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Section 4:

CROWN ORGANIZATIONS (CONTINUED):

GOVERNMENT ENTERPRISES:

Management’s Responsibility for Financial Reporting

The accompanying combined financial statements are the responsibility of the management of the Special Operating Agencies Financing Authority and have been prepared in accordance with Canadian generally accepted accounting principles. In management's opinion, the combined financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data available to July 22, 2011.

Management maintains internal controls to properly safeguard the assets and to provide reasonable assurance that the books and records from which the combined financial statements are derived accurately reflect all transactions in all material respects.

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

On behalf of Management,
Special Operating Agencies Financing Authority

Lynn Cowley, Chairperson
July 22, 2011

OFFICE OF THE
AUDITOR GENERAL
MANITOBA

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying combined financial statements of the Special Operating Agencies Financing Authority, which comprise the combined balance sheet as at March 31, 2011, the combined statements of income, comprehensive income and retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements present fairly, in all material respects, the financial position of Special Operating Agencies Financing Authority as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Office of the Auditor General

Office of the Auditor General
July 22, 2011

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Special Operating Agencies Financing Authority
Province of Manitoba
Combined Balance Sheet
(In Thousands)

March 31	2011	2010
Assets		
Current:		
Cash and term deposits with the Minister of Finance	$ 39,036	$ 35,183
Customer deposits	1,564	1,427
Receivable from the Province of Manitoba	-	1,903
Accounts receivable (Note 5)	24,203	23,594
Inventories	7,771	7,545
Prepaid expenses	3,934	3,780
	76,508	73,432
Trust assets	3	12
Long-term investments (Note 6)	6,633	5,469
Restricted deposits (Note 7)	750	750
Capital assets (Note 8)	139,433	131,272
Intangible assets (Note 9)	1,314	105
	$ 224,641	$ 211,040
Liabilities		
Current:		
Working capital advances (Note 10)	$ 12,910	$ 13,663
Accounts payable and accruals	18,907	16,701
Unearned revenue	6,765	8,787
Current portion - capital lease obligations (Note 11)	45	42
Current portion - long-term debt (Note 12)	10,655	9,472
	49,282	48,665
Trust liabilities	3	12
Unearned revenue	815	724
Deferred capital contributions (Note 13)	14,016	12,409
Capital lease obligations (Note 11)	109	154
Long-term debt - Province of Manitoba (Note 12)	80,270	71,561
Severance liability (Note 14)	7,430	7,240
	151,925	140,765
Equity		
Contributed equity (Note 15)	38,093	38,093
Reserve funds (Note 16)	2,160	2,020
Retained earnings (Note 15)	32,463	30,162
	72,716	70,275
	$ 224,641	$ 211,040

Commitments (Note 17)
Contingencies (Note 18)

See accompanying notes to the financial statements.

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

Year Ended March 31	2011	2010
Revenue		
Annual levy	$ 14	$ 15
Contributed Services Treasury Board Secretariat/Finance	110	107
	124	122
Expenses		
Salaries and benefits	98	94
Other operating	20	20
	118	114
Financing Authority operations	6	8
Special Operating Agency operations – Net Income (Loss) and Comprehensive Income		
Civil Legal Services	230	337
Companies Office	3,169	2,358
Crown Lands and Property Agency	(706)	(853)
Food Development Centre	452	32
Green Manitoba Eco Solutions	239	439
Industrial Technology Centre	91	(71)
MERLIN	(148)	(121)
Manitoba Securities Commission	10,181	8,939
Manitoba Text Book Bureau	5	39
Materials Distribution Agency	12	201
Office of the Fire Commissioner	555	570
Organization and Staff Development	103	(252)
Pineland Forest Nursery	(419)	(170)
The Property Registry	9,501	8,131
The Public Trustee	789	196
Vehicle and Equipment Management Agency	3,776	2,901
Vital Statistics Agency	63	135
Net Income and Comprehensive Income for the year	27,899	22,819
Retained earnings, beginning of year	30,162	52,530
Transfer to Reserve Funds (Note 16)	(168)	(551)
Transfer of funds to the Province of Manitoba (Note 19)	(25,430)	(24,380)
Transfer to Contributed Equity	-	(20,256)
Retained earnings, end of year	$32,463	$30,162

See accompanying notes to the financial statements.

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

Year Ended March 31	2011	2010
Cash derived from (applied to):		
Operating		
Net income	$ 27,899	$ 22,819
Amortization	23,164	21,266
Amortization of deferred capital contributions	(780)	(750)
Gain on disposal of capital assets	(669)	(697)
	49,614	42,638
Change in:		
Customer deposit accounts	(137)	25
Accounts receivable	(609)	(9,133)
Inventories	(226)	(639)
Prepaid expenses	(154)	(536)
Accounts payable and accruals	2,206	(2,370)
Severance liability	190	385
Unearned revenue	(1,931)	2,642
Cash derived from operating activities	48,953	33,012
Investing		
Proceeds from disposal of capital assets	2,225	2,267
Acquisition of capital assets	(32,867)	(28,853)
System development and software costs	(1,223)	(51)
Cash applied to investing activities	(31,865)	(26,637)
Financing		
Change in receivable from the Province of Manitoba	739	-
Proceeds from long-term debt	20,132	15,766
Long-term debt repayments	(10,240)	(9,807)
Capital lease obligations	(42)	(3)
Transfer of surplus funds	(25,430)	(24,380)
Transfer to reserve funds	(28)	(21)
Change in deferred capital contributions	2,387	3,090
Cash applied to financing activities	(12,482)	(15,355)
Increase (decrease) in cash and cash equivalents	4,606	(8,980)
Cash and cash equivalents:		
Beginning of year	21,520	30,500
End of year	$ 26,126	$ 21,520
Represented by:		
Cash and Term deposits with the Minister of Finance	$ 39,036	$ 35,183
Working capital advances	(12,910)	(13,663)
	$ 26,126	$ 21,520
Supplementary information:		
Interest received	$ 185	$ 76
Interest paid	$4,213	$4,086

See accompanying notes to the financial statements.

1. Nature of organization

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

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

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

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

SOAs in operation during the fiscal year ended March 31, 2011 were as follows:

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

2. Change in Accounting Policies

Significant accounting changes:

No significant accounting changes were effective for the Financing Authority in the 2010/11 year.

Future accounting changes:

The Financing Authority will adopt Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board effective April 1, 2011. The Financing Authority is currently in the process of assessing the impact of the adoption of PSAS on its financial statements.

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3. Significant Accounting Policies

a. General

The financial statements of the Financing Authority are presented in accordance with Canadian generally accepted accounting principles for profit-oriented entities.

b. Basis of reporting

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

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

c. Use of estimates

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

d. Inventories

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

3. Significant Accounting Policies (continued)

e. Amortization of capital assets

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

f. Intangible assets

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

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

g. Administrative expenses paid by the Province of Manitoba

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

h. Capital disclosures

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

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

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

4. Financial Instruments and Financial Risk Management

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

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

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

Amortized cost is determined using the effective interest rate method.

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

Fair value of financial instruments

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

The fair value of the long-term debt is determined using the present value of future cash flows under current financing agreements, based on the Financing Authority's current estimated borrowing rate for loans with similar terms and conditions. The fair value of this long-term debt is $91,586 as at March 31, 2011 (2010 - $82,408).

4. Financial Instruments and Financial Risk Management (continued)

Financial risk management - overview

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

Credit risk

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

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

	2011	2010
Cash and term deposits	$ 39,036	$ 35,183
Customer deposits	1,564	1,427
Receivable from the Province of Manitoba	-	1,903
Accounts receivable	24,203	23,594
Long-term investments	6,633	5,469
Restricted deposits	750	750
	$ 72,186	$ 68,326

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

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

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

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

	2011	2010
Balance, beginning of the year	$ 691	$ 390
Provision for receivable impairment	109	329
Amounts written off	(267)	(28)
Balance, end of the year	$ 533	$ 691

4. Financial Instruments and Financial Risk Management (continued)

Liquidity risk

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

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

Market risk

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

Interest rate risk

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

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

The Financing Authority manages its interest rate risk on long-term debt through the exclusive use of fixed rate terms for its long-term debt. A change of 100 basis points in the interest rates would have increased or decreased its fair value by $4,323 (2010 - $4,262).

Foreign currency risk

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

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5. Accounts receivable

	2011	2010
Trade	$20,650	$20,915
Insurance agency rebate	604	543
Other	2,949	2,136
	$24,203	$23,594

5. Accounts receivable (continued)

Other accounts receivable includes a receivable from the Province of Manitoba and Western Economic Diversification of $2,639 for the expansion of Food Development Centre.

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6. Long-term investments

The Province of Manitoba accepted responsibility for the vacation entitlements earned by the employees of the SOA's prior to their designation as SOA's and the severance pay benefits accumulated to March 31, 1998 for certain of the SOA's employees. Accordingly, the SOA's recorded a receivable from the Province of Manitoba for these accumulated benefits. Effective March 31, 2009 the Province of Manitoba paid the receivable balance related to the funding for these liabilities and placed the amount into an interest bearing trust account to be held on the SOA's behalf until the cash is required to discharge the related liabilities. Any unused balance is re-invested annually. The balance of these investments at March 31, 2011 is $6,633 (2010 - $5,469).

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7. Restricted deposits

The Manitoba Securities Commission maintains separate deposits with the Province of Manitoba to fund expenses which may arise with respect to the Reserve Fund (Note 16b).

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8. Capital assets

	2011		2010	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Vehicles (signed lease agreement)	$208,801	$98,902	$196,428	$93,011
Vehicles, fire engines	2,555	1,982	2,488	1,734
Equipment and furniture	24,299	13,021	20,868	11,898
Rental equipment	8,930	7,508	8,128	6,607
Computer equipment	7,156	5,369	6,616	5,218
Buildings	20,318	8,330	19,491	7,194
Practical training site	2,384	1,411	2,346	1,303
Leasehold improvements	2,673	2,198	2,616	2,064
Other assets	3,179	2,141	3,179	1,859
	$280,295	$140,862	$262,160	$130,888
Net		$139,433		$131,272

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9. Intangible assets

	2011		2010	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
System development and software costs	$1,333	$ 19	$ 110	$ 5
Net		$1,314		$ 105

10. Working capital advances

The Minister of Finance, with Lieutenant-Governor-in-Council approval by Orders in Council, has arranged for working capital advances to be available to the Financing Authority. The aggregate of the outstanding advances is not to exceed $31,620 (2010 - $25,070) at any one time. As at March 31, 2011, $12,910 (2010 - $13,663) was advanced, leaving an unused balance of $18,710 (2010 - $11,407). These advances bear interest at prime less 1% and are not secured by specific assets.

11. Capital lease obligations

	2011	2010
Polaris Leasing Ltd., capital lease due November 1, 2013, interest at 7.318% per year with annual principal and interest payments of $43 for the first 4 years and a final payment of $79 in 2014	$ 141	$ 171
CTYS Lease and Rental, capital lease due March 15, 2012, interest at 7.486% per year with annual principal and interest payments of $14 for three years	13	25
	154	196
Current portion of capital lease obligations	45	42
	$ 109	$ 154

Capital lease obligations are secured by equipment under lease. The future minimum lease payments for the next three years are as follows:

2012	$ 45
2013	35
2014	74

12. Long-term debt - Province of Manitoba

Instalment Amount	Interest Rate	Maturity Date	2011	2010
Repayable in monthly instalments of principal plus interest:				
6	5.125%	Jul 31, 2023	$ 935	$ 1,011
3	4.875%	Jul 31, 2023	404	436
2	4.875%	Jul 31, 2023	264	286
1	3.875%	Jan 31, 2021	149	-
Repayable in quarterly instalments of principal plus interest:				
33	4.000%	Mar 1, 2021	1,330	-
Repayable in semi-annual instalments of principal and interest:				
123	5.125%	Sep 30, 2010	-	119
227	4.750%	Mar 31, 2011	-	438
451	4.750%	Mar 31, 2011	-	871
137	4.875%	Sep 30, 2011	133	391
102	4.750%	Sep 30, 2011	100	293
475	4.625%	Mar 31, 2012	919	1,796
137	4.750%	Sep 30, 2012	391	637
142	5.000%	Sep 30, 2012	405	658
345	4.000%	Mar 31, 2013	1,314	1,933
140	4.050%	Sep 30, 2013	660	907
355	3.875%	Sep 30, 2013	1,677	2,304
376	2.625%	Sep 30, 2014	2,498	3,170
148	4.875%	Mar 31, 2015	1,060	1,295
215	2.625%	Mar 31, 2015	1,621	2,000
117	4.125%	Sep 30, 2015	951	1,140
482	2.500%	Sep 30, 2015	4,075	-
271	2.563%	Sep 30, 2016	2,767	-
186	3.450%	Mar 31, 2017	2,000	-
237	4.875%	Sep 30, 2023	4,396	4,646
334	5.000%	Mar 31, 2024	6,338	6,677
192	4.875%	Mar 31, 2024	3,665	3,863
2,018	4.875%	Mar 31, 2024	38,521	40,603
162	4.500%	Sep 30, 2024	3,246	3,417
201	4.000%	Sep 30, 2025	4,389	-
162	4.550%	Mar 31, 2026	3,500	-
80	5.000%	Mar 31, 2030	1,940	2,000

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

Instalment Amount	Interest Rate	Maturity Date	2011	2010
Repayable in annual instalments of principal plus interest:				
253	2.000%	Sep 30, 2011	253	-
18	5.800%	Apr 30, 2017	124	142
60	4.200%	Mar 31, 2026	900	-
			90,925	81,033
	Amount due within one year		(10,655)	(9,472)
			$ 80,270	$ 71,561

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

2012	$ 10,655
2013	9,330
2014	8,213
2015	7,646
2016	6,234

Loan authority availability was approved for the six agencies (listed in the following table) during June 2010 in The Loan Act, 2010.

	The Loan Act, 2010
Vehicle and Equipment Management Agency	$ 29,600
The Property Registry	5,000
Companies Office	3,300
Vital Statistics Agency	1,819
Industrial Technology Centre	1,160
Pineland Forest Nursery	435
Total loan authority	$ 41,314

Of the $41,314 in available loan authority, $20,130 was drawn down at various times during the 2010/11 year, leaving $21,184 of loan authority availability unutilized as of March 31, 2011.

13. Deferred capital contributions

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

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14. Severance liability

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

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. The special operating agencies' actuarially determined net liability for accounting purposes as at March 31, 2011 is $7,430 (2010 - $7,240). The actuarial loss of $525 based on actuarial reports will be amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2011 present value of the accrued severance benefit obligation were:

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

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15. Equity

Contributed equity	2011	2010
Green Manitoba Eco Solutions	$ 9	$ 9
Industrial Technology Centre	62	62
Manitoba Text Book Bureau	550	550
Materials Distribution Agency	1,297	1,297
Office of the Fire Commissioner	11,279	11,279
Pineland Forest Nursery	356	356
Vehicle and Equipment Management Agency	24,540	24,540
	$38,093	$38,093

Retained earnings

Civil Legal Services	$ 799	$ 819
Companies Office	4,260	3,591
Crown Lands and Property Agency	(3,551)	(2,845)
Food Development Centre	393	81
Green Manitoba Eco Solutions	733	494
Industrial Technology Centre	528	437
MERLIN	154	302
Manitoba Securities Commission	10,186	8,805
Manitoba Text Book Bureau	238	233
Materials Distribution Agency	3,052	3,040
Office of the Fire Commissioner	2,363	1,836
Organization and Staff Development	457	354
Pineland Forest Nursery	(782)	(363)
The Property Registry	8,299	9,798
The Public Trustee	2,559	1,770
Vehicle and Equipment Management Agency	1,677	401
Vital Statistics Agency	1,066	1,383
Financing Authority	32	26
	$32,463	$30,162

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16. Reserve funds

a) Food Development Centre

Food Development Centre has allocated a reserve out of retained earnings to provide for an expansion program. The balance of the reserve at March 31, 2011 is $470 (2010 - $330).

16. Reserve funds (continued)

b) Manitoba Securities Commission

The Manitoba Securities Commission has allocated a reserve out of retained earnings to provide for extraordinary regulatory expenses and changes in market activity affecting revenue. The balance of the reserve at March 31, 2011 is $750 (2010 - $750).

c) Office of the Fire Commissioner

The Office of the Fire Commissioner received approval from Treasury Board in the year ended March 31, 2005 to establish a special reserve fund for water bomber fire suppression activities. This fund is capped at an amount of $200 and will be utilized to cover the costs associated with water bomber deployment for non-forest fire incidents occurring on Rural Municipality property. As of March 31, 2011, the agency has allocated a total of $200 (2010 - $200) to this fund from its retained earnings account.

The agency has established a special reserve fund for replacing and training a rescue dog. The fund is capped at $40, and the balance of this reserve fund as at March 31, 2011 is $40 (2010 - $40).

The agency has received approval from Treasury Board to establish a special reserve fund for special rescue activities. The fund is capped at $200. As at March 31, 2011, the agency has allocated $200 to this fund from retained earnings. During the year, an amount of $28 was drawn from the fund, and it was replenished to $200.

d) The Public Trustee

The Public Trustee has allocated a reserve out of retained earnings to provide for short-term fluctuations in revenue due to changes in revenue patterns or extraordinary expenses. The balance of the reserve at March 31, 2011 is $500 (2010 - $500).

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17. Commitments

Commitments for SOAs with building lease agreements at March 31, 2011 amount to $10,361 (2010 - $11,111).

Other commitments entered into by SOAs are as follows:

Crown Lands And Property Agency	Vehicle and equipment leases	$ 53
Office of the Fire Commissioner	Vehicle leases	615
Organization and Staff Development	Learning Management System	184
The Property Registry	Equipment lease agreements	320
		$ 1,172

17. Commitments (continued)

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

2012	2,688
2013	2,476
2014	1,775
2015	1,719
2016	1,619

18. Contingencies

A potential claim has been filed against Organization and Staff Development for breach of an agreement. In the opinion of management and legal counsel, the amount of the potential loss cannot be estimated, and the outcome of the claim is not determinable. Should any loss result from the resolution of this claim, such loss will be charged to operations in the year of resolution.

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

19. Transfer of funds to the Province of Manitoba

The Minister of Finance, with Lieutenant-Governor-in-Council approval by Order in Council, allocated $25,430 (2010 - $24,380) of the Financing Authority's surplus funds for transfer to the Consolidated Fund of the Province of Manitoba. Payments for this transfer were made by the following SOA's:

	2011	2010
Civil Legal Services	$ 250	$ 250
Companies Office	2,500	2,500
Manitoba Securities Commission	8,800	7,850
The Property Registry	11,000	11,000
Vehicle and Equipment Management Agency	2,500	2,500
Vital Statistics Agency	380	280
	$25,430	$24,380

20. Pension benefits

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

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

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the remaining SOAs transferred to the Province the pension liability for their employees. These SOAs are required to pay to the Province an amount equal to the current pension contributions of their employees. The amount paid for 2011 was $2,786 (2010 - $2,884). Under this agreement, these SOAs have no further pension liability.

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21. Estates and trusts under administration

The Public Trustee has statutory responsibility for administering clients' estates and trusts. The client assets under administration at March 31, 2011 total approximately $222,000 (2010 - $211,000). The trust activities of The Public Trustee are reported in separate audited financial statements for Estates and Trusts under Administration.

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22. Related party transactions

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

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23. Comparative figures

Certain 2010 financial statement figures have been reclassified to be consistent with the 2011 presentation.

INDEPENDENT AUDITORS' REPORT

To the Special Operating Agencies Financing Authority of
Civil Legal Services

Report on the Financial Statements

We have audited the accompanying financial statements of Civil Legal Services, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba which comprise the balance sheet as at March 31, 2011 and the statements of income, comprehensive income and retained earnings and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Civil Legal Services as at March 31, 2011, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Magnus & Buffie

June 10, 2011
Winnipeg, Canada

MAGNUS & BUFFIE
CHARTERED ACCOUNTANTS LLP

Balance Sheet
(in thousands)
March 31, 2011

	2011	2010
Assets		
Current assets:		
Cash and short term deposits	$ 1,118	$ 977
Accounts receivable	721	704
	1,839	1,681
Long term investments (Note 5)	380	379
Capital assets (Note 6)	60	82
Trust asset	-	9
	$ 2,279	$ 2,151
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued	$ 105	$ 79
Accrued vacation entitlements	540	500
	645	579
Severance liability (Note 7)	835	744
Trust liability	-	9
	1,480	1,332
Equity:		
Retained earnings	799	819
	$ 2,279	$ 2,151

See accompanying notes to financial statements.

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

Statement of Income, Comprehensive Income and Retained Earnings

(in thousands)

Year ended March 31, 2011

	2011	2010
Revenue:		
Recoveries	$ 6,562	$ 6,597
Interest and other	17	6
	6,579	6,603
Expenses:		
Advertising and promotion	3	1
Amortization	33	34
Communications	39	41
Computer	65	66
Desktop management initiative	170	174
Equipment rental	-	2
Government records centre	27	28
Law Society fees	56	51
Miscellaneous	12	9
Occupancy	243	240
Office	38	30
Postage and deliveries	14	13
Professional fees and services	57	51
Publications	45	37
Travel	19	21
Wages and benefits	5,528	5,468
	6,349	6,266
Net income and comprehensive income for the year	230	337
Retained earnings, beginning of year	819	732
	1,049	1,069
Revenue sharing - Province of Manitoba	250	250
Retained earnings, end of year	$ 799	$ 819

See accompanying notes to financial statements.

Statement of Cash Flow

(in thousands)

Year ended March 31, 2011

	2011	2010
Cash flow from (used in)		
Operating activities:		
Net earnings for the year	$ 230	$ 337
Adjustment for:		
Amortization	33	34
	263	371
Changes in the following:		
Accounts receivable	(17)	(48)
Accounts payable and accrued	26	16
Accrued vacation entitlements	40	4
Severance liability	91	95
	403	438
Financing activity:		
Revenue sharing - Province of Manitoba	(250)	(250)
Investing activity:		
Capital asset additions	(12)	(38)
Change in cash and short term deposits	141	150
Cash and short term deposits, beginning of year	977	827
Cash and short term deposits, end of year	$ 1,118	$ 977

See accompanying notes to financial statements.

1. Nature of organization

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

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

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

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

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

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

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

2. Change in accounting policies

Significant accounting changes

No significant accounting changes were effective for the Agency in the 2010/11 year.

Future accounting changes

The agency will adopt Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board effective April 1, 2011. The Agency is currently in the process of assessing the impact of the adoption of PSAS on its financial statements.

3. Summary of significant accounting policies

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

3. Summary of significant accounting policies (continued)

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

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

Revenue recognition

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

Capital disclosures

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

The Agency is not subject to externally imposed capital requirements.

Use of estimates

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

(in thousands)

3. Summary of significant accounting policies (continued)

Financial instruments - recognition and measurement

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

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

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

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

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

Fair value of financial instruments

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

4. Financing arrangements

The Special Operating Agencies Financing Authority has provided the Agency with an authorized line of working capital of $200 of which $nil was used at March 31, 2011.

5. Long term investments

The Province of Manitoba accepted responsibility for the vacation entitlements earned by the employees of the Agency prior to its designation as SOA, and the severance pay benefits accumulated to March 31, 1998 for certain of the Agency's employees. Accordingly, the Agency recorded a receivable of $380 from the Province of Manitoba for these accumulated benefits. Effective March 31, 2009 the Province of Manitoba paid the receivable balances related to the funding for these liabilities and has placed the amount of $380 into a trust account bearing interest at 1.25% and maturing on March 30, 2012 to be held on the Agency's behalf until the cash is required to discharge the related liabilities. As such, this amount has been classified as a long term asset.

(in thousands)

6. Capital assets

	Cost	Accumulated amortization	Net book value 2011	Net book value 2010
Computer Equipment and Software	$ 162	$ 141	$ 21	$ 27
Furniture and Fixtures	274	249	25	36
Leasehold Improvements	77	63	14	19
	$ 513	$ 453	$ 60	$ 82

7. Severance liability

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

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the Agency's actuarially determined net liability for accounting purposes as at March 31, 2011 was $835 (2010 - $744), with the actuarial loss being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2011 present value of the accrued severance benefit obligation were:

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

(in thousands)

8. Pension benefits

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

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

Commencing April 1, 2001, the Agency was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for 2011 was $320 (2010 - $328). Under this agreement the Agency has no further pension liability.

9. Lease commitments

The Agency has not entered into a lease agreement with the Province of Manitoba for rental facilities at 405 Broadway. Occupancy charges for the year ending March 30, 2012 are estimated to be $218.

10. Financial instruments - risk management

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

Credit risk

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

The maximum exposure of the Agency to credit risk at March 31, 2011 is:

Cash and short term deposits	$	1,118
Accounts receivable		721
Long term investments		380
	$	2,219

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

Accounts receivable: The Agency is not exposed to significant credit risk as the nature of the accounts receivable is with related entities and consists of a large client base and payment in full is typically collected when it is due. The Agency establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off. The balance in the allowance for doubtful accounts at March 31, 2011 was $nil (2010 - $nil).

10. Financial instruments - risk management (continued)

Liquidity risk

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

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

Market risk

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

Interest rate risk

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

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

INDEPENDENT AUDITORS' REPORT

To the Special Operating Agencies Financing Authority of
Companies Office

Report on the Financial Statements

We have audited the accompanying financial statements of Companies Office, which comprise the balance sheet as at March 31, 2011 and the statements of income, comprehensive income and retained earnings and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Companies Office as at March 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Magnus & Buffie

MAGNUS & BUFFIE
CHARTERED ACCOUNTANTS LLP

June 6, 2011
Winnipeg, Manitoba

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

Balance Sheet

(in thousands)

March 31, 2011

	2011	2010
Assets		
Current Assets:		
Cash and Short Term Deposits	$ 4,725	$ 3,482
Accounts Receivable (Note 4)	273	370
Prepaid Expenses	40	35
	5,038	3,887
Long Term Investment (Note 5)	218	218
Capital Assets (Note 6)	37	50
Intangible Assets (Note 7)	1,240	62
	$ 6,533	$ 4,217
Liabilities and Equity		
Current Liabilities:		
Accounts Payable and Accrued	$ 481	$ 206
Accrued Vacation Entitlements	211	199
Current Portion - Long Term Debt (Note 9)	133	-
	825	405
Severance Pay Liability (Note 8)	251	221
Long Term Debt - Province of Manitoba (Note 9)	1,197	-
	2,273	626
Equity:		
Retained Earnings	4,260	3,591
	$ 6,533	$ 4,217

See accompanying notes to financial statements.

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

Statement of Income, Comprehensive Income and Retained Earnings

(in thousands)

Year ended March 31, 2011

	2011	2010
Revenue:		
Fees and Services	$ 7,463	$ 6,707
Interest	20	6
	7,483	6,713
Expenses:		
Salaries and Employee Benefits	1,696	1,770
Operating Expenses (Schedule)	2,603	2,570
Amortization - Capital Assets	15	15
	4,314	4,355
Net Income and Comprehensive Income for the Year	3,169	2,358
Retained Earnings, Beginning of Year	3,591	3,733
	6,760	6,091
Revenue Share to Province of Manitoba	2,500	2,500
Retained Earnings, End of Year	$ 4,260	$ 3,591

See accompanying notes to financial statements.

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

Statement of Cash Flow

(in thousands)

Year ended March 31, 2011

	2011	2010
Cash Flow From (used in)		
Operating Activities:		
Net Income and Comprehensive Income for the Year	$ 3,169	$ 2,358
Adjustment for		
Amortization - Capital Assets	18	21
	3,187	2,379
Changes in the Following:		
Accounts Receivable	97	(195)
Prepaid Expenses	(5)	(10)
Accounts Payable and Accrued	275	(26)
Accrued Vacation Entitlements	12	(17)
Change in Severance Pay Liability	30	(23)
	3,596	2,108
Financing Activities:		
Revenue Share to Province of Manitoba	(2,500)	(2,500)
Proceeds From Long Term Debt	1,330	-
	(1,170)	(2,500)
Investing Activities:		
Capital Asset Additions	(5)	(3)
Additions to Intangible Assets	(1,178)	(3)
	(1,183)	(6)
Change in Cash and Short Term Deposits	1,243	(398)
Cash and Short Term Deposits, Beginning of Year	3,482	3,880
Cash and Short Term Deposits, End of Year	$ 4,725	$ 3,482

See accompanying notes to financial statements.

(in thousands)

1. Nature of organization

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

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

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

2. Change in accounting policies

Significant Accounting Changes:

No significant accounting changes were effective for the Agency in the 2010/11 year.

Future Accounting Changes

The Agency will adopt Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board effective April 1, 2011. The Agency is currently in the process of assessing the impact of the adoption of PSAS on its financial statements.

3. Summary of significant accounting policies

Basis of Reporting:

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

Capital Assets

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

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

3. Summary of significant accounting policies (continued)

Intangible Assets

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

New System Development (Note 7)	15 year straight line

Revenue Recognition

Revenue is recognized when the service is substantially complete.

Deferred Development Costs

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

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

Use of Estimates

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

Capital disclosures

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

The Agency is not subject to externally imposed capital requirements.

Financial Instruments - Recognition and Measurement

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

(in thousands)

3. Summary of significant accounting policies (continued)

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

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

Amortized cost is determined using the effective interest rate method.

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

Fair Value of Financial Instruments

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

4. Accounts receivable

	2011	2010
Trade	$ 43	$ 43
Accrued Revenue	230	327
	$ 273	$ 370

5. Long term investment

The Province of Manitoba accepted responsibility for the vacation entitlements earned by the employees of the Agency prior to its designation as SOA, and the severance pay benefits accumulated to March 31, 1998 for certain of the Agency's employees. Accordingly, the Agency recorded a receivable of $218 from the Province of Manitoba for these accumulated benefits. Effective March 31, 2009 the Province of Manitoba paid the receivable balances related to the funding for these liabilities and has placed the amount of $218 into a trust account bearing interest at 1.25% and maturing on March 30, 2012 to be held on the Agency's behalf until the cash is required to discharge the related liabilities. However, this is only likely to happen on the dissolution of the Agency. As such, this amount has been classified as a long term asset.

(in thousands)

6. Capital assets

	Cost	Accumulated Amortization	Net Book Value 2011	Net Book Value 2010
Computer Equipment and Software	$ 107	$ 85	$ 22	$ 28
Office Equipment	16	16	-	-
Furniture and Fixtures	136	121	15	20
Leasehold Improvements	40	40	-	2
	$ 299	$ 262	$ 37	$ 50

Amortization charges for the year amounted to $18 (2010 - $21) of which $0 (2010 - $2) was expensed in Manitoba Business Links and $3 (2010 - $4) was expensed in Notaries on the schedule of operating expenses.

7. Intangible assets

Intangible assets consists of deferred development costs as follows:

	Cost	Accumulated Amortization	Net Book Value 2011	Net Book Value 2010
New system development	$ 1,240	-	$ 1,240	$ 62

During the year, development costs were capitalized in the amount of $1,178 (2010 - $3).

8. Severance pay liability

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

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the Agency's actuarially determined net liability for accounting purposes as at March 31, 2011 was $251 (2010 - $221) with the actuarial loss of $49 being amortized over the 15 year expected average remaining service life of the employee group.

(in thousands)

8. Severance pay liability (continued)

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2011 present value of the accrued severance benefit obligation were:

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

9. Long term debt - Province of Manitoba

	2011	2010
4.0% Repayable in quarterly installments of $33 principal plus interest maturing 2021	$ 1,330	$ -
Current Portion	133	-
	$ 1,197	$ -

10. Pension benefits

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

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

The amount paid for 2011 was $91 (2010 - $103). Under this agreement, the Agency has no further pension liability.

11. Lease commitments

The Agency has not entered into a lease agreement with the Province of Manitoba for rental facilities at 405 Broadway. Occupancy charges for the year ending March 31, 2012 are estimated to be $140 (2011 - $146).

(in thousands)

12. Financial instruments - risk management

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

Credit risk

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

The maximum exposure of the Agency to credit risk at March 31, 2011 is:

Cash and short term deposits	$ 4,725
Accounts receivable	273
Long term investment	218
	$ 5,216

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

Accounts receivable: The Agency is not exposed to significant credit risk as the nature of the accounts receivable is with related entities and consists of a large client base and payment in full is typically collected when it is due. The Agency establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off. The balance in the allowance for doubtful accounts at March 31, 2011 was $nil (2010 - $nil).

Liquidity risk

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

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

Market risk

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

Interest rate risk

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

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

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

Schedule of Operating Expenses

(in thousands)

Year ended March 31, 2011

	2011	2010
Accounting	$ 11	$ 11
Audit	7	7
Bad Debts	1	2
Bank Charges	52	52
Communications	30	29
Computer	122	114
Department Services	36	31
Desktop	98	86
Disaster Recovery	84	57
Equipment Maintenance and Rentals	6	10
Insurance	12	12
Interest on Long Term Debt	4	-
Legal Services	6	5
Manitoba Business Links	281	359
Miscellaneous	32	31
Name Search Application	159	155
New System Cost Allocation	1,041	1,081
Notaries	131	130
Office Rent	135	130
Payroll Processing	20	20
POS Licence Fees	85	-
Postal and Courier	54	51
Programmers	116	115
Stationery	74	71
System Enhancements	-	3
Transportation	6	8
	$ 2,603	$ 2,570

THE EXCHANGE

chartered accountants LLP

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Crown Lands and Property Agency, An Agency of the Special Operating Agencies Financing Authority Province of Manitoba, which comprise the balance sheet as at March 31, 2011, and the statements of loss and deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Crown Lands and Property Agency, An Agency of the Special Operating Agencies Financing Authority Province of Manitoba, as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The Exchange

chartered accountants LLP
Winnipeg, Manitoba
June 29, 2011

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CROWN LANDS AND PROPERTY AGENCY

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

Balance Sheet

(In thousands)

March 31, 2011

		2011		2010
ASSETS				
CURRENT				
Accounts receivable *(Note 5)*	**$**	**518**	$	1,019
Prepaid expenses		**45**		45
		563		1,064
CAPITAL ASSETS *(Notes 3, 6)*		**149**		188
SEVERANCE PAY BENEFITS, VACATION PAY AND BANKED TIME CASH IN TRUST *(Note 7)*		**670**		670
ASSETS HELD IN TRUST *(Notes 4, 8)*		**3**		3
	$	**1,385**	$	1,925
LIABILITIES				
CURRENT				
Working capital advance, net of cash *(Note 9)*	**$**	**3,199**	$	3,362
Accounts payable and accrued liabilities *(Note 10)*		**862**		483
Client held funds		**550**		580
		4,611		4,425
SEVERANCE PAY LIABILITY *(Note 11)*		**322**		342
TRUST FUND LIABILITY *(Note 8)*		**3**		3
		4,936		4,770
DEFICIT		**(3,551)**		(2,845)
	$	**1,385**	$	1,925

LEASE COMMITMENTS *(Note 13)*

CROWN LANDS AND PROPERTY AGENCY

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

Statement of Loss and Deficit

(In thousands)

Year Ended March 31, 2011

		2011		2010
REVENUE	**$**	**3,873**	$	3,745
EXPENSES				
Advertising		**10**		8
Amortization		**92**		80
Bad debts		**78**		133
Computer maintenance costs		**126**		136
Consulting fees		**109**		(45)
Contributed services		**401**		482
Desktop operating lease		**180**		142
Insurance		**3**		2
Interest on working capital advance		**52**		33
Meals and accommodations		**6**		6
Office		**174**		180
Professional fees		**116**		154
Relocation expense		**7**		12
Rental		**269**		285
Salaries and wages		**2,914**		2,937
Training		**17**		21
Travel		**25**		32
		4,579		4,598
NET LOSS		**(706)**		(853)
DEFICIT - BEGINNING OF YEAR		**(2,845)**		(1,992)
DEFICIT - END OF YEAR	**$**	**(3,551)**	$	(2,845)

CROWN LANDS AND PROPERTY AGENCY

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

Statement of Cash Flows

(In thousands)

Year Ended March 31, 2011

	2011	2010
OPERATING ACTIVITIES		
Cash receipts from customers	**$ 4,296**	$ 3,566
Cash paid to suppliers and employees	**(3,978)**	(4,324)
Interest paid	**(52)**	(34)
Increase (decrease) in client funds held	**(30)**	69
Increase (decrease) in severance pay liability	**(20)**	9
Cash flow from (used by) operating activities	**216**	(714)
INVESTING ACTIVITY		
Purchase of capital assets	**(53)**	(72)
INCREASE (DECREASE) IN CASH	**163**	(786)
WORKING CAPITAL ADVANCE, NET OF CASH - BEGINNING OF YEAR	**(3,362)**	(2,576)
WORKING CAPITAL ADVANCE, NET OF CASH - END OF YEAR	**$ (3,199)**	$ (3,362)

1. NATURE OF ORGANIZATION

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

The Agency has transactional authority for all Crown land sales, leases and permits, as well as land appraisal, acquisition, expropriation and other services for the provincial government. The Agency represents the Manitoba government in its land dealings with the public, striving to ensure that the government's real estate business is conducted in a manner that is fair, open and transparent, timely and professional, and fiscally and environmentally responsible.

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

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

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

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

The Agency remains bound by relevant legislation and regulations.

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

2. FUTURE CHANGE IN ACCOUNTING POLICY

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of reporting

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

Use of estimates

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

Capital disclosure

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

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

The Agency is not subject to externally imposed capital requirements.

Capital assets

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

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

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

Revenue recognition

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

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

4. FINANCIAL INSTRUMENTS

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

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

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

Amortized cost is determined using the effective interest rate method.

(continues)

4. FINANCIAL INSTRUMENTS *(continued)*

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

Fair value of financial instruments

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

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

Financial risk management - overview

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

Credit risk

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

The maximum exposure of the Agency to credit risk at March 31, 2011 is:

Accounts receivable	$ 518
Severance pay benefits, vacation pay and banked time cash in trust	670
	$ 1,188

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

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

(continues)

(In thousands)

4. FINANCIAL INSTRUMENTS *(continued)*

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

Balance, beginning of the year	$ 191
Provision for receivable impairment	60
Balance, end of the year	$ 251

Liquidity risk

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

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

Market risk

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

Interest rate risk

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

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

Foreign currency risk

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

5. ACCOUNTS RECEIVABLE

The balance is comprised of the following amounts:

	2011	2010
Trade accounts receivable	**$ 769**	$ 1,210
Allowance for doubtful accounts	**(251)**	(191)
	$ 518	$ 1,019

(In thousands)

6. CAPITAL ASSETS

	2011		2010	
	Cost	**Accumulated amortization**	Cost	Accumulated amortization
Equipment	**$ 57**	**$ 46**	$ 52	$ 36
Computer equipment	**208**	**170**	208	128
Computer software	**127**	**96**	127	70
Furniture and fixtures	**97**	**28**	48	13
	$ 489	**$ 340**	$ 435	$ 247
Net book value	**$ 149**		$ 188	

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

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

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

8. ASSETS HELD IN TRUST

The assets held in trust were pledged to the Agency to complete outstanding projects transferred from the Province of Manitoba. The trust fund liability offsets the assets held in trust until work performed on outstanding projects have been completed.

9. WORKING CAPITAL ADVANCE

The Agency has an authorized line of working capital from the Province of Manitoba of $8,000 of which $3,334 was used as at March 31, 2011 (2010 - $3,369).

(In thousands)

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		2011		2010
The balance is composed of the following amounts:				
Trade accounts payable	**$**	**506**	$	123
Accrued wages, vacation pay and banked time		**354**		357
Goods and services tax		**2**		3
	$	**862**	$	483

11. SEVERANCE PAY LIABILITY

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

12. PUBLIC SECTOR COMPENSATION DISCLOSURE

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

			2011		2010
Bannerman, Gillian	Administration Officer	**$**	**50**	$	-
Bernat, Leonard	Property Appraiser		**65**		59
Burley, Ronald	Property Appraiser		**62**		52
Charles, Jack	Administration Officer		**-**		52
Delong, Grace	Administration Officer		**52**		50
Dyck, Garry	Acquisition Officer		**58**		56
Dzogan, Ken	Acquisition Manager		**68**		66
Kent, Rodney	Administration Officer		**62**		60
Kopytko, Wanda	Administration Officer		**58**		56
Krakowka, Larry	Property Sales Administrator		**54**		61
Kubasiewicz, Michal	Senior Manager		**99**		99
Le Neal, Normand	Financial Officer		**96**		68
McMullan, Bernie	Property Appraiser		**77**		74
Millar, Scott	Property Appraiser		**78**		78
Penner, Mary Ann	Appraisal and Acquisition Officer		**59**		59
Pieterse, Debra	Property Appraiser		**67**		68
Pishak, Calvin	Information Technologist		**69**		69
Sonley, Judy	Appraisal and Acquisition Officer		**-**		58
Wallcraft, Brian	Information Technologist		**58**		56

(In thousands)

13. LEASE COMMITMENTS

The Agency's approved 2011/12 Business Plan calls for $256, to be paid in quarterly instalments during 2011/12, for the rental of the facilities located at 25 Tupper Street North, Portage La Prairie, Manitoba. There is no premise lease agreement in place. Occupancy charges for each fiscal year are established annually by the Province of Manitoba.

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

2012	$	14
2013		10
2014		10
2015		10
2016		9

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THE EXCHANGE

chartered accountants LLP

INDEPENDENT AUDITORS' REPORT

To the Special Operating Agencies Financing Authority

We have audited the accompanying financial statements of Food Development Centre, which comprise the balance sheet as at March 31, 2011, and the statements of income and retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Food Development Centre as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The Exchange

chartered accountants LLP
Winnipeg, Manitoba
July 12, 2011

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FOOD DEVELOPMENT CENTRE

Balance Sheet

(In Thousands)

March 31, 2011

	2011	2010 *(Revised)*
ASSETS		
CURRENT		
Cash and short term deposits	**$ 656**	$ 1,223
Accounts receivable - trade *(Note 5)*	**173**	196
Accounts receivable - other *(Note 5)*	**2,639**	1,693
Prepaid expenses and deposits	**68**	172
Due from Growing Forward Program *(Note 16)*	**20**	91
	3,556	3,375
PROPERTY AND EQUIPMENT *(Notes 2, 6)*	**12,384**	10,315
SEVERANCE PAY BENEFITS CASH IN TRUST *(Notes 7, 12)*	**41**	41
	$ 15,981	$ 13,731
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities *(Note 8)*	**$ 403**	$ 478
Accrued vacation pay *(Note 9)*	**136**	133
Unearned revenue	**287**	26
Current portion of long term debt *(Note 10)*	**18**	18
	844	655
LONG TERM DEBT *(Note 10)*	**106**	124
SEVERANCE LIABILITY *(Note 12)*	**152**	132
DEFERRED CONTRIBUTIONS *(Note 13)*	**14,016**	12,409
EXPANSION RESERVE	**470**	330
	15,588	13,650
RETAINED EARNINGS	**393**	81
	$ 15,981	$ 13,731

FOOD DEVELOPMENT CENTRE

Statement of Income and Retained Earnings

(In Thousands)

Year Ended March 31, 2011

	2011	2010 *(Revised)*
REVENUE		
Grants - Province of Manitoba	**$ 2,245**	$ 2,568
Fee for service	**585**	612
Lease	**40**	84
Interest and other	**49**	5
Amortization of deferred capital contributions *(Note 13)*	**780**	750
Administration fee - Growing Forward Program *(Note 16)*	**801**	473
	4,500	4,492
DIRECT OPERATING EXPENSES		
Salaries and benefits	**2,017**	2,064
Lab supplies	**78**	96
Purchased services	**220**	165
Transportation	**55**	75
Postage, courier and telephone	**33**	44
Printing and stationery	**18**	21
Marketing	**32**	45
Library	**11**	19
	2,464	2,529
GROSS PROFIT	**2,036**	1,963
ADMINISTRATIVE EXPENSES *(Schedule 1)*	**1,584**	1,931
NET INCOME	**452**	32
RETAINED EARNINGS - BEGINNING OF YEAR	**81**	379
	533	411
TRANSFER TO EXPANSION RESERVE	**(140)**	(330)
RETAINED EARNINGS - END OF YEAR	**$ 393**	$ 81

FOOD DEVELOPMENT CENTRE

Statement of Cash Flows

(In Thousands)

Year Ended March 31, 2011

	2011	2010
OPERATING ACTIVITIES		
Cash receipts from customers	**$ 742**	$ (741)
Cash receipts from grants	**2,245**	2,568
Cash paid to suppliers and employees	**(3,074)**	(3,367)
Interest paid	**(80)**	(89)
Interest received	**18**	2
Cash flow used by operating activities	**(149)**	(1,627)
INVESTING ACTIVITY		
Purchase of equipment and building improvements	**(2,858)**	(1,303)
Cash flow used by investing activity	**(2,858)**	(1,303)
FINANCING ACTIVITIES		
Due from Growing Forward Program	**71**	(91)
Due from Food Safety Initiative	**-**	306
Due to Functional Food Cluster	**-**	(29)
Capital contributions received	**2,387**	3,090
Repayment of long term debt	**(18)**	(18)
Cash flow from financing activities	**2,440**	3,258
INCREASE (DECREASE) IN CASH	**(567)**	328
CASH - BEGINNING OF YEAR	**1,223**	895
CASH - END OF YEAR	**$ 656**	$ 1,223

1. NATURE OF ORGANIZATION

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

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

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

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

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

The Centre remains bound by relevant legislation and regulations.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

Use of estimates

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

(continues)

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

Property and equipment

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

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

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

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

Unearned revenue

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

Revenue recognition

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

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

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

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

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

Capital disclosure

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

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

The Centre is not subject to externally imposed capital requirements.

3. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

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

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

Amortized cost is determined using the effective interest rate method.

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

Fair value of financial instruments

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

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

Financial risk management - overview

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

(continues)

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

Credit risk

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

The maximum exposure of the Centre to credit risk at March 31, 2011 is:

Cash and short-term deposits	$ 656
Accounts receivable	2,812
Due from Growing Forward	20
Severance pay benefits cash in trust	41
	$ 3,529

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

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

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

(continues)

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

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

Balance, beginning of the year	$ 229
Provision for receivable impairment	46
Amounts written off	(265)
Balance, end of the year	$ 10

Liquidity risk

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

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

Market risk

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

Interest rate risk

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

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

The Centre manages its interest rate risk on long-term debt through the exclusive use of fixed rate terms for its long-term debt. A change of 100 basis points in the interest rates would have increased or decreased its fair value by $6 (2010 - $6).

Foreign currency risk

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

4. WORKING CAPITAL PAYABLE

The Centre has an authorized line of working capital from the Province of Manitoba of $1,000 of which $254 was used as at March 31, 2011 (2010 - $10 was used).

5. ACCOUNTS RECEIVABLE

The accounts receivable balance is comprised of the following amounts:

	2011	2010
Trade accounts receivable	**$ 183**	$ 425
Allowance for doubtful accounts	**(10)**	(229)
	$ 173	$ 196

Included in the 2010 allowance for doubtful accounts is the allowance for the note receivable from tenant, which had departmental authorization for the allowance to be recorded.

The $2,639 (2010 - 1,693) in accounts receivable - other is receivable from the Province of Manitoba and Western Economic Diversification for the expansion of the Centre.

6. PROPERTY AND EQUIPMENT

	2011		2010	
	Cost	**Accumulated amortization**	Cost	Accumulated amortization
Equipment - commercial and product development	**$ 7,205**	**$ 2,085**	$ 7,430	$ 1,744
Computer hardware and software	**96**	**94**	96	93
Building improvements	**6,608**	**2,617**	6,608	2,171
Commercial and training expansion	**3,271**	**-**	189	-
	$ 17,180	**$ 4,796**	$ 14,323	$ 4,008
Net book value	**$ 12,384**		$ 10,315	

7. SEVERANCE RECEIVABLE FROM PROVINCE OF MANITOBA

The Province of Manitoba accepted responsibility for the vacation entitlements earned by the employees of the Centre prior to its designation as SOA, and the severance pay benefits accumulated to March 31, 1998 for certain Centre's employees. Accordingly, the Centre recorded a receivable of $0 (2010 - $41) from the Province of Manitoba for these accumulated benefits. Effective March 31, 2009, the Province of Manitoba had agreed to pay the receivable balances related to the funding for these liabilities and has placed the amount of $41 into an interest bearing trust account to be held on the Centre's behalf until the cash is required to discharge the related liabilities.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2011	2010
Trade	**$ 301**	$ 294
Interest	**96**	116
Sales tax	**6**	68
	$ 403	$ 478

9. ACCRUED VACATION PAY

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

10. LONG TERM DEBT

	2011	2010
Province of Manitoba loan bearing interest at 5.80% per annum, with annual principal payments of $18 plus interest. The loan matures on April 30, 2017.	**$ 124**	$ 142
Amounts payable within one year	**(18)**	(18)
	$ 106	$ 124

Principal repayment terms are approximately:

2012	$ 18
2013	18
2014	18
2015	18
2016	18

11. DEFICIENCY IN ASSETS

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

12. SEVERANCE LIABILITY

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

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. The Centre's actuarially determined net liability for accounting purposes as at March 31, 2011 was $152 (2010 - $132). Commencing in the 2009 fiscal year, the actuarial gain of $1 is being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2011 present value of the accrued severance benefit obligation were:

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

13. DEFERRED CAPITAL CONTRIBUTIONS

	2011	2010
Balance, beginning of year	**$ 12,409**	$ 10,069
Add: Contributions received		
Governments of Canada and Manitoba	**2,387**	3,090
Less: Amount amortized as revenue	**(780)**	(750)
Balance, end of year	**$ 14,016**	$ 12,409

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

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

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

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

14. PENSION BENEFIT

In accordance with the provisions of The Civil Service Superannuation Act, employees of the Centre are eligible for pension benefits under the Civil Service Superannuation Fund. This pension plan is a defined benefit plan, which requires the Centre to contribute an amount equal to the employee's contribution to the Fund for current services. The amount contributed and expensed by the Centre in the current year was $111 (2010 - $97).

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

15. PUBLIC SECTOR COMPENSATION DISCLOSURE

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

Utioh, Alphonsus	Process and Product Development Manager	$	**95**
Appah, Paulyn	Senior Process Development Consultant		**66**
Lalla, Mike	Manager, Support Services		**89**
Casper, Lisa	Product Development Consultant		**50**
Gherasim, Gord	Supervisor, Pilot Plant		**56**
Nivet, Meeling	Product Development Group Leader		**78**
Schultz, Nona	HACCP/Regulatory Affairs Coordinator		**69**
Henuset, Alana	Information Officer		**66**
Templeton, Karen	Group Leader - Administration		**57**
Planinich, Javier	Manager, Pilot Plant and Commercial Activities		**89**
Dean, Sabrina	HACCP/Regulatory Affairs Coordinator		**72**
Ghosh, Prabal	Senior Scientist		**66**
Irvine, Roberta	Business Development Officer		**72**
Kuharski, Shawn	Product Development Consultant		**54**
Lowry, Lynda	Chief Operating Officer/General Manager		**96**
Meseyton, Janice	Senior Product Development Consultant		**66**
Gopal, Ramachandran	Process Development Consultant		**50**
Gardiner, Dana	On-Farm Food Safety Specialist		**64**
Gijsbers, Catherine	Rural Leadership Specialist Agri-Skills		**65**
Kaminski, Lori-Ann	Project Officer		**74**
Brandy, Street	Program Officer		**73**
Veldhuis, Peter	On-Farm Food Safety Specialist		**74**
Sawyer, Laura	Senior Scientist		**72**
Dyck, Brittany	Environment Farm Action Program Officer		**64**

16. ADMINISTRATION FEE - GROWING FORWARD PROGRAM

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

Although the Growing Forward Program is administered by the Centre, control of the Program remains with the Government of Canada, Department of Agriculture and Agri-Foods..

Therefore, the financial statements of the Growing Forward program have not been consolidated into the Centre's financial statements.

Amounts due from the Growing Forward programs are non-interest bearing with no formal terms of repayment.

See Schedule 2 through Schedule 8 for further details on this program.

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

17. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current year's presentation.

THE EXCHANGE
chartered accountants LLP

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Green Manitoba Eco Solutions, An Agency of the Special Operating Agencies Financing Authority Province of Manitoba, which comprise the balance sheet as at March 31, 2011, and the statements of income and retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Green Manitoba Eco Solutions, An Agency of the Special Operating Agencies Financing Authority Province of Manitoba, as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The Exchange

chartered accountants LLP
Winnipeg, Manitoba
June 21, 2011

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Toll Free: 1-866-EXG-0303
E-mail: info@exg.ca Website: www.exg.ca

Management's Responsibility for Financial Reporting

Green Manitoba Eco Solutions (Green Manitoba) management is responsible for preparing the financial statements and other financial information in the Annual Report. This responsibility includes maintaining the integrity and objectivity of financial data and the presentation of Green Manitoba's financial position and results of operations and its cash flows in accordance with Canadian generally accepted accounting principles. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data available through June 21, 2011.

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

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

On behalf of Green Manitoba's management,

Christina McDonald
Chief Operating Officer

Winnipeg, Manitoba
June 21, 2011

GREEN MANITOBA ECO SOLUTIONS

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

Balance Sheet

(In Thousands)

March 31, 2011

		2011		2010
ASSETS				
CURRENT				
Cash	**$**	**1,365**	$	805
Accounts receivable *(Note 4)*		**468**		1,619
		1,833		2,424
CAPITAL ASSETS *(Notes 2, 5)*		**1**		4
	$	**1,834**	$	2,428
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities	**$**	**344**	$	250
Deferred revenue *(Note 2)*		**735**		1,665
		1,079		1,915
SEVERANCE LIABILITY *(Note 8)*		**13**		10
		1,092		1,925
EQUITY				
Contributed surplus *(Note 9)*		**9**		9
Retained earnings		**733**		494
		742		503
	$	**1,834**	$	2,428

GREEN MANITOBA ECO SOLUTIONS

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

Statement of Income and Retained Earnings

(In Thousands)

Year Ended March 31, 2011

		2011		2010
REVENUE				
Province of Manitoba - service grant	**$**	**672**	$	997
Province of Manitoba - other		**2,641**		4,109
Federal government		**183**		-
Non government funding		**2,108**		1,155
		5,604		6,261
EXPENSES				
Advertising and promotion		**23**		37
Amortization		**3**		3
Computer		**40**		35
Contracted services		**46**		44
Office		**20**		34
Other		**-**		1
Professional fees		**7**		10
Program supplies and services		**4,490**		4,938
Rent		**73**		77
Salaries and benefits		**637**		618
Training		**2**		10
Travel		**24**		15
		5,365		5,822
NET INCOME		**239**		439
RETAINED EARNINGS - BEGINNING OF YEAR		**494**		55
RETAINED EARNINGS - END OF YEAR	**$**	**733**	$	494

GREEN MANITOBA ECO SOLUTIONS

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

Statement of Cash Flows

(In Thousands)

Year Ended March 31, 2011

	2011	2010
OPERATING ACTIVITIES		
Net income	**$ 239**	$ 439
Item not affecting cash:		
Amortization	**3**	3
	242	442
Changes in non-cash working capital:		
Accounts receivable	**1,151**	(1,040)
Accounts payable and accrued liabilities	**94**	(530)
Deferred revenue	**(930)**	1,033
Severance liability	**3**	10
	318	(527)
INCREASE (DECREASE) IN CASH FLOW	**560**	(85)
CASH - BEGINNING OF YEAR	**805**	890
CASH - END OF YEAR	**$ 1,365**	$ 805

1. NATURE OF ORGANIZATION

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of reporting

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

Use of estimates

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

(continues)

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

Capital disclosure

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

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

Green Manitoba is not subject to externally imposed capital requirements.

Capital assets

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

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

Deferred revenue

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

Revenue recognition

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

Future changes in significant accounting policies

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

3. FINANCIAL INSTRUMENTS

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

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

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

Amortized cost is determined using the effective interest rate method.

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

Fair value of financial instruments

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

Financial risk management - overview

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

Credit risk

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

(continues)

3. FINANCIAL INSTRUMENTS *(continued)*

The maximum exposure of Green Manitoba to credit risk at March 31, 2011 is:

Cash	$ 1,365
Accounts receivable	468
	$ 1,833

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

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

Liquidity risk

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

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

Market risk

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

Interest rate risk

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

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

Foreign currency risk

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

4. ACCOUNTS RECEIVABLE

The accounts receivable balance is comprised of the following amounts:

	2011	2010
Drive Greener - Natural Resources Canada	**$ -**	$ 16
Eco-calendar	**-**	2
Eco-energy audit	**-**	319
Environmental Education	**4**	-
Expense Recoveries	**-**	44
GHG Certification	**20**	-
Low Income Residential Efficiency Program	**-**	951
Operating - Salaries and benefits	**18**	-
PRAC	**130**	45
Provincial Conservation Funding	**225**	-
Waste (E-Waste and HHW)	**11**	242
Water - Lower Income Program	**60**	-
	$ 468	$ 1,619

5. CAPITAL ASSETS

	2011		2010	
	Cost	**Accumulated amortization**	Cost	Accumulated amortization
Computer equipment	**$ 4**	**$ 3**	$ 4	$ 2
Furniture and fixtures	**9**	**9**	9	7
	$ 13	**$ 12**	$ 13	$ 9
Net book value	**$ 1**		$ 4	

6. DEFERRED REVENUE

	2011	2010
Energy / Climate Change	**$ 306**	$ 981
Environmental Education	**2**	-
Green Schools	**-**	128
Low Income Residential Efficiency Program	**-**	378
Operating	**-**	40
Transportation	**-**	72
Waste	**392**	-
Water	**35**	66
	$ 735	$ 1,665

7. WORKING CAPITAL ASSETS

Green Manitoba has an authorized line of working capital from the Province of Manitoba of $500 of which $NIL was used at March 31, 2011 (2010 - $NIL).

8. SEVERANCE LIABILITY

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

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. Green Manitoba's actuarially determined net liability for accounting purposes as at March 31, 2011 was $13 (2010 - $10).

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2011 present value of the accrued severance benefit obligation were:

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

9. CONTRIBUTED SURPLUS

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

10. PENSION BENEFIT

In accordance with the provisions of The Civil Service Superannuation Act, employees of Green Manitoba are eligible for pension benefits under the Civil Service Superannuation Fund. The pension plan is a defined contribution plan, which requires Green Manitoba to contribute an amount equal to the employee's contribution to the Fund for current services. The amount expensed by Green Manitoba in the current year is $32 (2010 - $27).

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

11. PUBLIC SECTOR COMPENSATION DISCLOSURE

		2011	2010
Bonam, Rathan	Planning program analyst 1	**$ 53**	$ -
Ferguson, James	Planning program analyst 3	**72**	72
Irwin, Lindsay	Planning program analyst 2	**52**	-
Jonasson, John	Planning consultant	**88**	86
McDonald, Christina	Senior manager 1	**90**	86
Shymko, Randall	Planning program analyst 3	**63**	63
Storey, Marie	Planning program analyst 1	**-**	54

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

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Independent Auditor's Report

To the Special Operating Agencies Financing Authority

We have audited the accompanying financial statements of the **INDUSTRIAL TECHNOLOGY CENTRE An Agency of the Special Operating Agencies Financing Authority Province of Manitoba,** which comprise the balance sheet as at March 31, 2011, and the statements of earnings, comprehensive income (loss) and retained earnings, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian Generally Accepted Accounting Principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **INDUSTRIAL TECHNOLOGY CENTRE An Agency of the Special Operating Agencies Financing Authority Province of Manitoba** as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian Generally Accepted Accounting Principles.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba
June 9, 2011

INDUSTRIAL TECHNOLOGY CENTRE

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

Balance Sheet

As at March 31, 2011
(in thousands)

	2011	2010
Assets		
Current Assets		
Cash and funds on deposit with Minister of Finance net of working capital advance (note 6)	$ 667	$ 265
Accounts receivable	202	198
Prepaid expenses	56	54
	925	517
Long-term investment (note 5)	103	103
Capital assets (notes 3 and 7)	692	619
	795	722
	$ 1,720	$ 1,239
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 337	$ 290
Deferred revenue	312	236
Equipment placement loan (note 8)	253	-
	902	526
Severance liability (note 9)	228	214
	1,130	740
Equity		
Contributed equity (note 10)	62	62
Retained earnings	528	437
	590	499
	$ 1,720	$ 1,239

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

INDUSTRIAL TECHNOLOGY CENTRE

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

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

For the year ended March 31, 2011
(in thousands)

(in thousands)	2011	2010
Revenue		
Province of Manitoba	$ 736	$ 700
Fee for service	1,902	1,831
Other	146	135
	2,784	2,666
Operating expenses		
Advertising and promotion	74	56
Amortization	158	169
Audit and legal	7	10
Building maintenance	58	63
Computer	46	51
Equipment	81	99
Fees and memberships	31	31
Insurance	48	43
Interest and service charges	6	4
Library	12	10
Office	55	52
Professional development	24	9
Project supplies and subcontract	157	131
Purchased services	5	5
Rent and property tax	327	329
Salaries and benefits	1,507	1,603
Travel	44	22
Utilities	53	50
	2,693	2,737
Net earnings (loss) for the year	91	(71)
Retained earnings, beginning of year	437	508
Retained earnings, end of year	$ 528	$ 437

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

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

For the year ended March 31, 2011
(in thousands)

	2011	2010
Cash derived from (applied to):		
Operating Activities		
Net earnings (loss) for the year	$ 91	($ 71)
Items not involving cash		
Amortization	158	169
	249	98
Changes in non-cash working capital balances		
Accounts receivable	(4)	44
Prepaid expenses	(2)	4
Accounts payable and accrued liabilities	47	(116)
Deferred revenue	76	18
Severance liability	14	(33)
	380	15
Investing Activities		
Acquisition of capital assets	(231)	(123)
Financing Activities		
Equipment replacement loan proceeds	253	-
Net increase (decrease) in cash and cash equivalents	402	(108)
Cash and cash equivalents at beginning of period	265	373
Cash and cash equivalents at end of period	$ 667	$ 265
Represented by:		
Cash and bank	$ 14	$ 94
Funds on deposit with the Minister of Finance	653	171
	$ 667	$ 265
Interest revenue included in cash flow from operating activities	$ 1	$ 1

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

1. Nature of Organization

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

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

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

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

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

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

2. Change in Accounting Policies

Significant Accounting Changes

No significant accounting changes were effective for the Agency in the 2010/11 year.

Future Accounting Changes

The Agency will adopt Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board effective April 1, 2011. The Agency is currently in the process of assessing the impact of the adoption of PSAS on its financial statements.

3. Significant Accounting Policies

Basis of Reporting

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

Capital Assets

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

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

Capital Disclosures

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

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

The Agency is not subject to externally imposed capital requirements.

Government Assistance

Non-repayable government assistance relating to capital expenditures is reflected as revenue to the extent of related amortization expense, with the balance recorded as deferred revenue.

Revenue Recognition

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

3. Significant Accounting Policies (continued)

Use of Estimates

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

4. Financial Instruments and Financial Risk Management

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

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

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

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

Amortized cost is determined using the effective interest rate method.

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

4. Financial Instruments and Financial Risk Management (continued)

Fair Value of Financial Instruments

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

Financial Risk Management – Overview

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

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

The maximum exposure of the Agency to credit risk at March 31, 2011 is:

Cash and funds on deposit	$	667
Accounts receivable		202
Long term investment		103
	$	972

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

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

There was no change in the allowance for doubtful accounts during the year and the balance at March 31, 2011 was $20.

4. Financial Instruments and Financial Risk Management (continued)

Liquidity Risk

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

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

Market Risk

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

Interest Rate Risk

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

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

Foreign Currency Risk

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

5. Long-term Investment

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

(In Thousands)

6. Working Capital Advance

The Agency has an authorized line of working capital advances up to a maximum of $300. As at March 31, 2011 working capital advances were nil (2010 – nil). The line bears interest at prime less 1% and is not secured by specific assets.

7. Capital Assets

	2011		2010	
	Cost	**Accumulated amortization**	**Cost**	**Accumulated amortization**
Furniture and fixtures	$ 17	$ 10	$ 16	$ 8
Office and laboratory equipment	1,519	974	1,314	875
Computer equipment and software	313	269	681	625
Leasehold improvements	200	104	200	84
	$ 2,049	**$ 1,357**	**$ 2,211**	**$ 1,592**
Net book value	**$ 692**		**$ 619**	

8. Equipment Replacement Loan

The Minister of Finance has authorized a loan authority of $1,160 (Order in Council #00248/2010) for the Industrial Technology Centre. ITC has drawn down $250 of the $1,160 total loan authority, and the $250 balance is payable on September 30, 2011 plus interest at 2%. ITC has $910 in loan authority remaining, which it can access in the future to fund an Equipment Replacement Program.

The balance payable at March 31, 2011 is:

Principal	$ 250
Accrued interest	3
	$ 253

(In Thousands)

9. Severance Pay Benefits

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

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. The Industrial Technology Centre's actuarially determined net liability for accounting purposes as at March 31, 2011 was $228 (2010 - $214), with an actuarial gain or loss being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2011 present value of the accrued severance benefit obligation were:

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

10. Contributed Equity

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

(In Thousands)

11. Commitment

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

	ITC	CIC	Total
FY 2011/12 - FY 2014/15 (per year)	$189	$51	$240
FY 2015/16 (7 mos)	110	30	140

12. Pension Benefits

In accordance with the provisions of the Civil Service Superannuation Act, employees of the Centre are eligible for pension benefits under the Civil Service Superannuation Fund. This pension plan is a defined benefit plan, which requires the Centre to contribute an amount equal to the employee's contribution to the Fund for current services. The amount contributed and expense by the Centre for 2011 is $70 (2010 - $81).

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

13. Related Party Transactions

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

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Independent Auditor's Report

To the Special Operating Agencies Financing Authority:

We have audited the accompanying financial statements of **Manitoba Education Research and Learning Information Networks, An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba** which comprise the balance sheet as at March 31, 2011, and the statement of income, comprehensive income and retained earnings, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian Generally Accepted Accounting Principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Manitoba Education Research and Learning Information Networks, An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba** as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian Generally Accepted Accounting Principles.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba
June 8, 2011

MANITOBA EDUCATION RESEARCH AND LEARNING INFORMATION NETWORKS

An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Balance Sheet
(In Thousands)

March 31		2011		2010
Assets				
Current Assets				
Cash and funds on deposit	$	590	$	469
Accounts receivable		510		1,260
Prepaid expense		362		435
		1,462		2,164
Long term investment (Note 4)		47		47
Capital assets (Note 5)		368		450
	$	1,877	$	2,661
Liabilities and Equity				
Current Liabilities				
Accounts payable and accrued expenses	$	716	$	359
Unearned revenue		896		1,902
		1,612		2,261
Severance pay liability (Note 8)		111		98
		1,723		2,359
Commitments (Note 10)				
Retained earnings (Page 4)		154		302
	$	1,877	$	2,661

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

MANITOBA EDUCATION RESEARCH AND LEARNING INFORMATION NETWORKS

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

For the year ended March 31	2011	2010
Revenue		
Province of Manitoba - Innovation, Energy and Mines Funding	$ 396	$ 396
Fee for goods and services	4,547	3,284
Other	20	4
Community Connections	956	783
	5,919	4,467
Expenses		
Advertising and promotion	19	24
Amortization	173	174
Audit and legal fees	9	10
Communication	382	349
Community Connections	899	757
Cost of purchases for resale	2,181	1,690
Equipment repair and maintenance	182	168
Occupancy	85	59
Office and miscellaneous	29	26
Professional development	35	43
Purchased services	788	33
Salaries and benefits	1,246	1,217
Travel	39	38
	6,067	4,588
Net loss and comprehensive income for the year	(148)	(121)
Retained earnings, beginning of year	302	423
Retained earnings, end of year (Page 3)	$ 154	$ 302

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

MANITOBA EDUCATION RESEARCH AND LEARNING INFORMATION NETWORKS

An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Statement of Cash Flows
(In Thousands)

For the year ended March 31	**2011**	2010
Cash Flows from Operating Activities		
Net loss and comprehensive income for the year	**$ (148)**	$ (121)
Adjustment for		
Amortization	**173**	174
	25	53
Changes in non-cash working capital		
Accounts receivable	**750**	(638)
Prepaid expenses	**73**	(146)
Accounts payable	**357**	(125)
Unearned revenue	**(1,006)**	942
	174	33
Severance liability	**13**	14
	212	100
Cash Flows from Investing Activities		
Capital assets	**(91)**	(2)
Net increase in cash and cash equivalents	**121**	98
Cash and cash equivalents, beginning of year	**469**	371
Cash and cash equivalents, end of year	**$ 590**	$ 469

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

Summary of Significant Accounting Policies

For the year ended March 31, 2011

Basis of Reporting

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

Capital Assets

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

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

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

Revenue Recognition

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

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

Use of Estimates

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

Capital Management

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

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

The Agency is not subject to externally imposed capital requirements.

1. Nature of Organization

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

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

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

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

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

2. Change in Accounting Policies

Significant Accounting Changes

No significant accounting changes were effective for the Agency in the 2010/11 year.

Future Accounting Changes

The Agency will adopt Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board effective April 1, 2011. The Agency is currently in the process of assessing the impact of the adoption of PSAS on its financial statements.

3. Financial Instruments and Financial Risk Management

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

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

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

Amortized cost is determined using the effective interest rate method.

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

3. Financial Instruments and Financial Risk Management (continued)

Fair value of financial instruments

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

Financial risk management - overview

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

Credit risk

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

The maximum exposure of the Agency to credit risk at March 31, 2011 is:

Cash and funds on deposit	$	590
Accounts receivable		510
Long term investment		47
Maximum exposure to credit risk	$	1,147

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

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

There was no change in the allowance for doubtful accounts during the year.

3. Financial Instruments and Financial Risk Management (continued)

Liquidity risk

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

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

Market risk

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

Interest rate risk

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

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

Foreign currency risk

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

4. Long Term Investment

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

(in Thousands)

5. Capital Assets

	2011		2010	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Computer hardware	**$ 775**	**$ 452**	$ 733	$ 352
Computer software	**96**	**68**	92	49
Equipment and furniture	**38**	**27**	39	23
Leaseholds	**20**	**14**	20	10
	$ 929	**$ 561**	$ 884	$ 434
Cost less accumulated amortization		**$ 368**		$ 450

6. Working Capital Advances

These advances are provided to the Agency through the Special Operating Agencies Financing Authority pursuant to the Management Agreement. The Agency has an authorized line of working capital advances of $2.0 million of which $NIL was used at March 31, 2011 (2010 - $NIL).

During the year, the Agency incurred interest charges of $NIL (2010 - $NIL).

7. Accrued Vacation Entitlements

The Agency follows the policy of the Department of Finance to recognize accumulated vacation entitlement liability. The liability is offset by a receivable from the Province of $19, which was the balance as at March 31, 1998. Any subsequent changes to the entitlement are reflected as a current year expense to the Agency. At March 31, 2011, the accrued vacation entitlement was $132 (2010 - $123), which is included in accounts payable and accrued expenses on the balance sheet.

(in Thousands)

8. Severance Pay Liability

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

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. The Agency's actuarially determined net liability for accounting purposes as at March 31, 2011 was $111 (2010 - $98), with the actuarial loss of $18 being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2011 present value of the accrued severance benefit obligation were:

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

9. Revenue - Manitoba Education

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

10. Commitments

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

2012	$	39
2013		39

11. Pension Benefits

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

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the Agency transferred to the Province the pension liability for its employees. Commencing April 1, 2001, the Agency was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for 2011 was $66 (2010 - $64). Under this agreement, the Agency has no further pension liability.

