



THE PROVINCE OF MANITOBA | ANNUAL REPORT

FOR THE YEAR ENDED MARCH 31, 2007

INCLUDES: The Year End Review | Financial Indicators | Economic Report | Public Accounts – Volume 1

PROVINCE DU MANITOBA | RAPPORT ANNUEL

POUR L'EXERCICE TERMINÉ LE 31 MARS, 2007

SOMMAIRE: Bilan de L'année | Indicateurs financiers | Rapport économique | Volume 1 des comptes publics





**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, 2007. This document completes the government's accountability reporting for the year. The Report includes a review of the 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 dark ink, appearing to read "Greg Selinger".

Honourable Greg Selinger
Minister of Finance

Office of the Minister of Finance
August, 2007



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 2007. 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.

Monsieur Greg Selinger
Ministre des Finances

Bureau du Ministre des Finances
Août 2007

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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, 2007, and to report on the fiscal and economic efforts of our Government to meet our commitments.

Our summary financial statements show a net income of \$430 million, while our net debt was reduced by \$117 million. We have met the test of Manitoba's balanced budget legislation by recording a positive balance of \$110 million after paying \$110 million towards debt and pension liabilities while at the same time increasing the Fiscal Stabilization Fund balance to \$663 million.

These results reflect the Government's continuing effort to ensure fiscal responsibility and meet key financial commitments, while continuing to implement Summary Budgeting and Reporting, complying with Public Sector Accounting Board (PSAB) standards, and lowering business and personal taxes.

Over the last year, we continued our work on the transition to full Summary Budgeting and Reporting for 2007/08, which includes meeting Public Sector Accounting Board (PSAB) standards. Budget 2007, tabled in April of this year, is the first Summary Budget produced by the Government of Manitoba that is fully aligned with the accounting standards set by PSAB, requiring governments to report on the broader definition of government, the Government Reporting Entity (GRE). Budget 2007 fully reflects Generally Accepted Accounting Principles (GAAP) and included, for the first time, a Financial Management Strategy that clearly lays out our Government's priorities for financial management as well as measurable outcomes and objectives related to these priorities.

MESSAGE DU MINISTRE

BILAN DE L'ANNÉE

J'ai le plaisir de vous présenter les Comptes publics du Manitoba pour l'exercice financier qui s'est terminé le 31 mars 2007 et de rendre compte des efforts économiques et budgétaires déployés par notre gouvernement pour tenir ses engagements.



Nos états financiers sommaires font apparaître des bénéfices nets de 430 millions de dollars, tandis que notre dette nette a été réduite de 117 millions de dollars. En enregistrant un solde positif de 110 millions de dollars, après avoir payé 110 millions au titre de la dette et du passif découlant du régime de retraite, tout en portant le solde du Fonds de stabilisation des recettes à 663 millions, nous avons respecté les critères de la loi manitobaine sur l'équilibre budgétaire.

Ces résultats montrent que le gouvernement s'efforce continuellement de garantir la responsabilité financière et de tenir des engagements financiers

clés, tout en continuant de produire des états récapitulatifs et des budgets sommaires, conformément aux normes du Conseil sur la comptabilité dans le secteur public (CCSP), et en réduisant l'impôt des particuliers et des entreprises.

Au cours de l'année écoulée, nous avons continué de travailler sur le plein passage à des états récapitulatifs et à des budgets sommaires pour l'exercice 2007-2008, dans le respect des normes du Conseil sur la comptabilité dans le secteur public (CCSP). Le Budget de 2007, déposé en avril dernier, est le premier budget sommaire produit par le gouvernement du Manitoba qui est entièrement conforme aux principes comptables établis par le CCSP, qui demandent aux gouvernements de rendre des comptes sur la définition plus générale de gouvernement, à savoir le périmètre comptable du gouvernement. Le Budget de 2007 applique pleinement les principes comptables généralement reconnus (PCGR) et comprend, pour la première fois, une stratégie de gestion financière qui expose clairement les priorités du gouvernement en matière de gestion financière ainsi que des objectifs et des résultats mesurables par rapport à ces priorités.

We will continue the transition to full Summary Budgeting and Reporting, as promised, and will introduce significant changes to Manitoba's Public Accounts this time next year. As recommended by the Auditor General the Special Purpose Operating Fund and Special Funds financial statements will not be produced. This will include reporting on the results of our 2007/08 Financial Management Strategy. Appropriate changes to quarterly financial reporting will be introduced in the future. The completion of this transition will bring even more transparency and accountability to the work of Government.

Our work to improve accountability for the services we provide continues. For the first time, key performance measures were included in every government department's 2005/06 annual report. A wide range of performance reporting is now part of these regular annual reports as well as specialized reports of many other government entities. We intend to establish regular reporting of government performance in key areas of non-financial activity. Our approach will address the complementary relationship between non-financial performance information and the financial indicators reported annually in the Public Accounts.

The Financial Position of the Province

A recap of the Summary financial position and operating results for 2006/07 and restated 2005/06 are noted below:

Nous continuerons, comme promis, de passer pleinement à des états récapitulatifs et à des budgets sommaires, et nous apporterons des changements importants aux Comptes publics du Manitoba dans l'année à venir. Nous ne produirons pas les états financiers à vocation spéciale relatifs au fonds de fonctionnement et aux fonds spéciaux, comme l'a recommandé le vérificateur général. Nous rendrons compte des résultats de notre stratégie de gestion financière de l'exercice 2007-2008. Les changements voulus seront apportés aux rapports financiers trimestriels par la suite. Une fois achevée, cette transition apportera encore plus de transparence et de responsabilité dans le travail du gouvernement.

Nous continuons de chercher à améliorer la responsabilité par rapport aux services que nous fournissons. Pour la première fois, des mesures de rendement clés figuraient dans le rapport annuel 2005-2006 de tous les ministères. La communication de toute une gamme de données sur le rendement fait maintenant partie de ces rapports annuels courants, ainsi que des rapports spécialisés de nombreuses autres entités publiques. Nous entendons instaurer des rapports réguliers sur le rendement du gouvernement dans des domaines clés d'activité non financière. Dans notre approche, nous tiendrons compte de la relation complémentaire entre l'information relative au rendement non financier et les indicateurs financiers dont il est fait état tous les ans dans les Comptes publics.

Situation financière de la Province

Une récapitulation de la situation financière et des résultats d'exploitation sommaires pour l'exercice 2006-2007 et l'exercice 2005-2006 après rajustement est présentée ci-dessous.

| Summary Financial Position/Situation financière sommaire | | |
|---|-----------------|---|
| | 2007 | 2006 |
| | | as restated/ après rajustement |
| | (\$ millions) | (\$ millions) |
| Assets/Actif | | |
| Financial/Financier | <u>8,660</u> | <u>7,439</u> |
| Liabilities/Passif | | |
| Borrowings/Emprunts | 12,361 | 11,645 |
| Pension/Obligation découlant des régimes de retraite | 4,159 | 3,967 |
| Accounts payable and accrued charges/ Comptes créditeurs et charges à payer | <u>2,543</u> | <u>2,347</u> |
| | <u>19,063</u> | <u>17,959</u> |
| Net Debt/Dette nette | <u>(10,403)</u> | <u>(10,520)</u> |
| Non-Financial Assets/Actif non financier | | |
| Prepaid expenses/ Dépenses payées d'avance | 27 | 22 |
| Tangible Capital Assets/Immobilisations corporelles | <u>4,534</u> | <u>4,170</u> |
| Accumulated Deficit/Déficit accumulé | <u>(5,842)</u> | <u>(6,328)</u> |
| Opening Accumulated Deficit, as restated/Solde d'ouverture du déficit accumulé après rajustement | (6,328) | (6,753) |
| Adjustments – Other Comprehensive income/rajustement autres éléments du résultat étendu | 56 | 31 |
| Summary Net Income/Sommaire des bénéfices nets | <u>430</u> | <u>394</u> |
| Closing Accumulated Deficit/Solde de clôture du déficit accumulé | <u>(5,842)</u> | <u>(6,328)</u> |

Our province ended 2006/07 in a strong financial position.

Notre province a terminé l'exercice 2006-2007 dans une situation financière solide.

The above table shows that Summary Net Income increased by \$36 million to \$430 million from the 2005/06 Summary Net Income of \$394 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 33 to 34.

Le tableau ci-dessus montre que le sommaire des bénéfices nets a augmenté de 36 millions de dollars pour passer à 430 millions par rapport à l'exercice 2005-2006, pour lequel le sommaire des bénéfices s'élevait à 394 millions (après rajustement). Une explication des changements intervenus dans les principaux postes de recettes et de dépenses entre les exercices, et de leur incidence sur les résultats annuels du fonds de fonctionnement et du fonds spécial est présentée des pages 33 à 34.

The strong annual results enabled a further reduction of \$486 million in the accumulated deficit balance for 2006/07 over 2005/06.

Les résultats annuels solides ont permis de réduire encore le solde du déficit accumulé de 486 millions de dollars dans l'exercice 2006-2007 par rapport à l'exercice 2005-2006.

Manitoba is committed to full compliance with PSAB standards.

Le Manitoba entend respecter pleinement les normes du CCSP.

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 therefore its related 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 outstanding borrowings would remain if all of its financial assets were used to pay down existing debt. A stable or declining Net Debt to GDP ratio means that the cost of Government programs is not outpacing Government net revenue and the growth of the provincial economy.

Over the last several years, the government has successfully managed a downward trend in net debt to GDP and is committed to maintain this trend over time. The ratio of debt servicing costs to revenue has also improved over time, indicating that government can reallocate funding previously allocated for debt servicing to vital programs. 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. Over the years this ratio has remained relatively

Indicateurs

Depuis de nombreuses années maintenant, nous rendons compte de la santé financière du gouvernement dans le contexte de la conjoncture économique et financière courante mesurée à l'aide d'un certain nombre d'indicateurs financiers importants. La plupart des gouvernements utilisent à divers degrés les indicateurs de viabilité, de souplesse et de vulnérabilité de la situation financière d'un gouvernement définis par l'Institut canadien des comptables agréés.

a. Viabilité

La viabilité mesure la capacité d'un gouvernement à maintenir ses programmes sans avoir à emprunter davantage et, par conséquent, à alourdir la facture des frais d'intérêts connexes. S'il y parvient, ces derniers ne commenceront pas à grever de plus en plus son budget, ce qui signifie qu'il pourra maintenir ou améliorer sa viabilité future.

Le ratio de la dette nette au produit intérieur brut (PIB) provincial est un des principaux indicateurs financiers utilisés pour mesurer la viabilité. La dette publique nette correspond au montant actuel des emprunts non remboursés qui demeurerait si tous les actifs financiers du gouvernement étaient utilisés pour rembourser la dette en cours. Un ratio de la dette nette au PIB stable ou qui diminue signifie que le coût des programmes gouvernementaux n'est pas supérieur aux recettes publiques nettes et à la croissance de l'économie provinciale.

Au cours des toutes dernières années, le gouvernement a réussi à imprimer une tendance à la baisse sensible de la dette nette au PIB, et il entend maintenir cette tendance. En outre, le ratio des frais de service de la dette aux recettes s'améliore, ce qui signifie que le gouvernement peut réaffecter à des programmes essentiels des fonds auparavant destinés au service de la dette. Voir les résultats du Manitoba à la page 26.

b. Souplesse

On entend par souplesse la capacité présente et future d'un gouvernement de faire face à ses engagements ou à ses dépenses grandissants en accroissant ses recettes ou en s'endettant davantage.

Le ratio des recettes de sources propres au PIB provincial est un indicateur de souplesse. Il montre combien l'économie provinciale rapporte en recettes par le biais de l'imposition et des prélèvements. Au fil des ans, ce ratio est resté relativement stable. Veuillez vous reporter à la page

stable. Please see page 28 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 28 for a few of Manitoba's vulnerability results). Three important vulnerabilities are discussed below.

Foreign Debt

Foreign currency debt holdings pose a risk to Governments of increased volatility "debt servicing costs" if fluctuations in foreign currency valuations occur. For example, 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 by achieving our ultimate goal of being fully hedged, effective August 2003. As a result, the impact on the sensitivity to foreign currency fluctuation was reduced from \$9 million in 1999 to zero today (see page 24).

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 and the province's ability to provide these services to citizens could be impaired (see page 28). Risk associated with federal transfers under the Equalization Program (described below) 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

28 pour les résultats du ratio des recettes de sources propres du Manitoba par rapport au PIB.

c. Vulnérabilité

On entend par vulnérabilité, ou risque, la mesure dans laquelle un gouvernement devient dépendant de sources de fonds majeures qui échappent à son contrôle ou à son influence.

Il existe de multiples indicateurs de vulnérabilité (voir à la page 28 pour quelques résultats du Manitoba en ce qui concerne la vulnérabilité). Trois vulnérabilités importantes sont examinées ci-dessous.

Dettes extérieures

Les avoirs de titres de créance libellés en devises étrangères posent aux gouvernements un risque d'instabilité accrue des « frais de service de la dette » en cas de fluctuations desdites devises. Par exemple, en 1999, l'évolution de la valeur des devises étrangères aurait pu coûter au Manitoba jusqu'à 9 millions de dollars chaque fois que le dollar américain s'appréciait d'un cent par rapport au dollar canadien.

En 1999, le risque de change représentait environ 19 % de la dette à portée générale, ce qui a été réduit en atteignant notre but ultime, à savoir d'être complètement couvert à partir d'août 2003. En conséquence, la vulnérabilité aux fluctuations du cours des devises étrangères est passée de 9 millions de dollars en 1999 à zéro aujourd'hui (voir la page 24).

Accords fiscaux fédéraux-provinciaux

La situation financière du gouvernement fédéral est un facteur de risque pour les recettes de l'ensemble des provinces et territoires. Cela tient au rôle important que jouent les paiements de transfert fédéraux, en tant que source de recettes, dans le financement de services assurés par les gouvernements provinciaux, comme la santé, l'éducation et les services sociaux.

De manière générale, le risque est que les recettes issues des transferts fédéraux baissent ce qui pourrait réduire la capacité de la province de fournir ces services aux citoyens (voir la page 28). Le risque associé aux transferts fédéraux au titre du Programme de péréquation (décrit ci-dessous) est compensé dans une certaine mesure par le paragraphe 36(2) de la *Loi constitutionnelle* 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

comparable levels of public services at reasonably comparable levels of taxation.”

To mitigate risk and encourage stable revenues, Manitoba has actively negotiated long-term federal transfer funding agreements along with other provinces and territories. In September of 2004, a ten-year agreement for health care funding was struck between the federal government and provinces and territories. That agreement provides for stable increases each year under the Canada Health Transfer (CHT) to provinces and territories (6% annual escalator). The current federal government has confirmed it will honour the agreement.

The March 19, 2007 federal budget announced changes to the other two major federal transfer programs – the Equalization Program and the Canada Social Transfer (CST). The new Equalization Program is principle-based and formula-driven; it includes a 10-province standard, 50% natural resource revenue inclusion and a three-year moving average and two-year lagged data. It is expected that the new formula will make the Equalization program more sustainable and payments under the program more predictable.

The Canada Social Transfer will be allocated on an equal per capita cash basis effective 2007/08. The federal government will provide transitional “floor” payments to individual provinces to ensure that the CST is not reduced below 2007/08 levels. As with the long-term funding agreement for health care, the federal government will provide an annual escalator (3%) for the CST starting in 2009/10. This will provide for stable and predictable increases in CST transfers to provinces.

As with the agreement on health care funding under the CHT, federal legislation will entrench the methodology for the Equalization Program and the CST until 2013/14, such that all three major federal transfer programs (CHT, CST and the Equalization Program) are on the same renewal timetable.

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

Summary Budgeting and Reporting introduces additional risks related to volatility in revenue and

qualité et de fiscalité sensiblement comparables ».

Afin d'atténuer le risque et d'encourager des recettes stables, le Manitoba a négocié activement des accords de transfert de fonds fédéraux à long terme, avec les autres provinces et les territoires. En septembre 2004, un accord décennal pour le financement des soins de santé a été conclu entre le gouvernement fédéral et les provinces et territoires. Il prévoit des augmentations annuelles stables au titre du Transfert canadien en matière de santé (TCS) aux provinces et territoires (facteur de progression de 6 % par an). L'actuel gouvernement fédéral a confirmé qu'il honorerait l'accord.

Le 19 mars 2007, le budget fédéral annonçait des changements aux deux autres grands programmes de transfert fédéraux – le Programme de péréquation et le Transfert canadien en matière de programmes sociaux (TCPS). Le nouveau Programme de péréquation repose sur des principes et une formule. Il comprend une norme pour les 10 provinces, l'inclusion de 50 % des revenus tirés des ressources naturelles et une moyenne mobile sur trois ans ainsi que des données décalées sur deux ans. La nouvelle formule devrait rendre le Programme de péréquation plus viable et ses paiements, plus prévisibles.

À partir de l'exercice 2007-2008, le Transfert canadien en matière de programmes sociaux sera attribué sur la base d'un montant égal par habitant. Le gouvernement fédéral fera à différentes provinces des paiements minimaux de transition pour s'assurer que le TCPS ne descend pas en dessous des niveaux de l'exercice 2007-2008. Quant à l'accord de financement à long terme des soins de santé, le gouvernement fédéral appliquera au TCPS un facteur de progression annuel (3 %) à compter de l'exercice 2009-2010, ce qui assurera aux provinces des augmentations stables et prévisibles des transferts effectués au titre du TCPS.

Pour ce qui est de l'accord sur le financement des soins de santé dans le cadre du TCS, la loi fédérale fixera la méthodologie du Programme de péréquation et du TCPS jusqu'à l'exercice 2013-2014, de manière que les trois grands programmes de transfert fédéraux (TCS, TCPS et Programme de péréquation) seront renouvelables au même moment.

Risques liés à l'instabilité des recettes et des dépenses dans le périmètre comptable du gouvernement

Les états récapitulatifs et les budgets sommaires tiennent compte de risques supplémentaires liés à l'instabilité des

expenses. Briefly, the Government is required to include in its Budget all entities directly or indirectly controlled by Government including government departments, government business entities and Crown organizations such as regional health authorities, school divisions and universities. This represents the GRE as defined by 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 was undertaken by Deloitte & Touche LLP in relation to Manitoba's commitment to Summary Budgeting and Reporting. Over a ten year period, the financial results of Manitoba Hydro have been the most volatile. Deloitte & Touche LLP's report notes that the absolute value of the variance between its best and worst financial results over a 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, severe weather 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.

Compliance with Balanced Budget Legislation

As well as achieving a positive net income on a summary basis for the 2006/07 fiscal year, the Government of Manitoba has complied with the

recettes et des dépenses. En bref, le gouvernement doit inclure dans son budget toutes les entités qu'il contrôle directement ou indirectement, y compris les ministères, les entreprises publiques et les organisations de la Couronne, tels les offices régionaux de la santé, les divisions scolaires et les universités. Cela représente le périmètre comptable du gouvernement selon la définition des normes du CCSP. Les mesures de la responsabilité financière du gouvernement du Manitoba comprendront les résultats financiers de ces entités et seront donc exposées aux facteurs qui les influencent.

Le nombre d'entités importantes, relativement autonomes, dont les résultats entrent dans le périmètre comptable du gouvernement, y compris la Régie de l'hydro-électricité du Manitoba (Manitoba Hydro), la Société d'assurance publique du Manitoba, la Société des services agricoles du Manitoba et l'Université du Manitoba, fait augmenter le risque d'instabilité sensible dans les résultats financiers dont il est rendu compte dans les états financiers sommaires annuels de la province.

L'ampleur de l'instabilité des activités de ces entités peut être importante. Pour la comprendre, Deloitte & Touche LLP a réalisé une étude en relation avec l'engagement du Manitoba à produire des états récapitulatifs et des budgets sommaires. Sur 10 ans, ce sont les résultats financiers de Manitoba Hydro qui sont les plus instables. Dans son rapport, Deloitte & Touche LLP souligne que la valeur absolue de l'écart entre ses meilleurs et ses pires résultats financiers sur 10 ans approchait les 900 millions de dollars. Pour les autres entités, cette même mesure était de 60 millions pour la moins instable (Université du Manitoba) et de 172 millions pour la plus instable après Manitoba Hydro (Société d'assurance publique du Manitoba).

Les changements importants dans la rentabilité de ces entités résultent de facteurs extérieurs qui échappent au contrôle à court terme du gouvernement ou des gestionnaires de ces organisations. Par exemple, les phénomènes météorologiques violents ou les périodes de sécheresse entraînent une baisse de la production hydro-électrique de Manitoba Hydro, ainsi que des demandes d'indemnisation importantes auprès de la Société d'assurance publique du Manitoba et de la Société des services agricoles du Manitoba.

Respect des mesures législatives sur l'équilibre budgétaire

En plus d'arriver à des bénéfices nets positifs sur une base sommaire pour l'exercice 2006-2007, le gouvernement du Manitoba a respecté les exigences de la *Loi sur l'équilibre*

requirements of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*.

budgétaire, le remboursement de la dette et l'obligation de rendre des comptes aux contribuables.

In 2006/07, Manitoba achieved a positive balance of \$110 million without any draw from the Fiscal Stabilization Fund (FSF). In addition, debt and pension liabilities were reduced by a further \$110 million (see page 124, note 14).

En 2006-2007, le Manitoba affiche un solde positif de 110 millions de dollars sans aucun retrait sur le Fonds de stabilisation des recettes (FSR). De plus, la dette et le passif découlant du régime de retraite ont encore été réduits de 110 millions de dollars (voir la page 124, note 14).

As a result, the balance of the FSF for March 31, 2007 is \$663 million, \$131 million higher than the previous year and the highest balance since the fund was established. Manitoba continues to work to improve efficiency, in a cost effective manner without impacting services while at the same time providing future fiscal flexibility.

Résultat, au 31 mars 2007, le solde du FSR s'établissait à 663 millions de dollars, soit 131 millions de plus qu'un an plus tôt et le meilleur solde depuis la création du fonds. Le Manitoba continue de chercher à gagner en efficacité, de façon rentable, sans incidence sur les services, tout en assurant une souplesse financière future.

Manitoba's borrowing costs are among the lowest in Canada. Manitoba's net general purpose debt servicing costs for the 2006/07 fiscal year are \$261 million or 2.9% of revenue compared with 7.3% in the 1999/2000 fiscal year.

Les frais d'emprunt du Manitoba sont parmi les plus faibles au Canada. Les frais nets de la dette à portée générale de la province pour l'exercice 2006-2007 s'élèvent à 255 millions de dollars, soit 2,9 % des recettes contre 7,3 % pour l'exercice 1999-2000.

Progress on commitments

Progrès accomplis relativement aux engagements

1. Transition to Summary Budgeting and Reporting

1. Passage à des états récapitulatifs et à des budgets sommaires

Our Government committed to the full implementation of Summary Budgeting and Reporting, in accordance with PSAB standards, for 2007/08. We are meeting that commitment. As indicated earlier, Budget 2007, tabled in April of this year, is the first Summary Budget produced by the Government of Manitoba that is fully aligned with the accounting standards set by PSAB, requiring governments to report on the broader definition of government, the Government Reporting Entity (GRE). Budget 2007 fully reflects Generally Accepted Accounting Principles (GAAP) and included, for the first time, a Financial Management Strategy that clearly lays out our Government's priorities for financial management as well as measurable outcomes and objectives related to these priorities.

