Term Loans	(42)	(39)
Bankers Acceptances	(445)	(1,665)
	(4,095)	(4,188)
	$ 191,418	$ 166,748

**Represents debt of Smartpark Development Corporation.*

Interest expense on long term debt was $6,518 (2009, $11,872).

The fair value of long term debt is approximately $200,699 compared to a carrying value of $195,513. Fair value of these long term debt instruments has been determined using future payments of principal and interest of the actual outstanding long term debt discounted at current interest rates available to the University.

The University entered into an interest rate swap agreement whereby the University has fixed a swap rate of 5.62% on a 25 year loan for the Arthur V. Mauro Student Residence. A stamping fee is committed until September 1, 2013. Under the terms of the agreement, the University is required to make monthly principal and interest repayments similar to a conventional amortizing loan. The notional principal underlying this swap agreement amounted to $14,673 as at March 31, 2010 (2009, $15,093).

Smartpark Development Corporation, (Smartpark), entered into an interest rate swap agreement to finance the development of 150 Innovation Drive, whereby the Smartpark has fixed a swap rate of 3.85% that is committed until February 11, 2029. A stamping fee is committed until February 2019. Under the terms of the agreement, Smartpark is required to make monthly principal and interest repayments based on a total amortization period of 25 years, similar to a conventional amortizing loan after February 11, 2016. The notional principal underlying this swap agreement was $7,075 as at March 31, 2010 (2009, $7,075).

The fair value of the swap agreements on long term debt at March 31, 2010 was $1,928 (2009, $4,608) and has been recorded in accounts payable.

(in thousands of dollars)

Principal repayments on long term debt payable over the next five years are as follows:

	Promissory Notes	Capital Advances	Term Loans	Bankers Acceptances	Total
2011	$ 3,053	$ 555	$ 42	$ 445	$ 4,095
2012	3,221		44	474	3,739
2013	3,398		1,174	503	5,075
2014	3,586		1,150	533	5,269
2015	3,783			567	4,350
Thereafter	153,759			19,226	172,985
	$ 170,800	$ 555	$ 2,410	$ 21,748	$ 195,513

10. OTHER LONG TERM LIABILITIES

Amounts included in other long term liabilities are non interest bearing and are as follows:

	2010	2009
Refundable deposit	$ 346	$ 346
Southwood Golf Club lands	1,700	4,200
	2,046	4,546
Less: Current Portion	(2,046)	(2,500)
	$	$2,046

11. EMPLOYEE FUTURE BENEFITS

The University of Manitoba provides certain health, dental and group life benefits for its retired employees who have met the eligibility criteria and long term disability benefits for current employees. Post-retirement pension benefits are also provided for specifically entitled retirees.

Health, dental and group life benefits are provided to employees who retired prior to July 1, 2004 on a non-contributory basis. The group life benefits are indexed post-retirement. For eligible employees retiring on or after July 1, 2004, no group life benefit is available, and retired former employees share in the cost of the health and dental benefits.

The long term disability income benefit is provided on a contributory basis.

Post-retirement pension benefits are provided to specifically entitled employees who retired prior to 1993. The adjustments for a year are determined as the lesser of the amounts that can be provided by a weighted average percentage salary increase at the University, or the excess interest approach provided under the University of Manitoba Pension Plan (1993). One hundred percent of the adjustments are paid by the University.

The University measures the fair value of assets and the accrued benefit obligations for the non-pension and post-retirement pension adjustments as of March 31. The most recent actuarial valuations of the non pension benefit plans were as of March 31, 2010 with the next valuations due as of March 31, 2013. The most recent actuarial valuation of the post retirement pension adjustments was as of March 31, 2010, with the next valuation due as of March 31, 2011.

The Accrued Benefit Obligation for the non-pension benefit plans and the post-retirement adjustments are reported in the university's consolidated statement of financial position under long term liabilities.

Information about the University's defined benefit plans as at March 31 is as follows:

	Non-Pension Benefit Plans		Post-Retirement Adjustments		Total	
	2010	2009	2010	2009	2010	2009
Benefit Cost	$ 4,567	$ 9,014	$ 18	$ 492	$ 4,585	$ 9,506
Accrued Benefit Obligation	57,474	54,067	4,476	4,821	61,950	58,888
Plan Assets	19,789	16,739	1,779	1,797	21,568	18,536
Employer Contribution	4,211	3,454	345	1,475	4,556	4,929
Employees' Contributions	2,040	1,595			2,040	1,595
Benefits Paid	6,343	5,050	690	740	7,033	5,790

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31
(in thousands of dollars)

Plan assets consist of:

	Non-Pension Benefit Plans		Post-Retirement Adjustments	
	2010	2009	2010	2009
Equities	54%	56%	55%	56%
Fixed Income	34%	33%	35%	34%
Other	12%	11%	10%	10%
Total	100%	100%	100%	100%

Key Assumptions are:

	Non-Pension Benefit Plans		Post-Retirement Adjustments	
	2010	2009	2010	2009
Accrued benefit obligation at March 31:				
Discount rate	5.50%	6.00%	5.75%	6.00%
Benefit Cost for year ended March 31:				
Discount rate	6.00%	5.50%	6.00%	5.25%
Expected rate of return on assets	6.00%	6.00%	6.00%	5.25%
Health Care Cost Trend Rates at March 31:				
Initial rate	8.50%	10.50%		
Ultimate rate	6.00%	6.00%		
Year ultimate rate reached	2020	2017		
Dental Care Cost Trend Rates at March 31:				
Discount rate	4.00%	4.00%		

12. INTER-FUND ADVANCES AND LOANS

Inter-Fund advances and loans at March 31 are as follows:

	2010	2009
General Operating Fund:		
Due to Capital Asset	$ (40,426)	$ (25,026)
Due to Trust	(1,741)	(2,674)
Due from Research		562
	$ (42,167)	$ (27,138)
Capital Asset Fund:		
Due from Operating	$ 40,426	$ 25,026
Due to Research	(4,504)	(3,696)
Due to Trust	(909)	(909)
	$ 35,013	$ 20,421
Trust Fund:		
Due from Operating	$ 1,741	$ 2,674
Due from Capital	909	909
	$ 2,650	$ 3,583
Research and Special Fund:		
Due from Capital	$ 4,504	$ 3,696
Due to Operating	-	(562)
	$ 4,504	$ 3,134

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31
(in thousands of dollars)

13. INTER-FUND TRANSFERS

Inter-Fund transfers at March 31 are as follows:

	General Operating	Specific Provisions	Expenses Funded From Future Revenues	Capital Asset	Research and Special	Staff Benefits	Trust Fund	Endowment Fund
Employee Future Benefits	$ 3,062	$	$ 4,364	$	$	$(7,426)	$	$
Net Change in Vacation Pay & Pension Liability	21,850		(21,850)					
Benefit Premiums Net of Employer Contributions for Staff Benefits	(222)					222		
Appropriations for Specific Provisions:								
Capital Asset Replacements & Improvements	(3,358)	3,358						
Unit Carryovers, Special Projects & Initiatives	(56,403)	56,403						
Funding of Capital Asset Additions	(44,290)	(4,949)		56,718	(4,265)		(3,214)	
Long Term Debt Repayments	(3,665)			3,705	(40)			
Student Contributions to University Development Funds	(738)			11				727
Student Contributions for Technology	(2,870)			2,870				
Scholarships, Bursaries & Prizes	(4,513)	(100)			(126)		4,739	
Other Net Transfers	(70)	28		(28)	(1,638)		(2,557)	4,265
Overhead Recoveries	3,252				(3,252)			
Funding of General Operating Expenses	59,093	(51,176)		(811)	(884)		(6,222)	
Unit Capital Development Assessment	(4,900)			4,900				
Funding of Research Projects	(353)				1,258		(905)	
March 31, 2010	$ (34,125)	$ 3,564	$ (17,486)	$67,365	$ (8,947)	$(7,204)	$ (8,159)	$ 4,992
March 31, 2009	$ (41,532)	$ 8,698	$ (3,250)	$54,640	$ (10,942)	$(1,960)	$(10,075)	$ 4,421

14. CONTRIBUTED CAPITAL ASSETS

Contributions recognized in the Capital Asset Fund include contributed building, capital equipment, library books and artwork of $4,300 (2009, $1,159).

15. PENSION PLANS

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 University's financial statements.

1993 Plan

The University of Manitoba Pension Plan (1993) is a money purchase plan with a defined benefit minimum. In prior years, the surplus from the Plan was adequate to fund any amounts required in excess of matching contributions of active members and the University.

The actuarial present value of accrued pension benefits for the 1993 Plan 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 for accounting purposes, as at December 31, 2009, was completed in 2010 by a firm of consulting actuaries.

The University uses a December 31 measurement date for reporting plan assets and obligations.

The actuarial present value of benefits and plan assets as of December 31, were as follows:

Accrued Benefit Obligation	2009	2008
Actuarial present value of accrued pension benefits at beginning of year	$ 887,016	$ 939,667
Interest accrued on defined benefits	23,523	19,442
Interest accrued (decreased) on member accounts	91,564	(93,809)
Benefits accrued	38,370	35,894
Benefits paid	(60,407)	(70,613)
Actuarial (gains) losses	(43,608)	42,517
Change in assumptions		13,918
Actuarial present value of accrued pension benefits at end of year	$ 936,458	$ 887,016

(in thousands of dollars)

	2009	2008
Plan Assets		
Fair value at beginning of year	$ 770,662	$ 957,821
Actual return on plan assets	143,407	(147,023)
Employer contributions calendar year	18,886	15,051
Employee contributions	16,100	15,050
Transfer from other plans	374	376
Benefits paid	(60,407)	(70,613)
Fair value at end of year	$ 889,022	$ 770,662
Reconciliation of Pension Liability		
Accrued benefit obligation	$ 936,458	$ 887,016
Plan assets	(889,022)	(770,662)
Plan deficit	47,436	116,354
Contributions during fiscal year in excess of calendar year	(447)	(447)
Adjusted plan deficit	46,989	115,907
Unamortized net actuarial (losses)	(21,678)	(111,864)
Pension liability	$ 25,311	$ 4,043
Pension Liability		
Beginning of year	$ 4,043	$
Employer contributions, fiscal year	(18,886)	(15,498)
Net benefit plan expense	40,154	19,541
Pension liability end of year	$ 25,311	$ 4,043
Net Benefit Plan Expense		
Current service cost, net of employee contributions	$ 21,896	$ 20,468
Interest costs at discount rate	52,560	55,338
Expected return on plan assets	(45,488)	(56,265)
Amortization of actuarial loss	11,186	-
Net benefit plan expense	$ 40,154	$ 19,541
Significant Long-term Actuarial Assumptions		
Discount rate	6.0%	6.0%
Expected rate of return on assets	6.0%	6.0%
Rate of general salary increase	4.0%	4.0%
Interest assumption for converting member accumulations to Annuities	5.5%	5.5%
Mortality based on an adjustment to the Uninsured Pensioner 1994 Mortality table Projected to 2015.	the adjustment varies by age (average 67%)	the adjustment varies by age (average 67%)

In 2009, the Manitoba Pension Commission advised that the University is required to begin to make additional payments with respect to current service costs. This total payment for fiscal 2010 was $2.8 million. The amount for 2011 and future years will not be known until the 2009 pension valuation is completed in 2010 as described below.

The unamortized net actuarial losses shown above, which were determined on the basis of this valuation for accounting purposes, are being amortized over a period of 10 years (expected average remaining service life) starting in the year following the year the respective annual actuarial gains or losses arise. However, cash funding for the pension plan is based on the going-concern funding valuation as described below.

The going concern deficit that results from these and other sources of loss, as they apply to the valuation for funding purposes filed with the pension regulators, will have to be funded under the Pension Benefits Act over a maximum of 15 years following next funding valuation date, December 31, 2009 to be completed in 2010. It is expected that this valuation will lead to a significant increase in the required funding contribution of the University. In addition to matching contributions and additional contributions for current service costs, the University would also have to make payments to fund the deficit over 15 years.

In 2009, as permitted under the University Pension Plans Exemption Regulation, the University filed an election for an exemption to the solvency deficiency funding requirements under the Pension Benefits Act for the 1993 Plan However, the Plan will continue to be subject to the going-concern funding provisions of the Act and any funding deficits will have to be paid by the University over a maximum of 15 years as indicated above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31
(in thousands of dollars)

1986 Plan
For the 1986 Plans, which is a money purchase plan for active members, the University recorded contributions of $1,836 (2009, $1,669) and this is included in the consolidated statement of operations as an expense.

1970 Plan
There were no university employees earning pension entitlements in 2009 in the1970 Plan. As a result, the University made no contributions to the Plan during the year.

16. NET INVESTMENT INCOME (LOSS)

2010	General Operating Fund	Staff Benefits Fund	Trust Fund	Capital Fund	Endowment Fund	Total Funds
Net Realized Investment Income:						
Interest	$ 3,933	$ 590	$ 1,897	$ 395	$	$ 6,815
Dividends			5,285			5,285
Gains (losses) on sale of investments		121	(18,397)			(18,276)
	3,933	711	(11,215)			(6,176)
Change in fair value of investments	(830)	3,862	43,250	(35)	17,270	63,517
Total	$ 3,103	$ 4,573	$ 32,035	$ 360	$ 17,270	$ 57,341

2009	General Operating Fund	Staff Benefits Fund	Trust Fund	Capital Fund	Endowment Fund	Total Funds
Net Realized Investment Income:						
Interest	$ 5,023	$	$ 3,004	$ 789	$	$ 8,816
Dividends		729	4,360			5,089
Gains on sale of investments		147	2,767			2,914
	5,023	876	10,131	789		16,819
Change in fair value of investments	626	(6,961)	(26,660)		(45,947)	(78,942)
Total	$ 5,649	$ (6,085)	$ (16,529)	$ 789	$ (45,947)	$ (62,123)

17. CAPITAL DISCLOSURES
a. Capital Management
General Funds (note 2e)
The University's objective in managing its operating capital is to maintain sufficient resources to allow it to satisfy its financial obligations even if adverse financial events were to occur.

The University manages its operating capital through an operating budget which is approved by the Board of Governors. The University has been successful at achieving a balanced budget at the end of each fiscal year and this success is credited to a strong commitment to fiscal responsibility and financial stability as well as a strong commitment by faculties, schools, libraries and support units who share in that responsibility. This is achieved in a decentralized system of budgetary control whereby academic and support units are allocated resources on an annual basis to meet their strategic priorities and those of the University. These operating units are provided with procedures to administer their budgets responsibly and to ensure that there is accountability for the resources that are transferred to them. In the event of a shortfall in revenues, the University could invoke a spending freeze, reduce budgets, or access its Provisions Funds including the Fiscal Stabilization Fund.

Restricted Funds and Endowment Fund (notes 2f and 2g)
The University also maintains externally and internally restricted funds (note 2f) and an endowment fund (note 2g).

The restricted funds are managed with the objectives to spend the funds in accordance with the various terms and not spend beyond the resources that have been provided. Individual funds are established and carefully monitored both within the departments and within central administration. In the event of an over expenditure or ineligible expenditure, the department would be responsible for funding the costs from other resources. In the case of the Capital Asset Fund, at the approval of the Province of Manitoba, the University is permitted to enter into long term debt to assist with the financing of capital assets.

The endowment fund is managed with the long term objective of preserving the capital of the individual endowment accounts to achieve inter-generational equity, whereby current students are neither advantaged nor disadvantaged compared to future students. The goal is to earn investment returns, adjusted for inflation, which will support the ongoing expenditures and commitments of the fund. The Trust Investment Committee ("the Committee") is responsible for the investment of endowment assets. Assets are invested in accordance with an Investment Policy Statement. The Committee determines an asset mix that meets the return objectives of the fund while assuming an appropriate level of risk. Each individual asset (within the mandate of the approved asset mix) is invested by professional external managers, and the portfolio is rebalanced to the target asset mix according to the Investment Policy Statement. The asset mix is reviewed annually to assess whether the risk and return objectives of the fund are met.

The approved spending rate of the net investment income earned on the endowment fund, plus inflation, must be supported by the long term investment. The spending rate is set by the Vice-President (Administration) based on the recommendation of the Committee and reviewed annually to determine the viability of maintaining the rate in light of long term investment performance. The performance of the fund is subject to volatility. The endowment fund is monitored through full market cycles to assess the effectiveness of the asset mix and spending rates which are then adjusted accordingly.

b. Quantitative data

The University's capital comprises its fund balances, which include unrestricted funds, internally restricted funds, externally restricted funds, and funds invested in capital assets. Capital in the restricted funds also includes long term debt. The University's Consolidated Statement of Operations and Changes in Fund Balances sets out fund balances at the beginning and end of the year.

As at March 31, 2010, The University has met its objectives with respect to its capital requirements. There were no changes in capital management during the year.

18. CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The University of Manitoba is a member of the Canadian Universities Reciprocal Insurance Exchange (CURIE). CURIE pools the property damage and public liability insurance risks of its members. All members pay annual deposit premiums, which are actuarially determined and are subject to further assessment in the event members' premiums and reserves are insufficient to cover losses and expenses. No additional assessment was necessary for the current year.

Contractual obligations relating to Construction in Progress amount to $61,722 (2009, $13,502).

The University of Manitoba is named as a defendant in litigations where action has commenced or is anticipated. While the ultimate outcome of these proceedings cannot be predicted at this time, management and its legal counsel are of the opinion that the outcome will not have a material effect on the financial position of the University. No provision has been made in the financial statements in respect of these claims as of March 31, 2010.

The members of the TRIUMF joint venture and the Canadian Nuclear Safety Commission (CNSC) approved a decommissioning plan which requires all members to be severally responsible for their share of the decommissioning costs, which were estimated at $44 million as of November 2007, as well as provide financial covenants to the CNSC for the amount of these costs. While there are no current intentions to decommission the facilities, and the facilities are estimated to have an indefinite useful life, the University's share of the unfunded decommissioning costs, as at April 1, 2009, is estimated at $4 million. The March 31, 2010 figures are not available. TRIUMF has put in place a plan for funding the cost of decommissioning which does not require any payments from the joint venture partners.

19. ECONOMIC INTEREST IN RELATED ENTITIES

The University of Manitoba Foundation U.S.A. Inc.

The University has an economic interest in the University of Manitoba Foundation U.S.A. Inc. ("the Foundation") which is an Illinois Not-For-Profit Corporation incorporated in December 1989. The Foundation's purpose is exclusively charitable, literary, scientific and educational and its activities include the promotion, encouragement, aid and advancement of higher education, research and training in the Province of Manitoba, in Canada and elsewhere. The Foundation is exempt from U.S.A. Federal Income Tax under Section 501(c)(3) of the Internal Revenue Code.

The Board of Directors of the Foundation is an independent board whose members direct and guide the Foundation's actions. Members of the Board include, among others, certain senior staff of the University of Manitoba. The University of Manitoba, however, is one of many universities eligible to receive aid from the Foundation. The University must make application to the Foundation's Board of Directors to request funds, which may or may not be granted. The University's economic interest therefore is beneficial, as gifts and donations which are solicited by the Foundation may be transferred to the University of Manitoba from time to time.

20. COMPARATIVE FIGURES

Comparative figures for the year ended March 31, 2009 have been reclassified, where appropriate, to conform with the presentation adopted for the year ended March 31, 2010.

THE UNIVERSITY OF WINNIPEG

UNIVERSITY OF WINNIPEG

MANAGEMENT REPORT

The accompanying financial statements are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles. These accounting principles have been applied on a basis consistent with the prior year. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data. Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of the financial information and to ensure the assets of the University are properly safeguarded.

The Board of Regents has reviewed and approved these financial statements.

On Behalf of Management

(Original signed by Bill Balan)

Bill Balan
Vice-President (Finance & Administration)

(Original signed by Michael Emslie)

Michael Emslie, CA
Controller and Executive Director, Financial Services

Winnipeg, Manitoba
June 14, 2010

OFFICE OF THE
AUDITOR GENERAL
MANITOBA

AUDITOR'S REPORT

To the Lieutenant Governor in Council
To the Legislative Assembly of Manitoba
To the Board of Regents of the University of Winnipeg

We have audited the statement of financial position of the University of Winnipeg as at March 31, 2010, and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the University as at March 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

ORIGINAL DOCUMENT SIGNED BY
CAROL BELLRINGER

Winnipeg, Manitoba
June 14, 2010

Carol Bellringer, FCA, MBA
Auditor General

500 - 330 Portage Avenue Winnipeg, Manitoba R3C 0C4 office: (204) 945-3790 fax: (204) 945-2169
www.oag.mb.ca

THE UNIVERSITY OF WINNIPEG **Statement I**
STATEMENT OF FINANCIAL POSITION
as at March 31, 2010
(with comparative figures for 2009)

ASSETS

	2010 $000	2009 $000
Current Assets:		
Cash and Cash Equivalents (Note 4)	$22,030	$13,045
Short Term Investments	1,183	1,264
Accounts Receivable (Note 16)	8,801	9,291
Due from Related Party (Note 24)	0	101
Prepaid Expenses	842	802
Inventories (Note 5)	54	1,395
	32,910	25,898
Long Term Investments (Note 6)	2,470	3,653
Advances to 460 Portage Avenue Joint Venture (Note 26)	7,750	0
Capital Assets (Note 7 a)	119,377	93,396
Intangible Assets (Note 7 b)	998	1,179
	$163,505	$124,126

LIABILITIES AND NET ASSETS

	2010 $000	2009 $000
Current Liabilities:		
Accounts Payable and Accrued Liabilities	$11,298	$10,408
Deferred Revenue	4,700	4,402
Deferred Contributions (Note 8)	8,051	6,697
Staff Benefits Payable (Note 9)	1,718	1,522
Current Portion of Long Term Debt (Note 11, 12)	2,407	2,538
Due to Related Parties (Note 24)	207	25
Settlement Payable for Pension Superintendent's Order (Note 23 b)	0	7,000
	28,381	32,592
Obligations under Capital Leases (Note 11)	282	425
Long Term Liabilities (Note 12)	33,692	12,666
Deferred Capital Contributions (Note 13)	92,638	69,377
Accrued Pension Liability (Note 18)	1,461	0
Net Assets:		
Unrestricted Net Deficiency	(9,755)	(7,286)
Internally Restricted Net Assets (Note 14)	1,561	1,418
Endowments (Note 15)	2,628	2,628
Investment in Capital Assets	12,617	12,306
	7,051	9,066
	$163,505	$124,126

Special Purpose and Trust Assets (Notes 4, 15)
Commitments (Note 18)
Contractual Obligations (Notes 10, 19, 20, 21)
Contingencies (Note 23)

Approved by the Board of Regents

(Original signed by Debra Radi) *(Original signed by Lloyd Axworthy)*

Chair, Board of Regents President & Vice Chancellor

See accompanying notes to the financial statements.

THE UNIVERSITY OF WINNIPEG
STATEMENT OF OPERATIONS
For the Year Ended March 31, 2010
(with comparative figures for 2009)

Statement II

	2010 $000	2009 $000
REVENUE		
Government Grants:		
Council on Post Secondary Education	$49,890	$47,448
Other Province of Manitoba	5,403	4,163
Government of Canada	3,073	2,954
Student Academic Fees	30,602	28,827
Gifts, Grants and Bequests	3,108	2,396
Investment Income	534	1,628
Sales of Services and Products	1,467	4,606
Other Revenues	7,502	5,987
Amortization of Deferred Capital Contributions (Note 13)	2,132	1,871
	103,711	99,880
EXPENSES		
Salaries	59,569	57,295
Staff Benefits	9,614	7,690
Supplies, Services and Other Expenses	17,067	15,569
Cost of Sales	1,579	3,166
Building, Utilities and Related Expenses	7,977	7,655
Provincial and Municipal Taxes	1,333	1,210
Scholarships and Awards	2,945	3,238
Gifts to Related Party (Note 24)	370	624
Amortization of Capital Assets	3,698	3,208
	104,152	99,655
Excess (Deficiency) of Revenue over Expenses from Operations	(441)	225
Gain on Disposal of Capital Assets (Note 22)	202	603
Settlement Related to Pension Superintendent's Order (Note 23 b)	(1,776)	(7,000)
Deficiency of Revenue over Expenses	($2,015)	($6,172)

See accompanying notes to the financial statements.

THE UNIVERSITY OF WINNIPEG
STATEMENT OF CHANGES IN NET ASSETS
For the Year Ended March 31, 2010
(with comparative figures for 2009)

Statement III

	2010 UNRESTRICTED NET DEFICIENCY $000	2010 INTERNALLY RESTRICTED NET ASSETS (Note 14) $000	2010 ENDOWMENTS (Note 15) $000	2010 INVESTMENT IN CAPITAL ASSETS $000	2010 TOTAL $000	2009 TOTAL $000
BALANCE, BEGINNING OF YEAR	($7,286)	$1,418	$2,628	$12,306	$9,066	$15,294
Deficiency of Revenue Over Expenses	(2,015)				(2,015)	(6,172)
Direct Increases (Decreases):						
Endowed Investment Net Realized Losses					0	(56)
Transfers:						
Internally Funded:						
Capital Asset Additions	(2,254)			2,254	0	0
Amortization of Capital Assets	1,354			(1,354)	0	0
Disposal of Capital Assets	735			(735)	0	0
Repayment of Long Term Debt	(146)			146	0	0
Internally Restricted Net Assets	(131)	131			0	0
Strategic Provisions – Reductions (Note 14)	1,227	(1,227)			0	0
Strategic Provisions – Additions (Note 14)	(1,239)	1,239			0	0
NET CHANGE FOR THE YEAR	(2,469)	143	0	311	(2,015)	(6,228)
BALANCE, END OF YEAR	($9,755)	$1,561	$2,628	$12,617	$7,051	$9,066

See accompanying notes to the financial statements.

THE UNIVERSITY OF WINNIPEG
STATEMENT OF CASH FLOWS
For the Year Ended March 31, 2010
(with comparative figures for 2009)

Statement IV

	2010 $000	2009 $000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from:		
Government Grants	$57,893	$54,238
Student Academic Fees	30,660	29,163
Gifts, Grants and Bequests	2,671	2,960
Investment Income	582	1,695
Sales of Services and Products	1,948	4,551
Other Revenues	8,223	5,864
Cash Paid for:		
Salaries and Staff Benefits	(66,996)	(64,842)
Supplies, Services and Other Expenses	(14,667)	(14,921)
Cost of Sales	(398)	(3,459)
Building, Utilities and Related Expenses	(7,465)	(7,400)
Interest Paid	(674)	(370)
Provincial and Municipal Taxes	(1,311)	(1,208)
Scholarships and Awards	(2,944)	(3,242)
Gifts to Related Party	(458)	(634)
Pension Superintendent's Order Settlement Costs	(8,776)	0
	(1,712)	2,395
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash Purchase of Capital Assets	(29,521)	(20,100)
Advances to 460 Portage Avenue Joint Venture	(7,750)	0
Cash from Disposal of Capital Assets	608	1,000
Proceeds on Maturity of Long Term Investments	1,183	221
	(35,480)	(18,879)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment and Retirement of Long Term Debt	(2,171)	(845)
Long Term Debt Proceeds – Building Purchases and Construction	14,550	10,150
Long Term Debt Proceeds – Pension Order Settlement	8,776	0
Deferred Capital Contributions	24,941	11,061
	46,096	20,366
NET INCREASE IN CASH AND SHORT TERM INVESTMENTS	8,904	3,882
CASH AND SHORT TERM INVESTMENTS, BEGINNING OF YEAR	14,309	10,427
CASH AND SHORT TERM INVESTMENTS, END OF YEAR	$23,213	$14,309
Cash and Short Term Investments consists of:		
Cash and Cash Equivalents	22,030	13,045
Short Term Investments	1,183	1,264
	$23,213	$14,309

Excluded from Investing and Financing Activities are equipment acquired under Capital Leases and the related obligations under Capital Leases totalling $97 (2009 - $260).

See accompanying notes to the financial statements.

1. Authority and Purpose

The University of Winnipeg (the University) operates under the authority of the University of Winnipeg Act of the Province of Manitoba. The primary role of the University is to provide post secondary education and research in Arts, Sciences and Education. The University also operates the Collegiate, an independent high school and a number of other education related activities. The University is a registered charity and is exempt from the payment of income taxes.

2. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

A) Basis of Accounting

The University of Winnipeg has adopted not-for-profit accounting standards as its basis of accounting. The University of Winnipeg Foundation (the Foundation) (Note 20) and the University of Winnipeg Community Renewal Corporation (UWCRC) (Note 21), both controlled entities, are not consolidated in these financial statements, but details of their financial results are included in the notes to the financial statements. Investment in the 460 Portage Avenue Joint Venture is accounted for using the equity method. The University of Winnipeg Education Housing Corporation (UWEHC), which was previously controlled and consolidated, was dissolved effective March 17, 2010. Its remaining net assets, including capital assets, deferred capital contributions, and debt, were transferred at carrying value to UWCRC; the carrying value of the assets at the date of transfer equalled the carrying value of the liabilities.

B) Contributions

The University has chosen to use the deferral method of accounting for contributions. Under the deferral method of accounting for contributions, restricted contributions related to expenses of future periods are deferred and recognized as revenue in the period in which the related expenses are incurred. Restricted contributions are stipulations imposed that specify how resources must be used. External restrictions are imposed from outside the organization, usually by the contributor of the resources. Restrictions on contributions may only be externally imposed.

C) Revenue Recognition

Operating grants are recognized as revenue in the period received or receivable. Revenues received for tuition fees and sales of goods and services are recognized in the period in which the goods are received or the services rendered or substantially rendered.

Deferred contributions are externally restricted non-capital and non-endowment contributions which are deferred and are recognized as revenue in the period in which the related expenses are incurred.

Promissory notes entered into with the Manitoba Provincial Government, for the construction or purchase of capital assets, which will be repaid from future funding provided by the Manitoba Provincial Government through the Council on Post Secondary Education (COPSE) are, in substance, capital grants. These capital grants, under the deferral method of accounting, are reflected as deferred capital contributions in the statement of financial position, if the asset acquired has a limited useful life. The related funding from COPSE to offset the interest expense over the terms of the promissory notes as well as the interest expense are both excluded from the statement of operations and changes in fund balances.

Externally restricted contributions for the acquisitions of capital assets having limited lives are recorded as deferred capital contributions in the period in which they are received. Amortization of deferred capital contributions is recognized as earned revenue in the periods in which the related amortization expense of the funded capital asset is recorded.

Endowment contributions are recorded as direct increases in net assets in the period in which they are received.

D) <u>Cash and Cash Equivalents</u>

Cash and cash equivalents include cash on hand, balances with banks and highly liquid temporary money market instruments convertible to cash within three months or less. Bank borrowings are considered to be financing activities.

E) <u>Investments</u>

Investments are recorded at fair value with the exception of a donated equity investment in certain properties, which is recorded at estimated fair value on the date received and designated as available for sale.

F) <u>Inventories</u>

Inventories are valued at the lower of cost or net realizable value.

G) <u>Capital Assets and Intangibles</u>

Capital assets and collections purchased by the University are recorded at cost. Collections include Art Work and Rare Books recorded at fair value derived by independent appraisal at the time of acquisition or donation. Donated assets are recorded at estimated fair market value on the date received. Land, collections of rare books and works of art are not amortized. Capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Buildings, Additions and Improvements	60 years
Leasehold Improvements	Term of Lease
Library Acquisitions	10 years
Furnishings and Equipment	10 years
Computer Equipment	5 years
Vehicles	5 years
Equipment under Capital Lease	Term of Lease

Intangible assets are recorded at cost and are amortized on a straight-line basis over their useful lives as follows:

Major System Computer Software	10 years

H) Financial Instruments

All financial instruments are recorded at fair value. Subsequent measurement is determined by the classification of each financial asset and liability. Financial instruments are classified as one of the following: held-for-trading, loans and receivables, held-to-maturity, available-for-sale or other liabilities. Financial instruments classified as held-for-trading are measured at fair value with gains and losses recognized in the Statement of Operations. Financial instruments classified as held-to-maturity, loans and receivables and other liabilities are measured at amortized cost using the effective interest rate method. Available-for-sale financial instruments are measured at fair value, with unrealized gains and losses recognized directly in unrestricted net assets.

Cash and cash equivalents and short term investments are designated as held-for-trading; accounts receivable, due from related parties and advances to 460 Portage Avenue Joint Venture as loans and receivables; accounts payable and accrued liabilities, staff benefits, due to related party and long term liabilities as other liabilities.

Long term investments are designated as available for sale as they are comprised of investments that are not held for the purpose of earning short term income.

The University does not have any held-to-maturity instruments.

Except for held-for-trading designated financial instruments, transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset or liability's carrying value at inception and amortized over the expected life of the financial instrument using the effective interest method. For held-for-trading financial assets and liabilities, transaction costs are recorded in the statement of operations as incurred.

I) Use of Estimates

In preparing the University's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

J) Trusteed Pension Plan

The University contributes to the University of Winnipeg Trusteed Pension Plan for University employees. The pension expense for the defined benefit component of the pension plan is determined actuarially using the projected unit credit actuarial cost method and management's best estimates of investment performance, salary escalation, retirement ages of employees and member mortality. With respect to the amortization of actuarial gains or losses, the University has adopted a policy consistent with the minimum requirements of CICA Handbook section 3461 which is to amortize the excess of the unamortized net gains or losses over 10% of the greater of the defined benefit obligation or defined benefit plan assets as at the beginning of the year, over the expected average remaining service life of active employees. The pension expense for the defined contribution component of the pension plan equals the contributions made during the year.

The accounts of the University of Winnipeg Trusteed Pension Plan do not form part of the financial statements of the University.

K) Future Accounting Policy Changes

Business Combinations and Non-controlling Interests
The CICA has issued these new standards, Business Combinations Section 1582, Consolidations Section 1601 and Non-controlling Interests Section 1602.

Section 1582 will be converged with IFRS 3 Business Combinations. Section 1602 will be converged with the requirements of IAS 27 Consolidated and Separate Financial Statements for non-controlling interests. Section 1601 carries forward the requirements of Consolidated Financial Statements Section 1600 other than those relating to non-controlling interests.

Section 1582 applies to a transaction in which the acquirer obtains control of one or more businesses. The term "business" is more broadly defined than in the existing standard. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. A bargain purchase will result in recognition of a gain. Acquisition costs must be expensed.

Any non-controlling interest will be recognized as a separate component of equity (net assets). Net income is calculated without deduction for the non-controlling interest. Rather, net income is allocated between the controlling and non-controlling interests.