BDO

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Independent Auditor's Report

To The Special Operating Agencies Financing Authority:

We have audited the accompanying financial statements of **THE MANITOBA SECURITIES COMMISSION**, which comprise the balance sheet as at March 31, 2011, and the statements of income and comprehensive income, retained earnings, reserve fund and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **THE MANITOBA SECURITIES COMMISSION** as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba
June 9, 2011

THE MANITOBA SECURITIES COMMISSION
Balance Sheet
(in thousands)

March 31		2011		2010
Assets				
Current Assets				
Cash and short-term deposits (Note 4)	**$**	**10,382**	$	8,978
Accounts receivable (Note 5)		**40**		15
Prepaid expenses		**42**		45
		10,464		9,038
Restricted short-term deposits (Note 6)		**750**		750
Long-term investments (Note 7)		**269**		269
Capital assets (Note 8)		**44**		63
	$	**11,527**	$	10,120
Liabilities and Equity				
Current Liabilities				
Accounts payable and accrued liabilities	**$**	**32**	$	56
Accrued vacation entitlements		**238**		227
Accrued salaries and benefits		**43**		31
		313		314
Severance pay liability (Note 9)		**278**		251
		591		565
Commitment (Note 10)				
Reserve Fund (Note 11) (Page 5)		**750**		750
Retained earnings (Page 5)		**10,186**		8,805
		10,936		9,555
	$	**11,527**	$	10,120

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

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

For the year ended March 31		**2011**		2010
Revenue				
Fees	**$**	**14,195**	$	13,121
Interest		**54**		11
Miscellaneous		**1**		1
		14,250		13,133
Expenses				
Salaries and benefits		**2,803**		2,836
Staff development and professional dues		**32**		26
Premises		**262**		245
Contract services		**283**		292
Professional services		**127**		135
CSA initiatives*		**98**		89
Travel		**63**		67
Telecommunications		**62**		60
Office materials and supplies		**77**		79
Education/Information initiatives		**184**		198
Amortization - capital assets		**21**		52
Research resources		**32**		90
Miscellaneous		**25**		25
		4,069		4,194
Net income and comprehensive income for the year (Page 5)	**$**	**10,181**	$	8,939

* Canadian Securities Administrators

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

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

For the year ended March 31		2011		2010
Retained earnings, beginning of year	**$**	**8,805**	$	7,716
Net income and comprehensive income for the year (Page 4)		**10,181**		8,939
Disposition of surplus operating funds (Note 12)		**(8,800)**		(7,850)
Retained earnings, end of year (Page 3)	**$**	**10,186**	$	8,805

Statement of Reserve Fund
(in thousands)

For the year ended March 31		2011		2010
Balance, beginning of year	**$**	**750**	$	750
Allocation from (to) retained earnings		**-**		-
Balance, end of year (Page 3)	**$**	**750**	$	750

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

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

For the year ended March 31		**2011**		2010
Cash Flows from Operating Activities				
Net income and comprehensive income for the year	**$**	**10,181**	$	8,939
Adjustment for				
Amortization - capital assets		**21**		52
		10,202		8,991
Changes in non-cash working capital				
Accounts receivable		**(25)**		4
Prepaid expenses		**3**		(1)
Accounts payable and accrued liabilities		**(24)**		(11)
Accrued vacation entitlements		**11**		(12)
Accrued salaries and benefits		**12**		10
		(23)		(10)
Severance pay liability		**27**		36
		10,206		9,017
Cash Flows from Investing Activities				
Acquisition of capital assets		**(2)**		(2)
Cash Flows from Financing Activities				
Disposition of surplus operating funds		**(8,800)**		(7,850)
Net increase in cash and cash equivalents		**1,404**		1,165
Cash and cash equivalents, beginning of year		**8,978**		7,813
Cash and cash equivalents, end of year	**$**	**10,382**	$	8,978
Supplementary information:				
Interest received	**$**	**43**	$	16

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

For the year ended March 31, 2011

Basis of Reporting

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

Capital Assets

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

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

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

Revenue Recognition

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

Use of Estimates

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

For the year ended March 31, 2011

1. Nature of Organization

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

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

In 2002, the Minister of Finance became the Minister responsible for the Commission.

2. Change in Accounting Policies

Significant Accounting Changes

No significant accounting changes were effective for the Commission in the 2010/11 year.

Future Accounting Changes

The Commission will adopt Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board effective April 1, 2011. The Commission is currently in the process of assessing the impact of the adoption of PSAS on its financial statements.

3. Financial Instruments and Financial Risk Management

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

Class of Financial Instruments	Held for Trading	Loans and Receivables	Other Financial Liabilities
Cash and short-term deposits	$ 10,382	$ -	$ -
Long-term investments	269	-	-
Restricted short-term deposits	750	-	-
Accounts receivable	-	40	-
Accounts payable and accrued liabilities	-	-	32
Accrued salaries and benefits	-	-	43

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

Fair value of financial instruments

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

Financial risk management - overview

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

Credit risk

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

3. Financial Instruments and Financial Risk Management (continued)

The maximum exposure of the Commission to credit risk at March 31, 2011 is:

Cash, short-term deposits and long-term investments	$	11,401
Accounts receivable		40
	$	11,441

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

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

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

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

<u>Liquidity risk</u>

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

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

<u>Market risk</u>

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

3. Financial Instruments and Financial Risk Management (continued)

Interest rate risk

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

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

Foreign currency risk

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

4. Cash and Short-term Deposits

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

5. Accounts Receivable

	2011	2010
Accrued interest	**$ 14**	$ 3
Trade	**26**	12
	$ 40	$ 15

6. Restricted Short-term Deposits

The Commission maintains separate short-term deposits with the Province of Manitoba to fund expenses which may arise with respect to the Reserve Fund (Note 11).

7. Long-term Investments

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

(in thousands)

8. Capital Assets

	2011		2010	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Office equipment	**$ 40**	**$ 36**	$ 40	$ 34
Furniture and fixtures	**153**	**147**	151	142
Leasehold improvements	**41**	**15**	41	11
Computer hardware	**140**	**135**	140	131
Computer software	**863**	**860**	863	854
	$ 1,237	**$ 1,193**	$ 1,235	$ 1,172
Cost less accumulated amortization		**$ 44**		$ 63

9. Severance Pay Liability

The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when the actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. The Commission's actuarially determined net liability for accounting purposes as at March 31, 2011 was $278 (2010 - $251). Commencing in the 2009 fiscal year, the accumulated actuarial loss of $27 based on the actuarial reports will be amortized over the 15 year expected remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2011 present value of the accrued severance benefit obligation were:

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

10. Lease Commitment

The Commission has entered into a lease agreement commencing October 1, 2005 for rental of facilities at 400 St. Mary Avenue, which expires September 30, 2020. Occupancy charges for the year ended March 31, 2011 were $262. Minimum annual lease payments total $279 per year for each of the next five years.

11. Reserve Fund

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

12. Disposition of Surplus Operating Funds

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

13. Pension Benefits

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

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

Commencing April 1, 2001, The Manitoba Securities Commission was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for 2011 was $121 (2010 - $145). Under this Agreement, the Manitoba Securities Commission has no further pension liability.

14. Working Capital Advances

These advances are provided to the Commission through the Special Operating Agencies Financing Authority pursuant to the Management Agreement. The Commission has an authorized line of working capital advances of $500,000 which were unutilized at March 31, 2011 (2010 - $Nil).

The Commission incurred no interest charges during the year (2010 - $Nil).

15. Capital Disclosures

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

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

The Commission is not subject to externally imposed capital requirements.

Independent Auditor's Report

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To the office of the Auditor General

We have audited the accompanying financial statements of **Manitoba Textbook Bureau, An Agency of the Special Operating Agencies Financing Authority**, which comprise the balance sheet as at March 31, 2011, the statement of income, comprehensive income and retained earnings, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bureau's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Manitoba Textbook Bureau, An Agency of the Special Operating Agencies Financing Authority as at March 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Winnipeg, Manitoba

June 22, 2011 Chartered Accountants

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

(in thousands)

March 31	2011	2010
Assets		
Current		
Cash	$ 4	$ 5
Accounts receivable	608	649
Inventory	2,309	2,361
Prepaid expenses	8	51
	2,929	3,066
Long-term investment (Note 5)	64	64
Capital assets (Note 6)	28	35
Intangible assets (Note 7)	74	43
	$ 3,095	$ 3,208
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 659	$ 494
Interest payable – Province of Manitoba	2	2
Customer deposit accounts	104	73
Working capital advance (Note 8)	1,487	1,804
	2,252	2,373
Accrued severance liability (Note 9)	55	52
	2,307	2,425
Equity		
Contributed equity (Note 10)	550	550
Retained earnings	238	233
	788	783
	$ 3,095	$ 3,208

See accompanying notes to the financial statements.

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

(in thousands)

Year Ended March 31	2011	2010
Sales	**$ 7,628**	$ 7,991
Cost of goods sold		
Inventory, beginning of year	**2,361**	1,952
Purchases	**6,513**	7,352
Transportation in	**31**	29
Transportation out	**107**	101
	9,012	9,434
Inventory, end of year	**2,309**	2,361
Cost of goods sold	**6,703**	7,073
Gross profit	**925**	918
General and administrative expenses		
Amortization – capital and intangible assets	**25**	21
Bad debts	**4**	18
Computer expense	**88**	53
Employee benefits	**65**	57
Interest	**24**	19
Marketing	**7**	6
Office	**18**	19
Office occupancy	**37**	36
Postage	**3**	3
Professional Services	**13**	13
Salaries	**331**	327
Telephone	**8**	8
Training	**1**	2
Travel	**6**	7
Warehouse occupancy	**89**	89
Warehouse service	**201**	201
	920	879
Net income and comprehensive income	**$ 5**	$ 39
Retained earnings, beginning of year	**$ 233**	$ 194
Net income and comprehensive income	**5**	39
Retained earnings, end of year	**$ 238**	$ 233

See accompanying notes to the financial statements.

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

(in thousands)

Year Ended March 31	2011	2010
Increase (decrease) in cash		
Operating		
Net income and comprehensive income	**$ 5**	$ 39
Amortization – capital and intangible assets	**25**	21
	30	60
Changes in		
Accounts receivable	**41**	20
Inventory	**52**	(409)
Prepaid expenses	**43**	(40)
Accounts payable and accrued liabilities	**165**	16
Interest Payable – Province of Manitoba	**-**	(2)
Customer deposit accounts	**31**	(27)
Accrued severance liability	**3**	1
	365	**(381)**
Investing		
Acquisition of capital assets	**(4)**	-
Acquisition of intangible assets	**(45)**	(48)
	(49)	(48)
Financing		
(Repayment) receipt of working capital advance	**(317)**	429
Net (decrease) increase in cash	**(1)**	-
Cash, beginning of year	**5**	5
Cash, end of year	**$ 4**	$ 5

See accompanying notes to the financial statements.

1. Nature of operations

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

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

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

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

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

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

2. Change in Accounting Policies

Significant Accounting Policies

No significant accounting changes were effective for the Agency in the 2010/11 year.

Future Accounting changes

The Agency will adopt Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board effective April 1, 2011. The Agency is currently in the process of assessing the impact of the adoption of PSAS on its financial statements.

3. Significant accounting policies

a) General

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

b) Use of Estimates

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

c) Cash

Cash includes cash on hand and bank balance.

d) Inventories

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

e) Capital assets

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

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

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

f) Intangible Assets

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

Computer Software	20%	straight line

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

g) Revenue recognition

Revenue is recognized upon transfer of title to the customer.

3. Significant accounting policies (continued)

h) Capital disclosures

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

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

The Agency is not subject to externally imposed capital requirements.

4. Financial Instruments and Financial Risk Management

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

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

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

Amortized cost is determined using the effective interest rate method.

4. Financial Instruments and Financial Risk Management (continued)

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

Fair value of financial instruments

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

Financial risk management - overview

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

Credit risk

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

The maximum exposure of the Agency to credit risk at March 31, 2011 is:

Cash	$ 4
Long-term investment	64
Accounts receivable	608
	$ 676

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

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

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

(in thousands)

4. Financial Instruments and Financial Risk Management (continued)

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

Balance, beginning of the year	$ 49
Recovery previously allowed for	(18)
Provision for receivable impairment	22
Balance, end of the year	$ 53

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

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

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

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

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

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

5. Long-term Investment

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

(in thousands)

6. Capital assets

	2011 Cost	2011 Accumulated Amortization	2010 Cost	2010 Accumulated Amortization
Computer equipment	**$ 262**	**$ 252**	$ 262	$ 244
Office equipment & furniture	**51**	**36**	47	33
Video recording equipment	**51**	**48**	51	48
	$ 364	**$ 336**	$ 360	$ 325
Cost less accumulated amortization		**$ 28**		$ 35

7. Intangible assets

	2011 Cost	2011 Accumulated Amortization	2010 Cost	2010 Accumulated Amortization
Computer Software	**$ 93**	**$ 19**	$ 48	$ 5
Cost less accumulated amortization		**$ 74**		$ 43

8. Working capital advance

The MTBB has an authorized line of working capital advances of $3,500, of which $1,487 was used as of March 31, 2011 (2010 - $1,804).

9. Accrued severance liability

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

(in thousands)

9. Accrued severance liability (continued)

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. The MTBB's actuarially determined net liability for accounting purposes as at March 31, 2011 was $55 (2010 - $52), with the actuarial gain of $18 being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2011 present value of the accrued severance benefit obligation were:

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

10. Contributed equity

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

11. Related party transactions

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

(in thousands)

12. Pension benefits

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

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the MTBB transferred to the Province the pension liability for its employees. Commencing April 1, 2001, the MTBB was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for 2011 was $19 (2010 - $19). Under this agreement, the MTBB has no further pension liability.

13. Public sector compensation

Pursuant to the disclosure required by The Public Sector Compensation Disclosure Act, no remuneration was paid to Advisory Board members. During the fiscal year ended March 31, 2011, the following employees received compensation in excess of $50.

Name	Position	2011	2010
Denis Labossiere	Controller	**$ 73**	$ 73
Brenda McKinny	Chief Operating Officer	**$ 76**	$ 73

INDEPENDENT AUDITORS' REPORT

To the Special Operating Agencies Financing Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Materials Distribution Agency, which comprise the balance sheet as at March 31, 2011 and the statements of income and comprehensive income and retained earnings and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Materials Distribution Agency as at March 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with the Canadian generally accepted accounting principles.

June 8, 2011
Winnipeg, Manitoba

MAGNUS & BUFFIE
CHARTERED ACCOUNTANTS LLP

Balance Sheet
(in thousands)
March 31, 2011

	2011	2010
Assets		
Current assets:		
Cash and short term deposits	$ 493	$ 828
Accounts receivable	2,891	2,635
Inventories (Note 5)	1,476	1,600
Prepaid expenses	236	227
	5,096	5,290
Long term investments (Note 6)	412	412
Capital assets (Note 7)	1,895	1,986
Other assets (Note 8)	63	101
	$ 7,466	$ 7,789
Liabilities and Equity		
Current liability:		
Accounts payable and accrued liabilities	$ 2,617	$ 2,990
Severance liability (Note 9)	500	462
	3,117	3,452
Equity:		
Contributed equity (Note 11)	1,297	1,297
Retained earnings	3,052	3,040
	4,349	4,337
Commitments (Note 12)		
	$ 7,466	$ 7,789

See accompanying notes to financial statements.

Statement of Income and Comprehensive Income and Retained Earnings
(in thousands)
Year ended March 31, 2011

	2011	2010
Warehouse sales (Schedule 1)	$ 12,817	$ 14,388
Cost of sales	10,220	11,225
Gross profit	2,597	3,163
Service revenue (Schedule 1)	11,115	11,635
Net income before the following	13,712	14,798
Expenses:		
Salaries and benefits	4,421	4,514
Occupancy costs	1,077	996
Administrative expenses (Schedule 2)	8,202	9,087
	13,700	14,597
Net income and comprehensive income for the year	12	201
Retained earnings, beginning of year	3,040	2,839
Retained earnings, end of year	$ 3,052	$ 3,040

See accompanying notes to financial statements.

Statement of Cash Flow
(in thousands)
Year ended March 31, 2011

	2011	2010
Cash flow from (used in)		
Operating activities:		
Net earnings for the year	$ 12	$ 201
Adjustment for:		
Amortization	1,043	983
	1,055	1,184
Changes in the following:		
Accounts receivable	(256)	(210)
Inventories	124	(316)
Prepaid expenses	(9)	(47)
Accounts payable and accrued liabilities	(371)	422
Severance liability	38	37
	581	1,070
Investing activity:		
Capital asset additions	(916)	(1,152)
Change in cash and short term deposits	(335)	(82)
Cash and short term deposits, beginning of year	828	910
Cash and short term deposits, end of year	$ 493	$ 828

See accompanying notes to financial statements.

1. Nature of organization

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

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

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

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

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

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

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

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

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

2. Change in accounting policies

Significant accounting changes

No significant accounting changes were effective for the Agency in the 2010/11 year.

Future accounting changes

The Agency will adopt Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board effective April 1, 2011. The Agency is currently in the process of assessing the impact of the adoption of PSAS on its financial statements.

3. Summary of significant accounting policies

Basis of reporting

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

Inventory

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

Included in cost of sales is $10,220 (2010 - $11,225) of inventory recognized as an expense during the year.

Capital assets

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

Computer equipment	20% straight line
Fixtures	20% straight line
Leasehold improvements	5 years straight line
Office equipment	20% straight line
Production equipment	20% declining balance
Rental equipment	2 - 5 years straight line
Warehouse equipment	20% declining balance

Other assets

Other assets are recorded at cost and amortized as follows:

Computer conversion	5 years straight line
Relocation expenses	10 years straight line

Revenue recognition

Warehouse sales are recognized when the products are shipped. Service revenues are recognized based on the provision of services provided.

Capital disclosures

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

The Agency is not subject to externally imposed capital requirements.

Use of estimates

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

3. Summary of significant accounting policies (continued)

Financial Instruments - recognition and measurement

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

The Agency has designated its financial instruments as follows:

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

Amortized cost is determined using the effective interest rate method.

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

Fair value of financial instruments

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

4. Financing arrangements

The Special Operating Agencies Financing Authority has provided the Agency with an authorized line of working capital of $1,000 of which $nil was used at March 31, 2011.

5. Inventories

	2011	2010
Medical supplies	$ 597	$ 650
Equipment	158	151
Stationary	476	480
Janitorial	237	292
New furniture	8	27
	$ 1,476	$ 1,600

6. Long term investments

The Province of Manitoba accepted responsibility for the vacation entitlements earned by the employees of the Agency prior to its designation as SOA, and the severance pay benefits accumulated to March 31, 1998 for certain of the Agency's employees. Accordingly, the Agency recorded a receivable of $412 from the Province of Manitoba for these accumulated benefits. Effective March 31, 2009 the Province of Manitoba paid the receivable balances related to the funding for these liabilities and has placed the amount of $412 into a trust account bearing interest at 1.25% and maturing on March 30, 2012 to be held on the Agency's behalf until the cash is required to discharge the related liabilities. As such, this amount has been classified as a long term asset.

7. Capital assets

	Cost	Accumulated amortization	Net book value 2011	Net book value 2010
Computer equipment	$ 230	$ 221	$ 9	$ 11
Fixtures	161	123	38	37
Leasehold improvements	836	752	84	83
Office equipment	64	64	-	-
Production equipment	284	284	-	-
Rental equipment	8,930	7,508	1,422	1,521
Warehouse equipment	998	656	342	334
	$ 11,503	$ 9,608	$ 1,895	$ 1,986

8. Other assets

	Cost	Accumulated amortization	Net book value 2011	Net book value 2010
Computer conversion	$ 337	$ 336	$ 1	$ 9
Relocation	287	225	62	92
	$ 624	$ 561	$ 63	$ 101

9. Severance liability

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

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the Agency's actuarially determined net liability for accounting purposes as at March 31, 2011 was $500 (2010 - $462), with the actuarial loss being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2011 present value of the accrued severance benefit obligation were:

Annual rate of return	
inflation component	2.50%
real rate of return	4.00%
	6.50%
Assumed salary increase rates	
annual productivity increase	0.75%
annual general salary increase	3.25%
	4.00%

10. Pension benefits

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

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

Commencing April 1, 2001, the Agency was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for 2011 was $185 (2010 - $182). Under this agreement, the Agency has no further pension liability.

11. Contributed equity

Loan Authority - April 1, 1993

The SOAFA and the Province of Manitoba entered into a Transfer Agreement respecting the transfer from Manitoba to the Financing Authority of inventories and capital assets valued at $1,464 required for the continuing operation of the Agency as at March 31, 1993. The Agency repaid the debt portion of $732 (being one-half of the value of the assets) and recorded the balance, $732, as Manitoba's contributed equity in the Financing Authority as related to the Agency operations.

Loan Authority - April 1, 1996 MMA

SOAFA and the Province of Manitoba entered into a Transfer Agreement respecting the transfer from Manitoba to the Financing Authority of equipment valued at $102 required for continuing operations of the Mail Management Agency as at March 31, 1996. The Mail Management Agency (now Materials Distribution Agency) repaid the debt portion in the amount of $51 (being one-half of the value of the assets) and recorded the balance of $51 as Manitoba's contributed equity in the Financing Authority as related to the Agency's operations.

Loan Authority - April 1, 1997

SOAFA and the Province of Manitoba entered into a Transfer Agreement respecting the transfer from Manitoba to the Financing Authority for the net assets of the Home Care Equipment and Supply Program valued at $1,027 as at April 1, 1997. The Agency repaid the debt portion of $513 (being one-half of the value of the assets) and recorded the balance of $514 as Manitoba's contributed equity in the Financing Authority as related to the Agency's operations.

12. Commitments

Leased premises

On March 24, 2003, the Agency took partial possession of a rental property consisting of 76,067 square feet at 1715 St. James Street, Winnipeg, Manitoba. The lease is for a term of ten years commencing May 1, 2003 with an additional five year option. The payments over the next five years are $521 per year.

On April 30, 2010, the Agency took possession of a rental property consisting of 45,000 square feet at 1455 Mountain Avenue, Winnipeg, Manitoba. The lease will expire on April 29, 2012 and the payments are $18 per month.

Rental agreement

The Agency leases a space from the Province of Manitoba on a monthly basis for the following locations: 450 Broadway, Winnipeg; 340 - 9th Street, Brandon; and 25 Tupper Street, Portage La Prairie. Occupancy charges for the year ended March 31, 2011 were $10 (2010 - $11).

13. Interest received

The Agency received interest during the year of $6 (2010 - $3).

14. Financial instruments - risk management

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

Credit risk

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

The maximum exposure of the Agency to credit risk at March 31, 2011 is:

Cash and short term deposits	$	493
Accounts receivable		2,891
Long term investments		412
	$	3,796

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

Accounts receivable: The Agency is not exposed to significant credit risk as the nature of the accounts receivable is with related entities and consists of a large client base and payment in full is typically collected when it is due. The Agency establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off. The balance in the allowance for doubtful accounts at March 31, 2011 was $93 (2010 - $93).

Liquidity risk

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

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

Market risk

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

Interest rate risk

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

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

Schedule of Warehouse Sales and Service Revenue
(in thousands)
Year ended March 31, 2011 Schedule 1

	2011	2010
Warehouse sales:		
Medical supplies	$ 4,858	$ 5,024
Stationery	4,060	4,261
Furniture	1,259	2,219
Janitorial	2,030	1,969
Health equipment	489	485
Special projects	121	430
	$ 12,817	$ 14,388
Service revenue:		
Disposal	$ 17	$ 3
Manitoba Textbook Bureau	290	290
Freight	726	732
Moving	466	724
Storage	60	65
Office equipment - maintenance program	(2)	17
Office equipment - copy centres	193	300
Mail services	5,940	6,462
Home care equipment rentals	2,841	2,792
Other income	584	250
	$ 11,115	$ 11,635

Schedule of Administrative Expenses
(in thousands)
Year ended March 31, 2011 Schedule 2

	2011	2010
Amortization	$ 1,043	$ 983
Bad debts	-	13
Computer	226	220
Copy centre	142	211
Equipment rentals	137	186
Freight	1,296	1,389
Mail services	4,392	4,918
Miscellaneous	11	28
Moving	430	488
Office	142	181
Professional fees	15	19
Promotion and marketing	73	111
SOAFA fees	2	2
Telephone	52	59
Training	6	31
Vehicle	95	87
Warehouse supplies	140	161
	$ 8,202	$ 9,087

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Independent Auditor's Report

To the Special Operating Agencies Financing Authority

We have audited the accompanying financial statements of the **Office of the Fire Commissioner** an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba, which comprise the balance sheet as at March 31, 2011 and the statements of retained earnings, operations, and cash flows the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the **Office of the Fire Commissioner** an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba
June 13, 2011

OFFICE OF THE FIRE COMMISSIONER
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Balance Sheet
(In Thousands)

March 31		2011		2010
Assets				
Current Assets				
Cash	$	2,914	$	5,682
Short-term investments (Note 4)		3,250		-
Accounts receivable (Note 5)		2,335		3,119
Prepaid expense		70		66
		8,569		8,867
Non-current Assets				
Long-term investment (Note 6)		559		559
Capital assets (Note 7)		7,908		7,890
		8,467		8,449
	$	17,036	$	17,316
Liabilities and Equity				
Current Liabilities				
Accounts payable	$	4	$	10
Accrued liabilities		1,354		1,942
Deferred revenue		175		386
Current portion of obligation under capital lease (Note 17)		45		42
		1,578		2,380
Non-Current Liabilities				
Obligation under capital lease (Note 17)		109		154
Severance liability (Note 8)		452		503
Deferred contributions (Note 11)		815		724
		1,376		1,381
Equity				
Contributed capital (Note 9)		11,279		11,279
Water Bomber Reserve Fund (Note 12)		200		200
Canine Training Reserve Fund (Note 13)		40		40
Special Rescue Reserve Fund (Note 14)		200		200
Retained earnings		2,363		1,836
		14,082		13,555
	$	17,036	$	17,316

Approved on behalf of the Special Operating Agency Advisory Board:

Chairperson

Fire Commissioner

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

OFFICE OF THE FIRE COMMISSIONER
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Statement of Retained Earnings
(In Thousands)

For the year ended March 31		2011		2010
Opening balance	**$**	**1,836**	$	1,487
Net income and comprehensive income for the year		**555**		570
Special Rescue Reserve Fund Allocation (Note 14)		**(28)**		(221)
Closing balance	**$**	**2,363**	$	1,836

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

OFFICE OF THE FIRE COMMISSIONER
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Statement of Operations
(In Thousands)

For the year ended March 31		2011 Actual	2010 Actual	Actual Variance	Budget (Unaudited)	Budget Variance
Revenue						
Levy	$	**6,389** $	5,969 $	420 $	5,433 $	956
Codes and standards		**1,782**	1,832	(50)	650	1,132
Tuition and contract revenue		**1,794**	1,546	248	1,500	294
Grant - NRCAN Green Building Promotion		**124**	650	(526)	650	(526)
JEPP initiative grant (Note 11)		**504**	516	(12)	200	304
Grant - Budgeting for Outcomes		**-**	400	(400)	400	(400)
JEPP capital grant (Note 11)		**124**	117	7	240	(116)
Other revenue		**227**	95	132	40	187
Emergency services conference		**117**	147	(30)	110	7
Grant - Mutual Aid		**130**	130	-	130	-
Interest		**8**	7	1	15	(7)
Fire inspections, investigations and reports		**195**	131	64	70	125
New SAR Initiative (NIF) - Grant (Note 10)		**146**	73	73	130	16
Rent		**5**	4	1	-	5
Grant - National Heavy Urban SAR Exercise		**79**	-	79	-	79
		11,624	11,617	7	9,568	2,056
Expenses						
Salaries and benefits		**5,620**	5,665	(45)	5,610	10
Amortization		**887**	991	(104)	1,021	(134)
Travel		**639**	527	112	350	289
Supplies		**487**	768	(281)	250	237
Vehicle lease		**485**	464	21	300	185
PERC Program		**338**	-	338	-	338
Minor capital		**321**	211	110	-	321
Repairs and maintenance		**285**	417	(132)	275	10
Desktop management		**250**	241	9	200	50
Rent		**226**	237	(11)	160	66
Mutual Aid		**202**	253	(51)	255	(53)
Communications		**189**	206	(17)	150	39
Clothing		**150**	106	44	25	125
Property taxes		**142**	163	(21)	150	(8)
Labour services		**130**	95	35	126	4
Insurance		**119**	135	(16)	114	5
Professional services		**110**	135	(25)	70	40
Bad debt		**110**	-	110	-	110
Utilities		**78**	76	2	79	(1)
Fuel - Owned vehicles		**63**	43	20	110	(47)
Other		**61**	40	21	25	36
Postal and courier		**36**	28	8	35	1
Publications		**35**	30	5	20	15
Professional development		**30**	28	2	25	5
Marketing		**28**	21	7	30	(2)
Buildings standards board		**25**	13	12	10	15
Public education material		**14**	26	(12)	30	(16)
Memberships and subscriptions		**5**	7	(2)	5	-
Seminar and conference registration		**4**	5	(1)	8	(4)
Information systems		**-**	114	(114)	-	-
S.O.A. Board		**-**	1	(1)	4	(4)
Photofinishing		**-**	1	(1)	2	(2)
JEPP and HUSAR initiative		**-**	-	-	30	(30)
Emergency response		**-**	-	-	40	(40)
Loss on asset disposition		**-**	-	-	15	(15)
		11,069	11,047	22	9,524	1,545
Net income and comprehensive income for the year	$	**555** $	570 $	(15) $	44 $	511

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

OFFICE OF THE FIRE COMMISSIONER
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Statement of Cash Flows
(In Thousands)

For the year ended March 31		2011		2010
Cash Flows from Operating Activities				
Net income for the year	$	555	$	570
Items not involving cash				
Amortization of capital assets		887		991
Amortization of deferred contributions		(124)		(117)
		1,318		1,444
Net change in non-cash working capital balances		(118)		(1,007)
		1,200		437
Cash Flows from Investing Activities				
Proceeds on disposal of capital assets		-		10
Purchase of capital assets		(905)		(2,335)
		(905)		(2,325)
Cash Flows from Financing Activities				
Transfer from Special Rescue Reserve		(28)		(21)
Deferred contributions received		215		203
		187		182
Net increase (decrease) in cash and cash equivalents		482		(1,706)
Cash and cash equivalents, beginning of year		5,682		7,388
Cash and cash equivalents, end of year	$	6,164	$	5,682
Represented by:				
Cash and bank	$	2,914	$	5,682
Short-term investments		3,250		-
	$	6,164	$	5,682

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

OFFICE OF THE FIRE COMMISSIONER
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Summary of Significant Accounting Policies

For the year ended March 31, 2011

Basis of Accounting

The financial statements are presented in accordance with Canadian generally accepted accounting principles (GAAP).

Capital Assets

Buildings, fire engines, other vehicles and air compressors transferred to the SOAFA from the Government of Manitoba on April 1, 1996 were valued at the lower of their amortized cost or estimated market value. All other assets transferred from the Government of Manitoba on April 1, 1996 were valued at their market value.

The Agency provides for amortization of its capital assets on the following basis:

Buildings	5% declining balance
Practical training site	10% declining balance
Equipment	20% declining balance
Fire engines	30% declining balance
Other vehicles	30% declining balance
Air compressors	20% declining balance
Furniture	20% declining balance
Computer equipment and software	30% declining balance

Revenue Recognition

The Fires Prevention Act imposes a special assessment on licensed insurers equal to a set percentage of total property insurance premiums.

The Office of the Fire Commissioner collects this levy based on the value of premiums and assessments in respect to property insurance in a calendar year. Levy revenue with respect to the 2010 calendar year will be recognized as revenue in the fiscal year ending March 31, 2011. The levy rate is set at 1.25%.

Codes and standards, conference, and tuition and contract revenue is recognized when earned. Operating grant revenue is recognized as revenue when receivable. Grant revenue received for the purchase of capital assets is deferred and recognized as revenue in the same fiscal year and at the same rate as the amortization expense of the related capital assets.

For the year ended March 31, 2011

Capital Disclosures

The Agency's capital consists of contributed capital, Water Bomber Reserve Fund, Canine Training Reserve Fund, Special Rescue Reserve Fund and retained earnings provided from operations.

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

The Agency is not subject to externally imposed capital requirements.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

Future Accounting Policy Changes

The Agency will adopt Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board effective April 1, 2011. The Agency is currently in the process of assessing the impact of the adoption of PSAS on its financial statements.

For the year ended March 31, 2011

1. Nature of the Office of the Fire Commissioner

Effective April 1, 1996, the Office of the Fire Commissioner was designated as a Special Operating Agency (SOA) under The Special Operating Agencies Financing Authority Act, Cap. S185, C.C.S.M. and operates under a charter approved by the Lieutenant Governor in Council.

Effective April 1, 1996, a Transfer Agreement executed between the Government of Manitoba (Labour) and the Financing Authority, a corporation under The Special Operating Agencies Financing Authority (SOAFA) Act, transferred all assets in the Fires Prevention Fund valued at $11,809 to the Financing Authority.

A Management Agreement executed between the Financing Authority and the Government of Manitoba (Labour) assigned responsibility to the Office of the Fire Commissioner to manage and account for the related assets and operations on behalf of the Financing Authority. The Office itself does not hold title to any assets. Effective April 1, 1996, the Financing Authority established a fund account referred to as the Fires Prevention Fund to hold these assets.

The Office of the Fire Commissioner will continue to be part of the Department of Labour and Immigration and ultimately under the policy direction of the Minister of Labour and Immigration.

The Office of the Fire Commissioner will remain bound by relevant legislation and regulations. It will also remain bound by administrative policy except where specific exemptions have been provided for in its charter in order to meet business objectives.

The Office of the Fire Commissioner is economically dependent on the Province of Manitoba, as it derives most of its revenues from the Fires Prevention Levy.

2. Change in Accounting Policies

Significant Accounting Changes

No significant accounting changes were effective for the Agency in the 2010-2011 fiscal year.

3. Financial Instruments and Financial Risk Management

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

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

Financial Asset/Liability	Category	Subsequent Measurement
Cash and short-term investments	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accrued interest	Loans and receivables	Amortized cost
Due from Province of Manitoba	Loans and receivables	Amortized cost
Long term investment	Held for trading	Fair value
Accounts payable	Other financial liabilities	Amortized cost
Accrued liabilities	Other financial liabilities	Amortized cost

Amortized cost is determined using the effective interest rate method.

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

Fair Value of Financial Instruments

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

3. Financial Instruments and Financial Risk Management (continued)

Financial Risk Management - Overview

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

Credit Risk

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

The maximum exposure of the Agency to credit risk at March 31, 2011 is:

Cash and short-term investments	$	6,164
Accounts receivable		2,335
Long term investment		559
	$	9,058

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

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

Management has determined that no allowance for doubtful accounts is required as at March 31, 2011.

3. Financial Instruments and Financial Risk Management (continued)

Liquidity Risk

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

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

Market Risk

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

Interest Rate Risk

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

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

Foreign Currency Risk

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

(in Thousands)

For the year ended March 31, 2011

4. Short-term Investments

The short term investment balance represents funds on deposit with the Department of Finance of the Province of Manitoba with maturities of less than one (1) year.

5. Accounts Receivable

The accounts receivable balance is made up of the following:

		2011		2010
Office of Critical Infrastructure Protection and Emergency Preparedness	**$**	**1,414**	$	1,705
Manitoba Mutual Aid Grant		**390**		260
Other		**182**		189
National Resources Canada		**203**		826
National Search and Rescue Secretariat		**146**		-
Manitoba Health		**-**		110
Insurance Branch of Department of Consumer & Corporate Affairs		**-**		29
	$	**2,335**	$	3,119

6. Long-term Investment

The Province of Manitoba accepted responsibility for the vacation entitlements earned by the employees of the Agency prior to its designation as SOA, and the severance pay benefits accumulated to March 31, 1998 for certain of the Agency's employees. Accordingly, the Agency recorded a receivable of $559 ($311 for severance pay benefits and $248 for vacation entitlements) from the Province of Manitoba for these accumulated benefits. Effective March 31, 2009 the Province of Manitoba paid the receivable balances related to the funding for these liabilities and has placed the amount of $559 into an interest bearing trust account to be held on the Agency's behalf until the cash is required to discharge the related liabilities.

(in Thousands)

7. Capital Assets

		Opening Balance		Additions		Disposals		Closing Balance
Buildings	$	6,675	$	555	$	-	$	7,230
Buildings - JEPP		288		135		-		423
Training site		2,134		23		-		2,157
Training site - JEPP		212		15		-		227
Equipment		2,054		7		-		2,061
Equipment - JEPP		918		20		-		938
Fire engines		1,400		-		-		1,400
Other vehicles		905		22		-		927
Other vehicles - JEPP		183		45		-		228
Air compressors		678		83		-		761
Furniture		80		-		-		80
Computers		383		-		-		383
Computers - JEPP		12		-		-		12
Total cost	$	15,922	$	905	$	-	$	16,827

		Opening Accumulated Amortization		Disposition		Current Year's Amortization		Accumulated Amortization
Buildings	$	1,948	$	-	$	264	$	2,212
Buildings - JEPP		24		-		20		44
Training site		1,226		-		93		1,319
Training site - JEPP		77		-		15		92
Equipment		1,546		-		103		1,649
Equipment - JEPP		657		-		56		713
Fire engines		1,042		-		108		1,150
Other vehicles		574		-		107		681
Other vehicles - capital lease		-		-		-		-
Other vehicles - JEPP		118		-		33		151
Air compressors		411		-		70		481
Furniture		68		-		2		70
Computers		330		-		16		346
Computers - JEPP		11		-		-		11
Total amortization	$	8,032	$	-	$	887	$	8,919
Net capital assets	$	7,890					$	7,908

(in Thousands)

8. Severance Liability

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

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. The Agency's actuarially determined net liability for accounting purposes as at March 31, 2011 was $452 (2010 - $503), with the actuarial gain or loss being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2011 present value of the accrued severance benefit obligation were:

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

9. Contributed Capital

In consideration of the transfer of said assets effective April 1, 1996, the SOAFA shall:

a) not incur or repay to the Government of Manitoba any debt relative to the assets as described in the balance sheet prepared as of March 31, 1996 and verified by the Department of Finance; and

b) record the balance of $11,038 (being the balance of the net assets as described in the balance sheet prepared as of March 31, 1996 and verified by the Department of Finance) as Manitoba's equity in the Financing Authority as related to the Agency's operations.

Due to a change in accounting policy, buildings were being amortized over 40 years as opposed to 30 years. This has resulted in a revaluation of buildings as at April 1, 1996. The value of buildings and contributed equity has increased $241 as at April 1, 1996 to $11,279.

10. New Search and Rescue (SAR) Initiative (NIF)

On a quarterly basis, the Office of the Fire Commissioner applies for a grant from the National Search and Rescue Secretariat of the Department of National Defence. The purpose of this grant is to enhance Manitoba search and rescue capabilities by developing the volunteer search and rescue system aimed at northern and remote areas of Manitoba. Grants of $146 have been earned in the year ended March 31, 2011 ($73 in 2010).

11. Joint Emergency Preparedness Program (JEPP) Grant

The Office of the Fire Commissioner applies for grants from the Office of Critical Infrastructure Protection and Emergency Preparedness. The two purposes of these grants are to enhance the Province of Manitoba's ability to respond to hazardous material and heavy urban search and rescue emergency responses through the provision of equipment and training.

JEPP operating grant revenue for the year ended March 31, 2011 is $504 ($516 in 2010). An amount of $124 was taken into revenue from the deferred revenue account for the amortization of the JEPP assets for the year ended March 31, 2011 ($117 in 2010).

JEPP capital assets totaling $215 have been purchased in the year ended March 31, 2011 ($193 in 2010). JEPP deferred revenue is equal to the net book value of assets purchased with JEPP capital grants. JEPP deferred revenue as at March 31, 2011 is $815 ($724 in 2010).

(in Thousands)

12. Water Bomber Reserve Fund

The Agency received approval from Treasury Board in the year ended March 31, 2005 to establish a special reserve fund for water bomber fire suppression activities. This fund is capped at an amount of $200 and will be utilized to cover the costs associated with water bomber deployment for non-forest fire incidents occurring on Rural Municipality property. As of March 31, 2011, the Agency had allocated a total of $200 to this fund from its retained earnings account.

13. Canine Training Reserve Fund

The Agency established a special reserve fund for replacing and training a rescue dog. The total cost to train a dog is estimated at $40 and the average time a dog spends in service is six years. In March 2007 the Agency allocated $25 to this fund from its retained earnings. The fund is now capped at $40. Once this fund has been used it will be discontinued.

14. Special Rescue Reserve Fund

The Agency received approval from Treasury Board during the year to establish a special reserve fund for special rescue activities. This fund is capped at $200. During the year, the Agency drew $28 from this fund and replenished the fund to $200 from its retained earnings.

15. Commitments and Contingencies

The Office of the Fire Commissioner as tenant has entered into a Lease Agreement with the City of Brandon as Landlord for the land upon which the practical training facility has been constructed. The term of the lease expires May 31, 2012. Minimum annual rent is $11 due in equal monthly instalments, plus all operating costs with respect to the subject land.

Office equipment leases exist for ten machines. The longest lease expires on March 31, 2016.

The Office of the Fire Commissioner has entered into leases on a fleet of 41 vehicles.

These three categories of leases give rise to commitments as follows:

2012	$	232
2013		202
2014		100
2015		56
2016		25

(in Thousands)

16. Pension Benefits

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

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba the Office of the Fire Commissioner transferred to the Province the pension liability for its employees. Commencing April 1, 2001, the Office of the Fire Commissioner was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for March 31, 2011 was $260 ($269 in 2010). Under this agreement, the Office of the Fire Commissioner has no further pension liability.

17. Obligation under Capital Lease

	2011	2010
Polaris Leasing Ltd., capital lease due November 1, 2013, interest at 7.318% per year with annual principal and interest payments of $43 for the first 4 years and a final payment of $79 in 2014.	**$ 141**	$ 171
CTS Lease and Rental, capital lease due March 15, 2012, interest at 7.486% per year with annual principal and interest payments of $14 for three years.	**13**	25
	154	196
Current portion of obligation under capital lease	**45**	42
	$ 109	$ 154

Obligations under capital lease are secured by the equipment under lease. The future minimum lease payments for the next three years are as follows:

2012	$ 45
2013	35
2014	74
	$ 154

Management's Responsibility for Financial Reporting

The accompanying financial statements are the responsibility of the management of Organization and Staff Development and have been prepared in accordance with Canadian generally accepted accounting principles. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data available to June 28, 2011.

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

The responsibility of the Auditor General is to express an independent opinion on whether the financial statements of Organization and Staff Development are fairly represented in accordance with Canadian generally accepted accounting principles. The Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

On behalf of Management,

Organization and Staff Development

Anna Schmidt, Director
June 28, 2011

BDO

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Independent Auditor's Report

To the Auditor General
Province of Manitoba

We have audited the accompanying financial statements of **Organization and Staff Development - An Agency of the Special Operating Agencies Financing Authority**, which comprise the balance sheet as at March 31, 2011, the statements of operations and retained earnings, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of **Organization and Staff Development - An Agency of the Special Operating Agencies Financing Authority** as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba
June 28, 2011

ORGANIZATION AND STAFF DEVELOPMENT - AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
Balance Sheet

March 31		2011		2010
		(000's)		
Assets				
Current Assets				
Cash and bank	$	346	$	333
Accounts receivable		256		192
Inventories		25		24
Prepaid expenses		66		-
		693		549
Long-term investment (Note 5)		39		39
Capital assets (Note 6)		26		31
	$	758	$	619
Liabilities and Equity				
Current Liabilities				
Accounts payable and accrued liabilities (Note 7)	$	235	$	209
Severance liability (Note 8)		66		56
		301		265
Equity				
Retained earnings		457		354
	$	758	$	619

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

ORGANIZATION AND STAFF DEVELOPMENT - AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY

Statement of Operations and Retained Earnings

For the year ended March 31	2011	2010
	(000's)	
Revenue		
Revenue	$ 2,198	$ 2,027
Interest	-	1
	2,198	2,028
Expenses		
Professional fees	954	884
Salaries and benefits	721	723
Food and beverages	73	139
Operitel Learning Systems	67	95
Accommodations	65	136
Books and course materials	51	92
Occupancy costs	33	29
Desk top management	29	30
Travel	24	42
Marketing	18	19
Communications	17	19
Office supplies	14	20
Rentals	13	28
Professional development	6	7
Other	5	10
Amortization	5	7
	2,095	2,280
Net income (loss) and other comprehensive income for the year	103	(252)
Retained earnings, beginning of year	354	606
Retained earnings, end of year	$ 457	$ 354

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

ORGANIZATION AND STAFF DEVELOPMENT - AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY

Statement of Cash Flows

For the year ended March 31		2011		2010
		(000's)		
Cash Flows from Operating Activities				
Net income (loss) and other comprehensive income for the year	$	103	$	(252)
Adjustment for				
Amortization of capital assets		5		7
		108		(245)
Changes in non-cash working capital balances				
Accounts receivable		(64)		30
Inventories		(1)		-
Prepaid expenses		(66)		-
Accounts payable and accrued liabilities		26		(111)
Severance liability		10		(2)
		(95)		(83)
		13		(328)
Cash Flows from Investing Activities				
Purchase of capital assets		-		(2)
Increase (decrease) in cash and cash equivalents		13		(330)
Cash and cash equivalents, beginning of year		333		663
Cash and cash equivalents, end of year	$	346	$	333

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

1. Nature of Organization

Effective April 1, 1994, Organization and Staff Development of the Civil Service Commission was designated by regulation as a Special Operating Agency under The Special Operating Agencies Financing Authority Act and operates under a charter approved by the Lieutenant Governor in Council. Its mandate is to provide consulting and training services to support the implementation of the government's human resource policies and priorities.

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

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

Organization and Staff Development continues to be part of the Civil Service Commission under the general direction of the Commissioner and ultimately the policy direction of the Minister responsible for The Civil Service Act.

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

Organization and Staff Development is economically dependant on the Province of Manitoba. Currently, the Agency derives most of its revenue from the Province of Manitoba and all of its capital financing requirements through the Financing Authority.

2. Change in Accounting Policies

Significant Accounting Changes

No significant accounting changes were effective for the Agency in the 2010/11 year.

Future Accounting Changes

The Agency will adopt Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board effective April 1, 2011. The Agency is currently in the process of assessing the impact of the adoption of PSAS on its financial statements.

3. Significant Accounting Policies

Basis of Reporting

The financial statements of the Agency are presented in accordance with Canadian generally accepted accounting principles for profit-oriented enterprises.

Revenue Recognition

Training and consulting revenue is recorded on an accrual basis by specific project.

Use of Estimates

In preparing the Agency's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Inventories

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

Capital Assets

Rates of amortization applied to write off the cost of capital assets over their estimated life are as follows:

Office equipment	20% declining balance
Furniture and fixtures	20% declining balance
Computer equipment	20% straight-line

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

Capital Disclosures

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

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

The Agency is not subject to externally imposed capital requirements.

4. Financial Instruments and Financial Risk Management

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

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

Amortized cost is determined using the effective interest rate method.

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

Fair Value of Financial Instruments

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

Financial Risk Management - Overview

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

(000's)

4. Financial Instruments and Financial Risk Management (continued)

Credit Risk

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

The maximum exposure of the Agency to credit risk at March 31, 2011 is:

Cash and bank	$	346
Accounts receivable		256
Long-term investment		39
	$	641

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

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

Management has determined that no allowance for doubtful accounts is required as at March 31, 2011.

Liquidity Risk

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

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

Market Risk

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

(000's)

4. Financial Instruments and Financial Risk Management (continued)

Interest Rate Risk

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

The interest rate risk on the long-term investment is considered to be low as the original deposit is expected to be re-invested annually.

Foreign Currency Risk

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

5. Long-term Investment

The Province of Manitoba accepted responsibility for the vacation entitlements earned by the employees of the Agency prior to its designation as a Special Operating Agency, and the severance pay benefits accumulated to March 31, 1998 for certain of the Agency's employees. Accordingly, the Agency recorded a receivable of $39 from the Province of Manitoba for these accumulated benefits. Effective March 31, 2009 the Province of Manitoba paid the receivable balances related to the funding for these liabilities and has placed the amount of $39 into an interest bearing trust account to be held on the Agency's behalf until the cash is required to discharge the related liabilities. The amount is re-invested annually.

6. Capital Assets

	2011			2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	$ 6	$ 4	$ 2	$ 6	$ 4	$ 2
Furniture and fixtures	52	32	20	52	29	23
Computer equipment	20	16	4	20	14	6
	$ 78	$ 52	$ 26	$ 78	$ 47	$ 31

(000's)

7. Accounts Payable and Accrued Liabilities

	2011	2010
Trade accounts payable and accrued liabilities	$ 147	$ 145
Accrued salaries	11	8
Accrued vacation and overtime	77	56
	$ 235	$ 209

8. Severance Liability

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

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. The Agency's actuarially determined net liability for accounting purposes as at March 31, 2011 was $66 ($56 as at March 31, 2010), with the actuarial gain or loss being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2011 present value of the accrued severance benefit obligation were:

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

(000's)

9. Related Party Transactions

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

10. Contingencies

A potential claim has been filed against the Agency for breach of an agreement. In the opinion of management and legal counsel, the amount of the potential loss cannot be estimated, and the outcome of the claim is not determinable. Should any loss result from the resolution of this claim, such loss will be charged to operations in the year of resolution.

11. Commitments

The Agency has entered into an agreement with Operitel for an online Learning Management System until March 2013. The minimum annual payments for the next two years are as follows:

2012	$	92
2013		92

12. Pension Benefits

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

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the Agency transferred to the Province of Manitoba the pension liability for its employees. Commencing April 1, 2001, the Agency was required to pay to the Province of Manitoba an amount equal to its employees' current pension contributions. The amount paid for 2011 was $35 ($37 in 2010). Under this agreement, the Agency has no further pension liability.

Independent Auditors' Report

To the Special Operating Agencies Financial Authority:

We have audited the accompanying financial statements of Pineland Forest Nursery, which comprise the balance sheet as at March 31, 2011, and the statements of loss and deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Pineland Forest Nursery as at March 31, 2011 and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Winnipeg, Manitoba

June 1, 2011

Chartered Accountants

Pineland Forest Nursery
An Agency of the Special Operating Agencies Financing Authority
Balance Sheet
As at March 31, 2011

	2011 **(In thousands)**	2010 (In thousands)
Assets		
Current		
Accounts receivable *(Note 3)*	**520**	1,384
Goods and Services Tax receivable	**14**	-
Inventory	**142**	136
Prepaid expenses	**36**	27
Unbilled revenue	**335**	327
	1,047	1,874
Property, plant and equipment *(Note 5)*	**2,907**	3,182
Investments *(Note 6)*	**187**	187
	4,141	5,243
Liabilities and Deficiency		
Current		
Working capital advances *(Note 7)*	**2,146**	2,200
Accounts payable and accruals	**290**	230
Unearned revenue	**97**	825
Current portion of long-term debt	**145**	130
	2,678	3,385
Long-term debt *(Note 8)*	**1,607**	1,603
Severance pay liability *(Note 9)*	**282**	262
	4,567	5,250
Deficit	**(782)**	(363)
Contributed surplus *(Note 11)*	**356**	356
	(426)	(7)
	4,141	5,243

Approved on behalf of the Special Operating Agencies Financing Authority

Director **Director**

The accompanying notes are an integral part of these financial statements

Pineland Forest Nursery
An Agency of the Special Operating Agencies Financing Authority
Statement of Loss and Deficit
For the year ended March 31, 2011

	2011 (In thousands)	2010 (In thousands)
Revenues - Private sector		
Overwinter	**768**	1,005
Current	**237**	338
Seed services	**70**	60
Other	**39**	26
	1,114	1,429
Revenues - Province of Manitoba		
Overwinter	**928**	1,127
Current	**219**	122
Seed services	**37**	36
Trees for tomorrow	**148**	20
Other	**205**	76
	1,537	1,381
Total revenues	**2,651**	2,810
Operating expenses *(Schedule 1)*	**943**	1,010
General administrative expenses		
Amortization	**481**	314
Interest - operating and capital loan	**116**	109
Salaries, wages and benefits	**1,530**	1,547
	2,127	1,970
Total expenses	**3,070**	2,980
Net loss	**(419)**	(170)
Deficit, beginning of year	**(363)**	(193)
Deficit, end of year	**(782)**	(363)

The accompanying notes are an integral part of these financial statements

Pineland Forest Nursery
An Agency of the Special Operating Agencies Financing Authority
Statement of Cash Flows
For the year ended March 31, 2011

	2011 **(In thousands)**	2010 (In thousands)
Cash provided by (used for) the following activities		
Operating activities		
Net loss	**(419)**	(170)
Amortization	**481**	314
	62	144
Changes in working capital accounts		
Accounts receivable	**864**	(802)
Goods and Services Tax payable	**(14)**	-
Unbilled revenue	**(8)**	118
Inventory	**(6)**	18
Prepaid expenses	**(9)**	10
Accounts payable and accruals	**60**	(132)
Unearned revenue	**(728)**	807
Severance pay liability	**20**	16
	241	179
Financing activities		
Advances of long-term debt	**149**	766
Repayments of long-term debt	**(130)**	(119)
	19	647
Investing activities		
Purchases of property, plant and equipment	**(206)**	(763)
Increase in cash resources	**54**	63
Cash deficiency, beginning of year	**(2,200)**	(2,263)
Cash deficiency, end of year	**(2,146)**	(2,200)
Supplementary cash flow information		
Interest paid	**116**	109

The accompanying notes are an integral part of these financial statements

1. Nature of the organization

In 1953, Pineland Provincial Forestry Nursery (the "Nursery") was established to meet all the nursery stock requirements of the Province at one location. Prior to 1953 there were several small nurseries located throughout the Province. Effective April 1, 1995, Pineland Forest Nursery was designated as a special operating agency under The Special Operating Agencies Financing Authority Act (C.C.S.M. c.S185) and operates under a charter approved by the Lieutenant Governor in Council.

A management agreement between the Financing Authority and the Minister of Conservation assigns responsibility to the Nursery to manage and account for the agency related assets and operations on behalf of the Financing Authority. Pineland Forest Nursery continues to be part of Manitoba Conservation under the general direction of the Assistant Deputy Minister of Conservation Programs and ultimately the policy direction of the Deputy Minister and the Minister. Pineland Forest Nursery remains bound by relevant legislation and regulations. It is also bound by administrative policy, except where specific exemptions have been provided for in its charter in order to meet business objectives.

2. Significant accounting policies

The financial statements of the Nursery have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies.

Inventory

Supplies inventory is valued at the lower of cost and replacement cost.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is provided using the declining balance method at rates intended to amortize the cost of assets over their estimated useful lives.

	Rate
Greenhouses, coldframes, freezers, holding area, minor service buildings, major pump-house, major service buildings, propane conversion	10-20%
Equipment	20-30%

Amortization on current year additions is pro-rated on the length of time in use in the current year.

Revenue recognition

Revenue is recognized on a percentage of completion basis. Any excess of revenue recorded on a percentage of completion basis over amounts billed is recorded as unbilled revenue. Any excess of amounts billed over revenue recorded on a percentage of completion basis is recorded as unearned revenue.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Inventory is evaluated and is stated at the lower of the cost and the net realizable value. Amortization is based on the estimated useful lives of of property, plant and equipment.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

Accrued vacation entitlement

The Nursery follows the policy of the Department of Finance to recognize the vacation entitlement liability accumulated to March 31, 1995. The liability at this date is offset by a receivable from the Province and was $99,000 as at March 31, 1995. Any subsequent changes to the entitlement are reflected as a current year expense to the Nursery. The accrued vacation entitlement was $117,851 as of March 31, 2011 (2010 - $118,190) and is included in accounts payable and accruals.

2. Significant accounting policies *(Continued from previous page)*

Donated materials and services

Donated materials and services are recorded in the accounts at their fair value. Fair value is based on the amounts that would be paid if these materials and services were purchased in the normal course of business. No amount has been included in cases when fair value could not be reasonably estimated.

Capital disclosures

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

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

The Nursery is not subject to externally imposed capital requirements.

Recent accounting pronouncements

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

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

3. Accounts receivable

	2011 ***(In thousands)***	*2010* *(In thousands)*
Trade receivables		
Province of Manitoba	**382**	1,035
Other	**181**	398
	563	1,433
Allowance for doubtful accounts	**(43)**	(49)
	520	1,384

4. Financial instruments and financial risk management

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

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

Financial Asset/Liability	Category	Subsequent Measurement
Accounts receivable	Loans and receivables	Amortized cost
Long-term investments	Held for trading	Fair value
Working capital advances	Held for trading	Fair value
Accounts payable and accruals	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost
Severance pay liability	Other financial liabilities	Amortized cost

Amortized cost is determined using the effective interest rate method.

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

Fair value of financial instruments

The fair values of accounts receivable and accounts payable and accruals approximate their carrying values due to their short-term maturity. The fair value of the fixed rate long-term debt is also approximated by its carrying value, as there have been no significant changes in lending rates or other conditions.

Financial risk management - overview

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

Liquidity risk

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

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

Market risk

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

Interest rate risk

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

The Nursery manages its interest rate risk on long-term debt through the exclusive use of fixed rate terms for its long-term debt. The interest rate risk on the long-term investment is low due to its short-term nature.

3. Financial instruments and financial risk management *(Continued from previous page)*

Foreign currency risk

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

Credit risk

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

The maximum exposure of the Nursery to credit risk at March 31, 2011 (in thousands) is:

Accounts receivable	520
Long-term investment	187
Maximum exposure to credit risk	707

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

Long-Term Investment: The Nursery is not exposed to significant credit risk as the investment is held with the Minister of Finance.

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

Balance, beginning of the year	49
Recovery of amounts previously written off	(6)
Amounts written off	-
Balance, end of the year	43

5. Property, plant and equipment

	Cost	***Accumulated amortization***	***2011 (In thousands) Net book value***
Buildings	**6,057**	**3,457**	**2,600**
Equipment	**2,021**	**1,714**	**307**
	8,078	**5,171**	**2,907**

	Cost	*Accumulated amortization*	*2010 (In thousands) Net book value*
Buildings	5,920	3,051	2,869
Equipment	1,952	1,639	313
	7,872	4,690	3,182

6. Long-term investments

The Province of Manitoba accepted responsibility for the vacation entitlements earned by the employees of the Nursery prior to its designation as SOA, and the severance pay benefits accumulated to March 31, 1998 for certain Nursery employees. Accordingly, the Nursery recorded as a receivable of $187,000 from the Province of Manitoba for these accumulated benefits. Effective March 31, 2009 the Province of Manitoba had agreed to pay the receivable balances related to the funding for these liabilities and has placed the amount of $187,000 into an interest bearing trust account to be held on the Nursery's behalf until the cash is required to discharge the related liabilities.

7. Working capital advances

The Financing Authority has provided the Nursery with an authorized line of working capital of $3,000,000 of which $2,146,000 was advanced at March 31, 2011 (2010 - $2,200,000). The indebtedness bears interest at prime less 1%.

8. Long-term debt

	2011 **(*In thousands*)**	*2010* *(In thousands)*
Capital purchase loan payable in monthly installments of $6,317, plus interest at 5.125%, due July 2023.	**935**	1,011
Capital purchase loan payable in monthly installments of $2,727, plus interest at 4.875%, due July 2023.	**404**	436
Capital purchase loan payable in monthly installments of $1,786, plus interest at 4.875%, due July 2023.	**264**	286
Capital purchase loan payable in monthly installments of $1,250, plus interest at 3.875%, due January 2021.	**149**	-
	1,752	1,733
Less: current portion	**145**	130
	1,607	1,603

Principal repayments on long-term debt in each of the next five years (in thousands) are estimated as follows:

2012	145
2013	145
2014	145
2015	145
2016	145

9. Severance pay liability

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

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. The Nursery's actuarially determined net liability for accounting purposes as at March 31, 2011 was $282,000 (2010 - $262,000), with an actuarial loss being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2011 present value of the accrued severance benefit obligation were:

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

10. Pension benefits

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

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the Nursery transferred to the Province the pension liability for its employees. Commencing April 1, 2001, the Nursery was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for 2011 was $67,000 (2010 - $71,000). Under this agreement, the Nursery has no further pension liability.

11. Contributed surplus

The Special Operating Agencies Financing Authority and the Province of Manitoba entered into a Transfer Agreement respecting the transfer from the Province to the Financing Authority of inventory and capital assets values at $712,000 required for the continuing operations of Pineland Forest Nursery as at March 31, 1995. The Nursery was responsible to repay the Special Operating Agencies Financing Authority the debt portion, in the amount of $356,000 (being half of the value of the assets) and to record the remainder as the Province's equity in the Financing Authority as related to the Nursery's operations. The debt portion was fully repaid during the 2005 fiscal year.

12. Economic dependence

The Nursery is economically dependent on the Province of Manitoba, because it derives a significant portion of its revenue from the Province and all of its financing requirements through the Financing Authority.
The Nursery is also economically dependent on two of its main private sector clients as a significant portion of its private sector revenue is derived from these two clients.

Schedule 1 - Schedule of Operating expenses

For the year ended March 31, 2011

	2011 **(In thousands)**	2010 (In thousands)
Operating expenses		
Departmental services and professional fees	**30**	29
Freight	**41**	34
Bad debts (recovery)	**(6)**	6
Marketing	**5**	3
Natural gas and hydro	**259**	332
Office	**63**	65
Property taxes and insurance	**71**	76
Repairs and maintenance	**138**	142
Supplies	**321**	303
Travel	**21**	20
	943	1,010

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Independent Auditor's Report

To the Special Operating Agencies Financing Authority

We have audited the accompanying financial statements of **THE PROPERTY REGISTRY**, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba, which comprise the balance sheet as at March 31, 2011 and the statements of income, comprehensive income and retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of **THE PROPERTY REGISTRY** as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba
May 27, 2011

THE PROPERTY REGISTRY
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Balance Sheet
(in thousands)

March 31		2011		2010
Assets				
Current Assets				
Cash and short-term investments	$	**9,401**	$	9,803
Customer deposits		**1,558**		1,422
Accounts receivable (Note 5)		**329**		571
Prepaid expense		**76**		53
		11,364		11,849
Long-term Investment (Note 6)		**1,602**		1,602
Capital assets (Note 7)		**962**		569
	$	**13,928**	$	14,020
Liabilities and Equity				
Current Liabilities				
Accounts payable and accrued expenses	$	**1,604**	$	1,268
Deferred revenue		**1,558**		1,422
Land titles assurance fund (Note 8)		**27**		23
Current portion of long-term debt (Note 9)		**60**		-
		3,249		2,713
Long-term debt (Note 9)		**840**		-
Severance pay liability (Note 10)		**1,540**		1,509
		5,629		4,222
Commitments (Note 12)				
Retained earnings		**8,299**		9,798
	$	**13,928**	$	14,020

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

THE PROPERTY REGISTRY
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Statement of Income, Comprehensive Income and Retained Earnings
(in thousands)

For the year ended March 31	2011	2010
Revenue		
Land transfer tax (Note 11)	$ **58,702**	$ 53,676
Fee revenue - Land Titles	**15,626**	15,560
- Personal Property Registry	**7,025**	5,284
Cost recoveries and fee waiver (Note 3)	**544**	541
Interest income	**62**	26
	81,959	75,087
Less: Tax revenues transferred to Province	**(58,702)**	(53,676)
	23,257	21,411
Expenses		
Salaries and employee benefits	**8,871**	8,717
Operating expenses (per schedule)	**4,125**	4,020
Amortization	**334**	283
Contributed services	**259**	260
Government system fee	**167**	-
	13,756	13,280
Net income and comprehensive income for the year	$ **9,501**	$ 8,131

Retained earnings, beginning of year	$ **9,798**	$ 12,667
Net income and comprehensive income for the year	**9,501**	8,131
Net earnings paid to the Province of Manitoba	**(11,000)**	(11,000)
Retained earnings, end of year	$ **8,299**	$ 9,798

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

THE PROPERTY REGISTRY
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Statement of Cash Flows
(in thousands)

For the year ended March 31		2011		2010
Cash Flows from Operating Activities				
Net income and comprehensive income for the year	$	**9,501**	$	8,131
Adjustment for amortization		**334**		283
		9,835		8,414
Changes in non-cash working capital				
Customer deposits		**(136)**		25
Accounts receivable		**242**		(94)
Prepaid expenses		**(23)**		24
Accounts payable		**334**		103
Deferred revenue		**136**		(25)
Land titles assurance fund deposits		**4**		(38)
Severance payable		**31**		40
		588		35
		10,423		8,449
Cash Flows from Investing Activities				
Capital assets		**(725)**		(153)
Cash Flows from Financing Activities				
Proceeds from long-term debt		**900**		-
Net earnings paid to the Province of Manitoba		**(11,000)**		(11,000)
		(10,100)		(11,000)
Net decrease in cash and cash equivalents		**(402)**		(2,704)
Cash and cash equivalents, beginning of year		**11,405**		14,109
Cash and cash equivalents, end of year	$	**11,003**	$	11,405
Represented by				
Cash and short-term investments	$	**9,401**	$	9,803
Long term investment		**1,602**		1,602
	$	**11,003**	$	11,405

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

For the year ended March 31, 2011

1. Nature of Organization

Effective April 1, 1997, the Lieutenant Governor in Council designated The Property Registry as a Special Operating Agency under The Special Operating Agencies Financing Authority Act. The order also directed the Special Operating Agencies Financing Authority (SOAFA) and the Minister of Consumer and Corporate Affairs, being the Minister responsible for the Agency at that time, to enter into a management agreement with respect to The Property Registry. The Property Registry was established to operate the Land Titles and Personal Property Registry 7 offices on a self-sustaining financial basis while providing a standard of service that will meet the needs of its clients.

The Property Registry is part of the Department of Family Services and Consumer Affairs under the general direction of the Assistant Deputy Minister for Consumer and Corporate Affairs, who is also Chairperson of The Property Registry's Advisory Board. The Property Registry remains bound by relevant legislation, regulation and administrative policy as specified in its operating charter.

The Property Registry's financial contribution to the Province of Manitoba is included in the Manitoba Estimates of Revenue and Expenditure – Special Operating Agencies.

2. Change in Accounting Policies

Significant Accounting Changes

No significant accounting changes were effective for the Agency in the 2010/11 year.

Future Accounting Changes

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

3. Significant Accounting Policies

Basis of Reporting

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

Cash and Cash Equivalents

Cash and cash equivalents included cash on hand, balances with banks and short-term deposits with original maturities of three months or less.

3. Significant Accounting Policies (continued)

Capital Assets

Capital assets are recorded at cost and amortization is computed using the straight-line method based on remaining estimated useful lives, after allowance for salvage value, where applicable as follows:

Computer system	20%
Office equipment	20%
Leasehold improvements	10%
Equipment under capital lease	20%

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

Revenue Recognition

Revenue is recognized when the services have been performed. Investment income is recognized in the year it is received or receivable.

Cost Recoveries and Fee Wavier

Included in revenues are recoveries of costs or fees for services provided to other provincial government offices where no statutory provision precludes cost recovery.

Use of Estimates

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

Capital Disclosures

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

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

The Agency is not subject to externally imposed capital requirements.

4. Financial Instruments and Financial Risk Management

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

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

Financial Asset/Liability	Category	Subsequent Measurement
Cash, short-term investments, customer deposits and long- term investment	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued expenses	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost

Amortized cost is determined using the effective interest rate method.

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

Fair Value of Financial Instruments

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

Financial Risk Management - Overview

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

4. Financial Instruments and Financial Risk Management (continued)

Credit Risk

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

The maximum exposure of the Agency to credit risk at March 31, 2011 is:

Cash and short-term investments	$	9,401
Customer deposits		1,558
Accounts receivable		329
Long-term investment		1,602
	$	12,890

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

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

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

Management has determined that no allowance for doubtful accounts is required as at March 31, 2011.

Liquidity Risk

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

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

4. Financial Instruments and Financial Risk Management (continued)

Market Risk

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

Interest Rate Risk

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

The interest rate risk on short-term and long-term investments is considered to be low because of their short-term nature. The interest rate risk on long-term debt is considered to be low because the debt is at a fixed interest rate.

Foreign Currency Risk

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

5. Accounts Receivable

		2011		2010
Trade receivables	$	274	$	451
Receivable from government and departments		55		120
	$	329	$	571

6. Long-term Investment

The Province of Manitoba accepted responsibility for the vacation entitlements earned by the employees of the Agency prior to its designation as a Special Operating Agency, and the severance pay benefits accumulated to March 31, 1998 for certain of the Agency's employees. Accordingly, the Agency recorded a receivable of $1,602 from the Province of Manitoba for these accumulated benefits. Effective March 31, 2009 the Province of Manitoba paid the receivable balances related to the funding for these liabilities and has placed the amount of $1,602 into an interest bearing trust account to be held on the Agency's behalf until the cash is required to discharge the related liabilities.

7. Capital Assets

	2011 Cost	2011 Accumulated Amortization	2010 Cost	2010 Accumulated Amortization
Computer system	**$ 1,390**	**$ 682**	$ 724	$ 533
Office equipment	**1,434**	**1,313**	1,377	1,168
Leasehold improvements	**589**	**456**	585	416
Equipment under capital lease	**70**	**70**	70	70
	$ 3,483	**$ 2,521**	$ 2,756	$ 2,187
Cost less accumulated amortization		**$ 962**		$ 569

8. Land Titles Assurance Fund

Claims for loss as provided for in *The Real Property Act* are paid from this fund. The Agency's Land Titles Branch is responsible for the collection of deposits and the defence against claims on this fund. Claims in excess of the fund balance are paid out of the Consolidated Revenue Fund of the Province of Manitoba.

9. Long-term Debt

During the fiscal year, as part of the Agency's long term business plans, there were additions to the computer systems. As part of the Loans Act, the Agency is required to obtain financing from the Government of Manitoba. At the end of the year, financing for $900 with an interest rate of 4.2% and maturity of March 31, 2026 was obtained, out of an available facility of $5,000.

Repayments of the debt are expected to occur as follows:

Year	Amount
2012	$ 60
2013	60
2014	60
2015	60
2016	60
Thereafter	600
Total	900

10. Severance Pay Liability

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

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. The Agency's actuarially determined net liability for accounting purposes as at March 31, 2011 was $1,540 ($1,509 in 2010) with the actuarial gain or loss being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2011 present value of the accrued severance benefit obligation were:

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

11. Land Transfer Tax

Land transfer tax is administered and collected by The Property Registry. Tax collected less refunds issued is remitted to the Consolidated Revenue Fund of the Province of Manitoba. Adjustments and refunds of land transfer tax are paid out of the Department of Finance under the advice of the Registrar General.

12. Commitments

The Agency has entered into a Memorandum of Understanding with Manitoba Infrastructure and Transportation (MIT) to lease it premises. The accommodation charges are established annually by MIT, and are based on its approved budget.

