



# PROVINCE OF MANITOBA PROVINCE DU MANITOBA ANNUAL REPORT RAPPORT ANNUEL

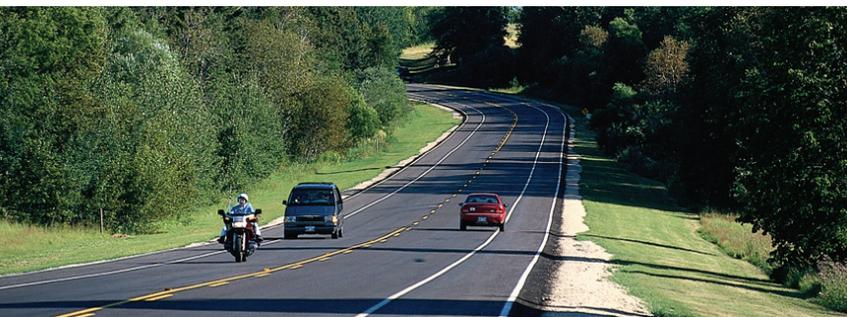
FOR THE YEAR ENDED MARCH 31, 2006 POUR L'EXERCICE TERMINÉ LE 31 MARS, 2006

**INCLUDES:**

- The Year End Review
- Financial Indicators
- Economic Report
- Public Accounts - Volume 1

**SOMMAIRE:**

- Bilan de L'année
- Indicateurs financiers
- Rapport économique
- Volume 1 des comptes publics



**Manitoba** 





**MINISTER OF  
FINANCE**

Legislative Building  
Winnipeg, Manitoba, CANADA  
R3C 0V8

HIS HONOUR JOHN HARVARD  
Lieutenant-Governor of the Province of Manitoba

May It Please Your Honour:

I have the privilege of presenting, for the information of Your Honour, the Annual Report of the Province of Manitoba for the year ended March 31, 2006. This document completes the government's accountability reporting for the year. The Report includes a review of this year's results relative to the government's budget. It also contains economic statistics and indicators of the financial health of the Province.

Included in this Annual Report is Volume 1 of the Public Accounts. The Public Accounts have been structured to reflect the intent to focus more attention on the summary results of the government reporting entity while still reporting on the government's stewardship over the Consolidated Fund that is comprised of the Operating and Special Funds. It contains the summary financial statements of the reporting entity in section 1 and special purpose financial statements of the Operating Fund in section 2.

Section 6 of the *Balanced Budget, Debt Repayment and Taxpayer Accountability Act* requires the Minister of Finance to report on compliance with the Act in the audited financial statements of the Operating Fund for each fiscal year. The Special Purpose Statement of Calculation of *Balance Under the Balanced Budget Act, Debt Repayment and Taxpayer Accountability Act* shows a positive balance in the Operating Fund. The Government is therefore in compliance with the Act. In accordance with the Balanced Budget legislation, this positive balance will be transferred to the Province's Fiscal Stabilization Fund.

A handwritten signature in black ink, appearing to read 'Greg Selinger'.

Honourable Greg Selinger  
Minister of Finance

Office of the Minister of Finance  
August, 2006



**MINISTER OF  
FINANCE**

Legislative Building  
Winnipeg, Manitoba, CANADA  
R3C 0V8

SON HONNEUR JOHN HARVARD  
Lieutenant-gouverneur de la province du Manitoba

Votre Honneur,

J'ai le privilège de vous présenter, à titre informatif, le Rapport annuel de la province du Manitoba pour l'exercice financier qui s'est terminé le 31 mars 2006. Cette nouvelle présentation du document complète le compte rendu des activités du gouvernement pour l'exercice. Le Rapport comprend une récapitulation des résultats de l'exercice par rapport au budget du gouvernement. Il contient également des statistiques économiques et des indicateurs de la santé financière de la province.

Ce rapport annuel comprend le Volume 1 des comptes publics. Les comptes publics ont été structurés de façon à exprimer l'intention du gouvernement de consacrer plus d'attention aux résultats sommaires de l'entité comptable du gouvernement tout en continuant de rendre des comptes sur la gestion par le gouvernement du fonds consolidé, lequel est composé du fonds de fonctionnement ainsi que du fonds spécial. La section 1 contient les états financiers sommaires de l'entité comptable et la section 2 renferme les états financiers à vocation spéciale relatifs au fonds de fonctionnement.

En vertu de l'article 6 de la *Loi sur l'équilibre budgétaire, le remboursement de la dette et l'obligation de rendre compte aux contribuables*, le ministre des Finances est tenu de faire rapport sur le respect de la *Loi* dans les états financiers vérifiés du fonds de fonctionnement pour chaque exercice financier. L'état à vocation spéciale du calcul de l'équilibre sous la *Loi* sur le budget équilibré indique un solde positif dans le fonds de fonctionnement. Le gouvernement s'est donc conformé à la *Loi*. En vertu de la *Loi sur l'équilibre budgétaire, le remboursement de la dette et l'obligation de rendre compte aux contribuables*, le solde positif sera transféré au Fonds de stabilisation des recettes de la province dans le but de faire en sorte que des provisions soient disponibles.

A handwritten signature in black ink, appearing to read 'Greg Selinger'.

Monsieur Greg Selinger  
Ministre des Finances

Bureau du Ministre des Finances  
Août 2006



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## MINISTER'S MESSAGE

### YEAR-END REVIEW

I am pleased to present the Public Accounts of Manitoba for the fiscal year ended March 31, 2006, and to report on the fiscal and economic efforts of our Government to meet our commitments.

Our consolidated summary financial statements show a net income of \$375 million, our net debt has declined and we have met the tests of Manitoba's balanced budget legislation – recording a positive balance of \$31 million after paying \$110 million towards debt and pension liabilities while increasing the balance in the Fiscal Stabilization Fund.

These accounts demonstrate our Government's hard work to ensure fiscal responsibility and meet key financial commitments, while continuing to implement Summary Budgeting, comply with Public Sector Accounting Board (PSAB) standards, and lower business and personal taxes. We also continue to work to improve our accountability for the services we provide through published performance results.

In June 2005, I was pleased to release the first Manitoba performance report *Reporting to Manitobans on Performance, a Discussion Document*. At that time, we also released the *2005 Provincial Sustainability Report*. Together, these reports provided a comprehensive look at the quality of work our Government is undertaking on your behalf. They demonstrate the results in the priority areas of economy, people, community, environment, and sustainable development.

Building on these performance documents, the 2005/06 Annual Report of every department will include performance measures to help

## MESSAGE DU MINISTRE

### BILAN DE L'ANNÉE

J'ai le plaisir de présenter les comptes publics du Manitoba pour l'exercice qui a pris fin le 31 mars 2006 et de rendre compte des activités économiques et financières que notre gouvernement a accomplies pour répondre à ses engagements.



Nos états sommaires consolidés indiquent un bénéfice net de 375 millions de dollars, le montant de notre dette nette a baissé, et nous avons satisfait aux exigences de la loi manitobaine relative à l'équilibre budgétaire, en dégageant un solde excédentaire de 31 millions de dollars après avoir consacré 110 millions de dollars au remboursement de la dette et de l'obligation découlant des régimes de retraite, tout en augmentant le solde du Fonds de stabilisation des recettes.

La situation de ces comptes reflète le travail ardu que notre gouvernement accomplit pour garantir la responsabilité financière et respecter des engagements financiers

essentiels, tout en continuant à produire des budgets sommaires, à se conformer aux normes du Conseil sur la comptabilité dans le secteur public, et à alléger le fardeau fiscal des entreprises et des particuliers. Nous continuons aussi à faire des efforts pour améliorer la reddition de comptes relative aux services que nous offrons, et cela en publiant des résultats de rendement.

En juin 2005, j'ai eu le plaisir de rendre public le premier rapport sur le rendement du Manitoba intitulé *Rapport aux Manitobains sur le rendement — Document de travail 2005*. Au même moment, nous avons également publié le *Rapport provincial de 2005 sur la durabilité au Manitoba*. Ces rapports illustrent de façon exhaustive la qualité du travail que votre gouvernement entreprend en votre nom. Ils montrent les résultats obtenus dans les domaines prioritaires que sont l'économie, la population, les collectivités, l'environnement et le développement durable.

Poursuivant sur la lancée de ces documents de rendement, les rapports annuels 2005-2006 de tous les ministères comprendront des mesures du rendement qui contribueront

increase transparency and accountability. Providing performance measurements will assist the reader in understanding how departments define success, and provide an overview of the challenges faced by departments in pursuing that success. To further increase and enhance transparency and accountability, all departmental Annual Reports will be available on the Department of Finance Internet site: [www.gov.mb.ca/finance](http://www.gov.mb.ca/finance)

In addition, we continue our work toward Summary Budgeting and Reporting, which includes meeting PSAB standards. All of these measures take time and commitment, but in the long run will bring greater transparency and accountability to the work of Government.

### The Financial Position of the Province

A recap of the Summary financial position and operating results for 2005/06 and restated 2004/05 are noted below:

à améliorer la transparence et la reddition de comptes. Les mesures du rendement aideront les lecteurs à comprendre ce que les ministères entendent par « réussite » et à prendre conscience des défis qu'ils doivent surmonter pour parvenir à cette réussite. Afin d'accroître et d'améliorer la transparence et l'obligation de rendre compte, on pourra consulter les rapports annuels de tous les ministères sur le site Web du ministère des Finances, au <http://www.gov.mb.ca/finance/index.fr.html>.

De plus, nous continuons à travailler en vue de produire des états récapitulatifs et des budgets sommaires, ce qui comprend le respect des normes du Conseil sur la comptabilité dans le secteur public. Toutes ces mesures exigent du temps et de la détermination, mais en bout de ligne, elles permettront d'améliorer la transparence et l'obligation de rendre compte du gouvernement relativement au travail qu'il accomplit.

### Situation financière de la Province

Un récapitulatif de l'état financier sommaire et des résultats des activités de l'année 2005-2006 et de l'année 2004-2005 (après rajustement) est indiqué ci-dessous :

| <b>Summary Financial Position/Situation financière sommaire</b>                                     |                 |  |
|---|-----------------|--|
|   | <b>2006</b>     | <b>2005</b>  |
|   | (\$ millions)   | as restated/<br>après rajustement<br>(\$ millions) |
| Assets/Actif  |                 |  |
| Financial/Financier   | <u>5,310</u>    | <u>4,758</u>                                       |
| Liabilities/Passif  |                 |  |
| Net Borrowings/Emprunts nets  | 9,465           | 9,362  |
| Pension/Obligation découlant des régimes de retraite  | 3,967           | 3,761  |
| Accounts payable and accrued charges/<br>Comptes créditeurs et charges à payer                      | <u>2,397</u>    | <u>2,305</u>                                       |
|   | <u>15,829</u>   | <u>15,428</u>                                      |
| Net Debt/Dette nette  | <u>(10,519)</u> | <u>(10,670)</u>                                    |
| Non-Financial Assets/Actif non financier  |                 |  |
| Tangible Capital Assets/Immobilisations corporelles   | <u>4,170</u>    | <u>3,915</u>                                       |
| Accumulated Deficit/Déficit accumulé  | <u>(6,349)</u>  | <u>(6,755)</u>                                     |
| Opening Accumulated Deficit, as restated/Solde d'ouverture du<br>déficit accumulé après rajustement | (6,755)         | (7,382)  |
| Adjustments – Other Comprehensive income/rajustement autres<br>éléments du résultat étendu          | 31              | 65   |
| Summary Net Income/Sommaire des bénéficiés nets   | <u>375</u>      | <u>562</u>   |
| Closing Accumulated Deficit/Solde de clôture du déficit accumulé                                    | <u>(6,349)</u>  | <u>(6,755)</u>                                     |

I am pleased to inform Manitobans that our province ended 2005/06 in a strong financial position.

The table, on the previous page, shows that Summary Net Income decreased by \$187 million to \$375 million from the 2004/05 Summary Net Income of \$562 million (as restated). An explanation of the changes in major revenue and expense items between fiscal years, and how they impact the annual results of the Operating Fund and Special Funds, can be found on pages 35 to 36.

The strong annual results enabled a further reduction of \$406 million in the accumulated deficit balance for 2005/06 over 2004/05 (restated), despite recording in 2005/06, estimated environmental liabilities incurred in previous years.

Manitoba remains committed to full compliance with PSAB standards. For information on changes in Government accounting policies, please see page 65, note 4.

## Indicators

For many years now, we have reported on the Government's financial health in the context of the current economic and financial environment as measured by a number of important financial indicators. The indicators of sustainability, flexibility, and vulnerability of a Government's financial condition were developed by the Canadian Institute of Chartered Accountants and are used in varying degrees by most Governments.

### a. Sustainability

Sustainability measures a Government's ability to maintain its programs without the need to increase its borrowings and interest charges. If this is achieved, interest costs will not start to consume more and more of its budget which will mean that it can maintain or improve its future sustainability.

A key financial indicator ratio used to measure sustainability is Net Debt to Provincial Gross Domestic Product (GDP). Net Debt represents how much of the Government's current

Je suis heureux de pouvoir dire aux Manitobaines et Manitobains que notre Province a terminé l'année 2005-2006 en très bonne santé financière.

La tableau sur la page précédente montre que le sommaire des bénéfices nets est passé de 562 millions de dollars (après rajustement) en 2004-2005 à 375 millions de dollars l'année suivante, soit une diminution de 187 millions de dollars. Les changements intervenus d'un exercice à l'autre dans les principaux postes de revenus et de dépenses, et les conséquences qui en découlent sur les résultats annuels du fonds de fonctionnement et des fonds spéciaux, sont expliqués aux pages 35 et 36.

Les bons résultats annuels obtenus au chapitre du bénéfice net ont permis de réduire de 406 millions de dollars supplémentaires, entre 2004-2005 (après rajustement) et 2005-2006, le solde déficitaire accumulé, et cela bien que l'estimation de toutes les responsabilités environnementales engagées au cours des années précédentes ait été inscrite dans l'exercice 2005-2006.

Le Manitoba demeure déterminé à respecter entièrement les normes du Conseil sur la comptabilité dans le secteur public. Pour en savoir plus sur les changements que le gouvernement a apportés à ses conventions comptables, veuillez lire la note 4 en page 65.

## Indicateurs

Depuis de nombreuses années déjà, nous rendons compte de la santé financière du gouvernement dans le contexte économique et financier du moment en utilisant quelques indicateurs financiers importants. Ces indicateurs (viabilité, souplesse et vulnérabilité) permettent de mesurer l'état des finances d'un gouvernement. Mis au point par l'Institut Canadien des Comptables Agréés, ils sont utilisés par la plupart des gouvernements dans une mesure plus ou moins grande.

### a. Viabilité

La viabilité est la mesure dans laquelle un gouvernement est capable de maintenir ses programmes sans avoir besoin de recourir à de nouveaux emprunts ainsi que l'augmentation des frais d'intérêts qui en découle. Les gouvernements qui y parviennent font en sorte que ces frais d'intérêts n'entament pas une part toujours plus grande de leur budget, et ils peuvent, par conséquent, maintenir ou améliorer leur viabilité future.

L'un des principaux indicateurs financiers que nous utilisons pour mesurer la viabilité est le ratio de la dette nette au produit intérieur brut (PIB) provincial. La dette publique nette correspond au montant actuel d'emprunts non

outstanding borrowings would remain if all of its financial assets were liquidated. A stable Net Debt to GDP ratio means that the cost of Government programs is not outpacing Government revenue and the growth of the provincial economy. See page 26 for Manitoba results.

### **b. Flexibility**

Flexibility refers to a Government's present and future ability to meet its rising commitments or expenses, by either expanding its revenues or increasing its debt burden.

One indicator of flexibility is Own-Source Revenue to Provincial GDP. This indicator reflects how much revenue is raised in the provincial economy through taxation and levies. Please see page 29 for Manitoba's Own-Source Revenue to GDP results.

### **c. Vulnerability**

Vulnerability, or risk, is the degree to which a Government becomes vulnerable to major sources of funds that are outside of its ability to control or influence.

There are multiple indicators of vulnerability (see page 29 for a few of Manitoba's vulnerability results), and I will discuss three important vulnerabilities below.

#### **Foreign Debt**

Foreign currency debt holdings pose a risk to Governments of more "debt servicing costs" if fluctuations in foreign currency valuations occur. In 1999, foreign currency valuation changes could have cost Manitoba as much as \$9 million for every one cent increase in the U.S. exchange rate.

In 1999, foreign currency exposure was at approximately 19% of general-purpose debt. This exposure was reduced to the ultimate goal of being fully hedged, effective August 2003. As a result, the sensitivity was reduced from \$9 million in 1999 to zero today (see page 25).

remboursés qui demeurerait si tous les actifs financiers du gouvernement étaient liquidés. Un ratio stable de la dette nette au PIB signifie que le coût des programmes du gouvernement ne dépasse pas le niveau des revenus du gouvernement et la croissance de l'économie provinciale. Voir les résultats du Manitoba en page 26.

### **b. Souplesse**

La souplesse est la mesure dans laquelle un gouvernement est capable, aujourd'hui et dans l'avenir, de respecter ses nouveaux engagements ou d'assumer ses dépenses croissantes, en augmentant soit ses recettes soit le poids de sa dette.

L'un des indicateurs de la souplesse est le ratio des recettes propres au produit intérieur brut (PIB) provincial. Cet indicateur révèle la quantité de recettes générées par l'économie provinciale grâce à l'imposition et aux prélèvements. Veuillez vous reporter à la page 29 pour connaître les résultats du ratio des recettes propres au PIB du Manitoba.

### **c. Vulnérabilité**

La vulnérabilité ou le risque est la mesure dans laquelle un gouvernement est dépendant de ressources importantes sur lesquelles il n'exerce pas d'influence.

De multiples indicateurs permettent de mesurer la vulnérabilité d'un gouvernement (voir quelques-uns des résultats du Manitoba dans ce domaine en page 29). Je discuterai plus bas de trois importants facteurs de vulnérabilité.

#### **Dette extérieure**

Pour les gouvernements, les titres d'emprunt en devises étrangères représentent un risque d'augmentation des coûts de service de la dette, en cas de fluctuation des valeurs des devises étrangères. En 1999, ce facteur aurait pu coûter au Manitoba jusqu'à 9 millions de dollars pour chaque augmentation d'un cent du taux de change du dollar américain.

Le risque de change représentait environ 19 % de la dette générale en 1999. En août 2003, on a atteint l'objectif final de couverture complète de ce risque. En conséquence, la sensibilité est passée de 9 millions de dollars il y a sept ans à zéro aujourd'hui (voir page 25).

## Federal Fiscal Arrangements

A revenue risk that all provinces and territories share relates to the fiscal position of the Government of Canada. This is due to the significant role that federal transfer payments - as a revenue source - play in helping to fund services delivered by provincial Governments, such as health, education, and social services.

In general terms, the risk is that transfer revenue from the Federal Government may be reduced, for whatever reason, and the province's ability to provide these services to citizens could be impaired. Risk associated with federal payments is offset to some degree by section 36(2) of the Constitution Act 1982, which states that, "Parliament and the Government of Canada are committed to the principle of making equalization payments to ensure that provincial Governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation."

A federal review is currently underway concerning the allocation of entitlements to provinces under the Equalization Program for 2007/08. During the 2006 federal election, the Prime Minister assured Premiers that "no province should be adversely affected during the transition to any new equalization formula".

The Federal Government has committed to addressing the fiscal imbalance (the vertical fiscal imbalance refers to the fact that the Federal Government collects more revenue than it needs to meet its spending responsibilities, whereas the provinces collect less revenue than they require to meet their spending responsibilities for health and other social programs). The new Federal Government has acknowledged the fiscal imbalance, and has stated its intent to correct it. As a start, it promised provinces a portion of its surplus for 2005/06.

Currently, the Government of Canada is in a stable fiscal position, with revenue growth for the next two years forecast at 2.8% and 3.8%, enabling it to meet its commitment on the fiscal imbalance.

## Accords fiscaux et financiers avec le gouvernement fédéral

La situation financière du gouvernement fédéral est un facteur de risque pour les recettes de l'ensemble des provinces et territoires. En effet, les paiements de péréquation du gouvernement fédéral constituent une importante source de revenus qui contribue au financement des services fournis par les gouvernements provinciaux, notamment dans les domaines de la santé, de l'éducation et des services sociaux.

De façon générale, le risque est que le gouvernement fédéral, pour quelque raison que ce soit, réduise le montant des paiements de péréquation, ce qui compromettrait la capacité des provinces à offrir ces services à leur population. Le risque lié aux paiements du gouvernement fédéral est quelque peu atténué par le paragraphe 36(2) de la Constitution canadienne de 1982 qui stipule que « le Parlement et le gouvernement du Canada prennent l'engagement de principe de faire des paiements de péréquation propres à donner aux gouvernements provinciaux des revenus suffisants pour les mettre en mesure d'assurer les services publics à un niveau de qualité et de fiscalité sensiblement comparables ».

Le gouvernement fédéral examine actuellement la question de l'attribution des droits de péréquation aux provinces dans le cadre du programme de péréquation pour 2007-2008. Pendant la campagne fédérale de 2006, l'actuel premier ministre du Canada a déclaré à ses homologues provinciaux et territoriaux qu'« aucune province ne devrait être lésée pendant la transition vers une nouvelle formule de péréquation ».

Le gouvernement fédéral s'est engagé à régler la question du déséquilibre fiscal. (On utilise l'expression « déséquilibre fiscal vertical » pour désigner le fait que le gouvernement fédéral perçoit plus de recettes qu'il n'en a besoin pour assumer ses responsabilités en termes de dépenses, alors que les provinces perçoivent moins de recettes qu'il ne leur en faut pour exercer leurs responsabilités relatives au financement de la santé et d'autres programmes sociaux.) Le nouveau gouvernement fédéral a reconnu l'existence du déséquilibre fiscal et a annoncé son intention de le corriger. Pour commencer, il a promis de remettre aux provinces une part du surplus de l'exercice 2005-2006.

À l'heure actuelle, le gouvernement du Canada bénéficie d'une situation financière stable. On prévoit une croissance de ses recettes de 2,8 % et de 3,8 % au cours des deux prochaines années, ce qui lui permettra de concrétiser ses engagements relatifs au déséquilibre fiscal.

To mitigate risk and encourage stable revenues, Manitoba has actively negotiated long term funding agreements. In September of 2004, a ten-year agreement for health care funding was struck between the Federal Government and provinces. That agreement provides for stable increases each year in health care transfers to provinces, and the new federal administration has confirmed it will honour the agreement.

Manitoba's risk mitigation plan involves understanding the federal fiscal situation, anticipating its vulnerabilities, and ensuring proactive intergovernmental relations and negotiations. Manitoba actively fosters federal-provincial relationships that encourage fairness and the use of fact and consensus in any potential changes to federal transfers to the province.

#### **Risks related to volatility in revenue and expenses in the Government Reporting Entity (GRE)**

As the Manitoba Government transitions to Summary Budgeting, additional risks related to volatility in revenue and expenses are introduced. Briefly, Summary Budgeting requires the Government to include in its Budget all entities controlled by Government - from departments, to Crown corporations, regional health authorities, universities, and others. This represents the GRE as defined by the PSAB standards. The Manitoba Government's measures of financial responsibilities will include the financial results of these entities, and will therefore be vulnerable to the factors that impact them.

The number of large, relatively autonomous entities whose results are included in the GRE, including Manitoba Hydro-Electric Board (Manitoba Hydro), Manitoba Public Insurance Corporation, Manitoba Agricultural Services Corporation and the University of Manitoba, increase the potential for substantial volatility in the reported financial results in the Province's annual Summary Financial Statements.

The extent of volatility of these entities' operations can be significant. To understand the magnitude of this volatility, work has been undertaken by Deloitte &

Afin de réduire le risque et de favoriser la stabilité des recettes, le Manitoba a négocié activement des ententes de financement à long terme. En septembre 2004, le gouvernement fédéral et les provinces ont conclu une entente de financement des soins de santé d'une durée de dix ans. Cette entente prévoit une augmentation annuelle stable des paiements de transfert versés aux provinces pour le secteur des soins de santé, et le nouveau gouvernement fédéral a confirmé qu'il respecterait l'entente.

Les moyens employés par le gouvernement du Manitoba pour réduire le risque consistent notamment à faire en sorte de bien comprendre la situation financière du gouvernement fédéral, afin de prévoir ses vulnérabilités, et à veiller à ce que des initiatives aient lieu dans le domaine des relations et des négociations intergouvernementales. Le Manitoba favorise activement les relations fédérales-provinciales qui privilégient l'équité et le recours aux faits et au consensus pour tout changement éventuel touchant les transferts fédéraux versés à la Province.

#### **Risques liés à la volatilité des recettes et des dépenses dans le périmètre comptable du gouvernement**

Au moment où le gouvernement du Manitoba fait la transition vers la production de budgets sommaires, de nouveaux risques liés à la volatilité des recettes et des dépenses doivent être pris en compte. En termes brefs, disons que la production de budgets sommaires suppose que le gouvernement inclue dans son budget tous les organismes placés sous son contrôle, depuis les ministères jusqu'aux sociétés d'État, aux offices régionaux de la santé et aux universités. Il s'agit là du périmètre comptable du gouvernement, tel que le définissent les normes du Conseil sur la comptabilité dans le secteur public. Les mesures de responsabilité financière du gouvernement du Manitoba comprendront les résultats financiers de ces organismes et seront par conséquent vulnérables aux mêmes facteurs qui influencent ceux-ci.

Le nombre de grands organismes relativement autonomes dont les résultats sont inclus dans le périmètre comptable du gouvernement, notamment la Régie de l'hydroélectricité (Hydro-Manitoba), la Société d'assurance publique du Manitoba, la Société des services agricoles du Manitoba et l'Université du Manitoba, augmente la possibilité que les résultats financiers déclarés dans les états financiers sommaires annuels de la Province fassent état d'une importante variabilité.

La volatilité liée à l'exploitation de ces organismes peut s'avérer importante. Dans le cadre de l'engagement du Manitoba à produire des budgets sommaires, on a fait appel à l'entreprise Deloitte & Touche LLP pour saisir

Touche LLP in relation to Manitoba's commitment to Summary Budgeting.

Over the most recent ten year period, the financial results of Manitoba Hydro have been the most volatile. Deloitte & Touche LLP's recent report notes that the absolute value of the variance between its best and worst financial results over the past decade was almost \$900 million. For the remaining entities, this same measure was \$60 million for the least volatile (University of Manitoba) and \$172 million for the next most volatile (Manitoba Public Insurance Corporation).

The substantial changes in profitability for these entities are the result of factors outside of the short-term control of either the Government or management of these organizations. For example, weather storms or periods of drought result in less hydro electric power production at Manitoba Hydro, as well as significant insurance claims being paid by Manitoba Public Insurance Corporation and Manitoba Agricultural Services Corporation.

Deloitte & Touche LLP has provided recommendations on how the Government can continue to move forward to meet our commitment on Summary Budgeting and Reporting and meet a modern balanced budget test. These recommendations recognize the increased risk of volatility and Government's need for sufficient flexibility to respond to adverse circumstances in the GRE.

### **Compliance with Balanced Budget Legislation**

As well as achieving a net income on a summary basis for the 2005/06 fiscal year, the Government of Manitoba has complied with the requirements of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*.

Manitoba has achieved a positive balance of \$31 million without any draw from the Fiscal Stabilization Fund (FSF). In addition, debt and pension liabilities were reduced by a

l'ampleur de cette volatilité.

Au cours des dix dernières années, les résultats financiers d'Hydro-Manitoba se sont révélés les plus volatiles. Selon le récent rapport de Deloitte & Touche LLP, la valeur absolue de l'écart entre ses meilleurs et ses pires résultats financiers au cours de la dernière décennie s'élève à près de 900 millions de dollars. En ce qui concerne les quatre autres organismes cités, la même mesure était de 60 millions de dollars pour les résultats financiers les moins volatiles (Université du Manitoba) et de 172 millions de dollars pour les résultats les plus volatiles (Société d'assurance publique du Manitoba).

Les changements de rentabilité importants de ces organismes sont le résultat de facteurs extérieurs au contrôle à court terme exercé par le gouvernement ou par les gestionnaires de ces organismes. Par exemple, les tempêtes ou les périodes de sécheresse ont pour conséquence une diminution de production d'électricité par Hydro-Manitoba ainsi qu'une hausse importante des indemnités payées par la Société d'assurance publique du Manitoba et la Société des services agricoles du Manitoba.

Deloitte & Touche LLP a formulé des recommandations sur la façon dont le gouvernement peut continuer à aller de l'avant en ce qui concerne son engagement à produire des états récapitulatifs et des budgets sommaires, tout en préparant des budgets modernes et équilibrés. Ces recommandations tiennent compte du risque accru de volatilité ainsi que de la marge de manœuvre dont le gouvernement a besoin pour faire face aux circonstances défavorables dans le cadre de son périmètre comptable.

### **Respect des mesures législatives sur l'équilibre budgétaire**

Le gouvernement du Manitoba a non seulement dégagé un bénéfice net, comme l'indique le budget sommaire pour l'exercice 2005-2006, il s'est également conformé aux exigences de la *Loi sur l'équilibre budgétaire, le remboursement de la dette et l'obligation de rendre compte aux contribuables*.

Le Manitoba a dégagé un solde positif de 31 millions de dollars sans prélever de montant net dans le Fonds de stabilisation des recettes. De plus, il a réduit de 110 millions de dollars supplémentaires en 2005-2006 le montant de la

further \$110 million in 2005/06 (see page 126, note 15).

In fact, as a result, the balance of the FSF for March 31, 2006 is \$532 million -- \$46 million higher than the previous year and the third highest balance since the fund was established. Manitoba has worked hard to increase efficiency, reduce costs without impacting services, and ensure fiscal flexibility for the future.

Manitoba's borrowing costs are among the lowest in Canada. Manitoba's net general purpose debt costs for the 2005/06 fiscal year are \$260 million or 3.1% of revenue compared with 7.3% in the 1999/2000 fiscal year. 2005/06 net debt costs increased \$19 million over 2004/05 (see page 138) primarily attributable to a rise in interest rates.

## **Progress on commitments**

### **1. Transition to Summary Budgeting and Reporting**

Manitoba has made significant progress in aligning the Province's accounting practices with PSAB standards. By doing this, we have become more transparent and accountable to the people of Manitoba.

The Government has committed to the full implementation of Summary Budgeting and Reporting for 2007/08. At that time, we intend to produce a set of public disclosure documents that will be timely, comprehensive and consistent with PSAB standards.

Earlier this year, I was pleased to receive two reports from Deloitte & Touche LLP that provided expert advice on how Government can continue to move forward on our Summary Budgeting and Reporting commitment, be compliant with PSAB standards, meet a modernized balanced budget requirement, and continue to increase Government's transparency and accountability to Manitobans.

dette et de l'obligation découlant des régimes de retraite (voir note 15 en page 126).

En conséquence, le solde du Fonds de stabilisation des recettes atteignait 532 millions de dollars au 31 mars 2006, soit 46 millions de dollars de plus que l'année précédente. Il s'agit du solde le plus élevé depuis la création du Fonds, à l'exception de deux années. Le gouvernement du Manitoba a travaillé d'arrache-pied afin d'accroître l'efficacité, de réduire les coûts sans nuire aux services, et de garantir une marge de manœuvre financière pour l'avenir.

Les coûts d'emprunt du Manitoba figurent parmi les plus bas au Canada. Le coût de la dette générale nette de la Province pour l'exercice 2005-2006 s'élève à 260 millions de dollars, ce qui représente 3,1 % des recettes comparativement à 7,3 % en 1999-2000. L'augmentation de 19 millions de dollars du coût de la dette nette entre les exercices 2004-2005 et 2005-2006 (voir page 138) est principalement attribuable à l'augmentation des taux d'intérêt.

## **Progrès accomplis relativement aux engagements**

### **1. Transition vers la production d'états récapitulatifs et de budgets sommaires**

Le Manitoba a accompli d'importants progrès en vue de rendre les pratiques comptables de la Province conformes aux normes du Conseil sur la comptabilité dans le secteur public. Notre gouvernement est ainsi devenu plus transparent et fait l'objet d'une plus grande obligation redditionnelle envers la population manitobaine.

Le gouvernement s'est engagé à ce que son initiative de production d'états récapitulatifs et de budgets sommaires soit entièrement mise en œuvre en 2007-2008. À ce moment-là, nous comptons être en mesure de produire une série de documents de divulgation publique qui seront à jour, complets et conformes aux normes du Conseil sur la comptabilité dans le secteur public.

Il y a quelque temps, j'ai eu le plaisir de recevoir deux rapports de Deloitte & Touche LLP proposant des conseils d'expert sur les moyens que le gouvernement peut adopter pour continuer à aller de l'avant en ce qui concerne notre engagement à produire des états récapitulatifs et des budgets sommaires, pour nous conformer aux normes du Conseil sur la comptabilité dans le secteur public, pour répondre aux exigences requises par tout budget moderne et équilibré, ainsi que pour accroître la transparence du gouvernement et pour renforcer son obligation de rendre compte devant la population manitobaine.

Benefits of the transition to Summary Budgeting and Reporting include:

- increased confidence in the Province's financial reporting;
- promotion of consistency, transparency and accountability in reporting;
- use of widely-accepted benchmarks for reporting purposes;
- enhanced credibility with bond-rating agencies;
- elimination of criticism concerning our current practice of providing two sets of financial statements; Summary Financial Statements (representing a consolidated financial position including all organizations included in the GRE) and Operating Fund financial statements (representing the financial results of core Government operations only).
- ability to compare and contrast financial performance on a consistent basis with that of other jurisdictions; and
- consistency with having all capital assets amortized within the Government Reporting Entity.

## **2. Maintaining Our Business Advantage and Lower Taxes for Manitobans:**

Our commitments in 2005 encompassed a number of tax changes, including reductions to personal and corporation income taxes, and a broadening of a number of incentives.

- The middle bracket Personal Income Tax rate was reduced from 14.0% to 13.5% in 2006. The basic personal amount, which all Manitoba tax filers claim, was increased by \$100 to \$7,734 in 2006.
- The general Corporation Income Tax rate was reduced from 15.5% to 15.0% for 2005 and to 14.5% in 2006.
- The small business Corporation Income Tax rate is reduced from 5% to 4.5% in 2006 and to 4% in 2007.
- The Community Enterprise Development

La production d'états récapitulatifs et de budgets sommaires présente les avantages suivants :

- confiance accrue dans l'information financière du gouvernement;
- amélioration de la cohérence, de la transparence et de l'obligation de rendre compte relatives à l'information financière;
- utilisation de points de référence admis pour le mesure du rendement;
- renforcement de la crédibilité auprès des agences de cotation des titres;
- élimination des critiques qui visent notre pratique actuelle consistant à fournir deux séries d'états financiers : les états financiers sommaires (qui représentent une situation financière consolidée comprenant tous les organismes qui font partie du périmètre comptable du gouvernement) et les états financiers du fonds de fonctionnement (qui représentent uniquement les résultats financiers des opérations gouvernementales essentielles);
- possibilité de comparer les résultats financiers avec ceux d'autres provinces et de faire ressortir les différences, et cela de façon constante;
- cohérence résultant de l'amortissement de tous les actifs financiers dans le périmètre comptable du gouvernement.

## **2. Maintenir notre avantage commercial et l'allègement du fardeau fiscal pour les Manitobains et Manitobaines**

Les engagements que nous avons pris en 2005 comprennent plusieurs changements dans le domaine fiscal. Nous avons ainsi diminué l'impôt sur le revenu des particuliers et l'impôt sur les bénéfices des sociétés, et élargi la portée de plusieurs mesures d'encouragement.

- Le taux d'imposition sur le revenu des particuliers est passé de 14 % à 13,5 % pour la tranche intermédiaire en 2006. Le montant personnel de base, dont tous les contribuables manitobains bénéficient, est passé à 7 734 \$ en 2006, soit une augmentation de 100 \$.
- Le taux de l'impôt sur les bénéfices des sociétés est passé de 15,5% à 15 % en 2005 et 14,5 \$ en 2006.
- Le taux d'imposition des bénéfices des petites entreprises est passé de 5 % à 4,5 % en 2006 et sera de 4 % en 2007.
- Le crédit d'impôt pour l'expansion des entreprises dans

Tax Credit, the Co-operative Education Tax Credit, and the Manitoba Equity Tax Credit were extended by 3 years.

- Farm manure slurry tanks and lagoon liners continue to be exempt from sales tax. In addition, a sales tax exemption was introduced for free distribution magazines.
- The Film and Video Production Tax Credit was enhanced: the basic credit increased to 45% from 35%; the pre-production eligibility period was extended; the rural and northern incentive now covers more of Manitoba; and serial productions and producers were recognized under the frequent filming incentive.
- The Political Contributions Tax Credit was made comparable to the federal credit.
- Les collectivités, le crédit d'impôt pour l'éducation coopérative et le crédit d'impôt à l'achat d'actions ont été prolongés pour une période de trois ans.
- L'exonération de taxe de vente applicable aux revêtements de lagunes et de fosses de stockage du fumier liquide se poursuit. De plus, on a adopté une exonération de la taxe de vente pour les magazines à diffusion gratuite.
- Le crédit d'impôt pour la production de films et de vidéos a été amélioré. Le crédit de base est passé de 35 % à 45 %, la période d'admissibilité des coûts de préproduction a été prolongée, les mesures d'encouragement destinées aux régions rurales et du Nord couvrent une plus grande partie du Manitoba, et l'encouragement à la production fréquente s'applique maintenant à la production de séries et aux producteurs concernés.
- Le crédit d'impôt pour contributions politiques de la Province est désormais comparable à celui du gouvernement fédéral.

