VOLUME 4 - SECTION 4

TABLE OF CONTENTS		PAGE

Section 4:

CROWN ORGANIZATIONS (CONTINUED):

GOVERNMENT ENTERPRISES:

Management’s Responsibility for Financial Reporting

The accompanying consolidated financial statements are the responsibility of the management of the Special Operating Agencies Financing Authority and have been prepared in accordance with Canadian public sector accounting standards. 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 to August 24, 2012.

Management maintains internal controls to properly safeguard the assets and to provide reasonable assurance that the books and records from which the consolidated 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 consolidated financial statements of the Special Operating Agencies Financing Authority are fairly represented in accordance with Canadian public sector accounting standards. 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
August 24, 2012

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 consolidated financial statements of the Special Operating Agencies Financing Authority, which comprise the consolidated statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010 and the consolidated statements of operations and accumulated surplus, change in net debt and cash flow for the years ended March 31, 2012 and March 31, 2011 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 public sector accounting standards, 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 combined 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 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 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 Special Operating Agencies Financing Authority as at March 31, 2012, March 31, 2011 and April 1, 2010, and the results of its operations and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Canadian public sector accounting standards.

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Basis of Accounting

Without modifying our opinion, we draw attention to Note 2 of the consolidated financial statements which describes the basis of accounting. For the year ended March 31, 2012, the Special Operating Agencies Financing Authority adopted Canadian public sector accounting standards. This resulted in significant changes to the presentation of the consolidated financial statements as compared to the prior year. These standards were applied retroactively by management to the comparative information in these consolidated financial statements.

Office of the Auditor General

Office of the Auditor General
August 24, 2012
Winnipeg, Manitoba

Special Operating Agencies Financing Authority
Province of Manitoba
Consolidated Statement of Financial Position
As at March 31, 2012
(In Thousands)

	March 31, 2012	March 31, 2011 (Restated - Note 5 & 14)	April 1, 2010
Financial Assets			
Cash and cash equivalents (Note 7)	$ 47,753	$ 39,491	$ 33,614
Accounts receivable (Note 8)	20,355	23,878	22,683
Receivable from the Province of Manitoba	-	-	1,903
Portfolio investments	8,332	8,489	9,219
Inventories for resale	7,682	7,269	7,082
	84,122	79,127	74,501
Liabilities			
Working capital advances (Note 9)	14,315	12,910	13,663
Accounts payable and accruals	20,310	19,749	16,553
Unearned revenue	5,348	5,270	6,935
Employee future benefits (Note 10)	9,246	8,515	8,325
Capital lease obligations (Note 11)	109	154	196
Borrowings from the Province of Manitoba (Note 12)	97,911	92,500	82,783
	147,239	139,098	128,455
Net Debt	(63,117)	(59,971)	(53,954)
Non-financial Assets			
Inventories held for use	190	174	143
Prepaid expenses	3,999	3,926	3,773
Tangible capital assets (Note 13)	149,779	140,324	131,285
	153,968	144,424	135,201
Accumulated Surplus (Note 14)	$ 90,851	$ 84,453	$ 81,247

Designated assets (Note 15)
Commitments (Note 16)
Contingencies (Note 17)

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

Special Operating Agencies Financing Authority
Province of Manitoba
Consolidated Statement of Operations and Accumulated Surplus
For the Year Ended March 31, 2012
(In Thousands)

	2012 Budget	2012 Actual	2011 Actual (Restated - Note 5 & 14)
Revenue			
Grants:			
Province of Manitoba	$ 5,677	$ 6,095	$ 6,384
Federal Government	1,675	1,957	3,514
Other	3,326	2,667	2,301
Total grants	10,678	10,719	12,199
Revenue from Province of Manitoba entities	117,632	129,272	120,096
Fees and other revenue	80,635	84,740	80,733
Investment income	134	354	241
Total revenue	209,079	225,085	213,269
Expense			
Personnel services	62,561	57,738	55,612
Grants/Transfer payments	4,336	3,463	4,932
Transportation	3,518	3,406	3,284
Communication	7,396	6,309	6,924
Supplies and services	66,979	77,800	71,223
Debt servicing	4,861	4,454	4,282
Minor capital	80	296	321
Amortization	24,560	24,171	23,129
Other operating	15,721	14,870	14,926
Total expense	190,012	192,507	184,633
Net income before the transfer of funds to the Province of Manitoba	19,067	32,578	28,636
Transfer of funds to the Province of Manitoba (Note 18)	26,180	26,180	25,430
Net income	(7,113)	6,398	3,206
Accumulated surplus, beginning of year	80,448	84,453	81,247
Accumulated surplus, end of year	$ 73,335	$ 90,851	$ 84,453

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

Special Operating Agencies Financing Authority
Province of Manitoba
Consolidated Statement of Change in Net Debt
For the Year Ended March 31, 2012
(In Thousands)

	2012 Budget	2012 Actual	2011 Actual (Restated - Note 5 & 14)
Net income	$ (7,113)	$ 6,398	$ 3,206
Tangible capital assets			
Acquisition of tangible capital assets	(37,248)	(35,553)	(33,724)
Amortization of tangible capital assets	24,560	24,172	23,129
Loss on disposal of tangible capital assets	(963)	(472)	(669)
Disposal of tangible capital assets	3,000	2,398	2,225
Net change	(10,651)	(9,455)	(9,039)
Other non-financial assets			
(Increase) in inventory held for use	(1)	(16)	(31)
(Increase) in prepaid expense	(300)	(73)	(153)
Net change	(301)	(89)	(184)
(Increase) decrease in net debt	(18,065)	(3,146)	(6,017)
Net debt, beginning of year	(69,232)	(59,971)	(53,954)
Net debt, end of year	$ (87,297)	$ (63,117)	$ (59,971)

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

Special Operating Agencies Financing Authority
Province of Manitoba
Consolidated Statement of Cash Flow
For the Year Ended March 31, 2012
(In Thousands)

	2012 Actual	2011 Actual (Restated - Note 5 & 14)
Cash provided by (applied to):		
Operating		
Net income	$ 6,398	$ 3,206
Amortization of tangible capital assets	24,172	23,129
Gain on disposal of tangible capital assets	(472)	(669)
	30,098	25,666
Change in:		
Accounts receivable	3,523	(1,195)
Inventories	(429)	(218)
Accounts payable and accruals	561	3,196
Unearned revenue	78	(1,665)
Employee future benefits	731	190
Prepaid expenses	(73)	(153)
Cash provided by operating activities	34,489	25,821
Capital		
Proceeds from disposal of tangible capital assets	2,398	2,225
Acquisition of tangible capital assets	(35,553)	(33,724)
Cash applied to capital activities	(33,155)	(31,499)
Investing		
Portfolio investments	157	730
Cash provided by investing activities	157	730
Financing		
Change in receivable from the Province of Manitoba	-	1,903
Working capital advances	1,405	(753)
Capital lease obligations	(45)	(42)
Borrowings from the Province of Manitoba	17,070	20,132
Debt repayments to the Province of Manitoba	(11,659)	(10,415)
Cash provided by financing activities	6,771	10,825
Increase (decrease) in cash	8,262	5,877
Cash and cash equivalents at beginning of year	39,491	33,614
Cash and cash equivalents at end of year	$ 47,753	$ 39,491

The accompanying notes and schedule are an integral part of these 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.

SOAs in operation during the fiscal year ended March 31, 2012 were as follows:

1) Civil Legal Services, Department of Justice
2) Companies Office, Department of Healthy Living, Seniors and Consumer Affairs
3) Crown Lands and Property Agency, Department of Infrastructure and Transportation
4) Food Development Centre, Department of Agriculture, Food and Rural Initiatives
5) Green Manitoba Eco Solutions, Department of Conservation
6) Industrial Technology Centre, Department of Innovation, Energy and Mines
7) Manitoba Education, Research and Learning Information Networks (MERLIN), Department of Innovation, Energy and Mines
8) Manitoba Securities Commission, Department of Finance
9) Manitoba Text Book Bureau, Department of Education
10) Materials Distribution Agency, Department of Infrastructure and Transportation
11) Office of the Fire Commissioner, Department of Family Services and Labour
12) Organization and Staff Development, Civil Service Commission
13) Pineland Forest Nursery, Department of Conservation
14) The Property Registry, Department of Healthy Living, Seniors and Consumer Affairs
15) The Public Trustee, Department of Justice
16) Vehicle and Equipment Management Agency, Department of Infrastructure and Transportation
17) Vital Statistics Agency, Department of Healthy Living, Seniors and Consumer Affairs

2. Basis of Accounting

As of April 1, 2011, the Financing Authority adopted Public Sector Accounting (PSA) Standards with a transition date of April 1, 2010. More details on this transition are provided in Note 5.

The adoption of PSA Standards includes early adoption of PS 1201 Financial Statement Presentation, PS 3041 Portfolio Investments, PS 3450 Financial Instruments, and new PS 3410 Government Transfers.

3. Basis of consolidation

The consolidated financial statements reflect the assets, liabilities, revenues, and expenses of the reporting entity, which is composed of all SOAs as listed in Note 1 to the consolidated financial statements. These SOAs are controlled by the Financing Authority. Control, as defined by the Public Sector Accounting Board (PSAB), is the power to govern the financial and operating policies of the SOAs with expected benefits or the risk of loss to the Financing Authority from their activities.

All inter-entity accounts and transactions between these SOAs are eliminated upon consolidation.

4. Significant Accounting Policies

a. Revenue

(i) Government transfers

Government transfers are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All government transfers are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

Government transfer with eligibility criteria but without stipulations is recognized as revenue when the transfer is authorized and all eligibility criteria have been met.

Government transfer with or without eligibility criteria but with stipulations is recognized as revenue in the period the transfer is authorized and all eligibility criteria have been met, except when and to the extent that the stipulations give rise to a liability.

(ii) Exchange transactions

Product revenue is recognized when the goods are shipped or delivered and title and risk of loss pass to the customer. Service revenue is recognized when the rendering of services is completed or substantially completed.

(iii) Other revenue

All other revenues are recorded on an accrual basis.

4. Significant Accounting Policies (continued)

b. Expenses

(i) Accrual accounting
All expenses incurred for goods and services are recorded on an accrual basis.

(ii) Government transfers
Government transfers are recognized as expenses in the period in which the transfers are authorized and all eligibility criteria have been met by the recipient.

c. Financial Assets

(i) Portfolio investments
Portfolio Investments are short-term deposits with original maturities of more than three months. These investments are recognized at cost or amortized cost.

(ii) Inventories for resale
Inventories for resale are recorded at the lower of cost or net realizable value.

d. Liabilities

Liabilities are present obligations as a result of transactions and events occurring prior to the end of the fiscal year. The settlement of the liabilities will result in the future transfer or use of assets or other form of settlement. Liabilities are recorded at the estimated amount ultimately payable.

e. Non-financial Assets

Non-financial assets do not normally provide resources to discharge liabilities of the Financing Authority. These assets are normally employed to provide future services.

(i) Inventories
Inventories held for use are classified as non-financial assets. Inventories held for resale are classified as non-financial assets if it is anticipated that the sale will not be completed within one year.

(ii) Prepaid expenses
Prepaid expenses are payments for goods or services which will provide economic benefit in future periods. The prepaid amount is recognized as an expense in the year the goods or services are consumed.

(iii) Tangible capital assets
Tangible Capital Assets are recognized at cost. Cost includes the purchase price as well as other acquisition costs. The costs of tangible capital assets, less any residual value, are amortized over their estimated useful lives as follows:

(In Thousands)

4. Significant Accounting Policies (continued)

Vehicles	-	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	-	2 - 5 years, straight line
Computer equipment and software	-	5 - 15 years, straight line 20% - 30%, declining balance
Buildings	-	15 years, straight line 5% - 10%, declining balance
Practical training site	-	10%, declining balance
Leasehold improvements	-	5 - 10 years, straight line

f. Measurement Uncertainty

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 amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

g. Administrative Expenses Paid by the Province of Manitoba

The Treasury Board Secretariat pays for salaries and certain operating expenses on behalf of the Financing Authority. These contributions totaling $116 (2011 - $110) are recorded as expenses and revenue of the Financing Authority.

5. First-time Adoption of Public Sector Accounting Standards

In previous fiscal years, the Financing Authority classified itself as a Government Business-Type Organization (GBTO) and followed the recommendations of the Canadian Institute of Chartered Accountants (CICA) Accounting Handbook - Part V. In October 2009, the Public Sector Accounting Board (PSAB) determined that the category will cease to exist for fiscal years ending on or after January 1, 2011, and GBTOs are required to reclassify themselves in accordance with Public Sector Accounting (PSA) Standards. In accordance with recommendations of the Public Sector Accounting Handbook, the Financing Authority has determined that it is an "other government organization" and has determined that PSA Standards are the most appropriate framework for reporting purposes.

(In Thousands)

5. First-time Adoption of Public Sector Accounting Standards (continued)

These new standards were required to be applied retroactively. The impacts of this change are as follows:

	March 31, 2011	April 1, 2010
a) Cash and cash equivalents		
Cash and short-term deposits as per previous financial statements	$39,036	$35,183
Add: customer deposits	1,558	1,431
Less: amounts reclassified from short-term deposits to portfolio investments	(1,103)	(3,000)
Cash and cash equivalents as per PSA Standards	$39,491	$33,614
b) Portfolio investments		
Portfolio investments as per previous financial statements	$ -	$ -
Add: amounts reclassified from short-term deposits to portfolio investments	1,103	3,000
Add: amounts reclassified from designated assets to portfolio investments - Note (i)	7,386	6,219
Portfolio investments as per PSA Standards	$8,489	$9,219
c) Accounts payable and accruals		
Accounts payable and accruals as per previous financial statements	$18,907	$16,701
Add: reclassified from unearned revenue	250	-
Add: other reclassifications	2	9
Less: consolidation adjustments (ii)	(157)	(157)
Balance as per PSA Standards	19,002	16,553
Correction of errors (Note 14a)	747	-
Balance per Consolidated Statement of Financial Position	$19,749	$16.553
d) Unearned revenue		
Unearned revenue and deferred contributions as per previous financial statements	$21,596	$21,920
Less: government transfers previously deferred - Note (iii)	(14,138)	(13,235)
Less: reclassified to borrowings - Note (iv)	(1,575)	(1,750)
Less: asset write-down previously recorded in deferred contributions	(363)	-
Less: reclassified to accounts payable	(250)	-
Unearned revenue as per PSA Standards	$ 5,270	$ 6,935

(In Thousands)

		March 31, 2011	April 1, 2010
e)	**Employee future benefits**		
	Severance liability as per previous financial statements	$ 7.430	$ 7,240
	Add: sick pay benefits - Note (v)	1,085	1,085
	Employee future benefits as per PSA Standards	$ 8,515	$ 8,325
f)	**Borrowings**		
	Borrowings as per previous financial statements	$ 90,925	$ 81,033
	Add: reclassified from deferred contributions - Note (iv)	1,575	1,750
	Borrowings as per PSA Standards	$ 92,500	$ 82,783
g)	**Intangible assets**		
	Intangible assets as per previous financial statements	$1,314	$105
	Less: intangible assets written off	(60)	(92)
	Less: amounts reclassified to tangible capital assets	(1,254)	(13)
	Intangible assets as per PSA Standards	$ -	$ -
h)	**Tangible capital assets**		
	Tangible capital assets as per previous financial statements	$139,433	$131,272
	Add: amounts reclassified from intangible assets	1,254	13
	Less: asset write-down previously recorded in deferred contributions	(363)	-
	Tangible capital assets as per PSA Standards	$140,324	$131,285
i)	**Accumulated surplus**		
	Equity as per previous financial statements	$72,716	$70,275
	Add: government transfers previously deferred - Note (iii)	14,138	13,235
	Less: sick pay benefits - Note (v)	(1,085)	(1,085)
	Less: write-off of intangible assets	(60)	(92)
	Accumulated surplus as per PSA Standards (Note 14a)	$85,709	$82,333

(In Thousands)

5. First-time Adoption of Public Sector Accounting Standards (continued)

j) **Net income**	Year ended March 31, 2011
Net income as per previous financial statements	$27,899
Add: change in government transfers previously deferred - Note (iii)	1,266
Add: amortization of intangible assets written off	32
Less: transfer of funds to the Province of Manitoba previously shown as a reduction of retained earnings - Note (vi)	(25,430)
Less: expenses previously recorded in a reserve fund - Note (vii)	(28)
Less: asset write-down previously recorded in deferred contributions	(363)
Net income as per PSA Standards (Note 14a)	$ 3,376

Notes:

(i) PSA Standards require information about designated assets to be disclosed in the notes, and not on the consolidated statement of financial position. Therefore, designated assets previously classified as “long-term investments” and “restricted deposits” are reclassified to “portfolio investments” on the consolidated statement of financial position, with the information disclosed in Note 15.

(ii) The financial statements of the Financing Authority were previously presented on a combined basis, with no elimination of inter-entity balances and transactions. These financial statements are now prepared on a consolidation basis. All inter-entity accounts and transactions between the SOAs are eliminated upon consolidation.

(iii) Government assistance towards the acquisition of tangible capital assets was previously deferred and amortized over the life of the related asset. Under PSA Standards, government transfers are recognized as revenue when the transfers are authorized and any eligibility criteria are met, to the extent the transfers have any stipulations that give rise to a liability.

(iv) Included in total deferred contributions per the previous financial statements was a loan from the Province of Manitoba that is recognized as liability under PSA standards.

(v) Under the previous accounting standards, the Financing Authority was not required to accrue a liability for sick pay benefits that accumulated but did not vest. However, PSA Standards require accrual of non-vesting sick pay benefits as they are earned by employees.

(vi) Transfer of funds to the Province of Manitoba (Note 18) is now presented as an expense in the consolidated statement of operations. In the previous financial statements, this transfer was presented as a reduction of retained earnings.

(vii) Expenses previously recorded in a reserve fund as part of the retained earnings are now reflected in the consolidated statement of operations.

(In Thousands)

6. Financial Instruments and Financial Risk Management

Measurement

Financial instruments are classified into one of the two measurement categories: (a) fair value; or (b) cost or amortized cost.

The Financing Authority records its financial assets at cost or amortized cost, which include cash and cash equivalents, accounts receivable and portfolio investments. The Financing Authority also records its financial liabilities at cost or amortized cost, which include working capital advances, accounts payable and borrowings.

Gains and losses on financial instruments measured at fair value are recorded in accumulated surplus as remeasurement gains and losses until realized. Upon disposition of the financial instruments, the cumulative remeasurement gains and losses are reclassified to the consolidated statement of operations. Gains and losses on financial instruments measured at cost or amortized cost are recognized in the consolidated statement of operations in the period the gain or loss occurs.

The Financing Authority does not incur any remeasurement gains and losses during the year (2011 - $nil).

Financial risk management - overview

The Financing Authority has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk and 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 cash equivalents, accounts receivable, and portfolio investments.

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

	2012	2011
Cash and cash equivalents	$47,753	$39,491
Accounts receivable	20,355	23,878
Portfolio investments	8,332	8,489
	$76,440	$71,858

Cash and cash equivalents, and portfolio investments: The Financing Authority is not exposed to significant credit risk as these amounts are held by the Minister of Finance or 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. The balance is due from a large client base, and payment in full is typically collected when it is due. The Financing Authority manages this credit risk through close monitoring of credit applications and overdue accounts.

(In Thousands)

6. Financial Instruments and Financial Risk Management (continued)

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:

	2012	2011
Balance, beginning of the year	$ 533	$ 691
Provision for receivable impairment	24	109
Amounts written off	(16)	(267)
Balance, end of the year	$ 541	$ 533

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, portfolio investments and borrowings.

The interest rate risk on funds on deposit is considered to be low because of their short-term nature. The interest rate risk on portfolio 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 one percent (100 basis points) movement in interest rates on the working capital advances for an entire year would increase/decrease debt servicing costs by $136 (2011 - $133).

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.

(In Thousands)

7. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with original maturities of three months or less.

	2012	2011
Restricted	$ 9,858	$ 9,401
Unrestricted	37,895	30,090
Total cash and cash equivalents	$ 47,753	$ 39,491

The restricted balance represents primarily the amount of customer deposits held in a separate bank account. These deposits are unearned revenue until services are provided.

8. Accounts Receivable

	2012	2011
Trade	$17,661	$18,975
Insurance agency rebate	627	604
Other	2,067	4,299
	$20,355	$23,878

9. 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 $33,120 (2011 - $31,620) at any one time. As at March 31, 2012, $14,315 (2011 - $12,910) was advanced, leaving an unused balance of $18,805 (2011 - $18,710). These advances bear interest at prime less 1% and are not secured by specific assets.

10. Employee Future Benefits

	2012	2011
Pension benefits	$ -	$ -
Severance benefits	8,161	7,430
Sick pay benefits	1,085	1,085
	$ 9,246	$ 8,515

(In Thousands)

10. Employee Future Benefits (continued)

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.

Pursuant to an agreement with the Province of Manitoba, the SOAs are required to pay to the Province an annual amount equal to the current pension contributions of their employees. The amount paid for 2012 is $2,907 (2011 - $2,786). Under this agreement, the pension liability is the responsibility of the Province, and these SOAs have no further pension liability.

Severance benefits

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, 2011. 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, 2012 is $8,161 (2011 - $7,430). The actuarial loss of $462 based on actuarial reports is being amortized over the 15 year expected average remaining service life (EARSL) of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2011 valuation, and in the determination of the March 31, 2012 present value of the accrued severance benefit obligation were:

Annual rate of return	
inflation component	2.00%
real rate of return	4.00%
	6.00%
Assumed salary increase rates	
annual productivity increase	1.00%
annual general salary increase	2.75%
	3.75%

(In Thousands)

10. Employee Future Benefits (continued)

The severance benefit liability at March 31 includes the following components:

	2012	2011
Accrued benefit liability	$8,464	$7,751
Less: unamortized actuarial losses	(303)	(321)
Severance benefit liability	$8,161	$7,430

The total expenses related to severance benefits at March 31 includes the following components:

	2012	2011
Interest on obligation	$507	$532
Current period benefit cost	254	229
Amortization of actuarial gain over EARSL	31	41
Total expense related to severance benefit	$792	$802

Sick pay benefits

The Financing Authority provides sick leave benefits for employees that accumulate but do not vest. The accrued benefit obligation related to sick leave entitlement earned by employees is determined using a valuation model developed by an actuary. The valuation is based on employee demographics, sick leave usage and actuarial assumptions. These assumptions include a 6.00% annual return and a 3.75% annual salary increase.

11. Capital Lease Obligations

	2012	2011
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	$ 109	$ 141
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
	$ 109	$ 154

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

2013	$ 35
2014	74

(In Thousands)

12. Borrowings from the Province of Manitoba

Instalment Amount	Interest Rate	Maturity Date	2012	2011
Repayable in monthly instalments of principal plus interest:				
6	5.125%	Jul 31, 2023	$ 859	$ 935
3	4.875%	Jul 31, 2023	371	404
2	4.875%	Jul 31, 2023	243	264
1	3.875%	Jan 31, 2021	134	149
Repayable in quarterly instalments of principal plus interest:				
33	4.000%	Mar 1, 2021	1,197	1,330
49	3.000%	Mar 30, 2022	1,970	-
Repayable in semi-annual instalments of principal and interest:				
137	4.875%	Sep 30, 2011	-	133
102	4.750%	Sep 30, 2011	-	100
475	4.625%	Mar 31, 2012	-	919
137	4.750%	Sep 30, 2012	133	391
142	5.000%	Sep 30, 2012	138	405
345	4.000%	Mar 31, 2013	670	1,314
140	4.050%	Sep 30, 2013	404	660
355	3.875%	Sep 30, 2013	1,025	1,677
376	2.625%	Sep 30, 2014	1,807	2,498
148	4.875%	Mar 31, 2015	814	1,060
215	2.625%	Mar 31, 2015	1,231	1,621
117	4.125%	Sep 30, 2015	755	951
482	2.500%	Sep 30, 2015	3,208	4,075
271	2.563%	Sep 30, 2016	2,292	2,767
581	2.050%	Sep 30, 2016	4,975	-
186	3.450%	Mar 31, 2017	1,695	2,000
213	2.375%	Mar 31, 2017	2,000	-
269	2.250%	Sep 30, 2017	2,765	-
237	4.875%	Sep 30, 2023	4,133	4,396
102	3.400%	Sep 30, 2023	1,932	-
334	5.000%	Mar 31, 2024	5,982	6,338
192	4.875%	Mar 31, 2024	3,457	3,665
2,018	4.875%	Mar 31, 2024	36,338	38,521
162	4.500%	Sep 30, 2024	3,066	3,246
201	4.000%	Sep 30, 2025	4,161	4,389
162	4.550%	Mar 31, 2026	3,333	3,500
80	5.000%	Mar 31, 2030	1,877	1,940

(In Thousands)

12. Borrowings from the Province of Manitoba (continued)

Repayable in annual instalments of principal plus interest:				
253	2.000%	Sep 30, 2011	-	253
18	5.800%	Apr 30, 2017	106	124
175	5.625%	May 30, 2019	1,400	1,575
60	4.200%	Mar 31, 2026	840	900
113	3.400%	Mar 31, 2027	1,700	-
Repayment terms to be determined:				
-	Prime less 0.75%	-	900	-
			$ 97,911	$ 92,500

Interest cost is measured using the effective interest method. Principal repayments in each of the next five years are as follows:

2013	$11,881
2014	10,810
2015	10,291
2016	8,927
2017	7,775

Loan authority availability was approved for the following agencies (listed in the following table):

Under the Loan Act, 2010	
Food Development Centre	$ 900
Under the Loan Act, 2011	
Vehicle and Equipment Management Agency	23,100
The Property Registry	4,100
Companies Office	1,970
Vital Statistics Agency	500
Industrial Technology Centre	910
Pineland Forest Nursery	285
Total loan authority	$ 31,765

Of the $31,765 in available loan authority, $17,070 was drawn down at various times during the year, leaving $14,695 of loan authority availability unutilized.