The Agency has also entered into agreements to lease equipment. These agreements carry various terms and conditions.

The estimated minimum lease payments for the premises and equipment in aggregate for each of the next five years are as follows:

	Premises	Equipment	Total
2011	$ 980	$ 64	$ 1,044
2012	1,009	64	1,073
2013	1,039	64	1,103
2014	1,070	64	1,134
2015	1,102	64	1,166
Total minimum lease payments	$ 5,200	$ 320	$ 5,520

13. Pension Benefits

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

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

Commencing April 1, 2001, The Property Registry was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for 2011 was $443 ($432 in 2010). Under this agreement, the Agency has no further pension liability.

14. Contingencies

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

THE PROPERTY REGISTRY
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Schedule of Operating Expenses
(in thousands)

For the year ended March 31		2011		2010
Better Systems Initiative	$	**1,003**	$	1,044
Computer processing		**456**		446
Department services		**68**		68
Desktop services		**617**		502
Equipment lease		**73**		84
Interest and bank charges		**55**		49
Occupancy cost		**855**		855
Office supplies		**168**		198
Postage and delivery		**123**		127
Professional fees		**49**		24
Publications and subscriptions		**25**		24
Records preservation project		**64**		63
Repairs and maintenance		**30**		32
Software licensing		**13**		28
Special surveys		**48**		96
Sundry		**11**		10
Survey remonumentation program		**299**		234
Telephone		**90**		82
Training and staff development		**50**		41
Travel		**28**		13
	$	**4,125**	$	4,020

Public Trustee
of Manitoba
155 Carlton St, Suite 500
Winnipeg, MB R3C 5R9
CANADA

MANAGEMENT REPORT

The accompanying financial statements are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available up to July 11, 2011. The financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

Management maintains internal controls to provide reasonable assurance that the financial information is reliable and accurate and that the assets of The Public Trustee are properly safeguarded.

The responsibility of the Auditor General is to express an independent, professional opinion on whether the financial statements are fairly stated in accordance with the accounting policies stated in the financial statements. The Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

The Public Trustee has reviewed and approved these financial statements and the Annual Report in advance of its release and has approved its content and authorized its release.

Joanna K. Knowlton
Public Trustee

OFFICE OF THE
AUDITOR GENERAL
MANITOBA

INDEPENDENT AUDITOR'S REPORT

To the Legislative Assembly of Manitoba,
To the Public Trustee of Manitoba, and
To the Special Operating Agencies Financing Authority

We have audited the accompanying financial statements of the Public Trustee of Manitoba, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba, which comprise the balance sheet as at March 31, 2011, and statements of income, comprehensive, and retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Office of the Auditor General

Office of the Auditor General
Winnipeg, Manitoba
July 11, 2011

500 - 330 Portage Avenue Winnipeg, Manitoba R3C 0C4 office: (204) 945-3790 fax: (204) 945-2169
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PUBLIC TRUSTEE OF MANITOBA
(An Agency Of The Special Operating Agencies Financing Authority - Province of Manitoba)

BALANCE SHEET
(In Thousands)
AS AT MARCH 31, 2011

ASSETS

	2011	2010
Current		
Cash	$ 426	$ 214
Accounts receivable (Note 5)	931	836
Prepaid expenses	6	3
Short-term investments	2,190	1,625
	3,553	2,678
Long Term Investment – Severance (Note 6)	515	515
Capital Assets (Note 7)	57	81
	$ 4,125	$ 3,274

LIABILITIES

	2011	2010
Current		
Accounts payable and accrued liabilities (Note 8)	$ 569	$ 540
Severance pay benefits (Note 16)	497	464
	1,066	1,004

EQUITY

	2011	2010
Revenue stabilization reserve (Note 15)	500	500
Retained earnings	2,559	1,770
	3,059	2,270
	$ 4,125	$ 3,274

PUBLIC TRUSTEE OF MANITOBA
(An Agency Of The Special Operating Agencies Financing Authority - Province of Manitoba)

STATEMENT OF INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS
(In Thousands)
YEAR ENDED MARCH 31, 2011

	2011	2010
Revenue		
Fees (Note 9)	$ 6,406	$ 6,095
Interest	21	9
Other	83	107
	6,510	6,211
Expenses		
Amortization of capital assets	27	31
Accommodation costs (Note 11)	401	360
Other administration expenses (Note 10)	915	1,219
Salaries and benefits	4,158	4,183
Pension benefits (Note 17)	220	222
	5,721	6,015
Net Income and comprehensive Income	789	196
Retained earnings, beginning of year	1,770	1,574
Retained earnings, end of year	$ 2,559	$ 1,770

PUBLIC TRUSTEE OF MANITOBA
(An Agency Of The Special Operating Agencies Financing Authority - Province of Manitoba)

STATEMENT OF CASH FLOWS
(In Thousands)
YEAR ENDED MARCH 31, 2011

	2011	2010
Cash derived from (applied to)		
Operating		
Net income and comprehensive income	$ 789	$ 196
Items not involving cash		
Amortization of capital assets	27	31
	816	227
Change in		
Accounts receivable	(95)	(29)
Prepaid expenses	(3)	(1)
Accounts payable and accrued liabilities	29	10
Severance pay benefits	33	11
	780	218
Investing		
Acquisition of capital assets	(3)	(3)
Net increase in cash and cash equivalents	777	215
Cash and cash equivalents		
Beginning of year	1,839	1,624
End of year	$ 2,616	$ 1,839
Cash and cash equivalents consist of:		
Cash	$ 426	$ 214
Short-term investments	2,190	1,625
	$ 2,616	$ 1,839
Supplemental Cash Flow Information		
Interest Received	$ 11	$ 7

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2011

1. Nature of organization

The Public Trustee (the "Agency") protects the interests of Manitobans by providing trust, legal, financial and personal services on a last resort basis to people who are mentally incompetent, under the age of majority, or whose estates would otherwise be unadministered upon their death.

Effective April 1, 1996, The Public Trustee was designated as a Special Operating Agency pursuant to The Special Operating Agencies Financing Authority Act, Cap. s185, C.C.S.M. and operates under a charter approved by the Lieutenant Governor in Council.

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

A Management Agreement between SOAFA and the Minister of Justice assigns responsibility to The Public Trustee to manage and account for Public Trustee related assets and operations on behalf of SOAFA.

The Public Trustee continues to be part of Manitoba Justice. The Public Trustee is a corporation sole with perpetual succession. As a corporate entity, The Public Trustee functions separately from government and is capable of suing or being sued on behalf of the clients, trusts and estates which are administered by her.

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

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2011

2. Future Accounting Changes:

The Agency will adopt Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board effective April 01, 2011. The Agency is currently in the process of assessing the impact of PSAS on its financial statements.

3. Significant accounting policies

a) Basis of reporting

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

b) Revenue recognition

i. Administration fees are charged to client accounts quarterly based on the anniversary date of the account in accordance with provisions of *The Public Trustee Act*. Fees revenue recognized in a year consists of all fees charged to accounts.

ii. Other fees are recognized as revenue when charged to an account.

iii. Statutory fees are recognized as revenue when received.

c) Capital assets

Capital assets are recorded at cost and are amortized annually at the following rates and methods:

Furnishings and equipment	-	20%, declining balance basis
Computer equipment	-	20%, straight-line basis, 10% in year of acquisition
Leasehold improvements	-	20%, straight-line basis

d) Intangible Assets

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

Computer software	30% declining balance basis

Software purchases less than $1 are expensed in year of acquisition

e) Use of estimates

In preparing the Agency's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

f) Capital disclosures

The Agency's capital consists of retained earnings provided from operations and revenue stabilization reserve funds allocated from retained earnings.

The Agency's capital management policy is to maintain sufficient capital to meet its objectives through its retained earnings and revenue stabilization reserve. The Agency has developed approximate risk management strategies, as described in Note 4, to preserve the retained earnings and revenue stabilization reserve of the Agency. There were no changes in the Agency's approach to capital management during the period.

The Agency is not subject to externally imposed capital requirements.

4. Financial Instruments and Financial Risk Management

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

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

Financial Asset/Liability	Category	Subsequent Measurement
Cash and Short Term Investments	Held for trading	Fair value
Long Term Investments - Severance	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost
Accrued liabilities	Other financial liabilities	Amortized cost

Amortized cost is determined using the effective interest rate method.

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

Fair value of Financial Instruments

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

The Agency's cash and short term investments are classified as Level 2 because they are invested with the Department of Finance and financial institutions. The fair value of long term investments approximates its carrying value as the original deposit is re-invested annually at rates for investments with similar terms and conditions.

Financial risk management - overview

The Agency has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- interest risk; and
- foreign currency risk

The Agency manages its exposure to risks associated with financial instruments that have the potential to affect its operating performance. The Agency's management has overall responsibility for the establishment and oversight of the Agency's objectives, policies and procedures for measuring, monitoring and managing these risks.

The Agency has exposure to the following risks associated with its financial instruments. Analysis of sensitivity to specified risks is provided where there may be an effect on the results of operations or financial position. Sensitivity analysis is performed by relating the reasonably possible changes in risk variables as at March 31, 2011 to the financial instruments outstanding on that date.

Credit risk

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

The maximum exposure of the Agency to credit risk at March 31, 2011 is:

Cash and short term investments	$2,616
Accounts receivable	931
Long Term Investment – Severance	515
	$4,062

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

Accounts receivable: The Agency is not exposed to significant credit risk as the receivable is composed of fees due from clients and payment in full is typically collected when it is due. The Agency establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is calculated at 5% of accrued fees.

(In Thousands)

The aging of accounts receivable and allowance for doubtful accounts as at March 31, 2011 was:

	Net	Allowance
Current	$905	$ 40
30-60 days past billing date		
61-90 days past the billing date		
Greater than 90 days past the billing date		
	$905	$ 40

Long Term Investment - Severance: The Agency is not exposed to significant credit risk as the investment is held by the Minister of Finance.

Liquidity risk

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

The Agency manages liquidity risk by maintaining adequate cash balances. The Agency prepares and monitors detailed forecasts of cash flows from operations and anticipated investing and financing activities. The Agency continuously monitors and reviews both actual and forecasted cash flows through periodic financial reporting.

Market risk

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

Interest rate risk

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

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

The interest rate risk on the long term investment – severance is considered to be low as the original deposit is re-invested annually.

Foreign currency risk

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

(In Thousands)

5. Accounts receivable

	2011	2010
Fees receivable	$ 945	$ 857
Allowance for doubtful accounts	(40)	(36)
	905	821
Interest receivable	14	4
Advances to client accounts	6	5
Cost recoveries	6	6
	$ 931	$ 836

6. Long Term Investment - Severance

The Province of Manitoba accepted responsibility for the severance pay benefits accumulated to March 31, 1998 for certain of its employees. Accordingly, the Agency recorded a receivable of $515 from the Province of Manitoba, which is an amount equal to the estimated liability for accumulated severance pay benefits at March 31, 1998.

Effective March 31, 2009 the Province of Manitoba paid the receivable balances related to the funding for these severance pay liabilities and placed the amount of $515 into an interest bearing long term investment to be held on the Agency's behalf until the cash is required to discharge the related liabilities. The amount is re-invested annually.

7. Capital Assets

	2011		2010	
	Cost	**Accumulated Amortization**	**Cost**	**Accumulated Amortization**
Furnishings & equipment	$ 312	$265	$ 312	$ 253
Computer equipment	118	113	118	105
Leasehold Improvements	37	32	34	25
	$ 467	$ 410	$ 464	$ 383
Cost less accumulated amortization		$ 57		$ 81

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2011

8. Accounts payable and accrued liabilities

	2011	2010
Operating expenses payable	$ 135	$ 137
Salaries and benefits payable	66	48
Vacation entitlements earned	340	331
GST payable to Canada Revenue Agency	28	24
	$ 569	$ 540

9. Fees revenue

	2011	2010
Administration	$ 5,499	$ 5,199
Legal	399	366
Income tax	298	335
Inspection	210	195
	$ 6,406	$ 6,095

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2011

10. Other Administration expenses

	2011	2010
Computer expenses	$ 574	$ 556
Courier charges	5	6
Insurance, loss, damage	19	230
Office supplies	57	79
Other	4	8
Personnel expenses	23	16
Photocopy	8	9
Postage	57	61
Professional fees	13	53
Publications	6	6
Public communications	2	25
Records Centre Charges	26	33
Rentals, equipment	4	4
Repairs and maintenance	3	4
SAP costs	6	6
Support services - Department of Justice	21	21
Telephone	49	49
Travel	38	53
	$ 915	$ 1,219

11. Commitments

The Public Trustee has an arrangement with the Province of Manitoba, through the Department of Infrastructure and Transportation, for rental of its facilities at 155 Carlton Street in Winnipeg and its facility in the Provincial Building in Brandon. Accommodation costs are estimated to be $401 for the year ending 2011/2012.

12. Related party transactions

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

13. Escheats to the Crown

Escheats to the Crown, received by The Public Trustee during the year and remitted to the Minister of Finance, amounted to $584 (2010 - $1,165). These amounts are not reflected in these financial statements.

14. Estates and trusts under administration

The client assets under administration at March 31, 2011 total approximately $222,000 (2010 - $211,000). The trust activities of The Public Trustee are reported in a separate Estates and Trusts under Administration financial statements.

15. Revenue stabilization reserve

The Public Trustee has allocated a reserve out of retained earnings to provide for short-term fluctuations in revenue due to changes in revenue patterns or extraordinary expenses.

16. Severance pay benefits

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

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. The Public Trustee's actuarially determined net liability for accounting purposes as at March 31, 2011 was $497 (2010 - $464) with the actuarial loss being amortized over the 15 year expected average remaining service life of the employee group.

(In Thousands)

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2011 present value of the accrued severance benefit obligation were:

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

17. Pension benefits

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

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, The Public Trustee transferred to the Province the pension liability for her employees. Commencing April 1, 2001, The Public Trustee was required to pay to the Province an amount equal to her employees' current pension contributions. The amount paid at March 31, 2011 was $220 (2010 - $222). Under this agreement, The Public Trustee has no further pension liability.

PUBLIC TRUSTEE OF MANITOBA
(An Agency Of The Special Operating Agencies Financing Authority - Province of Manitoba)

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2011

18. Public Sector Compensation Disclosure Act

It is a requirement of *The Public Sector Compensation Disclosure Act* that annual public disclosure be made of individual compensation of $50 or more paid annually to any officer or employee of the Agency. For the year ended March 31, 2011, the following employees received compensation in excess of $50:

Employee	Position	Amount
Bremaud, Ursula	Accounting Clerk	$ 70
Charron, Shane	Audit Accountant	64
Carroll, Jori	Investment Officer	56
Clark, Dwane	Estates Officer 3	58
Darrach, Bruce	Information Technologist 3	73
Fergusson, John	Legal Counsel 3	132
Fredborg, Darren	Estates Officer 3	57
Henderson, Karen	Estates Officer 3	64
Hyman, Bryan	Legal Counsel 2	97
Hunter, Allison	Estates Officer 3	52
Hupe, Paul	Estates Officer 2	51
Lawrenz, Margaret	Estates Officer 3	51
Lovallo, Lindsay	Estates Officer 3	52
Kihn, Shirley	Estates Officer 3	58
Knowlton, Joanna	Public Trustee	134
Kozusko, Norman	Information Technologist 4	82
Ranson, Keri	Legal Counsel 3	122
Regier, Barbara	Estates Officer 3	58
Samagalski, Michelle	Estates Officer 4	64
Sohor, Richard	Finance Officer 6	77
Stephenson, Brian	Estates Officer 2	51
Taylor, Jana	Legal Counsel 2	101
Tessier, Rachelle	Estates Officer 4	64
Winning, Marla	Estates Officer 4	64

Management's Responsibility for Financial Reporting

The Vehicle and Equipment Management Agency's (the Agency) management is responsible for preparing the financial statements and other financial information in the Annual Report. This responsibility includes maintaining the integrity and objectivity of financial data and the presentation of the Agency's financial position and results of operations and its cash flows in accordance with Canadian generally accepted accounting principles. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available through June 30 , 2011.

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

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

On behalf of the Agency's management,

Al Franchuk
Chief Operating Officer

Albert Ogonoski
Manager, Finance and Administration

Winnipeg, Manitoba
June 30, 2011

E X G

THE EXCHANGE

chartered accountants LLP

INDEPENDENT AUDITORS' REPORT

To the Special Operating Agencies Financing Authority of Vehicle and Equipment Management Agency

We have audited the accompanying financial statements of Vehicle and Equipment Management Agency, An Agency of the Special Operating Agencies Financing Authority Province of Manitoba, which comprise the balance sheet as at March 31, 2011, and the statements of earnings and retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Vehicle and Equipment Management Agency, An Agency of the Special Operating Agencies Financing Authority Province of Manitoba, as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The Exchange

chartered accountants LLP
Winnipeg, Manitoba
June 30, 2011

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VEHICLE AND EQUIPMENT MANAGEMENT AGENCY

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

Balance Sheet

(In Thousands)

March 31, 2011

	2011	2010
ASSETS		
CURRENT		
Receivables *(Note 4)*	**$ 10,406**	$ 7,007
Inventory *(Note 2)*	**3,347**	2,968
Prepaids	**2,744**	2,517
	16,497	12,492
CAPITAL ASSETS *(Notes 2, 5)*	**110,352**	103,954
SEVERANCE PAY BENEFITS CASH IN TRUST *(Note 6)*	**1,433**	270
SEVERANCE PAY BENEFITS, VACATION PAY AND BANKED TIME RECEIVABLE FROM THE PROVINCE *(Note 6)*	**-**	1,903
	$ 128,282	**$ 118,619**
LIABILITIES		
CURRENT		
Working capital payable, net of cash *(Note 7)*	**$ 5,601**	$ 6,099
Accounts payable and accrued liabilities *(Note 8)*	**6,107**	4,814
Unearned revenue	**2,132**	1,898
Current portion of long term debt *(Note 9)*	**10,046**	9,324
	23,886	22,135
LONG TERM DEBT *(Note 9)*	**76,520**	69,834
SEVERANCE PAY LIABILITY *(Note 6)*	**1,659**	1,709
	102,065	93,678
EQUITY		
Contributed equity *(Note 10)*	**24,540**	24,540
Retained earnings	**1,677**	401
	26,217	24,941
	$ 128,282	$ 118,619

VEHICLE AND EQUIPMENT MANAGEMENT AGENCY

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

Statement of Earnings and Retained Earnings

(In Thousands)

Year Ended March 31, 2011

		2011		2010
REVENUE				
Vehicle and equipment utilization	**$**	**48,796**	$	46,926
Fuel billings		**18,643**		17,108
Insurance and other billings		**4,674**		4,351
Other revenue *(Page 16)*		**9,580**		9,158
		81,693		77,543
EXPENSES				
Salaries and wages		**9,208**		9,619
Vehicle and equipment operating expenses *(Page 16)*		**58,487**		54,882
Administrative expenses *(Page 16)*		**6,298**		6,339
Community service		**61**		34
Interest expense		**3,863**		3,768
		77,917		74,642
NET EARNINGS		**3,776**		2,901
RETAINED EARNINGS - BEGINNING OF YEAR		**401**		-
		4,177		2,901
REVENUE SHARING TO THE CONSOLIDATED FUND		**(2,500)**		(2,500)
RETAINED EARNINGS - END OF YEAR	**$**	**1,677**	$	401

VEHICLE AND EQUIPMENT MANAGEMENT AGENCY

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

Statement of Cash Flows

(In Thousands)

Year Ended March 31, 2011

	2011	2010
OPERATING ACTIVITIES		
Net earnings	**$ 3,776**	$ 2,901
Items not affecting cash:		
Amortization	**18,711**	16,961
Gain on disposal of vehicles and equipment, net	**(669)**	(697)
Increase in severance pay liability	**157**	156
Payment of severance pay benefits	**(207)**	(103)
	21,768	19,218
Changes in non-cash working capital:		
Receivables	**(3,399)**	(3,349)
Inventory	**(379)**	(76)
Prepaids	**(227)**	(244)
Accounts payable and accrued liabilities	**1,292**	(2,244)
Unearned revenue	**234**	149
	(2,479)	(5,764)
Cash flow from operating activities	**19,289**	13,454
INVESTING ACTIVITIES		
Proceeds on disposal of vehicles and equipment	**2,225**	2,257
Acquisition of vehicles and equipment for lease	**(26,600)**	(22,414)
Acquisition of equipment for operations	**(40)**	(81)
Acquisition of leasehold improvements	**(24)**	(4)
Cash flow used by investing activities	**(24,439)**	(20,242)
FINANCING ACTIVITIES		
Proceeds from Loan Act Authority drawdowns	**17,500**	15,000
Repayment of long term debt	**(10,092)**	(9,670)
Revenue sharing to the Consolidated Fund	**(2,500)**	(2,500)
Collection of receivable for the Province for vacation pay and banked time	**740**	-
Cash flow from financing activities	**5,648**	2,830
INCREASE (DECREASE) IN CASH FLOW	**498**	(3,958)
WORKING CAPITAL PAYABLE, NET OF CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	**(6,099)**	(2,141)
WORKING CAPITAL PAYABLE, NET OF CASH AND CASH EQUIVALENTS - END OF YEAR	**$ (5,601)**	$ (6,099)

1. NATURE OF ORGANIZATION

In 1934, Fleet Vehicles was created as a branch of the Manitoba provincial government to provide a centralized fleet management program. On April 1, 1992, the branch was approved as a special operating agency, the first such agency at the provincial level in Canada. Since inception, Fleet Vehicles Agency primarily provided light duty vehicles and equipment services, with ambulances becoming a part of the fleet starting in 2001/02. On April 1, 2003, the Agency assumed responsibility for Radio Services, a division that evaluates and supplies the fixed and mobile radio requirements of its provincial and other clients.

Following the completion of the Trans-Canada highway and the advent of engineering-based highway management in the 1960s, the Province established a highways department. The Mechanical Equipment Services branch emerged as an integral and important part of the department, primarily providing heavy duty vehicles and equipment, as well as warehousing services. The provided services support the safe and efficient delivery of the department's construction, maintenance and preservation programs, and its remote airport programs, in a manner that incorporates the principles of sustainable development and environmental awareness.

Effective April 1, 2009, Fleet Vehicles Agency and the Mechanical Equipment Services branch were amalgamated into a new special operating agency named Vehicle and Equipment Management Agency (VEMA). VEMA combines the acquisition, management and disposal of both light duty and heavy duty vehicles and equipment under common management.

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

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

VEMA continues to be part of the Department of Infrastructure and Transportation under the general direction of the Assistant Deputy Minister, Supply and Services Division, and ultimately the policy direction of the Associate Deputy Minister, the Deputy Minister, and the Minister, of Infrastructure and Transportation.

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

VEMA is economically dependent on The Government of Manitoba, as it derives most of its revenue and all of its capital financing requirements from the Province.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of reporting

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

Use of estimates

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

Capital disclosures

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

The Agency's capital management policy is to maintain sufficient capital in retained earnings to meet its objectives, while transferring surplus funds to the Province of Manitoba; meet short term capital needs through working capital advances from the Province of Manitoba; and meet long term capital needs through long term debt with the Province of Manitoba. There were no changes in the Agency's approach to capital management during the 2010/11 year.

The Agency is not subject to externally imposed capital requirements.

Cash and equivalents

Cash and cash equivalents include cash on hand and balances with banks, net of bank overdrafts and short term investments with original maturities of six months or less. Bank borrowings are considered to be financing activities.

Inventory

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis.

(continues)

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

Capital assets

Rates and bases of amortization applied to write off the cost less estimated salvage value of capital assets over their estimated lives are as follows:

Vehicles	30%	declining balance method
Vehicles and equipment (signed lease agreement)		straight-line over term of lease
Office and shop equipment	20%	declining balance and straight-line methods
Leasehold improvements	10%	straight-line method

Pension benefits

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

Pursuant to an agreement with the Province of Manitoba, the Agency has transferred the pension liability for its employees to the Province. Under the agreement, the Agency is required to pay to the Province an amount equal to its employees' current pension contributions. Under this agreement, the Agency has no further pension liability.

Revenue recognition

Fixed rate lease revenue is recognized on a straight-line basis over the term of the lease. Variable rate lease revenue is recognized monthly based on equipment usage. Service revenue is recognized when the services have been performed.

Future changes in significant accounting policies

Effective April 2011, the Agency has adopted Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board. The Agency is currently in the process of assessing the impact of the adoption of PSAS on its financial statements.

3. FINANCIAL INSTRUMENTS

Financial assets and liabilities are initially recorded at fair value. Measurement in subsequent periods depends on a financial instrument's classification.

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

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

Financial asset / liability	Category	Subsequent measurement
Cash and cash equivalents, net of working capital payable	Held for trading	Fair value
Receivables	Loans and receivables	Amortized cost
Severance pay benefits cash in trust	Loans and receivables	Amortized cost
Severance pay benefits, vacation pay and banked time receivable from the Province	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Long term debt	Other financial liabilities	Amortized cost
Severance pay liability	Other financial liabilities	Amortized cost

Amortized cost is determined using the effective interest rate method.

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

Fair value of financial instruments

The fair value of receivables, accounts payable and accrued liabilities approximates their carrying values due to their relatively short term maturity.

The fair value of severance pay benefits cash in trust, severance pay benefits, vacation pay and banked time receivable from the Province, and its related severance pay liability is determined using the effective interest rate method.

(continues)

3. FINANCIAL INSTRUMENTS *(continued)*

The fair value of the long term debt is determined using the present value of future cash flows under current financing agreements, based on the Agency's current estimated borrowing rate for loans with similar terms and conditions. The fair value of long term debt owing to the Province of Manitoba is not readily determinable due to the underlying terms and conditions.

Financial risk management

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

Credit risk

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

The maximum exposure of the Agency to credit risk as of March 31, 2011, is:

Receivables	$ 10,406
Severance pay benefits cash in trust	1,433
	$ 11,839

Receivables: The Agency is not exposed to significant credit risk since the receivables are with departments, agencies and crown corporations within the Manitoba provincial government, or are with organizations within the broader public sector that are funded in part by the provincial or federal governments. An allowance for doubtful accounts was not recorded as of March 31, 2011.

Severance pay benefits cash in trust: The Agency is not exposed to significant credit risk as the cash is held in trust with the Province of Manitoba.

Liquidity risk

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

The Agency manages liquidity risk by balancing its cash flow requirements through its available working capital payable limit and its long term debt draw downs from Loan Act Authority. Regular determinations of the Agency's working capital payable limit and long term debt requirements are reviewed by the Province of Manitoba to ensure that adequate funding is available as required to enable the Agency to meet its obligations as they come due.

Market risk

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

(continues)

(In Thousands)

3. FINANCIAL INSTRUMENTS *(continued)*

the Agency is exposed to are interest rate risk and foreign currency risk.

Interest rate risk

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

The interest rate risk on cash and cash equivalents is considered to be low because of their short term nature.

The Agency manages its interest rate risk on long term debt through the exclusive use of fixed rate terms for its long term debt. A change of 100 basis points in the interest rates would have increased or decreased its fair value by $4,323 as of March 31, 2011.

Foreign currency risk

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

4. RECEIVABLES

	2011	2010
Trade	**$ 5,392**	$ 3,828
Accrued trade	**4,410**	2,636
Insurance rebate receivable	**604**	543
	$ 10,406	$ 7,007

5. CAPITAL ASSETS

	2011		2010	
	Cost	**Accumulated amortization**	Cost	Accumulated amortization
Vehicles and equipment for lease	**$ 208,801**	**$ 98,902**	$ 196,428	$ 93,011
Office and shop equipment	**1,735**	**1,385**	1,761	1,332
Leasehold improvements	**735**	**632**	711	603
	$ 211,271	**$ 100,919**	$ 198,900	$ 94,946
Net book value	**$ 110,352**		$ 103,954	

(In Thousands)

6. SEVERANCE PAY LIABILITY

The Agency records accumulated severance pay benefits for its employees. Severance pay is determined by multiplying years of service, to a maximum of 15 years, by the weekly salary at date of retirement, provided the employee has reached nine years of service and retires from the Province. There is also additional severance pay for employees with 20 or more years of accumulated service. The estimate is based upon the method of calculation set by the Province of Manitoba.

The Province has accepted responsibility for the severance benefits accumulated by the Agency's employees through specific dates. For the Fleet Vehicles Agency employees, that responsibility is reflected by the payment by the Province of $270 on March 31, 2009, with the funds held in an interest bearing trust account until it is required to discharge the related liability. For the Mechanical Equipment Services employees, that responsibility is currently reflected by the payment by the Province of $1,163 on July 31, 2010, with funds held in an interest bearing trust account until it is required to discharge the related liability.

An actuarial valuation report was completed for the severance pay liabilities as of March 31, 2008. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the Agency's liability is recalculated annually, with payments to retiring employees no longer with the Agency or the Province charged against the liability. The Agency's actuarially determined net liability for accounting purposes as of March 31, 2011, was $1,659 (2010 - $1,709).

7. WORKING CAPITAL PAYABLE

The Agency has an authorized line of working capital advances of $10,000, $5,943 of which was used as of March 31, 2011.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2011	2010
Trade	**$ 5,015**	$ 3,150
Accrued liabilities	**1,092**	1,164
Revenue sharing to the Consolidated Fund	**-**	500
	$ 6,107	$ 4,814

(In Thousands)

9. LONG TERM DEBT

By virtue of the Management Agreement, the Agency is responsible for the repayment of debts assumed by the Special Operating Agencies Financing Authority (SOAFA) on its behalf. SOAFA holds the debt instruments listed in this Note on behalf of Vehicle and Equipment Management Agency.

Loan Act Authority long term debt is repayable in semi-annual instalments of principal and interest, as follows:

Interest rate	Semi-annual payment ($)	Maturity date	**2011**	2010
5.125%	123	September 30, 2010	**$ -**	$ 119
4.75%	227	March 31, 2011	**-**	438
4.75%	451	March 31, 2011	**-**	871
4.875%	137	September 30, 2011	**133**	391
4.75%	102	September 30, 2011	**100**	293
4.625%	475	March 31, 2012	**919**	1,796
4.75%	137	September 30, 2012	**391**	637
5%	142	September 30, 2012	**405**	658
4%	345	March 31, 2013	**1,314**	1,933
4.05%	140	September 30, 2013	**660**	907
3.875%	355	September 30, 2013	**1,677**	2,304
2.625%	376	September 30, 2014	**2,498**	3,170
4.875%	148	March 31, 2015	**1,060**	1,295
2.625%	215	March 31, 2015	**1,621**	2,000
4.125%	117	September 30, 2015	**951**	1,140
2.5%	482	September 30, 2015	**4,075**	-
2.563%	271	September 30, 2016	**2,767**	-
3.45%	186	March 31, 2017	**2,000**	-
4.875%	237	September 30, 2023	**4,396**	4,646
5%	334	March 31, 2024	**6,338**	6,677
4.875%	192	March 31, 2024	**3,665**	3,863
4.5%	162	September 30, 2024	**3,246**	3,417
4%	201	September 30, 2025	**4,389**	-
4.55%	162	March 31, 2026	**3,500**	-
5%	80	March 31, 2030	**1,940**	2,000
			48,045	38,555

(continues)

(In Thousands)

9. LONG TERM DEBT *(continued)*

			2011	2010
Long term debt in connection with the transfer of Mechanical Equipment Services branch net assets on April 1, 2009				
4.875%	$2,018	March 31, 2024	**38,521**	40,603
			86,566	79,158
Amounts payable within one year			**(10,046)**	(9,324)
			$ 76,520	$ 69,834

Unused loan authority of $16,600 was available to VEMA as of March 31, 2010. An additional $13,000 of loan authority availability was approved during June 2010 in The Loan Act, 2010. Of the $29,600 in available loan authority, $17,500 was drawn down at various times during the year ended March 31, 2011.

All long term debt is payable in instalments of principal and interest on March 31 and September 30 each year.

As of March 31, 2011, principal repayments in each of the next five years on the combined outstanding balances of long term debt are as follows:

2012	$ 10,046
2013	8,974
2014	7,857
2015	7,290
2016	5,878

10. CONTRIBUTED EQUITY

The Special Operating Agencies Financing Authority (SOAFA) transferred the net assets of Fleet Vehicles Agency to VEMA as of the start of business on April 1, 2009, at their carrying value of $24,540 as of March 31, 2009. The $24,540 balancing amount in connection with the transferred assets and liabilities has been recorded in VEMA's book and records as contributed equity.

11. INVENTORY

The amount of inventory recognized as an expense during the year ended March 31, 2011, was $7,625 (2010 - $7,049). This entire amount has been included in repairs and maintenance, page 16.

12. COMMITMENTS

(a) VEMA has arrangements with the Government of Manitoba for the rental of facilities in Beausejour, Brandon, Dauphin, The Pas, Thompson and Winnipeg, Manitoba. Occupancy charges for each fiscal year including 2010/11 are established annually based on the approved budget for the Department of Infrastructure and Transportation. Occupancy charges for 2011/12 are estimated at $2,413 for the year, to be paid in quarterly instalments during 2011/12.

(b) VEMA's approved 2011/12 Business Plan calls for $2,500 in revenue sharing to be paid in quarterly instalments to the Consolidated Fund during 2011/12.

BULAT & POUSTIE
CHARTERED ACCOUNTANTS

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Winnipeg, Manitoba R3J 3Y1
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INDEPENDENT AUDITORS' REPORT

TO THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY

We have audited the accompanying financial statements of Vital Statistics Agency, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba which comprise the balance sheet as at March 31, 2011 and the statement of earnings and comprehensive income, statement of retained earnings, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Managements' Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Vital Statistics Agency as at March 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BULAT & POUSTIE

Bulat & Poustie

CHARTERED ACCOUNTANTS

June 6, 2011
Winnipeg, Manitoba

VITAL STATISTICS AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

BALANCE SHEET
(in thousands)
AS AT MARCH 31, 2011

		2011		2010
ASSETS				
CURRENT				
Cash and short term deposits, notes 6 and 14	**$**	**-**	$	267
Accounts receivable, note 7		**355**		41
Inventory, note 3		**137**		129
Prepaid expenses		**79**		50
		571		487
LONG TERM INVESTMENTS, note 8		**94**		94
CAPITAL ASSETS, notes 3 and 9		**1,500**		1,672
	$	**2,165**	$	2,253
LIABILITIES				
CURRENT				
Bank indebtedness, notes 6 and 14	**$**	**3**	$	-
Accounts payable and accrued		**168**		48
Deferred revenue, notes 3 and 10		**573**		427
Accrued unused vacation entitlements		**166**		184
		910		659
SEVERANCE PAY LIABILITY, note 12		**189**		211
		1,099		870
COMMITMENTS, note 13				
EQUITY				
RETAINED EARNINGS		**1,066**		1,383
	$	**2,165**	$	2,253

The accompanying notes are an integral part of the financial statements

VITAL STATISTICS AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME
(in thousands)

FOR THE YEAR ENDED MARCH 31, 2011		2011		2010
REVENUE				
Net sales	**$**	**3,205**	$	3,465
Proceeds from government departments		**323**		466
Interest		**1**		1
		3,529		3,932
EXPENSES				
Salaries and employee benefits		**2,021**		2,274
Operating expenses, Schedule 1		**1,083**		1,148
Amortization		**362**		375
		3,466		3,797
NET EARNINGS AND COMPREHENSIVE INCOME FOR THE YEAR	**$**	**63**	$	135

The accompanying notes are an integral part of the financial statements

VITAL STATISTICS AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

STATEMENT OF RETAINED EARNINGS
(in thousands)

FOR THE YEAR ENDED MARCH 31, 2011		**2011**		2010
RETAINED EARNINGS, BEGINNING OF YEAR	**$**	**1,383**	$	1,528
Net earnings and comprehensive income for the year		**63**		135
		1,446		1,663
Revenue sharing payment to Province of Manitoba		**380**		280
RETAINED EARNINGS, END OF YEAR	**$**	**1,066**	$	1,383

The accompanying notes are an integral part of the financial statements

VITAL STATISTICS AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

STATEMENT OF CASH FLOWS
(in thousands)

FOR THE YEAR ENDED MARCH 31, 2011		2011		2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings and comprehensive income for the year	**$**	**63**	$	135
Adjustments for				
Amortization		**362**		375
Severance pay expenses		**34**		38
		459		548
Changes in the following:				
Accounts receivable		**(311)**		42
Inventory		**(8)**		26
Prepaid expenses		**(29)**		3
Accounts payable		**120**		6
Deferred revenue		**146**		(356)
Accrued unused vacation entitlements		**(19)**		17
		358		286
CASH FLOWS FROM FINANCING ACTIVITIES				
Revenue sharing payment to Province of Manitoba		**(380)**		(280)
Severance pay payments		**(55)**		(13)
		(435)		(293)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of capital assets		**(193)**		(414)
DECREASE IN CASH AND SHORT TERM DEPOSITS		**(270)**		(421)
CASH AND SHORT TERM DEPOSITS, BEGINNING OF YEAR		**267**		688
CASH AND SHORT TERM DEPOSITS (BANK INDEBTEDNESS), END OF YEAR	**$**	**(3)**	$	267
Supplementary information:				
Interest received	**$**	**1**	$	1

The accompanying notes are an integral part of the financial statements

NOTES TO FINANCIAL STATEMENTS
(in thousands)
MARCH 31, 2011

1. ENTITY DEFINITION

Effective April 1, 1994, the Lieutenant Governor in Council designated the Vital Statistics Agency (the "Agency") as a special operating agency under The Special Operating Agencies Financing Authority Act (C.C.S.M. cS185) by Order in Council 232/1994. The Order also gave approval to the Special Operating Agencies Financing Authority (SOAFA) and the Minister of Consumer and Corporate Affairs, being the Minister responsible for the Agency at that time, to enter into a Management Agreement with respect to the Agency.

A Management Agreement between the Financing Authority and the Minister of Consumer and Corporate Affairs assigns responsibility to manage the assets transferred to the Agency in delivering regulated services to clients through administration of three major Acts; The Vital Statistics Act, The Change of Name Act, and The Marriage Act. The Agency also handles disinterment's under the Public Health Act. The ownership of the vital events records is excluded from this agreement, as their ownership is considered Crown property and should not be alienated from Government protection in the the public interest.

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

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

2. CHANGE IN ACCOUNTING POLICIES

Significant Accounting Changes

No significant accounting changes were effective for the Agency in the 2010/11 year.

Future Accounting Changes

The Agency will adopt Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board effective April 1, 2011. The Agency is currently in the process of assessing the impact of the adoption of PSAS on its financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are in accordance with Canadian generally accepted accounting principles and reflect the following policies:

Inventory

Inventory of certificates and pre-printed forms are valued at the lower of and net realizable value. Cost is generally determined on a first-in, first-out method.

NOTES TO FINANCIAL STATEMENTS
(in thousands)
MARCH 31, 2011

Significant Accounting Policies - continued

Capital Assets

Capital assets are recorded at cost. Amortization is provided for as follows:

	Rate	Method
Data conversion	20 %	Declining balance
Furniture and fixtures	20 %	Straight line
Information system	20 %	Declining balance
Leasehold improvements	20 %	Straight line
National Routing System - Computer equipment and software	20 %	Declining balance
Office equipment	20 %	Straight line
Security equipment	20 %	Straight line

Deferred Revenue and Revenue Recognition

The Agency receives cash payments at the time various certificates are ordered and the cash payments are reflected as deferred revenue. Revenue is recognized at the time the service is completed and the certificate is issued.

Capital Disclosures

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

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

The Agency is not subject to externally imposed capital requirements.

Measurement Uncertainty

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

These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. Actual amounts could differ from these estimates.

4. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

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

Financial Asset/Liability	Category	Subsequent Measurement
Cash (bank indebtedness) and short term deposits	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Long term investments	Held for trading	Fair value
Accounts payable	Other financial liabilities	Amortized cost
Accrued liabilities	Other financial liabilities	Amortized cost

Amortized cost is determined using the effective interest rate method.

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

Fair Value of Financial Instruments

The fair values of accounts receivable, accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity. The fair value of long term investments approximates its carrying value as the original deposit is re-invested annually at rates for investments with similar terms and conditions.

Financial Risk Management - overview

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

Credit Risk

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

(in thousands)

Financial Instruments and Financial Risk Management - continued

The maximum exposure of the Agency to credit risk at year end is:

	2011	2010
Cash on hand and balances in bank, note 6	**$ 14**	$ 267
Accounts receivable	**355**	41
Long term investments	**94**	94
	$ 463	$ 402

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

Accounts receivable: The Agency is not exposed to significant credit risk as no one party accounts for a significant balance of trade receivables and payment in full is typically collected when it is due. The majority of the other receivables is due from the federal government. The Agency establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off.

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

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

	2011	2010
Balance, beginning of the year	**$ 5**	$ 5
Provision for receivable impairment	**1**	1
Amounts written off	**(1)**	-
Amounts recovered	**(1)**	(1)
Balance, end of the year	**$ 4**	$ 5

Liquidity Risk

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

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

Market Risk

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

Financial Instruments and Financial Risk Management - continued

Interest Rate Risk

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

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

Foreign Currency Risk

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

5. WAIVER OF FEES

The Agency charges no fee for services in exchange for services from the following organizations:

(a) The Manitoba Development Centre, health care facilities, the Chief Medical Examiner's Office (Manitoba Justice), the Manitoba Funeral Association and the Department of Anatomy of the University of Manitoba as they provide services in accordance with The Vital Statistics Act.
(b) Child and Family Services Regional Operations of Manitoba Family Services to act as issuers of Marriage Licences and handling related administrative duties.
(c) Vital Statistics Offices in other jurisdictions through agreements to exchange information between jurisdictions as it relates to one another's residency or birthplace.
(d) Statistics Canada for national tabulation and statistical information. Statistics Canada provides payment for the microdata and microfilm records from the Vital Statistics Agency and provides half of the cost of printing registration forms.
(e) Health and Welfare Canada (Indian and Northern Affairs).

Services provided under the above agreements are valued at $5 for the year ended March 31, 2011 (2010 - $5).

The Agency provides services without compensation to victims of crimes as follows:

In March of 1998, the Ministers of Justice, Consumer and Corporate Affairs, and Highways and Transportation agreed that the fees for replacement documents should be waived. Representatives of Vital Statistics and the Division of Driver and Vehicle Licensing met to coordinate the process so the public would receive the same program from both agencies.

Effective January 1, 1999, members of the public who have had their birth certificate stolen during a criminal act can request replacement certificates and have the fee waived. This does not apply to members of the public who have lost their identification or individuals who are non-residents of Manitoba. Clients are asked to indicate that they are requesting a waiver of fees as a result of a criminal act and to provide police incident number.

Service provided under the above arrangement are valued at $10 for the year ended March 31, 2011 (2010 - $11).

NOTES TO FINANCIAL STATEMENTS
(in thousands)
MARCH 31, 2011

6. CASH, SHORT TERM DEPOSITS AND BANK INDEBTEDNESS

		2011		2010
Cash on hand and balances in bank	**$**	**14**	$	58
Working capital advances		**(17)**		-
Short term deposits		**-**		209
	$	**(3)**	$	267

The 2010 short term deposits were callable with interest rates ranging from 0.05% to 0.15% with maturity dates ranging from May 25, 2010 to June 21, 2010.

7. ACCOUNTS RECEIVABLE

		2011		2010
Trade	**$**	**81**	$	46
Service Canada		**245**		-
Canada Revenue Agency		**33**		-
		359		46
Less: Allowance for doubtful accounts		**4**		5
	$	**355**	$	41

8. LONG TERM INVESTMENTS

The Province of Manitoba accepted responsibility for the vacation entitlements earned by the employees of the Agency prior to its designation as SOA, and the severance pay benefits accumulated to March 31, 1998 for certain of the Agency's employees. Accordingly, the Agency recorded a receivable of $94 from the Province of Manitoba for these accumulated benefits. Effective March 31, 2009 the Province of Manitoba paid the receivable balances related to the funding for these liabilities and has placed the amount of $94 into an interest bearing trust account to be held on the Agency's behalf until the cash is required to discharge the related liabilities.

The long term investments earns interest at 1.25%, matures on March 30, 2012, at that time the original deposit will be re-invested. The interest income earned on this deposit is available to be withdrawn and used for operating purposes.

NOTES TO FINANCIAL STATEMENTS
(in thousands)
MARCH 31, 2011

9. CAPITAL ASSETS

	2011		2010	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Data conversion	**$ 2,555**	**$ 1,580**	$ 2,555	$ 1,336
Furniture and fixtures	**121**	**118**	121	116
Information system	**1,434**	**1,133**	1,249	1,080
Leasehold improvements	**98**	**90**	94	88
National Routing System - Computer equipment and software	**416**	**222**	415	174
Office equipment	**192**	**183**	192	177
Security equipment	**75**	**65**	75	58
	4,891	**3,391**	4,701	3,029
Net Book Value	**$ 1,500**		$ 1,672	

10. DEFERRED REVENUE

	2011	2010
Trade	**$ 112**	$ 107
Federal government - Statistics Canada	**202**	250
Manitoba Public Insurance Corporation	**-**	70
Federal government - Canada Employment Insurance Commission and Human Resources and Skills Development Canada	**228**	-
Federal government - Canada Revenue Agency	**31**	-
	$ 573	$ 427

Federal government - Statistics Canada

The Agency agreed on March 7, 2007 with Statistics Canada to join the National Routing System (NRS) where the Agency is responsible for the procurement, development testing and implementation of the messaging solution to enable secure and timely notification of vital events data between provinces and federal organizations. Funds advanced to the Agency are to be used for the specific purpose of the agreement. The Agency is matching the amortization of the capital expenditures purchased with these restricted funds. The amount deferred represents the total funds advanced of $424 (2010 - $424) less $222 (2010 - $174) amortized into income. Total income recognized for the year was $48 (2010 - $60) and is included in proceeds from government departments on the statement of earnings.

Manitoba Public Insurance Corporation

The Agency entered into an information sharing agreement with Manitoba Public Insurance Corporation (MPIC) starting on January 2, 2009 which enabled MPIC to access certain data related to applicants for enhanced identification cards. The amount deferred represents the total funds advanced of $400 (2010 - $400) less $400 (2010 - $330) amortized into income. Revenue is being recognized on a straight-line basis over 18 months, which is the length of the agreement. Total income recognized for the year was $70 (2010 - $264) and is included in proceeds from government departments on the statement of earnings.

Deferred Revenue - continued

Federal government - Canada Employment Insurance and Human Resources and Skills Development Canada

The Agency entered an information sharing agreement with Canada Employment Insurance and Human Resources and Skills Development Canada on December 22, 2010 where the Agency is responsible for the development of the notification linkage for births and deaths as well as the electronic component of the Birth Registration Validation Initiative. Funds advanced to the Agency are to be used for the specific purpose of the agreement. The Agency is matching the amortization of the capital expenditures purchased with these restricted funds. The amount deferred represents the total funds advanced of $245 (2010 - $nil) less $17 (2010 - $nil) amortized into income. Total income recognized for the year was $17 (2010 - $nil) and is included in proceeds from government departments on the statement of earnings.

Federal government - Canada Revenue Agency

The Agency entered an information sharing agreement with Canada Revenue Agency on March 14, 2011 where the Agency is responsible for the development costs to integrate the Automated Benefits Application process into the Agency's birth registration process. Funds advanced to the Agency are to be used for the specific purpose of the agreement. The Agency is matching the amortization of the capital expenditures purchased with these restricted funds. The amount deferred represents the total funds advanced of $33 (2010 - $nil) less $2 (2010 - $nil) amortized into income. Total income recognized for the year was $2 (2010 - $nil) and is included in proceeds from government departments on the statement of earnings.

11. PENSION BENEFITS

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

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the Vital Statistics Agency transferred to the Province the pension liability for its employees. Commencing April 1, 2001, the Agency was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for 2011 was $88 (2010 - $100). Under this agreement, the Agency has no further pension liability.

(in thousands)

12. SEVERANCE PAY LIABILITY

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

An actuarial report was completed for the severance pay liability as of March 31, 2008. The report provides a formula to update the liability on an annual basis. The Vital Statistics Agency's actuarially determined net liability for accounting purposes as at March 31, 2011 was $189 (2010 - $211). The actuarial losses are being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2011 present value of the accrued severance benefit obligation were:

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

13. COMMITMENTS

The Agency has not entered into a lease agreement with the Province of Manitoba for rental of facilities at 254 Portage Avenue. Occupancy charges for the year ending March 30, 2012 are estimated to be $202 (2010 - $209).

14. FINANCING ARRANGEMENTS

Working capital advances and long term financing for significant capital purchases are provided to the Agency through the Special Operating Agencies Financing Authority. The Financing Authority has approved a $500 limit for working capital advances for the Agency. At March 31, 2011 the Agency has accessed working capital advances of $17 (2010 - $nil) which is netted with other bank balances on note 6.

Schedule 1

SCHEDULE OF OPERATING EXPENSES
(in thousands)
FOR THE YEAR ENDED MARCH 31, 2011

		2011		2010
Accommodation	$	**209**	$	204
Central government charges		**60**		66
Computer information system		**276**		257
Office equipment support		**23**		24
Office supplies		**21**		25
Other operating expenses		**74**		82
Printed material supplies		**132**		158
Professional fees		**47**		47
Supplies for mechanized systems		**22**		33
Telecommunications		**53**		47
Training		**4**		5
Transportation and freight		**162**		200
	$	**1,083**	$	1,148

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Sport Manitoba Inc.

We have audited the accompanying financial statements of Sport Manitoba Inc., which comprise the statement of financial position as at March 31, 2011, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sport Manitoba Inc. as at March 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other Matter

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in the Schedule is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

KPMG LLP

Chartered Accountants

June 22, 2011

Winnipeg, Canada

SPORT MANITOBA INC.

Statement of Financial Position

March 31, 2011, with comparative figures for 2010

	2011	2010
Assets		
Current assets:		
Cash	$ 715,717	$ 974,013
Accounts receivable	1,605,258	1,057,200
Inventories	26,380	24,300
Prepaid expenses and deposits	98,490	126,544
	2,445,845	2,182,057
Marketable securities [note 2(e)]	101,420	104,280
Long-term accounts receivable	50,367	70,367
Capital assets (note 3)	16,469,881	16,555,900
	$ 19,067,513	$ 18,912,604

	2011	2010

Liabilities, Deferred Contributions and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	$ 1,704,215	$ 1,918,659
Current portion of loan payable (note 6)	210,921	533,334
	1,915,136	2,451,993
Loan payable (note 6)	15,287,294	15,163,888
Deferred contributions relating to (note 7):		
Expenses of future periods	1,247,483	353,185
Capital assets	207,167	258,959
	1,454,650	612,144
Net assets:		
Unrestricted	(597,081)	(141,502)
Internally restricted [note 2(e)]:		
Initiatives program	88,107	93,207
Coaching	26,875	28,875
Princess Royal Pan Am Scholarship endowment [note 2(f)]	101,420	104,280
Invested in capital assets (note 11)	791,112	599,719
	410,433	684,579
KidSport Canada trust assets (note 4)		
Commitments (note 8)		
	$ 19,067,513	$ 18,912,604

See accompanying notes to financial statements.

On behalf of the Board

____________________ Director

____________________ Director

SPORT MANITOBA INC.
Statement of Operations

Year ended March 31, 2011, with comparative figures for 2010

	Operating Fund	Restricted Funds	Capital Asset Fund	2011 Total	2010 Total
Revenue:					
Province of Manitoba:					
Program support	$ 11,309,000	$ –	$ –	$ 11,309,000	$ 11,117,000
Bingo allocation	176,400	–	–	176,400	163,443
2010 Olympics grant	–	–	–	–	538,199
Other grants	254,700	–	–	254,700	326,689
Government of Canada support	165,000	–	–	165,000	165,000
Amortization of deferred contributions	–	–	78,405	78,405	27,818
Other income	373,410	–	–	373,410	245,860
Bilateral funding:					
Province of Manitoba	200,000	–	–	200,000	200,000
Federal Government	200,000	–	–	200,000	200,000
	12,678,510	–	78,405	12,756,915	12,984,009
Expenses:					
Grants					
Sport groups for sport development	7,783,085	–	–	7,783,085	7,883,837
Bilateral sport development programs	411,173	–	–	411,173	440,052
Administration and services provided to sport groups:					
Occupancy	1,533,602	–	–	1,533,602	1,442,099
Operating	580,132	–	–	580,132	519,020
Administration	1,620,026	7,100	–	1,627,126	1,635,491
Member services	1,525,610	–	–	1,525,610	1,558,137
Cost recovered from sport groups	(966,345)	–	–	(966,345)	(773,420)
Amortization	–	–	533,818	533,818	152,635
	12,487,283	7,100	533,818	13,028,201	12,857,851
Excess (deficiency) of revenue over expenses	$ 191,227	$ (7,100)	$ (455,413)	$ (271,286)	$ 126,158

See accompanying notes to financial statements.

SPORT MANITOBA INC.

Statement of Changes in Net Assets

Year ended March 31, 2011, with comparative figures for 2010

	Unrestricted	Internally restricted initiatives program	Internally restricted coaching fund	Princess Royal Pan Am Scholarship endowment	Invested in capital assets	2011 Total	2010 Total
Net assets, beginning of year	$ (141,502)	$ 93,207	$ 28,875	$ 104,280	$ 599,719	$ 684,579	$ 559,801
Excess (deficiency) of revenue over expenses	191,227	(5,100)	(2,000)	–	(455,413)	(271,286)	126,158
Capital assets acquired	(447,799)	–	–	–	447,799	–	–
Principal payments on loan payable	(199,007)	–	–	–	199,007	–	–
Change in unrealized loss on endowment investments	–	–	–	(2,860)	–	(2,860)	(1,380)
Net assets, end of year	$ (597,081)	$ 88,107	$ 26,875	$ 101,420	$ 791,112	$ 410,433	$ 684,579

See accompanying notes to financial statements.

SPORT MANITOBA INC.

Statement of Cash Flows

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	$ (271,286)	$ 126,158
Items not involving cash:		
Amortization of capital assets	533,818	152,635
Amortization of deferred contributions related to capital assets	(78,405)	(27,818)
Change in non-cash operating working capital	177,770	(698,061)
	361,897	(447,086)
Investing activities:		
Additions to capital assets	(447,799)	(12,187,905)
Increase in deferred contributions related to capital assets	26,613	476,777
	(421,186)	(11,711,128)
Financing activities:		
Proceeds from loan payable	–	11,000,000
Principal repayments of loan payable	(199,007)	(288,879)
	(199,007)	10,711,121
Decrease in cash	(258,296)	(1,447,093)
Cash, beginning of year	974,013	2,421,106
Cash, end of year	$ 715,717	$ 974,013
Supplementary cash flow information:		
Interest paid	$ 909,693	$ 503,967

See accompanying notes to financial statements.

1. General:

Sport Manitoba Inc. (the organization) is a not-for-profit organization which has been empowered by the Province of Manitoba to play the lead role in the implementation of the Province's sport policy. The organization's purpose is to lead and support participation and achievement in sport by all Manitobans. The organization is exempt from income taxes and is funded through an agreement with the Province of Manitoba which expires on March 31, 2015.

2. Significant accounting policies:

(a) Revenue recognition:

The organization follows the deferral method of accounting for contributions, which include government grants.

Unrestricted contributions and operating grants are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated.

Externally restricted contributions and grants are recognized as revenue in the year in which the related expenses are recognized.

Contributions restricted for the purchase of capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets.

Endowment contributions are recognized as an increase in net assets when received.

(b) Inventories:

Inventories are valued at the lower of cost and estimated realizable value with cost being determined on the first-in, first-out basis.

2. Significant accounting policies (continued):

(c) Capital assets:

Capital assets are stated at cost. Amortization is recorded on a straight-line basis using the following terms:

Asset	Term
Building	40 years
Computers	3 years
Furniture and equipment	5 years
Print shop equipment	15 years

Leasehold improvements are recorded at cost and are amortized on a straight-line basis over the remaining term of the lease.

Interest is capitalized on payments for major capital asset additions made prior to them being ready for use and is included in the cost of the asset.

Any gain or loss on disposal of these assets is charged to operations in the year of disposal.

(d) Operating fund:

The purpose of the Operating Fund is to record the operations of the Organization.

(e) Internally restricted funds:

The initiatives program represents net assets restricted by the Board of Directors. These net assets are to be used to meet exceptional or one time initiatives and to support Sport Manitoba's pro-active participation in collaborative projects with partners in sport. All expenditures greater than $5,000 must be approved by the Board. During the year, the Board authorized expenditures of $5,100.

The Board of Directors has also internally restricted certain net assets to be used for coaching initiatives. During the year, the Board authorized expenditures of $2,000.

2. Significant accounting policies (continued):

(f) Princess Royal Pan Am Scholarship endowment:

The organization received $100,000 to establish the Princess Royal Pan Am Scholarship endowment. The principal cannot be used to fund programs. The investment income earned is used to provide annual scholarships to one male and one female athlete, up to $3,000 each, who are competing in sport at a national or international level and who are enrolled in a post-secondary education program at a Manitoba post-secondary institution. The endowment is recorded at fair value.

(g) Capital fund:

The purpose of the Capital Fund is to record capital assets, related debt, and the net investment of the Organization in such assets.

(h) Use of estimates:

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

(i) Financial instruments:

Financial assets and liabilities classified as held-for-trading are measured at fair value with both realized and unrealized gains and losses recognized in the statement of operations. Financial instruments classified as held-to-maturity, loans and receivables and other liabilities are measured at amortized cost. Available-for-sale financial instruments are measured at fair value, with unrealized gains and losses not recognized in the statement of operations, but recognized directly in unrestricted net assets.

The organization has designated cash and marketable securities as held-for-trading; accounts receivable as loans and receivables; and accounts payable and accrued liabilities and loans payable as other liabilities. The organization has neither available-for-sale nor held-to-maturity financial instruments.

Except for held-for trading designated financial instruments, transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset or liability's carrying value at inception and amortized over the expected life of the financial instrument using the effective interest method. For held-for trading financial assets and liabilities, transaction costs are recorded in the statement of operations as incurred.

2. Significant accounting policies (continued):

The organization has adopted the Canadian Institute of Chartered accountants (CICA) Handbook Section 3861, *Financial Instruments - Disclosure and Presentation.* In accordance with the Accounting Standards Board's decision to exempt not-for-profit organizations from the disclosure requirements with respect to financial instruments contained within Section 3862, *Financial Instruments - Disclosures*, and Section 3863, *Financial Instruments - Presentation*, the organization has elected not to adopt these standards in the financial statements.

(j) Allocation of general administration expenses:

The organization classifies expenses on the statement of operations by function. The organization allocates certain costs by identifying the appropriate basis of allocation and applying that basis consistently each year. Allocated expenses consist of salaries and benefits which are allocated 65 percent to member services expenses and 35 percent to administration expenses on the basis of the average of individual job positions responsibilities.

3. Capital assets:

			2011	2010
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 1,200,000	$ –	$ 1,200,000	$ 1,200,000
Building	15,302,888	408,036	14,894,852	15,034,168
Computers	339,469	275,779	63,690	66,197
Furniture and equipment	676,220	439,789	236,431	152,522
Print shop equipment	356,874	303,786	53,088	73,919
Leasehold improvements	36,368	14,548	21,820	29,094
	$ 17,911,819	$ 1,441,938	$ 16,469,881	$ 16,555,900

Interest during construction of $468,916 was capitalized as part of the cost of the building in 2010.

4. KidSport Canada trust assets:

In accordance with a Delegation of Authority agreement with KidSport Canada signed March 19, 2008, the organization is holding $501,597 of assets in trust for KidSport Canada as at March 31, 2011 (2010 - $467,349). The agreement delegates authority to the organization to issue tax receipts for qualifying donations on behalf of KidSport Canada. These trust assets together with the related obligation, donation income and grant expenses have not been recorded in these financial statements for financial reporting purposes.

5. Sport For Life Centre:

In February 2009, the organization purchased land and building at 145 Pacific for $3,700,000 which has become home to the new Sport for Life Centre. The Phase 1 renovations have been completed. Sport Manitoba moved in to the new building on March 4, 2010. Phase 2, which will include the activity space, is anticipated to be complete by the end of 2012.

6. Loans payable:

	2011	2010
Province of Manitoba:		
Loan payable bearing interest at 5.90%, unsecured, repayable in monthly installments of $92,392 including interest, maturing February 24, 2040	$ 15,498,215	$ –
Loan payable bearing interest at 5.90%, unsecured, repayable in monthly principal installments of $13,889 plus interest, maturing February 24, 2039	–	4,819,444
Loan payable bearing interest at 5.95%, unsecured, repayable in monthly principal installments of $30,555 plus interest, maturing November 2039	–	10,877,778
	15,498,215	15,697,222
Current portion of loans payable	210,921	533,334
	$ 15,287,294	$ 15,163,888

On April 1, 2010, the loans payable to the Province of Manitoba were restructured. The two previous agreements with the Province were voided and a new loan was issued with terms and conditions as described above.

Principal repayments over the next five years are as follows:

2012	$ 210,921
2013	233,549
2014	236,933
2015	251,118
2016	266,153

7. Deferred contributions:

Deferred contributions related to expenses of future periods represent restricted funding received for future expenses.

	2011	2010
Balance, beginning of year	$ 353,185	$ 862,421
Contributions in the current year	1,121,257	220,799
Amounts amortized to revenue	(226,959)	(730,035)
Balance, end of year	$ 1,247,483	$ 353,185

Deferred contributions for expenses of future periods are comprised of the following:

	2011	2010
Western Canada Summer Games, future bids and cost for storage of equipment	$ 119,643	$ 143,185
Sport for Life Centre	377,840	190,000
KidSport Canada	–	20,000
High Performance Athlete Initiative	750,000	–
	$ 1,247,483	$ 353,185

Deferred contributions related to capital assets represent unamortized and unspent amount of externally restricted contributions that have been received for the construction of the Sport for Life Centre.

	2011	2010
Balance, beginning of year	$ 258,959	$ –
Contributions in the current year	26,613	286,777
Amounts amortized to revenue	(78,405)	(27,818)
Balance, end of year	$ 207,167	$ 258,959

8. Commitments:

(a) The organization has made a commitment to fund a best ever project for the National Women Volleyball Centre in the amount of $50,000 for the year ending March 31, 2012, subject to the present levels of funding from the Province of Manitoba being maintained.

8. Commitments (continued):

(b) The organization has an agreement with Canadian Sport Centre Manitoba Inc. to provide funding for the implementation of programs and services in support of the pursuit of excellence by high performance athletes and coaches in Manitoba. The terms of this agreement have committed the organization to provide funding of $190,000 for the year ending March 31, 2012 subject to the present levels of funding from the Province of Manitoba being maintained.

(c) The Board has passed a motion to re-direct $190,000 of unspent funds previously committed to the Manitoba Games to the 2011 Western Canada Games Sport Manitoba Team travel.

9. Manitoba Sports Hall of Fame and Museum Incorporated:

The organization is the sole voting member of the Manitoba Sports Hall of Fame and Museum Incorporated (Hall of Fame), which is a registered charity organized to honour Manitoba athletes and builders. The financial statements of the Hall of Fame have not been consolidated with those of the organization.

On April 1, 2008, the Hall of Fame entered into an occupancy and support agreement with the organization whereby certain services are provided by the organization to the Hall of Fame for a fee equal to the cost of providing such services, minus the sum of $65,000. During the year, the organization also provided a grant of $70,000 (2010 - $41,155) to the Hall of Fame.

The accounts receivable from the Hall of Fame in the amount of $76,367 (2010 - $76,367), is non-interest bearing, and has no fixed terms of repayment.

The following represents the financial position and the results of operations of the Hall of Fame as at March 31:

	2011	2010
Assets	$ 237,192	$ 135,368
Liabilities	$ 240,453	$ 147,474
Net assets (deficit)	(3,261)	(12,106)
	$ 237,192	$ 135,368
Revenues	$ 121,415	$ 126,910
Expenses	112,570	120,538
Excess of revenues over expenses	$ 8,845	$ 6,372

10. Manitoba Foundation for Sports Inc.:

The organization is the sole voting member of the Manitoba Foundation for Sports Inc. (Foundation), which is a registered charity organized for the purpose of furthering the development of amateur athletics in the Province of Manitoba. The financial statements of the Foundation have not been consolidated with those of the organization.

The following represents the financial position and results of operations of the Foundation as at March 31:

	2011	2010
Assets	$ 1,012,476	$ 1,289,278
Liabilities	$ 2,000	$ 3,000
Deferred contributions	399,313	399,313
Unrestricted net assets	106,163	81,965
Pan Am Games Legacy fund	505,000	805,000
	$ 1,012,476	$ 1,289,278
Revenue	$ 51,929	$ 45,961
Expenses	327,731	39,681
Excess (deficiency) of revenue over expenses	$ (275,802)	$ 6,280

During the year, the Foundation provided $12,000 (2010 - $16,500) of scholarship grants to Manitoba athletes.

11. Invested in capital assets:

Invested in capital assets is calculated as follows:

	2011	2010
Capital assets	$ 16,469,881	$ 16,555,900
Amounts financed by:		
Loan payable	(15,498,215)	(15,697,222)
Deferred contributions	(207,167)	(258,959)
Unspent cash proceeds	26,613	–
	$ 791,112	$ 599,719

12. Pension plan:

The organization has a defined contribution pension plan. Pension expense for the year ended March 31, 2011 was $106,573 (2010 - $98,895).

13. Financial instruments:

Fair values:

The carrying values of accounts receivable and accounts payable and accrued liabilities approximate their fair value due to their short term to maturity. The fair value of the long-term accounts receivable from the Hall of Fame and the loan payable is not practicable to determine due to the underlying terms and conditions.

Credit risk:

The organization is subject to credit risk related to accounts receivable. This risk is alleviated based on the relationship the organization has with the organizations with which the accounts receivable exist.

14. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

SPORT MANITOBA INC.

Schedule - Administration and Services Provided to Sport Groups

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Occupancy expenses:		
Interest on loan payable	$ 909,693	$ 503,967
Member services	155,945	16,685
Utilities	149,437	1,258
Rent	–	625,099
Security and janitorial services	126,650	14,897
Salaries	63,937	–
Property repairs and maintenance	63,434	288
Insurance and taxes	61,475	–
Future Administration Centre relocation review	3,031	279,905
	$ 1,533,602	$ 1,442,099
Operating expenses:		
Courier	$ 12,547	$ 12,625
Multi-sport games support	281,783	194,099
Postage	67,819	76,254
Repairs and maintenance	96,420	120,976
Service bureau fees	6,263	4,901
Stationery	27,564	24,154
Supplies	24,101	17,127
Telephone	63,635	68,884
	$ 580,132	$ 519,020
Administration expenses:		
Advertising, marketing and media programs	$ 220,922	$ 227,037
Coaching development	93,015	97,981
Community and regional development programs	139,702	147,051
Delivery and freight	1,686	1,701
Hall of Fame administration	9,448	6,547
Insurance	10,788	9,670
KidSport programs	21,952	31,796
Long-term athlete development	13,128	27,401
Meetings	22,384	21,392
Membership dues and subscriptions	7,578	3,687
Office supplies and stationery	10,097	9,302
Photocopying	5,562	5,270
Postage	5,128	4,844
Printing	10,523	10,009
Professional development	10,849	8,233
Professional fees	19,300	38,066
Respect in Sport	119,938	87,125
Salaries and benefits	821,482	838,189
Service bureau fees	5,179	4,526
Sport Medicine Centre	29,393	–
Telephone	22,323	29,594
Travel	20,368	22,869
Volunteer and staff recognition	6,381	3,201
	$ 1,627,126	$ 1,635,491

SPORT MANITOBA INC.

Schedule - Administration and Services Provided to Sport Groups (continued)

Year ended March 31, 2011, with comparative figures for 2010

		2011		2010
Member services expenses:				
Salaries and benefits		1,525,610		1,556,637
Initiative program		–		1,500
	$	1,525,610	$	1,558,137
Amortization:				
Amortization of leasehold improvements	$	7,274	$	7,274
Amortization of other capital assets		526,044		145,361
	$	533,818	$	152,635

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Winnipeg MB R3C 4L5 Canada

Independent Auditor's Report

To the Members of TRAVEL MANITOBA

We have audited the accompanying financial statements of **TRAVEL MANITOBA**, which comprise the statement of financial position as at March 31, 2011, and the statement of operations, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of **TRAVEL MANITOBA** as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba
June 29, 2011

TRAVEL MANITOBA
Statement of Financial Position

		2011	2010
Assets			
Current Assets			
Cash (Note 2)		**$ 787,905**	$ 575,455
Trade accounts receivable		**1,274,550**	1,801,605
Prepaid expenses		**29,740**	57,128
		2,092,195	2,434,188
Due from the Province of Manitoba (Note 3)		**204,727**	224,433
Capital assets (Note 4)		**128,015**	148,437
		$ 2,424,937	$ 2,807,058
Liabilities and Net Assets			
Current Liabilities			
Accounts payable and accrued liabilities		**$ 1,234,042**	$ 1,761,080
Retirement allowances and other benefits payable (Note 5)		**441,434**	491,920
		1,675,476	2,253,000
Contingencies and commitments (Note 7)			
Net Assets (Page 5)			
Unrestricted		**546,446**	330,621
Restricted for purchase of capital assets		**75,000**	75,000
Invested in capital assets		**128,015**	148,437
		749,461	554,058
		$ 2,424,937	$ 2,807,058

Approved on behalf of the Board:

_______________________ Director

_______________________ Director

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

TRAVEL MANITOBA
Statement of Operations

For the year ended March 31	**2011**	2010
Revenue		
Province of Manitoba		
Operating	**$ 7,602,000**	$ 7,602,000
Other initiatives - federal and provincial funding	**2,475,600**	1,950,000
Partnership and leveraged marketing	**493,880**	654,244
Other	**9,959**	4,801
	10,581,439	10,211,045
Expenditures		
Marketing and product development	**7,822,996**	7,704,065
Visitor services	**1,448,637**	1,404,182
Corporate services	**782,805**	740,137
Contribution to Manitoba Homecoming Inc.	**315,000**	500,000
Amortization	**16,598**	24,105
	10,386,036	10,372,489
Excess (deficiency) of revenue over expenditures for the year (Page 5)	**$ 195,403**	$ (161,444)

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

TRAVEL MANITOBA
Statement of Changes in Net Assets

For the year ended March 31				2011	2010
	Unrestricted	**Restricted for Purchase of Capital Assets**	**Invested in Capital Assets**	**Total**	Total
Net assets, beginning of year	**$ 330,621**	**$ 75,000**	**$ 148,437**	**$ 554,058**	$ 715,502
Excess (deficiency) of revenue over expenditures for the year (Page 4)	**238,451**	**-**	**(43,048)**	**195,403**	(161,444)
Acquisition of capital assets	**(22,626)**	**-**	**22,626**	**-**	-
Net assets, end of year (Page 3)	**$ 546,446**	**$ 75,000**	**$ 128,015**	**$ 749,461**	$ 554,058

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

TRAVEL MANITOBA
Statement of Cash Flows

For the year ended March 31	2011	2010
Cash Flows from Operating Activities		
Excess (deficiency) of revenue over expenditures for the year	**$ 195,403**	$ (161,444)
Adjustment for non cash items		
Amortization	**16,598**	24,105
Loss on disposal of equipment	**23,825**	-
	235,826	(137,339)
Changes in non-cash working capital		
Trade accounts receivable	**527,055**	(1,400,006)
Prepaid expenses	**27,388**	10,117
Accounts payable and accrued liabilities	**(527,038)**	567,992
	27,405	(821,897)
Due from Province of Manitoba	**19,706**	45,117
Retirement allowance and other benefits payable	**(50,486)**	16,450
	232,451	(897,669)
Cash Flows from Investing Activities		
Acquisition of capital assets	**(22,626)**	(9,411)
Net change in short-term deposits	**-**	219,216
Disposition of capital assets	**2,625**	-
	(20,001)	209,805
Net increase (decrease) in cash and cash equivalents	**212,450**	(687,864)
Cash and cash equivalents, beginning of year	**575,455**	1,263,319
Cash and cash equivalents, end of year	**$ 787,905**	$ 575,455

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

TRAVEL MANITOBA
Summary of Significant Accounting Policies

For the year ended March 31, 2011

Basis of Reporting

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

Capital Assets

Capital assets are recorded at cost and amortized on a declining balance basis at the following rates:

Computer hardware	30% straight-line
Computer software	30% straight-line
Furniture and equipment	5% straight-line
Leasehold improvements	5% straight-line

Revenue Recognition

The Organization follows the deferral method of accounting for contributions. Grant revenue is recognized in the period earned. Partnership and marketing revenue are recognized when services are rendered if the amount to be received can be reasonably estimated and collection is reasonably assured.