The new standards are effective for fiscal years beginning on or after January 1, 2011. Early adoption is encouraged. This standard will affect the accounting treatment used for any future business acquisitions.

3. Change in Accounting Policies

Adoption of new accounting standards:

(i) The CICA amended a number of standards applicable to not-for-profit organizations (NFPOs) and issued new standard, CICA 4470 "Disclosures of Allocated Expenses by Not-for-Profit Organizations."

CICA 4400 "Financial Statement Presentation by Not-For-Profit Organizations" was amended to:

- eliminate the requirement to treat net assets invested in capital assets as a separate component of net assets and, instead, permit a NFPO to present such an amount as a category of internally restricted net assets when it chooses to do so;
- clarify that revenues and expenses must be recognized and presented on a gross basis when a not-for-profit organization is acting as a principal in transactions;
- make Cash Flow Statements, Section 1540 applicable to NFPOs; and
- make Interim Financial Statements, Section 1751, applicable to NFPOs that prepare interim financial statements in accordance with GAAP.

CICA 4430 “Capital Assets Held by Not-For-Profit Organizations” was amended to provide additional guidance with respect to the appropriate use of the scope exemption for smaller entities.

CICA 4460 “Disclosure of Related Party Transactions by Not-For-Profit Organizations” was amended to make the language in Section 4460 consistent with Related Party Transactions, Section 3840.

New standard CICA 4470 “Disclosure of Allocated Expenses by Not-For-Profit Organizations” establishes disclosure standards for not-for-profit organizations that choose to classify their expenses by function and allocate expenses from one function to another. The main features of the new Section are:

- A requirement for an entity that allocates its fundraising and general support expenses to other functions to disclose the policies adopted for the allocation of expenses among functions, the nature of the expenses being allocated and the basis on which such allocations have been made; and
- A requirement for an entity to disclose the amounts allocated from each of its fundraising and general support functions and the amounts and functions to which they have been allocated.

These new requirements did not significantly affect the financial statements.

(ii) On April 1, 2009, the University adopted The Canadian Institute of Chartered Acccountants' (“CICA”) Emerging Issues Committee Abstract 173 – Credit Risk and the Fair Value of Financial Asset and Financial Liabilities (“EIC-173”). EIC-173 clarifies how credit risk and counterparty risk should be taken into account in determining the fair value of financial instruments. The adoption of EIC-173 did not have a significant impact on the valuation of the University's financial instruments or their net assets.

(iii) The University adopted the amendments to CICA Handbook Section 3862, Financial Instruments – Disclosures (“Section 3862”) on April 1, 2009. The amendments introduce a “fair value hierarchy” for disclosures to provide information to financial statement users about the relative reliability of inputs used in fair value measurements. Section 3862 requires that an entity classify each financial instrument into one of three fair value levels as follows:

Level 1 – for unadjusted quoted prices in active markets for identical unrestricted assets or liabilities.

Level 2 – for inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, and

Level 3 – for inputs that are based on unobservable market data and are significant to the fair value measurement.

Prior year comparative data is not required to be presented for the first year of adoption. These amendments result in additional disclosures and have no impact on the University's net assets.

The new disclosure requirements are provided in Note 16.

(AMOUNTS IN THOUSANDS)

(iv) On April 1, 2009, the University adopted CICA Handbook Section 3064, Goodwill and Intangibles. This Section, which replaces Goodwill and Other Intangible Assets, Section 3062, and Research and Development Costs, Section 3450, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets.

Adoption of these standards resulted in the reclassification of major system computer software from capital assets to intangible assets (Note 2 G and Note 7).

4. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	2010	2009
Operating Funds	$11,605	$6,221
Sponsored Research and Designated Funds	3,362	3,343
	14,967	9,564
Special Purpose and Trust Funds	7,063	3,481
	$22,030	$13,045

Trust funds are restricted funds held for deferred contributions - $3,502 (2009 - $2,047) and endowments - $75 (2009 - $75). Special purpose funds are comprised of internally restricted net assets - $563 (2009 - $431), due to operating - $2,719 (2009 - $734) and due to related party - $204 (2009 - $194).

Short term investments - $1,183 (2009 - $1,264) consist of fixed income investments.

5. Inventories

Inventory consists of finished goods, comprised primarily of bulk paper (2009 - books purchased for resale). During the year ended March 31, 2010, inventories totalling $235 were expensed (2009 - $2,672) to Cost of Sales. The majority of bookstore inventory was sold at net realizable value to an independent third party that is now operating the Bookstore. At year end, the remaining bookstore inventory was written down ($165) to a nil value.

6. Long Term Investments

Long term investments are comprised of the following:

	2010	2009
Fixed Income Instruments	$1,746	$2,929
Equity investment in properties	724	724
	$2,470	$3,653

Long term investments consist of trust funds - $100 (2009 - $500), endowments - $2,170 (2009 - $2,553) and operating funds - $200 (2009 - $600). Long term investments are recorded at fair value with the exception of the equity investment in properties of which market information is not readily available.

(AMOUNTS IN THOUSANDS)

7. Capital Assets and Intangibles

	2010		2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
(a) Capital Assets				
Land	$7,870	$0	$8,168	$0
Buildings, Additions and Improvements	97,639	22,123	72,107	20,822
Library Acquisitions	13,550	11,603	13,285	11,245
Furnishings and Equipment	29,988	21,996	26,446	20,783
Collections	1,327	0	1,304	0
Buildings Under Construction (Note 25)	24,233	0	24,330	0
Equipment Under Capital Leases	1,077	585	979	373
	175,684	$56,307	146,619	$53,223
Less Accumulated Amortization	56,307		53,223	
Net Book Value	$119,377		$93,396	

Furnishings and Equipment include Vehicles and Computer Equipment.

	2010	2009
(b) Intangible Assets		
Major System Computer Software	$2,853	$2,817
Less Accumulated Amortization	1,855	1,638
Net Book Value	$ 998	$1,179

8. Deferred Contributions

Deferred contributions represent contributions received for special purposes such as Sponsored Research and Designated Funds and Special Purpose Trust consisting of scholarships and bursaries, library acquisitions and lecture funds.

	2010	2009
Balance, Beginning of Year	$6,697	$5,350
Contributions Received	9,598	10,284
Contributions Expended	(7,874)	(8,333)
Transferred to Foundation (Note 24)	(370)	(604)
Balance, End of Year	$8,051	$6,697
Balance Consists of:		
Sponsored Research and Designated Funds	$3,773	$3,704
Special Purpose Trust	4,002	2,810
Operating Funds	276	183
	$8,051	$6,697

(AMOUNTS IN THOUSANDS)

9. Staff Benefits Payable

The balance of staff benefits is comprised of accrued vacation pay of $1,718 (2009 - $1,522).

10. Bank Indebtedness

The University has an operating line of credit with a bank authorized in the amount of $1,500. The line of credit is unsecured and bears interest at prime. It was not utilized at March 31, 2010 or March 31, 2009.

11. Obligations under Capital Leases

The following is a schedule of future minimum lease payments for equipment under capital leases expiring between June 1, 2011 and November 1, 2014 together with the balances of the obligations under capital leases:

2010/11	$242
2011/12	162
2012/13	96
2013/14	53
2014/15	3
Total minimum lease payments	556
Less amount representing interest at approximately 3.5%	(50)
Balance of Obligations under Capital Leases	506
Less: Current Portion of Obligations under Capital Leases	(224)
Obligations under Capital Leases	$ 282

Interest expense for the current year on the lease obligations amounted to $25 (2009 - $23).

(AMOUNTS IN THOUSANDS)

12. Long Term Liabilities

	2010	2009
Promissory Notes	$35,344	$13,926
Mortgages Payable	110	142
UWEHC Mortgages Payable	0	466
Supplementary Pensions Payable	421	472
	35,875	15,006
Less: Current Portion of Long Term Liabilities	(2,183)	(2,340)
	$33,692	$12,666

The promissory notes are loans from the Province of Manitoba as shown below.

	2010	2009
Promissory Notes Secured by:		
509 Ellice and 433 Young Street Interest rate 4.45%, due April 15, 2015	$498	$596
CanWest Centre for Theatre and Film Interest rate 4.00%, due March 31, 2011	600	1,200
Duckworth Athletic Complex Expansion Interest rate 5.55%, due October 31, 2047	1,965	1,980
Wesley Hall – HVAC Interest rate 3.875%, due June 30, 2010	850	1,700
McFeetors Hall Bridge Financing Interest rate 4.10%, due September 30, 2013	1,200	1,500
McFeetors Hall Interest rate 5.25%, due October 31, 2049	10,916	6,950
460 Portage Avenue Interest rate 4.65%, due December 31, 2020	2,750	0
460 Portage Avenue Interest rate 5.60%, due December 31, 2050	5,000	0
	23,779	13,926
Unsecured Notes:		
491 Portage Avenue – Annex Interest rate 5.40%, due July 31, 2050	2,800	0
Pension Settlement Interest rate 5.35%, due January 31, 2050	8,765	0
	11,565	0
	$35,344	$13,926

(AMOUNTS IN THOUSANDS)

Annual principal payments on the notes during the next five years and thereafter are: 2011 - $2,097; 2012 - $882; 2013 - $907; 2014 - $933; 2015 - $661; thereafter - $29,864.

The mortgage payable, secured by Graham Hall, is payable to Canada Mortgage and Housing with interest at 5 3/8% due October 1, 2012. The Council on Post-Secondary Education annual operating grant provides for the $40 annual mortgage payment. Principal payments on this mortgage during the next three years are: 2011 - $35; 2012 - $37; 2013 - $38.

All University of Winnipeg Education Housing Corporation properties were disposed of during the year by way of either sales to third parties or transfers to the University of Winnipeg Community Renewal Corporation (UWCRC). The mortgages related to the properties sold were retired using the proceeds from the respective sales of the properties; the remaining mortgages were transferred to the UWCRC.

Supplementary pensions payable represents payments to past Presidents of the University for services performed and is based on an actuarial calculation. The amount due in 2011 is $51.

The determination of the fair value of the Province of Manitoba promissory notes and the other long term debt is not practicable due to their underlying terms and conditions.

Interest expense during the year on long term liabilities totalled $649 (2009 - $347).

13. Deferred Capital Contributions

Deferred capital contributions represent unamortized external contributions related to the purchase of capital assets in the amount of $90,149 (2009 - $67,812) and funds held for future capital project expenditures in the amount of $2,489 (2009 - $1,565). The amortization of deferred capital contributions is recorded as revenue in the Statement of Operations.

	2010	2009
Balance, Beginning of Year	$69,377	$60,048
Contributions Received	21,310	8,182
Contributions from University of Winnipeg Foundation	4,034	2,972
Mortgage Principal Contributions	49	46
Amortization of Deferred Capital Contributions	(2,132)	(1,871)
Balance, End of Year	$92,638	$69,377

(AMOUNTS IN THOUSANDS)

14. Internally Restricted Net Assets

Internally restricted net assets balance at March 31, 2010 is $1,561 (2009 - $1,418). It consists of cumulative net unrestricted trust income of $561 (2009 - $430) and strategic provisions of $1,000 (2009 - $988).

The cumulative net unrestricted trust income of $561 is available to fund Board of Regents scholarships.

The strategic provisions additions represent an appropriation from unrestricted net assets to internally restricted assets. These appropriations are made to provide for future funding support of initiatives within the Strategic Plan and the Academic Plan. The 2010 addition represents the net proceeds on the disposition of three properties and the disposition of Bookstore inventory to an unrelated third party that will be operating the Bookstore. Actual expenses related to strategic provisions are charged to operations and are covered with a corresponding transfer of funds from internally restricted (see Statement III).

The strategic provisions provide for:

	March 31, 2009	Reductions	Additions	March 31, 2010
Infrastructure				
Capital Reserve	$877	($1,210)	$1,239	$ 906
Building Renovations	51	(1)		50
Strategic Development				
Internal Research Grants	2			2
Project Development	58	(16)		42
	$ 988	($1,227)	$1,239	$1,000

15. Net Assets Restricted for Endowment Purposes

Endowments consist of externally restricted contributions where the principal donation is required to be maintained in perpetuity. The investment income generated from endowments must be used in accordance with the various purposes established by the donors.

Endowments are comprised of long term investments of $2,170 – Note 6 (2009 - $2,553) and cash and short term investments of $458 (2009 – $75).

Endowments of $1,978 (2009 - $1,978) are held in trust in accordance with the terms of a certain bequest. In 2010, the University has a 10% share in the income distribution from this trust (2009 – 10% share).

(AMOUNTS IN THOUSANDS)

16. Financial Instruments

The University's financial instrument assets consist of cash and cash equivalents and short term investments, which are designated as held for trading and measured at fair value; accounts receivable, due from related parties and advances to 460 Portage Avenue Joint Venture, which are designated as loans and receivables and are measured at amortized cost; long term investments, which are designated as available for sale and are measured at fair value. Fair value information is not readily available for certain investments held in an equity investment. Financial instrument liabilities are accounts payable and accrued liabilities, staff benefits, current portion of long term debt, due to related party, and long term debt which are designated as other liabilities and measured at amortized cost. The University is exposed to credit, interest rate and liquidity risk. Based on the University's small amount of foreign currency denominated assets and liabilities, a change in exchange rates would not have a material effect on its Statement of Operations.

Credit risk

Credit risk is the risk of potential loss to the University if a counterparty to a financial instrument fails to discharge an obligation. The University's credit risk is primarily attributable to its cash and cash equivalents, accounts receivable and long term investments. The credit risk on cash and cash equivalents is considered low as the counterparties are high credit quality institutions. The credit risk on receivables is considered low as the counterparts are primarily various levels of government and student fee related. The carrying amount of accounts receivable has been reduced through the use of allowance for doubtful accounts. The credit risk on long term investments is considered low as the counterparts are highly rated financial institutions and quality commercial property.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at March 31 was:

	Carrying Amount	
	2010	2009
Financial Assets Held-For-Trading:		
Cash and Cash Equivalents	$22,030	$13,045
Short Term Investments	1,183	1,264
Financial Assets Available for Sale:		
Long Term Investments – Fixed Income Instruments	2,470	3,653
Loans and Receivables:		
Accounts Receivable	8,801	9,291
Due from Related Parties	0	101
Advances to 460 Portage Avenue Joint Venture	7,750	0
	$42,234	$27,354

The University manages the credit risk related to these items by maintaining its cash and cash equivalents and its long term investments with highly rated financial institutions. Accounts receivable are due, for the most part, from various levels of government and student fee accounts where collection is considered very likely.

(AMOUNTS IN THOUSANDS)

The ageing of accounts receivable at March 31 is as follows:

	2010	2009
Accounts Receivable, gross		
Current	$7,733	$7,928
Past Due	1,422	1,727
	9,155	9,655
Less: Allowance for Doubtful Accounts	(354)	(364)
Accounts Receivable, net	$8,801	$9,291

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The University's exposure to interest rate risk is concentrated in its cash equivalents. Generally, the value of cash equivalents increases if interest rates fall and decrease if interest rates rise. Due to the short term nature of the cash equivalents, the University has minimal exposure to risk associated with changes in interest rates.

Liquidity risk

Liquidity risk is the risk that an investment could not be readily converted into cash when needed. The risk is managed by holding the majority of our investments in cash and cash equivalents. As cash equivalents are held in a premium money market fund in which at least 90% of the assets must be comprised of liquid investments, the exposure to liquidity risk is not considered material.

Fair value disclosure

Cash and cash equivalents and short and long term investments have been categorized based upon a fair value hierarchy in accordance with the amendment to CICA 3862. See Note 3 for a discussion of the University's policies regarding this hierarchy. The following fair value hierarchy table presents information about the University's cash and cash equivalents and short and long term investments measured at fair value as at March 31, 2010. There have been no transfers between levels during the year.

Investments at Fair Value as at March 31, 2010				
	Level 1	Level 2	Level 3	Total
Cash & Cash Equivalents	$22,030			$22,030
Short Term Investments		1,183		1,183
Fixed Income Investments		1,746		1,746
Equity Investment in Properties			724	724
	$22,030	$2,929	$ 724	$25,683

17. Capital Disclosures

The University's objectives in managing capital are:

- minimizing the cost of capital
- preserving the ability to continue as a going concern
- maintaining flexibility to ensure the ongoing ability to execute the Strategic Plan

The University's capital is comprised of its unrestricted net assets (deficiency), internally restricted net assets and long term debt. Capital in unrestricted net assets (deficiency) includes long term debt used to finance the payment of the pension settlement and supplementary pensions payable. The balance of long term debt is used to finance the acquisition of capital assets.

The University has various policies in place to manage capital, including a policy requiring Board approval on major capital expenditures, securing debt and capital budget approval. The University also uses its unrestricted net assets in a strategic fashion to support the Strategic Plan, special initiatives and campus expansion and redevelopment. The University also maintains deferred contribution accounts and endowments for externally restricted funding. These funds are managed with the objective of spending the funds in accordance with the various terms stipulated in the funding arrangements.

The University's Statements of Financial Position, Operations, and Changes in Fund Balances set out balances at the beginning and the end of the year.

For the year ended March 31, 2010, there were no changes in capital management strategy except for the use of long term debt to finance the payment of the pension settlement and the University has met its externally imposed capital requirements.

18. University of Winnipeg Trusteed Pension Plan (the Plan)

The Plan was established as a contributory defined benefit pension plan at September 1, 1972. The Plan is registered under the Income Tax Act and the Manitoba Pension Benefits Act (Registration #309914). A Trust Company holds the assets under a Trust Agreement and provides daily administration of the Plan. Professional investment managers administer the portfolio. The University was responsible for overseeing the administration of the Plan, until July 2008 when an independent Board of Trustees assumed responsibility for administration of the Plan

The Plan covers all eligible employees of the University of Winnipeg, except those who are members of the United Church of Canada Pension Plan. Permanent academic employees join the Plan on their date of employment. Permanent non-academic employees may elect to join on their date of employment, but must join on their first anniversary date of employment. The defined benefit side of the Plan is now closed, and all new employees must now participate in the defined contribution side of the Plan.

At December 31, 2009 the fair value of the Plan's net assets was $129,429 (2008 - $111,474). Under the Plan, contributions are made by Plan members, which are matched by the University of Winnipeg for the defined contribution members; for defined benefit members, an additional 1% is paid by the University. A member who receives benefits from the long term disability plan of the University is not required to contribute to the Plan. The annual pension payable to a defined benefit member on retirement is based on the member's final average earnings and years of credited service.

(AMOUNTS IN THOUSANDS)

In accordance with the Canadian Institute of Chartered Accountants (CICA) accounting standard for Employee Future Benefits, Section 3461 of the CICA Handbook – Accounting, the University uses a three-month accelerated measurement date for financial reporting purposes. As a result, with respect to the defined benefit segment of the Plan, the reported value of the plan assets and plan obligations as at December 31, 2009 are $107,573 and $123,437 respectively. The corresponding values for the plan assets and plan obligations projected to the fiscal year-end, March 31, 2010 are $109,467 and $124,534 respectively.

Note 23(b) provides details, with respect to Plan amendment #2001/1, of the University's January 2010 funding of a lump sum amount into the Plan for the benefit of defined benefit members, in relation to the undistributed portion of their proportionate share of the Plan surplus, as determined by the Plan Actuary in 1999.

Given that the University's contribution of $8,776 into the fund was made in January, 2010, and payments to members entitled to a share of this amount commenced in February, 2010, the net assets available for benefits as at December 31, 2009 do not include an account receivable from the University in respect of the surplus distribution, nor does the defined benefit obligation shown below include an amount for surplus distribution. However, the values for the plan assets and plan obligations projected to the fiscal year-end, March 31, 2010 reflect the outstanding payments which were $877 at that date.

Defined Contribution Obligation

The obligation for pension benefits under the defined contribution segment of the Plan will always be equal to the net assets in each member's account. Therefore, no surplus or deficiency arises from fluctuations in the investment market.

The defined contribution segments of the Plan are:

	December 31 2009	December 31 2008
Balance, Beginning of Year	$16,458	$18,560
Contributions	2,784	2,499
Benefits and Refunds Paid	(525)	(860)
Net Investment Return/(Loss)	3,133	(3,741)
Balance, End of Year	$21,850	$16,458

Defined Benefit Obligation

In accordance with the Pension Benefits Act, an actuarial valuation of the defined benefit segment of the Plan is required at least every three years. An actuarial valuation of the Plan was prepared using data as at December 31, 2007 by Eckler Ltd., a firm of consulting actuaries. The results were extrapolated by them to December 31, 2009.

The benefit obligation has been calculated pursuant to CICA Handbook 3461, using a modified market-related discount rate. This approach can differ from the calculation of the benefit obligation in the Trusteed Pension Plan Financial Statements which uses an expected long term rate of return.

(AMOUNTS IN THOUSANDS)

Excluding the obligation with respect to the Revised Order of the Superintendent of Pensions, made June 6, 2008, the financial information is based on the financial position of the Defined Benefit Pension Plan as of December 31, 2009, the "measurement date" and for the purpose of financial statements, the in-year pension expense (and the calculation of the valuation allowance in particular) reflects the employer contributions to the Plan with respect to the three-month period ending March 31, 2010.

Change in Defined Benefit Obligation

	December 31 2009	December 31 2008
Benefit Obligation, January 1	$120,328	$124,184
Current Service Cost	2,293	2,640
Interest Cost	7,100	6,511
Benefits and Refunds Paid	(6,284)	(7,610)
Actuarial Gain	0	(5,397)
Benefit Obligation, December 31	$123,437	$120,328

Change in Plan Assets

	December 31 2009	December 31 2008
Fair Value of Plan Assets, January 1	$95,016	$116,485
Actual Return on Plan Assets, Net of Expenses	16,183	(16,630)
Employer Contributions	1,780	1,847
Employee Contributions	878	924
Benefits and Refunds Paid	(6,284)	(7,610)
Fair Value of Plan Assets, December 31	$107,573	$95,016

(AMOUNTS IN THOUSANDS)

Reconciliation of Funded Status

	March 31 2010	March 31 2009
Funded Status – Deficit	($15,864)	($25,312)
Employer Contributions After December 31	420	422
Unamortized Transitional Asset	(2,276)	(2,732)
Unamortized Net Actuarial Loss	16,259	28,496
Accrued Benefit Asset/(Liability), Before Valuation Allowance	(1,461)	874
Valuation Allowance	0	(874)
Accrued Benefit Liability, Net of Valuation Allowance	($1,461)	$ 0

Components of Pension Expense

	December 31 2009	December 31 2008
Employer Share of Current Service Cost	$1,415	$1,716
Interest Cost	7,100	6,511
Expected Return on Plan Assets	(5,592)	(6,103)
Amortization of Transitional Asset	(456)	(456)
Amortization of Actuarial Loss	1,646	0
Increase (Decrease) in Valuation Allowance	(874)	178
Net Pension Expense	$3,239	$1,846

Significant actuarial assumptions used in the determination of the pension expense were:

Discount Rate	- pre and post-retirement	6.00%	5.35%
	- provision for post-retirement indexing	0.25%	0.00%
Rate of salary increase	- 2008 and 2009	2.50%	2.50%
	- thereafter	4.00%	4.00%

Significant actuarial assumptions used in the determination of the defined benefit obligation at December 31 were:

Discount Rate	- pre and post-retirement	6.00%	6.00%
	- provision for post-retirement indexing	0.25%	0.25%
Rate of salary increase	- 2008 and 2009	2.50%	2.50%
	- thereafter	4.00%	4.00%

(AMOUNTS IN THOUSANDS)

Funding Obligation

In the event that the actuarial valuation of the Plan determines that the Plan is not fully funded, the University is responsible for providing adequate funding levels in accordance with the *Pension Benefits Act of Manitoba.*

The actuarial valuation at December 31, 2007 confirms that the defined benefit segment of the Plan has a solvency deficiency of $20,665.

The University would normally be required under the *Pension Benefits Act* to make additional contributions to amortize the solvency deficiency over a five year period. However, the Provincial Government has provided universities in Manitoba with an opportunity to be permanently exempted from the usual solvency funding requirements, while the Plan continues on a going-concern basis. The University Pension Plan's Exemption Regulation (Regulation 141/2007) was registered October 15, 2007. The University has complied with all requirements to be entitled to the permanent exemption.

The going-concern deficiency at December 31, 2007 was $2,384 and the annual deficiency funding payments are $386, which the University will continue to make until the deficiency is eliminated.

In addition, because of the going-concern deficiency at December 31, 2007, the University is also required to make an additional contribution of $291 (2009 - $295) to cover the current service shortfall.

During 2005, amendments were made to the *Pension Benefits Act* which will affect the benefits payable from the Plan. The regulations implementing the amendments were published in March 2010, and the benefit changes will come into effect on May 31, 2010. The benefit changes will be treated as a plan amendment at that date. The Plan's Actuary had estimated in 2009 that these changes would add approximately $1,900 to the actuarial present value of accrued benefits as at December 31, 2008.

19. Contractual Obligations

The University has operating lease obligations that cover equipment and building space integral to the University's operations. The lease obligations expire at various dates up to and including March 1, 2030. In addition, the University has entered into a number of contracts to complete capital additions and renovations on campus properties during the upcoming year. The above obligations require annual payments over the next five years and thereafter as follows:

2010/11	$40,841
2011/12	1,742
2012/13	1,671
2013/14	1,646
2014/15	1,580
Thereafter	12,528
	$60,008

20. The University of Winnipeg Foundation Inc.

The University's Board of Regents approved the establishment of the University of Winnipeg Foundation Inc. in March 2003. The Foundation's vision is to strengthen, deepen and advance the University's mission through the creation of a long term income stream.

The establishment of the Foundation is based upon mutually binding agreements between the University and the Foundation that provide for the administration of the specified fund, the basis of operation and the relationship between the University and the Foundation, the transfer of endowment funds and the provision of support services by the University to the Foundation.

The agreements with the Foundation are as follows:

(a) Coordination, Cooperation and Funding Agreement

The University and the Foundation have jointly agreed that all future fund raising activities directed to the general public shall generally be conducted by the Foundation. However, certain fund raising activities, such as the Wesmen Booster Club and direct gifts to libraries, will continue on an agency basis through the University.

During the 2009-2010 budget discussions and as approved by the University's Board of Regents and the Foundation's Board of Directors, the University agreed to provide a reduced operating grant to the Foundation of $275 for the year. The operating grant is subject to annual approval of the Board of Regents.

(b) Occupancy and Support Agreement

This Agreement, which was renewed April 1, 2009 and expires March 31, 2014, documents the basis upon which the Foundation occupied space on campus and the Foundation's use of certain existing systems, programs and personnel of the University. Through this agreement, the Foundation has agreed to pay the University a fee for occupancy and support services. The fee for the year ended March 31, 2010 for occupancy and support services and the corresponding grant to the Foundation to offset these costs was $173.

(c) Endowment Fund Agreement

The University and the Foundation entered into an Agreement that provided for the transfer of existing endowment funds from the University to the Foundation, with an effective date of April 1, 2004.

This Agreement states that the Foundation will assume responsibility for the Endowment Fund effective April 1, 2004. In accordance with the Endowment Agreement, the Foundation has a commitment to provide the University with an amount equal to the agreed percentage multiplied by the current year's beginning balance of the contributed capital. The agreed percentage is established by the Foundation and the University between September and December of each year.

The University and the Foundation have agreed that the amount will be determined by applying the agreed percentage (4.25% for 2008-2009) to the prior year beginning balance of the contributed capital plus a pro-rated percentage of the agreed percentage for those gifts received in each quarter of the previous year. (ie. ¾ of 4.25% for those gifts received in the first quarter, ½ of 4.25% in the second quarter and ¼ of 4.25% for those gifts received in the third quarter). Based on this formula, the Foundation provided the University with $1,119 in 2008-2009.

Due to the decline in value of the Endowment Fund, as a result of the global economic downturn in 2008-2009, the Endowment Fund was only able to provide a gift of $383 in 2009-2010.

The Foundation is entitled to an annual administration fee equal to ½ of 1% of the Endowment Fund capital of the previous year (or such other higher percentage as the University may agree to from time to time). On April 24, 2008, the University confirmed its continued support of the Foundation by providing that the Foundation may continue to retain an annual administration fee of 2% each year for the duration of the Capital Campaign.

(d) Endowment Supplemental Agreement

This agreement, signed on July 22, 2008, formalizes practices in place between the Foundation and the University with respect to the handling of residuals, immature funds and the calculation of the award based on the agreed percentage.

The financial information of the Foundation is not consolidated in the University's financial statements and is provided within this note and Note 24 on Related Party Transactions and Balances. The Foundation is a controlled entity of the University based upon the following factors:

i) The University has a significant economic interest in the Foundation which conducts its activities for the exclusive benefit of the University.

ii) The Foundation requires the University's consent to amend its by-laws.

iii) The objectives of the Foundation and the University have the common purpose to strengthen, deepen and advance the University's mission.

Financial Position:

The Foundation follows the restricted fund method of accounting for contributions. The Foundation maintains separate funds within its assets and follows the principles of fund accounting to record the day to day transactions.

(AMOUNTS IN THOUSANDS)

The financial position of the Foundation at March 31 is summarized as follows:

	2010	2009
Statement of Financial Position:		
Assets	$37,705	$35,479
Liabilities	307	1,034
Fund Balances:		
Operating Fund	194	310
Unrestricted Fund	3	1
Investment in Capital Assets	34	42
Building and Program Fund	2,074	4,612
Funds Held Pending Terms of Reference	125	84
Unrestricted Bequests	42	299
Endowment Fund	34,926	29,097
	37,398	34,445
	$37,705	$35,479
Statement of Operations		
Sources of Funds:		
Transfer from University of Winnipeg	$55	$119
Investment Income	912	715
Unrealized Gain (Loss) on Investments	4,739	(5,455)
University of Winnipeg Support Funding	448	625
Endowment Administration Fee	500	668
Annual Donations	4,891	7,442
	11,545	4,114
Uses of Funds:		
Capital Programs	0	59
Endowment - Gifts to the University	383	1,119
Endowment - Administration Fee	500	668
Endowment - Administration Expenses	106	98
Operations	1,456	1,320
Donations Gifted to the University of Winnipeg	6,147	4,879
	8,592	8,143
Increase (Decrease) in Funds	$2,953	($4,029)

(AMOUNTS IN THOUSANDS)

Restrictions are placed upon expenditures within Funds including:

i) The Operating Fund reflects the administrative and overhead costs of undertaking the Foundation's activities.

ii) The Unrestricted Fund records the receipt of donations received in the year that are identified by the donor to go to the area of greatest need.

iii) The Building and Program Fund is specifically intended to record the receipt of all donations intended for University programs and capital projects.

iv) The Funds Held Pending Terms of Reference includes donations received for capital gifts, endowment gifts, and other restricted purposes not yet allocated pending donor wishes.

v) Unrestricted Bequest Gifts include monies received from estates in which the funds and accrued interest can be retained by the Foundation to support its ongoing operations.

vi) The Endowment Fund reports the receipt of funds established from gifts by donors, which are designated to remain under the Foundation's management in perpetuity for endowment purposes.

In the Coordination Cooperation and Funding Agreement, the University has agreed to provide the Foundation with a $300 per annum operating grant, reducing by $30 per annum commencing in 2010-2011. This funding commitment will end in 2013-2014.

The University is required to make annual payments over the next 4 years and thereafter as follows:

2010/11	$ 270
2011/12	240
2012/13	210
2013/14	180
	$ 900

For 2009-2010, the University and the Foundation agreed that the operating grant would be $275. However, no formal agreement has been signed to reflect this change.

21. University of Winnipeg Community Renewal Corporation

The University of Winnipeg Community Renewal Corporation (UWCRC) was incorporated by Articles of Incorporation, without share capital, on April 6, 2005, as a controlled entity of the University. UWCRC's mandate is to support the University by developing a sustainable university community that promotes the attractiveness of the University to its faculty, staff, students, and the greater community. As part of its mandate, UWCRC will manage projects on behalf of the University, including but not limited to, the development of a comprehensive Campus and Community Development Plan, the assessment of particular development projects and the development of partnerships with community, private and public sector organizations.

During the year, UWCRC provided consulting services (in accordance to agreements entered into) to the University in connection with the following:

a) To assist the University with the design and development of the Science Building Complex on the basis of a per diem fee of $1 for a total of $107 for the year.

b) To assist in the early development of a variety of capital projects on behalf of the University based on a fee for performance contract. The amount of the consulting fee for services rendered in the year is $75.

c) To manage the University's Student Housing assets and all aspects of the Student Housing Program for a fixed annual fee of $250. In return, UWCRC contracted back to the University for delivery of the Student Life aspects of the Student Housing Program, which continues to be managed by the University's Student Life Services Department, for a fixed annual fee of $175.

d) In addition, the University paid $307 for management services related to student housing and food services. In return UWCRC contracted back from the University Food Services for a fee of $121.

UWCRC holds a 25% investment in the land and building situated at 491 Portage Avenue ("Property") in Winnipeg, Manitoba. It does so by owning all of the shares of 4332181 Manitoba Ltd., which owns 25% of the property and shares of 4306946 Manitoba Ltd. The latter entity holds title to the Property as bare trustee for its shareholders. The Property is a commercial complex comprising an office building, retail stores and a parkade adjacent to the University's main Campus. The University is leasing office space in the Property.

UWCRC records its 25% investment in the Property on an equity basis as a result of significant influence.

As one of the conditions to obtaining financing for the Property, the financing company required that the University take responsibility for assuring that the debt service coverage ratio on the Property did not go below 1.0:1.0; (that is, that the Property would always generate $1.00 in revenue from its tenants for each $1.00 the owners of the Property are required to pay to its lender). If for any reason the Property fell below that ratio, the University would be required to lease space in the property at normal commercial rents, or assure that another tenant is obtained, such that the additional revenue would bring the debt service coverage ratio back to 1.0:1.0. The debt service coverage ratio did not go below 1.0:1.0 during the 2009-10 fiscal year.