(In Thousands)

13. Tangible Capital Assets

	2012			
	Opening Balance	Additions	Disposals	Closing Balance
Cost				
Vehicles (signed lease agreement)	208,801	26,182	15,580	219,403
Vehicles, fire engines	2,555	148	36	2,667
Equipment and furniture	20,227	958	12	21,173
Rental equipment	8,930	675	-	9,605
Computer equipment and software	11,789	3,293	17	15,065
Buildings	20,319	101	-	20,420
Practical training site	5,655	4,100	-	9,755
Leasehold improvements	2,673	96	-	2,769
Total cost	280,949	35,553	15,645	300,857

	Opening Balance	Amortization	Disposals	Closing Balance
Accumulated Amortization				
Vehicles (signed lease agreement)	98,902	19,558	13,669	104,791
Vehicles, fire engines	1,982	211	32	2,161
Equipment and furniture	12,598	1,248	3	13,843
Rental equipment	7,508	885	-	8,393
Computer equipment and software	7,696	959	15	8,640
Buildings	8,330	1,085	-	9,415
Practical training site	1,411	98	-	1,509
Leasehold improvements	2,198	128	-	2,326
Total Accumulated amortization	140,625	24,172	13,719	151,078
Net	140,324	11,381	1,926	149,779

(In Thousands)

13. Tangible Capital Assets (continued)

	2011			
	Opening Balance	Additions	Disposals	Closing Balance
Cost				
Vehicles (signed lease agreement)	196,428	21,740	9,367	208,801
Vehicles, fire engines	2,488	67	-	2,555
Equipment and furniture	21,729	4,199	5,701	20,227
Rental equipment	8,128	802	-	8,930
Computer equipment and software	9,905	2,722	838	11,789
Buildings	19,491	828	-	20,319
Practical training site	2,346	3,309	-	5,655
Leasehold improvements	2,616	57	-	2,673
Total cost	263,131	33,724	15,906	280,949

	Opening Balance	Amortization	Disposals	Closing Balance
Accumulated Amortization				
Vehicles (signed lease agreement)	93,011	14,035	8,144	98,902
Vehicles, fire engines	1,734	248	-	1,982
Equipment and furniture	11,704	5,476	4,582	12,598
Rental equipment	6,607	901	-	7,508
Computer equipment and software	7,307	1,091	702	7,696
Buildings	7,194	1,136	-	8,330
Practical training site	1,303	108	-	1,411
Leasehold improvements	2,064	134	-	2,198
Total Accumulated amortization	130,924	23,129	13,428	140,625
Net	132,207	10,595	2,478	140,324

(In Thousands)

14. Accumulated Surplus

a) Correction of errors

During the year, the Financing Authority identified and corrected errors relating to the recognition of grant revenue previously reported in prior year financial statements. This has resulted in a decrease in the 2011 accumulated deficit of $1,256 (2010 - $1,086), a decrease in the 2011 accounts receivable of $509 (2010 - $1,086), an increase of the 2011 accrued liabilities of $747 (2010 - $nil), and a decrease of the 2011 net income of $170. Accumulated surplus balances for the previous two years and the 2011 net income as restated as follows:

Accumulated surplus	March 31, 2011	April 1, 2010
Accumulated surplus as per PSA Standards (Note 5i)	$85,709	$82,333
Less: correction of errors	(1,256)	(1,086)
Accumulated surplus as restated	$84,453	$81,247

Net income	Year ended March 31, 2011
Net income as per PSA Standards (Note 5j)	$3,376
Less: correction of errors	(170)
Net income as restated	$ 3,206

b) Reserve funds

The Financing Authority has allocated $846 of its accumulated surplus (2011 - $1,220) for reserve funds that are internally designated for the following purposes:

(i) Food Development Centre

Based on approvals from Treasury Board, the Centre has allocated $96 (2011 - $470) of its accumulated surplus for reserve funds that are internally designated for the commercial and training expansion program.

(ii) Manitoba Securities Commission

The Manitoba Securities Commission has designated $750 of its portfolio investments (2011 - $750) as a reserve fund to provide for extraordinary regulatory expenses and changes in market activity affecting revenue.

(In Thousands)

15. Designated Assets

Designated assets are distinct from restricted assets. Unlike restricted assets, the Financing Authority can readily change its by-law or resolution and use the designated assets for another purpose if the need arises. The Financing Authority has allocated $7,620 (2011 - $7,392) of its portfolio investments as designated assets for the following purposes:

a) The Manitoba Securities Commission maintains separate deposits of $750 (2011 - $750) to fund expenses which may arise with respect to its reserve fund (Note 14b (ii)).

b) The Financing Authority has received $6,870 ($2011 - $6,636) of cash from the Province of Manitoba primarily for the vacation entitlements earned by the employees of the SOAs prior to their designation as SOAs and the severance pay benefits accumulated to March 31, 1998 for certain of their employees. This amount is held in an interest bearing account until the cash is required to discharge the related liabilities. Any unused balance is re-invested annually.

16. Commitments

Commitments for SOAs with building lease agreements at March 31, 2012 amount to $9,189 (2011 - $10,361).

Other commitments entered into by SOAs are as follows:

Companies Office	New system development	$ 50
Crown Lands And Property Agency	Vehicle and equipment leases	39
Office of the Fire Commissioner	Vehicle leases	713
Organization and Staff Development	Learning Management System	92
The Property Registry	Equipment lease agreements	305
		$ 1,199

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

2013	$2,538
2014	1,787
2015	1,717
2016	1,688
2017	1,679

(In Thousands)

17. 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 four 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.

18. Transfer of Funds to the Province of Manitoba

The Minister of Finance, with Lieutenant-Governor-in-Council approval by Order in Council, allocated $26,180 (2011 - $25,430) 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:

	2012	2011
Civil Legal Services	$ 250	$ 250
Companies Office	2,500	2,500
Manitoba Securities Commission	8,800	8,800
Office of the Fire Commissioner	750	-
The Property Registry	11,000	11,000
Vehicle and Equipment Management Agency	2,500	2,500
Vital Statistics Agency	380	380
	$26,180	$25,430

19. 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, 2012 total approximately $226,000 (2011 - $222,000). The trust activities of The Public Trustee are reported in separate audited financial statements for Estates and Trusts under Administration.

20. 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.

21. Budgeted figures

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the management of the various special operating agencies consolidated in these financial statements.

Special Operating Agencies Financing Authority

Province of Manitoba

Schedule of Summarized Results by Special Operating Agency

For the Year Ended March 31, 2012

(In Thousands)

	2012				
	Revenue	Expense	Net income (loss) before the transfer	Transfer of funds to the Province of Manitoba	Net income (loss)
Civil Legal Services	$ 7,054	$ 6,676	$ 378	$ 250	$ 128
Companies Office	7,914	4,407	3,507	2,500	1,007
Crown Lands and Property Agency	4,608	4,961	(353)	-	(353)
Food Development Centre	5,116	4,222	894	-	894
Green Manitoba Eco Solutions	4,484	4,051	433	-	433
Industrial Technology Centre	3,001	2,975	26	-	26
Manitoba Education, Research and Learning Information Networks	4,809	4,794	15	-	15
Manitoba Securities Commission	15,059	4,060	10,999	8,800	2,199
Manitoba Text Book Bureau	7,678	7,678	-	-	-
Materials Distribution Agency	26,093	26,324	(231)	-	(231)
Office of the Fire Commissioner	15,247	12,902	2,345	750	1,595
Organization and Staff Development	1,627	1,648	(21)	-	(21)
Pineland Forest Nursery	2,496	3,015	(519)	-	(519)
The Property Registry	24,268	13,702	10,566	11,000	(434)
The Public Trustee	6,682	5,877	805	-	805
Vehicle and Equipment Management Agency	87,789	84,052	3,737	2,500	1,237
Vital Statistics Agency	3,540	3,548	(8)	380	(388)
Special Operating Agencies Financing Authority	130	125	5	-	5
Total before consolidation adjustments	227,595	195,017	32,578	26,180	6,398
Consolidation adjustments:					
- Elimination of transactions between SOAs	(2,510)	(2,510)	-	-	-
Net income	$ 225,085	$ 192,507	$ 32,578	$ 26,180	$ 6,398

Special Operating Agencies Financing Authority

Province of Manitoba

Schedule of Summarized Results by Special Operating Agency

For the Year Ended March 31, 2011

(In Thousands)

	2011				
	Revenue	**Expense**	**Net income (loss) before the transfer**	**Transfer of funds to the Province of Manitoba**	**Net income (loss)** (Restated - Note 5 & 14)
Civil Legal Services	$ 6,579	$ 6,349	$ 230	$ 250	$ (20)
Companies Office	7,483	4,314	3,169	2,500	669
Crown Lands and Property Agency	3,873	4,579	(706)	-	(706)
Food Development Centre	6,300	4,429	1,871	-	1,871
Green Manitoba Eco Solutions	4,896	5,365	(469)	-	(469)
Industrial Technology Centre	2,948	2,693	255	-	255
Manitoba Education, Research and Learning Information Networks	5,919	6,067	(148)	-	(148)
Manitoba Securities Commission	14,250	4,069	10,181	8,800	1,381
Manitoba Text Book Bureau	7,628	7,623	5	-	5
Materials Distribution Agency	23,933	23,889	44	-	44
Office of the Fire Commissioner	11,545	11,097	448	-	448
Organization and Staff Development	2,198	2,095	103	-	103
Pineland Forest Nursery	2,448	3,070	(622)	-	(622)
The Property Registry	23,257	13,756	9,501	11,000	(1,499)
The Public Trustee	6,510	5,721	789	-	789
Vehicle and Equipment Management Agency	81,693	77,917	3,776	2,500	1,276
Vital Statistics Agency	3,669	3,466	203	380	(177)
Special Operating Agencies Financing Authority	124	118	6	-	6
Total before consolidation adjustments	215,253	186,617	28,636	25,430	3,206
Consolidation adjustments:					
- Elimination of transactions between SOAs	(1,984)	(1,984)	-	-	-
Net income	$ 213,269	$ 184,633	$ 28,636	$ 25,430	$ 3,206

Justice
Civil Legal Services SOA
Room 730 Woodsworth Building
405 Broadway
Winnipeg MB R3C 3L6

In reply, please refer to:
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Chief Operating Officer

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Civil Legal Services
An Agency of the Province of Manitoba
Special Operating Agencies Financing Authority

Management's Responsibility for Financial Reporting

The accompanying financial statements are the responsibility of management of Civil Legal Services and have been prepared in accordance with Canadian public sector accounting standards. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgments regarding all necessary estimates and all other data available as at June 8, 2012.

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 financial statements of Civil Legal Services have been audited by Magnus Chartered Accountants LLP, independent external auditors. The responsibility of the auditors is to express an independent opinion on whether the financial statements of Civil Legal Services are fairly represented, in all material respects, in accordance with Canadian public sector accounting standards. The Independent Auditors' Report outlines the scope of the audit examination and provides the audit opinion on the financial statements.

On behalf of Management of Civil Legal Services

C. Lynn Romeo
Chief Operating Officer

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 statements of financial position as at March 31, 2012, March 31, 2011, and April 1, 2010 and the statements of operations, change in net financial assets and cash flows for the years ended March 31, 2012 and March 31, 2011, 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 public sector accounting standards, 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 Civil Legal Services as at March 31, 2012, March 31, 2011 and April 1, 2010 and the results of its operations and cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Canadian public sector accounting standards.

Magnus

June 8, 2012
Winnipeg, Canada

Magnus Chartered Accountants LLP

Statement of Financial Position

(in thousands)

As at March 31, 2012, March 31, 2011, and April 1, 2010

	March 31 2012 Actual	March 31 2011 Actual (Restated - Note 4)	April 1 2010 Actual (Restated - Note 4)
Financial assets			
Cash and cash equivalents	$ 1,287	$ 1,118	$ 986
Accounts receivable (Note 6)	863	721	704
Portfolio investments	380	380	379
	2,530	2,219	2,069
Liabilities			
Accounts payable and accrued liabilities	138	105	79
Trust liability	-	-	9
Accrued vacation entitlements	576	540	500
Employee future benefits (Note 8)	1,068	975	884
	1,782	1,620	1,472
Net financial assets	748	599	597
Non-financial assets			
Tangible capital assets (Note 9)	39	60	82
	39	60	82
Accumulated surplus	$ 787	$ 659	$ 679

Designated assets (Note 10)

Commitments (Note 11)

See accompanying notes to financial statements.

Statement of Operations
(in thousands)
Years ended March 31, 2012 and 2011

	2012 Budget	2012 Actual	2011 Actual (Restated - Note 4)
Revenue:			
Recoveries	$ 6,898	$ 7,035	$ 6,562
Interest and other	11	19	17
	6,909	7,054	6,579
Expenses:			
Advertising and promotion	2	1	3
Amortization	32	28	33
Communications	42	50	39
Computer	65	53	65
Desktop management initiative	184	176	170
Government records centre	29	30	27
Law Society fees	52	64	56
Miscellaneous	10	15	12
Occupancy	218	218	243
Office	35	34	38
Postage and deliveries	15	16	14
Professional fees and services	58	66	57
Publications	40	48	45
Travel	42	20	19
Wages and benefits	5,868	5,857	5,528
	6,692	6,676	6,349
Net income before the transfer of funds to the Province of Manitoba	217	378	230
Transfer of funds to the Province of Manitoba (Note 12)	250	250	250
Net income (loss) for the year	(33)	128	(20)
Accumulated surplus, beginning of year	817	659	679
Accumulated surplus, end of year	$ 784	$ 787	$ 659

See accompanying notes to financial statements.

Statement of Change in Net Financial Assets
(in thousands)
Years ended March 31, 2012 and 2011

	2012 Budget	2012 Actual	2011 Actual (Restated - Note 4)
Net income (loss) for the year	$ (33)	$ 128	$ (20)
Tangible capital assets			
Acquisition of tangible capital assets	(47)	(7)	(11)
Amortization of tangible capital assets	32	28	33
Net acquisition of tangible capital assets	(15)	21	22
Increase (decrease) in net financial assets	(48)	149	2
Net financial assets, beginning of year	757	599	597
Net financial assets, end of year	$ 709	$ 748	$ 599

See accompanying notes to financial statements.

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

Statement of Cash Flow
(in thousands)
Years ended March 31, 2012 and 2011

	2012 Actual	2011 Actual (Restated - Note 4)
Cash provided by (applied to):		
Operating activities:		
Net income (loss) for the year	$ 128	$ (20)
Adjustment for:		
Amortization	28	33
	156	13
Changes in the following:		
Accounts receivable	(142)	(18)
Accounts payable and accrued liabilities	33	26
Trust liability	-	(9)
Accrued vacation entitlements	36	40
Employee future benefits	93	91
Net cash provided by operating activities	176	143
Capital activities:		
Acquisition of tangible capital assets	(7)	(11)
Cash applied to capital activities	(7)	(11)
Change in cash and cash equivalents	169	132
Cash and cash equivalents, beginning of year	1,118	986
Cash and cash equivalents, end of year	$ 1,287	$ 1,118

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 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. Basis of accounting

As of April 1, 2011, the Agency adopted Canadian public sector accounting (PSA) standards with a transition date of April 1, 2010. These are the Agency's first financial statements prepared in accordance with PSA standards. More details on the transition to PSA standards are provided in Note 4 to these financial statements.

The adoption of PSA standards includes the early adoption of PS 1201 Financial Statement Presentation, PS 3041 Portfolio Investments, PS 3450 Financial Instruments, and new PS 3410 Government Transfers.

3. Significant accounting policies

(a) Revenue

<u>Recoveries</u>
Revenue is recognized on an accrual basis as legal services are provided.

<u>Other revenue</u>
All other revenues are recorded on an accrual basis.

3. Significant accounting policies (continued)

(b) Expenses

Accrual accounting
All expenses incurred for goods and services are recorded on an accrual basis.

Government transfers
Government transfers are recognized as expenses in the period in which the transfers are authorized and all eligibility criteria have been met.

(c) Financial assets

Cash and cash equivalents
Cash and cash equivalents include cash on hand and short term deposits and investments with original maturities of three months or less.

Accounts receivable
Accounts receivable are recorded at the lower of cost and net realizable value. An allowance for doubtful accounts is recorded when there is uncertainty whether the amounts will be collected.

Portfolio investments
Portfolio investments are investments and deposits with original maturities of more than three months. These investments are recognized at cost.

(d) Liabilities

Liabilities are present obligations as a result of transactions and events occurring at or prior to the end of the fiscal year the settlement of which will result in the future transfer or use of assets or other form of settlement. Liabilities are recognized when there is an appropriate basis of measurement and a reasonable estimate can be made of the amount involved.

(e) Non-financial assets

Non-financial assets do not normally provide resources to discharge existing liabilities of the Agency. These assets are normally employed to provide future services.

Tangible capital assets

Tangible capital assets are recognized at cost. Cost includes the purchase price as well as other acquisition costs. The costs of tangible capital assets, less any residual value, 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)

(f) Measurement uncertainty

The preparation of financial statements in conformity with Canadian public sector accounting standards 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 amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(in thousands)

4. First-time adoption of Canadian public sector accounting standards

In previous fiscal years, the Agency classified itself as a Government Business-Type Organization (GBTO) and followed the recommendations of the Canadian Institute of Chartered Accountants (CICA) Accounting Handbook – Part V. In October 2009, the Public Sector Accounting Board (PSAB) determined that the category will cease to exist for fiscal years ending on or after January 1, 2011, and GBTOs are required to reclassify themselves in accordance with PSA standards. In accordance with recommendations of the Public Sector Accounting Handbook, the Agency has determined that it is an "other government organization" and has determined that PSA standards are the most appropriate framework for financial reporting purposes.

These new standards were required to be applied retroactively. The impacts of this change are as follows:

(a) Cash and cash equivalents

	April 1, 2010
Cash and short term deposits as per previous financial statements	$ 977
Add: trust asset reclassified per PSA standards - Note (i)	9
Cash and cash equivalents as per PSA standards	$ 986

(b) Employee future benefits

	March 31, 2011	April 1, 2010
Severance liability as per previous financial statements	$ 835	$ 744
Add: sick pay benefits recognized per PSA standards - Note (ii)	140	140
Employee future benefits as per PSA standards	$ 975	$ 884

(c) Accumulated surplus

	March 31, 2011	April 1, 2010
Equity as per previous financial statements	$ 799	$ 819
Less: sick pay benefits recognized per PSA standards - Note (ii)	140	140
Accumulated surplus as per PSA standards	$ 659	$ 679

(d) Net income

	March 31, 2011
Net income as per previous financial statements	$ 230
Less: transfer of funds to the Province of Manitoba previously shown as a reduction of retained earnings - Note (iii)	(250)
Net income as per PSA standards	$ (20)

(e) Cash flows

The adoption of PSA standards did not impact the net cash flows of the Agency. However, the adjustments made to cash and cash equivalents, employee future benefits, accumulated surplus and net income resulted in reclassifications of certain amounts presented in the statement of cash flow.

4. First-time adoption of Canadian public sector accounting standards (continued)

Notes:

(i) PSA standards require information about designated assets be disclosed in the notes to the financial statements and not be presented on the statement of financial position. This asset is to be used to discharge the trust liability outstanding as at April 1, 2010.

(ii) PSA standards require the recognition of a liability for future sick pay benefits that accumulate but do not vest. Recognition of a liability for sick pay benefit that accumulate but do not vest was not required under the previous standards.

(iii) Transfer of funds to the Province of Manitoba is presented as an expense in the statement of operations. In the previous financial statements, this transfer was presented as a reduction of retained earnings.

5. Financial instruments and financial risk management

Measurement

Financial instruments are classified into one of two measurement categories: (a) fair value; or (b) cost or amortized cost.

The Agency records its financial assets at cost, which include cash and cash equivalents, accounts receivable and portfolio investments. The Agency also records its financial liabilities at cost, which include accounts payable and accrued liabilities.

Gains and losses on financial instruments measured at fair value are recorded in accumulated surplus as re-measurement gains and losses until realized. Upon disposition of the financial instruments, the cumulative re-measurement gains and losses are reclassified to the statement of operations. Gains and losses on financial instruments measured at cost or amortized cost are recognized in the statement of operations in the period the gain or loss occurs.

The Agency did not incur any re-measurement gains and losses during the year (2011 - $nil).

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 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 and cash equivalents, accounts receivable and portfolio investments.

(in thousands)

5. Financial instruments and financial risk management (continued)

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

	2012	2011
Cash and cash equivalents	$ 1,287	$ 1,118
Accounts receivable	863	721
Portfolio Investments	380	380
	$ 2,530	$ 2,219

Cash and cash equivalents and portfolio investments: The Agency is not exposed to significant credit risk as these amounts are held by the Minister of Finance.

Accounts receivable: The Agency is not exposed to significant credit risk as the balance is due primarily from other government departments and agencies and payment in full is typically collected when it is due. The Agency manages this credit risk through close monitoring of overdue accounts.

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, 2012 was $nil (2011 - $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 its 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.

<u>Interest rate risk</u>

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 and cash equivalents and portfolio investments.

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

<u>Foreign currency risk</u>

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 a foreign currency.

(in thousands)

6. Accounts receivable

	2012	2011
Trade accounts receivable	$ 855	$ 710
Other receivables	8	11
	$ 863	$ 721

7. Working capital advances

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, 2012 (2011 - $nil).

8. Employee future benefits

	2012	2011
Severance benefits	$ 928	$ 835
Sick pay benefits	140	140
	$ 1,068	$ 975

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).

Pursuant to an agreement with the Province of Manitoba, the Agency transferred to the Province the pension liability for its employees. The Agency is required to pay to the Province an amount equal to the current pension contributions of their employees. The amount paid for 2012 was $332 (2011 - $320). Under this agreement, the Agency has no further pension liability.

Severance benefits

Effective April 1, 1998, the Agency began recording accumulated severance pay benefits for its employees. The amount of the severance pay benefit obligation 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, 2011. 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, 2012 is $928 (2011 - $835), with the actuarial loss being amortized over the 15 year expected average remaining service life of the employee group.

(in thousands)

8. Employee future benefits (continued)

Significant long-term actuarial assumptions used in the March 31, 2011 valuation, and in the determination of the March 31, 2012 present value of the accrued severance benefit obligation, were:

Annual rate of return	
inflation component	2.00%
real rate of return	4.00%
	6.00%
Assumed salary increase rates	
annual productivity increase	1.00%
annual general salary increase	2.75%
	3.75%

Sick pay benefits

The Agency provides sick leave benefits for employees that accumulate but do not vest. The accrued benefit obligation related to sick leave entitlement earned by employees is determined using a valuation model developed by an actuary. The valuation is based on employee demographics, sick leave usage and actuarial assumptions. These assumptions include a 6.00% annual return and a 3.75% annual salary increase.

9. Tangible capital assets

	2012				2011
	Opening Balance	Additions	Disposals	Closing Balance	Total
Cost					
Computer equipment and software	$ 162	$ -	$ -	$ 162	$ 162
Furniture and fixtures	274	4	-	278	274
Leasehold improvements	77	3	-	80	77
	$ 513	$ 7	$ -	$ 520	$ 513
Accumulated amortization					
Computer equipment and software	$ 141	$ 7	$ -	$ 148	$ 141
Furniture and fixtures	249	16	-	265	249
Leasehold improvements	63	5	-	68	63
Total accumulated amortization	$ 453	$ 28	$ -	$ 481	$ 453
Net book value	$ 60	$ -	$ -	$ 39	$ 60

10. Designated assets

The Agency has allocated $380 (2011 - $380) of its portfolio investments as designated assets for cash received from the Province of Manitoba for the vacation entitlements earned by employees of the Agency prior to its designation as an SOA and the severance pay benefits accumulated to March 31, 1998 for certain of their employees. This amount is held in an interest bearing account until the cash is required to discharge the related liabilities. Any unused balance is re-invested annually.

11. 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, 2013 are estimated to be $219 (2012 actual - $218).

12. Transfer of funds to the Province of Manitoba

During the year, with Lieutenant-Governor-in-Council approval by Order in Council, the Agency transferred $250 of its surplus funds to the Province of Manitoba (2011 - $250). These amounts are recorded as an expense in the statement of operations.

COMPANIES OFFICE

(An Agency of the Province of Manitoba)

Management's Responsibility for Financial Reporting

The accompanying financial statements are the responsibility of management of Companies Office and have been prepared in accordance with Canadian public sector accounting standards. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgments regarding all necessary estimates and all other data available as at June 12, 2012.

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 financial statements of Companies Office have been audited by Magnus Chartered Accountants LLP, independent external auditors. The responsibility of the auditor is to express an independent opinion on whether the financial statements of Companies Office are fairly represented, in all material respects, in accordance with Canadian public sector accounting standards. The Independent Auditors' Report outlines the scope of the audit examination and provides the audit opinion on the financial statements.

On behalf of Management of

Companies Office

Myron Pawlowsky Chief Operating Officer	David Rudy Controller

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, an agency of the Special Operating Agencies Financing Authority, Province of Manitoba, which comprise the statements of financial position as at March 31, 2012, March 31, 2011, and April 1, 2010 and the statements of operations, change in net financial assets and cash flow for the years ended March 31, 2012 and March 31, 2011, 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 public sector accounting standards, 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, 2012, March 31, 2011 and April 1, 2010 and the results of its operations and cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Canadian public sector accounting standards.

Magnus

June 12, 2012
Winnipeg, Canada

Magnus Chartered Accountants LLP

Statement of Financial Position

(in thousands)

As at March 31, 2012, March 31, 2011, and April 1, 2010

	March 31 2012 Actual	March 31 2011 Actual (Restated - Note 4)	April 1 2010 Actual (Restated - Note 4)
Financial assets			
Cash and cash equivalents	$ 5,319	$ 4,122	$ 3,182
Accounts receivable (Note 6)	348	273	370
Portfolio investments	829	821	518
	6,496	5,216	4,070
Liabilities			
Accounts payable and accrued liabilities	271	480	206
Accrued vacation entitlements	227	211	199
Employee future benefits (Note 7)	327	292	262
Borrowings from the Province of Manitoba (Note 8)	3,167	1,330	-
	3,992	2,313	667
Net financial assets	2,504	2,903	3,403
Non-financial assets			
Tangible capital assets (Note 9)	2,687	1,277	112
Prepaid expenses	35	39	35
	2,722	1,316	147
Accumulated surplus	$ 5,226	$ 4,219	$ 3,550

Designated assets (Note 10)

Commitments (Note 11)

See accompanying notes to financial statements.

Statement of Operations

(in thousands)

Years ended March 31, 2012 and 2011

	2012 Budget	2012 Actual	2011 Actual (Restated - Note 4)
Revenue:			
Fees and services	$ 6,930	$ 7,876	$ 7,463
Interest	3	38	20
	6,933	7,914	7,483
Expenses:			
Salaries and employee benefits	1,801	1,759	1,696
Operating expenses (Schedule)	3,382	2,633	2,601
Amortization of tangible capital assets	77	15	17
	5,260	4,407	4,314
Income before the transfer of funds to the Province of Manitoba	1,673	3,507	3,169
Transfer of funds to the Province of Manitoba (Note 12)	2,500	2,500	2,500
Net income for the year	(827)	1,007	669
Accumulated surplus, beginning of year	3,305	4,219	3,550
Accumulated surplus, end of year	$ 2,478	$ 5,226	$ 4,219

See accompanying notes to financial statements.

Statement of Change in Net Financial Assets
(in thousands)
Years ended March 31, 2012 and 2011

	2012 Budget	2012 Actual	2011 Actual (Restated - Note 4)
Net income for the year	$ (827)	$ 1,007	$ 669
Tangible capital assets			
Acquisition of tangible capital assets	(1,866)	(1,425)	(1,181)
Amortization of tangible capital assets	77	15	17
Net acquisition of tangible capital assets	(1,789)	(1,410)	(1,164)
Other non-financial assets			
Increase in prepaid expenses during the year	-	4	(5)
Net acquisition of other non-financial assets	-	4	(5)
Increase (decrease) in net financial assets	(2,616)	(399)	(500)
Net financial assets, beginning of year	1,838	2,903	3,403
Net (debt) financial assets, end of year	$ (778)	$ 2,504	$ 2,903

See accompanying notes to financial statements.