The Organization recognizes revenue arising from non-monetary transactions in the period when services have been rendered if the amount to be received can be reasonably estimated and collection is reasonably assured.

Financial Instruments

The Organization utilizes various financial instruments. Unless otherwise noted, it is management's opinion that the Organization is not exposed to significant credit, market, interest rate or foreign currency risks arising from these financial instruments and the carrying amounts approximate fair values (Note 6).

All transactions related to financial instruments are recorded on a settlement date basis.

The Organization classifies its financial instruments as follows based on the purpose for which the asset was acquired and follows the disclosed accounting policy for each category.

Assets/Liability	Category	Measurement
Cash	Held for trading	Fair value
Short-term deposits	Held for trading	Fair value
Trade accounts receivable	Loans and receivables	Amortized cost
Due from the Province of Manitoba	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

Financial Instruments (continued)

- Held for trading items are carried at fair value, with changes in their fair value recognized in the statement of operations.
- Other financial liabilities are carried at amortized cost, using the effective interest method.
- Loans and receivables are carried at amortized cost, using the effective interest rate method, less any provision for impairment.

Transaction costs are expensed as incurred.

Restricted Fund for Acquisition of Capital Assets

A fund has been established by the Board of Directors in order to finance the future acquisition of capital items which are not funded by the Province of Manitoba through the provision of operating grants. Charges to the fund will occur at the discretion of the President and Chief Executive Officer. Any future redesignation of the fund balance would be subject to approval by the Board of Directors.

Use of Estimates

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

Retirement allowances and other employee future benefits

The organization provides retirement allowance and pension benefits to its employees.

Retirement allowances are provided to certain qualifying employees. The benefits are provided under a final pay plan. The costs of benefits earned by employees are charged to expenses as services are rendered. The costs are actuarially determined using the projected benefit method and reflect management's best estimates of the length of service, salary increases and ages at which employees will retire. Actuarial gains and losses are recognized in income immediately.

Retirement allowances and other employee future benefits (continued)

Employees of the organization are provided pension benefits by the Civil Service Superannuation Fund ("the Fund"). Under paragraph 6 of the Civil Service Superannuation Act, the organization is described as a "matching employer" and its contribution toward the pension benefits is limited to matching the employees' contributions to the Fund.

In addition, an individual has entitlement to enhanced pension benefits. The plan is based on final pay and is indexed. The cost of the benefits earned by the employee is charged to expenses as services are rendered. The cost is actuarially determined using the projected benefit method and reflects management's best estimate of salary increases and the age at which the employee will retire.

New Accounting Pronouncements

In December 2010, the Accounting Standards Board (AcSB) and Public Sector Accounting Board (PSAB) issued new standards for not-for-profit organizations (NPOs) as follows:
For government (public sector) NPOs they have a choice of:

1. Public Sector Accounting standards with the current series of NPO-specific standards added with some minor changes; or
2. Public Sector Accounting standards.

The Boards require NPOs to adopt their respective standards for year ends beginning on or after January 1, 2012; early adoption is allowed. Until the date of transition to the new standards, all NPOs will continue to follow the current Canadian Institute of Chartered Accountants Handbook – Accounting Part V – Pre-Changeover Standards.

The organization plans to adopt choice 1. above but has not yet determined the impact of this change in its financial reporting.

1. Nature of Organization

Travel Manitoba was created as a Crown Corporation on April 1, 2005 under The Travel Manitoba Act as the culmination of extensive consultation and leadership from both the tourism industry and the provincial government. Travel Manitoba's mission is to be the leader in stimulating innovative, sustainable tourism growth in Manitoba. Travel Manitoba collaborates closely and in partnership with the tourism industry and governments to attract visitors to Manitoba, sustaining and creating jobs and businesses in the tourism sector in the province.

Travel Manitoba receives core funding from the Province of Manitoba to facilitate operations and to mobilize public and private resources to further foster the growth and professionalism of the tourism industry in Manitoba. Travel Manitoba is economically dependent on the Province of Manitoba, because it derives a significant portion of its revenue from the Province of Manitoba.

2. Cash and Short-term Deposits

The Organization invests all surplus cash into short-term deposits with the Province's Treasury Division. These deposits are made up of 30, 60 and 90 day callable term deposits.

3. Due from the Province of Manitoba

Upon inception on April 1, 2005, the Organization recorded accumulated severance pay benefits receivable and payable of $368,937 transferred from the Province of Manitoba for its employees. This receivable, or portion thereof, for the Organization, will be collected by the organization as severance benefits are paid to employees on record as at April 1, 2005.

During the year, the Organization reduced the receivable from the government in the amount of $19,706 related to employees no longer employed by the Organization. The receivable from the Province of Manitoba as at March 31, 2011 is $204,727 (2010 - $224,433).

4. Capital Assets

	2011		2010	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Computer hardware	**$ 27,825**	**$ 14,340**	$ 88,429	$ 45,547
Computer software	**29,503**	**26,161**	29,503	23,969
Furniture and equipment	**16,086**	**2,668**	13,666	2,045
Leasehold improvements	**111,644**	**13,874**	97,679	9,279
	$ 185,058	**$ 57,043**	$ 229,277	$ 80,840
Cost less accumulated amortization		**$ 128,015**		$ 148,437

5. Retirement allowances and enhanced pension benefits

The organization measures its accrued benefit obligation for each of the retirement allowance and enhanced pension benefits as at March 31 of each year. The most recent actuarial valuation report for the retirement allowance was at March 31, 2010 and the most recent finalized and approved actuarial valuation report for the enhanced pension benefits was at November 30, 2010.

The significant actuarial assumptions adopted in measuring the organization's retirement allowance obligation and costs are as follows:

	2011	2010
Benefit costs for the year ended March 31		
Discount rate	**6**%	7%
Rate of compensation increase	**2.75**%	3.25%
Employer contributions	**$ 125,095**	$ 115,813

The significant actuarial assumptions adopted in measuring the organization's enhanced pension benefit and costs are as follows:

	2011	2010
Benefit costs for the year ended March 31		
Discount rate	**6.50%**	7%
Rate of compensation increase	**3.75**%	4.25%
Employer contributions	**$ 1,425**	$ 14,600
Effect of change in assumptions	**$ 4,203**	$ -
Experience loss / (gain) adjustment	**$ (25,134)**	$ -

6. Financial Instrument Risk Management

The Organization is exposed to different types of risk in the normal course of operations, including credit risk and market risk. The Organization's objective in risk management is to optimize the risk return trade-off, within set limits, by applying integrated risk management and control strategies, policies and procedures throughout the Organization's activities.

Credit risk

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

The Organization's maximum exposure to credit risk without taking account of any collateral or other credit enhancements is as follows:

	2011	2010
Trade accounts receivable	$ **1,274,550**	$ 1,801,605
Due from the Province of Manitoba	**204,727**	224,433
	$ **1,479,277**	$ 2,026,038

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

Other amounts receivable: The Organization is not exposed to significant credit risk as these receivables are substantially all from provincial and federal governments.

Market Risk

Market risk is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign exchange risk and other price risk.

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Organization is not exposed to significant interest rate risk. Its short-term deposits are held in short-term or variable rate products.

The Organization is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in foreign currency and the number of transactions in foreign currency are minimal and the Organization is not exposed to other price risk.

Fair Value

The carrying values of cash, short-term deposits, trade accounts receivable, due from the Province of Manitoba and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

7. Contingencies and Commitments

The Organization has entered into lease agreements for rental of facilities at various locations with total annual payments of $609,636. In addition, the organization leases computer equipment from the Province of Manitoba. The anticipated charge for the 2011/12 fiscal year is $13,581.

The Organization has access to a loan guarantee with the Province of Manitoba for $1,500,000. The guarantee will enable Travel Manitoba to establish a line of credit up to this amount for the purpose of providing advances and profit guarantees as part of bid proposals and preparation efforts being undertaken in attracting various events to take place in Manitoba. As at March 31, 2011, this line of credit had not been drawn upon.

8. Non-monetary transactions

In the current year, the Organization entered into contracts with exchanges of non-monetary services for other non-monetary services with little or no monetary consideration involved. These transactions are within normal business activities and were done in order to carry out the mandate of the Organization.

The Organization has used the fair value of the services that have been given up in order to measure the amount of the transaction as this is the more reliable and accurate measure of the revenue and expenses that have been incurred through these transactions. The aggregate amount of all non-monetary transactions in the current year total $41,827 (2010 - $73,000).

The Organization has not incurred any gains or losses in the current year with respect to these non-monetary transactions.

9. Capital management

The Organization considers its capital to comprise its unrestricted net assets, restricted capital for purchase of capital assets and its investment in capital assets. There have been no changes to what the organization considers to be its capital since the previous period.

As a not-for-profit entity, the Organization's operations are reliant on revenues generated annually. The Organization has accumulated unrestricted net assets over its history. A portion of these accumulated funds is retained as working capital which may be required from time to time due to timing delays in receiving its primary funding.

The remaining funds are available for the use of the Organization at the Board's discretion.

OFFICE OF THE
AUDITOR GENERAL
MANITOBA

AUDITORS' REPORT

To the Legislative Assembly of Manitoba
To the Governing Council of the University College of the North

We have audited the statement of financial position of the University College of the North as at June 30, 2010, and the statements of operations, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the University College of the North's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the University College of the North as at June 30, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Office of the Auditor General

Office of the Auditor General

Winnipeg, Manitoba
October 15, 2010

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UNIVERSITY COLLEGE OF THE NORTH STATEMENT 1

STATEMENT OF FINANCIAL POSITION

JUNE 30

	General Fund	Capital Campaign Fund	Student Award Fund	Endowment Fund	Total 2010	Total 2009
ASSETS						
CURRENT						
Cash and cash equivalents (Note 13)	$ 6,571,040	$ 349,803	$ 110,027	$	$ 7,030,870	$ 8,648,878
Short-term investments (Note 13)				352,600	352,600	252,600
Accounts receivable (Note 3)	4,750,119		778		4,750,897	2,773,795
Due from Province of Manitoba (Note 5)	752,589				752,589	752,589
Inventory	176,541				176,541	147,124
Prepaid expenses	1,271,818				1,271,818	254,520
	13,522,107	349,803	110,805	352,600	14,335,315	12,829,506
LONG TERM						
Capital assets (Note 4)	5,396,713				5,396,713	3,116,891
Due from Province of Manitoba (Note 5)	793,500				793,500	793,500
	6,190,213				6,190,213	3,910,391
TOTAL ASSETS	$ 19,712,320	$ 349,803	$ 110,805	$ 352,600	$ 20,525,528	$ 16,739,897
LIABILITIES						
CURRENT						
Accounts payable and accrued liabilities (Note 6)	$ 2,338,054	$	$ 2,945	$	$ 2,340,999	$ 1,797,670
Deferred revenue	1,366,463				1,366,463	538,675
Deferred contributions (Note 7)	3,171,812				3,171,812	3,435,630
Accrued vacation benefits	2,411,216				2,411,216	2,208,626
	9,287,545		2,945		9,290,490	7,980,601
LONG TERM						
Deferred contributions related to capital assets (Note 8)	4,319,882				4,319,882	2,126,034
Accrued severance benefits (Note 9)	1,764,326				1,764,326	1,553,154
	6,084,208				6,084,208	3,679,188
FUND BALANCES						
FUND SURPLUS (DEFICIT)						
NET ASSETS INVESTED IN CAPITAL ASSETS	1,076,833				1,076,833	990,859
NET ASSETS RESTRICTED FOR FUND PURPOSES		349,803	107,860	352,600	810,263	642,724
NET ASSETS INTERNALLY RESTRICTED (Note 12)	3,108,072				3,108,072	3,298,506
UNRESTRICTED NET ASSETS	155,662				155,662	148,019
	4,340,567	349,803	107,860	352,600	5,150,830	5,080,108
TOTAL LIABILITIES & FUND BALANCES	$ 19,712,320	$ 349,803	$ 110,805	$ 352,600	$ 20,525,528	$ 16,739,897

APPROVED BY THE GOVERNING COUNCIL

Chair, UCN Governing Council
26-Oct-10

STATEMENT 2

UNIVERSITY COLLEGE OF THE NORTH

STATEMENT OF OPERATIONS

YEAR ENDED JUNE 30

	General Fund	Capital Campaign Fund	Student Award Fund	Endowment Fund	Total 2010	Total 2009
REVENUES						
Grants						
Council on Post-Secondary Education	$ 27,113,324	$	$	$	$ 27,113,324	$ 23,115,557
Other Province of Manitoba	632,892				632,892	526,787
Government of Canada	163,981				163,981	
Amortization of deferred contributions related to capital assets	372,538				372,538	328,228
Ancillary sales and services	1,852,097				1,852,097	1,734,795
Donations	1,150	77,307	151,147	50,000	279,604	500,830
Investment income	11,932		2,134		14,066	173,228
Contract training	1,987,880				1,987,880	1,845,257
Tuition and student fees	3,028,594				3,028,594	2,718,812
Other revenue	1,251,313				1,251,313	1,223,741
Bad debts recovery	200,000				200,000	
	36,615,701	77,307	153,281	50,000	36,896,289	32,167,235
EXPENSES						
Advertising	401,734				401,734	288,993
Amortization of capital assets	418,597				418,597	353,317
Cost of goods sold	1,062,549				1,062,549	986,735
Loss (gain) on disposal of capital assets	17,600				17,600	(23,011)
Insurance	422,059				422,059	197,646
Library acquisitions	303,240				303,240	190,893
Facility costs	983,774				983,774	872,873
Furniture and minor equipment	1,031,355				1,031,355	866,991
Maintenance and repairs	82,502				82,502	137,225
Operational supplies and services	4,426,477		137		4,426,614	3,578,836
Property taxes	521,785				521,785	501,500
Rentals and leases	497,028				497,028	437,168
Salaries and employee benefits	24,206,649				24,206,649	22,143,481
Scholarships and bursaries			112,912		112,912	105,700
Telephone and communication	645,931				645,931	555,437
Travel and hospitality	1,566,665				1,566,665	1,524,274
Utilities	124,573				124,573	118,317
	36,712,518		113,049		36,825,567	32,836,375
EXCESS REVENUES (EXPENSES)	$ (96,817)	$ 77,307	$ 40,232	$ 50,000	$ 70,722	$ (669,140)

UNIVERSITY COLLEGE OF THE NORTH

STATEMENT OF CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30

	General Fund	Capital Campaign Fund	Student Award Fund	Endowment Fund	Total 2010	Total 2009
FUND SURPLUS, *beginning of year*	$ 4,437,384	$ 272,496	$ 117,628	$ 252,600	$ 5,080,108	$ 5,749,248
EXCESS REVENUES (EXPENSES)	(96,817)	77,307	40,232	50,000	70,722	(669,140)
INTER-FUND TRANSFERS (Note 16)			(50,000)	50,000		
FUND SURPLUS, *end of year*	$ 4,340,567	$ 349,803	$ 107,860	$ 352,600	$ 5,150,830	$ 5,080,108

UNIVERSITY COLLEGE OF THE NORTH **STATEMENT 4**

STATEMENT OF CASH FLOWS

	YEAR ENDED JUNE 30	
	2010	**2009**
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess Revenues (Expenses)		
University College of the North Fund	$ (357,185)	$ (1,024,168)
Inter-Universities Services Fund	260,368	(46,370)
Student Award Fund	40,232	28,236
Capital Campaign Fund	77,307	273,162
Endowment Fund	50,000	100,000
	70,722	(669,140)
Add (deduct) items not involving cash		
Loss (gain) on disposal of capital assets	17,600	(23,011)
Amortization of capital assets	418,597	353,317
Amortization of deferred contributions related to capital assets	(372,538)	(328,228)
	134,381	(667,062)
Add (deduct) changes in non-cash working capital components related to operating activities		
Accounts receivable	(1,977,102)	200,519
Inventory	(29,417)	(19,809)
Prepaid expenses	(1,017,298)	(102,602)
Accounts payable and accrued liabilities	543,329	(1,023,145)
Deferred revenue	827,788	71,834
Deferred contributions	(263,818)	292,171
Accrued vacation benefits	202,590	283,543
Accrued severance benefits	211,172	170,103
	(1,368,375)	(794,448)
CASH FLOWS FROM FINANCING ACTIVITIES		
Deferred contributions related to capital assets	2,566,386	767,524
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in investments	(100,000)	(200,000)
Purchase of capital assets	(2,716,019)	(767,522)
Proceeds on disposal of capital assets		26,500
	(2,816,019)	(941,022)
NET INCREASE (DECREASE) IN CASH FLOWS DURING THE YEAR	(1,618,008)	(967,946)
CASH AND CASH EQUIVALENTS, *beginning of year*	8,648,878	9,616,824
CASH AND CASH EQUIVALENTS, *end of year*	$ 7,030,870	$ 8,648,878
Supplemental Cash Flow Information:		
Interest Received	$ 15,166	$ 195,728

1. NATURE OF OPERATIONS

The University College of the North (UCN) operates under the authority of *The University College of the North Act* Chapter U55 of the *Continuing Consolidation of the Statutes of Manitoba*, which came into force July 1, 2004. This Act provides for the continuation of Keewatin Community College, as established under *The Colleges Act* as a board-governed institution on April 1, 1993.

The purpose of UCN is to provide post-secondary education in northern Manitoba. It should be learner and community-centred, be characterized by a culture of openness, inclusiveness and tolerance, and be respectful of Aboriginal and northern values and beliefs.

The educational purposes of UCN are to serve the educational needs of Aboriginal and northern Manitobans and to enhance the economic and social well-being of northern Manitoba.

UCN has a tax-exempt status as a registered charity under *The Income Tax Act*.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of UCN have been prepared in accordance with Canadian generally accepted accounting principles. UCN follows the restricted fund method of accounting for contributions.

a) Funds

The transactions of UCN have been segregated into the following funds in accordance with specified activities or objectives:

General Funds

1. UCN Fund
The UCN Fund consists of transactions related to educational and ancillary activities of UCN.

(i) Capital Assets
The Capital Assets Fund consists of the credit of capital asset acquisitions, net of amounts financed through deferred contributions.

(ii) Internally Restricted
The Internally Restricted Fund consists of transactions related to appropriations made from (to) the Unrestricted Fund.

(iii) Unrestricted
The Unrestricted Fund consists of transactions related to educational and ancillary activities of UCN and not included in the Restricted Fund

2. Inter-Universities Services Fund (IUS)
The IUS Fund consists of transactions related to the educational programs of the Inter-Universities Services Program which is administered by UCN.

Capital Campaign Fund
The Capital Campaign Fund consists of transactions related to donations received towards the development and capital needs of UCN.

Student Award Fund
The Student Award Fund consists of transactions related to donations for student scholarships and bursaries.

Endowment Fund
The Endowment Fund consists of transactions related to endowments for student scholarships and bursaries.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) New Accounting Policies

Effective July 1, 2009 the entity adopted the following new accounting standard issued by the Canadian Institute of Chartered Accountants (CICA):

UCN has adopted the changes to CICA Handbook section 4400. The primary impact is the applicability of section 1540 "Cash Flow Statements". Adoption of this change has resulted in additional disclosure on the cash flow statement.

c) Financial Instruments

UCN continues to apply CICA Handbook section 3861 Financial Instruments - Disclosures and Presentation in place of sections 3862 and 3863.

The financial instruments at UCN consist of cash and cash equivalents, short-term investments, accounts receivable, due from Province of Manitoba - vacation and severance benefits, accounts payable and accrued liabilities, and accrued vacation benefits.

Initially, all financial assets and liabilities must be recorded on the Statement of Financial Position at fair value. Subsequent measurement is determined by the classification of each financial asset and liability. Under this standard, all financial instruments are classified as one of: held-for-trading; loans and receivables; held-to-maturity; available-for-sale or other liabilities. Financial assets and liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in net earnings. Financial instruments classified as held-to-maturity, loans and receivables and other liabilities are measured at amortized cost. Available-for-sale financial instruments are measured at fair value, with unrealized gains and losses recognized directly in unrestricted net assets until realized, at which time they are recognized in net earnings.

Classification
UCN has designated its financial instruments as follows:

Held-for-trading:	Cash and cash equivalents
	Short-term investments
Loans and receivables:	Accounts receivable
	Due from Province of Manitoba - vacation and severance benefits
Other liabilities:	Accounts payable and accrued liabilities
	Accrued vacation benefits

Fair Value of Financial Instruments
The fair value of cash and short-term investments, accounts receivable, due from Province of Manitoba - vacation benefits, accounts payable and accrued liabilities, and accrued vacation pay approximates their carrying values due to their short-term maturity.

The carrying value of the due from Province of Manitoba - severance benefits approximates its fair value, as the annual interest accretion is funded.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

d) Revenue Recognition

Tuition and fees are recognized as revenue in the semester or term earned.

Revenue from Contract Training contracts is recognized during the year at a rate approximating the delivery of the contracted programs and services.

Investment income is recognized as revenue when earned.

Contributions:

Unrestricted contributions and grants are recognized as revenue when received or receivable.

Restricted contributions for which a corresponding restricted fund is not presented are recognized as revenue in the year in which the related expenditures are incurred.

Donations are reported as revenue when received. Donations restricted to disbursement as scholarships and bursaries are restricted to that purpose.

Endowment contributions (and/or investment income thereon) that are held in perpetuity according to restrictions placed by the donors are recognized as revenue in the Endowment Fund.

Contributions (or portions permitted thereof) which are designated for the purchase of capital assets are deferred and amortized to revenue at the same rate as the related capital assets are amortized to expenditures.

e) Inventory

Inventory is recorded at the lower of cost or net realizable value.

f) Capital Assets

Individual capital assets with a value greater than $5,000 are capitalized and recorded at cost in the year of acquisition. Individual capital assets with a value less than $5,000 are expensed in the year of acquisition. Amortization of capitalized assets is recorded on a straight line basis commencing the year after acquisition over the following periods:

Automotive equipment	5 years
Buildings	40 years
Building improvements	10 years
Computer equipment	5 years
Other equipment	10 years

Library holdings are valued using the "base stock" method and accordingly are recorded at the value transferred upon governance at April 1, 1993. No amortization is taken on library holdings, and subsequent library acquisitions are expensed in the year of acquisition.

Certain capital assets purchased for specific Contract Training contracts are expensed in the year of purchase.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

g) Measurement Uncertainty

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

h) Severance Benefits

UCN accrues its obligation for employee future benefits relating to severance. The cost of severance benefits earned by employees is actuarially determined using the accrued benefits cost method.

Actuarial gains or losses are recongized in the year the gain or loss arises.

3. ACCOUNTS RECEIVABLE

	2010	2009
UCN Fund		
Students	$ 773,952	$ 759,555
Contract Training	673,512	907,232
Due from COPSE	2,064,929	504,630
Other	1,702,014	1,004,727
	5,214,407	3,176,144
Less: Allowance for doubtful accounts	(520,685)	(761,475)
	$ 4,693,722	$ 2,414,669
Inter-Universities Services Fund		
Students	$ 55,755	$ 89,988
Other	5,505	22,878
	61,260	112,866
Less: Allowance for doubtful accounts	(4,863)	(4,963)
	$ 56,397	$ 107,903
Capital Campaign Fund		
Other	$	$ 250,001
Student Award Fund		
Other	$ 778	$ 1,222
	$ 4,750,897	$ 2,773,795

4. CAPITAL ASSETS

UCN Fund

	Cost	Accumulated Amortization	Net Book Value 2010
Automotive equipment	$ 762,363	$ 519,457	$ 242,906
Computer equipment	1,044,818	532,843	511,975
Other equipment	2,520,775	897,525	1,623,250
Buildings/improvements	668,368	242,685	425,683
Construction in progress (Note 17)	1,797,434		1,797,434
Library holdings	714,161		714,161
	$ 7,507,919	$ 2,192,510	$ 5,315,409

Inter-Universities Services Fund

	Cost	Accumulated Amortization	Net Book Value 2010
Automotive equipment	$ 90,873	$ 40,031	$ 50,842
Computer equipment	60,174	50,250	9,924
Other equipment	40,686	20,148	20,538
	$ 191,733	$ 110,429	$ 81,304
TOTALS FOR 2010	$ 7,699,652	$ 2,302,939	$ 5,396,713

UCN Fund

	Cost	Accumulated Amortization	Net Book Value 2009
Automotive equipment	$ 688,604	$ 457,457	$ 231,147
Computer equipment	842,408	452,402	390,006
Other equipment	2,144,595	790,255	1,354,340
Buildings/improvements	527,669	194,936	332,733
Library holdings	714,161		714,161
	$ 4,917,437	$ 1,895,050	$ 3,022,387

Inter-Universities Services Fund

	Cost	Accumulated Amortization	Net Book Value 2009
Automotive equipment	$ 90,873	$ 21,856	$ 69,017
Computer equipment	60,174	45,288	14,886
Other equipment	28,448	17,847	10,601
	$ 179,495	$ 84,991	$ 94,504
TOTALS FOR 2009	$ 5,096,932	$ 1,980,041	$ 3,116,891

5. DUE FROM PROVINCE OF MANITOBA

The Province of Manitoba has recognized its liability to UCN for the opening balances of accrued employee severance benefits and vacation benefits as at April 1, 1998, when Keewatin Community College (precursor to UCN) assumed responsibility for these expenditures.

The amount recorded as due from Province of Manitoba – vacation benefits was initially based on the estimated value of the corresponding liability as at April 1, 1998. Subsequent to April 1, 1998, the Province has included in its ongoing annual funding to UCN, an amount equal to the current year's expense for vacation pay entitlements.

The amount recorded as due from Province of Manitoba – severance benefits is the value of the corresponding actuarial liability for severance benefits as at April 1, 1998. There has been no change to the value subsequent to April 1, 1998 because the Province has provided, in its ongoing annual funding to UCN, an amount equivalent to the change in the post employment liability including annual interest accretion related to the receivable. The receivable will be paid by the Province when it is determined that the funding is required to discharge the related severance benefits,

	2010	2009
Accrued vacation benefits	$ 752,589	$ 752,589
Accrued severance benefits	$ 793,500	$ 793,500

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2010	2009
UCN Fund		
Accrued liabilities	$ 412,585	$ 417,766
Wages and benefits payable	292,128	239,219
Trade accounts payable	1,578,707	818,810
Due to Student Associations	14,696	9,517
	$ 2,298,116	$ 1,485,312
Inter-Universities Services Fund		
Trade accounts payable	$ 39,938	$ 311,858
Student Award Fund		
Other	$ 2,945	$ 500
	$ 2,340,999	$ 1,797,670

7. DEFERRED CONTRIBUTIONS

Deferred contributions reported in each fund relate to designated contributions received in the current year that are related to expenditures of a subsequent year. Changes in deferred contributions during the year are as follows:

	Beginning of Year	Increases	Decreases	End of Year
UCN Fund	$ 3,435,630	$ 779,380	$ 1,043,198	$ 3,171,812
Inter-Universities Services Fund				
	$ 3,435,630	$ 779,380	$ 1,043,198	$ 3,171,812

8. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS

	Beginning of Year	Increases	Decreases	End of Year
UCN Fund	$ 2,031,528	$ 2,554,148	$ 347,100	$ 4,238,576
Inter-Universities Services Fund	94,506	12,238	25,438	81,306
	$ 2,126,034	$ 2,566,386	$ 372,538	$ 4,319,882

9. ACCRUED SEVERANCE BENEFITS

UCN Fund	2010	2009
Balance, beginning of year	$ 1,487,136	$ 1,328,675
Experience gain		(18,568)
Benefits accrued	141,704	91,709
Interest on accrued benefits	104,100	128,628
Severance paid	(43,130)	(43,308)
Balance, end of year	$ 1,689,810	$ 1,487,136
Inter-Universities Services Fund		
Balance, beginning of year	$ 66,018	$ 54,376
Experience loss		3,215
Benefits accrued	3,876	4,032
Interest on accrued benefits	4,622	4,395
Balance, end of year	$ 74,516	$ 66,018
	$ 1,764,326	$ 1,553,154

An actuarial valuation of the severance obligations as at March 31, 2008 was conducted by Ellement & Ellement Ltd., Consulting Actuaries. The key actuarial assumptions were a rate of return of 7.0% (2005 - 7.0%), 2.5% inflation (2005 - 2.5%), salary rate increases of 3.25% (2005 - 3.25%).The accrued benefit cost method with salary projection was used and the liabilities have been extrapolated to June 30, 2010 using the projection formula provided by the actuary.

10. PENSION COSTS AND OBLIGATIONS

UCN's employees are contributing members of the provincially operated Civil Service Superannuation Plan or the Teacher's Retirement Annuity Fund defined benefit pension plans. Until March 31, 2009, the accumulated superannuation liabilities were funded directly by the Province of Manitoba, rather than UCN itself for all employees hired prior to October 1, 2002. Commencing April 1, 2009, UCN was required to match all their employees' current pension contributions.

The total contributions for the year ending June 30, 2010 was $1,109,232 (2009 - $618,394). These contributions represent the total pension obligations of UCN. UCN is not required under present legislation to make any further contributions with respect to any actuarial deficiencies of the plan.

11. CONTRACTUAL OBLIGATIONS

UCN has entered into various contracts to rent office equipment, lease facility space, and for services provided by third parties for security, food services, and snow removal. Contractual obligations over the next five years are as follows:

2010/11	3,804,994
2011/12	315,650
2012/13	110,500
2013/14	75,355
2014/15	68,017

12. INTERNALLY RESTRICTED NET ASSETS

Appropriations from the Unrestricted Fund are made to provide for future funding for campus development, innovations funds, fiscal stabilization, programming initiatives, conference and the establishment of a science lab.

	Opening Balance	Increases	Decreases	Ending Balance
UCN Fund				
Campus Development Fund	$ 160,653	$	$ 160,653	$
Innovations Fund	22,878		22,878	
Fiscal Stabilization	676,510	57,729	325,000	409,239
Programming Initiatives	1,679,851			1,679,851
Total	$ 2,539,892	$ 57,729	$ 508,531	$ 2,089,090
Inter-Universities Services Fund				
Innovations Fund	$ 608,614	$ 260,368	$	$ 868,982
Conferences	50,000			50,000
Science Lab	100,000			100,000
Total	$ 758,614	$ 260,368	$	$ 1,018,982
	$ 3,298,506	$ 318,097	$ 508,531	$ 3,108,072

13. RELATED PARTY TRANSACTIONS

UCN is related in terms of common ownership to all Province of Manitoba created departments, agencies and Crown Corporations. The university college enters into transactions with these entities in the normal course of business. These transactions are recorded at the exchange amount. The $983,774 in facility costs was paid to Manitoba Infrastructure and Transportation for the rental of buildings. Funds available for short-term investments are invested with the Province of Manitoba. At June 30, 2010 $4.7 million (2009 - $7.7 million), included in both Cash and Cash Equivalents and Short-term Investments, was invested with the Province of Manitoba.

14. RISK MANAGEMENT

Financial instruments are exposed to risk through the normal course of operations. UCN has exposure to the following risks from its use of financial instruments:
credit risk, liquidity risk, market risk, interest rate risk and foreign currency risk.
These risks are managed through the university college's collection procedures, investment guidelines and other internal policies, guidelines and procedures.

1. Credit Risk
Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. The carrying amount of financial assets represents that maximum credit exposure. The maximum exposure to credit risk as of June 30 was:

	Carrying Amount 2010	2009
Financial assets head for trade:		
Cash and cash equivalents	$ 7,030,870	$ 8,648,878
Short-term investments	352,600	252,600
Loans and receivables:		
Accounts receivable	4,750,897	2,773,795
Due from Province of Manitoba - vacation and severance benefits	1,546,089	1,546,089
Totals	$ 13,680,456	$ 13,221,362

The investments of UCN are purchases made with excess cash intended to be for short periods of time. The investments held by UCN are not exposed to significant credit risk as they are held by the Province of Manitoba.

The credit risk from accounts receivable is relatively low as the majority of receivables are from students, contract training and from government agencies. Credit risk from student receivables is managed through registration cancellation and by maintaining standard collection procedures. Credit risk for contract training is managed through standard collection procedures. UCN establishes an allowance for doubtful accounts that represents it estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, client analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off. Amounts due from the the Province of Manitoba are typically collected when due.

Due from Province of Manitoba – vacation benefits are based on the estimated value of the corresponding liability as at April 1, 1998 when Keewatin Community College (precursor to UCN) assumed responsibility for these expenditures.
Due from Province of Manitoba – severance benefits are based on the corresponding actuarial liability for severance benefits as at April 1, 1998. The receivable will be paid by the Province when it is determined that the funding is required to discharge the related vacation and severance benefits.

14. RISK MANAGEMENT *(continued)*

2. Liquidity Risk

Liquidity risk is the risk that UCN will encounter difficulty in having available sufficient funds to meet its commitments.

The cash flow of operating funds is prepared on a just in time basis. The short term funds of UCN are invested so that maturity dates coincide with cash requirements. Term investments can be withdrawn prior to the maturity date if needed.

3. Market Risk

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

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. UCN is not exposed to significant interest risk as all investments held are short-term in nature and are held by the Province of Manitoba.

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

15. CAPITAL MANAGEMENT

UCN's capital comprises its fund balances, which include unrestricted funds, internally restricted funds, externally restricted funds, and funds invested in capital assets.

General Fund

UCN's objective in managing its operating capital is to maintain sufficient capital to cover its costs of operations. UCN manages its operating capital through an operating budget which is approved by the Governing Council and the Council on Post Secondary Education (COPSE).

Restricted Funds and Endowment Fund

UCN also maintains externally and internally restricted funds and an endowment fund.

The restricted funds are managed with the objective to spend the funds in accordance with the various terms and not spend beyond the resources that have been provided.

The endowment fund is managed with the long term objective of preserving the capital of the individual endowment accounts. The goal is to earn investment returns, adjusted for inflation, which will support the ongoing expenditure and commitment of the fund.

As at June 30, 2010, UCN has met its objectives with respect to its capital requirements. There have been no significant changes to UCN's capital management objective, policies and processes in the year.

16. INTER-FUND TRANSFERS

Inter-fund transfers at June 30 are as follows:

	Unrestricted			Internally Restricted			Capital	Student	
	UCN Fund	IUS Fund	NFDC Fund	UCN Fund	IUS Fund	Capital Assets	Campaign Fund	Award Fund	Endowment Fund
Fiscal Stabilization	$ 267,271	$	$	$ (267,271)	$	$	$	$	$
Innovations	22,878	(260,368)		(22,878)	260,368				
Campus Development	160,653			(160,653)					
Bursary								(50,000)	50,000
June 30, 2010	**$ 450,802**	**$ (260,368)**	$	**$ (450,802)**	**$ 260,368**	$	$	**$ (50,000)**	**$ 50,000**
June 30, 2009	$ 814,409	$ 46,370	$ (60,824)	$ (747,319)	$ (46,370)	$	$ (6,266)	$ (99,508)	$ 99,508

17. KNOWLEDGE INFRASTRUCTURE PROGRAM FUNDING

UCN entered into a two-year $8.0 million contribution agreement with the Canada-Manitoba Knowledge Infrastructure Program (KIP) to fund repairs and maintenance and infrastructure projects at eight Regional Centres located throughout Northern Manitoba. These centres will be funded using capital grants. Regional Centres located on First Nations land will be managed, owned and operated by UCN during construction either directly or through contracts with the First Nation. Upon completion, ownership and facility management will transfer to local First Nations governments in accordance with KIP terms and conditions. UCN has deferred the funding and capitalized the expenditures to Construction in Progress until the assets are transferred to the Regional Centres. As at June 30, 2010 $1.8 million has been spent throughout the various Regional Centres.

18. SUBSEQUENT EVENTS

Effective July 1, 2010 UCN changed its year end from June 30 to March 31.

19. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

STATEMENT 1A

UNIVERSITY COLLEGE OF THE NORTH

STATEMENT OF FINANCIAL POSITION - GENERAL

JUNE 30

	UCN Fund	IUS Fund	Total 2010	Total 2009
ASSETS				
CURRENT				
Cash and cash equivalents	$ 5,223,723	$ 1,347,317	$ 6,571,040	$ 8,509,477
Accounts receivable (Note 3)	4,693,722	56,397	4,750,119	2,522,572
Due to/from other funds	186,011	(186,011)		
Due from Province of Manitoba (Note 5)	752,589		752,589	752,589
Inventory	176,541		176,541	147,124
Prepaid expenses	1,271,818		1,271,818	254,520
	12,304,404	1,217,703	13,522,107	12,186,282
LONG TERM				
Capital assets (Note 4)	5,315,409	81,304	5,396,713	3,116,891
Due from Province of Manitoba (Note 5)	788,490	5,010	793,500	793,500
	6,103,899	86,314	6,190,213	3,910,391
TOTAL ASSETS	$ 18,408,303	$ 1,304,017	$ 19,712,320	$ 16,096,673
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities (Note 6)	$ 2,298,116	$ 39,938	$ 2,338,054	$ 1,797,170
Deferred revenue	1,366,463		1,366,463	538,675
Deferred contributions (Note 7)	3,171,812		3,171,812	3,435,630
Accrued vacation benefits	2,321,941	89,275	2,411,216	2,208,626
	9,158,332	129,213	9,287,545	7,980,101
LONG TERM				
Deferred contributions related to capital assets (Note 8)	4,238,576	81,306	4,319,882	2,126,034
Accrued severance benefits (Note 9)	1,689,810	74,516	1,764,326	1,553,154
	5,928,386	155,822	6,084,208	3,679,188
FUND BALANCES				
FUND SURPLUS (DEFICIT)				
NET ASSETS INVESTED IN CAPITAL ASSETS	1,076,833		1,076,833	990,859
NET ASSETS INTERNALLY RESTRICTED (Note 12)	2,089,090	1,018,982	3,108,072	3,298,506
UNRESTRICTED NET ASSETS	155,662		155,662	148,019
	3,321,585	1,018,982	4,340,567	4,437,384
TOTAL LIABILITIES & FUND BALANCES	$ 18,408,303	$ 1,304,017	$ 19,712,320	$ 16,096,673

STATEMENT 2A

UNIVERSITY COLLEGE OF THE NORTH

STATEMENT OF OPERATIONS - GENERAL

YEAR ENDED JUNE 30

	UCN Fund	IUS Fund	Total 2010	Total 2009
REVENUES				
Grants				
Council on Post-Secondary Education	$ 26,012,862	$ 1,100,462	$ 27,113,324	$ 23,115,557
Other Province of Manitoba	632,892		632,892	526,787
Government of Canada	163,981		163,981	
Amortization of deferred contributions related to capital assets	347,100	25,438	372,538	328,228
Ancillary sales and services	1,852,097		1,852,097	1,734,795
Donations	1,150		1,150	
Investment income	11,192	740	11,932	166,773
Contract training	1,987,880		1,987,880	1,845,257
Tuition and student fees	2,767,555	261,039	3,028,594	2,718,812
Other revenue	1,237,519	13,794	1,251,313	1,223,741
Bad debts recovery	200,000		200,000	
	35,214,228	1,401,473	36,615,701	31,659,950
EXPENSES				
Advertising	398,408	3,326	401,734	288,993
Amortization of capital assets	393,159	25,438	418,597	353,317
Cost of goods sold	1,062,549		1,062,549	986,735
Loss (gain) on disposal of capital assets	17,600		17,600	(23,011)
Insurance	411,546	10,513	422,059	197,646
Library acquisitions	303,240		303,240	190,893
Facility costs	983,774		983,774	872,873
Furniture and minor equipment	1,017,995	13,360	1,031,355	866,991
Maintenance and repairs	78,576	3,926	82,502	137,225
Operational supplies and services	4,325,997	100,480	4,426,477	3,578,649
Property taxes	521,785		521,785	501,500
Rentals and leases	483,028	14,000	497,028	437,168
Salaries and employee benefits	23,351,045	855,604	24,206,649	22,143,481
Telephone and communication	635,830	10,101	645,931	555,437
Travel and hospitality	1,462,308	104,357	1,566,665	1,524,274
Utilities	124,573		124,573	118,317
	35,571,413	1,141,105	36,712,518	32,730,488
EXCESS REVENUES (EXPENSES)	$ (357,185)	$ 260,368	$ (96,817)	$ (1,070,538)

UNIVERSITY COLLEGE OF THE NORTH — **STATEMENT 3A**

STATEMENT OF CHANGES IN FUND BALANCES - GENERAL

	Unrestricted			Internally Restricted				YEAR ENDED JUNE 30 Total	
	UCN Fund	IUS Fund	Unrestricted Total	UCN Fund	IUS Fund	Internally Restricted Total	Net Assets Invested in Capital Assets	2010	2009
FUND SURPLUS (DEFICIT), *beginning of year*	$ 148,019	$	$ 148,019	$ 2,539,892	$ 758,614	$ 3,298,506	$ 990,859	$ 4,437,384	$ 5,501,656
EXCESS REVENUES (EXPENSES)	(357,185)	260,368	(96,817)					(96,817)	(1,070,538)
CHANGE IN NET ASSETS INVESTED IN CAPITAL ASSETS									
Amortization of capital assets	393,159	25,438	418,597				(418,597)		
Amortization of deferred contributions related to capital assets	(347,100)	(25,438)	(372,538)				372,538		
Purchase of capital assets	(2,716,019)		(2,716,019)				2,716,019		
Deferred contributions related to capital assets	2,566,386		2,566,386				(2,566,386)		
Disposal of capital assets	17,600		17,600				(17,600)		
INTER-FUND TRANSFERS (Note 16)	450,802	(260,368)	190,434	(450,802)	260,368	(190,434)			6,266
FUND SURPLUS (DEFICIT), *end of year*	$ 155,662	$	$ 155,662	$ 2,089,090	$ 1,018,982	$ 3,108,072	$ 1,076,833	$ 4,340,567	$ 4,437,384

UNIVERSITY COLLEGE OF THE NORTH

SCHEDULE OF OTHER GRANT REVENUE (unaudited)

SCHEDULE 1

YEAR ENDED JUNE 30

	2010	2009
Province of Manitoba		
Adult Learning Centre - Manitoba Advanced Education and Literacy	$ 407,200	$ 398,200
Computer Based Learning System - Manitoba Competitive Training	103,753	86,179
Midwifery - Manitoba Health	100,000	
Representative Work Force - Aboriginal and Northern Affairs	13,845	
Protection Services		4,811
Summer Enrichment - Manitoba Education	8,094	37,597
	$ 632,892	$ 526,787

SCHEDULE OF ANCILLARY SALES AND SERVICES (unaudited)

SCHEDULE 2

YEAR ENDED JUNE 30

	2010	2009
Bookstore	$ 1,188,157	$ 1,095,727
Cafeteria	320,435	279,104
Residence	343,505	359,964
	$ 1,852,097	$ 1,734,795

SCHEDULE OF TUITION AND STUDENT FEES (unaudited)

SCHEDULE 3

YEAR ENDED JUNE 30

	2010	2009
Apprenticeship	$ 1,028,256	$ 977,590
Core-funded programs	1,656,105	1,360,644
Continuing Education	83,194	82,975
	$ 2,767,555	$ 2,421,209

UNIVERSITY COLLEGE OF THE NORTH

SCHEDULE 4

SCHEDULE OF UCN EXPENDITURES BY FUNCTION (unaudited)

YEAR ENDED JUNE 30

	Salaries & Benefits	Other	TOTAL 2010	TOTAL 2009
Academic	$ 11,965,415	$ 1,939,922	**$ 13,905,337**	$ 12,726,145
Administration	3,490,159	3,145,738	**6,635,897**	5,525,802
Ancillary Sales & Service	794,477	1,212,811	**2,007,288**	1,810,478
Continuing Education	77,946	8,721	**86,667**	164,526
Library	522,935	449,431	**972,366**	762,534
Contract Training	1,141,359	637,643	**1,779,002**	1,887,950
Insurance Claims		285,269	**285,269**	116,160
MIS	893,179	822,048	**1,715,227**	1,353,463
Plant	727,799	2,720,464	**3,448,263**	2,778,227
Program Support	3,721,807	1,014,290	**4,736,097**	4,166,121
	$ 23,335,076	$ 12,236,337	**$ 35,571,413**	$ 31,291,406

UNIVERSITY OF MANITOBA

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The University is responsible for the preparation of the consolidated financial statements and has prepared them in accordance with generally accepted accounting principles as set out by the Canadian Institute of Chartered Accountants (CICA). The University believes the consolidated financial statements present fairly the University's consolidated financial position as at March 31, 2011 and the results of its operations for the year then ended.

The University's Board of Governors is responsible for overseeing the business affairs of the University and also has the responsibility to approve the consolidated financial statements. The Board has delegated certain responsibilities to its Audit Committee including the responsibility for reviewing the annual consolidated financial statements and meeting with management and the Auditor General of Manitoba on matters relating to the financial reporting. The Auditor General has full access to the Audit Committee with or without the presence of management. The Board has approved the consolidated financial statements.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, the University has developed and maintains a system of internal controls designed to provide reasonable assurance that University assets are safeguarded from loss and that accounting records are a reliable basis for the preparation of consolidated financial statements. The integrity of internal controls is reviewed on an ongoing basis by Audit Services and the Auditor General.

The consolidated financial statements for the year ended March 31, 2011 have been reported on by the Auditor General of Manitoba, the auditor appointed under the University of Manitoba Act. The Auditor's Report outlines the scope of her examination and provides her opinion on the fairness of presentation of the consolidated financial statements.

The original was signed by D. McCallum

Deborah J. McCallum,
Vice-President (Administration)

Winnipeg, Manitoba
June 21, 2011

OFFICE OF THE
AUDITOR GENERAL
MANITOBA

INDEPENDENT AUDITOR'S REPORT

To the Lieutenant Governor-in-Council
To the Legislative Assembly of Manitoba
To the Board of Governors of the University of Manitoba

We have audited the consolidated financial statements of the University of Manitoba, which comprise the consolidated statement of financial position as at March 31, 2011, and the consolidated statements of operations and changes in fund balances and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the University as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Original document signed by
Carol Bellringer

June 21, 2011
Winnipeg, Manitoba

Carol Bellringer, FCA, MBA
Auditor General

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

CONSOLIDATED FINANCIAL STATEMENTS

University of Manitoba
Consolidated Statement of Financial Position
as at March 31
(in thousands of dollars)

Assets	*2011*	*2010*
Current Assets		
Cash	$ 109,444	$ 132,864
Marketable Investments		4,043
Accounts Receivable (Note 3)	75,230	64,548
Inventories	3,411	3,382
Prepaid Expenses	551	937
	188,636	205,774
Long Term Assets		
Loan Receivable (Note 4)	24,286	
Investments (Note 5)	537,587	481,847
Capital Assets, Net of Accumulated Amortization (Note 7)	843,385	751,847
	1,405,258	1,233,694
	$1,593,894	$1,439,468
Liabilities		
Current Liabilities		
Accounts Payable	$ 55,119	$ 44,406
Unearned Revenue	5,278	6,523
Staff Vacation Entitlements	10,809	10,590
Bank Loan	8,712	8,800
Current Portion of Capital Lease Obligations (Note 8)	347	385
Current Portion of Long Term Debt (Note 9)	3,739	4,095
	84,004	74,799
Long Term Liabilities		
Other Long Term Liabilities (Note 10)	2,714	2,228
Capital Lease Obligations (Note 8)	307	440
Long Term Debt (Note 9)	211,965	191,418
Employee Future Benefits (Note 11)	65,552	61,950
Pension Obligation (Note 15)	23,124	25,311
	303,662	281,347
Fund Balances	1,206,228	1,083,322
	$ 1,593,894	$ 1,439,468

Contractual Obligations and Contingencies (Note 20)

The original was signed by J. Lederman

The original was signed by P. Bovey

Janice Lederman - Chair

Patricia Bovey - Vice-Chair

(The accompanying Notes form an integral part of the Consolidated Financial Statements)

Consolidated Statement of Operations and Changes in Fund Balances
for the years ended March 31
(in thousands of dollars)

	General Funds (Note 2e)	*Restricted Funds (Note 2f)*	*Endowment Fund (Note 2g)*	*2011 Total Funds*	*2010 Total Funds*
Revenue:					
Tuition and Related Fees	$ 117,529	$	$	$ 117,529	$ 108,397
Contributions, Donations, Non-Government Grants	2,231	66,686	15,864	84,781	77,136
Net Investment Income (Note 16)	4,317	24,590	16,443	45,350	57,341
Miscellaneous Income	9,603	2,522		12,125	18,853
Government Grants:					
Council on Post-Secondary Education	288,282	6,278		294,560	287,185
Other Province of Manitoba	15,184	57,105		72,289	58,058
Government of Canada	9,373	84,460		93,833	88,441
Sales of Goods and Services	31,375	899		32,274	32,493
Ancillary Services	32,793			32,793	32,796
	510,687	242,540	32,307	785,534	760,700
Expense:					
Academic	271,342	106,518		377,860	367,847
Libraries	16,901	96		16,997	17,102
Student Affairs	22,618	63		22,681	21,562
Administration	30,638	2,413		33,051	33,193
Plant Maintenance	39,431	(3)		39,428	43,131
Other Academic Support	19,462	361		19,823	20,418
General	22,151	6,545		28,696	14,805
Property Taxes	372			372	408
Student Awards	6,473	36,222		42,695	41,997
Interest		11,310		11,310	6,927
Amortization of Capital Assets		47,217		47,217	45,668
Ancillary Services	27,277			27,277	29,038
Actuarially Determined Employee Future Benefits	3,602			3,602	3,062
Change in Pension Obligation (Note 15)	(2,187)			(2,187)	21,268
Staff Benefits Contra	(6,194)			(6,194)	(4,497)
	451,886	210,742		662,628	661,929
Net Revenue (Expense)	58,801	31,798	32,307	122,906	98,771
Inter-Fund Transfers (Note 13)	(59,548)	55,730	3,818		
Net (Decrease) Increase to Fund Balances	(747)	87,528	36,125	122,906	98,771
Fund Balances Beginning of the Year	16,005	870,754	196,563	1,083,322	984,551
Fund Balances End of the Year	$ 15,258	$ 958,282	$ 232,688	$ 1,206,228	$1,083,322
Unrestricted Funds	$ (65,741)	$	$	$ (65,741)	$ (66,529)
Internally Restricted Funds	80,999	36,021		117,020	122,927
Externally Restricted Funds		196,781	232,688	429,469	381,562
Invested in Capital Assets		725,480		725,480	645,362
	$ 15,258	$ 958,282	$ 232,688	$ 1,206,228	$1,083,322

(The accompanying Notes form an integral part of the Consolidated Financial Statements)

Consolidated Statement of Operations and Changes in Fund Balances for the General Funds
for the years ended March 31
(in thousands of dollars)

	General Operating Fund (Note 2e)	Specific Provisions Fund (Note 2e)	Expenses Funded From Future Revenues (Note 2e)	2011 Total General Funds	2010 Total General Funds
Revenue:					
Tuition and Related Fees	$ 117,529	$	$	$ 117,529	$ 108,397
Contributions, Donations, Non-Government Grants	2,231			2,231	1,547
Net Investment Income (Note 16)	4,317			4,317	3,103
Miscellaneous Income	9,603			9,603	14,084
Government Grants:					
Council on Post-Secondary Education	288,282			288,282	281,132
Other Province of Manitoba	15,184			15,184	16,519
Government of Canada	9,373			9,373	8,940
Sales of Goods and Services	31,375			31,375	31,252
Ancillary Services	32,793			32,793	32,796
	510,687			510,687	497,770
Expense:					
Academic	271,342			271,342	268,565
Libraries	16,901			16,901	16,973
Student Affairs	22,618			22,618	21,460
Administration	30,638			30,638	30,665
Plant Maintenance	39,431			39,431	43,118
Other Academic Support	19,462			19,462	20,096
General	22,151			22,151	6,300
Property Taxes	372			372	408
Student Awards	6,473			6,473	7,164
Ancillary Services	27,277			27,277	29,038
Actuarially Determined Employee Future Benefits	3,602			3,602	3,062
Change in Pension Obligation (Note 15)	(2,187)			(2,187)	21,268
Staff Benefits Contra	(6,194)			(6,194)	(4,497)
	451,886			451,886	463,620
Net Revenue	58,801			58,801	34,150
Inter-Fund Transfers (Note 13)	(58,783)	(1,535)	770	(59,548)	(48,047)
Net Increase (Decrease) to Fund Balances	18	(1,535)	770	(747)	(13,897)
Fund Balances Beginning of the Year	2,271	82,534	(68,800)	16,005	29,902
Fund Balances End of the Year	$ 2,289	$ 80,999	$ (68,030)	$ 15,258	$ 16,005
Unrestricted Funds	$ 2,289	$	$ (68,030)	$ (65,741)	$ (66,529)
Internally Restricted Funds		80,999		80,999	82,534
	$ 2,289	$ 80,999	$ (68,030)	$ 15,258	$ 16,005

(The accompanying Notes form an integral part of the Consolidated Financial Statements)

Consolidated Statement of Operations and Changes in Fund Balances for the Restricted Funds
for the years ended March 31
(in thousands of dollars)

	Capital Asset Fund (Note 2f)	*Research and Special Fund (Note 2f)*	*Staff Benefits Fund (Note 2f)*	*Trust Fund (Note 2f)*	*2011 Total Restricted Funds*	*2010 Total Restricted Funds*
Revenue:						
Contributions, Donations, Non-Government Grants	$ 3,614	$ 52,752	$ 2,978	$ 7,342	$ 66,686	$ 63,996
Net Investment Income (Note 16)	710		2,930	20,950	24,590	36,968
Miscellaneous Income	2,119	189	214		2,522	4,769
Government Grants:						
Council on Post-Secondary Education	6,278				6,278	6,053
Other Province of Manitoba	29,030	28,075			57,105	41,539
Government of Canada	24,598	59,862			84,460	79,501
Sales of Goods and Services		899			899	1,241
	66,349	141,777	6,122	28,292	242,540	234,067
Expense:						
Academic		106,518			106,518	99,282
Libraries		96			96	129
Student Affairs		63			63	102
Administration		2,413			2,413	2,528
Plant Maintenance		(3)			(3)	13
Other Academic Support		361			361	322
General			4,376	2,169	6,545	8,505
Student Awards		23,914		12,308	36,222	34,833
Interest	11,310				11,310	6,927
Amortization of Capital Assets	47,217				47,217	45,668
	58,527	133,362	4,376	14,477	210,742	198,309
Net Revenue	7,822	8,415	1,746	13,815	31,798	35,758
Inter-Fund Transfers (Note 13)	72,296	(8,397)	(3,158)	(5,011)	55,730	43,055
Net Increase (Decrease) to Fund Balances	80,118	18	(1,412)	8,804	87,528	78,813
Fund Balances Beginning of the Year	645,362	104,347	(3,884)	124,929	870,754	791,941
Fund Balances End of the Year	$ 725,480	$ 104,365	$ (5,296)	$ 133,733	$ 958,282	$ 870,754
Internally Restricted Funds	$	$	$ 573	$ 35,448	$ 36,021	$ 40,393
Externally Restricted Funds		104,365	(5,869)	98,285	196,781	184,999
Invested in Capital Assets	725,480				725,480	645,362
	$ 725,480	$ 104,365	$ (5,296)	$ 133,733	$ 958,282	$ 870,754

(The accompanying Notes form an integral part of the Consolidated Financial Statements)

Consolidated Statement of Cash Flows
for the years ended March 31
(in thousands of dollars)

	General Funds	Restricted Funds	Endowment Fund	2011 Total Funds	2010 Total Funds
Cash from Operating Activities:					
Net Revenue (Expense)	$ 58,801	$ 31,798	$ 32,307	$ 122,906	$ 98,771
Gain on Disposal of Capital Assets					(3,102)
Amortization of Capital Assets		47,217		47,217	45,668
	58,801	79,015	32,307	170,123	141,337
Net Change in Non-Cash Working Capital Items	(32,733)	32,095		(638)	(5,698)
Net Change in Other Long Term Liabilities		486		486	(2,046)
Net Change in Pension Obligation	(2,187)			(2,187)	21,268
Net Change in Employee Future Benefits	1,308	2,294		3,602	3,062
Net Cash Generated through Operating Activities	25,189	113,890	32,307	171,386	157,923
Investing Activities:					
Increase in Loan Receivable		(24,286)		(24,286)	
Increase in Long Term Investments	38,527	(58,142)	(36,125)	(55,740)	(91,983)
Proceeds from Capital Asset Disposals					7,150
Purchase of Capital Assets		(138,755)		(138,755)	(90,566)
Net Cash Generated through (used in) Investing Activities	38,527	(221,183)	(36,125)	(218,781)	(175,399)
Financing Activities:					
Proceeds from Capital Lease Obligations		279		279	385
Proceeds from Long Term Debt		23,976		23,976	31,000
Proceeds from Bank Loan					8,800
Contractual Interest Added to Loan Principal		309		309	
Principal Repayment on Capital Lease Obligations		(450)		(450)	(513)
Principal Repayment on Bank Loan		(88)		(88)	
Principal Repayment on Long Term Debt		(4,094)		(4,094)	(6,423)
Net Cash Generated through Financing Activities		19,932		19,932	33,249
Net Increase (Decrease) in Cash	63,716	(87,361)	(3,818)	(27,463)	15,773
Inter-Fund Adjustments	(59,548)	55,730	3,818		
Cash Beginning of Year	17,630	119,277		136,907	121,134
Cash End of Year	$ 21,798	$ 87,646	$	$ 109,444	$ 136,907
Cash is defined as:					
Cash	$ 21,798	$ 87,646	$	$ 109,444	$ 132,864
Marketable Investments					4,043
	$ 21,798	$ 87,646	$	$ 109,444	$ 136,907
Supplemental cash flow information:					
Interest Received	$ 4,684	$ 3,223		$ 7,907	$ 6,815
Dividends Received		$ 5,807		$ 5,807	$ 5,285
Interest Paid		$ 11,249		$ 11,249	$ 9,597

(The accompanying Notes form an integral part of the Consolidated Financial Statements)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31
(in thousands of dollars)

1. AUTHORITY AND PURPOSE

The University of Manitoba was established in 1877. It is governed by a Board of Governors acting under the authority of The University of Manitoba Act, R.S.M. 1987, c. U60. The University of Manitoba is a registered charity and is exempt from income taxes under Section 149 of the Income Tax Act.

The University of Manitoba, as the largest and most comprehensive institution of higher learning in Manitoba, plays a distinctive role within the Province. In addition to offering an undergraduate liberal education in arts, science and education, the University of Manitoba provides programs in a broad range of professional studies, applied sciences and the fine and performing arts and is responsible for the vast majority of graduate education and research in Manitoba. The University of Manitoba reaches out to a variety of constituencies in order to enhance the health, cultural, social and economic life of Manitobans and to provide lifelong learning opportunities for them. Through community service the University makes its expertise available to all Manitobans.

2. SIGNIFICANT ACCOUNTING POLICIES

a. General

These consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as recommended by the Canadian Institute of Chartered Accountants (CICA) for not-for-profit organizations. The University has adopted the restricted fund method of accounting for contributions.

b. Basis of Consolidation

The consolidated financial statements include the accounts of Smartpark Development Corporation, a wholly owned subsidiary of the University of Manitoba. The company has a March 31 year end and its purpose is to develop and operate a research park at the University of Manitoba.

c. Fund Accounting

The University classifies resources used for various purposes into separate Funds which correspond to its major activities and objectives. The Consolidated Statement of Financial Position combines the assets and liabilities of all Funds.

The University maintains its Funds under three fund categories, General, Restricted and Endowment Funds. The General Funds include the Funds for General Operating, Specific Provisions and Expenses Funded from Future Revenues. The Restricted Funds include the Capital Asset, Research and Special, Staff Benefits and Trust Funds. The Endowment Fund includes endowment funds of the University.

d. Accounting Estimates

Accounting estimates are included in financial statements to approximate the effect of past revenue or expense transactions or events, or to approximate the present status of an asset or liability. Examples include accruals for salaries and benefits, the estimated useful life of an asset and certain actuarial assumptions used in determining employee future benefits. It is possible that changes in future conditions could require changes in the recognized amounts for accounting estimates.

e. General Funds

General Operating Fund:

The General Operating Fund includes the academic, administrative, operational and ancillary costs that are funded by tuition and related fees, government grants, net investment income and miscellaneous income, sales of goods and services to external parties and ancillary income. As such, this Fund reports unrestricted resources and restricted resources earmarked for general operating purposes.

All funds received or accrued by the University for general operating purposes and for equipment and renovation expenses not meeting the University's capitalization criteria are included in the General Operating Fund. The net cost of operating units is determined by including internal cost allocations for certain centrally administered services such as the telephone system in the units' expenses and by deducting these expenses as internal cost recoveries from the total expenses incurred by the unit administering these services.

The University BookStore, Parking, Student Residences and Pharmacy/Post Office are classified as Ancillary Services and are budgeted on a break-even basis. Any surpluses or deficits are transferred to/from the Specific Provisions Fund. Overhead costs have been allocated to all ancillary operations. Amortization of ancillary capital assets and interest expense is recorded in the Capital Asset Fund.

Specific Provisions Fund:
The Specific Provisions Fund records appropriations made from (to) the General Operating, Capital Asset and Research and Special Funds.

These appropriations are made to provide future funding for the replacement, improvement or emergency maintenance of capital assets, unit carryover, a fiscal stabilization provision to offset potential spending in excess of future budgets and other matters. Such appropriations are shown as inter-fund transfers on the Consolidated Statement of Operations and Changes in Fund Balances.

Expenses Funded From Future Revenues:
Expenses Funded from Future Revenues records the amount of unpaid vacation pay for staff which will be funded from future revenues. It also records the actuarially determined expense for employee future benefits and change in pension obligations.

f. Restricted Funds

Capital Asset Fund:
The Capital Asset Fund consists of restricted contributions resulting from capital asset co-funding arrangements with external parties, contributed capital assets, sinking fund investment income and government grants, restricted for the purpose of acquiring capital assets and retiring capital advances. Funding agreements, using promissory notes as a vehicle, entered into with the Provincial Government, for the construction or acquisition of capital assets, which will be repaid from future funding provided by the Provincial Government through the Council on Post-Secondary Education (COPSE) are recorded as capital grants. These capital grants, under the restricted fund method of accounting, are reflected as revenue in the Consolidated Statement of Operations and Changes in Fund Balances. The interest expense and the related future funding from COPSE over the terms of the promissory notes, to offset the interest expense and principal payments, are both excluded from the Consolidated Statement of Operations and Changes in Fund Balances. Expenses include interest on debt relating to the acquisition or construction of capital assets, amortization and gains or losses on disposal of capital assets, including write-downs resulting from obsolescence.

Research and Special Fund:
The Research and Special Fund consists of contributions specifically restricted for research or other special activities. Contributions are provided from both federal and provincial granting agencies and other public and private sources. These funds are spent in accordance with the conditions stipulated in the governing contracts and agreements.

Staff Benefits Fund:
The Staff Benefits Fund is divided into Fund Accounts for Pension Reserve and Self-Insured Plans, the revenues of which are restricted for the purposes noted.

(i) Pension Reserve:
This Fund Account is restricted for special payments towards any unfunded liability of the University of Manitoba Pension Plan (1993) and other pension obligations.

(ii) Self-Insured Plans:
This Fund Account records the assets and liabilities for two self-insured benefit plans, the Long Term Disability Income Plan and the Dental Plan. The Long Term Disability Income Plan is used for long term disability payments arising on and after June 1, 1981 for eligible staff. The Plan contains two funds, one for the payment of Basic Benefits and another for the payment of Cost-of-Living Benefits. The Dental Plan is administered by a contracted third party. Surplus funds are held for the purpose of covering deficits which may occur in this self-insured plan.

Trust Fund:
The Trust Fund records gifts and bequests received which may be used in their entirety along with net investment income earned on these funds, according to donor restrictions. The majority of these funds are used for scholarships, bursaries, awards, loans, and other scholarly activities.

g. Endowment Fund
The Endowment Fund records gifts and bequests received with the stipulation that these funds be invested in perpetuity and the net realized investment income earned be utilized for designated purposes. The Fund balance also reflects the change in fair value of Endowment Fund investments, which is recorded as a component of net investment income.

h. Revenue Recognition
Restricted contributions are recognized as revenue of the appropriate Fund when received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

Unrestricted contributions, including sales of goods and services and ancillary revenues, are recognized as revenue of the General Operating Fund in the year received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions for endowment purposes are recognized as revenue in the Endowment Fund in the year received. Net realized investment income earned on endowments is recorded in the appropriate Fund depending on the restrictions imposed by the original donor. The change in fair value (unrealized investment income) of Endowment Fund investments is recorded as a component of net investment income in the Endowment Fund.

Net investment income earned on temporary surplus funds is recorded in the appropriate Fund depending on the restrictions imposed. Investment income on unrestricted surplus funds is recorded as unrestricted income in the General Operating Fund.

i. Contributed Materials and Services

Gifts-in-kind are recorded in the consolidated financial statements to the extent that they are eligible for an official donation receipt, since this results in the capture of the information in the University's financial records.

Because of the difficulty involved in tracking and recording contributed services, the market value of these services is not recognized in the consolidated financial statements. Contributed services include activities such as membership on the University's Board of Governors and its various committees, lecturing services and volunteer services at fund raising or sporting events all of which are performed by staff, students and the community at no charge to the University. These services, although not recognized in the consolidated financial statements, are critical to the successful functioning of the University.

j. Investments

Investments are classified as held-for-trading and are carried at fair value. The change in fair value of investments is reflected as a component of net investment income in the consolidated statement of operations. Fair value of investments is determined based on year end quoted market prices.

k. Pledges Receivable

The University does not record pledges receivable in its consolidated financial statements. Revenue from gifts, bequests and donations is recognized on a cash basis because of the uncertainty surrounding collection and in some instances because of the difficulty in determining the valuation of pledges receivable. The University recognizes gifts and donations to be received through the University of Manitoba Foundation U.S.A. Inc. only when the Board of Directors of the Foundation have formalized the transfer with a resolution, collectability is reasonably assured and the valuation of these gifts and donations can be reasonably determined.

l. Inventories

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

m. Capital Assets

Purchased capital assets are recorded at cost. Capital assets which are constructed by the University are recorded as Construction in Progress until the capital asset is put into use. Contributed capital assets are recorded at market value at the date of contribution. Intangibles such as patents and copyrights are recorded at a nominal amount of one dollar in the year the patent or copyright is obtained.

Amortization is provided on a straight-line basis over the assets' estimated useful lives as follows:

Buildings and Major Renovations	15-50 years
Computer Hardware and Electronics	5-10 years
Furniture and Equipment	10 years
Library Books	10 years
Parking Lots	20 years
Vehicles	5 years

Equipment acquired under a capital lease is amortized over the useful life of the asset. Works of art, treasures, rare books and manuscripts are not amortized.

n. Collections

The University holds a number of collections which have been donated to its libraries, faculties and schools over the years. The library, faculty or school receiving the donation assumes responsibility for safeguarding and preserving the collection. The University seldom, if ever, disposes of its collections or of individual pieces in its collections. The University policy is to use proceeds generated from deaccessioned works of art to augment the University art collection.

The University's policy with regard to its collections is to fund maintenance expenses from the General Operating Fund, if monies are not available for such purposes in a Restricted Fund. The cost of maintenance is not tracked and is therefore not determinable.

o. Pension Costs

The University sponsors three pension plans for its employees and retirees:

The University of Manitoba Pension Plan (1970), The University of Manitoba Pension Plan (1993) and The University of Manitoba GFT Pension Plan (1986). The 1970 Plan and 1986 Plan are defined contribution plans and as a result the pension costs are based on contributions required by those plans.

The Pension Costs for the 1993 Plan are determined actuarially using the projected unit credit actuarial cost method and managements' best estimate expectations of the discount rate for liabilities, the expected return on assets, salary escalation, retirement ages of employees and member mortality. Actuarial gains and losses are amortized on a straight line basis over the expected average remaining service life of the active employees, commencing in the year following the year the respective annual actuarial gains or losses arise.

The funded position of the 1993 plan is disclosed in Note 15.

p. Financial Instruments

The University continues to apply Section 3861 Financial Instruments – Disclosure and Presentation in place of Sections 3862 and 3863.

The financial instruments at the University consist of cash, marketable investments, accounts receivable, loan receivable, investments, accounts payable, bank loan, staff vacation entitlements, other long term liabilities, and long term debt.

Initially, all financial assets and liabilities must be recorded on the Consolidated Statement of Financial Position at fair value. Subsequent measurement is determined by the classification of each financial asset and liability.

Under this standard, all financial instruments are classified as one of: held-for-trading; loans and receivables; held-to-maturity; available-for-sale or other liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in the Consolidated Statement of Operations. Financial instruments classified as held-to-maturity, loans and receivables and other liabilities are measured at amortized cost. Available-for-sale financial instruments are measured at fair value, with unrealized gains and losses recognized directly in unrestricted net assets.

The University has classified its cash, marketable investments and investments as held-for-trading, which are measured at fair market value. Accounts receivables and loan receivable are classified as loans and receivables which are measured at amortized cost and accounts payable, staff vacation entitlements, bank loan and long term debt are classified as other liabilities, which are measured at amortized cost.

The primary risk exposures for investments are foreign currency, interest rate volatility, and market and credit risk. The University, through the work of its investment committees, has formal policies and procedures in place governing asset mix among equity, fixed income and alternative investments, requiring diversification within categories, and setting limits on the size of exposure to individual investments. The University is also exposed to interest rate risk on its long term debt. The University has entered into interest rate swap agreements for a portion of its debt obligations.

q. Employee Future Benefits

The University accrues its obligations for employee future benefit plans relating to health, dental, long term disability, and group life insurance. The cost of non-pension post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and managements' best estimates for the discount rate for liabilities, the expected rate of return on assets, retirement ages and expected future cost trends.

(in thousands of dollars)

The University also accrues its obligations relating to post-retirement adjustments to pensions for specifically entitled employees who retired prior to 1993. The cost of such post-retirement pension adjustments is actuarially determined using the accrued benefit method and management's best estimate for the discount rate for liabilities and the expected rate of return on assets. Any increase in such adjustments is recognized in the year that it occurs.