(AMOUNTS IN THOUSANDS)

The financial position of UWCRC at March 31 is summarized as follows:

	2010	2009
Statement of Financial Position:		
Assets:		
Cash	$173	$224
Accounts Receivable	303	276
Due from University of Winnipeg (Note 24)	5	0
Capital Assets	807	0
Investments, at Equity	1,022	925
	$2,310	$1,425
Liabilities and Net Assets:		
Accounts Payable and Accrued Liabilities	$96	$58
Current Portion of Long Term Debt	30	0
Due to University of Winnipeg (Note 24)	0	102
Long Term Debt	275	0
Deferred Capital Contributions	422	0
Future Income Taxes	115	101
Net Assets	1,372	1,164
	$2,310	$1,425

	2010	2009
Statement of Operations and Changes in Net Assets:		
Revenue		
Share of Equity Income	$116	$146
Consulting	832	541
Net Property Income	0	10
Other	65	33
	1,013	730
Expenses	851	634
Excess of Revenue over Expenses	162	96
Net Assets – Beginning of Year	1,164	1,068
Investment in Capital Assets and Transfers	46	0
Net Assets – End of Year	$1,372	$1,164

22. Gain on Disposal of Capital Assets

During the year, the University disposed of three properties previously recorded as land and buildings within capital assets. These properties were not considered integral to the ongoing operations of the University.

As the disposal of land and buildings is not a regular occurrence for the University, the gain on disposal of these properties $202 (2009 - $603) is disclosed separately on the Statement of Operations (Statement II) after the Excess of Revenue over Expenses from Operations.

The net proceeds (net of transaction costs and debt repayment) of $389 are included on the Statement of Changes in Net Assets (Statement III) as an addition to Internally Restricted Net Assets. These proceeds were used as an addition to the capital reserve (see Note 14).

23. Contingencies

a) The University is named as a defendant in litigations where legal action has commenced or is anticipated. While the ultimate outcomes of these proceedings cannot be predicted at this time, management and its legal counsel are of the opinion that, either the outcomes will not have a material effect on the financial position of the University, or the outcomes are not determinable. No provision has been made in the financial statements in respect of these claims, as of March 31, 2010.

b) On December 8, 2006, the Superintendent of Pensions issued an Order requiring the University to develop and implement a written governance framework, and pay a lump sum amount estimated to be $6,454, plus interest net of adjustments of approximately $1.6 million, into the Plan, for the benefit of defined benefit members, in relation to the undistributed portion of their proportionate share of the Plan surplus, as determined by the Plan Actuary in 1999.

   The University appealed the Superintendent's decision to the Pension Commission, and the Commission's Final Decision was made on April 23, 2008. The Final Decision upheld the Superintendent's Order. The University further appealed the decision of the Commission to the Manitoba Court of Appeal; and the Court denied the appeal in January 2009.

   There were a number of issues affecting the value of the payment to be made, and the Plan's Board of Trustees wrote the Superintendent requesting clarification of several of these issues. The Superintendent provided clarification and Canada Revenue Agency provided approval in the year and the University made a payment of $8,776 into the Plan in January 2010. In order to finance the payment, the University received a loan of $8,776 which will be repaid over 40 years (Note 12).

(AMOUNTS IN THOUSANDS)

24. Related Party Transactions and Balances

The Foundation and UWCRC are controlled entities of the University. The Trusteed Pension Plan is also a related party.

The University charges benefit administration costs to the Trusteed Pension Plan. The charge for 2009-2010 was $52 (2008-2009 - $50). These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During the year ending March 31, the University incurred transactions as follows:

		2010	2009
From the University to the Foundation:			
i)	Operating grant	$275	$625
ii)	Gifts for endowment	$370	$624
iii)	Occupancy & Support Agreement (Note 20 b)	$173	$0
From the Foundation to the University:			
i)	Transfer of specified funds	$0	$59
ii)	Transfer of annual donations	$6,147	$4,879
iii)	Income allocation	$383	$1,119
iv)	Advance of 2010/11 income allocation	$500	$0
v)	Occupancy & Support Agreement (Note 20 b)	$173	$0
From the University to UWCRC			
i)	Consulting fees (excluding GST)	$728	$469
From UWCRC to the University			
i)	Management fees	$296	$167

These transactions are recorded at the exchange amount which is the amount established and agreed to by the related parties.

(AMOUNTS IN THOUSANDS)

At the end of the year, the amounts due to and from related parties are as follows:

	2010	2009
Due from Related Party		
Operating – UWCRC	$ 0	$ 101
	0	101
Due to Related Parties		
Operating – Foundation	202	25
Operating – UWCRC	5	0
	$ 207	$ 25

25. Richardson College for the Environment & Science Complex

The University has commenced the development and design of the Richardson College for the Environment and Science Complex to be completed in March 2011. The University signed a Definitive Agreement with Laureate Developments Inc. (the Developer) to assemble and transfer lands to the University that will become the site for the University's Science Complex, develop and build the Science Building Complex for the University on a turnkey basis and assist the University in attracting partners to the project for the purposes of fund-raising.

The University has received $25,000 from the Provincial Government as a contribution towards the funding of the Science Building Complex. This capital funding has been recorded as deferred capital contributions. The funding is financed by six promissory notes payable to the Province of Manitoba bearing interest at rates ranging from 5.15% to 5.95%. The notes are notionally repayable over a term of 40 years with funding from the Province of Manitoba.

26. 460 Portage Avenue Joint Venture

Advances to 460 Portage Avenue Joint Venture

During the year the University borrowed $7,750 on behalf of the 460 Portage Avenue Joint Venture to finance the construction of the building at 460 Portage Avenue. The loans are made up of two components, a 10 year bridge loan which will be repaid as donations are received, and a 40 year loan which will be repaid from building revenues.

(AMOUNTS IN THOUSANDS)

Both loans are guaranteed by the venturers equal to the proportion of their respective ownership interests in the joint venture. The loan balances as at March 31, are shown below:

	2010
Interest Rate 4.65%, due December 31, 2020	$ 2,750
Interest Rate 5.60%, due December 31, 2050	5,000
	$ 7,750

The advances will be repaid by the joint venture on the same terms as the loans payable. The payments due over the next five years and thereafter are as follows:

2010/11	$ 70
2011/12	288
2012/13	303
2013/14	318
2014/15	333
	1,312
Thereafter	6,438
	$7,750

460 Portage Avenue Joint Venture

The University of Winnipeg entered into a Joint Venture Agreement with the Plug-In Institute of Contemporary Art (Plug-In ICA) in July 2009. The Agreement calls for the development of a three story (later expanded to four story) building on the south-west corner of Portage Avenue and Colony Street, and for joint control between the University and the Plug-In ICA of that facility.

The ownership interests in the joint venture will be split based on the equity contributed by each party, which will be determined once the building is completed. Plug-in ICA will own no less than 16% and no more than 50% of the joint venture, with the University owning the remaining portion. The joint venture's revenues will consist of long-term space leases with the University, Plug-In ICA, parking revenue and other rents.

For 2009-10 the University's statement of financial position includes the full amount of the loans payable as at March 31, 2010, and the Advances to 460 Portage Avenue Joint Venture for the same amount. The University has recorded its interest in the joint venture using the equity method. There was no net income (loss) from the joint venture included in the University's financial statements for the year ended March 31, 2010.

(AMOUNTS IN THOUSANDS)

The Statement of Financial Position for the Joint Venture as at March 31, 2010 is as follows:

Statement of Financial Position

Assets:	
Cash	$ 2,678
Accounts Receivable	600
Due from Related Parties	4
Capital Assets – Building Under Construction	7,670
	$10,952
Liabilities:	
Accounts Payable and Accrued Liabilities	$ 2,505
Advances from University of Winnipeg	7,750
Deferred Capital Contributions	697
	$10,952

27. Reclassification of Comparative Figures

Certain 2009 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2010.

Auditors' Report

To the Shareholder of Venture Manitoba Tours Ltd.:

We have audited the balance sheet of Venture Manitoba Tours Ltd. as at March 31, 2010 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Winnipeg, Manitoba

May 19, 2010

Chartered Accountants

Venture Manitoba Tours Ltd.
Balance Sheet
As at March 31, 2010

	2010	*2009*
Assets		
Current		
Cash	**57,110**	30,372
Accounts receivable	**5,917**	7,946
Inventory *(Note 3)*	**34,473**	68,796
Prepaid expenses and deposits	**53,618**	38,015
	151,118	145,129
Property and equipment *(Note 4)*	**674,293**	652,510
	825,411	797,639
Liabilities		
Current		
Accounts payable and accruals	**99,796**	81,798
Customer deposits	**5,167**	23,093
Advances from the Province of Manitoba *(Note 5)*	**250,000**	250,000
	354,963	354,891
Shareholder's Equity		
Share capital *(Note 6)*	**3,643,500**	3,643,500
Deficit	**(3,430,962)**	(3,458,662)
Contributed surplus	**257,910**	257,910
	470,448	442,748
	825,411	797,639

Approved on behalf of the Board

____________________ **Director** ____________________ **Director**

The accompanying notes are an integral part of these financial statements

Venture Manitoba Tours Ltd.
Statement of Operations and Deficit
For the year ended March 31, 2010

	2010	*2009*
Sales	**1,258,369**	1,301,970
Cost of sales	**968,307**	990,374
Gross margin	**290,062**	311,596
Operating expenses *(Schedule 1)*	**157,278**	155,594
Earnings from operations	**132,784**	156,002
Other income (expense)		
Amortization	**(140,884)**	(134,793)
Gain on disposal of assets	**35,800**	4,300
	(105,084)	(130,493)
Net earnings	**27,700**	25,509
Deficit, beginning of year	**(3,458,662)**	(3,484,171)
Deficit, end of year	**(3,430,962)**	(3,458,662)

The accompanying notes are an integral part of these financial statements

Venture Manitoba Tours Ltd.
Statement of Cash Flows
For the year ended March 31, 2010

	2010	2009
Cash provided by (used for) the following activities		
Operating activities		
Cash received from customers	**1,242,410**	1,305,985
Cash paid to suppliers and employees	**(1,088,683)**	(1,265,553)
Interest received	**62**	2,589
Interest paid	**(183)**	(314)
	153,606	42,707
Investing activities		
Purchases of property and equipment	**(162,668)**	(146,558)
Proceeds on disposal of property and equipment	**35,800**	4,300
	(126,868)	(142,258)
Increase (decrease) in cash resources	**26,738**	(99,551)
Cash resources, beginning of year	**30,372**	129,923
Cash resources, end of year	**57,110**	30,372

The accompanying notes are an integral part of these financial statements

1. Incorporation and operations

Venture Manitoba Tours Ltd. (the "Company") was incorporated under the Manitoba Corporations Act. The issued shares are owned by the Province of Manitoba.

The Province of Manitoba owns the Falcon Lake Golf Course and Games Area. The Company operates this facility under a lease agreement with the Province of Manitoba. The Company is responsible for the operating costs of the golf course and games area, and, in return, is authorized to realize the revenue generated by their operations. These facilities are situated in the Whiteshell Provincial Park and are not subject to realty taxes.

The Company is not subject to income tax.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined by the first-in, first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling costs.

Property and equipment

Property and equipment are recorded at cost less applied grant funds. Amortization is provided using the straight-line method at rates intended to amortize the cost of assets over their estimated useful lives.

	Rate
Staff quarters	10 to 25 years
Automotive	3 years
Golf course improvements	10 to 40 years

These financial statements do not include the property and equipment of the Falcon Lake Golf Course and Games Area which are owned by the Province of Manitoba.

Revenue recognition

The Company recognizes revenue when the goods are received by the customer and the services are provided.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Amortization is based on the estimated useful lives of property and equipment.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

Long-lived assets

Long-lived assets consist of property and equipment. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Company performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from its use and disposal are less than the asset's carrying amount. Impairment is measured as the amount by which the asset's carrying value exceeds its fair value. Any impairment is included in earnings for the year.

2. **Significant accounting policies** *(Continued from previous page)*

Financial instruments

Held for trading:

The Company has classified cash as held for trading. These instruments are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties.

Held for trading financial instruments are subsequently measured at their fair value. Gains and losses arising from changes in fair value are recognized immediately in income.

Loans and receivables:

The Company has classified accounts receivable as loans and receivables. These assets are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties.

Loans and receivables are subsequently measured at their amortized cost. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments and any reduction for impairment or uncollectability. Gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment.

Other financial liabilities:

The Company has classified accounts payable and accruals and advances from the Province of Manitoba as other financial liabilities. These liabilities are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties.

Other financial liabilities are subsequently measured at amortized cost. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments. Gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment.

Comprehensive income

The Company does not have any items giving rise to other comprehensive income (loss), nor is there any accumulated balance of other comprehensive income. All gains and losses, including those arising from measurement of all financial instruments have been recognized in net income for the period.

Recent accounting pronouncements

Adoption of new accounting standards

Effective April 1, 2011 the Company will be required to adopt new accounting standards, which will replace current Canadian generally accepted accounting principles.

The Company is still in the early stages of determining whether it will adopt Public Sector Accounting Standards or International Financial Reporting Standards and, as such, the impact on the Company's financial reporting is not reasonably determinable.

3. **Inventory**

The cost of inventories recognized as an expense and included in cost of sales amount to $95,912 (2009 - $88,953).

4. Property and equipment

	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
Staff quarters	**102,395**	**53,226**	**49,169**	53,265
Automotive	**1,018,612**	**869,903**	**148,709**	117,427
Computer equipment	**68,174**	**64,595**	**3,579**	6,264
Golf course improvements	**632,952**	**160,116**	**472,836**	475,554
	1,822,133	**1,147,840**	**674,293**	652,510

5. Advances from the Province of Manitoba

The Advances from the Province of Manitoba are unsecured, non-interest bearing and due on demand.

6. Share capital

	2010	2009
Authorized		
Unlimited Common shares		
Issued		
Common shares		
3,643,500 Common shares	**3,643,500**	3,643,500

7. Commitments

The Company operates the Falcon Lake Golf Course and Games Area under lease agreements with the Province of Manitoba for an annual amount of $109,441. This amount is included in cost of sales for the year.

The Company rents space and equipment under various operating leases which expire in 2010 for an annual amount of $61,100.

8. Government reporting entity - related parties

The following information is presented in accordance with a request by the Minister of Finance of The Government of the Province of Manitoba.

As at March 31, 2010, the Company had the following balances with entities in the Government Reporting Entity:

	2010	2009
Payable to:		
Manitoba Hydro	**1,304**	903
Department of Conservation	**1,105**	-
Manitoba Liquor Control Commission	**(102)**	-
	2,307	903

9. Financial instruments

The Company as part of its operations carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

10. Capital management

The Company considers its capital to be the balance maintained in its Shareholder's Equity. The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide services to its customers.

The Company sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in light of changes to economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may decrease expenses.

The Company monitors capital on a monthly basis, as well as annually, including the Board's input as to the capital management approach to take, and through advice from the Company's shareholder. During the year, the Company's strategy was to protect the capital through minimizing operating expenses.

11. Comparative figures

Certain comparative figures have been reclassified to conform with current year presentation.

Venture Manitoba Tours Ltd.
Schedule 1 - Operating Expenses
For the year ended March 31, 2010

	2010	2009
Computer software	**-**	1,640
Credit card discount	**17,317**	16,877
Directors' fees	**9,642**	9,297
Equipment rentals	**305**	-
Insurance and leases	**9,511**	8,799
Interest and bank charges	**183**	314
Membership fees	**160**	2,040
Miscellaneous	**1,065**	2,563
Office	**428**	1,979
Printing and stationary	**1,060**	835
Professional fees	**6,397**	7,396
Repairs and maintenance	**8,093**	3,574
Salaries, wages and benefits	**73,170**	71,840
Sales office rent	**5,619**	4,906
Tee reservations	**2,321**	2,571
Telephone and postage	**3,739**	3,956
Training and education	**7,111**	6,518
Transportation	**5,347**	5,900
Utilities	**5,810**	4,589
	157,278	155,594

GOVERNMENT ENTERPRISES

MANAGEMENT REPORT

MANAGEMENT REPORT
For the year ended March 31, 2010

The accompanying consolidated financial statements and all additional information contained in the Annual Report are the responsibility of management and have been approved by the Manitoba Hydro-Electric Board. The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, applied on a basis consistent with that of the preceding year. In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available up to June 8, 2010. The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Management maintains internal controls to provide reasonable assurance that the assets of the Corporation are properly safeguarded and that the financial information is reliable, timely and accurate. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its finding to management and to the Audit Committee of the Board.

The responsibility of the external auditors, Ernst & Young LLP, is to express an independent, professional opinion on whether the consolidated financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditors' Report outlines the scope of their examination and their opinion.

The Audit Committee of the Board is comprised of five members, the majority of whom are members of the Manitoba Hydro-Electric Board. The Audit Committee of the Board meets with the external auditors, representatives of the Auditor General's Office, the internal auditors and management to satisfy itself that each group has properly discharged its respective responsibility and to review the consolidated financial statements before recommending approval by the Board. The internal and external auditors have full and unrestricted access to the Audit Committee, with or without the presence of management. The Board reviews the Annual Report in advance of its release and approves its content and authorizes its publication.

On behalf of management:

R. B. Brennan, FCA
President and Chief Executive Officer

V. A. Warden, CMA, FCMA
Senior Vice-President,
Finance & Administration and Chief Financial Officer

Winnipeg, Canada
June 8, 2010

AUDITORS' REPORT

To the Board of Directors of
Manitoba Hydro-Electric Board

We have audited the consolidated balance sheet of Manitoba Hydro-Electric Board as at March 31, 2010 and the consolidated statements of income, comprehensive income, accumulated other comprehensive income, retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Winnipeg, Canada,
June 4, 2010.

CONSOLIDATED STATEMENT OF INCOME

For the year ended March 31

		Notes	2010	2009
			millions of dollars	
Revenues				
Electric	Manitoba		1 172	1 161
	Extraprovincial	3	427	623
Gas	Commodity		316	431
	Distribution		138	149
			2 053	2 364
Cost of gas sold			316	431
			1 737	1 933
Expenses				
Operating and administrative			456	442
Finance expense		4	410	471
Depreciation and amortization			384	368
Water rentals and assessments		5	121	123
Fuel and power purchased			104	176
Capital and other taxes			99	87
			1 574	1 667
Net Income			163	266

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended March 31

	Notes	2010	2009
		millions of dollars	
Retained earnings, beginning of year		2 076	1 822
Adjustments for the adoption of new accounting policies	2	-	(12)
Net income		163	266
Retained earnings, end of year		2 239	2 076

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET
As at March 31

	Notes	2010	2009
		millions of dollars	
Assets			
Property, Plant and Equipment			
In service	6	12 688	12 300
Less accumulated depreciation	6	4 612	4 356
		8 076	7 944
Construction in progress	6	2 052	1 438
		10 128	9 382
Current Assets			
Cash and cash equivalents		174	159
Accounts receivable and accrued revenue		365	434
Interest receivable		6	6
Materials and supplies, at average cost	7	98	82
		643	681
Other Assets			
Sinking fund investments	8	822	666
Goodwill and intangible assets	9	253	248
Regulated assets	10	299	287
Other deferred assets	11	292	283
		1 666	1 484
		12 437	11 547

Approved on behalf of the Board:

Victor H. Schroeder, QC
Chair of the Board

William Fraser, FCA
Chair of the Audit Committee

	Notes	2010	2009
		millions of dollars	
Liabilities and Equity			
Long-Term Debt			
Long-term debt net of sinking fund investments		7 406	7 002
Sinking fund investments shown as assets	8	822	666
	12	8 228	7 668
Current Liabilities			
Accounts payable and accrued liabilities	13	326	331
Notes payable	14	-	100
Accrued interest		91	99
Current portion of long-term debt	12	310	519
		727	1 049
Other Liabilities			
Asset purchase obligation	15	215	218
Other deferred liabilities	16	448	409
		663	627
Contributions in Aid of Construction		295	296
Equity			
Retained earnings		2 239	2 076
Accumulated other comprehensive income (loss)		285	(169)
		2 524	1 907
		12 437	11 547

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended March 31

	2010	2009
	millions of dollars	
Operating Activities		
Cash receipts from customers	2 077	2 422
Cash paid to suppliers and employees	(1 085)	(1 245)
Interest paid	(477)	(524)
Interest received	36	35
Cash provided by operating activities	551	688
Financing Activities		
Proceeds from long-term debt	1 425	423
Sinking fund withdrawals	263	261
Retirement of long-term debt	(452)	(366)
Notes payable	(100)	100
Other	15	6
Cash provided by financing activities	1 151	424
Investing Activities		
Property, plant and equipment, net of contributions	(1 063)	(915)
Sinking fund payments and deposits	(537)	(124)
Other	(87)	(47)
Cash used for investing activities	(1 687)	(1 086)
Net increase in cash and cash equivalents	15	26
Cash and cash equivalents, beginning of year	159	133
Cash and cash equivalents, end of year	174	159

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended March 31

	2010	2009
	millions of dollars	
Net income	163	266
Other comprehensive income		
Unrealized foreign exchange gains (losses) on debt in cash flow hedges	448	(439)
Realized foreign exchange losses (gains) on debt in cash flow hedges reclassified to income	6	(11)
Unrealized fair value gains (losses) on available-for-sale U.S. sinking fund investments	-	(24)
	454	(474)
Comprehensive income (loss)	617	(208)

CONSOLIDATED STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME

For the year ended March 31

	2010	2009
	millions of dollars	
Balance, beginning of year	(169)	305
Other comprehensive income (loss)	454	(474)
Balance, end of year	285	(169)

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Consolidation - The consolidated financial statements include the financial statements of the Manitoba Hydro-Electric Board (Manitoba Hydro or the Corporation) and its subsidiaries. For purposes of consolidation, all significant intercompany accounts and transactions have been eliminated.

Rate Regulated Accounting - The prices charged for the sale of electricity and natural gas within Manitoba are subject to review and approval by the Public Utilities Board of Manitoba (PUB). The rate-setting process is designed such that rates charged to electricity and natural gas customers recover costs incurred by Manitoba Hydro in providing electricity and gas service. Accordingly, Manitoba Hydro applies various accounting policies that differ from enterprises that do not operate in a rate-regulated environment. Such accounting policies allow for the deferral of certain costs or credits which will be recovered or refunded in future rates. These costs or credits would otherwise have been included in the determination of net income in the year that the cost or credit is incurred. Manitoba Hydro refers to such deferred costs or credits as regulated assets or regulated liabilities which are generally comprised of the following:

- Power Smart programs - The costs of the Corporation's energy conservation programs, referred to as Power Smart, are deferred and amortized on a straight-line basis over a period of 10 years.

- Site restoration costs - Site restoration costs, other than those for which an Asset Retirement Obligation (ARO) has been established, are deferred and amortized on a straight-line basis over 15 years.

- Deferred taxes - Taxes paid by Centra Gas (July 1999) as a result of its change to non-taxable status on acquisition by Manitoba Hydro, have been deferred and are being amortized on a straight-line basis over a period of 30 years.

- Acquisition costs - Costs associated with the acquisition of Centra Gas (July 1999) and Winnipeg Hydro (September 2002) have been deferred and are being amortized on a straight-line basis over a period of 30 years.

- Purchased gas variance accounts (PGVA) - Accounts are maintained to recover/refund differences between the actual cost of gas and the cost of gas incorporated into rates charged to customers as approved by the PUB. The difference between the recorded cost of natural gas and the actual cost of natural gas is carried as an account receivable/payable, and recovered or refunded in future rates.

- Regulatory costs - Costs associated with regulatory hearings are deferred and amortized on a straight-line basis over periods up to 5 years.

Manitoba Hydro's other significant accounting policies are as follows:

a) **Property, Plant and Equipment**
Property, plant and equipment is stated at cost which includes direct labour, materials, contracted services, a proportionate share of overhead costs and interest applied at the average cost of debt. Finance expense is allocated to construction until a capital project becomes operational or a decision is made to abandon, cancel or indefinitely defer construction. Once the transfer to in-service property, plant and equipment is made, finance expense allocated to construction ceases, and depreciation and finance expense charged to operations commences.

b) **Depreciation**
Depreciation is provided on a straight-line remaining-life basis. The major components of generating stations are depreciated over the lesser of the remaining life of the major component or the remaining life of the associated generating station.

The range of estimated service lives of each major asset category is as follows:

Generation	- Hydraulic	45 - 100 years
	- Thermal	25 - 65 years
Transmission	- Lines	40 - 85 years
	- Stations	20 - 57 years
Distribution		15 - 65 years

Provision for removal costs of major property, plant and equipment is charged to depreciation expense on a straight-line basis over the remaining service lives of the related assets. Retirements of these assets, including costs of removal, are charged to accumulated depreciation with no gains or losses reflected in operations. The estimated service lives and removal costs of the assets are based upon depreciation studies conducted periodically by the Corporation.

c) **Asset Retirement Obligations**
Asset retirement obligations are measured initially at fair value in the period in which the obligations are incurred, provided that a reasonable estimate of the fair value can be made. The present value of the estimated retirement cost is added to the carrying amount of the related asset. In subsequent periods, the estimated retirement cost is amortized over the useful life of the asset and the carrying value of the liability is increased to recognize increases in the liability's present value with the passage of time.

d) **Materials and Supplies**
Materials and supplies are valued at the lower of average cost or net realizable value.

e) **Contributions in Aid of Construction**
Contributions are required from customers whenever the costs of extending service exceed specified construction allowances. Contributions are amortized on a straight-line basis over the estimated service lives of the related assets.

f) **Revenues**
Customers' meters are read and billed on a cyclical basis. Revenues are accrued in respect of energy delivered for those cycles not yet billed.

g) **Cost of Gas Sold**
Cost of natural gas sold is recorded at the same rates charged to customers.

h) Employee Future Benefits

Manitoba Hydro provides employee future benefits, including pension and other post-retirement benefits, to both existing and retired employees. Pension plans include the Civil Service Superannuation Board (CSSB) plan, three Centra Gas curtailed pension plans, and the Winnipeg Civic Employee Benefits Program (WCEBP).

The costs and obligations of pension and other post-retirement benefits are calculated by an independent actuary using the accrued benefit actuarial cost method and reflect management's best estimate of future compensation increases, service lives, inflation rates and expected rate of return on plan assets. Pension expense is comprised of the cost of pension benefits provided during the year, the amortization of past service benefits, experience gains and losses, and expected returns on fund assets net of interest on the obligation. The amount of expected returns on fund assets is calculated based on market related values using a five-year moving average. The unamortized present value of past service benefits and actuarially determined experience gains or losses are recognized in the financial statements as assets or liabilities.

The Corporation utilizes the "corridor method" of amortizing actuarial gains and losses. The amortization of experience gains and losses is recognized only to the extent that the cumulative unamortized net actuarial gain or loss exceeds 10% of the greater of the accrued benefit obligation and the fair market value of plan assets at the beginning of the year. When required, the excess of the cumulative gain or loss balance is amortized over the expected average remaining service life of the employees covered by the plan.

Pension and long-term disability expenses pertaining to the former Winnipeg Hydro employees are recognized at the time contributions are made to the WCEBP which maintains the funds and obligations relating to these employees in its financial records.

Other employee benefits earned by employees include vacation, vested sick leave, severance and a retirement health spending plan. Where applicable, the future costs of these benefits are based on management's best estimates.

i) Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (OCI). OCI includes unrealized gains and losses arising from changes in the fair value of available-for-sale assets and changes in the foreign exchange rate for U.S. denominated long-term debt in effective cash flow hedging relationships. Such amounts are recorded in accumulated OCI (AOCI) until the criteria for recognition in net income are met.

j) Financial Instruments

All financial instruments are measured at fair value on initial recognition as of the trade date. Transaction costs are included in the initial carrying amount of financial instruments. Measurement in subsequent periods depends on the classification of the instrument. Financial instruments are classified into one of the following five categories: held-to-maturity investments, loans and receivables, held-for-trading, available-for-sale or other financial liabilities.

Financial instruments classified as loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with revaluation gains and losses recorded in OCI until the instrument is derecognized or impaired. Translation gains and losses on available-for-sale financial assets in a hedging relationship with financial liabilities are credited or charged to finance expense. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in income in the period in which they arise.

k) **Foreign Currency Translation**

Revenues and expenditures resulting from transactions in foreign currencies are translated into Canadian dollar equivalents at exchange rates in effect at the transaction dates.

Long-term monetary assets and liabilities denominated in U.S. currencies are translated into Canadian currency at the exchange rate prevailing at the balance sheet date. Translation gains and losses are credited or charged to finance expense in the current period except for long-term debt obligations in hedging relationships with future export revenues. Translation gains and losses for long-term debt obligations in hedging relationships with future export revenues are recorded in OCI until such time that the hedged export revenues are realized, at which time accumulated exchange gains and losses are credited or charged to finance expense.

Current monetary assets and liabilities denominated in foreign currencies are translated into Canadian currency at the exchange rate prevailing at the balance sheet date. Any exchange gains and losses on the translation of current monetary assets and liabilities are credited or charged to finance expense in the current period.

l) **Derivatives**

The Corporation does not engage in derivative trading or speculative activities. All derivative instruments are carried at fair value on the consolidated balance sheet with the exception of those that were entered into for the purpose of physical receipt or delivery in accordance with the Corporation's expected normal purchases and sales. Changes in the fair value of derivatives that are not designated in a hedging relationship and do not qualify for the normal purchase and sale exemption are recorded in net income.

m) **Hedges**

The Corporation has designated cash flow and fair value hedges linking financial instruments to specific assets and forecasted transactions. The Corporation documents the relationship between the hedging instrument and the hedged item and assesses at inception, and on an ongoing basis, the effectiveness of the hedging relationship.

n) **Debt Discounts and Premiums**

Debt discounts and premiums are amortized to finance expense using the effective interest method.

o) **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

p) **Goodwill and Intangible Assets**

Goodwill represents the amount of the Corporation's investments in Centra Gas and Winnipeg Hydro over and above the fair market value of the identified net assets acquired. The goodwill balance is evaluated annually to determine whether any impairment has occurred. An impairment would be recognized if it was determined that the carrying value of the Corporation's investments in Centra Gas or Winnipeg Hydro exceeded the present value of the future cash flows from these investments. Should impairment occur, it would be recorded as a charge against operations in the year of impairment.

Intangible assets include computer software and development costs, and land easements. Intangible assets are recorded at cost. The cost of computer software and development includes software, direct labour, materials, contracted services, a proportionate share of overhead costs and interest applied at the average cost of debt. Intangible assets with finite useful lives are amortized over their useful lives on a straight-line basis. The expected useful lives are as follows:

Computer software and development	5 - 15 years
Land easements	75 years

q) **Use of Estimates**

The preparation of financial statements in accordance with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual amounts could differ from those estimates, but differences are not expected to be material.

NOTE 2 ACCOUNTING CHANGES

Adjustments for the adoption of new accounting policies resulted in a $12 million reduction to the prior years retained earnings, which was comprised of a $37 million reduction related to goodwill and intangible assets partially offset by a $25 million increase related to dual currency bonds.

Goodwill and Intangible Assets

Effective April 1, 2009, the Corporation adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, Goodwill and Intangible Assets. The new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Adopting this standard resulted in $145 million being reclassified from Property, Plant and Equipment to Goodwill and Intangible Assets. This Standard was adopted retrospectively. The impact of this change on prior years was a cumulative reduction to retained earnings of $37 million. This reduction relates to the write-off of research-related expenditures with respect to planning studies and computer development as well as general advertising and promotion costs related to the Corporation's Power Smart programs. The net income impact for the current year and the comparative year was not material.

Dual Currency Bonds

Commencing in the 2010 fiscal year, the Corporation adopted a change in accounting for dual currency bonds which have principal amounts repayable in Canadian currency and interest payments denominated in U.S. currency. These bonds were previously reported on the balance sheet at the Canadian principal amount repayable at maturity with foreign exchange gains and losses on U.S. interest payments recognized when the interest payments were accrued or paid. Beginning in fiscal 2010 the Corporation commenced accounting for these bonds by present valuing all future principal and interest payments discounted at the effective rates implicit in the borrowing. The present value of the interest payments is translated into Canadian currency at the exchange rate prevailing at the balance sheet date with any exchange gains and losses immediately recognized in net income. This change was adopted in order to provide more relevant information with respect to foreign currecy exchange rate changes. The change was adopted retrospectively. The impact of this change on prior years was a cumulative increase to retained earnings of $25 million. The impact for the current year was an increase to net income of $31 million and for the comparative year was a reduction to net income of $32 million.

Regulated Activities
For year ends beginning on or after January 1, 2009, the temporary exemption provided in CICA Section 1100, Generally Accepted Accounting Principles (GAAP), which allows the recognition and measurement of regulated assets and liabilities, was withdrawn. Pursuant to a practice allowed by Canadian GAAP, the Corporation will rely on Accounting Standards Codification 980, "Regulated Operations," issued by the U.S. Financial Accounting Standards Board, to maintain the current accounting treatment for regulated assets and liabilities. The withdrawal of the exemption therefore had no impact on the consolidated financial statements.

Financial Instruments Disclosures
Effective April 1, 2009, the Corporation adopted CICA Section 3862, Financial Instruments Disclosures. This amended Section improves financial instrument fair value measurement and liquidity risk management disclosures. The amendments require an entity to classify fair value measurements using a fair value hierarchy in levels ranging from 1 to 3 that reflect the significance of the inputs used in making these measurements. These additional disclosures are provided in Note 17.

Future Accounting Changes

International Financial Reporting Standards (IFRS)
In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for fiscal years beginning on or after January 1, 2011. In October 2009, the Public Sector Accounting Board confirmed that public sector enterprises such as Manitoba Hydro will be required to follow IFRS for periods beginning January 1, 2011. Manitoba Hydro will be required to prepare financial statements in accordance with IFRS effective for its 2011-12 fiscal year with comparative information presented for the 2010-11 fiscal year.

Although IFRS and Canadian GAAP are premised on a similar conceptual framework, there are a number of differences with respect to recognition, measurement and disclosure. The Corporation has completed an initial assessment of adopting IFRS, and has identified the areas with the highest potential to impact Manitoba Hydro. Those areas include property, plant and equipment, regulated assets and liabilities, employee benefits and the transitional requirements upon the adoption of IFRS under the provisions of IFRS 1, First-Time Adoption of IFRS.

The Corporation continues to assess the impact of conversion to IFRS. The International Accounting Standards Board (IASB) issued an exposure draft on Rate-Regulated Activities in July 2009. Responses to the IASB's request for comments varied substantially. It is unclear at this time what the outcome of the IASB's deliberations will be and how that will impact entities reporting under IFRS. Accordingly, the impact on the financial position and results of the operations for Manitoba Hydro is not reasonably determinable at this time.