Since 2002, the Government has reduced education property taxes every year by increasing the tax credit or by reducing the residential levy. In 2005, the residential Education Support Levy was reduced by 47% from 4.56 mills to 2.42 mills.

Depuis 2002, le gouvernement a réduit chaque année les impôts fonciers en matière d'éducation, que ce soit en augmentant le crédit d'impôt ou en diminuant la taxe résidentielle. En 2005, le montant de la taxe résidentielle d'aide à l'éducation a été réduit de 47 %, passant de 4,56 millièmes à 2,42 millièmes.

In 2005, the Government increased its rebate of the school division Special Levy on farmland to 50%. When it was first introduced in 2004, the rebate was 33%. The rebate does not affect the amount of taxes collected for school divisions.

En 2005, le gouvernement a porté à 50 % le montant du remboursement de la taxe spéciale que les divisions scolaires perçoivent sur les terres agricoles, comparativement à 33 % lors de sa création en 2004. Le remboursement n'a pas d'incidences sur le montant des taxes perçues pour les divisions scolaires.

Two tax credit programs were also enhanced in 2005. The Manitoba Research and Development Tax Credit was increased for the first time since its inception, to 20% from 15%. Also, qualifying property under the Manufacturing Investment Tax Credit was broadened to include used buildings, machinery and equipment, and the credit was made partially refundable. These changes are important to improving the productivity and the competitiveness of businesses in Manitoba.

Deux autres programmes de crédit de taxes ont été améliorés en 2005. Le crédit d'impôt pour la recherche et le développement au Manitoba a été augmenté pour la première fois depuis sa création, passant de 15 % à 20 %. Par ailleurs, on a élargi la catégorie des biens admissibles au crédit d'impôt à l'investissement manufacturier en y incluant les immeubles, les machines et le matériel usagés, et l'on a rendu le crédit partiellement remboursable. Ces changements sont importants pour améliorer la productivité et la compétitivité des entreprises au Manitoba.

We continue to work with the Federal Government and local Governments to better address the transit, roadway and municipal infrastructural needs in our Province. In Budget 2005, the Government created the Building Manitoba Fund, an expenditure program that incorporates and enhances the

Nous continuons à travailler avec le gouvernement fédéral et les administrations locales pour mieux répondre aux besoins dans le domaine des infrastructures routières, municipales et de transport dans notre province. Dans le cadre du Budget 2005, le gouvernement a créé le Fonds de croissance du Manitoba, un programme de dépenses qui englobe et améliore l'entente de partage des recettes

income tax sharing arrangement with local Governments to include fuel tax revenue sharing as well. Manitoba signed a five-year federal fuel tax sharing agreement with Canada in November 2005.

### **Conclusion**

I am pleased to be able to provide Manitobans with positive results for 2005/06 for both the Summary Financial Statements and the Operating Fund Financial Statements. The Fiscal Stabilization Fund is in a very strong position, and we continue our work in performance measurement. We are aware of risk and have proactive plans to mitigate any potential effects. We are working hard to transition our Government to Summary Budgeting and Reporting, while at the same time ensuring we comply with balanced budget legislation.

fiscales avec les administrations locales afin d'inclure également le partage des recettes découlant de la taxe sur le carburant. En novembre 2005, le Manitoba a signé avec le gouvernement fédéral une entente de cinq ans sur le partage des recettes découlant de la taxe sur le carburant.

### **Conclusion**

Je suis heureux de pouvoir présenter aux Manitobains et Manitobaines les résultats positifs enregistrés en 2005-2006 et qui se reflètent à la fois dans les états sommaires et dans le fonds de fonctionnement. La situation du Fonds de stabilisation des recettes est excellente et nous continuons notre travail en matière de mesure de la performance. Conscients du facteur risque, nous avons mis au point des plans préventifs pour en atténuer les éventuels effets. Nous travaillons énergiquement pour que notre gouvernement effectue la transition vers la production d'états récapitulatifs et de budgets sommaires, tout en veillant au respect des mesures législatives sur l'équilibre budgétaire.

## ECONOMIC REPORT / RAPPORT ÉCONOMIQUE

Manitoba's economy is one of the most diversified in Canada. This diversity is an ongoing source of strength and stability. Over the past five years, Manitoba's real economic growth has been among the most stable among the provinces.

Strong growth in consumer spending combined with moderate increases in business investment and Government spending resulted in 2.9% growth in the Manitoba economy, the strongest performance since 2000. The goods-producing industries led the Manitoba economy in 2005 with utilities, construction and manufacturing leading the growth. The higher-valued Canadian dollar continued to place competitive pressure on Manitoba businesses by making US goods and services less expensive relative to domestically produced goods and services. The US accounts for 76% of Manitoba's foreign exports.

Manitoba's largest industry is manufacturing which accounts for 13% of provincial Gross Domestic Product (GDP). Relative to most other provinces Manitoba's service sector is large, a factor which contributes to the stability of the Manitoba economy. The major components of the service sector are health care, transportation, retail and wholesale trade, real estate, finance and insurance, and education. Service industries accounted for 74% of the Manitoba economy in 2005, significantly higher than the national average. The service sector accounted for 76% of Manitoba employment.

### Gross Domestic Product

Manitoba's real GDP grew by 2.9% in 2005, up from the 2.5% growth recorded in 2004. Nominal GDP grew by 4.8% to \$42.1 billion.

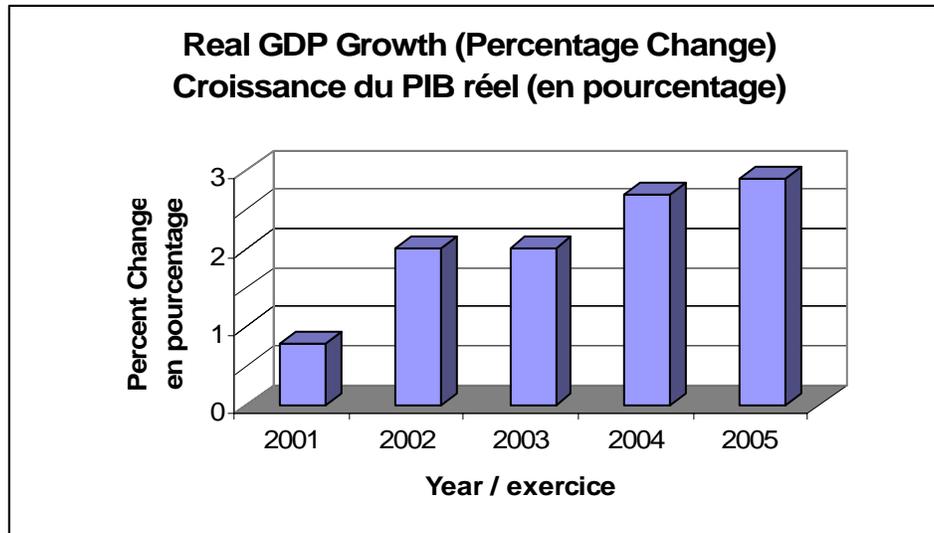
L'économie manitobaine est l'une des plus diversifiées du Canada. Cette diversité est une source permanente de force et de stabilité. Au cours des cinq dernières années, la croissance économique réelle du Manitoba a été l'une des plus stables des provinces canadiennes.

Grâce à l'accroissement important des dépenses de consommation et à l'augmentation modeste des investissements commerciaux et des dépenses gouvernementales, l'économie manitobaine a connu une croissance de 2,9 %, soit la plus forte depuis l'an 2000. L'industrie la plus forte de l'économie manitobaine en 2005 était la production de biens. Ce sont notamment les secteurs des services publics, de la construction et de la fabrication qui ont connu la plus forte croissance. L'appréciation du dollar canadien a continué d'exercer une pression concurrentielle sur les entreprises manitobaines en rendant les biens et les services américains moins chers par rapport aux biens et aux services produits localement. Les États-Unis absorbent 76 % des exportations du Manitoba.

Le secteur industriel le plus important du Manitoba est celui de la fabrication, qui représente 13 % du produit intérieur brut (PIB) provincial. Par rapport à la plupart des autres provinces, le secteur des services au Manitoba est vaste, ce qui contribue à la stabilité de l'économie provinciale. Les principales composantes du secteur des services sont les soins de santé, le transport, le commerce de gros et de détail, l'immobilier, les finances et l'assurance, et l'éducation. L'industrie des services représentait 74 % de l'économie du Manitoba en 2005, soit un niveau nettement supérieur à la moyenne nationale. Par ailleurs, 76 % des emplois au Manitoba étaient situés dans le secteur des services.

### Produit intérieur brut

Le PIB réel du Manitoba a augmenté de 2,9 % en 2005, un chiffre supérieur au taux de croissance de 2,5 % enregistré en 2004. Le PIB nominal s'est accru de 4,8 %, atteignant 42,1 milliards de dollars.



### Population

Manitoba's population was 1,177, 556 as of July 1, 2005. This is Manitoba's "official" population for the year. The population growth from the previous year was 7,327 or 0.63%. This was the Province's second largest annual growth since 1986 behind the 0.74% growth in 2004.

On a calendar year basis Manitoba's population grew by 3,389 in 2005 with total net out-migration of 490 combined with natural population growth (births minus deaths) of 3,879.

### Labour Force and Incomes

Manitoba's employment increased 0.6% in 2005 with full-time employment growth of 0.2 and an increase of 2.6% in part-time employment. Total employment reached a record 580,300, an increase of 3,700. Service sector employment increased 0.9%, led by finance, insurance and real estate; and accommodation and other services. Employment in the goods producing sector was unchanged with strongest growth occurring in the construction industry.

### Population

Au 1<sup>er</sup> juillet 2005, le Manitoba comptait 1 177 556 habitants. Il s'agit de la population « officielle » de la province pour cette année. Entre 2004 et 2005, la population a augmenté de 7 327 personnes, soit une croissance de 0,63 %, la plus importante croissance annuelle enregistrée au Manitoba depuis 1986, à l'exception de celle de 2004 qui se chiffrait à 0,74 %.

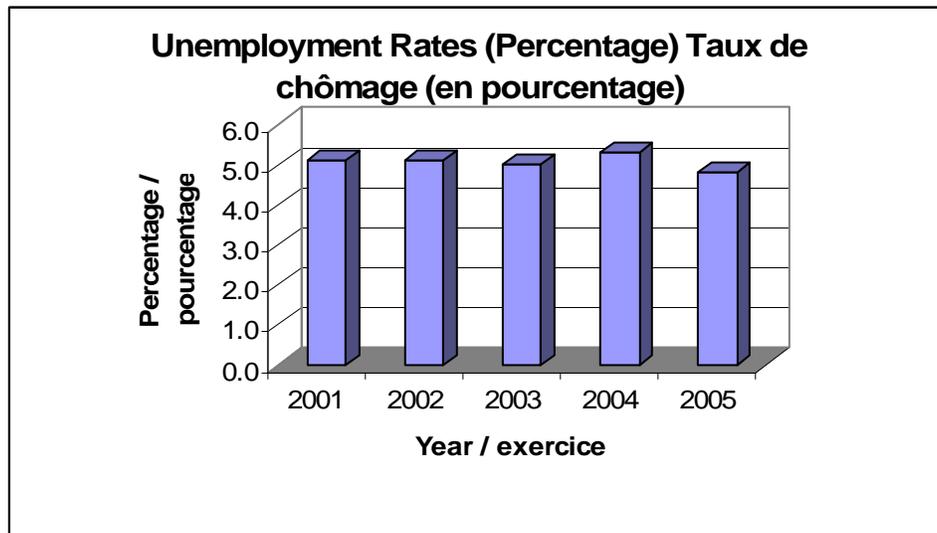
Si l'on se base sur l'année civile, la croissance de la population au Manitoba s'élevait à 3 389 personnes en 2005. La croissance démographique naturelle (naissances moins décès) était de 3 879 personnes et l'émigration nette de 490 personnes.

### Main-d'œuvre et revenus

Le nombre d'emplois au Manitoba a augmenté de 0,6 % en 2005, dont 0,2 % pour les emplois à plein temps et 2,6 % pour les emplois à temps partiel. Le nombre total d'emplois a atteint le chiffre record de 580 300, soit une augmentation de 3 700. Le nombre d'emplois dans les services s'est accru de 0,9 %, les secteurs de tête étant les finances, l'assurance, l'immobilier, l'hébergement touristique et autres services. Le nombre d'emplois dans le secteur de la production de biens demeure inchangé. Dans ce secteur, l'industrie de la construction a connu la plus forte croissance.

The unemployment rate decreased in 2005 to 4.8% from 5.3% in 2004. This rate was the second lowest in Canada and well below the national rate of 6.8%. Manitoba's youth unemployment rate decreased to 9.7% in 2005, the second lowest rate among provinces and well below the Canadian average of 12.4%. The Provincial participation rate, the ratio of the number of persons working or looking for work relative to the total labour force, declined slightly to 68.6% in 2005, but remained the second highest rate among provinces.

Le taux de chômage a baissé, passant de 5,3 % en 2004 à 4,8 % en 2005. Ce taux était largement inférieur à la moyenne nationale de 6,8 %, et le Manitoba se plaçait au deuxième rang en ce qui concerne le plus bas taux de chômage au Canada. Le taux de chômage des jeunes au Manitoba a baissé en 2005, atteignant 9,7 %, un chiffre bien inférieur à la moyenne canadienne de 12,4 % et qui plaçait le Manitoba au deuxième rang des provinces en ce qui concerne le taux de chômage des jeunes le plus bas. Le taux d'activité de la province, soit le pourcentage de personnes qui, parmi la population active, travaillent ou cherchent un emploi, a baissé légèrement et atteint le chiffre de 68,6 % en 2005, ce qui maintient le Manitoba au deuxième rang des provinces ayant le taux d'activité le plus élevé.

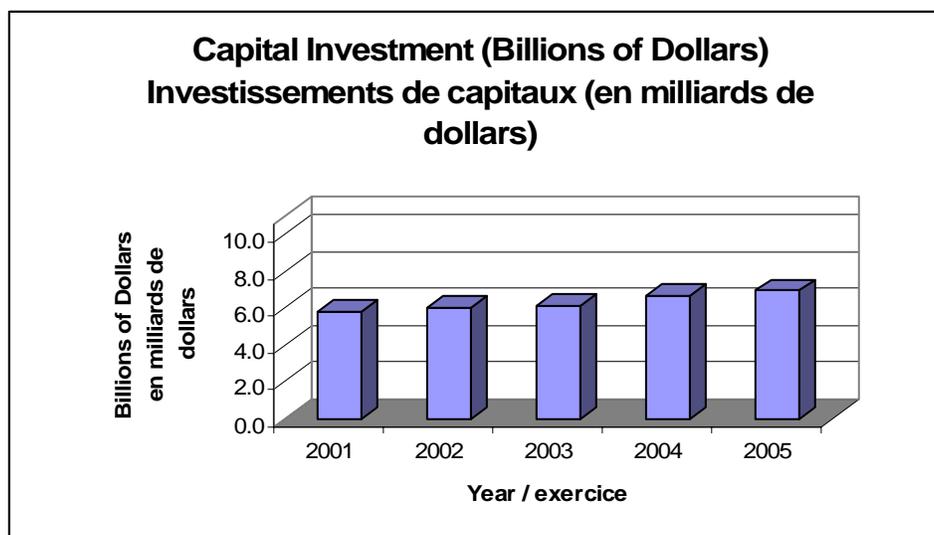


## Investment

Total capital investment increased 3.9% in 2005 according to Statistics Canada's Survey of Private and Public Investment. This was below the national increase of 7.1%. Private capital investment increased 2.2% in 2005. However, Manitoba is the only province to have increases in private capital investment in each of the last 14 years. Private investment accounts for 75% of total capital investment in Manitoba. Public capital investment increased 9.5% in 2005.

## Investissements

Le total des investissements de capitaux au Manitoba a augmenté de 3,9 % en 2005, selon l'étude sur les investissements privés et publics de Statistique Canada. Ce chiffre était inférieur à la moyenne nationale de 7,1 %. Les investissements de capitaux privés ont augmenté de 2,2 % en 2005. Pendant, le Manitoba est la seule province qui a connu une croissance des investissements de capitaux privés chaque année depuis 14 ans. Les investissements privés représentaient 75 % de tous les investissements de capitaux au Manitoba. Les investissements de capitaux publics se sont accrus de 9,5 % en 2005.



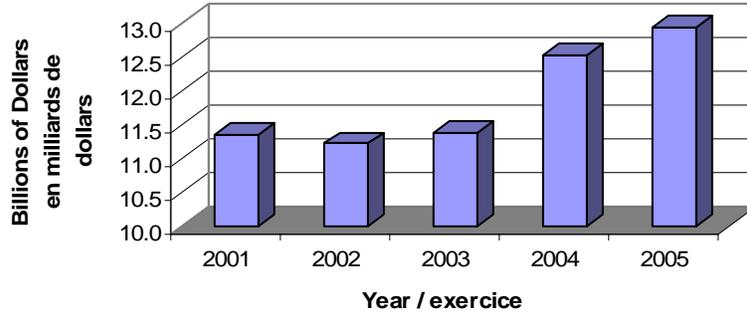
## Sectoral Developments

Manitoba manufacturing shipments rose 3.3% to \$12.9 billion above the national increase of 3.0%. Eight of the Province's fourteen manufacturing industries posted gains in 2005. The majority of Manitoba's manufactured goods are exported to other provinces or countries. In 2005, manufactured goods accounted for 64.8% of total foreign exports.

## Développements sectoriels

Les livraisons manufacturières du Manitoba ont augmenté de 3,3 %, atteignant 12,9 milliards de dollars. Au niveau national, l'augmentation était de 3,0 %. Huit des 14 industries manufacturières de la province ont affiché des profits en 2005. La majeure partie des biens manufacturés au Manitoba est exportée vers d'autres provinces ou d'autres pays. En 2005, les biens manufacturés représentaient 64,8 % du total des exportations vers l'étranger.

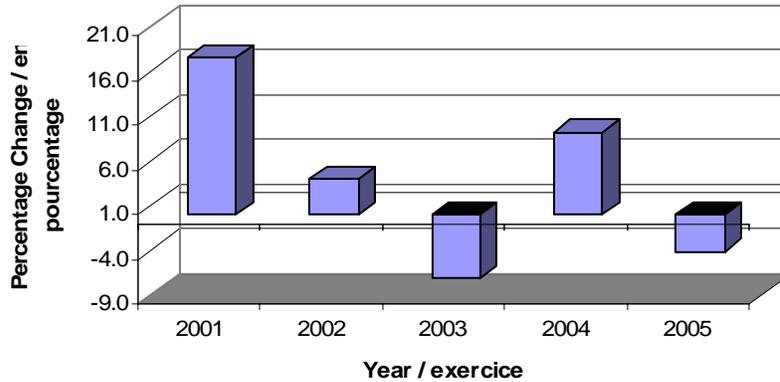
**Value of Manufacturing Shipments (Billions of Dollars) Valeur des expéditions de produits manufacturés (en milliards de dollars)**



Manitoba farm cash receipts decreased 4.1% to \$3.7 billion in 2005 as crop production was severely constrained by adverse precipitation conditions throughout the growing season. Crop cash receipts declined 28.3% to the lowest level since 1994. Livestock receipts increased 6.6% as the partial opening of the U.S. border to Canadian cattle led to a 64.0% increase in cattle cash receipts. Direct payments increased 51.4% in 2005. Overall market receipts declined 11.5%.

Les recettes monétaires agricoles du Manitoba ont baissé de 4,1 % et atteint 3,7 milliards de dollars en 2005 étant donné que les conditions défavorables en termes de précipitations ont beaucoup limité les cultures agricoles au cours de la saison de croissance. Les recettes monétaires agricoles ont baissé de 28,3 %, soit le niveau le plus bas depuis 1994. Les recettes tirées de la vente du bétail ont augmenté de 6,6 %, l'ouverture partielle de la frontière canado-américaine aux bovins canadiens ayant entraîné une croissance de 64 % des recettes provenant de la vente de bovins. Les paiements directs se sont accrus de 51,4 % en 2005. Les recettes monétaires globales tirées du marché ont baissé de 11,5 %.

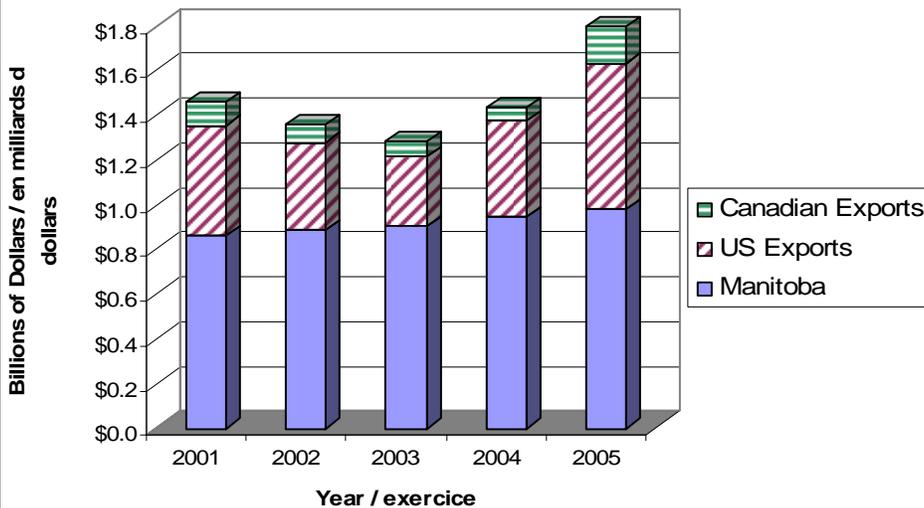
**Growth in Farm Cash Receipts (Percentage Change) Croissance des recettes monétaires agricoles (en pourcentage)**



The total value of hydro-electricity sales increased in 2005 by 25.3% to \$1.8 billion, as US exports increased 53.4% to a record \$818 million. Hydro export sales to the US and other provinces accounted for 54.5% of hydro sales in 2005. Sales within Manitoba increased 3.5%.

La valeur totale des ventes d'hydroélectricité a augmenté de 25,3 % et atteint 1,8 milliard de dollars en 2005, les exportations vers les États-Unis ayant augmenté de 53,4 % et atteint un chiffre record de 818 millions de dollars. Les exportations d'hydroélectricité vers les États-Unis et les autres provinces représentaient 54,5 % des ventes d'hydroélectricité en 2005. Les ventes au Manitoba ont augmenté de 3,5 %.

**Hydro-Electricity Sales (Billions of Dollars) Ventes d'énergie électrique (en milliards de dollars)**



Strong population growth and low mortgage rates contributed to the 6.6% increase in housing starts. The 4,731 starts in 2005 was the highest level since 1988. Single-family starts increased 6.5% to 3,709 the highest level since 1987. Multiple starts increased 6.9% to 1,022 units the second highest level since 1989. This was still the second-highest number of multiple starts since 1989. The value of building permits issued in 2005 decreased 1.9% from the 2004 record level. Residential permits increased 2.9% while non-residential permits declined 8.7%.

La forte croissance démographique et les faibles taux d'intérêt hypothécaires ont contribué à l'augmentation de 6,6 % des mises en chantier. Le nombre de mises en chantier en 2005 (4 731) était le plus élevé depuis 1988. Les mises en chantier d'habitations individuelles ont augmenté de 6,5 % et atteint le chiffre de 3 709, ce qui est le chiffre le plus élevé depuis 1987. Les mises en chantier d'habitations à logements multiples ont augmenté de 6,9 % et atteint le chiffre de 1 022 unités. L'année 2005 a vu le plus grand nombre de mises en chantier d'habitations à logements multiples depuis 1989, à l'exception d'une année. Après l'année record de 2004, la valeur des permis de construire délivrés en 2005 a baissé de 1,9 %. Le nombre de permis de construire résidentiels a augmenté de 2,9 % alors que le nombre de permis de construire non résidentiels a baissé de 8,7 %.

Manitoba retail sales increased 6.4% to \$12.4 billion. This was the third highest increase among provinces. All retail categories increased with particular strength in the gasoline and hardware, garden and building supplies outlets.

Les ventes au détail au Manitoba ont augmenté de 6,4 % et atteint 12,4 milliards de dollars, une croissance qui plaçait le Manitoba au troisième rang des provinces. Les ventes au détail ont augmenté dans toutes les catégories, mais elles étaient particulièrement vigoureuses dans le secteur de l'essence ainsi que dans les points de vente de matériaux de construction et d'articles de quincaillerie et de jardinage.

Manitoba mineral production increased 9.2% to \$1.6 billion as strong market conditions for metals continued to prevail in 2005. Petroleum output increased 54.3% to a record \$302 million.

La production minérale au Manitoba a augmenté de 9,2 % et atteint 1,6 milliard de dollars, grâce aux conditions du marché des métaux, qui sont encore favorables en 2005. La production pétrolière a augmenté de 54,3 % et atteint un chiffre record de 302 millions de dollars.

# FINANCIAL INDICATORS / INDICATEURS FINANCIERS

## SUMMARY FINANCIAL STATEMENTS / ÉTATS FINANCIERS SOMMAIRES

The Summary Financial Statements report on the entire Government Reporting Entity (GRE). This includes all Crown organizations and Government business enterprises (GBEs) which are owned or directly controlled by the Government. The Manitoba Agricultural Services Corporation and the Manitoba Hydro-Electric Board are two examples of these. A detailed listing of all organizations comprising the GRE can be found on Schedule 8 of the statements. The practice of netting the revenues and expenses of GBEs when calculating summary financial indicators was changed in 2002/03. These indicators now reflect the revenues and expenses on a gross basis and have been restated to reflect the impact of accounting policy changes on prior years and the impact of revised Gross Domestic Product (GDP) and population statistics.

Les états financiers sommaires rendent compte de la totalité de l'entité comptable du gouvernement, ce qui comprend toutes les sociétés d'État et toutes les entreprises publiques qui appartiennent au gouvernement ou sont placées directement sous son contrôle. La Société des services agricoles du Manitoba et la Régie de l'hydro-électricité du Manitoba en sont deux exemples. L'annexe 8 des états financiers comprend la liste détaillée de tous les organismes qui composent l'entité comptable. La pratique qui consistait à présenter au net les recettes et les dépenses des entreprises publiques dans le calcul des indicateurs financiers sommaires a été modifiée en 2002-2003. Ces indicateurs expriment désormais les recettes et les dépenses en chiffres bruts. Par ailleurs, ceux-ci ont été ajustés afin de tenir compte des conséquences des changements de pratiques comptables sur les années précédentes, ainsi que des conséquences des chiffres révisés du PIB et des statistiques démographiques.

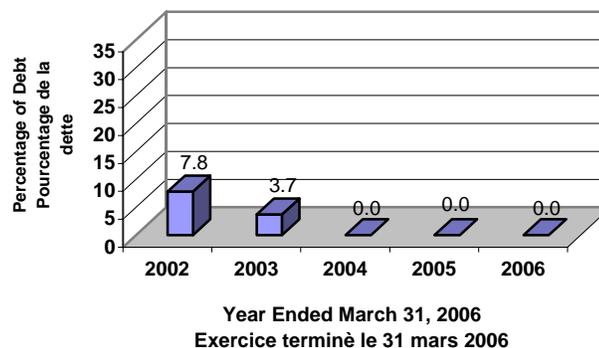
### Unhedged Foreign Debt to Net Debt

The ratio of foreign debt to net debt for 2005/06 is represented as nil because the foreign exchange risk is considered to be fully hedged through the use of derivative instruments such as swaps, forward foreign exchange contracts, as well as, future US dollar revenue streams and US dollar sinking funds. The nominal amount of foreign debt is \$5,672 million (2005 - \$5,887). Decreasing the ratio of foreign currency debt to net Government debt through hedging activities mitigates the risk of debt servicing costs rising due to changes in foreign currency rates and improves the Province's financial position.

### Dettes extérieures non protégées et dette nette

Le ratio de la dette extérieure à la dette nette du gouvernement est indiqué comme nul pour 2005-2006, car on considère que le risque du taux d'échange est totalement protégé par des opérations de couverture à l'aide d'instruments dérivés comme les swaps, les contrats de change à terme, les recettes annuelles futures en dollars américains et les fonds d'amortissement en dollars américains. La valeur nominale de la dette extérieure est à 5 672 millions de dollars (au lieu de 5 887 millions en 2005). La diminution du ratio par des activités de couverture réduit le risque d'une hausse du coût du service de la dette associée aux variations du taux de change, et contribue à l'amélioration de la situation financière de la Province.

**Unhedged Foreign Debt as a Percentage of Net Debt**  
**Dettes extérieures non-protégées en pourcentage de la dette nette**



# FINANCIAL INDICATORS / INDICATEURS FINANCIERS

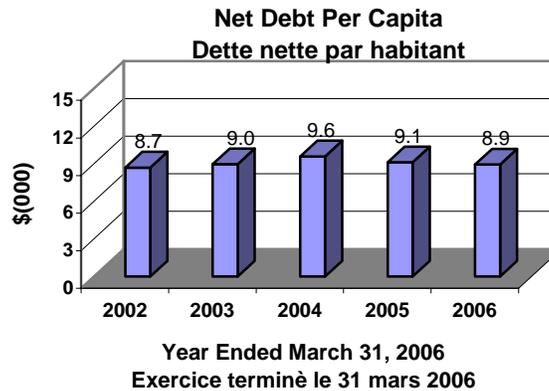
## SUMMARY FINANCIAL STATEMENTS / ÉTATS FINANCIERS SOMMAIRES

### Net Debt per Capita

A decrease in the net debt per capita is an indication of a decreasing debt burden on a per person basis. This figure has remained relatively stable for the past five years, with a decrease for 2005/06 to approximately \$8,933. Growth in GDP per capita must be taken into account to determine capacity to support debt. During this period, GDP per capita grew from \$30,512 in 2002 to \$35,762 in 2006. These results should be viewed in conjunction with the following report of Net Debt to Provincial GDP.

### Dette nette par habitant

Une diminution de la dette nette par habitant signale une réduction du fardeau de la dette par habitant. La dette nette par habitant est demeurée relativement stable au cours des cinq dernières années. Elle a diminué en 2005-2006 et se situait à environ 8 933 \$. Il faut tenir compte de l'augmentation du PIB par habitant afin de déterminer la capacité de supporter la dette. Pendant cette période, le PIB par habitant est passé de 30 512 \$ en 2002 à 35 762 \$ en 2006. Il faudrait tenir compte du rapport sur la dette nette et le PIB provincial ci dessous pour examiner ces résultats.



As restated/Après ajustement

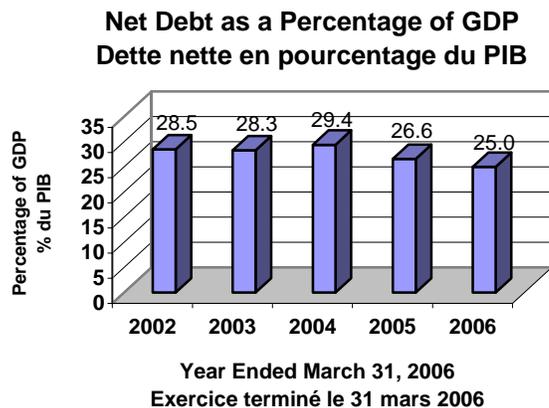
Source: Public Accounts of Manitoba

### Net Debt to Provincial GDP

A measurement of debt growth in relation to economic growth, the Province's ratio of net debt to GDP remained relatively stable.

### Dette nette et PIB provincial

Le rapport entre la dette nette et le PIB, qui permet de comparer croissance de la dette et croissance économique, est resté relativement stable.



As restated/Après ajustement

Source: Public Accounts of Manitoba

# FINANCIAL INDICATORS / INDICATEURS FINANCIERS

## SUMMARY FINANCIAL STATEMENTS / ÉTATS FINANCIERS SOMMAIRES

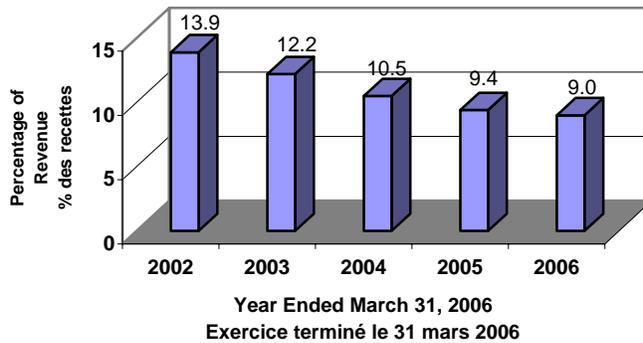
### Debt Servicing Costs to Revenue

A measurement of debt servicing costs to revenue indicates whether the Province has more to spend on operations as opposed to debt servicing costs. Over the last five years, this ratio has improved steadily.

### Coût du service de la dette et recettes

Le coût du service de la dette par rapport aux recettes indique si la Province peut consacrer davantage de fonds au fonctionnement qu'au coût du service de la dette. Au cours des cinq dernières années, ce ratio est amélioré sans interruption.

**Debt Servicing Costs as a Percentage of Revenue**  
**Coût du service de la dette en pourcentage des recettes**



As restated / Après rejustment

Source: Public Accounts of Manitoba

### Debt Service Charges

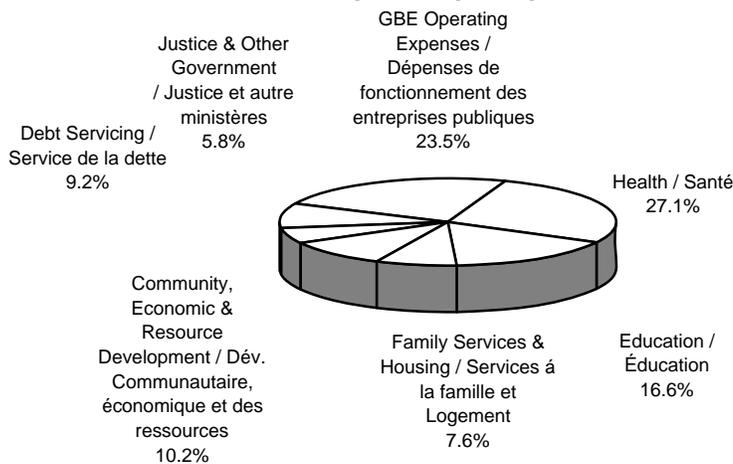
In 2005/06, the debt servicing cost reached a level of \$1,307 million, representing approximately 9.2% of provincial expenses.

### Frais de service de la dette

En 2005-2006, le coût du service de la dette a atteint 1 307 millions de dollars, ce qui représente 9,2 % des dépenses provinciales.

### Major Expense Categories

#### Dépenses principales



Source: Public Accounts of Manitoba

# FINANCIAL INDICATORS / INDICATEURS FINANCIERS

## SUMMARY FINANCIAL STATEMENTS / ÉTATS FINANCIERS SOMMAIRES

### Expenses and Revenue

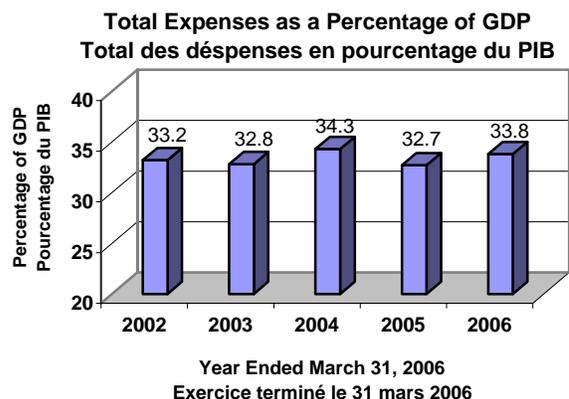
Total expenses in 2005/06 from Schedule 3 and the Statement of Revenue and Expense amounted to \$14,215 million, an increase of \$1,099 million or 8.4% over the 2004/05 fiscal year. Operating expenses, that is, total expenses less debt servicing costs, increased \$1,071 million or 9.0% from 2004/05. Operating expenses amounted to 30.7% of GDP in 2005/06.

Total revenue in 2005/06 from Schedule 3 and the Statement of Revenue and Expense amounted to \$14,590 million, an increase of \$912 million or 6.7% over 2004/05. Federal transfers were \$53 million lower than 2004/05.

### Recettes et dépenses

En 2005-2006, le total des dépenses calculé à partir de l'annexe 3 et de l'état des résultats s'élevait à 14 215 millions de dollars, soit une hausse de 1 099 millions de dollars ou de 8,4 % comparativement à 2004-2005. Les dépenses de fonctionnement, soit le total des dépenses moins le coût du service de la dette, ont augmenté de 1 071 millions de dollars ou 9,0 % depuis 2004-2005. En 2005-2006, les dépenses de fonctionnement représentaient 30,7 % du PIB.

En 2005-2006, le total des recettes calculé à partir de l'annexe 3 et de l'état des résultats s'élevait à 14 590 millions de dollars, une hausse de 912 millions de dollars ou 6,7 % comparativement à 2004-2005. Le montant des transferts fédéraux était de 53 millions de dollars de la baisse qu'en 2004-2005.



As restated/Après rejustement

Source: Public Accounts of Manitoba

# FINANCIAL INDICATORS / INDICATEURS FINANCIERS

## SUMMARY FINANCIAL STATEMENTS / ÉTATS FINANCIERS SOMMAIRES

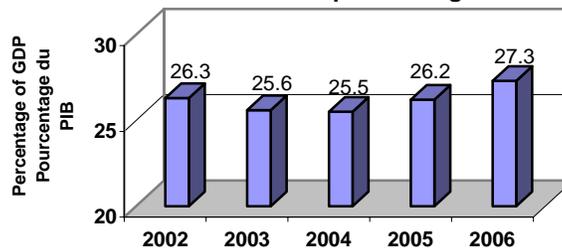
### Own Source Revenue to Provincial GDP

A measurement of own-source revenue to provincial GDP indicates the level of taxes and charges the Government requires for its operations relative to the economy. Over the last five years, this ratio has remained relatively stable.