Actuarial gains or losses are recognized in the year the gain or loss arises.

r. Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rate. Revenues and expenses are translated at exchange rates on the transaction dates. Gains or losses arising from these translations are included in earnings.

s. Derivative Financial Instruments

From time to time, the University uses derivative financial instruments, including interest rate swap agreements, in its management of exposures to fluctuations in interest rates. An interest rate swap is a derivative financial contract between two parties who agree to exchange fixed rate interest payments for floating rate payments on a predetermined notional amount and term. Hedge accounting is used when there is a high degree of correlation between price movements in the derivative instrument and the item designated as being hedged. Any derivative financial instruments that do not qualify for hedge accounting are adjusted to fair value at each year end with any resulting gains or losses recorded in net revenue.

t. Future Accounting Policy Changes

Public Sector Accounting Standards

The CICA's Public Sector Accounting Board announced that government controlled not-for-profit organizations will adopt public sector accounting (PSA) standards, which include not-for-profit accounting standards, effective for fiscal years beginning on or after January 1, 2012. The transition date for the University of Manitoba of April 1, 2012 will require the restatement of the March 31, 2012 figures in the March 31, 2013 financial statements. Although PSA standards use a conceptual framework consistent with the current basis of financial reporting, some differences in accounting standards are expected. The University is currently assessing the impact of those differences.

3. ACCOUNTS RECEIVABLE

	2011	2010
Business, Industry and Foundations	$ 21,871	$ 27,056
Federal Government	19,501	17,627
Other	13,977	8,069
Provincial Government	16,422	8,082
Students	3,459	3,714
	$ 75,230	$ 64,548

4. LOAN RECEIVABLE

The University has entered into a loan agreement with BBB Stadium Inc. related to the construction of a new stadium at the Fort Garry campus. The loan agreement is divided into a First Phase and a Second Phase for a combined amount not to exceed $160 million. The First Phase is not to exceed $75,000 while the Second Phase is not to exceed $85,000. No amounts have been advanced against the second phase of the loan. The interest rate on the First Phase of the loan is 4.65% and the First Phase of the loan receivable is due and payable in full on June 1, 2038.

BBB Stadium Inc. is required to make payments to the University, in respect of the First Phase of the loan, equivalent to the aggregate of:

- Any amounts received by BBB Stadium Inc. in respect of the stadium development from the City of Winnipeg pursuant to The Community Revitalization Tax Increment Financing Act.
- Any amounts received by BBB Stadium Inc. from any party which were designated by the party for application to the loan.

Payments are applied firstly to accrued interest and secondly to the principal outstanding. Unpaid interest is added to the principal of the First Phase of the loan and compounded annually.

	2011	2010
First Phase interest and principal outstanding	$ 24,286	$

The University has an equal long term debt loan payable to the Province of Manitoba (Note 9).

(in thousands of dollars)

5. INVESTMENTS

	2011 Fair Value	2010 Fair Value
General Funds		
Bonds and Other Fixed Income Securities:		
Other Provincial	$ 14,565	$ 14,895
Corporate	124,596	104,632
	139,161	119,527
Trust & Endowment		
Bankers Acceptances, Guaranteed Investment Certificates and Cash	18,169	13,478
Bonds and Other Fixed Income Securities:		
Government of Canada	24,245	22,784
Province of Manitoba	2,193	2,502
Other Provincial	13,216	12,162
Corporate	3,210	6,444
Other	77	85
Municipal	4,398	2,837
	47,339	46,814
Equities:		
Canadian Equities	129,512	108,989
US Equities	62,515	57,078
International Equities	46,875	43,033
	238,902	209,100
Pooled Real Estate Fund	48,676	43,726
	353,086	313,118
Capital		
Bankers Acceptances, Guaranteed Investment Certificates and Cash	17,998	24,965
Corporate Bonds		796
	17,998	25,761
Staff Benefits		
Money Market Funds and Cash	732	518
Bonds	9,070	8,028
Equities:		
Canadian Equities	6,968	5,854
US Equities	4,019	3,418
International Equities	3,899	3,304
	14,886	12,576
Mortgage Fund	2,607	2,319
	27,295	23,441
Research & Special		
Other Investments	47	
Total Investments	$ 537,587	$ 481,847

As at March 31, the average yields and the terms to maturity are as follows:

- Bankers Acceptances, Guaranteed Investment Certificates and Money Market Funds: 1.40% (2010, 0.46%); term to maturity: less than one year.
- Government and Corporate bond funds: 2.82% (2010, 3.00%): terms to maturity: range from less than one year to more than 12 years.

The University's investment in real estate consists of units of a pooled real estate investment in the Great West Life Assurance Company – Canadian Real Estate Investment Fund No. 1. Effective December 15, 2008, the Great West Life Assurance Company placed a suspension on redemptions and transfers of units of the Fund. The Great West Life Assurance Company lifted the suspension in July 2010; and all eligible requests were paid at 58% of the amount requested. The Great West Life Assurance Company has indicated that there will be a second redemption in the 2nd quarter of 2011. However, withdrawal requests will be based on the amount of cash available in the fund, so unit holders requesting withdrawals may receive only a portion of their redemption request.

(in thousands of dollars)

During the year ended March 31, 2011, the University recognized net unrealized gains of $24,971 (2010, $63,517) on investments classified as held-for-trading, which are recorded in net investment income in the consolidated statement of operations.

6. CREDIT RISK EXPOSURE AND MANAGEMENT

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at March 31 was:

	2011	2010
Financial Assets Held-For-Trading:		
Cash	$ 109,444	$ 132,864
Marketable Investments		4,043
Investments	537,587	481,847
Loans and Receivables:		
Accounts Receivable	75,230	64,548
Loan Receivable	24,286	
Totals	$ 746,547	$ 683,302

The University manages the credit risk related to these items as follows:

Cash and marketable investments are held in high quality Canadian money market instruments in Canadian Chartered banks or equivalent. Exposure to risk is managed by considering the rates of return in conjunction with liquidity needs and making investments in a variety of short term instruments with several financial institutions.

Credit risk related to investments is managed by maintaining a diverse portfolio of investments, investing with counterparties considered to be of high quality, and limiting the amount that can be invested in any one holding.

A significant portion of the University's accounts receivable is related to Restricted Funds and is disclosed in Note 3 and is from the federal and provincial governments, not-for-profit organizations, corporations, the US government, and other universities. The University also has accounts receivable from students and staff. The credit risk on these receivables is minimal. The remaining accounts receivable are due from a diverse group of customers and are subject to normal credit risks.

The credit risk on the loan receivable is offset by a loan payable from the Province of Manitoba with matching terms of repayment (see Note 4 and Note 9 for details).

7. CAPITAL ASSETS, NET OF ACCUMULATED AMORTIZATION

	2011		2010	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Assets Under Capital Lease	$ 3,526	$ 2,840	$ 3,421	$ 2,545
Buildings and Major Renovations	745,989	183,148	707,303	167,589
Computer Hardware and Electronics	98,961	79,015	96,144	74,657
Construction in Progress	96,074		27,075	
Furniture and Equipment	208,165	134,348	196,494	121,655
Land	27,994		27,315	
Library Books	168,136	121,353	160,101	114,507
Parking Lots	8,280	2,187	7,835	1,784
Rare Books and Manuscripts	5,271		4,992	
Vehicles	7,810	6,418	7,576	6,006
Works of Art	2,488		2,334	
	1,372,694	529,309	1,240,590	488,743
Less Accumulated Amortization	529,309		488,743	
Net Book Value	$ 843,385		$ 751,847	

(in thousands of dollars)

8. CAPITAL LEASE OBLIGATIONS

Minimum lease payments which include principal and interest under the capital lease obligations are as follows:

2012	$ 370
2013	206
2014	89
2015	30
Total Minimum Lease Payments	695
Less: Interest at 3.59%	41
	654
Less: Current Portion	347
	$ 307

9. LONG TERM DEBT

	2011	2010
Province of Manitoba:		
Promissory Note, 5.23% due March 1, 2035	$ 67,715	$ 69,093
Promissory Note, 5.55% due April 1, 2036	69,498	70,742
Promissory Note, 5.35% due February 1, 2040	30,533	30,965
Loan, 4.65% due June 1, 2038	24,286	
	192,032	170,800
Capital Advances:		
6 7/8% due March 31, 2011		555
Term Loans:		
Multi Tenant Facility, 5.975% due October 31, 2012	1,219	1,260
Multi Tenant Facility, 5.95% due January 22, 2014	1,150	1,150
	2,369	2,410
Bankers Acceptances with Interest Rate Swaps:		
Multi Tenant Facility, 3.85% due February 11, 2019	7,075	7,075
Arthur V. Mauro Student Residence, 5.62% due September 5, 2028	14,228	14,673
	21,303	21,748
	215,704	195,513
Less Current Portion:		
Promissory Notes	(3,221)	(3,053)
Capital Advances		(555)
Term Loans	(44)	(42)
Bankers Acceptances	(474)	(445)
	(3,739)	(4,095)
	$ 211,965	$ 191,418

Interest expense on long term debt was $10,828 (2010, $6,471), including the change in the fair value of the interest rate swaps of $70 (2010, ($2,680)).

The fair value of long term debt is approximately $226,901 (2010, $200,699) compared to a carrying value of $215,704 (2010, $195,513). Fair value of these long term debt instruments has been determined using future payments of principal and interest of the actual outstanding long term debt discounted at current interest rates available to the University.

The University entered into an interest rate swap agreement whereby the University has fixed a swap rate of 5.62% on a 25 year loan for the Arthur V. Mauro Student Residence. A stamping fee is committed until September 1, 2013. Under the terms of the agreement, the University is required to make monthly principal and interest repayments similar to a conventional amortizing loan. The notional principal underlying this swap agreement amounted to $14,228 as at March 31, 2011 (2010, $14,673).

The Multi Tenant Bankers Acceptances represents an interest rate swap agreement to finance the development of 150 Innovation Drive, which has a fixed swap rate of 3.85% that is committed until February 11, 2029. A stamping fee is committed until February 2019. Under the terms of the agreement, monthly principal and interest repayments are required based on a total amortization period of 25 years, similar to a conventional amortizing loan after February 11,

(in thousands of dollars)

2016. The notional principal underlying this swap agreement was $7,075 as at March 31, 2011 (2010, $7,075).

The fair value of the swap agreements on the bank loan and long term debt at March 31, 2011 was $2,368 (2010, $2,228) and has been recorded in other long-term liabilities (Note 10).

The Province of Manitoba loan of $24,286 represents advances of $23,977 and accrued interest of $309. These advances are not to exceed $160 million. The University has an equal loan receivable (Note 4) from BBB Stadium Inc. which has been provided for the construction of a new stadium at the Fort Garry Campus. The loan is interest bearing at 4.65%.

The amount of the annual payment of principal and interest on the loan is equivalent to the aggregate of:

- any amounts paid by BBB Stadium Inc. to the University in respect of the BBB loan receivable;
- any amounts received by the University in respect of the stadium development from The City of Winnipeg pursuant to The Community Revitalization Tax Increment Financing Act; and
- any amounts received by the University from any party which were designated by the party for application to the loan.

Payments are applied firstly to accrued interest and secondly to the principal outstanding. Unpaid interest is added to the principal of the First Phase of the loan and compounded annually. Any accrued interest and principal outstanding on the First Phase of the loan as at June 1, 2038 is due and payable in full, subject to receipt of the accrued interest and principal outstanding from BBB Stadium Inc., unless the parties agree otherwise in writing.

Any amounts received by the University in the form of insurance proceeds received and entitled to be retained by the University by reason of the destruction of all or part of the stadium, where such insurance proceeds are not being applied to restore, reconstruct and repair the stadium in accordance with the ground lease are also to be applied to the repayment of the loan.

Principal repayments on long term debt payable over the next five years are as follows:

	Promissory Notes	Term Loans	Bankers Acceptances	Total
2012	$ 3,221	$ 44	$ 474	$ 3,739
2013	3,398	1,175	503	5,076
2014	3,586	1,150	533	5,269
2015	3,783		567	4,350
2016	3,992		622	4,614
Thereafter	174,052		18,604	192,656
	$ 192,032	$ 2,369	$ 21,303	$ 215,704

10. OTHER LONG TERM LIABILITIES

Amounts included in other long term liabilities are non interest bearing and are as follows:

	2011	2010
Refundable deposit	$ 346	$ 346
Southwood Golf Club lands		1,700
Fair Value of Financial Instruments	2,368	2,228
	2,714	4,274
Less: Current Portion		(2,046)
	$ 2,714	$ 2,228

11. EMPLOYEE FUTURE BENEFITS

The University of Manitoba provides certain health, dental and group life benefits for its retired employees who have met the eligibility criteria and long term disability benefits for current employees. Post-retirement pension benefits are also provided for specifically entitled retirees.

Health, dental and group life benefits are provided to employees who retired prior to July 1, 2004 on a non-contributory basis. The group life benefits are indexed post-retirement. For eligible employees retiring on or after July 1, 2004, no group life benefit is available, and retired former employees share in the cost of the health and dental benefits.

The long term disability income benefit is provided on a contributory basis.

(in thousands of dollars)

Post-retirement pension benefits are provided to specifically entitled employees who retired prior to 1993. The adjustments for a year are determined as the lesser of the amounts that can be provided by a weighted average percentage salary increase at the University, or the excess interest approach provided under the University of Manitoba Pension Plan (1993). One hundred percent of the adjustments are paid by the University.

The University measures the fair value of assets and the accrued benefit obligations for the non-pension and post-retirement pension adjustments as of March 31. The most recent actuarial valuations of the non pension benefit plans were as of March 31, 2010 with the next valuations due as of March 31, 2013. The actuarial valuation of the post retirement pension adjustments was as of March 31, 2011.

The Accrued Benefit Obligation for the non-pension benefit plans and the post-retirement adjustments are reported in the University's consolidated statement of financial position under long term liabilities.

Information about the University's non-pension benefit plans and post-retirement adjustments as at March 31 is as follows:

	Non-Pension Benefit Plans		Post-Retirement Adjustments		Total	
	2011	2010	2011	2010	2011	2010
Benefit Cost	$ 4,500	$ 4,567	$ 163	$ 18	$ 4,663	$ 4,585
Accrued Benefit Obligation	61,356	57,474	4,196	4,476	65,552	61,950
Plan Assets	24,232	19,789	1,662	1,779	25,894	21,568
Employer Contribution	5,061	4,211		345	5,061	4,556
Employees' Contributions	2,978	2,040			2,978	2,040
Benefits Paid	6,109	6,343	652	690	6,761	7,033

Plan assets consist of:

	Non-Pension Benefit Plans		Post-Retirement Adjustments	
	2011	2010	2011	2010
Equities	55%	54%	56%	55%
Fixed Income	33%	34%	34%	35%
Other	12%	12%	10%	10%
Total	100%	100%	100%	100%

Key Assumptions are:

	Non-Pension Benefit Plans		Post-Retirement Adjustments	
	2011	2010	2011	2010
Accrued benefit obligation at March 31:				
Discount rate	5.00%	5.50%	5.00%	5.75%
Benefit Cost for year ended March 31:				
Discount rate	5.50%	6.00%	5.75%	6.00%
Expected rate of return on assets	5.50%	6.00%	5.75%	6.00%
Health Care Cost Trend Rates at March 31:				
Initial rate	8.25%	8.50%		
Ultimate rate	6.00%	6.00%		
Year ultimate rate reached	2020	2020		
Dental Care Cost Trend Rates at March 31:				
Discount rate	4.00%	4.00%		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31
(in thousands of dollars)

12. INTER-FUND ADVANCES AND LOANS

Inter-Fund advances and loans at March 31 are as follows:

	2011	2010
General Operating Fund:		
Due to Capital Asset	$ (3,685)	$ (40,426)
Due to Trust	(4,656)	(1,741)
	$ (8,341)	$ (42,167)
Capital Asset Fund:		
Due from Operating	$ 3,685	$ 40,426
Due to Research	(5,961)	(4,504)
Due to Trust	(909)	(909)
	$ (3,185)	$ 35,013
Trust Fund:		
Due from Operating	$ 4,656	$ 1,741
Due from Capital	909	909
	$ 5,565	$ 2,650
Research and Special Fund:		
Due from Capital	$ 5,961	$ 4,504
	$ 5,961	$ 4,504

13. INTER-FUND TRANSFERS

Inter-Fund transfers at March 31 are as follows:

	General Operating	Specific Provisions	Expenses Funded From Future Revenues	Capital Asset	Research and Special	Staff Benefits	Trust Fund	Endowment Fund
Employee Future Benefits	$ 3,602	$	$ (1,308)	$	$	$ (2,294)	$	$
Net Change in Vacation Pay & Pension Liability	(2,078)		2,078					
Benefit Premiums Net of Employer Contributions for Staff Benefits	(1,878)					1,878		
Appropriations for Specific Provisions:								
Capital Asset Replacements & Improvements	747	(747)						
Unit Carryovers, Special Projects & Initiatives	(65,910)	65,910						
Funding of Capital Asset Additions	(47,290)	(6,748)		61,785	(4,172)		(3,575)	
Long Term Debt Repayments	(3,089)			3,103	(14)			
Student Contributions to University Development Funds	(789)							789
Student Contributions for Technology	(3,607)			3,607				
Scholarships, Bursaries & Prizes	(7,364)	(100)			(55)		7,519	
Other Net Transfers	(21)			(515)	(1,081)		(1,412)	3,029
Overhead Recoveries	2,951				(2,951)			
Funding of General Operating Expenses	70,382	(59,850)			(1,220)	(2,742)	(6,570)	
Unit Capital Development Assessment	(4,316)			4,316				
Funding of Research Projects	(123)				1,096		(973)	
March 31, 2011	$ (58,783)	$ (1,535)	$ 770	$72,296	$ (8,397)	$(3,158)	$ (5,011)	$ 3,818
March 31, 2010	$ (34,125)	$ 3,564	$ (17,486)	$67,365	$ (8,947)	$(7,204)	$ (8,159)	$ 4,992

14. CONTRIBUTED CAPITAL ASSETS

Contributions recognized in the Capital Asset Fund include contributed building, capital equipment, library books and artwork of $836 (2010, $4,300).

15. PENSION PLANS

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

(in thousands of dollars)

1993 Plan

The University of Manitoba Pension Plan (1993) is a money purchase plan with a defined benefit minimum. In years prior to calendar 2010, the surplus from the Plan was adequate to fund any amounts required in excess of matching contributions of active members and the University.

The actuarial present value of accrued pension benefits for the 1993 Plan has been determined using the projected unit credit actuarial cost method, and assumptions developed by reference to expected long term market conditions. An actuarial valuation for accounting purposes was prepared by a firm of consulting actuaries as at December 31, 2009 and extrapolated to December 31, 2010.

The University uses a December 31 measurement date for reporting plan assets and obligations.

The actuarial present value of benefits and plan assets as of December 31, were as follows:

Accrued Benefit Obligation	2010	2009
Actuarial present value of accrued pension benefits at beginning of year	$ 936,458	$ 887,016
Interest accrued on defined benefits	21,706	23,523
Interest accrued on member accounts	54,671	91,564
Benefits accrued	36,353	38,370
Benefits paid	(77,727)	(60,407)
Actuarial (gains) losses	6,588	(43,608)
Change in assumptions	38,984	-
Actuarial present value of accrued pension benefits at end of year	$ 1,017,033	$ 936,458

Plan Assets		
Fair value at beginning of year	$ 889,022	$ 770,662
Actual return on plan assets	86,295	143,407
Employer contributions calendar year	25,682	18,886
Employee contributions	16,093	16,100
Transfer from other plans	206	374
Benefits paid	(77,727)	(60,407)
Fair value at end of year	$ 939,571	$ 889,022

Reconciliation of Pension Liability		
Accrued benefit obligation	$1,017,033	$ 936,458
Plan assets	(939,571)	(889,022)
Plan deficit	77,462	47,436
Contributions during fiscal year in excess of calendar year	(2,092)	(447)
Adjusted plan deficit	75,370	46,989
Unamortized net actuarial losses	(52,246)	(21,678)
Pension liability	$ 23,124	$ 25,311

Pension Liability		
Beginning of year	$ 25,311	$ 4,043
Employer contributions, fiscal year	(27,327)	(18,886)
Net benefit plan expense	25,140	40,154
Pension liability end of year	$ 23,124	$ 25,311

Net Benefit Plan Expense		
Current service cost, net of employee contributions	$ 20,054	$ 21,896
Interest costs at discount rate	54,946	52,560
Expected return on plan assets	(52,269)	(45,488)
Amortization of actuarial loss	2,409	11,186
Net benefit plan expense	$ 25,140	$ 40,154

(in thousands of dollars)

Significant Long-term Actuarial Assumptions	2010	2009
Discount rate	5.0%	6.0%
Expected rate of return on assets	6.0%	6.0%
Rate of general salary increase	4.0%	4.0%
Interest assumption for converting member accumulations to Annuities	4.75%	5.5%
Mortality based on an adjustment to the Uninsured Pensioner 1994 Mortality table Projected to 2015.	the adjustment varies by age (average 67%)	the adjustment varies by age (average 67%)

In 2009, the Manitoba Pension Commission advised that the University was required to begin to make additional payments with respect to current service costs in excess of matching contributions of active members and the University. The additional annual current service cost payments required are based on a percentage (changes annually) of employee contributions. This total payment for fiscal 2011 was $5.9 million (2010, $2.8 million) covering the period January 2010 to March 2011.

The unamortized net actuarial losses shown above, which were determined on the basis of this valuation for accounting purposes, are being amortized over a period of nine years (expected average remaining service life) starting in the year following the year the respective annual actuarial gains or losses arise. However, cash funding for the pension plan is based on the going-concern funding valuation as described below.

The going concern deficit that results from these and other sources of loss, as they apply to the valuation for funding purposes filed with the pension regulators, is being funded under the Pension Benefits Act over the maximum of 15 years. The payments are $4.0 million annually until the going concern deficit is eliminated based on the December 2009 funding valuation. This total payment for fiscal 2011 was $5.0 million covering the period January 2010 – March 2011.

In 2009, as permitted under the University Pension Plans Exemption Regulation, the University filed an election for an exemption to the solvency deficiency funding requirements under the Pension Benefits Act for the 1993 Plan. However, the Plan will continue to be subject to the going-concern funding provisions of the Act and the funding deficit payments are being paid by the University over the maximum of 15 years as indicated above.

This plan was amended effective January 1, 2011 to provide for increases in member and University required contribution rates of 0.5% of salary effective January 1, 2011, a further increase of 0.5% effective January 1, 2012 and further increases of 1.0% effective January 1, 2013. Changes to the Pensions Benefit Act in 2010 can result in higher retirement benefit for some members who retire after age 65.

1986 Plan

For the 1986 Plans, which is a money purchase plan for active members, the University recorded contributions of $1,929 (2010, $1,836) and this is included in the consolidated statement of operations as an expense.

1970 Plan

There were no university employees earning pension entitlements in 2010 in the 1970 Plan. As a result, the University made no contributions to the Plan during the year.

(in thousands of dollars)

16. NET INVESTMENT INCOME (LOSS)

2011	General Operating Fund	Staff Benefits Fund	Trust Fund	Capital Fund	Endowment Fund	Total Funds
Net Realized Investment Income:						
Interest	$ 4,683	$ 534	$ 2,081	$ 710	$	$ 8,008
Dividends			5,807			5,807
Gains on sale of investments		570	5,994			6,564
	4,683	1,104	13,882	710		20,379
Change in fair value of investments	(366)	1,826	7,068		16,443	24,971
Total	$ 4,317	$ 2,930	$ 20,950	$ 710	$ 16,443	$ 45,350

2010	General Operating Fund	Staff Benefits Fund	Trust Fund	Capital Fund	Endowment Fund	Total Funds
Net Realized Investment Income:						
Interest	$ 3,933	$ 590	$ 1,897	$ 395	$	$ 6,815
Dividends			5,285			5,285
Gains (losses) on sale of investments		121	(18,397)			(18,276)
	3,933	711	(11,215)	395		(6,176)
Change in fair value of investments	(830)	3,862	43,250	(35)	17,270	63,517
Total	$ 3,103	$ 4,573	$ 32,035	$ 360	$ 17,270	$ 57,341

17. CAPITAL DISCLOSURES

a. Capital Management

General Funds (Note 2e)

The University's objective in managing its operating capital is to maintain sufficient resources to allow it to satisfy its financial obligations even if adverse financial events were to occur.

The University manages its operating capital through an operating budget which is approved by the Board of Governors. The University has been successful at achieving a balanced budget at the end of each fiscal year and this success is credited to a strong commitment to fiscal responsibility and financial stability as well as a strong commitment by faculties, schools, libraries and support units who share in that responsibility. This is achieved in a decentralized system of budgetary control whereby academic and support units are allocated resources on an annual basis to meet their strategic priorities and those of the University. These operating units are provided with procedures to administer their budgets responsibly and to ensure that there is accountability for the resources that are transferred to them. In the event of a shortfall in revenues, the University could invoke a spending freeze, reduce budgets, or access its Specific Provisions Funds including the Fiscal Stabilization Provision.

Restricted Funds and Endowment Fund (Notes 2f and 2g)

The University also maintains externally and internally restricted funds (Note 2e) and an endowment fund (Note 2g).

The restricted funds are managed with the objectives to spend the funds in accordance with the various terms and not spend beyond the resources that have been provided. Individual funds are established and carefully monitored both within the departments and within central administration. In the event of an over expenditure or ineligible expenditure, the department would be responsible for funding the costs from other resources. In the case of the Capital Asset Fund, at the approval of the Province of Manitoba, the University is permitted to enter into long term debt to assist with the financing of capital assets.

The endowment fund is managed with the long term objective of preserving the capital of the individual endowment accounts to achieve inter-generational equity, whereby current students are neither advantaged nor disadvantaged compared to future students. The goal is to earn investment returns, adjusted for inflation, which will support the ongoing expenditures and commitments of the fund. The Trust Investment Committee ("the Committee") is responsible for the investment of endowment assets. Assets are invested in accordance with an Investment Policy Statement. The Committee determines an asset mix that meets the return objectives of the fund while assuming an appropriate level of risk. Each individual asset (within the mandate of the approved asset mix) is invested by professional external managers, and the portfolio is rebalanced to the target asset mix according to the Investment Policy Statement. The asset mix is reviewed annually to assess whether the risk and return objectives of the fund are met.

(in thousands of dollars)

The approved spending rate of the net investment income earned on the endowment fund, plus inflation, must be supported by the long term investment. The spending rate is set by the Vice-President (Administration) based on the recommendation of the Committee and reviewed annually to determine the viability of maintaining the rate in light of long term investment performance. The performance of the fund is subject to volatility. The endowment fund is monitored through full market cycles to assess the effectiveness of the asset mix and spending rates which are then adjusted accordingly.

b. Quantitative data

The University's capital comprises its fund balances, which include unrestricted funds, internally restricted funds, externally restricted funds, and funds invested in capital assets. Capital in the restricted funds also includes long term debt. The University's Consolidated Statement of Operations and Changes in Fund Balances sets out fund balances at the beginning and end of the year.

As at March 31, 2011, The University has met its objectives with respect to its capital requirements. There were no changes in capital management during the year.

18. INTEREST IN RELATED ENTITIES

The University of Manitoba Foundation U.S.A. Inc.

The University has an economic interest in the University of Manitoba Foundation U.S.A. Inc. ("the Foundation") which is an Illinois Not-For-Profit Corporation incorporated in December 1989. The Foundation's purpose is exclusively charitable, literary, scientific and educational and its activities include the promotion, encouragement, aid and advancement of higher education, research and training in the Province of Manitoba, in Canada and elsewhere. The Foundation is exempt from U.S.A. Federal Income Tax under Section 501(c)(3) of the Internal Revenue Code.

The Board of Directors of the Foundation is an independent board whose members direct and guide the Foundation's actions. Members of the Board include, among others, certain senior staff of the University of Manitoba. The University of Manitoba, however, is one of many entities eligible to receive aid from the Foundation. The University must make application to the Foundation's Board of Directors to request funds, which may or may not be granted. The University's economic interest therefore is beneficial, as gifts and donations which are solicited by the Foundation may be transferred to the University of Manitoba from time to time.

TRIUMF

The University has a 9.09% interest in TRIUMF, a joint venture which operates a national laboratory for particle and nuclear physics. The University uses the equity method of accounting to record its interest in TRIUMF.

19. OTHER RELATED PARTY TRANSACTIONS

The University has significant influence in BBB Stadium Inc. BBB Stadium Inc. is a not-for-profit corporation established to develop, own and operate a stadium as a venue for professional and university football and community athletics. The sole members of BBB Stadium Inc. are the City of Winnipeg, the University of Manitoba and the Winnipeg Football Club. Activities of BBB Stadium Inc. are managed by the directors comprised of the University, City of Winnipeg, Province of Manitoba and the Winnipeg Football Club. The University has an economic interest in BBB Stadium Inc. related to the use of the stadium for university football games and events at nil charge.

The Province of Manitoba has committed up to $160 million as a loan to the University, and the University has committed to loan $160 million to BBB Stadium Inc. (see Notes 4 & 9). As at March 31, 2011 and for year then ended the related party transactions with BBB Stadium Inc. and the corresponding transactions with the Province of Manitoba are as follows:

Amounts borrowed from the Province of Manitoba and advanced to BBB Stadium Inc. under the loan agreements

Loan Receivable, including accrued interest	$24,286
Interest Income on loan	$309
Loan Payable, including accrued interest	$24,286
Interest Expense on loan	$309

All transactions with BBB Stadium Inc. and the Province of Manitoba are recorded at exchange amounts.

20. CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The University of Manitoba is a member of the Canadian Universities Reciprocal Insurance Exchange (CURIE). CURIE pools the property damage and public liability insurance risks of its members. All members pay annual deposit premiums, which are actuarially determined and are subject to further assessment in the event members' premiums and reserves are insufficient to cover losses and expenses. No additional assessment was necessary for the current year.

Contractual obligations relating to Construction in Progress amount to $61,504 (2010, $61,722).

The University of Manitoba is named as a defendant in litigations where action has commenced or is anticipated. While the ultimate outcome of these proceedings cannot be predicted at this time, management and its legal counsel are of the opinion that the outcome will not have a material effect on the financial position of the University. No provision has been made in the financial statements in respect of these claims as of March 31, 2011.

The members of the TRIUMF joint venture and the Canadian Nuclear Safety Commission (CNSC) approved a decommissioning plan which requires all members to be severally responsible for their share of the decommissioning costs, which were estimated at $44 million as of November 2007, as well as provide financial covenants to the CNSC for the amount of these costs. While there are no current intentions to decommission the facilities, and the facilities are estimated to have an indefinite useful life, the University's share of the unfunded decommissioning costs, as at March 21, 2010, is estimated at $3.1 million. The March 31, 2011 figures are not available. TRIUMF has put in place a plan for funding the cost of decommissioning which does not require any payments from the joint venture partners.

21. COMPARATIVE FIGURES

Comparative figures for the year ended March 31, 2010 have been reclassified, where appropriate, to conform with the presentation adopted for the year ended March 31, 2011.

THE UNIVERSITY OF WINNIPEG

UNIVERSITY OF WINNIPEG

MANAGEMENT REPORT

The accompanying financial statements are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles. These accounting principles have been applied on a basis consistent with the prior year. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data. Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of the financial information and to ensure the assets of the University are properly safeguarded.

The Board of Regents has reviewed and approved these financial statements.

On Behalf of Management

(Original signed by Bill Balan)

Bill Balan
Vice-President (Finance & Administration)

(Original signed by Michael Emslie)

Michael Emslie, CA
Controller and Executive Director, Financial Services

Winnipeg, Manitoba
June 23, 2011

OFFICE OF THE
AUDITOR GENERAL
MANITOBA

INDEPENDENT AUDITOR'S REPORT

To the Lieutenant Governor in Council
To the Legislative Assembly of Manitoba
To the Board of Regents of the University of Winnipeg

We have audited the accompanying consolidated financial statements of the University of Winnipeg, which comprise the consolidated statement of financial position as at March 31, 2011, and the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, consolidated the financial statements present fairly, in all material respects, the financial position of the University of Winnipeg as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Original document signed by:
Carol Bellringer

June 23, 2011
Winnipeg, Manitoba

Carol Bellringer, FCA, MBA
Auditor General

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

THE UNIVERSITY OF WINNIPEG **Statement I**
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at March 31, 2011
(with comparative figures for 2010)

ASSETS

	2011 $000	2010 $000
Current Assets:		
Cash and Cash Equivalents (Note 3)	$30,051	$22,030
Short Term Investments	900	1,183
Accounts Receivable (Note 16)	7,592	8,801
Due from Related Parties (Note 23)	503	137
Prepaid Expenses	1,098	842
Inventories (Note 4)	25	54
	40,169	33,047
Long Term Investments (Note 5)	1,953	2,470
Long Term Receivables (Note 6)	3,880	0
Advances to 460 Portage Avenue Joint Venture (Note 25)	0	7,750
Capital Assets (Note 7 a)	165,864	119,377
Intangible Assets (Note 7 b)	877	998
	$212,743	$163,642

LIABILITIES AND NET ASSETS

	2011 $000	2010 $000
Current Liabilities:		
Accounts Payable and Accrued Liabilities	$15,245	$11,298
Deferred Revenue	8,205	4,700
Deferred Contributions (Note 8)	8,105	8,051
Staff Benefits Payable (Note 9)	1,740	1,718
Current Portion of Obligations Under Capital Leases (Note 11)	294	224
Current Portion of Long Term Debt (Note 12)	1,458	2,183
Due to Related Parties (Note 23)	621	344
	35,668	28,518
Obligations under Capital Leases (Note 11)	628	282
Long Term Liabilities (Note 12)	43,856	33,692
Deferred Capital Contributions (Note 13)	121,694	92,638
Accrued Pension Liability (Note 18)	1,784	1,461
Net Assets:		
Unrestricted Net Deficiency	(8,893)	(9,755)
Internally Restricted Net Assets (Note 14)	1,761	1,561
Endowments (Note 15)	2,628	2,628
Investment in Capital Assets	13,617	12,617
	9,113	7,051
	$212,743	$163,642

Special Purpose and Trust Assets (Notes 3, 15)
Commitments (Note 18)
Contractual Obligations (Notes 11, 19, 20, 21)
Contingencies (Note 22)

Approved by the Board of Regents

(Original signed by Craig Lee) — Chair, Board of Regents

(Original signed by Lloyd Axworthy) — President & Vice Chancellor

See accompanying notes to the financial statements.

THE UNIVERSITY OF WINNIPEG
CONSOLIDATED STATEMENT OF OPERATIONS
For the Year Ended March 31, 2011
(with comparative figures for 2010)

Statement II

	2011 $000	2010 $000
REVENUE		
Government Grants:		
Council on Post Secondary Education	$52,107	$49,890
Other Province of Manitoba	4,324	5,403
Government of Canada	4,112	3,073
Student Academic Fees	34,564	30,602
Gifts, Grants and Bequests	3,583	3,108
Investment Income	1,372	534
Sales of Services and Products	1,168	1,467
Other Revenues	9,512	7,502
Amortization of Deferred Capital Contributions (Note 13)	2,550	2,132
	113,292	103,711
EXPENSES		
Salaries	63,395	59,569
Staff Benefits	8,478	9,614
Supplies, Services and Other Expenses	17,667	17,067
Cost of Sales	314	635
Building, Utilities and Related Expenses	9,443	7,977
Interest	1,515	944
Provincial and Municipal Taxes	1,498	1,333
Scholarships and Awards	3,283	2,945
Gifts to Related Party (Note 23)	1,219	370
Amortization of Capital Assets	4,418	3,698
	111,230	104,152
Excess (Deficiency) of Revenue over Expenses from Operations	2,062	(441)
Gain on Disposal of Capital Assets	0	202
Settlement Related to Pension Superintendent's Order	0	(1,776)
Excess (Deficiency) of Revenue over Expenses	$2,062	($2,015)

See accompanying notes to the financial statements.

THE UNIVERSITY OF WINNIPEG
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
For the Year Ended March 31, 2011
(with comparative figures for 2010)

Statement III

	2011					2010
	UNRESTRICTED NET DEFICIENCY $000	INTERNALLY RESTRICTED NET ASSETS (Note 14) $000	ENDOWMENTS (Note 15) $000	INVESTMENT IN CAPITAL ASSETS $000	TOTAL $000	TOTAL $000
BALANCE, BEGINNING OF YEAR	($9,755)	$1,561	$2,628	$12,617	$7,051	$9,066
Excess (Deficiency) of Revenue Over Expenses	2,062				2,062	(2,015)
Transfers:						
Internally Funded:						
Capital Asset Additions	(2,804)			2,804	0	0
Amortization of Deferred Capital Contributions	(2,550)			2,550	0	0
Amortization of Capital Assets	4,418			(4,418)	0	0
Disposal of Capital Assets	132			(132)	0	0
Repayment of Long Term Debt	(196)			196	0	0
Internally Restricted Net Assets	(144)	144			0	0
Strategic Provisions – Reductions (Note 14)	471	(471)			0	0
Strategic Provisions – Additions (Note 14)	(527)	527			0	0
NET CHANGE FOR THE YEAR	862	200	0	1,000	2,062	(2,015)
BALANCE, END OF YEAR	($8,893)	$1,761	$2,628	$13,617	$9,113	$7,051

See accompanying notes to the financial statements.

THE UNIVERSITY OF WINNIPEG
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended March 31, 2011
(with comparative figures for 2010)

Statement IV

	2011 $000	2010 $000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from:		
Government Grants	$64,814	$57,893
Student Academic Fees	34,400	30,660
Gifts, Grants and Bequests	794	2,671
Investment Income	1,410	582
Sales of Services and Products	2,045	1,948
Other Revenues	11,069	8,223
Cash Paid for:		
Salaries	(62,887)	(59,014)
Staff Benefits	(8,378)	(7,982)
Supplies, Services and Other Expenses	(16,453)	(14,667)
Cost of Sales	(1,330)	(398)
Building, Utilities and Related Expenses	(7,044)	(7,465)
Interest Paid	(1,515)	(674)
Provincial and Municipal Taxes	(1,487)	(1,311)
Scholarships and Awards	(3,292)	(2,944)
Gifts to Related Party	(1,241)	(458)
Pension Superintendent's Order Settlement Costs	0	(8,776)
	10,905	(1,712)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash Purchase of Capital Assets	(46,645)	(29,521)
Advances from (to) 460 Portage Avenue Joint Venture	3,734	(7,750)
Cash from Disposal of Capital Assets	0	608
Proceeds on Maturity of Long Term Investments	517	1,183
Collections of Long Term Receivables	26	0
	(42,368)	(35,480)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment and Retirement of Long Term Debt	(1,651)	(2,171)
Long Term Debt Proceeds – Building Purchases and Construction	11,798	14,550
Long Term Debt Proceeds – Pension Order Settlement	0	8,776
Deferred Capital Contributions	29,054	24,941
	39,201	46,096
NET INCREASE IN CASH AND SHORT TERM INVESTMENTS	7,738	8,904
CASH AND SHORT TERM INVESTMENTS, BEGINNING OF YEAR	23,213	14,309
CASH AND SHORT TERM INVESTMENTS, END OF YEAR	$30,951	$23,213
Cash and Short Term Investments consists of:		
Cash and Cash Equivalents	30,051	22,030
Short Term Investments	900	1,183
	$30,951	$23,213

Excluded from Investing and Financing Activities are equipment acquired under Capital Leases and the related obligations under Capital Leases totalling $723 (2010 - $97).

See accompanying notes to the financial statements.

1. Authority and Purpose

The University of Winnipeg (the University) operates under the authority of the University of Winnipeg Act of the Province of Manitoba. The primary role of the University is to provide post secondary education and research in Arts, Sciences and Education. The University also operates the Collegiate, an independent high school and a number of other education related activities. The University is a registered charity and is exempt from the payment of income taxes.

2. Summary of Significant Accounting Policies

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

A) Basis of Accounting

The University of Winnipeg has adopted not-for-profit accounting standards as its basis of accounting. The University of Winnipeg Foundation (the Foundation) (Note 20) and the University of Winnipeg Community Renewal Corporation (UWCRC) (Note 21), both controlled entities, are not consolidated in these financial statements, but details of their financial results are included in the notes to the financial statements. Investment in the 460 Portage Avenue Joint Venture is accounted for using the proportional consolidation method.

B) Contributions

The University has chosen to use the deferral method of accounting for contributions. Under the deferral method of accounting for contributions, restricted contributions related to expenses of future periods are deferred and recognized as revenue in the period in which the related expenses are incurred. Restricted contributions are stipulations imposed that specify how resources must be used. External restrictions are imposed from outside the organization, usually by the contributor of the resources. Restrictions on contributions may only be externally imposed.

C) Revenue Recognition

Operating grants are recognized as revenue in the period received or receivable. Revenues received for tuition fees and sales of goods and services are recognized in the period in which the goods are received or the services rendered or substantially rendered.

Deferred contributions are externally restricted non-capital and non-endowment contributions which are deferred and are recognized as revenue in the period in which the related expenses are incurred.

Promissory notes entered into with the Manitoba Provincial Government, for the construction or purchase of capital assets, which will be repaid from future funding provided by the Manitoba Provincial Government through the Council on Post Secondary Education (COPSE) are, in substance, capital grants. These capital grants, under the deferral method of accounting, are reflected as deferred capital contributions in the statement of financial position, if the asset acquired has a limited useful life. The related funding from COPSE to offset the interest expense over the terms of the promissory notes as well as the interest expense are both excluded from the statement of operations and changes in fund balances.

Externally restricted contributions for the acquisitions of capital assets having limited lives are recorded as deferred capital contributions in the period in which they are received. Amortization of deferred capital contributions is recognized as earned revenue in the periods in which the related amortization expense of the funded capital asset is recorded.

Endowment contributions are recorded as direct increases in net assets in the period in which they are received.

D) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, balances with banks and highly liquid temporary money market instruments convertible to cash within three months or less. Bank borrowings are considered to be financing activities.

E) Investments

Investments are recorded at fair value with the exception of a donated equity investment in certain properties, which is recorded at estimated fair value on the date received and designated as available for sale.

F) Inventories

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

G) Capital Assets and Intangibles

Capital assets and collections purchased by the University are recorded at cost. Collections include Art Work and Rare Books recorded at fair value derived by independent appraisal at the time of acquisition or donation. Donated assets are recorded at estimated fair market value on the date received. Land, collections of rare books and works of art are not amortized. Capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Buildings, Additions and Improvements	60 years
Leasehold Improvements	Term of Lease
Library Acquisitions	10 years
Furnishings and Equipment	10 years
Computer Equipment	5 years
Vehicles	5 years
Equipment under Capital Lease	Term of Lease

Intangible assets are recorded at cost and are amortized on a straight-line basis over their useful lives as follows:

Major System Computer Software	10 years

H) Financial Instruments

All financial instruments are initially recorded at fair value. Subsequent measurement is determined by the classification of each financial asset and liability. Financial instruments are classified as one of the following: held-for-trading, loans and receivables, held-to-maturity, available-for-sale or other liabilities. Financial instruments classified as held-for-trading are measured at fair value with gains and losses recognized in the Statement of Operations. Financial instruments classified as held-to-maturity, loans and receivables and other liabilities are measured at amortized cost using the effective interest rate method. Available-for-sale financial instruments are measured at fair value, with unrealized gains and losses recognized directly in unrestricted net assets.

Cash and cash equivalents and short term investments are designated as held-for-trading; accounts receivable, due from related parties, long term receivables and advances to 460 Portage Avenue Joint Venture are classified as loans and receivables; accounts payable and accrued liabilities, staff benefits, due to related parties and long term liabilities are classified as other liabilities.

Long term investments are designated as available-for-sale as they are comprised of investments that are not held for the purpose of earning short term income.

The University does not have any held-to-maturity instruments.

Except for held-for-trading designated financial instruments, transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset or liability's carrying value at inception and amortized over the expected life of the financial instrument using the effective interest method. For held-for-trading financial assets and liabilities, transaction costs are recorded in the statement of operations as incurred.

I) Fair Value Measurement

Each financial instrument measured at fair value is classified into one of three fair value levels as follows:

> Level 1 – for instruments measured at unadjusted quoted prices in active markets for identical unrestricted assets or liabilities.
>
> Level 2 – for instruments measured at inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, and
>
> Level 3 – for instruments measured at inputs that are based on unobservable market data and are significant to the fair value measurement.

J) Use of Estimates

In preparing the University's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

K) Principles of Consolidation

The consolidated financial statements of the University include the University's proportion of the accounts of the 460 Portage Avenue Joint Venture. The University maintains a two-thirds ownership of the Joint Venture, which owns and operates the lower three floors of the building located at 460 Portage Avenue, also known as "the Buhler Centre". The Buhler Centre is the home to the University of Winnipeg's Division of Continuing Education and Faculty of Business and Economics as well as the other venturer, The Plug-In institute of Contemporary Art (Plug-In), and a small café space which is rented to an external third party. The University of Winnipeg Foundation (the Foundation) and the University of Winnipeg Community Renewal Corporation (UWCRC), both controlled entities, are not consolidated in these financial statements, but their financial results are included in the notes 20 and 21 respectively.

L) Trusteed Pension Plan

The University contributes to the University of Winnipeg Trusteed Pension Plan for University employees. The pension expense for the defined benefit component of the pension plan is determined actuarially using the projected unit credit actuarial cost method and management's best estimates of investment performance, salary escalation, retirement ages of employees and member mortality. With respect to the amortization of actuarial gains or losses, the University has adopted a policy consistent with the minimum requirements of CICA Handbook section 3461 which is to amortize the excess of the unamortized net gains or losses over 10% of the greater of the defined benefit obligation or defined benefit plan assets as at the beginning of the year, over the expected average remaining service life of active employees. The pension expense for the defined contribution component of the pension plan equals the contributions made during the year.

M) Future Accounting Policy Changes

Public Sector Accounting Standards

The CICA's Public Sector Accounting Board announced that government controlled not-for-profit organizations will adopt public sector accounting (PSA) standards, which include not-for profit accounting standards, effective for fiscal years beginning on or after January 1, 2012. The transition date for the University of April 1, 2012 will require the restatement of the March 31, 2012 figures in the March 31, 2013 financial statements. The University is currently assessing the impact of the differences between PSA standards and the current basis of financial reporting.

Business Combinations and Non-controlling Interests

The CICA has issued these new standards, Business Combinations Section 1582, Consolidations Section 1601 and Non-controlling Interests Section 1602.

Section 1582 will be converged with IFRS 3 Business Combinations. Section 1602 will be converged with the requirements of IAS 27 Consolidated and Separate Financial Statements for non-controlling interests. Section 1601 carries forward the requirements of Consolidated Financial Statements Section 1600 other than those relating to non-controlling interests.

Section 1582 applies to a transaction in which the acquirer obtains control of one or more businesses. The term "business" is more broadly defined than in the existing standard. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. A bargain purchase will result in recognition of a gain. Acquisition costs must be expensed.

Any non-controlling interest will be recognized as a separate component of equity (net assets). Net income is calculated without deduction for the non-controlling interest. Rather, net income is allocated between the controlling and non-controlling interests.

The new standards are effective for fiscal years beginning on or after January 1, 2011. Early adoption is encouraged. This standard will affect the accounting treatment used for any future business acquisitions.

(AMOUNTS IN THOUSANDS)

3. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	2011	2010
Operating Funds	$18,658	$11,605
Sponsored Research and Designated Funds	3,793	3,362
	22,451	14,967
Special Purpose and Trust Funds	7,600	7,063
	$30,051	$22,030

Trust funds are restricted funds held for deferred contributions - $3,664 (2010 - $3,502) and endowments - $0 (2010 - $75). Special purpose funds are comprised of internally restricted net assets - $707 (2010 - $563), due to operating - $3,046 (2010 - $2,719) and due to related party - $183 (2010 - $204).

Short term investments - $900 (2010 - $1,183) consist of fixed income investments.

4. Inventories

Inventory consists of finished goods, comprised primarily of bulk paper. During the year ended March 31, 2011, inventories totalling $138 were expensed (2010 - $235) to Cost of Sales.

5. Long Term Investments

Long term investments are comprised of the following:

	2011	2010
Fixed Income Instruments	$1,229	$1,746
Equity investment in properties	724	724
	$1,953	$2,470

Long term investments consist of trust funds - $0 (2010 - $100), endowments - $1,953 (2010 - $2,170) and operating funds - $0 (2010 - $200). Long term investments are recorded at fair value with the exception of the equity investment in properties for which market information is not readily available and is therefore carried at cost.

(AMOUNTS IN THOUSANDS)

6. Long Term Receivables

Long term receivables are comprised of the following:

	2011
Receivable from the 460 Portage Avenue Joint Venture	
Promissory Notes Secured by:	
460 Portage Ave. Interest Rate 5.6%, due December 31, 2050	$8,707
460 Portage Ave Interest Rate 7.00%, due March 1, 2018	394
	9,101
Less: University of Winnipeg Component	(6,067)
	3,034
Receivable from Plug-In ICA	
460 Portage Ave. Interest Rate 4.65%, due December 31, 2020	883
	3,917
Less: Current Portion	(37)
	$3,880

Annual principal payments receivable on the notes during the next five years and thereafter are: 2012 – $37, 2013 - $39, 2014 - $41, 2015 - $45, 2016 - $48, thereafter - $3,707.

These notes are carried at the amortized cost using the effective interest rate method.

The determination of the fair value of the long term receivables is not practicable due to their underlying terms and conditions.

(AMOUNTS IN THOUSANDS)

7. Capital Assets and Intangibles

	2011		2010	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
(a) Capital Assets				
Land	$8,557	$0	$7,870	$0
Buildings, Additions and Improvements	110,746	23,916	97,639	22,123
Library Acquisitions	13,549	11,830	13,550	11,603
Furnishings and Equipment	33,733	23,362	29,988	21,996
Collections	1,400	0	1,327	0
Buildings Under Construction (Note 24)	56,075	0	24,233	0
Equipment Under Capital Leases	1,800	888	1,077	585
	225,860	$59,996	175,684	$56,307
Less Accumulated Amortization	59,996		56,307	
Net Book Value	$165,864		$119,377	

Furnishings and Equipment include Vehicles and Computer Equipment.

	2011	2010
(b) Intangible Assets		
Major System Computer Software	$2,916	$2,853
Less Accumulated Amortization	2,039	1,855
Net Book Value	$ 877	$ 998

8. Deferred Contributions

Deferred contributions represent contributions received for special purposes such as Sponsored Research and Designated Funds and Special Purpose Trust consisting of scholarships and bursaries, library acquisitions and lecture funds.

	2011	2010
Balance, Beginning of Year	$8,051	$6,697
Contributions Received	10,584	9,598
Contributions Expended	(9,475)	(7,874)
Transferred to Foundation (Note 23)	(1,055)	(370)
Balance, End of Year	$8,105	$8,051
Balance Consists of:		
Sponsored Research and Designated Funds	$4,259	$3,773
Special Purpose Trust	3,664	4,002
Operating Funds	182	276
	$8,105	$8,051

(AMOUNTS IN THOUSANDS)

9. Staff Benefits Payable

The balance of staff benefits payable is comprised of accrued vacation pay of $1,740 (2010 - $1,718).

10. Bank Indebtedness

The University has an operating line of credit with a bank authorized in the amount of $1,500. The line of credit is unsecured and bears interest at prime. It was not utilized at March 31, 2011 or March 31, 2010.

11. Obligations under Capital Leases

The following is a schedule of future minimum lease payments for equipment under capital leases expiring between June 1, 2011 and September 1, 2015 together with the balances of the obligations under capital leases:

2011/12	315
2012/13	249
2013/14	205
2014/15	155
2015/16	60
Total minimum lease payments	984
Less amount representing interest at approximately 3.5%	(62)
Balance of Obligations under Capital Leases	922
Less: Current Portion of Obligations under Capital Leases	(294)
Obligations under Capital Leases	$ 628

Interest expense for the current year on the lease obligations amounted to $29 (2010 - $25).

12. Long Term Liabilities

	2011	2010
Promissory Notes	$44,870	$35,344
Mortgages Payable	75	110
Supplementary Pensions Payable	369	421
	45,314	35,875
Less: Current Portion of Long Term Liabilities	(1,458)	(2,183)
	$43,856	$33,692

(AMOUNTS IN THOUSANDS)

	2011	2010
Province of Manitoba Promissory Notes Secured by:		
509 Ellice and 433 Young Street Interest rate 4.45%, due April 15, 2015	$400	$498
CanWest Centre for Theatre and Film Interest rate 4.00%, due March 31, 2011	0	600
Duckworth Athletic Complex Expansion Interest rate 5.55%, due October 31, 2047	1,949	1,965
Wesley Hall – HVAC Interest rate 3.875%, due June 30, 2010	0	850
McFeetors Hall Bridge Financing Interest rate 4.10%, due September 30, 2013	900	1,200
McFeetors Hall Interest rate 5.25%, due October 31, 2049	10,832	10,916
460 Portage Avenue Interest rate 4.65%, due December 31, 2020	2,696	2,750
460 Portage Avenue Interest rate 5.60%, due December 31, 2050	9,206	5,000
460 Portage Avenue Interest rate 2.625%, due October 31, 2016	2,406	0
366 Spence Street & 336 Young Street Interest rate 4.95%, due March 31, 2051	700	0
Science Complex – Parking Lot Interest rate 4.95%, due March 31, 2051	3,900	0
	32,989	23,779
Province of Manitoba Unsecured Notes:		
491 Portage Avenue – Annex Interest rate 5.40%, due July 31, 2050	2,787	2,800
Pension Settlement Interest rate 5.35%, due January 31, 2050	8,700	8,765
	11,487	11,565
Other Promissory Notes:		
460 Portage Avenue – Deferred Land Lease Interest rate 7.00%, due March 1, 2018	394	0
	$44,870	$35,344

(AMOUNTS IN THOUSANDS)

Annual principal payments on the notes during the next five years and thereafter are: 2012 - $1,370; 2013 - $1,411; 2014 - $1,454; 2015 - $1,198; 2016 - $1,156; thereafter - $38,281.

The mortgage payable, secured by Graham Hall, is payable to Canada Mortgage and Housing with interest at 5 3/8% due October 1, 2012. The Council on Post-Secondary Education annual operating grant provides for the $40 annual mortgage payment. Principal payments on this mortgage during the next two years are: 2012 - $37; 2013 - $38.

Supplementary pensions payable represents payments to past Presidents of the University for services performed and is based on an actuarial calculation. The amount due in 2012 is $51.

The determination of the fair value of the Province of Manitoba promissory notes and the other long term debt is not practicable due to their underlying terms and conditions.

Interest expense during the year on long term liabilities totalled $1,724 (2010 - $649).

13. Deferred Capital Contributions

Deferred capital contributions represent unamortized external contributions related to the purchase of capital assets in the amount of $121,694 (2010 - $90,149) and funds held for future capital project expenditures in the amount of $0 (2010 - $2,489). The amortization of deferred capital contributions is recorded as revenue in the Statement of Operations.

	2011	**2010**
Balance, Beginning of Year	$92,638	$69,377
Contributions Received	29,542	21,310
Contributions from University of Winnipeg Foundation	2,013	4,034
Mortgage Principal Contributions	51	49
Amortization of Deferred Capital Contributions	(2,550)	(2,132)
Balance, End of Year	$121,694	$92,638

(AMOUNTS IN THOUSANDS)

14. Internally Restricted Net Assets

Internally restricted net assets balance at March 31, 2011 is $1,761 (2010 - $1,561). It consists of cumulative net unrestricted trust income of $705 (2010 - $561) and strategic provisions of $1,056 (2010 - $1,000).

The cumulative net unrestricted trust income of $705 is available to fund Board of Regents scholarships.

The strategic provisions additions represent an appropriation from unrestricted net assets to internally restricted assets. These appropriations are made to provide for future funding support of initiatives within the Strategic Plan and the Academic Plan. Actual expenses related to strategic provisions are charged to operations and are covered with a corresponding transfer of funds from internally restricted (see Statement III).

The strategic provisions provide for:

	March 31, 2010	Reductions	Additions	March 31, 2011
Infrastructure				
Capital Reserve	$906	(429)		$ 477
Building Renovations	50			50
Strategic Development				
Internal Research Grants	2			2
Project Development	42	(42)	527	527
	$1,000	($ 471)	$ 527	$1,056

15. Net Assets Restricted for Endowment Purposes

Endowments consist of externally restricted contributions where the principal donation is required to be maintained in perpetuity. The investment income generated from endowments must be used in accordance with the various purposes established by the donors.

Endowments are comprised of long term investments of $1,953 – Note 5 (2010 - $2,170) and cash and short term investments of $675 (2010 – $458).

Endowments of $1,978 (2010 - $1,978) are held in trust in accordance with the terms of a certain bequest. In 2011, the University has a 10% share in the income distribution from this trust (2010 – 10% share).

(AMOUNTS IN THOUSANDS)

16. Financial Instruments

The University is exposed to credit, interest rate and liquidity risk. Based on the University's small amount of foreign currency denominated assets and liabilities, a change in exchange rates would not have a material effect on its Statement of Operations.

Credit risk

Credit risk is the risk of potential loss to the University if a counterparty to a financial instrument fails to discharge an obligation.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at March 31 was:

	Carrying Amount	
	2011	**2010**
Financial Assets Held-For-Trading:		
Cash and Cash Equivalents	$30,051	$22,030
Short Term Investments	900	1,183
Financial Assets Available for Sale:		
Long Term Investments – Fixed Income Instruments	1,953	2,470
Loans and Receivables:		
Accounts Receivable	7,592	8,801
Due From Related Parties	503	137
Long Term Receivables	3,880	0
Advances to 460 Portage Avenue Joint Venture	0	7,750
	$44,879	$42,371

The University manages the credit risk related to these items by maintaining its cash and cash equivalents and its long term investments with highly rated financial institutions. Accounts receivable are due, for the most part, from various levels of government and student fee accounts where collection is considered very likely. The carrying amount of accounts receivable has been reduced through the use of allowance for doubtful accounts. The credit risk on long term investments is considered low as the counterparties are highly rated financial institutions and quality commercial property. The credit risk on long term receivables is considered low as the receivable is from an established not-for-profit organization and secured by their interest in the 460 Portage Avenue Joint Venture.

(AMOUNTS IN THOUSANDS)

The aging of accounts receivable at March 31 is as follows:

	2011	2010
Accounts Receivable, gross		
Current	$6,363	$7,733
Past Due	1,555	1,422
	7,918	9,155
Less: Allowance for Doubtful Accounts	(326)	(354)
Accounts Receivable, net	$7,592	$8,801

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The University's exposure to interest rate risk is concentrated in its cash equivalents. Generally, the value of cash equivalents increases if interest rates fall and decrease if interest rates rise. Due to the short term nature of the cash equivalents, the University has minimal exposure to risk associated with changes in interest rates.

Long-term liabilities are at fixed interest rates and terms

Liquidity risk

Liquidity risk is the risk that an investment could not be readily converted into cash when needed. The risk is managed by holding the majority of our investments in cash and cash equivalents. As cash equivalents are held in a premium money market fund in which at least 90% of the assets must be comprised of liquid investments, the exposure to liquidity risk is not considered material.

Fair value disclosure

The fair values of accounts receivable, due from related parties, accounts payable and accrued liabilities, staff benefits, and due to related parties approximates their carrying values due to their short term maturity.

Cash and cash equivalents and short and long term investments have been categorized based upon a fair value hierarchy in accordance with the amendment to CICA 3862. See Note 2 for a discussion of the University's policies regarding this hierarchy. The following fair value hierarchy table presents information about the University's cash and cash equivalents and short and long term investments measured at fair value as at March 31, 2011. There have been no transfers between levels during the year.

Investments at Fair Value as at March 31, 2011				
	Level 1	Level 2	Level 3	Total
Cash & Cash Equivalents	$30,051			$30,051
Short Term Investments		900		900
Fixed Income Investments		1,229		1,229
	$30,051	$2,129		$32,180

(AMOUNTS IN THOUSANDS)

Investments at Fair Value as at March 31, 2010				
	Level 1	Level 2	Level 3	Total
Cash & Cash Equivalents	$22,030			$22,030
Short Term Investments		1,183		1,183
Fixed Income Investments		1,746		1,746
	$22,030	$2,929		$24,959

17. Capital Disclosures

The University's objectives in managing capital are:

- minimizing the cost of capital
- preserving the ability to continue as a going concern
- maintaining flexibility to ensure the ongoing ability to execute the Strategic Plan

The University's capital is comprised of its unrestricted net assets (deficiency), internally restricted net assets and long term liabilities. Capital in unrestricted net assets (deficiency) includes long term debt used to finance the payment of the pension settlement and supplementary pensions payable. The balance of long term debt is used to finance the acquisition of capital assets.

The University has various policies in place to manage capital, including a policy requiring Board approval on major capital expenditures, securing debt and capital budget approval. The University also uses its unrestricted net assets in a strategic fashion to support the Strategic Plan, special initiatives and campus expansion and redevelopment. The University also maintains deferred contribution accounts and endowments for externally restricted funding. These funds are managed with the objective of spending the funds in accordance with the various terms stipulated in the funding arrangements.

The University's Statements of Financial Position, Operations, and Changes in Fund Balances set out balances at the beginning and the end of the year.

For the year ended March 31, 2011, there were no changes in capital management strategy, and the University has met its externally imposed capital requirements.

18. University of Winnipeg Trusteed Pension Plan (the Plan)

The Plan was established as a contributory defined benefit pension plan at September 1, 1972. The Plan is registered under the Income Tax Act and the Manitoba Pension Benefits Act (Registration #309914). A Trust Company holds the assets under a Trust Agreement and provides daily administration of the Plan. Professional investment managers administer the portfolio. The University was responsible for overseeing the administration of the Plan, until July 2008 when an independent Board of Trustees assumed responsibility for administration of the Plan.

(AMOUNTS IN THOUSANDS)

The Plan covers all eligible employees of the University of Winnipeg, except those who are members of the United Church of Canada Pension Plan. Permanent academic employees join the Plan on their date of employment. Permanent non-academic employees may elect to join on their date of employment, but must join on their first anniversary date of employment. The defined benefit side of the Plan is now closed (as of December 31, 2000), and all new employees must now participate in the defined contribution side of the Plan.

At December 31, 2010 the fair value of the Plan's net assets was \$139,414 (2009 - \$129,423). Under the Plan, contributions are made by Plan members, which are matched by the University of Winnipeg for the defined contribution members; for defined benefit members, an additional 1% is paid by the University plus any amounts required to be funded in order to comply with the requirements of the Pension Benefits Act of Manitoba. A member who receives benefits from the long term disability plan of the University is not required to contribute to the Plan. The annual pension payable to a defined benefit member on retirement is based on the member's final average earnings and years of credited service.

In accordance with the Canadian Institute of Chartered Accountants (CICA) accounting standard for Employee Future Benefits, Section 3461 of the CICA Handbook – Accounting, the University uses a three-month accelerated measurement date for financial reporting purposes. As a result, with respect to the defined benefit segment of the Plan, the reported value of the plan assets and plan obligations as at December 31, 2010 are \$113,074 and \$137,402 respectively. The corresponding values for the plan assets and plan obligations projected to the fiscal year-end, March 31, 2011 are \$114,611 and \$137,880 respectively.

Defined Contribution Obligation

The obligation for pension benefits under the defined contribution segment of the Plan will always be equal to the net assets in each member's account. Therefore, no surplus or deficiency arises from fluctuations in the investment market.

The defined contribution segments of the Plan are:

	December 31 2010	December 31 2009
Balance, Beginning of Year	\$21,850	\$16,458
Contributions	3,465	2,784
Benefits and Refunds Paid	(1,156)	(525)
Net Investment Return	2,191	3,133
Balance, End of Year	\$26,350	\$21,850

(AMOUNTS IN THOUSANDS)

Defined Benefit Obligation

In accordance with the Pension Benefits Act, an actuarial valuation of the defined benefit segment of the Plan is required at least every three years. An actuarial valuation of the Plan was prepared and filed with the Manitoba Pension Commission as at December 31, 2007 by Eckler Ltd., a firm of consulting actuaries. The membership data as at December 31, 2007 was subsequently projected to December 31, 2008. An actuarial valuation of the Plan was prepared as at December 31, 2008 and the results were extrapolated by Eckler Ltd. to December 31, 2009 for the purpose of determining the pension expense for the fiscal year ending March 31, 2010. A second actuarial valuation of the Plan was prepared as at December 31, 2008 by Eckler Ltd., and the results were extrapolated by them to December 31, 2010 for the purpose of determining the benefit obligation as at December 31, 2010.

The benefit obligation has been calculated pursuant to CICA Handbook 3461, using a modified market-related discount rate. This approach can differ from the calculation of the benefit obligation in the Trusteed Pension Plan Financial Statements which uses an expected long term rate of return.

Excluding the obligation with respect to the Revised Order of the Superintendent of Pensions, made June 6, 2008, the financial information is based on the financial position of the Defined Benefit Pension Plan as of December 31, 2009, the "measurement date" and for the purpose of financial statements, the in-year pension expense (and the calculation of the valuation allowance in particular) reflects the employer contributions to the Plan with respect to the three-month period ending March 31, 2010.

Change in Defined Benefit Obligation

	December 31 2010	December 31 2009
Benefit Obligation, January 1	$123,437	$120,328
Current Service Cost	2,225	2,293
Interest Cost	7,230	7,100
Benefits and Refunds Paid	(8,085)	(6,284)
Actuarial Loss	12,595	0
Benefit Obligation, December 31	$137,402	$123,437

Change in Plan Assets

	December 31 2010	December 31 2009
Fair Value of Plan Assets, January 1	$107,573	$95,016
Actual Return on Plan Assets, Net of Expenses	10,777	16,183
Employer Contributions	1,957	1,780
Employee Contributions	852	878
Benefits and Refunds Paid	(8,085)	(6,284)
Fair Value of Plan Assets, December 31	$113,074	$107,573

(AMOUNTS IN THOUSANDS)

Reconciliation of Funded Status

	March 31 2011	March 31 2010
Funded Status – Deficit	($24,328)	($15,864)
Employer Contributions After December 31	403	420
Unamortized Transitional Asset	(1,820)	(2,276)
Unamortized Net Actuarial Loss	23,961	16,259
Accrued Benefit Liability, Before Valuation Allowance	(1,784)	(1,461)
Valuation Allowance	0	0
Accrued Benefit Liability, Net of Valuation Allowance	($1,784)	($1,461)

Components of Pension Expense

	December 31 2010	December 31 2009
Employer Share of Current Service Cost	$1,373	$1,415
Interest Cost	7,230	7,100
Expected Return on Plan Assets	(6,296)	(5,592)
Amortization of Transitional Asset	(456)	(456)
Amortization of Actuarial Loss	412	1,646
Decrease in Valuation Allowance	0	(874)
Net Pension Expense	$2,263	$3,239

Significant actuarial assumptions used in the determination of the pension expense were:

Discount rate	- pre and post-retirement	6.00%	6.00%
	- provision for post-retirement indexing	0.25%	0.25%
Rate of salary increase	- 2009	2.50%	2.50%
	- thereafter	4.00%	4.00%
Expected rate of return on Plan Assets		5.55%	6.00%

Significant actuarial assumptions used in the determination of the defined benefit obligation at December 31 were:

Discount rate	- pre and post-retirement	5.00%	6.00%
	- provision for post-retirement indexing	0.50%	0.25%
Rate of salary increase	- 2009	2.50%	2.50%
	- thereafter	3.40%	4.00%

(AMOUNTS IN THOUSANDS)

Funding Obligation

In the event that the actuarial valuation of the Plan determines that the Plan is not fully funded, the University is responsible for providing adequate funding levels in accordance with the *Pension Benefits Act of Manitoba.*

The actuarial valuation at December 31, 2007 confirms that the defined benefit segment of the Plan has a solvency deficiency of $20,665.

The University would normally be required under the *Pension Benefits Act* to make additional contributions to amortize the solvency deficiency over a five year period. However, the Provincial Government has provided universities in Manitoba with an opportunity to be permanently exempted from the usual solvency funding requirements, while the Plan continues on a going-concern basis. The University Pension Plan's Exemption Regulation (Regulation 141/2007) was registered October 15, 2007. The University has complied with all requirements to be entitled to the permanent exemption.

The going-concern deficiency at December 31, 2007 was $2,384 and the annual deficiency funding payments are $386, which the University will continue to make until the deficiency is eliminated.

In addition, because of the going-concern deficiency at December 31, 2007, the University is also required to make an additional contribution of $291 (2009 - $295) to cover the current service shortfall.

During 2005, amendments were made to the *Pension Benefits Act* which will affect the benefits payable from the Plan. The regulations implementing the amendments were published in March 2010, and the benefit changes came into effect on May 31, 2010. The benefit changes were treated as a plan amendment at that date. The Plan's Actuary had estimated in 2009 that these changes would add approximately $1,900 to the actuarial present value of accrued benefits as at December 31, 2008.

19. Contractual Obligations

The University has operating lease obligations that cover equipment and building space integral to the University's operations. The lease obligations expire at various dates up to and including March 1, 2030. In addition, the University has entered into a number of contracts to complete capital additions and renovations on campus properties during the upcoming year. The above obligations require annual payments over the next five years and thereafter as follows:

2011/12	$5,574
2012/13	2,359
2013/14	2,313
2014/15	2,251
2015/16	1,365
Thereafter	11,319
	$25,181

20. The University of Winnipeg Foundation Inc.

The University's Board of Regents approved the establishment of the University of Winnipeg Foundation Inc. in March 2003. The Foundation's vision is to strengthen, deepen and advance the University's mission through the creation of a long term income stream.

The establishment of the Foundation is based upon mutually binding agreements between the University and the Foundation that provide for the administration of the specified fund, the basis of operation and the relationship between the University and the Foundation, the transfer of endowment funds and the provision of support services by the University to the Foundation.

The agreements with the Foundation are as follows:

(a) Coordination, Cooperation and Funding Agreement

The University and the Foundation have jointly agreed that all future fund raising activities directed to the general public shall generally be conducted by the Foundation. However, certain fund raising activities, such as the Wesmen Booster Club and direct gifts to libraries, will continue on an agency basis through the University.

During the 2010-2011 budget discussions and as approved by the University's Board of Regents and the Foundation's Board of Directors, the University agreed to provide an operating grant to the Foundation of $550 for the year. (2010 - $275) The operating grant is subject to annual approval of the Board of Regents.

(b) Occupancy and Support Agreement

This Agreement, which was renewed April 1, 2009 and expires March 31, 2014, documents the basis upon which the Foundation occupied space on campus and the Foundation's use of certain existing systems, programs and personnel of the University. Through this agreement, the Foundation has agreed to pay the University a fee for occupancy and support services. The fee for the year ended March 31, 2011 for occupancy and support services and the corresponding grant to the Foundation to offset these costs was $173 (2010 - $173).

(c) Endowment Fund Agreement

The University and the Foundation entered into an Agreement that provided for the transfer of existing endowment funds from the University to the Foundation, with an effective date of April 1, 2004.

This Agreement states that the Foundation will assume responsibility for the Endowment Fund effective April 1, 2004. In accordance with the Endowment Agreement, the Foundation has a commitment to provide the University with an amount equal to the agreed percentage multiplied by the current year's beginning balance of the contributed capital. The agreed percentage is established by the Foundation and the University between September and December of each year.