Notre gouvernement s'est engagé à produire pour l'exercice 2007-2008 des états récapitulatifs et des budgets sommaires, conformément aux normes du CCSP. Nous tenons cet engagement. Comme il est précisé plus haut, le Budget de 2007, déposé en avril dernier, est le premier budget sommaire produit par le gouvernement du Manitoba qui est entièrement conforme aux principes comptables établis par le CCSP, qui demandent aux gouvernements de rendre des comptes sur la définition plus générale de gouvernement, à savoir le périmètre comptable du gouvernement. Le Budget de 2007 applique pleinement les principes comptables généralement reconnus (PCGR) et comprend, pour la première fois, une stratégie de gestion financière qui expose clairement les priorités du gouvernement en matière de gestion financière ainsi que des objectifs et des résultats mesurables par rapport à ces priorités.

Manitoba's next Public Accounts, for the fiscal year ending March 31, 2008, will undergo significant changes. As recommended by the Auditor General this will include reporting on the results of our 2007/08 Financial Management Strategy. Appropriate changes to quarterly

Les prochains Comptes publics du Manitoba, pour l'exercice se terminant le 31 mars 2008, comprendront des changements importants. Nous rendrons compte des résultats de notre stratégie de gestion financière de l'exercice 2007-2008, comme l'a recommandé le vérificateur général. Les changements voulus seront

financial reporting will be introduced in the future. The completion of our transition to full Summary Budgeting and Reporting will further increase the transparency and accountability of Government.

Benefits of the transition to Summary Budgeting and Reporting include:

- increased confidence in the Province's financial reporting;
- enhanced credibility with credit-rating agencies;
- promotion of consistency, transparency and accountability in reporting;
- a single set of financial statements – the Summary Financial Statements – eliminating the Special Purpose Statements as recommended by the Auditor General;
- use of widely-accepted benchmarks for reporting purposes;
- 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 GRE

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

There were several tax changes made for 2007 that included 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 13.5% to 13.0%.
- The basic personal amount, which all Manitoba tax filers claim, was increased by \$100 to \$7,834.
- The general Corporation Income Tax rate was reduced from 14.5% to 14.0%.
- The small business Corporation Income Tax rate is reduced from 4.5% to 3.0%.
- Manitoba introduced separate credits for taxable dividends distributed by Canadian-controlled private corporations and publicly traded corporations with the dividend tax

apportés aux rapports financiers trimestriels par la suite. Une fois achevée, cette transition accroîtra encore la transparence et la responsabilité du gouvernement.

Le passage à des états récapitulatifs et à des budgets sommaires présente les avantages suivants :

- confiance accrue dans l'information financière du gouvernement;
- crédibilité accrue auprès des agences de notation;
- promotion de la cohérence, de la transparence et de la responsabilité dans les rapports;
- Une seule série d'états financiers – les états financiers sommaires –, ce qui élimine les états spéciaux, comme le recommande le vérificateur général;
- utilisation de modèles de communication de l'information financière communément admis;
- 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'alléger le fardeau fiscal des Manitobains

Plusieurs changements fiscaux ont été apportés pour l'année 2007, dont la réduction de l'impôt sur le revenu des particuliers et de l'impôt sur les bénéfices des sociétés, ainsi que l'élargissement d'un certain nombre de mesures d'encouragement.

- Le taux d'imposition du revenu des particuliers pour la tranche de revenu moyenne a été ramené de 13,5 % à 13,0 %.
- Le montant personnel de base, que tous les déclarants manitobains réclament, a été augmenté de 100 \$ et donc porté à 7 834 \$.
- Le taux général de l'impôt sur les bénéfices des sociétés a été ramené de 14,5 % à 14,0 %.
- Le taux d'imposition des petites entreprises dans le cadre de l'impôt sur les bénéfices des sociétés a été ramené de 4,5 % à 3,0 %.
- Le Manitoba a mis en place des crédits distincts pour les dividendes imposables distribués par des sociétés

- credit on the latter rising from 5% to 11%.
- The Manufacturing Investment Tax Credit was renewed for a further three years to June 30, 2009 with the refundable portion increasing from 20% to 35%.

Conclusion

I am pleased to be able to provide Manitobans with positive results for 2006/07 for both the Summary and the Operating Fund and Special Funds Financial Statements. The Fiscal Stabilization Fund is in its strongest position ever. We are committed to making further progress over the coming years to improve the reporting of performance outcomes, beginning with the development of a comprehensive performance reporting strategy. We are aware of the risks noted earlier and have proactive plans to mitigate any potential effects. We will work on completing implementation of Summary Budgeting and Reporting in 2007/08 in compliance with PSAB.

privées sous contrôle canadien et des sociétés cotées en bourse, le crédit d'impôt sur les dividendes de ces dernières passant de 5 % à 11 %.

- Le crédit d'impôt à l'investissement manufacturier a été renouvelé pour trois ans, c'est-à-dire jusqu'au 30 juin 2009, et la partie remboursable a été portée de 20 % à 35 %.

Conclusion

Je suis heureux de pouvoir faire part aux Manitobains de résultats positifs pour l'exercice 2006-2007, pour les états financiers sommaires comme pour les états financiers du fonds de fonctionnement et des fonds spéciaux. Le solde du Fonds de stabilisation des recettes est plus élevé que jamais. Nous entendons progresser encore dans les années à venir afin d'améliorer la présentation des résultats en matière de rendement, en commençant par définir une stratégie globale en matière de compte rendu sur le rendement. Conscients des risques mentionnés plus haut, nous avons mis au point des plans préventifs pour en atténuer les éventuels effets. Nous nous efforcerons de produire des états récapitulatifs et des budgets sommaires dans l'exercice 2007-2008, conformément aux normes du CCSP.I.

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 business investment combined with moderate increases in consumer and Government spending resulted in 3.1% growth in the Manitoba economy, the strongest performance since 2000. The goods-producing industries led the Manitoba economy in 2006 with minerals, agriculture and construction leading the growth. The higher-valued Canadian dollar continued to place competitive pressure on Manitoba businesses by making U.S. goods and services less expensive relative to domestically produced goods and services. The U.S. accounts for 76% of Manitoba's foreign exports.

Manitoba's largest industry is manufacturing which accounts for 12% 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 73% of the Manitoba economy in 2006, significantly higher than the national average. The service sector accounted for 76% of Manitoba employment.

Gross Domestic Product

According to the Manitoba Bureau of Statistics, Manitoba's real GDP grew by 3.1% in 2006, up from the 2.8% growth recorded in 2005. Nominal GDP grew by 5.8% to \$44.1 billion.

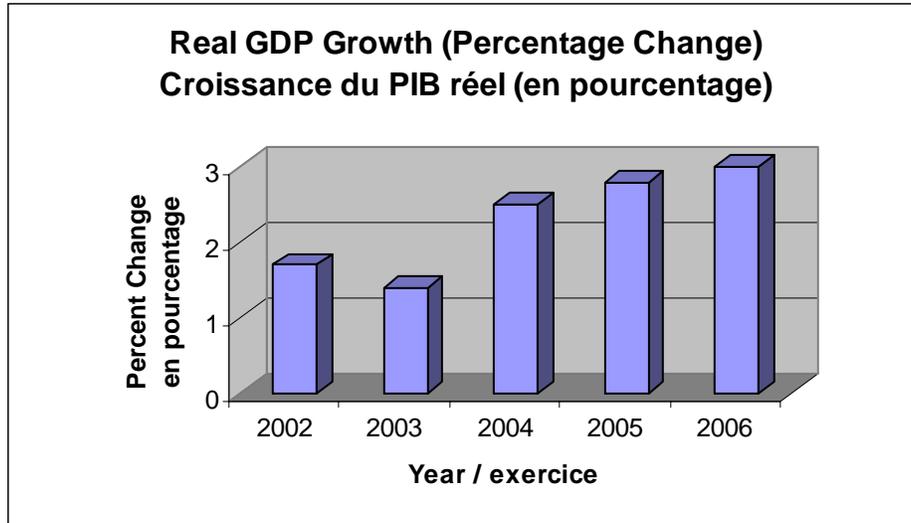
L'économie manitobaine est l'une des plus diversifiées du Canada. Cette diversité est une source continue de vigueur et de stabilité. Depuis cinq ans, la croissance économique réelle du Manitoba est l'une des plus stables des provinces canadiennes.

La forte progression des investissements commerciaux plus une augmentation modérée des dépenses de consommation et des dépenses publiques expliquent la croissance de 3,1 % de l'économie manitobaine, la plus forte aussi depuis l'an 2000. Les industries de production des biens étaient les moteurs de l'économie manitobaine en 2006, les minéraux, l'agriculture et la construction se classant en tête. La vigueur du dollar canadien a continué d'exercer des pressions concurrentielles sur les entreprises manitobaines en rendant les biens et les services américains moins chers que ceux produits localement. Les États-Unis absorbent 76 % des exportations du Manitoba.

Le secteur d'activité le plus important du Manitoba est celui de la fabrication, qui représente 12 % du produit intérieur brut (PIB) provincial. Par rapport à la plupart des autres provinces, au Manitoba, le secteur des services est vaste, ce qui contribue à la stabilité de l'économie provinciale. Les principales composantes du secteur des services sont les soins de santé, les transports, le commerce de gros et de détail, l'immobilier, la finance et les assurances, et l'éducation. En 2006, ce secteur représentait 73 % de l'économie du Manitoba, soit nettement plus que la moyenne nationale, et la province lui devait 76 % de ses emplois.

Produit intérieur brut

D'après le Bureau des statistiques du Manitoba, le PIB réel de la province a augmenté de 3,1 % en 2006, contre 2,8 % en 2005. Le PIB nominal a progressé de 5,8 %, pour passer à 44,1 milliards de dollars.



Population

Manitoba's population was 1,177, 765 as of July 1, 2006. This is Manitoba's "official" population for the year. The population growth from the previous year was 3,617 or 0.31%.

On a calendar year basis Manitoba's population grew by 5,351 in 2006 with total net in-migration of 1,603 combined with natural population growth (births minus deaths) of 3,748.

Labour Force and Incomes

Manitoba's employment increased 1.2% in 2006 with full-time employment growth of 1.0% and an increase of 1.7% in part-time employment. Total employment reached a record 587,000, an increase of 6,700. Service sector employment increased 1.8%, led by wholesale and retail trade; transportation services; education and health services; and finance, insurance and real estate. Employment in the goods producing sector declined 1.0% despite strong growth occurring in the construction industry. Approximately nine out of ten new jobs in 2006 were created in the private sector.

The unemployment rate decreased in 2006 to 4.3% from 4.8% in 2005. This rate was the second lowest in Canada and well below the national rate of 6.3%.

Population

Au 1^{er} juillet 2006, le Manitoba comptait 1 177 765 habitants. Il s'agit de la population « officielle » de la province pour l'année. La population a augmenté de 3 617 personnes, soit de 0,31 % par rapport à 2005

Sur l'année civile, la population manitobaine a augmenté de 5 351 personnes en 2006, soit une immigration nette de 1 603 personnes plus une croissance démographique naturelle (naissances moins décès) de 3 748 personnes.

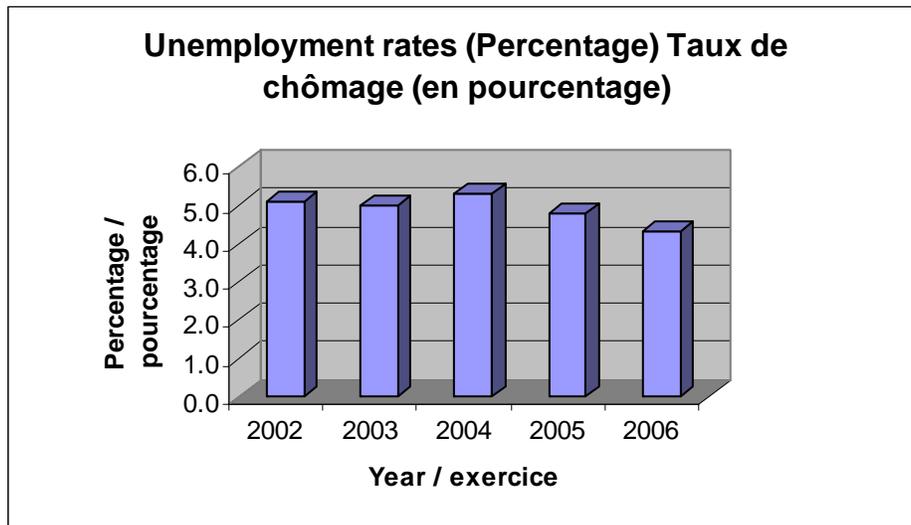
Main-d'œuvre et revenus

En 2006, l'emploi a progressé de 1,2 % au Manitoba, dont 1,0 % pour les emplois à plein temps et 1,7 % pour les emplois à temps partiel. L'emploi total a atteint le chiffre record de 587 000, soit une augmentation de 6 700. Dans les services, l'emploi était en hausse de 1,8 %, le commerce de gros et de détail, les services de transport, les services éducatifs et de santé, la finance, les assurances et l'immobilier arrivant en tête. Malgré la forte croissance enregistrée dans la construction, l'emploi a reculé de 1,0 % dans le secteur de la production des biens. En 2006, environ neuf emplois sur dix créés l'ont été dans le secteur privé.

Le taux de chômage a baissé, passant de 4,8 % en 2005 à 4,3 % en 2006. Ce taux nettement inférieur à la moyenne nationale de 6,3 % plaçait

Manitoba's youth unemployment rate decreased to 8.8% in 2006, the fourth lowest rate among provinces and well below the Canadian average of 11.6%. The Provincial participation rate, the ratio of the number of persons working or looking for work relative to the total labour force, increased slightly to 68.8% in 2006. This rate is third highest rate among provinces.

le Manitoba au deuxième rang des taux de chômage les plus faibles du Canada. Le taux de chômage des jeunes dans la province est retombé à 8,8 %, ce qui est bien moins que la moyenne canadienne de 11,6 % et qui plaçait le Manitoba au quatrième rang provincial en la matière. En 2006, le taux d'activité de la province, soit le pourcentage de personnes dans la population active travaillant ou cherchant un emploi, a augmenté légèrement, passant à 68,8 %, ce qui classe le Manitoba au troisième rang provincial à cet égard.

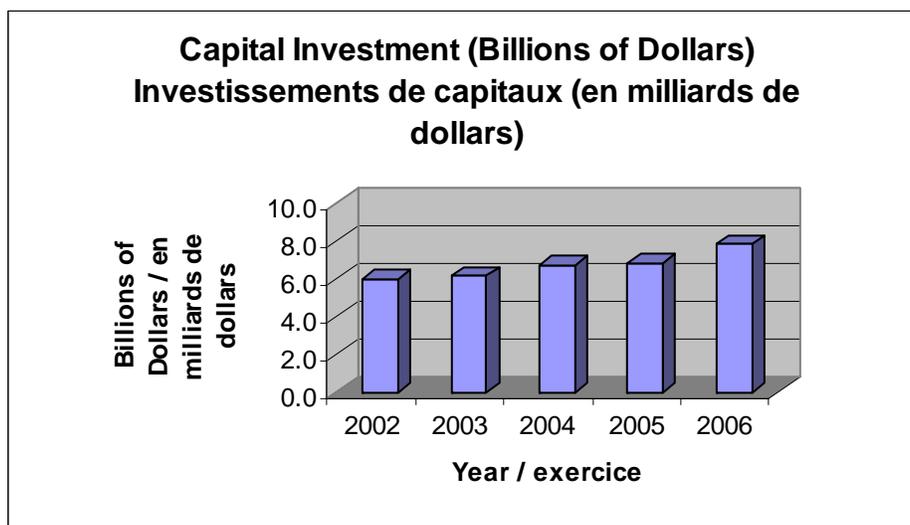


Investment

Total capital investment increased 14.2% in 2006 according to Statistics Canada's Survey of Private and Public Investment. This was above the national increase of 8.8%. Private capital investment increased 11.0% in 2006 above the national increase of 7.9%. Manitoba is the only province to have increases in private capital investment in each of the last 15 years. Private investment accounts for 72% of total capital investment in Manitoba. Public capital investment increased 23.4% in 2006 higher than the national growth of 13.2%.

Investissements

Selon l'étude sur les investissements privés et publics de Statistique Canada, en 2006, le total des investissements de capitaux a augmenté de 14,2 % au Manitoba. Ce chiffre était supérieur à la moyenne nationale de 8,8 %. Les investissements de capitaux privés ont augmenté de 11,0 % en 2006. Le Manitoba est la seule province où les investissements de capitaux privés ont augmenté tous les ans depuis 15 ans. L'investissement privé représentait 72 % de l'investissement total de capitaux au Manitoba. Les investissements de capitaux publics ont augmenté de 23,4 % en 2006, alors que la moyenne nationale était de 13,2 %.

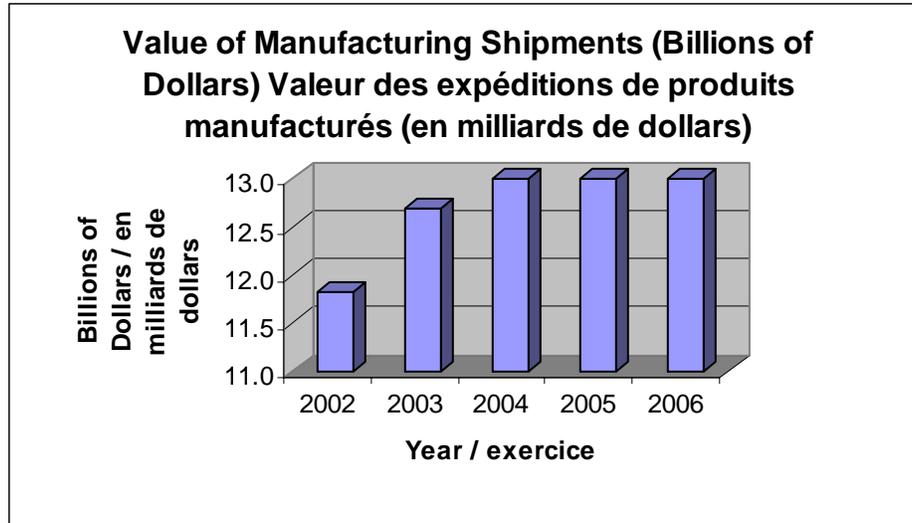


Sectoral Developments

Manitoba manufacturing shipments rose 5.1% to \$14.2 billion, while nationally shipments decreased of 0.4%. Eight of the Province's fourteen manufacturing industries posted gains in 2006. The majority of Manitoba's manufactured goods are exported to other provinces or countries. In 2006, manufactured goods accounted for 65.3% of total foreign exports.

Développements sectoriels

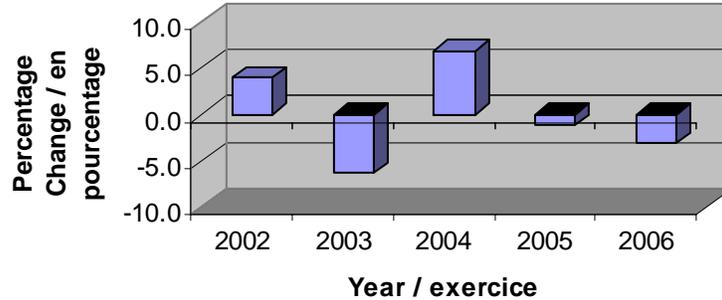
Les livraisons manufacturières manitobaines ont augmenté de 5,1 % pour atteindre 14,2 milliards de dollars, alors que les livraisons nationales ont diminué de 0,4 %. Huit des 14 industries manufacturières de la province ont affiché des profits en 2006. La majeure partie des biens fabriqués au Manitoba est exportée vers d'autres provinces ou pays. En 2006, les biens fabriqués représentaient 65,3 % du total des exportations vers l'étranger.



Manitoba farm cash receipts decreased 3.1% to \$3.7 billion in 2006 as crop receipts were constrained by adverse precipitation conditions throughout the 2005 growing season. Crop cash receipts declined 0.8% to the lowest level since 1994. Livestock receipts decreased 2.0% due to a 13.4% decline in hog receipts. Cattle receipts increased 19.4% to the third-highest level on record. This increase reflected the reopening of the U.S. border to live cattle shipments. Direct payments decreased 10.4% in 2006. Overall market receipts declined 1.5%.

En 2006, les recettes monétaires agricoles du Manitoba ont baissé de 3,1 % pour s'établir à 3,7 milliards de dollars, les recettes des productions végétales étant limitées par des précipitations défavorables tout au long de la saison de croissance. Les recettes monétaires tirées des récoltes ont diminué de 0,8 % pour retomber au niveau le plus bas depuis 1994. Les recettes tirées de la vente du bétail ont reculé de 2,0 %, à cause d'une chute de 13,4 % des recettes du porc. Les recettes tirées des bovins ont augmenté de 19,4 % pour retrouver un niveau quasi record. Cette augmentation fait suite à la réouverture de la frontière américaine aux expéditions de bovins vivants. Les paiements directs ont baissé de 10,4 % en 2006. Les recettes monétaires globales tirées du marché ont baissé de 1,5 %.

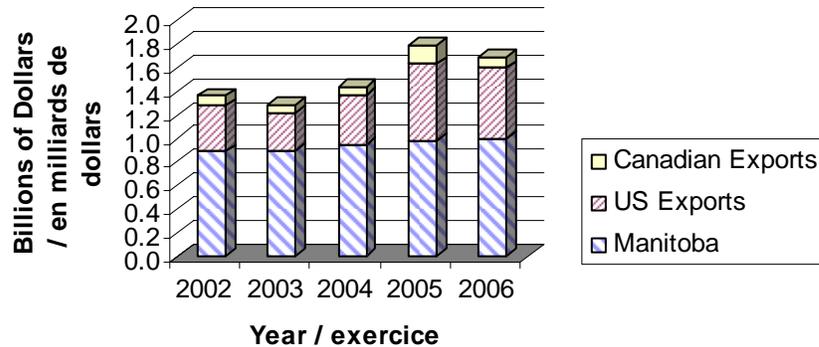
Growth in Farm Cash Receipts (Percentage Change) Croissance des recettes monétaires agricoles (en pourcentage)



After two years of exceptional growth, the total value of hydro-electricity sales decreased in 2006 by 5.5% to \$1.7 billion, as U.S. exports decreased 7.9% to \$601 million. Hydro export sales to the U.S. and other provinces accounted for 41.4% of hydro sales in 2006. Sales within Manitoba increased 1.7%.

En 2006, après deux années de croissance exceptionnelle, la valeur totale des ventes d'hydroélectricité a baissé de 5,5 % pour revenir à 1,7 milliard de dollars, les exportations vers les États-Unis diminuant de 7,9 % pour s'établir à 601 millions de dollars. Les exportations d'hydroélectricité vers les États-Unis et les autres provinces représentaient 41,4 % des ventes d'hydroélectricité de l'année. Les ventes à l'intérieur du Manitoba ont augmenté de 1,7 %.

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



Strong population growth and low mortgage rates contributed to the 6.3% increase in housing starts. The 5,028 starts in 2006 was the highest level since 1988. Single-family starts decreased 4.2% to 3,552 the second-highest level since 1988. Multiple starts increased 44.4% to 1,476 units the highest level since 1988. The value of building permits issued in 2006 increased 22.2% to a record level. Residential permits increased 19.3% to a record level of \$829 million while non-residential permits increased 26.8%.