Consolidated Financial Statements and Non-Controlling Interests
In January 2009, the CICA issued Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests, which superceded Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 established standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These sections will apply to annual financial statements relating to fiscal years beginning on or after January 1, 2011. The impact of these new standards on Manitoba Hydro's financial statements is currently being assessed but is not expected to be significant.

NOTE 3 EXTRAPROVINCIAL REVENUES

	2010	2009
	millions of dollars	
United States	361	491
Canada	66	132
	427	623

U.S. extraprovincial revenues were translated at exchange rates in effect at the date of the transaction. The average effective exchange rate for the year was $1.00 U.S. = $1.09 Canadian (2009 - $1.00 U.S. = $1.10 Canadian).

NOTE 4 FINANCE EXPENSE

	2010	2009
	millions of dollars	
Interest on debt	538	545
Interest capitalized	(68)	(56)
Amortization of premiums and discounts	(11)	(12)
Investment income	(24)	(27)
Realized foreign exchange losses (gains) on debt in cash flow hedges	6	(11)
Realized (gains) losses on revaluation of dual currency bonds	(31)	32
	410	471

Included in interest on debt is $75 million (2009 - $74 million) related to the Provincial Debt Guarantee Fee. The fee during the year was 1.0% of the total outstanding debt guaranteed by the Province of Manitoba (2009 – 1.0%).

NOTE 5 WATER RENTALS AND ASSESSMENTS

	2010	2009
	millions of dollars	
Water rentals	114	115
Assessments	7	8
	121	123

Water rentals are paid to the Province of Manitoba for the use of water resources in the operation of the Corporation's hydroelectric generating stations. Water rental rates during the year were $3.34 per MWh (2009 - $3.34 per MWh).

NOTE 6 PROPERTY, PLANT AND EQUIPMENT

	2010			2009		
	millions of dollars					
	In service	Accumulated depreciation	Construction in progress	In service	Accumulated depreciation	Construction in progress
Generation						
Hydraulic	4 722	1 551	1 531	4 626	1 484	1 084
Thermal	510	259	6	519	262	4
Transmission lines	782	274	203	785	260	145
Substations	2 387	1 094	220	2 308	1 023	121
Distribution	2 998	1 079	50	2 853	1 004	44
Other	1 289	355	42	1 209	323	40
	12 688	4 612	2 052	12 300	4 356	1 438

NOTE 7 MATERIALS AND SUPPLIES

	2010	2009
	millions of dollars	
Materials and supplies	65	67
Natural gas inventory	33	15
	98	82

NOTE 8 SINKING FUND INVESTMENTS

Manitoba Hydro is legislated under the Manitoba Hydro Act to make annual sinking fund payments to the Province of Manitoba of not less than 1% of the principal amount of the outstanding debt on the preceding March 31, and 4% of the balance in the sinking fund at such date. Payments to the sinking fund during the year were $537 million (2009 - $124 million) including a temporary deposit of $438 million which will be withdrawn in the following fiscal year for refinancing purposes. Income earned on sinking fund investments is included with investment income for the year.

Sinking funds are invested in government bonds and the bonds of highly rated corporations and financial institutions.

	2010	2009
	millions of dollars	
Canadian investments	192	-
U.S. investments	597	643
Premium on purchase of sinking fund investments	33	23
	822	666

Canadian investments have a weighted average term to maturity of one day (2009 - 0 days) and an effective yield to maturity of 0.3% (2009 - 0%). U.S. investments have a weighted average term to maturity of 3.5 years (2009 - 3.1 years) and an effective yield to maturity of 4.9% (2009 – 3.8%). U.S. investments are translated into Canadian currency at the exchange rate prevailing at the balance sheet date, $1.00 U.S. = $1.02 Canadian (2009 - $1.00 U.S. = $1.26 Canadian). The March 31, 2010 balance includes $12 million (2009 - $12 million) of unrealized fair value gains.

NOTE 9 GOODWILL AND INTANGIBLE ASSETS

	2010			2009		
			millions of dollars			
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Intangible Assets						
Computer software and development	183	83	100	179	76	103
Easements	57	12	45	50	13	37
	240	95	145	229	89	140
Goodwill	108	-	108	108	-	108
	348	95	253	337	89	248

The additions to intangible assets for the year totaled $16 million (2009 - $5 million). In total, intangible assets of $16 million (2009 - $18 million) were amortized to operations during the period.

NOTE 10 REGULATED ASSETS

	2010	2009
	millions of dollars	
Power Smart programs - electric	168	159
- gas	32	24
Site restoration costs	37	40
Deferred taxes	35	36
Acquisition costs	23	24
Regulatory costs	4	4
	299	287

If the Corporation were not subject to rate regulation, the costs associated with the regulated assets would be charged to operations in the period that they were incurred and net income for 2010 would have been reduced by $12 million (2009 - $18 million).

In total, regulated assets of $36 million (2009 - $33 million) were amortized to operations during the period.

NOTE 11 OTHER DEFERRED ASSETS

	2010	2009
	millions of dollars	
Accrued benefit asset (Note 19)	120	137
Contract receivables	82	78
Advances to TPC (Note 23)	59	35
Affordable Energy Fund (Note 22)	31	33
	292	283

NOTE 12 LONG-TERM DEBT

During the year, the Corporation arranged long-term financing of $1 425 million (2009 - $423 million). The current year financing was in the form of Provincial Advances with the majority at fixed interest rates.

	2010	2009
	millions of dollars	
Advances from the Province of Manitoba		
represented by debenture debt of the Province	8 288	7 836
Manitoba HydroBonds	132	165
Manitoba Hydro-Electric Board Bonds	199	216
	8 619	8 217
Less: Current portion of long-term debt	310	519
	8 309	7 698
Adjustment on carrying value of dual currency bonds	(29)	1
Debt discounts and premiums	(27)	(9)
Transaction costs	(25)	(22)
	8 228	7 668

Included in the current portion of long-term debt are $292 million (2009 - $498 million) of debt maturities, and $18 million (2009 - $21 million) of floating-rate Manitoba HydroBonds with maturity dates in 2011 and 2012. Floating rate Manitoba HydroBonds are redeemable at the option of the holder.

Long-term debt is guaranteed by the Province of Manitoba, with the exception of Manitoba Hydro-Electric Board Bonds in the amount of $76 million (2009 - $77 million) issued for mitigation projects.

Debt principal amounts (excluding adjustments to the carrying value of dual currency bonds, transaction costs, debt discounts and premiums) and related yields are summarized by fiscal years of maturity in the following table:

					2010	2009
		millions of Canadian dollars				
Years of Maturity	Canadian	Cdn Yields	U.S.	U.S. Yields	Total	Total
2011	107	4.6%	203	1.6%	310	342
2012	16	4.7%	-	-	16	16
2013	178	3.1%	-	-	178	78
2014	475	4.7%	598	5.6%	1 073	902
2015	100	3.6%	-	-	100	-
	876	4.2%	801	5.3%	1 677	1 338
2016-2020	1 558	6.4%	559	8.5%	2 117	2 252
2021-2025	303	2.4%	1 066	6.9%	1 369	1 327
2026-2030	610	6.9%	-	-	610	535
2031-2035	639	10.4%	-	-	639	714
2036-2040	1 725	4.9%	-	-	1 725	1 425
2041-2063	482	4.7%	-	-	482	107
	6 193	5.8%	2 426	7.1%	8 619	7 698

Included in the above Canadian maturity amounts are two dual currency bonds with principal amounts repayable in Canadian currency and interest payments denominated in U.S. currency. The first dual currency bond matures in the 2013-14 fiscal year in the amount of $208 million Canadian while the second matures in the 2025-26 fiscal year in the amount of $130 million Canadian.

U.S. debt is translated into Canadian currency at the exchange rate prevailing at the balance sheet date, $1.00 U.S. = $1.02 Canadian (2009 - $1.00 U.S. = $1.26 Canadian).

NOTE 13 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2010	2009
	millions of dollars	
Accounts payable and accrued liabilities	323	320
Regulated liabilities		
Purchased gas variance accounts	3	11
	326	331

The Corporation passes all costs related to the purchase and transportation of natural gas onto its customers without markup. If the Corporation were not subject to rate regulation, the purchased gas variance accounts would not be maintained and the actual cost of gas would be expensed in the period incurred. If actual gas costs were expensed and sales rates were not adjusted accordingly, net income would have decreased by $8 million (2009 - increased by $10 million).

NOTE 14 NOTES PAYABLE

	2010	2009
	millions of dollars	
Canadian notes	-	100
	-	100

The Corporation has bank credit facilities that provide for overdrafts and notes payable up to an amount of $500 million. At March 31, 2010, there were no overdrafts or notes payable (2009 - $100 million).

NOTE 15 ASSET PURCHASE OBLIGATION

Effective September 3, 2002, the Corporation acquired the net assets of Winnipeg Hydro from the City of Winnipeg. The Asset Purchase Obligation represents the net present value of payments to the City of Winnipeg of $20 million per annum in fiscal year 2011, and $16 million per annum in fiscal year 2012 and each year thereafter in perpetuity.

NOTE 16 OTHER DEFERRED LIABILITIES

	2010	2009
	millions of dollars	
Accrued benefit liability (Note 19)	134	127
Mitigation liability (Note 21)	129	120
Refundable advances from customers	63	49
Non-controlling interest (Note 23)	62	39
Asset retirement obligations	23	37
Affordable Energy Fund (Note 22)	31	33
Interest income and other liabilities	6	4
	448	409

Asset retirement obligations have been recognized for the future decommissioning of the Corporation's two thermal generating stations, a hydraulic generating station, and for the removal and disposal of polychlorinated biphenyl (PCB) contaminated fluid in HVDC converter station capacitors. The Corporation estimates the undiscounted cash flows required to settle the asset retirement obligations are approximately $54 million, $1 million of which will be incurred by March 31, 2011 for PCB contaminated oil removal and disposal; $4 million is expected to be incurred by March 2016 for the partial decommissioning of the Pointe du Bois generating station spillway; and the balance of $49 million is expected to be incurred in 2024 as part of the decommissioning of Manitoba Hydro's two thermal generating stations. No funds are being set aside to settle the asset retirement obligations.

NOTE 17 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The carrying amounts and fair values of the Corporation's non-derivative financial instruments at March 31 were as follows:

	2010		2009	
Financial Instruments	Carrying Value	Fair Value	Carrying Value	Fair Value
	millions of dollars			
Held-for-Trading				
Cash and cash equivalents	174	174	159	159
Loans and Receivables				
Accounts receivable and accrued revenue	365	365	434	434
Interest receivable	6	6	6	6
Available-for-Sale				
Sinking fund investments	822	822	666	666
Other Financial Liabilities				
Long-term debt (including current portion)	8 538	9 754	8 187	9 532
Accounts payable and accrued liabilities	326	326	331	331
Notes payable	-	-	100	100
Accrued interest	91	91	99	99
Asset purchase obligation	215	279	218	272

The fair value measurement of financial instruments is classified in accordance with a hierarchy of three levels, based on the type of inputs used in making these measurements:

Level 1 - Quoted prices in active markets for identical assets and liabilities;
Level 2 - Inputs other than quoted prices that are observable in active markets for the asset or liability; and
Level 3 - Inputs for the asset or liability that are not based on observable market data.

Financial instrument measurements are level 1 measurements with the exception of the long-term debt and the asset purchase obligation that are level 2 measurements. Fair value measurement for these instruments is derived from quoted market yields at the close of business on the balance sheet date for similar instruments available in the capital market. The carrying values of all other financial assets and liabilities approximate fair value.

Financial Risks

During the normal course of business, Manitoba Hydro is exposed to a number of financial risks including credit and liquidity risks, and market risk resulting from fluctuations in foreign currency, interest rates and commodity prices. Risk management policies, processes and systems have been established to identify and analyze financial risks faced by the Corporation and its subsidiaries, to set risk tolerance limits, establish controls and to monitor risk and adherence to policies. An integrated risk management plan has been developed, and reviewed by the Audit Committee of the Manitoba Hydro-Electric Board, to ensure the adequacy of the risk management framework in relation to the risks faced by the Corporation. The nature of the financial risks and Manitoba Hydro's strategy for managing these risks has not changed significantly from the prior year.

a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Manitoba Hydro is exposed to credit risk related to sinking fund investments, short-term investments and pension fund investments. The Corporation limits its exposure to credit risk by only investing in government-guaranteed bonds, highly rated investments and well-diversified investment portfolios.

The Corporation is also exposed to credit risk related to accounts receivable arising from domestic and export energy sales. Credit risk related to domestic sales is mitigated by the large and diversified electric and gas customer base. Credit risk in the export power market is mitigated by establishing minimum credit rating requirements, conducting standard credit reviews of all counterparties, and setting and monitoring exposure limits for each of these counterparties. Letters of credit and netting provisions are also in place to provide further credit risk control. The maximum exposure to credit risk related to non-derivative financial assets is its carrying value.

The value of the Corporation's aged accounts receivable for domestic and export customers, and related bad debt provisions are presented in the following table:

			2010	2009
	Domestic	Extraprovincial	Total	Total
		millions of dollars		
Under 30 days	258	39	297	332
30 to 60 days	19	-	19	24
61 to 90 days	10	-	10	10
Over 90 days	31	-	31	33
	318	39	357	399
Provision at end of period	(8)	-	(8)	(8)
Total accounts receivable	310	39	349	391

The provision for bad and doubtful accounts is reviewed annually, based on an estimate of aged domestic and export receivables that are considered uncollectible. The provision of $8 million for bad and doubtful accounts did not change from the previous year.

To mitigate credit risk related to the use of natural gas derivative instruments, the Corporation adheres to well established credit exposure limits with institutions that possess a minimum credit rating of 'A' from recognized bond rating agencies or provide a parental guarantee from an 'A' rated parent company. The Corporation's maximum exposure to credit risk related to its derivative counterparties is equal to the positive fair value of its financial derivatives.

b) Liquidity Risk

Liquidity risk refers to the risk that Manitoba Hydro will not be able to meet its financial obligations as they come due. To meet the Corporation's forecasted cash requirements, the Corporation uses cash generated from operations, a short-term borrowing program, long-term borrowings advanced from the Province of Manitoba and sinking funds for debt retirements.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative liabilities as at the balance sheet date:

	Carrying Value	2011	2012	2013	2014	2015	2016 and *thereafter*
				millions of dollars			
Non-derivative financial liabilities							
Accounts payable and accrued liabilities	326	326	-	-	-	-	-
Asset purchase obligation	215	20	16	16	16	16	16*
Long-term debt**	8 629	864	579	748	1 623	610	13 241
		1 210	595	764	1 639	626	13 257
Derivative financial liabilities							
Commodity derivatives							
Natural gas collar obligations	-	18	-	-	-	-	-
Natural gas price swap obligations	1	1	-	-	-	-	-
	1	19	-	-	-	-	-
		1 229	595	764	1 639	626	13 257

*per year in perpetuity

**including current portion and interest payments

c) **Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Manitoba Hydro is exposed to three types of market risk: foreign exchange risk, interest rate risk and commodity price risk associated with the price of electricity and natural gas. Manitoba Hydro continually monitors its exposure to these risks and may use hedges or derivative contracts to manage these risks.

i. Foreign Exchange Risk

Manitoba Hydro has exposure to U.S. dollar foreign exchange rate fluctuations primarily through the sale and purchase of electricity in the U.S. This exposure is managed through a long-term natural hedge between U.S. dollar cash inflows from export revenues and U.S. dollar cash outflows for long-term coupon and principal payments.

To mitigate annual net income impacts due to foreign exchange rate fluctuations, a long-term cash flow hedge has been established between the U.S. long-term debt balances and future U.S. export revenues. Accordingly, translation gains and losses for U.S. long-term debt obligations in effective hedging relationships with future export revenues, are recognized in other comprehensive income until future hedged U.S. export revenues are realized, at which time the associated gains or losses in accumulated other comprehensive income are recognized in net income. For the year ended March 31, 2010, foreign exchange translation gains of $455 million were recognized in other comprehensive income and net losses of $6 million were reclassified from other comprehensive income into net income.

Manitoba Hydro also has a fair value hedging relationship between U.S. long-term debt balances and U.S. sinking fund investments. Offsetting foreign exchange translation gains and losses on these items are recognized in net income.

As a means to bridge temporary timing differences between inflows and outflows of U.S. dollar requirements, the Corporation utilizes derivative foreign exchange forward contracts as hedging instruments in a cash flow hedge. As at March 31, 2010, there were no outstanding foreign exchange contract purchases (2009 - $58 million U.S.). For the year ended March 31, 2010 foreign exchange gains of $7 million were reclassified from other comprehensive income into net income. The fair value of these contracts as at March 31 is as follows:

	2010	2009
	millions of dollars	
Foreign exchange forward contracts	-	12

Foreign exchange forward contracts are valued monthly at market prices.

In addition to natural hedging relationships and forward U.S. exchange contracts, cross currency swap arrangements transacted by the Province of Manitoba on the Corporation's behalf are utilized to manage exchange rate exposures and as a means to capitalize on favourable financing terms in either U.S. or Canadian capital markets. Cross currency agreements represent an exchange of principal and/or interest flows denominated in one currency for principal and/or interest flows denominated in another. Such transactions effectively amend the terms of the original debt obligation with the Province of Manitoba with the swapped debt arrangement.

As of March 31, 2010, a change in the Canadian dollar of plus (minus) $0.10 relative to the U.S. dollar would decrease (increase) net income by $0.5 million, while other comprehensive income would increase (decrease) by $180 million.

ii. Interest Rate Risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Manitoba Hydro is exposed to interest rate risk associated with temporary investments and floating rate long-term debt. At March 31, 2010, an increase or decrease of 1% in the interest rate would reduce or increase net income, respectively, by $13 million, with no impact to other comprehensive income.

Interest rate swap agreements transacted by the Province of Manitoba on the Corporation's behalf are utilized to manage the fixed and floating interest rate mix of the total debt portfolio, interest rate exposure, and related overall cost of borrowing. Interest rate swap agreements represent an agreement between two parties to periodically exchange payments of interest without the exchange of the principal amount upon which payments are based. The Province of Manitoba may also enter into forward start interest rate swap arrangements where the agreement to exchange interest payments commences at some future date. In either swap arrangement, the terms of the debt advanced by the Province of Manitoba to the Corporation are amended by the swap.

iii. Commodity Price Risk

The Corporation is exposed to natural gas price risk through its purchase of gas for delivery to customers throughout Manitoba. The Corporation mitigates natural gas price volatility through its use of derivative instruments restricted to price swaps, call options and cashless collars. To manage the exposure to electricity price risk that results from the volatility of market prices, the Corporation also enters into derivative financial instruments such as contracts for differences. Manitoba Hydro does not use derivative contracts for trading or speculative purposes.

The Corporation has entered into cashless collar contracts until January 2011 to purchase 16 878 000 gigajoules (GJ) of natural gas at a weighted average upper strike price of $6.64/GJ and a weighted average lower strike price of $5.15/GJ. The weighted average forward price of the cashless collars per the Alberta Energy Company Exchange (AECO) at March 31, 2010 is $4.11/GJ. Settlement values are recorded in the purchased gas variance account in the month the natural gas is delivered.

The Corporation has also entered into natural gas price swaps until April 2015 to purchase 292 150 gigajoules of natural gas at a weighted average fixed price of $6.67/GJ. The weighted average forward price of the swaps per AECO at March 31, 2010 was $4.86/GJ. These contracts are reported as derivatives and carried at fair value on the balance sheet.

A contract for differences was entered into until June 2010 to fix the price of electricity exports for 102 400 megawatt hours. The cash difference between the fixed price that the Corporation receives and the floating price paid will be cash settled. This contract is reported as a derivative and carried at fair value on the balance sheet.

The unrealized fair value gains (losses) of financial derivative contracts as at March 31 are as follows:

	2010	2009
	millions of dollars	
Cashless collar contracts	(18)	(64)
Fixed price swap contracts	(1)	-
Contracts for differences	1	-

Fair value is calculated by using the monthly forward AECO price as reported by the Natural Gas Exchange as at March 31, 2010.

A change in fair value of cashless collars due to a 10% increase or decrease in the price of natural gas would decrease or increase the purchased gas variance account by $7 million. A change in fair value of price swaps due to a 10% increase or decrease in the price of natural gas would result in an immaterial impact on earnings.

NOTE 18 CAPITAL MANAGEMENT

Manitoba Hydro manages its capital structure to ensure sufficient equity to enable the Corporation to absorb the financial effects of adverse circumstances and to ensure continued access to stable low-cost funding for the Corporation's capital projects and its ongoing operational requirements.

The Corporation monitors its capital structure on the basis of its equity ratio. Manitoba Hydro's current target is to maintain a minimum equity ratio of 25%.

The Corporation's equity ratio as at March 31 was as follows:

	2010	2009
	dollars are in millions	
Long-term debt, net of sinking fund investments	7 406	7 002
Current portion, long-term debt	310	519
Notes payable	-	100
Less: Cash and cash equivalents	(174)	(159)
Net debt	7 542	7 462
Retained earnings	2 239	2 076
Accumulated other comprehensive income (loss)	285	(169)
Contributions in aid of construction	295	296
Total equity	2 819	2 203
Equity ratio	27%	23%

Manitoba Hydro issues debt for its capital requirements under the authority of the Manitoba Hydro Act and the Loan Act. The Manitoba Hydro Act grants the Corporation the power to issue up to $500 million of short-term promissory notes. Manitoba Hydro submits annual requests under the Loan Act for the necessary borrowing authority for new capital requirements and the refinancing of any maturing long-term debt. The majority of Manitoba Hydro's long-term debt is obtained through advances by the Province of Manitoba.

NOTE 19 EMPLOYEE FUTURE BENEFITS

Manitoba Hydro employees are eligible for pension benefits under the Civil Service Superannuation Board (CSSB) defined benefit plan that provides pension benefits based on years of service and on the average earnings of the five best years. The CSSB plan requires the Corporation to contribute approximately 50% of the pension disbursements made to retired employees. In addition, the former employees of Centra Gas are entitled to pension benefits earned under the Centra Gas curtailed pension plans. The former Winnipeg Hydro employees continue to earn benefits under the Winnipeg Civic Employee Benefits Program (WCEBP) in which, upon the acquisition of Winnipeg Hydro, Manitoba Hydro became a participating employer. The WCEBP is also a defined benefit plan that provides pension benefits based on years of service and on the average earnings of the five best years.

The CSSB manages the Corporation's pension fund (MH Pension Fund) on behalf of the Corporation. The assets related to the Centra Gas curtailed pension plans are held in trust by State Street Trust Co. of Canada. The assets and liabilities of the WCEBP are not reflected on Manitoba Hydro's balance sheet.

The following table presents information concerning the MH Pension Fund and the Centra Gas curtailed pension plans:

	MH Pension Fund		Centra Gas curtailed pension plans		Total	
	2010	2009	2010	2009	2010	2009
			millions of dollars			
Plan Assets at Fair Value						
Balance at beginning of year	623	781	57	72	680	853
Actual return (loss) on plan assets	117	(126)	12	(13)	129	(139)
Employer contributions	-	-	9	4	9	4
Benefit payments and refunds	(46)	(32)	(5)	(6)	(51)	(38)
	694	623	73	57	767	680
Accrued Benefit Obligation						
Balance at beginning of year	730	714	81	81	811	795
Interest on obligation	47	46	5	6	52	52
Current service cost	23	22	-	-	23	22
Benefit payments and refunds	(35)	(32)	(4)	(6)	(39)	(38)
Actuarial losses (gains)	9	(20)	-	-	9	(20)
	774	730	82	81	856	811
Deficit at end of year	(80)	(107)	(9)	(24)	(89)	(131)
Unamortized past service costs	-	-	2	3	2	3
Unamortized transitional balance	(4)	(6)	(1)	(1)	(5)	(7)
Unamortized net actuarial loss	180	234	32	38	212	272
Accrued benefit asset	96	121	24	16	120	137

Pension assets are valued at market rates and are invested as follows:

	MH Pension Fund Fair Value		Centra Gas curtailed pension plans Fair Value	
	2010	2009	2010	2009
	millions of dollars			
Equities	421	308	46	31
Bonds and debentures	170	226	19	22
Real estate	77	85	4	2
Short-term investments	26	4	4	2
	694	623	73	57

The return on pension fund assets for the MH Pension Fund was positive 19.3% (2009 - negative 16.3%). The return for the Centra Gas curtailed plan fund assets was positive 21.7% (2009 - negative 18.1%). The weighted average term to maturity on fixed income investments is 8.6 years (2009 – 8.0 years).

The most recent actuarial valuations for the Corporation's obligations under the CSSB and Centra Gas curtailed pension plans were performed with respect to the liabilities outstanding as at December 31, 2009. These valuations incorporated management's best estimate assumptions and took into consideration the long-term nature of the pension plans. The next actuarial valuations for all plans will occur in December 2010. The Centra Gas curtailed pension plans are also subject to a solvency valuation for funding purposes with the latest valuation taking place as at December 31, 2008.

The significant actuarial assumptions adopted in measuring the Corporation's pension and other employee benefit obligations are as follows:

	2010	2009
Discount rate	6.5%	6.5%
Expected long-term rate of return on plan assets	7.0%	7.5%
Rate of compensation increase, including merit and promotions	1.5 - 2.0%	1.5 - 2.0%
Expected average remaining service life of employees - MH Pensions	14 years	14 years
Expected average remaining service life of employees - Centra Pensions	10 years	10 years
Long-term inflation rate	2.5%	2.5%

The Corporation's pension expense related to each of the pension benefit plans is as follows:

	CSSB Plan		Centra Gas curtailed pension plans	
	2010	2009	2010	2009
	millions of dollars			
Current service cost	23	22	-	-
Administrative fees	2	2	-	-
Canada Pension Plan	13	13	-	-
Interest on obligation	47	46	5	5
Expected return on plan assets	(55)	(54)	(6)	(5)
Amortization of net experience loss	-	2	1	1
Amortization of transitional gain	(1)	(1)	-	-
	29	30	-	1

Pension expense for the former Winnipeg Hydro employees is equal to employer contributions to the WCEBP in addition to employer remittances to the Canada Pension Plan. Total contributions to the WCEBP during the year amounted to $0.5 million (2009 - $0.2 million) and reflect an employer contribution rate approximating 1.3% of pensionable earnings to January 6, 2010 and 3.5% of pensionable earnings thereafter.

The following table presents information concerning other employee future benefits:

	Other Benefits	
	2010	2009
	millions of dollars	
Accrued benefit liability		
Balance at beginning of year	145	137
Interest on obligation	3	3
Current service cost	17	19
Benefit payments	(15)	(14)
	150	145
Unamortized past service costs	(11)	(13)
Unamortized transitional obligation	(5)	(5)
Accrued benefit liability	134	127

NOTE 20 COMMITMENTS AND CONTINGENCIES

Manitoba Hydro has energy purchase commitments of $1 626 million (2009 - $603 million) that relate to future purchases of wind, natural gas (including transportation and storage contracts), coal and electricity. Commitments are primarily for wind, which expire in 2037, and natural gas purchases, which expire in 2013. In addition, other outstanding commitments, principally for construction, are approximately $818 million (2009 - $893 million).

The Corporation will incur future costs associated with the assessment and remediation of contaminated lands and facilities and for the phase-out and destruction of PCB contaminated mineral oil from electrical equipment. Although these costs cannot be reasonably determined at this time (except for items already recognized as Asset Retirement Obligations), a contingent liability exists.

Due to the size, complexity and nature of Manitoba Hydro's operations, various legal and operational matters are pending. It is not possible at this time to predict with any certainty the outcome of these matters. Management believes that any settlements related to these matters will not have a material effect on Manitoba Hydro's consolidated financial position or results of operations.

Manitoba Hydro provides guarantees to counterparties as part of its use of natural gas derivative commodity contracts. Guarantees issued at March 31, 2010 totalled $305 million (2009 - $263 million) and do not have specific maturity dates. Letters of credit in the amount of $4 million (2009 - $2 million) have been issued for energy related transactions with maturities between 2010 and 2012.

NOTE 21 MITIGATION

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

Expenditures incurred or settlements reached to mitigate the impacts of all projects amounted to $26 million during the period (2009 - $22 million). In recognition of future anticipated mitigation payments, the Corporation has recorded a liability of $129 million (2009 - $120 million).

The Corporation has also entered into agreements with the Province of Manitoba whereby the Corporation has assumed obligations of the Province with respect to certain northern development projects. The Corporation has assumed obligations totaling $145 million for which water power rental charges were fixed until March 31, 2001. The obligations outstanding at March 31, 2010 amounted to $12 million (2009 - $11 million).

As of March 31, 2010, $701 million (2009 - $675 million) has been recorded to mitigate and compensate for all project-related impacts. These expenditures are included in the costs of the related projects and amortized over the respective remaining lives. There are other mitigation issues, the outcomes of which are not determinable at this time. However, in total, such other mitigation issues are not considered to be significant.

NOTE 22 AFFORDABLE ENERGY FUND

In accordance with the provisions of the Winter Heating Cost Control Act, Manitoba Hydro established an Affordable Energy Fund (the Fund) in the initial amount of $35 million for the purpose of providing support for programs and services that:

(a) encourage energy efficiency and conservation;
(b) encourage the use of alternative energy sources, including earth energy; and
(c) facilitate research and development of alternative energy services and innovative energy technologies.

For accounting purposes, the Fund is classified as Other Deferred Assets (Note 11) with an offsetting balance in Other Deferred Liabilities (Note 16). Expenditures of $2 million (2009 - $1 million) during the year were charged to operations with the asset and liability accounts reduced accordingly.

NOTE 23 ADVANCES TO TASKINIGAHP POWER CORPORATION

Taskinigahp Power Corporation (TPC) has a non-controlling interest in the Wuskwatim Generating Station which is currently under construction and projected to be placed in-service in 2011.

TPC is owned beneficially by Nisichawayasihk Cree Nation (NCN). Both Manitoba Hydro and NCN are parties to the Wuskwatim Power Limited Partnership (WPLP) which was formed to carry on the business of developing, owning and operating the generating station.

In accordance with the partnership agreements, Manitoba Hydro provides debt financing to TPC. At March 31, 2010, Manitoba Hydro has provided advances to TPC of $55 million (2009 - $32 million). The advances are repayable by TPC, with interest, subsequent to the in-service date of the Wuskwatim Generating Station. TPC's non-controlling interest is $62 million (2009 - $39 million).

NOTE 24 SEGMENTED INFORMATION

The Corporation operates primarily in two business segments: electricity and natural gas. Each segment has its own particular economic characteristics and differs in nature, production processes and technology. The electricity segment encompasses the generation, transmission and distribution of electricity. The gas segment represents natural gas supply and distribution activities through the operations of Centra Gas. The Corporate segment represents the costs to acquire Centra Gas and to integrate its operations into those of Manitoba Hydro. These costs are allocated to gas and electricity segments in accordance with the synergies and benefits derived by each of these segments as a result of the acquisition.

The following table contains information related to the operating results, assets, liabilities, contributions in aid of construction and retained earnings by segment:

	Electricity		Gas		Corporate		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
				millions of dollars				
Revenues (net of cost of gas sold)	1 599	1 784	138	149	-	-	1 737	1 933
Expenses								
Operating and administrative	395	382	61	60	-	-	456	442
Finance expense	373	433	19	20	18	18	410	471
Depreciation and amortization	358	341	24	25	2	2	384	368
Water rentals and assessments	121	123	-	-	-	-	121	123
Fuel and power purchased	104	176	-	-	-	-	104	176
Capital and other taxes	76	64	23	23	-	-	99	87
Corporate allocation	8	8	12	12	(20)	(20)	-	-
	1 435	1 527	139	140	-	-	1 574	1 667
Net income (loss)	164	257	(1)	9	-	-	163	266
Total assets	11 856	10 940	581	607	-	-	12 437	11 547
Total liabilities	9 387	8 632	516	543	-	-	9 903	9 175
Contributions in aid of construction	263	266	32	30	-	-	295	296
Total retained earnings	2 206	2 042	33	34	-	-	2 239	2 076

NOTE 25 COMPARATIVE FIGURES

Where appropriate, comparative figures for 2009 have been reclassified in order to conform to the presentation adopted in 2010.

MANAGEMENT REPORT

MARCH 31, 2010

The accompanying financial statements are the responsibility of Management and have been prepared in accordance with the accounting policies disclosed in Note 2. In Management's opinion, the financial statements have been properly prepared and of necessity, include some amounts based upon Management's best estimates and judgements.

As Management is responsible for the integrity of the financial statements, Management has established systems of internal control to provide assurance that assets are properly accounted for and safeguarded from loss.