The University and the Foundation have agreed that the amount will be determined by applying the agreed percentage (4.25% for 2008-2009) to the prior year beginning balance of the contributed capital plus a pro-rated percentage of the agreed percentage for those gifts received in each quarter of the previous year. (ie. ¾ of 4.25% for those gifts received in the first quarter, ½ of 4.25% in the second quarter and ¼ of 4.25% for those gifts received in the third quarter). Based on this formula, the Foundation provided the University with $1,119 in 2008-2009.

Due to the decline in value of the Endowment Fund, as a result of the global economic downturn in 2008-2009, the Endowment Fund was only able to provide a gift of $1,100 in 2010-2011 ($383 in 2009-2010).

The Foundation is entitled to an annual administration fee equal to ½ of 1% of the Endowment Fund capital of the previous year (or such other higher percentage as the University may agree to from time to time). On April 24, 2008, the University confirmed its continued support of the Foundation by providing that the Foundation may continue to retain an annual administration fee of 2% each year for the duration of the Capital Campaign.

(d) Endowment Supplemental Agreement

This agreement, signed on July 22, 2008, formalizes practices in place between the Foundation and the University with respect to the handling of residuals, immature funds and the calculation of the award based on the agreed percentage.

The financial information of the Foundation is not consolidated in the University's financial statements and is provided within this note and Note 23 on Related Party Transactions and Balances. The Foundation is a controlled entity of the University based upon the following factors:

i) The University has a significant economic interest in the Foundation which conducts its activities for the exclusive benefit of the University.

ii) The Foundation requires the University's consent to amend its by-laws.

iii) The objectives of the Foundation and the University have the common purpose to strengthen, deepen and advance the University's mission.

Financial Position:

The Foundation follows the restricted fund method of accounting for contributions. The Foundation maintains separate funds within its assets and follows the principles of fund accounting to record the day to day transactions.

(AMOUNTS IN THOUSANDS)

The financial position of the Foundation at March 31 is summarized as follows:

	2011	2010
Statement of Financial Position:		
Assets	$40,010	$37,705
Liabilities	525	307
Fund Balances:		
Operating Fund	181	194
Unrestricted Fund	2	3
Investment in Capital Assets	25	34
Building and Program Fund	674	2,074
Funds Held Pending Terms of Reference	79	125
Unrestricted Bequests	44	42
Endowment Fund	38,480	34,926
	39,485	37,398
	$40,010	$37,705
Statement of Operations		
Sources of Funds:		
Transfer from University of Winnipeg	$516	$55
Investment Income	1,367	912
Unrealized Gain (Loss) on Investments	1,779	4,739
University of Winnipeg Support Funding	723	448
Endowment Administration Fee	685	500
Annual Donations	4,836	4,891
	9,906	11,545
Uses of Funds:		
Endowment - Gifts to the University	1,100	383
Endowment - Administration Fee	685	500
Endowment - Administration Expenses	106	106
Operations	1,560	1,456
Donations Gifted to the University of Winnipeg	4,368	6,147
	7,819	8,592
Increase (Decrease) in Funds	$2,087	$2,953

(AMOUNTS IN THOUSANDS)

Restrictions are placed upon expenditures within Funds including:

i) The Operating Fund reflects the administrative and overhead costs of undertaking the Foundation's activities.

ii) The Unrestricted Fund records the receipt of donations received in the year that are identified by the donor to go to the area of greatest need.

iii) The Building and Program Fund is specifically intended to record the receipt of all donations intended for University programs and capital projects.

iv) The Funds Held Pending Terms of Reference includes donations received for capital gifts, endowment gifts, and other restricted purposes not yet allocated pending donor wishes.

v) Unrestricted Bequest Gifts include monies received from estates in which the funds and accrued interest can be retained by the Foundation to support its ongoing operations.

vi) The Endowment Fund reports the receipt of funds established from gifts by donors, which are designated to remain under the Foundation's management in perpetuity for endowment purposes.

In the Coordination Cooperation and Funding Agreement, the University has agreed to provide the Foundation with a $300 per annum operating grant, reducing by $30 per annum commencing in 2010-2011. This funding commitment will end in 2013-2014.

The University is required to make annual payments over the next 3 years as follows:

2011/12	240
2012/13	210
2013/14	180
	$ 630

For 2010-2011, the University and the Foundation agreed that the operating grant would be $550. However, no formal agreement has been signed to reflect this change.

21. University of Winnipeg Community Renewal Corporation

The University of Winnipeg Community Renewal Corporation (UWCRC) was incorporated by Articles of Incorporation, without share capital, on April 6, 2005, as a controlled entity of the University. UWCRC's mandate is to support the University by developing a sustainable university community that promotes the attractiveness of the University to its faculty, staff, students, and the greater community. As part of its mandate, UWCRC will manage projects on behalf of the University, including but not limited to, the development of a comprehensive Campus and Community Development Plan, the assessment of particular development projects and the development of partnerships with community, private and public sector organizations.

During the year, UWCRC provided consulting services to the University in connection with the following in accordance to agreements entered into between the UWCRC and the University:

a) To assist the University with the design and development of the Science Building Complex on the basis of a per diem fee of $1 for a total of $52 for the year.

b) To assist in the early development of a variety of capital projects on behalf of the University based on a fee for performance contract. The amount of the consulting fee for services rendered in the year is $75.

c) To manage the University's Student Housing assets and all aspects of the Student Housing Program for a fixed annual fee of $250. In return, UWCRC contracted back to the University for delivery of the Student Life aspects of the Student Housing Program, which continues to be managed by the University's Student Life Services Department, for a fixed annual fee of $190.

d) In addition, the University paid $275 for management services related to student housing and food services. In return UWCRC contracted back from the University Food Services for a fee of $30.

UWCRC holds a 25% investment in the land and building situated at 491 Portage Avenue ("Property") in Winnipeg, Manitoba. It does so by owning all of the shares of 4332181 Manitoba Ltd., which owns 25% of the property and shares of 4306946 Manitoba Ltd. The latter entity holds title to the Property as bare trustee for its shareholders. The Property is a commercial complex comprising an office building, retail stores and a parkade adjacent to the University's main Campus. The University is leasing office space in the Property.

UWCRC records its 25% investment in the Property on an equity basis as a result of significant influence.

As one of the conditions to obtaining financing for the Property, the financing company required that the University take responsibility for assuring that the debt service coverage ratio on the Property did not go below 1.0:1.0; (that is, that the Property would always generate $1.00 in revenue from its tenants for each $1.00 the owners of the Property are required to pay to its lender). If for any reason the Property fell below that ratio, the University would be required to lease space in the property at normal commercial rents, or assure that another tenant is obtained, such that the additional revenue would bring the debt service coverage ratio back to 1.0:1.0. The debt service coverage ratio did not go below 1.0:1.0 during the 2010-11 fiscal year.

(AMOUNTS IN THOUSANDS)

The financial position of UWCRC at March 31 is summarized as follows:

	2011	2010
Statement of Financial Position:		
Assets:		
Cash	$179	$173
Accounts Receivable	129	303
Income Taxes Recoverable	38	0
Due from University of Winnipeg (Note 23)	12	5
Capital Assets	787	807
Investments, at Equity	1,225	1,022
	$2,370	$2,310
Liabilities and Net Assets:		
Accounts Payable and Accrued Liabilities	$77	$96
Current Portion of Long Term Debt	29	30
Long Term Debt	248	275
Deferred Capital Contributions	411	422
Future Income Taxes	166	115
Net Assets	1,439	1,372
	$2,370	$2,310

	2011	2010
Statement of Operations and Changes in Net Assets:		
Revenue		
Share of Equity Income	$203	$116
Consulting	681	832
Other	79	65
	963	1,013
Expenses	896	851
Excess of Revenue over Expenses	67	162
Net Assets – Beginning of Year	1,372	1,164
Investment in Capital Assets and Transfers	0	46
Net Assets – End of Year	$1,439	$1,372

(AMOUNTS IN THOUSANDS)

22. Contingencies

The University is named as a defendant in litigations where legal action has commenced or is anticipated. While the ultimate outcomes of these proceedings cannot be predicted at this time, management and its legal counsel are of the opinion that, either the outcomes will not have a material effect on the financial position of the University, or the outcomes are not determinable. No provision has been made in the financial statements in respect of these claims, as of March 31, 2011.

23. Related Party Transactions and Balances

The Foundation and UWCRC are controlled entities of the University. The Trusteed Pension Plan and the 460 Portage Avenue Joint Venture are also related parties.

The University charges benefit administration costs to the Trusteed Pension Plan. The charge for 2010-2011 was $53 (2009-2010 - $52). These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During the year ending March 31, the University incurred transactions as follows:

		2011	2010
From the University to the Foundation:			
i)	Operating grant	$550	$275
ii)	Transfer of residuals for endowment	$516	$31
iii)	Transfer of matching funds for endowment	$539	$339
iv)	Occupancy & Support Agreement (Note 20 b)	$173	$173
From the Foundation to the University:			
i)	Transfer of annual donations	$4,368	$6,147
ii)	Income allocation	$1,100	$383
iii)	Advance of 2010/11 income allocation	$0	$500
iv)	Occupancy & Support Agreement (Note 20 b)	$173	$173
From the University to UWCRC			
i)	Consulting fees (excluding GST)	$641	$728
From UWCRC to the University			
i)	Management fees	$220	$296
From the University to the Joint Venture			
i)	Lease expense	$173	$0
ii)	Capital contribution	$484	$0
From the Joint Venture to the University			
i)	Service fees	$44	$0

(AMOUNTS IN THOUSANDS)

These transactions are recorded at the exchange amount which is the amount established and agreed to by the related parties. The University's share of the Joint Venture related party transactions have been eliminated upon consolidation of the Joint Venture.

At the end of the year, the amounts due to and from related parties are as follows:

	2011	2010
Due from Related Party		
Foundation	$359	$137
UWCRC	70	0
460 Portage Avenue Joint Venture	74	0
	503	137
Due from 460 Portage Avenue Joint Venture		
Notes Receivable	9,101	0
Due to Related Parties		
Foundation	539	339
UWCRC	82	5
	$ 621	$ 344

24. Richardson College for the Environment & Science Complex

The University has commenced the development of the Richardson College for the Environment and Science Complex, which was completed in April 2011. The University signed a Definitive Agreement with Laureate Developments Inc. (the Developer) to assemble and transfer lands to the University that will become the site for the University's Science Complex, develop and build the Science Building Complex for the University on a turnkey basis and assist the University in attracting partners to the project for the purposes of fund-raising.

The University has received $25,000 from the Provincial Government as a contribution towards the funding of the Science Building Complex. This capital funding has been recorded as deferred capital contributions. The funding is financed by six promissory notes payable to the Province of Manitoba bearing interest at rates ranging from 5.15% to 5.95%. The notes are notionally repayable over a term of 40 years with funding from the Province of Manitoba.

25. 460 Portage Avenue Joint Venture

The University of Winnipeg entered into a Joint Venture Agreement with the Plug-In Institute of Contemporary Art (Plug-In ICA) in July 2009. The Agreement calls for the development of a three story building on the south-west corner of Portage Avenue and Colony Street, and for joint control between the University and the Plug-In ICA of that facility. A fourth floor was later added which is solely owned by the University and is not part of the Joint Venture with Plug-in ICA.

The University owns two-thirds of the Joint Venture with Plug-in ICA controlling the remaining third. The joint venture's revenues consist of long term space leases with a Café owner, parking revenue and "rents" from the ventures which are intended to cover the capital and operating costs of the Joint Venture on the basis of square footage occupied. The University is the Property Manager for the 460 Portage Ave Joint Venture and processes all of the Joint Ventures financial transactions, as well as providing certain services, the cost of which are reimbursed by the Joint Venture as disclosed in note 23 – related parties.

(AMOUNTS IN THOUSANDS)

The following is a summary of the University's proportionate share of the financial position, results of operations and cash flows of the Joint Venture included in the consolidated financial statements for the year ended March 31, 2011.

	2011
Statement of Financial Position	
Assets:	
Accounts Receivable and Prepaid Expenses	4
Capital Assets	6,942
Intangible Asset	1,325
	8,271
Liabilities and Venturers' Equity	
Accounts Payable and Accrued Liabilities	5
Due to the University of Winnipeg	6,116
Deferred Capital Contributions	320
Venturers Equity	1,830
	8,271
Statement of Operations	
Revenues	
Parking	12
Amortization of Deferred Capital Contribution	3
Expense Recovery from Venturers	142
	157
Expenses	
Building Operating	109
Interest	151
Amortization	58
Amortization of Intangible Asset	8
	326
Net Loss	(169)
Statement of Cash Flows	
Cash Receipts from Tenants & Venturers	155
Cash Paid to Suppliers	(109)
Interest Paid	(151)
Cash Flows used by Operating Activities	(105)
Venturers' Contributions	667
Proceeds from Long Term Financing	6,085
Capital Contributions Received	322
Other Financing Activities	31
Cash Flows from Financing Activities	7,105
Cash Flows used in Investing Activities – Purchase of Capital Assets	(7,000)
Net Change in Cash Position	0

Some of these balances were netted against balances on the University's accounts on consolidation.

The intangible asset included in the Joint Venture represents the University's ability to obtain long term financing and is valued at the amount agreed to in the Joint Venture Agreement. The University's portion of the intangible asset as well as certain other balances were eliminated in the University's accounts on consolidation.

Construction of the building resulted in a number of deficiencies which had to be rectified upon possession. The cost of remedial action is included in the cost of the building, however the Joint Venture is negotiating with the design team for the building and expects to be able to recover some of these costs. The result of these negotiations is unknown, but may result in costs between $0 and $225 being recovered by the Joint Venture. The University's share of these costs would be two thirds or $0 to $150.

For 2009-10 the University's statement of financial position included the loans payable related to the Joint Venture and Advances to 460 Portage Avenue Joint Venture for the same amount (2010 - $7,750) as the Building was under construction. There was no net income (loss) from the joint venture for the year ended March 31, 2010.

26. Reclassification of Comparative Figures

Certain 2010 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2011.

Independent Auditors' Report

To the Shareholder of Venture Manitoba Tours Ltd.:

We have audited the accompanying financial statements of Venture Manitoba Tours Ltd., which comprise the balance sheet as at March 31, 2011 and the statements of operations and deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Venture Manitoba Tours Ltd. as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Winnipeg, Manitoba

June 9, 2011

MNP LLP
Chartered Accountants

Venture Manitoba Tours Ltd.
Balance Sheet
As at March 31, 2011

	2011	2010
Assets		
Current		
Cash	-	57,110
Accounts receivable	**14,905**	5,917
Inventory *(Note 3)*	**38,469**	34,473
Prepaid expenses and deposits	**45,302**	53,618
	98,676	151,118
Property and equipment *(Note 4)*	**688,353**	674,293
	787,029	825,411
Liabilities		
Current		
Bank indebtedness *(Note 5)*	**53,484**	-
Accounts payable and accruals	**85,721**	99,796
Customer deposits	**5,085**	5,167
Advances from the Province of Manitoba *(Note 6)*	**250,000**	250,000
	394,290	354,963
Shareholder's Equity		
Share capital *(Note 7)*	**3,643,500**	3,643,500
Deficit	**(3,508,671)**	(3,430,962)
Contributed surplus	**257,910**	257,910
	392,739	470,448
	787,029	825,411

Approved on behalf of the Board

_______________________________ **Director** _______________________________ **Director**

The accompanying notes are an integral part of these financial statements

MNP

Statement of Operations and Deficit

For the year ended March 31, 2011

	2011	2010
Sales	**1,138,919**	1,258,369
Cost of sales	**936,390**	968,307
Gross margin	**202,529**	290,062
Operating expenses *(Schedule 1)*	**165,771**	157,278
Earnings from operations	**36,758**	132,784
Other income (expense)		
Amortization	**(141,467)**	(140,884)
Gain on disposal of assets	**42,000**	35,800
Development study	**(15,000)**	-
	(114,467)	(105,084)
Net earnings (loss)	**(77,709)**	27,700
Deficit, beginning of year	**(3,430,962)**	(3,458,662)
Deficit, end of year	**(3,508,671)**	(3,430,962)

The accompanying notes are an integral part of these financial statements

Venture Manitoba Tours Ltd.
Statement of Cash Flows
For the year ended March 31, 2011

	2011	*2010*
Cash provided by (used for) the following activities		
Operating activities		
Cash received from customers	**1,129,838**	1,242,410
Cash paid to suppliers and employees	**(1,126,665)**	(1,088,683)
Interest received	**12**	62
Interest paid	**(254)**	(183)
	2,931	153,606
Investing activities		
Purchases of property and equipment	**(155,525)**	(162,668)
Proceeds on disposal of property and equipment	**42,000**	35,800
	(113,525)	(126,868)
Increase (decrease) in cash resources	**(110,594)**	26,738
Cash resources, beginning of year	**57,110**	30,372
Cash resources (deficiency), end of year	**(53,484)**	57,110

The accompanying notes are an integral part of these financial statements

MNP

1. Incorporation and operations

Venture Manitoba Tours Ltd. (the "Company") was incorporated under the Manitoba Corporations Act. The issued shares are owned by the Province of Manitoba.

The Province of Manitoba owns the Falcon Lake Golf Course and Games Area. The Company operates this facility under a lease agreement with the Province of Manitoba. The Company is responsible for the operating costs of the golf course and games area, and, in return, is authorized to realize the revenue generated by their operations. These facilities are situated in the Whiteshell Provincial Park and are not subject to realty taxes.

The Company is not subject to income tax.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined by the first-in, first-out method.
Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling costs.

Property and equipment

Property and equipment are recorded at cost less applied grant funds. Amortization is provided using the straight-line method at rates intended to amortize the cost of assets over their estimated useful lives.

	Rate
Staff quarters	10 to 25 years
Automotive	3 years
Computer equipment	3 years
Golf course improvements	10 to 40 years

These financial statements do not include the property and equipment of the Falcon Lake Golf Course and Games Area which are owned by the Province of Manitoba.

Revenue recognition

The Company recognizes revenue when the goods are received by the customer and the services are provided.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Amortization is based on the estimated useful lives of property and equipment.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

Long-lived assets

Long-lived assets consist of property and equipment. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Company performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from its use and disposal are less than the asset's carrying amount. Impairment is measured as the amount by which the asset's carrying value exceeds its fair value. Any impairment is included in earnings for the year.

Financial instruments

Held for trading:

The Company has classified cash and bank indebtedness as held for trading. These instruments are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties.

Held for trading financial instruments are subsequently measured at their fair value. Gains and losses arising from changes in fair value are recognized immediately in income.

Loans and receivables:

The Company has classified accounts receivable as loans and receivables. These assets are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties.

Loans and receivables are subsequently measured at their amortized cost. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments and any reduction for impairment or uncollectability. Gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment.

Other financial liabilities:

The Company has classified accounts payable and accruals and advances from the Province of Manitoba as other financial liabilities. These liabilities are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties.

Other financial liabilities are subsequently measured at amortized cost. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments. Gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment.

Comprehensive income

The Company does not have any items giving rise to other comprehensive income (loss), nor is there any accumulated balance of other comprehensive income. All gains and losses, including those arising from measurement of all financial instruments have been recognized in net income for the period.

Recent accounting pronouncements

Adoption of Public Sector Accounting Standards by government organizations

In August 2010, the Public Sector Accounting Board (PSAB) issued PS 2125 First-time Adoption by Government Organizations. PS 2125 establishes recognition, measurement, presentation and disclosure standards relating to adoption by a government organization of the CICA Public Sector (PSA) Handbook for the first time. This new section specifically addresses the accounting in a government organization's first set of financial statements prepared in accordance with Canadian public sector accounting standards ("public sector accounting standards"). PS 2125 is effective for fiscal years beginning on or after January 1, 2011; however early adoption is permitted. The Company has not yet determined the impact of adoption of the new standards on its financial statements.

3. Inventory

The cost of inventories recognized as an expense and included in cost of sales amount to $72,107 (2010 - $95,912).

4. Property and equipment

	Cost	Accumulated amortization	2011 Net book value
Staff quarters	102,395	57,321	45,074
Automotive	1,087,036	919,728	167,308
Computer equipment	68,174	67,280	894
Golf course improvements	653,500	178,423	475,077
	1,911,105	1,222,752	688,353

	Cost	Accumulated amortization	2010 Net book value
Staff quarters	102,395	53,226	49,169
Automotive	1,018,612	869,903	148,709
Computer equipment	68,174	64,595	3,579
Golf course improvements	632,952	160,116	472,836
	1,822,133	1,147,840	674,293

5. Bank indebtedness

Bank indebtedness includes an operating line of credit with a limit of $250,000 (2010 - $250,000), bearing interest at Royal Bank of Canada's prime interest rate and secured by the Province of Manitoba.

6. Advances from the Province of Manitoba

The Advances from the Province of Manitoba are unsecured, non-interest bearing and due on demand.

7. Share capital

	2011	2010
Authorized		
Unlimited Common shares		
Issued		
Common shares		
3,643,500 Common shares	3,643,500	3,643,500

8. Commitments

The Company operates the Falcon Lake Golf Course and Games Area under lease agreements with the Province of Manitoba for an annual amount of $114,686 (2010 - $109,441). This amount is included in cost of sales for the year.

The Company rents office space and equipment under various operating leases which expire in 2016 for an annual amount of $63,270.

9. Government reporting entity - related parties

The following information is presented in accordance with a request by the Minister of Finance of The Government of the Province of Manitoba.

As at March 31, 2011, the Company had the following balances with entities in the Government Reporting Entity:

	2011	*2010*
Payable to:		
Manitoba Hydro	**1,196**	1,304
Department of Conservation	**-**	1,105
Manitoba Liquor Control Commission	**-**	(102)
	1,196	2,307

10. Financial instruments

The Company as part of its operations carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

11. Capital management

The Company considers its capital to be the balance maintained in its Shareholder's Equity. The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide services to its customers.

The Company sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in light of changes to economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may decrease expenses.

The Company monitors capital on a monthly basis, as well as annually, including the Board's input as to the capital management approach to take, and through advice from the Company's shareholder. During the year, the Company's strategy was to protect the capital through minimizing operating expenses.

Venture Manitoba Tours Ltd.
Schedule 1 - Operating Expenses
For the year ended March 31, 2011

	2011	*2010*
Credit card discount	**16,244**	17,317
Directors' fees	**16,240**	9,642
Equipment rentals	**586**	305
Insurance and leases	**9,736**	9,511
Interest and bank charges	**254**	183
Membership fees	**50**	160
Miscellaneous	**1,492**	1,065
Office	**586**	428
Printing and stationary	**1,995**	1,060
Professional fees	**7,000**	6,397
Repairs and maintenance	**2,823**	8,093
Salaries, wages and benefits	**77,021**	73,170
Sales office rent	**6,292**	5,619
Tee reservations	**4,568**	2,321
Telephone and postage	**3,983**	3,739
Training and education	**7,012**	7,111
Transportation	**5,929**	5,347
Utilities	**3,960**	5,810
	165,771	157,278

GOVERNMENT ENTERPRISES

MANAGEMENT REPORT
For the year ended March 31, 2011

The accompanying consolidated financial statements and all additional information contained in the Annual Report are the responsibility of management and have been approved by the Manitoba Hydro-Electric Board. The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, applied on a basis consistent with that of the preceding year. In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available up to June 23, 2011. The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Management maintains internal controls to provide reasonable assurance that the assets of the Corporation are properly safeguarded and that the financial information is reliable, timely and accurate. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its finding to management and to the Audit Committee of the Board.

The responsibility of the external auditors, Ernst & Young LLP, is to express an independent, professional opinion on whether the consolidated financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditors' Report outlines the scope of their examination and their opinion.

The Audit Committee of the Board is comprised of five members, the majority of whom are members of the Manitoba Hydro-Electric Board. The Audit Committee of the Board meets with the external auditors, representatives of the Auditor General's Office, the internal auditors and management to satisfy itself that each group has properly discharged its respective responsibility and to review the consolidated financial statements before recommending approval by the Board. The internal and external auditors have full and unrestricted access to the Audit Committee, with or without the presence of management. The Board reviews the Annual Report in advance of its release and approves its content and authorizes its publication.

On behalf of management:

R. B. Brennan, FCA
President and Chief Executive Officer

V. A. Warden, CMA, FCMA
Senior Vice-President,
Finance & Administration and Chief Financial Officer

Winnipeg, Canada
June 23, 2011

Auditors' Report

To the Board of Directors of
Manitoba Hydro-Electric Board

We have audited the accompanying consolidated financial statements of **Manitoba Hydro-Electric Board**, which comprise the consolidated balance sheet as at March 31, 2011 and the consolidated statements of income, comprehensive income, accumulated other comprehensive income, retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Manitoba Hydro-Electric Board** as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Winnipeg, Canada,
June 23, 2011.

Chartered Accountants

Ernst & Young LLP

CONSOLIDATED STATEMENT OF INCOME
For the year ended March 31

		Notes	2011	2010
			millions of dollars	
Revenues				
Electric	Manitoba		1 217	1 156
	Extraprovincial	3	398	427
Gas	Commodity		261	316
	Distribution		143	138
			2 019	2 037
Cost of gas sold			261	316
			1 758	1 721
Expenses				
Operating and administrative			462	440
Finance expense		4	425	410
Depreciation and amortization			393	384
Water rentals and assessments		5	120	121
Fuel and power purchased			106	104
Capital and other taxes			102	99
			1 608	1 558
Net Income			150	163

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
For the year ended March 31

	Notes	2011	2010
		millions of dollars	
Retained earnings, beginning of year		2 239	2 076
Net income		150	163
Retained earnings, end of year		2 389	2 239

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET
As at March 31

	Notes	2011	2010
		millions of dollars	
Assets			
Property, Plant and Equipment			
In service	6	12 967	12 688
Less accumulated depreciation	6	4 752	4 612
		8 215	8 076
Construction in progress	6	2 739	2 052
		10 954	10 128
Current Assets			
Cash and cash equivalents		70	174
Accounts receivable and accrued revenue		403	365
Interest receivable		4	6
Materials and supplies, at average cost	7	85	98
		562	643
Other Assets			
Sinking fund investments	8	282	822
Goodwill and intangible assets	9	260	253
Regulated assets	10	309	299
Other deferred assets	11	515	292
		1 366	1 666
		12 882	12 437

Approved on behalf of the Board:

Victor H. Schroeder, QC
Chair of the Board

William Fraser, FCA
Chair of the Audit Committee

	Notes	2011	2010
		millions of dollars	
Liabilities and Equity			
Long-Term Debt			
Long-term debt net of sinking fund investments		8 335	7 406
Sinking fund investments shown as assets	8	282	822
	12	8 617	8 228
Current Liabilities			
Accounts payable and accrued liabilities	13	336	327
Accrued interest		95	91
Current portion of long-term debt	12	30	310
		461	728
Other Liabilities			
Asset purchase obligation	14	207	207
Other deferred liabilities	15	546	455
		753	662
Contributions in Aid of Construction		295	295
Equity			
Retained earnings		2 389	2 239
Accumulated other comprehensive income		367	285
		2 756	2 524
		12 882	12 437

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended March 31

	2011	2010
	millions of dollars	
Operating Activities		
Cash receipts from customers	2 029	2 110
Cash paid to suppliers and employees	(1 043)	(1 080)
Interest paid	(438)	(475)
Interest received	24	34
Cash provided by operating activities	572	589
Financing Activities		
Proceeds from long-term debt	915	1 425
Sinking fund withdrawals	646	263
Retirement of long-term debt	(723)	(452)
Notes payable	-	(100)
Other	(157)	(12)
Cash provided by financing activities	681	1 124
Investing Activities		
Property, plant and equipment, net of contributions	(1 166)	(1 068)
Sinking fund payments and deposits	(119)	(537)
Other	(72)	(93)
Cash used for investing activities	(1 357)	(1 698)
Net (decrease) increase in cash and cash equivalents	(104)	15
Cash and cash equivalents, beginning of year	174	159
Cash and cash equivalents, end of year	70	174

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended March 31

	2011	2010
	millions of dollars	
Net income	150	163
Other comprehensive income		
Unrealized foreign exchange gains on debt in cash flow hedges	79	448
Realized foreign exchange losses on debt in cash flow hedges reclassified to income	1	6
Unrealized fair value gains on available-for-sale U.S. sinking fund investments	2	-
	82	454
Comprehensive income	232	617

CONSOLIDATED STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME

For the year ended March 31

	2011	2010
	millions of dollars	
Balance, beginning of year	285	(169)
Other comprehensive income (loss)	82	454
Balance, end of year	367	285

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Consolidation - The consolidated financial statements include the financial statements of the Manitoba Hydro-Electric Board (Manitoba Hydro or the Corporation) and its subsidiaries. For purposes of consolidation, all significant intercompany accounts and transactions have been eliminated.

Rate-Regulated Accounting - The prices charged for the sale of electricity and natural gas within Manitoba are subject to review and approval by the Public Utilities Board of Manitoba (PUB). The rate-setting process is designed such that rates charged to electricity and natural gas customers recover costs incurred by Manitoba Hydro in providing electricity and gas service. As permitted under Canadian Generally Accepted Accounting Principles (GAAP), the Company applies standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of GAAP. FASB Accounting Standards Codification Section 980 – Regulated Operations, represents the standard Manitoba Hydro applies for rate-regulated accounting. These accounting policies differ from enterprises that do not operate in a rate-regulated environment. Such accounting policies allow for the deferral of certain costs or credits which will be recovered or refunded in future rates. These costs or credits would otherwise have been included in the determination of net income in the year that the cost or credit is incurred. Manitoba Hydro refers to such deferred costs or credits as regulated assets (Note 10) or regulated liabilities (Note 13) which are generally comprised of the following:

- Power Smart programs - The costs of the Corporation's energy conservation programs, referred to as Power Smart, are deferred and amortized on a straight-line basis over a period of 10 years.

- Site restoration costs - Site restoration costs, other than those for which an Asset Retirement Obligation (ARO) has been established, are deferred and amortized on a straight-line basis over a period of 15 years.

- Deferred taxes - Taxes paid by Centra Gas (July 1999) as a result of its change to non-taxable status on acquisition by Manitoba Hydro, have been deferred and are being amortized on a straight-line basis over a period of 30 years.

- Acquisition costs - Costs associated with the acquisition of Centra Gas (July 1999) and Winnipeg Hydro (September 2002) have been deferred and are being amortized on a straight-line basis over a period of 30 years.

- Purchased gas variance accounts (PGVA) - Accounts are maintained to recover/refund differences between the actual cost of gas and the cost of gas incorporated into rates charged to customers as approved by the PUB. The difference between the recorded cost of natural gas and the actual cost of natural gas is carried as an account receivable/payable, and recovered or refunded in future rates.

- Regulatory costs - Costs associated with regulatory hearings are deferred and amortized on a straight-line basis over periods up to five years.

Manitoba Hydro's other significant accounting policies are as follows:

a) **Property, Plant and Equipment**
Property, plant and equipment is stated at cost which includes direct labour, materials, contracted services, a proportionate share of overhead costs and interest applied at the average cost of debt. Interest is allocated to construction until a capital project becomes operational or a decision is made to abandon, cancel or indefinitely defer construction. Once the transfer to in-service property, plant and equipment is made, interest allocated to construction ceases, and depreciation and interest charged to operations commences.

b) **Depreciation**
Depreciation is provided on a straight-line remaining-life basis. The major components of generating stations are depreciated over the lesser of the remaining life of the major component or the remaining life of the associated generating station.

The range of estimated service lives of each major asset category is as follows:

Generation	-Hydraulic	45 - 100 years
	-Thermal	25 - 65 years
Transmission	-Lines	40 - 85 years
	-Stations	20 - 57 years
Distribution		15 - 65 years.

Provision for removal costs of major property, plant and equipment is charged to depreciation expense on a straight-line basis over the remaining service lives of the related assets. Retirements of these assets, including costs of removal, are charged to accumulated depreciation with no gains or losses reflected in operations. The estimated service lives and removal costs of the assets are based upon depreciation studies conducted periodically by the Corporation.

c) **Asset Retirement Obligations**
Asset retirement obligations are measured initially at fair value in the period in which the obligations are incurred, provided that a reasonable estimate of the fair value can be made. The present value of the estimated retirement cost is added to the carrying amount of the related asset. In subsequent periods, the estimated retirement cost is amortized over the useful life of the asset and the carrying value of the liability is increased to recognize increases in the liability's present value with the passage of time.

d) **Materials and Supplies**
Materials and supplies are valued at the lower of average cost or net realizable value.

e) **Contributions in Aid of Construction**
Contributions are required from customers whenever the costs of extending service exceed specified construction allowances. Contributions are amortized on a straight-line basis over the estimated service lives of the related assets.

f) **Revenues**
Customers' meters are read and billed on a cyclical basis. Revenues are accrued in respect of energy delivered for those cycles not yet billed.

g) **Cost of Gas Sold**
Cost of natural gas sold is recorded at the same rates charged to customers.

h) **Employee Future Benefits**
Manitoba Hydro provides future benefits, including pension and other post-retirement benefits, to both existing and retired employees. Pension plans include the Civil Service Superannuation Board (CSSB) plan, three Centra Gas curtailed pension plans and the Winnipeg Civic Employee Benefits Program (WCEBP).

The costs and obligations of pension and other post-retirement benefits are calculated by an independent actuary using the accrued benefit actuarial cost method and reflect management's best estimate of future compensation increases, service lives, inflation rates and expected rate of return on plan assets. Pension expense is comprised of the cost of pension benefits provided during the year, the amortization of past service benefits, experience gains and losses and expected returns on fund assets net of interest on the obligation. The amount of expected returns on fund assets is based on market related values using a five-year moving average. The unamortized present value of past service benefits and actuarially determined experience gains or losses are recognized in the financial statements as assets or liabilities.

The Corporation utilizes the "corridor method" of amortizing actuarial gains and losses. The amortization of experience gains and losses is recognized only to the extent that the cumulative unamortized net actuarial gain or loss exceeds 10% of the greater of the accrued benefit obligation and the fair market value of plan assets at the beginning of the year. When required, the excess of the cumulative gain or loss balance is amortized over the expected average remaining service life of the employees covered by the plan.

Pension and long-term disability expenses pertaining to the former Winnipeg Hydro employees are recognized at the time contributions are made to the WCEBP, which maintains the funds and obligations relating to these employees in its financial records.

Other employee benefits earned by employees include vacation, vested sick leave, severance and a retirement health spending plan. Where applicable, the future costs of these benefits are based on management's best estimates.

i) **Comprehensive Income**
Comprehensive income consists of net income and other comprehensive income (OCI). OCI includes unrealized gains and losses arising from changes in the fair value of available-for-sale assets and changes in the foreign exchange rate for U.S. denominated long-term debt and interest payments in effective cash flow hedging relationships. Such amounts are recorded in accumulated OCI (AOCI) until the criteria for recognition in net income are met.

j) **Financial Instruments**
All financial instruments are measured at fair value on initial recognition as of the trade date. Transaction costs are included in the initial carrying amount of financial instruments. Measurement in subsequent periods depends on the classification of the instrument. Financial instruments are classified into one of the following five categories: held-to-maturity investments, loans and receivables, held-for-trading, available-for-sale or other financial liabilities.

Financial instruments classified as loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with revaluation gains and losses recorded in OCI until the instrument is derecognized or impaired. Translation gains and losses on available-for-sale financial assets in a hedging relationship with financial liabilities are credited or charged to finance expense. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in income in the period in which they arise.

k) **Foreign Currency Translation**

Revenues and expenditures resulting from transactions in foreign currencies are translated into Canadian dollar equivalents at exchange rates in effect at the transaction dates.

Long-term monetary assets and liabilities denominated in U.S. currencies are translated into Canadian currency at the exchange rate prevailing at the balance sheet date. Translation gains and losses are credited or charged to finance expense in the current period except for long-term debt obligations in hedging relationships with future export revenues. Translation gains and losses for long-term debt obligations in hedging relationships with future export revenues are recorded in OCI until such time that the hedged export revenues are realized, at which time accumulated exchange gains and losses are credited or charged to finance expense.

Current monetary assets and liabilities denominated in foreign currencies are translated into Canadian currency at the exchange rate prevailing at the balance sheet date. Any exchange gains and losses on the translation of current monetary assets and liabilities are credited or charged to finance expense in the current period.

l) **Derivatives**

The Corporation does not engage in derivative trading or speculative activities. All derivative instruments are carried at fair value on the consolidated balance sheet with the exception of those that were entered into for the purpose of physical receipt or delivery in accordance with the Corporation's expected normal purchases and sales. Changes in the fair value of derivatives that are not designated in a hedging relationship and do not qualify for the normal purchase and sale exemption are recorded in net income.

m) **Hedges**

The Corporation has designated cash flow and fair value hedges linking financial instruments to specific assets and forecasted transactions. Long-term cash flow hedges have been established between U.S. long-term debt balances and future U.S. export revenues as well as between U.S. interest payments on dual currency bonds and future U.S. export revenues. A fair value hedge relationship has also been established between U.S. long-term debt balances and U.S. sinking fund investments. The Corporation documents the relationship between the hedging instrument and the hedged item and assesses at inception, and on an ongoing basis, the effectiveness of the hedging relationship.

n) **Debt Discounts and Premiums**

Debt discounts and premiums are amortized to finance expense using the effective interest method.

o) **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

p) **Goodwill and Intangible Assets**

Goodwill represents the amount of the Corporation's investments in Centra Gas and Winnipeg Hydro over and above the fair market value of the identified net assets acquired. The goodwill balance is evaluated annually to determine whether any impairment has occurred. An impairment would be recognized if it was determined that the carrying value of the Corporation's investments in Centra Gas or Winnipeg Hydro exceeded the present value of the future cash flows from these investments. Should impairment occur, it would be recorded as a charge against operations in the year of impairment.

Intangible assets include computer software, application development costs and land easements. Intangible assets are recorded at cost. The cost of computer software and application development costs includes software, direct labour, materials, contracted services, a proportionate share of overhead costs and interest during development applied at the average cost of debt. Intangible assets with finite useful lives are amortized over their useful lives on a straight-line basis. The expected useful lives are as follows:

Computer software and application development	5 – 15 years
Land easements	75 years.

q) **Use of Estimates**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual amounts could differ from those estimates, but differences are not expected to be material.

NOTE 2 ACCOUNTING CHANGES

Overhead Rate Estimate

Manitoba Hydro's policy is to include a proportionate share of overhead costs in property, plant and equipment based on overhead rate studies that are performed annually. In 2010, the Corporation revised its overhead rate estimate to remove interest capitalized on facilities, equipment and motor vehicles as well as to remove general and administrative departmental costs. This change in estimate was applied prospectively effective April 1, 2010 and resulted in a $21 million increase in operating and administrative expense in 2010-11.

Future Accounting Changes

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board (AcSB) announced that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for fiscal years beginning on or after January 1, 2011. In October 2009, the Public Sector Accounting Board confirmed that government business enterprises such as Manitoba Hydro will be required to follow IFRS for periods beginning January 1, 2011.

Although IFRS and Canadian GAAP are premised on a similar conceptual framework, there are a number of differences with respect to recognition, measurement, and disclosure. The areas with the highest potential to impact Manitoba Hydro include property, plant and equipment, regulatory assets and liabilities, employee benefits, and the transitional requirements upon the adoption of IFRS under the provisions of IFRS 1, First-Time Adoption of IFRS.

In May 2010, the International Accounting Standards Board (IASB) issued the omnibus Improvements to IFRS, which includes an amendment to IFRS 1 for entities with rate-regulated activities. The amendment applies to first-time adopters by offering an optional exemption to use the carrying amount of property, plant and equipment and intangible assets as deemed cost of those assets on the transition date. This exemption eliminates the requirement to retrospectively adjust opening property, plant and equipment and/or intangible asset balances for costs that would otherwise not qualify for capitalization under IFRS. Manitoba Hydro intends to apply this exemption.

In September 2010, the AcSB implemented changes to Part I of the Canadian Institute of Chartered Accountants (CICA) Handbook – Accounting, allowing qualifying entities with rate regulated activities to be permitted, but not required, to defer their adoption of Part I IFRS for one year. Manitoba Hydro meets the AcSB criteria for the deferral and intends to adopt Part I IFRS for its 2012-13 fiscal year.

At this time, it is uncertain as to what position, if any, the IASB might take to address accounting for the effects of rate-regulated activities. In addition, the IASB has a number of on-going projects on its agenda which may result in changes to existing IFRS prior to the commencement of Manitoba Hydro's 2012-13 fiscal period. Manitoba Hydro continues to monitor and evaluate the impacts of current and prospective IFRS on its accounting policies, financial position and business activities.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the CICA issued Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests. Sections 1601 and 1602 superseded Section 1600, Consolidated Financial Statements. Section 1582 was amended to require additional use of fair value measurements, recognition of additional assets and liabilities, and increased disclosure for future business combinations. Sections 1601 and 1602 will require non-controlling interests to be presented as part of equity on the consolidated balance sheet and will also require the consolidated statement of income of the controlling parent to include 100% of the subsidiary's results and present the allocation of income between the controlling and non-controlling interests. These sections will apply to fiscal years beginning on or after January 1, 2011. Changes resulting from the adoption of Section 1582 will be applied prospectively and changes resulting from the adoption of Sections 1601 and 1602 will be applied retrospectively. The impact of these new standards on Manitoba Hydro's consolidated financial statements is currently being assessed but is not expected to be significant.

NOTE 3 EXTRAPROVINCIAL REVENUES

	2011	2010
	millions of dollars	
United States	335	361
Canada	63	66
	398	427

U.S. extraprovincial revenues were translated at exchange rates in effect at the date of the transaction. The average effective exchange rate for the year was $1.00 U.S. = $1.03 Canadian (2010 - $1.00 U.S. = $1.09 Canadian).

NOTE 4 FINANCE EXPENSE

	2011	2010
	millions of dollars	
Interest on debt	573	569
Interest capitalized	(138)	(99)
Amortization of premiums and discounts	3	(11)
Investment income	(18)	(24)
Realized foreign exchange losses on debt in cash flow hedges	1	6
Realized losses (gains) on revaluation of dual currency bonds	4	(31)
	425	410

Included in interest on debt is $80 million (2010 - $75 million) related to the Provincial Debt Guarantee Fee. The fee during the year was 1.0% of the total outstanding debt guaranteed by the Province of Manitoba (2010 – 1.0%).

NOTE 5 WATER RENTALS AND ASSESSMENTS

	2011	2010
	millions of dollars	
Water rentals	114	114
Assessments	6	7
	120	121

Water rentals are paid to the Province of Manitoba for the use of water resources in the operation of the Corporation's hydroelectric generating stations. Water rental rates during the year were $3.34 per MWh (2010 - $3.34 per MWh).

NOTE 6 PROPERTY, PLANT AND EQUIPMENT

	2011			2010		
	In service	Accumulated depreciation	Construction in progress	In service	Accumulated depreciation	Construction in progress
			millions of dollars			
Generation						
Hydraulic	4 855	1 601	2 013	4 722	1 551	1 531
Thermal	475	239	7	510	259	6
Transmission lines	793	285	260	782	274	203
Substations	2 559	1 193	357	2 387	1 094	220
Distribution	3 144	1 156	52	2 998	1 079	50
Other	1 141	278	50	1 289	355	42
	12 967	4 752	2 739	12 688	4 612	2 052

NOTE 7 MATERIALS AND SUPPLIES

	2011	2010
	millions of dollars	
Materials and supplies	64	65
Natural gas inventory	21	33
	85	98

NOTE 8 SINKING FUND INVESTMENTS

Manitoba Hydro is legislated under the Manitoba Hydro Act to make annual sinking fund payments to the Province of Manitoba of not less than 1% of the principal amount of the outstanding debt on the preceding March 31, and 4% of the balance in the sinking fund at such date. Payments to the sinking fund during the year were $119 million (2010 - $537 million, including a temporary deposit of $438 million). Income earned on sinking fund investments is included with investment income for the year.

Sinking funds are invested in government bonds and the bonds of highly rated corporations and financial institutions.

	2011	2010
	millions of dollars	
Canadian investments	55	192
U.S. investments	198	597
Premium on purchase of sinking fund investments	29	33
	282	822

Canadian investments have a weighted average term to maturity of 1 day (2010 - 1 day) and an effective yield to maturity of 1.0% (2010 – 0.3%). U.S. investments have a weighted average term to maturity of 7.0 years (2010 - 3.5 years) and an effective yield to maturity of 5.1% (2010 – 4.9%). U.S. investments are translated into Canadian currency at the exchange rate prevailing at the balance sheet date, $1.00 U.S. = $0.97 Canadian (2010 - $1.00 U.S. = $1.02 Canadian). The March 31, 2011 balance includes $14 million (2010 - $12 million) of unrealized fair value gains.

NOTE 9 GOODWILL AND INTANGIBLE ASSETS

	2011			2010		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
			millions of dollars			
Intangible Assets						
Computer software and development	206	101	105	183	83	100
Easements	59	12	47	57	12	45
	265	113	152	240	95	145
Goodwill	108	-	108	108	-	108
	373	113	260	348	95	253

The additions to intangible assets for the year totaled $23 million (2010 - $16 million). In total, intangible assets of $17 million (2010 - $16 million) were amortized to operations during the period.

NOTE 10 REGULATED ASSETS

		2011	2010
		millions of dollars	
Power Smart programs	- electric	172	168
	- gas	39	32
Site restoration costs		38	37
Deferred taxes		33	35
Acquisition costs		22	23
Regulatory costs		5	4
		309	299

If the Corporation were not subject to rate regulation, the costs associated with the regulated assets would be charged to operations in the period that they were incurred and net income for 2011 would have been reduced by $10 million (2010 - $12 million).

In total, regulated assets of $39 million (2010 - $36 million) were amortized to operations during the period.

NOTE 11 OTHER DEFERRED ASSETS

	2011	2010
	millions of dollars	
Advances to St. Joseph Windfarm Inc. (excluding current portion)	199	-
Accrued benefit asset (Note 18)	129	120
Advances to Taskinigahp Power Corporation (Note 22)	84	59
Contract receivables	76	82
Affordable Energy Fund (Note 21)	27	31
	515	292

The St. Joseph wind farm is owned by Pattern Energy and operated by St. Joseph Windfarm Inc. Financing for the wind farm was provided partly by Manitoba Hydro. In accordance with the loan agreement, Manitoba Hydro will provide advances up to $250 million which will be repaid, with interest, over 20 years. In addition, Manitoba Hydro will provide access to a $10 million reserve loan facility. The Corporation signed a 27-year power purchase agreement with St. Joseph Windfarm Inc. in March 2010.

NOTE 12 LONG-TERM DEBT

	2011	2010
	millions of dollars	
Advances from the Province of Manitoba		
represented by debenture debt of the Province	8 467	8 288
Manitoba HydroBonds	44	132
Manitoba Hydro-Electric Board Bonds	197	199
	8 708	8 619
Less: Current portion of long-term debt	30	310
	8 678	8 309
Adjustment on carrying value of dual currency bonds	(28)	(29)
Debt discounts and premiums	(6)	(27)
Transaction costs	(27)	(25)
	8 617	8 228

During the year, the Corporation arranged long-term financing of $915 million (2010 - $1 425 million). The current year financing was in the form of Provincial Advances with the majority at fixed interest rates.

Included in the current portion of long-term debt are $16 million (2010 - $292 million) of debt maturities and $14 million (2010 - $18 million) of floating-rate Manitoba HydroBonds with maturity dates in 2012 and 2013. Floating rate Manitoba HydroBonds are redeemable at the option of the holder.

Long-term debt is guaranteed by the Province of Manitoba, with the exception of Manitoba Hydro-Electric Board Bonds in the amount of $75 million (2010 - $76 million) issued for mitigation projects.

Debt principal amounts (excluding adjustments to the carrying value of dual currency bonds, transaction costs, debt discounts and premiums) and related yields are summarized by fiscal years of maturity in the following table:

					2011	2010
		millions of Canadian dollars				
Years of Maturity	Canadian	Cdn Yields	U.S.	U.S. Yields	Total	Total
2012	30	2.5%			30	16
2013	177	3.2%			177	178
2014	475	4.3%	329	5.6%	804	1 072
2015	100	3.3%			100	100
2016	314	4.9%			314	264
	1 096	4.4%	329	5.6%	1 425	1 630
2017-2021	1 769	5.6%	778	7.8%	2 547	2 407
2022-2026	453	6.4%	777	6.1%	1 230	1 116
2027-2031	1 010	8.8%			1 010	910
2032-2036	314	5.4%			314	314
2037-2041	1 700	4.9%			1 700	1 450
2042-2063	482	4.7%			482	482
	6 824	5.7%	1 884	6.7%	8 708	8 309

Included in the above Canadian maturity amounts are two dual currency bonds with principal amounts repayable in Canadian currency and interest payments denominated in U.S. currency. The first dual currency bond matures in the 2013-14 fiscal year in the amount of $208 million Canadian while the second matures in the 2025-26 fiscal year in the amount of $130 million Canadian.

U.S. debt is translated into Canadian currency at the exchange rate prevailing at the balance sheet date, $1.00 U.S. = $0.97 Canadian (2010 - $1.00 U.S. = $1.02 Canadian).

NOTE 13 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2011	2010
	millions of dollars	
Accounts payable and accrued liabilities	323	324
Regulated liabilities		
Purchased gas variance accounts	13	3
	336	327

The Corporation passes all costs related to the purchase and transportation of natural gas onto its customers without markup. If the Corporation were not subject to rate regulation, the purchased gas variance accounts would not be maintained and the actual cost of gas would be expensed in the period incurred. If actual gas costs were expensed and sales rates were not adjusted accordingly, net income would have increased by $10 million (2010 - decreased by $8 million).

NOTE 14 ASSET PURCHASE OBLIGATION

Effective September 3, 2002, the Corporation acquired the net assets of Winnipeg Hydro from the City of Winnipeg. The Asset Purchase Obligation represents the net present value of payments to the City of Winnipeg of $16 million per annum in perpetuity, excluding the current portion of $16 million (2010 – $20 million).

NOTE 15 OTHER DEFERRED LIABILITIES

	2011	2010
	millions of dollars	
Accrued benefit liability (Note 18)	154	141
Mitigation liability (Note 20)	185	129
Non-controlling interest (Note 22)	87	62
Refundable advances from customers	72	63
Affordable Energy Fund (Note 21)	27	31
Asset retirement obligations	15	23
Interest income and other liabilities	6	6
	546	455

In 2010-11, the Corporation adjusted its obligation associated with thermal decommissioning to reflect changing legislation and licensing requirements. The change in estimate was applied prospectively and resulted in a reduction of $9 million to the asset retirement obligation and a corresponding reduction of $8 million to depreciation expense and a $1 million decrease to property, plant and equipment.

Asset retirement obligations continue to be recognized for the future decommissioning of the Brandon thermal generating station, for the partial decommissioning of the Pointe du Bois generating station spillway, and for the removal and disposal of polychlorinated biphenyl (PCB) contaminated fluid in HVDC converter station capacitors. The Corporation estimates the undiscounted cash flows required to settle the asset retirement obligations are approximately $31 million, $27 million of which is expected to be incurred in 2024 to decommission the Brandon thermal generating station, $4 million is expected to be incurred by March 2016 for the partial decommissioning of the Pointe du Bois generating station spillway and a residual amount will be incurred by March 31, 2012 for PCB contaminated oil removal and disposal. No funds are being set aside to settle the asset retirement obligations.

NOTE 16 FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Corporation's non-derivative financial instruments at March 31 were as follows:

	2011		2010	
Financial Instruments	Carrying Value	Fair Value	Carrying Value	Fair Value
		millions of dollars		
Held-for-Trading				
Cash and cash equivalents	70	70	174	174
Loans and Receivables				
Accounts receivable and accrued revenue	403	403	365	365
Interest receivable	4	4	6	6
Available-for-Sale				
Sinking fund investments	282	282	822	822
Other Financial Liabilities				
Long-term debt (including current portion)	8 647	10 045	8 538	9 754
Accounts payable and accrued liabilities	336	336	327	327
Accrued interest	95	95	91	91
Asset purchase obligation	207	280	207	269

The fair value measurement of financial instruments is classified in accordance with a hierarchy of three levels, based on the type of inputs used in making these measurements:

Level 1 - Quoted prices in active markets for identical assets and liabilities;
Level 2 - Inputs other than quoted prices that are observable in active markets for the asset or liability; and
Level 3 - Inputs for the asset or liability that are not based on observable market data.

Financial instrument measurements are level 1 measurements with the exception of the long-term debt and the asset purchase obligation that are level 2 measurements, and certain derivative instruments of nominal value associated with wholesale power marketing activities that are level 3 measurements. Fair value level 2 measurements are derived from quoted market yields at the close of business on the consolidated balance sheet date for similar instruments available in the capital market. Level 3 measurements are based on internally developed valuation models which are consistent with valuation models developed by other market participants in the wholesale power markets. The carrying values of all other financial assets and liabilities approximate fair value.

Financial Risks

During the normal course of business, Manitoba Hydro is exposed to a number of financial risks including credit and liquidity risks and market risk resulting from fluctuations in foreign currency, interest rates and commodity prices. Risk management policies, processes and systems have been established to identify and analyze financial risks faced by the Corporation and its subsidiaries, to set risk tolerance limits, establish controls and to monitor risk and adherence to policies. An integrated risk management plan has been developed, and reviewed by the Audit Committee of the Manitoba Hydro-Electric Board, to ensure the adequacy of the risk management framework in relation to the risks faced by the Corporation. The nature of the financial risks and Manitoba Hydro's strategy for managing these risks has not changed significantly from the prior year.

a) **Credit Risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Manitoba Hydro is exposed to credit risk related to sinking fund investments, short-term investments and pension fund investments. The Corporation limits its exposure to credit risk by only investing in government-guaranteed bonds, highly rated investments and well-diversified investment portfolios.

The Corporation is also exposed to credit risk related to accounts receivable arising from domestic and export energy sales. Credit risk related to domestic sales is mitigated by the large and diversified electric and gas customer base. Credit risk in the export power market is mitigated by establishing minimum credit rating requirements, conducting standard credit reviews of all counterparties and setting and monitoring exposure limits for each of these counterparties. Letters of credit and netting provisions are also in place to provide further credit risk control. The maximum exposure to credit risk related to non-derivative financial assets is its carrying value.

The value of the Corporation's aged accounts receivable for domestic and export customers and related bad debt provisions are presented in the following table:

			2011	2010
	Domestic	Extraprovincial	Total	Total
		millions of dollars		
Under 30 days	244	28	272	244
30 to 60 days	17	-	17	19
61 to 90 days	8	-	8	10
Over 90 days	28	-	28	31
	297	28	325	304
Provision at end of period	(8)	-	(8)	(8)
Total accounts receivable	289	28	317	296

The provision for bad and doubtful accounts is reviewed annually, based on an estimate of aged domestic and export receivables that are considered uncollectible. The provision of $8 million for bad and doubtful accounts did not change from the previous year.

To mitigate credit risk related to the use of natural gas derivative instruments, the Corporation adheres to well established credit exposure limits with institutions that possess a minimum credit rating of 'A' from recognized bond rating agencies or provide a parental guarantee from an 'A' rated parent company. The Corporation's maximum exposure to credit risk related to its derivative counterparties is equal to the positive fair value of its financial derivatives.

b) **Liquidity Risk**

Liquidity risk refers to the risk that Manitoba Hydro will not be able to meet its financial obligations as they come due. To meet the Corporation's forecasted cash requirements, the Corporation uses cash generated from operations, a short-term borrowing program, long-term borrowings advanced from the Province of Manitoba and sinking funds for debt retirements.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative liabilities as at the consolidated balance sheet date:

	Carrying Value	2012	2013	2014	2015	2016	2017 and *thereafter*
				millions of dollars			
Non-derivative financial liabilities							
Accounts payable and accrued liabilities	336	336	-	-	-	-	-
Asset purchase obligation	207	16	16	16	16	16	16*
Long-term debt**	8 742	611	770	1 388	655	868	13 559
		963	786	1 404	671	884	13 575
Derivative financial liabilities							
Commodity derivatives							
Natural gas collar obligations	-	1	-	-	-	-	-
	-	1	-	-	-	-	-
		964	786	1 404	671	884	13 575

*per year in perpetuity

**including current portion and interest payments

c) **Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Manitoba Hydro is exposed to three types of market risk: foreign exchange risk, interest rate risk and commodity price risk associated with the price of electricity and natural gas. Manitoba Hydro continually monitors its exposure to these risks and may use hedges or derivative contracts to manage these risks.

i. Foreign Exchange Risk

Manitoba Hydro has exposure to U.S. dollar foreign exchange rate fluctuations primarily through the sale and purchase of electricity in the U.S. This exposure is managed through a long-term natural hedge between U.S. dollar cash inflows from export revenues and U.S. dollar cash outflows for long-term coupon and principal payments.

To mitigate annual net income impacts due to foreign exchange rate fluctuations, long-term cash flow hedges have been established between U.S. long-term debt balances and future U.S. export revenues as well as between U.S. interest payments on dual currency bonds and future U.S. export revenues. Accordingly, translation gains and losses for U.S. long-term debt obligations in effective hedging relationships with future export revenues, are recognized in other comprehensive income until future hedged U.S. export revenues are realized, at which time the associated gains or losses in accumulated other comprehensive income are recognized in net income. For the year ended March 31, 2011, unrealized foreign exchange translation gains of $79 million (2010 - $455 million) were recognized in other comprehensive income and net losses of $1 million (2010 - $6 million) were reclassified from other comprehensive income into net income.

Manitoba Hydro also has a fair value hedging relationship between U.S. long-term debt balances and U.S. sinking fund investments. Offsetting foreign exchange translation gains and losses on these items are recognized in net income.

In addition to natural hedging relationships, cross currency swap arrangements transacted by the Province of Manitoba on the Corporation's behalf are utilized to manage exchange rate exposures and as a means to capitalize on favourable financing terms in either U.S. or Canadian capital markets. Cross currency agreements represent an exchange of principal and/or interest flows denominated in one currency for principal and/or interest flows denominated in another. Such transactions effectively amend the terms of the original debt obligation with the Province of Manitoba with the swapped debt arrangement.

As of March 31, 2011, a change in the Canadian dollar of plus (minus) $0.10 relative to the U.S. dollar would decrease (increase) net income by $0.2 million (2010 - $0.5 million), while other comprehensive income would increase (decrease) by $174 million (2010 - $180 million).

ii. Interest Rate Risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Manitoba Hydro is exposed to interest rate risk associated with temporary investments and floating rate long-term debt. At March 31, 2011, an increase or decrease of 1% in the interest rate would reduce or increase net income, respectively, by $9 million (2010 - $11 million), with no impact to other comprehensive income.

Interest rate swap agreements transacted by the Province of Manitoba on the Corporation's behalf are utilized to manage the fixed and floating interest rate mix of the total debt portfolio, interest rate exposure and related overall cost of borrowing. Interest rate swap agreements represent an agreement between two parties to periodically exchange payments of interest without the exchange of the principal amount upon which payments are based. The Province of Manitoba may also enter into forward start interest rate swap arrangements where the agreement to exchange interest payments commences at some future date. In either swap arrangement, the terms of the debt advanced by the Province of Manitoba to the Corporation are amended by the swap.

iii. Commodity Price Risk

The Corporation is exposed to natural gas price risk through its purchase of gas for delivery to customers throughout Manitoba. The Corporation mitigates natural gas price volatility through its use of derivative instruments restricted to price swaps, call options and cashless collars. To manage the exposure to electricity price risk that results from the volatility of market prices, the Corporation also enters into derivative financial instruments such as contracts for differences. Manitoba Hydro does not use derivative contracts for trading or speculative purposes.

The Corporation has entered into cashless collar contracts until July 2011 to purchase 2 355 000 gigajoules (GJ) of natural gas at a weighted average upper strike price of $5.26/GJ and a weighted average lower strike price of $4.11/GJ. The weighted average forward price of the cashless collars per the Alberta Energy Company Exchange (AECO) at March 31, 2011 is $3.53/GJ. Settlement values are recorded in the purchased gas variance account in the month the natural gas is delivered.

The Corporation has also entered into natural gas price swaps until April 2016 to purchase 595 200 gigajoules of natural gas at a weighted average fixed price of $5.20/GJ. The weighted average forward price of the swaps per AECO at March 31, 2011 was $4.40/GJ. These contracts are reported as derivatives and carried at fair value on the balance sheet.

A contract for differences was entered into until May 2011 to fix the price of electricity exports for 50 400 megawatt hours. The cash difference between the fixed price that the Corporation receives and the floating price paid will be cash settled. In addition, derivative instruments associated with wholesale power marketing activities have been transacted. These contracts are reported as derivatives and carried at fair value on the balance sheet.

The unrealized fair value gains (losses) of financial derivative contracts as at March 31 are as follows:

	2011	2010
	millions of dollars	
Cashless collar contracts	(1)	(18)
Fixed price swap contracts	-	(1)
Contracts for differences	1	1

Fair values of price swaps and cashless collars are calculated using the monthly forward AECO price as reported by the Natural Gas Exchange as at March 31, 2011.

Fair values of contracts for differences are calculated using the monthly forward electricity prices at pricing points specified in the contracts.

A change in fair value of cashless collars due to a 10% increase or decrease in the price of natural gas would decrease or increase the purchased gas variance account by $1 million (2010 - $7 million).

NOTE 17 CAPITAL MANAGEMENT

Manitoba Hydro manages its capital structure to ensure sufficient equity to enable the Corporation to absorb the financial effects of adverse circumstances and to ensure continued access to stable low-cost funding for the Corporation's capital projects and its ongoing operational requirements.

The Corporation monitors its capital structure on the basis of its equity ratio. Manitoba Hydro's current target is to maintain a minimum equity ratio of 25%.

The Corporation's equity ratio as at March 31 was as follows:

	2011	2010
	dollars are in millions	
Long-term debt, net of sinking fund investments	8 335	7 406
Current portion, long-term debt	30	310
Less: Cash and cash equivalents	(70)	(174)
Net debt	8 295	7 542
Retained earnings	2 389	2 239
Accumulated other comprehensive income	367	285
Contributions in aid of construction	295	295
Total equity	3 051	2 819
Equity ratio	27%	27%

Manitoba Hydro issues debt for its capital requirements under the authority of the Manitoba Hydro Act and the Loan Act. The Manitoba Hydro Act grants the Corporation the power to issue up to $500 million of short-term promissory notes. Manitoba Hydro submits annual requests under the Loan Act for the necessary borrowing authority for new capital requirements and the refinancing of any maturing long-term debt. The majority of Manitoba Hydro's long-term debt is obtained through advances by the Province of Manitoba.

NOTE 18 EMPLOYEE FUTURE BENEFITS

Manitoba Hydro employees are eligible for pension benefits under the Civil Service Superannuation Board (CSSB) defined benefit plan that provides pension benefits based on years of service and on the average earnings of the five best years. The CSSB plan requires the Corporation to contribute approximately 50% of the pension disbursements made to retired employees. In addition, the former employees of Centra Gas are entitled to pension benefits earned under the Centra Gas curtailed pension plans. The former Winnipeg Hydro employees continue to earn benefits under the Winnipeg Civic Employee Benefits Program (WCEBP) in which, upon the acquisition of Winnipeg Hydro, Manitoba Hydro became a participating employer. The WCEBP is also a defined benefit plan that provides pension benefits based on years of service and on the average earnings of the five best years.

The CSSB manages the Corporation's pension fund (MH Pension Fund) on behalf of the Corporation. The assets related to the Centra Gas curtailed pension plans are held in trust by State Street Trust Co. of Canada. The assets and liabilities of the WCEBP are not reflected on Manitoba Hydro's consolidated balance sheet.

The following table presents information concerning the MH Pension Fund and the Centra Gas curtailed pension plans:

	MH Pension Fund		Centra Gas curtailed pension plans		Total	
	2011	2010	2011	2010	2011	2010
			millions of dollars			
Plan Assets at Fair Value						
Balance at beginning of year	694	623	73	57	767	680
Actual return on plan assets	81	117	10	12	91	129
Employer contributions	24	-	6	9	30	9
Benefit payments and refunds	(36)	(46)	(5)	(5)	(41)	(51)
	763	694	84	73	847	767
Accrued Benefit Obligation						
Balance at beginning of year	774	730	82	81	856	811
Interest on obligation	50	47	5	5	55	52
Current service cost	25	23	-	-	25	23
Benefit payments and refunds	(36)	(35)	(4)	(4)	(40)	(39)
Actuarial losses	24	9	3	-	27	9
	837	774	86	82	923	856
Deficit at end of year	(74)	(80)	(2)	(9)	(76)	(89)
Unamortized past service costs	-	-	2	2	2	2
Unamortized transitional balance	(3)	(4)	(1)	(1)	(4)	(5)
Unamortized net actuarial loss	177	180	30	32	207	212
Accrued benefit asset	100	96	29	24	129	120

Pension assets are valued at market rates and are invested as follows:

	MH Pension Fund Fair Value		Centra Gas curtailed pension plans Fair Value	
	2011	2010	2011	2010
	millions of dollars			
Equities	508	421	56	46
Bonds and debentures	178	170	21	19
Real estate	71	77	4	4
Short-term investments	6	26	3	4
	763	694	84	73

The return on pension fund assets for the MH Pension Fund was 12.1% (2010 – 19.3%). The return for the Centra Gas curtailed plan fund assets was 12.1% (2010 – 21.7%). The weighted average term to maturity on fixed income investments is 9.1 years (2010 – 8.6 years).

The most recent actuarial valuations for the Corporation's obligations under the CSSB and Centra Gas curtailed pension plans were performed with respect to the liabilities outstanding as at December 31, 2010. These valuations incorporated management's best estimate assumptions and took into consideration the long-term nature of the pension plans. The next actuarial valuations for all plans will occur in December 2011. The Centra Gas curtailed pension plans are also subject to a solvency valuation for funding purposes with the latest valuation taking place as at December 31, 2010.

The significant actuarial assumptions adopted in measuring the Corporation's pension and other employee benefit obligations are as follows:

	2011	2010
Discount rate	6.5%	6.5%
Expected long-term rate of return on plan assets	7.0%	7.0%
Rate of compensation increase, including merit and promotions	1.5 - 2.0%	1.5 - 2.0%
Expected average remaining service life of employees - MH Pensions	14 years	14 years
Expected average remaining service life of employees - Centra Pensions	10 years	10 years
Long-term inflation rate	2.5%	2.5%

The Corporation's pension expense related to each of the pension benefit plans is as follows:

	CSSB Plan		Centra Gas curtailed pension plans	
	2011	2010	2011	2010
	millions of dollars			
Current service cost	25	23	-	-
Administrative fees	2	2	-	-
Canada Pension Plan	14	13	-	-
Interest on obligation	50	47	5	5
Expected return on plan assets	(56)	(55)	(6)	(6)
Amortization of net experience loss	1	-	1	1
Amortization of transitional gain	(1)	(1)	-	-
	35	29	-	-

Pension expense for the former Winnipeg Hydro employees is equal to employer contributions to the WCEBP in addition to employer remittances to the Canada Pension Plan. Total contributions to the WCEBP during the year amounted to $0.9 million (2010 - $0.5 million) and reflect an employer contribution rate approximating 3.5% of pensionable earnings to January 5, 2011 and 3.9% of pensionable earnings thereafter.

The following table presents information concerning other employee future benefits:

	2011	2010
	millions of dollars	
Accrued benefit liability		
Balance at beginning of year	157	149
Interest on obligation	3	3
Current service cost	23	20
Benefit payments	(14)	(15)
Actuarial gains	(3)	-
	166	157
Unamortized past service costs	(10)	(11)
Unamortized transitional obligation	(4)	(5)
Unamortized net actuarial gain	2	-
Accrued benefit liability	154	141

NOTE 19 COMMITMENTS AND CONTINGENCIES

Manitoba Hydro has energy purchase commitments of $1 562 million (2010 - $1 565 million) that relate to future purchases of wind, natural gas (including transportation and storage contracts), coal and electricity. Commitments are primarily for wind, which expire in 2038, and natural gas purchases, which expire in 2013. In addition, other outstanding commitments principally for construction, are approximately $673 million (2010 - $818 million).

The Corporation will incur future costs associated with the assessment and remediation of contaminated lands and facilities and for the phase-out and destruction of PCB contaminated mineral oil from electrical equipment. Although these costs cannot be reasonably determined at this time (except for items already recognized as Asset Retirement Obligations), a contingent liability exists.

Due to the size, complexity and nature of Manitoba Hydro's operations, various legal and operational matters are pending. It is not possible at this time to predict with any certainty the outcome of these matters. Management believes that any settlements related to these matters will not have a material effect on Manitoba Hydro's consolidated financial position or results of operations.

Manitoba Hydro provides guarantees to counterparties as part of its use of natural gas derivative commodity contracts. Guarantees issued at March 31, 2011 totaled $305 million (2010 - $305 million) and do not have specific maturity dates. Letters of credit in the amount of $4 million (2010 - $4 million) have been issued for energy related transactions with maturities until 2012.

NOTE 20 MITIGATION

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

Expenditures incurred or settlements reached to mitigate the impacts of all projects amounted to $87 million during the period (2010 - $26 million). In recognition of future anticipated mitigation payments, the Corporation has recorded a liability of $185 million (2010 - $129 million). As at March 31, 2011, $788 million (2010 - $701 million) has been recorded to mitigate and compensate for all project-related impacts. These expenditures are included in the costs of the related projects and amortized over the respective remaining lives. There are other mitigation issues, the outcomes of which are not determinable at this time.

Included in mitigation payments or liabilities are obligations assumed on behalf of the Province of Manitoba with respect to certain northern development projects. The Corporation has assumed obligations totaling $145 million for which water power rental charges were fixed until March 31, 2001. The obligations outstanding at March 31, 2011 amounted to $12 million (2010 - $12 million).

NOTE 21 AFFORDABLE ENERGY FUND

In accordance with the provisions of the Winter Heating Cost Control Act, Manitoba Hydro established an Affordable Energy Fund (the Fund) in the initial amount of $35 million for the purpose of providing support for programs and services that:

a) encourage energy efficiency and conservation;
b) encourage the use of alternative energy sources, including earth energy; and
c) facilitate research and development of alternative energy services and innovative energy technologies.

For accounting purposes, the Fund is classified as Other Deferred Assets (Note 11) with an offsetting balance in Other Deferred Liabilities (Note 15). Expenditures of $4 million (2010 - $2 million) during the year were charged to operations with the asset and liability accounts reduced accordingly.

NOTE 22 ADVANCES TO TASKINIGAHP POWER CORPORATION

Taskinigahp Power Corporation (TPC) has a non-controlling interest in the Wuskwatim Generating Station which is currently under construction and projected to be placed in-service in 2012.

TPC is owned beneficially by Nisichawayasihk Cree Nation (NCN). Both Manitoba Hydro and NCN are parties to the Wuskwatim Power Limited Partnership (WPLP) which was formed to carry on the business of developing, owning and operating the generating station.

In accordance with the partnership agreements, Manitoba Hydro provides debt financing to TPC. At March 31, 2011, Manitoba Hydro has provided advances to TPC of $78 million (2010 - $55 million). The advances are repayable by TPC, with interest, subsequent to the in-service date of the Wuskwatim Generating Station. TPC's non-controlling interest is $87 million (2010 - $62 million).