La forte croissance démographique et les faibles taux d'intérêt hypothécaires ont contribué à l'augmentation de 6,3 % des mises en chantier. En 2006, le nombre de mises en chantier, soit 5 028, était le plus élevé depuis 1988. Les mises en chantier d'habitations individuelles ont diminué de 6,5 % pour retomber à 3 552, soit le meilleur chiffre après celui de 1988. Les mises en chantier d'habitations à logements multiples ont augmenté de 44,4 % pour atteindre 1 476 unités. La valeur des permis de construire a augmenté de 22,2 % pour atteindre un chiffre record. Celle des permis de construire résidentiels a progressé de 19,3 % pour atteindre le chiffre record de 829 millions de dollars, tandis que celle des permis non résidentiels a augmenté de 26,8 %.

Manitoba retail sales increased 4.5% to \$12.9 billion. All retail categories increased with particular strength in the hardware, garden and building supplies; gasoline; furniture, appliance and electronic; and clothing outlets.

Les ventes au détail ont augmenté de 4,5 % au Manitoba pour atteindre 12,9 milliards de dollars. Les ventes au détail ont augmenté dans toutes les catégories, mais plus particulièrement en ce qui concerne la quincaillerie, les articles de jardinage, les matériaux de construction, l'essence, l'ameublement, l'électroménager et l'électronique, et les magasins de vêtements.

Manitoba mineral production increased 65.3% to a record \$2.6 billion as strong market conditions for metals continued to prevail in 2006. Petroleum output increased 59.0% to a record \$520 million.

La production minérale a augmenté de 65,3 % au Manitoba pour atteindre 2,6 milliards de dollars, grâce à une conjoncture très favorable pour les métaux qui s'est maintenue en 2006. La production pétrolière a augmenté de 59,0 % pour atteindre un chiffre record de 520 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.

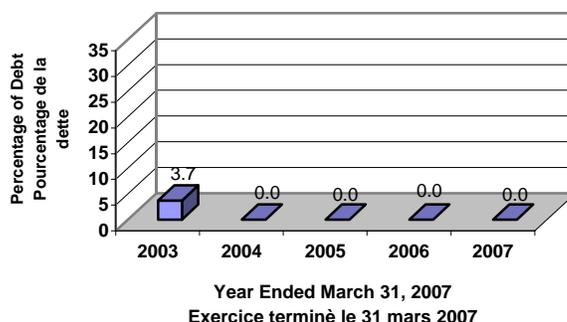
Unhedged Foreign Debt to Net Debt

The ratio of foreign debt to net debt for 2006/07 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 \$6,286 million (2006 - \$5,672). 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 2006-2007, 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 6 286 millions de dollars (au lieu de 5 672 millions en 2006). 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

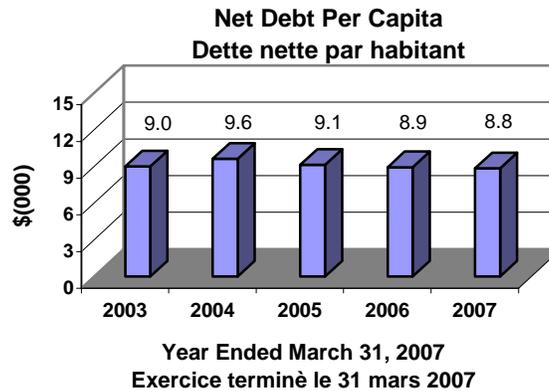
SUMMARY FINANCIAL STATEMENTS / ÉTATS FINANCIERS SOMMAIRES

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 2006/07 to approximately \$8,833. Growth in GDP per capita must be taken into account to determine capacity to support debt. During this period, GDP per capita grew from \$31,711 in 2003 to \$37,430 in 2007. 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 2006-2007 et se situait à environ 8 833 \$. 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 31 711 \$ en 2003 à 37 430 \$ en 2007. Il faudrait tenir compte du rapport sur la dette nette et le PIB provincial ci dessous pour examiner ces résultats.



As restated/Après ajustement

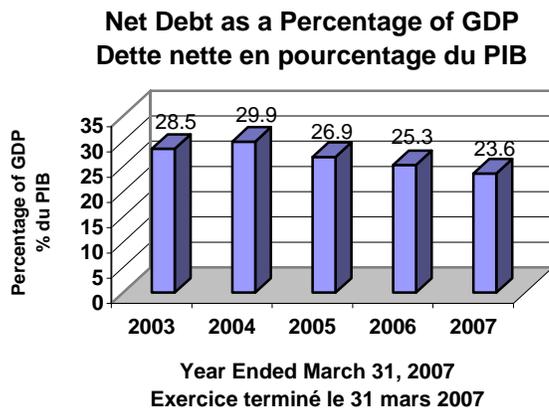
Source: Public Accounts of Manitoba

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

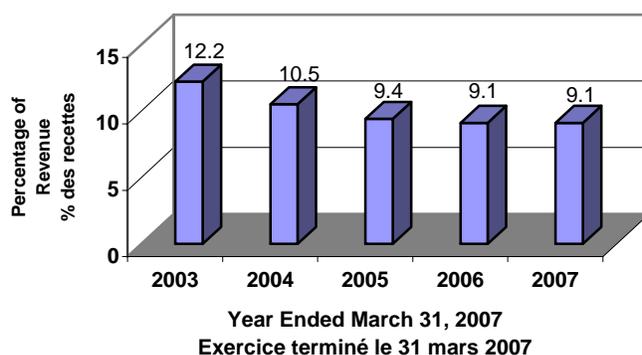
Debt Servicing Costs to Revenue

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.

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.

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

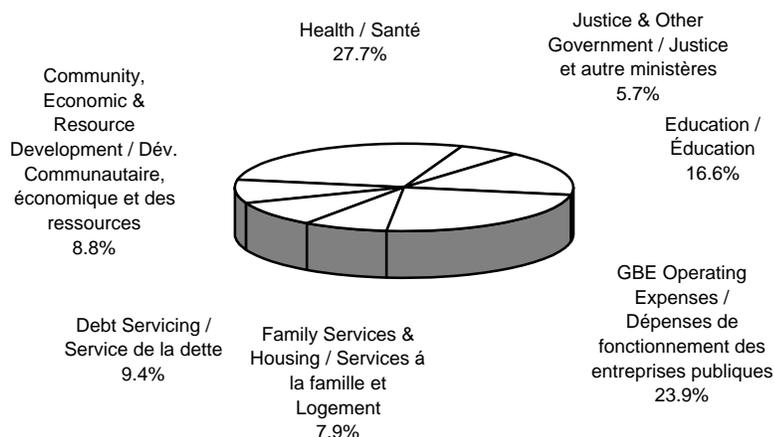
In 2006/07, the debt servicing cost reached a level of \$1,354 million, including \$506 million on self-supporting Manitoba Hydro-Electric Board debt, representing approximately 9.4% of provincial expenses.

Frais de service de la dette

En 2006-2007, les frais de service de la dette ont atteint 1 354 millions de dollars, y compris 506 millions de dollars se rapportant à la dette rentable de la Régie de l'hydro-électricité du Manitoba, ce qui représente environ 9,4 % 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

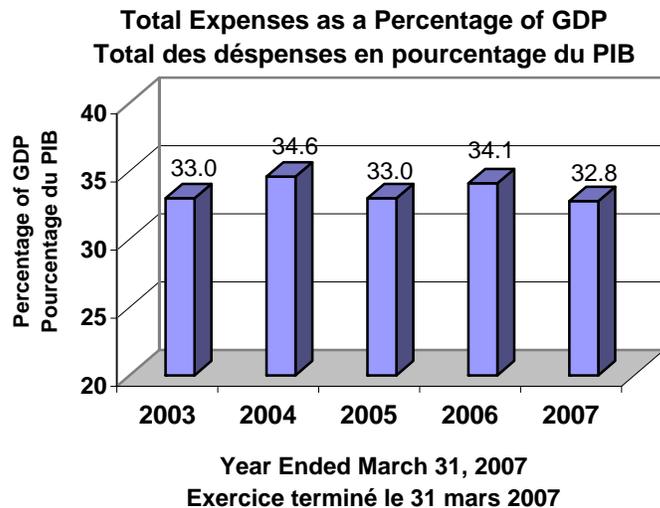
Total expenses in 2006/07 from Schedule 3 and the Statement of Revenue and Expense amounted to \$14,474 million, an increase of \$278 million or 2.0% over the 2005/06 fiscal year. Operating expenses, that is, total expenses less debt servicing costs, increased \$251 million or 2.0% from 2005/06. Total expenses to Gross Domestic Product (GDP) amounted to 32.8% while operating expenses amounted to 29.8% of GDP in 2006/07.

Total revenue in 2006/07 from Schedule 3 and the Statement of Revenue and Expense amounted to \$14,904 million, an increase of \$314 million or 2.2% over 2005/06. Federal transfers were \$214 million higher than 2005/06 (see pages 33 to 34).

Recettes et dépenses

En 2006-2007, le total des dépenses calculé à partir de l'annexe 3 et de l'état des résultats s'élevait à 14 474 millions de dollars, soit une hausse de 278 millions de dollars ou de 2,0 % comparativement à 2005-2006. Les dépenses de fonctionnement, soit le total des dépenses moins le coût du service de la dette, ont augmenté de 251 millions de dollars ou 2,0 % depuis 2005-2006. En 2006-2007, le total des dépenses représentait 32,8 % du Produit intérieur brut (PIB), alors que les dépenses de fonctionnement représentaient 29,8 % du PIB.

En 2006-2007, le total des recettes calculé à partir de l'annexe 3 et de l'état des résultats s'élevait à 14 904 millions de dollars, une hausse de 314 millions de dollars ou 2,2 % comparativement à 2005-2006. Le montant des transferts fédéraux était de 214 millions de dollars plus élevé qu'en 2005-2006 (voir la page 33 à 34).



As restated/Après rejustment

Source: Public Accounts of Manitoba

FINANCIAL INDICATORS / INDICATEURS FINANCIERS

SUMMARY FINANCIAL STATEMENTS / ÉTATS FINANCIERS SOMMAIRES

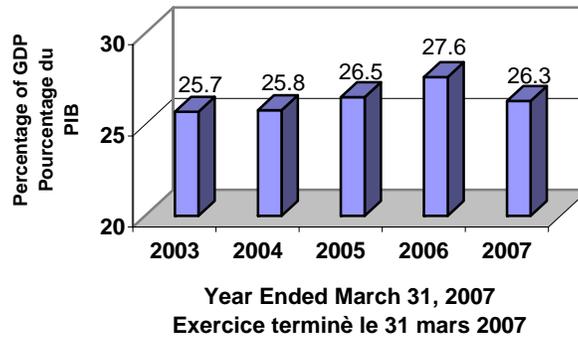
Own Source Revenue to Provincial GDP

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



As restated / Après ajustement

Source: Public Accounts of Manitoba

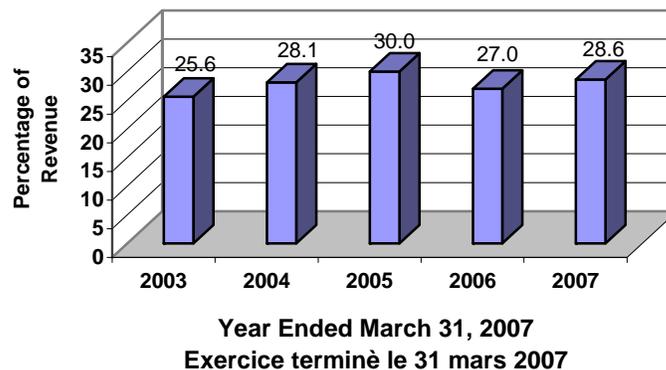
Federal Transfers to Own-Source Revenue

Federal transfers to own-source revenue is a measurement of the Province's reliance 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, changes in accounting for Federal capital transfers and Bill C48.

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, aux changements de méthodes comptables pour les transferts fédéraux et le projet de loi C-48.

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



As restated / Après ajustement

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, debt servicing costs and interfund 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, 2007. 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 109).

FONDS DE FONCTIONNEMENT DISCUSSION ET ANALYSE

Le fonds de fonctionnement reflète les activités centrales du gouvernement et constitue la base des crédits votés par l'Assemblée législative. Il enregistre les opérations centrales du gouvernement, y compris les recettes, les dépenses de programme, les frais de service de la dette, les transferts entre fonds pour le remboursement de la dette et du passif du régime de retraite, et les transferts du et au Fonds de stabilisation des recettes. Les états financiers spéciaux du fonds de fonctionnement et des fonds spéciaux permettent 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 comprend pas les résultats des entreprises publiques et des organisations de la Couronne, sauf si elles ont bénéficié d'un financement sur le fonds de fonctionnement ou si elles ont contribué à ce fonds.

Les pages suivantes présentent une analyse succincte des résultats réels du fonds de fonctionnement pour l'exercice qui s'est terminé le 31 mars 2007. On y trouve :

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

Remarque : Les soldes de l'exercice précédent ne sont pas répétés pour tenir compte de l'incidence des changements apportés aux conventions comptables (voir la note 1A.3, page 109).

OPERATING FUND DETAILS OF BUDGETARY PERFORMANCE

Variance Explanations Compared to Budget

The Operating Fund recorded a positive balance of \$110 million, \$107 million higher than the 2006/07 budget projection of \$3 million, with no draw from the Fiscal Stabilization Fund. As required by balanced budget legislation, a transfer of \$110 million was made to the Debt Retirement Fund in 2006/07 of which \$85 million was allocated to address the pension liability, leaving \$25 million for the retirement of general purpose debt.

Total revenue was \$297 million higher than the 2006/07 budget estimates. Own source taxation revenue was \$142 million higher than budget comprised of increases in Individual Income Tax – \$126 million, Mining Tax – \$55 million, Retail Sales Tax – \$33 million and other taxation sources – \$31 million. These were partially offset by lower than budgeted taxation revenue of \$85 million in Corporation Income Tax and \$18 million in Corporation Capital Tax. The Province also realized \$33 million in additional revenue over the 2006/07 budget from various other revenue sources. The increase is primarily from a \$16 million, or 5.9% increase in revenues from Manitoba Lotteries Corporation and an increase of \$12 million, or 6.1%, from Manitoba Liquor Control Commission. Government of Canada revenue was \$122 million higher than budget, primarily as a result of a \$82 million increase reflecting an in-year change in accounting policy that required the restatement of third party recoveries as revenues. In the 2006/07 budget and 2005/06 Public Accounts, Canada's contribution to capital projects such as the Red River floodway expansion was netted against the cost of the asset. Other increases include higher than budgeted revenue from Bill C48 – \$49 million and Equalization – \$19 million. These increases were partially offset by lower than budgeted Canada Health and Social Transfers - \$26 million.

FONDS DE FONCTIONNEMENT DÉTAILS DU RENDEMENT BUDGÉTAIRE

Explications des écarts par rapport aux prévisions budgétaires

Le fonds de fonctionnement a enregistré un solde positif de 110 millions de dollars, soit 107 millions de dollars de plus que dans la projection du budget de 2006-2007, sans retrait sur le Fonds de stabilisation des recettes. Comme le demande la loi sur l'équilibre budgétaire, un transfert de 110 millions de dollars a été fait en 2006-2007 au fonds de remboursement de la dette, dont 85 millions pour amortir le passif découlant du régime de retraite, ce qui a laissé 25 millions pour le remboursement de la dette à portée générale.

Le total des recettes est supérieur de 297 millions de dollars aux prévisions budgétaires de 2006-2007. Les sources de recettes fiscales propres ont rapporté 142 millions de dollars de plus que le budget en raison de l'augmentation des recettes de l'impôt sur le revenu des particuliers – 126 millions –, de l'impôt minier – 55 millions –, de la taxe sur les ventes au détail – 33 millions –, et d'autres sources d'imposition – 31 millions. Ces recettes ont été en partie compensées par des recettes fiscales inférieures à celles inscrites au budget de 85 millions de dollars en impôt sur les sociétés et de 18 millions de dollars en impôt sur le capital des corporations. Diverses autres sources de recettes ont également rapporté à la province 33 millions de dollars en recettes supplémentaires sur le budget de 2006-2007. L'augmentation vient principalement de 16 millions ou 5,9 % de recettes en plus rapportées par la Corporation manitobaine des loteries et de 12 millions de dollars ou 6,1 % de recettes en plus rapportées par la Société des alcools du Manitoba. Les recettes du gouvernement du Canada étaient supérieures de 122 millions au budget, en raison principalement d'une augmentation de 82 millions résultant d'un changement en cours d'année des conventions comptables qui demandait de reformuler comme recettes les recouvrements auprès de tiers. Dans le budget de 2006-2007 et de 2005-2006, la contribution des Comptes publics du Canada à des projets d'immobilisations tels que le projet d'expansion du canal d'évacuation de la crue des eaux de la Rouge a été déduite de l'actif. Par ailleurs, les recettes découlant du projet de loi C48 ont été supérieures aux prévisions – 49 millions – et les fonds de péréquation, aussi – 19 millions. Ces

augmentations ont été en partie compensées par des fonds inférieurs à ceux inscrits au budget en ce qui concerne le Transfert canadien en matière de santé et le Transfert canadien en matière de programmes sociaux – 26 millions.

Expenditures increased \$105 million, or 1.2%, in total from the 2006/07 budget levels. This included increases in the departments of Health of \$34 million mainly as a result of increased health care expenses due to salary, price and volume increases related to the Regional Health Authorities, medical remuneration and the expansion of the oncology drug program; higher than budgeted expenses for forest fire suppression and other emergencies such as spring flooding and heavy rains - \$29 million; increases in Agriculture, Food and Rural Initiatives primarily to provide for provincial commitments under the Canadian Agricultural Income Stabilization Program - \$25 million; increases in Education, Citizenship and Youth primarily for capital grants to schools - \$22 million; and in Infrastructure and Transportation for highway maintenance and preservation activities - \$12 million. This was partially offset by lower debt servicing costs of \$21 million.

Les dépenses ont augmenté de 105 millions de dollars, ou 1,2 %, au total par rapport aux niveaux budgétaires de 2006-2007. Cela comprend une augmentation des dépenses de 34 millions de dollars dans les services de santé due principalement à la croissance des dépenses de santé correspondant à des hausses de salaire, de prix et de volume relatives aux Offices régionaux de la santé, à la rémunération des actes médicaux et à l'expansion du programme de médicaments anticancéreux; à des dépenses plus importantes que prévu pour la lutte contre les incendies de forêt et pour d'autres urgences, comme les fortes précipitations et les inondations du printemps – 29 millions –; à l'augmentation des dépenses d'Agriculture, Alimentation et Initiatives rurales Manitoba, principalement pour tenir les engagements pris par la province dans le cadre du Programme canadien de stabilisation du revenu agricole – 25 millions –; à l'augmentation des dépenses d'Éducation, Citoyenneté et Jeunesse, principalement pour des subventions d'équipement aux écoles – 22 millions –; ainsi qu'à l'entretien des routes et à des activités de préservation d'Infrastructure et Transports Manitoba – 12 millions. Ces diverses hausses ont été en partie compensées par la baisse de 21 millions de dollars des frais de service de la dette.

Comparison to Previous Year

2006/07 revenue of \$8,948 million is an increase of \$523 million, or 6.2%, from the 2005/06 actual level of \$8,425 million. The increase is comprised of own source tax revenue of \$319 million primarily in Individual Income Tax, Retail Sales Tax, Mining Tax and Corporation Capital Tax. These were partially offset by decreases in other own source tax revenue primarily in the area of Corporate Income Tax.

The Province also realized \$208 million, or 7.2%, in revenue from Government of Canada transfer payments over the 2005/06 actual primarily from Equalization and Canada Health and Social Transfers

Comparaisons avec l'exercice précédent

Les recettes de 8 948 millions de dollars de 2006-2007 représentent une augmentation de 523 millions, ou 6,2 %, par rapport au niveau réel de 8 425 millions en 2005-2006. Cette augmentation se compose de recettes fiscales propres de 319 millions de dollars, principalement en impôt sur le revenu des particuliers, en taxe sur les ventes au détail, en impôt minier et en impôt sur le capital des corporations. Ces hausses étaient en partie compensées par la baisse d'autres recettes fiscales propres, principalement en ce qui concerne l'impôt sur les sociétés.

La province a également réalisé 208 millions de dollars, ou 7,2 %, de recettes supplémentaires en transferts de paiement du gouvernement du Canada par rapport au montant réel de 2005-2006,

and as previously mentioned, \$82 million is related to a change in accounting policy, requiring the restatement of third party recoveries as revenues. In the 2005/06 Public Accounts, Canada's contribution to capital projects was netted against the cost of the asset. These increases were partially offset by decreases primarily in the area of Emergency Expenditure related revenue.

Total expenditures increased by \$444 million or 5.4% from the 2005/06 actual level. Program expenditures represented \$443 million of this increase primarily in the departments of Health -\$231 million; Education, Citizenship and Youth - \$91 million; Family Services and Housing - \$69 million; Infrastructure and Transportation - \$30 million; Intergovernmental Affairs - \$25 million; Advanced Education and Literacy - \$22 million and Justice - \$17 million. These increases were primarily reflected in budgeted increases in the 2006/07 Budget. A decrease in Agriculture, Food and Rural Initiatives - \$50 million is the primary offset to the increases.

principalement en paiement de péréquation et au titre du Transfert canadien en matière de santé et du Transfert canadien en matière de programmes sociaux et, comme mentionnés plus tôt, 82 millions de dollars sont liés à une modification des conventions comptables qui demande de reformuler comme recettes les recouvrements auprès de tiers. En 2005-2006, la contribution des Comptes publics du Canada au titre de projets d'immobilisations a été déduite de l'actif. Ces hausses ont été en partie compensées par des baisses principalement en ce qui concerne les recettes relatives aux dépenses pour mesures d'urgence.

Le total des dépenses a augmenté de 444 millions de dollars, ou 5,4 %, par rapport au montant réel de 2005-2006. Les dépenses de programme représentaient 443 millions sur ce montant, principalement dans les services de santé – 231 millions –; Éducation, Citoyenneté et Jeunesse – 91 millions –; Services à la famille et Logement – 69 millions –; Infrastructure et Transports – 30 millions –; Affaires intergouvernementales – 25 millions –; Enseignement postsecondaire et Alphabétisation – 22 millions –; et Justice – 17 millions. Ces hausses se reflétaient principalement dans les augmentations prévues au budget de 2006-2007. Elles étaient compensées principalement par une baisse des dépenses d'Agriculture, Alimentation et Initiatives rurales Manitoba – 50 millions.

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.

Ces indicateurs financiers n'ont pas été ajustés pour tenir compte des conséquences des changements de pratiques comptables sur les années précédentes.