Statement of Cash Flow
(in thousands)
Years ended March 31, 2012 and 2011

	2012 Actual	2011 Actual (Restated - Note 4)
Cash provided by (applied to):		
Operating activities:		
Net income for the year	$ 1,007	$ 669
Adjustment for		
Amortization of tangible capital assets	15	17
	1,022	686
Changes in the following:		
Accounts receivable	(75)	96
Prepaid expenses	4	(5)
Accounts payable and accrued liabilities	(209)	275
Accrued vacation entitlements	16	12
Employee future benefits	35	30
Cash provided by operating activities	793	1,094
Capital activities:		
Capital asset additions	(1,425)	(1,181)
Cash applied to capital activities	(1,425)	(1,181)
Financing activities:		
Debt repayments to the Province of Manitoba	(133)	-
Borrowings from the Province of Manitoba	1,970	1,330
Cash provided by financing activities	1,837	1,330
Investing activities:		
Portfolio investments	(8)	(303)
Cash applied to investing activities	(8)	(303)
Change in cash and cash equivalents	1,197	940
Cash and cash equivalents, beginning of year	4,122	3,182
Cash and cash equivalents, end of year	$ 5,319	$ 4,122

See accompanying notes to financial statements.

Notes to Financial Statements
(in thousands)
Year ended March 31, 2012

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. Basis of accounting

As of April 1, 2011, the Agency adopted Canadian public sector accounting (PSA) standards with a transition date of April 1, 2010. These are the Agency's first financial statements prepared in accordance with PSA standards. More details on the transition to PSA standards are provided in Note 4 to these financial statements.

The adoption of PSA standards includes the early adoption of PS 1201 Financial Statement Presentation, PS 3041 Portfolio Investments, PS 3450 Financial Instruments, and new PS 3410 Government Transfers.

3. Significant accounting policies

(a) Revenue

<u>Fees and services</u>

Fees and services revenue is recognized when the rendering of services is complete or substantially complete.

<u>Other revenue</u>

All other revenues are recorded on an accrual basis.

(b) Expenses

<u>Accrual accounting</u>

All expenses incurred for goods and services are recognized on an accrual basis.

<u>Government transfers</u>

Government transfers are recognized as expenses in the period in which the transfers are authorized and all eligibility criteria have been met.

3. Significant accounting policies (continued)

(c) Financial assets

Cash and cash equivalents

Cash and cash equivalents include cash on hand and short term deposits and investments with original maturities of three months or less.

Accounts receivable

Accounts receivable are recorded at the lower of cost and net realizable value. An allowance for doubtful accounts is recorded when there is uncertainty whether the amounts will be collected.

Portfolio investments

Portfolio investments are deposits or investments with original maturities of greater than three months. These investments are recognized at cost.

(d) Liabilities

Liabilities are present obligations as a result of transactions and events occurring at or prior to the end of the fiscal year the settlement of which will result in the future transfer or use of assets or other form of settlement. Liabilities are recognized when there is an appropriate basis of measurement and a reasonable estimate can be made of the amount involved.

(e) Non-financial assets

Non-financial assets do not normally provide resources to discharge existing liabilities of the Agency. These amounts are normally employed to provide future services.

Tangible capital assets

Tangible capital assets are recognized at cost. Cost includes the purchase price as well as other acquisition costs. The costs of tangible capital assets, less any residual value, are amortized over their 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)
System development costs	15 years straight line

Prepaid expenses

Prepaid expenses are payments for goods or services that will provide economic benefit in future periods. The prepaid amount is recognized as an expense in the year that the goods or services are consumed.

(in thousands)

3. Significant accounting policies (continued)

(f) Measurement uncertainty

The preparation of financial statements in conformity with Canadian public sector accounting standards 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 amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. First-time adoption of Public Sector Accounting Standards

In previous fiscal years, the Agency classified itself as a Government Business-Type Organization (GBTO) and followed the recommendations of the Canadian Institute of Chartered Accountants Accounting Handbook – Part V. In October 2009, the Public Sector Accounting Board (PSAB) determined that the category would cease to exist for fiscal years ending on or after January 1, 2011, and that GBTOs are required to reclassify themselves in accordance with Public Sector Accounting (PSA) standards. In accordance with recommendations of the Public Sector Accounting Handbook, the Agency has determined that it is an "other government organization" and has determined that PSA standards are the most appropriate framework for financial reporting purposes.

These new standards are required to be applied retroactively. The impacts of this change are as follows:

(a) Cash and cash equivalents	March 31, 2011	April 1, 2010
Cash and short term deposits as per previous financial statements	$ 4,725	$ 3,482
Less: amounts reclassified from short term deposits to portfolio investments	(603)	(300)
Cash and cash equivalents as per PSA standards	$ 4,122	$ 3,182

(b) Portfolio investments	March 31, 2011	April 1, 2010
Portfolio investments as per previous financial statements	$ -	$ -
Add: amounts reclassified from short term deposits to portfolio investments	603	300
Add: amounts reclassified from long term investment to portfolio investments	218	218
Portfolio investments as per PSA standards	$ 821	$ 518

(c) Employee future benefits	March 31, 2011	April 1, 2010
Severance liability as per previous financial statements	$ 251	$ 221
Add: sick pay benefits recognized per PSA standards - Note (i)	41	41
Employee future benefits as per PSA standards	$ 292	$ 262

(in thousands)

4. First-time adoption of Public Sector Accounting Standards (continued)

(d) Tangible capital assets

	March 31, 2011	April 1, 2010
Capital assets as per previous financial statements	$ 37	$ 50
Intangible capital assets reclassified to tangible capital assets	1,240	62
Tangible capital assets as per PSA standards	$ 1,277	$ 112

(e) Accumulated surplus

	March 31, 2011	April 1, 2010
Equity as per previous financial statements	$ 4,260	$ 3,591
Less: sick pay benefits recognized per PSA standards - Note (i)	41	41
Accumulated surplus as per PSA standards	$ 4,219	$ 3,550

(f) Net income

	March 31, 2011
Net income as per previous financial statements	$ 3,169
Less: transfer of funds to the Province of Manitoba previously shown as a reduction of retained earnings - Note (ii)	(2,500)
Net income as per PSA standards	$ 669

(g) Cash flows

The adoption of PSA standards did not impact the net cash flows of the Agency. However, the adjustments made to cash and cash equivalents, portfolio investments, employee future benefits, tangible capital assets, accumulated surplus and and net income resulted in reclassifications to certain amounts presented in the statement of cash flow.

Notes:

(i) PSA standards require the recognition of a liability for future sick pay benefits that accumulate but do not vest. Recognition of a liability for sick pay benefit that accumulate but do not vest was not required under the previous standards.

(ii) Transfer of funds to the Province of Manitoba is presented as an expense in the statement of operations. In the previous financial statements, this transfer was presented as a reduction of retained earnings.

5. Financial instruments and financial risk management

Measurement

Financial instruments are classified into one of two measurement categories: (a) fair value; or (b) cost or amortized cost.

The Agency's records its financial assets at cost. Financial assets include cash and cash equivalents, accounts receivable and portfolio investments. The Agency also records its financial liabilities at cost. Financial liabilities include accounts payable and accrued liabilities and borrowings.

(in thousands)

5. Financial instruments and financial risk management (continued)

Gains and losses on financial instruments measured at fair value are recorded in accumulated surplus as re-measurement gains and losses until realized. Upon disposition of the financial instruments, the cumulative re-measurement gains and losses are reclassified to the statement of operations. Gains and losses on financial instruments measured at cost or amortized cost are recognized in the statement of operations in the period the gain or loss occurs.

The Agency did not incur any re-measurement gains and losses during the year (2011 - $nil).

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 rate risk; and foreign currency risk.

Credit risk

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

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 cash equivalents, accounts receivable and portfolio investments.

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

	2012	2011
Cash and cash equivalents	$ 5,319	$ 4,122
Accounts receivable	348	273
Portfolio investments	829	821
	$ 6,496	$ 5,216

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

Accounts receivable: The Agency is not exposed to significant credit risk as the balance of the accounts receivable is due from a large client base and payment in full is typically collected when it is due. The Agency manages this credit risk through close monitoring of any overdue accounts.

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, 2012 was $nil (2011 - $nil).

5. Financial instruments and financial risk management (continued)

Liquidity risk

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

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

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 and cash equivalents and portfolio investments.

The interest rate risk on cash and cash equivalents is considered to be low due to their short-term nature. The interest rate risk on portfolio investments is considered low as the original deposits are reinvested at rates for investments with similar terms and conditions.

The Agency manages its interest rate risk on borrowings through the exclusive use of fixed rate terms for its borrowings.

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 a foreign currency.

6. Accounts receivable

	2012	2011
Trade accounts receivable	$ 43	$ 43
Accrued revenue	305	230
	$ 348	$ 273

(in thousands)

7. Employee future benefits

	2012	2011
Severance benefits	$ 286	$ 251
Sick pay benefits	41	41
	$ 327	$ 292

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 Agency, 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 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 2012 was $95 (2011 - $91). Under this agreement, the Agency has no further pension liability.

Severance benefits

Effective April 1, 1998, the Agency began recording accumulated severance pay benefits for its employees. The amount of the severance benefit obligation 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 liabillity as of March 31, 2011. 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, 2012 was $286 (2011 - $251) 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, 2011 valuation, and in the determination of the March 31, 2012 present value of the accrued severance benefit obligation, were:

Annual rate of return	
inflation component	2.00%
real rate of return	4.00%
	6.00%

Assumed salary increase rates	
annual productivity increase	1.00%
annual general salary increase	2.75%
	3.75%

(in thousands)

7. Employee future benefits (continued)

Sick pay benefits

The Financing Authority provides sick leave benefits for employees that accumulate but do not vest. The accrued benefit obligation related to sick leave entitlement earned by employees is determined using a valuation model developed by an actuary. The valuation is based on employee demographics, sick leave usage and actuarial assumptions. These assumptions include a 6.00% annual return and a 3.75% annual salary increase.

8. Borrowings from the Province of Manitoba

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 the Agency.

Borrowings obtained through the use of available Loan Act Authority are repayable in quarterly instalments of principal and interest as follows:

	2012	2011
4.0% repayable in quarterly instalments of $33 principal plus interest, maturing in 2021	$ 1,197	$ 1,330
3.0% repayable in quarterly instalments of $49 principal plus interest, maturing in 2022	1,970	-
	$ 3,167	$ 1,330

Interest is measured using the effective interest method. Principal repayments in each of the next five years are as follows:

2013	$ 330
2014	330
2015	330
2016	330
2017	330

(in thousands)

9. Tangible capital assets

	2012				2011
	Opening Balance	Additions	Disposals	Closing Balance	Total
Cost					
Computer equipment and software	$ 107	$ 4	$ -	$ 111	$ 107
Office equipment	16	-	-	16	16
Furniture and fixtures	136	-	-	136	136
Leasehold improvements	40	-	-	40	40
System development	1,240	1,421	-	2,661	1,240
	$ 1,539	$ 1,425	$ -	$ 2,964	$ 1,539
Accumulated amortization					
Computer equipment and software	85	9	-	94	85
Office equipment	16	-	-	16	16
Furniture and fixtures	121	6	-	127	121
Leasehold improvements	40	-	-	40	40
Total accumulated amortization	$ 262	$ 15	$ -	$ 277	$ 262
Net book value	$ 1,277	$ 1,410	$ -	$ 2,687	$ 1,277

During the year, system development costs were capitalized in the amount of $1,422 (2011 - $1,178). Amortization will commence when construction is complete and the system is available for use.

10. Designated assets

The Agency has allocated $218 (2011 - $218) of its portfolio investments as designated assets for cash received from the Province of Manitoba for the vacation entitlements earned by employees of the Agency prior to its designation as an SOA and the severance pay benefits accumulated to March 31, 1998 for certain of the Agency’s employees. This amount is held in an interest bearing account until the cash is required to discharge the related liabilities. Any unused balance is re-invested annually.

11. Commitments

Lease commitment

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, 2013 are estimated to be $122 (2012 actual - $124).

Other

As at March 31, 2012, the Agency has committed to paying a total of $50 relating to the new system development costs. These amounts were paid by the Agency subsequent to year end in accordance with the underlying contract.

12. Transfer of funds to the Province of Manitoba

During the year, with Lieutenant-Governor-in-Council approval by Order in Council, the Agency transferred $2,500 (2011 - $2,500) of its surplus funds to the Province of Manitoba. These amounts are recorded as an expense in the statement of operations.

Schedule of Operating expenses
(in thousands)
Year ended March 31, 2012

	2012	2011
Accounting	$ 20	$ 11
Audit	6	7
Bad debts	3	1
Bank charges	49	52
Communications	28	30
Computer	147	122
Department services	36	36
Desktop	103	98
Electronic storage	76	84
Equipment maintenance and rentals	3	6
Insurance	14	12
Interest on borrowings	51	4
Legal services	15	6
Manitoba Business Links	308	281
Miscellaneous	33	32
Name search application	173	159
New system costs	1,000	1,041
Notaries	131	129
Office rent	124	135
Payroll processing	20	20
POS Licence Fees	-	85
Postal and courier	53	54
Programmers	164	116
Stationery	72	74
Transportation	4	6
	$ 2,633	$ 2,601

Management's Responsibility for Financial Reporting

The Crown Lands and Property Agency's (the Agency) management is responsible for preparing the financial statements and other financial information in the Annual Report. This responsibility includes maintaining the integrity and objectivity of financial data and the presentation of the Agency's financial position and results of operations and its cash flows in accordance with Canadian generally accepted accounting principles. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data available through June , 2012.

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,

Mr. Normand LeNeal, Financial Officer

Ms Grace DeLong, Chief Operating Officer

Portage la Prairie, MB

EXG

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 statement of financial position as at March 31, 2012 and the statements of loss, change in net debt 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 as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants, 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 Crown Lands and Property Agency, An Agency of the Special Operating Agencies Financing Authority Province of Manitoba, as at March 31, 2012, and the results of its operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

The Exchange

chartered accountants, LLP
Winnipeg, Manitoba
July 12, 2012

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CROWN LANDS AND PROPERTY AGENCY

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

Statement of Financial Position

March 31, 2012

(In thousands)

	March 31, 2012	March 31, 2011	April 1, 2010
FINANCIAL ASSETS			
Accounts receivable *(Note 6)*	$ **646**	$ **518**	$ 1,019
Severance pay benefits, vacation pay and banked time cash in trust *(Note 8)*	**670**	**670**	670
Assets held in trust *(Notes 5, 9)*	**3**	**3**	3
	1,319	**1,191**	1,692
LIABILITIES			
Working capital advance, net of cash *(Note 10)*	**3,766**	**3,199**	3,362
Accounts payable and accrued liabilities *(Note 11)*	**704**	**919**	540
Client held funds	**686**	**550**	580
Trust fund liability *(Note 9)*	**3**	**3**	3
Severance pay liability *(Note 12)*	**396**	**322**	342
	5,555	**4,993**	4,827
NET DEBT	**(4,236)**	**(3,802)**	(3,135)
NON-FINANCIAL ASSETS			
Prepaid expenses	**63**	**45**	45
Tangible Capital assets *(Notes 3, 7)*	**212**	**149**	188
	275	**194**	233
ACCUMULATED DEFICIT	$ **(3,961)**	$ **(3,608)**	$ (2,902)

LEASE COMMITMENTS *(Note 14)*

ON BEHALF OF CHIEF AND COUNCIL

_______________________________ *Chief*

_______________________________ *Councillor*

CROWN LANDS AND PROPERTY AGENCY

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

Statement of Loss

Year Ended March 31, 2012

	Budget 2012	**2012**	2011
REVENUE	$ 5,199	**$ 4,608**	$ 3,873
EXPENSES			
Advertising	10	**13**	10
Amortization	98	**67**	92
Bad debts (recovery)	-	**(26)**	78
Computer maintenance costs	525	**129**	126
Contributed services	993	**649**	401
Desktop operating lease	199	**192**	180
Insurance	3	**3**	3
Interest on working capital advance	130	**81**	52
Meals and accommodations	5	**7**	6
Office	180	**202**	174
Professional fees	237	**235**	225
Relocation expense	2	**1**	7
Rental	256	**251**	269
Salaries and wages	3,442	**3,089**	2,914
Training	52	**33**	17
Travel	40	**35**	25
	6,172	**4,961**	4,579
ANNUAL DEFICIT	(973)	**(353)**	(706)
ACCUMULATED DEFICIT - BEGINNING OF YEAR	(4,032)	**(3,608)**	(2,902)
ACCUMULATED DEFICIT - END OF YEAR	$ (5,006)	**$ (3,961)**	$ (3,608)

CROWN LANDS AND PROPERTY AGENCY

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

Statement of Change in Net Debt

Year Ended March 31, 2012

	Budget 2012	**2012**	2011
Annual Deficit	$ (973)	**$ (353)**	$ (706)
Purchase of tangible capital assets	(17)	**(132)**	(53)
Amortization of tangible capital assets	-	**67**	92
Increase in prepaid expenses	(375)	**(16)**	-
INCREASE IN NET DEBT	(1,365)	**(434)**	(667)
UNADJUSTED NET DEBT - BEGINNING OF YEAR	(4,362)	**(3,745)**	(3,078)
PRIOR PERIOD ADJUSTMENT (Note 15)	-	**(57)**	(57)
ADJUSTED NET DEBT - BEGINNING OF YEAR	(4,362)	**(3,802)**	(3,135)
NET DEBT - END OF YEAR	$ (5,727)	**$ (4,236)**	$ (3,802)

CROWN LANDS AND PROPERTY AGENCY

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

Statement of Cash Flow

Year Ended March 31, 2012

(In thousands)

		2012		2011
OPERATING ACTIVITIES				
Cash receipts from customers	$	4,506	$	4,296
Cash paid to suppliers and employees		(5,070)		(3,976)
Interest paid		(80)		(52)
Increase (decrease) in client funds held		136		(30)
Increase (decrease) in severance pay liability		73		(20)
Cash flow from (used by) operating activities		(435)		218
INVESTING ACTIVITY				
Purchase of tangible capital assets		(132)		(55)
INCREASE (DECREASE) IN CASH		(567)		163
WORKING CAPITAL ADVANCE, NET OF CASH - BEGINNING OF YEAR		(3,199)		(3,362)
WORKING CAPITAL ADVANCE, NET OF CASH - END OF YEAR	$	(3,766)	$	(3,199)

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. BASIS OF ACCOUNTING

The financial statements of the Agency have been prepared in accordance with Canadian generally accepted accounting principles as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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)

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

Non-financial assets

Non-financial assets do not normally provide resources to discharge liabilities of the Agency. These assets are normally employed to provide future services.

1. Prepaid expenses

Prepaid expenses are payments for goods or services that will provide economic benefit in future periods. The prepaid amount is recognized as an expense in the year that the goods or services are consumed.

2. Tangible capital assets

Tangible capital assets are recognized at cost. Cost includes the purchase price as well as other acquisition costs such as freight charges, transportation, insurance costs and duties. Modifications or additions to the original asset are capitalized and recognized at cost.

The values of tangible capital assets are written down when conditions indicate that the values of the future economic benefits associated with the tangible capital assets are less than their book values.

The costs of tangible capital assets, less their estimated residual values, are amortized over their useful lives in the following manner:

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

4. FIRST-TIME ADOPTION OF PUBLIC SECTOR ACCOUNTING STANDARDS

In previous fiscal years, the Agency classified itself as a Government Business-Type Organization (GBTO) and followed the recommendations of the Canadian Institute of Chartered Accountants Accounting Handbook - Part V. In October 2009, the Public Sector Accounting Board (PSAB) determined that the category will cease to exist for fiscal years ending on or after January 1, 2011, and that GBTOs are required to reclassify themselves in accordance with Public Sector Accounting (PSA) Standards. In accordance with recommendations of the Public Sector Accounting Handbook, the Agency has determined that it is an "other government organization" and has determined that PSA Standards are the most appropriate framework for reporting purposes.

These new standards are required to be applied retroactively. There were no material impacts on the assets or liabilities of the Agency as a result of this change in standards in the current or prior periods. Net income for the year ended March 31, 2011, was not impacted.

(In thousands)

5. FINANCIAL INSTRUMENTS

Measurement

Financial instruments are classified into one of the two measurement categories: (a) fair value; or (b) cost or amortized cost.

The Agency records its financial assets at cost or amortized cost. Financial assets include cash and cash equivalents, accounts receivable and portfolio investments. The Agency also records its financial liabilities at cost. Financial liabilities include working capital advances, accounts payable and accrued liabilities, and borrowings.

Gains and losses on financial instruments measured at fair value are recorded in accumulated surplus as remeasurement gains and losses until realized. Upon disposition of the financial instruments, the cumulative remeasurement gains and losses are reclassified to the statement of operations. Gains and losses on financial instruments measured at cost or amortized cost are recognized in the statement of operations in the period the gain or loss occurs.

The Agency did not incur any re-measurement gains and losses during the year ended March 31, 2012 (2011 - $nil).

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, 2012 is:

	2012	2011
Accounts receivable	**$ 646**	$ 518

Cash and cash equivalents, and portfolio investments: The Agency is not exposed to significant credit risk as these amounts are primarily held by the Province of Manitoba.

Receivables: The Agency is not exposed to significant credit risk since the receivables are from a large client base. An allowance for doubtful accounts of $239.00 was recorded as of March 21, 2012.

(continues)

5. FINANCIAL INSTRUMENTS *(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 balancing its cash flow requirements with draw downs from its available working capital advances and its other borrowings from the Province of Manitoba. Regular determinations of the Agency's working capital advances limit and its other 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 income from operations 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 cash, cash equivalents, portfolio investments, working capital advances, and to other borrowings.

The interest rate risk on cash, cash equivalents and working capital advances is considered to be low because of their short term nature. The interest rate risk on portfolio investments is considered low as the original deposits are reinvested at rates for investments with similar terms and conditions.

The Agency manages its interest rate risk on long term borrowings through the exclusive use of fixed rate terms on each amount borrowed.

6. ACCOUNTS RECEIVABLE

	2012	2011
Accounts receivable	**$ 885**	$ 769
Allowance for doubtful accounts	**(239)**	(251)
	$ 646	$ 518

(In thousands)

7. TANGIBLE CAPITAL ASSETS

	2012		2011	
	Cost	**Accumulated amortization**	Cost	Accumulated amortization
Equipment	**$ 84**	**$ 56**	$ 57	$ 46
Computer equipment	**258**	**190**	208	170
Computer software	**134**	**112**	127	96
Furniture and fixtures	**144**	**50**	97	28
	$ 620	**$ 408**	$ 489	$ 340
Net book value	**$ 212**		$ 149	

8. 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.

9. 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.

10. WORKING CAPITAL ADVANCE

The Agency has an authorized line of working capital from the Province of Manitoba of $8,000 of which $3,981 was used as at March 31, 2012 (2011 - $3,334). The advance is unsecured, and interest is charged at Prime less 1% on the daily balance.

(In thousands)

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		2012		2011
Trade accounts payable	**$**	**241**	$	506
Accrued wages, vacation pay and banked time		**406**		354
Sick pay leave obligation		**57**		57
Goods and services tax		**-**		2
	$	**704**	$	919

12. 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.

13. 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:

			2012		2011
Bannerman, Gillian	Administration Officer	**$**	**50**	$	50
Bernat, Leonard	Property Appraiser		**59**		65
Burley, Ronald	Property Appraiser		**59**		62
Charles, Jack	Administration Officer		**52**		-
Delong, Grace	Administration Officer		**54**		52
Dyck, Garry	Acquisition Officer		**61**		58
Dzogan, Ken	Acquisition Manager		**71**		68
Kent, Rodney	Administration Officer		**62**		62
Kopytko, Wanda	Administration Officer		**61**		58
Krakowka, Larry	Property Sales Administrator		**-**		54
Kubasiewicz, Michael	Senior Manager		**99**		99
Le Neal, Normand	Financial Officer		**72**		96
McMullan, Bernie	Property Appraiser		**76**		77
Millar, Scott	Property Appraiser		**78**		78
Penner, Mary Ann	Appraisal and Acquisition Officer		**59**		59
Pieterse, Debra	Property Appraiser		**67**		67
Pishak, Calvin	Information Technologist		**69**		69
Wallcraft, Brian	Information Technologist		**60**		58

(In thousands)

14. 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 remaining four years of the lease agreements are as follows:

2013	$	10
2014		10
2015		10
2016		9
	$	39

15. PRIOR PERIOD ADJUSTMENT

At the recommendation of the Province of Manitoba, the Agency recognized a liability for sick pay benefit obligations that accumulate but do not vest. Based on the Province's actuarial valuation of the Agency's sick pay benefits obligation, the amount that should be recorded as a liability was determined to be $57. As a result, the opening net deficit for the year ended March 31, 2011 was decreased by $57 in order to record the sick pay benefit obligation.

The opening net deficit for the year ended March 31, 2012 was decreased by $57 to reflect the recording of the sick pay liability.

16. COMPARATIVE FIGURES

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

17. PENSION BENEFITS

Employees of Crown Lands and Property Agency (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. The CSSA established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service Superannuation Fund.

The pension liability related to the CSSA's defined benefit plan is included in the Province of Manitoba's financial statements. Accordingly, no provision is required in the Agency's financial statements relating to the effects of participation in the plan by the Agency and its employees.

The Agency is regularly required to pay to the Province an amount equal to the current pension contributions paid by its employees.

FOOD DEVELOPMENT CENTRE

(An Agency of the Province of Manitoba)

Management's Responsibility for Financial Reporting

The accompanying financial statements are the responsibility of management of Food Development Centre and have been prepared in accordance with Canadian public sector accounting standards. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgments regarding all necessary estimates and all other data available as at June 26, 2012.

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 financial statements of Food Development Centre have been audited by Magnus Chartered Accountants LLP, independent external auditors. The responsibility of the auditor is to express an independent opinion on whether the financial statements of Food Development Centre are fairly represented, in all material respects, in accordance with Canadian public sector accounting standards. The Independent Auditors' Report outlines the scope of the audit examination and provides the audit opinion on the financial statements.

On behalf of Management of

Food Development Centre

Lynda Lowry
Chief Operating Officer/General Manager

Mike Lalla
Manager of Support Services

INDEPENDENT AUDITORS' REPORT

To the Special Operating Agencies Financing Authority of
Food Development Centre

Report on the Financial Statements

We have audited the accompanying financial statements of Food Development Centre, a centre of the Special Operating Agencies Financing Authority, Province of Manitoba, which comprise the statements of financial position as at March 31, 2012, March 31, 2011, and April 1, 2010 and the statements of operations, change in net financial assets (debt) and cash flow for the years ended March 31, 2012 and March 31, 2011, 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 public sector accounting standards, 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 Food Development Centre as at March 31, 2012, March 31, 2011 and April 1, 2010 and the results of its operations and cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Canadian public sector accounting standards.