NOTE 23 SEGMENTED INFORMATION

The Corporation operates primarily in two business segments: electricity and natural gas. Each segment has its own particular economic characteristics and differs in nature, production processes and technology. The electricity segment encompasses the generation, transmission and distribution of electricity. The gas segment represents natural gas supply and distribution activities through the operations of Centra Gas. The corporate segment represents the costs to acquire Centra Gas and to integrate its operations into those of Manitoba Hydro. These costs are allocated to gas and electricity segments in accordance with the synergies and benefits derived by each of these segments as a result of the acquisition.

MANAGEMENT REPORT

AS AT MARCH 31

The accompanying financial statements are the responsibility of Management and have been prepared in accordance with the accounting policies disclosed in Note 2. In Management's opinion, the financial statements have been properly prepared and of necessity, include some amounts based upon Management's best estimates and judgements.

As Management is responsible for the integrity of the financial statements, Management has established systems of internal control to provide assurance that assets are properly accounted for and safeguarded from loss.

Ken Hildahl	Ingrid Loewen
President & Chief Executive Officer	Chief Financial & Strategy Officer

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of
The Liquor Control Commission

We have audited the accompanying financial statements of **The Liquor Control Commission**, which comprise the balance sheet as at March 31, 2011 and the statements of income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of **The Liquor Control Commission** as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

CHARTERED ACCOUNTANTS

Winnipeg, Canada
May 25, 2011.

BALANCE SHEET
[IN THOUSANDS OF DOLLARS]

AS AT MARCH 31

	2011 **$**	2010 $
ASSETS		
Current		
Cash and cash equivalents	**8,399**	9,190
Accounts receivable	**20,308**	20,726
Inventory *[note 6]*	**38,311**	35,690
Prepaid expenses	**1,328**	1,256
Total current assets	**68,346**	66,862
Restricted cash *[notes 2 and 11]*	**—**	46,360
Property and equipment, net *[note 9]*	**28,007**	26,356
Intangible assets [note 10]	**2,110**	2,984
	98,463	142,562

	2011 **$**	2010 $
LIABILITIES		
Current		
Accounts payable - trade and other	**38,917**	34,759
Goods and Services Tax payable	**708**	1,096
Manitoba Retail Sales Tax payable	**1,522**	1,471
Net profit payable to the Province of Manitoba	**47,696**	47,777
Environmental Protection Tax payable	**140**	141
Deferred licence fees	**342**	327
Total current liabilities	**89,325**	85,571
Provision for employee pension benefits *[note 11]*	**5,527**	53,318
Provision for retirement allowances *[note 12]*	**3,611**	3,673
	98,463	142,562

See accompanying notes

On behalf of the Commission:

Chair of the Board

Chair of the Audit Committee

President & Chief Executive Officer

Chief Financial & Strategy Officer

STATEMENT OF INCOME
[IN THOUSANDS OF DOLLARS]

YEAR ENDED MARCH 31

	2011	2010
	$	$
Sales *[schedule]*	**621,880**	610,515
Cost of sales *[schedule]*	**307,762**	310,916
Gross profit *[schedule]*	**314,118**	299,599
Other income *[note 7]*		
Licence and permit fees	**1,828**	1,912
Merchandising program fees	**2,235**	1,790
Administration and other	**882**	1,050
	4,945	4,752
	319,063	304,351
General and administrative expenses *[note 8]*	**64,718**	66,913
Depreciation	**3,849**	3,761
Net profit paid or payable to the Province of Manitoba	**250,496**	233,677

See accompanying notes

STATEMENT OF CASH FLOWS
[IN THOUSANDS OF DOLLARS]

YEAR ENDED MARCH 31

	2011 **$**	2010 $
OPERATING ACTIVITIES		
Cash receipts		
Sales – spirits, wine, coolers/ciders and beer	**622,044**	611,760
Annual licence and permit fees	**5,248**	4,887
Goods and Services Tax	**31,639**	30,945
Manitoba Retail Sales Tax	**21,437**	20,903
Manitoba Waste Reduction and Prevention Levy	**—**	494
Environmental Protection Tax	**2,020**	2,010
	682,388	670,999
Cash disbursements		
Purchases – merchandise, federal duty, excise and other costs	**305,894**	317,144
General and administrative expenses	**66,392**	65,138
Goods and Services Tax	**32,027**	30,844
Manitoba Retail Sales Tax	**21,386**	20,813
Manitoba Waste Reduction and Prevention Levy	**34**	492
Environmental Protection Tax	**2,021**	2,002
	427,754	436,433
Net cash available from operating activities	**254,634**	234,566
INVESTING ACTIVITIES		
Acquisition of property and equipment	**(4,848)**	(6,185)
Net cash available for transfer	**249,786**	228,381
TRANSFERS TO PROVINCE OF MANITOBA		
Current year's net profit	**202,800**	185,900
Prior year's net profit	**47,777**	42,564
	250,577	228,464
Net decrease in cash and cash equivalents during the year	**(791)**	(83)
Cash and cash equivalents, beginning of year	**9,190**	9,273
Cash and cash equivalents, end of year	**8,399**	9,190

See accompanying notes

SCHEDULE OF SALES, COST OF SALES AND GROSS PROFIT

[IN THOUSANDS OF DOLLARS]

YEAR ENDED MARCH 31

	Spirits $	Wine $	Coolers/ Ciders $	Beer $	Total $
SALES					
Stores	**151,268**	**93,988**	**13,793**	**46,856**	**305,905**
Liquor vendors	**34,988**	**9,411**	**3,596**	**7,205**	**55,200**
Licensees	**19,244**	**5,218**	**1,699**	**220,926**	**247,087**
Specialty wine stores	**45**	**13,559**	**84**	**—**	**13,688**
Total sales for 2011	**205,545**	**122,176**	**19,172**	**274,987**	**621,880**
Total sales for 2010	203,037	116,698	19,658	271,122	610,515
COST OF SALES					
Total cost of sales for 2011	**81,320**	**56,229**	**8,714**	**161,499**	**307,762**
Total cost of sales for 2010	80,491	53,735	8,882	167,808	310,916
Gross profit for 2011	**124,225**	**65,947**	**10,458**	**113,488**	**314,118**
Gross profit for 2010	122,546	62,963	10,776	103,314	299,599

See accompanying notes

[IN THOUSANDS OF DOLLARS]

MARCH 31, 2011

1. NATURE OF ORGANIZATION

The Liquor Control Commission [the "MLCC"] was formed in 1923 as an agency of the Government of the Province of Manitoba under *The Liquor Control Act.* The MLCC's mandate is to purchase, sell and regulate alcoholic beverages; to determine locations for retail liquor outlets; to licence and regulate facilities used by the consuming public; to provide revenue to the Province of Manitoba from the activities of the MLCC; and to do all such things necessary to effect the provisions of *The Liquor Control Act.*

2. SIGNIFICANT ACCOUNTING POLICIES

[a] Cash and cash equivalents include cash on hand, balances with banks and outstanding electronic fund transactions forwarded to banks.

[b] Cash and cash equivalents [restricted] consist of cash balances held in a trust account which has been advanced by the Province of Manitoba to fund the employee pension and retiring allowances benefits.

[c] Accounts receivable include electronic fund transactions to be forwarded to banks after March 31.

[d] Inventories of goods for resale are valued at the lower of average cost and net realizable value.

[e] Revenue is recognized at the time the product is shipped, title passes, the sales price is fixed and determinable, and collectibility is reasonably assured.

[f] Property and equipment are recorded at cost less accumulated depreciation. Depreciation is provided on the declining balance basis at the following annual rates:

Automobiles	30%
Equipment and furnishings	20%
Paving	8%

Leasehold improvements are depreciated on a straight-line basis over the remaining term of the lease or a minimum of five years.

Buildings are depreciated on a straight-line basis over 40 years.

[g] Intangible assets are recorded at cost less accumulated depreciation. Depreciation is provided on the declining balance basis at the following annual rate:

Systems development	30%

[h] Substantially all of the employees of the MLCC are eligible for pension benefits based on length of service and average annualized earnings calculated on the best five years prior to retirement, termination, or death that provides the highest earnings. Pension costs, included in salaries, benefits and pension costs, consist of the employer's share of pension benefits paid to retired employees, as well as the increase in unfunded pension liabilities during the fiscal year. This liability is determined actuarially every three years with the balances for the intervening years being determined by formula provided by the actuary as detailed in note 11. Actuarial gains and losses are recognized in income immediately as detailed in note 11.

[i] In preparing the MLCC's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

[j] The MLCC has classified all financial instruments into one of the following five categories: held for trading, held to maturity investments, available for sale financial assets, loans and receivables and other financial liabilities. All financial instruments are included on the balance sheet and are measured at fair value with the exception of loans and receivables, held to maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Held for trading financial instruments are measured at fair value and all gains and losses are included in income in the period in which they arise. Available for sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset or liability is removed from the balance sheet.

3. FUTURE ACCOUNTING CHANGES

INTERNATIONAL FINANCIAL REPORTING STANDARDS [“IFRS”]

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian generally accepted accounting principles [“GAAP”] for fiscal years beginning on or after January 1, 2011. In October 2009, the Public Sector Accounting Board confirmed that public sector enterprises such as MLCC will be required to follow IFRS for periods beginning January 1, 2011. MLCC will be required to prepare financial statements in accordance with IFRS effective for its 2011-12 fiscal year with comparative information presented for the 2010-11 fiscal year.

Although IFRS and Canadian GAAP are premised on a similar conceptual framework, there are a number of differences with respect to recognition, measurement and disclosure. MLCC has completed an assessment of adopting IFRS, and has identified the areas with the highest potential to impact MLCC. Those areas include property, plant and equipment, leases, employee benefits and the transitional requirements upon the adoption of IFRS under the provisions of IFRS 1, First-Time Adoption of IFRS.

4. FINANCIAL INSTRUMENTS

CREDIT RISK

Accounts receivable are all current at year end and were fully collected subsequent to year end. Therefore no allowance for uncollectible amounts was accrued by management. Accounts receivable are written-off when management determines that they cannot be collected or they have been outstanding for greater than 120 days.

LIQUIDITY RISK

Liquidity risk is mitigated by collection terms on accounts receivable being set at less than or equal to the payment terms of accounts payable. All accounts payable are due within 30 days of year end. See note 13 for details of other contractual obligations and their maturities.

FOREIGN CURRENCY RISK

The MLCC is exposed to currency risk through inventory purchase transactions that require settlement in foreign currencies. Exposure to fluctuations in exchange rates is mitigated by the policy of adjusting purchase or selling prices to maintain the profit margin approved by the Board of Commissioners.

FAIR VALUE

The fair value of the MLCC's financial instruments on initial recognition is the transaction price, which is the value of the consideration given or received. At March 31, 2011, the MLCC's only financial asset or financial liability measured at fair value on a recurring

NOTES TO FINANCIAL STATEMENTS [IN THOUSANDS OF DOLLARS]

basis was cash totalling $8,399. The MLCC has made the following classifications of its financial instruments:

Cash and cash equivalents are classified as held for trading and measured at fair value. The gains or losses arising on the revaluation to fair value at the end of the period are included in net income.

Accounts receivable are classified as loans and receivables and recorded at cost, which upon initial recognition is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Accounts payable, net profit payable to the Province of Manitoba and other taxes payable are classified as other financial liabilities and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

It is management's opinion that the MLCC is not exposed to significant interest rate, currency, liquidity, or credit risks arising from these financial instruments. The fair values of the MLCC's financial instruments approximate their carrying value unless otherwise stated due to the short period between initial recognition and subsequent settlement.

5. CAPITAL MANAGEMENT

The MLCC defines its capital as cash and cash equivalents available for operations. The MLCC's objectives are to have cash resources available for operations, to provide flexibility to take advantage of opportunities that will advance its purposes and to meet its obligation to transfer its net profit to the Province of Manitoba annually. The need for cash is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to budget. As at March 31, 2011, the MLCC has met its objective of having sufficient cash resources to meet its current obligations.

6. INVENTORY

Inventory consists of the following:

	2011 **$**	2010 $
Warehouse	**26,029**	23,802
Stores	**12,282**	11,888
	38,311	35,690

The amount of unpaid and unrecorded Customs and Excise duties on owned merchandise held in bond is approximately $3,806 at March 31, 2011 [2010 - $3,948].

7. OTHER INCOME

Other income consists of the following:

	2011 **$**	2010 $
Annual licence fees and licence application fees	**1,091**	1,104
Occasional permit fees	**640**	329
Occasional permit additional fees	**—**	471
Licensee monetary penalties	**97**	8
	1,828	1,912

NOTES TO FINANCIAL STATEMENTS [IN THOUSANDS OF DOLLARS]

AIR MILES® revenue	**1,271**	957
Advertising revenue – other	**964**	833
	2,235	1,790
Markup on non-sale items	**401**	329
Foreign exchange	**137**	266
Administration charges	**138**	152
Border point fees	**158**	125
Miscellaneous	**22**	152
Specialty wine store fees	**26**	26
	882	1,050
	4,945	4,752

8. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of the following:

	2011 **$**	2010 $
Salaries, benefits and pension costs *[note 11]*	**38,820**	41,541
Leased premises *[note 13]*	**7,209**	6,791
Maintenance and repairs	**3,401**	3,174
Bank charges	**2,402**	2,341
Delivery charges	**1,845**	1,781
Utilities	**1,316**	1,545
AIR MILES® program	**1,258**	1,288
Alcohol education	**837**	821
Protective services	**816**	792
Printing, postage and supplies	**804**	779
Community support	**717**	577
Health and Post Secondary Education Tax Levy	**714**	699
Grants in lieu of taxes	**701**	667
Advertising and promotions	**614**	521
Staff training	**584**	656
Equipment rentals *[note 13]*	**580**	685
Professional fees	**499**	520
Travel	**316**	391
Miscellaneous	**312**	392
Communications	**227**	253
Vehicle expenses	**203**	199
Association memberships	**114**	122
Corporation Capital Tax	**111**	107
Crown Corporations Council levy	**100**	105
Bad debt expense	**77**	25
Product analysis	**73**	74
Insurance	**68**	67
	64,718	66,913

NOTES TO FINANCIAL STATEMENTS [IN THOUSANDS OF DOLLARS]

9. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2011		
	Cost $	**Accumulated depreciation $**	**Net book value $**
Land	**120**	**—**	**120**
Automobiles	**656**	**340**	**316**
Equipment and furnishings	**12,547**	**6,380**	**6,167**
Paving	**520**	**203**	**317**
Leasehold improvements	**13,439**	**6,318**	**7,121**
Buildings	**18,397**	**4,866**	**13,531**
Systems infrastructure	**1,401**	**966**	**435**
	47,080	**19,073**	**28,007**

	2010		
	Cost $	Accumulated depreciation $	Net book value $
Land	120	—	120
Automobiles	639	386	253
Equipment and furnishings	11,728	5,133	6,595
Paving	496	175	321
Leasehold improvements	11,198	5,543	5,655
Buildings	17,473	4,480	12,993
Systems infrastructure	1,239	820	419
	42,893	16,537	26,356

10. INTANGIBLE ASSETS

Intangible assets consist of the following:

	2011		
	Cost $	**Accumulated depreciation $**	**Net book value $**
Systems development	**11,103**	**8,993**	**2,110**

	2010		
	Cost $	Accumulated depreciation $	Net book value $
Systems development	11,577	8,593	2,984

NOTES TO FINANCIAL STATEMENTS [IN THOUSANDS OF DOLLARS]

11. PROVISION FOR EMPLOYEE PENSION BENEFITS

The MLCC maintains a defined benefit pension plan in accordance with the provisions of *The Civil Service Superannuation Act* administered by the Civil Service Superannuation Board. An actuarial valuation of the provision for employee pension benefits was conducted by Ellement & Ellement Ltd. Consulting Actuaries as of December 31, 2009. The projected unit credit method was used and the liabilities have been extrapolated to March 31, 2011 using a formula provided by the actuary.

	2011 **$**	2010 $
Accrued benefit liability, beginning of year	**53,318**	51,213
Loss based on 2009 actuarial report	**4,094**	—
Benefits accrued	**1,804**	1,736
Interest accrued on benefits	**3,729**	3,597
Benefits paid	**(2,920)**	(2,762)
Matching pension contributions	**(560)**	(466)
Accrued benefit liability, end of year	**59,465**	53,318
Pension expense	**5,533**	5,333
Employee contributions	**1,710**	1,667
Employer contributions	**2,920**	2,762

The pension expense consists of benefits accrued of $1,804 [2010 - $1,736] and interest accrued on benefits of $3,729 [2010 - $3,597].

The accrued benefit liability is comprised of:

	2011 **$**	2010 $
Defined benefit obligation	**59,465**	53,318
Fair value of plan assets	**53,938**	—
Accrued benefit liability	**(5,527)**	(53,318)

Changes in the fair value of the plan assets are as follows (in actual dollars):

	2011 **$**	2010 $
Fair value of plan assets, beginning of year	**—**	—
Transfer of restricted cash	**46,408,293**	—
Expected return	**5,713,939**	—
Contributions by employer	**560,020**	—
Matching contributions	**1,255,433**	—
Fair value of plan assets, end of year	**53,937,685**	—

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2011 **%**	2010 %
Cash and cash equivalents	**5.3**	—
Canadian equities	**94.7**	—

[IN THOUSANDS OF DOLLARS]

The overall expected rate of return on assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled. These are reflected in the principal assumptions below.

The key actuarial assumptions used in determining the MLCC's provision for employee pension benefits were at the following weighted average rates:

As at March 31	**2011**	2010
	%	%
Discount rate	**6.00**	6.50
Expected long-term rate of return	**6.00**	6.50
Inflation	**2.00**	2.50
Rate of future compensation increases	**3.75**	4.25

In addition, post-retirement indexing is at 1.33%.

The amount of the long-term provision for employee pension benefits of $46,360 as at March 31, 2010 has been funded by the cash advanced by the Province of Manitoba. The funds are held in a trust account and are recorded as restricted cash [note 2].

12. PROVISION FOR RETIREMENT ALLOWANCES

Effective April 1, 1998, the MLCC commenced recording accumulated retirement allowances for its employees. Eligible employees are entitled to receive a retirement allowance equal to one week's pay to a maximum of 25 weeks for each year of continuous employment based on the current salary at date of retirement. The provision recorded has been extrapolated to March 31, 2011 using a formula provided by the actuary.

13. COMMITMENTS

[a] The MLCC leases 45 buildings. Leases have expiry dates ranging from 2012 to 2029.

The future minimum annual lease payments for each of the next five years and thereafter are as follows:

Year ending March 31	**$**
2012	4,967
2013	4,717
2014	4,684
2015	4,453
2016	4,034
Thereafter	25,355
	48,210

[b] The MLCC leases computer equipment. Leases on computer equipment have expiry dates ranging from 2012 to 2013.

The future minimum lease payments for each of the years to the expiry of the lease contracts are as follows:

Year ending March 31	**$**
2012	81
2013	57
	138

14. COMPARATIVE FIGURES

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the current year's financial statements.

The accompanying consolidated financial statements are the responsibility of management and have been prepared in accordance with the accounting policies stated in the consolidated financial statements. These accounting policies have been applied on a basis consistent with the prior year. In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available. The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Management is responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting for the Corporation. Management designed such internal controls, or caused them to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of the financial information and that the assets of the Corporation are properly safeguarded. As part of the financial statement audit performed by Ernst & Young LLP, they reviewed the Corporation's internal controls to the extent that they considered necessary and reported their findings to management and the Board of Directors.

The responsibility of Ernst & Young LLP is to express an independent opinion on whether the consolidated financial statements are fairly stated in accordance with Canadian generally accepted accounting principles. The Auditors' Report outlines the scope of the audit examination and provides the audit opinion.

The Audit and Risk Management Committee of the Board meets with management and Ernst & Young LLP to satisfy itself that each group has properly discharged its respective responsibilities and to review the consolidated financial statements before approving them. The Board has reviewed and approved the consolidated financial statements for the fiscal year ended March 31, 2011.

Winston Hodgins
President & CEO

Tracy Graham
Executive Vice President,
Finance & CFO

INDEPENDENT AUDITORS' REPORT FOR 2010/11

**TO THE BOARD OF DIRECTORS OF
MANITOBA LOTTERIES CORPORATION**

We have audited the accompanying consolidated financial statements of Manitoba Lotteries Corporation, which comprise the consolidated balance sheet as at March 31, 2011 and the consolidated statements of net income, comprehensive income and retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Manitoba Lotteries Corporation as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants
Winnipeg, Canada
June 28, 2011

CONSOLIDATED BALANCE SHEET

MARCH 31, 2011 (IN THOUSANDS)

	Notes	2011	2010
ASSETS			
CURRENT ASSETS			
Cash		$ **32,012**	$ 27,491
Accounts receivable	3	**12,037**	9,600
Inventories	4	**2,646**	2,628
Prepaid expenses	5	**2,182**	2,107
		48,877	41,826
PROPERTY AND EQUIPMENT	6	**170,723**	156,735
OTHER ASSETS	7	**4,541**	4,794
		$ **224,141**	$ 203,355
LIABILITIES AND RETAINED EARNINGS			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	8	$ **46,435**	$ 35,674
Payable to the Province of Manitoba		**19,401**	1,673
Current portion of long-term debt	9	**17,221**	17,562
		83,057	54,909
LONG-TERM DEBT	9	**135,300**	142,621
PROVISION FOR EMPLOYEE PENSION BENEFITS	10	**784**	825
TOTAL LIABILITIES		**219,141**	198,355
Commitments and contingencies	13		
RETAINED EARNINGS		**5,000**	5,000
		$ **224,141**	$ 203,355

(see accompanying notes to the consolidated financial statements)

On behalf of the Board,

Tim Valgardson
Director & Chair of the Board of Directors

Gerald Rosenby
Director & Chair of the Audit & Risk Management Committee

CONSOLIDATED STATEMENT OF NET INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED MARCH 31, 2011 (IN THOUSANDS)

	Notes	2011	2010
REVENUE			
Revenue		$ 811,061	$ 767,562
Cost of sales		209,650	212,071
		601,411	555,491
EXPENSES			
Operating expenditures		140,783	135,387
Amortization		24,651	30,527
Interest expense – long-term		8,435	10,309
Goods and Services Tax		4,749	8,277
		178,618	184,500
INCOME BEFORE ALLOCATIONS AND PAYMENTS		422,793	370,991
ALLOCATIONS AND PAYMENTS	12		
WCLC partner equalization		3,459	3,325
Payment to Government of Canada		2,283	2,333
Gaming Commission fees & Crown levy		3,116	2,824
First Nations allocation		43,661	37,325
Manitoba Jockey Club Inc. contribution		5,457	4,746
Tourism contribution		25,141	6,251
Responsible gaming funding		3,634	3,466
Casino bingo volunteer program		3,941	4,048
		90,692	64,318
NET INCOME AND COMPREHENSIVE INCOME		332,101	306,673
RETAINED EARNINGS, BEGINNING OF THE YEAR		5,000	5,000
Allocation to the Province of Manitoba		(332,101)	(306,673)
RETAINED EARNINGS, END OF THE YEAR		$ 5,000	$ 5,000

(see accompanying notes to the consolidated financial statements)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2011 (IN THOUSANDS)

	Notes	2011	2010
OPERATING ACTIVITIES			
Net income and comprehensive income		$ 332,101	$ 306,673
Add (deduct) items not involving cash:			
Amortization related to property and equipment		24,398	30,281
Amortization on assets related to First Nations casinos		2,673	2,655
Amortization related to other assets		253	246
Gain on disposal of property and equipment		(423)	(13)
Provision for employee pension benefits		(41)	282
		358,961	340,124
Net change in non-cash working capital items	15	8,231	11,010
CASH PROVIDED BY OPERATING ACTIVITIES		367,192	351,134
INVESTING ACTIVITIES			
Purchase of property and equipment		(41,059)	(26,912)
Proceeds from disposal of property and equipment		423	13
CASH USED IN INVESTING ACTIVITIES		(40,636)	(26,899)
FINANCING ACTIVITIES			
Cash distributions to the Province of Manitoba:			
Current year		(312,700)	(305,000)
Prior year		(1,673)	(3,580)
Proceeds from long-term debt		11,000	700
Repayment of long-term debt		(18,662)	(13,493)
CASH USED IN FINANCING ACTIVITIES		(322,035)	(321,373)
NET INCREASE IN CASH DURING THE YEAR		4,521	2,862
CASH, BEGINNING OF THE YEAR		27,491	24,629
CASH, END OF THE YEAR		$ 32,012	$ 27,491
SUPPLEMENTAL CASH FLOW INFORMATION			
Interest paid		$ 9,464	$ 10,625

(see accompanying notes to the consolidated financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2011 (IN THOUSANDS)

1. Background

The Manitoba Lotteries Foundation was established by the *Manitoba Lotteries Foundation Act*. On July 27, 1993, the Act was amended and continued under the *Manitoba Lotteries Corporation Act*. By consent of the Legislative Assembly of Manitoba, the organization continues its operations as a Crown corporation under the name of the Manitoba Lotteries Corporation (Manitoba Lotteries) or the Corporation.

2. Significant Accounting Policies

(A) BASIS OF CONSOLIDATION

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and combine the accounts of Manitoba Lotteries and MLC Holdings Inc. This controlled entity was established to purchase capital assets, which are leased to Manitoba Lotteries at cost. All intercompany transactions and accounts have been eliminated on consolidation.

(B) WESTERN CANADA LOTTERY CORPORATION

The Western Canada Lottery Corporation (WCLC) was incorporated without share capital under Part II of the *Canada Corporations Act* on May 13, 1974. The provincial governments of Manitoba, Saskatchewan and Alberta are members in the Corporation, and the Yukon Territory, the Northwest Territories and Nunavut participate with the provinces as associate members in the sale of gaming products. Each province and territory has appointed a lottery organization to assist the WCLC with the distribution of gaming products in its jurisdiction (Manitoba Lotteries for the Province of Manitoba). The proportionate share of WCLC's sales and cost of sales is included in the consolidated financial statements based on relative sales levels by jurisdiction.

(C) FIRST NATIONS CASINOS

The Government of Manitoba has overall control over gaming in Manitoba in accordance with the requirements of the Criminal Code of Canada, and has appointed Manitoba Lotteries to act as its agent in the Conduct and Management of the gaming regime. Through a selection process, the Government has provided certain First Nations the opportunity to operate casinos, with Manitoba Lotteries maintaining the Conduct and Management authority over these casinos. Effective December 1, 2005, the Corporation received approval from its Board of Directors to discontinue the recovery of general administrative and compliance costs from First Nations casinos and to provide these services only upon request on a fee for service basis. The Corporation will continue to recover all direct and/or gaming related expenses.

(D) REVENUE AND EXPENSES RECOGNITION

Revenue and expenses are recorded on an accrual basis except for lottery revenue. Lottery revenue is recorded as of the date of the draw with the exception of instant game revenue which is recorded at the time the ticket is activated by the retailer via the on-line accounting system for sale to customers. Video lottery and other gaming revenue is recorded net of prizes paid. Administration fees related to First Nations are recorded in income as earned.

(E) PROPERTY, EQUIPMENT AND AMORTIZATION

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and amortized on a straight-line basis according to their estimated useful lives.

Furniture and equipment	4-5 years
Gaming equipment	5 years
Casino stages	10 years
Buildings and parking lots	30 years
Leasehold improvements	Over term of lease
Capital lease – building	25 years
Assets related to First Nations Casinos	5-7 years
Other assets – see note 7	26 years

Capital assets related to First Nations casinos under the Conduct and Management Agreement consist primarily of the cost of the gaming equipment and related computer equipment.

Property and equipment not yet in use is classified as work in progress and is stated at cost. No amortization is recorded for these assets.

(F) GOODS AND SERVICES TAX

In lieu of Goods and Services Tax (GST) on lottery and gaming revenue, the Corporation foregoes claiming input tax credits and pays an additional 5% GST on gaming expenditures, including retailer commissions. This additional 5% is reported as GST expense.

An input tax credit is claimed for GST paid on non-gaming expenditures.

(G) INVENTORIES

Inventories are valued at the lower of cost and replacement value for replacement parts and the lower of cost and net realizable value for all other inventory.

(H) PENSION PLANS

In accordance with the provisions of the *Civil Service Superannuation Act* (Act), employees of the Corporation are eligible for pension benefits. Plan members are required to contribute to the Civil Service Superannuation Fund (Fund) at prescribed rates for defined benefits and will receive benefits based on the length of service and on the average of annualized earnings calculated on the best five years prior to retirement, termination or death that provides the highest earnings. The Corporation is required to match contributions contributed to the Fund by the employees at prescribed rates, which is recorded as an operating expense. Under this Act, the Corporation has no further pension liability.

For employees whose annual earnings exceed the limit under the Civil Service Superannuation Fund, a pension liability is established. This liability is determined actuarially on an annual calendar year basis with the balance for the intervening time frame being determined by a formula provided by the actuary. Actuarial gains and losses are recognized in income immediately.

The Corporation also makes contributions for employees and officers to a money purchase pension plan at prescribed rates.

(I) FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities are translated at the year-end exchange rate while non-monetary assets and liabilities and revenue and expenses are translated at the exchange rate prevailing on the transaction date. All exchange gains and losses are reflected in income during the period they occur.

(J) USE OF ESTIMATES

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

(K) PROMOTIONAL ALLOWANCES

The retail value of food, beverages and other items provided on a complimentary basis to customers has been included in gross revenue and a corresponding amount has been deducted as promotional allowances. Costs of providing these promotional allowances have been included in operating expenses.

(L) LOYALTY POINTS PROGRAM

The Corporation operates a program whereby patrons can earn points based upon their level of play on certain casino games. Points can be redeemed for certain goods and services provided by the casinos. The retail value of these complimentary items is included in gross revenue and then deducted as a promotional allowance to arrive at net revenue.

The future redemption liability is included in accounts payable and accrued liabilities and is based on an assessment of anticipated point redemptions and point value. The Corporation adjusts the estimated liability based on redemption experience and additional points earned and any adjustments are recorded in the results of operations.

(M) FINANCIAL INSTRUMENTS

In accordance with The Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855 Financial Instruments – Recognition and Measurement, the Corporation has classified all financial instruments into

For the year ended March 31, 2011 (in thousands)

2. Significant Accounting Policies (continued)

one of the following five categories: held for trading, held to maturity investments, available for sale financial assets, loans and receivables and other financial liabilities. All financial instruments are included on the consolidated balance sheet and are measured at fair value with the exception of loans and receivables, held to maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Held for trading financial instruments are measured at fair value and all gains and losses are included in income in the period in which they arise. Available for sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset or liability is removed from the consolidated balance sheet.

(N) CHANGES IN ACCOUNTING POLICIES

During the year, the Corporation adopted the following CICA Handbook sections:

Section 1601 Consolidated Financial Statements and Section 1602 Non-Controlling Interests establish standards for the accounting and reporting of ownership interests in subsidiaries held by parties other than the parent. The adoption of these standards has had no impact on the Corporation's consolidated financial statements.

3. Accounts Receivable

	2011	2010
Western Canada Lottery Corporation	$ 7,517	$ 5,140
Trade	3,791	3,048
First Nations	467	906
Goods and Services Tax	23	250
Employee computer program	239	256
	$ 12,037	$ 9,600

4. Inventories

	2011	2010
Replacement parts	$ 1,247	$ 1,462
Bingo paper	417	462
Breakopen tickets	511	345
Restaurant	169	148
Store merchandise	302	211
	$ 2,646	$ 2,628

5. Prepaid Expenses

	2011	2010
Maintenance contracts	$ 1,101	$ 1,105
Insurance	455	461
Entertainer and sponsorship deposits	157	109
Rent	131	85
Other	338	347
	$ 2,182	$ 2,107

For the year ended March 31, 2011 (in thousands)

6. Property and Equipment

	Cost	Accumulated Amortization	Net Book Value
2011			
Land	$ 17,135	$ -	$ 17,135
Furniture and equipment	112,287	89,664	22,623
Gaming equipment	163,663	137,247	26,416
Casino stages	5,972	5,972	-
Buildings and parking lots	162,517	75,767	86,750
Leasehold improvements	1,249	992	257
Capital lease – building	649	412	237
Assets related to First Nations casinos [see note 2(c)]	19,317	14,253	5,064
Work in progress	12,241	-	12,241
	$ 495,030	$ 324,307	$ 170,723
2010			
Land	$ 5,798	$ -	$ 5,798
Furniture and equipment	103,853	87,468	16,385
Gaming equipment	164,971	135,462	29,509
Casino stages	5,972	5,972	-
Buildings and parking lots	153,751	70,803	82,948
Leasehold improvements	5,643	5,347	296
Capital lease – building	688	302	386
Assets related to First Nations casinos [see note 2(c)]	19,028	11,580	7,448
Work in progress	13,965	-	13,965
	$ 473,669	$ 316,934	$ 156,735

7. Other Assets

The Corporation has entered into an agreement for the right to use 22.28 acres of land for 200 years. The land is being used for parking facilities at the McPhillips Station Casino. The facilities became available for use during the 2004 fiscal year, at which time the Corporation began amortizing the asset over the life of the adjacent casino. The asset is presented net of accumulated amortization of $1,840 (2010 - $1,587) [see note 2(e)].

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended March 31, 2011 (in thousands)

8. Accounts Payable and Accrued Liabilities

	2011	2010
Trade	$ 35,015	$ 24,467
Vacation	8,556	8,051
Interest	26	822
Jackpot provision	2,481	1,973
Province of Manitoba taxes	357	361
	$ 46,435	$ 35,674

9. Long-Term Debt

	2011	2010
Province of Manitoba, bearing interest at 6.950%, interest only payable semi-annually, with all principal due at maturity on August 30, 2010.	$ -	$ 135,000
Province of Manitoba, bearing interest at 5.050%, repayable in monthly principal installments of $563 plus interest until August 31, 2030.	131,063	-
Province of Manitoba, bearing interest at 5.250%, repayable in quarterly principal installments of $1,071 plus interest until June 30, 2011.	1,071	5,357
Province of Manitoba, bearing interest at 4.625%, repayable in quarterly principal installments of $1,071 plus interest until September 30, 2011.	2,143	6,429
Province of Manitoba, bearing interest at the prevailing Bankers Acceptance Rate plus ¼ of 1%, repayable in quarterly principal payments of $679 plus interest, until May 10, 2012. The interest rate on the debt at March 31, 2011 was 1.549%.	3,393	6,107
Province of Manitoba, bearing interest at 4.050%, repayable in monthly principal installments of $84 plus interest until August 31, 2012.	1,433	2,444
Province of Manitoba, bearing interest at 4.150%, repayable in monthly principal installments of $96 plus interest until July 31, 2013.	2,678	3,826
Province of Manitoba, bearing interest at 2.500%, repayable in monthly principal installments of $12 plus interest until February 26, 2015.	548	688
Province of Manitoba, bearing interest at the prevailing Canadian Dealer Offered Rate plus 0.90%, repayable in quarterly principal payments of $550 plus interest, until August 31, 2015. The interest rate on the debt at March 31, 2011 was 2.199%.	9,900	-
Capital lease obligation to the Province of Manitoba, with a 7.630% implicit interest rate and annual minimum lease payments of $64 until July 13, 2017.	292	332
	152,521	160,183
Less current portion of long-term debt and capital lease obligation	17,221	17,562
	$ 135,300	$ 142,621

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended March 31, 2011 (in thousands)

9. Long-Term Debt (continued)

Annual payments in future years are as follows:

		Capital Lease	
	Loans	Principal	Interest
2012	$ 17,178	$ 43	$ 21
2013	11,338	46	18
2014	9,473	50	14
2015	9,078	54	10
2016	7,850	58	6
Subsequent years	97,312	41	2
	$ 152,229	$ 292	$ 71

The fair market value of long-term debt at March 31, 2011 is $153,570.

10. Provision for Employee Pension Benefits

The pension expense related to the Corporation's contributions to the Civil Service Superannuation Fund is $3,430 (2010 - $3,590) and is recorded in operating expenditures.

A pension liability of $784 (2010 - $825) has been established for employees whose annual earnings exceed the limit under the Civil Service Superannuation Fund plan. A loss of $41 was experienced in the current year based on the most recently available actuarial report of pension obligations as at December 31, 2009, and is included in the above pension expense.

The pension expense related to the Corporation's contributions to the money purchase plan is $146 (2010 - $162) and is recorded in operating expenditures.

11. Capital Structure

The Corporation's capital is comprised of retained earnings and long-term debt. The Corporation's objectives when managing its capital structure are to continue its ability to meet its financial obligations and to finance growth and capital expenditures. These objectives have remained unchanged over the fiscal years presented.

The Corporation is subject to capital growth restrictions as the result of the requirement to allocate 100% of annual consolidated net income to the Province of Manitoba.

12. Allocations and Payments

(A) WCLC PARTNER EQUALIZATION

The Province of Manitoba is a member in the WCLC. An agreement is in place with the Provinces of Alberta and Saskatchewan where Manitoba Lotteries provides economic benefit equalization specific to salary costs of head office employees resident in Manitoba. The cost to the Corporation for this allocation for the 2011 fiscal year is $3,459 (2010 - $3,325).

(B) PAYMENT TO GOVERNMENT OF CANADA

Effective January 1, 1980 the Government of Canada terminated its involvement in lotteries. In return, the ten provinces are to contribute an annual sum of $24,000, adjusted for inflation, to the Federal Government. The Province of Manitoba's share for the 2011 fiscal year is $2,283 (2010 - $2,333).

(C) GAMING COMMISSION FEES & CROWN LEVY

The Corporation provides funding to the Manitoba Gaming Control Commission (MGCC) through payment of annual registration fees for electronic gaming machines and employees. The Corporation also provides funding to the Crown Corporations Council through the payment of an annual levy. Funding provided to MGCC and Crown Corporations Council in the 2011 fiscal year is $3,116 (2010 - $2,824).

For the year ended March 31, 2011 (in thousands)

12. Allocations and Payments (continued)

(D) FIRST NATIONS ALLOCATION

First Nations VLT siteholders receive an allocation of VLT revenue to provide sustainable social and economic benefits and opportunities within the siteholders' communities in Manitoba.

(E) MANITOBA JOCKEY CLUB INC. CONTRIBUTION

The Corporation pays the Manitoba Jockey Club Inc. a portion of the revenue generated by the VLTs at Assiniboia Downs as a contribution to support horse racing in the province.

(F) TOURISM CONTRIBUTION

The Corporation provides contributions towards supporting tourism in Manitoba through the VLT program.

(G) RESPONSIBLE GAMING FUNDING

Funding includes amounts paid to the Addictions Foundation of Manitoba and other organizations for their responsible gaming research and programming.

Total investment in responsible gaming initiatives:

	2011	2010
Amounts included in operating expenditures	$ **600**	$ 566
Responsible gaming funding	**3,634**	3,466
	$ **4,234**	$ 4,032

(H) CASINO BINGO VOLUNTEER PROGRAM

The Corporation provides over four hundred charitable and community organizations the opportunity to raise funds for their organizations by assisting the Corporation in the bingo events held at its casinos and providing funding to various community groups throughout Manitoba. Payments made to these organizations for the 2011 fiscal year amounted to $3,941 (2010 - $4,048).

13. Commitments and Contingencies

(A) LEASE OBLIGATIONS

The future minimum annual rental payments relating to operating leases are as follows:

2012	$ 1,160
2013	932
2014	529
2015	147
2016	116
Subsequent years	545
	$ 3,429

(B) Incidental to the nature of its business, the Corporation is defending various legal actions and claims that are pending. While the outcome of these claims cannot be determined, management is of the opinion that the appropriate provisions have been made in the accounts, and the ultimate outcome will not have a material adverse effect on the Corporation's financial position.

The Corporation has been named as a party to a lawsuit related to Scratch 'n Win lottery tickets. The matter is ongoing and any liability related to this claim is not determinable at this time.

14. Financial Instruments

The Corporation's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, payable to the Province of Manitoba and long-term debt. The Corporation is exposed to interest rate, liquidity, foreign exchange and credit risks arising from financial assets and liabilities. The Corporation's objectives in managing these risks are to protect from volatility and to minimize exposure from fluctuations in market rates.

INTEREST RATE RISK

Interest rate risk is the risk to the Corporation's income that arises from fluctuations in interest rates and the degree of volatility of these rates. The Corporation does not use derivative instruments to reduce its exposure to interest rate risk, though risks associated with interest rate fluctuations are mitigated through the use of fixed-rate long-term debt.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended March 31, 2011 (in thousands)

LIQUIDITY RISK

Liquidity risk is the risk the Corporation will encounter difficulties in meeting its financial liability obligations. The Corporation mitigates this risk through cash and long-term debt management. Trade payables are due within one year and long-term debt is repayable in either quarterly or monthly installments.

FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk to the Corporation's income that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Corporation mitigates this risk through its contract and purchasing practices.

CREDIT RISK

Credit risk is the risk to the Corporation that a counterparty will fail to perform its obligations or pay amounts due causing a financial loss. The Corporation mitigates this risk through its credit management and collection practices. The Corporation establishes a reasonable allowance for non-collectible amounts which is netted against accounts receivable. The maximum credit risk exposure associated with accounts receivable is the total carrying value and it is management's opinion that the Corporation does not have significant concentration risk.

The status of accounts receivable in relation to when they are due and payable is as follows:

Neither impaired nor past due	$ 11,955
Not impaired and past due as follows:	
Within 30 days	10
31 to 60 days	55
61 to 90 days	4
Over 90 days	13
Allowance for doubtful accounts	-
	$ 12,037

FAIR VALUE

The fair value of the Corporation's financial instruments on initial recognition is the transaction price, which is the value of the consideration given or received.

The Corporation has made the following classifications of its financial instruments:

Cash is classified as held for trading and measured at fair value. Gains and losses resulting from the periodic revaluation are recorded in income. Financial instruments recognized at fair value must be classified in one of the following three fair value hierarchy levels:

Level 1 – measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 – measurement based on inputs other than quoted prices included in level 1 that are observable for the asset or liability.

Level 3 – measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

Accounts receivable are classified as loans and receivables and recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities, payable to the Province of Manitoba and long-term debt are classified as other financial liabilities and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Unless otherwise stated, the fair value of the Corporation's financial instruments approximates their carrying value.

Financial Instruments recorded at fair values, classified using the fair value hierarchy are as follows:

	Level 1	Level 2	Level 3	Total
Cash	$ 32,012	$ -	$ -	$ 32,012
	$ 32,012	$ -	$ -	$ 32,012

For the year ended March 31, 2011 (in thousands)

15. Supplemental Cash Flow Information

	2011	2010
Net decrease (increase) in current assets		
Accounts receivable	$ (2,437)	$ 5,906
Inventories	(18)	279
Prepaid expenses	(75)	304
	(2,530)	6,489
Net increase in current liabilities		
Accounts payable and accrued liabilities	10,761	4,521
Net change in non-cash working capital items	$ 8,231	$ 11,010

16. Comparative Figures

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year consolidated financial statements.

CONSOLIDATED SCHEDULE OF NET INCOME AND COMPREHENSIVE INCOME

FOR THE YEAR ENDED MARCH 31, 2011 (IN THOUSANDS)

	2011	2010
REVENUE		
Revenue	$ 811,061	$ 767,562
Cost of sales	209,650	212,071
	601,411	555,491
EXPENSES		
Operating expenditures		
Salaries and benefits	91,185	89,302
Maintenance	17,425	15,466
Tourism marketing	9,877	10,659
Property taxes	3,050	4,053
Utilities	2,420	2,474
Supplies and equipment	3,776	3,837
Consultant fees	3,609	2,601
Telecommunications	1,363	1,372
Transportation and vehicles	1,503	1,470
Community support	1,889	1,632
Sundry	4,686	2,521
	140,783	135,387
Amortization	24,651	30,527
Interest expense - long-term	8,435	10,309
Goods and Services Tax	4,749	8,277
	178,618	184,500
INCOME BEFORE ALLOCATIONS AND PAYMENTS	422,793	370,991
ALLOCATIONS AND PAYMENTS	90,692	64,318
NET INCOME AND COMPREHENSIVE INCOME	$ 332,101	$ 306,673

(see accompanying notes to the consolidated financial statements)

Responsibility for Financial Statements

The financial statements are the responsibility of management and are prepared in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the annual report is consistent with that in the financial statements. The financial statements necessarily include amounts that are based on management's best estimate and judgments which have been reached based on careful assessment of data available through the Corporation's information systems. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the financial statements fairly reflect the financial position and results of operations of the Corporation.

In carrying out its responsibilities, management maintains appropriate systems of internal and administrative controls designed to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by the Internal Audit Department.

The financial statements were approved by the Board of Directors, which has overall responsibility for their contents. The Board of Directors is assisted with this responsibility by its Audit Committee (the "Committee"), which consists primarily of Directors not involved in the daily operations of the Corporation.

The general responsibilities of the Committee are categorized into the following: review of financial reporting, review of internal controls and processes, review of actuarial functions, monitoring of corporate integrity, compliance with authorities and review of performance reporting. The Committee's role is that of oversight in these areas in order to ensure management processes are in place and functioning so as to identify and minimize risks to the business operations.

In carrying out the above responsibilities, this Committee meets regularly with management, and with both the Corporation's external and internal auditors to approve the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. The Committee is readily accessible to the external and internal auditors.

The Committee is responsible for the review of the actuarial function. As well, the Committee recommends, for approval, the appointment of the external actuary and his fee arrangements to the Board of Directors. The actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy and claims liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. In addition, the actuary provides an opinion regarding the valuation of policy and claims liabilities at the balance sheet date to meet all policyholder obligations of the Corporation. Examination of supporting data for accuracy and completeness of assets and their ability to meet the policy and claims liabilities are important elements in forming the actuary's opinion.

KPMG LLP, the Corporation's appointed external auditors, have audited the financial statements. Their Auditors' Report is included herein. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary in order to obtain reasonable assurance that the financial statements are free of material misstatement and present fairly the financial position of the Corporation in accordance with Canadian generally accepted accounting principles.

M. J. McLaren
President and Chief Executive Officer

D. D. Palmer
Vice-President,
Finance and Chief Financial Officer

May 2, 2011

Independent Auditors' Report

To the Board of Directors of Manitoba Public Insurance Corporation:

We have audited the accompanying financial statements of Manitoba Public Insurance Corporation, which comprise the balance sheet as at February 28, 2011, the statements of operations, retained earnings, comprehensive income, accumulated other comprehensive income and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of Manitoba Public Insurance Corporation as at February 28, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Winnipeg, Canada
May 2, 2011

Actuary's Report

To the Board of Directors of Manitoba Public Insurance Corporation:

I have valued the policy liabilities of Manitoba Public Insurance Corporation for its balance sheet at February 28, 2011 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the financial statements fairly present the results of the valuation.

James K. Christie
Fellow, Canadian Institute of Actuaries
Winnipeg, Manitoba
May 2, 2011

Financial Statements

Statement of Operations

Years ended February 28		2011		2010
Revenue		(in thousands of dollars)		
Premiums written	**$**	**929,724**	$	906,229
Premiums earned (Note 11)	**$**	**918,905**	$	895,811
Service fees and other revenue (Note 21)		**16,907**		18,475
The Drivers and Vehicles Act operations recovery (Note 22)		**20,995**		20,995
Total earned revenues		**956,807**		935,281
Claims Costs				
Claims incurred (Note 11)				
Current year		**686,221**		653,278
Prior years (Note 10)		**(267,810)**		(39,080)
		418,411		614,198
Claims expense		**110,857**		97,448
Loss prevention/Road safety		**18,052**		24,868
		547,320		736,514
Expenses				
Commissions		**78,510**		72,382
Operating		**109,904**		104,363
Premium taxes		**18,329**		27,365
Regulatory/Appeal		**4,109**		3,995
		210,852		208,105
Total claims and expenses		**758,172**		944,619
Underwriting income (loss)		**198,635**		(9,338)
Investment income (Note 14)		**100,742**		96,282
Net income from annual operations (Note 17)		**299,377**		86,944
Surplus distribution (Note 18)		**(321,678)**		–
Net income (loss) after surplus distribution	**$**	**(22,301)**	$	86,944

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

Balance Sheet

February 28		**2011**		2010
Assets		(in thousands of dollars)		
Cash and investments (Note 4)	**$**	**2,403,859**	$	2,206,451
Due from other insurance companies		**11,971**		10,656
Accounts receivable		**292,035**		289,711
Prepaid expenses		**949**		981
Deferred policy acquisition costs		**46,950**		43,143
Reinsurers' share of unearned premiums		**9,760**		11,853
Reinsurers' share of unpaid claims (Note 10)		**42,407**		59,489
Property and equipment (Note 7)		**145,867**		134,649
Deferred development costs (Note 8)		**38,232**		34,618
	$	**2,992,030**	$	2,791,551
Liabilities				
Due to other insurance companies	**$**	**13,386**	$	23,386
Accounts payable and accrued liabilities		**361,579**		49,482
Capital lease obligation (Note 12)		**4,586**		–
Unearned premiums		**460,587**		449,554
Provision for employee current benefits		**16,007**		15,666
Provision for employee future benefits (Note 9)		**257,812**		226,834
Provision for unpaid claims (Notes 10 and 16)		**1,441,145**		1,628,528
		2,555,102		2,393,450
Retained Earnings				
Basic Insurance Retained Earnings				
Rate Stabilization Reserve (Note 6)		**127,880**		154,000
Retained Earnings		**–**		70,709
Information Technology Optimization Fund (Note 24)		**65,000**		–
		192,880		224,709
Competitive Lines Retained Earnings				
Retained Earnings		**99,969**		85,389
Extension Development Fund (Note 25)		**43,227**		48,279
		143,196		133,668
		336,076		358,377
Accumulated Other Comprehensive Income (Note 15)		**100,852**		39,724
	$	**2,992,030**	$	2,791,551

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

Approved by the Board of Directors:

Jake Janzen
Chairperson

Kerry Bittner
Vice-Chairperson

Statement of Retained Earnings

Years ended February 28		2011		2010
Basic Insurance		(in thousands of dollars)		
Rate Stabilization Reserve				
Balance beginning of year	$	**154,000**	$	134,915
Transfer from (to) Retained Earnings		**(26,120)**		19,085
Balance end of year		**127,880**		154,000
Retained Earnings				
Balance beginning of year		**70,709**		–
Net income (loss) from annual operations after surplus distribution (Notes 17 and 18)		**(31,829)**		87,773
Transfer from (to) Rate Stabilization Reserve		**26,120**		(19,085)
Transfer from Immobilizer Incentive Fund		**–**		2,021
Transfer to Information Technology Optimization Fund		**(65,000)**		–
Balance end of year		**–**		70,709
Immobilizer Incentive Fund				
Balance beginning of year		**–**		2,021
Transfer to Rate Stabilization Reserve		**–**		(2,021)
Balance end of year (Note 23)		**–**		–
Information Technology Optimization Fund				
Balance beginning of year		**–**		–
Transfer from Retained Earnings		**65,000**		–
Balance end of year (Note 24)		**65,000**		–
Balance Basic Insurance Retained Earnings end of year		**192,880**		224,709
Competitive Lines				
Retained Earnings				
Balance beginning of year		**85,389**		92,918
Net income (loss) from annual operations (Note 17)		**9,528**		(829)
Net transfer to Extension Development Fund		**5,052**		(6,700)
Balance end of year		**99,969**		85,389
Extension Development Fund				
Balance beginning of year		**48,279**		41,579
Net transfer from Retained Earnings		**(5,052)**		6,700
Balance end of year (Note 25)		**43,227**		48,279
Balance Competitive Lines Retained Earnings end of year		**143,196**		133,668
Balance Retained Earnings end of year	**$**	**336,076**	$	358,377

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

Statement of Comprehensive Income

Years ended February 28		2011		2010
		(in thousands of dollars)		
Net income (loss) after surplus distribution	**$**	**(22,301)**	$	86,944
Other Comprehensive Income				
Unrealized gains on Available for Sale assets		**84,613**		155,344
Reclassification of net realized (gains) losses related to Available for Sale assets		**(23,485)**		2,339
Other Comprehensive Income for the year		**61,128**		157,683
Total Comprehensive Income	**$**	**38,827**	$	244,627

Statement of Accumulated Other Comprehensive Income (Loss)

Years ended February 28		2011		2010
		(in thousands of dollars)		
Balance beginning of year	**$**	**39,724**	$	(117,959)
Other Comprehensive Income for the year		**61,128**		157,683
Balance end of year (Note 15)	**$**	**100,852**	$	39,724

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

Statement of Cash Flows

Years ended February 28		2011		2010
Cash Flows from (to) Operating Activities:		(in thousands of dollars)		
Net income (loss) after surplus distribution	**$**	**(22,301)**	$	86,944
Non-cash items:				
Amortization of property and equipment		**8,196**		7,283
Amortization of deferred development costs		**5,594**		–
Amortization of bond discount and premium		**4,939**		3,744
(Gain) loss on sale of investments		**(32,796)**		(3,598)
Unrealized (gain) loss on Held for Trading bonds		**(3,208)**		(14,575)
Unrealized (gain) loss on real estate		**(3,455)**		–
Write-down of investments		**736**		3,080
		(42,295)		82,878
Net change in non-cash balances:				
Due from other insurance companies		**(1,315)**		(5,930)
Accounts receivable and prepaid expenses		**(2,292)**		(11,730)
Deferred policy acquisition costs		**(3,807)**		(21,823)
Reinsurers' share of unearned premiums and unpaid claims		**19,175**		(22,539)
Due to other insurance companies		**(10,000)**		7,569
Accounts payable and accrued liabilities		**312,097**		9,318
Unearned premiums		**11,033**		7,966
Provision for employee current benefits		**340**		1,151
Provision for employee future benefits		**30,978**		19,691
Provision for unpaid claims		**(187,383)**		67,092
		168,826		50,765
		126,531		133,643
Cash Flows from (to) Investing Activities:				
Purchase of investments		**(1,221,682)**		(1,028,541)
Proceeds from sale of investments		**1,091,854**		834,866
Acquisition of property and equipment net of proceeds from disposals		**(19,414)**		(99,045)
Capital lease obligation		**4,586**		–
Deferred development costs incurred		**(9,208)**		(18,856)
		(153,864)		(311,576)
Increase (Decrease) in Cash and Short-Term Investments		**(27,333)**		(177,933)
Cash and short-term investments beginning of year		**92,889**		270,822
Cash and Short-Term Investments end of year (Note 4)	**$**	**65,556**	$	92,889

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

Notes to Financial Statements

February 28, 2011

1. Status of the Corporation

The Manitoba Public Insurance Corporation (the "Corporation") was incorporated as a Crown corporation under *The Automobile Insurance Act* in 1970. In 1974, *The Automobile Insurance Act* was revised and became *The Manitoba Public Insurance Corporation Act* (Chapter A180 of the continuing consolidation of the Statutes of Manitoba). In 1988, the Act was re-enacted in both official languages as Chapter P215 of the Statutes of Manitoba.

Under the provisions of its Act and regulations, the Corporation operates an automobile insurance division and a discontinued general insurance division. The lines of business for the automobile insurance division provide for basic universal compulsory automobile insurance, extension and special risk coverages. For financial accounting purposes, the lines of business for the automobile insurance division and the discontinued general insurance division are regarded as separate operations and their revenues and expenses are allocated on a basis described in the summary of significant accounting policies. For financial reporting purposes, due to the immateriality of the financial results of the discontinued general insurance operations (Note 16), the operations are reported as part of the Special Risk Extension line of business. The basic universal compulsory automobile insurance line of business is subject to regulation by the Public Utilities Board of Manitoba with respect to insurance rates and service fees (Note 26).

Under *The Drivers and Vehicles Act*, the Corporation is responsible for operations pertaining to driver safety, vehicle registration and driver licensing, including all related financial, administrative and data processing services.

2. Basis of Reporting

The financial statements of the Corporation are in such form as prescribed by Section 43(1) of *The Manitoba Public Insurance Corporation Act* and are presented in accordance with Canadian generally accepted accounting principles.

The external actuary is appointed by the Board of Directors of the Corporation. With respect to preparation of these financial statements, the external actuary is required to carry out a valuation of the policy liabilities and to report thereon to the Corporation's Board of Directors.

The external actuary also uses the work of the external auditors in his verification of the information prepared by the Corporation used in the valuation of the policy liabilities.

The external auditors are appointed by the Lieutenant Governor in Council to conduct an independent and objective audit of the financial statements of the Corporation in accordance with Canadian generally accepted auditing standards. In carrying out their audit, the external auditors also make use of the work of the external actuary and his report on the Corporation's policy liabilities. The external auditors' report outlines the scope of their audit and their opinion.

3. Summary of Significant Accounting Policies

This summary outlines those accounting policies followed by the Corporation that have a significant effect on the financial statements.

Investments

Funds available for investments are managed by the Department of Finance, on behalf of the Corporation, in accordance with Section 12(1) of *The Manitoba Public Insurance Corporation Act*.

The Corporation's directly held real estate investments are being amortized over their estimated useful life.

Under the provision of CICA 3855 *Financial Instruments – Recognition and Measurement*, the financial assets of Manitoba Public Insurance's investment portfolio are designated as Available for Sale (AFS), Held to Maturity (HTM), or Held for Trading (HFT).

Corporate investments that experience a decline in fair value, which is determined to have been other than temporary, are deemed to be impaired and written down to their expected recoverable amount.

The fair value of financial instruments are obtained from external pricing services and are based on bid prices for financial assets. Short-term investments comprise investments due to mature within 12 months from the date of purchase and are carried at fair value.

The Corporation accounts for the purchase and sale of securities using settlement date accounting.

i) AFS Financial Assets

AFS financial assets are carried at fair value on the Balance Sheet starting on the settlement date and the changes in fair value are recorded in Other Comprehensive Income (OCI) until the asset is disposed of, or has become other than temporarily (OTT) impaired. As long as an AFS asset is held and not OTT impaired, the gains and losses are not recognized in the Statement of Operations. When the asset is disposed of, or has become OTT impaired, the gain or loss is recognized in the Statement of Operations and the amount is deducted from OCI.

The fair value of AFS bonds including federal, provincial, certain municipal, certain hospitals, other provinces and Corporations is estimated based on bid prices of these or similar investments.

Transaction costs related to AFS financial assets are capitalized on initial recognition and, where applicable, are amortized to interest income using the effective interest method.

ii) HTM Financial Assets

HTM financial assets are carried at amortized cost on the Balance Sheet starting on the settlement date.

The fair value of HTM bonds including schools, certain municipal and certain hospitals is based on their carrying value, which approximates market value.

Transaction costs related to financial assets and liabilities classified as HTM are capitalized on initial recognition, when applicable.

iii) HFT Financial Assets

HFT financial assets are carried at fair value on the Balance Sheet starting on the settlement date and the changes in fair value are recorded in the Statement of Operations.

Transaction costs related to HFT financial assets are recognized in the Statement of Operations on initial recognition.

Loans and Receivables

Accounts receivable and due from other insurance companies are designated as loans and receivables and are carried at amortized cost using the effective interest method. These receivables include financing plans for customers using interest rates set at the prime rate of the Corporation's principal banker plus two per cent and updated at each fiscal quarter. The interest rate for a customer remains unchanged throughout the term of the policy.

Cash and Short-Term Investments

Cash and short-term investments are comprised of cash, current operating accounts, provincial short term deposits and funds held in trust on behalf of other insurance companies and are designated as Available for Sale.

Due to Other Insurance Companies

Amounts due to other insurance companies are classified as Other Liabilities.

Accounts Payable and Accrued Liabilities

Amounts for accounts payable and accrued liabilities are classified as Other Liabilities.

Deferred Policy Acquisition Costs

Commissions and premium taxes are deferred and charged to expense over the term of the insurance contract to which such costs relate.

Property and Equipment

Property and equipment are stated at cost less accumulated amortization. Amortization is provided on a straight-line basis which will amortize the cost of each asset over its estimated useful life:

Computer equipment . . . . 3 years

Vehicles . . . . 5 years

Furniture and equipment . . . . . . 10 years

HVAC systems . . . . 20 years

Land improvements . . . . 25 years

Roofing systems . . . . 30 years

Elevators/escalators . . . . 30 years

Buildings . . . . 40 years

Buildings held under a long-term lease arrangement are amortized on a straight-line basis over 40 years.

Leasehold improvements are amortized over the term of the lease plus the first renewal period.

Amortization of construction in progress will begin, in accordance with the above policy, when construction has been completed.

Deferred Development Costs

The costs of developing major information systems that are expected to provide an economic return to the Corporation and meet the requirements of Section 3064 "*Goodwill and Intangible Assets*" of the CICA Handbook are deferred to future periods. These information system expenditures are stated at cost net of accumulated amortization and are amortized on a straight-line basis over five years.

Unearned Premiums

The liability for unearned premiums is the portion of premiums that relate to the unexpired term of each insurance contract.

Provision for Employee Benefits

PROVISION FOR EMPLOYEE CURRENT BENEFITS

The provision for employee current benefits includes an accrual for vacation pay determined in accordance with the Collective Agreement.

PROVISION FOR EMPLOYEE FUTURE BENEFITS

Included in the provision for employee future benefits are the pension benefit plan and other benefit plans.

i) Pension Benefit Plan

The employees of the Corporation are members of a defined benefit pension plan administered under *The Civil Service Superannuation Act*. Included in the accounts is a provision for the employer's future pension liability calculated on an indexed basis. The provision for pension is actuarially determined on an annual basis using the projected benefit method prorated on services. The actuarial present value of the accrued pension benefits is measured using the Corporation's best estimates based on assumptions relating to market interest rates at the measurement date based on high quality debt instruments, salary changes, withdrawals and mortality rates. Changes in experience gains and losses are recognized in the current period.

ii) Other Benefit Plans

Other benefit plans consist of post-retirement extended health and severance pay benefits.

The provision for post-retirement extended health benefits is actuarially determined on an annual basis using the projected benefit method prorated on services, which includes the Corporation's best estimates based on assumptions relating to retirement ages of employees and expected health costs.

Employees of the Corporation are entitled to severance pay in accordance with the Collective Agreement and Corporate policy. The provision for severance pay is actuarially determined on an annual basis using the projected benefit method prorated on services, without salary projection, which includes the Corporation's best estimates based on assumptions relating to the proportion of employees that will ultimately retire.

Provision for Unpaid Claims

The provision for unpaid claims represents an estimate for the full amount of all costs, including adjustment expenses, and the projected final settlements of claims incurred to the Balance Sheet date. These provisions take into account the time value of money. These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. To recognize the uncertainty in establishing these estimates and to allow for possible deterioration in experience, actuaries include explicit margins for adverse deviation in their assumptions. These provisions are adjusted up or down as additional information affecting the estimated amounts becomes known during the course of claims settlement. All changes in estimates are recorded as incurred claims in the current period.

Salvage and Subrogation

Recoveries from salvage and subrogation are recorded as an offset to claims costs. Expected future subrogation recoveries are included in the provision for unpaid claims.

Premium Deficiencies

A premium deficiency exists when estimated future claims and related expenses exceed unearned premiums.

Premium deficiencies are recognized first by writing down the deferred policy acquisition costs with any remainder recognized as a liability.

Allocation of Revenue, Claims Incurred and Expenses

Premiums written, premiums earned and claims incurred are allocated directly to the division writing the insurance risk.

Service fees and other revenue are allocated to the automobile insurance division lines of business and *The Drivers and Vehicles Act* operations on the following basis:

i) Identifiable direct service fees and other revenue are allocated to each line of business.

ii) Where direct allocation is not possible, service fees and other revenue are prorated to each line of business based mainly on factors such as premiums written ratios, expense allocation ratios and investment income allocation ratios. The formulas developed for the allocation of service fees and other revenue are approved by the Board of Directors.

Investment income is allocated to the automobile insurance division lines of business and the discontinued general insurance division based on a monthly averaging of the funds available within each division.

Expenses, including claims expense, are allocated to the automobile insurance division lines of business and *The Drivers and Vehicles Act* operations on the following basis:

i) Identifiable direct expenses are charged to each line of business.

ii) Where direct allocation is not possible, expenses are prorated to each line of business based mainly on factors such as space, number of employees, time usage, premiums written ratios and claims incurred ratios. The formulas developed for the allocation of expenses are approved by the Board of Directors.

Reinsurance Ceded

Premiums, claims and expenses are reported net of amounts due to and recoverable from reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims are recorded separately from estimated amounts payable to policyholders.

The reinsurers' share of unearned premiums is recognized as an asset in a manner which is consistent with the method used in determining the unearned premium liability.

Foreign Currency

Monetary items denominated in foreign currencies are adjusted to reflect the exchange rate in effect at the year-end. Revenue and expense items in foreign currencies are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year.

The Corporation uses currency swaps to manage the currency risk on specific foreign exchange denominated assets. Any gains or losses are recorded in the Statement of Operations under the heading "Investment income," on a fair value basis.

Changes in unrealized foreign exchange currency translation amounts for AFS equity investments are recorded in the Statement of Comprehensive Income, and included in accumulated other comprehensive income until recognized in the Statement of Operations.

Basic Insurance Rate Stabilization Reserve

The Basic Insurance Rate Stabilization Reserve relates to basic universal compulsory automobile insurance and is intended to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors.

Immobilizer Incentive Fund

The Immobilizer Incentive Fund was an appropriation from the Basic Insurance Rate Stabilization Reserve. The fund was used to provide financial resources for vehicle owners to install electronic immobilizers and cover the administrative costs of the program. As the Immobilizer Incentive Fund has been completely depleted, program costs incurred are being funded through normal operations.

Information Technology Optimization Fund

The Corporation's Board of Directors authorized the appropriation of $75.0 million from Retained Earnings of the Corporation to fund costs for Information Technology (IT) Optimization projects. These projects will refurbish the Corporation's IT infrastructure to lower the risk of service interruption and to enable future service improvements to the benefit of ratepayers. The project costs will be allocated between Basic and non-Basic lines of business based on the approved cost allocation formulae. The appropriations are $65.0 million from Basic Retained Earnings to the new Information Technology Optimization Fund for Basic-related project costs and $10.0 million from Extension Retained Earnings to the Extension Development Fund to fund non-Basic project costs.

Extension Development Fund

The Extension Development Fund (EDF) is an appropriation from the Competitive Lines Retained Earnings. The EDF was established to defray the costs of projects undertaken to maximize the opportunities presented by the 2004 merger of Manitoba Public Insurance and the Division of Driver and Vehicle Licensing. There was an additional appropriation of $10.0 million in 2010/11 from Extension Retained Earnings to the EDF to fund non-Basic IT optimization project costs. The project costs will be allocated between Basic and non-Basic lines of business based on the approved cost allocation formulae. These projects will refurbish the Corporation's IT infrastructure to lower the risk of service interruption and to enable future service improvements to the benefit of ratepayers.

Retained Earnings

Retained earnings are comprised of the accumulation of net income or losses for the Basic, Extension and Special Risk Extension lines of business.

Comprehensive Income

Comprehensive income consists of net income (loss) after surplus distribution and other comprehensive income. Changes in unrealized gains and losses on financial assets classified as Available for Sale, and changes in unrealized foreign exchange currency translation amounts are recorded in the Statement of Comprehensive Income, and included in accumulated other comprehensive income until recognized in the Statement of Operations. Accumulated other comprehensive income is included on the Balance Sheet as a separate component.

Future Changes in Accounting Policy and Disclosure

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) for interim and annual reporting in fiscal years beginning on or after January 1, 2011. The Corporation will be adopting IFRS reporting requirements for the fiscal year beginning March 1, 2011. This requirement also extends to any comparative financial information included within the reports.

The Corporation is in the process of determining the full impact of the change to IFRS on the financial results.

Measurement Uncertainty

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

4. Cash and Investments

Cash consists of cash net of cheques issued in excess of amounts on deposit. There is no amount held in trust on behalf of other insurance companies included in cash and short-term investments (2010 – $1,059,000).

Short-term investments have a total principal amount of $59,732,000 (2010 – $94,019,000) comprised of provincial short-term deposits with effective interest rates of 0.85 per cent (2010 – 0.05 per cent), with interest receivable at varying dates.

The Corporation has an unsecured operating line of credit with its principal banker in the amount of $5.0 million. There were no drawdowns against this line of credit at February 28, 2011.

Cash and Investments

(in thousands of dollars)	2011				
	Financial Instruments				
	Classified as Available for Sale	**Classified as Held to Maturity**	**Classified as Held for Trading**	**Non-Financial Instruments**	**Total Carrying Value**
Cash and short-term investments	**$ 65,556**	**$ –**	**$ –**	**$ –**	**$ 65,556**
Bonds					
Federal	**1,584**	**–**	**357,529**	**–**	**359,113**
Manitoba:					
Provincial	**161,635**	**–**	**153,295**	**–**	**314,930**
Municipal	**38,367**	**20,347**	**–**	**–**	**58,714**
Hospitals	**12,497**	**–**	**–**	**–**	**12,497**
Schools	**–**	**458,395**	**–**	**–**	**458,395**
Other provinces:					
Provincial	**82,251**	**–**	**352,136**	**–**	**434,387**
Municipal	**–**	**–**	**36,450**	**–**	**36,450**
Corporations	**18,560**	**–**	**10,368**	**–**	**28,928**
	314,894	**478,742**	**909,778**	**–**	**1,703,414**
Other investments	**7,126**	**–**	**–**	**–**	**7,126**
Equity investments	**526,972**	**–**	**–**	**–**	**526,972**
Real estate	**–**	**–**	**85,799**	**14,992**	**100,791**
	534,098	**–**	**85,799**	**14,992**	**634,889**
	$ 914,548	**$ 478,742**	**$ 995,577**	**$ 14,992**	**$ 2,403,859**

(in thousands of dollars)	2010				
	Financial Instruments				
	Classified as Available for Sale	Classified as Held to Maturity	Classified as Held for Trading	Non-Financial Instruments	Total Carrying Value
Cash and short-term investments	$ 92,889	$ –	$ –	$ –	$ 92,889
Bonds					
Federal	6,741	–	367,448	–	374,189
Manitoba:					
Provincial	255,325	–	88,137	–	343,462
Municipal	50,590	23,598	10,233	–	84,421
Hospitals	12,901	–	–	–	12,901
Schools	–	425,182	–	–	425,182
Other provinces:					
Provincial	131,216	–	276,796	–	408,012
Municipal	–	–	12,461	–	12,461
Corporations	28,589	–	14,389	–	42,978
	485,362	448,780	769,464	–	1,703,606
Other investments	7,650	–	–	–	7,650
Equity investments	387,091	–	–	–	387,091
Real estate	–	–	–	15,215	15,215
	394,741	–	–	15,215	409,956
	$ 972,992	$ 448,780	$ 769,464	$ 15,215	$ 2,206,451

The following table presents the financial instruments measured at fair value, classified by the fair value hierarchy set out in CICA Handbook Section 3862, *Financial Instruments – Disclosures* ("Section 3862"). Section 3862 has expanded disclosure requirements, which require all financial instruments measured at fair value be categorized into one of three levels of the hierarchy. The three levels are based on the transparency of the inputs used to measure the fair values of assets and liabilities as follows:

Level 1 – Unadjusted quoted market prices of identical instruments in active markets;

Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset, either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The classification in the hierarchy of a financial instrument is based on the lowest level of input that is significant to the measurement of fair value.