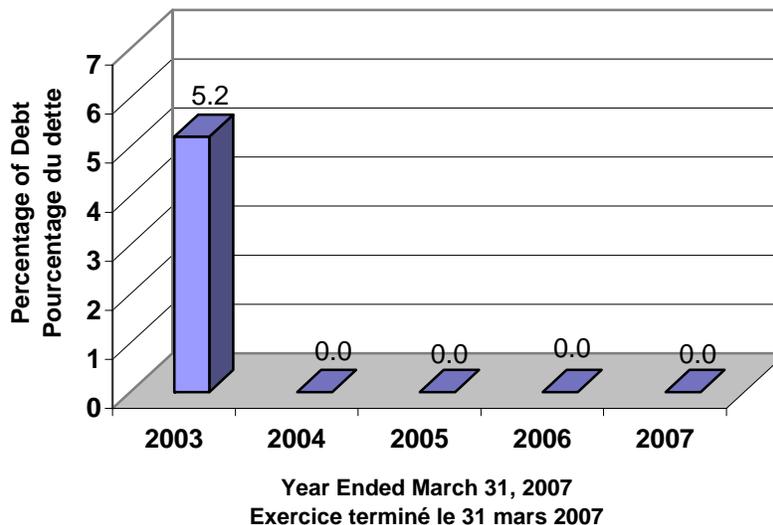
Unhedged Foreign Debt to Net Debt

The ratio of foreign debt to net debt for 2006/07 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 \$6,286 million (2006 - \$5,672 million). 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 2006-2007, 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 6 286 millions de dollars (au lieu de 5 672 millions en 2006). 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 extérieure non-protégée en pourcentage de la dette nette**



Not restated/n'est rejustment

Source: Public Accounts of Manitoba

FINANCIAL INDICATORS / INDICATEURS FINANCIERS

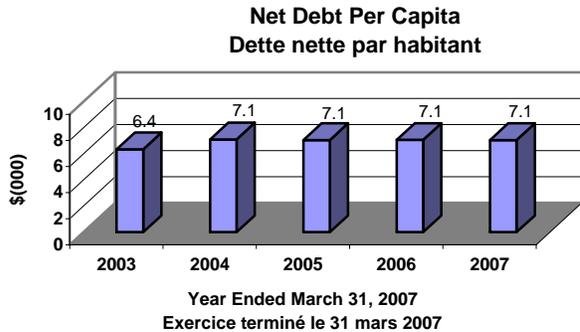
OPERATING FUND / FONDS DE FONCTIONNEMENT

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 \$31,711 in 2003 to \$37,430 in 2007. 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 31 711 \$ en 2003 à 37 430 \$ en 2007. 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

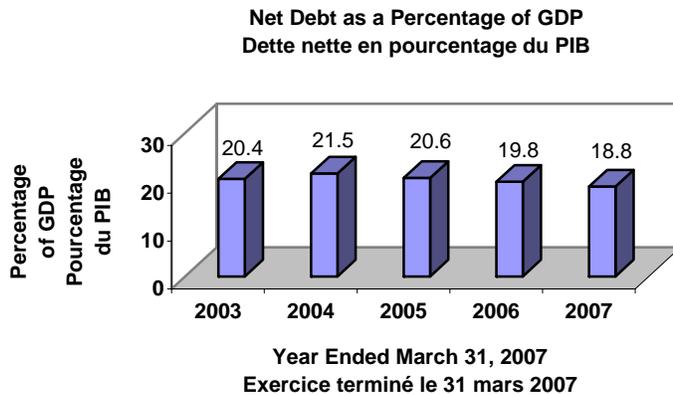
Source: Public Accounts of Manitoba

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

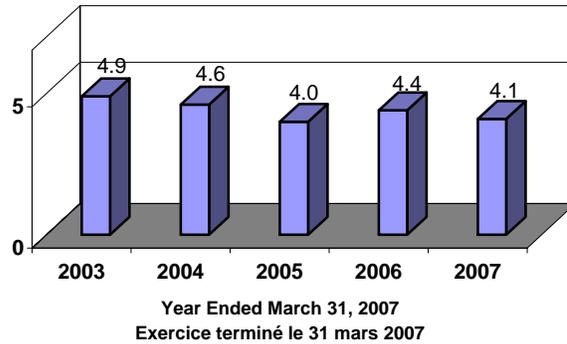
Net Debt Servicing Costs to Revenue

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 2006/07, debt servicing costs decreased to 4.1% of revenue, from 4.4% in 2005/06.

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. En 2006-2007, ce coût a diminué de 4,4 % à 4,1 % par rapport à 2005-2006.

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



Restated for 2006/rajustement pour 2006

Source: Public Accounts of Manitoba

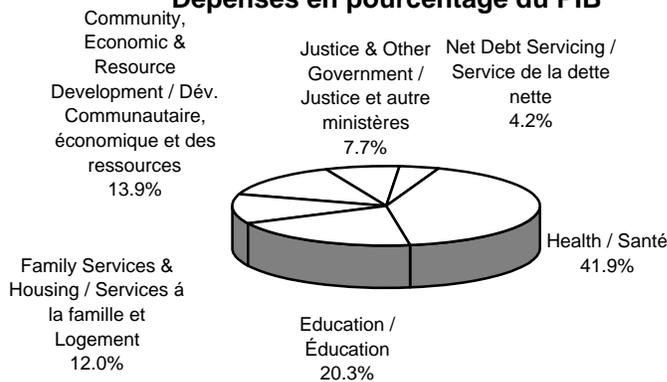
Net Debt Service Charges

In 2006/07, the net cost of servicing debt issued for the purpose of Government programs reached a level of \$369 million (see page 138). This represented 4.2% of Operating Fund expenses.

Frais de service de la dette nette

En 2006-2007, le coût du service de la dette nette relative aux programmes gouvernementaux a atteint 369 millions de dollars (voir page 138). 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

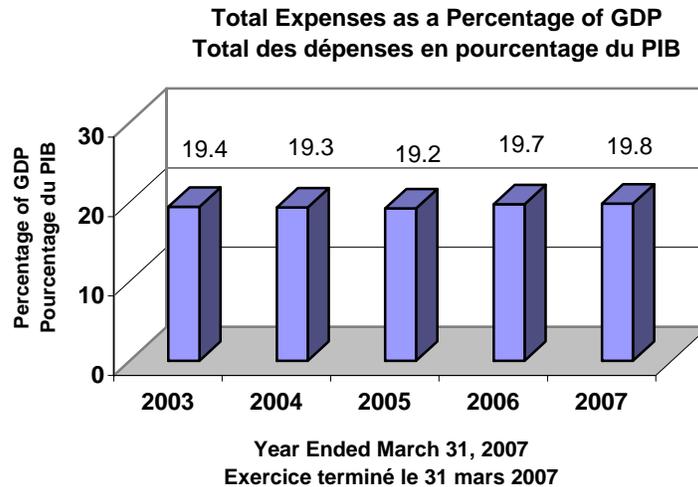
Total expenses in 2006/07 amounted to \$8,728 million, an increase of \$444 million or 5.4% over the 2005/06 fiscal year. Program expenses, that is, total expenses less the cost of servicing debt, increased \$446 million from 2005/06. Total expenses to Gross Domestic Product (GDP) amounted to 19.8%, while program expenses amounted to 19.0% of GDP in 2006/07.

Total revenue in 2006/07 amounted to \$8,948 million, an increase of \$523 million or 6.2% over 2005/06. Federal transfers were \$208 million higher than 2005/06. Corporate income taxes were \$62 million lower, and individual income taxes were \$181 million higher than 2005/06 (see pages 33 to 34).

Recettes et dépenses

En 2006-2007, le total des dépenses s'élevait à 8 728 millions de dollars, une hausse de 444 millions de dollars ou de 5,4 % comparativement à 2005-2006. Les dépenses de programme, soit le total des dépenses moins le coût du service de la dette, ont augmenté de 446 millions de dollars depuis 2005-2006. En 2006-2007, le total des dépenses représentait 19,8 % du Produit intérieur brut (PIB), alors que les dépenses de programme s'élevaient à 19,0 % du PIB.

En 2006-2007, le total des recettes s'élevait à 8 948 millions de dollars, une hausse de 523 millions de dollars ou de 6,2 % comparativement à 2005-2006. Les transferts fédéraux s'élevaient à 208 millions de dollars de plus qu'en 2005-2006. L'impôt sur les sociétés a rapporté 62 millions de dollars de moins et l'impôt des particuliers a rapporté 181 millions de dollars de plus qu'en 2005-2006 (voir la page 33 à 34).



Not restated/n'est rejustment

Source: Public Accounts of Manitoba

FINANCIAL INDICATORS / INDICATEURS FINANCIERS

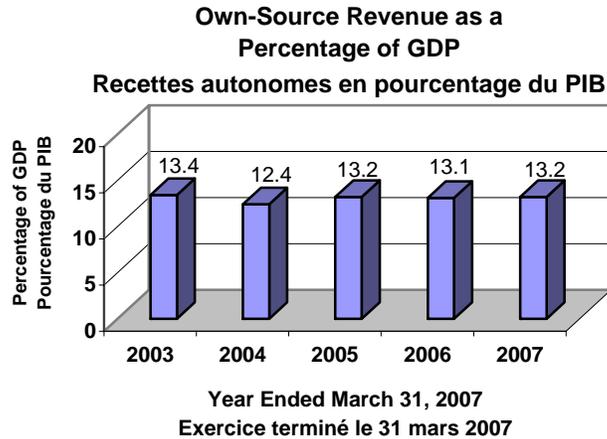
OPERATING FUND / FONDS DE FONCTIONNEMENT

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

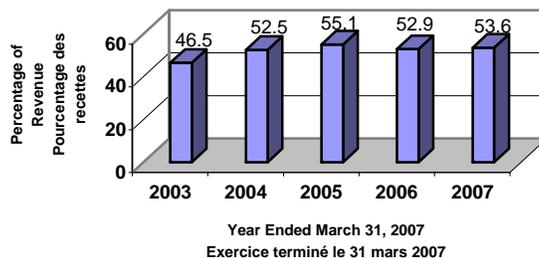
Federal Transfers to Own-Source Revenue

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, changes in accounting for Federal capital transfers and Bill C-48.

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, aux changements de méthodes comptables pour les transferts fédéraux et le projet de loi C-48.

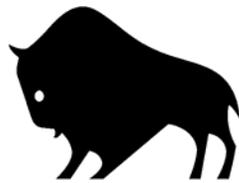
Federal Transfer Payments as a Percentage of Own-Source Revenue
Transferts fédéraux en pourcentage des recettes autonomes



Not restated/n'est rejustment

Source: Public Accounts of Manitoba

**PUBLIC ACCOUNTS
VOLUME 1
FOR THE YEAR ENDED
MARCH 31, 2007**



**VOLUME 1
DES COMPTES PUBLICS
POUR L'EXERCICE TERMINÉ
LE 31 MARS 2007**

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, 2007 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 2007 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 sommaires, 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, 2007

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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.

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.



Betty-Anne Pratt
Provincial Comptroller

July 31, 2007



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, 2007 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 1A 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, 2007 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.

Carol Bellringer, FCA, MBA
Auditor General

Winnipeg, Manitoba
July 31, 2007

SUMMARY STATEMENT OF FINANCIAL POSITION

As at March 31, 2007

| | | (\$ millions) | |
|--|--|-----------------|-----------------|
| SCHEDULE | | 2007 | 2006 |
| FINANCIAL ASSETS | | | |
| | Cash and cash equivalents (Note 2)..... | 2,482 | 1,264 |
| | Temporary investments (Note 2)..... | 238 | 323 |
| 1 | Amounts receivable..... | 919 | 878 |
| | Inventories..... | 39 | 40 |
| | Portfolio investments (Note 3)..... | 2,468 | 2,605 |
| 2 | Loans and advances..... | 574 | 585 |
| 3 | Equity in Government business enterprises (Note 5)..... | 1,933 | 1,740 |
| 4 | Other long-term investments..... | <u>7</u> | <u>4</u> |
| | Total Financial Assets | <u>8,660</u> | <u>7,439</u> |
| LIABILITIES | | | |
| 5 | Borrowings..... | 12,361 | 11,645 |
| 6 | Accounts payable, accrued charges, provisions and deferrals..... | 2,543 | 2,347 |
| | Pension liability (Note 11)..... | <u>4,159</u> | <u>3,967</u> |
| | Total Liabilities | <u>19,063</u> | <u>17,959</u> |
| | NET DEBT | <u>(10,403)</u> | <u>(10,520)</u> |
| NON-FINANCIAL ASSETS (Note 1D.13) | | | |
| | Prepaid expense..... | 27 | 22 |
| 7 | Tangible capital assets..... | <u>4,534</u> | <u>4,170</u> |
| | | <u>4,561</u> | <u>4,192</u> |
| | ACCUMULATED DEFICIT | <u>(5,842)</u> | <u>(6,328)</u> |

Information concerning the Government's Guarantees, Contractual Obligations, Contingencies and Treaty Land Entitlement Obligations can be found in Notes 6, 7, 8 and 9.

SUMMARY STATEMENT OF REVENUE AND EXPENSE

For the Year Ended March 31, 2007

(\$ millions)

2007 2006

REVENUE

| | | |
|---|---------------|---------------|
| Manitoba Collections: | | |
| Retail sales tax..... | 1,277 | 1,198 |
| Fuel taxes..... | 241 | 236 |
| Levy for health and education..... | 318 | 303 |
| Mining tax..... | 96 | 39 |
| Other taxes..... | 554 | 509 |
| Fees and other revenue..... | 2,049 | 2,057 |
| Income taxes: | | |
| Corporation income tax..... | 311 | 373 |
| Individual income tax..... | 2,130 | 1,949 |
| Net income from Government business enterprises (Schedule 3)..... | 627 | 958 |
| Federal transfers: | | |
| Equalization..... | 1,709 | 1,601 |
| Canada Health and Social Transfers..... | 1,198 | 1,157 |
| Shared cost and other..... | 410 | 345 |
| TOTAL REVENUE..... | 10,920 | 10,725 |

EXPENSES

| | | |
|---|---------------|---------------|
| Health..... | 4,005 | 3,809 |
| Education | 2,397 | 2,291 |
| Family Services and Housing..... | 1,142 | 1,075 |
| Community, Economic and Resource Development..... | 1,280 | 1,526 |
| Justice and Other Government..... | 831 | 820 |
| Debt Servicing (Note 15)..... | 835 | 810 |
| TOTAL EXPENSES (Schedule 11)..... | 10,490 | 10,331 |
| SUMMARY NET INCOME (Schedule 9) | 430 | 394 |

SUMMARY STATEMENT OF ACCUMULATED DEFICIT

For the Year Ended March 31, 2007

| | (\$ millions) | |
|--|-----------------------|-----------------------|
| | 2007 | 2006 |
| Opening accumulated deficit, as previously reported..... | (6,349) | (6,755) |
| Restatements (Note 4)..... | <u>21</u> | <u>2</u> |
| Opening accumulated deficit, as restated..... | (6,328) | (6,753) |
| Other Comprehensive Income (Schedule 3)..... | 56 | 31 |
| Summary net income for the year..... | <u>430</u> | <u>394</u> |
| Closing accumulated deficit, as restated..... | <u><u>(5,842)</u></u> | <u><u>(6,328)</u></u> |

SUMMARY STATEMENT OF CHANGE IN NET DEBT

For the Year Ended March 31, 2007

| | (\$ millions) | |
|---|---------------|----------|
| | 2007 | 2006 |
| Summary Net Income | 430 | 394 |
| Increase in Prepaid Expense..... | (5) | (3) |
| Acquisition of Tangible Capital Assets..... | (662) | (531) |
| Amortization of Tangible Capital Assets..... | 292 | 266 |
| Disposal of Tangible Capital Assets..... | 6 | 10 |
| | (369) | (258) |
| Other Comprehensive Income..... | 56 | 31 |
| Decrease in Net Debt | 117 | 167 |
| Net Debt, beginning of year, as restated..... | (10,520) | (10,687) |
| Net Debt, end of year | (10,403) | (10,520) |

SUMMARY STATEMENT OF CASH FLOW

For the Year Ended March 31, 2007

| | (\$ millions) | |
|---|---------------------|---------------------|
| | 2007 | 2006 |
| Cash and cash equivalents provided by (used in) | | |
| Operating activities: | | |
| Summary net income for the year..... | 430 | 394 |
| Changes in non-cash items: | | |
| Temporary investments..... | 85 | (56) |
| Amounts receivable..... | (44) | 41 |
| Valuation allowance..... | (2) | (31) |
| Inventories..... | 1 | (4) |
| Prepays..... | (5) | 3 |
| Accounts payable, accrued charges, provisions and deferrals..... | 196 | 45 |
| Pension liability..... | 192 | 206 |
| Amortization of foreign currency fluctuation..... | 6 | 5 |
| Amortization of debt discount..... | 6 | 7 |
| Amortization of investment discounts and premiums..... | 1 | 2 |
| Other Comprehensive Income..... | 56 | 31 |
| Disposal of tangible capital assets..... | 6 | 10 |
| Amortization of tangible capital assets..... | 292 | 266 |
| | <u>1,220</u> | <u>919</u> |
| Changes in equity in Government business enterprises..... | (193) | (516) |
| Cash provided by operating activities | <u>1,027</u> | <u>403</u> |
| Tangible capital assets | | |
| Acquisition of tangible capital assets..... | (662) | (531) |
| Cash used in capital activities | <u>(662)</u> | <u>(531)</u> |
| Investing activities: | | |
| Made..... | (1,150) | (745) |
| Realized..... | 1,650 | 899 |
| Cash provided by investing activities | <u>500</u> | <u>154</u> |
| Financing activities: | | |
| Debt issued..... | 2,641 | 2,928 |
| Debt redeemed..... | (2,288) | (2,777) |
| Cash provided by financing activities | <u>353</u> | <u>151</u> |
| Increase in cash and cash equivalents | 1,218 | 177 |
| Cash and cash equivalents, beginning of year..... | <u>1,264</u> | <u>1,087</u> |
| Cash and cash equivalents, end of year..... | <u><u>2,482</u></u> | <u><u>1,264</u></u> |

**NOTES TO THE SUMMARY FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007**

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 of public school divisions. The financial operations of these school 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 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 division's accounting systems are presently underway and the impact of those changes will be reflected in their 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, except for the change in liability for unfunded pension benefits, 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, 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 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 are 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 for the severance liability are amortized over the expected average remaining service life of the related employee group. Actuarial gains and losses for the Long Term Disability Income plan and the workers compensation claims are recognized as they arise.

SUMMARY FINANCIAL STATEMENTS

- 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 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 into 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 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 recorded as revenue. 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.

In 2006, the CICA issued a revision to Section PS 3150 Tangible Capital Assets recommending that capital grants not be netted against the cost of the related tangible capital asset. Effective April 1, 2006 the Government changed its accounting policy on a prospective basis to comply with this recommendation. Capital grants received from other governments under a shared cost agreement are now recorded as revenue. Previously, they were deducted from the cost of the related asset with any amortization calculated on the net amount. The amount of capital grants received during the year was \$82 million.

SUMMARY FINANCIAL STATEMENTS

- 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, software licences | 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

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 and corporate income taxes, Canada Health Transfer and Canada Social Transfer entitlements, 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. 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, CASH EQUIVALENTS AND TEMPORARY INVESTMENTS

Cash and cash equivalents include cash and short-term investments that can be converted to cash. Cash and cash equivalents are recorded at cost, which approximates market value. Investment revenue earned on cash equivalents during the year was \$69 million (2006 - \$41 million).

Temporary investments are recorded at the lower of cost and market value. As at March 31, 2007, the cost of temporary investments was \$238 million (2006 - \$323 million) with a market value of \$238 million (2006 - \$323 million). Investment revenue earned on the temporary investment funds during the year was \$17 million (2006 - \$20 million).

3. PORTFOLIO INVESTMENTS

Portfolio investments are recorded at the lower of cost and net realizable value with the exception of amounts invested with the Civil Service Superannuation Fund and the Teachers' Retirement Allowances Fund which are recognized at fair value. As at March 31, 2007, the carrying value of portfolio investments was \$2,468 million (2006 - \$2,605 million) with a market value of \$2,500 (2006 - \$2,641). Portfolio investments earned \$268 million during the year (2006 - \$268 million).

A. Pension Assets

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 or losses on sale of investments and unrealized market gain or loss for the year. Investment income earned for the year was \$67 million (2006 - \$61 million). The fair value of these investments as at March 31, 2007 was \$699 million (2006 - \$537 million). These Funds are balanced funds and the investments consist primarily of cash equivalents, equities, bonds, mortgages and real estate.

B. Sinking Funds

Portfolio investments also include sinking funds of \$1,718 (2006 - \$1,997). 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 Government's sinking fund. The Government's sinking fund currently provides for the repurchase of foreign debt and the pre-funding of maturing debt issues. In addition, the Government's sinking fund is invested principally in securities issued or guaranteed by Canadian provinces.

Sinking funds are recorded at the lower of cost and market value. As at March 31, 2007, sinking funds had a cost of \$1,718 million (2006 - \$1,997 million) and a market value of \$1,750 million (2006 - \$2,033 million). Investment revenue earned on the sinking funds during the year was \$196 million (2006 - \$204 million).

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 (Schedule 3).

The sinking funds are allocated as follows:

| | (\$ millions) | |
|---|----------------------|--------------|
| | 2007 | 2006 |
| Province of Manitoba | 2,504 | 2,142 |
| Crown Corporations | <u>12</u> | <u>11</u> |
| Total sinking funds | 2,516 | 2,153 |
| Less: Uninvested portion of sinking funds held in cash and cash equivalents | <u>(798)</u> | <u>(156)</u> |
| Total sinking funds held as portfolio investments | <u>1,718</u> | <u>1,997</u> |

4. ADJUSTMENTS TO ACCUMULATED DEFICIT

In the March 31, 2007 fiscal year, restatements to the March 31, 2006 accumulated deficit and net income for the year were made compliance with our accounting policies or the correction of errors.

Adjustments were made to the opening accumulated deficit for the March 31, 2006 fiscal year to recognize additional environmental liabilities (\$20 million increase).

Adjustments were made to the opening accumulated deficit for the March 31, 2006 fiscal year to apply changes due to correction of errors. During the year, the Government corrected an accounting error related to the recognition of individual income tax revenue in the 2003/04 fiscal year. This error resulted in an understatement of a loan payable to the Federal Government in the amount of \$2 million and a corresponding overstatement of income tax revenue (\$2 million increase). An adjustment was made to reflect a correction in opening equity upon the consolidation of the four Winnipeg based community hospitals with the Winnipeg Regional Health Authority (\$2 million increase). An adjustment was made to correct over accruals on health care deficits (\$26 million decrease).

SUMMARY FINANCIAL STATEMENTS

The net effect of these adjustments is a \$2 million decrease to March 31, 2006 opening accumulated deficit.

This change in the health care deficit accruals also resulted in an increase to 2006 summary net income of \$21 million. A further adjustment was made to reflect healthcare self-sustaining borrowings incorrectly eliminated on consolidation. This correction resulted in a \$2 million decrease to the 2006 summary net income. The net effect of these corrections resulted in an increase of \$19 million to the 2006 summary net income and a decrease in the opening March 31, 2007 accumulated deficit of \$21 million.

5. EQUITY IN GOVERNMENT BUSINESS ENTERPRISES

The category definitions are as follows:

Utility:

An enterprise which provides public utility services for a fee.