### Recettes autonomes et PIB provincial

Le rapport entre les recettes autonomes et le PIB provincial indique le niveau d'imposition et de frais requis par le gouvernement pour fonctionner sur le plan économique. Au cours des cinq dernières années, ce ratio est demeuré relativement stable.

**Own-Source Revenue as a Percentage of GDP**  
**Recettes autonomes en pourcentage du PIB**



Year Ended March 31, 2006  
 Exercice terminé le 31 mars 2006

As restated / Après rejustement

Source: Public Accounts of Manitoba

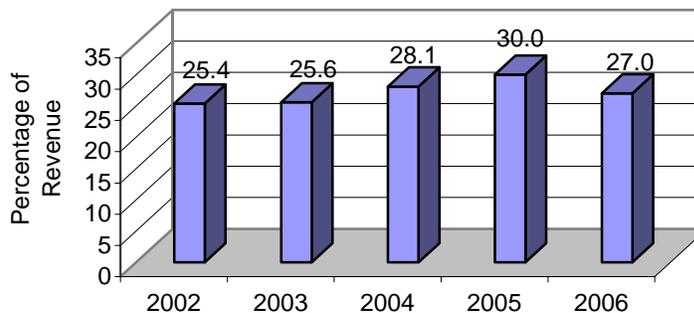
### Federal Transfers to Own-Source Revenue

Federal transfers to own-source revenue is a measurement of the Province's dependence on revenues from sources which are outside of its control. Increases in this ratio resulted from the new ten-year agreement with the Federal Government for health care funding.

### Transferts fédéraux et recettes autonomes

Le pourcentage de recettes autonomes constituées de transferts fédéraux permet de mesurer le degré de dépendance aux recettes provenant de sources dont la Province n'assume pas le contrôle. L'augmentation de ce pourcentage est due à la nouvelle entente de dix ans signée avec le gouvernement fédéral sur le financement des soins de santé.

**Federal Transfer Payments as a Percentage of Own-Source Revenue**  
**Transferts fédéraux en pourcentage des recettes autonomes**



Year Ended March 31, 2006  
 Exercice terminé le 31 mars 2006

As restated / Après rejustement

Source: Public Accounts of Manitoba



**PROVINCE OF MANITOBA  
OPERATING FUND  
DISCUSSION AND ANALYSIS  
AND  
FINANCIAL INDICATORS**

~

**PROVINCE DU MANITOBA  
DISCUSSIONS ET ANALYSES  
FONDS DE FONCTIONNEMENT  
ET  
INDICATEURS FINANCIERS**



## OPERATING FUND DISCUSSION AND ANALYSIS

The Operating Fund reflects the central operations of the Government and is the basis for appropriations voted by the Legislature. The Operating Fund records central Government operations, including revenue, program expense, public debt costs and inter-fund transfers for debt/pension repayment and transfers to/from the Fiscal Stabilization Fund. The Special Purpose Operating Fund and Special Funds financial statements provide a means of measuring results compared to voted appropriations and obligations with respect to *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*. The Operating Fund does not include the results of Government business enterprises and other Crown organizations except to the extent that they may have received funding from or contributed revenue to the Operating Fund.

The following pages present a brief analysis of actual results of the Operating Fund for the fiscal year ended March 31, 2006. Included are:

- Explanations of variances from the budget and from the previous year.
- Financial indicators as they pertain specifically to the Operating Fund.

Note: Prior year balances have not been restated to reflect the impact of accounting policy changes (see Note 1A.3, page 111).

## FONDS DE FONCTIONNEMENT DISCUSSION ET ANALYSE

Le fonds de fonctionnement renvoie aux activités centrales du gouvernement et est à la base des crédits votés par l'Assemblée législative. Le fonds de fonctionnement rend compte des activités centrales du gouvernement, y compris les recettes, les dépenses de programme, le coût de la dette publique, les transferts interfonds destinés au remboursement de la dette et de l'obligation découlant des régimes de retraite, et les transferts allant au Fonds de stabilisation des recettes ou en venant. Les états financiers à vocation spéciale relatifs au fonds de fonctionnement et aux fonds spéciaux constituent un moyen de mesurer les résultats par rapport aux crédits votés et aux obligations découlant de la *Loi sur l'équilibre budgétaire, le remboursement de la dette et l'obligation de rendre compte aux contribuables*. Le fonds de fonctionnement ne rend pas compte des résultats des entreprises publiques et des organisations de la Couronne, sauf si elles ont reçu un financement provenant du fonds de fonctionnement ou si elles ont contribué au fonds.

Les pages qui suivent fournissent une brève analyse des résultats réels du fonds de fonctionnement pour l'exercice terminé le 31 mars 2006. On y trouve :

- une explication des écarts par rapport aux prévisions budgétaires et à l'exercice précédent;
- des indicateurs financiers propres au fonds de fonctionnement.

Nota : Les soldes de l'exercice précédent ont été ajustés en conséquence des changements intervenus dans les pratiques comptables (voir note 1A.3, page 111).

## **OPERATING FUND DETAILS OF BUDGETARY PERFORMANCE**

### **Variance Explanations Compared to Budget**

The Operating Fund showed a positive balance of \$31 million, \$28 million higher than the 2005/06 budget projection of \$3 million, with no draw from the Fiscal Stabilization Fund.

Total revenue was \$248 million higher than the 2005/06 budget estimates. This is primarily attributed to higher than budgeted revenue from the Government of Canada of \$118 million, including: Bill C48 - \$49 million; Emergency Expenditures - \$37 million; Early Learning and Child Care Agreement - \$20 million; and Canada Health and Social Transfers - \$12 million.

In addition, increases were also experienced in own source taxation revenue of \$69 million due to higher than budgeted revenue in Individual and Corporation Income Tax - \$79 million, Retail Sales Tax - \$17 million, Levy for Health and Education - \$9 million and other taxation sources - \$33 million. These were partially offset by lower than budgeted taxation revenue of \$35 million in Corporation Capital Tax, \$18 million in Mining Tax, and \$12 million in Tobacco Tax.

The Province also realized \$62 million in additional revenue over the 2005/06 budget from various other departmental revenue sources including a \$20 million, or 19.1%, increase in Water Power Rentals, a \$9 million, or 4.9%, increase from the Manitoba Liquor Control Commission, a \$6 million, or 2.2%, increase from Manitoba Lotteries Corporation, a \$6 million, or 172.5% increase in Petroleum Royalties and Fees, and a \$19 million increase in sundry revenue. This was partially offset by a \$10 million decrease in land information and sales.

## **FONDS DE FONCTIONNEMENT DÉTAILS DU RENDEMENT BUDGÉTAIRE**

### **Explications des écarts par rapport aux prévisions budgétaires**

Le fonds de fonctionnement a affiché un solde positif de 31 millions de dollars, soit 28 millions de dollars de plus que le montant de 3 millions de dollars établi dans les prévisions budgétaires de 2005-2006, sans aucun retrait du Fonds de stabilisation des recettes.

Le total des recettes représente une augmentation de 248 millions de dollars par rapport aux prévisions budgétaires de 2005-2006. Cette augmentation est attribuable principalement au montant plus élevé que prévu au budget des fonds provenant du gouvernement du Canada, soit 118 millions de dollars, y compris : 49 millions de dollars pour les initiatives découlant du projet de loi C-48, 37 millions de dollars pour les dépenses d'urgence, 20 millions de dollars pour l'apprentissage et la garde des jeunes enfants et 12 millions de dollars découlant du Transfert canadien en matière de santé et de programmes sociaux.

De plus, les recettes fiscales autonomes ont augmenté de 69 millions de dollars, en raison principalement des recettes supplémentaires (par rapport au montant prévu au budget) provenant des impôts sur le revenu des particuliers et sur les bénéfices des sociétés (79 millions de dollars), de la taxe sur les ventes au détail (17 millions de dollars), de l'impôt destiné à l'enseignement et aux services de santé (9 millions de dollars) et d'autres sources fiscales (33 millions de dollars). Cette augmentation a été partiellement contrebalancée par une baisse, par rapport aux prévisions budgétaires, des recettes tirées de l'impôt sur le capital des corporations (35 millions de dollars), des recettes tirées de la taxe minière (18 millions de dollars) et des recettes tirées de la taxe sur le tabac (12 millions de dollars).

La Province a également obtenu 62 millions de dollars de plus que prévu au budget 2005-2006 en recettes provenant de diverses autres sources ministérielles, y compris une augmentation de 20 millions de dollars, ou 19,1 %, des recettes tirées des redevances d'utilisation d'énergie hydraulique, une augmentation de 9 millions de dollars, ou 4,9 %, des recettes provenant de la Société des alcools du Manitoba, une augmentation de 6 millions de dollars, ou 2,2 %, provenant de la Corporation manitobaine des loteries, une augmentation de 6 millions de dollars, ou 172,5 %, des droits et des redevances applicables aux ressources pétrolières, et une augmentation de 19 millions de dollars des recettes de

provenance diverses. Ces augmentations sont compensées partiellement par une réduction de 10 millions de dollars des recettes provenant de la vente de services d'information géographique.

Expenses were \$ 220 million, or 2.7%, greater than the 2005/06 budget levels. This includes increases in the departments of Agriculture, Food and Rural Initiatives primarily to provide for provincial commitments under the Canadian Agricultural Income Stabilization Program - \$91 million; Health mainly as a result of increased health care expenses due to wait time programming and salary, price and volume increases - \$53 million; and higher than budgeted expenses for forest fire suppression and other unbudgeted emergencies such as spring flooding and heavy rains - \$42 million. This was partially offset by lower debt servicing costs of \$9 million.

Les dépenses ont augmenté au total de 220 millions de dollars, ou 2,7%, par rapport aux prévisions budgétaires de 2005-2006. Cela comprend les dépenses plus élevées du ministère de l'Agriculture, de l'Alimentation et des Initiatives rurales, principalement pour respecter l'engagement pris par la Province dans le cadre du Programme canadien de stabilisation du revenu agricole (91 millions de dollars); les dépenses plus élevées du ministère de la Santé, en raison du Plan de réduction des délais d'attente et des augmentations de salaire, de prix et de demande de services (53 millions de dollars); les dépenses plus élevées pour l'extinction des incendies de forêt et pour d'autres urgences, telles celles causées par les inondations printanières et les pluies abondantes, pour lesquelles aucuns fonds n'avaient été prévus au budget (42 millions de dollars). Ces diverses hausses ont été compensées en partie par le coût du service de la dette, qui était de 9 millions de dollars inférieur aux prévisions.

Prior to interfund transfers, the Operating Fund recorded a net revenue balance of \$141 million, an increase of \$28 million from the 2005/06 budget. No draw was required from the Fiscal Stabilization Fund and, as required by balanced budget legislation, a transfer of \$110 million was made to the Debt Retirement Fund as budgeted in 2005/06. For 2005/06, \$85 million of the payment was allocated to address the pension liability, leaving \$25 million for the retirement of general purpose debt.

Avant les transferts interfonds, le fonds de fonctionnement affichait un solde net des recettes de 141 millions de dollars, soit une augmentation de 28 millions par rapport au budget 2005-2006. Tel qu'il a été prévu dans le budget de 2005-2006, aucun retrait du Fonds de stabilisation des recettes n'a été nécessaire et, conformément aux mesures législatives sur l'équilibre budgétaire, un transfert de 110 millions de dollars au Fonds de remboursement de la dette a été effectué. Pour l'exercice 2005-2006, 85 millions de dollars provenant du transfert ont été consacrés à l'obligation découlant des régimes de retraite et les 25 millions de dollars restants au remboursement de la dette générale.

### **Comparison to Previous Year**

2005/06 revenue of \$ 8,425 million reflects an increase of \$202 million, or 2.5%, from the 2004/05 actual level of \$8,223 million. The increase is comprised of own source tax revenue of \$141 million primarily in Individual Income Tax, Retail Sales Tax, and Levy for Health and Education. These were partially offset by decreases in other own source tax revenue primarily in the areas of Corporate Capital Tax, Corporate Income Tax, and Tobacco Tax.

### **Comparaisons avec l'exercice précédent**

Le total des recettes en 2005-2006, qui se chiffre à 8 425 millions de dollars, représente une augmentation de 202 millions de dollars, ou 2,5%, par rapport au montant réel de 2004-2005 qui était de 8 223 millions de dollars. L'augmentation comprend la hausse des recettes fiscales autonomes qui se chiffrent à 141 millions de dollars et qui sont tirées principalement de l'impôt sur le revenu des particuliers, de la taxe sur les ventes au détail et de l'impôt destiné à l'enseignement et aux services de santé. Ces augmentations ont été partiellement compensées par la baisse d'autres recettes fiscales autonomes, tirées principalement de l'impôt sur le capital des corporations, de l'impôt sur les bénéficiaires des sociétés et de la taxe sur le tabac.

The Province also realized \$67 million, or 8.0%, in additional revenue over the 2004/05 actual primarily from previously noted increases in water power rentals, Crown corporations and other sundry revenue.

Total expenses increased by \$566 million or 7.3% from the 2004/05 actual level. Program expenses represented \$547 million of this increase primarily in the departments of Health - \$206 million; Agriculture, Food and Rural Initiatives - \$104 million; Family Services and Housing - \$56 million; Education, Citizenship and Youth - \$37 million; Emergency Expenses - \$38 million; Intergovernmental Affairs and Trade - \$29 million; Transportation and Government Services - \$21 million; and Justice - \$21 million. These increases were primarily reflected in budgeted increases in the 2005/06 Budget.

### **Borrowing Activity**

The estimate of borrowing requirements identified in the 2005 budget was \$2,526 million, of which \$2,084 million was required for refinancing existing market debt for the Manitoba Hydro-Electric Board (Hydro), capital financing and health's capital program. The remainder was required for new capital investment, including the Red River Floodway expansion and self-sustaining programs including Hydro.

Actual borrowing for 2005/06 was \$2,866 million. The increase was primarily required to accommodate \$538 million in various program debt called prior to maturity which had to be refinanced.

Outstanding net direct and guaranteed debt, at March 31, 2006 was \$16,112 million, \$36 million lower than the March 31, 2005 balance of \$16,148 million (see Volume 3, Section 2).

Current accounting standards identify net debt as the best presentation of a Government's financial position because outstanding debt will

La Province a également obtenu 67 millions de dollars, ou 8,0 %, en recettes supplémentaires par rapport aux recettes réelles de 2004-2005, principalement en raison des augmentations, déjà mentionnées, dans les domaines de la location de l'énergie hydroélectrique et des société de la Couronne, entre autres.

Le total des dépenses a augmenté de 566 millions de dollars, ou 7,3%, par rapport au montant réel de 2004-2005. De cette augmentation, les dépenses de programme représentaient 547 millions de dollars et touchaient principalement le ministère de la Santé (206 millions de dollars); le ministère de l'Agriculture, de l'Alimentation et des Initiatives rurales (104 millions de dollars); le ministère des Services à la famille et du Logement (56 millions de dollars); le ministère de l'Éducation, de la Citoyenneté et de la Jeunesse (37 millions de dollars); les mesures d'urgence (38 millions de dollars); le ministère des Affaires intergouvernementales et du Commerce (29 millions de dollars), le ministère des Transports et des Services gouvernementaux (21 millions de dollars; et le ministère de la Justice (21 millions de dollars). Ces augmentations se reflétaient principalement dans les augmentations prévues au budget de 2005-2006.

### **Activité d'emprunt**

Le montant des besoins d'emprunt déterminés dans le budget 2005 était de 2 526 millions de dollars, dont 2 084 millions nécessaires au refinancement de la dette contractée sur les marchés pour la Régie de l'hydro-électricité (Hydro-Manitoba), le financement d'immobilisations, et les programmes d'immobilisations dans le secteur de la santé. Le reste était requis pour de nouvelles dépenses d'équipement, notamment l'agrandissement du canal de dérivation de la rivière Rouge, et pour des programmes autonomes, en particulier dans le domaine de l'hydroélectricité.

Le montant réel de l'emprunt pour l'exercice 2005-2006 s'élève à 2 866 millions de dollars. Le plus gros de l'augmentation (538 millions de dollars) correspond au remboursement anticipé d'éléments de la dette affectés au financement de divers programmes, éléments qu'il a fallu refinancer.

En date du 31 mars 2006, l'encours de la dette nette garantie contractée par le gouvernement était à 16 112 millions de dollars, soit 36 millions de moins que le solde de 16 148 millions de dollars affiché au 31 mars 2005 (voir volume 3, partie 2).

Selon les normes comptables actuelles, la dette publique nette est l'instrument qui rend le mieux compte de la situation financière d'un gouvernement, car

fluctuate as a result of the timing of borrowing activities of the Province. Net debt is defined as total liabilities less the financial assets available to repay those liabilities. For the year ended March 31, 2006, net debt of the Operating Fund is \$8,328 million, an increase of \$61 million from the prior year. If the prior year had been restated to reflect the impact of changing accounting policies, such as the recognition of environmental liabilities as of March 31, 2005, the net debt at March 31, 2006 would have been \$90 million lower than the restated March 31, 2005 balance of \$8,418 million.

l'encours de la dette varie en fonction de l'échelonnement des activités d'emprunt de la Province. On définit la dette nette comme le total des dettes moins les actifs financiers disponibles pour rembourser ces dettes. Pour l'exercice qui a pris fin le 31 mars 2006, la dette nette du fonds de fonctionnement s'élevait à 8 328 millions de dollars, ce qui représente une augmentation de 61 millions de dollars par rapport à l'exercice précédent. Si l'exercice précédent avait été ajusté en fonction des changements de pratiques comptables – auquel cas, par exemple, on aurait tenu compte des responsabilités environnementales au 31 mars 2005 –, le montant de la dette nette au 31 mars 2006 aurait été de 90 millions de dollars inférieur au montant du solde rajusté en date du 31 mars 2005, lequel s'élevait à 8 418 millions de dollars.

## FINANCIAL INDICATORS / INDICATEURS FINANCIERS OPERATING FUND / FONDS DE FONCTIONNEMENT

These financial indicators have not been restated to reflect the impact of accounting policy changes on prior years.

tenir compte des conséquences des changements de pratiques comptables sur les années précédentes.

### Unhedged Foreign Debt to Net Debt

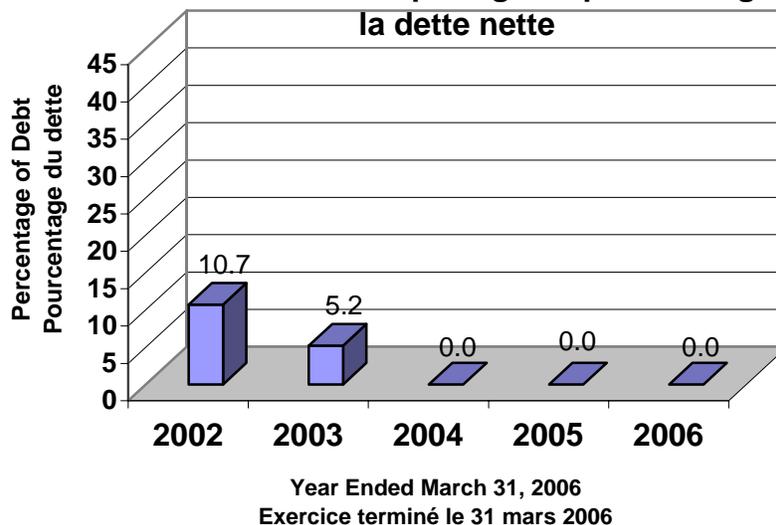
The ratio of foreign debt to net debt for 2005/06 is represented as nil because the foreign exchange risk is considered to be fully hedged through the use of derivative instruments such as swaps, forward foreign exchange contracts, as well as, future US dollar revenue streams and US dollar sinking funds. The nominal amount of foreign debt is \$5,672 million (2005 - \$5,887). Decreasing the ratio of foreign currency debt to net Government debt through hedging activities mitigates the risk of debt servicing costs rising due to changes in foreign currency rates and improves the Province's financial position.

### Dette extérieure non protégée et dette nette

Le ratio de la dette extérieure à la dette nette du gouvernement est indiqué comme nul pour 2005-2006, car on considère que le risque du taux d'échange est totalement protégé par des opérations de couverture à l'aide d'instruments dérivés comme les swaps, les contrats de change à terme, les recettes annuelles futures en dollars américains et les fonds d'amortissement en dollars américains. La valeur nominale de la dette extérieure est à 5 672 millions de dollars (au lieu de 5 887 millions en 2005). La diminution du ratio par des activités de couverture réduit le risque d'une hausse du coût du service de la dette associée aux variations du taux de change, et contribue à l'amélioration de la situation financière de la Province.

### Unhedged Foreign Debt as a Percentage of Net Debt

### Dette extérieure non-protégée en pourcentage de la dette nette



Not restated/n'est rejustment

Source: Public Accounts of Manitoba

# FINANCIAL INDICATORS / INDICATEURS FINANCIERS

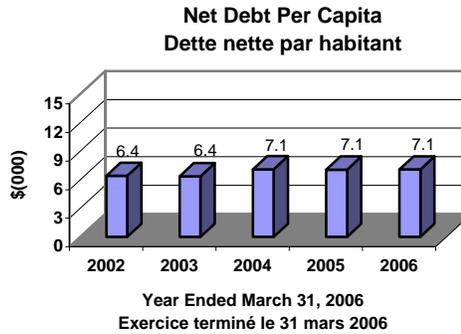
## OPERATING FUND / FONDS DE FONCTIONNEMENT

### Net Debt per Capita

A decrease in the net debt per capita is an indication of a decreasing debt burden on a per person basis. This figure has remained relatively stable, with increases primarily attributable to the application of changes in accounting standards. Growth in GDP per capita must be taken into account to determine capacity to support debt. During this period, GDP per capita grew from \$30,512 in 2002 to \$35,762 in 2006. These results should be viewed in conjunction with the following report of net Debt to Provincial GDP.

### Dette nette par habitant

Une diminution de la dette nette par habitant signale une réduction du fardeau de la dette par habitant. La dette nette par habitant est demeurée relativement stable. L'augmentation s'explique principalement par la modification des normes comptables. Il faut tenir compte de l'augmentation du PIB par habitant afin de déterminer la capacité de supporter la dette. Pendant cette période, le PIB par habitant est passé de 30 512 \$ en 2002 à 35 762 \$ en 2006. Il faudrait tenir compte du rapport sur la dette nette et le PIB provincial ci dessous pour examiner ces résultats.



Not restated/n'est rejustment

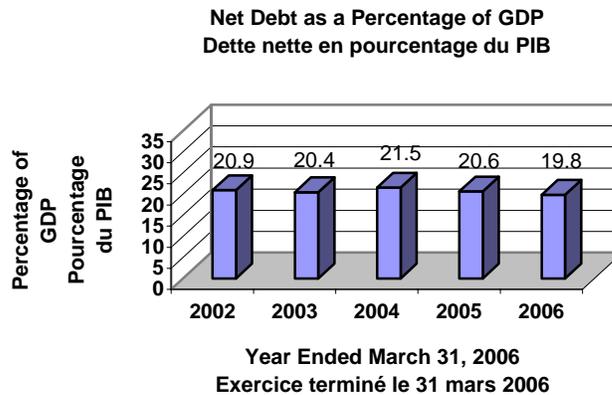
Source: Public Accounts of Manitoba

### Net Debt to Provincial GDP

A measurement of debt growth in relation to economic growth, the Province's ratio of net debt to GDP remained relatively stable.

### Dette nette et PIB de la Province

Le rapport entre la dette nette et le PIB, qui permet de comparer croissance de la dette et croissance économique, est demeuré relativement stable.



Not restated/n'est rejustment

Source: Public Accounts of Manitoba

# FINANCIAL INDICATORS / INDICATEURS FINANCIERS

## OPERATING FUND / FONDS DE FONCTIONNEMENT

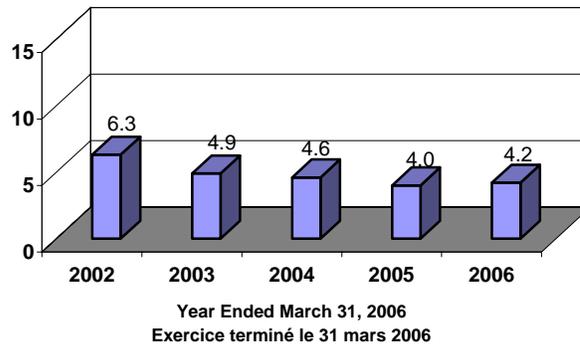
### Net Debt Servicing Costs to Revenue

A measurement of net debt servicing costs to revenue indicates whether the Province has more to spend on public programs as opposed to debt servicing costs. In 2005/06, debt servicing costs increased to 4.2% of revenue, from 4.0% in 2004/05.

### Coût du service de la dette nette et recettes

Le coût du service de la dette nette par rapport aux recettes indique si la Province peut consacrer davantage de fonds au fonctionnement qu'au coût du service de la dette. Ce coût est passé de 4,0 % à 4,2 % des recettes entre 2004-2005 et 2005-2006.

**Net Debt Servicing Costs as a Percentage of Revenue**  
**Coût du service de la dette en pourcentage des recettes**



Not restated/n'est rejustment

Source: Public Accounts of Manitoba

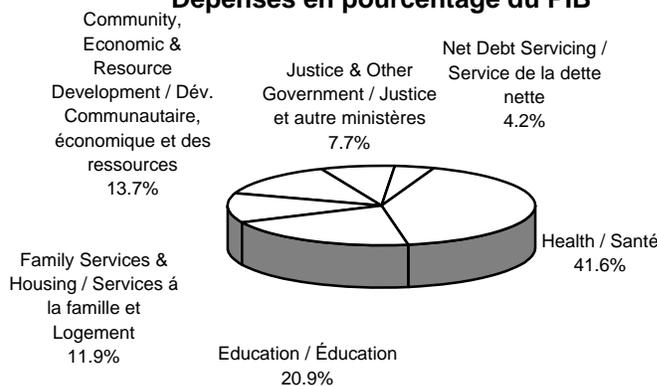
### Net Debt Service Charges

In 2005/06, the net cost of servicing debt issued for the purpose of Government programs reached a level of \$351 million. This represented 4.2% of Operating Fund expenses.

### Frais de service de la dette nette

En 2005-2006, le coût du service de la dette nette relative aux programmes gouvernementaux a atteint 351 millions de dollars. Ce montant représente 4,2 % des dépenses du fonds de fonctionnement.

**Major Expense Categories**  
**Dépenses en pourcentage du PIB**



Source: Public Accounts of Manitoba

# FINANCIAL INDICATORS / INDICATEURS FINANCIERS

## OPERATING FUND / FONDS DE FONCTIONNEMENT

### Expenses and Revenue

Total expenses in 2005/06 amounted to \$8,284 million, an increase of \$566 million or 7.3% over the 2004/05 fiscal year. Program expenses, that is, total expenses less the cost of servicing debt, increased \$541 million from 2004/05. Program expenses amounted to 18.8% of Gross Domestic Product (GDP) in 2005/06.

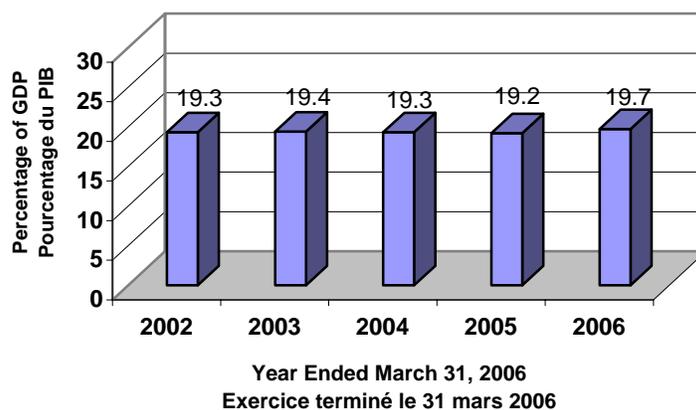
Total revenue in 2005/06 amounted to \$8,425 million, an increase of \$202 million or 2.5% over 2004/05. Federal transfers were \$6 million lower than 2004/05. Corporate income taxes were \$29 million lower, and individual income taxes were \$104 million higher than 2004/05.

### Recettes et dépenses

En 2005-2006, le total des dépenses s'élevait à 8 284 millions de dollars, une hausse de 563 millions de dollars ou de 7,3 % comparativement à 2004-2005. Les dépenses de programme, soit le total des dépenses moins le coût du service de la dette, ont augmenté de 541 millions de dollars depuis 2004-2005. En 2005-2006, les dépenses de programme s'élevaient à 18,8 % du Produit intérieur brut (PIB).

En 2005-2006, le total des recettes s'élevait à 8 425 millions de dollars, une hausse de 202 millions de dollars ou de 2,5 % comparativement à 2004-2005. Les transferts fédéraux s'élevaient à 6 millions de dollars de moins qu'en 2004-2005. L'impôt sur les sociétés a rapporté 29 millions de dollars de moins et l'impôt des particuliers a rapporté 104 millions de dollars de plus qu'en 2004-2005.

**Total Expenses as a Percentage of GDP**  
**Total des dépenses en pourcentage du PIB**



Not restated/n'est rejustment

Source: Public Accounts of Manitoba

# FINANCIAL INDICATORS / INDICATEURS FINANCIERS

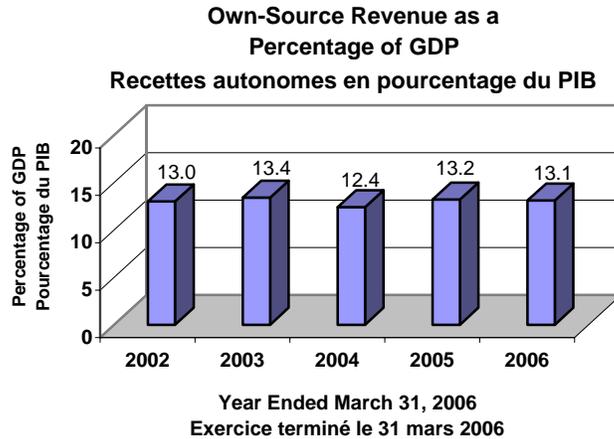
## OPERATING FUND / FONDS DE FONCTIONNEMENT

### Own Source Revenue to Provincial GDP

A measurement of own-source revenue to Provincial GDP indicates the level of taxes and charges the Government requires for its operations relative to the economy. Over the last five years, this ratio has remained relatively stable.

### Recettes autonomes et PIB provincial

Le rapport entre les recettes autonomes et le PIB provincial indique le niveau d'imposition et de frais requis par le gouvernement pour fonctionner sur le plan économique. Au cours des cinq dernières années, ce rapport est demeuré relativement stable.



Not restated/n'est rejustment

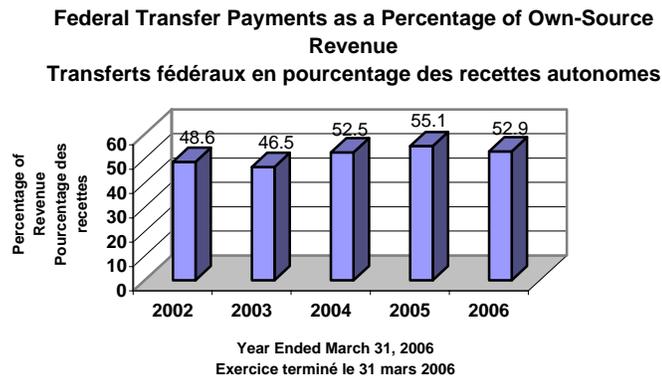
Source: Public Accounts of Manitoba

### Federal Transfers to Own-Source Revenue

Federal transfers to own-source revenue is a measurement of the Province's dependence on revenues from sources which are outside of its control. Increases in this ratio resulted from the 2004 ten-year agreement with the Federal Government for health care funding.

### Transferts fédéraux et recettes autonomes

Le pourcentage de recettes autonomes constitué de transferts fédéraux permet de mesurer le degré de dépendance aux recettes provenant de sources dont la Province n'assume pas le contrôle. L'augmentation de ce pourcentage est due à 2004 entente de dix ans signée avec le gouvernement fédéral sur le financement des soins de santé.



Not restated/n'est rejustment

Source: Public Accounts of Manitoba

**PUBLIC ACCOUNTS  
VOLUME 1  
FOR THE YEAR ENDED  
MARCH 31, 2006**



**VOLUME 1  
DES COMPTES PUBLICS  
POUR L'EXERCICE TERMINÉ  
LE 31 MARS 2006**



## INTRODUCTION TO THE PUBLIC ACCOUNTS OF MANITOBA

The Public Accounts of the Province of Manitoba are prepared by statutory requirement, in accordance with the Financial Administration Act, which is Chapter F55 of the Continuing Consolidation of the Statutes of Manitoba. The Public Accounts for the fiscal year ended March 31, 2006 consist of four volumes:

### Volume 1

Volume 1 is published as part of the Government's Annual Report and has two sections:

- Section 1 – the Summary Financial Statements – reports on the entire Government Reporting Entity (GRE). This includes all Crown organizations and Government business enterprises which are owned or directly controlled by Government. The Manitoba Agricultural Services Corporation and the Manitoba Hydro-Electric Board are two examples of these. A detailed listing of all organizations comprising the GRE can be found on Schedule 8 of the statements.
- Section 2 – the Operating and Special Funds Statements – are special purpose financial statements. The Operating Fund is the vehicle through which the Government manages and controls the operations of Government departments and programs, and does not include the results of Government business enterprises and Crown organizations except to the extent that they may have received funding from or contributed revenue to the Operating Fund. It is through the Operating Fund that the Government reports on its stewardship of central Government operations, including measurement of its results as compared to voted appropriations, and its obligations with respect to the *Balanced Budget, Debt Repayment and Taxpayer Accountability Act*.

### NOTE:

Volumes 2, 3 and 4 of the Public Accounts are published separately and are available for review at public libraries or for purchase at the Statutory Publications Branch of the department of Culture, Heritage and Tourism.

## INTRODUCTION AUX COMPTES PUBLICS DU MANITOBA

Les comptes publics de la Province du Manitoba sont préparés par obligation légale, conformément à la Loi sur la gestion des finances publiques, soit le chapitre 55 de la Codification permanente des lois du Manitoba. Les comptes publics pour l'exercice financier s'étant terminé le 31 mars 2006 comprennent quatre volumes.

### Volume 1

Le volume 1 est inséré dans le Rapport annuel du gouvernement et se compose de deux sections.

La section 1, intitulée États financiers sommairess, rend compte de la totalité de l'entité comptable du gouvernement, ce qui comprend toutes les sociétés d'État et toutes les entreprises publiques qui appartiennent au gouvernement ou sont placées directement sous son contrôle. La Société des services agricoles du Manitoba et la Régie de l'hydro-électricité du Manitoba en sont deux exemples. L'annexe 8 des états financiers comprend la liste détaillée de tous les organismes qui composent l'entité comptable.

La section 2, intitulée États financiers du fonds de fonctionnement et des fonds spéciaux, regroupe les états financiers à vocation spéciale. Le fonds de fonctionnement est l'outil dont se sert le gouvernement pour gérer et contrôler le fonctionnement des ministères et des programmes du gouvernement. Le fonds ne tient pas compte des résultats des entreprises publiques et des sociétés d'État, sauf si elles ont perçu du financement provenant du fonds ou si elles ont contribué à ses recettes. C'est par l'intermédiaire du fonds de fonctionnement que le gouvernement rend compte de sa gestion du fonctionnement du gouvernement central, gestion reflétée notamment par la mesure de ses résultats par rapport aux crédits approuvés et par le respect des obligations contenues dans la Loi sur l'équilibre budgétaire, le remboursement de la dette et l'obligation de rendre compte aux contribuables.

### NOTE :

Les volumes 2, 3 et 4 des comptes publics sont publiés séparément. On peut les consulter dans les bibliothèques publiques ou s'en procurer un exemplaire à la Section des publications officielles du ministère de la Culture, du Patrimoine et du Tourisme.

## Volume 2

- Contains the audited Schedule of Public Sector Compensation Payments of \$50,000 or more as paid through the Operating Fund as well as those paid by Special Operating Agencies.
- Contains details of unaudited Operating Fund and Special Operating Agencies' payments in excess of \$5,000 to corporations, firms, individuals, other Governments and Government agencies.

## Volume 3

- Contains the details of the Operating Fund Financial Statements.
- Contains the details of the Operating Fund borrowings and guarantees.
- Contains the details of the Operating Fund revenue and expense.
- Contains information provided under Statutory Requirement.
- Contains information concerning certain Operating Fund financial indicators.
- Contains glossary information.

These statements are all unaudited with the exception of the following:

- The Report of Amounts Paid to Members of the Assembly; and
- The Northern Affairs Fund.

## Volume 4

- Contains the audited financial statements of funds, Crown organizations, agencies and Government business enterprises included in the GRE.

## Volume 2

- Ce volume contient le tableau vérifié des paiements d'indemnisation du secteur public totalisant 50 000 \$ ou plus, qu'il s'agisse des paiements versés à même le fonds de fonctionnement ou de ceux versés par les organismes de service spécial.
- Il indique également, en détail, les paiements non vérifiés totalisant plus de 5 000 \$ et versés à même le fonds de fonctionnement, ou par les organismes de service spécial, à des sociétés, des entreprises, des particuliers et d'autres gouvernements ou organismes gouvernementaux.