Magnus

June 26, 2012
Winnipeg, Canada

Magnus Chartered Accountants LLP

FOOD DEVELOPMENT CENTRE
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

Statement of Financial Position

(in thousands)

March 31, 2012, March 31, 2011, and April 1, 2010

	March 31, 2012 Actual	March 31, 2011 Actual (Restated - Note 4)	April 1, 2010 Actual (Restated - Note 4)
Financial assets			
Cash and cash equivalents (Note 6)	$ 1,440	$ 656	$ 1,223
Accounts receivable (Note 7)	297	2,832	1,980
Portfolio investments	41	41	41
	1,778	3,529	3,244
Liabilities			
Accounts payable and accrued liabilities	615	903	478
Deferred revenue	41	(213)	26
Accrued vacation entitlements	140	136	133
Employee future benefits (Note 9)	219	193	173
Borrowings from the Province of Manitoba (Note 10)	2,406	1,699	1,892
	3,421	2,718	2,702
Net (debt) financial assets	(1,643)	811	542
Non-financial assets			
Tangible capital assets (Note 11)	15,371	12,022	10,315
Prepaid expenses	59	60	165
Inventories of supplies	7	7	7
	15,437	12,089	10,487
Accumulated surplus (Note 12)	$ 13,794	$ 12,900	$ 11,029

Designated assets (Note 13)

See accompanying notes to financial statements.

Statement of Operations

(in thousands)

Years ended March 31, 2012 and 2011

	2012 Budget (Restated - Note 4)	2012 Actual	2011 Actual (Restated - Note 4)
Revenue:			
Grants:			
Province of Manitoba	$ 2,245	$ 2,245	$ 2,245
Federal Government	1,060	1,060	2,387
Other	193	193	193
Total grants	3,498	3,498	4,825
Fee for service	684	645	585
Lease income	131	100	40
Investment income	5	22	49
Administration fees (Note 14)	841	851	801
	5,159	5,116	6,300
Expenses:			
Salaries and benefits	2,068	2,040	2,017
Lab supplies	95	108	78
Purchased services	234	200	220
Transportation	51	50	55
Marketing	48	37	32
Library	43	8	11
Amortization of tangible capital assets	820	822	789
Provision for tangible capital asset impairments/writedowns	-	-	363
Occupancy expenses	253	248	230
Other operating expenses (Schedule 1)	1,118	709	634
	4,730	4,222	4,429
Net income for the year	429	894	1,871
Accumulated surplus, beginning of year	14,824	12,900	11,029
Accumulated surplus, end of year	$ 15,253	$ 13,794	$ 12,900

See accompanying notes to financial statements.

Statement of Change in Net Financial Assets (Debt)

(in thousands)

Years ended March 31, 2012 and 2011

	2012 Budget (Restated - Note 4)	2012 Actual	2011 Actual (Restated - Note 4)
Net income for the year	$ 429	$ 894	$ 1,871
Tangible capital assets			
Acquisition of tangible capital assets	(4,000)	(4,181)	(2,858)
Disposals or write-downs of tangible capital assets	-	10	363
Amortization of tangible capital assets	820	822	789
Net acquisition of tangible capital assets	(3,180)	(3,349)	(1,706)
Other non-financial assets			
Increase in prepaid expenses during the year	-	1	104
Net acquisition of other non-financial assets	-	1	104
(Decrease) increase in net (debt) financial assets	(2,751)	(2,454)	269
Net (debt) financial assets, beginning of year	(432)	811	542
Net (debt) financial assets, end of year	$ (3,183)	$ (1,643)	$ 811

See accompanying notes to financial statements.

Statement of Cash Flow

(in thousands)

Years ended March 31, 2012 and 2011

	2012 Actual	2011 Actual (Restated - Note 4)
Cash provided by (applied to):		
Operating activities:		
Net income for the year	$ 894	$ 1,871
Adjustment for:		
Amortization of tangible capital assets	822	789
	1,716	2,660
Changes in the following:		
Accounts receivable	2,536	(851)
Accounts payable and accrued liabilities	(288)	175
Accrued vacation entitlements	4	3
Deferred revenue	254	11
Severance liability	26	20
Prepaid expenses	1	104
Cash provided by operating activities	4,249	2,122
Capital activities:		
Acquisition of tangible capital assets	(4,181)	(2,495)
Proceeds on disposal of tangible capital assets	10	-
Cash applied to capital activities	(4,171)	(2,495)
Financing activities:		
Repayment of borrowings from the Province of Manitoba	(194)	(194)
Additional borrowings from the Province of Manitoba	900	-
Cash provided by financing activites	706	(194)
Change in cash and cash equivalents	784	(567)
Cash and cash equivalents, beginning of year	656	1,223
Cash and cash equivalents, end of year	$ 1,440	$ 656

See accompanying notes to financial statements.

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 including food product development, research, testing and assistance with technology transfer to enable the industry to efficiently and economically produce high quality foods.

Effective April 1, 1996, the Centre 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 Centre 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 Centre's operations. It finances the Centre through repayable loans and working capital advances. The financial framework enables the Centre 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 Centre at that time, assigned responsibility to the Centre to manage and account for the Centre related assets and operations on behalf of the Financing Authority.

The Centre 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 on 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. Basis of accounting

As of April 1, 2011, the Centre adopted Canadian public sector accounting (PSA) standards with a transition date of April 1, 2010. These are the Centre's first financial statements prepared in accordance with PSA standards. More details on the transition to PSA standards are provided in Note 4 to these financial statements.

The adoption of PSA standards includes the early adoption of PS 1201 Financial Statement Presentation, PS 3041 Portfolio Investments, PS 3450 Financial Instruments, and new PS 3410 Government Transfers.

3. Significant accounting policies

(a) Revenue

<u>Government transfers</u>

Government transfers without eligibility criteria or stipulations are recognized as revenue when the transfer is authorized.

Government transfers with eligibility criteria but without stipulations are recognized as revenue when the transfer is authorized and all eligibility criteria have been met.

3. Significant accounting policies (continued)

Government transfers with or without eligibility criteria but with stipulations are recognized as revenue in the period the transfer is authorized and all eligibility criteria have been met, except when and to the extent that the transfer gives rise to a liability.

Fee for service

Fee for service revenue is recognized when the services provided are complete or substantially complete.

Lease income

Lease income is recognized according to the terms of the underlying lease agreement(s).

Administration fees

Administration fees are recognized in accordance with the terms and conditions of the underlying agreement(s).

Other revenue

All other revenues are recorded on an accrual basis.

(b) Expenses

All expenses incurred for goods and services are recorded on an accrual basis.

(c) Financial assets

Cash and cash equivalents
Cash and cash equivalents include cash on hand and short term deposits and investments with original maturities of three months or less.

Accounts receivable
Accounts receivable are recorded at the lower of cost and net realizable value. An allowance for doubtful accounts is recorded when there is uncertainty whether the amounts will be collected.

Portfolio investments
Portfolio investments are investments and deposists with original maturities of more than three months. These investments are recognized at cost.

(d) Liabilities

Liabilities are present obligations as a result of transactions and events occurring at or prior to the end of the fiscal year the settlement of which will result in the future transfer or use of assets or other form of settlement. Liabilities are recognized when there is an appropriate basis of measurement and a reasonable estimate can be made of the amount involved.

(e) Non-financial assets

Non-financial assets do not normally provide resources to discharge existing liabilities of the Centre. These assets are normally employed to provide future services.

(in thousands)

3. Significant accounting policies (continued)

Prepaid expenses

Prepaid expenses are payments for goods or services which will provide economic benefit in future periods. The prepaid amount is recognized as an expense in the year the goods or services are consumed.

Tangible capital assets

Tangible capital assets are recognized at cost. Cost includes the purchase price as well as other acquisition costs. The costs of tangible capital assets, less any residual value, are amortized over their estimated useful lives as follows:

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

(f) Measurement uncertainty

The preparation of financial statements in conformity with Canadian public sector accounting standards 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 amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. First-time adoption of public sector accounting standards

In previous fiscal years, the Centre classified itself as a Government Business-Type Organization (GBTO) and followed the recommendations of the Canadian Institute of Chartered Accountants (CICA) Accounting Handbook – Part V. In October 2009, the Public Sector Accounting Board (PSAB) determined that the category will cease to exist for fiscal years ending on or after January 1, 2011, and GBTOs are required to reclassify themselves in accordance with Public Sector Accounting (PSA) standards. In accordance with recommendations of the Public Sector Accounting Handbook, the Centre has determined that it is an “other government organization” and has determined that PSA standards are the most appropriate framework for financial reporting purposes.

These new standards were required to be applied retroactively. The impacts of this change are as follows:

(a) Portfolio investments	March 31, 2011	April 1, 2010
Portfolio investments as per previous financial statements	$ -	$ -
Add: amounts reclassified from severance pay benefits cash in trust - Note (i)	41	41
Portfolio investments as per PSA standards	$ 41	$ 41

(in thousands)

4. First-time adoption of public sector accounting standards (continued)

(b) Employee future benefits

	March 31, 2011	April 1, 2010
Severance liability as per previous financial statements	$ 152	$ 132
Add: sick pay benefits recognized per PSA standards - Note (ii)	41	41
Employee future benefits as per PSA standards	$ 193	$ 173

(c) Borrowings from the Province of Manitoba

	March 31, 2011	April 1, 2010
Long term debt as per previous financial statements	$ 106	124
Add: current portion of long term debt per previous financial statements	18	18
Add: amounts reclassified from deferred contributions - Note (iii)	1,575	1,750
Borrowings as per PSA standards	$ 1,699	$ 1,892

(d) Accumulated surplus

	March 31, 2011	April 1, 2010
Equity as per previous financial statements	$ 393	$ 81
Less: sick pay benefits recognized per PSA standards - Note (ii)	(41)	(41)
Add: expansion reserve per previous financial statements - Note (iv)	470	330
Add: government transfers previously deferred - Note (v)	12,078	10,659
Accumulated surplus as per PSA standards	$ 12,900	$ 11,029

(e) Net income

	March 31, 2011
Net income as per previous financial statements	$ 452
Less: asset write-down previously recorded in deferred contributions per previous financial statements	(363)
Add: government transfers previously deferred - Note (iv)	1,782
Net income as per PSA standards	$ 1,871

(f) Cash flows

The adoption of PSA standards did not impact the net cash flows of the Centre. However, the adjustments made to portfolio investments, employee future benefits, borrowings from the Province of Manitoba, accumulated surplus and net income resulted in minor reclassifications of certain amounts presented in the statement of cash flow.

(g) Budget

Certain of the budget amounts included in the 2011/12 Business Plan have been restated to conform to PSA standards. Reconciliations of these restated budget amounts have not been included in the financial statements due to these reconciliations not considered to be material to the users of the financial statements.

4. First-time adoption of public sector accounting standards (continued)

Notes:

(i) PSA Standards require information about designated assets to be disclosed in the notes, and not on the statement of financial position. Therefore, designated assets previously classified as “severance pay benefits cash in trust" are reclassified to portfolio investments on the statement of financial position, with the information disclosed in Note 13.

(ii) PSA standards require the recognition of a liability for sick pay benefits that accumulate but do not vest. Under the previous accounting standards, the Agency was not required to accrue a liability for sick pay benefits that accumulated but did not vest.

(iii) Included in total deferred contributions per the previous financial statements was a loan from the Province of Manitoba that remains eligible for recognition under PSA standards; the remaining balance in deferred contributions was adjusted to opening accumulated surplus - see Note (v) below.

(iv) PSA standards require that information about reserves not be included on the statement of financial position but disclosed in the notes to the financial statements (see Note 12 to these financial statements). Also, any expenses previously recorded in a reserve fund are now reflected in the statement of operations per PSA standards.

(v) Government assistance towards the acquisition of tangible capital assets was previously deferred and amortized over the life of the related asset. Under PSA standards, government transfers are recognized as revenue when the transfers are authorized and any eligibility criteria are met, to the extent the transfers have any stipulations that give rise to a liability.

5. Financial instruments and financial risk management

Measurement

Financial instruments are classified into one of two measurement categories: (a) fair value; or (b) cost or amortized cost.

The Centre records its financial assets at cost, which include cash and cash equivalents, accounts receivable and portfolio investments. The Centre also records its financial liabilities at cost, which include accounts payable and accrued liabilities and borrowings.

Gains and losses on financial instruments measured at fair value are recorded in accumulated surplus as re-measurement gains and losses until realized. Upon disposition of the financial instruments, the cumulative re-measurement gains and losses are reclassified to the consolidated statement of operations. Gains and losses on financial instruments measured at cost or amortized cost are recognized in the consolidated statement of operations in the period the gain or loss occurs.

The Centre did not incur any re-measurement gains and losses during the year (2011 - $nil).

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.

(in thousands)

5. 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, temporary investments and accounts receivable.

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

	2012	2011
Cash and cash equivalents	$ 1,440	$ 656
Accounts receivable	297	2,832
Portfolio Investments	41	41
	$ 1,778	$ 3,529

Cash and cash equivalents and portfolio investments: The Centre is not exposed to significant credit risk as these amounts are held by the Minister of Finance.

Accounts receivable: The Centre is not exposed to significant credit risk as the balance is due from a large client base and payment in full is typically collected when it is due. The Centre manages this credit risk through close monitoring of overdue accounts.

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.

The balance in the allowance for doubtful accounts at March 31, 2012 was $26 ($2011 - $10).

	2012	2011
Balance, beginning of the year	$ 10	$ 229
Provision for receivable impairment	20	46
Amounts written off	(4)	(265)
Balance, end of the year	$ 26	$ 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 changes in market prices, such as interest rates and foreign exchange rates, will affect the Centre's income or the fair values of its financial instruments.

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 and cash equivalents and porfolio investments.

(in thousands)

5. Financial instruments and financial risk management (continued)

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

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 significant financial instruments denominated in a foreign currency.

6. Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with original maturities of three months or less.

	2012	2011
Restricted	$ 161	$ -
Unrestricted	1,279	656
Total cash and cash equivalents	$ 1,440	$ 656

The restricted balance represents the amount on deposit to fund certain eligible expenditures related to a project the Agency is overseeing. The offsetting liability is included in total accounts payable and acrrued liabilities.

7. Accounts receivable

	2012	2011
Trade accounts receivable	$ 237	$ 183
Other receivables	62	2,639
Due from Growing Forward Program (Note 13)	24	20
Allowance for doubtful accounts	(26)	(10)
	$ 297	$ 2,832

8. Working capital advances

The Special Operating Agencies Financing Authority has provided the Centre with an authorized line of working capital of $1,000 of which $22 was used at March 31, 2012 (2011 - $254).

(in thousands)

9. Employee future benefits

		2012		2011
Severance benefits	$	178	$	152
Sick pay benefits		41		41
	$	219	$	193

Pension benefits

Employees of the Centre 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 Centre, through the Civil Service Superannuation Fund (CSSF).

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

Commecning April 1, 2011, the Centre was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for 2012 was $122 (2011 - $111). Under this agreement the Centre has no further pension liability.

Severance benefits

Effective April 1, 1998, the Centre 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, 2011. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the Centre's actuarially determined net liability for accounting purposes as at March 31, 2012 was $178 (2011 - $152), 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, 2011 valuation, and in the determination of the March 31, 2012 present value of the accrued severance benefit obligation were:

Annual rate of return	
inflation component	2.00%
real rate of return	4.00%
	6.00%
Assumed salary increase rates	
annual productivity increase	1.00%
annual general salary increase	2.75%
	3.75%

(in thousands)

9. Employee future benefits (continued)

Sick pay benefits

The Financing Authority provides sick leave benefits for employees that accumulate but do not vest. The accrued benefit obligation related to sick leave entitlement earned by employees is determined using a valuation model developed by an actuary. The valuation is based on employee demographics, sick leave usage and actuarial assumptions. These assumptions include a 6.00% annual return and a 3.75% annual salary increase.

10. Borrowings from the Province of Manitoba

By virtue of the Management Agreement, the Centre 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 the Centre.

Borrowings obtained through the use of available Loan Act Authority are repayable in quarterly instalments of principal and interest as follows:

	2012	2011
5.625% repayable in annual instalments of $175 principal plus interest, maturing in 2019	$ 1,400	$ 1,575
5.800% repayable in annual instalments of $18 principal plus interest, maturing in 2017	106	124
Currently interest only at prime less .75% with principal repayment terms and maturity date yet to be determined	900	-
	$ 2,406	$ 1,699

Interest is measured using the effective interest method. Principal repayments, excluding amounts yet to be determined, in each of the next five years are as follows:

Year	Amount
2013	$ 193
2014	193
2015	193
2016	193
2017	193

Notes to Financial Statements
(in thousands)
Year ended March 31, 2012

11. Tangible capital assets

	2012				2011
	Opening Balance	Additions	Disposals	Closing Balance	Total
Cost					
Equipment - commercial and product development	$ 6,812	$ 85	$ (10)	$ 6,887	$ 6,812
Computer hardware and software	96	-	-	96	96
Building improvements	6,608	-	-	6,608	6,608
Commercial and training expansion	3,271	4,096	-	7,367	3,271
	$ 16,787	$ 4,181	$ (10)	$ 20,958	$ 16,787
Accumulated Amortization					
Equipment - commercial and product development	$ 2,054	$ 375	$ -	$ 2,429	$ 2,054
Computer hardware and software	94	2	-	96	94
Building improvements	2,617	445	-	3,062	2,617
Total accumulated amortization	$ 4,765	$ 822	$ -	$ 5,587	$ 4,765
Net book value	$ 12,022	$ 3,359	$ (10)	$ 15,371	$ 12,022

During the year, commercial and training expansion costs were capitalized in the amount of $4,096 (2011 - $3,082). Amortization will commence once the expansion is complete and available for use.

12. Accumulated surplus

Based on approvals from Treasury Board, the Centre has allocated $96 (2011 - $470) of its accumulated surplus for reserve funds that are internally designated for the commercial and training expansion program.

13. Designated assets

The Centre has allocated $41 (2011 - $41) of its portfolio investments as designated assets for cash received from the Province of Manitoba for the vacation entitlements earned by employees of the Centre prior to its designation as an SOA and the severance pay benefits accumulated to March 31, 1998 for certain of their employees. This amount is held in an interest bearing account until the cash is required to discharge the related liabilities. Any unused balance is re-invested annually.

14. Administration fees - 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 (the Growing Forward Program) on behalf of the federal government and to collect an administration fee of approximately 6% of the federal government's funding. Total administration fees received or receivable under this agreement for the year ending March 31, 2012 were $851 (2011 - $801). The Centre's administration runs April 1, 2009 to March 31, 2013.

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 Program are non-interest bearing with no formal terms of repayment. The balance as at March 31, 2012 was $24 (2011 - $20).

15. Reclassification of comparative information

Certain of the comparative figures for the year ending March 31, 2011 have been reclassified to conform to the financial statement presentation adopted for the current year (see also Note 4 to these financial statements).

Schedule of Administrative Expenses — Schedule 1

(in thousands)

Years ended March 31, 2012 and 2011

	2012 Budget	2012 Actual	2011 Actual (Restated - Note 4)
Accrediation and licensing fees	$ 6	$ 7	$ 7
Advisory committee fees	5	2	2
Bad debt expense	15	20	53
Bank charges	-	4	3
Computer expenses	122	121	83
Courier and telephone	30	36	33
Equipment rental	87	76	46
Insurance	101	78	70
Interest on borrowings	158	92	96
Memberships	7	11	10
Printing, stationary and postage	28	17	18
Professional fees	35	48	23
Property taxes	149	123	120
Repairs and maintenance	330	55	47
Research and development	20	9	8
Training	25	10	15
	$ 1,118	$ 709	$ 634

GREEN MANITOBA ECO SOLUTIONS
(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

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 public sector accounting standards. 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 August 7, 2012.

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 Grant Thornton 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 public sector accounting standards. The Auditors' Report outlines the scope of their audit examination and provides their audit opinion.

On behalf of Green Manitoba's management,

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Christina McDonald
Chief Operating Officer

Winnipeg, Manitoba
August 7, 2012

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, which comprise the statement of financial position as at March 31, 2012, March 31, 2011, and April 1, 2010, the statement of operations, change in net financial assets and cash flows for the years ended March 31, 2012 and March 31, 2011, 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 public sector accounting standards, 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 company'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 Green Manitoba Eco Solutions as at March 31, 2012, March 31, 2011, and April 1, 2010, and the results of its operations, changes in net financial assets, and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Canadian public sector accounting standards.

Grant Thornton LLP

Winnipeg, Manitoba

August 7, 2012

Chartered Accountants

GREEN MANITOBA ECO SOLUTIONS

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

Statement of Financial Position

(In Thousands)

March 31, 2012

	March 31, 2012	March 31, 2011 (Restated Note 4)	April 1, 2010 (Restated Note 4)
FINANCIAL ASSETS			
Cash	**$ 2,032**	$ 1,365	$ 805
Accounts receivable *(Note 6)*	**157**	468	1,619
	2,189	1,833	2,424
LIABILITIES			
Accounts payable and accruals	**369**	344	250
Unearned revenue *(Note 7)*	**-**	115	337
Severance liability *(Note 8)*	**25**	13	10
	394	472	597
NET FINANCIAL ASSETS	**1,795**	1,361	1,827
NON-FINANCIAL ASSETS			
Tangible capital assets *(Note 9)*	**-**	1	4
	-	1	4
ACCUMULATED SURPLUS	**$ 1,795**	$ 1,362	$ 1,831

See accompanying notes to financial statements.

GREEN MANITOBA ECO SOLUTIONS

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

Statement of Operations

(In Thousands)

For the Year Ended March 31, 2012

	2012 Budget	2012 Actual	2011 Actual (Restated Note 4)
REVENUE			
Grants - Province of Manitoba	$ 2,381	**$ 1,863**	$ 2,605
Grants - Federal government	-	**177**	183
Non government funding	2,767	**2,444**	2,108
	5,148	**4,484**	4,896
EXPENSES			
Advertising and promotion	46	**44**	23
Amortization	1	**1**	3
Computer	44	**62**	40
Contracted services	70	**6**	46
Office	88	**22**	20
Other	9	**-**	-
Professional fees	15	**9**	7
Program supplies and services	3,870	**3,121**	4,490
Rent	65	**65**	73
Salaries and benefits	750	**684**	637
Training	18	**11**	2
Travel	27	**26**	24
	5,003	**4,051**	5,365
ANNUAL SURPLUS (DEFICIT)	145	**433**	(469)
ACCUMULATED SURPLUS, BEGINNING OF YEAR	1,362	**1,362**	1,831
ACCUMULATED SURPLUS, END OF YEAR	$ 1,507	**$ 1,795**	$ 1,362

See accompanying notes to financial statements.

GREEN MANITOBA ECO SOLUTIONS
(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)
Statement of Change in Net Financial assets
(In Thousands)
For the Year Ended March 31, 2012

	2012 Budget	2012 Actual	2011 Actual (Restated Note 4)
Annual Surplus (Deficit)	**$ 145**	**$ 433**	$ (469)
Tangible capital assets			
Amortization of tangible capital assets	1	**1**	3
Net acquisition of tangible capital assets	1	**1**	3
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	146	**434**	(466)
NET FINANCIAL ASSETS, BEGINNING OF YEAR	1,361	**1,361**	1,827
NET FINANCIAL ASSETS, END OF YEAR	$ 1,507	**$ 1,795**	$ 1,361

See accompanying notes to financial statements.

GREEN MANITOBA ECO SOLUTIONS

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

Statement of Cash Flow

(In Thousands)

For the Year Ended March 31, 2012

	2012 Actual	2011 Actual (Restated Note 4)
Cash provided by (applied to):		
Operating		
Annual Surplus (Deficit)	**$ 433**	$ (469)
Amortization of tangible capital assets	**1**	3
	434	(466)
Change in:		
Accounts receivable	**311**	1,151
Accounts payable and accruals	**25**	94
Unearned revenue	**(115)**	(222)
Severance liability	**12**	3
Cash provided by operating activities	**667**	560
INCREASE IN CASH	**667**	560
CASH - BEGINNING OF YEAR	**1,365**	805
CASH - END OF YEAR	**$ 2,032**	$ 1,365

See accompanying notes to financial statements.

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. BASIS OF ACCOUNTING

As of April 1, 2011, Green Manitoba adopted Public Sector Accounting (PSA) Standards with a transition date of April 1, 2010. More details on this transition are provided in Note 4.

The adoption of PSA Standards includes early adoption of PS 3450 Financial Instruments, PS 1201 Financial Statement Presentation, and new PS 3410 Government Transfers.

3. SIGNIFICANT ACCOUNTING POLICIES

a. Revenue

(i) Government transfers

Government transfer without eligibility criteria or stipulations is recognized as revenue when the transfer is authorized.

(continues)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government transfer with eligibility criteria but without stipulations is recognized as revenue when the transfer is authorized and all eligibility criteria have been met.

Government transfer with or without eligibility criteria but with stipulations is recognized as revenue in the period the transfer is authorized and all eligibility criteria have been met, except when and to the extent that the transfer gives rise to a liability.

(ii) Non government funding

Special program funding is taken into income to match the program expenditures. Any remaining program funding is deferred.

(iii) Other revenue

All other revenues are recorded on an accrual basis.

b. Expenses

All expenses are recorded on an accrual basis.

c. Cash

Cash includes cash on hand and the bank balance.

d. Liabilities

Liabilities are present obligations as a result of transactions and events occurring prior to the end of the fiscal year. The settlement of the liabilities will result in the future transfer or use of assets or other form of settlement. Liabilities are recorded at the estimated amount ultimately payable.

e. Non-financial Assets

Non-financial assets do not normally provide resources to discharge liabilities of Green Manitoba. These assets are normally employed to provide future services.

f. Tangible capital assets

Tangible Capital Assets are recognized at cost less accumulated amortization. Cost includes the purchase price as well as other acquisition costs. The costs of tangible capital assets, less any residual value, are amortized over a period of 5 years.

(continues)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Measurement Uncertainty

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 amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. FIRST-TIME ADOPTION OF PUBLIC SECTOR ACCOUNTING STANDARDS

In previous fiscal years, Green Manitoba classified itself as a Government Business-Type Organization (GBTO) and followed the recommendations of the Canadian Institute of Chartered Accountants (CICA) Accounting Handbook - Part V. In October 2009, the Public Sector Accounting Board (PSAB) determined that the category will cease to exist for fiscal years ending on or after January 1, 2011, and GBTOs are required to reclassify themselves in accordance with Public Sector Accounting (PSA) Standards. In accordance with recommendations of the Public Sector Accounting Handbook, Green Manitoba has determined that it is an “other government organization” and has determined that PSA Standards are the most appropriate framework for reporting purposes.

These new standards were required to be applied retroactively. The impacts of this change are as follows:

a) Unearned revenue	March 31, 2011	April 1, 2010
Unearned revenue as per previous financial statements	$ 735	$ 1,665
Less: government transfers previously deferred - Note	(620)	(1,328)
Unearned revenue as per PSA Standards	$ 115	$ 337

b) Accumulated surplus	March 31, 2011	April 1, 2010
Equity as per previous financial statements	$ 742	$ 503
Add: government transfers previously deferred - Note	620	1,328
Accumulated surplus as per PSA Standards	$1,362	$1,831

c) Annual Surplus (Deficit)	Year ended March 31, 2011
Annual Surplus as per previous financial statements	$ 239
Add: change in government transfers previously deferred (Note)	(708)
Annual Surplus (Deficit) as per PSA Standards	$ (469)

Note: Some government funding was previously deferred to match the program expenditures. Under PSA Standards, government transfers are recognized as revenue when the transfers are authorized and any eligibility criteria are met, to the extent the transfers have any stipulations that give rise to a liability.