Insurance:

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

Finance:

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

Resource Development:

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

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

Equity in Government business enterprises is comprised of:

| | (\$ millions) | |
|---|---------------|--------------|
| | 2007 | 2006 |
| Restricted Equity in Government Business Enterprises: | | |
| Manitoba Hydro-Electric Board | 1,407 | 1,285 |
| Manitoba Public Insurance Corporation | 264 | 257 |
| Workers Compensation Board | <u>247</u> | <u>184</u> |
| | <u>1,918</u> | <u>1,726</u> |
| Unrestricted Equity in Government Business Enterprises: | | |
| Manitoba Lotteries Corporation | 5 | 5 |
| Manitoba Product Stewardship Corporation | 2 | 2 |
| Manitoba Public Insurance Corporation | <u>8</u> | <u>7</u> |
| | <u>15</u> | <u>14</u> |
| Equity in Government Business Enterprises | <u>1,933</u> | <u>1,740</u> |

SUMMARY FINANCIAL STATEMENTS

6. 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 Limit | (\$ millions) | |
|--|---------------------|---------------|-----------|
| | | 2007 | 2006 |
| Canada Mortgage and Housing Corporate Mortgages | 1 | - | - |
| Manitoba Business Start Program | 5 | 1 | 1 |
| Manitoba Agricultural Services Corporation (Note a) | | 66 | 59 |
| Manitoba Housing and Renewal Corporation (Note b) | | 5 | 6 |
| Rural Entrepreneur Assistance Program (Note c) | 16 | 4 | 4 |
| Manitoba Student Financial Assistance Program (Note d) | 20 | 5 | 7 |
| Rural Municipality of Richot | 1 | <u>1</u> | <u>1</u> |
| | | 82 | 78 |
| Manitoba Grow Bonds | | <u>5</u> | <u>5</u> |
| Total guarantees outstanding | | <u>87</u> | <u>83</u> |

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 (2006 - \$20 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 25% of the respective value of loans made under this program.
 Manitoba Cattle Feeder Associations Loans Guarantees – for each association, guarantee 25% of the loan to a maximum guarantee of \$1 million.
 Diversification Loan Guarantee Program – guarantees 25% of loans made by participating lenders, for the diversification or farm value-added activities, to a maximum individual guaranteed loan allowable of \$3 million.
 Enhanced Diversification Loan Guarantee Program – eliminated lender pooling of guarantees and the maximum of \$3 million for qualifying loans.

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

Note c – The 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 thirteen 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.

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7. 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:

| | Government Business Enterprises | Other | (\$ millions) | |
|-----------------------------------|--|--------------|-----------------------|-------------|
| | | | Total 2007 | 2006 |
| Rental of tangible capital assets | <u>63</u> | <u>180</u> | <u>243</u> | <u>206</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 \$87 million (2006 - \$79 million).

B. Capital Obligations

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

Future Obligations:

| | Government Business Enterprises | Other | (\$ millions) | |
|--|--|--------------|-----------------------|-------------|
| | | | Total 2007 | 2006 |
| Tangible capital assets, infrastructure and other capital | 213 | 266 | 479 | 215 |
| Approved mortgages | <u>-</u> | <u>17</u> | <u>17</u> | <u>21</u> |
| | <u>213</u> | <u>283</u> | <u>496</u> | <u>236</u> |

The Manitoba Hydro-Electric Board made a commitment towards the construction of an office building in downtown Winnipeg. Construction on this building is underway.

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 \$324 million (2006 - \$240 million) expansion project and has agreed to provide \$162 million (2006 - \$120 million) towards the expansion project. During the 2007 fiscal year, both parties announced \$341 million additional funding for the project, bringing the total funding to \$665 million. A formal agreement for this additional funding has not been finalized.

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) | |
|--------------------------------------|----------------------|-------------|
| | 2007 | 2006 |
| Buildings | 35 | 3 |
| Transportation | 39 | 34 |
| Dams and Water Management Structures | - | 2 |
| Equipment | <u>2</u> | <u>-</u> |
| | <u>76</u> | <u>39</u> |

C. 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.

8. CONTINGENCIES

The Government has been named in various legal actions, including treaty land entitlements. No provision has been made at March 31, 2007 in the accounts where the final results are uncertain.

A. Disaster Financial Assistance

A provision has been made at March 31, 2007 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 \$132 million (2006 - \$121 million). Reassessments of these liabilities will be made as settlements are achieved. There are other mitigation issues, the outcomes of which are not determinable at this time.

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, 2006 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, 2006 is \$198 million (2005 - \$174 million). The related assets as at March 31, 2006 total \$239 million (2005 - \$208 million). The subsidiary also had a re-insurance contract for additional coverage of \$750 million.

Based upon the above, as at March 31, 2006, 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, 2006. March 31, 2007 figures are not available for comparison.

9. TREATY LAND ENTITLEMENT OBLIGATIONS

To meet Manitoba's obligation under treaty land entitlement agreements, approximately 295,848 acres of provincial Crown land have been transferred to the Government of Canada for First Nations.

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Manitoba's obligations under the Treaty Land Entitlement Framework Agreement requires the setting aside of 985,949 acres of Crown land. To date, 843,878 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 Government under the *Crown Land Act* or any other statute.

10. 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.

11. PENSION PLANS

The Government of the Province of Manitoba supports ten separate pension plans. These include the Civil Service Plan (CSP), the Teachers' Plan, the Members of the Legislative Assembly Plan, the Legislative Assembly Pension Plan (LAPP), the University of Manitoba Pension Plans, 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 are no unfunded liabilities 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, 2007 was \$26 million (2006 - \$21 million), the Government set aside \$85 million (2006 - \$85 million) in the pension assets. 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 \$699 million at March 31, 2007 (2006 - \$537 million).

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

| Plan | Latest Valuation | Real Rate of Return | Inflation Rate | Investment Rate of Return |
|---------------------------|-------------------|---------------------|----------------|---|
| Civil Service | December 31, 2004 | 4.00% | 2.50% | 6.50% |
| Teachers' | January 1, 2004 | 4.25% | 2.50% | 6.75% |
| MLA | March 31, 2006 | 3.25% | 2.75% | 6.00% |
| LAPP | March 31, 2006 | 3.25% | 2.75% | 6.00% |
| U of Manitoba – 1970 Plan | December 31, 2003 | 4.00% | 2.50% | 6.50% |
| U of Manitoba – 1993 Plan | December 31, 2005 | 3.50% | 2.50% | 6.00% |
| Brandon University | December 31, 2006 | 3.25% | 2.50% | 5.75% |
| HEPP | December 31, 2006 | 3.50% | 3.00% | 6.50% |
| Judges' Supplemental | March 31, 2003 | 3.25% | 2.75% | 6.00% |
| WCFSP | December 31, 2006 | 3.00% | 2.00% | 5.00% |
| University of Winnipeg | December 31, 2004 | | | 6.50% ¹ , 6.00% ² |

¹ pre-retirement rate of return

² post-retirement rate of return

During the year, no amendments were made to any of the Plans.

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

| | (\$ millions) | | |
|-------------------------------------|----------------------------|------------------------------|--------------|
| | Pension Expense 2007 | Pension liability 2007 | 2006 |
| Civil Service Plan | | | |
| Pension Liability | 161 | 1,793 | 1,704 |
| Unamortized Net Actuarial Gains | | 8 | 14 |
| Teachers' Plan | | | |
| Pension Liability | 234 | 2,370 | 2,271 |
| Unamortized Actuarial Losses | | (73) | (82) |
| Members of the Legislative Assembly | | | |
| Pension Liability | 2 | 29 | 30 |
| Unamortized Actuarial Gains | | 3 | 3 |
| Legislative Assembly Pension Plan | - | - | 1 |
| Judges' Supplemental Pension Plan | 3 | 29 | 26 |
| Other Plans | <u>24</u> | - | - |
| | <u>424</u> | <u>4,159</u> | <u>3,967</u> |

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

The various pension plans 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) | |
|--|---------------|---------------|
| | 2006 | 2005 |
| Civil Service Superannuation Fund | 3,858 | 3,410 |
| Teachers' Retirement Allowances Fund | 3,082 | 2,693 |
| Legislative Assembly Pension Plan | 1 | - |
| University of Manitoba Pension Plans | 1,048 | 968 |
| Brandon University Retirement Plan | 103 | 93 |
| Healthcare Employees Pension Plan | 3,418 | 2,978 |
| Winnipeg Child and Family Services Employee Benefits Retirement Plan | 31 | 42 |
| University of Winnipeg Pension Plan | <u>140</u> | <u>127</u> |
| | <u>11,681</u> | <u>10,311</u> |

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, 2007, the CSP had approximately 43,300 (2006 - 42,500) 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, 2007 was \$50 million (2006 - \$44 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%) of 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, 2007 amounted to \$76 million (2006 - \$76 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, 2007, payments of \$111 million (2006 - \$99 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 \$1,801 million as at March 31, 2007 (2006 - \$1,718 million), which includes net unamortized actuarial gains of \$8 million (2006 - \$14 million). The increase in liability includes current year interest of \$121 million (2006 - \$115 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 2007 combined amortization was a \$6 million decrease to expenses (2006 - \$5 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, 2007, the Teachers' Retirement Allowances Fund (TRAF) had approximately 31,600 (2006 - 32,200) 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.

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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, 2007, amounted to \$66 million (2006 - \$61 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, 2007, payments of \$126 million (2006 - \$115 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 \$2,297 million as at March 31, 2007 (2006 - \$2,189 million), which includes unamortized actuarial losses of \$73 million (2006 - \$82 million). The increase in liability includes current year interest of \$152 million (2006 - \$145 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 2007 amortization expense was \$9 million (2006 - \$9 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, 2007, there are 115 (2006 - 115) 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, 2006, 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, 2007 (2006 - \$33 million), which includes unamortized actuarial gains of \$3 million (2006 - \$3 million). The change in liability includes current year interest of \$2 million (2006 - \$2 million). The March 31, 2006 report disclosed an actuarial gain of \$0.5 million which will be amortized over the 8 year expected average remaining service life of the MLAs. This actuarial gain has been combined with the actuarial gains from the March 31, 2000 and March 31, 2003 actuarial reports. The 2007 combined amortization was a \$0.7 million decrease to expenses (2006 - \$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 monthly pension benefits under the plan is determined by the following formula:

$$2\% \times S \times Y / 12$$

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 60th 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 was a six month time limit placed on the decision of whether to join the plan commencing once the Pension Commissioner established Regulations respecting his decisions. This six –month period for existing and former eligible MLAs ended on January 20, 2007. 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, 2007 there were 50 members contributing to the plan (2006 – 3), and the total employee and the Province's assets as at March 31, 2007 are estimated to be \$1.8 million.

An actuarial report was completed for the Legislative Assembly Pension Plan as at March 31, 2006, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. An updated projection was provided by the Plan's actuary based on the Plan's Statement of Net Assets Available for Benefits as at December 31, 2006. The Government's net liability for accounting purposes has been projected by the actuary to be \$0.1 million as at March 31, 2007 (2006 \$1.2 million).

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 trustee 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.

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, 2006, the University of Manitoba Pension Plans had 5,495 active members (2005 - 5,359), and 1,026 pensioners (2005 - 985). 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 for the 1970 plan, by Eckler Partners Ltd., a firm of consulting actuaries. The results of this valuation have been extrapolated by Eckler Partners Ltd. to December 31, 2006. An actuarial valuation of the 1993 plan, effective December 31, 2005 was completed in 2006. As at December 31, 2006, the University of Manitoba Pension Plan (1970) and The University of Manitoba Pension Plan (1993) were in an actuarial surplus of \$1 million (2005 - \$1 million) and \$25 million (2005 - \$6 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 \$15 million (2006 - \$14 million) for the 1970 Plan and for the 1993 Plan for the fiscal year ended March 31, 2007. Employee contributions for the year ended December 31, 2006 were \$15 million (2005 - \$14 million).

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

The University of Manitoba GFT Pension Plan (1986) is a defined contribution pension plan; therefore there is no requirement for an actuarial valuation of this plan. The University's contributions to this plan were \$2 million in 2007 (2006 - \$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, 2006, the Brandon University Retirement Plan had 486 active members (2005 - 469), 208 pensioners (2005 - 206), and 56 deferred pensioners (2005 - 50).

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, 2006 by Eckler Partners Ltd., a firm of consulting actuaries. As at December 31, 2006, the Brandon University Retirement Plan was in an actuarial surplus of \$4 million (2005 - no actuarial surplus). The Brandon University cannot access this surplus and, as a result, no asset has been recorded in the Province's Summary Financial Statements.

The Brandon University recognized expenses equal to its contributions of \$2 million (2006 - \$2 million). Employee contributions for the year ended December 31, 2006 were \$1 million (2005 - \$1 million).

The next full actuarial valuation of the plan will be as at December 31, 2009 and will be completed in 2010.

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, 2006.

As at December 31, 2006, HEPP had 36,961 active and disabled members (2005 – 36,818), 8,716 deferred vested members (2005 – 7,353), and 10,691 retired members (2005 – 10,151). There are currently 186 participating employers (2004 - 180).

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, 2006, using the projected unit credit actuarial cost method. As at December 31, 2006, HEPP had a going concern actuarial surplus of \$11 million (2004 - \$5 million). The employers cannot access this surplus and, as a result no asset has been recorded in the Province's Summary Financial Statements.

Employer contributions for the year ended December 31, 2006 were \$84 million (2005 - \$72 million). Employee contributions equalled the employer contributions.

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 11A.

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, five 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, 2007, there are 67 (2006 - 63) 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 \$29 million as at March 31, 2007 (2006 - \$26 million). The increase in liability includes current year interest of \$2 million (2006 - \$1 million).

I. Winnipeg Child and Family Services Employee Benefits Retirement Plan

The Winnipeg Child and Family Services Employee Benefits Retirement Plan (WCFSP) was established effective December 29, 2003. The WCFSP applies to employees of the former Winnipeg Child and Family Services Agency 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, 2006, the WCFSP had 1 active (2005 - 1), 267 deferred members (2005 - 319), and 148 pensioners (2005 - 138).

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. Solvency deficiency, identified in previous actuarial valuations was eliminated as a result of payments made by the Government combined with investment gains (2006 solvency deficiency was estimated to be \$1.2 million).

The WCFSP reflects the pension benefits earned by its members for service until June 27, 2004. Except for one remaining active plan member, no further pensionable service entitlements will accrue in the WCFSP after June 27, 2004. Subsequent to June 27, 2004, all but one active members of the WCFSP became members of the Civil Service Plan (CSP) and began 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 WCFSP as at December 31, 2006, by Ellement & Ellement. The WCFSP has a solvency surplus of \$0.3 million and a solvency ratio of 101.2% 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 the results of this valuation were extrapolated by them to December 31, 2006. The actuary's extrapolation confirms that the defined benefit segment of the Plan has a solvency deficiency estimated to be \$9.3 million as at December 31, 2006 (a favourable change from 2005 - \$15 million deficiency). 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 over 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, 2006, the University of Winnipeg Pension Plan had 670 active members (2005 - 663), 202 pensioners (2005 -198), and 89 deferred pensioners (2005 -79).

The University of Winnipeg recognized expenses equal to its contributions of \$3 million (2005 - \$3 million). Employee contributions for the same period were \$2 million (2005 - \$2 million).

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

Contingency:

On December 8, 2006, the Superintendent of Pension Plans issued an Order requiring the University to develop and implement a written governance framework, and pay a lump sum amount estimated to be \$6.2 million, plus interest of about \$2 million, into the Plan, for the benefit of defined benefit members, in relation to the undistributed portion of their proportionate share of the Plan surplus, as determined by the Plan Actuary in 1999.

The University has appealed the Superintendent's decision to the Pension Commission, and is seeking that the Order be quashed. The appeal proceedings before the Pension Commission have commenced, but the outcome will not be determined for some time. The decision of the Commission may be further appealed to the Manitoba Court of Appeal, and the University has taken the position before the Commission, that the Order should be stayed until all legal proceedings are concluded. No payment, pursuant to the Order has been made, and no provision has been made for such future payment in these financial statements or those of the Plan.

12. 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 March 31, 2007 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, 2007 was \$22 million (2006 - \$30 million). The Government's accounting policy has been changed to reflect actuarial gains and losses in the year in which they occur in accordance with standard industry practice. The previous stated policy was to recognize the actuarial gains and losses over the average expected period during which the benefits will be paid, which was not determined.

13. 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, 2007 was \$290 million (2006 - \$280 million).

14. AMOUNTS HELD IN TRUST

The Government held certain fiduciary trusts for investment or administration at March 31, 2007, totalling \$453 million (2006 - \$417 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, 2007 totalling \$108 million (2006 - \$104 million) and title to tangible capital assets in trust in the amount of \$72 million (2006 - \$68 million).

The Federal Government, through agreements with the Province, has agreed to transfer Public transit funds and federal gas tax revenues for the purpose of making a transformative difference in the sustainability and future prosperity of cities and communities in Manitoba. The province has agreed to administer these funds on behalf of the Federal Government. In this administrative role, the Government allocates funds to the eligible recipients in accordance with prescribed formulas and conditions within the agreements. As at March 31, 2007, these funds held in trust for administration amounted to \$33 million (2006 - \$13 million).

15. DEBT SERVICING

Debt servicing costs of \$835 million (2006 - \$810 million) are net of interest recoveries from Government business enterprises of \$478 million (2006 - \$474 million) and includes \$88 million (2006 - \$83 million) representing interest expense of Crown organizations (Schedule 11). Government business enterprises debt servicing costs of \$519 million (2006 - \$517 million) are reported on Schedule 3.

16. 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, 2007, this loan payable has been reduced to \$64 million (2006 - \$71 million).

To offset negative adjustments to the 2004 Equalization payments, the Federal Government provided to the Province a loan payable of \$38 million repayable over a ten year period commencing in April 2006. As at March 31, 2007 this loan payable had been reduced to \$34 million (2006 - \$38 million). Similarly, to offset negative adjustments to the 2004 Canada Health and Social Transfer (CHST) entitlements, the Federal Government provided to the Province a loan payable of \$9 million repayable over a ten year period commencing in April 2006. As at March 31, 2007 this loan payable had been reduced to \$8 million (2006 - \$9 million).

These loans are non-interest bearing.

Through the Manitoba Opportunities Fund Ltd., the Province holds and invests deposits made through the Federal Department of Citizenship and Immigration Canada's 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 ten years. As at March 31, 2007, the Province has loans payable of \$97 million (2006 - \$75 million) to be repaid to the Federal Government five years after receipt. The Province is charged an administrative fee for each loan.

17. RISK MANAGEMENT AND THE USE OF DERIVATIVE FINANCIAL INSTRUMENTS

The Government 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 Government uses derivatives to hedge and to mitigate interest rate risk and the risks attached to foreign currency fluctuations. The Government 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 Government 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 Government to effectively manage the terms of its existing obligations and thereby convert them into obligations that meet the Government's risk parameters.

Other derivative instruments used by the Government 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 Government 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 \$73 million (2005 - \$79 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 Government's derivatives, by type, outstanding at March 31, 2007, 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 | | | | | | | | |
|--|---|--------------|--------------|--------------|--------------|-------------------------|--------------------------|---------------|
| As at March 31, 2007 | | | | | | | | |
| Derivatives | Maturity in Fiscal Year (\$millions) | | | | | | | |
| | 2008 | 2009 | 2010 | 2011 | 2012 | 6 – 10 Years | Over 10 Years | Total |
| Interest rate swaps | 1,175 | 835 | 2,003 | 1,963 | 538 | 7,798 | 6,350 | 20,662 |
| Cross currency swaps | 460 | 984 | 542 | 233 | 708 | 1,571 | 2,689 | 7,187 |
| Forward foreign exchange contracts | 131 | - | - | - | - | 208 | - | 339 |
| Total | 1,766 | 1,819 | 2,545 | 2,196 | 1,256 | 9,577 | 9,039 | 28,188 |

The use of derivatives introduces credit risk, which is the risk of a counterparty defaulting on contractual derivative obligations in which the Government 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, 2007.

SUMMARY FINANCIAL STATEMENTS

| Credit Risk Exposure As at March 31, 2007 | | |
|--|---------------|---------------|
| | (\$ millions) | |
| | 2007 | 2006 |
| Gross credit risk exposure ¹ | 85 | 59 |
| Less: Netting ² | (662) | (762) |
| Net Credit Risk Exposure | (577) | (703) |

- ¹ Gross credit risk exposure is the gross credit exposure to counterparties (party with whom the Province entered into an agreement) with net positive exposures (the respective counterparties owe the Government.)
- ² "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 matching settlement dates (the Government owes the respective counterparties).

As at March 31, 2007, the Government has no net credit risk exposure, but has a net liability to counterparties.

The Government 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 Government 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 \$12.5 million (2006, \$13.5 million).

Liquidity risk is the risk that the Government will not be able to meet its current short-term financial obligations. To reduce liquidity risk, the Government maintains liquid reserves, that is, cash and cash equivalents (Note 2), at levels that will meet future cash requirements and will give the Government flexibility in the timing of issuing debt. In addition, the Government 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.

18. RELATED PARTY TRANSACTIONS

A. Related Party Borrowings

Borrowings include \$380 million (2006 - \$330 million) owed to Manitoba Public Insurance Corporation related to the capital financing of school board and health care facilities as well as \$270 million (2006 - \$250 million) for the financing of general Government programs. \$45 million (2006 - \$45 million) is payable to the Manitoba Liquor Control Commission.

These loans and debentures are repayable over a term from 2008 to 2027 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 \$106 million (2006 - \$125 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) (2006 - \$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, 2007 were \$71 million (2006 - \$69 million).

The Government guarantees and administers Manitoba HydroBonds. Outstanding bonds as at March 31, 2007 totalled \$670 million (2006 - \$485 million). The bonds carry fixed and variable coupon rates that range from 4.2% to 5.5%. 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, 2007 was \$7 million (2006 - \$7 million).

The Manitoba Lotteries Corporation provided \$3 million in funding for the year ended March 31, 2007 (2006 - \$3 million) to the Addictions Foundation of Manitoba for problem gambling services programming. Manitoba Hydro-Electric Board paid Corporation Capital Tax of \$39 million for the year ended March 31, 2007 (2006 - \$37 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, into perpetuity, to defray the cost borne by MPIC as a result of the transfer. The current year's \$21 million funding was reduced by \$0.5 million on a one-time basis to defray the costs to the Government of aligning the renewal of driver licences with motor vehicle registrations.

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, 2007, these fees totalled \$100 million (2006 - \$98 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, 2007 these fees totalled \$17 million (2006 - \$19 million).

19. COMPARATIVE FIGURES

Certain of the 2006 financial statement figures have been reclassified to be consistent with the 2007 presentation, including departmental reorganizations.