KEN HILDAHL President & Chief Executive Officer	INGRID LOEWEN Chief Financial Officer

AUDITORS' REPORT

To the Board of Commissioners of
The Liquor Control Commission

We have audited the balance sheet of **The Liquor Control Commission** [an Agency of the Government of the Province of Manitoba] as at March 31, 2010 and the statements of income and cash flows for the year then ended. These financial statements are the responsibility of The Liquor Control Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of **The Liquor Control Commission** as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Winnipeg, Canada
May 17, 2010

BALANCE SHEET [IN THOUSANDS OF DOLLARS]

As at March 31

	2010	2009
	$	$
ASSETS		
Current		
Cash and cash equivalents	**9,190**	9,273
Accounts receivable	**20,726**	22,066
Inventory *[note 6]*	**35,690**	35,779
Prepaid expenses	**1,256**	944
Total current assets	**66,862**	68,062
Cash [restricted] *[notes 11 and 12]*	**46,360**	46,284
Property and equipment, net *[note 9]*	**25,937**	24,083
Intangible assets *[notes 3 and 10]*	**3,403**	3,068
	142,562	141,497
LIABILITIES		
Current		
Accounts payable – trade and other	**34,759**	41,601
Goods and Services Tax payable	**1,096**	994
Manitoba Retail Sales Tax payable	**1,471**	1,381
Net profit payable to the Province of Manitoba	**47,777**	42,563
Environmental Protection Tax payable	**141**	133
Deferred licence fees	**327**	292
Total current liabilities	**85,571**	86,964
Provision for employee pension benefits *[note 11]*	**53,318**	51,213
Provision for retirement allowances *[note 12]*	**3,673**	3,320
	142,562	141,497

See accompanying notes

On behalf of the Commission:

Chair of the Board

Chair of the Audit Committee

President and Chief Executive Officer

Chief Financial Officer

STATEMENT OF INCOME [IN THOUSANDS OF DOLLARS]
Year Ended March 31

	2010 $	2009 $
Sales *[schedule]*	**610,515**	583,763
Cost of sales *[schedule]*	**310,916**	295,522
Gross profit *[schedule]*	**299,599**	288,241
Other income *[note 7]*	**4,752**	4,591
	304,351	292,832
General and administrative expenses *[note 8]*	**66,913**	60,355
Depreciation	**3,761**	3,313
Net profit paid or payable to the Province of Manitoba	**233,677**	229,164

See accompanying notes

STATEMENT OF CASH FLOWS [IN THOUSANDS OF DOLLARS]

Year Ended March 31

	2010 $	2009 $
OPERATING ACTIVITIES		
Cash receipts		
Sales – spirits, wine, coolers/ciders and beer	**611,760**	582,252
Annual and supplementary licence fees and other	**4,887**	6,130
Goods and Services Tax	**30,945**	29,653
Manitoba Retail Sales Tax	**20,903**	19,619
Manitoba Waste Reduction and Prevention Levy	**494**	490
Environmental Protection Tax	**2,010**	1,983
	670,999	640,127
Cash disbursements		
Purchases – merchandise, federal duty, excise and sales taxes, etc.	**317,144**	292,639
General and administrative expenses	**65,138**	61,440
Goods and Services Tax	**30,844**	29,687
Manitoba Retail Sales Tax	**20,813**	19,636
Manitoba Waste Reduction and Prevention Levy	**492**	491
Environmental Protection Tax	**2,002**	1,985
	436,433	405,878
Net cash available from operating activities	**234,566**	234,249
INVESTING ACTIVITIES		
Acquisition of property and equipment	**(6,185)**	(7,258)
Net cash available for transfer	**228,381**	226,991
TRANSFERS TO PROVINCE OF MANITOBA		
Current year's net profit	**185,900**	186,601
Prior year's net profit	**42,564**	41,141
	228,464	227,742
Net decrease in cash and cash equivalents during the year	**(83)**	(751)
Cash and cash equivalents, beginning of year	**9,273**	10,024
Cash and cash equivalents, end of year	**9,190**	9,273

See accompanying notes

SCHEDULE OF SALES, COSTS OF SALES AND GROSS PROFIT [IN THOUSANDS OF DOLLARS]

Year Ended March 31

	Spirits $	Wine $	Coolers/ Ciders $	Beer $	Total $
SALES					
Stores	**148,054**	**89,654**	**13,900**	**45,806**	**297,414**
Liquor vendors	**35,691**	**9,088**	**3,802**	**6,650**	**55,231**
Licensees	**19,251**	**5,098**	**1,872**	**218,666**	**244,887**
Specialty wine stores	**41**	**12,858**	**84**	**—**	**12,983**
Total sales for 2010	**203,037**	**116,698**	**19,658**	**271,122**	**610,515**
Total sales for 2009	198,016	112,224	18,786	254,737	583,763
COST OF SALES					
Total cost of sales for 2010	**80,491**	**53,735**	**8,882**	**167,808**	**310,916**
Total cost of sales for 2009	78,550	51,568	8,832	156,572	295,522
Gross profit for 2010	**122,546**	**62,963**	**10,776**	**103,314**	**299,599**
Gross profit for 2009	119,466	60,656	9,954	98,165	288,241

See accompanying notes

NOTES TO FINANCIAL STATEMENTS [IN THOUSANDS OF DOLLARS]
MARCH 31, 2010

1. NATURE OF ORGANIZATION

The Liquor Control Commission [the "MLCC"] was formed in 1923 as an agency of the Government of the Province of Manitoba under *The Liquor Control Act*. The MLCC's mandate is to purchase, sell and regulate alcoholic beverages; to determine locations for retail liquor outlets; to licence and regulate facilities used by the consuming public; to provide revenue to the Province of Manitoba from the activities of the MLCC; and to do all such things necessary to effect the provisions of *The Liquor Control Act*.

2. SIGNIFICANT ACCOUNTING POLICIES

[a] Cash and cash equivalents include cash on hand, balances with banks and outstanding electronic fund transactions forwarded to banks.

[b] Cash and cash equivalents [restricted] consist of cash balances held in a trust account which has been advanced by the Province of Manitoba to fund employee pension and retiring allowances benefits.

[c] Accounts receivable include electronic fund transactions to be forwarded to banks after March 31.

[d] Inventories of goods for resale are valued at the lower of average cost and net realizable value.

[e] Revenue is recognized at the time the product is shipped, title passes, the sales price is fixed and determinable, and collectibility is reasonably assured.

[f] Property and equipment are recorded at cost less accumulated depreciation. Depreciation is provided on the declining balance basis at the following annual rates:

Automobiles	30%
Equipment and furnishings	20%
Paving	8%

Leasehold improvements are depreciated on a straight-line basis over the remaining term of the lease or a minimum of five years.

Buildings are depreciated on a straight-line basis over 40 years.

[g] Intangible assets are recorded at cost less accumulated amortization. Amortization is provided on the declining balance basis at the following annual rate:

Systems development	30%.

[h] Substantially all of the employees of the MLCC are eligible for pension benefits based on length of service and average annualized earnings calculated on the best five years prior to retirement, termination, or death that provides the highest earnings. Pension costs, included in salaries, benefits and pension costs, consist of the employer's share of pension benefits paid to retired employees, as well as the increase in unfunded pension liabilities during the fiscal year. This liability is determined actuarially every three years with the balances for the intervening years being determined by formula provided by the actuary as detailed in note 11. Actuarial gains and losses are recognized in income immediately as detailed in note 11.

[i] In preparing the MLCC's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

[j] The MLCC has classified all financial instruments into one of the following five categories: held for trading, held to maturity investments, available for sale financial assets, loans and receivables and other financial

liabilities. All financial instruments are included on the balance sheet and are measured at fair value with the exception of loans and receivables, held to maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Held for trading financial instruments are measured at fair value and all gains and losses are included in income in the period in which they arise. Available for sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset or liability is removed from the balance sheet.

3. CHANGES IN ACCOUNTING POLICIES

Effective April 1, 2009, the MLCC prospectively adopted the Canadian Institute of Chartered Accountants ["CICA"] Section 3064, "Goodwill and Intangible Assets", and Section 3862, "Financial Instruments – Disclosures".

Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets as well as determining when intangible assets can be recognized. The adoption of this standard had no financial impact on the MLCC's financial statements except for the reclassification from property and equipment to intangible assets of $3,403 [2009 - $3,068] as detailed in note 10.

Section 3862 enhances disclosure requirements around fair value measurements and the liquidity risk of financial instruments. Specifically, financial instruments recognized at fair value on the balance sheet must be classified in one of the following three fair value hierarchy levels:

Level 1 – measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 – measurement based on inputs other than quoted prices included in level 1 that are observable for the asset or liability.

Level 3 – measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

The MLCC discloses information surrounding fair value measurement and liquidity risk associated with financial instruments in note 4.

4. FINANCIAL INSTRUMENTS

CREDIT RISK

Accounts receivable are all current at year end and were fully collected subsequent to year end. Therefore no allowance for uncollectible amounts was accrued by management. Accounts receivable are written off when management determines that they cannot be collected or they have been outstanding for greater than 120 days.

LIQUIDITY RISK

Liquidity risk is mitigated by collection terms on accounts receivable being set at less than or equal to the payment terms of accounts payable. All accounts payable are due within 30 days of year end. See note 13 for details of other contractual obligations and their maturities.

FOREIGN CURRENCY RISK

The MLCC is exposed to currency risk through inventory purchase transactions that require settlement in foreign currencies. Exposure to fluctuations in exchange rates is mitigated by the policy of adjusting purchase or selling prices to maintain the profit margin approved by the Board of Commissioners.

FAIR VALUE

The fair value of the MLCC's financial instruments on initial recognition is the transaction price, which is the value of the consideration given or received. At March 31, 2010, the MLCC's only financial asset or liability measured at fair value on a recurring basis was cash totalling $9,190 which was measured at fair value using Level 1 inputs.

The MLCC has made the following classifications of its financial instruments:

Cash and cash equivalents are classified as held for trading and measured at fair value. The gains or losses arising on the revaluation to fair value at the end of the year are included in net income.

Accounts receivable are classified as loans and receivables and recorded at cost, which upon initial recognition is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Accounts payable, net profit payable to the Province of Manitoba, and other taxes payable are classified as other financial liabilities and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

It is management's opinion that the MLCC is not exposed to significant interest rate, currency, liquidity, or credit risks arising from these financial instruments. The fair values of the MLCC's financial instruments approximate their carrying value unless otherwise stated due to the short period between initial recognition and subsequent settlement.

5. CAPITAL DISCLOSURES

The MLCC defines its capital as cash and cash equivalents available for operations. The MLCC's objectives are to have cash resources available for operations, to provide flexibility to take advantage of opportunities that will advance its purposes and to meet its obligation to transfer its net profit to the Province of Manitoba annually. The need for cash is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to budget. As at March 31, 2010, the MLCC has met its objective of having sufficient cash resources to meet its current obligations.

6. INVENTORY

Inventory consists of the following:

	2010	2009
	$	$
Warehouse	**23,802**	23,743
Stores	**11,888**	12,036
	35,690	35,779

The amount of unpaid and unrecorded Customs and Excise duties on owned merchandise held in bond is approximately $3,948 at March 31, 2010 [2009 – $3,550].

7. OTHER INCOME

Other income consists of the following:

	2010	2009
	$	$
Annual licence fees and licence application fees	**1,104**	1,105
AIR MILES® revenue	**957**	927
Advertising revenue – other	**791**	782
Miscellaneous	**689**	451
Occasional permit additional fees	**471**	559
Occasional permit fees	**329**	229
Administration charges	**260**	317
Border point fee	**125**	154
Specialty wine store fees	**26**	26
Supplementary licence fees	**—**	41
	4,752	4,591

8. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of the following:

	2010	2009
	$	$
Salaries, benefits and pension costs *[note 11]*	**41,541**	36,677
Leased premises – rentals *[note 13]*	**6,791**	6,374
Maintenance and repairs	**3,174**	2,692
Bank charges	**2,341**	1,930
Delivery charges	**1,781**	1,806
Utilities	**1,545**	1,453
AIR MILES® program	**1,288**	1,182
Equipment rentals *[note 13]*	**685**	969
Alcohol education	**821**	792
Printing, postage and supplies	**779**	723
Miscellaneous	**699**	701
Protective services	**792**	682
Grants in lieu of taxes	**667**	665
Health and Post-Secondary Education Tax levy	**699**	651
Professional fees	**520**	600
Staff training	**656**	552
Advertising and promotions	**521**	452
Community support	**577**	442
Travel	**391**	369
Communications	**253**	242
Vehicle expenses	**199**	212
Crown Corporations Council levy	**105**	97
Product analysis	**74**	72
Interest – long-term	**14**	20
	66,913	60,355

9. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2010		
	Cost **$**	**Accumulated Depreciation** **$**	**Net Book Value** **$**
Land	**120**	**—**	**120**
Automobiles	**639**	**386**	**253**
Equipment and furnishings	**11,728**	**5,133**	**6,595**
Paving	**496**	**175**	**321**
Leasehold improvements	**11,198**	**5,543**	**5,655**
Buildings	**17,473**	**4,480**	**12,993**
	41,654	**15,717**	**25,937**

	2009		
	Cost $	Accumulated Depreciation $	Net Book Value $
Land	123	—	123
Automobiles	655	388	267
Equipment and furnishings	10,555	5,530	5,025
Paving	419	152	267
Leasehold improvements	10,337	4,795	5,542
Buildings	16,972	4,113	12,859
	39,061	14,978	24,083

10. INTANGIBLE ASSETS

Intangible assets consist of the following:

	2010		
	Cost **$**	**Accumulated Amortization** **$**	**Net Book Value** **$**
Systems development	**12,816**	**9,413**	**3,403**

	2009		
	Cost $	Accumulated Amortization $	Net Book Value $
Systems development	12,203	9,135	3,068

11. PROVISION FOR EMPLOYEE PENSION BENEFITS

The MLCC maintains a defined benefit pension plan in accordance with the provisions of *The Civil Service Superannuation Act* administered by the Civil Service Superannuation Board. An actuarial valuation of the provision for employee pension benefits was conducted by Ellement & Ellement Ltd. Consulting Actuaries as of December 31, 2007. The projected unit credit method was used and the liabilities have been extrapolated to March 31, 2010 using a formula provided by the actuary.

	2010	2009
	$	$
Accrued benefit liability, beginning of year	**51,213**	51,124
Gain based on 2007 actuarial report`	**—**	(1,956)
Benefits accrued	**1,736**	1,572
Interest accrued on benefits	**3,597**	3,453
Benefits paid	**(2,762)**	(2,658)
Manitoba Finance matching pension contributions	**(466)**	(322)
Accrued benefit liability, end of year	**53,318**	51,213
Pension expense	**5,333**	5,025
Employee contributions	**1,667**	1,509
Employer contributions	**2,762**	2,980

The pension expense consists of benefits accrued of $1,736 [2009 – $1,572] and interest accrued on benefits of $3,597 [2009 – $3,453]. The key actuarial assumptions used in determining the MLCC's provision for employee pension benefits were at the following weighted average rates:

	2010	2009
	%	%
Expected long-term rate of return	**6.50**	6.50
Inflation	**2.50**	2.50
Rate of future compensation increases	**4.25**	4.25

In addition, post-retirement indexing is at 1.67%.

The amount of the long-term provision for employee pension benefits of $40,731 as at March 31, 2003 has been funded by the cash advanced by the Province of Manitoba. The funds are held in a trust account and are recorded as restricted cash *[note 2[b]]*.

12. PROVISION FOR RETIREMENT ALLOWANCES

Effective April 1, 1998, the MLCC commenced recording accumulated retirement allowances for its employees. Eligible employees are entitled to receive a retirement allowance equal to one week's pay, to a maximum of 25 weeks, for each year of continuous employment based on the current salary at date of retirement. The provision recorded is calculated based on a formula provided by the Province of Manitoba.

The amount of the opening provision for retirement allowances as at April 1, 1998 of $3,165 has been funded by the cash advanced by the Province of Manitoba. The funds are held in a trust account and are recorded as restricted cash *[note 2[b]].*

13. COMMITMENTS

[a] The MLCC leases 45 buildings. Leases have expiry dates ranging from 2011 to 2028.

The future minimum annual lease payments for each of the next five years and thereafter are as follows:

Year ending March 31	**$**
2011	4,701
2012	4,486
2013	4,322
2014	4,164
2015	3,941
Thereafter	24,066
	45,680

[b] The MLCC leases computer equipment. Leases on this computer equipment have expiry dates ranging from 2011 to 2012. The future minimum lease payments for each of the years to the expiry of the lease contracts are as follows:

Year ending March 31	**$**
2011	467
2012	9
	476

14. COMPARATIVE FIGURES

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the current year's financial statements.

Management Report

The accompanying consolidated financial statements are the responsibility of management and have been prepared in accordance with the accounting policies stated in the consolidated financial statements. These accounting policies have been applied on a basis consistent with the prior year. In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available. The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Management is responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting for the Corporation. Management designed such internal controls, or caused them to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of the financial information and that the assets of the Corporation are properly safeguarded. As part of the financial statement audit performed by Ernst & Young LLP, they reviewed the Corporation's internal controls to the extent that they considered necessary and reported their findings to management and the Board of Directors.

The responsibility of Ernst & Young LLP is to express an independent opinion on whether the consolidated financial statements are fairly stated in accordance with Canadian generally accepted accounting principles. The Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

The Audit Committee of the Board meets with management and Ernst & Young LLP to satisfy itself that each group has properly discharged its respective responsibilities and to review the consolidated financial statements before approving them. The Board has reviewed and approved the consolidated financial statements for the fiscal year ended March 31, 2010.

(originally signed by)

Winston Hodgins
President & CEO

(originally signed by)

Tracy Graham
Executive Vice President, Finance & CFO

Auditors' Report

TO THE BOARD OF DIRECTORS OF
MANITOBA LOTTERIES CORPORATION

We have audited the consolidated balance sheet of Manitoba Lotteries Corporation as at March 31, 2010 and the consolidated statements of net income, comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

(originally signed by)

Ernst & Young LLP
Chartered Accountants

WINNIPEG, CANADA
MAY 21, 2010

Consolidated Balance Sheet

MARCH 31, 2010 (IN THOUSANDS)

	Notes	2010	2009
Assets			
CURRENT ASSETS			
Cash		$ 27,491	$ 24,629
Accounts receivable	3	9,600	15,506
Inventories	4	2,628	2,907
Prepaid expenses	5	2,107	2,411
		41,826	45,453
PROPERTY AND EQUIPMENT	6	156,735	162,759
OTHER ASSETS	7	4,794	5,040
		$ 203,355	$ 213,252
Liabilities and Retained Earnings			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	8	$ 35,674	$ 31,153
Payable to the Province of Manitoba		1,673	3,580
Current portion of long-term debt	9	17,562	13,482
		54,909	48,215
LONG-TERM DEBT	9	142,621	159,494
PROVISION FOR EMPLOYEE PENSION BENEFITS	10	825	543
TOTAL LIABILITIES		198,355	208,252
Commitments and contingencies	14		
RETAINED EARNINGS		5,000	5,000
		$ 203,355	$ 213,252

(see accompanying notes to the consolidated financial statements)

On behalf of the Board,

(originally signed by)	*(originally signed by)*
Tim Valgardson	**Gerald Rosenby**
Director & Chair of the Board of Directors	Director & Chair of the Audit Committee

Consolidated Statement of Net Income, Comprehensive Income and Retained Earnings

FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

	Notes	2010	2009
REVENUE			
Revenue		$ 767,562	$ 775,620
Cost of sales		212,071	225,453
		555,491	550,167
EXPENSES			
Operating expenditures		135,387	133,619
Amortization		30,527	39,030
Interest expense - long-term		10,309	10,998
Goods and Services Tax		8,277	7,158
		184,500	190,805
INCOME BEFORE ALLOCATIONS AND PAYMENTS		370,991	359,362
ALLOCATIONS AND PAYMENTS	13		
WCLC partner equalization		3,325	3,024
Payment to Government of Canada		2,333	2,345
Gaming Commission fees & Crown levy		2,824	3,094
First Nations allocation		37,325	34,273
Manitoba Jockey Club Inc. contribution		4,746	4,328
Tourism contribution		6,251	-
Responsible gaming funding		3,466	3,387
Casino bingo volunteer program		4,048	4,131
		64,318	54,582
NET INCOME AND COMPREHENSIVE INCOME		306,673	304,780
RETAINED EARNINGS, BEGINNING OF THE YEAR		5,000	5,000
Allocation to the Province of Manitoba		(306,673)	(304,780)
RETAINED EARNINGS, END OF THE YEAR		$ 5,000	$ 5,000

(see accompanying notes to the consolidated financial statements)

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

	Notes	2010	2009
OPERATING ACTIVITIES			
Net income and comprehensive income		$ 306,673	$ 304,780
Add (deduct) items not involving cash:			
Amortization related to property and equipment		30,281	38,784
Amortization on assets related to First Nations Casinos		2,655	2,894
Amortization related to other assets		246	246
Gain on disposal of property and equipment		(13)	(7)
Provision for employee pension benefits		282	164
		340,124	346,861
Net change in non-cash working capital items	16	11,010	(7,991)
CASH PROVIDED BY OPERATING ACTIVITIES		351,134	338,870
INVESTING ACTIVITIES			
Purchase of property and equipment		(26,912)	(31,174)
Proceeds from disposal of property and equipment		13	10
CASH USED IN INVESTING ACTIVITIES		(26,899)	(31,164)
FINANCING ACTIVITIES			
Cash distributions to the Province of Manitoba:			
Current year		(305,000)	(301,200)
Prior year		(3,580)	(1,782)
Proceeds from long-term debt		700	5,739
Repayment of long-term debt		(13,493)	(13,611)
CASH USED IN FINANCING ACTIVITIES		(321,373)	(310,854)
NET INCREASE (DECREASE) IN CASH DURING THE YEAR		2,862	(3,148)
CASH, BEGINNING OF THE YEAR		24,629	27,777
CASH, END OF THE YEAR		$ 27,491	$ 24,629
SUPPLEMENTAL CASH FLOW INFORMATION			
Interest paid		$ 10,625	$ 11,374

(see accompanying notes to the consolidated financial statements)

Notes to Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

1. Background

The Manitoba Lotteries Foundation was established by the Manitoba Lotteries Foundation Act. On July 27, 1993, the Act was amended and continued under the Manitoba Lotteries Corporation Act. By consent of the Legislative Assembly of Manitoba, the organization continues its operations as a Crown corporation under the name of the Manitoba Lotteries Corporation (Manitoba Lotteries) or the Corporation.

2. Significant Accounting Policies

(A) BASIS OF CONSOLIDATION

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and combine the accounts of Manitoba Lotteries and MLC Holdings Inc. This controlled entity was established to purchase capital assets, which are leased to Manitoba Lotteries at cost. All intercompany transactions and accounts have been eliminated on consolidation.

(B) WESTERN CANADA LOTTERY CORPORATION

The Western Canada Lottery Corporation (WCLC) was incorporated without share capital under Part II of the Canada Corporations Act on May 13, 1974. The Provincial Governments of Manitoba, Saskatchewan and Alberta are members in the Corporation, and the Yukon Territory, the Northwest Territories and Nunavut participate with the provinces as associate members in the sale of gaming products. Each province and territory has appointed a lottery organization to assist the WCLC with the distribution of gaming products in its jurisdiction (Manitoba Lotteries for the Province of Manitoba). The proportionate share of WCLC's sales and cost of sales is included in the consolidated financial statements based on relative sales levels by jurisdiction.

(C) FIRST NATIONS CASINOS

The Government of Manitoba has overall control over gaming in Manitoba in accordance with the requirements of the Criminal Code of Canada, and has appointed Manitoba Lotteries to act as its agent in the Conduct and Management of the gaming regime. Through a selection process, the Government has provided certain First Nations the opportunity to operate casinos, with Manitoba Lotteries maintaining the Conduct and Management authority over these casinos. Effective December 1, 2005, the Corporation received approval from its Board of Directors to discontinue the recovery of general administrative and compliance costs from First Nations Casinos and to provide these services only upon request on a fee for service basis. The Corporation will continue to recover all direct and/or gaming related expenses.

(D) REVENUE AND EXPENSES RECOGNITION

Revenue and expenses are recorded on an accrual basis except for lottery revenue. Lottery revenue is recorded as of the date of the draw with the exception of instant game revenue which is recorded at the time the ticket is activated by the retailer via the on-line accounting system for sale to customers. Video lottery and other gaming revenue is recorded net of prizes paid. Administration fees related to First Nations are recorded in income as earned.

(E) PROPERTY, EQUIPMENT AND AMORTIZATION

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and amortized on a straight-line basis according to their estimated useful lives.

Furniture and equipment	4-5 years
Gaming equipment	5 years
Casino stages	10 years
Buildings and parking lots	30 years
Leasehold improvements	Over term of lease
Capital lease – building	25 years
Assets related to First Nations Casinos	5-7 years
Other assets – (see note 7)	26 years

Capital assets related to First Nations Casinos under the Conduct and Management Agreement consist primarily of the cost of the gaming equipment and related computer equipment.

(F) GOODS AND SERVICES TAX

In lieu of Goods and Services Tax (GST) on lottery and gaming revenue, the Corporation foregoes claiming input tax credits and pays an additional 5% GST on gaming expenditures, including retailer commissions. This additional 5% is reported as GST expense.

An input tax credit is claimed for GST paid on non-gaming expenditures.

(G) INVENTORIES

Inventories are valued at the lower of cost and replacement value for replacement parts and the lower of cost and net realizable value for all other inventory.

(H) PENSION PLANS

In accordance with the provisions of the Civil Service Superannuation Act (Act), employees of the Corporation are eligible for pension benefits. Plan members are required to contribute to the Civil Service Superannuation Fund (Fund) at prescribed rates for defined benefits and will receive benefits based on the length of service and on the average of annualized earnings calculated on the best five years prior to retirement, termination or death that provides the highest earnings. The Corporation is required to match contributions contributed to the Fund by the employees at prescribed rates, which is recorded as an operating expense. Under this Act, the Corporation has no further pension liability.

For employees whose annual earnings exceed the limit under the Civil Service Superannuation Fund, a pension liability is established. This liability is determined actuarially every three years with the balances for the intervening years being determined by a formula provided by the actuary. Actuarial gains and losses are recognized in income immediately.

The Corporation also makes contributions for employees and officers to a money purchase pension plan at prescribed rates.

(I) FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities are translated at the year-end exchange rate while non-monetary assets and liabilities and revenue and expenses are translated at the exchange rate prevailing on the transaction date. All exchange gains and losses are reflected in income during the period they occur.

(J) USE OF ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

(K) PROMOTIONAL ALLOWANCES

The retail value of food, beverages and other items provided on a complimentary basis to customers has been included in gross revenue and a corresponding amount has been deducted as promotional allowances. Costs of providing these promotional allowances have been included in operating expenses.

(L) LOYALTY POINTS PROGRAM

The Corporation operates a program whereby patrons can earn points based upon their level of play on certain casino games. Points can be redeemed for certain goods and services provided by the casinos. The retail value of these complimentary items is included in gross revenue and then deducted as a promotional allowance to arrive at net revenue.

The future redemption liability is included in accounts payable and accrued liabilities and is based on an assessment of anticipated point redemptions and point value. The Corporation will adjust the estimated liability based on redemption experience and additional points earned and any adjustments will be recorded in the results of operations.

(M) FINANCIAL INSTRUMENTS

In accordance with Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855 Financial Instruments – Recognition and Measurement, the Corporation has classified all financial instruments into one of the following

FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

2. Significant Accounting Policies (continued)

five categories: held for trading, held to maturity investments, available for sale financial assets, loans and receivables and other financial liabilities. All financial instruments are included on the consolidated balance sheet and are measured at fair value with the exception of loans and receivables, held to maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Held for trading financial instruments are measured at fair value and all gains and losses are included in income in the period in which they arise. Available for sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset or liability is removed from the consolidated balance sheet.

(N) CHANGES IN ACCOUNTING POLICIES

During the year, the Corporation adopted the following CICA Handbook sections:

Section 3064 Goodwill and Intangible Assets establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets as well as determining when intangible assets can be recognized. The adoption of this standard has had no impact on the Corporation's consolidated financial statements.

Amendments to Section 3862 Financial Instruments – Disclosure enhances disclosure requirements about fair value measurements. Specifically, financial instruments recognized at fair value on the consolidated balance sheet must be classified in one of the following three fair value hierarchy levels:

Level 1 – measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 – measurement based on inputs other than quoted prices included in level 1 that are observable for the asset or liability.

Level 3 – measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

The Corporation discloses information surrounding the fair value measurement associated with financial instruments in note 15.

(O) RECENT ACCOUNTING PRONOUNCEMENTS

CICA Handbook Section 1601 Consolidated Financial Statements and Section 1602 Non-Controlling Interests establish standards for the accounting and reporting of ownership interests in subsidiaries held by parties other than the parent and are effective for fiscal years beginning on or after January 1, 2011. The Corporation does not expect these sections to have an impact on the consolidated financial statements.

3. Accounts Receivable

	2010	2009
Western Canada Lottery Corporation	$ **5,140**	$ 5,903
Trade	**3,048**	7,441
First Nations	**906**	1,588
Goods and Services Tax	**250**	330
Employee computer program	**256**	200
Lottery retailers	**-**	44
	$ **9,600**	$ 15,506

FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

4. Inventories

	2010	2009
Replacement parts	$ 1,462	$ 1,867
Bingo paper	462	375
Breakopen tickets	345	385
Restaurant	148	130
Store merchandise	211	150
	$ 2,628	$ 2,907

5. Prepaid Expenses

	2010	2009
Maintenance contracts	$ 1,105	$ 1,424
Insurance	461	402
Entertainer and sponsorship deposits	109	186
Rent	85	77
Other	347	322
	$ 2,107	$ 2,411

6. Property and Equipment - 2010

	Cost	Accumulated Amortization	Net Book Value
Land	$ 5,798	$ -	$ 5,798
Furniture and equipment	113,768	87,468	26,300
Gaming equipment	165,199	135,462	29,737
Casino stages	5,972	5,972	-
Buildings and parking lots	157,573	70,803	86,770
Leasehold improvements	5,643	5,347	296
Capital lease – building	688	302	386
Assets related to First Nations Casinos [see note 2(c)]	19,028	11,580	7,448
	$ 473,669	$ 316,934	$ 156,735

FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

6. Property and Equipment (continued) - 2009

	Cost	Accumulated Amortization	Net Book Value
Land	$ 5,798	$ -	$ 5,798
Furniture and equipment	100,395	79,340	21,055
Gaming equipment	156,951	118,074	38,877
Casino stages	5,972	5,972	-
Buildings and parking lots	153,287	66,326	86,961
Leasehold improvements	5,643	5,308	335
Capital lease – building	688	276	412
Assets related to First Nations Casinos [see note 2(c)]	18,246	8,925	9,321
	$ 446,980	$ 284,221	$ 162,759

The net carrying value of property and equipment not in use at March 31, 2010 is $13,965 [2009 - $4,719]. No amortization is recorded for these assets.

7. Other Assets

The Corporation has entered into an agreement for the right to use 22.28 acres of land for 200 years. The land is being used for parking facilities at the McPhillips Station Casino. The facilities became available for use during the 2004 fiscal year, at which time the Corporation began amortizing the asset over the life of the adjacent casino. The asset is presented net of accumulated amortization of $1,587 (2009 - $1,341) [see note 2(e)].

8. Accounts Payable and Accrued Liabilities

	2010	2009
Trade	$ **24,449**	$ 21,213
Vacation	**8,051**	7,168
Interest	**822**	830
Jackpot provision	**1,973**	1,449
Province of Manitoba taxes	**379**	493
	$ **35,674**	$ 31,153

FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

9. Long-Term Debt

	2010	2009
Province of Manitoba, bearing interest at 6.950%, interest only payable semi-annually, with all principal due at maturity on August 30, 2010.	$ 135,000	$ 135,000
Province of Manitoba, bearing interest at 5.250%, repayable in quarterly principal installments of $1,071 plus interest until June 30, 2011.	5,357	9,643
Province of Manitoba, bearing interest at 4.625%, repayable in quarterly principal installments of $1,071 plus interest until September 30, 2011.	6,429	10,714
Province of Manitoba, bearing interest at the prevailing Bankers Acceptance rate plus ¼ of 1%, repayable in quarterly principal installments of $679 plus interest, until May 10, 2012. The interest rate on the debt at March 31, 2010 was 0.7890%.	6,107	8,822
Province of Manitoba, bearing interest at 4.050%, repayable in monthly principal installments of $84 plus interest until August 31, 2012.	2,444	3,455
Province of Manitoba, bearing interest at 4.150%, repayable in monthly principal installments of $96 plus interest until July 31, 2013.	3,826	4,974
Province of Manitoba, bearing interest at 2.500%, repayable in monthly principal installments of $12 plus interest until February 26, 2015.	688	–
Capital lease obligation to the Province of Manitoba, with a 7.630% implicit interest rate and annual minimum lease payments of $64 until July 13, 2017.	332	368
	160,183	172,976
Less current portion of long-term debt and capital lease obligation	17,562	13,482
	$ 142,621	$ 159,494

During the year the Corporation received a commitment from the Province of Manitoba to refinance the long-term debt in the amount of $135,000 that matures on August 30, 2010. The Province has waived the right to demand repayment of this long-term debt up to and including March 31, 2011 and will set the repayment term at 20 years. It is expected the interest rate will be 5.050%.

FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

9. Long-Term Debt (continued)

Annual payments in future years including expected refinancing are as follows:

		Capital Lease	
	Loans	Principal	Interest
2011	$ 17,522	$ 40	$ 24
2012	14,978	43	21
2013	9,138	46	18
2014	7,273	50	14
2015	6,878	54	10
Subsequent years	104,062	99	8
	$ 159,851	$ 332	$ 95

The fair market value of long-term debt at March 31, 2010 is $163,522.

10. Provision for Employee Pension Benefits

The pension expense related to the Corporation's contributions to the Civil Service Superannuation Fund is $3,590 (2009 - $3,103) and is recorded in operating expenditures.

A pension liability of $825 (2009 - $543) has been established for employees whose annual earnings exceed the limit under the Civil Service Superannuation Fund plan. A loss of $101 was experienced in the current year based on the most recently available triennial actuarial report of pension obligations as at December 31, 2007, and is included in the above pension expense.

The pension expense related to the Corporation's contributions to the money purchase plan is $162 (2009 - $228) and is recorded in operating expenditures.

11. Capital Structure

The Corporation's capital is comprised of retained earnings and long-term debt. The Corporation's objectives when managing its capital structure are to continue its ability to meet its financial obligations and to finance growth and capital expenditures. These objectives have remained unchanged over the fiscal years presented.

The Corporation is subject to capital growth restrictions as the result of the requirement to allocate 100% of annual consolidated net income to the Province of Manitoba

FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

12. Segmented Information

The Corporation's management has designated the areas of Video Lotto, Casinos and Lottery as its operating segments. All indirect costs have been allocated to the operating segments. A summary of these operating segments is as follows:

2010	Video Lotto	Casinos	Lottery	Total
REVENUE				
Revenue	$ 340,478	$ 221,577	$ 205,507	$ 767,562
Cost of sales	61,002	14,292	136,777	212,071
	279,476	207,285	68,730	555,491
EXPENSES				
Operating expenditures	24,908	103,338	7,141	135,387
Amortization	13,622	16,905	–	30,527
Interest expense – long-term	2,918	7,150	241	10,309
Goods and Services Tax	6,907	1,237	133	8,277
	48,355	128,630	7,515	184,500
Income before Allocations and Payments	231,121	78,655	61,215	370,991
Allocations and Payments	52,314	5,990	6,014	64,318
NET INCOME AND COMPREHENSIVE INCOME	$ 178,807	$ 72,665	$ 55,201	$ 306,673

2009	Video Lotto	Casinos	Lottery	Total
REVENUE				
Revenue	$ 354,235	$ 210,798	$ 210,587	$ 775,620
Cost of sales	72,136	13,690	139,627	225,453
	282,099	197,108	70,960	550,167
EXPENSES				
Operating expenditures	11,187	117,149	5,283	133,619
Amortization	23,856	15,174	–	39,030
Interest expense – long-term	3,584	7,173	241	10,998
Goods and Services Tax	6,321	777	60	7,158
	44,948	140,273	5,584	190,805
Income before Allocations and Payments	237,151	56,835	65,376	359,362
Allocations and Payments	42,691	6,200	5,691	54,582
NET INCOME AND COMPREHENSIVE INCOME	$ 194,460	$ 50,635	$ 59,685	$ 304,780

FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

13. Allocations and Payments

(A) WCLC PARTNER EQUALIZATION

The Province of Manitoba is a member in the WCLC. An agreement is in place with the Provinces of Alberta and Saskatchewan where Manitoba Lotteries provides economic benefit equalization specific to salary costs of head office employees resident in Manitoba. The cost to the Corporation for this allocation for the 2010 fiscal year is $3,325 (2009 - $3,024).