5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Measurement
Financial instruments are classified into one of the two measurement categories: (a) fair value; or (b) cost or amortized cost.

Green Manitoba records its financial assets at cost, which include cash and accounts receivable. Green Manitoba also records its financial liabilities at cost, which include accounts payable.

Gains and losses on financial instruments measured at fair value are recorded in accumulated surplus as re-measurement gains and losses until realized. Upon disposition of the financial instruments, the cumulative re-measurement gains and losses are reclassified to the consolidated statement of operations. Gains and losses on financial instruments measured at cost or amortized cost are recognized in the consolidated statement of operations in the period the gain or loss occurs.

Green Manitoba did not incur any re-measurement gains and losses during the year (2011 - $nil).

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.

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

	2012	2011
Cash	$2,032	$1,365
Accounts receivable	157	468
	$2,189	$1,833

Cash: Green Manitoba is not exposed to significant credit risk as these amounts are held by the Minister of Finance.

Accounts receivable: Green Manitoba is not exposed to significant credit risk as the balance is due from a large client base, and payment in full is typically collected when it is due. Green Manitoba manages this credit risk through close monitoring of overdue accounts.

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.

There was no change in the allowance for doubtful accounts during the year and the balance at March 31, 2012 was $0.

(continues)

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

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.

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.

6. ACCOUNTS RECEIVABLE

The accounts receivable balance is comprised of the following amounts:

	2012	2011
Environmental Education	$ 2	$ 4
GHG Certification	-	20
Operating - Salaries and benefits	1	18
PRAC	148	130
Provincial Conservation Funding	-	225
Waste (E-Waste and HHW)	6	11
Water - Lower Income Program	-	60
	$ 157	$ 468

7. UNEARNED REVENUE

Unearned revenues are set aside for specific purposes as required by funding agreements. The unearned revenue balance is comprised of the following amounts:

	2012			
	Opening Balance	Funds Received	Trans to Revenue	Closing Balance
Energy/Climate Change – GMEF Fund	$ 10	$ -	$ (10)	$ -
Energy/Climate Change – PRAC Fund	85	-	(85)	-
Energy/Climate Change – CCPA Study	20	-	(20)	-
	115	-	(115)	-

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, 2011. 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, 2012 was $25 (2011 - $13).

Significant long-term actuarial assumptions used in the March 31, 2012 valuation, and in the determination of the March 31, 2012 present value of the accrued severance benefit obligation were:

Annual rate of return	
inflation component	2.00%
real rate of return	4.00%
	6.00%
Assumed salary increase rates	
annual productivity increase	1.00%
annual general salary increase	2.75%
	3.75%

9. TANGIBLE CAPITAL ASSETS

	2012				2011
	Opening Balance	Additions	Disposals	Closing Balance	Total
Cost					
Computer Equipment	$ 4	$ -	$ -	$ 4	$ 4
Furniture and Fixtures	9	-	-	9	9
Total cost	13	-	-	13	13
Accumulated Amortization					
Computer Equipment	3	1	-	4	4
Furniture and Fixtures	9	-	-	9	9
Total accumulated amortization	12	1	-	13	13
Net	$ 1	$ 1	$ -	$ -	$ -

10. 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, 2012 (2011 - $NIL).

11. PENSION BENEFIT

In accordance with the provisions of The Civil Service Superannuation Act, employees of Green Manitoba are eligible for pension benefits under the Civil Service Superannuation Fund. The pension plan is a defined 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 $35 (2011 - $32).

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

12. PUBLIC SECTOR COMPENSATION DISCLOSURE

		2012	2011
Bonam, Rathan	Planning program analyst 1	$ -	$ 53
Ferguson, James	Planning program analyst 3	74	72
Irwin, Lindsay	Planning program analyst 2	57	52
Jonasson, John	Planning consultant	81	88
McDonald, Christina	Senior manager 1	97	90
Shymko, Randall	Planning program analyst 3	-	63
Storey, Marie	Planning program analyst 1	56	-
Vogt, Annette	Financial officer	50	-
		$ 415	$ 418

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

Management's Responsibility for Financial Reporting

The accompanying financial statements are the responsibility of the management of the Industrial Technology Centre (ITC) 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 the audit report date.

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 external audit is to express an independent opinion on whether the financial statements of ITC 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,
Industrial Technology Centre (ITC)

Trevor Cornell
Chief Operating Officer

David Olafson
Manager Corporate Service

June 4, 2012
Date

BDO

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Winnipeg MB R3C 4L5 Canada

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 statement of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010 and the statements of operations, change in net debt and cash flow for the years ended March 31, 2012 and March 31, 2011, 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 Public sector accounting standards, 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, 2012, March 31, 2011, and April 1, 2010, and the results of its operations and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Public sector accounting standards.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba
June 4, 2012

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Industrial Technology Centre
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Statement of Financial Position
As at March 31, 2012
(In Thousands)

	March 31, 2012	March 31, 2011	April 1, 2010
Financial Assets			
Cash and cash equivalents	$ 698	$ 667	$ 265
Accounts receivable	94	202	198
Portfolio investments	103	103	103
	895	972	566
Liabilities			
Accounts payable and accruals	413	337	290
Unearned revenue	196	148	236
Employee future benefits (Note 7)	265	247	233
Borrowings from the Province of Manitoba (Note 8)	-	253	-
	874	985	759
Net Debt	21	(13)	(193)
Non-financial Assets			
Prepaid expenses	39	56	54
Tangible capital assets (Note 9)	701	692	619
	740	748	673
Accumulated Surplus	$ 761	$ 735	$ 480

Designated assets (Note 10)
Commitments (Note 11)

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 Operations
For the Years Ended March 31, 2012 and March 31, 2011
(In Thousands)

	2012 Budget	2012 Actual	2011 Actual
Revenue			
Province of Manitoba	$ 900	$ 900	$ 900
Fee for service	2,023	1,972	1,902
Other	128	129	146
Total revenue	3,051	3,001	2,948
Expense			
Advertising and promotion	64	83	74
Amortization	303	267	158
Audit and legal	9	11	7
Bad debts	2	-	-
Building maintenance	45	72	58
Computer	45	57	46
Equipment	59	82	81
Fees and memberships	25	41	31
Insurance	49	45	48
Interest and service charges	7	7	6
Library	13	11	12
Office	61	71	55
Professional development	30	42	24
Project supplies and subcontract	206	187	157
Purchased services	10	11	5
Rent and property tax	346	325	327
Salaries and benefits	1,664	1,569	1,507
Travel	50	41	44
Utilities	63	53	53
Total expense	3,051	2,975	2,693
Annual surplus	-	26	255
Accumulated surplus, beginning of year	771	735	480
Accumulated surplus, end of year	$ 771	$ 761	$ 735

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

Industrial Technology Centre
An Agency of the Special Operating Sgencies Financing Authority
Province of Manitoba
Statement of Change in Net Debt
For the Year Ended March 31, 2012 and March 31, 2011
(In Thousands)

	2012		2011
	Budget	Actual	Actual
Annual surplus	$ -	$ 26	$ 255
Tangible capital assets			
Acquisition of tangible capital assets	(300)	(276)	(231)
Amortization of tangible capital assets	303	267	158
Gain on disposal of tangible capital assets	-	-	-
Net acquisition of tangible capital assets	3	(9)	(73)
Other non-financial assets			
Increase in prepaid expense	-	17	(2)
Net acquisition of other non-financial assets	-	17	(2)
	3	8	(75)
Decrease in net debt	3	34	180
Net debt, beginning of year	(43)	(13)	(193)
Net debt, end of year	$ (40)	$ 21	$ (13)

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

Industrial Technology Centre
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Statement of Cash Flow
For the Years Ended March 31, 2012 and March 31, 2011
(In Thousands)

	2012 Actual	2011 Actual
Cash provided by (applied to):		
Operating		
Annual surplus	$ 26	$ 255
Amortization of tangible capital assets	267	158
	293	413
Change in:		
Accounts receivable	108	(4)
Accounts payable and accruals	76	47
Unearned revenue	48	(88)
Employee future benefits	18	14
Prepaid expenses	17	(2)
Cash provided by operating activities	560	380
Capital		
Acquisition of tangible capital assets	(276)	(231)
Cash applied to capital activities	(276)	(231)
Financing		
Borrowings from the Province of Manitoba	-	253
Debt repayments to the Province of Manitoba	(253)	-
Cash provided by (applied to) financing activities	(253)	253
Increase in cash	31	402
Cash and cash equivalents at beginning of year	667	265
Cash and cash equivalents at end of year	$ 698	$ 667

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 (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. 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. Basis of Accounting

As of April 1, 2011, the Agency adopted Public Sector Accounting (PSA) Standards with a transition date of April 1, 2010. More details on this transition are provided in Note 4.

The adoption of PSA Standards includes early adoption of PS 1201 Financial Statement Presentation, PS 3041 Portfolio Investments, PS 3450 Financial Instruments, and new PS 3410 Government Transfers.

3. Significant Accounting Policies

a. Revenue

(i) Government Transfers

Government transfers without eligibility criteria or stipulations are recognized as revenue when the transfer is authorized.

Government transfers with eligibility criteria but without stipulations are recognized as revenue when the transfer is authorized and all eligibility criteria have been met.

Government transfers with or without eligibility criteria but with stipulations are recognized as revenue in the period the transfer is authorized and all eligibility criteria have been met, except when and to the extent that the transfer gives rise to a liability.

(ii) Exchange Transactions

Product revenue is recognized when the goods are shipped or delivered and title and risk of loss pass to the customer. Service revenue is recognized when the rendering of services is completed or substantially completed.

(iii) Other Revenue

All other revenues are recorded on an accrual basis.

b. Expenses

(i) Accrual Accounting

All expenses incurred for goods and services are recorded on an accrual basis.

(ii) Government Transfers

Government transfers are recognized as expenses in the period in which the transfers are authorized and all eligibility criteria have been met.

c. Financial Assets

(i) Portfolio Investments

Portfolio investments are investments that are capable of reasonably prompt liquidation and are recognized at cost.

3. Significant Accounting Policies (continued)

d. Liabilities

Liabilities are present obligations as a result of transactions and events occurring prior to the end of the fiscal year. The settlement of the liabilities will result in the future transfer or use of assets or other form of settlement. Liabilities are recorded at the estimated amount ultimately payable.

e. Non-financial Assets

Non-financial assets do not normally provide resources to discharge liabilities of the Agency. These assets are normally employed to provide future services.

(i) Prepaid Expenses

Prepaid expenses are payments for goods or services which will provide economic benefit in future periods. The prepaid amount is recognized as an expense in the year the goods or services are consumed.

(ii) Tangible Capital Assets

Tangible Capital Assets are recognized at cost. Cost includes the purchase price as well as other acquisition costs. The costs of tangible capital assets, less any residual value, are amortized over their estimated useful lives as follows:

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

f. Measurement Uncertainty

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 amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Industrial Technology Centre
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Notes to Financial Statements
(In Thousands)

For the Years Ended March 31, 2012 and March 31, 2011

4. First-time Adoption of Public Sector Accounting Standards

In previous fiscal years, the Agency classified itself as a Government Business-Type Organization (GBTO) and followed the recommendations of the Canadian Institute of Chartered Accountants (CICA) Accounting Handbook - Part V. In October 2009, the Public Sector Accounting Board (PSAB) determined that the category will cease to exist for fiscal years ending on or after January 1, 2011, and GBTOs are required to reclassify themselves in accordance with Public Sector Accounting (PSA) Standards. In accordance with recommendations of the Public Sector Accounting Handbook, the Agency has determined that it is an "other government organization" and has determined that PSA Standards are the most appropriate framework for reporting purposes.

These new standards were required to be applied retroactively. The impacts of this change are as follows:

a) **Portfolio Investments**	March 31, 2011	April 1, 2010
Portfolio investments as per previous financial statements	$ -	$ -
Add: Amount reclassified from long-term investments to portfolio investments – Note (i)	103	103
Portfolio investments as per PSA Standards	$ 103	$ 103

b) **Employee Future Benefits**	March 31, 2011	April 1, 2010
Severance liability as per previous financial statements	$ 228	$ 214
Add: Sick pay benefits – Note (ii)	19	19
Employee future benefits as per PSA Standards	$ 247	$ 233

c) **Net Income**	March 31, 2011
Net income as per previous financial statements	$ 91
Add: Change in government transfers previously deferred – Note (iii)	164
Net income as per PSA Standards	$ 255

d) **Accumulated Surplus**	March 31, 2011	April 1, 2010
Equity as per previous financial statements	$ 590	$ 499
Less: Sick pay benefits – Note (ii)	(19)	(19)
Add: Government transfers previously deferred – Note (iii)	164	-
Accumulated surplus as per PSA Standards	$ 735	$ 480

4. First-time Adoption of Public Sector Accounting Standards (continued)

Notes:

(i) PSA Standards require information about designated assets to be disclosed in the notes, and not on the statement of financial position. Therefore, designated assets previously classified as "long-term investments" are reclassified to "portfolio investments" on the statement of financial position, with the information disclosed in Note 10.

(ii) Under the previous accounting standards, the Agency was not required to accrue a liability for sick pay benefits that accumulated but did not vest. However, PSA Standards require accrual of non-vesting sick pay benefits as they are earned by employees.

(iii) Government assistance towards the acquisition of tangible capital assets was previously deferred. Under PSA Standards, government transfers are recognized as revenue when the transfers are authorized and any eligibility criteria are met, to the extent the transfers have any stipulations that give rise to a liability.

5. Financial Instruments and Financial Risk Management

Measurement

Financial instruments are classified into one of the two measurement categories: (a) fair value; or (b) cost or amortized cost.

The Agency records its financial assets at cost, which include cash and cash equivalents, accounts receivable and portfolio investments. The Agency also records its financial liabilities at cost, which include accounts payable and accruals and borrowings.

Gains and losses on financial instruments measured at fair value are recorded in accumulated surplus as re-measurement gains and losses until realized. Upon disposition of the financial instruments, the cumulative re-measurement gains and losses are reclassified to the consolidated statement of operations. Gains and losses on financial instruments measured at cost or amortized cost are recognized in the consolidated statement of operations in the period the gain or loss occurs.

The Agency did not incur any re-measurement gains and losses during the year (Nil in 2011).

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 cash equivalents, accounts receivable, and portfolio investments.

(In Thousands)

5. Financial Instruments and Financial Risk Management (continued)

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

	2012	2011
Cash and cash equivalents	$ 698	$ 667
Accounts receivable	94	202
Portfolio investments	103	103
	$ 895	$ 972

Cash and cash equivalents and portfolio investments: The Agency is not exposed to significant credit risk as these amounts are held by the Minister of Finance or a Chartered Bank.

Accounts receivable: The Agency is not exposed to significant credit risk as the balance is due from a large client base, and payment in full is typically collected when it is due. The Agency manages this credit risk through close monitoring of overdue accounts.

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, 2012 was $20.

Liquidity Risk

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

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.

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, portfolio investments and borrowings.

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

The Agency manages its interest rate risk on long-term debt through the exclusive use of fixed rate terms for its long-term debt.

(In Thousands)

5. Financial Instruments and Financial Risk Management (continued)

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.

6. Working Capital Advances

The Agency has an authorized line of working capital advance up to a maximum of $300. As at March 31, 2012 working capital advances were nil (Nil in 2011). The line bears interest at prime less 1% and is not secured by specific assets.

7. Employee Future Benefits

	2012	2011
Severance benefits	$ 246	$ 228
Sick pay benefits	19	19
	$ 265	$ 247

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 ITC, through the Civil Service Superannuation Fund.

Pursuant to an agreement with the Province of Manitoba, the Agency is required to pay to the Province an amount equal to the current pension contributions of its employees. The amount paid for 2012 is $74 (2011 - $70). Under this agreement, the pension liability is the responsibility of the Province, and the Agency has no further pension liability.

Severance benefits

Effective April 1, 1998 the Agency 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 Agency's actuarially determined net liability for accounting purposes as at March 31, 2012 is $246 ($228 in 2011), with an actuarial adjustment being amortized over the 15 year expected average remaining service life of the employee group.

(In Thousands)

7. Employee Future Benefits (continued)

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2012 present value of the accrued severance benefit obligation were:

Annual rate of return	- inflation component	2.00%
	- real rate of return	4.00%
		6.00%
Assumed salary increase rates	- annual productivity increase	1.00%
	- annual general salary increase	2.75%
		3.75%

Sick pay benefits

The Agency provides sick leave benefits for employees that accumulate but do not vest. The accrued benefit obligation related to sick leave entitlement earned by employees is determined using a valuation model developed by an actuary. The valuation is based on employee demographics, sick leave usage and actuarial assumptions. These assumptions include a 6.00% annual return and a 3.75% annual salary increase.

8. Borrowings from the Province of Manitoba

The Minister of Finance has authorized a loan authority of $1,160 (Order in Council #00248 in 2010) for the Industrial Technology Centre. ITC has drawn down $250 of the $1,160 total loan authority, leaving $910 of loan authority availability unutilized as of March 31, 2012.

9. Tangible Capital Assets

	2012				2011
	Opening Balance	Additions	Disposals	Closing Balance	Total
Cost					
Furniture and fixtures	$ 17	$ 16	$ -	$ 33	$ 17
Office and laboratory equipment	1,519	213	-	1,732	1,519
Computer equipment and software	313	35	-	348	313
Leasehold improvements	200	12	-	212	200
	2,049	276	-	2,325	2,049
Accumulated Amortization					
Furniture and fixtures	10	3	-	13	10
Office and laboratory equipment	974	227	-	1,201	974
Computer equipment and software	269	17	-	286	269
Leasehold improvements	104	20	-	124	104
	1,357	267	-	1,624	1,357
Net	$ 692	$ 9	$ -	$ 701	$ 692

(In Thousands)

10. Designated Assets

The Agency has allocated $103 ($103 in 2011) of its portfolio investments as designated assets for severance pay benefits. The Agency has received $103 of cash from the Province of Manitoba for the severance pay benefits accumulated to March 31, 1998 for certain of their employees. This amount is held in an interest bearing account until the cash is required to discharge the related liabilities. Any unused balance is re-invested annually.

11. Commitments

The Agency has entered into a lease agreement for the rental of a building at Smartpark, with space of 19,032 square feet.

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

2013	$ 189
2014	189
2015	189
2016	191
2017	194

Management's Responsibility for Financial Reporting

The accompanying financial statements are the responsibility of the management of the Manitoba Education, Research and Learning Information Networks ("MERLIN") and have been prepared in accordance with Public sector accounting standards. 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 to the date of the audit report.

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 external audit is to express an independent opinion on whether the financial statements of MERLIN are fairly represented in accordance with Public sector accounting standards. The Independent Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

On behalf of Management
MERLIN

Greg Baylis, Chief Operating Officer

David Olafson, Controller

June 5, 2012
Date

BDO

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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 statement of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010 and the statements of operations, change in net debt and cash flows for the years ended March 31, 2012 and March 31, 2011, 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 Public sector accounting standards, 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, 2012, March 31, 2011, and April 1, 2010, and the results of its operations and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Public sector accounting standards.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba
June 5, 2012

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MANITOBA EDUCATION RESEARCH AND LEARNING INFORMATION NETWORKS
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Statement of Financial Position
(In Thousands)

		March 31 2012		March 31 2011		April 1 2010
Financial Assets						
Cash and cash equivalents	$	**174**	$	590	$	469
Accounts receivable		**789**		510		1,260
Portfolio investments		**47**		47		47
		1,010		1,147		1,776
Liabilities						
Accounts payable and accruals		**686**		716		359
Unearned revenue		**611**		896		1,902
Employee future benefits (Note 7)		**139**		124		111
		1,436		1,736		2,372
Net debt		**(426)**		(589)		(596)
Non-financial Assets						
Prepaid expenses		**271**		362		435
Tangible capital assets (Note 8)		**311**		368		450
		582		730		885
Accumulated surplus	$	**156**	$	141		289

Designated assets (Note 9)
Commitments (Note 10)

The accompanying 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 Operations
(In Thousands)

For the years ended March 31	2012 Budget	2012 Actual	2011 Actual
Revenue			
Province of Manitoba - Innovation, Energy and Mines Funding	$ 396	$ 396	$ 396
Fee for goods and services	3,745	4,409	4,547
Community Connections	783	-	956
Other	25	4	20
	4,949	4,809	5,919
Expense			
Advertising and promotion	35	19	19
Amortization	177	203	173
Audit and legal fees	10	8	9
Communication and bandwidth	224	162	161
Community Connections	763	-	899
Cost of purchases for resale	1,969	2,208	2,181
Equipment repair and maintenance	174	192	182
Manitoba Network connections	175	330	221
Occupancy	79	62	85
Office and miscellaneous	27	24	29
Professional development	25	17	35
Purchased services	10	274	788
Salaries and benefits	1,246	1,251	1,246
Travel	35	44	39
Total expense	4,949	4,794	6,067
Annual surplus (deficit)	-	15	(148)
Accumulated surplus, beginning of year	236	141	289
Accumulated surplus, end of year	$ 236	$ 156	$ 141

The accompanying 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 Change in Net Debt

(In Thousands)

For the years ended March 31	2012 Budget	2012 Actual	2011 Actual
Annual surplus (deficit)	$ -	$ 15	$ (148)
Tangible Capital Assets			
Acquisition of tangible capital assets	(150)	(146)	(91)
Amortization of tangible capital assets	177	203	173
Gain on disposal of tangible capital assets	-	-	-
Net acquisition of tangible capital assets	27	57	82
Other Non-financial Assets			
Decrease in prepaid expenses	86	91	73
Decrease in net debt	113	163	7
Net debt, beginning of year	(475)	(589)	(596)
Net debt, end of year	$ (362)	$ (426)	$ (589)

The accompanying 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 years ended March 31	2012	2011
Cash provided by (applied to)		
Operating		
Annual surplus (deficit)	$ 15	$ (148)
Amortization of tangible capital assets	203	173
Gain on disposal of tangible capital assets	-	-
	218	25
Changes in:		
Accounts receivable	(279)	750
Accounts payable and accruals	(30)	357
Unearned revenue	(285)	(1,006)
Employee future benefits	15	13
Prepaid expenses	91	73
Cash provided by (applied to) operating activities	(270)	212
Capital		
Acquisition of tangible capital assets	(146)	(91)
Cash applied to capital activities	(146)	(91)
Increase (decrease) in cash and cash equivalents	(416)	121
Cash and cash equivalents, beginning of year	590	469
Cash and cash equivalents, end of year	$ 174	$ 590

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

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, MERLIN operates as part of Innovation, Energy and Mines under the general direction of the Deputy Minister.

MERLIN is financed through the Special Operating Agencies Financing Authority (SOAFA). SOAFA has the mandate to hold and acquire assets required for and resulting from MERLIN operations. It finances MERLIN through repayable loans and working capital advances. This financial framework enables MERLIN 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 MERLIN to manage and account for MERLIN related assets and operations on behalf of SOAFA.

MERLIN 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.

MERLIN 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. Basis of Accounting

As of April 1, 2011, MERLIN adopted Public Sector Accounting (PSA) Standards with a transition date of April 1, 2010. More details on this transition are provided in Note 4.

The adoption of PSA Standards includes early adoption of PS 1201 Financial Statement Presentation, PS 3041 Portfolio Investments, PS 3450 Financial Instruments, and new PS 3410 Government Transfers.

3. Significant Accounting Policies

a. Revenue

(i) Government Transfers

Government transfers without eligibility criteria or stipulations are recognized as revenue when the transfer is authorized.

Government transfers with eligibility criteria but without stipulations are recognized as revenue when the transfer is authorized and all eligibility criteria have been met.

Government transfers with or without eligibility criteria but with stipulations are recognized as revenue in the period the transfer is authorized and all eligibility criteria have been met, except when and to the extent that the transfer gives rise to a liability.

(ii) Exchange Transactions

Product revenue is recognized when the goods are shipped or delivered and title and risk of loss pass to the customer. Service revenue is recognized when the rendering of services is completed or substantially completed.

(iii) Other Revenue

All other revenues are recorded on an accrual basis.

b. Expenses

(i) Accrual Accounting

All expenses incurred for goods and services are recorded on an accrual basis.

(ii) Government Transfers

Government transfers are recognized as expenses in the period in which the transfers are authorized and all eligibility criteria have been met.

3. Significant Accounting Policies (continued)

c. Financial Assets

(i) Portfolio Investments

Portfolio investments are short-term deposits with original maturities of more than three months. These investments are recognized at cost.

d. Liabilities

Liabilities are present obligations as a result of transactions and events occurring prior to the end of the fiscal year. The settlement of the liabilities will result in the future transfer or use of assets or other form of settlement. Liabilities are recorded at the estimated amount ultimately payable.

e. Non-financial Assets

Non-financial assets do not normally provide resources to discharge liabilities of the Agency. These assets are normally employed to provide future services.

(i) Prepaid Expenses

Prepaid expenses are payments of goods or services which will provide economic benefit in future periods. The prepaid amount is recognized as an expense in the year the goods or services are consumed.

(ii) Tangible Capital Assets

Tangible capital assets are recognized at cost. Cost includes the purchase price as well as other acquisition costs. The cost of tangible capital assets, less any residual are amortized over their estimated useful lives as follows:

Computer hardware	25%, straight line
Computer software	25%, straight line
Equipment and furniture	20%, straight line
Leaseholds	20%, straight line

(In Thousands)

3. Significant Accounting Policies (continued)

f. Measurement Uncertainty

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.

4. First-time Adoption of Public Sector Accounting Standards

In previous fiscal years, MERLIN classified itself as a Government Business-Type Organization (GBTO) and followed the recommendations of the Canadian Institute of Chartered Accountants (CICA) Accounting Handbook - Part V. In October 2009, the Public Sector Accounting Board (PSAB) determined that the category will cease to exist for fiscal years ending on or after January 1, 2011, and GBTOs are required to reclassify themselves in accordance with Public Sector Accounting (PSA) Standards. In accordance with recommendations of the Public Sector Accounting Handbook, MERLIN has determined that it is an "other government organization" and has determined that PSA Standards are the most appropriate framework for reporting purposes.

These new standards were required to be applied retroactively. The impacts of this change is as follows:

(a) Employee future benefits	March 31 2011	April 1 2010
Severance liability as per previous financial statements	$ 111	$ 98
Add: Sick pay benefits (Note (i))	13	13
Employee future benefits as per PSA Standards	$ 124	$ 111

(b) Accumulated surplus	March 31 2011	April 1 2010
Equity as per previous financial statements	$ 154	$ 302
Less: Sick pay benefits (Note (i))	(13)	(13)
Accumulated surplus as per PSA Standards	$ 141	$ 289

Notes:

(i) Under the previous accounting standards, the Agency was not required to accrue a liability for sick pay benefits that accumulated but did not vest. However, PSA Standards require accrual of non-vesting sick pay benefits as they are earned by employees.

(In Thousands)

5. Financial Instruments and Financial Risk Management

Measurement

Financial instruments are classified into one of the two measurement categories: (a) fair value; or (b) cost or amortized cost.