SCHEDULE 1

SUMMARY STATEMENT OF AMOUNTS RECEIVABLE

As at March 31, 2007

| | (\$ millions) | |
|---|---------------|------------|
| | 2007 | 2006 |
| TAXATION REVENUE: | | |
| Corporation capital tax..... | 5 | 1 |
| Corporation income tax..... | 51 | 64 |
| Gasoline tax..... | 13 | 13 |
| Health and education levy..... | 31 | 30 |
| Individual income tax..... | 133 | 124 |
| Insurance corporation tax..... | 15 | 14 |
| Motive fuel tax..... | 9 | 9 |
| Oil and natural gas tax..... | 1 | 1 |
| Retail sales tax..... | 126 | 123 |
| Tax Administration and Miscellaneous Taxes Act..... | 8 | 9 |
| Tobacco tax..... | 15 | 17 |
| | <u>407</u> | <u>405</u> |
| GOVERNMENT OF CANADA AND OTHER GOVERNMENTS: | | |
| Canada health and social transfers..... | 10 | 4 |
| Municipal corporations..... | 37 | 37 |
| Provincial and Territories..... | - | 18 |
| Shared cost programs/agreements..... | 151 | 169 |
| Other..... | 32 | 20 |
| | <u>230</u> | <u>248</u> |
| INTEREST: | | |
| Province of Manitoba sinking fund..... | 23 | 24 |
| Other investments..... | 11 | 7 |
| | <u>34</u> | <u>31</u> |
| OTHER: | | |
| Health and social services..... | 143 | 91 |
| Manitoba Hydro-Electric Board..... | 8 | 11 |
| Manitoba Liquor Control Commission..... | 25 | 23 |
| Manitoba Lotteries Corporation..... | 11 | 6 |
| Sundry departmental revenue..... | 75 | 61 |
| Other..... | 71 | 84 |
| | <u>333</u> | <u>276</u> |
| | 1,004 | 960 |
| Less: Allowances..... | 85 | 82 |
| | <u>919</u> | <u>878</u> |

SCHEDULE 2

SUMMARY STATEMENT OF LOANS AND ADVANCES

As at March 31, 2007

| | (\$ millions) | |
|---|-------------------|-------------------|
| | 2007 | 2006 |
| GOVERNMENT BUSINESS ENTERPRISES: | | |
| Manitoba Hydro-Electric Board..... | 6,640 | 6,625 |
| Manitoba Lotteries Corporation..... | 197 | 237 |
| | <u>6,837</u> | <u>6,862</u> |
| Less: Debt incurred for and repayable by the Manitoba-Hydro Electric Board and Manitoba Lotteries Corporation..... | <u>6,837</u> | <u>6,862</u> |
| | <u>-</u> | <u>-</u> |
| OTHER: | | |
| Loans and Mortgages - Note a..... | 591 | 608 |
| Hudson Bay Mining and Smelting Co. Ltd - Note b..... | 12 | 16 |
| Manitoba Potash Corporation - Note c..... | 4 | 4 |
| Manitoba student loans - Note d..... | 33 | 29 |
| Regional family services agencies - Note e..... | 16 | 14 |
| Rural economic development initiatives program - Note f..... | 3 | 3 |
| Other..... | 1 | 2 |
| | <u>660</u> | <u>676</u> |
| Less: Valuation allowance..... | <u>86</u> | <u>91</u> |
| NET LOANS AND ADVANCES | <u><u>574</u></u> | <u><u>585</u></u> |

The Government business enterprises loans and advances portfolio is due in varying annual amounts to the year 2031, bearing interest rates from nil to 13.375%

Note a

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%.

| | | |
|--|-----|-----|
| | 330 | 345 |
|--|-----|-----|

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%.

| | | |
|--|-----|-----|
| | 159 | 162 |
|--|-----|-----|

Business development assistance loans, due in varying annual amounts to the year 2013, bearing interest rates ranging from nil to 9.875%.

| | | |
|--|----|----|
| | 76 | 77 |
|--|----|----|

Northern business development and fishing industry assistance loans, due in varying annual amounts to the year 2009, bearing interest rates ranging from 4.125% to 5.5%.

| | | |
|--|----|----|
| | 26 | 24 |
|--|----|----|

| | | |
|--|------------|------------|
| | <u>591</u> | <u>608</u> |
|--|------------|------------|

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

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

Note d - 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 e - 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 f - 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, 2007
(\$ millions)

SCHEDULE 3

| | UTILITY | INSURANCE | FINANCE | RESOURCE DEVELOPMENT | TOTAL 2007 | TOTAL 2006 |
|--|---------|-----------|---------|----------------------|------------|------------|
| RESULTS OF OPERATIONS | | | | | | |
| Revenues from operations | 2,140 | 1,237 | 1,234 | - | 4,611 | 4,823 |
| Expenses: From operations | 1,512 | 1,222 | 731 | - | 3,465 | 3,348 |
| Debt servicing | 506 | - | 13 | - | 519 | 517 |
| Total expenses | 2,018 | 1,222 | 744 | - | 3,984 | 3,865 |
| Net income | 122 | 15 | 490 | - | 627 | 958 |
| Transfers to the Government | - | - | (490) | - | (490) | (473) |
| | 122 | 15 | - | - | 137 | 485 |
| Other Comprehensive Income | - | 56 | - | - | 56 | 31 |
| Net increase in equity in Government business enterprises | 122 | 71 | - | - | 193 | 516 |
| FINANCIAL POSITION | | | | | | |
| Assets: | | | | | | |
| Cash and temporary investments | 1 | 60 | 40 | 1 | 102 | 253 |
| Amounts receivable | 436 | 281 | 39 | - | 756 | 724 |
| Portfolio investments - Due from Province | 83 | - | 45 * | - | 128 | 62 |
| Due from others | 547 | 2,927 | - | - | 3,474 | 3,201 |
| Capital assets | 8,080 | 41 | 199 | - | 8,320 | 7,987 |
| Pension assets | 800 | - | - | - | 800 | 719 |
| Other assets | 682 | 110 | 39 | - | 831 | 782 |
| Total assets | 10,629 | 3,419 | 362 | 1 | 14,411 | 13,728 |
| Liabilities: | | | | | | |
| Accounts payable, accrued liabilities and deferred revenue | 1,332 | 574 | 103 | - | 2,009 | 1,769 |
| Long-term debt: Owing to the Province | 6,639 | - | 198 | 1 | 6,838 | 6,863 |
| Owing to others | 588 | - | - | - | 588 | 545 |
| Provision for future benefits: Pension obligations | 663 | 137 | 49 | - | 849 | 777 |
| Future cost of existing claims | - | 2,189 | 5 | - | 2,194 | 2,034 |
| Total liabilities | 9,222 | 2,900 | 355 | 1 | 12,478 | 11,988 |
| Equity in Government business enterprises | 1,407 | 519 | 7 | - | 1,933 | 1,740 |

* Represent 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, 2007

| | (\$ millions) | |
|---|---------------|-----------|
| | 2007 | 2006 |
| OTHER INVESTMENTS, AT COST | | |
| 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 | | |
| Leaf Rapids Town Properties Ltd..... | 2 | 2 |
| Preferred shares - | | |
| Rancher's Choice - 1 share..... | 5 | 5 |
| Other - | | |
| Limited partnership investments..... | 16 | 13 |
| | <u>41</u> | <u>38</u> |
| Less: Valuation allowance..... | 34 | 34 |
| | <u>7</u> | <u>4</u> |

SUMMARY STATEMENT OF BORROWINGS

SCHEDULE 5

As at March 31, 2007

(\$ millions)

| Fiscal Year of Maturity | Bonds and Debentures | | Canada Pension Plan Cdn | Loans and Mortgages Cdn | Promissory Notes and Treasury Bills Cdn | Totals | |
|---|----------------------|--------------|----------------------------------|-------------------------------|--|----------------|----------------|
| | Cdn | US | | | | 2007 | 2006 |
| 2007..... | - | - | - | - | - | - | 2,247 |
| 2008..... | 1,526 | - | 90 | - | 325 | 1,941 | 1,616 |
| 2009..... | 1,929 | 284 | 106 | - | - | 2,319 | 2,334 |
| 2010..... | 803 | 458 | 115 | - | - | 1,376 | 1,316 |
| 2011..... | 909 | 288 | 103 | - | - | 1,300 | 1,236 |
| 2012..... | 1,139 | - | 104 | - | - | 1,243 | 609 |
| 2007-2012..... | <u>6,306</u> | <u>1,030</u> | <u>518</u> | <u>-</u> | <u>325</u> | <u>8,179</u> | <u>9,358</u> |
| 2013-2017 Operating Fund..... | 3,817 | 966 | 73 | - | - | 4,856 | 3,780 |
| 2018-2027 Operating Fund..... | 3,084 | 807 | 15 | 198 | - | 4,104 | 4,074 |
| 2028-2046 Operating Fund..... | 2,913 | - | - | - | - | 2,913 | 2,343 |
| 2008-2016 Government of Canada (Note 16)..... | - | - | - | 203 | - | 203 | 193 |
| 2008-2027 Government Business Enterprises (Note 18A)..... | - | - | - | 425 | - | 425 | 375 |
| 2008-2043 Crown Organizations..... | - | - | - | 221 | - | 221 | 243 |
| 2013-2046..... | <u>9,814</u> | <u>1,773</u> | <u>88</u> | <u>1,047</u> | <u>-</u> | <u>12,722</u> | <u>11,008</u> |
| Total borrowings..... | <u>16,120</u> | <u>2,803</u> | <u>606</u> | <u>1,047</u> | <u>325</u> | <u>20,901</u> | <u>20,366</u> |
| Reduced by: | | | | | | | |
| Debt incurred for and repayable by The Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation..... | | | | | | (6,837) | (6,862) |
| Unamortized debt issue costs..... | | | | | | (16) | (15) |
| Unamortized Foreign Currency Fluctuation..... | | | | | | (73) | (79) |
| Province of Manitoba debt issues held as investments in sinking funds and cash and cash equivalents..... | | | | | | <u>(1,614)</u> | <u>(1,765)</u> |
| | | | | | | <u>12,361</u> | <u>11,645</u> |

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SUMMARY FINANCIAL STATEMENTS

| | March 31/07 Cdn \$ Valuation (See Notes) | March 31/06 Cdn \$ Valuation (See Notes) |
|---|--|--|
| Borrowings payable in: | | |
| Canadian dollars | 14,615 | 14,694 |
| Foreign issues hedged to Canadian dollars | 3,482 | 2,834 |
| U.S. dollars | 2,194 | 2,221 |
| Foreign issues hedged to U.S. dollars | 610 | 617 |
| Total borrowings | <u>20,901</u> | <u>20,366</u> |

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

Note b: 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 c: 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 4.10% and the highest set at 7.64% as at March 31, 2007.
- iii) Floating U.S. - U.S. Dollar London Interbank Offering Rate (LIBOR) setting, established quarterly, with the lowest rate currently set at 5.29% and the highest set at 5.48% as at March 31, 2007.

SCHEDULE 6

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

As at March 31, 2007

| | (\$ millions) | |
|---|---------------|--------------|
| | 2007 | 2006 |
| Accounts payable..... | <u>889</u> | <u>773</u> |
| Accrued charges: | | |
| Interest accrued on borrowings and trust funds..... | 259 | 234 |
| Canadian Agricultural Income Stabilization..... | 81 | 110 |
| Compensation for Victims of Crime..... | 20 | 19 |
| Disaster assistance..... | 6 | 17 |
| Flood claims..... | 18 | 15 |
| Hepatitis C assistance..... | 5 | 6 |
| Infrastructure works program..... | 14 | 3 |
| Land acquisition claims..... | 2 | 2 |
| Long Term Disability Income Plan (Note 12)..... | 22 | 30 |
| Manfor Ltd. divestiture..... | 1 | 1 |
| Environmental Liabilities..... | 165 | 167 |
| Salaries and benefits..... | 597 | 585 |
| Tripartite Land Assembly Program..... | 3 | 3 |
| Workers Compensation Board claims..... | 13 | 10 |
| Other..... | <u>11</u> | <u>12</u> |
| | <u>1,217</u> | <u>1,214</u> |
| Provision for future losses on guarantees (Note 6)..... | <u>20</u> | <u>20</u> |
| Deferred Revenue | | |
| Deferred Contributions Related to Future Expense..... | 49 | 50 |
| Government of Canada - Advances re: Shared Cost Programs Not Yet Claimed..... | 93 | 98 |
| Research and Special Funds..... | 105 | 96 |
| Prepaid Settlement of Interest..... | 75 | 7 |
| Tuition and Education Fees..... | 16 | 17 |
| Vehicle Registration..... | 44 | 43 |
| Other..... | <u>35</u> | <u>29</u> |
| | <u>417</u> | <u>340</u> |
| | <u>2,543</u> | <u>2,347</u> |

SUMMARY STATEMENT OF TANGIBLE CAPITAL ASSETS

SCHEDULE 7

For the Year Ended March 31, 2007

(\$ millions)

| | General Capital Assets | | | | | Infrastructure | | | | Totals | |
|---|------------------------|-------------------------------------|------------------------|--------------------------------|---------------------------|-----------------------|----------------|--------------------------------------|---------------------------|--------|-------|
| | Land | Buildings and Leasehold Improvement | Vehicles and Equipment | Computer Hardware and Software | Assets Under Construction | Land and Improvements | Transportation | Dams and Water Management Structures | Assets Under Construction | 2007 | 2006 |
| Cost | | | | | | | | | | | |
| Opening cost, as previously reported | 79 | 3,167 | 1,446 | 460 | 281 | 234 | 1,925 | 85 | 64 | 7,741 | 7,116 |
| New organizations included in the Government Reporting Entity | - | - | - | - | - | - | - | - | - | - | 130 |
| Opening cost restated | 79 | 3,167 | 1,446 | 460 | 281 | 234 | 1,925 | 85 | 64 | 7,741 | 7,246 |
| Add: | | | | | | | | | | | |
| Additions during the year | 9 | 113 | 120 | 37 | 89 | 7 | 100 | 1 | 186 | 662 | 531 |
| Assets acquired in prior years | - | - | - | - | - | - | - | - | - | - | 3 |
| Less: | | | | | | | | | | | |
| Disposals and write downs | - | (5) | (38) | (8) | - | - | - | - | - | (51) | (39) |
| Settlements and reclassifications | - | 69 | 15 | 11 | (91) | (1) | 7 | - | (10) | - | - |
| Closing cost | 88 | 3,344 | 1,543 | 500 | 279 | 240 | 2,032 | 86 | 240 | 8,352 | 7,741 |
| Accumulated amortization | | | | | | | | | | | |
| Opening, as previously reported | - | 1,296 | 996 | 246 | - | - | 40 | 941 | 52 | 3,571 | 3,268 |
| New organizations included in the Government Reporting Entity | - | - | - | - | - | - | - | - | - | - | 63 |
| Opening accumulated amortization restated | - | 1,296 | 996 | 246 | - | - | 40 | 941 | 52 | 3,571 | 3,331 |
| Add: | | | | | | | | | | | |
| Reclassification | - | 3 | 1 | (1) | - | (3) | - | - | - | - | - |
| Amortization | - | 83 | 96 | 39 | - | 3 | 69 | 2 | - | 292 | 266 |
| Assets acquired in prior years | - | - | - | - | - | - | - | - | - | - | 3 |
| Less: | | | | | | | | | | | |
| Accumulated amortization on disposals, write downs | - | (3) | (35) | (7) | - | - | - | - | - | (45) | (29) |
| Closing accumulated amortization | - | 1,379 | 1,058 | 277 | - | - | 109 | 943 | 52 | 3,818 | 3,571 |
| Net Book Value of Tangible Capital Assets | 88 | 1,965 | 485 | 223 | 279 | 240 | 1,923 | (857) | 188 | 4,534 | 4,170 |

Effective April 1, 2006, the Government changed its accounting policy on a prospective basis to comply with the new CICA recommendation that capital grants not be netted against the cost of the tangible capital asset.

During the year the Province capitalized \$2.0 million of interest relating to assets under construction. (2006 - \$0.8 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 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
Métis 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
 Crown Lands and Property Agency
 Fleet Vehicles Agency
 Food Development Centre
 Green Manitoba Eco Solutions
 Industrial Technology Centre
 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, 2007

| | (\$ millions) | | |
|---|------------------------------|--|---|
| | 2006-07 Summary Budget | 2006-07 Operations per Entity Financial Statements | 2005-06 Summary Net Income (Loss) as restated |
| OPERATING FUND AND SPECIAL FUNDS | | | |
| Operating Fund and Special Funds | 83 | 322 | 226 |
| PENSION LIABILITY INCREASE | <u>(197)</u> | <u>(192)</u> | <u>(206)</u> |
| TOTAL OPERATING FUND AND SPECIAL FUND AND PENSIONS | (114) | 130 | 20 |
| CROWN ORGANIZATIONS | | | |
| Assiniboine Community College | - | 1 | - |
| Brandon University | - | 1 | 1 |
| CancerCare Manitoba | - | 2 | (1) |
| Collège universitaire de Saint-Boniface | (1) | 1 | 2 |
| Diagnostic Services of Manitoba Inc. | - | 2 | - |
| Manitoba Agricultural Services Corporation | (3) | 67 | (131) |
| Manitoba Development Corporation | - | 3 | 6 |
| Manitoba Habitat Heritage Corporation | - | 1 | 1 |
| Manitoba Housing and Renewal Corporation | - | 3 | 1 |
| Manitoba Opportunities Fund Ltd. | - | 1 | 1 |
| Public Schools Finance Board | - | 2 | 2 |
| Red River College | - | 7 | 3 |
| Regional Health Authorities and controlled organizations | - | 17 | (45) |
| Special Operating Agencies Financing Authority | (5) | 5 | 4 |
| University College of the North | - | 4 | 1 |
| University of Manitoba | 31 | 63 | 67 |
| University of Winnipeg | - | 5 | - |
| Venture Manitoba Tours Ltd. | - | - | 5 |
| TOTAL CROWN ORGANIZATIONS | <u>22</u> | <u>185</u> | <u>(83)</u> |
| Adjustments on Consolidation | <u>-</u> | <u>(22)</u> | <u>(28)</u> |
| TOTAL OPERATING FUND AND SPECIAL FUNDS, PENSIONS AND CROWN ORGANIZATIONS | <u>(92)</u> | <u>293</u> | <u>(91)</u> |
| GOVERNMENT BUSINESS ENTERPRISES | | | |
| Manitoba Hazardous Waste Management Corporation | - | - | (1) |
| Manitoba Hydro - Electric Board | 222 | 122 | 415 |
| Manitoba Liquor Control Commission | 196 | 208 | 196 |
| Manitoba Lotteries Corporation | 267 | 282 | 277 |
| Manitoba Product Stewardship Corporation | (2) | - | - |
| Manitoba Public Insurance Corporation | 10 | 8 | 48 |
| Workers Compensation Board | 10 | 7 | 23 |
| | <u>703</u> | <u>627</u> | <u>958</u> |
| Less: Adjustments on Consolidation | <u>(463)</u> | <u>(490)</u> | <u>(473)</u> |
| TOTAL GOVERNMENT BUSINESS ENTERPRISES (Schedule 3) | <u>240</u> | <u>137</u> | <u>485</u> |
| TOTAL SUMMARY NET INCOME | <u><u>148</u></u> | <u><u>430</u></u> | <u><u>394</u></u> |

SCHEDULE 10

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

As at March 31, 2007

(\$ millions)

| | Restated Accumulated Surplus (Deficit) March 31,2006 | 2006-07 Summary Net Income (Loss) | Adjustments to Accumulated Surplus (Deficit) | Accumulated Surplus (Deficit) March 31,2007 |
|---|--|--|---|--|
| OPERATING FUND AND SPECIAL FUNDS | | | | |
| Operating Fund and Special Funds | (6,006) | 322 | - | (5,684) |
| PENSION LIABILITY | <u>(3,967)</u> | <u>(192)</u> | <u>-</u> | <u>(4,159)</u> |
| TOTAL OPERATING FUND AND SPECIAL FUNDS AND PENSIONS | (9,973) | 130 | - | (9,843) |
| CROWN ORGANIZATIONS | | | | |
| Addictions Foundation of Manitoba | 4 | - | - | 4 |
| Assiniboine Community College | 8 | 1 | - | 9 |
| Brandon University | 9 | 1 | - | 10 |
| CancerCare Manitoba | 9 | 2 | - | 11 |
| Child and Family Services of Western Manitoba | 1 | - | - | 1 |
| Collège universitaire de Saint-Boniface | 30 | 1 | - | 31 |
| Diagnostic Services of Manitoba Inc. | (1) | 2 | - | 1 |
| First Nations of Northern Manitoba Child & Family Services | 1 | - | - | 1 |
| Manitoba Adolescent Treatment Centre | 1 | - | - | 1 |
| Manitoba Agricultural Services Corporation | 87 | 67 | - | 154 |
| Manitoba Development Corporation | 9 | 3 | - | 12 |
| Manitoba Gaming Control Commission | 1 | - | - | 1 |
| Manitoba Habitat Heritage Corporation | 5 | 1 | 1 | 7 |
| Manitoba Health Services Insurance Plan | 1 | - | - | 1 |
| Manitoba Housing and Renewal Corporation | (244) | 3 | - | (241) |
| Manitoba Opportunities Fund | 1 | 1 | - | 2 |
| Manitoba Water Services Board | (2) | - | - | (2) |
| Public Schools Finance Board | 2 | 2 | (5) | (1) |
| Red River College | 16 | 7 | - | 23 |
| Regional Health Authorities and controlled organizations | 76 | 17 | (4) | 89 |
| Special Operating Agencies Financing Authority | 52 | 5 | - | 57 |
| University College of the North | 5 | 4 | - | 9 |
| University of Manitoba | 828 | 63 | - | 891 |
| University of Winnipeg | 48 | 5 | 3 | 56 |
| Venture Manitoba Tours | <u>(4)</u> | <u>-</u> | <u>-</u> | <u>(4)</u> |
| Adjustments on Consolidation | <u>962</u> | <u>315</u> | <u>(5)</u> | <u>(8,720)</u> |
| TOTAL OPERATING FUND AND SPECIAL FUND, PENSIONS AND CROWN CORPORATIONS | <u>(8,068)</u> | <u>293</u> | <u>-</u> | <u>(7,775)</u> |
| GOVERNMENT BUSINESS ENTERPRISES | | | | |
| Manitoba Hydro - Electric Board | 1,285 | 122 | - | 1,407 |
| Manitoba Liquor Control Commission | - | 208 | (208) | - |
| Manitoba Lotteries Corporation | 5 | 282 | (282) | 5 |
| Manitoba Product Stewardship Corporation | 2 | - | - | 2 |
| Manitoba Public Insurance Corporation | 264 | 8 | - | 272 |
| Workers Compensation Board | 184 | 7 | 56 | 247 |
| | <u>1,740</u> | <u>627</u> | <u>(434)</u> | <u>1,933</u> |
| Adjustments on Consolidation | <u>-</u> | <u>(490)</u> | <u>490</u> | <u>-</u> |
| TOTAL GOVERNMENT BUSINESS ENTERPRISES | <u>1,740</u> | <u>137</u> | <u>56</u> | <u>1,933</u> |
| TOTAL SUMMARY BALANCES | <u>(6,328)</u> | <u>430</u> | <u>56</u> | <u>(5,842)</u> |

Note - Differences may result from rounding.

SCHEDULE 11

SUMMARY STATEMENT OF EXPENSE BY TYPE

For the Year Ended March 31, 2007

| | (\$ millions) | |
|---|---------------|---------------|
| | 2007 | 2006 |
| Personnel Services..... | 3,847 | 3,705 |
| Grants/Transfer Payments..... | 2,250 | 2,696 |
| Transportation..... | 116 | 101 |
| Communications..... | 62 | 53 |
| Supplies and Services..... | 1,145 | 1,077 |
| Social Assistance Related..... | 744 | 709 |
| Other Operating..... | 1,156 | 853 |
| Debt Servicing - Provincial Departments (Note 15)..... | 747 | 727 |
| - Crown Organizations (Note 15)..... | 88 | 83 |
| Minor Capital..... | 43 | 61 |
| Amortization of Tangible Capital Assets (Schedule 7)..... | 292 | 266 |
| | <u>10,490</u> | <u>10,331</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 1E.7 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.

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.



Betty-Anne Pratt
Provincial Comptroller

July 31, 2007

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.

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, 2007 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, 2007, 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 1E.7 to these financial statements.

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 decrease by \$265 million (2006-\$400 million), non-financial assets would increase by \$1,936 million (2006-\$1,848 million), liabilities would increase by \$1,829 million (2006-\$1,792 million), net debt would increase by \$2,094 million (2006-\$2,192 million), accumulated deficit would increase by \$158 million (2006-\$344 million), revenue including net income from government business enterprises would increase by \$1,865 million (2006-\$2,209 million), and expenses would increase by \$1,756 million (2006-\$2,043 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.