(B) PAYMENT TO GOVERNMENT OF CANADA

Effective January 1, 1980 the Government of Canada terminated its involvement in lotteries. In return, the ten provinces are to contribute an annual sum of $24,000, adjusted for inflation, to the Federal Government. The Province of Manitoba's share for the 2010 fiscal year is $2,333 (2009 - $2,345).

(C) GAMING COMMISSION FEES & CROWN LEVY

The Corporation provides funding to the Manitoba Gaming Control Commission (MGCC) through payment of annual registration fees for electronic gaming machines and employees. The Corporation also provides funding to the Crown Corporations Council through the payment of an annual levy. Funding provided to MGCC and Crown Corporations Council in the 2010 fiscal year is $2,824 (2009 - $3,094).

(D) FIRST NATIONS ALLOCATION

First Nations VLT siteholders receive an allocation of VLT revenue to provide sustainable social and economic benefits and opportunities within the siteholders' communities in Manitoba.

(E) MANITOBA JOCKEY CLUB INC. CONTRIBUTION

The Corporation pays the Manitoba Jockey Club Inc. a portion of the revenue generated by the VLTs at Assiniboia Downs as a contribution to support horse racing in the Province.

(F) TOURISM CONTRIBUTION

The Corporation provides contributions towards supporting tourism in Manitoba through the VLT program.

(G) RESPONSIBLE GAMING FUNDING

Funding includes amounts paid to the Addictions Foundation of Manitoba and other organizations for their responsible gaming research and programming.

Total investment in responsible gaming initiatives

	2010	2009
Amounts included in operating expenditures	**$ 566**	$ 725
Responsible gaming funding	**3,466**	3,387
	$ 4,032	$ 4,112

(H) CASINO BINGO VOLUNTEER PROGRAM

The Corporation provides over four hundred charitable and community organizations the opportunity to raise funds for their organizations by assisting the Corporation in the bingo events held at its casinos and providing funding to various community groups throughout Manitoba. Payments made to these organizations for the 2010 fiscal year amounted to $4,048 (2009 - $4,131).

14. Commitments and Contingencies

(A) LEASE OBLIGATIONS

The future minimum rental payments relating to operating leases are as follows:

2011	$ 1,427
2012	508
2013	335
2014	287
2015	260
Subsequent years	963
	$ 3,780

FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

(B) Incidental to the nature of its business, the Corporation is defending various legal actions and claims that are pending. While the outcome of these claims cannot be determined, management is of the opinion that the appropriate provisions have been made in the accounts, and the ultimate outcome will not have a material adverse effect on the Corporation's financial position.

The Corporation has been named as a party to a lawsuit related to Scratch 'n Win lottery tickets. The matter is ongoing and any liability related to this claim is not determinable at this time.

15. Financial Instruments

The Corporation's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, payable to the Province of Manitoba, and long-term debt. The Corporation is exposed to interest rate, liquidity, foreign exchange and credit risks arising from financial assets and liabilities. The Corporation's objectives in managing these risks are to protect from volatility and to minimize exposure from fluctuations in market rates.

INTEREST RATE RISK

Interest rate risk is the risk to the Corporation's income that arises from fluctuations in interest rates and the degree of volatility of these rates. The Corporation does not use derivative instruments to reduce its exposure to interest rate risk, though risks associated with interest rate fluctuations are mitigated through the use of fixed-rate long-term debt.

LIQUIDITY RISK

Liquidity risk is the risk the Corporation will encounter difficulties in meeting its financial liability obligations. The Corporation mitigates this risk through cash and long-term debt management. Trade payables are due within one year and long-term debt is repayable in either quarterly or monthly installments.

FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk to the Corporation's income that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Corporation mitigates this risk through its contract and purchasing practices.

CREDIT RISK

Credit risk is the risk to the Corporation that a counterparty will fail to perform its obligations or pay amounts due causing a financial loss. The Corporation mitigates this risk through its credit management and collection practices. The Corporation establishes a reasonable allowance for non-collectible amounts which is netted against accounts receivable. The maximum credit risk exposure associated with accounts receivable is the total carrying value and it is management's opinion that the Corporation does not have significant concentration risk.

The status of accounts receivable in relation to when they are due and payable is as follows:

Neither impaired nor past due	$ 9,572
Not impaired and past due as follows:	
Within 30 days	9
31 to 60 days	11
61 to 90 days	2
Over 90 days	6
Allowance for doubtful accounts	–
	$ 9,600

FAIR VALUE

The fair value of the Corporation's financial instruments on initial recognition is the transaction price, which is the value of the consideration given or received.

The Corporation has made the following classifications of its financial instruments:

Cash is classified as held for trading and measured at fair value. Gains and losses resulting from the periodic revaluation are recorded in income.

FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

15. Financial Instruments (continued)

Accounts receivable are classified as loans and receivables and recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities, payable to the Province of Manitoba and long-term debt are classified as other financial liabilities and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Unless otherwise stated, the fair value of the Corporation's financial instruments approximates their carrying value.

Financial Instruments recorded at fair values, classified using the fair value hierarchy are as follows:

	Level 1	Level 2	Level 3	Total
Cash	$ 27,491	$ -	$ -	$ 27,491
	$ 27,491	$ -	$ -	$ 27,491

16. Supplemental Cash Flow Information

	2010	2009
Net decrease (increase) in current assets		
Accounts receivable	$ **5,906**	$ 1,529
Inventories	**279**	(456)
Prepaid expenses	**304**	347
	6,489	1,420
Net increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**4,521**	(9,411)
Net change in non-cash working capital items	$ **11,010**	$ (7,991)

17. Comparative Figures

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year consolidated financial statements.

Consolidated Schedule of Net Income and Comprehensive Income

FOR THE YEAR ENDED MARCH 31, 2010 (IN THOUSANDS)

	2010	2009
REVENUE		
Revenue	$ 767,562	$ 775,620
Cost of sales	212,071	225,453
	555,491	550,167
EXPENSES		
Operating Expenditures		
Salaries and benefits	89,263	86,259
Maintenance	15,004	12,622
Tourism marketing	10,447	9,948
Property taxes	4,053	4,020
Utilities	2,474	2,706
Supplies and equipment	4,280	4,444
Consultant fees	2,649	6,071
Telecommunications	1,372	1,597
Transportation and vehicles	1,493	1,644
Community support	1,632	1,749
Sundry	2,720	2,559
	135,387	133,619
Amortization	30,527	39,030
Interest expense – long-term	10,309	10,998
Goods and Services Tax	8,277	7,158
	184,500	190,805
INCOME BEFORE ALLOCATIONS AND PAYMENTS	370,991	359,362
ALLOCATIONS AND PAYMENTS	64,318	54,582
NET INCOME AND COMPREHENSIVE INCOME	$ 306,673	$ 304,780

(see accompanying notes to the consolidated financial statements)

Responsibility for Financial Statements

The financial statements are the responsibility of management and are prepared in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the annual report is consistent with that in the financial statements. The financial statements necessarily include amounts that are based on management's best estimate and judgments, which have been reached based on careful assessment of data available through the Corporation's information systems. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the financial statements fairly reflect the financial position and results of operations of the Corporation.

In carrying out its responsibilities, management maintains appropriate systems of internal and administrative controls designed to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by the Internal Audit Department.

The financial statements were approved by the Board of Directors, which has overall responsibility for their contents. The Board of Directors is assisted with this responsibility by its Audit Committee (the "Committee"), which consists primarily of Directors not involved in the daily operations of the Corporation.

The general responsibilities of the Committee are categorized into the following: review of financial reporting, review of internal controls and processes, review of actuarial functions, monitoring of Corporate integrity, compliance with authorities and review of performance reporting. The Committee's role is that of oversight in these areas in order to ensure management processes are in place and functioning so as to identify and minimize risks to the business operations.

In carrying out the above responsibilities, this Committee meets regularly with management, and with both the Corporation's external and internal auditors to approve the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. The Committee is readily accessible to the external and internal auditors.

The Committee is responsible for the review of the actuarial function. As well, the Committee recommends, for approval, the appointment of the external actuary and his fee arrangements to the Board of Directors. The actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy and claims liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. In addition, the actuary provides an opinion regarding the valuation of policy and claims liabilities at the balance sheet date to meet all policyholder obligations of the Corporation. Examination of supporting data for accuracy and completeness of assets and their ability to meet the policy and claims liabilities are important elements in forming the actuary's opinion.

KPMG LLP, the Corporation's appointed external auditors, have audited the financial statements. Their Auditors' Report is included herein. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary in order to obtain reasonable assurance that the financial statements are free of material misstatement and present fairly the financial position of the Corporation in accordance with Canadian generally accepted accounting principles.

M. J. McLaren
President and Chief Executive Officer

D. D. Palmer
Vice-President,
Finance and Chief Financial Officer

May 3, 2010

Auditors' Report

To the Board of Directors of Manitoba Public Insurance Corporation:

We have audited the balance sheet of Manitoba Public Insurance Corporation as at February 28, 2010 and the statements of operations, retained earnings, comprehensive income (loss), accumulated other comprehensive income (loss) and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at February 28, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Winnipeg, Canada
May 3, 2010

Actuary's Report

To the Board of Directors of Manitoba Public Insurance Corporation:

I have valued the policy liabilities of Manitoba Public Insurance Corporation for its balance sheet at February 28, 2010 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the financial statements fairly present the results of the valuation.

James K. Christie
Fellow, Canadian Institute of Actuaries
Winnipeg, Manitoba
May 3, 2010

Financial Statements

Statement of Operations

Years ended February 28		2010		2009 (restated)
Revenue		(in thousands of dollars)		
Premiums written	**$**	**906,229**	$	885,682
Premiums earned (Note 12)	**$**	**895,811**	$	865,056
Service fees and other revenue (Note 21)		**18,475**		20,411
The Drivers and Vehicles Act operations recovery (Note 22)		**20,995**		20,995
Total earned revenues		**935,281**		906,462
Claims Costs				
Claims incurred (Note 12)				
Current year		**653,278**		641,049
Prior years (Note 11)		**(39,080)**		(35,406)
		614,198		605,643
Claims expense		**97,448**		90,443
Loss prevention/Road safety		**24,868**		27,344
		736,514		723,430
Expenses				
Commissions		**72,382**		64,736
Operating		**104,363**		100,252
Premium taxes		**27,365**		26,348
Regulatory/Appeal		**3,995**		2,883
		208,105		194,219
Total claims and expenses		**944,619**		917,649
Underwriting income (loss)		**(9,338)**		(11,187)
Investment income (Note 14)		**96,282**		4,632
Net income (loss) from annual operations (Note 17)		**86,944**		(6,555)
Surplus distribution (Note 18)		**–**		54
Net income (loss) after surplus distribution	**$**	**86,944**	$	(6,501)

The accompanying notes are an integral part of these financial statements.

Balance Sheet

February 28	2010	2009 (restated)
	(in thousands of dollars)	
Assets		
Cash and investments (Note 5)	**$ 2,206,451**	$ 2,021,677
Due from other insurance companies	**10,656**	4,726
Accounts receivable	**289,711**	276,530
Prepaid expenses	**981**	2,432
Deferred policy acquisition costs	**43,143**	21,320
Reinsurers' share of unearned premiums	**11,853**	11,269
Reinsurers' share of unpaid claims (Note 11)	**59,489**	37,534
Property and equipment (Note 8)	**134,649**	42,888
Deferred development costs (Note 9)	**34,618**	15,761
	$ 2,791,551	$ 2,434,137
Liabilities		
Due to other insurance companies	**$ 23,386**	$ 15,817
Accounts payable and accrued liabilities	**49,482**	40,164
Unearned premiums	**449,554**	441,588
Provision for employee current benefits	**15,666**	14,515
Provision for employee future benefits (Note 10)	**226,834**	207,143
Provision for unpaid claims (Notes 11 and 16)	**1,628,528**	1,561,436
	2,393,450	2,280,663
Retained Earnings		
Basic Insurance Retained Earnings		
Rate Stabilization Reserve	**224,709**	134,915
Immobilizer Incentive Fund	**–**	2,021
	224,709	136,936
Competitive Lines Retained Earnings		
Retained Earnings	**85,389**	92,918
Extension Development Fund	**48,279**	41,579
	133,668	134,497
	358,377	271,433
Accumulated Other Comprehensive Income (Loss) (Note 15)	**39,724**	(117,959)
	$ 2,791,551	$ 2,434,137

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors:

Jake Janzen
Chairperson

Kerry Bittner
Vice-Chairperson

Statement of Retained Earnings

Years ended February 28		**2010**		2009 (restated)
Basic Insurance		(in thousands of dollars)		
Rate Stabilization Reserve				
Balance beginning of year	**$**	**134,915**	$	127,122
Net income (loss) from annual operations after surplus distribution (Notes 17 and 18)		**87,773**		(8,111)
Transfer from Immobilizer Incentive Fund		**2,021**		15,904
Balance end of year		**224,709**		134,915
Immobilizer Incentive Fund				
Balance beginning of year		**2,021**		17,925
Transfer to Rate Stabilization Reserve		**(2,021)**		(15,904)
Balance end of year (Note 23)		**–**		2,021
Balance Basic Insurance Retained Earnings end of year		**224,709**		136,936
Competitive Lines				
Retained Earnings				
Balance beginning of year		**92,918**		103,739
Net income (loss) from annual operations (Note 17)		**(829)**		1,610
Net transfer to Extension Development Fund		**(6,700)**		(12,431)
Balance end of year		**85,389**		92,918
Extension Development Fund				
Balance beginning of year		**41,579**		29,148
Net transfer from Retained Earnings		**6,700**		12,431
Balance end of year (Note 24)		**48,279**		41,579
Balance Competitive Lines Retained Earnings end of year		**133,668**		134,497
Balance Retained Earnings end of year	**$**	**358,377**	$	271,433

The accompanying notes are an integral part of these financial statements.

Statement of Comprehensive Income (Loss)

Years ended February 28		2010		2009 (restated)
		(in thousands of dollars)		
Net income (loss) after surplus distribution	**$**	**86,944**	$	(6,501)
Other Comprehensive Income (Loss)				
Unrealized gains (losses) on Available for Sale assets		**155,344**		(192,556)
Reclassification of net realized losses related to Available for Sale assets		**2,339**		51,429
Other Comprehensive Income (Loss) for the year		**157,683**		(141,127)
Total Comprehensive Income (Loss)	**$**	**244,627**	$	(147,628)

Statement of Accumulated Other Comprehensive Income (Loss)

Years ended February 28		2010		2009
		(in thousands of dollars)		
Balance beginning of year	**$**	**(117,959)**	$	23,168
Other Comprehensive Income (Loss) for the year		**157,683**		(141,127)
Balance end of year (Note 15)	**$**	**39,724**	$	(117,959)

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

Years ended February 28	2010	2009 (restated)
Cash Flows from (to) Operating Activities:	(in thousands of dollars)	
Net income (loss) after surplus distribution	**$ 86,944**	$ (6,501)
Non-cash items:		
Amortization of property and equipment	**7,283**	5,884
Amortization of bond discount and premium	**3,744**	3,731
(Gain) loss on sale of investments	**(3,598)**	20,277
Unrealized (gain) loss on Held for Trading bonds	**(14,575)**	5,533
Write-down of investments	**3,080**	24,619
	82,878	53,543
Net change in non-cash balances:		
Due from other insurance companies	**(5,930)**	(849)
Accounts receivable and prepaid expenses	**(11,730)**	(22,379)
Deferred policy acquisition costs	**(21,823)**	(9,810)
Reinsurers' share of unearned premiums and unpaid claims	**(22,539)**	13,672
Due to other insurance companies	**7,569**	(7,256)
Accounts payable and accrued liabilities	**9,318**	(65,119)
Unearned premiums	**7,966**	21,598
Provision for employee current benefits	**1,151**	470
Provision for employee future benefits	**19,691**	18,563
Provision for unpaid claims	**67,092**	48,811
	50,765	(2,299)
	133,643	51,244
Cash Flows from (to) Investing Activities:		
Acquisition of property and equipment net of proceeds from disposals	**(99,045)**	(16,120)
Purchase of investments	**(1,028,541)**	(987,024)
Proceeds from sale of investments	**834,866**	1,097,418
Deferred development costs incurred	**(18,856)**	(5,473)
	(311,576)	88,801
Increase (Decrease) in Cash and Short-Term Investments	**(177,933)**	140,045
Cash and short-term investments beginning of year	**270,822**	130,777
Cash and Short-Term Investments end of year (Note 5)	**$ 92,889**	$ 270,822

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

February 28, 2010

1. Status of the Corporation

The Manitoba Public Insurance Corporation (the "Corporation") was incorporated as a Crown Corporation under *The Automobile Insurance Act* in 1970. In 1974, *The Automobile Insurance Act* was revised and became *The Manitoba Public Insurance Corporation Act* (Chapter A180 of the continuing consolidation of the Statutes of Manitoba). In 1988, the Act was re-enacted in both official languages as Chapter P215 of the Statutes of Manitoba.

Under the provisions of its Act and regulations, the Corporation operates an automobile insurance division and a discontinued general insurance division. The lines of business for the automobile insurance division provide for basic universal compulsory automobile insurance, extension and special risk coverages. For financial accounting purposes, the lines of business for the automobile insurance division and the discontinued general insurance division are regarded as separate operations and their revenues and expenses are allocated on a basis described in the summary of significant accounting policies. For financial reporting purposes, due to the immateriality of the financial results of the discontinued general insurance operations (Note 16), the operations are reported as part of the Special Risk Extension line of business. The basic universal compulsory automobile insurance line of business is subject to regulation by the Public Utilities Board (PUB) of Manitoba with respect to insurance rates and service fees (Note 25).

Under *The Drivers and Vehicles Act*, the Corporation is responsible for operations pertaining to driver safety, vehicle registration and driver licensing, including all related financial, administrative and data processing services.

2. Basis of Reporting

The financial statements of the Corporation are in such form as prescribed by Section 43(1) of *The Manitoba Public Insurance Corporation Act* and are presented in accordance with Canadian generally accepted accounting principles.

The external actuary is appointed by the Board of Directors of the Corporation. With respect to preparation of these financial statements, the external actuary is required to carry out a valuation of the policy liabilities and to report thereon to the Corporation's Board of Directors.

The external actuary also uses the work of the external auditors in his verification of the information prepared by the Corporation used in the valuation of the policy liabilities.

The external auditors are appointed by the Lieutenant Governor in Council to conduct an independent and objective audit of the financial statements of the Corporation in accordance with Canadian generally accepted auditing standards. In carrying out their audit, the external auditors also make use of the work of the external actuary and his report on the Corporation's policy liabilities. The external auditors' report outlines the scope of their audit and their opinion.

3. Summary of Significant Accounting Policies

This summary outlines those accounting policies followed by the Corporation that have a significant effect on the financial statements.

Investments

Funds available for investments are managed by the Department of Finance, on behalf of the Corporation, in accordance with Section 12(1) of *The Manitoba Public Insurance Corporation Act*.

The Corporation's directly held real estate investments are being amortized over their estimated useful life.

Under the provision of CICA Handbook Section 3855 *Financial Instruments – Recognition and Measurement*, the financial assets of Manitoba Public Insurance's investment portfolio are designated as Available for Sale (AFS), Held to Maturity (HTM), or Held for Trading (HFT).

Corporate investments that experience a decline in fair value, which is determined to have been other than temporary, are deemed to be impaired and written down to their expected recoverable amount.

The fair value of financial instruments are obtained from external pricing services and are based on bid prices for financial assets. Short-term investments comprise investments due to mature within 12 months from the date of purchase and are carried at fair value.

The Corporation accounts for the purchase and sale of securities using settlement date accounting.

i) AFS Financial Assets

AFS financial assets are carried at fair value on the Balance Sheet starting on the settlement date and the changes in fair value are recorded in Other Comprehensive Income (OCI) until the asset is disposed of, or has become other than temporarily (OTT) impaired. As long as an AFS asset is held and not OTT impaired, the gains and losses are not recognized in the Statement of Operations. When the asset is disposed of, or has become OTT impaired, the gain or loss is recognized in the Statement of Operations and the amount is deducted from OCI.

The fair value of AFS bonds including federal, provincial, certain municipal, certain hospitals, other provinces and corporations is estimated based on bid prices of these or similar investments.

Transaction costs related to AFS financial assets are capitalized on initial recognition and, where applicable, are amortized to interest income using the effective interest method.

ii) HTM Financial Assets

HTM financial assets are carried at amortized cost on the Balance Sheet starting on the settlement date.

The fair value of HTM bonds including schools, certain municipal and certain hospitals is based on their carrying value, which approximates market value.

Transaction costs related to financial assets and liabilities classified as HTM are capitalized on initial recognition, when applicable.

iii) HFT Financial Assets

HFT financial assets are carried at fair value on the Balance Sheet starting on the settlement date and the changes in fair value are recorded in the Statement of Operations.

Transaction costs related to HFT financial assets are recognized in the Statement of Operations on initial recognition.

Loans and Receivables

Accounts receivable and due from other insurance companies are designated as loans and receivables and are carried at amortized cost using the effective interest method. These receivables include financing plans for customers using interest rates set at the prime rate of the Corporation's principal banker plus two per cent and updated at each fiscal quarter. The interest rate for a customer remains unchanged throughout the term of the policy.

Cash and Short-Term Investments

Cash and short-term investments are comprised of cash, current operating accounts, provincial short-term deposits and funds held in trust on behalf of other insurance companies and are designated as Available for Sale.

Due to Other Insurance Companies

Amounts due to other insurance companies are classified as Other Liabilities.

Accounts Payable and Accrued Liabilities

Amounts for accounts payable and accrued liabilities are classified as Other Liabilities.

Deferred Policy Acquisition Costs

Commissions and premium taxes are deferred and charged to expense over the term of the insurance contract to which such costs relate.

Property and Equipment

Property and equipment are stated at cost less accumulated amortization. Amortization is provided on a straight-line basis which will amortize the cost of each asset over its estimated useful life:

Computer equipment	3 years
Vehicles	5 years
Furniture and equipment	10 years
Heating, ventilating and air conditioning (HVAC) systems	20 years
Land improvements	25 years
Roofing systems	30 years
Elevators and escalators	30 years
Buildings	40 years

Leasehold improvements are amortized over the term of the lease plus the first renewal period.

Amortization of construction in progress will begin, in accordance with the above policy, when construction has been completed.

Deferred Development Costs

The costs of developing major information systems that are expected to provide an economic return to the Corporation and meet the requirements of Section 3064 *Goodwill and Intangible Assets* of the CICA Handbook (Note 4) are deferred to future periods. These information system expenditures are stated at cost net of accumulated amortization and are amortized on a straight-line basis over five years.

Unearned Premiums

The liability for unearned premiums is the portion of premiums that relate to the unexpired term of each insurance contract.

Provision for Employee Benefits

PROVISION FOR EMPLOYEE CURRENT BENEFITS

The provision for employee current benefits includes an accrual for vacation pay determined in accordance with the Collective Agreement.

PROVISION FOR EMPLOYEE FUTURE BENEFITS

Included in the provision for employee future benefits are the pension benefit plan and other benefit plans.

i) Pension Benefit Plan

The employees of the Corporation are members of a defined benefit pension plan administered under *The Civil Service Superannuation Act*. Included in the accounts is a provision for the employer's future pension liability calculated on an indexed basis. The provision for pension is actuarially determined on an annual basis using the projected benefit method prorated on services. The actuarial present value of the accrued pension benefits is measured using the Corporation's best estimates based on assumptions relating to market interest rates at the measurement date based on high quality debt instruments, salary changes, withdrawals and mortality rates. Changes in experience gains and losses are recognized in the current period.

ii) Other Benefit Plans

Other benefit plans consist of post-retirement extended health and severance pay benefits.

The provision for post-retirement extended health benefits is actuarially determined on an annual basis using the projected benefit method prorated on services, which includes the Corporation's best estimates based on assumptions relating to retirement ages of employees and expected health costs.

Employees of the Corporation are entitled to severance pay in accordance with the Collective Agreement and Corporate policy. The provision for severance pay is actuarially determined on an annual basis using the projected benefit method prorated on services, without salary projection, which includes the Corporation's best estimates based on assumptions relating to the proportion of employees that will ultimately retire.

Provision for Unpaid Claims

The provision for unpaid claims represents an estimate for the full amount of all costs, including adjustment expenses, and the projected final settlements of claims incurred to the Balance Sheet date. These provisions take into account the time value of money. These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. To recognize the uncertainty in establishing these estimates and to allow for possible deterioration in experience, actuaries include explicit margins for adverse deviation in their assumptions. These provisions are adjusted up or down as additional information affecting the estimated amounts becomes known during the course of claims settlement. All changes in estimates are recorded as incurred claims in the current period.

Salvage and Subrogation

Recoveries from salvage and subrogation are recorded as an offset to claims costs. Expected future subrogation recoveries are included in the provision for unpaid claims.

Premium Deficiencies

A premium deficiency exists when estimated future claims and related expenses exceed unearned premiums.

Premium deficiencies are recognized first by writing down the deferred policy acquisition costs with any remainder recognized as a liability.

Allocation of Revenue, Claims Incurred and Expenses

Premiums written, premiums earned and claims incurred are allocated directly to the division writing the insurance risk.

Service fees and other revenue are allocated to the automobile insurance division lines of business and *The Drivers and Vehicles Act* operations on the following basis:

i) Identifiable direct service fees and other revenue are allocated to each line of business.

ii) Where direct allocation is not possible, service fees and other revenue are prorated to each line of business based mainly on factors such as premiums written ratios, expense allocation ratios and investment income allocation ratios. The formulas developed for the allocation of service fees and other revenue are approved by the Board of Directors.

Investment income is allocated to the automobile insurance division lines of business and the discontinued general insurance division based on a monthly averaging of the funds available within each division.

Expenses, including claims expense, are allocated to the automobile insurance division lines of business and *The Drivers and Vehicles Act* operations on the following basis:

i) Identifiable direct expenses are charged to each line of business.

ii) Where direct allocation is not possible, expenses are prorated to each line of business based mainly on factors such as space, number of employees, time usage, premiums written ratios and claims incurred ratios. The formulas developed for the allocation of expenses are approved by the Board of Directors.

Reinsurance Ceded

Premiums, claims and expenses are reported net of amounts due to and recoverable from reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims are recorded separately from estimated amounts payable to claimants.

The reinsurers' share of unearned premiums is recognized as an asset in a manner which is consistent with the method used in determining the unearned premium liability.

Foreign Currency

Monetary items denominated in foreign currencies are adjusted to reflect the exchange rate in effect at the year-end. Revenue and expense items in foreign currencies are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year.

The Corporation uses currency swaps and forward exchange contracts to manage the currency risk on specific foreign exchange denominated assets. Any gains or losses are recorded in the Statement of Operations under the heading "Investment income," on a fair value basis.

Changes in unrealized foreign exchange currency translation amounts for AFS equity investments are recorded in the Statement of Comprehensive Income, and included in accumulated other comprehensive income until recognized in the Statement of Operations.

Basic Insurance Rate Stabilization Reserve

The Basic Insurance Rate Stabilization Reserve relates to basic universal compulsory automobile insurance and is intended to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors.

Immobilizer Incentive Fund

The Immobilizer Incentive Fund was an appropriation from the Basic Insurance Rate Stabilization Reserve. The fund was used to provide financial resources for vehicle owners to install electronic immobilizers and cover the administrative costs of the program. As the Immobilizer Incentive Fund has been completely depleted, programs costs incurred are being funded through normal operations.

Extension Development Fund

The Extension Development Fund (EDF) is an appropriation from the Competitive Lines Retained Earnings. The EDF was established to defray the costs of projects undertaken to maximize the opportunities presented by the 2004 merger of Manitoba Public Insurance and the Division of Driver and Vehicle Licensing.

Retained Earnings

Retained earnings are comprised of the accumulation of net income or losses for the Basic, Extension and Special Risk Extension lines of business.

Comprehensive Income

Comprehensive income consists of net income after surplus distribution and other comprehensive income. Changes in unrealized gains and losses on financial assets classified as Available for Sale, and changes in unrealized foreign exchange currency translation amounts are recorded in the Statement of Comprehensive Income, and included in accumulated other comprehensive income until recognized in the Statement of Operations. Accumulated other comprehensive income is included on the Balance Sheet as a separate component.

Future Changes in Accounting Policy and Disclosure

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) for interim and annual reporting in fiscal years beginning on or after January 1, 2011. The Corporation will be adopting IFRS reporting requirements for the fiscal year beginning March 1, 2011. This requirement also extends to any comparative financial information included within the reports.

The Corporation is in the process of determining the full impact of the change to IFRS on the financial results.

Measurement Uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Changes in Accounting Policies

Goodwill and Intangible Assets

Effective for fiscal years beginning on or after October 1, 2008 the Accounting Standards Board issued new CICA Handbook Section 3064 *Goodwill and Intangible Assets* which replaced Section 3062 *Goodwill and Other Intangible Assets* and Section 3450 *Research and Development Costs*, and made amendments to Section 1000 *Financial Statement Concepts*. The new Section 3064 and amendments to Section 1000 are effective for Manitoba Public Insurance's 2009/10 fiscal year.

The Transitional Provisions of Section 3064 require that intangible assets recognized prior to the fiscal year beginning on or after October 1, 2008 that do not meet the new recognition or measurement criteria are to be accounted for in accordance with Section 1506 *Accounting Changes*, which includes retroactive application resulting in a restatement of previously reported balances for the fiscal year ended February 28, 2009.

As a result of adopting the new standard requiring intangible assets to provide an economic return, the Extension Development Fund was decreased by $6,241,000 to $29,148,000 as at February 29, 2008 and by $11,605,000 to $41,579,000 as at February 28, 2009 (Note 24). Operating expenses were increased by $11,605,000, resulting in net income after surplus distribution being restated from $5,104,000 to a net loss of $6,501,000 for the year ended February 28, 2009 (Note 17). Deferred development costs were decreased by $17,846,000 to $15,761,000 as at February 28, 2009 (Note 9).

Financial Instruments – Disclosures

Effective March 1, 2009, the Corporation adopted the amendments of the CICA Handbook Section 3862 *Financial Instruments – Disclosures*. The amendment to Section 3862 has expanded disclosure requirements, which require all financial instruments measured at fair value be categorized into one of three levels of the hierarchy. The three levels are based on the transparency of the inputs used to measure the fair values of assets and liabilities as follows:

Level 1 - Unadjusted quoted market prices of identical instruments in active markets;

Level 2 - Inputs other than quoted market prices included in Level 1 that are observable for the asset, either directly or indirectly; and

Level 3 - Inputs that are not based on observable market data.

The classification in the hierarchy of a financial instrument is based on the lowest level of input that is significant to the measurement of fair value (Note 5).

5. Cash and Investments

Cash consists of cash net of cheques issued in excess of amounts on deposit. Included in cash and short-term investments are funds held in trust on behalf of other insurance companies in the amount of $1,059,000 (2009 – $1,269,000).

Short-term investments have a total principal amount of $94,019,000 (2009 – $272,039,000) comprised of provincial short-term deposits with effective interest rates of 0.05 per cent (2009 – 0.50 to 0.65 per cent), with interest receivable at varying dates.

The Corporation has an unsecured operating line of credit with its principal banker in the amount of $5.0 million. There were no drawdowns against this line of credit at February 28, 2010.

Cash and Investments

(in thousands of dollars) **2010**

	Financial Instruments				
	Classified as Available for Sale	**Classified as Held to Maturity**	**Classified as Held for Trading**	**Non-Financial Instruments**	**Total Carrying Value**
Cash and short-term investments	$ 92,889	$ –	$ –	$ –	$ 92,889
Bonds					
Federal	6,741	–	367,448	–	374,189
Manitoba:					
Provincial	255,325	–	88,137	–	343,462
Municipal	50,590	23,598	10,233	–	84,421
Hospitals	12,901	–	–	–	12,901
Schools	–	425,182	–	–	425,182
Other provinces:					
Provincial	131,216	–	276,796	–	408,012
Municipal	–	–	12,461	–	12,461
Corporations	28,589	–	14,389	–	42,978
	485,362	448,780	769,464	–	1,703,606
Other investments	7,650	–	–	–	7,650
Equity investments	387,091	–	–	–	387,091
Real estate	–	–	–	15,215	15,215
	394,741	–	–	15,215	409,956
	$ 972,992	$ 448,780	$ 769,464	$ 15,215	$ 2,206,451

(in thousands of dollars) 2009

	Financial Instruments				
	Classified as Available for Sale	**Classified as Held to Maturity**	**Classified as Held for Trading**	**Non-Financial Instruments**	**Total Carrying Value**
Cash and short-term investments	$ 270,822	$ –	$ –	$ –	$ 270,822
Bonds					
Federal	140,643	–	76,201	–	216,844
Manitoba:					
Provincial	324,958	–	39,928	–	364,886
Municipal	49,899	25,186	9,291	–	84,376
Hospitals	12,347	–	–	–	12,347
Schools	–	392,560	–	–	392,560
Other provinces:					
Provincial	220,476	–	63,546	–	284,022
Municipal	10,328	–	4,821	–	15,149
Corporations	76,378	–	25,831	–	102,209
	835,029	417,746	219,618	–	1,472,393
Other investments	7,327	–	–	–	7,327
Equity investments	271,135	–	–	–	271,135
Real estate	–	–	–	–	–
	278,462	–	–	–	278,462
	$ 1,384,313	$ 417,746	$ 219,618	$ –	$ 2,021,677

The following table presents the financial instruments measured at fair value, classified by the fair value hierarchy set out in Section 3862 as described in Note 4.