The Agency records its financial assets at cost, which include cash and cash equivalents, accounts receivable and portfolio investments. The Agency also records its financial liabilities at cost, which include accounts payable.

Gains and losses on financial instruments measured at fair value are recorded in accumulated surplus as re-measurement gains and losses until realized. Upon disposition of the financial instruments, the cumulative re-measurement gains and losses are reclassified to the consolidated statement of operations. Gains and losses on financial instruments measured at cost or amortized cost are recognized in the consolidated statement of operations in the period the gain or loss occurs.

The Agency did not incur any re-measurement gains and losses during the year (2011 - $Nil).

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 cash equivalents, accounts receivable, and portfolio investments.

The maximum exposure of MERLIN to credit risk at March 31 is:

	2012	2011
Cash and cash equivalents	**$ 174**	$ 590
Accounts receivable	**789**	510
Portfolio investments	**47**	47
Maximum exposure to credit risk	**$ 1,010**	$ 1,147

Cash and cash equivalents, and portfolio investments: The Agency is not exposed to significant credit risk as these amounts are held by the Minister of Finance.

5. **Financial Instruments and Financial Risk Management** (continued)

Accounts receivable: The Agency is not exposed to significant credit risk as the balance is due from a large client base, and payment in full is typically collected when it is due. The Agency manages this credit risk through close monitoring of overdue accounts.

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, 2012 was $19.

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.

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 portfolio investments.

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

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)

6. Working Capital Advances

MERLIN has an authorized line of working capital advances up to $2.0 million. As at March 31, 2012 working capital advances were $NIL (2011 - $NIL). The line bears interest at prime less 1% and is not secured by specific assets.

7. Employee Future Benefits

		2012		2011
Severance benefits	**$**	**126**	$	111
Sick pay benefits		**13**		13
	$	**139**	$	124

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).

Pursuant to an agreement with the Province of Manitoba, the Agency is required to pay to the Province an amount equal to the current pension contributions of their employees. The amount paid for 2012 was $66 ($66 in 2011). Under this agreement, the pension liability is the responsibility of the Province, and the Agency has no further pension liability.

Severance benefits

Effective April 1, 1998, MERLIN 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.

(In Thousands)

7. **Employee Future Benefits** (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. MERLIN's actuarially determined net liability for accounting purposes as at March 31, 2012 was $126 ($111 in 2011), 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, 2012 present value of the accrued severance benefit obligation were:

Annual rate of return:	
Inflation component	2.00%
Real rate of return	4.00%
	6.00%
Annual salary increase rates:	
Annual productivity increase	1.00%
Annual general salary increase	2.75%
	3.75%

Sick pay benefits

The Agency provides sick leave benefits for employees that accumulate but do not vest. The accrued benefit obligation related to sick leave entitlement earned by employees is determined using a valuation model developed by an actuary. The valuation is based on employee demographics, sick leave usage and actuarial assumptions. These assumptions include a 6.00% annual return and a 3.75% annual salary increase.

(In Thousands)

For the years ended March 31, 2012 and March 31, 2011

8. Tangible Capital Assets

	2012				2011
	Opening Balance	Additions	Disposals	Closing Balance	Closing Balance
Cost					
Computer hardware	$ 775	$ 146	$ 15	$ 906	$ 775
Computer software	96	-	-	96	96
Equipment and furniture	38	-	-	38	38
Leaseholds	20	-	-	20	20
	929	146	15	1,060	929
Accumulated Amortization					
Computer hardware	452	175	15	612	452
Computer software	68	19	-	87	68
Equipment and furniture	27	6	-	33	27
Leaseholds	14	3	-	17	14
	561	203	15	749	561
Net	$ 368	$ (57)	$ -	$ 311	$ 368

9. Designated Assets

MERLIN has allocated $47 ($47 in 2011) of its portfolio investments as designated assets for cash received from the Province of Manitoba for the vacation entitlements earned by employees of MERLIN prior to its designation as an SOA and the severance pay benefits accumulated to March 31, 1998 for certain of their employees. This amount is held in an interest bearing account until the cash is required to discharge the related liabilities. Any unused balance is re-invested annually.

10. Commitments

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

2013	$	39

Management's Responsibility for Financial Reporting

The accompanying financial statements are the responsibility of the management of **THE MANITOBA SECURITIES COMMISSION** and have been prepared in accordance with Public sector accounting standards. 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 to the audit report date.

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 external audit is to express an independent opinion on whether the financial statements of **THE MANITOBA SECURITIES COMMISSION** are fairly represented in accordance with Public sector accounting standards. The Independent Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

On behalf of Management
THE MANITOBA SECURITIES COMMISSION

R.B. Bouchard, CA, Director and CAO

Marlene Nemes, CMA, Controller
June 6, 2012

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

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 statement of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010, and the statements of operations, change in net financial assets and cash flow for the years ended March 31, 2012, and March 31, 2011, 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 Public Sector Accounting Standards, 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, 2012, March 31, 2011, and April 1, 2010, and the results of its operations and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Public Sector Accounting Standards.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba
June 6, 2012

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THE MANITOBA SECURITIES COMMISSION
Statement of Financial Position
(in thousands)

	March 31 2012	March 31 2011	April 1 2010
	Actual	Actual	Actual
Financial Assets			
Cash and cash equivalents (Note 6)	**$ 12,626**	$ 10,382	$ 8,978
Accounts receivable (Note 7)	**28**	40	15
Portfolio investments	**1,019**	1,019	1,019
	13,673	11,441	10,012
Liabilities			
Accounts payable and accrued liabilities	**48**	32	56
Accrued vacation entitlements	**236**	238	227
Accrued salaries and benefits	**50**	43	31
Employee future benefits (Note 8)	**279**	278	251
	613	591	565
Net Financial Assets	**13,060**	10,850	9,447
Non-financial Assets			
Tangible capital assets (Note 9)	**28**	44	63
Prepaid expenses	**47**	42	45
	75	86	108
Accumulated surplus	**$ 13,135**	$ 10,936	$ 9,555

Designated assets (Note 10)
Commitments (Note 11)

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

THE MANITOBA SECURITIES COMMISSION
Statement of Operations
(in thousands)

For the years ended March 31	2012 Budget	2012 Actual	2011 Actual
Revenue			
Fees	$ 11,500	$ 14,956	$ 14,195
Interest	40	101	54
Miscellaneous	-	2	1
	11,540	15,059	14,250
Expenses			
Amortization - capital assets	21	16	21
CSA initiatives*	132	104	98
Contract services	360	270	283
Education/Information initiatives	197	166	184
Miscellaneous	28	20	25
Office materials and supplies	111	80	77
Premises	286	278	262
Professional services	127	142	127
Research resources	55	38	32
Salaries and benefits	3,152	2,796	2,803
Staff development and professional dues	44	28	32
Telecommunications	66	59	62
Travel	91	63	63
	4,670	4,060	4,069
Annual operating surplus	6,870	10,999	10,181
Transfer to the Province of Manitoba (Note 12)	8,800	8,800	8,800
Annual surplus (deficit)	(1,930)	2,199	1,381
Accumulated surplus, beginning of year	7,639	10,936	9,555
Accumulated surplus, end of year	$ 5,709	$ 13,135	$ 10,936

* Canadian Securities Administrators

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

THE MANITOBA SECURITIES COMMISSION
Statement of Change in Net Financial Assets
(in thousands)

For the years ended March 31	2012 Budget	2012 Actual	2011 Actual
Annual surplus (deficit)	**$ (1,930)**	**$ 2,199**	$ 1,381
Tangible Capital Assets			
Acquisition of tangible capital assets	**(40)**	**-**	(2)
Amortization of tangible capital assets	**21**	**16**	21
Net change in tangible capital assets	**(19)**	**16**	19
Other Non-financial Assets			
Increase (decrease) in prepaid expense	**-**	**(5)**	3
Net acquisition of other non-financial assets	**-**	**(5)**	3
Increase (decrease) in net financial assets	**(1,949)**	**2,210**	1,403
Net financial assets, beginning of year	**7,554**	**10,850**	9,447
Net financial assets, end of year	**$ 5,605**	**$ 13,060**	$ 10,850

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

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

For the years ended March 31	2012	2011
	Actual	Actual
Cash Provided by (applied to):		
Operating		
Annual surplus	**$ 2,199**	$ 1,381
Amortization of tangible capital assets	**16**	21
	2,215	1,402
Change in		
Accounts receivable	**12**	(25)
Prepaid expenses	**(5)**	3
Accounts payable and accrued liabilities	**16**	(24)
Accrued vacation entitlements	**(2)**	11
Accrued salaries and benefits	**7**	12
Employee future benefits	**1**	27
Cash provided by operating activities	**2,244**	1,406
Capital		
Acquisition of capital assets	**-**	(2)
Increase in cash and cash equivalents	**2,244**	1,404
Cash and cash equivalents, beginning of year	**10,382**	8,978
Cash and cash equivalents, end of year	**$ 12,626**	$ 10,382

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

For the years ended March 31, 2012 and March 31, 2011

1. Nature of Organization

Effective April 1, 1999 the Lieutenant Governor in Council designated the The Manitoba Securities Commission ("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. Basis of Accounting

As of April 1, 2011, the Commission adopted Public Sector Accounting (PSA) Standards with a transition date of April 1, 2010. More details on this transition are provided in Note 4.

The adoption of PSA Standards includes early adoption of PS 3450 Financial Instruments, PS 1201 Financial Statement Presentation, and new PS 3410 Government Transfers.

3. Significant Accounting Policies

<u>Revenue</u>

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

<u>Expenses</u>

(a) All expenses incurred for goods and services are recorded on an accrual basis.

(b) Government transfers are recognized as expenditures in the period in which the transfers are authorized and all eligibility criteria have been met.

<u>Financial Assets</u>

Portfolio Investments are investments that are capable of reasonably prompt liquidation and are recognized at cost.

3. Significant Accounting Policies (continued)

Liabilities

Liabilities are present obligations as a result of transactions and events occurring prior to the end of the fiscal year. The settlement of the liabilities will result in the future transfer or use of assets or other form of settlement. Liabilities are recorded at the estimated amount ultimately payable.

Non-financial Assets

(a) Prepaid expenses are payments for goods or services which will provide economic benefit in future periods. The prepaid amount is recognized as an expense in the year the goods or services are consumed.

(b) Tangible capital assets are recognized at cost. Cost includes the purchase price as well as other acquisition cost. Capital assets are recorded at cost and amortized over their useful 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.

Measurement Uncertainty

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 amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(in thousands)

4. First-time Adoption of Public Sector Accounting Standards

In previous years, the Commission was classified as a Government Business-Type Organization (GBTO) and followed the recommendations of the Canadian Institute of Chartered Accountants (CICA) Accounting handbook – Part V. In October 2009, the Public Sector Accounting Board (PSAB) determined that the category will cease to exist for fiscal years ending on or after January 1, 2011 and GBTOs are required to reclassify themselves in accordance with Public Sector Accounting (PSA) standards. In accordance with recommendations of the Public Sector Accounting Handbook, the Commission has determined that it is an "other government organization" and has determined that PSA Standards are the most appropriate framework for reporting purposes.

These new standards were required to be applied retroactively. The impacts of this change are as follows:

Portfolio Investments

	March 31 2011	April 1 2010
Portfolio investments as per previous financial statements	$ -	$ -
Add: Amounts reclassified from restricted short-term deposits to portfolio investments (Note (i))	750	750
Less: Amounts reclassified from long-term investments (Note (i))	269	269
Portfolio investments as per PSA Standards	$ 1,019	$ 1,019

Accumulated Surplus

	March 31 2011	April 1 2010
Equity as per previous financial statements	$ 10,186	$ 8,805
Add: Amount reclassified from reserve fund (Note (i))	750	750
Accumulated surplus as per PSAB Standards	$ 10,936	$ 9,555

4. First-time Adoption of Public Sector Accounting Standards (continued)

Annual Surplus

		March 31 2011
Net Income as per previous financial statements – March 31, 2011	$	10,181
Less: Transfer to the Province of Manitoba previously shown as a reduction of retained earnings (Note (ii))		8,800
Annual surplus as per PSA Standards	$	1,381

(i) PSA Standards require information about designated assets to be disclosed in the notes, and not on the statement of financial position. Therefore, designated assets previously classified as "long-term investments" and "restricted short-term deposits" are reclassified to "portfolio investments" on the statement of financial position and reserve fund has been reclassified as accumulated surplus, with the information disclosed in (Note 10).

(ii) Transfer to the Province of Manitoba is now presented as an expenditure in the statement of operations. In the previous financial statements, these transfers were presented as a reduction of retained earnings.

5. Financial Instruments and Financial Risk Management

Financial instruments are classified into one of the two measurement categories: (a) fair value; or (b) cost or amortized cost.

The Commission records its financial assets and liabilities at cost, which include cash and cash equivalents, accounts receivable and portfolio investments. The Commission also records its financial liabilities at cost, which include working capital advances and accounts payable.

Gains and losses on financial instruments measured at fair value are recorded in accumulated surplus as remeasurement gains and losses until realized. Upon disposition of the financial instruments, the cumulative remeasurement gains and losses are reclassified to the statement of operations. Gains and losses on financial instruments measured at cost or amortized cost are recognized in the statement of operations in the period the gain or loss occurs.

(in thousands)

5. Financial Instruments and Financial Risk Management (continued)

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 cash equivalents, portfolio investments, and accounts receivable.

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

	2012	2011
Cash and cash equivalents	**$ 12,626**	$ 10,382
Accounts receivable	**28**	40
Portfolio investments	**1,019**	1,019
	$ 13,673	$ 11,441

Cash, cash equivalents and portfolio 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.

Management has determined that no allowance for doubtful accounts is required as at March 31, 2012 (Nil in 2011).

(in thousands)

For the years ended March 31, 2012 and March 31, 2011

5. Financial Instruments and Financial Risk Management (continued)

Liquidity Risk

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

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

Market Risk

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

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.

6. Cash and Cash Equivalents

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

7. Accounts Receivable

	2012	2011
Accrued interest	**$ 16**	$ 14
Trade	**12**	26
	$ 28	$ 40

(in thousands)

8. Employee Future Benefits

	2012	2011
Severance benefits	**$ 279**	$ 278

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 2012 was $125 ($121 in 2011). Under this Agreement, The Manitoba Securities Commission has no further pension liability.

Severance benefits

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, 2012 was $279 ($278 in 2011). 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.

(in thousands)

8. Employee Future Benefits (continued)

Significant long-term actuarial assumptions used in the March 31, 2008 valuation, and in the determination of the March 31, 2012 present value of the accrued severance benefit obligation were:

Annual rate of return	
Inflation component	2.00 %
Real rate of return	4.00 %
	6.00 %
Assumed salary increase rate	
Annual productivity increase	1.00 %
Annual general salary increase	2.75 %
	3.75 %

Sick pay benefits

The Commission provides sick leave benefits for employees that accumulate but do not vest. The accrued benefit obligation related to sick leave entitlement earned by employees is determined using a valuation model developed by an actuary. The Commission has not recorded an accrued sick pay benefit obligation as it has been determined to be immaterial.

9. Tangible Capital Assets

	2012				2011
	Opening Balance	**Additions**	**Disposals**	**Closing Balance**	Total
Cost					
Office equipment	**$ 40**	**$ -**	**$ -**	**$ 40**	$ 40
Furniture and fixtures	**153**	**-**	**-**	**153**	153
Leasehold improvements	**41**	-	**-**	**41**	41
Computer hardware	**140**	**-**	**-**	**140**	140
Computer software	**863**	**-**	**-**	**863**	863
	1,237	**-**	**-**	**1,237**	1,237
Accumulated Amortization					
Office equipment	**36**	**3**	**-**	**39**	36
Furniture and fixtures	**147**	**3**	**-**	**150**	147
Leasehold improvements	**15**	**4**	**-**	**19**	15
Computer hardware	**135**	**3**	**-**	**138**	135
Computer software	**860**	**3**	**-**	**863**	860
	1,193	**16**	**-**	**1,209**	1,193
Net book value	**$ 44**	**$ (16)**	**$ -**	**$ 28**	$ 44

10. Designated Assets

Designated assets are distinct from restricted assets. Unlike restricted assets, the Commission or the Government can readily change its by-law or resolution and use the designated assets for another purpose if the need arises. The Commission has allocated $1019 ($1,019 in 2011) of its portfolio investments as designated assets for the following purposes:

The Commission maintains separate deposits of $750 ($750 in 2011) to fund expenses which may arise with respect to its reserve fund. The Reserve Fund was established to finance extraordinary expenses for isolated and unanticipated purposes that are regulatory in nature and for changes in market activity that have a negative effect on revenues.

The Commission has received $269 ($269 in 2011) of cash from the Province of Manitoba for the purpose of settling certain of its vacation and severance liabilities in the future. This amount is held in an interest bearing account until the cash is required to discharge the related liabilities. Any unused balance is re-invested annually.

11. Commitments

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, 2012 were $278. Minimum annual lease payments total $279 per year for each of the next five years.

12. Transfer to the Province of Manitoba

Payments to the Consolidated Revenue Fund of the Province of Manitoba are set annually according to Treasury Board Directives, and paid in quarterly installments. Total transfers for the current year were $8,800 ($8,800 in 2011).The Treasury Board has approved payments of $8,800 for the year ended March 31, 2013.

13. 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 advance of $500 which was unutilized at March 31, 2012 (Nil in 2011).

The Commission incurred no interest charges during the year (Nil in 2011).

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

For the year ended March 31, 2012

Employee	**Title**	**Compensation**
Don Murray	Chairman and CEO	**$ 144**
Doug Brown	Director and Secretary to the Commission	**133**
Steven Gingera	Assistant Legal Counsel	**129**
Chris Besko	Assistant Legal Counsel	**129**
Kim Laycock	Assistant Legal Counsel	**129**
Bob Bouchard	Director and CAO	**103**
Marlene Nemes	Controller	**89**
William Baluk	Registrar	**88**
Paula White	Senior Compliance Officer	**81**
Wayne Bridgeman	Senior Analyst	**80**
Jason Roy	Senior Investigator	**72**
Carla L. Buchanan	Compliance Auditor	**72**
Isilda Tavares	Registration Officer	**70**
Ainsley Cunningham	Information Officer	**69**
Terry Kirkham	Investigator - Real Estate	**68**
Patrick Weeks	Analyst	**66**
Leonard Terlinski	Investigator	**58**
Timothy Tapley	Investigator	**58**
Liz Klippenstein	Programmer Analyst	**56**
Keith Schinkel	Deputy Registrar - Registrations	**51**

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

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A Special Operating Agency of Manitoba Education, Citizenship and Youth

Management Report

The accompanying financial statements are the responsibility of the management of the Manitoba Text Book Bureau and have been prepared in accordance with Canadian public sector 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 26, 2012.

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

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

On behalf of Management,

Brenda McKinny
Chief Operating Officer

Rhonda Williams, CGA
Controller

Souris, Manitoba
July 26, 2012

OFFICE OF THE
AUDITOR GENERAL
MANITOBA

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Manitoba Text Book Bureau, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba, which comprise the statement of financial position as at as at March 31, 2012, March 31, 2011 and April 1, 2010, and the statements of operations and accumulated surplus, change in net financial assets and cash flows for the years ended March 31, 2012 and March 31, 2011, 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 public sector accounting standards 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 Text Book Bureau as at March 31, 2012, March 31, 2011 and April 1, 2010, and the results of its operations, changes in net financial assets and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Canadian public sector accounting standards.

500 - 330 Portage Avenue Winnipeg, Manitoba R3C 0C4 office: (204) 945-3790 fax: (204) 945-2169
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Basis of Accounting
Without modifying our opinion, we draw attention to Note 2 of the financial statements which describes the basis of accounting. For the year ending March 31, 2012, the Manitoba Text Book Bureau adopted Canadian public sector accounting standards. This resulted in significant changes to the presentation of the financial statements as compared to the prior year. These standards were applied retrospectively by management to the comparative information in these financial statements.

Office of the Auditor General

Office of the Auditor General
July 26, 2012
Winnipeg, Manitoba

Manitoba Text Book Bureau
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Statement of Financial Position

(in thousands)

	March 31, 2012	March 31, 2011	April 1, 2010
Financial assets			
Cash	**$ 4**	$ 4	$ 5
Accounts receivable	**644**	608	649
Portfolio investments	**64**	64	64
Inventories for resale	**2,552**	2,309	2,361
	3,264	2,985	3,079
Liabilities			
Working capital advance (Note 6)	**1,820**	1,487	1,804
Accounts payable and accruals	**505**	661	496
Customer deposit accounts	**175**	104	73
Accrued severance liability (Note 7)	**57**	55	52
	2,557	2,307	2,425
Net financial assets	**707**	678	654
Non-financial assets			
Prepaid expenses	**7**	8	51
Tangible capital assets (Note 8)	**74**	102	78
	81	110	129
Accumulated surplus	**$ 788**	$ 788	$ 783

Designated assets (Note 9)

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 Operations and Accumulated Surplus

(in thousands)

Year Ended March 31	2012 Budget	**2012 Actual**	2011 Actual
Sales	$ 7,721	**$ 7,678**	$ 7,628
Cost of goods sold			
Inventory, beginning of year	2,284	**2,309**	2,361
Purchases	6,411	**6,825**	6,513
Transportation in	35	**39**	31
Transportation out	106	**106**	107
	8,836	**9,279**	9,012
Inventory, end of year	2,134	**2,552**	2,309
Cost of goods sold	6,702	**6,727**	6,703
Gross profit	1,019	**951**	925
General and administrative expenses			
Amortization	34	**29**	25
Bad debts	-	**4**	4
Computer expense	80	**72**	88
Employee benefits	67	**58**	65
Interest	43	**37**	24
Marketing	15	**5**	7
Office	23	**23**	18
Office occupancy	37	**37**	37
Postage	3	**2**	3
Professional services	13	**13**	13
Salaries	385	**361**	331
Telephone	9	**7**	8
Training	3	**3**	1
Travel	14	**10**	6
Warehouse occupancy	89	**89**	89
Warehouse service	201	**201**	201
	1,016	**951**	920
Annual surplus	3	**-**	5
Accumulated surplus, beginning of year	788	**788**	783
Accumulated surplus, end of year	$ 791	**$ 788**	$ 788

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 Change in Net Financial Assets

(in thousands)

Year Ended March 31	2012 Budget	**2012 Actual**	2011 Actual
Annual surplus	$ 3	**$ -**	$ 5
Tangible capital assets			
Acquisition of tangible capital assets	(30)	**(1)**	(49)
Amortization of tangible capital assets	34	**29**	25
Net acquisition of tangible capital assets	4	**28**	(24)
Other non-financial assets			
Decrease in prepaid expense	(4)	**1**	43
Net acquisition of other non-financial assets	(4)	**1**	43
Increase in net financial assets	3	**29**	24
Net financial assets, beginning of year	788	**678**	654
Net financial assets, end of year	$ 791	**$ 707**	$ 678

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	**2012**	2011
Increase (decrease) in cash		
Operating		
Annual surplus	**$ -**	$ 5
Amortization of tangible capital assets	**29**	25
	29	30
Changes in		
Accounts receivable	**(36)**	41
Inventories for resale	**(243)**	52
Accounts payable and accruals	**(156)**	165
Customer deposit accounts	**71**	31
Accrued severance liability	**2**	3
Prepaid expenses	**1**	43
	(332)	365
Capital		
Acquisition of tangible capital assets	**(1)**	(49)
Financing		
Receipt (repayment) of working capital advance	**333**	(317)
Increase (decrease) in cash	**-**	(1)
Cash, beginning of year	**4**	5
Cash, end of year	**$ 4**	$ 4

Supplemental cash flow information:

Interest received	**$ 6**	$ 5
Interest paid	**$ 36**	$ 23

See accompanying notes to the financial statements.

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

(in thousands)
For the year ended March 31, 2012

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. Basis of accounting

As of April 1, 2011, the MTBB adopted Public Sector Accounting (PSA) Standards with a transition date of April 1, 2010. More details on this transition are provided in Note 4.

The adoption of PSA Standards includes early adoption of PS 1201 Financial Statement Presentation, PS 3041 Portfolio Investments, PS 3450 Financial Instruments, and new PS 3410 Government Transfers.

These new standards were required to be applied retroactively. There were no impacts on accumulated surplus or annual surplus arising from this change.

3. Significant accounting policies

Revenue

Revenue is recognized upon transfer of title to the customer.

Expenses

All expenses incurred for goods and services are recorded on an accrual basis.

Financial assets

Cash
Cash includes cash on hand and bank balance.

Portfolio investments
Portfolio investments are short-term deposits with original maturities of more than three months. These investments are recognized at cost.

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

Liabilities

Liabilities are present obligations as a result of transactions and events occurring prior to the end of the fiscal year. The settlement of the liabilities will result in the future transfer or use of assets or other form of settlement. Liabilities are recorded at the estimated amount ultimately payable.

Non-financial assets

Non-financial assets do not normally provide resources to discharge liabilities of the MTBB. These assets are normally employed to provide future services.

Prepaid expenses
Prepaid expenses are payments for goods or services which will provide economic benefit in future periods. The prepaid amount is recognized as an expense in the year the goods or services are consumed.

3. Significant accounting policies (continued)

Tangible capital assets
Tangible capital assets are recognized at cost. Cost includes the purchase price as well as other acquisition costs. The costs of tangible capital assets are amortized over their estimated useful lives as follows:

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

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

Measurement uncertainty

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 amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. First-time adoption of Public Sector Accounting Standards

In previous fiscal years, the MTBB classified itself as a Government Business-Type Organization (GBTO) and followed the recommendations of the Canadian Institute of Chartered Accountants (CICA) Accounting Handbook - Part V. In October 2009, the Public Sector Accounting Board (PSAB) determined that the category will cease to exist for fiscal years ending on or after January 1, 2011, and GBTOs are required to reclassify themselves in accordance with Public Sector Accounting (PSA) Standards. In accordance with recommendations of the Public Sector Accounting Handbook, the MTBB has determined that it is an "other government organization" and has determined that PSA Standards are the most appropriate framework for reporting purposes.

These new standards were required to be applied retroactively. There were no impacts on accumulated surplus or annual surplus arising from this change.

(in thousands)

5. Financial instruments and financial risk management

Measurement

Financial instruments are classified into one of the two measurement categories: (a) fair value; or (b) cost or amortized cost.

The MTBB records its financial assets at cost, which include cash, portfolio investments, accounts receivable and inventories for resale. The MTBB also records its financial liabilities at cost, which include working capital advance, accounts payable and customer deposit accounts.

Gains and losses on financial instruments measured at fair value are recorded in accumulated surplus as re-measurement gains and losses until realized. Upon disposition of the financial instruments, the cumulative re-measurement gains and losses are reclassified to the consolidated statement of operations. Gains and losses on financial instruments measured at cost or amortized cost are recognized in the consolidated statement of operations in the period the gain or loss occurs.

The MTBB did not incur any re-measurement gains and losses during the year (2011 - $nil).

Financial risk management - overview

The MTBB 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 MTBB to credit risk consist principally of cash, portfolio investments and accounts receivable.

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

	2012	2011
Cash	**$ 4**	$ 4
Accounts receivable	**644**	608
Portfolio investments	**64**	64
	$ 712	$ 676

Cash and portfolio investments: The MTBB is not exposed to significant credit risk as these amounts are held by the Minister of Finance.