Carol Bellringer, FCA, MBA
Auditor General

Winnipeg, Manitoba
July 31, 2007

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

As at March 31, 2007

| SCHEDULE | (\$ millions) | |
|--|-------------------------------|-------------------------------|
| | 2007 | 2006 |
| FINANCIAL ASSETS | | |
| | 1,854 | 760 |
| 1 | 706 | 737 |
| | 2,405 | 2,524 |
| 2 | 684 | 617 |
| 4 | <u>3,276</u> | <u>3,201</u> |
| | Total Financial Assets | Total Financial Assets |
| | <u>8,925</u> | <u>7,839</u> |
| LIABILITIES | | |
| 5 | 12,128 | 11,392 |
| 6 | <u>1,830</u> | <u>1,574</u> |
| | 13,958 | 12,966 |
| 4 | <u>3,276</u> | <u>3,201</u> |
| | Total Liabilities | Total Liabilities |
| | <u>17,234</u> | <u>16,167</u> |
| | NET DEBT | NET DEBT |
| | <u>(8,309)</u> | <u>(8,328)</u> |
| NON-FINANCIAL ASSETS (Note 1E.11) | | |
| | 3 | 2 |
| | 674 | 637 |
| 7 | <u>1,948</u> | <u>1,705</u> |
| | <u>2,625</u> | <u>2,344</u> |
| | ACCUMULATED DEFICIT | ACCUMULATED DEFICIT |
| | <u>(5,684)</u> | <u>(5,984)</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 5, 6, 7 and 9.

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

For the Year Ended March 31, 2007

(\$ millions)

| | Operating Fund | | Fiscal | Debt | Pension | Other | Total | Total |
|--|----------------|--------------|---------------|------------|------------|----------|--------------|--------------|
| | Budget | Actual | Stabilization | Retirement | Assets | Special | 2007 | 2006 |
| | | | Fund | Fund | Fund | Funds | | |
| OPERATING REVENUE (Schedule 8) | | | | | | | | |
| Manitoba Collections..... | 2,767 | 2,874 | - | - | - | 8 | 2,882 | 2,704 |
| Income Taxes..... | 2,400 | 2,441 | - | - | - | - | 2,441 | 2,322 |
| Federal Transfers..... | 3,000 | 3,122 | - | - | - | - | 3,122 | 2,914 |
| Crown Organizations..... | 484 | 511 | - | - | 10 | - | 521 | 500 |
| Interest Earned..... | - | - | 21 | 1 | 67 | - | 89 | 76 |
| | <u>8,651</u> | <u>8,948</u> | <u>21</u> | <u>1</u> | <u>77</u> | <u>8</u> | <u>9,055</u> | <u>8,516</u> |
| OPERATING EXPENSES (Schedules 8 & 10) | | | | | | | | |
| | <u>8,623</u> | <u>8,728</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>6</u> | <u>8,734</u> | <u>8,288</u> |
| NET RESULT FOR THE YEAR | | | | | | | | |
| | <u>28</u> | <u>220</u> | <u>21</u> | <u>1</u> | <u>77</u> | <u>2</u> | <u>321</u> | <u>228</u> |
| INTERFUND TRANSFERS | | | | | | | | |
| Transfer to Debt Retirement Fund..... | (110) | (110) | - | 110 | - | - | - | - |
| Transfer for Pensions..... | - | - | - | (85) | 85 | - | - | - |
| Transfer to (from) Mining Community Reserve..... | - | - | - | - | - | 1 | 1 | (2) |
| Transfer of Positive Balance to Fiscal Stabilization Fund under Section 9 (a) of the Act..... | 85 | (110) | 110 | - | - | - | - | - |
| | <u>(25)</u> | <u>(220)</u> | <u>110</u> | <u>25</u> | <u>85</u> | <u>1</u> | <u>1</u> | <u>(2)</u> |
| NET RESULT FOR THE YEAR AFTER INTERFUND TRANSFERS | | | | | | | | |
| | <u>3</u> | <u>-</u> | <u>131</u> | <u>26</u> | <u>162</u> | <u>3</u> | <u>322</u> | <u>226</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, 2007

| | (\$ millions) | |
|---|-------------------|------------------|
| | 2007 | 2006 |
| Operating Fund Revenue..... | 8,948 | 8,425 |
| Operating Fund Expenses..... | <u>8,728</u> | <u>8,284</u> |
| NET RESULT FOR THE YEAR BEFORE INTERFUND TRANSFERS | 220 | 141 |
| INTERFUND TRANSFERS | | |
| To the Debt Retirement Fund..... | <u>(110)</u> | <u>(110)</u> |
| POSITIVE BALANCE FOR PURPOSES OF BALANCED BUDGET LEGISLATION | <u><u>110</u></u> | <u><u>31</u></u> |

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

For the Year Ended March 31, 2007

(\$ millions)

| | Operating Fund | Fiscal Stabilization Fund | Debt Retirement Fund | Pension Assets Fund | Other Special Funds (Schedule 9) | Total 2007 | Total 2006 |
|---|-------------------|---------------------------------|----------------------------|---------------------------|---|----------------|----------------|
| Accumulated (Deficits) Surpluses, | | | | | | | |
| Beginning of Year..... | (7,100) | 532 | 25 | 537 | 22 | (5,984) | (6,059) |
| Environmental Liabilities (Notes 1E.12 & 4A)..... | (20) | - | - | - | - | (20) | (142) |
| Income Tax (Note 4B)..... | (2) | - | - | - | - | (2) | - |
| Tax Refunds | - | - | - | - | - | - | (9) |
| Net Result for the Year | | | | | | | |
| after Interfund Transfers..... | <u>-</u> | <u>131</u> | <u>26</u> | <u>162</u> | <u>3</u> | <u>322</u> | <u>226</u> |
| Accumulated (Deficits) Surpluses, | | | | | | | |
| End of Year..... | <u>(7,122)</u> | <u>663</u> | <u>51</u> | <u>699</u> | <u>25</u> | <u>(5,684)</u> | <u>(5,984)</u> |

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

For the Year Ended March 31, 2007

| | (\$ millions) | |
|---|------------------------------|------------------------------|
| | 2007 | 2006 |
| Net Result for the Year after Interfund Transfers: | | |
| Fiscal Stabilization Fund..... | 131 | 46 |
| Debt Retirement Fund..... | 26 | 25 |
| Pension Assets Fund..... | 162 | 155 |
| Other Special Funds..... | <u>3</u> | <u>-</u> |
| | <u>322</u> | <u>226</u> |
| Acquisition of Tangible Capital Assets..... | (353) | (188) |
| Amortization of Tangible Capital Assets..... | 110 | 105 |
| | <u>(243)</u> | <u>(83)</u> |
| Increase in Deferred Charge for Health Care Facilities..... | <u>(37)</u> | <u>(51)</u> |
| Increase in Inventory..... | <u>(1)</u> | <u>(2)</u> |
| Changes in Accumulated Deficit | | |
| Environmental Liabilities (Notes 1E.12 & 4A)..... | (20) | (142) |
| Income Tax (Note 4B)..... | (2) | - |
| Tax Refunds..... | <u>-</u> | <u>(9)</u> |
| | <u>(22)</u> | <u>(151)</u> |
| Decrease (Increase) in Net Debt | 19 | (61) |
| Net Debt, beginning of year | <u>(8,328)</u> | <u>(8,267)</u> |
| Net Debt, end of year | <u><u>(8,309)</u></u> | <u><u>(8,328)</u></u> |

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

For the Year Ended March 31, 2007

| | (\$ millions) | |
|--|---------------------|-------------------|
| | 2007 | 2006 |
| Cash and Cash Equivalents Provided by (Used in) | | |
| Operating transactions | | |
| Net Result for the year after Interfund Transfers - Special Funds..... | 322 | 226 |
| Changes in non-cash items: | | |
| Amounts Receivable..... | 31 | (126) |
| Valuation Allowance..... | (6) | (3) |
| Accounts Payable, Accrued Charges, Provisions and Deferrals..... | 259 | 226 |
| Amortization of Foreign Currency Fluctuation..... | 6 | 5 |
| Amortization of Debt Discount..... | 6 | 7 |
| Amortization of Investment Discounts and Premiums..... | 1 | 2 |
| Amortization of Tangible Capital Assets..... | 108 | 103 |
| Amortization of Tangible Capital Assets Charged to Special Operating Agencies..... | 2 | 2 |
| Increase in Inventory..... | (1) | (2) |
| Adjustment to Accumulated Deficit | (22) | (151) |
| Cash provided by operating transactions | <u>706</u> | <u>289</u> |
| Capital transactions | | |
| Acquisition of Tangible Capital Assets..... | (353) | (188) |
| Cash used in capital transactions | <u>(353)</u> | <u>(188)</u> |
| Investing transactions | | |
| Made..... | (1,313) | (842) |
| Realized..... | 1,676 | 573 |
| Cash provided by (used in) investing transactions | <u>363</u> | <u>(269)</u> |
| Financing transactions | | |
| Debt Issued..... | 2,666 | 2,908 |
| Debt Redeemed..... | (2,288) | (2,778) |
| Cash provided by financing transactions | <u>378</u> | <u>130</u> |
| Increase (Decrease) in Cash and Cash Equivalents..... | 1,094 | (38) |
| Cash and Cash Equivalents, beginning of year..... | <u>760</u> | <u>798</u> |
| Cash and Cash Equivalents, end of year..... | <u><u>1,854</u></u> | <u><u>760</u></u> |

**NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007**

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 \$4,159 million (2006 - \$3,967 million) and expenses would increase by \$192 million (2006 - \$206 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 decrease by \$265 million (2006 - \$400 million), non-financial assets would increase by \$2,610 million (2006 - \$2,485 million), liabilities would decrease by \$2,330 million (2006 - \$2,175 million), net debt would decrease by \$2,065 million (2006 - \$1,775 million), the accumulated deficit would decrease by \$4,675 million (2006 - \$4,260 million), revenue including net income from Government business enterprises would increase by \$1,865 million (2006 - \$2,209 million) and expenses would increase by \$1,527 million (2006 - \$1,786 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 Government 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 Government'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 \$674 million (2006 - \$637 million) and the accumulated deficit would increase by \$674 million (2006 - \$637 million) and expenses would increase by \$37 million (2006 - \$51 million).

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

B. The Reporting Entity

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

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

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 into 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, that can be reasonably estimated and for which any eligibility criteria have been met.

The Government'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 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. The Government is funding its obligations for the Legislative Assembly Pension Plan on an annual basis.

E. Liabilities and Assets

- 1) All borrowings are expressed in Canadian dollars and are shown net of 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 for severance liabilities are amortized over the expected average remaining service life of the related employee group. Actuarial gains or losses for the Long Term Disability Income Plan liability and workers compensation claims are recognized in the year in which they arise.
- 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 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 into service. The cost of tangible capital assets constructed by the Government 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 licences, 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 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 recorded as revenue. 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.

In 2006, the CICA issued a revision to Section PS 3150 Tangible Capital Assets recommending that capital grants not be netted against the cost of the related tangible capital asset. Effective April 1, 2006, the Government changed its accounting policy on a prospective basis to comply with this recommendation. Capital grants received from other governments under a shared cost agreement are now recorded as revenue. Previously, they were deducted from the cost of the related asset with any amortization calculated on the net amount. The amount of capital grants received during the year was \$82 million.

- 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, software licences | 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 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.

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 and corporate income taxes, Canada Health Transfer and Canada Social Transfer entitlements, accruals for pension obligations, accruals for environmental obligations, 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. The uncertainty related to accruals for pension obligations arises because actual results may differ significantly from the Government'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 Government'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 and cash equivalents include cash and short-term investments that can be converted to cash. Cash equivalents are recorded at cost, which approximates market value. Investment revenue earned on cash equivalents during the year was \$43 million (2006 - \$27 million).

3. PORTFOLIO INVESTMENTS

Portfolio investments are recorded at the lower of cost and net realizable value, except for amounts invested with the Civil Service Superannuation Fund and the Teachers' Retirement Allowances Fund which are carried at fair value.

As at March 31, 2007, the amount of portfolio investments was \$2,405 million (2006 - \$2,524 million).

Portfolio investments are held for the following funds:

A. Pension Assets Fund

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 or losses on sale of investments and unrealized market gain or loss for the year. Investment income earned for the year was \$67 million (2006 - \$61 million). The fair value of these investments as at March 31, 2007 was \$699 million (2006 - \$537 million). These Funds are balanced funds and the investments consist primarily of cash equivalents, equities, bonds, mortgages and real estate.

B. Sinking Funds

Portfolio investments include sinking funds of \$1,706 million (2006 - \$1,987 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 Government's sinking fund. The Government's sinking fund currently provides for the repurchase of foreign debt and the pre-funding of maturing debt issues. In addition, the Government's sinking fund is invested principally in securities issued or guaranteed by Canadian provinces.

Sinking funds are recorded at the lower of cost and market value. As at March 31, 2007, sinking funds had a cost of \$2,504 million (2006 - \$2,142 million) and a market value of \$2,537 million (2006 - \$2,177 million). Investment revenue earned on the sinking funds during the year was \$196 million (2006 - \$204 million).

The sinking funds are invested as follows:

| | (\$ millions) | |
|---|---------------|---------------|
| | 2007 | 2006 |
| Total Sinking funds | 2,504 | 2,142 |
| Less: Uninvested portion of sinking funds held in cash and cash equivalents | <u>(798)</u> | <u>(155)</u> |
| Sinking funds held in portfolio investments | <u>1,706</u> | <u>1,987</u> |

4. ADJUSTMENTS TO ACCUMULATED DEFICIT

A. Environmental Liabilities

During the year, the Government identified additional environmental liabilities in the net amount of \$20 million (gross - \$30 million discounted at rates from 0% to 4.9%) that were related to contaminations or obligating events on or before March 31, 2005. These past liabilities have been recorded with a corresponding increase in accumulated deficit of \$20 million in accordance with the accounting policy adopted by the Government (Note 1E.12).

B. Income Tax

During the year, the Government corrected an accounting error related to the recognition of individual income tax revenue in the 2003/04 fiscal year. This error resulted in an understatement of a loan payable to the Federal Government in the amount of \$2 million and a corresponding overstatement of income tax revenue. Correction of this error has resulted in an increase in accumulated deficit of \$2 million.

5. 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:

| | Authorized | (\$ millions) | |
|---|------------|---------------|------------|
| | | 2007 | 2006 |
| Debt issued by Government business enterprises (Note a) | | 670 | 485 |
| Manitoba Grow Bonds | | 5 | 5 |
| 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. | 129 | 98 | 75 |
| Manitoba Student Financial Assistance Program (Note c) | 20 | 5 | 7 |
| Red River College | 5 | - | - |
| Rural Entrepreneur Assistance Program (Note b) | 5 | 4 | 4 |
| University College of The North | 2 | - | - |
| Miscellaneous | - | 1 | 2 |
| Total guarantees outstanding | | <u>784</u> | <u>579</u> |

Provision for future losses on guarantees in the amount of \$9 million (2006 - \$10 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 4.2% to 5.5%. 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 thirteen 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.

6. 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 \$151 million (2006 - \$33 million). The Government also has obligations under long-term contracts regarding tangible capital assets as follows:

| | (\$ millions) | |
|-----------------------------------|---------------|------------|
| | 2007 | 2006 |
| Future obligations: | | |
| Infrastructure and capital grants | 7 | 10 |
| Rental of tangible capital assets | <u>119</u> | <u>91</u> |
| | <u>126</u> | <u>101</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) | |
|--------------------------------------|---------------|-----------|
| | 2007 | 2006 |
| Buildings | 35 | 3 |
| Computer software and hardware | 1 | - |
| Dams and Water Management Structures | - | 2 |
| Equipment | 1 | - |
| Transportation | <u>39</u> | <u>34</u> |
| | <u>76</u> | <u>39</u> |

The Government has undertaken to expand the Red River Floodway. Through the Manitoba Floodway Authority, the Government is a party to funding agreements with the Government of Canada for a \$324 million (2006 - \$240 million) expansion project and has agreed to provide \$162 million (2006 - \$120 million) towards the expansion project. During the 2007 fiscal year, both parties announced \$341 million additional funding for the project, bringing the total funding to \$665 million. A formal agreement for this additional funding has not been finalized.

7. CONTINGENCIES

The Government has been named in various legal actions, including treaty land entitlements. No provision has been made at March 31, 2007 in the accounts where the final results are uncertain.

A. Disaster Financial Assistance

A provision has been made at March 31, 2007 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 Government is contingently liable for legal claims associated with past Manitoba Hydro-Electric Board related northern development projects. The Government 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, 2006 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, 2006 is \$198 million (2005 - \$174 million). The related assets as at March 31, 2006 total \$239 million (2005 - \$208 million). The subsidiary also had a re-insurance contract for additional coverage of \$750 million.

Based upon the above, as at March 31, 2006, 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, 2006. March 31, 2007 figures are not available for comparison.

8. TREATY LAND ENTITLEMENT OBLIGATIONS

To meet Manitoba's obligation under treaty land entitlement agreements, approximately 295,848 acres of provincial Crown land have been transferred to the Government of Canada for First Nations.

Manitoba's obligations under the Treaty Land Entitlement Framework Agreement requires the setting aside of 985,949 acres of Crown land. To date, 843,878 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 Government under the *Crown Land Act* or any other statute.

9. PENSION LIABILITY

The Government supports six separate pension plans. These include the Civil Service Plan (CSP), the Teachers' Plan, the Members of the Legislative Assembly Plan, 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, 2007 was \$26 million (2006 - \$21 million), the Government set aside \$85 million (2006 - \$85 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, 2007 was \$699 million (2006 - \$537 million).

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

| Plan | Latest Valuation | Real Rate of Return | Inflation Rate | Investment Rate of Return |
|----------------------|-------------------|---------------------|----------------|---------------------------|
| Civil Service | December 31, 2004 | 4.00% | 2.50% | 6.50% |
| Teachers' | January 1, 2004 | 4.25% | 2.50% | 6.75% |
| MLA | March 31, 2006 | 3.25% | 2.75% | 6.00% |
| LAPP | March 31, 2006 | 3.25% | 2.75% | 6.00% |
| Judges' Supplemental | March 31, 2003 | 3.25% | 2.75% | 6.00% |
| WCFSP | December 31, 2006 | 3.00% | 2.00% | 5.00% |

During the year, no 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 (2006 - \$2 million). The cumulative funds received by the Province under this agreement as at March 31, 2007 are \$17 million (2006 - \$15 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, 2007, the CSP had approximately 28,400 (2006 - 28,200) 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, 2007, was \$50 million (2006 - \$44 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%) of 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, 2007 amounted to \$51 million (2006 - \$52 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, 2007, payments of \$77 million (2006 - \$71 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 \$1,801 million as at March 31, 2007 (2006 - \$1,718 million), which includes net unamortized actuarial gains of \$8 million (2006 - \$14 million). The increase in liability includes current year interest of \$121 million (2006 - \$115 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, 2007, the Teachers' Retirement Allowances Fund (TRAF) had approximately 31,600 (2006 - 32,200) 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, 2007, amounted to \$66 million (2006 - \$61 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, 2007, payments of \$126 million (2006 - \$115 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 \$2,297 million as at March 31, 2007 (2006 - \$2,189 million), which includes unamortized actuarial losses of \$73 million (2006 - \$82 million). The increase in liability includes current year interest of \$152 million (2006 - \$145 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, 2007, there are 115 (2006 - 115) 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, 2006, 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, 2007 (2006 - \$33 million), which includes unamortized actuarial gains of \$3 million (2006 - \$3 million). The change in liability includes current year interest of \$2 million (2006 - \$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 the 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 monthly pension benefits under the plan is determined by the following formula:

$$2\% \times S \times Y / 12$$

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 60th 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 was a six month time limit placed on the decision of whether to join the plan commencing once the Pension Commissioner established Regulations respecting his decisions. This six-month period for existing and former eligible MLAs ended on January 20, 2007. 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, 2007 there were 50 members contributing to the plan (2006 – 3), and the total employee and the Province's assets as at March 31, 2007 are estimated to be \$1.8 million.

An actuarial report was completed for the Legislative Assembly Pension Plan as at March 31, 2006, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. An updated projection was provided by the Plan's actuary based on the Plan's Statement of Net Assets Available for Benefits as at December 31, 2006. The Government's net liability for accounting purposes has been projected by the actuary to be \$0.1 million as at March 31, 2007 (2006 \$1.2 million).

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 9A.

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, five 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% 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, 2007, there are 67 (2006 - 63) 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 \$29 million as at March 31, 2007 (2006 - \$26 million). The increase in liability includes current year interest of \$2 million (2006 - \$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, 2006, the WCFSP had 1 active (2005 – 1), 267 deferred members (2005 - 319), and 148 pensioners (2005 - 138).

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. Solvency deficiency, identified in previous actuarial valuations, was eliminated as a result of payments made by the Government combined with investment gains (2006 solvency deficiency was estimated to be \$1.2 million).

The WCFSP reflects the pension benefits earned by its members for service until June 27, 2004. Except for one remaining active plan member, no further pensionable service entitlements will accrue in the WCFSP after June 27, 2004. Subsequent to June 27, 2004, all but one active member of the WCFSP became members of the Civil Service Plan (CSP) and began 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 WCFSP as at December 31, 2006, by Ellement & Ellement. The WCFSP has a solvency surplus of \$0.3 million and a solvency ratio of 101.2% at the valuation date.

10. 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 March 31, 2007 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, 2007 was \$22 million (2006 - \$30 million). The Government's accounting policy had been changed to reflect actuarial gains and losses in the year in which they occur in accordance with standard industry practice. The previous stated policy was to recognize the actuarial gains and losses over the average expected period during which the benefits will be paid, which was not determined.

11. 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, 2007 was \$232 million (2006 - \$229 million).

12. EXPENSES IN EXCESS OF LEGISLATIVE AUTHORITY

The budget estimate amounts disclosed in the Special Purpose Statement of Revenue and Expense (originally published in the Estimates of Expenditure) exclude \$181 million in supplemental estimates and special warrants. The original budget estimate amounts plus the \$181 million in supplemental estimates and special warrants becomes the revised estimates, against which expenses in excess of Legislative Authority is determined. Budget estimates have been reclassified to align with the departmental reorganization that occurred during the year.

Based upon the revised estimates, the following voted appropriations were over-expended as a result of adjustments after March 31, 2007:

| | (\$ millions) |
|---|---------------|
| Agriculture, Food and Rural Initiatives | |
| Risk Management and Income Support Programs | 20 |
| Conservation | |
| Regional Operations | 1 |
| Other Appropriations | |
| Emergency Expenditures | 2 |

13. TRANSFER FOR DEBT RETIREMENT AND PENSION OBLIGATIONS

The Government transferred \$110 million (2006 - \$110 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 (2006 - \$85 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, 2007 was \$699 million (2006 - \$537 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.

14. BALANCED BUDGET LEGISLATION

Section 6 of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act* requires the Minister of Finance to report on compliance with the Act in the audited special purpose financial statements of the Operating Fund for each fiscal year. The Special Purpose Statement of Calculation of Balance under the Balanced Budget, Debt Repayment and Taxpayer Accountability Act shows a positive balance of \$110 million (2006 - \$31 million). Using the disclosed basis of accounting, the Government is therefore in compliance with the Act.