## Volume 3

- Ce volume contient le détail des états financiers du fonds de fonctionnement.
- Il contient le détail des emprunts et des garanties du fonds de fonctionnement.
- Il contient le détail des recettes et des dépenses du fonds de fonctionnement.
- Il contient des renseignements fournis par obligation légale.
- Il contient des renseignements concernant certains indicateurs financiers du fonds de fonctionnement.
- Il contient un glossaire.

Ces états financiers sont tous non vérifiés, à l'exception des deux suivants :

- le rapport sur les sommes versées aux membres de l'Assemblée législative;
- le Fonds des Affaires du Nord.

## Volume 4

- Ce volume contient les états financiers vérifiés des fonds, des organisations, des organismes et des entreprises, y compris l'entité comptable du gouvernement.

# **SUMMARY FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**March 31, 2006**



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## STATEMENT OF RESPONSIBILITY

The Summary Financial Statements are prepared under the direction of the Minister of Finance in accordance with the stated accounting policies of the Government reporting entity and include summary statements of financial position, revenue and expense, accumulated deficit, change in net debt, cash flow, notes and schedules integral to the statements. Together, except as stated in Note 1A to the Summary Financial Statements, they present fairly, in all material respects, the financial condition of the Government reporting entity at the fiscal year end and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

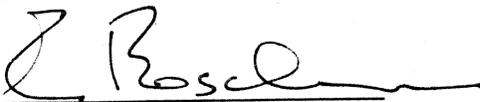
The Government is responsible for the integrity and objectivity of the Summary Financial Statements. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets, liabilities, revenues and expenses is dependent on future events. The Government believes such estimates have been based on careful judgements and have been properly reflected in the Summary Financial Statements.

The Government fulfills its accounting and reporting responsibilities, through the Office of the Provincial Comptroller, by maintaining systems of financial management and internal control. The systems are continually enhanced and modified to provide timely and accurate information, to safeguard and control the Government's assets, and to ensure all transactions are in accordance with the Financial Administration Act.

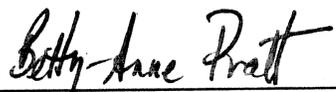
The Auditor General expresses an independent opinion on these financial statements. Her report, stating the scope of her audit and opinion, appears on the following page. The audit opinion for the 2005/06 financial statements was signed by the Deputy Auditor General.

These financial statements are tabled in the Legislature. They are referred to the Standing Committee on Public Accounts, which reports to the Legislature on the results of its examination together with any recommendations it may have with respect to the financial statements and accompanying audit opinion.

On behalf of the Government of the Province of Manitoba.



Ewald Boschmann  
Deputy Minister of Finance



Betty-Anne Pratt  
Provincial Comptroller

July 31, 2006





**Office of the Auditor General**

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

**AUDITOR'S REPORT**  
**On the Summary Financial Statements for the Government Reporting Entity**  
**Province of Manitoba**

**To the Legislative Assembly of the Province of Manitoba**

I have audited the summary statement of financial position of the Province of Manitoba as at March 31, 2006 and the summary statements of revenue and expense, accumulated deficit, change in net debt and cash flow for the year then ended. These financial statements are the responsibility of the Government of Manitoba. My responsibility is to express an opinion on these financial statements based on my audit.

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

**Reservation**

As explained in the Note 1 A to these financial statements, the Province of Manitoba's accounting policies contain an exception to Canadian generally accepted accounting principles, related to the inclusion of public school divisions. The effects of the non-consolidation of public school divisions on the reported assets, liabilities, revenues and expenses, and the information provided by way of notes to the financial statements cannot be determined.

**Opinion**

In my opinion, except for the effects of the inability to consolidate the assets, liabilities and the operating results of public school divisions, these Summary Financial Statements for the Government Reporting Entity present fairly, in all material respects, the financial position of the Province of Manitoba as at March 31, 2006 and the results of its operations and its cash flow for the year then ended, in accordance with Canadian generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

Winnipeg, Manitoba  
July 31, 2006

Bonnie J. Lysyk, MBA, CA•CIA  
Deputy Auditor General



## SUMMARY STATEMENT OF FINANCIAL POSITION

As at March 31, 2006

|  |   | (\$ millions)   |                 |
|--|---|-----------------|-----------------|
| SCHEDULE                                 |   | 2006            | 2005            |
| <b>FINANCIAL ASSETS</b>                  |   |                 |                 |
|  | Cash and cash equivalents (Note 2).....   | 1,088           | 1,137           |
|  | Temporary investments (Note 2).....   | 323             | 267             |
| 1  | Amounts receivable.....   | 900             | 900             |
|  | Inventories.....  | 40              | 36              |
|  | Prepaid expense.....  | 22              | 19              |
|  | Portfolio investments (Note 3).....   | 608             | 545             |
| 2  | Loans and advances.....   | 585             | 626             |
| 3  | Equity in Government business enterprises (Note 5).....   | 1,740           | 1,224           |
| 4  | Other long-term investments.....  | <u>4</u>        | <u>4</u>        |
|  | <b>Total Financial Assets</b>   | <u>5,310</u>    | <u>4,758</u>    |
| <b>LIABILITIES</b>                       |   |                 |                 |
| 5  | Borrowings.....   | 18,559          | 18,390          |
|  | Less: Sinking funds (Note 6).....   | (2,739)         | (2,729)         |
|  | Less: Debt incurred for and repayable by the Manitoba Hydro-Electric<br>Board and Manitoba Lotteries Corporation..... | <u>(6,276)</u>  | <u>(6,215)</u>  |
|  |   | 9,544           | 9,446           |
|  | Less: Unamortized foreign currency fluctuation.....   | <u>(79)</u>     | <u>(84)</u>     |
|  | Net borrowings  | 9,465           | 9,362           |
| 6  | Accounts payable, accrued charges, provisions and deferrals.....  | 2,397           | 2,305           |
|  | Pension liability (Note 12).....  | <u>3,967</u>    | <u>3,761</u>    |
|  | <b>Total Liabilities</b>  | <u>15,829</u>   | <u>15,428</u>   |
|  | <b>NET DEBT</b>   | <u>(10,519)</u> | <u>(10,670)</u> |
| <b>NON-FINANCIAL ASSETS (Note 1D.13)</b> |   |                 |                 |
| 7  | Tangible capital assets.....  | <u>4,170</u>    | <u>3,915</u>    |
|  | <b>ACCUMULATED DEFICIT</b>  | <u>(6,349)</u>  | <u>(6,755)</u>  |

Information concerning the Government's Guarantees, Contractual Obligations, Contingencies and Treaty Land Entitlement Obligations can be found in Notes 7, 8, 9 and 10.

**SUMMARY STATEMENT OF REVENUE AND EXPENSE**

For the Year Ended March 31, 2006

|   | (\$ millions) |               |
|---|---------------|---------------|
|   | 2006          | 2005          |
| <b>REVENUE</b>  |               |               |
| Manitoba Collections:   |               |               |
| Retail sales tax.....   | 1,198         | 1,125         |
| Fuel taxes.....   | 236           | 235           |
| Levy for health and education.....                                | 303           | 287           |
| Mining tax.....   | 39            | 41            |
| Other taxes.....  | 509           | 531           |
| Fees and other revenue.....                                       | 2,057         | 1,842         |
| Income taxes:   |               |               |
| Corporation income tax.....                                       | 373           | 402           |
| Individual income tax.....  | 1,949         | 1,842         |
| Net income from Government business enterprises (Schedule 3)..... | 958           | 679           |
| Federal transfers:  |               |               |
| Equalization.....   | 1,601         | 1,699         |
| Canada Health and Social Transfers.....                           | 1,108         | 1,045         |
| Health Reform Fund.....   | -             | 55            |
| Bill C-48.....  | 49            | -             |
| Shared cost and other.....  | 345           | 357           |
| <b>TOTAL REVENUE.....</b>   | <b>10,725</b> | <b>10,140</b> |
| <b>EXPENSES</b>   |               |               |
| Health.....   | 3,849         | 3,560         |
| Education .....   | 2,366         | 2,309         |
| Family Services and Housing.....                                  | 1,075         | 1,020         |
| Community, Economic and Resource Development.....                 | 1,448         | 1,169         |
| Justice and Other Government.....                                 | 822           | 755           |
| Debt Servicing (Note 16).....                                     | 790           | 765           |
| <b>TOTAL EXPENSES (Schedule 11).....</b>                          | <b>10,350</b> | <b>9,578</b>  |
| <b>SUMMARY NET INCOME (Schedule 9)</b>                            | <b>375</b>    | <b>562</b>    |

**SUMMARY STATEMENT OF ACCUMULATED DEFICIT**

**For the Year Ended March 31, 2006**

|  | (\$ millions)         |                       |
|--|-----------------------|-----------------------|
|  | 2006                  | 2005                  |
| Opening accumulated deficit, as previously reported..... | (6,707)               | (7,334)               |
| Restatements (Note 4).....                               | <u>(48)</u>           | <u>(48)</u>           |
| Opening accumulated deficit, as restated.....            | (6,755)               | (7,382)               |
| Other Comprehensive Income (Note 4).....                 | 31                    | 65                    |
| Summary net income for the year.....                     | <u>375</u>            | <u>562</u>            |
| Closing accumulated deficit, as restated.....            | <u><u>(6,349)</u></u> | <u><u>(6,755)</u></u> |

## SUMMARY STATEMENT OF CHANGE IN NET DEBT

For the Year Ended March 31, 2006

|  | (\$ millions) |          |
|--|---------------|----------|
|  | 2006          | 2005     |
| <b>Annual Surplus</b>                        | 375           | 562      |
| Acquisition of Tangible Capital Assets.....  | (531)         | (426)    |
| Amortization of Tangible Capital Assets..... | 266           | 254      |
| Disposal of Tangible Capital Assets.....     | 10            | 4        |
|  | (255)         | (168)    |
| Other Comprehensive Income (Note 4).....     | 31            | 65       |
| <b>Decrease in Net Debt</b>                  | 151           | 459      |
| Net Debt, beginning of year                  | (10,670)      | (11,129) |
| <b>Net Debt, end of year</b>                 | (10,519)      | (10,670) |

## SUMMARY STATEMENT OF CASH FLOW

For the Year Ended March 31, 2006

|   | (\$ millions)       |                     |
|---|---------------------|---------------------|
|   | 2006                | 2005                |
| Cash and cash equivalents provided by (used in)                     |                     |                     |
| Operating activities:   |                     |                     |
| Summary net income for the year.....                                | 375                 | 562                 |
| Changes in non-cash items:  |                     |                     |
| Temporary investments.....  | (56)                | (60)                |
| Amounts receivable.....   | 20                  | (124)               |
| Valuation allowance.....  | (31)                | 4                   |
| Inventories.....  | (4)                 | 2                   |
| Prepays.....  | 3                   | -                   |
| Portfolio investments.....  | (63)                | (156)               |
| Accounts payable, accrued charges, provisions<br>and deferrals..... | 92                  | 117                 |
| Pension liability.....  | 206                 | 190                 |
| Amortization of foreign currency fluctuation.....                   | 5                   | 6                   |
| Amortization of debt discount.....                                  | 7                   | 8                   |
| Amortization of investment discounts and premiums.....              | 2                   | (1)                 |
| Workers Compensation Board Investment premium.....                  | -                   | 28                  |
| Other Comprehensive Income.....                                     | 31                  | 37                  |
| Disposal of tangible capital assets.....                            | 10                  | 4                   |
| Amortization of tangible capital assets.....                        | 266                 | 254                 |
|   | <u>863</u>          | <u>871</u>          |
| Changes in equity in Government business enterprises.....           | (516)               | (286)               |
| Cash provided by operating activities                               | <u>347</u>          | <u>585</u>          |
| Tangible capital assets   |                     |                     |
| Acquisition of tangible capital assets.....                         | (531)               | (426)               |
| Cash used in capital activities                                     | <u>(531)</u>        | <u>(426)</u>        |
| Investing activities:   |                     |                     |
| Made.....   | (590)               | (584)               |
| Realized.....   | 499                 | 140                 |
| Cash used in investing activities                                   | <u>(91)</u>         | <u>(444)</u>        |
| Financing activities:   |                     |                     |
| Debt issued.....  | 2,901               | 2,671               |
| Debt redeemed.....  | (2,777)             | (2,180)             |
| Changes in sinking funds.....                                       | 102                 | 197                 |
| Cash provided by financing activities                               | <u>226</u>          | <u>688</u>          |
| Increase (decrease) in cash and cash equivalents                    | (49)                | 403                 |
| Cash and cash equivalents, beginning of year.....                   | <u>1,137</u>        | <u>734</u>          |
| Cash and cash equivalents, end of year.....                         | <u><u>1,088</u></u> | <u><u>1,137</u></u> |

**NOTES TO THE SUMMARY FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2006**

**1. SIGNIFICANT ACCOUNTING POLICIES**

**A. General Basis of Accounting**

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

The financial statements do not reflect the financial position for public school divisions. The financial operations of these divisions are reflected only to the extent that their operations were financed from or contributed to the Summary Financial Statements. Changes to the GAAP definition of the Government Reporting Entity (GRE) required that the school divisions, and other organizations that were previously not included, become part of the GRE effective April 1, 2005. While the other organizations have been included in these financial statements, the school divisions will not be included until the March 31, 2008 fiscal year. The accounting system currently adopted by the school divisions does not provide sufficient information to allow for the consolidation of the school divisions into the Summary Financial Statements in accordance with GAAP. Changes to the school divisions accounting systems are presently underway and the impact of those changes will be reflected in the financial reporting for the year ended March 31, 2008.

**B. The Reporting Entity**

Various funds, Crown organizations and Government business enterprises comprising the Government Reporting Entity are listed in Schedule 8.

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

To be considered a part of the Government Reporting Entity, an organization must be controlled by the Government. Control, as defined by the CICA Public Sector Accounting Standards Board, is the power to govern the financial and operating policies of another organization with the expected benefits or the risk of loss to the Government from the other organization's activities.

**C. Basis of Consolidation**

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

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

**D. Basis of Specific Accounting Policies**

**Government of Canada Receipts**

Transfer payments from the Government of Canada include all accruals determined before June 15 each year for current year entitlements that have been authorized by March 31<sup>st</sup>, that can be reasonably estimated and for which any eligibility criteria have been met.

The Province's share of individual and corporation income tax is recorded based upon cash receipts to March 31 plus an accrual of adjustments determined before June 15 each year.

**Other Revenue**

All other revenues are recorded on an accrual basis except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

**Expenses**

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

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

**Gross Accounting Concept**

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

- 1) Refunds of revenue are treated as reductions of current year revenue.
- 2) Decreases in valuation allowances previously provided are treated as reductions to expense.
- 3) Recoveries of the debt servicing costs on self-sustaining debt of Government business enterprises are recorded as a reduction of debt servicing expense.

**Liabilities and Assets**

- 1) All borrowings are expressed in Canadian dollars and are shown net of sinking funds, unamortized debt issue costs and debt of the Province of Manitoba held as provincial investments. Foreign borrowings are converted at the exchange rate in effect at March 31 adjusted for any forward foreign exchange contract entered for settlement after the fiscal year end. Discounts or premiums, and commissions incurred at the time of the issue of debt are amortized monthly to debt servicing expense over the term of the debt.
- 2) The amount of the pension liability is based on actuarial calculations. When actual experience varies from actuarial estimates, the adjustments needed are amortized over the expected average remaining service life of the employee groups.
- 3) The amount of the liabilities for severance, Long Term Disability Income Plan liability and workers compensation claims is based upon actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations because actual 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.

## SUMMARY FINANCIAL STATEMENTS

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- 4) The year end translation adjustments reflecting the foreign currency fluctuation from the value at the issue date are recorded through the unamortized foreign currency fluctuation account and amortized monthly to debt servicing expense over the remaining term of the debt. The unamortized portion of foreign currency fluctuation also reflects the gains or losses on the conversion of foreign currency debt called prior to maturity using the rates in effect at the time of the call and these gains and losses are amortized over the original remaining term of the debt or over the term of the replacement issue, whichever is shorter.
- 5) Loans, advances and long-term investments are recorded at cost less valuation allowances. A valuation allowance is provided to reduce the value of the assets to their estimated realizable value or to reflect the impact of significant concessionary terms on outstanding loans. Valuation allowances are made when the collection is considered doubtful or when the value of the investment is impaired. Premiums that may arise from the early repayment of loans or advances are reflected as deferred revenue and are amortized monthly to debt servicing expense over the term of the related debt issue.
- 6) Investments denominated in foreign currency are translated to the Canadian dollar equivalent at the exchange rate in effect at March 31, unless the rate of exchange or a forward foreign exchange contract fixing the value has been negotiated, in which case that rate or amount is used. The year end investment translation adjustments reflecting the foreign currency fluctuation between year ends are amortized monthly over the remaining life of the investment and included with debt servicing expense. Expenses and other transaction charges incurred on the purchase of investments during the year are charged to debt servicing expense. Those expenses incurred in foreign currency are translated at the exchange rate in effect on the transaction date.
- 7) Premiums paid on interest rate options are amortized monthly starting from the date the income is received over the period of the applicable agreement. If the option is exercised, the premium is amortized over the period from the date of receipt to the maturity date of the agreement. If the option is not exercised, any unamortized premium will be immediately taken into revenue.
- 8) Inventories held for resale are recorded at the lower of cost and net realizable value.
- 9) The cost of tangible capital assets purchased includes the purchase price as well as costs such as installation costs, design and engineering fees, survey and site preparation costs and other costs incurred to put the asset in service. The cost of tangible capital assets constructed by the Province include all direct construction costs such as materials, labour, design, installation, engineering, architectural fees, and survey and site preparation costs, as well as overhead costs directly attributable to the construction activity such as licenses, inspection fees, indirect labour costs, and amortization expense of any equipment which was used in the construction project. Any carrying cost associated with the development and construction of tangible capital assets is included for projects whose cost exceeds \$20 million.

A tangible capital asset received as a donation is recorded at its fair market value with the same amount being shown as a deferred revenue which is amortized to revenue on the same basis as the asset is amortized. Where the acquisition cost of a tangible capital asset is shared with other jurisdictions under a shared cost agreement, such contributions are deducted from the cost of the related asset with any amortization calculated on the net amount. Certain assets which have historical or cultural value including works of art, historical documents as well as historical and cultural artifacts are not recognized as tangible capital assets because a reasonable estimate of the future benefits associated with such property cannot be made. Intangible assets and items inherited by right of the Crown, such as Crown lands, forests, water and other mineral resources are not recognized in Government financial statements.

SUMMARY FINANCIAL STATEMENTS

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

General Tangible Assets:

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

Infrastructure Assets

|  |                |
|--|----------------|
| Land                                     | Indefinite     |
| Land Improvements                        | 30 years       |
| Transportation                           |                |
| Bridges and Structures                   | 40 years       |
| Provincial Highways, Roads and Airstrips | 10 to 40 years |
| Dams and Water Management Structures     | 40 years       |

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

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

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

- 12) Guarantees by the Government are made through specific agreements or legislation to repay promissory notes, bank loans, lines of credit, mortgages and other securities. Provision for losses on guarantees are recorded when it is likely that a loss will occur. The amount of the loss provision represents the Government's best estimate of future payments less recoveries.
- 13) In the public sector, recognition and measurement of tangible capital and other non-financial assets are based on their service potential. Generally, such assets do not generate future net cash inflows. Therefore, these assets will not provide resources to discharge the liabilities of the Government. For non-financial assets, the future economic benefit consists of their capacity to render service to fulfill the Government's objectives.
- 14) Effective for the 2005/06 fiscal year, the Government adopted an accounting policy regarding the recognition and measurement of environmental liabilities. An environmental liability for contaminated sites is recorded when contamination is identified, and when the Government is obligated or likely to become obligated to incur remediation costs due to reasons of public health and safety, contractual arrangements, or compliance with environmental standards which are set out in any act or regulation (federal, provincial, municipal) recognized by the Government. The liability is based upon remediation costs determined on a site-by-site basis, measured as incremental direct costs, reduced by estimated recoveries from third parties, and discounted where possible to reflect the time value of money.

## SUMMARY FINANCIAL STATEMENTS

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For past liabilities arising from contaminations or obligating events on or before March 31, 2005, there is a transition period (April 1, 2006 to March 31, 2009) to identify and record such liabilities. These liabilities will be recorded as an increase to the accumulated deficit until March 31, 2009. Subsequent to that, any past liability not previously recorded or sufficiently provided for will be recorded as an expense.

For liabilities arising from contaminations or obligating events after March 31, 2005, the amounts are recorded as an expense when identified.

### **E. Measurement Uncertainty**

Estimates are used to accrue revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonable possible amount, as there is whenever estimates are used.

Measurement uncertainty in these financial statements exist in the accrual of individual, corporate income taxes, Health Transfers and Canada Social Transfer entitlements, Federal Government transfers under Bill C-48, accruals for pension obligations, accruals for environmental obligations and allowances for doubtful loans and advances and provision for losses on guarantees.

The nature of the uncertainty related to the accrual of health and social transfer payments from the Federal Government and individual and corporate income taxes arises because of the possible differences between the estimates for the economic factors used in calculating the accruals and actual economic results. Uncertainty related to Federal Government transfers under Bill C-48 relates to the ultimate determination of the transfer amounts being dependent upon audited current year financial results of the Federal Government. Dependent upon these final results, the transfer that the Province is eligible for could range from \$0 to \$98 million (recorded \$49 million as current year's revenue). The uncertainty related to accruals for pension obligations arises because actual results may differ significantly from the Province's best estimates of expected results based on variables such as earnings on the pension investments, salary increases and the life expectancy of claimants. The uncertainty related to the accrual of environmental obligations is based upon the identification of all sites where environmental damages have occurred that are the Province's responsibility to mitigate and the quantification of what the actual liability will be based upon impact studies. Uncertainty concerning the allowance for doubtful loans and advances is based upon actual collectibility and changes in economic conditions.

While management's best estimates have been used for reporting items subject to measurement uncertainty, it is possible that changes in future conditions in the near term could require a material change in the valuation of the reported amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

## **2. CASH AND TEMPORARY INVESTMENTS**

Cash equivalents included in cash are recorded at cost. Market values approximate cost. Investment revenue earned during the year was \$34 million (2005 - \$35 million).

Temporary investments are recorded at the lower of cost and market value. As at March 31, 2006, the cost of temporary investments was \$323 million (2005 - \$267 million) with a market value of \$323 million (2005 - \$267 million). Investment revenue earned on the temporary investments funds during the year was \$20 million (2005 - \$12 million).

## **3. PORTFOLIO INVESTMENTS**

Portfolio investments are recorded at the lower of cost and net realizable value. As at March 31, 2006, the carrying value of portfolio investments was \$608 million (2005 - \$545 million). Portfolio investments earned \$64 million during the year (2005 - \$58 million).

Portfolio investments include amounts invested with the Civil Service Superannuation Fund and the Teachers' Retirement Allowances Fund. These investments represent funds set aside for the future retirement of the pension liability. These investments earn the respective Fund's annual rate of return and reflect both the realized gains (losses) on sale of investments and unrealized market gain (loss) for the year. Investment income earned for the year was \$61 million (2005 - \$30 million). The fair value of these investments as at March 31, 2006 was \$537 million (2005 - \$382 million). These Funds are balanced funds and the investments consist primarily of cash equivalents, equities, bonds, mortgages and real estate.

#### **4. ADJUSTMENTS TO ACCUMULATED DEFICIT**

In the March 31, 2006 fiscal year, restatements to the March 31, 2005 accumulated deficit and net income for the year were made to apply changes in accounting policies and due to correction of errors.

Adjustments were made to the opening accumulated deficit for the March 31, 2005 fiscal year to recognize the impact of changing accounting policies. These adjustments were made to recognize environmental liabilities (\$142 million increase) and to recognize the liability associated with the recognition of prepaid expense in accordance with changes to public sector accounting standards (\$19 million decrease).

Adjustments were made to the opening accumulated deficit for the March 31, 2005 fiscal year to apply changes due to correction of errors. An adjustment was made to recognize the liability associated with certain tax refunds that had not been identified and corrected in the 2005 fiscal year (\$6 million increase).

Adjustments were made to the opening accumulated deficit for the March 31, 2005 fiscal year to account for the inclusion of eight additional entities into the Government Reporting Entity in accordance with changes to public sector accounting standards (\$93 million decrease). These entities included; Collège universitaire de Saint-Boniface, First Nations of Northern Manitoba Child and Family Services Authority, First Nations of Southern Manitoba Child and Family Services Authority, Metis Child and Family Services Authority, Sport Manitoba Inc., St. Amant Centre Inc. (a component of the Winnipeg Regional Health Authority), Tire Stewardship Board and the University of Winnipeg.

In the March 31, 2006 fiscal year the Manitoba Public Insurance Corporation changed its accounting policies on the recognition of pension plan experience gains to recognize these gains and losses in the year in which they occur. Previously the policy was to amortize these gains and losses over the expected average remaining service life of the employee group. As a result of this change, the accumulated deficit for March 31, 2005 increased by \$12 million.

The net effect of these adjustments is a \$48 million increase to March 31, 2005 opening accumulated deficit.

In the March 31, 2005 fiscal year, the Workers Compensation Board elected to change its accounting policies on the recognition of gains and losses (other comprehensive income) in accordance with changes to accounting standards on the recognition of these gains and losses. As a result of this change the accumulated deficit for March 31, 2005 decreased by \$28 million. In the March 31, 2006 fiscal year, the Government adopted the policy to recognize this other comprehensive income as a charge to the accumulate deficit in accordance with new public sector accounting policy standards. The net effect of these changes is a \$37 million decrease to the March 31, 2005 summary net income. The net effect of these adjustments is a \$65 million increase to the March 31, 2005 accumulated deficit.

#### **5. EQUITY IN GOVERNMENT BUSINESS ENTERPRISES**

The category definitions are as follows:

Utility:

An enterprise which provides public utility services for a fee.

Insurance:

An enterprise which provides insurance coverage services to the public for a fee.

SUMMARY FINANCIAL STATEMENTS

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Finance:

Enterprises which provide regulatory control and are revenue generating, or enterprises which use economy of scale to deliver goods and services to non-government clients.

Resource Development:

Enterprises charged with the development of various industries and/or the delivery of various goods and services which will assist the provincial economy.

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

Equity in Government business enterprises is comprised of:

|   | (\$ millions) |              |
|---|---------------|--------------|
|   | 2006          | 2005         |
| Restricted Equity in Government Business Enterprises:   |               |              |
| Manitoba Hydro-Electric Board                           | 1,285         | 870          |
| Manitoba Public Insurance Corporation                   | 260           | 212          |
| Workers Compensation Board                              | <u>184</u>    | <u>131</u>   |
|   | <u>1,729</u>  | <u>1,213</u> |
| Unrestricted Equity in Government Business Enterprises: |               |              |
| Manitoba Lotteries Corporation                          | 5             | 5            |
| Manitoba Product Stewardship Corporation                | 2             | 2            |
| Manitoba Public Insurance Corporation                   | <u>4</u>      | <u>4</u>     |
|   | <u>11</u>     | <u>11</u>    |
| Equity in Government Business Enterprises               | <u>1,740</u>  | <u>1,224</u> |

**6. SINKING FUNDS**

Sinking funds are recorded at the lower of cost and market value. As at March 31, 2006, sinking funds had a cost of \$2,739 million (2005 - \$2,729 million) and a market value of \$2,753 million (2005 - \$2,828 million). Investment revenue earned on the sinking funds during the year was \$204 million (2005 - \$219 million).

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

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

SUMMARY FINANCIAL STATEMENTS

The sinking funds are allocated as follows:

|                               | (\$ millions)       |                     |
|-------------------------------|---------------------|---------------------|
|                               | 2006                | 2005                |
| Province of Manitoba          | 2,151               | 2,148               |
| Manitoba Hydro-Electric Board | 586                 | 579                 |
| University of Manitoba        | <u>2</u>            | <u>2</u>            |
| <b>Total sinking funds</b>    | <b><u>2,739</u></b> | <b><u>2,729</u></b> |

Sinking funds are invested as follows:

|                                | (\$ millions)       |                     |
|--------------------------------|---------------------|---------------------|
|                                | 2006                | 2005                |
| Cash and temporary investments | 223                 | 268                 |
| Portfolio investments          | <u>2,516</u>        | <u>2,461</u>        |
|                                | <b><u>2,739</u></b> | <b><u>2,729</u></b> |

## 7. GUARANTEES

The Government Reporting Entity has guaranteed the repayment of debt, promissory notes, bank loans, lines of credit, mortgages and other securities. Debt guaranteed by the Province is guaranteed as to principal and interest until the debt is matured or redeemed. The authorized limits and the outstanding guarantees are as follows:

|  | Authorized<br>Limit | (\$ millions)    |                  |
|--|---------------------|------------------|------------------|
|  |                     | 2006             | 2005             |
| Canada Mortgage and Housing Corporate Mortgages        | 1                   | -                | -                |
| Manitoba Business Start Program                        | 5                   | 1                | 1                |
| Manitoba Agricultural Services Corporation (Note a)    |                     | 59               | 56               |
| Manitoba Housing & Renewal Corporation (Note b)        |                     | 6                | 7                |
| Rural Entrepreneur Assistance Program (Note c)         | 16                  | 4                | 4                |
| Manitoba Student Financial Assistance Program (Note d) | 20                  | 7                | 8                |
| Rural Municipality of Richot                           | 1                   | <u>1</u>         | <u>1</u>         |
|  |                     | 78               | 77               |
| Manitoba Grow Bonds                                    |                     | <u>5</u>         | <u>6</u>         |
| <b>Total guarantees outstanding</b>                    |                     | <b><u>83</u></b> | <b><u>83</u></b> |

The provisions for losses on guaranteed loans are determined by a review of individual guarantees. The provision represents the best estimate of probable claims against the guarantee. Where circumstances indicate the likelihood of claims arising, provisions are established for those loan guarantees. Provision for future losses on guarantees in the amount of \$20 million (2005 - \$18 million) has been recorded in the accounts.

Note a – The Manitoba Agricultural Services Corporation has guaranteed loans under the following programs:  
 Guaranteed Operating Loan Program – guarantees each participating lending institution 12 ½% of the respective value of loans made under this program.

Manitoba Cattle Feeder Associations Loans Guarantees – for each association guarantee 25% of the loan to a maximum guarantee of \$1 million.

Diversification Loan Guarantee Program – guarantees 25% of loans made by participating lenders, for the diversification or farm value-added activities, to a maximum individual guaranteed loan allowable of \$3 million.

Enhanced Diversification Loan Guarantee Program – eliminated lender pooling of guarantees and the maximum of \$3 million for qualifying loans.

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

SUMMARY FINANCIAL STATEMENTS

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

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

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

## 8. CONTRACTUAL OBLIGATIONS

### A. Operating Obligations

The Government Reporting Entity has made future obligations under long-term contracts that cover the rental of tangible capital assets. These financial obligations as at March 31 are as follows:

|                                   | <b>Government<br/>Business<br/>Enterprises</b> | <b>Other</b> | <b>(\$ millions)</b>  |             |
|-----------------------------------|--|--------------|-----------------------|-------------|
|                                   |  |              | <b>Total<br/>2006</b> | <b>2005</b> |
| Rental of tangible capital assets | <u>61</u>                                      | <u>145</u>   | <u>206</u>            | <u>222</u>  |

The Government Reporting Entity has obligations which are not capital in nature, related primarily to future loans and grants and the maintenance of desktop equipment totalling \$79 million (2005 - \$77 million).

### B. Capital Obligations

The Government Reporting Entity has approved long-term financial arrangements.

Future Obligations:

|   | <b>Government<br/>Business<br/>Enterprises</b> | <b>Other</b> | <b>(\$ millions)</b>  |             |
|---|--|--------------|-----------------------|-------------|
|   |  |              | <b>Total<br/>2006</b> | <b>2005</b> |
| Tangible capital assets,<br>infrastructure and capital grants | 98   | 117          | 215                   | 282         |
| Approved mortgages  | <u>-</u>                                       | <u>21</u>    | <u>21</u>             | <u>7</u>    |
|   | <u>98</u>                                      | <u>138</u>   | <u>236</u>            | <u>289</u>  |

The Manitoba Hydro-Electric Board made a commitment to towards the construction of an office building in downtown Winnipeg. Construction on this building is underway and is expected to be complete on or before September 3, 2007.

The Province has undertaken to expand the Red River Floodway. Through the Manitoba Floodway Authority, the Province is a party to a funding agreement with the Government of Canada for a \$240 million (2005 - \$240 million) expansion project and has committed to provide \$120 million (2005 - \$120 million) towards the \$240 million (2005 - \$240 million) expansion project. Subsequent to the year end a funding amendment was reached between the Government of Canada and the Government of Manitoba increasing the joint contribution by \$84 million to a total of \$324 million.

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

|                                      | (\$ millions) |           |
|--------------------------------------|---------------|-----------|
|                                      | 2006          | 2005      |
| Buildings                            | 3             | 2         |
| Transportation                       | 34            | 14        |
| Dams and Water Management Structures | 2             | 2         |
| Equipment                            | <u>—</u>      | <u>1</u>  |
|                                      | <u>39</u>     | <u>19</u> |

**9. CONTINGENCIES**

The Government has been named in various legal actions, including treaty land entitlements. No provision has been made at March 31, 2006 in the accounts where the final results are uncertain.

**A. Disaster Financial Assistance**

A provision has been made at March 31, 2006 for all flood claims and other disaster financial assistance. The final amount of the Government's share of these costs under shared cost agreements is uncertain at the date these financial statements were issued.

**B. Northern Development Projects**

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

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

In recognition of all anticipated payments, Hydro has recorded a total liability of \$121 million (2005 - \$104 million). Reassessments of these liabilities will be made as settlements are achieved. There are other mitigation issues, the outcomes of which are not determinable at this time.

**C. Canadian Blood Services**

Most provinces, including Manitoba, are members of, and provide funding to, Canadian Blood Services, which operates the Canadian blood system. Their March 31, 2005 audited financial statements indicate that a wholly owned subsidiary, CBS Insurance Company Limited, provides for the contingent liabilities for risks related to operations of the blood system. The actuarially determined provisions for future insurance claims, reported and unreported, related to insured events that occurred prior to March 31, 2005 is \$174 million (2004 - \$163 million). The related assets as at March 31, 2005 total \$208 million (2004 - \$187 million). The subsidiary also had a re-insurance contract for additional coverage of \$750 million.

Based upon the above, as at March 31, 2005, the Province of Manitoba's share of the provision for future claims is offset with designated assets which, at that point, exceed the provision. In addition, there is re-insurance to cover an additional \$750 million in claims of insured events occurring on or before March 31, 2005. March 31, 2006 figures are not available for comparison.

## 10. TREATY LAND ENTITLEMENT OBLIGATIONS

To meet Manitoba's obligation under treaty land entitlement (TLE) agreements, approximately 195,908 acres of provincial Crown land have been transferred to the Government of Canada (Canada) for First Nations.

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

Manitoba's obligations under the Treaty Land Entitlement Framework Agreement requires the setting aside of 985,949 acres of Crown land. To date, 871,428 acres have been selected by the Entitlement First Nations. The Crown lands will be transferred according to the Natural Resources Transfer Agreement, including mines and minerals and other interests normally reserved for the Province under the *Crown Land Act* or any other statute.

## 11. ENVIRONMENTAL ISSUES

The Manitoba Hydro-Electric Board will incur future costs associated with the assessment and remediation of contaminated lands and for the phase-out and destruction of polychlorinated biphenyl contaminated mineral oil from electrical equipment.

## 12. PENSION PLANS

The Government of the Province of Manitoba supports ten separate pension plans. These include the Civil Service Plan (CSP), the Teachers' Plan (TP), the Members of the Legislative Assembly Plan (MLAP), the Legislative Assembly Pension Plan (LAPP), the University of Manitoba Pension Plan, the Brandon University Retirement Plan, the Healthcare Employees Pension Plan (HEPP), the Judges' Supplemental Pension Plan, the Winnipeg Child and Family Services Employee Benefits Retirement Plan (WCFSP) and the University of Winnipeg Pension Plan. HEPP offers retirement benefits to employees of health care facilities. The pension plans for the Universities of Manitoba, Winnipeg and Brandon and HEPP are fully funded. There is no unfunded liability reported by the actuaries of the university pension plans and HEPP.

The Government is required, under the amended provisions of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*, to set aside funds beginning in 2000/01, to address the Government's unfunded pension liability. The minimum annual contribution must be sufficient to equal the contributions made by employees and teachers hired on or after April 1, 2000. While the minimum contribution for the year ended March 31, 2006 was \$21 million (2005 - \$17 million), the Government set aside \$85 million (2005 - \$79 million) in the Pension Assets Fund. These funds are separately invested and maintained in trust accounts with Civil Service Superannuation Fund (CSSF) and Teachers' Retirement Allowances Fund (TRAF) for the Government and are increased by the rate of return of the funds. Portfolio investments held in the CSSF and in the TRAF for the Government, from funds that it set aside for the future retirement of its pension liability amount to \$537 million at March 31, 2006 (2005 - \$382 million).