Accounts receivable: The MTBB is not exposed to significant credit risk as the balance is due from a large client base, and payment in full is typically collected when it is due. The MTBB manages this credit risk through close monitoring of overdue accounts.

5. Financial instruments and financial risk management (continued)

The MTBB 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	$	54
Provision for receivable impairment		4
Amounts written off		-
Balance, end of the year	$	58

Liquidity risk

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

The MTBB 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 MTBB'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 portfolio investments.

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

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 MTBB is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in foreign currency.

(in thousands)

6. Working capital advance

The MTBB has an authorized line of working capital advances of $3,500, of which $1,820 was used as of March 31, 2012 (2011 - $1,487). These advances bear interest at the rate of prime less 1%, are not secured by specific assets, and are repayable at any time in whole or in part at the option of the Minister of Finance.

7. Severance liability

Effective April 1, 1998, the MTBB 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, 2011. 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, 2012 was $57 (2011 - $55), with the actuarial gain of $30 (2011 - $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, 2011 valuation, and in the determination of the March 31, 2012 present value of the accrued severance benefit obligation were:

Annual rate of return	
Inflation component	2.00%
real rate of return	4.00%
	6.00%
Assumed salary increase rates	
annual productivity increase	1.00%
annual general salary increase	2.75%
	3.75%

The severance benefit liability at March 31 includes the following components:

	2012	2011
Accrued benefit liability	**$ 34**	$ 43
Unamortized actuarial gains (losses)	**23**	12
Severance benefit liability	**$ 57**	$ 55

(in thousands)

7. Severance liability (continued)

Total expenses related to severance benefits at March 31 include the following components:

	2012	2011
Interest on obligation	$ 2	$ 3
Employer service cost	2	1
Amortization of actuarial (gain)/loss over EARSL	(2)	(1)
Total expense related to severance benefit	$ 2	$ 3

8. Tangible capital assets

	2012 Opening Balance	2012 Additions	2012 Disposals	2012 Closing Balance
Cost				
Computer equipment	$ 262	$ -	$ -	$ 262
Computer software	93	-	-	93
Office equipment &furniture	51	1	-	52
Video recording equipment	51	-	-	51
Total cost	457	1	-	458
Accumulated Amortization				
Computer equipment	252	6	-	258
Computer software	19	19	-	38
Office equipment &furniture	36	3	-	39
Video recording equipment	48	1	-	49
Total accumulated amortization	355	29	-	384
Net	$ 102	$ (28)	$ -	$ 74

(in thousands)

8. Tangible capital assets (continued)

	2011			
	Opening Balance	Additions	Disposals	Closing Balance
Cost				
Computer equipment	$ 262	$ -	$ -	$ 262
Computer software	48	45	-	93
Office equipment &furniture	47	4	-	51
Video recording equipment	51	-	-	51
Total cost	408	49	-	457
Accumulated Amortization				
Computer equipment	244	8	-	252
Computer software	5	14	-	19
Office equipment &furniture	33	3	-	36
Video recording equipment	48	-	-	48
Total accumulated amortization	330	25	-	355
Net	$ 78	$ 24	$ -	$ 102

9. Designated assets

The MTBB has allocated $64 (2011 - $64) of its portfolio investments as designated assets for cash received from the Province of Manitoba for the vacation entitlements earned by employees of the MTBB prior to its designation as an SOA and the severance pay benefits accumulated to March 31, 1998 for certain of the MTBB's employees. This amount is held in an interest bearing account until the cash is required to discharge the related liabilities. Any unused balance is re-invested annually.

(in thousands)

10. 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.

11. 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 is required to pay annually to the Province an amount equal to its employees' current pension contributions. The amount paid for 2012 was $20 (2011 - $19). Under this agreement, the MTBB has no further pension liability.

12. 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, 2012, the following employees received compensation in excess of $50.

Name	Position	2012	2011
Denis Labossiere	Controller	63	73
Brenda McKinny	Chief Operating Officer	78	76

13. Budgeted figures

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the management of the Manitoba Text Book Bureau.

MATERIALS DISTRIBUTION AGENCY

(An Agency of the Province of Manitoba)

Management's Responsibility for Financial Reporting

The accompanying financial statements are the responsibility of management of Materials Distribution Agency and have been prepared in accordance with Canadian public sector accounting standards. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgments regarding all necessary estimates and all other data available as at June 15, 2012.

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 financial statements of Materials Distribution Agency have been audited by Magnus Chartered Accountants LLP, independent external auditors. The responsibility of the auditor is to express an independent opinion on whether the financial statements of Materials Distribution Agency are fairly represented, in all material respects, in accordance with Canadian public sector accounting standards. The Independent Auditors' Report outlines the scope of the audit examination and provides the audit opinion on the financial statements.

On behalf of Management of

Materials Distribution Agency

David Bishop
Chief Operating Officer

Joel Hershfield
Manager of Finance and Technology

INDEPENDENT AUDITORS' REPORT

To the Special Operating Agencies Financing Authority of
Materials Distribution Agency

Report on the Financial Statements

We have audited the accompanying financial statements of Materials Distribution Agency, an agency of the Special Operating Agencies Financing Authority, Province of Manitoba, which comprise the statements of financial position as at March 31, 2012, March 31, 2011, and April 1, 2010 and the statements of operations, change in net financial assets and cash flow for the years ended March 31, 2012 and March 31, 2011, 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 public sector accounting standards, 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, 2012, March 31, 2011 and April 1, 2010 and the results of its operations and cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Canadian public sector accounting standards.

Magnus

June 15, 2012
Winnipeg, Canada

Magnus Chartered Accountants LLP

Statement of Financial Position

(in thousands)

March 31, 2012, March 31, 2011, and April 1, 2010

	March 31 2012 Actual	March 31 2011 Actual (Restated - Note 4)	April 1 2010 Actual (Restated - Note 4)
Financial assets			
Cash and cash equivalents	$ 1,410	$ 493	$ 828
Accounts receivable (Note 6)	2,305	2,891	2,635
Portfolio investments	412	412	412
Inventories held for resale (Note 8)	1,467	1,476	1,600
	5,594	5,272	5,475
Liabilities			
Accounts payable and accrued liabilities	2,892	2,616	2,990
Employee future benefits (Note 9)	607	583	545
	3,499	3,199	3,535
Net financial assets	2,095	2,073	1,940
Non-financial assets			
Tangible capital assets (Note 10)	1,654	1,896	1,995
Prepaid expenses	226	237	227
	1,880	2,133	2,222
Accumulated surplus	$ 3,975	$ 4,206	$ 4,162

Designated assets (Note 11)

Commitments (Note 12)

See accompanying notes to financial statements.

Statement of Operations
(in thousands)
Years ended March 31, 2012 and 2011

	2012 Budget	2012 Actual	2011 Actual (Restated - Note 4)
Revenues:			
Warehouse sales (Schedule 1)	$ 11,755	$ 15,426	$ 12,817
Service revenue (Schedule 1)	11,485	10,667	11,116
	23,240	26,093	23,933
Expenses:			
Cost of sales	9,357	11,940	10,220
Salaries and benefits	4,599	4,478	4,421
Occupancy costs	995	1,172	1,077
Operating expenses (Schedule 2)	7,725	7,685	7,644
Administrative expenses (Schedule 2)	559	633	527
Province of Manitoba transfer (Note 13)	-	416	-
	23,235	26,324	23,889
Net (loss) income for the year	5	(231)	44
Accumulated surplus, beginning of year	4,333	4,206	4,162
Accumulated surplus, end of year	$ 4,338	$ 3,975	$ 4,206

See accompanying notes to financial statements.

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

Statement of Change in Net Financial Assets
(in thousands)
Years ended March 31, 2012 and 2011

	2012 Budget	2012 Actual	2011 Actual (Restated - Note 4)
Net (loss) income for the year	$ 5	$ (231)	
Tangible capital assets			
Acquisition of tangible capital assets	(960)	(746)	(914)
Amortization of tangible capital assets	960	988	1,012
Net acquisition of tangible capital assets	-	242	98
Other non-financial assets			
Increase (decrease) in prepaid expenses during the year	-	11	(9)
Net acquisition of other non-financial assets	-	11	(9)
Increase in net financial assets	5	22	133
Net financial assets, beginning of year	2,553	2,073	1,940
Net financial assets, end of year	$ 2,558	$ 2,095	$ 2,073

See accompanying notes to financial statements.

Statement of Cash Flow
(in thousands)
Years ended March 31, 2012 and 2011

	2012 Actual	2011 Actual (Restated - Note 4)
Cash provided by (applied to):		
Operating activities:		
Net (loss) income for the year	$ (231)	$ 44
Adjustment for:		
Amortization	988	1,012
	757	1,056
Changes in the following:		
Accounts receivable	585	(259)
Inventories held for resale	9	124
Prepaid expenses	11	(9)
Accounts payable and accrued liabilities	277	(371)
Employee future benefits	24	38
Cash provided by operating activities	1,663	579
Capital activities:		
Acquisition of tangible capital assets	(746)	(914)
Cash applied to capital activities	(746)	(914)
Change in cash and cash equivalents	917	(335)
Cash and cash equivalents, beginning of year	493	828
Cash and cash equivalents, end of year	$ 1,410	$ 493

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. Basis of accounting

As of April 1, 2011, the Agency adopted Canadian public sector accounting (PSA) standards with a transition date of April 1, 2010. These are the Agency's first financial statements prepared in accordance with PSA standards. More details on the transition to PSA standards are provided in Note 4 to these financial statements.

The adoption of PSA standards includes the early adoption of PS 1201 Financial Statement Presentation, PS 3041 Portfolio Investments, PS 3450 Financial Instruments, and new PS 3410 Government Transfers.

3. Significant accounting policies

(a) Revenue

Warehouse sales

Revenue is recognized when the goods are shipped.

Service revenue

Service revenue is recognized when the related services are completed or substantially completed.

Other revenue

All other revenues are recorded on an accrual basis.

(b) Expenses

Accrual accounting

All expenses incurred for goods and services are recognized on an accrual basis.

Government transfers

Government transfers are recognized as expenses in the period in which the transfers are authorized and all eligibility criteria have been met.

(c) Financial assets

Cash and cash equivalents

Cash and cash equivalents include cash on hand and short term deposits and investments with original maturities of three months or less.

Accounts receivable

Accounts receivable are recorded at the lower of cost and net realizable value. An allowance for doubtful accounts is recorded when there is uncertainty whether the amounts will be collected.

Portfolio investments

Portfolio investments are investments and deposits with original maturities of more than three months. These investments are recognized at cost.

Inventories for resale

Inventories for resale are recorded at the lower of cost or net realizable value.

(d) Liabilities

Liabilities are present obligations as a result of transactions and events occurring at or prior to the end of the fiscal year the settlement of which will result in the future transfer or use of assets or other form of settlement. Liabilities are recognized when there is an appropriate basis of measurement and a reasonable estimate can be made of the amount involved.

3. Significant accounting policies (continued)

(e) Non-financial assets

Tangible capital assets

Tangible capital assets are recognized at cost. Cost includes the purchase price as well as other acquisition costs. The costs of tangible capital assets,less any residual value, are amortized over their estimated useful lives as follows:

Computer equipment	20% straight line
Furniture and 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

Prepaid expenses

Prepaid expenses are payments for goods or services that will provide economic benefit in future periods. The prepaid amount is recognized as an expense in the year the goods or services are consumed.

(f) Measurement uncertainty

The preparation of financial statements in conformity with Canadian public sector accounting standards 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 amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. First-time adoption of Public Sector Accounting Standards

In previous fiscal years, the Agency classified itself as a Government Business-Type Organization (GBTO) and followed the recommendations of the Canadian Institute of Chartered Accountants Accounting Handbook – Part V. In October 2009, the Public Sector Accounting Board (PSAB) determined that the category would cease to exist for fiscal years ending on or after January 1, 2011, and that GBTOs are required to reclassify themselves in accordance with Public Sector Accounting (PSA) standards. In accordance with recommendations of the Public Sector Accounting Handbook, the Agency has determined that it is an “other government organization” and has determined that PSA standards are the most appropriate framework for financial reporting purposes.

These new standards were required to be applied retroactively. The impacts of these changes are as follows:

(in thousands)

4. First-time adoption of Public Sector Accounting Standards (continued)

(a) Tangible capital assets

	March 31, 2011	April 1, 2010
Capital assets as per previous financial statements	$ 1,895	$ 1,986
Add: net book value of intangible assets reclassified to tangible capital assets per PSA standards	1	9
Tangible capital assets as per PSA standards	$ 1,896	$ 1,995

(b) Employee future benefits

	March 31, 2011	April 1, 2010
Severance liability as per previous financial statements	$ 500	$ 462
Add: sick pay benefits recognized per PSA standards - Note (i)	83	83
Employee future benefits as per PSA standards	$ 583	$ 545

(c) Accumulated surplus

	March 31, 2011	April 1, 2010
Equity as per previous financial statements	$ 3,052	$ 3,040
Less: intangible assets previously recognized that do not qualify for recognition per PSA standards	(60)	(92)
Less: sick pay benefits recognized per PSA standards - Note (i)	(83)	(83)
Add: contributed equity reclassified as accumulated surplus per PSA standards	1,297	1,297
Accumulated surplus as per PSA standards	$ 4,206	$ 4,162

(d) Net Income

	March 31, 2011
Net income as per previous financial statements	$ 12
Add: amortization of intangible assets that do not qualify for recognition per PSA standards	32
Net income as per PSA standards	$ 44

(e) Cash flows

The adoption of PSA standards did not impact the net cash flows of the Agency. However, the adjustments made to tangible capital assets, employee future benefits, accumulated surplus and net income resulted in reclassifications of certain amounts presented in the statement of cash flow.

Notes:

(i) PSA standards require the recognition of a liability for future sick pay benefits that accumulate but do not vest. Recognition of a liability for sick pay benefit that accumulate but do not vest was not required under the previous standards.

(in thousands)

5. Financial instruments and financial risk management

Measurement

Financial instruments are classified into one of two measurement categories: (a) fair value; or (b) cost or amortized cost.

The Agency records its financial assets at cost. Financial assets include cash and cash equivalents, accounts receivable and portfolio investments. The Agency also records its financial liabilities at cost. Financial liabilities include accounts payable and accrued liabilities.

Gains and losses on financial instruments measured at fair value are recorded in accumulated surplus as re-measurement gains and losses until realized. Upon disposition of the financial instruments, the cumulative re-measurement gains and losses are reclassified to the statement of operations. Gains and losses on financial instruments measured at cost or amortized cost are recognized in the statement of operations in the period the gain or loss occurs.

The Agency did not incur any re-measurement gains and losses during the year ended March 31, 2012 (2011 - $nil).

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 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 and cash equivalents, accounts receivable and portfolio investments.

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

	2012	2011
Cash and cash equivalents	$ 1,410	$ 493
Accounts receivable	2,305	2,891
Portfolio Investments	412	412
	$ 4,127	$ 3,796

Cash and cash equivalents and portfolio investments: The Agency is not exposed to significant credit risk as these amounts are held by the Minister of Finance

Accounts receivable: The Agency is not exposed to significant credit risk as the balance of the accounts receivable are primarily with other government agencies and departments. The balance is due from a large client base and payment in full is typically collected when it is due. The Agency manages this credit risk through close monitoring of overdue accounts.

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, 2012 was $93 (2011 - $93).

(in thousands)

5. Financial instruments and financial risk management (continued)

Liquidity risk

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

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

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 and cash equivalents and portfolio investments.

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

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 a foreign currency.

6. Accounts receivable

	2012	2011
Trade receivables	$ 2,304	$ 2,890
Other	1	1
	$ 2,305	$ 2,891

7. Working capital advances

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, 2012 (2011 - $nil).

(in thousands)

8. Inventories held for resale

	2012	2011
Medical supplies	$ 681	$ 597
Equipment	102	158
Stationary	479	476
Janitorial	196	237
Furniture	9	8
	$ 1,467	$ 1,476

9. Employee future benefits

	2012	2011
Severance benefits	$ 524	$ 500
Sick pay benefits	83	83
	$ 607	$ 583

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.

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 2012 was $187 (2011 - $185). Under this agreement, the Agency has no further pension liability.

Severance 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, 2011. 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, 2012 was $524 (2011 - $500), with the actuarial loss being amortized over the 15 year expected average remaining service life of the employee group.

(in thousands)

9. Employee future benefits (continued)

Significant long-term actuarial assumptions used in the March 31, 2011 valuation, and in the determination of the March 31, 2012 present value of the accrued severance benefit obligation were:

Annual rate of return	
inflation component	2.00%
real rate of return	4.00%
	6.00%
Assumed salary increase rates	
annual productivity increase	1.00%
annual general salary increase	2.75%
	3.75%

Sick pay benefits

The Agency provides sick leave benefits for employees that accumulate but do not vest. The accrued benefit obligation related to sick leave entitlement earned by employees is determined using a valuation model developed by an actuary. The valuation is based on employee demographics, sick leave usage and actuarial assumptions. These assumptions include a 6.00% annual return and a 3.75% annual salary increase.

(in thousands)

10. Tangible capital assets

	2012				2011
	Opening Balance	Additions	Disposals	Closing Balance	Total
Cost					
Computer equipment	$ 567	$ 15	$ -	$ 582	$ 567
Fixtures	161	2	-	163	161
Leasehold improvements	836	18	-	854	836
Office equipment	64	-	-	64	64
Production equipment	284	7	-	291	284
Rental equipment	8,930	675	-	9,605	8,930
Warehouse equipment	998	29	` -	1,027	998
	$ 11,840	$ 746	$ -	$ 12,586	$ 11,840
Accumulated amortization					
Computer equipment	$ 557	$ 3	$ -	$ 560	$ 557
Fixtures	123	10	-	133	123
Leasehold improvements	752	21	-	773	752
Office equipment	64	-	-	64	64
Production equipment	284	8	-	292	284
Rental equipment	7,508	885	-	8,393	7,508
Warehouse equipment	656	61	-	717	656
Total accumulated amortization	$ 9,944	$ 988	$ -	$ 10,932	$ 9,944
Net book value	$ 1,896	$ (242)	$ -	$ 1,654	$ 1,896

11. Designated assets

The Agency has allocated $412 (2011 - $412) of its portfolio investments as designated assets for cash received from the Province of Manitoba for the vacation entitlements earned by employees of the Agency prior to its designation as an SOA and the severance pay benefits accumulated to March 31, 1998 for certain of the Agency's employees. This amount is held in an interest bearing account until the cash is required to discharge the related liabilities. Any unused balance is re-invested annually.

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 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 June 30, 2013 and the payments are $18 per month.

Rental agreement

The Agency leases 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, 2012 were $10 (2011 - $10).

13. Province of Manitoba transfer

A total of $416 was transferred from the Agency to the Province of Manitoba during the year to cover communications and security costs resulting from the disruption of postal services during June and July of 2011. These expenditures were unexpected and not considered routine operating expenses of the Agency.

Schedule of Warehouse Sales and Service Revenue
(in thousands)
Years ended March 31, 2012 and 2011 — Schedule 1

	2012	2011
Warehouse sales:		
Medical supplies	$ 4,919	$ 4,858
Stationery	4,580	4,060
Furniture	2,537	1,259
Janitorial	2,174	2,030
Health equipment	574	489
Special projects	642	121
	$ 15,426	$ 12,817
Service revenue:		
Disposal	$ 5	$ 17
Manitoba Textbook Bureau	290	290
Freight	731	726
Moving	389	466
Storage	63	60
Office equipment - copy centres	51	192
Mail services	5,870	5,940
Home care equipment rentals	3,062	2,841
Other income	206	584
	$ 10,667	$ 11,116

Schedule of Operating and Administrative Expenses
(in thousands)
Years ended March 31, 2012 and 2011 — Schedule 2

	2012	2011
Operating expenses:		
Amortization	$ 988	$ 1,012
Copy centre	43	142
Equipment rentals	139	137
Freight	1,428	1,296
Mail services	4,550	4,392
Moving	313	430
Vehicle	92	95
Warehouse supplies	132	140
	$ 7,685	$ 7,644
Administrative expenses:		
Computer	$ 237	$ 226
Miscellaneous	12	11
Office	207	142
Professional fees	14	15
Promotion and marketing	75	73
SOAFA fees	2	2
Telephone	66	52
Training	20	6
	$ 633	$ 527

Management's Responsibility for Financial Reporting

For the year ended March 31, 2012

The accompanying financial statements are the responsibility of management of the Office of the Fire Commissioner and have been prepared in accordance with Canadian public sector accounting standards. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgments regarding all necessary estimates and all other data available as at July 16, 2012.

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 financial statements of the Office of the Fire Commissioner have been audited by Magnus Chartered Accountants LLP, independent external auditors. The responsibility of the auditor is to express an independent opinion on whether the financial statements of the Office of the Fire Commissioner are fairly represented, in all material respects, in accordance with Canadian public sector accounting standards. The Independent Auditors' Report outlines the scope of the audit examination and provides the audit opinion on the financial statements.

On behalf of Management of the
Office of the Fire Commissioner

David Schafer
Fire Commissioner
(Chief Operating Officer)

Ken Taylor
Director of Support Services
(Chief Financial Officer)

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INDEPENDENT AUDITORS' REPORT

To the Special Operating Agencies Financing Authority of
Office of the Fire Commissioner

Report on the Financial Statements

We have audited the accompanying financial statements of Office of the Fire Commissioner, an agency of the Special Operating Agencies Financing Authority of the Province of Manitoba, which comprise the statements of financial position as at March 31, 2012 and the statements of operations, changes in net financial assets 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 public sector accounting standards, 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 qualified audit opinion.

Basis for Qualified Opinion

During the year, Office of the Fire Commissioner experienced significant turnover in senior management positions, including substantially all those positions that are responsible for financial reporting. In addition, subsequent to the approval of Office of the Fire Commissioner's prior year financial statements, a number of possible financial irregularities were identified by management. Given the nature of these possible financial irregularities combined with our inability to obtain representations from those responsible for financial reporting during the prior year and beginning of the current year, it was not practicable for us to obtain sufficient appropriate audit evidence about the accuracy of certain amounts reported in the statement of operations.

Consequently, we were unable to determine whether any adjustments to certain amounts reported in the statement of operations were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Office of the Fire Commissioner as at March 31, 2012 and its results of operations and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Comparative Information

Without modifying our opinion, we draw attention to Note 4 to the financial statements which describes that Office of the Fire Commissioner adopted Canadian public sector accounting standards on April 1, 2011 with a transition date of April 1, 2010. These standards were applied retrospectively by management to the comparative information in these financial statements, including the statements of financial position as at March 31, 2011 and March 31, 2010 and the statements of operations, changes in net financial assets and cash flow for the year ended March 31, 2011 and related disclosures. This restated comparative information is unaudited.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 5 to the financial statements which describes that Office of the Fire Commissioner identified errors relating to prior periods that were adjusted in the current year as prior period adjustments in accordance with Canadian public sector accounting standards. This restated comparative information and related disclosure is unaudited.

July 16, 2012
Winnipeg, Canada

Magnus Chartered Accountants LLP

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

Statement of Financial Position
(in thousands)
March 31, 2012

	March 31, 2012 Actual	March 31, 2011 Actual (Restated - Notes 4 and 5)	April 1, 2010 Actual (Restated - Notes 4 and 5)
Financial assets			
Cash and cash equivalents	$ 7,259	$ 6,164	$ 5,682
Accounts receivable (Note 7)	4,216	1,826	2,033
Portfolio investments	787	559	559
	12,262	8,549	8,274
Liabilities			
Accounts payable	671	405	1,284
Accrued liabilities (Note 8)	2,716	1,701	668
Unearned revenue	423	175	386
Employee future benefits (Note 9)	823	589	640
Capital lease obligations (Note 10)	109	154	196
	4,742	3,024	3,174
Net financial assets	7,520	5,525	5,100
Non-financial assets			
Tangible capital assets (Note 11)	7,499	7,909	7,890
Prepaid expenses	80	70	66
	7,579	7,979	7,956
Accumulated surplus	$ 15,099	$ 13,504	$ 13,056

Designated assets (Note 12)
Commitments (Note 13)
Contigency (Note 16)

See accompanying notes to financial statements.

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

Statement of Operations
(in thousands)
Year ended March 31, 2012

	2012 Budget	2012 Actual	2011 Actual (Restated - Notes 4 and 5)
Revenue			
Grants:			
Province of Manitoba	$ 130	$ 706	$ 238
Federal Government	615	784	973
Total grants	745	1,490	1,211
Fees and other revenue	13,366	13,789	10,355
Investment income	25	32	8
Total revenue (Schedule 1)	14,136	15,311	11,574
Expenses			
Personnel services	7,800	7,193	5,616
Grants/Transfer payments - Mutual Aid	260	172	143
Transportation (Schedule 2)	805	794	733
Communication (Schedule 3)	330	286	243
Supplies and services (Schedule 4)	1,420	1,852	1,760
Debt servicing	12	12	14
Minor capital	80	296	321
Amortization	900	829	886
Other operating expenses (Schedule 5)	1,149	1,532	1,410
Total expenses	12,756	12,966	11,126
Net income before the transfer of funds to the Province of Manitoba	1,380	2,345	448
Transfer of funds to the Province of Manitoba (Note 14)	750	750	-
Net income	630	1,595	448
Accumulated surplus, beginning of year	13,991	13,504	13,056
Accumulated surplus, end of year	$ 14,621	$ 15,099	$ 13,504

See accompanying notes to financial statements.

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

Statement of Change in Net Financial Assets
(in thousands)
Year ended March 31, 2012

	2012 Budget	2012 Actual	2011 Actual (Restated - Notes 4 and 5)
Net income	$ 630	$ 1,595	$ 448
Tangible capital assets			
Acquisition of tangible capital assets	(660)	(423)	(905)
Amortization of tangible capital assets	900	829	886
Gain on disposal of tangible capital assets	-	4	-
Net acquisition of tangible capital assets	240	410	(19)
Other non-financial assets			
Increase (decrease) in prepaid expenses	10	(10)	(4)
Net acquisition of other non-financial assets	10	(10)	(4)
Increase in net financial assets	880	1,995	425
Net financial assets, beginning of year	6,012	5,525	5,100
Net financial assets, end of year	$ 6,892	$ 7,520	$ 5,525

See accompanying notes to financial statements.

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

Statement of Cash Flow
(in thousands)
Year ended March 31, 2012

	2012 Actual	2011 Actual (Restated - Notes 4 and 5)
Cash provided by (applied to):		
Operating		
Net income	$ 1,595	$ 448
Amortization of tangible capital assets	829	886
Gain on disposal of tangible capital assets	(20)	-
	2,404	1,334
Change in:		
Accounts receivable	(2,390)	207
Accounts payable	266	(879)
Accrued liabilities	1,015	1,033
Unearned revenue	248	(211)
Employee future benefits	234	(51)
Prepaid expenses	(10)	(4)
Cash provided by operating activities	1,767	1,429
Capital		
Proceeds from disposal of tangible capital assets	24	-
Acquisition of tangible capital assets	(423)	(905)
Cash applied to capital activities	(399)	(905)
Investing		
Portfolio investments	(228)	-
Cash applied to investing activities	(228)	-
Financing		
Capital lease obligations	(45)	(42)
Cash applied to financing activities	(45)	(42)
Increase in cash and cash equivalents	1,095	482
Cash and cash equivalents, beginning of year	6,164	5,682
Cash and cash equivalents, end of year	$ 7,259	$ 6,164

See accompanying notes to financial statements.