15. DEBT SERVICING

Debt servicing expense totals \$810 million (2006 - \$786 million) which is net of interest recoveries from Government business enterprises of \$478 million (2006 - \$474 million).

Net debt servicing expense is disclosed in the financial statements in Schedule 8 as \$261 million (2006 - \$260 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 \$441 million (2006 - \$415 million). The disclosed \$261 million (2006 - \$260 million) is also net of debt servicing cost of \$108 million (2006 - \$111 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 \$261 million (2006 - \$260 million) and the debt servicing costs of \$108 million (2006 - \$111 million) charged to the departments for the imputed cost of financing the purchase or construction of tangible capital assets.

16. 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, 2007, this loan payable has been reduced to \$64 million (2006 - \$71 million).

To offset negative adjustments to the 2004 Equalization payments, the Federal Government provided to the Province a loan payable of \$38 million repayable over a ten year period commencing in April 2006. As at March 31, 2007 this loan payable has been reduced to \$34 million (2006 - \$38 million). Similarly, to offset negative adjustments to the 2004 Canada Health and Social Transfer (CHST) entitlements, the Federal Government provided to the Province a loan payable of \$9 million repayable over a ten year period commencing in April 2006. As at March 31, 2007 this loan payable has been reduced to \$8 million (2006 - \$9 million).

These loans are non-interest bearing.

17. RISK MANAGEMENT AND THE USE OF DERIVATIVE FINANCIAL INSTRUMENTS

The Government 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 Government uses derivatives to hedge and to mitigate interest rate risk and the risks attached to foreign currency fluctuations. The Government 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 Government 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 Government to effectively manage the terms of its existing obligations and thereby convert them into obligations that meet the Government's risk parameters.

Other derivative instruments used by the Government 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 Government 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 \$73 million (2006 - \$79 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 Government's derivatives, by type, outstanding at March 31, 2007, 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 As at March 31, 2007 | | | | | | | | |
|---|--------------------------------------|--------------|--------------|--------------|--------------|-----------------|------------------|---------------|
| Derivatives | Maturity in Fiscal Year (\$millions) | | | | | | | |
| | 2008 | 2009 | 2010 | 2011 | 2012 | 6 – 10 Years | Over 10 Years | Total |
| Interest rate swaps | 1,175 | 835 | 2,003 | 1,963 | 538 | 7,798 | 6,350 | 20,662 |
| Cross currency swaps | 460 | 984 | 542 | 233 | 708 | 1,571 | 2,689 | 7,187 |
| Forward foreign exchange contracts | 131 | - | - | - | - | 208 | - | 339 |
| Total | 1,766 | 1,819 | 2,545 | 2,196 | 1,246 | 9,577 | 9,039 | 28,188 |

The use of derivatives introduces credit risk, which is the risk of a counterparty defaulting on contractual derivative obligations in which the Government 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, 2007.

| Credit Risk Exposure As at March 31, 2007 | | |
|--|---------------|---------------|
| | (\$ millions) | |
| | 2007 | 2006 |
| Gross credit risk exposure ¹ | 85 | 59 |
| Less: Netting ² | (662) | (762) |
| Net Credit Risk Exposure | (577) | (703) |

- ¹ Gross credit risk exposure is the gross credit exposure to counterparties (party with whom the Province entered into an agreement) with net positive exposures (the respective counterparties owe the Government.)
- ² "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 matching settlement dates (the Government owes the respective counterparties).

As at March 31, 2007, the Government has no net credit risk exposure, but has a net liability to counterparties.

The Government 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 Government 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 \$12.5 million (2006 - \$13.5 million).

Liquidity risk is the risk that the Government will not be able to meet its current short-term financial obligations. To reduce liquidity risk, the Government maintains liquid reserves, that is, cash and cash equivalents (Note 2), at levels that will meet future cash requirements and will give the Government flexibility in the timing of issuing debt. In addition, the Government 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.

18. RELATED PARTY TRANSACTIONS

A. Related Party Borrowings

Borrowings include \$380 million (2006 - \$330 million) owed to Manitoba Public Insurance Corporation related to the capital financing of school board and health care facilities as well as \$270 million (2006 - \$250 million) for the financing of general Government programs. \$45 million (2006 - \$45 million) is owed to the Manitoba Liquor Control Commission, and \$86 million (2006 - \$65 million) is payable to Manitoba Opportunities Fund Ltd.

These loans and debentures are repayable over a term from 2008 to 2027 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 \$106 million (2006 - \$125 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 (2006 - \$3.34 per megawatt hour).

C. Guarantee Fees

Manitoba Hydro-Electric Board (Hydro) remits guarantee fees to the Government based on the Hydro debt that the Government guarantees on their behalf. The guarantee fees paid by Hydro for the year ended March 31, 2007 were \$71 million (2006 - \$69 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, 2007 was \$7 million (2006 - \$7 million).

E. Driver Licencing Operations

Effective October 4, 2004, the Government 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 Government 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. The current year's \$21 million funding was reduced by \$0.5 million on a one-time basis to defray the costs to the Government of aligning the renewal of driver licences with motor vehicle registrations.

MPIC, on behalf of the Government, collects and transfers motor vehicle registration fees to the Government. For the fiscal year ended March 31, 2007, these fees totalled \$100 million (2006 - \$98 million). MPIC is also responsible for collecting and transferring driver licencing fees to the Government. For the fiscal year ended March 31, 2007 these fees totalled \$17 million (2006 - \$19 million).

19. COMPARATIVE FIGURES

Certain of the 2006 financial statement figures have been reclassified to be consistent with the 2007 presentation, including departmental reorganizations.

AMOUNTS RECEIVABLE

SCHEDULE 1

As at March 31, 2007

(\$ millions)

| | 2007 | 2006 |
|---|-------------------|-------------------|
| Taxation Revenue: | | |
| Corporation Capital Tax..... | 5 | 1 |
| Corporation Income Tax..... | 51 | 64 |
| Gasoline Tax..... | 13 | 13 |
| Health and Education Levy..... | 31 | 30 |
| Individual Income Tax..... | 133 | 126 |
| Insurance Corporation Tax..... | 15 | 14 |
| Motive Fuel Tax..... | 9 | 9 |
| Oil and Natural Gas Tax..... | 1 | 1 |
| Retail Sales Tax..... | 126 | 123 |
| Tax Administration and Miscellaneous Taxes Act..... | 8 | 9 |
| Tobacco Tax..... | 15 | 17 |
| | <u>407</u> | <u>407</u> |
| Government of Canada and Other Governments: | | |
| Shared Cost Programs/Agreements..... | 151 | 169 |
| Canada Health and Social Transfers..... | 10 | 4 |
| | <u>161</u> | <u>173</u> |
| Interest Income: | | |
| Province of Manitoba Sinking Fund..... | 23 | 24 |
| Other Investments..... | 8 | 5 |
| | <u>31</u> | <u>29</u> |
| Other: | | |
| Health Care Facilities Sinking Funds | 13 | 9 |
| Immigration Program..... | - | 1 |
| Manitoba Agricultural Services Corporation..... | 2 | 1 |
| Manitoba Floodway Authority..... | 13 | 19 |
| Manitoba Health Services Insurance Plan..... | - | 36 |
| Manitoba Hydro-Electric Board..... | 8 | 11 |
| Manitoba Liquor Control Commission..... | 24 | 23 |
| Manitoba Lotteries Corporation..... | 11 | 6 |
| Primary Health Care Transition Fund | - | 3 |
| Regional Health Authorities..... | 20 | 11 |
| Social Allowance..... | 16 | 14 |
| Special Operating Agencies..... | 1 | 7 |
| Sundry Departmental Revenue..... | 75 | 61 |
| Sundry..... | 1 | 1 |
| | <u>184</u> | <u>203</u> |
| | 783 | 812 |
| Less: Valuation Allowance | <u>77</u> | <u>75</u> |
| | <u><u>706</u></u> | <u><u>737</u></u> |

LOANS AND ADVANCES

SCHEDULE 2

As at March 31, 2007

(\$ millions)

| | Crown Organizations and Government Business Enterprises | Other (Note Below) | 2007 Total | 2006 Total |
|--|--|-----------------------------------|-----------------------|-----------------------|
| Due 1 Year or Less..... | 258 | 58 | 316 | 789 |
| Due Over 1 Year..... | <u>7,536</u> | <u>11</u> | <u>7,547</u> | <u>7,038</u> |
| Total..... | <u>7,794</u> | <u>69</u> | <u>7,863</u> | <u>7,827</u> |
| Less: Valuation Allowance..... | <u>328</u> | <u>14</u> | <u>342</u> | <u>348</u> |
| | 7,466 | 55 | 7,521 | 7,479 |
| Less: Debt incurred for and repayable by the Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation..... | <u>6,837</u> | <u>-</u> | <u>6,837</u> | <u>6,862</u> |
| Net..... | <u><u>629</u></u> | <u><u>55</u></u> | <u><u>684</u></u> | <u><u>617</u></u> |

The Crown organizations and Government business enterprises loans and advances portfolio is due in varying annual amounts to the year 2031, 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 | 12 | 16 |
| 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% | 33 | 29 |
| 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 | 16 | 14 |
| Miscellaneous | <u>1</u> | <u>2</u> |
| | <u><u>69</u></u> | <u><u>68</u></u> |

LONG-TERM INVESTMENTS

SCHEDULE 3

As at March 31, 2007

(\$ millions)

| | Crown Organizations | Other | 2007 Total | 2006 Total |
|--------------------------------|--------------------------------|-----------------|-----------------------|-----------------------|
| Shares: | | | | |
| Common..... | 9 | 5 | 14 | 14 |
| Preferred..... | 2 | 4 | 6 | 6 |
| Special..... | - | 2 | 2 | 2 |
| Debentures..... | <u>1</u> | <u>-</u> | <u>1</u> | <u>1</u> |
| | 12 | 11 | 23 | 23 |
| Less: Valuation Allowance..... | <u>12</u> | <u>11</u> | <u>23</u> | <u>23</u> |
| Net..... | <u><u>-</u></u> | <u><u>-</u></u> | <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, 2007

| | (\$ millions) | |
|---|---------------|-------|
| | 2007 | 2006 |
| AMOUNTS HELD IN TRUST | | |
| Government Business Enterprises..... | 2,728 | 2,597 |
| Crown Organizations..... | 439 | 533 |
| Fiduciary and Other Government Related Trusts..... | 109 | 71 |
| | 3,276 | 3,201 |
| TRUST ASSETS | | |
| Cash and Cash Equivalents..... | 693 | 866 |
| Funds on Deposit for Investment and Administration..... | 2,583 | 2,335 |
| | 3,276 | 3,201 |

Note a: 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 \$108 million (2006 - \$104 million) in the form of bonds and other securities, and title to tangible capital assets in trust in the amount of \$72 million (2006 - \$68 million). These amounts are not reflected in the above numbers.

Note b: The Federal Government, through agreements with the Province, has agreed to transfer Public Transit funds and Federal gas tax revenues for the purpose of making a transformative difference in the sustainability and future prosperity of cities and communities in Manitoba. The Province has agreed to administer these funds on behalf of the Federal Government. In this administrative role, the Government allocates funds to the eligible recipients in accordance with prescribed formulas and conditions within the agreements. As at March 31, 2007, these funds held in trust for administration amounted to \$33 million (2006 - \$13 million).

SCHEDULE OF BORROWINGS

SCHEDULE 5

As at March 31, 2007
(\$ millions)

| Fiscal Year of Maturity | Bonds and Debentures | | Canada Pension Plan Cdn | Loans Payable | Promissory Notes and Treasury Bills Cdn | Totals | |
|--|----------------------|--------------|--|--|---|---------------|---------------|
| | Cdn | US | Cdn | Cdn | Cdn | 2007 | 2006 |
| 2007..... | - | - | - | - | - | - | 2,247 |
| 2008..... | 1,526 | - | 90 | - | 325 | 1,941 | 1,616 |
| 2009..... | 1,929 | 284 | 106 | - | - | 2,319 | 2,334 |
| 2010..... | 803 | 458 | 115 | - | - | 1,376 | 1,316 |
| 2011..... | 909 | 288 | 103 | - | - | 1,300 | 1,311 |
| 2012..... | 1,236 | - | 104 | - | - | 1,340 | 609 |
| 2007-2012..... | <u>6,403</u> | <u>1,030</u> | <u>518</u> | <u>-</u> | <u>325</u> | <u>8,276</u> | <u>9,433</u> |
| 2013-2017..... | 3,817 | 966 | 73 | - | - | 4,856 | 3,780 |
| 2018-2027..... | 3,084 | 807 | 15 | - | - | 3,906 | 3,837 |
| 2028-2044..... | 2,913 | - | - | - | - | 2,913 | 2,343 |
| 2008-2027 Government Business Enterprises (Note 18A)..... | - | - | - | 425 | - | 425 | 375 |
| 2008-2025 Health Care Facilities..... | - | - | - | 198 | - | 198 | 237 |
| 2008-2016 Government of Canada (Note 16)..... | - | - | - | 106 | - | 106 | 118 |
| 2008-2044..... | <u>9,814</u> | <u>1,773</u> | <u>88</u> | <u>729</u> | <u>-</u> | <u>12,404</u> | <u>10,690</u> |
| Total Borrowings..... | <u>16,217</u> | <u>2,803</u> | <u>606</u> | <u>729</u> | <u>325</u> | <u>20,680</u> | <u>20,123</u> |
| Reduced by: | | | | | | | |
| Debt incurred for and repayable by The Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation..... | | | | | | (6,837) | (6,862) |
| Province of Manitoba debt issues held as investments in sinking funds and in cash and cash equivalents..... | | | | | | (1,626) | (1,775) |
| Unamortized Debt Issue Costs..... | | | | | | (16) | (15) |
| Unamortized Foreign Currency Fluctuation..... | | | | | | <u>(73)</u> | <u>(79)</u> |
| | | | | | | <u>12,128</u> | <u>11,392</u> |
| Total borrowings payable in: | | | March 31/07 Cdn \$ Valuation (See Notes) | March 31/06 Cdn \$ Valuation (See Notes) | | | |
| Canadian dollars | | | 14,394 | 14,451 | | | |
| Foreign issues hedged to Canadian dollars | | | 3,482 | 2,834 | | | |
| U.S. dollars | | | 2,194 | 2,221 | | | |
| Foreign issues hedged to U.S. dollars | | | 610 | 617 | | | |
| Total borrowings | | | <u>20,680</u> | <u>20,123</u> | | | |

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

Note b: 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 c: 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 4.10% and the highest set at 7.64% as at March 31, 2007.
- iii) Floating U.S. - U.S. Dollar London Interbank Offering Rate (LIBOR) setting, established quarterly, with the lowest rate currently set at 5.29% and the highest set at 5.48% as at March 31, 2007.

OPERATING FUND AND SPECIAL FUNDS - SPECIAL PURPOSE FINANCIAL STATEMENTS

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

SCHEDULE 6

As at March 31, 2007

| | (\$ millions) | |
|---|---------------|--------------|
| | 2007 | 2006 |
| Accounts Payable..... | 456 | 434 |
| Accrued Charges: | | |
| Interest Accrued on Provincial Borrowings and Trust Funds..... | 252 | 228 |
| Canadian Agricultural Income Stabilization Program..... | 82 | 110 |
| Communities Economic Development Fund..... | 2 | 2 |
| Compensation for Victims of Crime..... | 20 | 19 |
| Crown Organizations - Vacation Liability..... | 139 | 139 |
| Disaster Assistance..... | 6 | 17 |
| Environmental Liabilities (Note 1E.12)..... | 165 | 146 |
| Fairford First Nation..... | 7 | 7 |
| Flood Claims..... | 18 | 15 |
| Hepatitis C Assistance..... | 5 | 6 |
| Infrastructure Works Program..... | 14 | 3 |
| Land Acquisition Claims..... | 2 | 2 |
| Long Term Disability Income Plan (Note 10)..... | 22 | 30 |
| MAFRI Farmland Rebate..... | 3 | - |
| Manfor Ltd. Divestiture..... | 1 | 1 |
| Manitoba Agricultural Services Corporation..... | 1 | - |
| Manitoba Health Services Insurance Plan..... | 152 | - |
| Municipal Assistance Program..... | 1 | 1 |
| Salaries and Benefits..... | 78 | 72 |
| Salaries and Benefits - Severance (Note 11)..... | 232 | 229 |
| Tripartite Land Assembly Program..... | 3 | 3 |
| VLT Grants Payable..... | - | 2 |
| Workers Compensation Board Claims..... | 13 | 10 |
| Other..... | 3 | 4 |
| Provision for Future Losses on Guarantees (Note 5)..... | 9 | 10 |
| Deferred Revenue | | |
| Cottage Lots..... | 9 | 5 |
| Government of Canada - Advances re: Shared Cost Programs Not Yet Claimed..... | 13 | 24 |
| Prepaid Settlement of Interest..... | 75 | 7 |
| Vehicle Registration..... | 44 | 43 |
| Other..... | 3 | 5 |
| | <u>1,830</u> | <u>1,574</u> |

TANGIBLE CAPITAL ASSETS
For the Year Ended March 31, 2007
(\$ 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 | 2007 | 2006 |
| Cost | | | | | | | | | | | |
| Opening costs | 15 | 363 | 157 | 262 | 43 | 215 | 1,925 | 85 | 64 | 3,129 | 2,939 |
| Add: | | | | | | | | | | | |
| Additions during the year | - | 6 | 17 | 19 | 21 | 3 | 100 | 1 | 186 | 353 | 188 |
| Assets acquired in prior years/ devolved | - | - | - | - | - | - | - | - | - | - | 3 |
| Less: | | | | | | | | | | | |
| Disposals and write downs | - | - | (2) | - | - | - | - | - | - | (2) | (1) |
| Settlements and reclassifications | - | 7 | 2 | 11 | (20) | 3 | 7 | - | (10) | - | - |
| Closing costs | 15 | 376 | 174 | 292 | 44 | 221 | 2,032 | 86 | 240 | 3,480 | 3,129 |
| Accumulated amortization | | | | | | | | | | | |
| Opening accumulated amortization | - | 204 | 94 | 103 | - | 30 | 941 | 52 | - | 1,424 | 1,317 |
| Add: | | | | | | | | | | | |
| Amortization | - | 9 | 7 | 19 | - | 2 | 69 | 2 | - | 108 | 103 |
| Amortization charged to SOAs | - | - | - | 2 | - | - | - | - | - | 2 | 2 |
| Assets acquired in prior years/ devolved | - | - | - | - | - | - | - | - | - | - | 3 |
| Less: | | | | | | | | | | | |
| Disposals and write downs | - | - | (2) | - | - | - | - | - | - | (2) | (1) |
| Closing accumulated amortization | - | 213 | 99 | 124 | - | 32 | 1,010 | 54 | - | 1,532 | 1,424 |
| Net Book Value of Tangible Capital Assets | 15 | 163 | 75 | 168 | 44 | 189 | 1,022 | 32 | 240 | 1,948 | 1,705 |

Effective April 1, 2006, the Government changed its accounting policy on a prospective basis to comply with the new CICA recommendation that capital grants not be netted against the cost of the tangible capital assets.

During the year the Province capitalized \$2.0 million of interest relating to assets under construction. (2006 - \$0.8 million).

SCHEDULE 8

OPERATING FUND REVENUE AND EXPENSE

For the Year Ended March 31, 2007

(\$ millions)

| | 2007 | 2007 | 2006 |
|---|---------------------------------|--------------|--------------|
| | Budget Estimate (Note 12) | Actual | Actual |
| OPERATING FUND REVENUE | | | |
| Manitoba Collections: | | | |
| Retail Sales Tax..... | 1,244 | 1,277 | 1,198 |
| Fuel Taxes..... | 236 | 241 | 236 |
| Levy for Health and Education..... | 312 | 318 | 303 |
| Mining Tax..... | 41 | 96 | 39 |
| Other Taxes..... | 552 | 554 | 509 |
| Fees and Other Revenue..... | 382 | 388 | 413 |
| Income Taxes: | | | |
| Corporation Income Tax..... | 396 | 311 | 373 |
| Individual Income Tax..... | 2,004 | 2,130 | 1,949 |
| Federal Transfers: | | | |
| Equalization..... | 1,690 | 1,709 | 1,601 |
| Bill C-48..... | - | 49 | 49 |
| Canada Health Transfer..... | 765 | 773 | 733 |
| Canada Social Transfer..... | 369 | 335 | 325 |
| Child Care..... | 24 | 24 | 25 |
| Other Health Funds..... | 20 | 17 | 25 |
| Shared Cost and Other Transfers..... | 132 | 215 | 156 |
| Crown Organizations..... | 484 | 511 | 491 |
| TOTAL OPERATING FUND REVENUE..... | 8,651 | 8,948 | 8,425 |
| OPERATING FUND EXPENSES | | | |
| Health..... | 3,639 | 3,673 | 3,442 |
| Education..... | 1,752 | 1,774 | 1,661 |
| Family Services and Housing..... | 1,058 | 1,052 | 983 |
| Community, Economic and Resource Development..... | 1,269 | 1,301 | 1,298 |
| Justice and Other Government..... | 687 | 667 | 640 |
| Net Debt Servicing (Note 15)..... | 282 | 261 | 260 |
| | 8,687 | 8,728 | 8,284 |
| Less: Budgeted Underexpenditure..... | 64 | - | - |
| TOTAL OPERATING FUND EXPENSES (Schedule 10)..... | 8,623 | 8,728 | 8,284 |

CHANGES IN OTHER SPECIAL FUNDS

SCHEDULE 9

For the Year Ended March 31, 2007

(\$ millions)

| | Mining Community Reserve | Quarry Rehabilitation Reserve Fund | Other Funds | Total 2007 | Total 2006 |
|---------------------------------|---|---|------------------------|-----------------------|-----------------------|
| Surplus, Beginning of Year..... | <u>13</u> | <u>6</u> | <u>3</u> | <u>22</u> | <u>22</u> |
| Revenue..... | 1 | 2 | 5 | 8 | 6 |
| Expenses..... | <u>-</u> | <u>2</u> | <u>4</u> | <u>6</u> | <u>4</u> |
| Net Revenue over Expenses..... | 1 | - | 1 | 2 | 2 |
| Transfers in (from)..... | <u>1</u> | <u>-</u> | <u>-</u> | <u>1</u> | <u>(2)</u> |
| Net Result for the Year..... | <u>2</u> | <u>-</u> | <u>1</u> | <u>3</u> | <u>-</u> |
| Surplus, End of Year..... | <u><u>15</u></u> | <u><u>6</u></u> | <u><u>4</u></u> | <u><u>25</u></u> | <u><u>22</u></u> |

OPERATING FUND EXPENSE BY TYPE

SCHEDULE 10

For the Year Ended March 31, 2007

(\$ millions)

| | 2007 | 2006 |
|---|--------------|--------------|
| Personnel Services..... | 881 | 847 |
| Grants/Transfer Payments..... | 5,921 | 5,614 |
| Transportation..... | 59 | 47 |
| Communications..... | 32 | 28 |
| Supplies and Services..... | 347 | 317 |
| Social Assistance Related..... | 740 | 700 |
| Other Operating..... | 250 | 236 |
| Net Debt Servicing - General (Note 15)..... | 261 | 260 |
| - Departments (Note 15)..... | 108 | 111 |
| Minor Capital..... | 21 | 21 |
| Amortization..... | 108 | 103 |
| | <u>8,728</u> | <u>8,284</u> |