Assets measured at fair value

(in thousands of dollars)			2010	
	Level 1	Level 2	Level 3	Total
Held for Trading financial assets				
Bonds	$ 343,400	$ 426,064	$ –	$ 769,464
Available for Sale financial assets				
Cash and short–term investments	92,889	–	–	92,889
Bonds	21,515	450,576	13,271	485,362
Other investments	–	–	7,650	7,650
Equity investments	387,091	–	–	387,091
Total Available for Sale financial assets	501,495	450,576	20,921	972,992
Total assets measured at fair value	$ 844,895	$ 876,640	$ 20,921	$ 1,742,456

Fair value measurement for instruments included in Level 3

(in thousands of dollars)		2010	
	Available for Sale bonds	Available for Sale other	Total
Balance, March 1, 2009	$ 12,647	$ 7,327	$ 19,974
Total gains (losses)			
Included in net income	–	(991)	(991)
Included in other comprehensive income	624	733	1,357
Purchases	–	601	601
Sales	–	(20)	(20)
Balance, February 28, 2010	$ 13,271	$ 7,650	$ 20,921

6. Financial Risk Management

Investments carry certain financial risks including market risk, credit risk and liquidity risk. In accordance with Section 12(1) of *The Manitoba Public Insurance Corporation Act*, the Minister of Finance is responsible for the investments of the Corporation. The Minister has charged the Department of Finance with the operational management of the fund. The Corporation, through the Investment Committee of the Board, and the Department jointly determine appropriate policies and strategies to mitigate risk. The investment objectives and goals of the Corporation are embodied in an Investment Policy document, which sets target asset allocation and portfolio concentration limits as well as defining the credit quality of the counterparties and the percentage of highly liquid investments required to meet cash flow needs.

Market Risk

Market risk is the risk that changes in foreign exchange rates, market interest rates and other changes in market prices will result in fluctuation of the fair value or future cash flows of a financial instrument.

CURRENCY RISK

Currency risk is the risk that changes in foreign exchange rates will result in fluctuation of the fair value or future cash flows of a financial instrument. The Corporation mitigates its currency risk by entering into contracts which offset against changes in foreign exchange rates. Any changes in foreign exchange rates are offset by the opposite change in the value of the foreign denominated financial instrument. The currency contracts include:

i) Foreign exchange contracts

The Corporation has entered into monthly foreign exchange forward contracts, which provide that the Corporation sells a specified amount of U.S. dollars at a predetermined forward exchange rate and purchases the same amount of U.S. dollars at the prevailing spot rate on the settlement date. On February 1, 2010, the Corporation contracted to sell U.S. $65,300,000 at a forward rate of 1.06786 and purchase the same amount of U.S. dollars at the spot rate of 1.04720 on March 1, 2010.

ii) Currency swap

The Corporation has entered into a currency swap relating to a Province of Quebec provincial bond denominated in U.S. dollars for $10,000,000. The currency swap provides a fixed 5.76 per cent return in Canadian dollars. The agreement also provides that at predetermined future dates, the Corporation pays a fixed 7.5 per cent rate based on the U.S. $10,000,000 par value of the bond and receives 5.76 per cent return based on a Canadian dollar notional value of $13,350,000. The maturity date of the currency swap and the bond is July 15, 2023.

INTEREST RATE RISK

Interest rate risk is the risk that changes in market interest rates will result in fluctuation of the fair value or future cash flows of a financial instrument.

The market valuation of the Corporation's fixed income portfolio is directly impacted by fluctuations in interest rates and will have a larger impact on instruments with a long duration.

Bonds	Average Effective Rate - %	
	2010	2009
Federal	**2.77**	2.49
Provincial	**3.09**	3.62
Municipal	**4.36**	4.91
Hospitals	**3.48**	4.82
Schools	**5.91**	6.15
Corporations	**4.62**	4.79

As at February 28, 2010, a 100 basis point change in interest rates would result in a change in the fair value of the Corporation's fixed income portfolio of approximately $93.8 million comprised of a change of $36.3 million in other comprehensive income and $57.5 million in net income.

Fluctuations in interest rates would also have an impact on the Corporation's unpaid claims. The Corporation's duration of its fixed income portfolio approximates the duration of unpaid claims liability and therefore, any change in interest rates related to these investments would have an offsetting impact on the unpaid claims liability.

EQUITY PRICE RISK

The fair value of equity securities held by the Corporation can be affected by changes in market prices, other than currency and interest rate risks, which may be caused by factors specific to the individual financial instrument or factors affecting all similar financial instruments. General economic conditions, political conditions and other factors affect the equity market. As at February 28, 2010, a 10 per cent change in the fair value of the Corporation's equity portfolio would result in a $38.7 million change in other comprehensive income.

As all equities are classified as AFS, all changes in prices are recorded as other comprehensive income and do not directly impact the Statement of Operations until such time as an investment is sold or has become other than temporarily impaired. The Corporation has policies in place to limit and monitor its exposure to individual issuers and classes of issuers of equity securities.

Credit Risk

Credit risk is the potential for the Corporation to incur a financial loss due to the failure of the other party to discharge an obligation. Financial instruments that give rise to potential credit risk for the Corporation include fixed income securities, accounts receivable, reinsurance receivables and structured settlements.

The following table summarizes the Corporation's maximum exposure to credit risk on the Balance Sheet. The maximum credit exposure is the carrying value of the asset net of any allowance for loss.

(in thousands of dollars)	**2010**	2009
Bonds	**$ 1,703,606**	$ 1,472,393
Due from other insurance companies	**10,656**	4,726
Accounts receivable	**289,711**	276,530
Reinsurance receivable	**49,289**	32,334
Maximum credit risk exposure on the balance sheet	**$ 2,053,262**	$ 1,785,983

FIXED INCOME SECURITIES CREDIT RISK

The Corporation mitigates its exposure to credit risk by placing fixed income securities with high-quality institutions with investment grade ratings. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings, where available, or to historical information about counterparty default rates. The following table highlights the fixed income securities by credit quality according to Moody's Investors Service at February 28.

(in thousands of dollars)	**2010**		2009	
	Carrying Value	**Percentage of Portfolio**	Carrying Value	Percentage of Portfolio
Aaa	**$ 421,669**	**24.7%**	$ 238,314	16.2%
Aa	**1,244,625**	**73.1%**	1,176,834	79.9%
A	**24,411**	**1.4%**	22,762	1.5%
Baa	**–**	**–%**	5,798	0.4%
Not rated	**12,901**	**0.8%**	28,685	2.0%
Total	**$ 1,703,606**	**100.0%**	$ 1,472,393	100.0%

ACCOUNTS RECEIVABLE CREDIT RISK

The Corporation's accounts receivable are comprised of customers with varying financial conditions as the Corporation is required to provide Basic insurance to all vehicle owners and drivers in the Province of Manitoba. All significant past due receivables including subrogation receivables are fully provided for due to the uncertainty of collection. The credit risk pertaining to premiums receivable is mitigated as a customer's policy may be cancelled for default of payment.

The following table highlights the Corporation's accounts receivable by major category.

(in thousands of dollars)	2010	2009
Policy and time payments	**$ 260,983**	$ 250,412
Accrued interest	**26,783**	26,308
Subrogation and other receivables	**12,493**	12,502
Allowance for doubtful accounts	**(10,548)**	(12,692)
Total	**$ 289,711**	$ 276,530

Details of the allowance for doubtful accounts are as follows:

(in thousands of dollars)	2010	2009
Allowance for doubtful accounts, opening balance	**$ 12,692**	$ 13,658
Accounts written off	**(1,827)**	(680)
Current period provision	**(317)**	(286)
Allowance for doubtful accounts, closing balance	**$ 10,548**	$ 12,692

REINSURANCE RECEIVABLE CREDIT RISK

The Corporation evaluates the financial condition of its reinsurers to minimize the exposure to significant losses from reinsurer insolvency. The Corporation holds collateral in regards to unregistered reinsurance in the form of amounts on deposit and letters of credit of $10.2 million (2009 – $5.2 million). Furthermore, a Corporate guideline requiring reinsurers to have a minimum credit rating of A- from A.M. Best and BBB+ credit rating from Standard & Poor's is in place.

For the 2010 calendar year, nine reinsurers share the Corporation's casualty reinsurance coverage, ranging from 2.5 per cent to 35.0 per cent on any one layer. The reinsurer exposed to 35.0 per cent of the losses is licensed in Canada by the Office of the Superintendant of Financial Institutions and, therefore, subject to minimum capital requirements.

For the 2010 calendar year, 16 reinsurers share the Corporation's catastrophe reinsurance coverage, none holding more than 15 per cent of the reinsurance exposure on any one layer. The 2010 catastrophe reinsurance program is placed on a rolling one-third, three-year term to further mitigate the Corporation's exposure to reinsurer insolvency.

No amount due from reinsurers was considered uncollectible during 2009/10 and no allowance for doubtful accounts has been established as at February 28, 2010.

STRUCTURED SETTLEMENTS CREDIT RISK

The claims settlement processes may involve the use of structured settlements, which are purchased through various financial institutions. As of the Balance Sheet date, the present value of expected payments totals $145.2 million (2009 – $142.6 million) based on various dates of purchase. The Corporation assumes a financial guarantee to make payments to claimants in the event that financial institutions default on payments under the terms of the structured settlement.

Liquidity Risk

A significant risk of the insurance industry is the ability to match the cash inflows of the investment portfolio with the cash requirements of the policy liabilities and operating expenses. The Corporation has taken the overall historical liability settlement pattern as a basis to define diversification and duration characteristics of the investment portfolio. To meet the cash requirements for claims and operating expenses, the Corporation has policies to ensure that assets and liabilities are broadly matched in terms of their duration.

Cash and cash equivalents are essential components of the Corporation's financial liquidity management. Cash flows are monitored to ensure sufficient resources are available to meet our current operating requirements. Excess funds not needed to meet current operating requirements are invested in long-term instruments to generate additional revenue for future obligations.

Bonds - maturity profile

(in thousands of dollars)		2010		
	Within One Year	**One Year to Five Years**	**After Five Years**	**Total Carrying Value**
Federal	**$ 10,095**	**$ 91,598**	**$ 272,496**	**$ 374,189**
Manitoba:				
Provincial	**14,648**	**49,222**	**279,592**	**343,462**
Municipal	**681**	**38,597**	**45,143**	**84,421**
Hospitals	**–**	**–**	**12,901**	**12,901**
Schools	**4,393**	**23,677**	**397,112**	**425,182**
Other provinces:				
Provincial	**7,229**	**188,760**	**212,023**	**408,012**
Municipal	**–**	**5,000**	**7,461**	**12,461**
Corporations	**–**	**5,039**	**37,939**	**42,978**
	$ 37,046	**$ 401,893**	**$ 1,264,667**	**$ 1,703,606**

(in thousands of dollars)		2009		
	Within One Year	One Year to Five Years	After Five Years	Total Carrying Value
Federal	$ –	$ 26,672	$ 190,172	$ 216,844
Manitoba:				
Provincial	36,058	77,211	251,617	364,886
Municipal	387	39,200	44,789	84,376
Hospitals	–	–	12,347	12,347
Schools	3,998	35,218	353,344	392,560
Other provinces:				
Provincial	6,848	121,561	155,613	284,022
Municipal	–	5,202	9,947	15,149
Corporations	4,049	37,967	60,193	102,209
	$ 51,340	$ 343,031	$ 1,078,022	$ 1,472,393

7. Capital Management

The Corporation's Board of Directors has approved risk-based capital adequacy target levels by line of business to maintain financial stability. In addition, specific levels of retained earnings have been appropriated to support two major Corporate initiatives:

- The Immobilizer Incentive Strategy - a program designed to protect at-risk vehicles from theft; and
- The Extension Development Fund which was established to defray the costs of projects undertaken to maximize the opportunities presented by the 2004 merger of Manitoba Public Insurance and the Division of Driver and Vehicle Licensing.

Basic's retained earnings are comprised of the Rate Stabilization Reserve (RSR) and the Immobilizer Incentive Fund (IIF). The Corporation's Board of Directors' current target RSR level is $185 million based on the 2009 Basic Insurance Dynamic Capital Adequacy Test (DCAT) report. In his report, the Corporation's internal actuary concluded that a minimum RSR level of $185 million would be required for Basic to achieve a satisfactory future financial condition. An RSR level lower than $185 million would result in a "not satisfactory" opinion because there were plausible adverse scenarios identified where liabilities exceed assets.

The Public Utilities Board of Manitoba by its Order 161/09 has established the Basic RSR target for rate-setting purposes to be $77 million to $154 million and includes the IIF for purposes of assessing RSR adequacy. The target is reflective of 10 per cent to 20 per cent of written premiums.

The Corporation's Board of Directors' current target level for Extension retained earnings is $35.0 million based on the 2009 Extension DCAT report. Based on this target the Corporation's internal actuary has concluded that the future financial condition of this line of business is satisfactory.

The Corporation's Board of Directors' current target level of $37.0 million for SRE retained earnings is based on the 2009 SRE DCAT report. The Corporation's internal actuary has concluded that, based on this target, the future financial condition of this line of business is satisfactory.

In the prior year, the Corporation used the Minimum Capital Test to assess the Corporation's financial risk and determine the capital adequacy of reserves held in retained earnings.

8. Property and Equipment

(in thousands of dollars)		2010		2009
	Cost	**Accumulated Amortization**	**Carrying Value**	Carrying Value
Land	**$ 12,251**	**$ –**	**$ 12,251**	$ 2,730
Land improvements	**6,459**	**2,632**	**3,827**	4,085
Buildings	**87,315**	**15,316**	**71,999**	14,407
Elevators and escalators	**183**	**83**	**100**	–
HVAC systems	**147**	**13**	**134**	–
Computer equipment	**43,759**	**39,498**	**4,261**	5,570
Vehicles	**6,291**	**4,304**	**1,987**	2,191
Furniture and equipment	**16,878**	**13,027**	**3,851**	4,437
Leasehold improvements	**2,706**	**443**	**2,263**	2,520
Construction in progress*	**33,976**	**–**	**33,976**	6,948
Total	**$ 209,965**	**$ 75,316**	**$ 134,649**	$ 42,888

* The Corporation is in the process of building new Service Centres in Winnipeg and Selkirk.

9. Deferred Development Costs

(in thousands of dollars)	2010	2009
Balance at beginning of year		
Gross carrying amount	**$ 48,225**	$ 51,074
Accumulated amortization	**(32,464)**	(34,503)
Net carrying amount	**15,761**	16,571
Restated balance at beginning of year		
Gross carrying amount	**–**	42,753
Accumulated amortization	**–**	(32,423)
Net carrying amount	**–**	10,330
Expenditures during the year	**18,857**	17,077
Change in accounting policy (Note 4)	**–**	(11,605)
Amortization expense during the year	**–**	(41)
Balance at end of year		
Gross carrying amount	**67,082**	48,225
Accumulated amortization	**(32,464)**	(32,464)
Net carrying amount	**$ 34,618**	$ 15,761

Net deferred development costs were decreased by $17,846,000 to $15,761,000 as at February 28, 2009 to reflect changes resulting from the adoption of Section 3064 of the CICA Handbook (Note 4).

10. Provision for Employee Future Benefits

The Corporation has a defined benefit pension plan, severance benefit plan and a post-retirement extended health benefit plan available to eligible employees. The defined benefit pension plan is based on years of service and final average salary whereas the severance benefit plan is based on years of service and final salary.

The Corporation uses an actuarial valuation, on an annual basis, to measure the accrued provision for its benefit plans. The most recent actuarial valuation was conducted by an external actuary as at December 31, 2009, with the next scheduled actuarial valuation being December 31, 2010.

The actuarial valuation is based on the Corporation's best estimate of various economic and demographic assumptions. Results from the most recent actuarial valuations, projected to February 28 and the corresponding economic assumptions are as follows:

	Pension Benefit Plan		Other Benefit Plans	
	2010	2009	**2010**	2009
Economic assumptions:				
Discount rate	**5.25%**	5.25%	**5.25%**	5.25%
Inflation rate	**2.00%**	2.00%	**–**	–
Expected salary increase	**2.90%**	2.90%	**–**	–
Expected health care cost increase	**–**	–	**7.00%**	7.00%

(in thousands of dollars)	Pension Benefit Plan		Other Benefit Plans	
	2010	2009	**2010**	2009
Balance, beginning of year	**$ 171,402**	$ 155,725	**$ 35,741**	$ 32,855
Current service cost	**8,287**	7,346	**4,059**	3,911
Interest cost	**9,133**	8,464	**724**	661
Benefits paid	**(4,792)**	(5,436)	**(1,988)**	(2,079)
Actuarial valuation deficiency (redundancy)	**5,083**	5,303	**(815)**	393
Provision for employee future benefits	**$ 189,113**	$ 171,402	**$ 37,721**	$ 35,741
Employee contribution for the year	**$ 6,166**	$ 5,848	**$ –**	$ –

Plan Assets

The Corporation has not segregated investment assets to fund the benefit plans. Funding occurs as benefits are paid. The Corporation has established a provision against general assets, which is being increased to match the increase in its benefit plan liabilities. The interest cost associated with the various benefit plans is based on market interest rates at the most recent valuation date.

(in thousands of dollars)	Pension Benefit Plan		Other Benefit Plans	
	2010	2009	**2010**	2009
Plan expenses for the year:				
Current service cost	**$ 8,287**	$ 7,346	**$ 4,059**	$ 3,911
Interest cost	**9,133**	8,464	**724**	661
Actuarial valuation deficiency (redundancy)				
Pertaining to interest	**3,202**	3,341	**–**	–
Pertaining to expense	**1,881**	1,962	**(815)**	393
	$ 22,503	$ 21,113	**$ 3,968**	$ 4,965

11. Provision for Unpaid Claims

The provision for unpaid claims, including adjustment expenses, represents an estimate for the full amount of all costs and the projected final settlement of claims incurred.

The provision for unpaid claims, including adjustment expenses, is subject to variability. This variability is related to future events that arise from the date the loss was reported to the ultimate settlement of the claims. Accordingly, short-tail claims such as physical damage claims tend to be more reasonably predictable than long-tail claims such as public liability claims. Factors such as the receipt of additional claims information during the claims settlement process, changes in severity and frequencies of claims from historical trends, and effects of inflationary trends contribute to this variability.

The determination of the provision for unpaid claims, including adjustment expenses, relies on judgment, analysis of historical claim trends, investment rates of return and expectation on the future development of claims. The process of establishing this provision necessarily involves risks which could cause the actual results to deviate, perhaps substantially, from the best determinable estimate.

The provision for unpaid claims, including adjustment expenses, by major claims category includes:

(in thousands of dollars)	2010		2009	
	Gross	**Reinsurers' Share**	Gross	Reinsurers' Share
Automobile Insurance Division				
Liability	**$ 1,481,548**	**$ 43,314**	$ 1,412,138	$ 31,884
Physical Damage	**143,021**	**16,175**	145,047	5,650
	1,624,569	**59,489**	1,557,185	37,534
Discontinued Operations				
Personal/Commercial	**3,959**	**–**	4,251	–
	$ 1,628,528	**$ 59,489**	$ 1,561,436	$ 37,534

The provision for unpaid claims is calculated as the present value of expected future payments plus actuarially determined provisions for adverse deviations, and is considered an indicator of fair value, as there is no organized market for the trading of insurance liabilities.

The provision for unpaid claims, including adjustment expenses, is discounted using the following discount rates:

	2010	2009
Benefits	**Interest Rate Assumptions**	
Pre-PIPP Weekly Indemnity	**2.0% per year**	2.6% per year
PIPP other than death and impairment	**2.0% per year**	2.6% per year
All other coverages	**4.0% per year**	4.6% per year

PIPP – Personal Injury Protection Plan

According to accepted actuarial practice, the discounted reserve includes a provision for adverse deviation of $288.7 million (2009 – $276.7 million) comprised of a claims development component of $165.4 million (2009 – $166.6 million), an interest rate component of $121.0 million (2009 – $108.5 million) and a reinsurance component of $2.3 million (2009 – $1.6 million).

Net claims incurred and adjustment expenses include losses from catastrophes of $13.3 million in the current fiscal year (2009 – nil). Catastrophes are an inherent risk to the Corporation and may contribute materially to the year-to-year fluctuations in the Corporation's results of operations and financial condition when they occur.

Unpaid claim liabilities are carried at values that reflect their remaining estimated ultimate costs for all accident years.

Changes in the estimate of net unpaid claims, recognized during the fiscal year ended February 28, 2010 for prior years, are as follows:

(in thousands of dollars)	Accident Years				
	2009	**2008**	**2007**	**2006 and Prior**	**Total**
Net unpaid claims (valuation estimate as at February 28, 2009)	$ 309,385	$ 162,395	$ 165,093	$ 887,029	
Net payments for the year	135,150	24,408	12,958	46,709	
	174,235	137,987	152,135	840,320	
Net unpaid claims (revised valuation estimate as at February 28, 2010)	147,489	139,970	146,674	831,464	
(Redundancy) deficiency	$ (26,746)	$ 1,983	$ (5,461)	$ (8,856)	$ (39,080)
Prior years (redundancy) deficiency		$ (32,763)	$ (10,075)	$ 7,432	$ (35,406)

Changes in the estimate of net unpaid claims for discontinued operations recognized during the fiscal year ended February 28, 2010 are a decrease of $0.3 million (2009 – decrease of $0.3 million). All of the net unpaid claims relate to loss dates prior to October 1, 1990.

12. Reinsurance

The Corporation follows the practice of obtaining reinsurance to limit its exposure to losses. Under agreements in effect at February 28, 2010, these reinsurance agreements limit the Corporation's exposure on a casualty basis to a maximum amount of $5.0 million (2009 – $5.0 million) on any one occurrence.

The reinsurance arrangements also limit the Corporation's liability in respect to a series of claims arising out of a single occurrence, including catastrophic claims, to a maximum of $15.9 million (2009 – $13.3 million). These arrangements protect the Corporation against losses up to $266.7 million (2009 – $266.7 million).

Certain lines of insurance carry maximum limits lower than these amounts. While these arrangements are made to protect against large losses, the primary liability to the policyholders remains with the Corporation.

The figures shown in the Statement of Operations are net of the following amounts relating to reinsurance ceded to other companies:

(in thousands of dollars)	**2010**	2009
Premiums earned	**$ 16,370**	$ 13,172
Claims incurred	**$ 33,480**	$ 1,126

13. Commitments

The Corporation is committed to make minimum annual lease payments for land, buildings and equipment. The minimum annual lease payments required are approximately as follows:

(in thousands of dollars)	
Fiscal Year	**Minimum Lease Payments**
2011	$ 1,500
2012	$ 1,406
2013	$ 1,272
2014	$ 1,049
2015	$ 774
thereafter	$ 11,863

The Corporation has committed $7.9 million (2009 - $5.9 million) for the construction of new Service Centres.

14. Investment Income

(in thousands of dollars)	**2010**	2009
Interest from bonds	**$ 62,561**	$ 68,201
Gain (loss) on sale of Available for Sale bonds	**14,080**	8,754
Gain (loss) on sale of Held for Trading bonds	**2,862**	6,541
Unrealized gain (loss) on Held for Trading bonds	**14,575**	(5,533)
Dividends from equities	**9,580**	9,976
Gain (loss) on sale of equities	**(13,344)**	(35,572)
Gain (loss) on foreign exchange	**11,093**	(20,214)
Income from real estate investments	**670**	–
Write-down of investments	**(3,080)**	(24,619)
Investment management fees	**(2,715)**	(2,902)
Total	**$ 96,282**	$ 4,632

Income from real estate investments consists of gross income of $1,618,000 (2009 – nil) and expenses of $948,000 (2009 – nil).

Investment income is net of investment management fees paid to the Department of Finance in the amount of $2.7 million (2009 – $2.9 million). This includes $1.5 million (2009 – $1.7 million) of fees the Province paid to outside managers on the Corporation's behalf.

15. Accumulated Other Comprehensive Income (Loss)

Accumulated Other Comprehensive Income (Loss) (AOCI) reflects the net unrealized gain or loss on financial assets classified as Available for Sale. Changes in AOCI by type of asset are presented below.

(in thousands of dollars)	AOCI at February 28, 2009	Unrealized Gains (Losses) in 2009/2010	Realized (Gains) Losses transferred to Net Income in 2009/2010	AOCI at February 28, 2010
Canadian Equities	$ (91,536)	$ 91,546	$ 13,310	$ 13,320
U.S. Equities	(15,693)	15,063	2,123	1,493
Bonds and Other	(10,730)	48,735	(13,094)	24,911
	$ (117,959)	$ 155,344	$ 2,339	$ 39,724

16. Discontinued General Insurance Operations

The Corporation discontinued writing reinsurance assumed business effective November 18, 1987, and personal and commercial insurance policies effective October 1, 1990.

As of February 28, 2001, the Corporation accepted a third-party offer to purchase the reinsurance assumed business from the Corporation. Under the terms of the agreement, the Corporation transferred and assigned to the third-party the title, interest and all of the obligations resulting from the un-commuted reinsurance assumed treaties written by the Corporation for the period July 1, 1975 to November 18, 1987, including retrocessional treaties. The obligations include all known or unknown liabilities. The primary liability to the treaty holders remains with the Corporation in the event of the third-party's insolvency.

Claims costs and expenses on personal and commercial policies will be incurred until all claims on existing policies are settled.

Discontinued operations resulted in net income of $0.5 million (2009 – $0.4 million) which is reported as part of the Special Risk Extension line of business (Note 17). Included in the provision for unpaid claims is $4.0 million (2009 – $4.3 million) relating to discontinued operations.

17. Net Income (Loss) From Annual Operations

The lines of business reported net income (loss) from annual operations as follows:

(in thousands of dollars)	**2010**	2009 (restated)
Basic insurance	**$ 87,773**	$ (8,165)
Extension insurance	**(144)**	(13,289)
Special Risk Extension	**(685)**	14,899
	(829)	1,610
Net income (loss) from annual operations	**86,944**	(6,555)
Surplus distribution	**–**	54
Net income (loss) after surplus distribution	**$ 86,944**	$ (6,501)

Net income after surplus distribution was restated from $5,104,000 to a net loss of $6,501,000 for the year ended February 28, 2009 to reflect changes resulting from the adoption of Section 3064 of the CICA Handbook (Note 4).

18. Surplus Distribution

On November 26, 2007 the Public Utilities Board of Manitoba released its ruling on the Corporation's 2008/2009 Basic Insurance rate application and ordered a surplus distribution of 10 per cent of the Basic motor vehicle premiums written based on 2006/2007 rates. At February 29, 2008, the rebate was estimated to be $62,700,000. The amount was actualized during the 2008/2009 fiscal year when $62,646,000 was distributed to Basic policyholders, resulting in a difference of $54,000 compared to the original estimate.

As outlined in the Public Utilities Board ruling on December 2, 2008 on the Corporation's 2009/2010 Basic Insurance rate application, there was no surplus distribution in 2009/2010.

On December 4, 2009 the Public Utilities Board released its ruling on the Corporation's 2010/2011 Basic Insurance rate application. There is no surplus distribution in 2010/2011.

19. Fair Value Disclosure

The fair value of financial assets and liabilities, not otherwise disclosed in these financial statements, approximates their carrying value due to their short term to maturity.

20. External Auditor and External Actuary Costs

The Basis of Reporting note (Note 2) provides information on the appointment of the external auditor and external actuary. In the normal course of business, and in addition to the annual attest audit of the Corporation's financial statements and valuation of policy liabilities, the external auditor and external actuary provide advisory services to the Corporation.

Costs incurred for services rendered are:

(in thousands of dollars)	**2010**	2009
KPMG LLP		
Audit fees	**$ 209**	$ 178
Regulatory related fees	**–**	14
Advisory fees	**41**	15
Total	**$ 250**	$ 207
Ernst & Young LLP		
Valuation of policy liabilities fees	**$ 104**	$ 95
Actuarial advisory fees	**23**	92
Total	**$ 127**	$ 187

21. Service Fees and Other Revenue

(in thousands of dollars)	2010	2009
Transaction fees	$ 6,547	$ 6,274
Time payment fees	2,319	2,245
Time payment interest	12,289	15,760
Late payment fees	1,091	1,232
Dishonoured payment fees	655	622
Identification Card/Enhanced Identification Card fees	350	20
Net rental income	2,040	–
Other miscellaneous revenue	1,129	1,215
Credit card and other service charges	(7,945)	(6,957)
Total	$ 18,475	$ 20,411

Net rental income includes gross rental income of $7,086,000 (2009 – nil) and gross rental expenses of $5,046,000 (2009 – nil).

22. *The Drivers and Vehicles Act* Operations Recovery

Under *The Drivers and Vehicles Act*, the Corporation is responsible for operations pertaining to driver safety, vehicle registration and driver licensing, including all related financial, administrative and data processing services.

The Province of Manitoba provides funding to the Corporation in the amount of $21.0 million annually, into perpetuity, payable in equal monthly instalments of $1.75 million to defray the cost borne by the Corporation for *The Drivers and Vehicles Act* operations.

The Corporation, on behalf of the Province of Manitoba, collects and transfers motor vehicle registration fees and driver licensing fees to the Province of Manitoba.

Fees collected on behalf of and transferred to the Province of Manitoba include:

(in thousands of dollars)	2010	2009
Vehicle registration fees	$ 127,151	$ 118,056
Driver licensing fees	20,225	19,876
Total	$ 147,376	$ 137,932

23. Immobilizer Incentive Fund

Activity in the Immobilizer Incentive Fund includes:

(in thousands of dollars)	2010	2009
Balance beginning of year	$ 2,021	$ 17,925
Less: Funds transferred to Basic Insurance Rate Stabilization Reserve to offset program costs	(2,021)	(15,904)
Balance end of year	$ –	$ 2,021

The Immobilizer Incentive Fund was established during the 2005/2006 fiscal year by appropriating $40.0 million from the Basic Insurance Rate Stabilization Reserve to fund the Immobilizer Incentive Program. An additional $10.0 million was transferred to the Immobilizer Incentive Fund during 2006/2007 to expand the No Cost Immobilizer Program to all Manitobans owning Most-at-Risk vehicles.

Program costs incurred are included in the "Net income from annual operations after surplus distribution" for the Basic Insurance line of business, which is reported in the Statement of Retained Earnings under the heading "Rate Stabilization Reserve."

Funds are transferred from the Immobilizer Incentive Fund to the Basic Insurance Rate Stabilization Reserve to offset the program costs incurred. As the Immobilizer Incentive Fund has been completely depleted, programs costs incurred are being funded through normal operations.

24. Extension Development Fund

The Board of Directors approved that the Competitive Lines retained earnings in excess of the most recent year's target be appropriated into the Extension Development Fund (EDF) for the fiscal years up to February 28, 2009. The EDF was established to defray the costs of projects undertaken to maximize the opportunities presented by the 2004 merger of Manitoba Public Insurance and the Division of Driver and Vehicle Licensing.

Activity in the EDF includes:

(in thousands of dollars)	2010	2009 (restated)
Balance beginning of year	**$ 41,579**	$ 29,148
Transfer from Competitive Lines Retained Earnings	**20,917**	31,739
Transfer to Competitive Lines Retained Earnings	**(14,217)**	(19,308)
Balance end of year	**$ 48,279**	$ 41,579

The Extension Development Fund was decreased by $6,241,000 to $29,148,000 as at February 29, 2008 and by $11,605,000 to $41,579,000 as at February 28, 2009 to reflect changes resulting from the adoption of Section 3064 of the CICA Handbook (Note 4).

25. Rate Regulation

The Corporation's basic universal compulsory automobile insurance line of business (Basic Insurance) is subject to regulation by the Public Utilities Board (PUB) of Manitoba. Under the provisions of *The Crown Corporations Public Review and Accountability Act*, the PUB has the authority to review and approve Basic Insurance rates, premiums and service fees charged with respect to compulsory driver and vehicle insurance provided by the Corporation. No new rates or fees for services can be introduced without the approval of the PUB. The PUB is required to ensure that the rates are just, reasonable and not unduly discriminatory or preferential.

Annually the Corporation prepares its Basic Insurance general rate application and files it with the PUB in the month of June for implementation the following fiscal year commencing on March 1. The general rate application includes the prospective rate requirements based on historical and forecasted financial and other information as well as the application of actuarial, accounting and statistical principles and practices.

The Corporation is required to pay the portion of the PUB's operating costs relating to the Corporation's share of the overall PUB budget. In addition, the PUB can also order the Corporation to reimburse other proceeding participants for specified costs such as their time, legal and expert witness fees.

26. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year financial statement presentation.

Management's Responsibility for Financial Information

The consolidated financial statements of the WCB were prepared by management, which is responsible for the integrity and fairness of the data presented, including significant accounting judgments and estimates. This responsibility includes selecting appropriate accounting principles consistent with generally accepted accounting principles in Canada. Financial information contained elsewhere in this annual report conforms to these financial statements.

Management believes the system of internal controls, review procedures and established policies provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded. Management also believes that the WCB's operations are conducted in conformity with the law and with a high standard of business conduct. The internal auditor performs periodic audits designed to test the adequacy and consistency of the WCB's internal controls.

The Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities and approved the financial statements and other financial information included in this annual report on March 16, 2010.

The Audit Committee assists the Board of Directors in its responsibilities. This Committee reviews and recommends approval of the consolidated financial statements and annual report. Internal and external auditors and actuaries have unlimited access to the Audit Committee. The Committee reviews the financial statements and the other contents of the annual report with management and the external auditors, and reports to the Board of Directors prior to their approval for publication.

The Chief Actuary of the WCB completed an actuarial valuation of the benefit liabilities included in the financial statements of the WCB and reported thereon in accordance with accepted actuarial practices. The firm of Eckler Ltd. has been appointed as an independent peer reviewer to the WCB. The Chief Actuary's opinion on the valuation of the benefit liabilities is provided on page 31. Eckler Ltd.'s actuarial review is provided on page 32.

Grant Thornton LLP, independent auditors appointed as a sub-agent to the Provincial Auditor General, has performed an independent audit of the consolidated financial statements of the WCB in accordance with Canadian generally accepted auditing standards. Their Auditors' Report, on page 33, outlines the scope of this independent audit and includes their opinion expressed on the 2009 consolidated financial statements.