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

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| Plan                   | Latest Valuation  | Real Rate<br>of Return | Inflation<br>Rate | Investment Rate<br>of Return |
|------------------------|-------------------|------------------------|-------------------|------------------------------|
| Civil Service          | December 31, 2004 | 4.00%                  | 2.50%             | 6.50%                        |
| Teachers'              | January 1, 2004   | 4.25%                  | 2.50%             | 6.75%                        |
| MLA                    | March 31, 2003    | 4.00%                  | 2.75%             | 6.75%                        |
| LAPP                   | March 31, 2005    | 3.25%                  | 2.75%             | 6.00%                        |
| University of Manitoba | December 31, 2003 | 4.00%                  | 2.50%             | 6.50%                        |
| Brandon University     | December 31, 2003 | 3.50%                  | 2.50%             | 6.00%                        |
| HEPP                   | December 31, 2003 | 3.50%                  | 3.00%             | 6.50%                        |
| Judges' Supplemental   | March 31, 2003    | 3.25%                  | 2.75%             | 6.00%                        |
| WCFSP                  | December 31, 2004 | 3.50%                  | 2.50%             | 6.00%                        |
| University of Winnipeg | December 31, 2004 |                        |                   | 6.50% <sup>1</sup>           |
|                        |                   |                        |                   | 6.00% <sup>2</sup>           |

<sup>1</sup>pre-retirement rate of return

<sup>2</sup>post-retirement rate of return

During the year, an increase in employee contribution rate of 1.1% was approved for the Teachers' Plan. No other amendments were made to any of the Plans.

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

|                                     | (\$ millions)      |                      |              |
|-------------------------------------|--------------------|----------------------|--------------|
|                                     | Pension<br>Expense | Pension<br>Liability |              |
|                                     | 2006               | 2006                 | 2005         |
| Civil Service Plan                  |                    |                      |              |
| Pension Liability                   | 163                | 1,703                | 1,606        |
| Unamortized Net Actuarial Gains     |                    | 14                   | 19           |
| Teachers' Plan                      |                    |                      |              |
| Pension Liability                   | 226                | 2,271                | 2,168        |
| Unamortized Actuarial Losses        |                    | (82)                 | (90)         |
| Members of the Legislative Assembly |                    |                      |              |
| Pension Liability                   | 2                  | 29                   | 29           |
| Unamortized Actuarial Gains         |                    | 3                    | 4            |
| Legislative Assembly Pension Plan   | 1                  | 1                    | N/A          |
| Judges' Supplemental Pension Plan   | 3                  | 26                   | 23           |
| Other Plans                         | <u>23</u>          | <u>2</u>             | <u>2</u>     |
|                                     | <u>418</u>         | <u>3,967</u>         | <u>3,761</u> |

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

**A. Civil Service Plan**

*The Civil Service Superannuation Act (CSSA)* established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the Government through the Civil Service Superannuation Fund (CSSF).

As at March 31, 2006, the CSP had approximately 42,500 (2005 - 41,800) participants including active members, retired employees and former employees with entitlements.

Certain amendments to the CSSA were made in 1992 which required that the CSSF establish and fund a separate account in an amount sufficient to cover the Government's share of pension costs attributable to the 1992 amendments to the CSSA. The CSSF account maintained on behalf of the Government at March 31, 2006 was \$44 million (2005 - \$38 million).

Effective December 15, 2000, the CSP was amended to include improved benefits. The cost of the plan amendments is fully funded from actuarially determined employee surpluses with no additional cost to the employer. The following describes the current terms of the CSP, with the previous terms indicated within brackets.

The lifetime pension calculation equals 2% of a member's best five years average yearly pensionable earnings multiplied by pensionable service, minus 0.4% (previously 0.6%) of the average Canada Pension Plan (CPP) earnings for the same period multiplied by pensionable service since January 1, 1966.

The CSSA requires that employees contribute 6.0% (previously 5.1%) on pensionable earnings up to the CPP maximum earnings, and 7.0% of pensionable earnings above the maximum. 89.8% of contributions are used to fund basic benefits and 10.2% of contributions are allocated for indexing benefits. Contributions continue until the employee's retirement or other termination from service. Employee contributions for the year ended March 31, 2006 amounted to \$76 million (2005 - \$72 million).

Indexing benefits are not guaranteed and are paid only to the extent that the indexing adjustment account in CSSF can finance one-half of cost-of-living increases granted. The maximum annual adjustment is limited by legislation to two-thirds of the increase in the consumer price index for Canada.

The Government does not make contributions to the CSSF during employees' service. By legislation, however, it is required to pay 50% of the pension disbursements made from the CSSF. For the year ended March 31, 2006, payments of \$99 million (2005 - \$90 million) were made to the CSSF.

An actuarial report was completed for CSSF as of December 31, 2004, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's net liability for accounting purposes has been calculated to be \$1,717 million as at March 31, 2006 (2005 - \$1,625 million), which includes net unamortized actuarial gains of \$14 million (2005 - \$19 million). The increase in liability includes current year interest of \$115 million (2005 - \$99 million). The December 31, 2004 report disclosed an actuarial loss of \$22 million which will be amortized over the 15 year expected average remaining service life of the employee groups. This actuarial loss has been combined with the actuarial loss from the December 31, 2001 actuarial report and the actuarial gain from the December 31, 1998 actuarial report. The 2006 combined amortization was a \$5 million decrease to expenses (2005 - \$7 million).

## **B. Teachers' Plan**

*The Teachers' Pensions Act* (TPA) established a defined benefit plan to provide pension benefits to teachers who have taught in public schools in Manitoba.

As at March 31, 2006, the Teachers' Retirement Allowances Fund (TRAF) had approximately 32,200 (2005 - 31,800) participants including active members, retired teachers and former teachers with entitlements.

The lifetime pension calculation is based upon the lesser of A or B:

- A) The years of service prior to July 1, 1980, multiplied by 2% and the average salary of the best 7 of the final 12 years of service and years of service after July 1, 1980, multiplied by 2% and the average salary of the best 5 of the final 12 years of service;

less

The years of service from January 1, 1966, to July 1, 1980, multiplied by .6% and the average annual salary up to the yearly maximum pensionable earnings for the same period and years of service after July 1, 1980, multiplied by .6% and the annual salary up to the yearly maximum pensionable earnings for the same period.

B) 70% of the weighted average annual salary of the member in the 7 and 5 year periods used above.

The TPA requires that teachers contribute 6.8% (prior to September 1, 2005 - 5.7%) on pensionable earnings up to the CPP maximum earnings, and 8.4% (prior to September 1, 2005 - 7.3%) on pensionable earnings above the maximum. 83.4% of contributions are used to fund basic benefits and 16.6% of contributions are allocated for indexing benefits. Contributions continue until the teacher's retirement or other termination from service. Teacher contributions for the year ended March 31, 2006, amounted to \$61 million (2005 - \$52 million).

Indexing benefits are not guaranteed and are paid only to the extent that one half of the pension adjustment does not result in an unfunded pension liability in TRAF.

The Government does not make contributions to TRAF during teachers' service. By legislation, however, it is required to pay 50% of the pension disbursements and other disbursements made by TRAF as provided for in the TPA. For the year ended March 31, 2006, payments of \$115 million (2005 - \$108 million) were made to TRAF.

An actuarial report was completed for TRAF as of January 1, 2004, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's net liability for accounting purposes has been calculated to be \$2,189 million as at March 31, 2006 (2005 - \$2,078 million), which includes unamortized actuarial losses of \$82 million (2005 - \$90 million). The increase in liability includes current year interest of \$145 million (2005 - \$138 million). The latest actuary's calculation disclosed an actuarial loss of \$4 million which will be amortized over the 12.5 year expected average remaining service life of the employee groups, commencing in the 2005/06 fiscal year. This actuarial loss has been combined with the actuarial loss from the January 1, 2001 actuarial report and actuarial loss from the 2004 funding valuation. The 2006 amortization expense was \$9 million (2005 - \$8 million).

### **C. Members of the Legislative Assembly Plan**

The pension plan for Members of the Legislative Assembly (MLAs) is established and governed by *The Legislative Assembly Act* (LAA). For MLAs elected prior to the dissolution of the Assembly of the 35th Legislature, the LAA provides for defined pension benefits based on years of service to April, 1995. For those elected after the 35th Legislature in April 1995, the LAA provides for matching contributions. As at March 31, 2006, there are 115 (2005 - 116) plan members who are entitled to receive future pension benefits in accordance with the LAA.

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

An actuarial report was completed for the MLA plan as of March 31, 2003, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's net liability for accounting purposes has been calculated to be \$32 million as at March 31, 2006 (2005 - \$33 million), which includes unamortized actuarial gains of \$3 million (2005 - \$4 million). The change in liability includes current year interest of \$2 million (2005 - \$2 million). The March 31, 2003 report disclosed an actuarial gain of \$2 million which will be amortized over the 10 year expected average remaining service life of the MLAs. This actuarial gain has been combined with the actuarial gain from the March 31, 2000 actuarial report. The 2006 combined amortization was a \$0.6 million decrease to expenses (2005 - \$0.6 million).

Under the matching contributions provisions, MLAs may contribute up to 7% of their remuneration toward a Registered Retirement Savings Plan (RRSP) of their choice. The Government matches the member's contributions on a current basis, consequently, there is no liability for past service benefits under this component of the plan. In the event that a member withdraws money from the RRSP while an active member of the Legislative Assembly, the Government's contribution would be refundable.

**D. Legislative Assembly Pension Plan**

The Members' Retirement Benefits Regulation of *The Legislative Assembly Act* established a defined benefit plan, effective April 1, 2004 that provides pension benefits to eligible Members of Legislative Assembly (MLA) who elect to participate in the plan. The following persons may elect to become members of the plan:

- a) a person who is an MLA when the plan is registered;
- b) a person who becomes an MLA after the plan is registered
- c) a person who
  - i) was an MLA on May 2, 2003, and has not since been re-elected, and
  - ii) wishes to purchase a period of pensionable service in respect of his or her membership in the Assembly during the period from April 25, 1995, to June 2, 2003.

The calculation of pension benefits under the plan is determined by the following formula:

$$2\% \times S \times Y$$

In this formula:

S is the average of the best five-year annual salaries received by the member during the years for which he or she accrued pensionable service or, if less than five years the average of the annual salaries for that period.

Y is the lesser of

- (i) 35, and
- (ii) the total number of years of pensionable service.

The pension is reduced by an amount equal to 0.25% times the number of months before the member's 60<sup>th</sup> birthday that the first pension payment is made. These entitlements are indexed to 2/3 of cost of living increases.

Participation in the plan is voluntary. For existing and eligible former MLAs, there is a six month time limit placed on the decision of whether to join the plan commencing once the Pension Commissioner establishes Regulations respecting his decisions. The same six month option period is to be made available for newly elected MLAs. Employee contributions are deducted at 7% of the total annual indemnity and allowance for MLA expenses. The balance of the current service cost, and any other special payments, are to be paid by the Province.

As at March 31, 2006 there were three members contributing to the plan, but the pension fund has not been set up as of that date and the members' and employer's contributions are being held in trust.

An actuarial report was completed for the Legislative Assembly Pension Plan as at March 31, 2005, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's liability for accounting purposes has been projected by the actuary to be \$1.2 million as at March 31, 2006.

**E. University of Manitoba**

The University of Manitoba administers the University of Manitoba Pension Plan (1970), The University of Manitoba GFT Pension Plan (1986) and The University of Manitoba Pension Plan (1993). These are trusteed pension plans. The Trustees are responsible for the custody of the plans' assets and issuance of annual financial statements, which do not form part of the Province's Summary Financial Statements.

The University of Manitoba Pension Plan (1970) and University of Manitoba Pension Plan (1993) are both money purchase plans with a defined benefit minimum. The funding for the plans requires a matching contribution from the University and the employees. The surplus from the plans, and the matching contribution, is adequate to fund the plans and the current level of funding satisfies the requirements of *The Manitoba Pensions Benefit Act*. The plans are not indexed.

As at December 31, 2005, the University of Manitoba Pension Plans had 5,359 active members (2004 - 5,215), and 985 pensioners (2004 - 953). The plans do not offer deferred pension elections.

The actuarial present value of accrued pension benefits has been determined using the projected unit credit actuarial cost method and assumptions developed by reference to expected long-term market conditions. An actuarial valuation effective December 31, 2003 was completed in 2004 by Eckler Partners Ltd., a firm of consulting actuaries. The results of this valuation have been extrapolated by Eckler Partners Ltd. to December 31, 2005. As at December 31, 2005, the University of Manitoba Pension Plan (1970) and The University of Manitoba Pension Plan (1993) were in an actuarial surplus of \$1 million (2004 - \$1 million) and \$6 million (2004 - \$8 million), respectively. The University of Manitoba cannot access this surplus and, as a result, no asset has been recorded in the Province's Summary Financial Statements.

The University of Manitoba recognized expenses equal to its contributions of \$14 million (2004 - \$13 million) for the 1970 Plan and for the 1993 Plan for the fiscal year ended March 31, 2006. Employee contributions equalled the employer contributions.

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

The University of Manitoba GFT Pension Plan (1986) is a defined contribution pension plan; therefore there is no requirement for an actuarial valuation of this plan. The University's contributions to this plan were \$1 million in 2006 (2005 - \$1 million).

#### **F. Brandon University**

The Brandon University administers the Brandon University Retirement Plan, which is a trustee pension plan. The Trustees are responsible for the custody of the Plan's assets and issuance of annual financial statements, which do not form part of the Province's Summary Financial Statements.

The Brandon University Retirement Plan is a final average contributory defined benefit pension plan established April 1, 1974 for the benefit of the employees of Brandon University. The funding for the plan requires a matching contribution from the University and the employees. The surplus from the plan and the matching contribution is adequate to fund the plan and the current level of funding satisfies the requirements of *The Manitoba Pensions Benefit Act*.

As at December 31, 2005, the Brandon University Retirement Plan had 469 active members (2004 - 469), 206 pensioners (2004 - 189), and 50 deferred pensioners (2004 - 40).

The actuarial present value of accrued pension benefits has been determined using the accrued benefit method prorated on service and using assumptions recommended by the actuary and approved by the Trustees. An actuarial valuation was completed as at December 31, 2003 by Eckler Partners Ltd., a firm of consulting actuaries. As at December 31, 2005, the Brandon University Retirement Plan had no actuarial surplus (2004 - no actuarial surplus).

The Brandon University recognized expenses equal to its contributions of \$2 million (2005 - \$1 million). Employee contributions equalled the employer contributions.

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

#### **G. Healthcare Employees Pension Plan - Manitoba**

The Healthcare Employees Pension Plan - Manitoba (HEPP) was established in 1997 to meet the retirement needs of Manitoba's healthcare employees and their beneficiaries. Benefits accrued from January 1, 1997 are administered in accordance with the HEPP Plan Text and governing agreements. Benefits accrued up to and including December 31, 1996 are administered in accordance with previous plans. HEPP is governed by an independent, 12 member Board of Trustees representing both union and employer participants. The Trustees are responsible for the custody of the plan's assets and issuance of annual financial statements, which do not form part of the Province's Summary Financial Statements.

HEPP is a defined benefit pension plan. The lifetime pension calculation is based on an amount equal to:

- 1.5% of a member's highest average earnings up to the Canada Pension Plan Yearly Maximum Pensionable Earnings (YMPE), and,
- 2.0% of a member's highest average earnings over the YMPE,
- multiplied by a member's years of contributory service. The highest average earnings are determined by averaging the best five years of annualized pensionable earnings in the past eleven years prior to termination, retirement or death.

Ad hoc cost of living adjustments (COLAs) to pension benefits are reviewed every year. Members who retired on or before July 1, 2000, disabled members, and deferred vested members received a 2.34% ad hoc COLA effective January 1, 2002. COLAs were not granted for year ended December 31, 2004.

As at December 31, 2004, HEPP had 35,635 active and disabled members (2003 - 34,865), 6,221 deferred vested members (2003 - 4,822), and 9,505 retired members (2003 - 8,971). There are currently 180 participating employers (2003 - 185).

The Plan Text requires that an annual actuarial valuation be performed on both a going concern basis and a solvency basis by an independent actuary. Towers Perrin, a firm of consulting actuaries, prepared the most recent actuarial valuation as at December 31, 2003, using the projected unit credit actuarial cost method. As at December 31, 2003, HEPP had a going concern actuarial surplus of \$5 million (2003 - \$11 million). The employers cannot access this surplus and, as a result no asset has been recorded in the Province's Summary Financial Statements.

Information for the year ended December 31, 2005 is not available due to extension of the reporting deadline to September 30, 2006 approved by the HEPP Board of Trustees.

#### **H. Judges' Supplemental Pension Plan**

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

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

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

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

As at March 31, 2006, there are 63 (2005 - 61) plan members who are entitled to receive future pension benefits in accordance with the plan.

An actuarial report was completed for the Judges' Supplemental Pension Plan as at March 31, 2003, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's liability for accounting purposes has been calculated to be \$26 million as at March 31, 2006 (2005 - \$23 million). The increase in liability includes current year interest of \$1 million (2005 \$1 million).

**I. Winnipeg Child and Family Services Employee Benefits Retirement Plan**

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

At December 31, 2005, the WCFSP had 312 active and deferred members (2004 - 634), 139 pensioners (2004 - 133).

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

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

The employer is required to make monthly contributions actuarially determined to provide for the normal cost of the benefits accruing to members and to provide for the proper amortization of any unfunded liability or solvency deficiency. Currently that contribution has been established at an amount equal to employee contributions. In addition, the Government made a commitment to make payments to cover an estimated solvency deficiency of \$1.2 million (2005 - \$1.9 million). This amount has been accrued in these statements. With payment of this deficiency, the plan is expected to be fully funded as at March 31, 2007.

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

An actuarial report was completed for the Winnipeg Child and Family Services Plan as at December 31, 2004, by Ellement & Ellement Ltd. The Plan has a going concern surplus of \$0.8 million and the solvency ratio of 96.8% at the valuation date.

**J. University of Winnipeg Pension Plan**

The University of Winnipeg administers the University of Winnipeg Pension Plan (UWPP), which is comprised of a defined benefit segment and a defined contribution segment. The assets of the Plan are held in trust by independent custodians and are not recorded in the accounts of the University.

The University of Winnipeg Pension Plan (UWPP) was established as a contributory defined benefit pension plan at September 1, 1972 and covers all eligible employees of the University, except those who are members of the United Church of Canada Pension Plan. The funding for the plan requires a matching contribution from the University and the employees.

Since December 31, 2000, when the defined contribution segment of the Plan was introduced, approximately one-quarter of the eligible members converted to that plan. The obligation for pension benefits under the defined contribution segment of the Plan will always be equal to net assets in each member's account. Therefore, no surplus or deficiency arises from fluctuations in the investment market.

An actuarial valuation of the UWPP was completed as at December 31, 2004 by Eckler Partners Ltd., a firm of consulting actuaries, and this valuation was updated by them to December 31, 2005. This valuation confirms that the defined benefit segment of the Plan has a solvency deficiency of \$15 million. The University would normally be required under the *Pension Benefit Act* to make additional annual payments of \$3.4 million over a five year period to retire this solvency deficiency. However, the Provincial Government has provided the University with an amnesty that enables the University to elect to defer the annual solvency payments

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over the next three years. The University made this election in September, 2005. This plan also has a going concern deficiency of \$3.7 million, which will be funded by annual payments of \$0.4 million over a 15 year period.

As at December 31, 2005, the University of Winnipeg Pension Plan had 663 active members (2004 - 650), 198 pensioners (2004 -187), and 79 deferred pensioners (2004 -72).

The University of Winnipeg recognized expenses equal to its contributions of \$3 million (2004 - \$2 million). Employee contributions equalled the employer contributions.

The next full actuarial valuation of the plan will be as at December 31, 2007 and will be completed in 2008.

**13. LONG TERM DISABILITY INCOME PLAN**

The Government guarantees payments of long term disability benefits for all employees covered by the Long Term Disability Income Plan that was established on April 1, 1984. An actuarial valuation report was completed for the Long Term Disability Plan as of September 1, 2003 with projections to March 31, 2004 and March 31, 2005 which determine the Government's liability. The report provides a formula to update the liability on an annual basis. The Government's actuarially determined liability for accounting purposes as at March 31, 2006 was \$30 million (2005 - \$28 million).

**14. SEVERANCE PAY OBLIGATIONS**

The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group. An actuarial report was completed for the severance pay liability as of March 31, 2005. The report provides a formula to update the liability on an annual basis. The Government's actuarially determined net liability for accounting purposes as at March 31, 2006 was \$280 million (2005 - \$243 million).

**15. AMOUNTS HELD IN TRUST**

The Government held certain fiduciary trusts for investment or administration at March 31, 2006, totalling \$417 million (2005 - \$394 million). Such deposits are pooled with other available funds of the Government for investment purposes and are accorded a market rate of interest.

The Government also provides a safekeeping service for various departments, agencies, boards and commissions. In this capacity, it held custodial trust funds in the form of bonds and other securities at March 31, 2006 totalling \$104 million (2005 - \$113 million) and title to tangible capital assets in trust in the amount of \$68 million (2005 - \$68 million).

The Civil Service Superannuation Fund, University of Manitoba Pension Plans, University of Winnipeg Pension Plan and Brandon University Retirement Plan have been established by legislation to administer various pension and insurance trust funds to which the Government Reporting Entity contributes but over which the Government Reporting Entity has no power of appropriation. The total assets as at December 31st are as follows:

|                                      | (\$ millions) |              |
|--------------------------------------|---------------|--------------|
|                                      | 2005          | 2004         |
| Civil Service Superannuation Fund    | 3,550         | 3,096        |
| University of Manitoba Pension Plans | 968           | 891          |
| University of Winnipeg Pension Plans | 127           | 116          |
| Brandon University Retirement Plan   | 93            | 84           |
|                                      | <u>4,738</u>  | <u>4,187</u> |

**16. DEBT SERVICING**

Debt servicing costs of \$790 million (2005 - \$765 million) is net of interest recoveries from Government business enterprises of \$474 million (2005 - \$436 million) and includes \$83 million (2005 - \$97 million) representing interest expense of Crown organizations (Schedule 11). Government business enterprises debt servicing costs of \$517 million (2005 - \$514 million) are reported on Schedule 3.

**17. AMOUNTS DUE TO THE FEDERAL GOVERNMENT**

The March 31, 2003 financial statements disclosed that the net impact of the federal settlement related to the Federal Accounting Error for the period of 1997 to 1999 was a \$91 million loan payable owing to the Federal Government over a ten-year period commencing in 2004/05. As at March 31, 2006, this loan payable has been reduced to \$71 million (2005 - \$80 million) by offsetting an adjustment to unapplied taxes and the payment of an instalment of \$9 million.

To offset negative adjustments to the 2004 Equalization payments, the Federal Government provided to the Province a net loan payable of \$38 million. Repayment of this loan payable is scheduled to begin in April, 2006 and continue over a five year period. Similarly, to offset negative adjustments to the 2004 Canada Health and Social Transfer (CHST) entitlements, the Federal Government provided to the Province a net loan payable of \$9 million. Repayment of this loan is scheduled to begin in April, 2006 and continue over a five year period.

Through the Manitoba Opportunities Fund Ltd., the Province holds and invests deposits made through the Federal Department of Citizenship and Immigration Canada's (CIC) Immigrant Investor Program. The Federal Immigrant Investor Program seeks to attract experienced persons and capital to Canada. Investors must demonstrate business experience and make an investment into the program. The funds are distributed among participating Provinces. These funds are returned to the investor after a period of 5 years. As at March 31, 2006 the Province has loans payable of \$75 million (2005 - \$39 million) to be repaid to the Federal Government five years after receipt.

**18. RISK MANAGEMENT AND THE USE OF DERIVATIVE FINANCIAL INSTRUMENTS**

The Province employs various risk management strategies and operates within fixed risk exposure limits to ensure exposure to risk is managed in a prudent and cost effective manner. A variety of strategies are used, including the use of derivative financial instruments (derivatives). Derivatives are financial contracts, the value of which is derived from underlying instruments. The Province uses derivatives to hedge and to mitigate interest rate risk and the risks attached to foreign currency fluctuations. The Province does not use derivatives for speculative purposes. Gains or losses realized arising from derivative transactions are deferred and amortized over the remaining life of the derivative contract.

Hedges are created primarily through derivatives (swaps), which are legal contracts under which the Province agrees with another party to exchange cash flows based upon one or more notional amounts using stipulated reference interest rates for a specified period. Swaps can also be used to exchange cash flows involving different currencies. Swaps allow the Province to effectively manage the terms of its existing obligations and thereby convert them into obligations that meet the Provinces risk parameters.

Other derivative instruments used by the Province include forward foreign exchange contracts and forward interest rate agreements. Foreign exchange or currency risk is the risk that foreign currency debt principal and interest payments and foreign currency transactions will vary in Canadian dollar terms due to fluctuations in foreign exchange rates. To manage currency risk, the Province uses derivative contracts including foreign exchange forward contracts as well as swaps to convert foreign currency cash flows into Canadian dollar denominated cash flows. The current portfolio of foreign debt is fully hedged through the use of derivatives and US dollar sinking funds, except for the impact of the unamortized foreign exchange fluctuation account of \$79 million (2005 - \$84 million).

Derivative contracts hedge the underlying debt by matching the critical terms to achieve effectiveness. The current policy has hedged the foreign currency debt principal and interest payments through the use of derivatives in relation to general purpose debt as well as through the use of future US dollar revenue streams and US dollar sinking funds in relation to debt incurred on behalf of Manitoba Hydro Electric Board.

SUMMARY FINANCIAL STATEMENTS

The table below presents a maturity schedule of the Province's derivatives, by type, outstanding at March 31, 2006, based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts and are not indicative of credit risk, market risk or actual cash flows.

| <b>Derivative Portfolio Notional Value<br/>As at March 31, 2006</b> |   |              |              |              |              |                         |                          |               |
|---|---|--------------|--------------|--------------|--------------|-------------------------|--------------------------|---------------|
| <b>Derivatives</b>  | <b>Maturity in Fiscal Year (\$millions)</b> |              |              |              |              |                         |                          |               |
|   | <b>2007</b>                                 | <b>2008</b>  | <b>2009</b>  | <b>2010</b>  | <b>2011</b>  | <b>6 – 10<br/>Years</b> | <b>Over<br/>10 Years</b> | <b>Total</b>  |
| Interest rate swaps   | 2,040                                       | 1,175        | 836          | 2,158        | 2,176        | 6,516                   | 5,233                    | 20,134        |
| Cross currency swaps  | 552   | 462          | 984          | 609          | 234          | 972                     | 2,915                    | 6,728         |
| Forward foreign exchange contracts                                  | 123   |              |              |              |              | 208                     |                          | 331           |
| <b>Total</b>  | <b>2,715</b>                                | <b>1,637</b> | <b>1,820</b> | <b>2,767</b> | <b>2,410</b> | <b>7,696</b>            | <b>8,148</b>             | <b>27,193</b> |

The use of derivatives introduces credit risk, which is the risk of a counterparty defaulting on contractual derivative obligations in which the Province has an unrealized gain. The table below presents the credit risk associated with the derivative financial instrument portfolio, measured through the replacement value of derivative contracts, at March 31, 2006.

| <b>Credit Risk Exposure<br/>As at March 31, 2006</b> |                      |               |
|--|----------------------|---------------|
|  | <i>(\$ millions)</i> |               |
|  | <b>2006</b>          | <b>2005</b>   |
| Gross credit risk exposure <sup>1</sup>              | 59                   | 172           |
| Less: Netting <sup>2</sup>                           | ( 762)               | ( 967)        |
| <b>Net Credit Risk Exposure</b>                      | <b>( 703)</b>        | <b>( 795)</b> |

<sup>1</sup> Gross credit risk exposure is the gross credit exposure to counterparties with net positive exposures (the respective counterparties owe the Province.)

<sup>2</sup> "Netting" is the gross negative credit exposure to counterparties with net positive credit exposures covered by master agreements providing for close out netting when contracts do not have co-terminus settlement dates (the Province owes the respective counterparties).

As at March 31, 2006, the Province has no net credit risk exposure, but has a net liability to counterparties.

The Province manages its credit risk exposure from derivatives by, among other activities, dealing only with high credit quality counterparties and regularly monitoring compliance to credit limits. In addition, the Province enters into contractual agreements ("master agreements") with all of its counterparties that provide for termination netting and if applicable payment netting. Net credit risk exposure is the potential loss including the mitigating impact of these netting provisions.

A one percent (100 basis points) increase in interest rates would increase debt servicing costs by \$13.5 million (2005 - \$11.8 million). Liquidity risk is the risk that the Province will not be able to meet its current short-term financial obligations. To reduce liquidity risk, the Province maintains liquid reserves, that is, cash and cash equivalents (Note 2), at levels that will meet future cash requirements and will give the Province flexibility in the timing of issuing debt. In addition, the Province has short-term note programs and sinking funds as alternative sources of liquidity.

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

**19. RELATED PARTY TRANSACTIONS**

**A. Related Party Borrowings**

Borrowings include \$330 million (2005 - \$306 million) owed to Manitoba Public Insurance Corporation related to the capital financing of school board and health care facilities as well as \$250 million (2005 - \$197 million) for the financing of general Government programs. A nil balance (2005 - \$10 million) is owed to Manitoba Hydro-Electric Board for the capital financing of health care facilities and \$45 million (2005 - \$45 million) is payable to the Manitoba Liquor Control Commission.

These loans and debentures are repayable over a term from 2007 to 2025 at varying interest rates ranging from 0% to 12.25%.

**B. Water Power Rentals**

Water power rental revenue from the Manitoba Hydro-Electric Board (Hydro), in the amount of \$125 million (2005 - \$105 million), is included in the Summary Statement of Revenue and Expense under the Manitoba Collections category. These rentals are paid for the use of water resources in the operation of Hydro's hydroelectric generating stations. Water rental rates during the year were \$3.34 per megawatt hour (MW.h) (2005 - \$3.34 per MW.h).

**C. Guarantee Fees**

Manitoba Hydro-Electric Board (Hydro) remits guarantee fees to the Government based on the Hydro debt that the Province guarantees on their behalf. The guarantee fees paid by Hydro for the year ended March 31, 2006 were \$69 million (2005 - \$70 million).

The Government guarantees and administers Manitoba HydroBonds. Outstanding bonds as at March 31, 2006 totalled \$485 million (2005 - \$654 million). The bonds carry fixed and variable coupon rates that range from 3.1% to 10.0%. Manitoba HydroBonds are redeemable at the option of the holder.

**D. Revenue From Government Business Enterprises**

Under the *Workplace Safety and Health Act of Manitoba*, The Workers Compensation Board supports the administrative expenses incurred by the Department of Labour and Immigration for The Workplace Safety and Health program and the Worker Advisor Office. The amount for the year ended March 31, 2006 was \$7 million (2005 - \$7 million).

The Manitoba Lotteries Corporation provided \$3 million in funding for the year ended March 31, 2006 (2005 - \$2 million) to the Addictions Foundation of Manitoba for problem gambling services programming. Manitoba Hydro-Electric Board paid Corporation Capital Tax of \$37 million for the year ended March 31, 2006 (2005 - \$34 million).

**E. Purchase of Winnipeg Hydro**

*The Purchase of Winnipeg Hydro Act* received Royal Assent on August 9, 2002. In the 2003 fiscal year, the Manitoba Hydro-Electric Board entered into an agreement with the City of Winnipeg to purchase all of the net assets of Winnipeg Hydro. The consideration principally consisted of annual payments to the City of Winnipeg of \$25 million per annum in years 2002 to 2006, \$20 million per annum in years 2007 to 2010, and \$16 million per annum in year 2011 and each year thereafter. Winnipeg Hydro was an electric utility with 94,000 customers and annual revenues of \$125 million.

**F. Driver Licencing Operations**

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

The Province of Manitoba has agreed to provide funding to MPIC in the amount of \$21 million annually, into perpetuity, to defray the cost borne by MPIC as a result of the transfer.

MPIC, on behalf of the Province of Manitoba, collects and transfers motor vehicle registration fees to the Province. For the fiscal year ended March 31, 2006, these fees totalled \$98 million (2005 - \$85 million). Effective October 4, 2004, MPIC is also responsible for collecting and transferring driver licencing fees to the Province of Manitoba. For the fiscal year ended March 31, 2006 these fees totalled \$19 million (the six month period ended March 31, 2005 - \$9 million).

**20. COMPARATIVE FIGURES**

Certain of the 2005 financial statement figures have been reclassified to be consistent with the 2006 presentation.

## SCHEDULE 1

## SUMMARY STATEMENT OF AMOUNTS RECEIVABLE

As at March 31, 2006

|  | (\$ millions) |            |
|--|---------------|------------|
|  | 2006          | 2005       |
| <b>TAXATION REVENUE:</b>                           |               |            |
| Corporation capital tax.....                       | 1             | 10         |
| Corporation income tax.....                        | 64            | 58         |
| Gasoline tax.....                                  | 13            | 13         |
| Health and education levy.....                     | 30            | 27         |
| Individual income tax.....                         | 126           | 121        |
| Insurance corporation tax.....                     | 14            | 14         |
| Motive fuel tax.....                               | 9             | 8          |
| Oil and natural gas tax.....                       | 1             | -          |
| Retail sales tax.....                              | 123           | 119        |
| Revenue Act, 1964, part 1.....                     | 9             | 8          |
| Tobacco tax.....                                   | 17            | 19         |
|  | <u>407</u>    | <u>397</u> |
| <b>GOVERNMENT OF CANADA AND OTHER GOVERNMENTS:</b> |               |            |
| Canada health and social transfers.....            | 4             | 3          |
| Municipal corporations.....                        | 37            | 46         |
| Provincial and Territories.....                    | 18            | 24         |
| Shared cost programs/agreements.....               | 169           | 127        |
| Other.....   | 20            | 20         |
|  | <u>248</u>    | <u>220</u> |
| <b>INTEREST:</b>                                   |               |            |
| Province of Manitoba sinking fund.....             | 24            | 26         |
| Other investments.....                             | 7             | 6          |
|  | <u>31</u>     | <u>32</u>  |
| <b>OTHER:</b>                                      |               |            |
| Health and social services.....                    | 91            | 127        |
| Manitoba Hydro-Electric Board.....                 | 11            | 10         |
| Manitoba Liquor Control Commission.....            | 23            | 20         |
| Manitoba Lotteries Corporation.....                | 6             | 3          |
| Morris-Macdonald School Division.....              | -             | 1          |
| Sundry departmental revenue.....                   | 61            | 59         |
| Other.....   | 104           | 133        |
|  | <u>296</u>    | <u>353</u> |
|  | 982           | 1,002      |
| Less: Allowances.....                              | <u>82</u>     | <u>102</u> |
|  | <u>900</u>    | <u>900</u> |

## SCHEDULE 2

## SUMMARY STATEMENT OF LOANS AND ADVANCES

As at March 31, 2006

|   | (\$ millions)     |                   |
|---|-------------------|-------------------|
|   | 2006              | 2005              |
| <b>GOVERNMENT BUSINESS ENTERPRISES:</b>   |                   |                   |
| Manitoba Liquor Control Commission.....   | -                 | 5                 |
| Manitoba Hydro-Electric Board.....  | 6,625             | 6,548             |
| Manitoba Lotteries Corporation.....   | 237               | 246               |
|   | <u>6,862</u>      | <u>6,799</u>      |
| <b>OTHER:</b>   |                   |                   |
| Loans and Mortgages - Note 1.....   | 608               | 656               |
| Hudson Bay Mining and Smelting Co. Ltd - Note 2.....  | 16                | 17                |
| Manitoba Potash Corporation - Note 3.....   | 4                 | 4                 |
| Manitoba student loans - Note 4.....  | 29                | 22                |
| Regional family services agencies - Note 5.....   | 14                | 9                 |
| Rural economic development initiatives program - Note 6.....  | 3                 | 3                 |
| Other.....  | 2                 | 1                 |
|   | <u>676</u>        | <u>712</u>        |
| Less: Valuation allowance.....  | 91                | 91                |
|   | <u>585</u>        | <u>621</u>        |
|   | 7,447             | 7,420             |
| Less: Sinking funds provided for repayment of applicable debt.....  | 586               | 579               |
|   | <u>6,861</u>      | <u>6,841</u>      |
| Less: Debt incurred for and repayable by the Manitoba-Hydro Electric Board<br>and Manitoba Lotteries Corporation..... | <u>6,276</u>      | <u>6,215</u>      |
| <b>NET LOANS AND ADVANCES</b>   | <u><u>585</u></u> | <u><u>626</u></u> |

The Government business enterprises loans and advances portfolio is due in varying annual amounts to the year 2044, bearing interest rates from nil to 13.375%

## Note 1

|   |            |            |
|---|------------|------------|
| Agricultural direct lending and special assistance program mortgages, due in varying annual amounts to the year 2032, bearing interest rates ranging from 2.25% to 14.5%. | 345        | 358        |
| Housing direct lending and special assistance program mortgages, due in varying annual amounts to the year 2024, bearing interest rates ranging from 0.0% to 13.5%.       | 162        | 167        |
| Business development assistance loans, due in varying annual amounts to the year 2013, bearing interest rates ranging from nil to 9.875%.                                 | 77         | 106        |
| Northern business development and fishing industry assistance loans, due in varying annual amounts to the year 2009, bearing interest rates ranging from 3.5% to 6.75%.   | 24         | 25         |
|   | <u>608</u> | <u>656</u> |

Note 2 - environmental improvement loan, due in varying amounts to the year 2008, bearing no interest and guaranteed with an irrevocable letter of credit.

Note 3 - advances, repayable on the Corporation generating revenue or the sale of the Province's interest, bearing interest at prime less 3/4%.

Note 4 - student loans, payment and interest free until 6 to 12 months past the completion of studies, due 114 to 174 months after that time, carrying interest at prime plus 2.5%.

Note 5 - advances to provide family services agencies with interim funding to meet daily operating expenses related to providing services, to be repaid when no longer required, bearing no interest.

Note 6 - Community Works Program loans, repayable at the end of the 5 to 10 year term, bearing no interest.