Assets measured at fair value	Level 1		Level 2		Level 3	
	Quoted Market Price		Valuation technique – Observable market inputs		Valuation technique – Non-observable market inputs	
(in thousands of dollars)	**2011**	2010	**2011**	2010	**2011**	2010
Held for Trading financial assets						
Bonds	**$ 195,425**	$ 343,400	**$ 714,353**	$ 426,064	**$ –**	$ –
Real Estate	**–**	–	**85,799**	–	**–**	–
Total Held for Trading financial assets	**195,425**	343,400	**800,152**	426,064	**–**	–
Available for Sale financial assets						
Cash and short-term investments	**65,556**	92,889	**–**	–	**–**	–
Bonds	**–**	21,515	**301,540**	450,576	**13,354**	13,271
Other investments	**–**	–	**–**	–	**7,126**	7,650
Equity investments	**526,972**	387,091	**–**	–	**–**	–
Total Available for Sale financial assets	**592,528**	501,495	**301,540**	450,576	**20,480**	20,921
Total assets measured at fair value	**$ 787,953**	$ 844,895	**$1,101,692**	$ 876,640	**$ 20,480**	$ 20,921

Fair value measurement for instruments included in Level 3	Available for Sale bonds		Available for sale other	
(in thousands of dollars)	**2011**	2010	**2011**	2010
Balance, March 1	**$ 13,271**	$ 12,647	**$ 7,650**	$ 7,327
Total gains (losses)				
Included in net income	**–**	–	**(595)**	(991)
Included in other comprehensive income	**83**	624	**1,062**	733
Purchases	**–**	–	**156**	601
Sales	**–**	–	**(1,147)**	(20)
Balance, February 28	**$ 13,354**	$ 13,271	**$ 7,126**	$ 7,650

5. Financial Risk Management

Investments carry certain financial risks including market risk, credit risk and liquidity risk. In accordance with Section 12(1) of *The Manitoba Public Insurance Corporation Act*, the Minister of Finance is responsible for the investments of the Corporation. The Minister has charged the Department of Finance with the operational management of the fund. The Corporation, through the Investment Committee of the Board, and the Department jointly determine appropriate policies and strategies to mitigate risk. The investment objectives and goals of the Corporation are embodied in an Investment Policy document, which sets target asset allocation and portfolio concentration limits as well as defining the credit quality of the counterparties and the percentage of highly liquid investments required to meet cash flow needs.

Market Risk

Market risk is the risk that changes in foreign exchange rates, market interest rates and other changes in market prices will result in fluctuation of the fair value or future cash flows of a financial instrument.

CURRENCY RISK

Currency risk is the risk that changes in foreign exchange rates will result in fluctuation of the fair value or future cash flows of a financial instrument. The Corporation has low exposure to currency risk because the Corporation has limited non-Canadian financial instruments. At February 28, 2011, total U.S. dollar financial instruments had a carry value of $133,290,000 U.S. ($130,450,000 Cdn) which is approximately five per cent of the Corporation's investment portfolio.

The Corporation has entered into a currency swap relating to a Province of Quebec provincial bond denominated in U.S. dollars for $10,000,000. The currency swap provides a fixed 5.76 per cent return in Canadian dollars. The agreement also provides that at predetermined future dates, the Corporation pays a fixed 7.5 per cent rate based on the U.S. $10,000,000 par value of the bond and receives 5.76 per cent return based on a Canadian dollar notional value of $13,350,000. The maturity date of the currency swap and the bond is July 15, 2023.

INTEREST RATE RISK

Interest rate risk is the risk that changes in market interest rates will result in fluctuation of the fair value or future cash flows of a financial instrument.

The market valuation of the Corporation's fixed income portfolio is directly impacted by fluctuations in interest rates and will have a larger impact on instruments with a long duration.

Bonds	Average Effective Rate – %	
	2011	2010
Federal	**2.34**	2.77
Provincial	**3.32**	3.09
Municipal	**4.14**	4.36
Hospitals	**3.45**	3.48
Schools	**5.67**	5.91
Corporations	**4.93**	4.62

As at February 28, 2011, a 100 basis point change in interest rates would result in a change in the fair value of the Corporation's fixed income portfolio of approximately $82.2 million comprised of a change of $21.1 million in other comprehensive income and $61.1 million in net income.

Fluctuations in interest rates would also have an impact on the Corporation's unpaid claims. The Corporation's duration of its fixed income portfolio approximates the duration of unpaid claims liability and therefore, any change in interest rates related to these investments would have an offsetting impact on the unpaid claims liability.

EQUITY PRICE RISK

The fair value of equity securities held by the Corporation can be affected by changes in market prices, other than currency and interest rate risks, which may be caused by factors specific to the individual financial instrument or factors affecting all similar financial instruments. General economic conditions, political conditions and other factors affect the equity market. As at February 28, 2011, a 10 per cent change in the fair value of the Corporation's equity portfolio would result in a $52.7 million change in other comprehensive income.

As all equities are classified as AFS, all changes in prices are recorded as other comprehensive income and do not directly impact the Statement of Operations until such time as an investment is sold or has become other than temporarily impaired. The Corporation has policies in place to limit and monitor its exposure to individual issuers and classes of issuers of equity securities.

Credit Risk

Credit risk is the potential for the Corporation to incur a financial loss due to the failure of the other party to discharge an obligation. Financial instruments that give rise to potential credit risk for the Corporation include fixed income securities, accounts receivable, reinsurance receivables and structured settlements.

The following table summarizes the Corporation's maximum exposure to credit risk on the Balance Sheet. The maximum credit exposure is the carrying value of the asset net of any allowance for loss.

(in thousands of dollars)	**2011**	2010
Bonds	**$ 1,703,414**	$ 1,703,606
Due from other insurance companies	**11,971**	10,656
Accounts receivable	**292,035**	289,711
Reinsurance receivable	**38,007**	49,289
Maximum credit risk exposure on the balance sheet	**$ 2,045,427**	$ 2,053,262

FIXED INCOME SECURITIES CREDIT RISK

The Corporation mitigates its exposure to credit risk by placing fixed income securities with high-quality institutions with investment grade ratings. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings, where available, or to historical information about counterparty default rates. The following table highlights the fixed income securities by credit quality according to Moody's Investors Service at February 28.

(in thousands of dollars)	**2011**		2010	
	Carrying Value	**Percentage of Portfolio**	Carrying Value	Percentage of Portfolio
Aaa	**$ 438,066**	**25.7%**	$ 421,669	24.7%
Aa	**1,238,750**	**72.7%**	1,244,625	73.1%
A	**25,548**	**1.5%**	24,411	1.4%
Not rated	**1,050**	**0.1%**	12,901	0.8%
Total	**$ 1,703,414**	**100.0%**	$ 1,703,606	100.0%

ACCOUNTS RECEIVABLE CREDIT RISK

The Corporation's accounts receivable are comprised of customers with varying financial conditions as the Corporation is required to provide basic insurance to all vehicle owners and drivers in the Province of Manitoba. All significant past due receivables, including subrogation receivables, are fully provided for due to the uncertainty of collection. The credit risk pertaining to premiums receivable is mitigated as a customer's policy may be cancelled for default of payment.

The following table highlights the Corporation's accounts receivable by major category.

(in thousands of dollars)	2011	2010
Policy and time payments	**$ 264,026**	$ 260,983
Accrued interest	**25,601**	26,783
Subrogation and other receivables	**10,895**	12,493
Allowance for doubtful accounts	**(8,487)**	(10,548)
Total	**$ 292,035**	$ 289,711

Details of the allowance for doubtful accounts are as follows:

(in thousands of dollars)	2011	2010
Allowance for doubtful accounts, opening balance	**$ 10,548**	$ 12,692
Accounts written off	**(1,653)**	(1,827)
Current period provision	**(408)**	(317)
Allowance for doubtful accounts, closing balance	**$ 8,487**	$ 10,548

REINSURANCE RECEIVABLE CREDIT RISK

The Corporation evaluates the financial condition of its reinsurers to minimize the exposure to significant losses from reinsurer insolvency. The Corporation holds collateral in regards to unregistered reinsurance in the form of amounts on deposit and letters of credit of $4.4 million (2010 – $10.2 million). Furthermore, a corporate guideline requiring reinsurers to have a minimum credit rating of A- from A.M. Best and BBB+ credit rating from Standard & Poors is in place.

For the 2011 calendar year, nine reinsurers share the Corporation's casualty reinsurance coverage, ranging from 2.5 per cent to 35.0 per cent on any one layer. The reinsurer exposed to 35.0 per cent of the losses is licensed in Canada by the Office of the Superintendent of Financial Institutions and, therefore, subject to minimum capital requirements.

For the 2011 calendar year, 15 reinsurers share the Corporation's catastrophe reinsurance coverage, none holding more than 22 per cent of the reinsurance exposure on any one layer. The 2011 catastrophe reinsurance program is placed on a rolling one-third, three-year term to further mitigate the Corporation's exposure to reinsurer insolvency.

No amount due from reinsurers was considered uncollectible during 2010/11 and no allowance for doubtful accounts has been established as at February 28, 2011.

STRUCTURED SETTLEMENTS CREDIT RISK

The claims settlement processes may involve the use of structured settlements, which are purchased through various financial institutions. As of the balance sheet date, the present value of expected payments totals $138.5 million (2009 – $145.2 million) based on various dates of purchase. The Corporation assumes a financial guarantee to make payments to claimants in the event that financial institutions default on payments under the terms of the structured settlement.

Liquidity Risk

A significant risk of the insurance industry is the ability to match the cash inflows of the investment portfolio with the cash requirements of the policy liabilities and operating expenses. The Corporation has taken the overall historical liability settlement pattern as a basis to define diversification and duration characteristics of the investment portfolio. To meet the cash requirements for claims and operating expenses, the Corporation has policies to ensure that assets and liabilities are broadly matched in terms of their duration.

Cash and cash equivalents are essential components of the Corporation's financial liquidity management. Cash flows are monitored to ensure sufficient resources are available to meet our current operating requirements. Excess funds not needed to meet current operating requirements are invested in long-term instruments to generate additional revenue for future obligations.

Bonds – Maturity Profile

(in thousands of dollars)	2011			
	Within One Year	**One Year to Five Years**	**After Five Years**	**Total Carrying Value**
Federal	**$ –**	**$ 174,452**	**$ 184,661**	**$ 359,113**
Manitoba:				
Provincial	**5,089**	**87,921**	**221,920**	**314,930**
Municipal	**465**	**40,651**	**17,598**	**58,714**
Hospitals	**–**	**–**	**12,497**	**12,497**
Schools	**3,142**	**16,130**	**439,123**	**458,395**
Other provinces:				
Provincial	**55,910**	**135,548**	**242,929**	**434,387**
Municipal	**–**	**5,344**	**31,106**	**36,450**
Corporations	**301**	**–**	**28,627**	**28,928**
	$ 64,907	**$ 460,046**	**$ 1,178,461**	**$ 1,703,414**

(in thousands of dollars)	2010			
	Within One Year	One Year to Five Years	After Five Years	Total Carrying Value
Federal	$ 10,095	$ 91,598	$ 272,496	$ 374,189
Manitoba:				
Provincial	14,648	49,222	279,592	343,462
Municipal	681	38,597	45,143	84,421
Hospitals	–	–	12,901	12,901
Schools	4,393	23,677	397,112	425,182
Other provinces:				
Provincial	7,229	188,760	212,023	408,012
Municipal	–	5,000	7,461	12,461
Corporations	–	5,039	37,939	42,978
	$ 37,046	$ 401,893	$ 1,264,667	$ 1,703,606

6. Capital Management

The Corporation's Board of Directors has approved risk-based capital adequacy target levels by line of business to maintain financial stability. In addition, specific levels of retained earnings have been appropriated to support two major corporate initiatives:

- The Information Technology Optimization Fund, which was established to fund Basic's share of IT optimization project costs. The project costs will be allocated between Basic and the non-Basic lines of business based on the approved cost allocation formulae. See Note 3 for full details of the IT Optimization Fund; and
- The Extension Development Fund, which was established to defray the costs of projects undertaken to maximize the opportunities presented by the 2004 merger of Manitoba Public Insurance and the Division of Driver and Vehicle Licensing. There was an additional appropriation of $10.0 million in 2010/11 from Extension Retained Earnings to the EDF to fund non-Basic IT optimization project costs. The project costs will be allocated between Basic and non-Basic lines of business, based on the approved cost allocation formulae. (See Note 3 for full details of the Extension Development Fund.)

Basic Retained Earnings are comprised of the Rate Stabilization Reserve (RSR), the Information Technology Optimization Fund and Retained Earnings in excess of the RSR. The Corporation's Board of Directors' current target RSR level is $185 million based on the 2009 Basic Insurance Dynamic Capital Adequacy Test (DCAT) report. In his report, the Corporation's internal actuary concluded that a minimum RSR level of $185 million would be required for Basic to achieve a satisfactory future financial condition. An RSR level lower than $185 million would result in a "not satisfactory" opinion because there were plausible adverse scenarios identified where liabilities exceed assets.

The Public Utilities Board of Manitoba, by its Order 161/09, has established the Basic RSR target for rate-setting purposes to be $77 million to $154 million. The target is reflective of 10 per cent to 20 per cent of written premiums.

In 2010/11, the Corporation began separately reporting the RSR, based on the Public Utilities Board target, and excess retained earnings that are available for future rebates. Retained earnings in excess of the Public Utilities Board ordered Basic RSR target will be held in Basic Retained Earnings. For more than a decade, the Corporation, the Public Utilities Board, and other stakeholders have agreed that excess Basic Retained Earnings belongs to policyholders and would be available for future rebates. The new category of Retained Earnings better reflects this reality. The Public Utilities Board has full discretion regarding the amount and timing of rebates. At February 28, 2011, there are no funds in excess of the Basic RSR target.

The Corporation's Board of Directors' current target level for Extension Retained Earnings is $35.0 million based on the 2009 Extension DCAT report. Based on this target the Corporation's internal actuary has concluded that the future financial condition of this line of business is satisfactory.

The Corporation's Board of Directors' current target level of $37.0 million for SRE Retained Earnings is based on the 2009 SRE DCAT report. The Corporation's internal actuary has concluded that, based on this target, the future financial condition of this line of business is satisfactory.

7. Property and Equipment

(in thousands of dollars)	2011			2010
	Cost	Accumulated Amortization	Carrying Value	Carrying Value
Land	$ 16,926	$ –	$ 16,926	$ 12,251
Land improvements	8,631	2,941	5,690	3,827
Buildings	110,274	17,862	92,412	71,999
Capital lease	13,415	307	13,108	–
Elevators/escalators	183	169	14	100
HVAC systems	147	27	120	134
Computer equipment	45,203	42,555	2,648	4,261
Vehicles	6,756	4,484	2,272	1,987
Furniture and equipment	17,993	13,738	4,255	3,851
Leasehold improvements	2,706	723	1,983	2,263
Construction in progress*	6,439	–	6,439	33,976
	$ 228,673	$ 82,806	$ 145,867	$ 134,649

* The Corporation is in the process of building a new Service Centre in Selkirk and restoring the parkade in cityplace.

8. Deferred Development Costs

(in thousands of dollars)	2011	2010
Balance, beginning of year		
Gross carrying amount	$ 67,082	$ 48,225
Accumulated amortization	(32,464)	(32,464)
Net carrying amount	34,618	15,761
Expenditures during the year	9,208	18,857
Amortization expense during the year	(5,594)	–
Balance, end of year		
Gross carrying amount	76,290	67,082
Accumulated amortization	(38,058)	(32,464)
Net carrying amount	$ 38,232	$ 34,618

9. Provision for Employee Future Benefits

The Corporation has a defined benefit pension plan, severance benefit plan and a post-retirement extended health benefit plan available to eligible employees. The defined benefit pension plan is based on years of service and final average salary whereas the severance benefit plan is based on years of service and final salary.

The Corporation uses an actuarial valuation, on an annual basis, to measure the accrued provision for its benefit plans. The most recent actuarial valuation was conducted by an external actuary as at December 31, 2010, with the next scheduled actuarial valuation being December 31, 2011.

The actuarial valuation is based on the Corporation's best estimate of various economic assumptions. With respect to the demographic assumptions, the Corporation relies on and uses the assumptions adopted by the Civil Service Superannuation Board. Results from the most recent actuarial valuations, projected to February 28 and the corresponding economic and demographic assumptions are as follows:

	Pension Benefit Plan		Other Benefit Plans	
	2011	2010	**2011**	2010
Economic assumptions:				
Discount rate	**4.85%**	5.25%	**4.85%**	5.25%
Inflation rate	**2.00%**	2.00%	**–**	–
Expected salary increase	**2.90%**	2.90%	**–**	–
Expected health care cost increase	**–**	–	**6.50%**	7.00%
Demographic assumption:				
Mortality	**UP2020**	UP2015	**UP2020**	UP2015

(in thousands of dollars)	Pension Benefit Plan		Other Benefit Plans	
	2011	2010	**2011**	2010
Balance, beginning of year	**$ 189,113**	$ 171,402	**$ 37,721**	$ 35,741
Current service cost	**9,318**	8,287	**4,824**	4,059
Interest cost	**9,990**	9,133	**764**	724
Benefits paid	**(5,980)**	(4,792)	**(3,537)**	(1,988)
Actuarial valuation deficiency (redundancy)	**16,431**	5,083	**(832)**	(815)
Provision for employee future benefits	**$ 218,872**	$ 189,113	**$ 38,940**	$ 37,721
Employee contribution for the year	**$ 6,387**	$ 6,166	**$ –**	$ –

Plan Assets

The Corporation has not segregated investment assets to fund the benefit plans. Funding occurs as benefits are paid. The Corporation has established a provision against general assets, which is being increased to match the increase in its benefit plan liabilities. The interest cost associated with the various benefit plans is based on market interest rates at the most recent valuation date.

(in thousands of dollars)	Pension Benefit Plan		Other Benefit Plans	
	2011	2010	**2011**	2010
Plan expenses for the year:				
Current service cost	**$ 9,318**	$ 8,287	**$ 4,824**	$ 4,059
Interest cost	**9,990**	9,133	**764**	724
Actuarial valuation deficiency (redundancy)				
Pertaining to interest	**10,352**	3,202	**–**	–
Pertaining to expense	**6,079**	1,881	**(832)**	(815)
	$ 35,739	$ 22,503	**$ 4,756**	$ 3,968

10. Provision for Unpaid Claims

The provision for unpaid claims, including adjustment expenses, represents an estimate for the full amount of all costs and the projected final settlement of claims incurred.

The provision for unpaid claims, including adjustment expenses, is subject to variability. This variability is related to future events that arise from the date the loss was reported to the ultimate settlement of the claims. Accordingly, short-tail claims such as physical damage claims tend to be more reasonably predictable than long-tail claims such as Personal Injury Protection Plan (PIPP) and public liability claims. Factors such as the receipt of additional claims information during the claims settlement process, changes in severity and frequencies of claims from historical trends, and effects of inflationary trends contribute to this variability.

The determination of the provision for unpaid claims, including adjustment expenses, relies on judgment, analysis of historical claim trends, investment rates of return and expectation on the future development of claims. The process of establishing this provision necessarily involves risks which could cause the actual results to deviate, perhaps substantially, from the best determinable estimate.

Beginning in 2005, a new reserving method was implemented for older open PIPP claim files. Since the new reserving method was based on theoretical models that had not been empirically tested against Manitoba Public Insurance's own emerging experience, the External Appointed Actuary was reluctant to fully reflect the results of the new method in establishing the reserves.

There are now five years of development observations under this process of reserving for open claims with continuing periodic payments. These observations have shown relative consistency in the periodic claim development patterns since the introduction of the new process in 2005. Therefore, beginning with this review the External Appointed Actuary shifted to relying largely on the post-2005 claim development observations for all insurance years. The result of this change was a decrease in claims reserves of approximately $268 million, or 17 per cent of unpaid claims reserves.

This reduction was offset by the financial impact of benefit enhancements estimated to be $40.0 million on a one-time basis and has been recorded in the provision for unpaid claims.

The provision for unpaid claims, including adjustment expenses, by major claims category includes:

(in thousands of dollars)	**2011**		2010	
	Gross	**Reinsurers' Share**	Gross	Reinsurers' Share
Automobile Insurance Division				
Liability	**$ 1,271,794**	**$ 37,655**	$ 1,481,548	$ 43,314
Physical Damage	**165,944**	**4,752**	143,021	16,175
	1,437,738	**42,407**	1,624,569	59,489
Discontinued Operations				
Personal/Commercial	**3,407**	**–**	3,959	–
	$ 1,441,145	**$ 42,407**	$ 1,628,528	$ 59,489

The provision for unpaid claims is calculated as the present value of expected future payments plus actuarially determined provisions for adverse deviations, and is considered an indicator of fair value, as there is no organized market for the trading of insurance liabilities.

The provision for unpaid claims, including adjustment expenses, is discounted using the following discount rates:

	2011	2010
Benefits	Interest Rate Assumptions	
Pre-PIPP Weekly Indemnity	**2.1% per year**	2.0% per year
PIPP other than death and impairment	**2.1% per year**	2.0% per year
All other coverages	**4.1% per year**	4.0% per year

PIPP – Personal Injury Protection Plan

According to accepted actuarial practice, the discounted reserve includes a provision for adverse deviation of $245.0 million (2010 – $288.7 million) comprised of a claims development component of $137.7 million (2010 – $165.4 million), an interest rate component of $105.5 million (2010 – $121.0 million) and a reinsurance component of $1.8 million (2010 – $2.3 million).

Net claims incurred and adjustment expenses included no losses from catastrophes in the current fiscal year (2010 – $13.3 million). Catastrophes are an inherent risk to the Corporation and may contribute materially to the year-to-year fluctuations in the Corporation's results of operations and financial condition when they occur.

Unpaid claim liabilities are carried at values that reflect their remaining estimated ultimate costs for all accident years.

Changes in the estimate of net unpaid claims, recognized during the fiscal year ended February 28, 2011 for prior years, are as follows:

(in thousands of dollars)	Accident Years				
	2010	2009	2008	2007 and Prior	Total
Net unpaid claims (valuation estimate as at February 28, 2010)	$ 303,391	$ 147,489	$ 139,970	$ 978,138	
Net payments for the year	126,909	25,686	10,344	51,816	
	176,482	121,803	129,626	926,322	
Net unpaid claims (revised valuation estimate as at February 28, 2011)	139,934	106,243	97,562	742,684	
(Redundancy) deficiency	$ (36,548)	$ (15,560)	$ (32,064)	$ (183,638)	$ (267,810)
Prior years (redundancy) deficiency		$ (26,746)	$ 1,983	$ (14,317)	$ (39,080)

Changes in the estimate of net unpaid claims for discontinued operations recognized during the fiscal year ended February 28, 2011 are a decrease of $0.4 million (2010 – decrease of $0.3 million). All of the net unpaid claims relate to loss dates prior to October 1, 1990.

11. Reinsurance

The Corporation follows the practice of obtaining reinsurance to limit its exposure to losses. Under agreements in effect at February 28, 2011, these reinsurance agreements limit the Corporation's exposure on a casualty basis to a maximum amount of $5.0 million (2010 – $5.0 million) on any one occurrence.

The reinsurance arrangements also limit the Corporation's liability in respect to a series of claims arising out of a single occurrence, including catastrophic claims, to a maximum of $16.7 million (2010 – $15.9 million). These arrangements protect the Corporation against losses up to $266.7 million (2010 – $266.7 million).

Certain lines of insurance carry maximum limits lower than these amounts. While these arrangements are made to protect against large losses, the primary liability to the policyholders remains with the Corporation.

The figures shown in the Statement of Operations are net of the following amounts relating to reinsurance ceded to other companies:

(in thousands of dollars)	**2011**	2010
Premiums earned	**$ 13,747**	$ 16,370
Claims incurred	**$ 3,417**	$ 33,480

12. Capital Lease Obligation

On March 29, 2010 a new Service Centre built on land in Winnipeg at 1284 Main Street became operational. The Service Centre and land are owned by a third-party and are leased to the Corporation. The provisions of the lease include an initial term of 25 years and, at the Corporation's option, three further terms of five years each. In accordance with CICA Handbook Section 3065 *Leases*, the land portion has been recorded as an operating lease and the building portion as a capital lease. A capital lease exists when essentially all of the benefits and risks incident to ownership of the property have been transferred to the lessee. The details of the capital lease are as follows:

Property and Equipment

(in thousands of dollars)	
Cost of the building	$ 13,415
Less: Accumulated amortization	(307)
Net carrying value	$ 13,108

The building is being amortized on a straight-line basis over 40 years, the same period over which buildings owned by the Corporation are being amortized. Amortization expense of $307,000 has been recorded for the year ended February 28, 2011.

Capital Lease Obligation

Interest rate	7.12%
Interest expense for the year ended February 28, 2011 (in thousands of dollars)	$ 301
Maturity date	February 28, 2035
Amount outstanding at February 28, 2011 (in thousands of dollars)	$ 4,586

Minimum lease payments under the capital lease for each of the next five years and thereafter are presented in Note 13 – Commitments.

13. Commitments

The Corporation is committed to make minimum annual lease payments for land, buildings and equipment. The minimum annual lease payments required are approximately as follows:

(in thousands of dollars)	
Fiscal Year	Minimum Lease Payments
2012	$ 1,425
2013	$ 1,265
2014	$ 1,041
2015	$ 760
2016	$ 780
thereafter	$ 11,277

The Corporation has committed $3.9 million for the construction of a new Service Centre in Selkirk and the restoration of the parkade in cityplace.

14. Investment Income

(in thousands of dollars)	**2011**	2010
Interest from bonds	**$ 53,761**	$ 62,561
Gain (loss) on sale of Available for Sale bonds	**6,241**	14,080
Gain (loss) on sale of Held for Trading bonds	**8,581**	2,862
Unrealized gain (loss) on Held for Trading bonds	**3,208**	14,575
Unrealized gain (loss) on real estate investments	**3,455**	–
Dividends from equities	**10,191**	9,580
Gain (loss) on sale of equities	**18,352**	(13,344)
Gain (loss) on foreign exchange	**81**	11,093
Income from real estate investments	**731**	670
Write-down of investments	**(736)**	(3,080)
Investment management fees	**(3,123)**	(2,715)
Total	**$ 100,742**	$ 96,282

Income from real estate investments consists of gross income of $2,020,000 (2010 – $1,618,000) and expenses of $1,289,000 (2010 – $948,000).

Investment income is net of investment management fees paid to the Department of Finance in the amount of $3.1 million (2010 – $2.7 million). This includes $1.8 million (2010 – $1.5 million) of fees the Province paid to outside managers on the Corporation's behalf.

15. Accumulated Other Comprehensive Income (Loss)

Accumulated Other Comprehensive Income (Loss) (AOCI) reflects the net unrealized gain or loss on financial assets classified as Available for Sale. Changes in AOCI by type of asset are presented below:

(in thousands of dollars)	AOCI at February 28, 2010	Unrealized Gains (Losses) in 2010/11	Realized (Gains) Losses transferred to Net Income in 2010/11	AOCI at February 28, 2011
Canadian Equities	$ 13,320	$ 72,742	$ (14,289)	$ 71,773
U.S. Equities	1,493	12,019	(3,544)	9,968
Bonds and Other	24,911	(148)	(5,652)	19,111
	$ 39,724	$ 84,613	$ (23,485)	$ 100,852

16. Discontinued General Insurance Operations

The Corporation discontinued writing reinsurance assumed business effective November 18, 1987, and personal and commercial insurance policies effective October 1, 1990.

As of February 28, 2001, the Corporation accepted a third-party offer to purchase the reinsurance assumed business from the Corporation. Under the terms of the agreement, the Corporation transferred and assigned to the third party the title, interest and all of the obligations resulting from the un-commuted reinsurance assumed treaties written by the Corporation for the period July 1, 1975 to November 18, 1987, including retrocessional treaties. The obligations include all known or unknown liabilities. The primary liability to the treaty holders remains with the Corporation in the event of the third party's insolvency.

Claims costs and expenses on personal and commercial policies will be incurred until all claims on existing policies are settled.

Discontinued operations resulted in net income of $0.6 million (2010 – $0.5 million) which is reported as part of the Special Risk Extension line of business (Note 17). Included in the provision for unpaid claims is $3.4 million (2010 – $4.0 million) relating to discontinued operations.

17. Net Income (Loss) from Annual Operations

The lines of business reported net income (loss) from annual operations as follows:

(in thousands of dollars)	**2011**	2010
Basic insurance	**$ 289,849**	$ 87,773
Extension insurance	**(1,278)**	(144)
Special Risk Extension	**10,806**	(685)
	9,528	(829)
Net income (loss) from annual operations	**299,377**	86,944
Surplus distribution	**(321,678)**	–
Net income (loss) after surplus distribution	**$ (22,301)**	$ 86,944

18. Surplus Distribution

As outlined in the Public Utilities Board ruling on December 4, 2009 on the Corporation's 2010/11 Basic Insurance rate application, there was no surplus distribution.

On December 8, 2010 the Public Utilities Board released its ruling on the Corporation's 2011/12 Basic Insurance rate application and ordered a surplus distribution of 10 per cent of the basic motor vehicle premiums written based on 2009/10 rates, conditional to the receipt of additional financial information. The conditional rebate was estimated to be $71,484,000.

On March 30, 2011, the Public Utilities Board held a special one-day hearing to determine the amount of the surplus distribution that had conditionally been ordered to be 10 per cent of the basic motor vehicle premiums written based on 2009/10 rates in the Public Utilities Board Order 122/10. On March 31, 2011, the Public Utilities Board ruled, in Order 43/11, that the surplus distribution be increased to 45 per cent of the basic motor vehicle premiums written based on 2009/10 rates which is estimated to result in an increase to the surplus distribution from $71,484,000 to $321,678,000. The increase was attributed to the release of unpaid claims reserves (Note 10). The surplus distribution was recorded in the fourth quarter of fiscal year 2010/11.

19. Fair Value Disclosure

The fair value of financial assets and liabilities, not otherwise disclosed in these financial statements, approximates their carrying value due to their short term to maturity.

20. External Auditor and External Actuary Costs

The Basis of Reporting note (Note 2) provides information on the appointment of the external auditor and external actuary. In the normal course of business, and in addition to the annual attest audit of the Corporation's financial statements and valuation of policy liabilities, the external auditor and external actuary provided advisory services to the Corporation.

Costs incurred for services rendered are:

(in thousands of dollars)		**2011**		2010
KPMG LLP				
Audit fees	**$**	**204**	$	209
Regulatory related fees		**72**		–
Advisory fees		**–**		41
Total	**$**	**276**	$	250
Ernst & Young LLP				
Valuation of policy liabilities fees	**$**	**136**	$	104
Actuarial advisory fees		**3**		23
Total	**$**	**139**	$	127

21. Service Fees and Other Revenue

(in thousands of dollars)		2011		2010
Transaction fees	$	**6,803**	$	6,547
Time payment fees		**2,453**		2,319
Time payment interest		**10,096**		12,289
Late payment fees		**1,030**		1,091
Dishonoured payment fees		**697**		655
Identity Card/Enhanced Identity Card fees		**290**		350
Net rental income		**2,373**		2,040
Other miscellaneous revenue		**1,400**		1,129
Credit card and other service charges		**(8,235)**		(7,945)
Total	$	**16,907**	$	18,475

Net rental income includes gross rental income of $8,885,000 (2010 – $7,086,000) and gross rental expenses of $6,512,000 (2010 – $5,046,000).

22. The Drivers and Vehicles Act Operations Recovery

Under *The Drivers and Vehicles Act* (DVA), the Corporation is responsible for operations pertaining to driver safety, vehicle registration and driver licensing, including all related financial, administrative and data processing services.

The Province of Manitoba provides funding to the Corporation in the amount of $21.0 million annually, into perpetuity, payable in equal monthly instalments of $1.75 million to defray the cost borne by the Corporation for the DVA operations. Beginning April 1, 2011 the government will increase its payments to the Corporation to $28.0 million per year.

The Corporation, on behalf of the Province of Manitoba, collects and transfers motor vehicle registration fees and driver licensing fees to the Province of Manitoba.

Fees collected on behalf of and transferred to the Province of Manitoba include:

(in thousands of dollars)		2011		2010
Vehicle registration fees	$	**130,845**	$	127,151
Driver licensing fees		**20,990**		20,225
Total	$	**151,835**	$	147,376

23. Immobilizer Incentive Fund

Activity in the Immobilizer Incentive Fund includes:

(in thousands of dollars)		2011		2010
Balance, beginning of year	$	**–**	$	2,021
Less: Funds transferred to Basic Insurance Retained Earnings to offset program costs		**–**		(2,021)
Balance, end of year	$	**–**	$	–

The Immobilizer Incentive Fund was established during the 2005/2006 fiscal year by appropriating $40.0 million from the Basic Insurance Retained Earnings to fund the Immobilizer Incentive Program. An additional $10.0 million was transferred to the Immobilizer Incentive Fund during 2006/2007 to expand the No Cost Immobilizer Program to all Manitobans owning Most-at-Risk vehicles.

Program costs incurred are included in the "Net income (loss) from annual operations after surplus distribution" for the Basic Insurance line of business, which is reported in the Statement of Retained Earnings.

Funds were transferred from the Immobilizer Incentive Fund to the Basic Insurance Retained Earnings to offset the program costs incurred. As the Immobilizer Incentive Fund has been completely depleted, programs costs incurred are being funded through normal operations.

24. Information Technology Optimization Fund

Activity in the Information Technology Optimization Fund includes:

(in thousands of dollars)		**2011**		2010
Balance, beginning of year	**$**	**–**	$	–
Transfer from Basic Insurance Retained Earnings		**65,000**		–
Less: Funds transferred to Basic Insurance Retained Earnings to offset program costs		**–**		–
Balance, end of year	**$**	**65,000**	$	–

See Note 3 for full details of the IT Optimization Fund.

25. Extension Development Fund

Activity in the Extension Development Fund includes:

(in thousands of dollars)		**2011**		2010
Balance, beginning of year	**$**	**48,279**	$	41,579
Transfer from Competitive Lines Retained Earnings		**10,000**		20,917
Transfer to Competitive Lines Retained Earnings		**(15,052)**		(14,217)
Balance, end of year	**$**	**43,227**	$	48,279

See Note 3 for full details of the Extension Development Fund.

26. Rate Regulation

The Corporation's basic universal compulsory automobile insurance line of business (Basic Insurance) rates are approved by the Public Utilities Board of Manitoba. Under the provisions of *The Crown Corporations Public Review and Accountability Act*, the Public Utilities Board has the authority to review and approve Basic Insurance rates, premiums and service fees charged with respect to compulsory driver and vehicle insurance provided by the Corporation. No new rates or fees for services can be introduced without the approval of the Public Utilities Board.

Annually the Corporation prepares its Basic Insurance general rate application and files it with the Public Utilities Board in the month of June for implementation the following fiscal year commencing on March 1. The general rate application includes the prospective rate requirements based on historical and forecasted financial and other information as well as the application of actuarial, accounting and statistical principles and practices.

The Corporation is required to pay a portion of the Public Utilities Board's operating costs relating to the Corporation's share of the overall Public Utilities Board budget. In addition, the Public Utilities Board can also order the Corporation to reimburse other proceeding participants for specified costs such as their time, legal and expert witness fees.

27. Subsequent Events

On March 1, 2011, the Corporation sold a surplus property for $3.8 million, resulting in a gain of $3.1 million.

28. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year financial statement presentation.

Management's Responsibility for Financial Information

The consolidated financial statements of the WCB were prepared by management, which is responsible for the integrity and fairness of the data presented, including significant accounting judgments and estimates. This responsibility includes selecting appropriate accounting principles consistent with generally accepted accounting principles in Canada. Financial information contained elsewhere in this annual report conforms to these financial statements.

Management believes the system of internal controls, review procedures and established policies provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded. Management also believes that the WCB's operations are conducted in conformity with the law and with a high standard of business conduct. The internal auditor performs periodic audits designed to test the adequacy and consistency of the WCB's internal controls.

The Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities and approved the financial statements and other financial information included in this annual report on March 17, 2011.

The Audit Committee assists the Board of Directors in its responsibilities. This Committee reviews and recommends approval of the consolidated financial statements and annual report. Internal and external auditors and actuaries have unlimited access to the Audit Committee. The Committee reviews the financial statements and the other contents of the annual report with management and the external auditors, and reports to the Board of Directors prior to their approval for publication.

The Chief Actuary of the WCB completed an actuarial valuation of the benefit liabilities included in the financial statements of the WCB and reported thereon in accordance with accepted actuarial practices. The firm of Eckler Ltd. has been appointed as a peer reviewer to the WCB. The Chief Actuary's opinion on the valuation of the benefit liabilities is provided on page 31. Eckler Ltd.'s actuarial review is provided on page 32.

Grant Thornton LLP, independent auditors appointed as a sub-agent to the Provincial Auditor General, has performed an independent audit of the consolidated financial statements of the WCB in accordance with Canadian generally accepted auditing standards. Their Auditors' Report, on page 33, outlines the scope of this independent audit and includes their opinion expressed on the 2010 consolidated financial statements.

Doug Sexsmith
President and CEO

Lorena B. Trann, CMA, FCMA
Chief Financial Officer

March 17, 2011

Independent Auditors' Report

To the Workers Compensation Board of Manitoba

We have audited the accompanying consolidated financial statements of the Workers Compensation Board of Manitoba, which comprise the consolidated balance sheet as at December 31, 2010, and the consolidated statements of operations and accident fund reserve, comprehensive income, changes in accumulated other comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Grant Thornton LLP

Grant Thornton LLP
Chartered Accountants
Winnipeg, Manitoba

March 17, 2011

Grant Thornton

Consolidated Balance Sheet

December 31, 2010
(in thousands of dollars)

	2010	2009
Assets		
Cash	$ 8,491	$ 401
Receivables and other (Note 4)	37,886	36,292
Investment portfolio (Note 5)	1,055,412	972,601
Deferred assessments (Note 7)	64,528	68,813
Capital assets (Note 8)	8,449	8,347
Intangible assets (Note 9)	4,269	4,185
	$ 1,179,035	$ 1,090,639
Liabilities and funded position		
Payables and accrued liabilities (Note 10)	$ 38,250	$ 36,418
Benefit liabilities (Note 12)	909,531	913,006
Total liabilities	947,781	949,424
Accident fund reserve	165,983	101,919
Accumulated other comprehensive income	65,271	39,296
Funded position	231,254	141,215
	$ 1,179,035	$ 1,090,639

Signed on behalf of the Board of Directors,

Michael D. Werier
Chairperson, Board of Directors

Ron Hambley
Audit Committee of the Board of Directors

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Operations and Accident Fund Reserve

Year Ended December 31, 2010
(in thousands of dollars)

	2010	2009
Revenue		
Premium revenue (Note 14)	$ 250,356	$ 246,626
Investment income (loss) (Note 5)	57,858	(6,232)
Total revenue	308,214	240,394
Expenses		
Claim costs incurred (Note 12)	181,624	198,807
Operating expenses (Note 15)	62,526	59,924
Total expenses	244,150	258,731
Operating surplus (loss)	**64,064**	**(18,337)**
Accident fund reserve at beginning of year	101,919	120,256
Accident fund reserve at end of year	$ 165,983	$ 101,919

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year Ended December 31, 2010
(in thousands of dollars)

	2010	2009
Operating surplus (loss)	$ 64,064	$ (18,337)
Other comprehensive income		
Unrealized gains on available-for-sale financial assets	43,995	67,327
Reclassification of realized (gains) losses to the Consolidated Statement of Operations and Accident Fund Reserve (Note 5)	(18,020)	30,642
Other comprehensive income	25,975	97,969
Total comprehensive income	$ 90,039	$ 79,632

Consolidated Statement of Changes in Accumulated Other Comprehensive Income (Loss)

Year Ended December 31, 2010
(in thousands of dollars)

	2010	2009
Accumulated other comprehensive income (loss)		
Balance at beginning of year	$ 39,296	$ (58,673)
Other comprehensive income	25,975	97,969
Balance at end of year	$ 65,271	$ 39,296

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

Year Ended December 31, 2010
(in thousands of dollars)

	2010	2009
Operating cash flows		
Premiums from employers	$ 253,045	$ 241,887
Investment income	33,847	31,883
Claim payments (Note 12)	(185,099)	(189,290)
Purchases of administration goods and services	(62,925)	(59,100)
Net cash provided by operating activities	38,868	25,380
Investing cash flows		
Purchases of investments, net of sales (Note 5)	(28,496)	(23,623)
Capital asset acquisitions, net of disposals	(2,282)	(2,459)
Net cash used by investing activities	(30,778)	(26,082)
Net increase (decrease) in cash	8,090	(702)
Cash at beginning of year	401	1,103
Cash at end of year	$ 8,491	$ 401

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

Year Ended December 31, 2010
($ amounts in thousands of dollars unless otherwise noted)

1. NATURE OF OPERATIONS

The Workers Compensation Board of Manitoba (the WCB) was created in 1917 under the authority of *The Workers Compensation Act* of Manitoba. In accordance with the provisions of the *Act*, the WCB is responsible for:

- prevention of workplace injuries and occupational diseases in conjunction with the Manitoba Government's Workplace Safety and Health Division
- administering payments to injured workers and suppliers of services to injured workers
- levying and collecting premiums from established classes of employers in amounts sufficient to cover the current and future costs of existing claims
- investing funds set aside for the future costs of claims as well as surplus funds.

An independent Workers Compensation Appeal Commission operates under the *Act* to make final rulings on any appeals pertaining to the WCB's assessment or benefits decisions.

The WCB's vision is *SAFE Work – A Way of Life*. The organization's mission is to promote safe and healthy workplaces, promote recovery and return to work, provide compassionate and supportive compensation services for workers and employers, and ensure responsible financial stewardship. The WCB compensates for lost wages, provides support and arranges for rehabilitative help, and has a responsibility to injured workers, their families and their employers to help injured workers return to health and meaningful work in a timely and safe manner.

The workers compensation system is funded through premiums collected from employers. The WCB does not receive government funding or assistance. Available funds are invested and are used to protect the WCB and its ratepayers from general business risks and catastrophic events in areas such as investment returns or extraordinary claim costs. To that end, an accident fund reserve attributable to Class E employers exists. A second reserve, accumulated other comprehensive income, shows the cumulative unrealized gains and losses arising from the investment portfolio.

The target balance for the reserves is based on a formula modified from the Minimum Contributing Capital and Surplus Requirements rules set out by the Office of the Superintendent of Financial Institutions, Canada. The calculation moves in tandem with changes in the size of the WCB's assets and liabilities, thereby calculating a reserve target that reduces risk to the organization. The target balance also includes a provision for the potential of new occupational diseases in the future and the expected impact of adopting International Financial Reporting Standards in 2011. The target balance for the reserves was $305.6 million at the end of 2010 ($297.6 million in 2009).

The WCB's Funding Policy is intended to ensure that fiduciary responsibilities are carried out in accordance with the *Act* and that annual influences do not unduly distort the funding process. The WCB is committed to operating on a fully funded basis to a level funding standard. Full funding requires that current employers pay for the current and future cost of existing compensable injuries and their administration, rather than future generations of employers paying for those injuries. Under level funding, the cost of claims with lengthy latency periods is funded in a level manner over the workers' periods of exposure to the elements that led to the injuries or diseases.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The WCB's significant accounting policies are as follows:

Change in Accounting Policies

The WCB has not adopted any new presentation and disclosure standards in 2010.

Measurement Uncertainty

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada, which requires the WCB to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates.

Basis of Consolidation

These consolidated financial statements include the accounts of the WCB and its wholly owned real estate investment subsidiary. Intercompany balances and transactions are eliminated on consolidation.

Cash

Cash includes cash on hand and balances with banks, net of any outstanding cheques. Cash and short term investments held by investment managers and custodians for investment purposes are included in the investment portfolio.

Investments

Under the provisions of CICA 3855 Financial Instruments – Recognition and Measurement, the financial assets of the WCB's investment portfolio are designated as available for sale, and carried at fair value. Other than the real estate portfolio assets in WCB Realty Limited, a wholly owned subsidiary, gains and losses arising from the change in fair value that have occurred during the year are recorded in other comprehensive income until the investment is derecognized (sold). At that time, the cumulative gain or loss previously recognized in other comprehensive income is designated a realized gain or loss and reclassified to investment income in the Consolidated Statement of Operations and Accident Fund Reserve. Income from interest and dividends is recognized in the period earned. Investment income is presented net of investment expenses.

The WCB consolidates the real estate portfolio of WCB Realty Limited at fair value, in accordance with CICA Accounting Guideline 18 – Investment Companies. Changes in fair value that occurred during the year are recorded in investment income in the Consolidated Statement of Operations and Accident Fund Reserve.

Fair Value of Investments

Investments are stated at fair value, which is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Publicly traded investments are stated at year end market prices as listed on the appropriate stock exchange, or as provided by the custodian from independent sources.

Pooled fund investments are valued at the most recent unit values supplied by the pooled fund administrator at year end.

The fair value of real estate investments is determined annually by management based on a combination of the most recent independent appraisals of the rental properties and market data available at year end, net of any liabilities against the properties.

Capital Assets
Capital assets are stated at cost less accumulated amortization. Capital assets are amortized on a straight line basis over their estimated useful lives, as follows:

Computer equipment	3 - 5 years
Furniture, fixtures and equipment	5 years
Building renovations and leasehold improvements	2 - 10 years
Building	40 years

Intangible Assets
Acquired intangible assets, primarily computer software, are valued at cost less accumulated amortization.

Internally generated intangible assets, primarily software and systems development, including professional fees incurred to implement these assets, are valued at cost less accumulated amortization.

Amortization is calculated on a straight-line basis over the estimated useful life, as follows:

Computer software	3 years
Internally generated systems development	10 years

Employee Future Benefits
The actuarial determination of the accrued benefit obligation for pensions and other retirement benefits uses the projected benefit method prorated on service. This method incorporates management's best estimates of salary escalation, investment rate of return, retirement ages of employees and other actuarial factors. Actual results could differ from these estimates as the assumptions are of a long term nature, consistent with the nature of employee future benefits.

Actuarial gains (losses) arise from the difference between the actual experience of the pension plan's assets and liabilities for a period and the assumed outcome for that period, or from changes in actuarial assumptions used to determine the accrued benefit obligation. If the cumulative net actuarial gain (loss) exceeds 10 per cent of the greater of plan assets or liabilities, the excess is amortized over the expected average remaining service life of active employees. Past service costs are amortized on a straight line basis over the remaining service life of active employees expected to receive benefits under the plan.

On January 1, 2000, the WCB adopted the new accounting standard on employee future benefits using the prospective application method. The WCB is amortizing the transitional asset (pension) and transitional liability (other) on a straight line basis over 15 years, which was the average remaining service life of active employees expected to receive benefits under the benefit plans as at January 1, 2000.

Benefit Liabilities
The WCB's Chief Actuary prepares a valuation of the benefit liabilities of the WCB at each year end. The benefit liabilities represent the actuarial present value of all future benefit payments expected to be made for claims or injuries which occurred in the current fiscal year or in any prior year. The benefit liabilities include provision for all benefits provided by current legislation, policies and/or administrative practices in respect of existing claims, plus provisions for the future expenses of administering the existing claims.

The benefit liabilities also include the estimated liability for long latent occupational diseases. Due to the nature of the estimated liability for long latent occupational diseases and the extent of related historical claims information available, this liability is more uncertain by its nature than other benefit liabilities. As information is accumulated and analyzed, adjustments may be necessary to improve precision.

Fair Value of Other Financial Assets and Liabilities
Other financial assets and liabilities consist of cash and cash equivalents, accounts receivable and accounts payable. The carrying value of these items approximates their fair value, consistent with the short term nature of these items.

Accumulated Other Comprehensive Income
The designation of the WCB's investment portfolio as available-for-sale requires the WCB to use accumulated other comprehensive income (AOCI). AOCI is comprised of the cumulative unrealized gains and losses arising from the investment portfolio that, in accordance with primary sources of generally accepted accounting principles, are recognized in other comprehensive income but excluded from the operating surplus.

Premium Revenue
The operations of the WCB are categorized, in accordance with the *Act*, into Class E (general employers pool) and several classes of self-insured employers.

General Employers Pool
Employers registered within Class E are subject to collective liability and premium revenue is estimated by applying applicable industry assessment rates to the employers' reported assessable payrolls for the current year. Any difference between the estimated premium revenue and the actual premium revenue is credited or charged to income in the year the determination is made.

Self-Insured Employers
Self-insured employers – principally government bodies and railways and their subsidiaries – are subject to individual responsibility for costs attributable to claims arising from their employees, as well as administration expenses incurred on behalf of self-insured employers. As such, premium revenue from self-insured employers is recognized as these costs are incurred. Current costs are collected as billed while future costs are recorded as a deferred receivable.

The Government of Canada and its agencies are self-insured based on the *Government Employees Compensations Act*. Under this *Act*, the administration of this program is delegated to the WCB which acts as agent of the Government of Canada for the payment of compensation to federal employees in this province.

Foreign Currency Translation
Transactions in foreign currency are converted to Canadian dollars at the exchange rate in effect at the time of the transaction. Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. Unrealized foreign currency exchange gains and losses arising from the investment portfolio are recorded in other comprehensive income until the investment is derecognized (sold). At that time, the cumulative foreign currency exchange gain or loss previously recognized in other comprehensive income is designated a realized foreign currency exchange gain or loss and reclassified to investment income.

Future Accounting Policy Changes
In February 2008, the Accounting Standards Board of Canada confirmed that the changeover date for adoption of International Financial Reporting Standards (IFRS) will be January 1, 2011. The WCB has determined that it is required to adopt IFRS, and has identified key accounting policy choices.

3. LINES OF CREDIT

The WCB has established an operating line of credit with its principal banker in the amount of $3.0 million. Advances on the line of credit bear interest at the bank's prime interest rate. The WCB has also established a revolving credit facility with the Province of Manitoba in the amount of $40.0 million. Advances on the revolving credit facility bear interest at the Province's preferred lending rate. Both credit facilities are unsecured. Borrowings during the year amounted to $30.8 million ($100.3 million in 2009), comprised of $10.8 million on the operating line of credit and $20.0 million on the revolving credit facility ($25.3 million and $75.0 million, respectively, in 2009), and were repaid in full during the year.

4. RECEIVABLES AND OTHER

	2010	2009
Premiums – Class E employers	$ 29,627	$ 28,881
Allowance for doubtful accounts	(768)	(1,195)
	28,859	27,686
Current assessments – Self-insured employers	3,618	3,045
Sundry	1,903	1,931
Accrued pension benefit asset (Note 11)	3,506	3,630
	$ 37,886	$ 36,292

5. INVESTMENT PORTFOLIO

Fair Value of the Investment Portfolio

	2010	2009
Equities		
Canadian	$ 170,437	$ 196,434
Private placements	23,456	29,327
U.S.	149,704	127,800
Europe, Australasia and Far East	81,851	77,704
Emerging markets	31,870	27,961
	457,318	459,226
Cash and short term investments	27,326	26,682
Fixed income	426,233	353,523
Real estate (see table below)	144,535	133,170
Total	$ 1,055,412	$ 972,601

Real Estate Portfolio

The real estate portfolio can be further broken down as follows:

	2010	2009
Rental properties and other net assets	$ 185,678	$ 180,063
Mortgages payable	(41,143)	(46,893)
Real estate investments	$ 144,535	$ 133,170

Mortgages payable on rental properties bear interest at rates ranging from 3.5 per cent to 7.36 per cent per annum at variable and fixed rates, with maturity dates ranging from 2011 to 2033. Scheduled principal and interest payments for 2011 on these mortgages total $8.7 million. The scheduled amounts of principal repayments in each of the next five years are as follows:

2011	$	6,729
2012		1,120
2013		2,944
2014		10,838
2015		4,925
		26,556
Thereafter		14,587
Total	$	41,143

Investment Income

Investment income was derived from the following sources:

	2010	2009
Canadian equities	$ 4,593	$ 5,162
Foreign equities	5,539	3,122
Cash and short term investments	204	119
Fixed income	16,960	17,055
Real estate (see table below)	16,890	3,017
Realized gains (losses) reclassified from other comprehensive income	18,020	(30,642)
Loan interest expense	(6)	(18)
Management expenses	(4,342)	(4,047)
Investment income (loss)	$ 57,858	($6,232)

Real Estate Income

The real estate income can be further broken down as follows:

	2010	2009
Rental income, net of expenses	$ 6,452	$ 7,115
Appraisal gains (losses)	8,038	(4,120)
Realized gains from property sales	2,400	22
	$ 16,890	$ 3,017

Purchases of Investments, Net of Sales

Purchases of investments, net of sales can be further broken down as follows:

	2010	2009
Purchases of investments	$ 1,373,022	$ 826,823
Proceeds on disposal of investments	(1,344,526)	(803,200)
Net purchases of investments	$ 28,496	$ 23,623

Purchases and sales activities occur primarily within the fixed income portfolio and short term investments.

Fair Value of Investments

For financial instruments measured at fair value in the statement of operations and accident fund reserve, disclosure on the fair value hierarchy is required.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted prices quoted in active markets for identical assets

Level 2 – Inputs other than quoted prices that are observable for the asset either directly or indirectly

Level 3 – Inputs that are not based on observable market data.

The following table illustrates the classification of the WCB's financial assets within the fair value hierarchy as at December 31:

2010

	Level 1	Level 2	Level 3	Total
Equities				
Canadian	$170,437			$170,437
Private placements			23,456	23,456
U.S.	149,704			149,704
Europe, Australasia and Far East	81,851			81,851
Emerging markets	31,870			31,870
	433,862		23,456	457,318
Cash and short term investments	27,326			27,326
Fixed income	321,663	104,570		426,233
Real estate		144,535		144,535
	782,851	249,105	23,456	1,055,412

2009

	Level 1	Level 2	Level 3	Total
Equities				
Canadian	$196,434			$196,434
Private placements	1,220		$28,107	29,327
U.S.	127,800			127,800
Europe, Australasia and Far East	77,704			77,704
Emerging markets	27,961			27,961
	431,119		28,107	459,226
Cash and short term investments	26,682			26,682
Fixed income	256,033	97,490		353,523
Real estate		133,170		133,170
	713,834	230,660	28,107	972,601

The following table reconciles the changes in the WCB's level three fair value measurements to December 31:

	2010	2009
Balance at January 1	$ 28,107	$ 28,591
Gain included in income	679	48
Loss included in other comprehensive income	(2,415)	(1,065)
Purchases	48	601
Sales	(2,963)	(68)
Transfers in (out)	-	-
Balance at December 31	$ 23,456	$ 28,107

Commitments

The WCB has contractual agreements to contribute further funding to a maximum of $1.8 million ($2.8 million in 2009) to specific investment projects to be financed from the existing portfolio or from available cash.

6. INVESTMENT RISK MANAGEMENT

In accordance with the Statement of Investment Policy and Objectives, the investment objective of the WCB is to generate a consistent, positive, real rate of return on invested assets. Recognizing the need to achieve a balance between risk and return, investment risk is managed through a portfolio that is diversified across a number of distinct asset classes, as well as geographic region and investment style.

The following sections describe the nature and extent of financial risk exposure and the related risk mitigation strategies.

Market Risk

The WCB invests in publicly and privately traded equities and fixed income instruments available on domestic and foreign exchanges. As these securities are affected by market changes and fluctuations, the WCB is exposed to market risk as a result of price changes due to economic fluctuations in capital markets.

The following table presents the effect of a material change in the key risk variable – the sector benchmark – for each of the equity mandates in the WCB investment portfolio:

	2010		2009	
	5 year annualized		5 year annualized	
Equities	+/- 1 standard deviation	+/- 2 standard deviation	+/- 1 standard deviation	+/- 2 standard deviation
% change in benchmark	19.3%	38.6%	18.8%	37.6 %
Canadian	$33.6 million	$67.2 million	$32.8 million	$65.6 million
% change in benchmark	12.4%	24.8%	11.1%	22.2%
U.S.	$20.1 million	$40.2 million	$16.5 million	$33.1 million
% change in benchmark	17.6%	35.2%	16.1%	32.2%
Europe, Australasia and Far East	$14.4 million	$28.8 million	$12.5 million	$25.0 million
% change in benchmark	22.9%	45.8%	22.4%	44.8%
Emerging markets	$7.3 million	$14.6 million	$6.3 million	$12.5 million

Credit Risk Management

Credit exposure on fixed income securities arises from the possibility that the issuer of an instrument fails to meet its obligation to make interest payments and repay principal. To mitigate the risk of credit default, the minimum quality standard for individual bonds and debentures at time of purchase is BBB, as rated by an established bond rating service. To further mitigate this risk, bonds with a BBB rating are limited to a maximum of 15 per cent of the bond portfolio. The balance of the portfolio should be invested in bonds with a minimum rating of A or higher.

Of the fixed income assets in the investment portfolio, 93 per cent (93 per cent in 2009) have at least an A credit rating. The WCB does not anticipate that any borrowers will fail to meet their obligations.

Securities Lending

The WCB may lend, for fee income, any of its securities to third parties, provided the loans are secured by cash or readily marketable securities having a market value of at least 105 per cent of the market amount of the asset borrowed. As at December 31, 2010, these loans amounted to $91.8 million ($66.6 million in 2009).

Foreign Exchange Risk Management

The WCB has certain investments denominated in foreign currencies, which exposes the WCB to foreign currency risk. During 2010, the WCB did not undertake hedging strategies for the currency risk of foreign investments. While currency fluctuations influenced short term returns, these fluctuations are not expected to affect the long term position of the investment portfolio.

WCB has exposure to the U.S. dollar, with USD-denominated holdings of $275.6 million CAD ($254.7 million CAD in 2009) or 26.1 per cent of the portfolio (26.2 per cent in 2009).

The table below presents the effects of a material change in the Canadian/U.S. dollar exchange rates:

	CAD/USD	
	2010	2009
10% appreciation in the Canadian dollar	$(25.1 million)	$(23.2 million)

Interest Rate Risk Management

The WCB is exposed to interest rate risk to the extent that the fair value or future cash flows of a financial instrument fluctuate due to changes in market interest rates. These fluctuations are managed by actively controlling the duration of the fixed income portfolio. As at December 31, 2010, the duration of the WCB's bond portfolio was 7.8 years (5.8 years in 2009).

The following table shows the effects of a negative 50 and 100 basis point (where one basis point equals 1/100 of one per cent and 50 basis points equals 0.5 per cent) change in interest rates on the bond portfolio:

	2010		2009	
+/- basis point change	50 basis points	100 basis points	50 basis points	100 basis points
Bonds	$12.7 million	$25.4 million	$8.1 million	$16.2 million

7. DEFERRED ASSESSMENTS

Deferred assessments represent the WCB's estimate of the present value of premiums which will be received in the future from self-insured employers to fund the future costs of existing claims that have arisen from their employees. As such, the fair value for deferred assessments is not readily determinable. The deferred assessments may be secured by irrevocable letters of credit or other suitable forms of guarantee. The changes in deferred assessments were as follows:

	2010	2009
Balance at beginning of year	$ 68,813	$ 65,691
(Decrease) increase in future cost liability	(2,987)	939
(Decrease) increase in pension related transactions	(411)	2,058
Interest allocation	(887)	125
Net change in deferred assessments	(4,285)	3,122
Balance at end of year	$ 64,528	$ 68,813

8. CAPITAL ASSETS

	2010		2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer equipment	$ 6,937	$ 5,871	$ 6,397	$ 5,213
Furniture, fixtures and equipment	2,347	2,141	2,317	2,057
Building renovations and leasehold improvements	4,658	3,305	4,479	3,124
Building and land	6,523	699	6,176	628
	20,465	12,016	19,369	11,022
Net book value		$ 8,449		$ 8,347

There were no asset dispositions in 2010. In 2009, as a result of asset dispositions, costs of $4.0 million for computer equipment and furniture, fixtures and equipment, and the offsetting accumulated depreciation were removed from the accounting records.

9. INTANGIBLE ASSETS

	2010		2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer software	$ 3,765	$ 3,375	$ 3,664	$ 3,048
Systems development projects	13,162	9,283	12,076	8,507
	16,927	12,658	15,740	11,555
Net book value		$ 4,269		$ 4,185

The aggregate amortization expense for 2010 was $1.1 million ($1.0 million in 2009).

10. PAYABLES AND ACCRUED LIABILITIES

	2010	2009
Accounts payable and accrued liabilities	$ 6,775	$ 6,157
Client annuity program	16,340	14,579
Research and Workplace Innovation Program	1,757	1,327
Deposits from self-insured employers	5,411	6,734
Employee vacation entitlements	3,074	3,123
Other payables	1,137	1,139
Sick leave plan (Note 11)	3,756	3,359
	$ 38,250	$ 36,418

11. EMPLOYEE FUTURE BENEFITS

The WCB has two employee benefit plans which provide pension and other future employment benefits to its employees. The cost of these employee benefit plans is recorded as an expense in the period in which employees' services are rendered.

The pension plan, which is funded by employee and employer contributions, is made up of the WCB Retirement Plan and the Supplementary Employee Retirement Plan. The WCB Retirement Plan is a defined benefit pension plan that provides indexed pensions (two-thirds of the Consumer Price Index for Canada) based on years of service and the best five consecutive years average earnings in the last 12 years of employment. The Supplementary Employee Retirement Plan provides that the employees of the WCB whose pension benefits exceed the maximum pension benefit permitted under the federal *Income Tax Act* will receive pension benefits based on their total pensionable earnings.

The WCB also has a defined benefit plan that provides for a payment of sick leave credits to employees that meet established criteria upon termination or retirement. Employees are not required to contribute to this plan.

Total cash payments for employee future benefits for 2010, consisting of cash contributed by the WCB to the funded pension plan and cash payments directly to beneficiaries for the unfunded sick leave plan, were $3.2 million ($2.9 million in 2009).

The WCB measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the Retirement Plan for funding purposes, which was filed with the pension regulators, was as at December 31, 2007. The Retirement Plan showed a going concern surplus of $0.9 million and a solvency surplus of $3.0 million at the time of the 2007 valuation. The valuation as at December 31, 2010 must be filed with the regulators by September 30, 2011.

Information about the WCB's employee benefit plans for the year is as follows:

	Pension Plan		Sick Leave Plan	
	2010	2009	2010	2009
Benefits paid by the plan	$ 2,820	$ 2,800	$ 312	$ 211
Employer contributions	2,893	2,711	312	211
Employee contributions	2,202	2,065	-	-
Employee future benefit expense	3,017	2,871	710	604
Actual return on plan assets	10.5%	21.3%	-	-

Reconciliation of the benefit plans to amounts included in the financial statements:

	Pension Plan 2010	Pension Plan 2009	Sick Leave Plan 2010	Sick Leave Plan 2009
Fair value of plan assets	$ 102,461	$ 90,338	-	-
Accrued benefit obligation	118,089	96,794	$ 5,131	$ 4,665
Plan deficit for accounting purposes	(15,628)	(6,456)	(5,131)	(4,665)
Balance of unamortized losses	19,134	10,086	1,375	1,306
Accrued benefit asset (liability)	$ 3,506	$ 3,630	$ (3,756)	$ (3,359)

The accrued benefit asset for the pension plan is included in receivables and other. The accrued benefit liability for the sick leave plan is included in payables and accrued liabilities.

The key actuarial assumptions used to value the employee future benefit liabilities for accounting purposes as at December 31 are as follows:

	Pension Plan 2010	Pension Plan 2009	Sick Leave Plan 2010	Sick Leave Plan 2009
Discount rate	5.75%	6.50%	5.75%	6.50%
Expected long term rate of return on plan assets	6.75%	6.75%	-	-
Rate of compensation increase	3.75%	3.75%	2.25%	2.25%
Expected average remaining service life (in years)	13	14	13	14

The asset allocation for the pension plan as at December 31 is:

	2010	2009
Equity	66%	62%
Fixed income (including short term)	34%	38%

12. BENEFIT LIABILITIES

Benefit liabilities are determined in accordance with standards established by the Canadian Institute of Actuaries. The actuarial present value of future benefit payments reflects management's long term estimates of economic and actuarial assumptions and methods, which are based upon past experience and modified for current trends. As these assumptions may change over time to reflect underlying conditions, it is possible that such changes could cause a material change in the actuarial present value of the future payments. The fair value for benefit liabilities is not readily determinable.

The key actuarial assumptions used to value the benefit liabilities as at December 31 are as follows:

	2010	2009
Discount rate for non-indexed benefits	6.0%	6.0%
Discount rate for CPI-indexed benefits	3.0%	3.0%
Discount rate for wage-indexed benefits	2.0%	2.0%
Discount rate for healthcare benefits	(0.5%)	(0.5%)

An analysis of the components of and changes in benefit liabilities is as follows:

	2010						2009
	Short Term Disability	Long Term Disability	Survivor Benefits	Healthcare Benefits	Rehabilitation Services	Total	Total
Balance at beginning of year	$ 144,120	$ 389,982	$ 151,165	$ 201,450	$ 26,289	$ 913,006	$ 903,489
Add: Claim costs incurred							
Current year	93,674	12,894	2,802	52,583	5,338	167,291	172,935
Prior years	(55,346)	39,100	13,790	22,681	(5,892)	14,333	25,872
	38,328	51,994	16,592	75,264	(554)	181,624	198,807
Less: Claim payments made							
Current year	27,301	472	247	19,875	120	48,015	48,674
Prior years	31,412	53,631	14,544	35,210	2,287	137,084	140,616
	58,713	54,103	14,791	55,085	2,407	185,099	189,290
Balance at end of year	$ 123,735	$ 387,873	$ 152,966	$ 221,629	$ 23,328	$ 909,531	$ 913,006

The liability for short term disability claims is an estimate of future wage loss payments for claims that have yet to medically plateau or stabilize. The long term disability liability includes estimated future wage loss payments for those claims that have medically plateaued and stabilized, estimated future pension payments, and estimated future cost of claims relating to certain long latent occupational diseases. The liability for survivor benefits is composed of estimated future pension payments and other services provided to survivors of those who have lost their lives as a result of workplace injuries or illnesses. Healthcare liabilities are the estimated future medical costs for existing claims. The liability for rehabilitation services is composed of the estimated cost of future rehabilitation services which are externally supplied to the WCB.

Included in the benefit liabilities balance is $41.5 million ($41.4 million in 2009) for the long latent occupational disease liability and $63.6 million ($62.0 million in 2009) for the future cost of administering existing claims.

13. BENEFIT LIABILITIES FOR SELF-INSURED EMPLOYERS

Note 12 contains a complete description of the components of the benefit liabilities for all employers. An analysis of the portion relating to self-insured employers is as follows:

	2010						2009
	Short Term Disability	**Long Term Disability**	**Survivor Benefits**	**Healthcare Benefits**	**Rehabilitation Services**	**Total**	**Total**
Balance at beginning of year	$ 16,816	$ 43,630	$ 26,903	$ 32,783	$ 2,213	$ 122,345	$ 122,357
Add: Claim costs incurred							
Current year	8,867	2,546	232	6,568	539	18,752	20,576
Prior years	(3,017)	3,204	3,225	(842)	(452)	2,118	3,476
	5,850	5,750	3,457	5,726	87	20,870	24,052
Less: Claim payments made							
Current year	3,604	74	-	2,218	11	5,907	5,782
Prior years	4,475	5,118	3,762	5,416	291	19,062	18,282
	8,079	5,192	3,762	7,634	302	24,969	24,064
Balance at end of year	$ 14,587	$ 44,188	$ 26,598	$ 30,875	$ 1,998	$ 118,246	$ 122,345

Included in premiums and claim costs for self-insured employers are payments in the amount of $3.6 million ($3.8 million in 2009) made by self-insured employers directly to injured workers on the WCB's behalf. These amounts are reported to the WCB for inclusion in these financial statements.

Included in the benefit liabilities balance is $12.1 million ($12.0 million in 2009) for self-insured employers' share of the long latent occupational disease liability and $8.1 million ($8.0 million in 2009) for the future cost of administering existing claims.

14. PREMIUM REVENUE

	2010	2009
Premiums – Class E employers	$ 227,592	$ 217,054
Assessments – Self-insured employers	27,049	26,450
(Decrease) increase in deferred assessments (Note 7)	(4,285)	3,122
Total premium revenue	$ 250,356	$ 246,626

15. OPERATING EXPENSES

	2010	2009
Salaries, employee benefits and training	$ 41,602	$ 40,880
Information technology service fees	1,631	1,475
Occupancy costs	1,915	2,006
Office supplies, services and projects	889	949
Communications	1,091	1,084
Professional fees	1,161	1,001
Donations	82	74
Amortization of capital assets	2,096	1,963
Appeal Commission	1,181	1,141
Research and Workplace Innovation Program grants	948	(439)
Recoveries from the Government of Canada	(1,002)	(818)
Prevention and other (Note 16)	10,932	10,608
Total operating expenses	$ 62,526	$ 59,924

Of the total operating expenses, $4.8 million ($4.4 million in 2009) was allocated to self-insured employers based on the current year's transaction volumes.

The WCB administers the *Government Employees Compensation Act* program for the Government of Canada. The operation of this program is reflected only to the extent of the recoveries of operating expenses.

16. RELATED PARTY TRANSACTIONS

Pursuant to *The Workplace Safety and Health Act* of Manitoba, the Province may pay the expenses incurred in the administration of that *Act* out of the consolidated fund and may, subsequently, recover such portion as it may determine from the WCB under *The Workers Compensation Act* of Manitoba. For 2010, the amount charged to operations under this provision was $8.7 million ($8.3 million in 2009).

Also, under Section 84.(1) of *The Workers Compensation Act* of Manitoba, the Province may pay the costs incurred in respect of worker advisors and may recover them from the WCB. For 2010, the amount charged to operations under this provision was $0.7 million ($0.8 million in 2009).

In addition to the legislated obligations referred to above, included in these financial statements are amounts resulting from routine operating transactions conducted at prevailing market prices with various provincial government controlled ministries, agencies and Crown corporations with which the WCB may be considered related. This includes the provision of assistance, in the form of medical opinions and appeal services, for the Province of Manitoba relating to criminal injury claims. The provincial government is also a self-insured employer under *The Workers Compensation Act* of Manitoba. Account balances resulting from these transactions are included in these financial statements and are settled on normal trade terms.

Included in the WCB's investment portfolio as at December 31, 2010 are guaranteed debentures issued by the Province of Manitoba in the amount of $0.9 million ($0.9 million in 2009).

17. COMMITMENTS

The WCB has signed operating leases for office premises and office equipment expiring at various times until December 31, 2015. The minimum lease obligations over the next five years are:

2011	2012	2013	2014	2015	Total
$745	$696	$549	$355	$234	$2,579

The WCB has begun a capital project to repair the exterior cladding on its office building located at 333 Broadway. The estimated cost of the project is $15 million.

18. CONTINGENCIES

The WCB is party to various claims and lawsuits related to the normal course of business that are currently being contested. In the opinion of management, the outcome of such claims and lawsuits are not determinable. However, based on the total amount of all such actions, WCB has concluded that their outcomes, either individually or in aggregate, will not have a material effect on the results of operations or financial position.

19. AUDITOR INDEPENDENCE

Grant Thornton LLP did not provide non-audit services to the WCB in 2010. In 2009, $3 of non-audit services were provided.