Doug Sexsmith
President and CEO

Lorena B. Trann, CMA, FCMA
Chief Financial Officer

March 16, 2010

Auditor's Report

To the Workers Compensation Board of Manitoba

We have audited the consolidated balance sheet of the Workers Compensation Board of Manitoba as at December 31, 2009 and the consolidated statements of operations and accident fund reserve, comprehensive income, changes in accumulated other comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the WCB's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the WCB as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Grant Thornton LLP
Chartered Accountants
Winnipeg, Manitoba

March 10, 2010

Grant Thornton

Consolidated Balance Sheet

December 31, 2009
(in thousands of dollars)

	2009	2008
Assets		
Cash	$ 401	$ 1,103
Receivables and other (Note 4)	36,292	34,675
Investment portfolio (Note 5)	972,601	885,059
Deferred assessments (Note 7)	68,813	65,691
Capital assets (Note 8)	8,347	7,928
Intangible assets (Note 9)	4,185	4,108
	$ 1,090,639	$ 998,564
Liabilities and funded position		
Payables and accrued liabilities (Note 10)	$ 36,418	$ 33,492
Benefit liabilities (Note 12)	913,006	903,489
Total liabilities	949,424	936,981
Accident fund reserve	101,919	120,256
Accumulated other comprehensive income (loss)	39,296	(58,673)
Funded position	141,215	61,583
	$ 1,090,639	$ 998,564

Signed on behalf of the Board of Directors,

Michael D. Werier
Chairperson, Board of Directors

Ron Hambley
Audit Committee of the Board of Directors

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Operations and Accident Fund Reserve

Year Ended December 31, 2009
(in thousands of dollars)

	2009	2008
Revenue		
Premium revenue (Note 14)	$ 246,626	$ 247,887
Investment (loss) income (Note 5)	(6,232)	45,035
Total revenue	240,394	292,922
Expenses		
Claim costs incurred (Note 12)	198,807	263,127
Operating expenses (Note 15)	59,924	59,793
Total expenses	258,731	322,920
Operating loss	**(18,337)**	**(29,998)**
Accident fund reserve at beginning of year	120,256	150,254
Accident fund reserve at end of year	$ 101,919	$ 120,256

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income (Loss)

Year Ended December 31, 2009
(in thousands of dollars)

	2009	2008
Operating loss	$ (18,337)	$ (29,998)
Other comprehensive income (loss)		
Unrealized gains (losses) on available-for-sale financial assets	67,327	(158,789)
Reclassification of realized losses (gains) to the Consolidated Statement of Operations and Accident Fund Reserve (Note 5)	30,642	(7,530)
Other comprehensive income (loss)	97,969	(166,319)
Total comprehensive income (loss)	$ 79,632	$ (196,317)

Consolidated Statement of Changes in Accumulated Other Comprehensive Income (Loss)

Year Ended December 31, 2009
(in thousands of dollars)

	2009	2008
Accumulated other comprehensive income (loss)		
Balance at beginning of year	$ (58,673)	$ 107,646
Other comprehensive income (loss)	97,969	(166,319)
Balance at end of year	$ 39,296	$ (58,673)

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

Year Ended December 31, 2009
(in thousands of dollars)

	2009	2008
Operating cash flows		
Premiums from employers	$ 241,887	$ 230,309
Investment income	31,883	47,270
Claim payments (Note 12)	(189,290)	(191,319)
Purchases of administration goods and services	(59,100)	(59,162)
Net cash provided by operating activities	25,380	27,098
Investing cash flows		
Purchases of investments, net of sales (Note 5)	(23,623)	(26,920)
Capital asset acquisitions, net of disposals	(2,459)	(1,956)
Net cash used by investing activities	(26,082)	(28,876)
Net decrease in cash	(702)	(1,778)
Cash at beginning of year	1,103	2,881
Cash at end of year	$ 401	$ 1,103

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

Year Ended December 31, 2009
($ amounts in thousands of dollars unless otherwise noted)

1. NATURE OF OPERATIONS

The Workers Compensation Board of Manitoba (the WCB) was created in 1917 under the authority of *The Workers Compensation Act* of Manitoba. In accordance with the provisions of the *Act*, the WCB is responsible for:

- prevention of workplace injuries and occupational diseases in conjunction with the Manitoba government's Workplace Safety and Health Division
- administering payments to injured workers and suppliers of services to injured workers
- levying and collecting premiums from established classes of employers in amounts sufficient to cover the current and future costs of existing claims
- investing funds set aside for the future costs of claims as well as surplus funds.

An independent Workers Compensation Appeal Commission operates under the *Act* to make final rulings on any appeals pertaining to the WCB's assessment or benefits decisions.

The WCB's vision is *SAFE Work – A Way of Life*. The organization's mission is to promote safe and healthy workplaces, promote recovery and return to work, provide compassionate and supportive compensation services for workers and employers, and ensure responsible financial stewardship. The WCB compensates for lost wages, provides support and arranges for rehabilitative help, and has a responsibility to injured workers, their families and their employers to help injured workers return to health and productive work in a timely and safe manner.

The workers compensation system is funded through premiums collected from employers. The WCB does not receive government funding or assistance. Available funds are invested and are used to protect the WCB and its ratepayers from general business risks and catastrophic events in areas such as investment returns or extraordinary claim costs. To that end, an accident fund reserve attributable to Class E employers exists. A second reserve, accumulated other comprehensive income, shows the cumulative unrealized gains and losses arising from the investment portfolio.

The target balance for the reserves is based on a formula modified from the Minimum Contributing Capital and Surplus Requirements rules set out by the Office of the Superintendent of Financial Institutions, Canada. The calculation moves in tandem with changes in the size of the WCB's assets and liabilities, thereby calculating a reserve target that reduces risk to the organization. The target balance also includes a provision for the potential of new occupational diseases in the future and the expected impact of adopting International Financial Reporting Standards in 2011. The target balance for the reserves was $297.6 million at the end of 2009 ($284.1 million in 2008).

The WCB's Funding Policy is intended to ensure that fiduciary responsibilities are carried out in accordance with the *Act* and that annual influences do not unduly distort the funding process. The WCB is committed to operating on a fully funded basis to a level funding standard. Full funding requires that current employers pay for the current and future cost of existing compensable injuries and their administration, rather than future generations of employers paying for those injuries. Under level funding, the cost of claims with lengthy latency periods is funded in a level manner over the workers' periods of exposure to the elements that led to the injuries or diseases.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The WCB's significant accounting policies are as follows:

Change in Accounting Policies

Effective January 1, 2009, two new presentation and disclosure standards were adopted:

The Canadian Institute of Chartered Accountants (CICA) Handbook Section 3862, Financial Instruments – Disclosures (Section 3862), was amended to require additional disclosures for financial instruments that are measured at fair value. These fair value measurements are categorized into a three-level fair value hierarchy, which reflects the extent to which they are based on observable market data. This hierarchy is included in Note 5. The WCB has taken advantage of the transitional provisions of the amendments and has not provided comparative information with respect to the new requirements.

New CICA Handbook Section 3064, Goodwill and Intangible Assets, provides standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This new section requires that intangible assets be disclosed separately from property, plant and equipment on the balance sheet. As a result of this change, $4.2 million ($4.1 million in 2008) of intangible assets were reclassified from capital assets.

Measurement Uncertainty

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada, which requires the WCB to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates.

Basis of Consolidation

These consolidated financial statements include the accounts of the WCB and its wholly owned real estate investment subsidiaries. Intercompany balances and transactions are eliminated on consolidation.

Cash

Cash includes cash on hand and balances with banks, net of any outstanding cheques. Cash and short term investments held by investment managers and custodians for investment purposes are included in the investment portfolio.

Investments

Under the provisions of CICA 3855 Financial Instruments – Recognition and Measurement, the financial assets of the WCB's investment portfolio are designated as available for sale, and carried at fair value. Other than the real estate portfolio assets in WCB Realty Limited, a wholly owned subsidiary, gains and losses arising from the change in fair value that have occurred during the year are recorded in other comprehensive income until the investment is derecognized (sold). At that time, the cumulative gain or loss previously recognized in other comprehensive income is designated a realized gain or loss and reclassified to investment income in the Consolidated Statement of Operations and Accident Fund Reserve. Income from interest and dividends is recognized in the period earned. Investment income is presented net of investment expenses.

The WCB consolidates the real estate portfolio of WCB Realty Limited at fair value, in accordance with CICA Accounting Guideline 18 – Investment Companies. Changes in fair value that occurred during the year are recorded in investment income in the Consolidated Statement of Operations and Accident Fund Reserve.

Fair Value of Investments

Investments are stated at fair value, which is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Publicly traded investments are stated at year end market prices as listed on the appropriate stock exchange, or as provided by the custodian from independent sources.

Pooled fund investments are valued at the most recent unit values supplied by the pooled fund administrator at year end.

The fair value of real estate investments is determined annually by management based on a combination of the most recent independent appraisals of the rental properties and market data available at year end, net of any liabilities against the properties.

Capital Assets

Capital assets are stated at cost less accumulated amortization. Capital assets are amortized on a straight line basis over their estimated useful lives, as follows:

Computer equipment	3 - 5 years
Furniture, fixtures and equipment	5 years
Building renovations and leasehold improvements	2 - 10 years
Building	40 years

Intangible Assets

Acquired intangible assets, primarily computer software, are valued at cost less accumulated amortization.

Internally generated intangible assets, primarily software and systems development, including professional fees incurred to implement these assets, are valued at cost less accumulated amortization.

Amortization is calculated on a straight-line basis over the estimated useful life, as follows:

Computer software	3 years
Internally generated systems development	10 years

Employee Future Benefits

The actuarial determination of the accrued benefit obligation for pensions and other retirement benefits uses the projected benefit method prorated on service. This method incorporates management's best estimates of salary escalation, investment rate of return, retirement ages of employees and other actuarial factors. Actual results could differ from these estimates as the assumptions are of a long term nature, consistent with the nature of employee future benefits.

Actuarial gains (losses) arise from the difference between the actual experience of the pension plan's assets and liabilities for a period and the assumed outcome for that period, or from changes in actuarial assumptions used to determine the accrued benefit obligation. If the cumulative net actuarial gain (loss) exceeds 10 per cent of the greater of plan assets or liabilities, the excess is amortized over the expected average remaining service life of active employees. Past service costs are amortized on a straight line basis over the remaining service life of active employees expected to receive benefits under the plan.

On January 1, 2000, the WCB adopted the new accounting standard on employee future benefits using the prospective application method. The WCB is amortizing the transitional asset (pension) and transitional liability (other) on a straight line basis over 15 years, which was the average remaining service life of active employees expected to receive benefits under the benefit plans as at January 1, 2000.

Benefit Liabilities

The WCB's Chief Actuary prepares a valuation of the benefit liabilities of the WCB at each year end. The benefit liabilities represent the actuarial present value of all future benefit payments expected to be made for claims or injuries which occurred in the current fiscal year or in any prior year. The benefit liabilities include provision for all benefits provided by current legislation, policies and/or administrative practices in respect of existing claims, plus provisions for the future expenses of administering the existing claims.

The benefit liabilities also include the estimated liability for long latent occupational diseases. Due to the nature of the estimated liability for long latent occupational diseases and the extent of related historical claims information available, this liability is more uncertain by its nature than other benefit liabilities. As information is accumulated and analyzed, adjustments may be necessary to improve precision.

Fair Value of Other Financial Assets and Liabilities

Other financial assets and liabilities consist of cash and cash equivalents, accounts receivable and accounts payable. The carrying value of these items approximates their fair value, consistent with the short term nature of these items.

Accumulated Other Comprehensive Income

The designation of the WCB's investment portfolio as available-for-sale requires the WCB to use accumulated other comprehensive income (AOCI). AOCI is comprised of the cumulative unrealized gains and losses arising from the investment portfolio that, in accordance with primary sources of generally accepted accounting principles, are recognized in other comprehensive income but excluded from the operating surplus.

Premium Revenue

The operations of the WCB are categorized, in accordance with the *Act*, into Class E (general employers pool) and several classes of self-insured employers.

General Employers Pool

Employers registered within Class E are subject to collective liability and premium revenue is estimated by applying applicable industry assessment rates to the employers' reported assessable payrolls for the current year. Any difference between the estimated premium revenue and the actual premium revenue is credited or charged to income in the year the determination is made.

Self-Insured Employers

Self-insured employers – principally government bodies and railways and their subsidiaries – are subject to individual responsibility for costs attributable to claims arising from their employees, as well as administration expenses incurred on behalf of self-insured employers. As such, premium revenue from self-insured employers is recognized as these costs are incurred. Current costs are collected as billed while future costs are recorded as a deferred receivable.

The Government of Canada and its agencies are self-insured based on the *Government Employees Compensations Act*. Under this Act, the administration of this program is delegated to the WCB which acts as agent of the Government of Canada for the payment of compensation to federal employees in this province.

Foreign Currency Translation

Transactions in foreign currency are converted to Canadian dollars at the exchange rate in effect at the time of the transaction. Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. Unrealized foreign currency exchange gains and losses arising from the investment portfolio are recorded in other comprehensive income until the investment is derecognized (sold). At that time, the cumulative foreign currency exchange gain or loss previously recognized in other comprehensive income is designated a realized foreign currency exchange gain or loss and reclassified to investment income.

Future Accounting Policy Changes

In February 2008, the Accounting Standards Board of Canada confirmed that the changeover date for adoption of International Financial Reporting Standards (IFRS) will be January 1, 2011. The WCB has determined that it is required to adopt IFRS, and is identifying key accounting policy choices. Research and analysis is underway to determine the final impact of converting to IFRS.

3. LINES OF CREDIT

The WCB has established an operating line of credit with its principal banker in the amount of $3.0 million. Advances on the line of credit bear interest at the bank's prime interest rate. The WCB has also established a revolving credit facility with the Province of Manitoba in the amount of $40.0 million. Advances on the revolving credit facility bear interest at the Province's preferred lending rate. Both credit facilities are unsecured. Borrowings during the year amounted to $100.3 million ($37.5 million in 2008), comprised of $25.3 million on the operating line of credit and $75.0 million on the revolving credit facility ($15.0 million and $22.5 million, respectively, in 2008), and were repaid in full during the year.

4. RECEIVABLES AND OTHER

	2009	2008
Premiums – Class E employers	$ 28,881	$ 27,134
Allowance for doubtful accounts	(1,195)	(1,013)
	27,686	26,121
Current assessments – Self-insured employers	3,045	2,600
Sundry	1,931	2,165
Accrued pension benefit asset (Note 11)	3,630	3,789
	$ 36,292	$ 34,675

5. INVESTMENT PORTFOLIO

Fair Value of the Investment Portfolio

	2009	2008
Equities		
Canadian	$ 196,434	$ 150,922
Private placements	29,327	29,675
U.S.	127,800	116,634
Europe, Australasia & Far East	77,704	66,213
Emerging markets	27,961	18,964
	459,226	382,408
Cash and short term investments	26,682	20,376
Fixed income	353,523	341,076
Real estate (see table below)	133,170	141,199
Total	$ 972,601	$ 885,059

Real Estate Portfolio

The real estate portfolio can be further broken down as follows:

	2009	2008
Rental properties and other net assets	$ 180,063	$ 186,037
Mortgages payable	(46,893)	(44,838)
Real estate investments	$ 133,170	$ 141,199

Mortgages payable on rental properties bear interest at rates ranging from 2.75 per cent to 7.36 per cent per annum at variable and fixed rates, with maturity dates ranging from 2010 to 2033. Scheduled principal and interest payments for 2010 on these mortgages total $15.3 million. The scheduled amounts of principal repayments in each of the next five years are as follows:

2010	$ 13,525
2011	9,832
2012	948
2013	2,835
2014	8,022
	35,162
Thereafter	11,731
Total	$ 46,893

Investment Income

Investment income was derived from the following sources:

	2009	2008
Canadian equities	$ 5,162	$ 4,939
Foreign equities	3,122	6,386
Cash and short term investments	119	1,349
Fixed income	17,055	17,121
Real estate (see table below)	3,017	12,097
Realized (losses) gains reclassified from other comprehensive income	(30,642)	7,530
Loan interest expense	(18)	(52)
Management expenses	(4,047)	(4,335)
Investment (loss) income	($6,232)	$ 45,035

Real Estate Income

The real estate income can be further broken down as follows:

	2009	2008
Rental income, net of expenses	$ 7,115	$ 5,275
Appraisal (losses) gains	(4,120)	6,560
Realized gains from property sales	22	262
	$ 3,017	$ 12,097

Purchases of Investments, Net of Sales

Purchases of investments, net of sales can be further broken down as follows:

	2009	2008
Purchases of investments	$ 826,823	$ 796,194
Proceeds on disposal of investments	(803,200)	(769,274)
Net purchases of investments	$ 23,623	$ 26,920

Purchases and sales activities occur primarily within the fixed income portfolio and short term investments.

Fair Value of Investments

The WCB adopted the amendments to Section 3862 effective January 1, 2009. These amendments require the WCB to present certain information about financial instruments measured at fair value in the statement of operations and accident fund reserve. In the first year of application, comparative information need not be presented for the disclosures required by the amendment. Accordingly, the disclosure for the fair value hierarchy is only presented for the year ending December 31, 2009.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted prices quoted in active markets for identical assets
Level 2 – Inputs other than quoted prices that are observable for the asset either directly or indirectly
Level 3 – Inputs that are not based on observable market data.

The following table illustrates the classification of the WCB's financial assets within the fair value hierarchy as at December 31, 2009:

	2009			
	Level 1	Level 2	Level 3	Total
Equities				
Canadian	$196,434			$196,434
Private placements	1,220		$28,107	29,327
U.S.	127,800			127,800
Europe, Australasia & Far East	77,704			77,704
Emerging markets	27,961			27,961
	431,119		28,107	459,226
Cash and short term investments	26,682			26,682
Fixed income	256,033	97,490		353,523
Real estate		133,170		133,170
	713,834	230,660	28,107	972,601

The following table reconciles the WCB's level 3 fair value measurements from December 31, 2008 to December 31, 2009:

Balance at December 31, 2008	$28,591
Gain (loss) included in income	48
Gain (loss) included in other comprehensive income	(1,065)
Purchases	601
Sales	(68)
Transfers in (out)	
	$28,107

Commitments

The WCB has contractual agreements to contribute further funding to a maximum of $2.8 million ($12.6 million in 2008) to specific investment projects to be financed from the existing portfolio or from available cash.

6. INVESTMENT RISK MANAGEMENT

In accordance with the Statement of Investment Policy and Objectives, the investment objective of the WCB is to generate a consistent, positive, real rate of return on invested assets. Recognizing the need to achieve a balance between risk and return, investment risk is managed through a portfolio that is diversified across a number of distinct asset classes, as well as geographic region and investment style.

The following sections describe the nature and extent of financial risk exposure and the related risk mitigation strategies.

Market Risk

The WCB invests in publicly and privately traded equities and fixed income instruments available on domestic and foreign exchanges. As these securities are affected by market changes and fluctuations, the WCB is exposed to market risk as a result of price changes due to economic fluctuations in capital markets.

The following table presents the effect of a material change in the key risk variable – the sector benchmark – for each of the equity mandates in the WCB investment portfolio:

	2009		2008	
	5 year annualized		5 year annualized	
Equities	+/- 1 standard deviation	+/- 2 standard deviation	+/- 1 standard deviation	+/- 2 standard deviation
% change in benchmark	18.8%	37.6 %	16.7%	33.4%
Canadian	$32.8 million	$65.6 million	$25.2 million	$50.3 million
% change in benchmark	11.1%	22.2%	10.3%	20.6%
U.S.	$16.5 million	$33.1 million	$11.5 million	$22.9 million
% change in benchmark	16.1%	32.2%	14.1%	28.2%
Europe, Australasia and Far East	$12.5 million	$25.0 million	$10.1 million	$20.1 million
% change in benchmark	22.4%	44.8%	21.1%	42.2%
Emerging markets	$6.3 million	$12.5 million	$4.0 million	$8.0 million

Credit Risk Management

Credit exposure on fixed income securities arises from the possibility that the issuer of an instrument fails to meet its obligation to make interest payments and repay principal. To mitigate the risk of credit default, the minimum quality standard for individual bonds and debentures at time of purchase is BBB, as rated by an established bond rating service. To further mitigate this risk, bonds with a BBB rating are limited to a maximum of 15 per cent of an individual investment manager's portfolio. The balance of the portfolio should be invested in bonds with a minimum rating of A or higher.

Of the fixed income assets in the investment portfolio, 93 per cent (98 per cent in 2008) have at least an A credit rating. The WCB does not anticipate that any borrowers will fail to meet their obligations.

Securities Lending

The WCB may lend, for fee income, any of its securities to third parties, provided the loans are secured by cash or readily marketable securities having a market value of at least 105 per cent of the market amount of the asset borrowed. As at December 31, 2009, these loans amounted to $66.6 million ($67.1 million in 2008).

Foreign Exchange Risk Management

The WCB has certain investments denominated in foreign currencies, which exposes the WCB to foreign currency risk. During 2009, the WCB did not undertake hedging strategies for the currency risk of foreign investments. While currency fluctuations influenced short term returns, these fluctuations are not expected to affect the long term position of the investment portfolio.

WCB has exposure to the U.S. dollar, with USD-denominated holdings of $254.7 million CAD ($201.6 million CAD in 2008) or 26.2 per cent of the portfolio (22.8 per cent in 2008).

The table below presents the effects of a material change in the Canadian/U.S. dollar exchange rates:

	CAD/USD	
	2009	2008
10% appreciation in the Canadian dollar	$(23.2 million)	$(18.3 million)
10% depreciation in the Canadian dollar	$23.2 million	$18.3 million

Interest Rate Risk Management

The WCB is exposed to interest rate risk to the extent that the fair value or future cash flows of a financial instrument fluctuate due to changes in market interest rates. These fluctuations are managed by actively controlling the duration of the fixed income portfolio. As at December 31, 2009, the duration of the WCB's bond portfolio was 5.8 years (6.3 years in 2008).

The following table shows the effects of a negative 50 and 100 basis point (where one basis point equals 1/100 of one per cent and 50 basis points equals 0.5 per cent) change in interest rates on the bond portfolio:

	2009		2008	
+/- basis point change	50 basis points	100 basis points	50 basis points	100 basis points
Bonds	$8.1 million	$16.1 million	$8.3 million	$16.6 million

7. DEFERRED ASSESSMENTS

Deferred assessments represent the WCB's estimate of the present value of premiums which will be received in the future from self-insured employers to fund the future costs of existing claims that have arisen from their employees. As such, the fair value for deferred assessments is not readily determinable. The deferred assessments may be secured by irrevocable letters of credit or other suitable forms of guarantee. The changes in deferred assessments were as follows:

	2009	2008
Balance at beginning of year	$ 65,691	$ 47,598
Increase in future cost liability	939	18,379
Increase in pension related transactions	2,058	477
Interest allocation	125	(763)
Net change in deferred assessments	3,122	18,093
Balance at end of year	$ 68,813	$ 65,691

8. CAPITAL ASSETS

	2009		2008	
	Cost	**Accumulated Amortization**	**Cost**	**Accumulated Amortization**
Computer equipment	$ 6,397	$ 5,213	$ 8,687	$ 7,493
Furniture, fixtures and equipment	2,317	2,057	2,228	1,983
Building renovations and leasehold improvements	4,479	3,124	3,852	2,983
Building and land	6,176	628	6,176	556
	$ 19,369	$ 11,022	$ 20,943	$ 13,015
Net book value		**$ 8,347**		**$ 7,928**

As a result of asset dispositions, costs of $4.0 million ($0.3 million in 2008) for computer equipment and furniture, fixtures and equipment, and the offsetting accumulated depreciation were removed from the accounting records.

9. INTANGIBLE ASSETS

	2009		2008	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer software	$ 3,664	$ 3,048	$ 3,179	$ 2,775
Systems development projects	12,076	8,507	12,546	8,842
	$ 15,740	$ 11,555	$ 15,725	$ 11,617
Net book value		**$ 4,185**		**$ 4,108**

The aggregate amortization expense for 2009 was $1.0 million ($0.9 million in 2008).

10. PAYABLES AND ACCRUED LIABILITIES

	2009	2008
Accounts payable and accrued liabilities	$ 6,157	$ 4,837
Client annuity program	14,579	13,878
Research and Workplace Innovation Program	1,327	2,398
Deposits from self-insured employers	6,734	4,995
Employee vacation entitlements	3,123	2,951
Unearned revenue	0	182
Other payables	1,139	1,286
Sick leave plan (Note 11)	3,359	2,965
	$ 36,418	$ 33,492

11. EMPLOYEE FUTURE BENEFITS

The WCB has two employee benefit plans which provide pension and other future employment benefits to its employees. The cost of these employee benefit plans is recorded as an expense in the period in which employees' services are rendered.

The pension plan, which is funded by employee and employer contributions, is made up of the WCB Retirement Plan and the Supplementary Employee Retirement Plan. The WCB Retirement Plan is a defined benefit pension plan that provides indexed pensions (two-thirds of the Consumer Price Index for Canada) based on years of service and the best five consecutive years average earnings in the last 12 years of employment. The Supplementary Employee Retirement Plan provides that the employees of the WCB whose pension benefits exceed the maximum pension benefit permitted under the federal *Income Tax Act* will receive pension benefits based on their total pensionable earnings.

The WCB also has a defined benefit plan that provides for a payment of sick leave credits to employees that meet established criteria upon termination or retirement. Employees are not required to contribute to this plan.

Total cash payments for employee future benefits for 2009, consisting of cash contributed by the WCB to the funded pension plan and cash payments directly to beneficiaries for the unfunded sick leave plan, were $2.9 million ($2.8 million in 2008).

The WCB measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the Retirement Plan for funding purposes, which was filed with the pension regulators, was as at December 31, 2007. The Retirement Plan showed a going concern surplus of $0.9 million and a solvency surplus of $3.0 million at the time of the 2007 valuation. The next required valuation will be as at December 31, 2010.

Information about the WCB's employee benefit plans for the year is as follows:

	Pension Plan		Sick Leave Plan	
	2009	2008	**2009**	2008
Benefits paid by the plan	$ 2,800	$ 3,136	$ 211	$ 189
Employer contributions	2,711	2,631	211	189
Employee contributions	2,065	2,001	-	-
Employee future benefit expense	2,871	3,577	604	657
Actual return on plan assets	21.3%	(16.3%)	-	-

Reconciliation of the benefit plans to amounts included in the financial statements:

	Pension Plan		Sick Leave Plan	
	2009	2008	**2009**	2008
Fair value of plan assets	$ 90,338	$ 72,499	-	-
Accrued benefit obligation	96,794	79,068	$ 4,665	$ 3,832
Plan deficit for accounting purposes	(6,456)	(6,569)	(4,665)	(3,832)
Balance of unamortized losses	10,086	10,358	1,306	867
Accrued benefit asset (liability)	$ 3,630	$ 3,789	$ (3,359)	$ (2,965)

The accrued benefit asset for the pension plan is included in receivables and other. The accrued benefit liability for the sick leave plan is included in payables and accrued liabilities.

The key actuarial assumptions used to value the employee future benefit liabilities for accounting purposes as at December 31 are as follows:

	Pension Plan		Sick Leave Plan	
	2009	2008	**2009**	2008
Discount rate	6.50%	7.25%	6.50%	7.25%
Expected long term rate of return on plan assets	6.75%	6.75%	-	-
Rate of compensation increase	3.75%	3.75%	2.25%	2.25%
Expected average remaining service life (in years)	14	14	14	14

The asset allocation for the pension plan as at December 31 is:

	2009	2008
Equity	62%	59%
Fixed income (including short term)	38%	41%

12. BENEFIT LIABILITIES

Benefit liabilities are determined in accordance with standards established by the Canadian Institute of Actuaries. The actuarial present value of future benefit payments reflects management's long term estimates of economic and actuarial assumptions and methods, which are based upon past experience and modified for current trends. As these assumptions may change over time to reflect underlying conditions, it is possible that such changes could cause a material change in the actuarial present value of the future payments. The fair value for benefit liabilities is not readily determinable.

The key actuarial assumptions used to value the benefit liabilities as at December 31 are as follows:

	2009	2008
Discount rate for non-indexed benefits	6.0%	6.0%
Discount rate for CPI-indexed benefits	3.0%	3.0%
Discount rate for wage-indexed benefits	2.0%	2.0%
Discount rate for healthcare benefits	(0.5%)	(0.5%)

An analysis of the components of and changes in benefit liabilities is as follows:

	2009						2008
	Short Term Disability	Long Term Disability	Survivor Benefits	Healthcare Benefits	Rehabilitation Services	Total	Total
Balance at beginning of year	$ 150,865	$ 387,194	$ 153,023	$ 183,875	$ 28,532	$ 903,489	$ 831,681
Add: Claim costs incurred							
Current year	103,443	4,719	7,988	48,121	8,664	172,935	184,798
Prior years	(55,482)	60,988	5,550	22,655	(7,839)	25,872	78,329
	47,961	65,707	13,538	70,776	825	198,807	263,127
Less: Claim payments made							
Current year	28,927	428	438	18,851	30	48,674	51,094
Prior years	35,732	52,538	14,958	34,350	3,038	140,616	140,225
	64,659	52,966	15,396	53,201	3,068	189,290	191,319
Balance at end of year	$ 134,167	$ 399,935	$ 151,165	$ 201,450	$ 26,289	$ 913,006	$ 903,489

The liability for short term disability claims is an estimate of future wage loss payments for claims that have yet to medically plateau or stabilize. The long term disability liability includes estimated future wage loss payments for those claims that have medically plateaued and stabilized, estimated future pension payments, and estimated future cost of claims relating to certain long latent occupational diseases. The liability for survivor benefits is composed of estimated future pension payments and other services provided to survivors of those who have lost their lives as a result of workplace injuries or illnesses. Healthcare liabilities are the estimated future medical costs for existing claims. The liability for rehabilitation services is composed of the estimated cost of future rehabilitation services which are externally supplied to the WCB.

Included in the benefit liabilities balance is $41.4 million ($39.4 million in 2008) for the long latent occupational disease liability and $62.0 million ($54.4 million in 2008) for the future cost of administering existing claims.

13. BENEFIT LIABILITIES FOR SELF-INSURED EMPLOYERS

Note 12 contains a complete description of the components of the benefit liabilities for all employers. An analysis of the portion relating to self-insured employers is as follows:

	2009						2008
	Short Term Disability	**Long Term Disability**	**Survivor Benefits**	**Healthcare Benefits**	**Rehabilitation Services**	**Total**	**Total**
Balance at beginning of year	$ 16,478	$ 43,527	$ 27,063	$ 32,972	$ 2,317	$ 122,357	$ 106,387
Add: Claim costs incurred							
Current year	11,622	711	693	6,632	918	20,576	22,260
Prior years	(4,376)	5,524	2,390	765	(827)	3,476	19,709
	7,246	6,235	3,083	7,397	91	24,052	41,969
Less: Claim payments made							
Current year	3,603	104	-	2,066	9	5,782	6,067
Prior years	4,496	4,837	3,243	5,520	186	18,282	19,932
	8,099	4,941	3,243	7,586	195	24,064	25,999
Balance at end of year	$ 15,625	$ 44,821	$ 26,903	$ 32,783	$ 2,213	$ 122,345	$ 122,357

Included in premiums and claim costs for self-insured employers are payments in the amount of $3.8 million ($4.2 million in 2008) made by self-insured employers directly to injured workers on the WCB's behalf. These amounts are reported to the WCB for inclusion in these financial statements.

Included in the benefit liabilities balance is $12.0 million ($11.4 million in 2008) for self-insured employers' share of the long latent occupational disease liability and $8.0 million ($6.8 million in 2008) for the future cost of administering existing claims.

14. PREMIUM REVENUE

	2009	2008
Premiums – Class E employers	$ 217,054	$ 203,445
Assessments – Self-insured employers	26,450	26,349
Increase in deferred assessments (Note 7)	3,122	18,093
Total premium revenue	$ 246,626	$ 247,887

15. OPERATING EXPENSES

	2009	2008
Salaries, employee benefits and training	$ 40,880	$ 39,923
Information technology service fees	1,475	1,574
Occupancy costs	2,006	1,978
Office supplies, services and projects	949	742
Communications	1,084	1,240
Professional fees	1,001	981
Donations	74	579
Amortization of capital assets	1,963	1,913
Appeal Commission	1,141	1,150
Research and Workplace Innovation Program grants	(439)	1,000
Recoveries from the Government of Canada	(818)	(867)
Prevention and other (Note 16)	10,608	9,580
Total operating expenses	$ 59,924	$ 59,793

Of the total operating expenses, $4.4 million ($4.3 million in 2008) was allocated to self-insured employers based on the current year's transaction volumes.

The WCB administers the *Government Employees Compensation Act* program for the Government of Canada. The operation of this program is reflected only to the extent of the recoveries of operating expenses.

16. RELATED PARTY TRANSACTIONS

Pursuant to *The Workplace Safety and Health Act* of Manitoba, the Province may pay the expenses incurred in the administration of that Act out of the consolidated fund and may, subsequently, recover such portion as it may determine from the WCB under *The Workers Compensation Act* of Manitoba. For 2009, the amount charged to operations under this provision was $8.3 million ($7.4 million in 2008).

Also, under Section 84.(1) of *The Workers Compensation Act* of Manitoba, the Province may pay the costs incurred in respect of worker advisors and may recover them from the WCB. For 2009, the amount charged to operations under this provision was $0.8 million ($0.9 million in 2008).

In addition to the legislated obligations referred to above, included in these financial statements are amounts resulting from routine operating transactions conducted at prevailing market prices with various provincial government controlled ministries, agencies and Crown corporations with which the WCB may be considered related. This includes the provision of assistance, in the form of medical opinions and appeal services, for the Province of Manitoba relating to criminal injury claims. The provincial government is also a self-insured employer under *The Workers Compensation Act* of Manitoba. Account balances resulting from these transactions are included in these financial statements and are settled on normal trade terms.

Included in the WCB's investment portfolio as at December 31, 2009 are guaranteed debentures issued by the Province of Manitoba in the amount of $0.9 million ($0.8 million in 2008).

17. COMMITMENTS

The WCB has signed operating leases for office premises expiring at various times until December 31, 2014. The minimum lease obligations over the next five years are:

2010	2011	2012	2013	2014	Total
$561	$313	$264	$212	$42	$1,392

18. CONTINGENCIES

The WCB is party to various claims and lawsuits related to the normal course of business that are currently being contested. In the opinion of management, the outcome of such claims and lawsuits are not determinable. However, based on the total amount of all such actions, WCB has concluded that their outcomes, either individually or in aggregate, will not have a material effect on the results of operations or financial position.

19. AUDITOR INDEPENDENCE

Grant Thornton LLP provided $3 ($0 in 2008) of non-audit services to the WCB in 2009.

20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.