**GOVERNMENT BUSINESS ENTERPRISES**  
**SCHEDULE OF SUMMARY OPERATING RESULTS AND FINANCIAL POSITION**  
For the Year Ended March 31, 2006  
(\$ millions)

**SCHEDULE 3**

|  | UTILITY | INSURANCE | FINANCE | RESOURCE<br>DEVELOPMENT | TOTAL<br>2006 | TOTAL<br>2005 |
|--|---------|-----------|---------|-------------------------|---------------|---------------|
| <b>RESULTS OF OPERATIONS</b>                               |         |           |         |                         |               |               |
| Revenues from operations                                   | 2,399   | 1,254     | 1,170   | -                       | 4,823         | 4,217         |
| Expenses: From operations                                  | 1,481   | 1,183     | 684     | -                       | 3,348         | 3,024         |
| Debt servicing   | 503     | -         | 14      | -                       | 517           | 514           |
| Total expenses   | 1,984   | 1,183     | 698     | -                       | 3,865         | 3,538         |
| Net income   | 415     | 71        | 472     | -                       | 958           | 679           |
| Transfers to the Government                                | -       | -         | (473)   | -                       | (473)         | (458)         |
|  | 415     | 71        | (1)     | -                       | 485           | 221           |
| Other comprehensive income                                 | -       | 31        | -       | -                       | 31            | 37            |
| Net increase in equity in Government business enterprises  | 415     | 102       | (1)     | -                       | 516           | 258           |
| <b>FINANCIAL POSITION</b>                                  |         |           |         |                         |               |               |
| Assets:  |         |           |         |                         |               |               |
| Cash and temporary investments                             | 119     | 92        | 41      | 1                       | 253           | 110           |
| Amounts receivable   | 427     | 265       | 32      | -                       | 724           | 681           |
| Portfolio investments - Due from the Province              | -       | -         | 45 *    | -                       | 45            | 558           |
| Due from others  | -       | 2,663     | -       | -                       | 2,663         | 1,863         |
| Capital assets   | 7,713   | 43        | 231     | -                       | 7,987         | 7,766         |
| Pension assets   | 719     | -         | -       | -                       | 719           | 615           |
| Other assets   | 652     | 93        | 37      | -                       | 782           | 666           |
| Total assets   | 9,630   | 3,156     | 386     | 1                       | 13,173        | 12,259        |
| Liabilities:   |         |           |         |                         |               |               |
| Accounts payable, accrued liabilities and deferred revenue | 1,125   | 550       | 94      | -                       | 1,769         | 1,527         |
| Long-term debt: Owing to the Province                      | 6,070   | -         | 237     | 1                       | 6,308         | 6,246         |
| Owing to others  | 544     | -         | 1       | -                       | 545           | 648           |
| Provision for future benefits: Pension obligations         | 606     | 124       | 47      | -                       | 777           | 714           |
| Future cost of existing claims                             | -       | 2,034     | -       | -                       | 2,034         | 1,900         |
| Total liabilities  | 8,345   | 2,708     | 379     | 1                       | 11,433        | 11,035        |
| Equity in Government business enterprises                  | 1,285   | 448       | 7       | -                       | 1,740         | 1,224         |

\* Represents pension assets invested with the Province

For Government business enterprises whose fiscal year is prior to March 31, the amounts reflected are as at their fiscal year end.

## SCHEDULE 4

## SUMMARY STATEMENT OF LONG-TERM INVESTMENTS

As at March 31, 2006

|   | (\$ millions) |           |
|---|---------------|-----------|
|   | 2006          | 2005      |
| <b>OTHER INVESTMENTS, AT COST</b>                   |               |           |
| Common shares -                                     |               |           |
| Manitoba Potash Corporation - 490,000 shares.....   | 5             | 5         |
| Preferred shares -                                  |               |           |
| 3863620 Canada Limited - 11,000,000 shares.....     | 11            | 11        |
| Special shares -                                    |               |           |
| Crocus Investment Fund - 2,000,000 shares.....      | 2             | 2         |
| Debentures -  |               |           |
| Municipalities.....                                 | 2             | 2         |
| Profit sharing agreement -                          |               |           |
| Hudson Bay Mining and Smelting re: Ruttan Mine..... | -             | 11        |
| Other -   |               |           |
| Limited partnership investments.....                | 14            | 14        |
|   | <u>34</u>     | <u>45</u> |
| Less: Valuation allowance.....                      | 30            | 41        |
|   | <u>4</u>      | <u>4</u>  |

## SUMMARY STATEMENT OF BORROWINGS

## SCHEDULE 5

As at March 31, 2006

(\$ millions)

| Fiscal<br>Year<br>of<br>Maturity  | Bonds and Debentures |              | Canada<br>Pension<br>Plan | Loans and<br>Mortgages | Promissory Notes<br>and<br>Treasury Bills | Totals         |                |
|---|----------------------|--------------|---------------------------|------------------------|---|----------------|----------------|
|   | Cdn                  | US           | Cdn                       | Cdn                    | Cdn                                       | 2006           | 2005           |
| 2006.....   | -                    | -            | -                         | -                      | -   | -              | 2,172          |
| 2007.....   | 1,188                | 584          | 150                       | -                      | 325                                       | 2,247          | 1,943          |
| 2008.....   | 1,526                | -            | 90                        | -                      | -   | 1,616          | 1,616          |
| 2009.....   | 1,940                | 288          | 106                       | -                      | -   | 2,334          | 2,296          |
| 2010.....   | 738                  | 463          | 115                       | -                      | -   | 1,316          | 1,419          |
| 2011.....   | 841                  | 292          | 103                       | -                      | -   | 1,236          | 828            |
| 2006-2011.....  | <u>6,233</u>         | <u>1,627</u> | <u>564</u>                | <u>-</u>               | <u>325</u>                                | <u>8,749</u>   | <u>10,274</u>  |
| 2012-2016 Operating Fund.....   | 3,389                | 396          | 177                       | -                      | -   | 3,962          | 3,071          |
| 2017-2026 Operating Fund.....   | 3,432                | 817          | 15                        | 237                    | -   | 4,501          | 4,137          |
| 2027-2045 Operating Fund.....   | 2,343                | -            | -                         | -                      | -   | 2,343          | 2,041          |
| 2007-2016 Government of Canada (Note 17).....   | -                    | -            | -                         | 193                    | -   | 193            | 166            |
| 2007-2019 Government Business Enterprises (Note 19).....  | -                    | -            | -                         | 375                    | -   | 375            | 361            |
| 2007-2043 Crown Organizations.....  | -                    | -            | -                         | 216                    | -   | 216            | 222            |
| 2012-2045.....  | <u>9,164</u>         | <u>1,213</u> | <u>192</u>                | <u>1,021</u>           | <u>-</u>                                  | <u>11,590</u>  | <u>9,998</u>   |
| Total borrowings.....   | 15,397               | 2,840        | 756                       | 1,021                  | 325                                       | 20,339         | 20,272         |
| Reduced by:   |                      |              |                           |                        |   |                |                |
| Unamortized debt issue costs.....   | (9)                  | (6)          | -                         | -                      | -   | (15)           | (22)           |
| Province of Manitoba debt issues held as investments<br>in sinking funds and cash and cash equivalents..... | <u>(1,765)</u>       | <u>-</u>     | <u>-</u>                  | <u>-</u>               | <u>-</u>                                  | <u>(1,765)</u> | <u>(1,860)</u> |
|   | <u>13,623</u>        | <u>2,834</u> | <u>756</u>                | <u>1,021</u>           | <u>325</u>                                | <u>18,559</u>  | <u>18,390</u>  |

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Borrowings payable in:

|   | March 31/06<br>Cdn \$ Valuation<br>(See Notes) | March 31/05<br>Cdn \$ Valuation<br>(See Notes) |
|---|--|--|
| Canadian dollars                          | 14,667   | 14,385   |
| Foreign issues hedged to Canadian dollars | 2,834  | 2,947  |
| U.S. dollars                              | 2,221  | 2,056  |
| Foreign issues hedged to U.S. dollars     | <u>617</u>                                     | <u>884</u>                                     |
| Total borrowings                          | <u>20,339</u>                                  | <u>20,272</u>                                  |

Note 1: The hedges are derivative contracts which include swaps and forward foreign exchange contracts.

Note 2: The Canadian dollar valuation is calculated using the foreign currency exchange rates in effect at each March 31 adjusted for any forward foreign exchange contracts entered into for settlement after year-end.

Note 3: Interest rates on these borrowings fall into one of three categories:

- i) Fixed with rates ranging from 3.25% to 11.33%.
- ii) Floating Canadian - Bankers Acceptance (BA) setting, established quarterly or monthly, with the lowest rate currently set at 3.787% and the highest set at 7.33% as at March 31, 2006.
- iii) Floating U.S. - U.S. Dollar London Interbank Offering Rate (LIBOR) setting, established quarterly, with the lowest rate currently set at 5.0455% and the highest set at 5.4255% as at March 31, 2006.

## SCHEDULE 6

**SUMMARY STATEMENT OF ACCOUNTS PAYABLE,  
ACCRUED CHARGES, PROVISIONS AND DEFERRALS**

As at March 31, 2006

|   | (\$ millions)       |                     |
|---|---------------------|---------------------|
|   | 2006                | 2005                |
| Accounts payable.....   | <u>846</u>          | <u>801</u>          |
| Accrued charges:  |                     |                     |
| Interest accrued on borrowings and trust funds.....                           | <u>234</u>          | <u>232</u>          |
| Other accrued liabilities:  |                     |                     |
| Canadian Agricultural Income Stabilization.....                               | 110                 | 66                  |
| Compensation for Victims of Crime.....  | 19                  | 18                  |
| Disaster assistance.....  | 17                  | 1                   |
| Flood claims.....   | 15                  | 15                  |
| Hepatitis C assistance.....   | 6                   | 6                   |
| Land acquisition claims.....  | 2                   | 2                   |
| Long Term Disability Income Plan.....   | 30                  | 28                  |
| Manfor Ltd. divestiture.....  | 1                   | 1                   |
| Net Income Stabilization Account Program (NISA).....                          | -                   | 1                   |
| Environmental Liabilities.....  | 147                 | 148                 |
| Salaries and benefits.....  | 585                 | 582                 |
| Tripartite Land Assembly Program.....   | 3                   | 3                   |
| Workers compensation claims.....  | 10                  | 7                   |
| Other.....  | <u>12</u>           | <u>34</u>           |
|   | <u>957</u>          | <u>912</u>          |
| Provision for future losses on guarantees (Note 7).....                       | <u>20</u>           | <u>18</u>           |
| Deferred Revenue  |                     |                     |
| Deferred Contributions Related to Future Expense.....                         | 50                  | 57                  |
| Government of Canada - Advances re: Shared Cost Programs Not Yet Claimed..... | 98                  | 113                 |
| Research and Special Funds.....   | 96                  | 87                  |
| Tuition and Education Fees.....   | 17                  | 13                  |
| Vehicle Registration.....   | 43                  | 42                  |
| Other.....  | <u>36</u>           | <u>30</u>           |
|   | <u>340</u>          | <u>342</u>          |
|   | <u><u>2,397</u></u> | <u><u>2,305</u></u> |

**SUMMARY STATEMENT OF TANGIBLE CAPITAL ASSETS**  
For the Year Ended March 31, 2006  
(\$ millions)

**SCHEDULE 7**

|  | General Capital Assets |                                      |                        |                                |                           | Infrastructure        |                |                                      |                           | Totals |       |
|--|------------------------|--------------------------------------|------------------------|--------------------------------|---------------------------|-----------------------|----------------|--------------------------------------|---------------------------|--------|-------|
|  | Land                   | Buildings and Leasehold Improvements | Vehicles and Equipment | Computer Hardware and Software | Assets Under Construction | Land and Improvements | Transportation | Dams and Water Management Structures | Assets Under Construction | 2006   | 2005  |
| <b>Cost</b>  |                        |                                      |                        |                                |                           |                       |                |                                      |                           |        |       |
| Opening cost, as previously reported                                   | 71                     | 2,860                                | 1,340                  | 401                            | 273                       | 222                   | 1,841          | 81                                   | 27                        | 7,116  | 5,769 |
| New organizations included in the Government Reporting Entity (Note 4) | 3                      | 77                                   | 26                     | 18                             | 4                         | 2                     | -              | -                                    | -                         | 130    | 1,156 |
| Opening cost restated (*)  | 74                     | 2,937                                | 1,366                  | 419                            | 277                       | 224                   | 1,841          | 81                                   | 27                        | 7,246  | 6,925 |
| Add:   |                        |                                      |                        |                                |                           |                       |                |                                      |                           |        |       |
| Additions during the year  | 6                      | 209                                  | 91                     | 29                             | 63                        | 5                     | 82             | 2                                    | 44                        | 531    | 435   |
| Assets acquired in prior years   | -                      | 3                                    | -                      | -                              | -                         | -                     | -              | -                                    | -                         | 3      | -     |
| Less:  |                        |                                      |                        |                                |                           |                       |                |                                      |                           |        |       |
| Disposals and write downs  | (1)                    | (12)                                 | (19)                   | (7)                            | -                         | -                     | -              | -                                    | -                         | (39)   | (105) |
| Settlements and reclassifications                                      | -                      | 30                                   | 8                      | 19                             | (59)                      | 5                     | 2              | 2                                    | (7)                       | -      | (9)   |
| 68 Closing cost  | 79                     | 3,167                                | 1,446                  | 460                            | 281                       | 234                   | 1,925          | 85                                   | 64                        | 7,741  | 7,246 |
| <b>Accumulated amortization</b>  |                        |                                      |                        |                                |                           |                       |                |                                      |                           |        |       |
| Opening, as previously reported  | -                      | 1,197                                | 916                    | 197                            | -                         | 34                    | 874            | 50                                   | -                         | 3,268  | 2,638 |
| New organizations included in the Government Reporting Entity (Note 4) | -                      | 29                                   | 18                     | 14                             | -                         | 2                     | -              | -                                    | -                         | 63     | 540   |
| Opening accumulated amortization restated (*)                          | -                      | 1,226                                | 934                    | 211                            | -                         | 36                    | 874            | 50                                   | -                         | 3,331  | 3,178 |
| Add:   |                        |                                      |                        |                                |                           |                       |                |                                      |                           |        |       |
| Amortization   | -                      | 74                                   | 85                     | 35                             | -                         | 3                     | 67             | 2                                    | -                         | 266    | 254   |
| Assets acquired in prior years   | -                      | 3                                    | -                      | -                              | -                         | -                     | -              | -                                    | -                         | 3      | -     |
| Less:  |                        |                                      |                        |                                |                           |                       |                |                                      |                           |        |       |
| Accumulated amortization on disposals, write downs, reclassifications  | -                      | (7)                                  | (23)                   | -                              | -                         | 1                     | -              | -                                    | -                         | (29)   | (101) |
| Closing accumulated amortization                                       | -                      | 1,296                                | 996                    | 246                            | -                         | 40                    | 941            | 52                                   | -                         | 3,571  | 3,331 |
| Net Book Value of Tangible Capital Assets                              | 79                     | 1,871                                | 450                    | 214                            | 281                       | 194                   | 984            | 33                                   | 64                        | 4,170  | 3,915 |

\* Effective April 1, 2004, the Government included the capitalization of infrastructure as part of the tangible capital assets.

During the year the Province capitalized \$0.8 million of interest relating to assets under construction. (2005 - \$0.5 million)

SUMMARY FINANCIAL STATEMENTS

**FUNDS, ORGANIZATIONS AND BUSINESS ENTERPRISES  
COMPRISING THE GOVERNMENT REPORTING ENTITY****CONSOLIDATED FUND:  
OPERATING FUND AND  
SPECIAL FUNDS:**

Abandonment Reserve Fund  
Debt Retirement Fund  
Farm Machinery and Equipment Act Fund  
Fiscal Stabilization Fund  
Land Titles Assurance Fund  
Manitoba Law Reform Commission  
Manitoba Trucking Productivity Improvement Fund  
Mining Community Reserve  
Mining Rehabilitation Reserve  
Pension Assets Fund  
Quarry Rehabilitation Reserve  
Veterinary Science Scholarship Fund  
Victims Assistance Fund

**CROWN ORGANIZATIONS:**

Addictions Foundation of Manitoba  
Assiniboine Community College  
Board of Administration under the Embalmers and Funeral Directors Act  
Brandon University  
CancerCare Manitoba  
Centre culturel franco-manitobain  
Child and Family Services of Central Manitoba  
Child and Family Services of Western Manitoba  
Collège universitaire de Saint-Boniface  
Communities Economic Development Fund  
Cooperative Loans and Loans Guarantee Board  
Cooperative Promotion Board  
Council on Post-Secondary Education  
Crown Corporations Council  
Diagnostic Services of Manitoba Inc.  
Economic Innovation and Technology Council  
First Nations of Northern Manitoba Child & Family Services Authority  
First Nations of Southern Manitoba Child & Family Services Authority  
General Child and Family Services Authority  
Helen Betty Osborne Foundation  
Horse Racing Commission

**SCHEDULE 8  
(cont'd)**

Insurance Council of Manitoba  
Legal Aid Services Society of Manitoba  
Manitoba Adolescent Treatment Centre Inc.  
Manitoba Agricultural Services Corporation  
Manitoba Arts Council  
Manitoba Boxing Commission  
Manitoba Centennial Centre Corporation  
Manitoba Community Services Council Inc.  
Manitoba Development Corporation  
Manitoba Film and Sound Recording Development Corporation  
Manitoba Floodway Authority  
Manitoba Gaming Control Commission  
Manitoba Habitat Heritage Corporation  
Manitoba Health Research Council  
Manitoba Health Services Insurance Plan  
Manitoba Hospital Capital Financing Authority  
Manitoba Housing and Renewal Corporation  
Manitoba Opportunities Fund Ltd.  
Manitoba Trade and Investment Corporation  
Manitoba Water Services Board  
Metis Child and Family Services Authority  
Public Schools Finance Board  
Red River College  
Regional Health Authorities (including controlled organizations)  
    Assiniboine Regional Health Authority Inc.  
    Brandon Regional Health Authority Inc.  
    Burntwood Regional Health Authority Inc.  
    Churchill RHA Inc.  
    Interlake Regional Health Authority  
    NOR-MAN Regional Health Authority Inc.  
    North Eastman Health Association Inc.  
    Parkland Regional Health Authority Inc.  
    Regional Health Authority - Central Manitoba Inc.  
    South Eastman Health/Santé Sud-Est Inc.  
    Winnipeg Regional Health Authority  
Rehabilitation Centre for Children Inc.

**SCHEDULE 8  
(cont'd)**

Special Operating Agencies Financing Authority  
Civil Legal Services  
Companies Office  
Fleet Vehicles Agency  
Food Development Centre  
Industrial Technology Centre  
Land Management Services  
Manitoba Education, Research and Learning  
Information Networks (Merlin)  
Manitoba Securities Commission  
Manitoba Text Book Bureau  
Materials Distribution Agency  
Office of the Fire Commissioner  
Organization and Staff Development  
Pineland Forest Nursery  
The Property Registry  
The Public Trustee  
Vital Statistics Agency  
Sport Manitoba Inc.  
Tire Stewardship Board  
Travel Manitoba  
University College of The North  
University of Manitoba  
University of Winnipeg  
Venture Manitoba Tours Ltd.

**GOVERNMENT BUSINESS ENTERPRISES: (Schedule 3) (Note 5)****Utility:**

Manitoba Hydro-Electric Board

**Insurance:**

Manitoba Public Insurance Corporation  
Workers Compensation Board

**Finance:**

Manitoba Liquor Control Commission  
Manitoba Lotteries Corporation  
Manitoba Product Stewardship Corporation

**Resource Development:**

Leaf Rapids Town Properties Ltd.  
Manitoba Hazardous Waste Management Corporation

## SCHEDULE 9

**RECONCILIATION OF OPERATING FUND BUDGETARY BALANCE  
TO SUMMARY NET INCOME**

As at March 31, 2006

|   | (\$ millions)                |  |   |
|---|------------------------------|--|---|
|   | 2005-06<br>Summary<br>Budget | 2005-06<br>Operations<br>per Entity<br>Financial<br>Statements | 2004-05<br>Summary<br>Net Income<br>(loss)<br>as restated |
| <b>OPERATING FUND AND SPECIAL FUNDS</b>                                   |                              |  |   |
| Operating Fund and Special Funds  | 146                          | 226  | 541   |
| <b>CROWN ORGANIZATIONS</b>  |                              |  |   |
| Brandon University  | -                            | 1  | 1   |
| CancerCare Manitoba   | 2                            | (1)  | 2   |
| Collège universitaire de Saint-Boniface                                   | -                            | 2  | -   |
| Diagnostic Services of Manitoba Inc.                                      | -                            | -  | (1)   |
| Manitoba Agricultural Services Corporation                                | (22)                         | (131)  | (85)  |
| Manitoba Development Corporation  | -                            | 6  | -   |
| Manitoba Gaming Control Commission  | -                            | -  | (1)   |
| Manitoba Habitat Heritage Corporation                                     | -                            | 1  | -   |
| Manitoba Housing and Renewal Corporation                                  | -                            | 1  | 2   |
| Manitoba Opportunities Fund   | -                            | 1  | -   |
| Manitoba Water Services Board   | -                            | -  | (1)   |
| Public Schools Finance Board  | -                            | 18   | 6   |
| Red River College   | -                            | 3  | 3   |
| Regional Health Authorities and controlled organizations                  | 6                            | (45)   | (13)  |
| Special Operating Agencies Financing Authority                            | 11                           | 4  | (1)   |
| University College of the North   | -                            | 1  | (1)   |
| University of Manitoba  | 29                           | 67   | 73  |
| University of Winnipeg  | -                            | -  | 3   |
| Venture Manitoba Tours Ltd.   | (1)                          | 5  | (1)   |
| <b>TOTAL CROWN ORGANIZATIONS</b>  | <b>25</b>                    | <b>(67)</b>  | <b>(14)</b>   |
| Adjustments on Consolidation  | -                            | (63)   | 4   |
| <b>TOTAL OPERATING FUND AND SPECIAL FUNDS AND<br/>CROWN ORGANIZATIONS</b> | <b>171</b>                   | <b>96</b>  | <b>531</b>  |
| <b>GOVERNMENT BUSINESS ENTERPRISES</b>                                    |                              |  |   |
| Leaf Rapids Town Properties Ltd.  | -                            | -  | (1)   |
| Manitoba Hazardous Waste Management Corporation                           | -                            | (1)  | (1)   |
| Manitoba Hydro - Electric Board   | 210                          | 415  | 136   |
| Manitoba Liquor Control Commission  | 187                          | 196  | 185   |
| Manitoba Lotteries Corporation  | 271                          | 277  | 273   |
| Manitoba Product Stewardship Corporation                                  | (1)                          | -  | (1)   |
| Manitoba Public Insurance Corporation                                     | 8                            | 48   | 79  |
| Workers Compensation Board  | 16                           | 23   | 9   |
|   | 691                          | 958  | 679   |
| Less: Adjustments on Consolidation  | (458)                        | (473)  | (458)   |
| <b>TOTAL GOVERNMENT BUSINESS ENTERPRISES (Schedule 3)</b>                 | <b>233</b>                   | <b>485</b>   | <b>221</b>  |
| <b>PENSION LIABILITY INCREASE</b>   | <b>(206)</b>                 | <b>(206)</b>   | <b>(190)</b>  |
| <b>TOTAL SUMMARY NET INCOME</b>   | <b>198</b>                   | <b>375</b>   | <b>562</b>  |

## SCHEDULE 10

**RECONCILIATION OF OPERATING FUND ACCUMULATED DEFICIT  
TO SUMMARY ACCUMULATED DEFICIT**

As at March 31, 2006

(\$ millions)

|  | Restated<br>Accumulated<br>Surplus<br>(Deficit)<br>March 31, 2005 | 2005-06<br>Summary<br>Net Income<br>(loss) | Adjustments to<br>Accumulated<br>Surplus<br>(Deficit) | Accumulated<br>Surplus<br>(Deficit)<br>March 31, 2006 |
|--|---|--|---|---|
| <b>OPERATING FUND AND SPECIAL FUNDS</b>                    |   |  |   |   |
| Operating Fund and Special Funds                           | (6,210)   | 226  | -   | (5,984)   |
| <b>CROWN ORGANIZATIONS</b>                                 |   |  |   |   |
| Addictions Foundation of Manitoba                          | 4   | -  | -   | 4   |
| Assiniboine Community College                              | 8   | -  | -   | 8   |
| Brandon University   | 8   | 1  | -   | 9   |
| CancerCare Manitoba  | 10  | (1)  | -   | 9   |
| Child and Family Services of Western Manitoba              | 1   | -  | -   | 1   |
| Collège universitaire de Saint-Boniface                    | 28  | 2  | -   | 30  |
| Diagnostic Services of Manitoba Inc.                       | (1)   | -  | -   | (1)   |
| First Nations of Northern Manitoba Child & Family Services | 1   | -  | -   | 1   |
| Manitoba Adolescent Treatment Centre                       | 1   | -  | -   | 1   |
| Manitoba Agricultural Services Corporation                 | 218   | (131)                                      | -   | 87  |
| Manitoba Development Corporation                           | 3   | 6  | -   | 9   |
| Manitoba Gaming Control Commission                         | 1   | -  | -   | 1   |
| Manitoba Habitat Heritage Corporation                      | 4   | 1  | -   | 5   |
| Manitoba Health Services Insurance Plan                    | 1   | -  | -   | 1   |
| Manitoba Housing and Renewal Corporation                   | (245)   | 1  | -   | (244)   |
| Manitoba Opportunities Fund                                | -   | 1  | -   | 1   |
| Manitoba Water Services Board                              | (2)   | -  | -   | (2)   |
| Public Schools Finance Board                               | -   | 18   | -   | 18  |
| Red River College  | 13  | 3  | -   | 16  |
| Regional Health Authorities and controlled organizations   | 121   | (45)                                       | -   | 76  |
| Special Operating Agencies Financing Authority             | 48  | 4  | -   | 52  |
| University College of the North                            | 4   | 1  | -   | 5   |
| University of Manitoba                                     | 761   | 67   | -   | 828   |
| University of Winnipeg                                     | 48  | -  | -   | 48  |
| Venture Manitoba Tours                                     | (9)   | 5  | -   | (4)   |
|  | <u>(5,184)</u>  | <u>159</u>                                 | <u>-</u>  | <u>(5,025)</u>  |
| Adjustments on Consolidation                               | 966   | (63)                                       | -   | 903   |
|  | <u>(4,218)</u>  | <u>96</u>                                  | <u>-</u>  | <u>(4,122)</u>  |
| <b>GOVERNMENT BUSINESS ENTERPRISES</b>                     |   |  |   |   |
| Manitoba Hydro - Electric Board                            | 870   | 415  | -   | 1,285   |
| Manitoba Liquor Control Commission                         | -   | 196  | (196)   | -   |
| Manitoba Lotteries Corporation                             | 5   | 277  | (277)   | 5   |
| Manitoba Product Stewardship Corporation                   | 3   | (1)  | -   | 2   |
| Manitoba Public Insurance Corporation                      | 216   | 48   | -   | 264   |
| Workers Compensation Board                                 | 130   | 23   | 31  | 184   |
|  | <u>1,224</u>  | <u>958</u>                                 | <u>(442)</u>  | <u>1,740</u>  |
| Adjustments on Consolidation                               | -   | (473)                                      | 473   | -   |
|  | <u>1,224</u>  | <u>485</u>                                 | <u>31</u>   | <u>1,740</u>  |
| <b>PENSION LIABILITY</b>                                   |   |  |   |   |
|  | <u>(3,761)</u>  | <u>(206)</u>                               | <u>-</u>  | <u>(3,967)</u>  |
| <b>TOTAL SUMMARY BALANCES</b>                              |   |  |   |   |
|  | <u>(6,755)</u>  | <u>375</u>                                 | <u>31</u>   | <u>(6,349)</u>  |

Note - Differences may result from rounding.

## SCHEDULE 11

## SUMMARY STATEMENT OF EXPENSE BY TYPE

For the Year Ended March 31, 2006

|   | (\$ millions) |              |
|---|---------------|--------------|
|   | 2006          | 2005         |
| Personnel Services.....                                   | 3,705         | 3,546        |
| Grants/Transfer Payments.....                             | 2,735         | 2,499        |
| Transportation.....                                       | 101           | 96           |
| Communications.....                                       | 53            | 55           |
| Supplies and Services.....                                | 1,077         | 899          |
| Social Assistance Related.....                            | 709           | 680          |
| Other Operating.....                                      | 853           | 742          |
| Debt Servicing - Provincial Departments (Note 16).....    | 707           | 668          |
| - Crown Organizations (Note 16).....                      | 83            | 97           |
| Minor Capital.....  | 61            | 42           |
| Amortization of Tangible Capital Assets (Schedule 7)..... | 266           | 254          |
|   | <u>10,350</u> | <u>9,578</u> |



**PROVINCE OF MANITOBA**

**SPECIAL PURPOSE**

**STATEMENTS OF ACCOUNTABILITY**  
**FOR**

**STEWARDSHIP OF CENTRAL**  
**GOVERNMENT OPERATIONS**

**AND**

**BALANCED BUDGET LEGISLATION**



SECTION 2

OPERATING FUND AND SPECIAL FUNDS - SPECIAL PURPOSE FINANCIAL STATEMENTS

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## STATEMENT OF RESPONSIBILITY

The Special Purpose Operating Fund and Special Funds financial statements are prepared under the direction of the Minister of Finance in accordance with the stated accounting policies of the Government and include a special purpose statement of financial position, a special purpose statement of revenue and expense, a special purpose statement of calculation of balance under the Balanced Budget, Debt Repayment and Taxpayer Accountability Act, a special purpose statement of accumulated (deficits) surpluses, a special purpose statement of change in net debt, a special purpose statement of cash flow, notes and schedules integral to the statements. Together, they present, in all material respects, the financial condition of the Operating Fund and Special Funds at the fiscal year end and results of their operations for the year then ended, in accordance with the accounting policies stated in Note 1 to the financial statements applied on a basis consistent with that of the preceding year, except as described in note 5 to these financial statements.

The Government is responsible for the integrity and objectivity of the Special Purpose Operating Fund and Special Funds financial statements. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets, liabilities, revenues and expenses is dependent on future events. The Government believes such estimates have been based on careful judgements and have been properly reflected in the financial statements.

The Government fulfills its accounting and reporting responsibilities, through the Office of the Provincial Comptroller, by maintaining systems of financial management and internal control. The systems are continually enhanced and modified to provide timely and accurate information, to safeguard and control the Government's assets, and to ensure all transactions are in accordance with the Financial Administration Act.

The Auditor General expresses an independent opinion on these financial statements. Her report, stating the scope of her audit and opinion, appears on the following page. The audit opinion for the 2005/06 financial statements was signed by the Deputy Auditor General.

These special purpose financial statements are tabled in the Legislature. They are referred to the Standing Committee on Public Accounts, which reports to the Legislature on the results of its examination together with any recommendations it may have with respect to the financial statements and accompanying audit opinion.

More detailed information regarding the Operating Fund and Special Funds combined financial position and operating results can be found in Volumes 2 and 3 of the Public Accounts. In addition, explanatory comments with respect to changes in revenue and expense are provided in each government department's annual report.

On behalf of the Government of the Province of Manitoba.



Ewald Boschmann  
Deputy Minister of Finance



Betty-Anne Pratt  
Provincial Comptroller

July 31, 2006





Office of the Auditor General

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

**AUDITOR'S REPORT**  
**On the Special Purpose Operating Fund and Special Funds Financial Statements**  
**Province of Manitoba**

**To the Members of the Legislative Assembly of the Province of Manitoba**

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

*The Summary Financial Statements are complete financial statements. Their purpose is to report the full nature and extent of the overall financial affairs and resources of the Province of Manitoba for which the Government is responsible.*

*Please refer to the Summary Financial Statements to understand and assess the Government's management of public financial affairs and provincial resources as a whole.*

In accordance with Section 9 of The Auditor General Act, I have audited the special purpose statement of financial position of the Operating Fund and Special Funds of the Province of Manitoba as at March 31, 2006 and the special purpose statements of revenue and expense, calculation of balance under the Balanced Budget, Debt Repayment and Taxpayer Accountability Act, accumulated (deficits) surpluses, change in net debt, and cash flow for the year then ended. These special purpose financial statements are the responsibility of the Government of Manitoba. My responsibility is to express an opinion on these special purpose financial statements based on my audit.

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

**Opinion**

In my opinion, these Special Purpose Financial Statements present in all material respects, the financial position of the Operating Fund and Special Funds as at March 31, 2006, and the results of its operations and its cash flow for the year then ended in accordance with the accounting policies disclosed in Note 1 to the financial statements applied, on a basis consistent with that of the preceding year, except as described in Note 5 to these financial statements.

**Manitoba**

### **Exceptions from Generally Accepted Accounting Principles**

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

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

If Canadian GAAP had been used in the preparation of the Special Purpose Financial Statements, financial assets would increase by \$199 million (2005-\$246 million), non-financial assets would increase by \$1,826 million (2005-\$1,707 million), liabilities would increase by \$2,390 million (2005-\$2,649 million), net debt would increase by \$2,191 million (2005-\$2,403 million), accumulated deficit would increase by \$365 million (2005-\$696 million), revenue including net income from government business enterprises would increase by \$2,209 million (2005-\$1,871million), and expenses would increase by \$2,062 million (2005-\$1,854 million). As well, the effects of the non-consolidation of public school divisions on the reported assets, liabilities, revenues and expenses, and the information provided by way of notes to the financial statements cannot be determined.

Winnipeg, Manitoba  
July 31, 2006



Bonnie J. Lysyk, MBA, CA•CIA  
Deputy Auditor General

**OPERATING FUND AND SPECIAL FUNDS  
SPECIAL PURPOSE STATEMENT OF FINANCIAL POSITION**

As at March 31, 2006

| SCHEDULE                                 | (\$ millions)   |                               |
|--|---|-------------------------------|
|  | 2006  | 2005                          |
| <b>FINANCIAL ASSETS</b>                  |   |                               |
|  | Cash and Cash Equivalents (Note 2).....   | 605      602                  |
|  | Portfolio Investments (Note 3).....   | 537      382                  |
| 1  | Amounts Receivable.....   | 737      611                  |
| 2  | Loans and Advances.....   | 617      653                  |
| 4  | Trust Assets (Note 1F).....   | <u>2,615</u> <u>2,264</u>     |
|  | <b>Total Financial Assets</b>   | <u>5,111</u> <u>4,512</u>     |
| <b>LIABILITIES</b>                       |   |                               |
| 5  | Borrowings.....   | 18,333      18,165            |
|  | Less: Sinking Funds (Note 4).....   | (2,728)      (2,703)          |
|  | Less: Debt Incurred For and Repayable By The Manitoba Hydro-Electric<br>Board and Manitoba Lotteries Corporation..... | <u>(6,276)</u> <u>(6,215)</u> |
|  |   | 9,329      9,247              |
|  | Less: Unamortized Foreign Currency Fluctuation.....   | <u>(79)</u> <u>(84)</u>       |
|  | Net Borrowings  | 9,250      9,163              |
| 6  | Accounts Payable, Accrued Charges, Provisions and Deferrals.....  | <u>1,574</u> <u>1,352</u>     |
|  |   | 10,824      10,515            |
| 4  | Amounts Held in Trust for Investment or Administration (Note 1F).....   | <u>2,615</u> <u>2,264</u>     |
|  | <b>Total Liabilities</b>  | <u>13,439</u> <u>12,779</u>   |
|  | <b>NET DEBT</b>   | <u>(8,328)</u> <u>(8,267)</u> |
| <b>NON-FINANCIAL ASSETS (Note 1E.11)</b> |   |                               |
|  | Inventory.....  | 2      -                      |
|  | Deferred Charge for Health Care Facilities (Note 1A4).....  | 637      586                  |
| 7  | Tangible Capital Assets.....  | <u>1,705</u> <u>1,622</u>     |
|  |   | <u>2,344</u> <u>2,208</u>     |
|  | <b>ACCUMULATED DEFICIT</b>  | <u>(5,984)</u> <u>(6,059)</u> |

Information concerning Long Term Investments can be found on Schedule 3.  
Information concerning the Government's Guarantees, Contractual Obligations,  
Contingencies and Pension Liability can be found in Notes 6, 7, 8 and 10.

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

For the Year Ended March 31, 2006

(\$ millions)

|  | Operating Fund |              | Fiscal        | Debt       | Pension    | Other      | Total        | Total        |
|--|----------------|--------------|---------------|------------|------------|------------|--------------|--------------|
|  | Budget         | Actual       | Stabilization | Retirement | Assets     | Special    | 2006         | 2005         |
|  |                |              | Fund          | Fund       | Fund       | Funds      |              |              |
| <b>OPERATING REVENUE (Schedule 8)</b>  |                |              |               |            |            |            |              |              |
| Manitoba Collections.....  | 2,663          | 2,698        | -             | -          | -          | 6          | 2,704        | 2,587        |
| Income Taxes.....  | 2,243          | 2,322        | -             | -          | -          | -          | 2,322        | 2,247        |
| Federal Transfers.....   | 2,796          | 2,914        | -             | -          | -          | -          | 2,914        | 2,920        |
| Crown Organizations.....   | 475            | 491          | -             | -          | 9          | -          | 500          | 482          |
| Interest Earned.....   | -              | -            | 15            | -          | 61         | -          | 76           | 33           |
|  | <u>8,177</u>   | <u>8,425</u> | <u>15</u>     | <u>-</u>   | <u>70</u>  | <u>6</u>   | <u>8,516</u> | <u>8,269</u> |
| <b>OPERATING EXPENSES (Schedules 8 &amp; 10)</b>   |                |              |               |            |            |            |              |              |
|  | <u>8,064</u>   | <u>8,284</u> | <u>-</u>      | <u>-</u>   | <u>-</u>   | <u>4</u>   | <u>8,288</u> | <u>7,724</u> |
| <b>NET RESULT FOR THE YEAR</b>   |                |              |               |            |            |            |              |              |
|  | <u>113</u>     | <u>141</u>   | <u>15</u>     | <u>-</u>   | <u>70</u>  | <u>2</u>   | <u>228</u>   | <u>545</u>   |
| <b>INTERFUND TRANSFERS</b>   |                |              |               |            |            |            |              |              |
| Transfer to Debt Retirement Fund.....  | (110)          | (110)        | -             | 110        | -          | -          | -            | -            |
| Transfer for Pensions.....   | -              | -            | -             | (85)       | 85         | -          | -            | -            |
| Transfer from Mining Community Reserve.....  | -              | -            | -             | -          | -          | (2)        | (2)          | (1)          |
| Transfer of Positive Balance to Fiscal<br>Stabilization Fund under Section 9 (a) of the Act..... | -              | (31)         | 31            | -          | -          | -          | -            | -            |
|  | <u>(110)</u>   | <u>(141)</u> | <u>31</u>     | <u>25</u>  | <u>85</u>  | <u>(2)</u> | <u>(2)</u>   | <u>(1)</u>   |
| <b>NET RESULT FOR THE YEAR<br/>AFTER INTERFUND TRANSFERS</b>                                     |                |              |               |            |            |            |              |              |
|  | <u>3</u>       | <u>-</u>     | <u>46</u>     | <u>25</u>  | <u>155</u> | <u>-</u>   | <u>226</u>   | <u>544</u>   |

**OPERATING FUND AND SPECIAL FUNDS  
SPECIAL PURPOSE STATEMENT OF CALCULATION OF BALANCE  
UNDER THE BALANCED BUDGET, DEBT REPAYMENT  
AND TAXPAYER ACCOUNTABILITY ACT  
For the Year Ended March 31, 2006**

|   | (\$ millions)    |                   |
|---|------------------|-------------------|
|   | 2006             | 2005              |
| Operating Fund Revenue.....   | 8,425            | 8,223             |
| Operating Fund Expenses.....  | <u>8,284</u>     | <u>7,718</u>      |
| <b>NET RESULT FOR THE YEAR BEFORE INTERFUND TRANSFERS</b>           | 141              | 505               |
| <b>INTERFUND TRANSFERS</b>  |                  |                   |
| To the Debt Retirement Fund.....                                    | <u>(110)</u>     | <u>(99)</u>       |
| <b>POSITIVE BALANCE FOR PURPOSES OF BALANCED BUDGET LEGISLATION</b> | <u><u>31</u></u> | <u><u>406</u></u> |

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

For the Year Ended March 31, 2006

(\$ millions)

|   | Operating<br>Fund | Fiscal<br>Stabilization<br>Fund | Debt<br>Retirement<br>Fund | Pension<br>Assets<br>Fund | Other<br>Special<br>Funds<br>(Schedule 9) | Total<br>2006  | Total<br>2005  |
|---|-------------------|---------------------------------|----------------------------|---------------------------|---|----------------|----------------|
| Accumulated (Deficits) Surpluses,                 |                   |                                 |                            |                           |   |                |                |
| Beginning of Year.....                            | (6,949)           | 486                             | -                          | 382                       | 22  | (6,059)        | (7,349)        |
| Environmental Liabilities (Notes 1E.12 & 5A)..... | (142)             |                                 |                            |                           |   | (142)          | -              |
| Tax Refunds (Note 5B).....                        | (9)               |                                 |                            |                           |   | (9)            | -              |
| Recognition of Infrastructure .....               | -                 | -                               | -                          | -                         | -   | -              | 1,183          |
| Unfunded Employee Future Benefits.....            | -                 | -                               | -                          | -                         | -   | -              | (234)          |
| Long Term Disability Income Plan.....             | -                 | -                               | -                          | -                         | -   | -              | (27)           |
| Health Care Facilities Debt .....                 | -                 | -                               | -                          | -                         | -   | -              | (152)          |
| Interest Accruals .....                           | -                 | -                               | -                          | -                         | -   | -              | (18)           |
| Workers Compensation Claims Liability.....        | -                 | -                               | -                          | -                         | -   | -              | (6)            |
| Net Result for the Year                           |                   |                                 |                            |                           |   |                |                |
| after Interfund Transfers.....                    | -                 | 46                              | 25                         | 155                       | -   | 226            | 544            |
| Accumulated (Deficits) Surpluses,                 |                   |                                 |                            |                           |   |                |                |
| End of Year.....                                  | <u>(7,100)</u>    | <u>532</u>                      | <u>25</u>                  | <u>537</u>                | <u>22</u>                                 | <u>(5,984)</u> | <u>(6,059)</u> |

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

For the Year Ended March 31, 2006

|   | (\$ millions)         |                       |
|---|-----------------------|-----------------------|
|   | 2006                  | 2005                  |
| <b>Annual Surplus:</b>                                      |                       |                       |
| Fiscal Stabilization Fund.....                              | 46                    | 407                   |
| Debt Retirement Fund.....                                   | 25                    | 22                    |
| Pension Assets Fund.....                                    | 155                   | 115                   |
|   | <u>226</u>            | <u>544</u>            |
| Acquisition of Tangible Capital Assets.....                 | (188)                 | (133)                 |
| Recognition of Infrastructure.....                          | -                     | (1,183)               |
| Disposals and Write-downs.....                              | -                     | 9                     |
| Amortization of Tangible Capital Assets.....                | 105                   | 100                   |
|   | <u>(83)</u>           | <u>(1,207)</u>        |
| Increase in Deferred Charge for Health Care Facilities..... | (51)                  | (89)                  |
| Increase in Inventory.....                                  | (2)                   | -                     |
| Changes in Accumulated Deficit                              |                       |                       |
| Environmental Liabilities (Notes 1E.12 & 5A).....           | (142)                 | -                     |
| Tax Refunds (Note 5B).....                                  | (9)                   | -                     |
| Recognition of Infrastructure.....                          | -                     | 1,183                 |
| Unfunded Employee Future Benefits.....                      | -                     | (234)                 |
| Long Term Disability Income Plan.....                       | -                     | (27)                  |
| Health Care Facilities Debt.....                            | -                     | (152)                 |
| Interest Accruals.....                                      | -                     | (18)                  |
| Workers Compensation Claims Liability.....                  | -                     | (6)                   |
|   | <u>(151)</u>          | <u>746</u>            |
| <b>(Increase) in Net Debt</b>                               | (61)                  | (6)                   |
| <b>Net Debt, beginning of year</b>                          | <u>(8,267)</u>        | <u>(8,261)</u>        |
| <b>Net Debt, end of year</b>                                | <u><u>(8,328)</u></u> | <u><u>(8,267)</u></u> |

**OPERATING FUND AND SPECIAL FUNDS  
SPECIAL PURPOSE STATEMENT OF CASH FLOW**

**For the Year Ended March 31, 2006**

|  | (\$ millions)     |                   |
|--|-------------------|-------------------|
|  | 2006              | 2005              |
| Cash and Cash Equivalents Provided by (Used in)                                    |                   |                   |
| <b>Operating transactions</b>  |                   |                   |
| Net Result for the year after Interfund Transfers - Special Funds.....             | 226               | 544               |
| Changes in non-cash items:   |                   |                   |
| Amounts Receivable.....  | (126)             | (52)              |
| Valuation Allowance.....   | (3)               | 4                 |
| Accounts Payable, Accrued Charges, Provisions<br>and Deferrals.....                | 226               | 318               |
| Amortization of Foreign Currency Fluctuation.....                                  | 5                 | 6                 |
| Amortization of Debt Discount.....   | 7                 | 8                 |
| Amortization of Investment Discounts and Premiums.....                             | 2                 | (1)               |
| Amortization of Tangible Capital Assets.....                                       | 103               | 98                |
| Amortization of Tangible Capital Assets Charged to Special Operating Agencies..... | 2                 | 2                 |
| Recognition of Infrastructure.....   | -                 | (1,183)           |
| Increase in Inventory.....   | (2)               | -                 |
| Adjustment to Accumulated Deficit .....  | (151)             | 746               |
| Cash provided by operating transactions  | <u>289</u>        | <u>490</u>        |
| <b>Capital transactions</b>  |                   |                   |
| Acquisition of Tangible Capital Assets.....  | (188)             | (133)             |
| Disposal of Tangible Capital Assets.....   | -                 | 9                 |
| Cash used in capital transactions  | <u>(188)</u>      | <u>(124)</u>      |
| <b>Investing transactions</b>  |                   |                   |
| Made.....  | (842)             | (822)             |
| Realized.....  | 545               | 178               |
| Cash used in investing transactions  | <u>(297)</u>      | <u>(644)</u>      |
| <b>Financing transactions</b>  |                   |                   |
| Debt Issued.....   | 2,908             | 2,962             |
| Debt Redeemed.....   | (2,778)           | (2,180)           |
| Changes in Sinking Funds.....  | 69                | 26                |
| Cash provided by financing transactions  | <u>199</u>        | <u>808</u>        |
| Increase in Cash and Cash Equivalents.....   | 3                 | 530               |
| Cash and Cash Equivalents, beginning of year.....                                  | <u>602</u>        | <u>72</u>         |
| Cash and Cash Equivalents, end of year.....  | <u><u>605</u></u> | <u><u>602</u></u> |

**NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2006**

**1. SIGNIFICANT ACCOUNTING POLICIES**

**A. General Basis of Accounting**

The Special Purpose Financial Statements of the Operating Fund and Special Funds have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) for senior Governments as recommended by the Canadian Institute of Chartered Accountants (CICA), with the following exceptions:

- 1) Liabilities for unfunded pension benefits have not been recorded in the Special Purpose Financial Statements. If Canadian GAAP had been used in the recording of pension transactions, liabilities and the accumulated deficit would increase by \$3,967 million (2005 - \$3,761 million) and expenses would increase by \$206 million (2005 - \$190 million).
- 2) The financial statements do not reflect the financial results for all of the Government business enterprises and Crown organizations comprising the Government reporting entity. The financial operations of the latter are reflected only to the extent that their operations were financed from or contributed to the Special Purpose Financial Statements. If Canadian GAAP had been used to record these transactions, financial assets would increase by \$199 million (2005 - \$246 million), non-financial assets would increase by \$2,463 million (2005 - \$2,293 million), liabilities would decrease by \$1,577 million (2005 - \$1,112 million), net debt would decrease by \$1,776 million (2005 - \$1,358 million), the accumulated deficit would decrease by \$4,239 million (2005 - \$3,651 million), revenue including net income from Government business enterprises would increase by \$2,209 million (2005 - \$1,871 million) and expenses would increase by \$1,805 million (2005 - \$1,575 million).
- 3) Material adjustments may result from changes in accounting policies or from the correction of an error which are attributable to and identifiable with prior periods. It is the Government's practice to reflect the effects of such adjustments in the accumulated deficit. Prior year balances are not restated. If Canadian GAAP had been used to record changes in accounting policies and correction of errors, the comparative figures of the financial statements and the opening balance of the accumulated deficit would have changed.
- 4) Prior to the 2000/01 fiscal year, individual health care facilities issued long-term debt in their own name to finance major capital acquisitions. In 2000/01, the Province began a program to finance such debt directly, taking advantage of its superior borrowing power and rates, and lowering the cost of health related borrowings for Manitoba. This debt is included as part of the Province's borrowings. The related asset for health care facilities is recorded as a deferred charge and amortized over the same period of time as the term of the debt issue. If Canadian GAAP had been used to record these transactions, the deferred charge asset would decrease by \$637 million (2005 - \$586 million) and the accumulated deficit would increase by \$637 million (2005 - \$586 million) and expenses would increase by \$51 million (2005 - \$89 million).

These accounting policies have been developed and are applied in accordance with the provisions of *The Financial Administration Act*, which is Chapter F55 of the Continuing Consolidation of the Statutes of Manitoba.

**B. The Reporting Entity**

These statements consist of the Operating Fund and Special Funds, that on a combined basis, reflect the transactions and balances of these funds.

The nature and purpose of the funds reflected in these financial statements is as follows:

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

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

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

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

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

**Other Special Funds:**

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

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

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

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

**C. Gross Accounting Concept**

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

- 1) Refunds of revenue are treated as reductions of current year revenue.
- 2) Decreases in valuation allowances previously provided are treated as reductions to expense.
- 3) Recoveries of the debt servicing costs on self-supporting debt and revenue earned on investments, loans and advances to Crown organizations and Government business enterprises are recorded as a reduction of debt servicing expense.

**D. Modified Accrual Accounting**

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

- 1) **Government of Canada Receipts** – Transfer payments from the Government of Canada include all accruals determined before June 15 each year for current year entitlements that have been authorized by March 31<sup>st</sup>, that can be reasonably estimated and for which any eligibility criteria have been met.

The Province's share of individual and corporation income tax is recorded based upon cash receipts to March 31 plus an accrual of adjustments determined before June 15 each year.

- 2) **Other Revenue** – All other revenues are recorded on an accrual basis except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable. Recoveries of the debt servicing costs on self-supporting debt and revenue earned on investments, loans and advances to Crown organizations and Government business enterprises are recorded as a reduction of debt servicing expense.
- 3) **Expenses** – All expenses incurred for goods or services received are recorded on an accrual basis. Exceptions to this policy involve the acquisition of inventories acquired for the Government's use that are reflected as expenses when incurred as well as item 4) noted below.

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

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

**E. Liabilities and Assets**

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

- 2) The amount of the liabilities for severance, Long Term Disability Income Plan liability and workers compensation claims is based upon actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations because actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.
- 3) The year end translation adjustments reflecting the foreign currency fluctuation from the value at the issue date are recorded through the unamortized foreign currency fluctuation account, and amortized monthly to debt servicing expense over the remaining term of the debt. The unamortized portion of foreign currency fluctuation also reflects the gains or losses on the conversion of foreign currency debt called prior to maturity using the rates in effect at the time of the call and these gains and losses are amortized over the original remaining term of the debt or over the term of the replacement issue, whichever is shorter.
- 4) Loans, advances and long-term investments are recorded at cost less valuation allowances. A valuation allowance is provided to reduce the value of the assets to their estimated realizable value or to reflect the impact of significant concessionary terms on outstanding loans. Valuation allowances are made when the collection is considered doubtful or when the value of the investments is impaired. Premiums that may arise from the early repayment of loans or advances are reflected as deferred revenue and are amortized monthly to debt servicing expense over the term of the related debt issue.
- 5) Investments denominated in foreign currency are translated to the Canadian dollar equivalent at the exchange rate in effect at March 31, unless the rate of exchange or a forward foreign exchange contract fixing the value has been negotiated, in which case that rate or amount is used. The year end investment translation adjustments reflecting the foreign currency fluctuation between year ends are amortized monthly over the remaining life of the investment and included with debt servicing expense. Expenses and other transaction charges incurred on the purchase of investments during the year are charged to debt servicing expense. Those expenses incurred in foreign currency are translated at the exchange rate in effect on the transaction date.
- 6) Premiums paid on interest rate options are amortized monthly starting from the date the income is received over the period of the applicable agreement. If the option is exercised, the premium is amortized over the period from the date of receipt to the maturity date of the agreement. If the option is not exercised, any unamortized premium will be immediately taken into revenue.
- 7) The cost of tangible capital assets purchased includes the purchase price as well as costs such as installation costs, design and engineering fees, survey and site preparation costs and other costs incurred to put the asset in service. The cost of tangible capital assets constructed by the Province includes all direct construction costs such as materials, labour, design, installation, engineering, architectural fees, and survey and site preparation costs, as well as overhead costs directly attributable to the construction activity such as licenses, inspection fees, indirect labour costs, and amortization expense of any equipment which was used in the construction project. Any carrying cost associated with the development and construction of tangible capital assets is included in cost for projects whose cost exceeds \$20 million.

A tangible capital asset received as a donation is recorded at its fair market value with the same amount being shown as a deferred revenue which is amortized to revenue on the same basis as the asset is amortized. Where the acquisition cost of a tangible capital asset is shared with other jurisdictions under a shared cost agreement, such contributions are deducted from the cost of the related asset with any amortization calculated on the net amount. Certain assets which have historical or cultural value including works of art, historical documents as well as historical and cultural artifacts are not recognized as tangible capital assets because a reasonable estimate of the future benefits associated with such property cannot be made. Intangibles assets and items inherited by right of the Crown, such as Crown lands, forests, water, and mineral resources are not recognized in Government financial statements.

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

General Tangible Assets:

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

Infrastructure Assets:

|  |                |
|--|----------------|
| Land                                     | Indefinite     |
| Land Improvements                        | 30 years       |
| Transportation                           |                |
| Bridges and Structures                   | 40 years       |
| Provincial Highways, Roads and Airstrips | 10 to 40 years |
| Dams and Water Management Structures     | 40 years       |

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

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

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

- 10) Guarantees by the Government are made through specific agreements or legislation to repay promissory notes, bank loans, lines of credit, mortgages and other securities. Provision for losses on guarantees are recorded when it is likely that a loss will occur. The amount of the loss provision represents the Government's best estimate of future payments less recoveries.
- 11) In the public sector, recognition and measurement of tangible capital and other non-financial assets are based on their service potential. Generally, such assets do not generate future net cash inflows. Therefore, these assets will not provide resources to discharge the liabilities of the Government. For non-financial assets, the future economic benefit consists of their capacity to render service to fulfill the Government's objectives.
- 12) Effective for the 2005/06 fiscal year, the Government adopted an accounting policy regarding the recognition and measurement of environmental liabilities. An environmental liability for contaminated sites is recorded when contamination is identified, and when the Government is obligated or likely to become obligated to incur remediation costs due to reasons of public health and safety, contractual arrangements, or compliance with environmental standards which are set out in any act or regulation (federal, provincial, municipal) recognized by the Government.

The liability is based upon remediation costs determined on a site-by-site basis, measured at incremental direct costs, reduced by estimated recoveries from third parties, and discounted where possible to reflect the time value of money.

For liabilities arising from contaminations or obligating events on or before March 31, 2005, there is a transition period (April 1, 2006 to March 31, 2009) to identify and record such liabilities. These liabilities will be recorded as an increase to the accumulated deficit until March 31, 2009. Subsequent to that, any past liability not previously recorded or sufficiently provided for will be recorded as an expense.

For current liabilities arising from contaminations or obligating events after March 31, 2005, the amounts are recorded as an expense when identified.

**F. Amounts Held in Trust for Investment or Administration**

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

**G. Measurement Uncertainty**

Estimates are used to accrue revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonable possible amount, as there is whenever estimates are used.

Measurement uncertainty in these financial statements exist in the accrual of individual, corporate income taxes, Health Transfers and Canada Social Transfer entitlements, Federal Government transfers under Bill C-48, accruals for pension obligations, accruals for environmental obligations and allowances for doubtful loans and advances and provision for losses on guarantees.

The nature of the uncertainty related to the accrual of health and social transfer payments from the Federal Government and individual and corporate income taxes arises because of the possible differences between the estimates for the economic factors used in calculating the accruals and actual economic results. Uncertainty related to Federal Government transfers under Bill C-48 relates to the ultimate determination of the transfer amounts being dependent upon audited current year financial results of the Federal Government. Dependent upon these final results, the transfer that the Province is eligible for could range from \$0 to \$98 million (recorded \$49 million as current year's revenue). The uncertainty related to accruals for pension obligations arises because actual results may differ significantly from the Province's best estimates of expected results based on variables such as earnings on the pension investments, salary increases and the life expectancy of claimants. The uncertainty related to the accrual of environmental obligations is based upon the identification of all sites where environmental damages have occurred that are the Province's responsibility to mitigate and the quantification of what the actual liability will be based upon impact studies. Uncertainty concerning the allowance for doubtful loans and advances is based upon actual collectibility and changes in economic conditions.

While management's best estimates have been used for reporting items subject to measurement uncertainty, it is possible that changes in future conditions in the near term could require a material change in the valuation of the reported amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

**2. CASH AND CASH EQUIVALENTS**

Cash equivalents are recorded at cost. Market values approximate cost. Investment revenue earned on cash equivalents during the year was \$21 million (2005 - \$9 million). Cash and cash equivalents include cash and short-term investments that can be converted to cash.

**3. PORTFOLIO INVESTMENTS**

Portfolio investments include amounts invested with the Civil Service Superannuation Fund and the Teachers' Retirement Allowances Fund. These investments represent funds set aside for the future retirement of the pension liability. These investments earn the respective Fund's annual rate of return and reflect both the realized gains (losses) on sale of investments and unrealized market gain (loss) for the year. Investment income earned for the year was \$61 million (2005 - \$30 million). The fair value of these investments as at March 31, 2006 was \$537 million (2005 - \$382 million). These Funds are balanced funds and the investments consist primarily of cash equivalents, equities, bonds, mortgages and real estate.

**4. SINKING FUNDS**

Sinking funds are recorded at the lower of cost and market value. As at March 31, 2006, sinking funds had a cost of \$2,728 million (2005 - \$2,703 million) and a market value of \$2,742 million (2005 - \$2,803 million). Investment revenue earned on the sinking funds during the year was \$204 million (2005 - \$219 million).

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

The sinking funds are allocated as follows:

|                               | (\$ millions) |              |
|-------------------------------|---------------|--------------|
|                               | 2006          | 2005         |
| Province of Manitoba          | 2,140         | 2,122        |
| Manitoba Hydro-Electric Board | 586           | 579          |
| University of Manitoba        | <u>2</u>      | <u>2</u>     |
| Total sinking funds           | <u>2,728</u>  | <u>2,703</u> |

Sinking funds are invested as follows:

|                           | (\$ millions) |              |
|---------------------------|---------------|--------------|
|                           | 2006          | 2005         |
| Cash and cash equivalents | 223           | 251          |
| Portfolio investments     | <u>2,505</u>  | <u>2,452</u> |
|                           | <u>2,728</u>  | <u>2,703</u> |

**5. ADJUSTMENTS TO ACCUMULATED DEFICIT**

**A. Environmental Liabilities**

Implementation of the new accounting policy with respect to environmental liabilities (Note 1E.12) has resulted in various site assessments. Based upon the results to March 31, 2006, the Government has

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accrued environmental liabilities in the net amount of \$142 million (gross - \$189 million) which includes certain significant amounts discounted at rates from 0 to 4.9%. A breakdown of these liabilities by department is as follows:

|   | (\$ millions) |
|---|---------------|
| Aboriginal and Northern Affairs         | 1             |
| Conservation                            | 39            |
| Industry Economic Development and Mines | 66            |
| Transportation and Government Services  | <u>36</u>     |
|   | <u>142</u>    |

These liabilities, all related to contaminations or obligating events on or before March 31, 2005, have been recorded with a corresponding increase in accumulated deficit of \$142 million.

**B. Tax Refunds**

During the year, the Government identified and corrected an accounting error related to the determination of taxation revenue in the 2004/05 fiscal year. Certain tax refunds payable were incorrectly omitted, resulting in an overstatement of the 2004/05 taxation revenue. Correction of this error has resulted in an increase in accumulated deficit of \$9 million.

**6. GUARANTEES**

The Government has guaranteed the repayment of debt, promissory notes, bank loans, lines of credit, mortgages and other securities issued by Government business enterprises and Crown organizations. Debt guaranteed by the Government is guaranteed as to principal and interest until the debt is matured or redeemed. The authorized and outstanding guarantees are as follows:

|   |            | (\$ millions) |            |
|---|------------|---------------|------------|
|   | Authorized | 2006          | 2005       |
| Debt issued by Government business enterprises (Note a) |            | 485           | 654        |
| Manitoba Grow Bonds                                     |            | 5             | 6          |
| Promissory notes, bank loans, lines of credit and other |            |               |            |
| Assiniboine Community College                           | 2          | -             | -          |
| Manitoba Business Start Program (Note b)                | 5          | 1             | 1          |
| Manitoba Housing and Renewal Corporation                | 2          | -             | -          |
| Manitoba Opportunities Fund Ltd.                        | 98         | 75            | 39         |
| Manitoba Student Financial Assistance Program (Note c)  | 20         | 7             | 8          |
| Red River College                                       | 5          | -             | -          |
| Rural Entrepreneur Assistance Program (Note b)          | 16         | 4             | 4          |
| University College of The North                         | 2          | -             | -          |
| Venture Manitoba Tours Ltd.                             | -          | -             | 9          |
| Winnipeg Football Club – 2006 Grey Cup                  | 2          | -             | -          |
| Miscellaneous   | 2          | <u>2</u>      | <u>1</u>   |
|   |            | 579           | 722        |
| Less: Sinking funds                                     |            | <u>-</u>      | <u>8</u>   |
| Total guarantees outstanding                            |            | <u>579</u>    | <u>714</u> |

Provision for future losses on guarantees in the amount of \$10 million (2005 - \$17 million) has been recorded in the accounts. The provision for losses on guaranteed loans is determined annually by a review of individual guarantees. The provision represents the best estimate of probable claims against the guarantee. Where circumstances indicate the likelihood of claims arising, the provisions are established for those loan guarantees.

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

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

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

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

## 7. CONTRACTUAL OBLIGATIONS

### A. Operating Obligations

Funding is provided annually from appropriations of the Operating Budget.

As at March 31, the Government has obligations under operating contracts and agreements in the amount of \$33 million (2005 - \$60 million). The Government also has obligations under long-term contracts regarding tangible capital assets as follows:

|                                   | (\$ millions) |           |
|-----------------------------------|---------------|-----------|
|                                   | 2006          | 2005      |
| Future obligations:               |               |           |
| Infrastructure and capital grants | 10            | 7         |
| Rental of tangible capital assets | <u>91</u>     | <u>90</u> |
|                                   | <u>101</u>    | <u>97</u> |

### B. Capital Obligations

Funding is provided annually from appropriations of the Capital Budget.

The Government has contractual obligations that cover the purchase or development of tangible capital assets. These obligations as at March 31 are as follows:

|                                      | (\$ millions) |           |
|--------------------------------------|---------------|-----------|
|                                      | 2006          | 2005      |
| Buildings                            | 3             | 2         |
| Equipment                            | -             | 1         |
| Transportation                       | 34            | 14        |
| Dams and Water Management Structures | <u>2</u>      | <u>2</u>  |
|                                      | <u>39</u>     | <u>19</u> |

The Government has undertaken to expand the Red River Floodway. Through the Manitoba Floodway Authority, the Government is a party to a funding agreement with the Government of Canada for a \$240 million (2005 - \$240 million) expansion project and has committed to provide \$120 million (2005 - \$120 million) towards the expansion project. Subsequent to the year end a funding amendment was reached

between the Government of Canada and the Government of Manitoba increasing the joint contribution by \$84 million to a total of \$324 million.

## **8. CONTINGENCIES**

The Government has been named in various legal actions, including treaty land entitlements. No provision has been made at March 31, 2006 in the accounts where the final results are uncertain.

### **A. Disaster Financial Assistance**

A provision has been made at March 31, 2006 for all flood claims and other disaster financial assistance. The final amount of the Government's share of these costs under shared cost agreements is uncertain at the date these financial statements were issued.

### **B. Northern Development Projects**

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

### **C. Canadian Blood Services**

Most provinces, including Manitoba, are members of, and provide funding to, Canadian Blood Services, which operates the Canadian blood system. The March 31, 2005 audited financial statements of Canadian Blood Services indicate that a wholly owned subsidiary, CBS Insurance Company Limited, provides for the contingent liabilities for risks related to operations of the blood system. The actuarially determined provisions for future insurance claims, reported and unreported, related to insured events that occurred prior to March 31, 2005 is \$174 million (2004 - \$163 million). The related assets as at March 31, 2005 total \$208 million (2004 - \$187 million). The subsidiary also had a re-insurance contract for additional coverage of \$750 million.

Based upon the above, as at March 31, 2005, the Province of Manitoba's share of the provision for futures claims is offset with designated assets which at that point exceed the provision. In addition, there is re-insurance to cover an additional \$750 million in claims of insured events occurring on or before March 31, 2005. March 31, 2006 figures are not available for comparison.

## **9. TREATY LAND ENTITLEMENT OBLIGATIONS**

To meet Manitoba's obligation under treaty land entitlement (TLE) agreements, approximately 195,908 acres of provincial Crown land have been transferred to the Government of Canada (Canada) for First Nations.

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

Manitoba's obligations under the Treaty Land Entitlement Framework Agreement requires the setting aside of 985,949 acres of Crown land. To date, 871,428 acres have been selected by the Entitlement First Nations. The Crown lands will be transferred according to the Natural Resources Transfer Agreement, including mines and minerals and other interests normally reserved for the Province under the *Crown Land Act* or any other statute.

**10. PENSION LIABILITY**

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

The Government is required, under the amended provisions of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*, to set aside funds beginning in 2000/01, to address the Government's unfunded pension liability. The minimum annual contribution must be sufficient to equal the contributions made by employees and teachers hired on or after April 1, 2000. While the minimum contribution for the year ended March 31, 2006 was \$21 million (2005 - \$17 million), the Government set aside \$85 million (2005 - \$79 million) in the Pension Assets Fund. These funds are separately invested and maintained in trust accounts with Civil Service Superannuation Fund (CSSF) and Teachers' Retirement Allowances Fund (TRAF) for the Government and are increased by the rate of return of the funds. The Pension Assets Fund's balance as at March 31, 2006 was \$537 million (2005 - \$382 million).

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

| Plan                 | Latest Valuation  | Real Rate<br>of Return | Inflation<br>Rate | Investment Rate<br>of Return |
|----------------------|-------------------|------------------------|-------------------|------------------------------|
| Civil Service        | December 31, 2004 | 4.00%                  | 2.50%             | 6.50%                        |
| Teachers'            | January 1, 2004   | 4.25%                  | 2.50%             | 6.75%                        |
| MLA                  | March 31, 2003    | 4.00%                  | 2.75%             | 6.75%                        |
| LAPP                 | March 31, 2005    | 3.25%                  | 2.75%             | 6.00%                        |
| Judges' Supplemental | March 31, 2003    | 3.25%                  | 2.75%             | 6.00%                        |
| WCFSP                | December 31, 2004 | 3.50%                  | 2.50%             | 6.00%                        |

During the year, an increase in employee contribution rate of 1.1% was approved for the Teachers' Plan. No other amendments were made to any of the Plans.

In accordance with the terms of an agreement between the Province and the Special Operating Agencies (SOAs) in 2002, the SOAs transferred to the Province funds equal to their unfunded pension liability as determined by actuarial valuations, and thereafter have provided the Province annually, with an amount equal to the employees' annual pension contributions. In exchange, the Province has assumed the unfunded pension liability for SOA employees. Because the Province does not recognize the unfunded pension obligation in the Special Purpose Financial Statements, these funds have been recorded as revenue. \$2 million was recorded as revenue in the Pension Assets Funds for the current year (2005 - \$2 million). The cumulative funds received by the Province under this agreement as at March 31, 2006 are \$15 million (2005 - \$13 million).

**A. Civil Service Plan**

*The Civil Service Superannuation Act* (CSSA) established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the Government through the Civil Service Superannuation Fund (CSSF).

As at March 31, 2006, the CSP had approximately 28,200 (2005 - 28,000) participants including active members, retired employees and former employees with entitlements.

Certain amendments to the CSSA were made in 1992 which required that the CSSF establish and fund a separate account in an amount sufficient to cover the Government's share of pension costs attributable to the 1992 amendments to the CSSA. The CSSF account maintained on behalf of the Government at March 31, 2006, was \$44 million (2005 - \$38 million).

Effective December 15, 2000, the CSP was amended to include improved benefits. The cost of the plan amendments was fully funded from actuarially determined employee surpluses with no additional cost to the employer. The following describes the current terms of the CSP, with the previous terms indicated within brackets.

The lifetime pension calculation equals 2% of a member's best five years average yearly pensionable earnings multiplied by pensionable service, minus 0.4% (previously 0.6%) of the average Canada Pension Plan (CPP) earnings for the same period multiplied by pensionable service since January 1, 1966.

The CSSA requires that employees contribute 6.0% (previously 5.1%) on pensionable earnings up to the CPP maximum earnings and 7.0% of pensionable earnings above the maximum. 89.8% of contributions are used to fund basic benefits and 10.2% of contributions are allocated for indexing benefits. Contributions continue until the employee's retirement or other termination from service. Employee contributions for the year ended March 31, 2006 amounted to \$52 million (2005 - \$49 million).

Indexing benefits are not guaranteed and are paid only to the extent that the indexing adjustment account in CSSF can finance one-half of cost-of-living increases granted. The maximum annual adjustment is limited by legislation to two-thirds of the increase in the consumer price index for Canada.

The Government does not make contributions to the CSSF during employees' service. By legislation, however, it is required to pay 50% of the pension disbursements made from the CSSF. For the year ended March 31, 2006, payments of \$71 million (2005 - \$64 million) were made to the CSSF.

An actuarial report was completed for CSSF as of December 31, 2004, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's net liability has been calculated to be \$1,715 million as at March 31, 2006 (2005 - \$1,623 million), which includes net unamortized actuarial gains of \$14 million (2005 - \$19 million). The increase in liability includes current year interest of \$115 million (2005 - \$99 million).

## **B. Teachers' Plan**

*The Teachers' Pensions Act (TPA)* established a defined benefit plan to provide pension benefits to teachers who have taught in public schools in Manitoba.

As at March 31, 2006, the Teachers' Retirement Allowances Fund (TRAF) had approximately 32,200 (2005 - 31,800) participants including active members, retired teachers and former teachers with entitlements.

The lifetime pension calculation is based upon the lesser of A or B:

- A) The years of service prior to July 1, 1980, multiplied by 2% and the average salary of the best 7 of the final 12 years of service and years of service after July 1, 1980, multiplied by 2% and the average salary of the best 5 of the final 12 years of service;

less

The years of service from January 1, 1966, to July 1, 1980, multiplied by .6% and the average annual salary up to the yearly maximum pensionable earnings for the same period and years of service after July 1, 1980, multiplied by .6% and the annual salary up to the yearly maximum pensionable earnings for the same period.

B) 70% of the weighted average annual salary of the member in the 7 and 5 year periods used above. The TPA requires that teachers contribute 6.8% (prior to September 1, 2005 - 5.7%) on pensionable earnings up to the CPP maximum earnings, and 8.4% (prior to September 1, 2005 - 7.3%) on pensionable earnings above the maximum. 83.4% of contributions are used to fund basic benefits and 16.6% of contributions are allocated for indexing benefits. Contributions continue until the teacher's retirement or other termination from service. Teacher contributions for the year ended March 31, 2006, amounted to \$61 million (2005 - \$52 million).

Indexing benefits are not guaranteed and are paid only to the extent that one half of the pension adjustment does not result in an unfunded pension liability in TRAF.

The Government does not make contributions to TRAF during teachers' service. By legislation, however, it is required to pay 50% of the pension disbursements and other disbursements made by TRAF as provided for in the TPA. For the year ended March 31, 2006, payments of \$115 million (2005 - \$108 million) were made to TRAF.

An actuarial report was completed for TRAF as of January 1, 2004, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's net liability has been calculated to be \$2,189 million as at March 31, 2006 (2005 - \$2,078 million), which includes unamortized actuarial losses of \$82 million (2005 - \$90 million). The increase in liability includes current year interest of \$145 million (2005 - \$138 million).

**C. Members of the Legislative Assembly Plan**

The pension plan for Members of the Legislative Assembly (MLAs) is established and governed by *The Legislative Assembly Act* (LAA). For MLAs elected prior to the dissolution of the Assembly of the 35th Legislature, the LAA provides for defined pension benefits based on years of service to April, 1995. For those elected after the 35th Legislature in April 1995, the LAA provides for matching contributions. As at March 31, 2006, there are 115 (2005 - 116) plan members who are entitled to receive future pension benefits in accordance with the LAA.

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

An actuarial report was completed for the MLA plan as of March 31, 2003, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's net liability has been calculated to be \$32 million as at March 31, 2006 (2005 - \$33 million), which includes unamortized actuarial gains of \$3 million (2005 - \$4 million). The change in liability includes current year interest of \$2 million (2005 - \$2 million).

Under the matching contributions provisions, MLAs may contribute up to 7% of their remuneration toward a Registered Retirement Savings Plan (RRSP) of their choice. The Government matches the member's contributions on a current basis, consequently, there is no liability for past service benefits under this component of the plan. In the event that a member withdraws money from the RRSP while an active member of the Legislative Assembly, the Government's contribution would be refundable.

**D. Legislative Assembly Pension Plan**

The Members' Retirement Benefits Regulation of *The Legislative Assembly Act* established a defined benefit plan, effective April 1, 2004 that provides pension benefits to eligible Members of Legislative Assembly (MLA) who elect to participate in the plan. The following persons may elect to become members of the plan:

- a) a person who is an MLA when the plan is registered;
- b) a person who becomes an MLA after the plan is registered

- c) a person who
- i) was an MLA on May 2, 2003, and has not since been re-elected, and
  - ii) wishes to purchase a period of pensionable service in respect of his or her membership in the Assembly during the period from April 25, 1995, to June 2, 2003.

The calculation of pension benefits under the plan is determined by the following formula:

$$2\% \times S \times Y$$

In this formula:

- S is the average of the best five-year annual salaries received by the member during the years for which he or she accrued pensionable service or, if less than five years the average of the annual salaries for that period.
- Y is the lesser of
- (i) 35, and
  - (ii) the total number of years of pensionable service.

The pension is reduced by an amount equal to 0.25% times the number of months before the member's 60<sup>th</sup> birthday that the first pension payment is made. These entitlements are indexed to 2/3 of cost of living increases.

Participation in the plan is voluntary. For existing and eligible former MLAs, there is a six month time limit placed on the decision of whether to join the plan commencing once the Pension Commissioner establishes Regulations respecting his decisions. The same six month option period is to be made available for newly elected MLAs. Employee contributions are deducted at 7% of the total annual indemnity and allowance for MLA expenses. The balance of the current service cost, and any other special payments, are to be paid by the Province.

As at March 31, 2006 there were three members contributing to the plan, but the pension fund has not been set up as of that date and the members' and employer's contributions are being held in trust.

An actuarial report was completed for the Legislative Assembly Pension Plan as at March 31, 2005, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's liability for accounting purposes has been projected by the actuary to be \$1.2 million as at March 31, 2006.

#### **E. Judges' Supplemental Pension Plan**

The supplemental pension benefit for judges was determined to be the difference between the total pension benefits for judges, including the amendments introduced by Judicial Compensation Committees, and the formula pension available under the *Civil Service Superannuation Act (CSSA)* as described above in note 10A.

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

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

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

As at March 31, 2006, there are 63 (2005 - 61) plan members who are entitled to receive future pension benefits in accordance with the Plan.

An actuarial report was completed for the Judges' Supplemental Pension Plan as at March 31, 2003, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's liability for accounting purposes has been calculated to be \$26 million as at March 31, 2006 (2005 - \$23 million). The increase in liability includes current year interest of \$1 million (2005 - \$1 million).

**F. Winnipeg Child and Family Services Employee Benefits Retirement Plan**

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

At December 31, 2005, the WCFSP had 312 active and deferred members (2004 - 634) and 139 pensioners (2004 - 133).

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

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

The employer is required to make monthly contributions actuarially determined to provide for the normal cost of the benefits accruing to members and to provide for the proper amortization of any unfunded liability or solvency deficiency. Currently that contribution has been established at an amount equal to employee contributions. In addition, the Government made a commitment to make payments to cover an estimated solvency deficiency of \$1.2 million (2005 - \$1.9 million). This amount has been accrued in these statements. With payment of this deficiency, the plan is expected to be fully funded as at March 31, 2007.

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

An actuarial report was completed for the Winnipeg Child and Family Services Plan as at December 31, 2004, by Ellement & Ellement Ltd. The Plan has a going concern surplus of \$0.8 million and the solvency ratio of 96.8% at the valuation date.

**11. LONG TERM DISABILITY INCOME PLAN**

The Government guarantees payments of long term disability benefits for all employees covered by the Long Term Disability Income Plan that was established on April 1, 1984. An actuarial valuation report was completed for the Long Term Disability Plan as of September 1, 2003 with projections to March 31, 2004 and March 31, 2005 which determined the Government's liability. The report provides a formula to update the liability on an annual basis. The Government's actuarially determined liability for accounting purposes as at March 31, 2006 was \$30 million (2005 - \$28 million).

**12. SEVERANCE PAY OBLIGATIONS**

The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group. An actuarial report was completed for the severance pay liability as of March 31, 2005. The resulting actuarial loss of \$5 million is being amortized over the 15 year expected average remaining service life of the employee group. In addition, the report provides a formula to update the liability on an annual basis. The Government's actuarially determined net liability for accounting purposes as at March 31, 2006 was \$229 million (2005 - \$225 million).

**13. EXPENSES IN EXCESS OF LEGISLATIVE AUTHORITY**

The budget estimate amounts disclosed in the Special Purpose Statement of Revenue and Expense (originally published in the Estimates of Expenditure) exclude \$269 million in supplemental estimates and special warrants. The original budget estimate amounts plus the \$269 million in supplemental estimates and special warrants becomes the revised estimates, against which expenses in excess of Legislative Authority is determined.

Based upon the revised estimates, the following voted appropriations were over-expended as a result of adjustments after March 31, 2006:

|   | (\$ millions) |
|---|---------------|
| Agriculture, Food and Rural Initiatives     |               |
| Risk Management and Income Support Programs | 37            |
| Education, Citizenship and Youth            |               |
| Support to Schools                          | 3             |
| Justice                                     |               |
| Criminal Justice                            | 2             |

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

The Government transferred \$110 million (2005 - \$99 million) to the Debt Retirement Fund from the Operating Fund for the specific purpose of reducing general purpose debt and pension obligations with the Civil Service Superannuation Fund and the Teachers' Retirement Allowances Fund. The transfer was made in accordance with subsection 8 (4) of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*. The Government transferred \$85 million (2005 - \$79 million) from the Debt Retirement Fund for the specific purpose of providing for the future retirement of pension obligations with the Civil Service Superannuation Fund and the Teachers' Retirement Allowances Fund. This transfer was made in accordance with subsection 8 (6) of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*. The balance in the pension assets fund as at March 31, 2006 was \$537 million (2005 - \$382 million).

Subsection 8 (6) of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act* requires the balance in the Debt Retirement Fund to be transferred to the Operating Fund at least once every 5 years for the purpose of reducing general purpose debt. The most recent transfer, in the amount of \$202 million, was made in the 2004/05 fiscal year.

**15. BALANCED BUDGET LEGISLATION**

Section 6 of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act* requires the Minister of Finance to report on compliance with the Act in the audited special purpose financial statements of the Operating Fund for each fiscal year. The Special Purpose Statement of Calculation of Balance under the Balanced Budget,

Debt Repayment and Taxpayer Accountability Act shows a positive balance of \$31 million. Using the disclosed basis of accounting, the Government is therefore in compliance with the Act.

**16. DEBT SERVICING**

Debt servicing expense totals \$766 million (2005 - \$731 million) which is net of interest recoveries from Government business enterprises of \$474 million (2005 - \$436 million).

Net debt servicing expense is disclosed in the financial statements in Schedule 8 as \$260 million (2005 - \$241 million) representing net debt servicing costs and is net of amounts charged to the departments, as well as net of interest recoveries from Crown organizations including guarantee fees and interest revenue earned on investments including sinking funds. These recoveries and allocations total \$415 million (2005 - \$405 million). The disclosed \$260 million (2005 - \$241 million) is also net of debt servicing cost of \$91 million (2005 - \$85 million) allocated to departments for the imputed cost to finance the purchase or construction of tangible capital assets.

Schedule 10 discloses separately net debt servicing costs of \$260 million (2005 - \$241 million) and the debt servicing costs of \$91 million (2005 - \$85 million) charged to the departments for the imputed cost of financing the purchase or construction of tangible capital assets.

**17. AMOUNTS DUE TO THE FEDERAL GOVERNMENT**

The March 31, 2003 financial statements disclosed that the net impact of the federal settlement related to the Federal Accounting Error for the period of 1997 to 1999 was a \$91 million loan payable owing to the Federal Government over a ten-year period commencing in 2004/05. As at March 31, 2006, this loan payable has been reduced to \$71 million (2005 - \$80 million) by offsetting an adjustment to unapplied taxes and the payment of the annual instalment of \$9 million.

To offset negative adjustments to the 2004 Equalization payments, the Federal Government provided to the Province a net loan payable of \$38 million. Repayment of this loan payable is scheduled to begin in April, 2006 and continue over a five year period. Similarly, to offset negative adjustments to the 2004 Canada Health and Social Transfer (CHST) entitlements, the Federal Government provided to the Province a net loan payable of \$9 million. Repayment of this loan payable is also scheduled to begin in April, 2006 and continue over a five year period.

**18. RISK MANAGEMENT AND THE USE OF DERIVATIVE FINANCIAL INSTRUMENTS**

The Province employs various risk management strategies and operates within fixed risk exposure limits to ensure exposure to risk is managed in a prudent and cost effective manner. A variety of strategies are used, including the use of derivative financial instruments (derivatives). Derivatives are financial contracts, the value of which is derived from underlying instruments. The Province uses derivatives to hedge and to mitigate interest rate risk and the risks attached to foreign currency fluctuations. The Province does not use derivatives for speculative purposes. Gains or losses realized arising from derivative transactions are deferred and amortized over the remaining life of the derivative contract.

Hedges are created primarily through derivatives (swaps), which are legal contracts under which the Province agrees with another party to exchange cash flows based upon one or more notional amounts using stipulated reference interest rates for a specified period. Swaps can also be used to exchange cash flows involving different currencies. Swaps allow the Province to effectively manage the terms of its existing obligations and thereby convert them into obligations that meet the Province's risk parameters.

Other derivative instruments used by the Province include forward foreign exchange contracts and forward interest rate agreements. Foreign exchange or currency risk is the risk that foreign currency debt principal and interest payments and foreign currency transactions will vary in Canadian dollar terms due to fluctuations in foreign exchange rates. To manage currency risk, the Province uses derivative contracts including foreign

exchange forward contracts as well as swaps to convert foreign currency cash flows into Canadian dollar denominated cash flows. The current portfolio of foreign debt is fully hedged through the use of derivatives and US dollar sinking funds, except for the impact of the unamortized foreign exchange fluctuation account of \$79 million (2005 - \$84 million).

Derivative contracts hedge the underlying debt by matching the critical terms to achieve effectiveness. The current policy has hedged the foreign currency debt principal and interest payments through the use of derivatives in relation to general purpose debt as well as through the use of future US dollar revenue streams and US dollar sinking funds in relation to debt incurred on behalf of Manitoba Hydro-Electric Board.

The table below presents a maturity schedule of the Province's derivatives, by type, outstanding at March 31, 2006, based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts and are not indicative of credit risk, market risk or actual cash flows.

| Derivative Portfolio Notional Value<br>As at March 31, 2006 |                                      |              |              |              |              |                 |                  |               |
|---|--------------------------------------|--------------|--------------|--------------|--------------|-----------------|------------------|---------------|
| Derivatives   | Maturity in Fiscal Year (\$millions) |              |              |              |              |                 |                  |               |
|   | 2007                                 | 2008         | 2009         | 2010         | 2011         | 6 – 10<br>Years | Over<br>10 Years | Total         |
| Interest rate swaps   | 2,040                                | 1,175        | 836          | 2,158        | 2,176        | 6,516           | 5,233            | 20,134        |
| Cross currency swaps  | 552                                  | 462          | 984          | 609          | 234          | 972             | 2,915            | 6,728         |
| Forward foreign exchange contracts                          | 123                                  |              |              |              |              | 208             |                  | 331           |
| <b>Total</b>  | <b>2,715</b>                         | <b>1,637</b> | <b>1,820</b> | <b>2,767</b> | <b>2,410</b> | <b>7,696</b>    | <b>8,148</b>     | <b>27,193</b> |

The use of derivatives introduces credit risk, which is the risk of a counterparty defaulting on contractual derivative obligations in which the Province has an unrealized gain. The table below presents the credit risk associated with the derivative financial instrument portfolio, measured through the replacement value of derivative contracts, at March 31, 2006.

| Credit Risk Exposure<br>As at March 31, 2006 |               |               |
|--|---------------|---------------|
|  | (\$ millions) |               |
|  | 2006          | 2005          |
| Gross credit risk exposure <sup>1</sup>      | 59            | 172           |
| Less: Netting <sup>2</sup>                   | ( 762)        | ( 967)        |
| <b>Net Credit Risk Exposure</b>              | <b>( 703)</b> | <b>( 795)</b> |

- <sup>1</sup> Gross credit risk exposure is the gross credit exposure to counterparties with net positive exposures (the respective counterparties owe the Province.)
- <sup>2</sup> "Netting" is the gross negative credit exposure to counterparties with net positive credit exposures covered by master agreements providing for close out netting when contracts do not have co-terminus settlement dates (the Province owes the respective counterparties).

As at March 31, 2006, the Province has no net credit risk exposure, but has a net liability to counterparties.

The Province manages its credit risk exposure from derivatives by, among other activities, dealing only with high credit quality counterparties and regularly monitoring compliance to credit limits. In addition, the Province enters into contractual agreements (“master agreements”) with all of its counterparties that provide for termination netting and if applicable payment netting. Net credit risk exposure is the potential loss including the mitigating impact of these netting provisions.

A one percent (100 basis points) increase in interest rates would increase debt servicing costs by \$13.5 million (2005, \$11.8 million). Liquidity risk is the risk that the Province will not be able to meet its current short-term financial obligations. To reduce liquidity risk, the Province maintains liquid reserves, that is, cash and cash equivalents (Note 2), at levels that will meet future cash requirements and will give the Province flexibility in the timing of issuing debt. In addition, the Province has short-term note programs and sinking funds as alternative sources of liquidity.

## 19. RELATED PARTY TRANSACTIONS

### A. Related Party Borrowings

Borrowings include \$330 million (2005 - \$306 million) owed to Manitoba Public Insurance Corporation related to the capital financing of school board and health care facilities as well as \$250 million (2005 - \$197 million) for the financing of general Government programs. A nil balance (2005 - \$10 million) is owed to Manitoba Hydro-Electric Board for the capital financing of health care facilities and \$45 million (2005 - \$45 million) is payable to the Manitoba Liquor Control Commission. As well, \$65 million (2005 - \$32 million) is payable to Manitoba Opportunities Fund Ltd.

These loans and debentures are repayable over a term from 2007 to 2025 at varying interest rates ranging from 0% to 12.25%.

### B. Water Power Rentals

Water power rental revenue from the Manitoba Hydro-Electric Board (Hydro), in the amount of \$125 million (2005 - \$105 million), is included in the Special Purpose Statement of Revenue and Expense under the Manitoba Collections category. These rentals are paid for the use of water resources in the operation of Hydro's hydroelectric generating stations. Water rental rates during the year were \$3.34 per megawatt hour (MW.h) (2005 - \$3.34 per MW.h).

### C. Guarantee Fees

Manitoba Hydro-Electric Board (Hydro) remits guarantee fees to the Government based on the Hydro debt that the Province guarantees on their behalf. The guarantee fees paid by Hydro for the year ended March 31, 2006 were \$69 million (2005 - \$70 million).

### D. Revenue From Workers Compensation Board

Under *The Workplace Safety and Health Act of Manitoba*, The Workers Compensation Board supports the administrative expenses incurred by the Department of Labour and Immigration for The Workplace Safety and Health program and the Worker Advisor Office. The amount for the year ended March 31, 2006 was \$7 million (2005 - \$7 million).

### E. Driver Licencing Operations

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

The Province of Manitoba has agreed to provide funding to MPIC in the amount of \$21 million annually, in perpetuity, to defray the cost borne by MPIC as a result of the transfer.

MPIC, on behalf of the Province of Manitoba, collects and transfers motor vehicle registration fees to the Province. For the fiscal year ended March 31, 2006, these fees totalled \$98 million (2005 - \$85 million). Effective October 4, 2004, MPIC is also responsible for collecting and transferring driver licencing fees to the Province of Manitoba. For the fiscal year ended March 31, 2006 these fees totalled \$19 million (the six month period ended March 31, 2005 - \$9 million).

**20. COMPARATIVE FIGURES**

Certain of the 2005 financial statement figures have been reclassified to be consistent with the 2006 presentation.

**AMOUNTS RECEIVABLE**

**SCHEDULE 1**

**As at March 31, 2006**

(\$ millions)

|  | <b>2006</b>       | <b>2005</b>       |
|--|-------------------|-------------------|
| <b>Taxation Revenue:</b>                           |                   |                   |
| Corporation Capital Tax.....                       | 1                 | 10                |
| Corporation Income Tax.....                        | 64                | 58                |
| Gasoline Tax.....                                  | 13                | 13                |
| Health and Education Levy.....                     | 30                | 27                |
| Individual Income Tax.....                         | 126               | 121               |
| Insurance Corporation Tax.....                     | 14                | 14                |
| Motive Fuel Tax.....                               | 9                 | 8                 |
| Oil and Natural Gas Tax.....                       | 1                 | -                 |
| Retail Sales Tax.....                              | 123               | 119               |
| Revenue Act, 1964, Part 1.....                     | 9                 | 7                 |
| Tobacco Tax.....                                   | 17                | 19                |
|  | <u>407</u>        | <u>396</u>        |
| <b>Government of Canada and Other Governments:</b> |                   |                   |
| Shared Cost Programs/Agreements.....               | 169               | 123               |
| Canada Health and Social Transfers.....            | 4                 | 3                 |
| Municipal corporations.....                        | -                 | 2                 |
|  | <u>173</u>        | <u>128</u>        |
| <b>Interest Income:</b>                            |                   |                   |
| Province of Manitoba Sinking Fund.....             | 24                | 25                |
| Other Investments.....                             | 5                 | 5                 |
|  | <u>29</u>         | <u>30</u>         |
| <b>Other:</b>                                      |                   |                   |
| Health Care Facilities Sinking Funds .....         | 9                 | 10                |
| Immigration Program.....                           | 1                 | -                 |
| Manitoba Agricultural Services Corporation.....    | 1                 | 1                 |
| Manitoba Floodway Authority.....                   | 19                | -                 |
| Manitoba Health Insurance Plan.....                | 36                | -                 |
| Manitoba Hydro-Electric Board.....                 | 11                | 10                |
| Manitoba Liquor Control Commission.....            | 23                | 19                |
| Manitoba Lotteries Corporation.....                | 6                 | 3                 |
| Morris-Macdonald School Division .....             | -                 | 1                 |
| Primary Health Care Transition Fund .....          | 3                 | 4                 |
| Regional Health Authorities.....                   | 11                | 20                |
| Social Allowance.....                              | 14                | 14                |
| Special Operating Agencies.....                    | 7                 | 9                 |
| Sundry Departmental Revenue.....                   | 61                | 59                |
| Sundry.....  | 1                 | 1                 |
|  | <u>203</u>        | <u>151</u>        |
|  | 812               | 705               |
| <b>Less: Valuation Allowance</b>                   | <u>75</u>         | <u>94</u>         |
|  | <u><u>737</u></u> | <u><u>611</u></u> |

**LOANS AND ADVANCES**

**SCHEDULE 2**

**As at March 31, 2006**

(\$ millions)

|  | <b>Crown Organizations<br/>and Government<br/>Business Enterprises</b> | <b>Other<br/>(Note<br/>Below)</b> | <b>2006<br/>Total</b> | <b>2005<br/>Total</b> |
|--|--|-----------------------------------|-----------------------|-----------------------|
| Due 1 Year or Less.....  | 738  | 53                                | 791                   | 466                   |
| Due Over 1 Year.....   | 7,023  | 15                                | 7,038                 | 7,334                 |
| <b>Total.....</b>  | <b>7,761</b>   | <b>68</b>                         | <b>7,829</b>          | <b>7,800</b>          |
| Less: Sinking Funds.....   | 588  | -                                 | 588                   | 581                   |
|  | 7,173  | 68                                | 7,241                 | 7,219                 |
| Less: Valuation Allowance.....   | 335  | 13                                | 348                   | 351                   |
|  | 6,838  | 55                                | 6,893                 | 6,868                 |
| Less: Debt incurred for and repayable by the<br>Manitoba Hydro-Electric Board and Manitoba<br>Lotteries Corporation..... | 6,276  | -                                 | 6,276                 | 6,215                 |
| <b>Net.....</b>  | <b>562</b>   | <b>55</b>                         | <b>617</b>            | <b>653</b>            |

The Crown organizations and Government business enterprises loans and advances portfolio is due in varying annual amounts to the year 2044, bearing interest rates from nil to 13.375%.

Note:

|  |           |           |
|--|-----------|-----------|
| Environmental improvement loan, due in varying amounts to the year 2008, bearing no interest and guaranteed by an irrevocable letter of credit                             | 16        | 17        |
| Advances to Manitoba Potash Corporation, repayable on the Corporation generating revenue or the sale of the Province's interest, bearing interest at prime less 3/4%       | 4         | 4         |
| Student loans, payment and interest free until 6 to 12 months past the completion of studies, due 114 to 174 months after that time, carrying interest at prime plus 2.5%  | 29        | 22        |
| Community work program loans, repayable at the end of the 5 to 10 year term, bearing no interest   | 3         | 3         |
| Advances to provide health care agencies with interim funding to meet daily operating expenses related to operations, repayable when no longer needed, bearing no interest | 14        | 9         |
| Miscellaneous  | 2         | 1         |
|  | <u>68</u> | <u>56</u> |

**LONG-TERM INVESTMENTS**

**SCHEDULE 3**

As at March 31, 2006

(\$ millions)

|                                | <b>Crown<br/>Organizations</b> | <b>Other</b> | <b>2006<br/>Total</b> | <b>2005<br/>Total</b> |
|--------------------------------|--------------------------------|--------------|-----------------------|-----------------------|
| Shares:                        |                                |              |                       |                       |
| Common.....                    | 9                              | 5            | 14                    | 14                    |
| Preferred.....                 | 2                              | 4            | 6                     | 6                     |
| Special.....                   | -                              | 2            | 2                     | 2                     |
| Debentures.....                | 1                              | -            | 1                     | 1                     |
| Profit Sharing Agreement.....  | -                              | -            | -                     | 11                    |
|                                | <u>12</u>                      | <u>11</u>    | <u>23</u>             | <u>34</u>             |
| Less: Valuation Allowance..... | 12                             | 11           | 23                    | 34                    |
| Net.....                       | <u>-</u>                       | <u>-</u>     | <u>-</u>              | <u>-</u>              |

**AMOUNTS HELD IN TRUST  
FOR INVESTMENT OR ADMINISTRATION  
AND TRUST ASSETS**

**SCHEDULE 4**

As at March 31, 2006

|   | (\$ millions)       |                     |
|---|---------------------|---------------------|
|   | 2006                | 2005                |
| <b>AMOUNTS HELD IN TRUST</b>                            |                     |                     |
| Government Business Enterprises.....                    | 2,011               | 1,680               |
| Crown Organizations.....                                | 533                 | 527                 |
| Fiduciary and Other Government Related Trusts.....      | <u>71</u>           | <u>57</u>           |
|   | <u><u>2,615</u></u> | <u><u>2,264</u></u> |
| <br><b>TRUST ASSETS</b>                                 |                     |                     |
| Cash and Cash Equivalents.....                          | 798                 | 639                 |
| Sinking Funds.....                                      | -                   | 8                   |
| Funds on Deposit for Investment and Administration..... | <u>1,817</u>        | <u>1,617</u>        |
|   | <u><u>2,615</u></u> | <u><u>2,264</u></u> |

Note: The Government also provides a safekeeping and custodial service for various departments, agencies, boards and commissions. In this capacity, it holds custodial trust funds in the amount of \$104 million (2005 - \$113 million) in the form of bonds and other securities, and title to tangible capital assets in trust in the amount of \$68 million (2005 - \$68 million). These amounts are not reflected in the above numbers.

**SCHEDULE OF BORROWINGS**

**SCHEDULE 5**

As at March 31, 2006  
(\$ millions)

| Fiscal Year of Maturity   | Bonds and Debentures |              | Canada Pension Plan | Loans Payable | Promissory Notes and Treasury Bills | Totals         |                |
|---|----------------------|--------------|---------------------|---------------|-------------------------------------|----------------|----------------|
|   | Cdn                  | US           | Cdn                 |               | Cdn                                 | 2006           | 2005           |
| 2006.....   | -                    | -            | -                   | -             | -                                   | -              | 2,172          |
| 2007.....   | 1,188                | 584          | 150                 | -             | 325                                 | 2,247          | 1,943          |
| 2008.....   | 1,526                | -            | 90                  | -             | -                                   | 1,616          | 1,616          |
| 2009.....   | 1,940                | 288          | 106                 | -             | -                                   | 2,334          | 2,296          |
| 2010.....   | 738                  | 463          | 115                 | -             | -                                   | 1,316          | 1,458          |
| 2011.....   | 916                  | 292          | 103                 | -             | -                                   | 1,311          | 828            |
| 2006-2011.....  | <u>6,308</u>         | <u>1,627</u> | <u>564</u>          | <u>-</u>      | <u>325</u>                          | <u>8,824</u>   | <u>10,313</u>  |
| 2012-2016.....  | 3,389                | 396          | 177                 | -             | -                                   | 3,962          | 3,071          |
| 2017-2026.....  | 3,432                | 817          | 15                  | -             | -                                   | 4,264          | 3,898          |
| 2027-2045.....  | 2,343                | -            | -                   | -             | -                                   | 2,343          | 2,041          |
| 2007-2026 Government Business Enterprises.....  | -                    | -            | -                   | 375           | -                                   | 375            | 361            |
| 2007-2026 Health Care Facilities.....   | -                    | -            | -                   | 237           | -                                   | 237            | 239            |
| 2006-2015 Government of Canada (Note 17).....   | -                    | -            | -                   | 118           | -                                   | 118            | 127            |
| 2012-2045.....  | <u>9,164</u>         | <u>1,213</u> | <u>192</u>          | <u>730</u>    | <u>-</u>                            | <u>11,299</u>  | <u>9,737</u>   |
| Total Borrowings.....   | 15,472               | 2,840        | 756                 | 730           | 325                                 | 20,123         | 20,050         |
| Reduced by:   |                      |              |                     |               |                                     |                |                |
| Unamortized Debt Issue Costs.....   | (9)                  | (6)          | -                   | -             | -                                   | (15)           | (22)           |
| Province of Manitoba debt issues held as investments in sinking funds and in cash and cash equivalents..... | <u>(1,775)</u>       | <u>-</u>     | <u>-</u>            | <u>-</u>      | <u>-</u>                            | <u>(1,775)</u> | <u>(1,863)</u> |
|   | <u>13,688</u>        | <u>2,834</u> | <u>756</u>          | <u>730</u>    | <u>325</u>                          | <u>18,333</u>  | <u>18,165</u>  |

|   | March 31/06<br>Cdn \$ Valuation<br>(See Notes) | March 31/05<br>Cdn \$ Valuation<br>(See Notes) |
|---|--|--|
| Borrowings payable in:                    |  |  |
| Canadian dollars                          | 14,451   | 14,163   |
| Foreign issues hedged to Canadian dollars | 2,834  | 2,947  |
| U.S. dollars                              | 2,221  | 2,056  |
| Foreign issues hedged to U.S. dollars     | 617  | 884  |
| Total borrowings                          | <u>20,123</u>                                  | <u>20,050</u>                                  |

Note 1: The hedges are derivative contracts which include swaps and forward foreign exchange contracts.

Note 2: The Canadian dollar valuation is calculated using the foreign currency exchange rates in effect at each March 31 adjusted for any forward foreign exchange contracts entered into for settlement after year-end.

Note 3: Interest rates on these borrowings fall into one of three categories:

- i) Fixed with rates ranging from 3.25% to 11.33%.
- ii) Floating Canadian - Bankers Acceptance (BA) setting, established quarterly or monthly, with the lowest rate currently set at 3.787% and the highest set at 7.33% as at March 31, 2006.
- iii) Floating U.S. - U.S. Dollar London Interbank Offering Rate (LIBOR) setting, established quarterly, with the lowest rate currently set at 5.0455% and the highest set at 5.4255% as at March 31, 2006.

**ACCOUNTS PAYABLE, ACCRUED CHARGES,  
PROVISIONS AND DEFERRALS**

**SCHEDULE 6**

As at March 31, 2006

|   | (\$ millions) |              |
|---|---------------|--------------|
|   | 2006          | 2005         |
| Accounts Payable.....   | 434           | 378          |
| Accrued Charges:  |               |              |
| Interest Accrued on Provincial Borrowings and Trust Funds.....                | 228           | 225          |
| Other Accrued Liabilities:  |               |              |
| Canadian Agricultural Income Stabilization Program.....                       | 110           | 66           |
| Communities Economic Development Fund.....                                    | 2             | 2            |
| Compensation for Victims of Crime.....  | 19            | 17           |
| Crown Organizations - Vacation Liability.....                                 | 139           | 139          |
| Disaster Assistance.....  | 17            | 1            |
| Environmental Liabilities (Note 1E.12).....                                   | 146           | 5            |
| Fairford First Nation.....  | 7             | 7            |
| Flood Claims.....   | 15            | 15           |
| Hepatitis C Assistance.....   | 6             | 6            |
| Infrastructure Works Program.....   | 3             | 2            |
| Land Acquisition Claims.....  | 2             | 2            |
| Long Term Disability Income Plan (Note 11).....                               | 30            | 28           |
| Manfor Ltd. Divestiture.....  | 1             | 2            |
| Municipal Assistance Program.....   | 1             | 1            |
| Net Income Stabilization Account Program (NISA).....                          | -             | 1            |
| Salaries and Benefits.....  | 72            | 97           |
| Salaries and Benefits - Severance (Note 12).....                              | 229           | 225          |
| Tripartite Land Assembly Program.....   | 3             | 3            |
| VLT Grants Payable.....   | 2             | 4            |
| Workers Compensation Claims.....  | 10            | 7            |
| Other.....  | 4             | 5            |
| Provision for Future Losses on Guarantees (Note 6).....                       | 10            | 17           |
| Deferred Revenue  |               |              |
| Government of Canada - Advances re: Shared Cost Programs Not Yet Claimed..... | 24            | 44           |
| Vehicle Registration.....   | 43            | 42           |
| Other.....  | 17            | 11           |
|   | <u>1,574</u>  | <u>1,352</u> |

**TANGIBLE CAPITAL ASSETS**  
For the Year Ended March 31, 2006  
(\$ millions)

**SCHEDULE 7**

|   | General Capital Assets |                                      |                        |                                |                           | Infrastructure             |                |                                      |                           | Totals |       |
|---|------------------------|--------------------------------------|------------------------|--------------------------------|---------------------------|----------------------------|----------------|--------------------------------------|---------------------------|--------|-------|
|   | Land                   | Buildings and Leasehold Improvements | Vehicles and Equipment | Computer Hardware and Software | Assets Under Construction | Land and Land Improvements | Transportation | Dams and Water Management Structures | Assets Under Construction | 2006   | 2005  |
| <b>Cost</b>   |                        |                                      |                        |                                |                           |                            |                |                                      |                           |        |       |
| Opening costs   | 14                     | 348                                  | 149                    | 241                            | 31                        | 207                        | 1,841          | 81                                   | 27                        | 2,939  | 770   |
| Add:  |                        |                                      |                        |                                |                           |                            |                |                                      |                           |        |       |
| Additions during the year                                   | 1                      | 4                                    | 8                      | 10                             | 33                        | 4                          | 82             | 2                                    | 44                        | 188    | 133   |
| Infrastructure recognized (*)                               | -                      | -                                    | -                      | -                              | -                         | -                          | -              | -                                    | -                         | -      | 2,066 |
| Assets acquired in prior years/<br>devolved                 | -                      | 3                                    | -                      | -                              | -                         | -                          | -              | -                                    | -                         | 3      | -     |
| Less:   |                        |                                      |                        |                                |                           |                            |                |                                      |                           |        |       |
| Disposals and write downs                                   | -                      | -                                    | (1)                    | -                              | -                         | -                          | -              | -                                    | -                         | (1)    | (30)  |
| Settlements and reclassifications                           | -                      | 8                                    | 1                      | 11                             | (21)                      | 4                          | 2              | 2                                    | (7)                       | -      | -     |
| Closing costs   | 15                     | 363                                  | 157                    | 262                            | 43                        | 215                        | 1,925          | 85                                   | 64                        | 3,129  | 2,939 |
| <b>Accumulated amortization</b>                             |                        |                                      |                        |                                |                           |                            |                |                                      |                           |        |       |
| Opening accumulated amortization                            | -                      | 192                                  | 88                     | 85                             | -                         | 28                         | 874            | 50                                   | -                         | 1,317  | 355   |
| Add:  |                        |                                      |                        |                                |                           |                            |                |                                      |                           |        |       |
| Amortization  | -                      | 9                                    | 7                      | 16                             | -                         | 2                          | 67             | 2                                    | -                         | 103    | 98    |
| Amortization charged to SOAs                                | -                      | -                                    | -                      | 2                              | -                         | -                          | -              | -                                    | -                         | 2      | 2     |
| Accumulated amortization -<br>infrastructure recognized (*) | -                      | -                                    | -                      | -                              | -                         | -                          | -              | -                                    | -                         | -      | 883   |
| Assets acquired in prior years/<br>devolved                 | -                      | 3                                    | -                      | -                              | -                         | -                          | -              | -                                    | -                         | 3      | -     |
| Less:   |                        |                                      |                        |                                |                           |                            |                |                                      |                           |        |       |
| Disposals and write downs                                   | -                      | -                                    | (1)                    | -                              | -                         | -                          | -              | -                                    | -                         | (1)    | (21)  |
| Closing accumulated amortization                            | -                      | 204                                  | 94                     | 103                            | -                         | 30                         | 941            | 52                                   | -                         | 1,424  | 1,317 |
| Net Book Value of Tangible Capital Asset:                   | 15                     | 159                                  | 63                     | 159                            | 43                        | 185                        | 984            | 33                                   | 64                        | 1,705  | 1,622 |

\* Effective April 1, 2004, the Government included the capitalization of infrastructure as part of the tangible capital assets.

During the year the Province capitalized \$0.8 million of interest relating to assets under construction. (2005 - \$0.5 million)

## SCHEDULE 8

## OPERATING FUND REVENUE AND EXPENSE

For the Year Ended March 31, 2006

(\$ millions)

|   | 2006                            | 2006         | 2005         |
|---|---------------------------------|--------------|--------------|
|   | Budget<br>Estimate<br>(Note 13) | Actual       | Actual       |
| <b>OPERATING FUND REVENUE</b>                           |                                 |              |              |
| Manitoba Collections:                                   |                                 |              |              |
| Retail Sales Tax.....                                   | 1,181                           | 1,198        | 1,125        |
| Fuel Taxes.....   | 234                             | 236          | 235          |
| Levy for Health and Education.....                      | 294                             | 303          | 287          |
| Mining Tax.....   | 57                              | 39           | 41           |
| Other Taxes.....  | 529                             | 509          | 531          |
| Fees and Other Revenue.....                             | 368                             | 413          | 361          |
| Income Taxes:   |                                 |              |              |
| Corporation Income Tax.....                             | 366                             | 373          | 402          |
| Individual Income Tax.....                              | 1,877                           | 1,949        | 1,845        |
| Federal Transfers:                                      |                                 |              |              |
| Equalization.....                                       | 1,601                           | 1,601        | 1,699        |
| Bill C-48.....  | -                               | 49           | -            |
| Canada Health Transfer.....                             | 726                             | 733          | 685          |
| Canada Social Transfer.....                             | 320                             | 325          | 307          |
| Child Care.....   | 5                               | 25           | -            |
| Health Reform Fund.....                                 | -                               | -            | 55           |
| Other Health Funds.....                                 | 27                              | 25           | 54           |
| Shared Cost and Other Transfers.....                    | 117                             | 156          | 120          |
| Crown Organizations.....                                | 475                             | 491          | 476          |
| <b>TOTAL OPERATING FUND REVENUE.....</b>                | <b>8,177</b>                    | <b>8,425</b> | <b>8,223</b> |
| <b>OPERATING FUND EXPENSES</b>                          |                                 |              |              |
| Health.....   | 3,390                           | 3,443        | 3,237        |
| Education.....  | 1,746                           | 1,736        | 1,692        |
| Family Services and Housing.....                        | 986                             | 983          | 927          |
| Community, Economic and Resource Development.....       | 1,090                           | 1,220        | 1,023        |
| Justice and Other Government.....                       | 648                             | 642          | 598          |
| Net Debt Servicing (Note 16).....                       | 269                             | 260          | 241          |
|   | 8,129                           | 8,284        | 7,718        |
| Less: Budgeted Underexpenditure.....                    | 65                              | -            | -            |
| <b>TOTAL OPERATING FUND EXPENSES (Schedule 10).....</b> | <b>8,064</b>                    | <b>8,284</b> | <b>7,718</b> |

**CHANGES IN OTHER SPECIAL FUNDS**

**SCHEDULE 9**

For the Year Ended March 31, 2006

(\$ millions)

|                                 | <b>Mining<br/>Community<br/>Reserve</b> | <b>Quarry<br/>Rehabilitation<br/>Reserve<br/>Fund</b> | <b>Other<br/>Funds</b> | <b>Total<br/>2006</b> | <b>Total<br/>2005</b> |
|---------------------------------|---|---|------------------------|-----------------------|-----------------------|
| Surplus, Beginning of Year..... | 14                                      | 5   | 3                      | 22                    | 22                    |
| Revenue.....                    | 1                                       | 2   | 3                      | 6                     | 7                     |
| Expenses.....                   | -                                       | 1   | 3                      | 4                     | 6                     |
| Net Revenue over Expenses.....  | 1                                       | 1   | -                      | 2                     | 1                     |
| Transfers.....                  | 2                                       | -   | -                      | 2                     | 1                     |
| Net Result for the Year.....    | (1)                                     | 1   | -                      | -                     | -                     |
| Surplus, End of Year.....       | <u>13</u>                               | <u>6</u>  | <u>3</u>               | <u>22</u>             | <u>22</u>             |

**OPERATING FUND EXPENSE BY TYPE**

**SCHEDULE 10**

**For the Year Ended March 31, 2006**

**(\$ millions)**

|   | <b>2006</b>  | <b>2005</b>  |
|---|--------------|--------------|
| Personnel Services.....                     | 847          | 819          |
| Grants/Transfer Payments.....               | 5,634        | 5,211        |
| Transportation.....                         | 47           | 43           |
| Communications.....                         | 28           | 29           |
| Supplies and Services.....                  | 317          | 288          |
| Social Assistance Related.....              | 700          | 669          |
| Other Operating.....                        | 236          | 218          |
| Net Debt Servicing - General (Note 16)..... | 260          | 241          |
| - Departments (Note 16).....                | 91           | 85           |
| Minor Capital.....                          | 21           | 17           |
| Amortization.....                           | 103          | 98           |
|   | <u>8,284</u> | <u>7,718</u> |