1. Nature of organization

Effective April 1, 1996, the Office of the Fire Commissioner (or "the Agency") 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 of the Fire Commissioner does not hold title to the assets. Effective April 1, 1996, the Financing Authority established a fund referred to as the Fires Prevention Fund to hold these assets.

Effective April 1, 2011, the operations and related net liabilities valued at $358 of the Mechanical and Engineering Branch of the Department of Labour and Immigration were transferred to the Financing Authority to be managed and accounted for by the Office of the Fire Commissioner. The results of operations were applied prospectively with no comparative amounts included in the financial statements for the prior year.

The Office of the Fire Commissioner is part of the Department of Family Services and Labour and is ultimately under the policy direction of the Minister of Family Services and Labour.

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

2. Basis of accounting

As of April 1, 2011, the Agency adopted Canadian public sector accounting (PSA) standards with a transition date of April 1, 2010. More details on this transition are provided in Note 4 to these financial statements.

The adoption of PSA standards includes the early adoption of PS 1201 Financial Statement Presentation, PS 3041 Portfolio Investments, PS 3450 Financial Instruments, and new PS 3410 Government Transfers.

3. Significant accounting policies

Revenue recognition

Government transfers

Government transfers without eligibility criteria or stipulations are recognized as revenue when the transfer is authorized.

Government transfers with eligibility criteria but without stipulations are recognized as revenue when the transfer is authorized and all eligibility criteria have been met.

Government transfers with or without eligibility criteria but with stipulations are recognized as revenue in the period the transfer is authorized and all eligibility criteria have been met, except when and to the extent that the transfer gives rise to a liability.

Fees and other revenue

<u>Insurance Levy</u>
The Fires Prevention and Emergency Response Act imposes a special assessment on licensed insurers equal to a set percentage of total property insurance premiums. The levy rate is currently set at 1.25% (2011 - 1.25%).

The Agency 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 2011 calendar year is recognized as revenue in the fiscal year ending March 31, 2012 with no amounts recognized in the financial statements for January to March of the current fiscal year due to it not being practicable to determine a reasonable estimate for these amounts.

Revenue is recognized on an accrual basis for:

<u>Mechanical and engineering fees</u> including: amusement rides, boiler and pressure vessel, gas and oil, electrical, and elevator fees including certificates, design registrations, examinations, inspections, licenses, permits, searches and special acceptances under *The Amusements Act, The Electricians' License Act, The Elevator Act, The Gas and Oil Burner Act, The Power Engineers Act* and *The Steam and Pressure Plants Act*.

<u>Codes and standards revenue</u> including: building, mobile home and plumbing code inspections and permits under the *Buildings and Mobile Homes Act.*

<u>Tuition fees and fire inspections, investigations and reports</u> under *The Fires Prevention and Emergency Response Act.*

All <u>other revenue</u> is recognized on the accrual basis.

3. Significant accounting policies (continued)

Expenses

Expenses incurred for goods and services are recorded on an accrual basis.

Government transfer payments
Government transfer payments are recognized as expenses in the period in which the transfers are authorized and all eligibility criteria have been met.

Financial assets

Cash and cash equivalents
Cash and cash equivalents include cash on hand and short-term deposits and investments with original maturities of three months or less.

Accounts receivable
Accounts receivable are recorded at the lower of cost and net realizable value. An allowance for doubtful accounts is recorded when there is uncertainty whether the amounts will be collected.

Portfolio investments
Portfolio investments are term deposits and investments with original maturities of more than three months. These investments are recognized at cost.

Liabilities

Liabilities are present obligations as a result of transactions and events occurring at or prior to the end of the fiscal year the settlement of which will result in the future transfer or use of assets or other form of settlement. Liabilities are recorded at the estimated amount ultimately payable.

Non-financial assets

Non-financial assets do not normally provide resources to discharge liabilities of the Agency. These assets are normally employed to provide future services.

Prepaid expenses
Prepaid expenses are payments for goods or services which will provide economic benefit in future periods. The prepaid amount is recognized as an expense in the year the goods or services are consumed.

Tangible capital assets
Tangible capital assets are recognized at cost. Cost includes the purchase price as well as other acquisition costs.

(in thousands)

3. Significant accounting policies (continued)

The costs of tangible capital assets, less any residual value, are amortized over their estimated useful lives as follows:

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

Measurement uncertainty

The preparation of financial statements in accordance with Canadian public sector accounting standards 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 amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. First-time adoption of Canadian public sector accounting standards

In previous fiscal years, the Agency classified itself as a Government Business-Type Organization (GBTO) and followed the recommendations of the Canadian Institute of Chartered Accountants (CICA) Accounting Handbook - Part V. In October 2009, the Public Sector Accounting Board (PSAB) determined that the category will cease to exist for fiscal years ending on or after January 1, 2011, and GBTOs are required to reclassify themselves in accordance with Canadian public sector accounting (PSA) standards. In accordance with recommendations of the Public Sector Accounting Handbook, the Agency has determined that it is an “other government organization” and has determined that PSA standards are the most appropriate framework for financial reporting purposes.

These new standards were required to be applied retroactively. The impacts of this change are as follows:

Cash and cash equivalents	March 31, 2011	April 1, 2010
Cash as per previous financial statements	$ 2,914	$ 5,682
Add: amounts reclassified from short-term investments to cash and cash equivalents	3,250	-
Cash and cash equivalents as per PSA standards	$ 6,164	$ 5,682

(in thousands)

4. First-time adoption of Canadian public sector accounting standards (continued)

Portfolio investments	March 31, 2011	April 1, 2010
Portfolio investments as per previous financial statements	$ -	$ -
Add: amounts reclassified from long-term investments to portfolio investments - Note (i)	559	559
Portfolio investments as per PSA standards	$ 559	$ 559

Unearned revenue	March 31, 2011	April 1, 2010
Deferred contributions as per previous financial statements	$ 990	$ 1,110
Less: government transfers previously deferred - Note (ii)	(815)	(724)
Unearned revenue as per PSA standards	$ 175	$ 386

Employee future benefits	March 31, 2011	April 1, 2010
Severance liability as per previous financial statements	$ 452	$ 503
Add: sick pay benefits - Note (iii)	137	137
Employee future benefits as per PSA standards	$ 589	$ 640

Accumulated surplus	March 31, 2011	April 1, 2010
Equity as per previous financial statements	$ 14,082	$13,555
Add: government transfers previously deferred - Note (ii)	815	724
Less: sick pay benefits - Note (iii)	(137)	(137)
Accumulated surplus as per PSA standards prior to the restatements per Note 5	$ 14,760	$14,142

Net income	Year ended March 31, 2011
Net income as per previous financial statements	$ 555
Less: change in government transfers previously deferred - Note (ii)	91
Less: expenses previously recorded in a reserve fund - Note (iv)	(28)
Net income as per PSA standards prior to the restatements per Note 5	$ 618

Notes:

(i) PSA standards require information about designated assets to be disclosed in the notes, and not on the statement of financial position. Therefore, designated assets previously classified as “long-term investments” are reclassified to “portfolio investments” on the statement of financial position, with the information disclosed in Note 12 to these financial statements.

(in thousands)

4. First-time adoption of Canadian public sector accounting standards (continued)

(ii) Government assistance towards the acquisition of tangible capital assets was previously deferred and amortized over the life of the related asset. Under PSA standards, government transfers are recognized as revenue when the transfers are authorized and any eligibility criteria are met, to the extent the transfers have any stipulations that give rise to a liability.

(iii) Under the previous accounting standards, the Agency was not required to accrue a liability for sick pay benefits that accumulate but do not vest. However, PSA standards require an accrual for non-vesting sick pay benefits as they are earned by employees.

(iv) Expenses previously recorded in a reserve fund as part of retained earnings are now reflected in the statement of operations under PSA standards.

5. Correction of errors relating to prior periods

During the year, the Agency identified material errors relating to certain grant revenues recognized in prior years; specifically, errors were identified in amounts recognized from Natural Resources Canada and the Manitoba Local Government. PSA standards require that corrections of errors that impair the fairness of financial statements of prior periods be reported retroactively with restatement of the comparative information.

The impacts of the correction of the errors are as follows:

Accounts receivable	March 31, 2011	April 1, 2010
Accounts receivable as per PSA standards	$ 2,335	$ 3,119
Less: prior period adjustment to write off Natural Resources Canada - Green Building Promotion grant receivable - Note (i)	(203)	(826)
Less: prior period adjustment to write off Manitoba Local Government – Mutual Aid grant receivable - Note (ii)	(306)	(260)
Accounts receivable as per PSA standards - restated	$ 1,826	$ 2,033

Accrued liabilities	March 31, 2011	April 1, 2010
Accrued liabilities as per PSA standards	$ 954	$ 668
Add: prior period adjustment to set up accrual for repayment of Natural Resources Canada - Green Building Promotion grant - Note (i)	747	-
Accrued liabilities as per PSA standards - restated	$ 1,701	$ 668

(in thousands)

5. Correction of errors relating to prior periods (continued)

Accumulated surplus	March 31, 2011	April 1, 2010
Accumulated surplus as per PSA standards (per Note 4)	$ 14,760	$ 14,142
Less: prior period adjustment to write off Natural Resources Canada - Green Building Promotion grant revenue - Note (i)	(950)	(826)
Less: prior period adjustment to write off Manitoba Local Government – Mutual Aid grant revenue - Note (ii)	(306)	(260)
Accumulated surplus as per PSA standards - restated	$ 13,504	$ 13,056

Net income	Year ended March 31, 2011
Net income as per as per PSA standards (per Note 4)	$ 618
Less: prior period adjustment to write off Natural Resources Canada - Green Building Promotion grant revenue - Note (i)	(124)
Less: prior period adjustment to write off Manitoba Local Government – Mutual Aid grant revenue - Note (ii)	(46)
Net income as per PSA standards - restated	$ 448

Notes:

(i) The Agency submitted total claims of $950 to Natural Resources Canada (NRCAN) per the Green Building Promotion contribution agreement for the three year period 2008/09 to fiscal 2010/11 with a final holdback amount of $94. The final report was due to NRCAN on April 30, 2011 in order to receive the holdback. In September 2011, the Agency noted that the claims contained ineligible expenses and that the final report would be revised to exclude the ineligible amounts. In November 2011, the Agency submitted a final report with a revised amount of $165 for eligible expenses. No amounts have been recorded in the financial statements relating to this revised claim. NRCAN is currently reviewing the final report with its financial and legal services and has indicated that it would be prudent to consider the full amount of $950 as repayable per the contribution agreement. An amount of $856 has been included in accrued liabilities as at March 31, 2012 (the amount repayable of $950 less the holdback of $94) and a reduction of $950 has been recorded to accumulated surplus for the decrease in revenue for the prior periods.

(ii) The Agency recorded total grant revenue of $390 from Manitoba Local Government for Mutual Aid for the three year period from fiscal 2008/09 to fiscal 2010/11. The Agency was eligible to receive an annual grant up to a maximum of $130 for each of the three years from Manitoba Local Government. Each year, the Agency was to submit a claim based on total eligible expenses incurred. If a claim is not submitted, or submitted for a lesser amount than the annual maximum of $130, then only the amount of eligible expenses submitted was payable by Manitoba Local Government. The Agency did not submit claims for 2008/09 and 2009/10 and only submitted a claim for $84 in 2010/11. The grant revenue was overstated by $306 over the three year period. A reduction of $306 has been recorded to the accounts receivable and to accumulated surplus for the decrease in revenue for the prior periods.

(in thousands)

6. Financial instruments and financial risk management

Measurement

Financial instruments are classified into one of two measurement categories: (a) fair value; or (b) cost or amortized cost.

The Agency records its financial assets at cost, which include cash and cash equivalents, accounts receivable and portfolio investments. The Agency also records its financial liabilities at cost, which include accounts payable.

Gains and losses on financial instruments measured at fair value are recorded in accumulated surplus as re-measurement gains and losses until realized. Upon disposition of the financial instruments, the cumulative re-measurement gains and losses are reclassified to the statement of operations. Gains and losses on financial instruments measured at cost or amortized cost are recognized in the statement of operations in the period the gain or loss occurs.

The Agency did not incur any re-measurement gains and losses during the year (2011 - $nil).

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 cash equivalents, portfolio investments and accounts receivable.

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

	2012	2011
Cash and cash equivalents	$ 7,259	$ 6,164
Accounts receivable	4,216	1,826
Portfolio investments	787	559
	$ 12,262	$ 8,549

Cash and cash equivalents and portfolio investments: The Agency is not exposed to significant credit risk as these amounts are 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 payment 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.

6. Financial instruments and financial risk management (continued)

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

	2012	2011
Balance, beginning of year	$ -	$ -
Transfer of Mechanical and Engineering Branch balance	34	-
Provision for receivable impairment	211	139
Amounts written off	(73)	(139)
Balance, end of year	$ 172	$ -

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.

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 and cash equivalents and portfolio investments.

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

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 a foreign currency.

(in thousands)

7. Accounts receivable

The accounts receivable balance is made up of the following:

	2012	2011
Financial Institutions Branch of Department of Finance – Fire Prevention Levy	$ 2,492	$ -
Public Safety Canada – Joint Emergency Preparedness Initiative	1,277	1,414
Trade accounts receivable	418	182
National Search and Rescue Secretariat – New Search and Rescue Initiative	18	146
Public Safety Canada – National Heavy Urban Search and Rescue Exercise	11	-
Manitoba Local Government – Mutual Aid Grant	-	84
	$ 4,216	$ 1,826

8. Accrued liabilities

The accrued liabilities balance is made up of the following:

	2012	2011
Natural Resources Canada – Green Building Promotion (Note 5)	$ 856	$ 747
Province of Manitoba (Note 14)	750	-
Vacation and overtime accrual	693	544
City of Winnipeg - Public Emergency Responder Certification Program	141	186
Manitoba Finance – Provincial Sales Tax payable	30	-
Payroll accrual	137	83
Other	109	141
	$ 2,716	$ 1,701

9. Employee future benefits

The employee future benefits balance is made up of the following:

	2012	2011
Severance benefits	$ 686	$ 452
Sick pay benefits	137	137
	$ 823	$ 589

(in thousands)

9. Employee future benefits (continued)

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* (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 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, 2012 was $342 (2011 - $260). Under this agreement, the Office of the Fire Commissioner has no further pension liability.

Severance 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, 2011. 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, 2012 was $686 (2011 - $452), 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, 2011 valuation, and in the determination of the March 31, 2012 present value of the accrued severance benefit obligation were:

Annual rate of return	
inflation component	2.00%
real rate of return	4.00%
	6.00%
Assumed salary increase rates	
annual productivity increase	1.00%
annual general salary increase	2.75%
	3.75%

(in thousands)

9. Employee future benefits (continued)

Sick pay benefits

The Office of the Fire Commissioner provides sick leave benefits for employees that accumulate but do not vest. The accrued benefit obligation related to sick leave entitlement earned by employees is determined using a valuation model developed by an actuary. The valuation is based on employee demographics, sick leave usage and actuarial assumptions. These assumptions include a 6.00% annual return and a 3.75% annual salary increase.

10. Capital lease obligations

	2012	2011
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.	$ 109	$ 141
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
	$ 109	$ 154

Obligations under capital lease are secured by the equipment under lease. The future minimum lease payments for the next five years are as follows:

2013	$ 35
2014	74
	$ 109

(in thousands)

11. Tangible capital assets

	2012				2011
	Opening balance	Additions	Disposals	Closing balance	Total
Cost					
Buildings	$ 7,654	$ -	$ -	$ 7,654	$ 7,654
Training site	2,384	4	-	2,388	2,384
Equipment	2,999	167	-	3,166	2,999
Fire engines	1,400	-	-	1,400	1,400
Other vehicles	1,155	148	(36)	1,267	1,155
Air compressors	761	77	-	838	761
Furniture	80	16	-	96	80
Computers	395	11	-	406	395
Total cost	16,828	423	(36)	17,215	16,828
Accumulated amortization					
Buildings	$ 2,256	$ 270	$ -	$ 2,526	$ 2,256
Training site	1,411	98	-	1,509	1,411
Equipment	2,362	161	-	2,523	2,362
Fire engines	1,150	75	-	1,225	1,150
Other vehicles	832	136	(32)	936	832
Air compressors	481	71	-	552	481
Furniture	70	5	-	75	70
Computers	357	13	-	370	357
Total accumulated amortization	8,919	829	(32)	9,716	8,919
Net book value	$ 7,909	$ (406)	$ (4)	$ 7,499	$ 7,909

12. Designated Assets

The Agency has allocated $787 (2011 - $559) of its portfolio investments as designated assets for cash received from the Province of Manitoba. As at March 31, 2012, $559 was designated for the vacation entitlements earned by employees of the Agency prior to its designation as an SOA and the severance pay benefits accumulated to March 31, 1998 for certain of their employees and $228 was designated for the severance pay benefits accumulated to April 1, 2011 for employees transferred from the Mechanical and Engineering Branch. These amounts are held in an interest bearing account until the cash is required to discharge the related liabilities. Any unused balance is re-invested annually.

(in thousands)

13. Commitments

The Agency (tenant) has entered into a lease agreement with the City of Brandon (landlord) for the land upon which the practical training facility has been constructed. The term of the lease expires May 31, 2017. Minimum annual rent is $12 due in equal quarterly installments, plus all operating costs with respect to the subject land.

Computer and office equipment leases exist for 86 machines. The longest lease term expires on March 31, 2016.

The Agency has entered into leases on a fleet of 44 vehicles.

These three categories of leases give rise to commitments as follows:

2013	$ 303
2014	198
2015	143
2016	82
2017	47
	$ 773

14. Transfer of funds to the Province of Manitoba

During the year, with Lieutenant-Governor-in-Council approval by Order in Council, the Agency transferred $750 (2011 - $nil) of its surplus funds to the Province of Manitoba.

15. Professional services – Family Services and Labour

The Agency has a professional services agreement with the Department of Family Services and Labour to provide financial and administrative services; information and communications technology services; and research, legislation and policy services to the Agency. The amount paid for March 31, 2012 was $180 (2011 - $130).

16. Contingency

A potential claim may be filed against the Agency regarding whether boilers manufactured or sold by the claimant fall within an exclusion under *The Power Engineers Act*. As of yet, no claim has been filed in court; however, the claimant has suggested that they may proceed with litigation if the Agency does not respond to the claim for business interruption. In the opinion of management and legal counsel, the outcome of the claim is not determinable and the amount of the potential loss, if any, cannot be reasonably estimated given the uncertainty of the outcome. Should any loss result from the resolution of this claim, such loss will be charged to operations in the year of resolution.

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

Schedule 1 - Revenue
(in thousands)
Year ended March 31, 2012

	2012 Budget	2012 Actual	2011 Actual (Restated - Notes 4 and 5)
Revenue			
Grants			
Province of Manitoba			
Manitoba Local Government - Mutual Aid	$ 130	$ 130	$ 84
Conservation - Disaster Financial Assistance	-	576	154
Total Province of Manitoba	130	706	238
Federal Government			
Public Safety Canada - Joint Emergency Preparedness Initiative	509	682	748
Public Safety Canada - Chemical, Biological, Radiological, Nuclear and Explosive	56	-	-
National Search and Rescue Secretariat - New Search and Rescue Initiative	50	91	146
Public Safety Canada - National Heavy Urban Search and Rescue Exercise	-	11	79
Total Federal Government	615	784	973
Fees and other revenue			
Insurance Levy	6,390	6,629	6,389
Mechanical and engineering fees	3,900	3,952	-
Codes and standards	1,800	1,996	1,782
Tuition and contract revenue	1,056	990	1,794
Fire inspections, investigations and reports	130	133	195
Other revenue	90	89	78
Emergency services conference	-	-	117
Total fees and other revenue	13,366	13,789	10,355
Investment income	25	32	8
	$ 14,136	$ 15,311	$ 11,574

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

Schedule 2 - Transportation Expenses
(in thousands)
Year ended March 31, 2012

	2012 Budget	**2012 Actual**	**2011 Actual** (Restated - Notes 4 and 5)
Transportation expenses			
Vehicle lease	$ 580	$ 612	$ 485
Travel	140	135	217
Fuel - owned vehicles	85	41	26
Emergency services	-	4	3
Boards	-	2	1
Mutual Aid - meetings	-	-	1
	$ 805	$ 794	$ 733

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

Schedule 3 - Communication Expenses
(in thousands)
Year ended March 31, 2012

	2012 Budget	2012 Actual	2011 Actual
			(Restated - Notes 4 and 5)
Communication expenses			
Communications	$ 210	$ 185	$ 165
Postal and courier	40	46	36
Marketing	40	22	28
Public education material	40	33	14
	$ 330	$ 286	$ 243

Schedule 4 - Supplies and Services Expenses
(in thousands)
Year ended March 31, 2012

	2012 Budget	2012 Actual	2011 Actual (Restated - Notes 4 and 5)
Supplies and services expenses			
Supplies	$ 450	$ 290	$ 406
Public Emergency Responder Certification Program	-	141	338
Repairs and maintenance	300	299	285
Rent	300	292	222
Mutual Aid - air compressor maintenance	-	74	54
Professional services - Family Services and Labour (Note 15)	180	180	130
Professional fees	85	99	107
Fuel - training supplies	80	69	78
Utilities	25	22	37
Bank charges	-	13	15
Emergency services	-	373	88
	$ 1,420	$ 1,852	$ 1,760

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

Schedule 5 - Other Operating Expenses
(in thousands)
Year ended March 31, 2012

	2012 Budget	2012 Actual	2011 Actual (Restated - Notes 4 and 5)
Other operating expenses			
Desktop management	$ 400	$ 401	$ 274
Travel	310	266	371
Bad debts	-	211	139
Property taxes	150	171	142
Insurance	130	111	119
Clothing	50	81	150
Publications	50	56	35
Professional development	25	28	30
Boards and committees	13	3	24
Seminar and conference registration	10	7	4
Memberships and subscriptions	6	18	5
Mutual Aid - meetings	-	5	4
Other	5	34	33
Emergency services	-	140	48
Special rescue	-	-	28
Relocation costs	-	-	4
	$ 1,149	$ 1,532	$ 1,410

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 Public sector accounting standards. 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 the audit report date.

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 Public sector accounting standards. 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

July 23, 2012

OFFICE OF THE
AUDITOR GENERAL
MANITOBA

INDEPENDENT AUDITOR'S REPORT

To the Legislative Assembly of Manitoba
To the Organization and Staff Development Agency
To the Special Operating Agencies Financing Authority

We have audited the accompanying financial statements of Organization and Staff Development, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba, which comprise the statement of financial position as at as at March 31, 2012, March 31, 2011 and April 1, 2010, and the statements of operations and accumulated surplus, change in net financial assets and cash flows for the years ended March 31, 2012 and March 31, 2011, 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 public sector accounting standards, 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 Organization and Staff Development as at March 31, 2012, March 31, 2011 and April 1, 2010, and the results of its operations, changes in net financial assets and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Canadian public sector accounting standards.

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

Basis of Accounting

Without modifying our opinion, we draw attention to Note 2 of the financial statements which describes the basis of accounting. For the year ending March 31, 2012, Organization and Staff Development adopted Canadian public sector accounting standards. This resulted in significant changes to the presentation of the financial statements as compared to the prior year. These standards were applied retrospectively by management to the comparative information in these financial statements.

Office of the Auditor General

Office of the Auditor General
July 23, 2012
Winnipeg, Manitoba

ORGANIZATION AND STAFF DEVELOPMENT – AN AGENCY OF THE SPECIAL OPERATING AGENCY FINANCING AUTHORITY
Statement of Financial Position
(000's)

	2012 March 31	2011 March 31	2010 April 1
Financial Assets			
Cash and cash equivalents	**$ 351**	$ 346	$ 333
Accounts receivable	**141**	256	192
Portfolio investments	**39**	39	39
	531	641	564
Liabilities			
Accounts payable and accrued liabilities (Note 6)	**124**	235	209
Employee future benefits (Note 7)	**94**	81	71
	218	316	280
Net financial assets	**313**	325	284
Non-financial Assets			
Inventories held for use	**21**	25	24
Prepaid expenses	**-**	66	-
Tangible capital assets (Note 8)	**87**	26	31
	108	117	55
Accumulated surplus	**$ 421**	$ 442	$ 339

Designated assets (Note 9)
Commitments (Note 10)
Contingencies (Note 11)

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

ORGANIZATION AND STAFF DEVELOPMENT – AN AGENCY OF THE SPECIAL OPERATING AGENCY FINANCING AUTHORITY
Statement of Operations and Accumulated Surplus
(000's)

For the year ended March 31	2012 Budget	2012 Actual	2011 Actual
Revenue			
Fees	$ 1,400	$ 1,625	$ 2,198
Interest	-	2	-
	1,400	1,627	2,198
Expenses			
Salaries and benefits	696	668	721
Professional fees	429	564	954
Operitel Learning Systems	92	73	67
Accommodations	46	77	65
Books and course materials	38	52	51
Occupancy costs	33	33	33
Food and beverages	32	62	73
Desk top management	32	28	29
Communications	18	16	17
Office supplies	13	15	14
Travel	11	18	24
Marketing	10	12	18
Rentals	5	10	13
Amortization	5	8	5
Professional development	4	7	6
Other	2	5	5
	1,466	1,648	2,095
Annual surplus (deficit)	(66)	(21)	103
Accumulated surplus, beginning of year	457	442	339
Accumulated surplus, end of year	$ 391	$ 421	$ 442

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

ORGANIZATION AND STAFF DEVELOPMENT – AN AGENCY OF THE SPECIAL OPERATING AGENCY FINANCING AUTHORITY
Statement of Change in Net Financial Assets
(000's)

For the year ended March 31	2012 Budget	2012 Actual	2011 Actual
Annual surplus (deficit)	$ (66)	$ (21)	$ 103
Tangible capital assets			
Acquisition of tangible capital assets	-	(69)	-
Amortization of tangible capital assets	5	8	5
Net acquisition of tangible capital assets	5	(61)	5
Other non-financial assets			
Increase in prepaid expenses	-	66	(66)
Increase in inventories	(1)	4	(1)
Net acquisition of other non-financial assets	(1)	70	(67)
Increase (decrease) in net financial assets	(62)	(12)	41
Net financial assets, beginning of year	408	325	284
Net financial assets, end of year	$ 346	$ 313	$ 325

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

ORGANIZATION AND STAFF DEVELOPMENT – AN AGENCY OF THE SPECIAL OPERATING AGENCY FINANCING AUTHORITY

Statement of Cash Flow (000's)

For the year ended March 31		2012		2011
Cash Provided by (Applied to):				
Operating				
Annual surplus (deficit)	$	(21)	$	103
Amortization of tangible capital assets		8		5
		(13)		108
Change in:				
Accounts receivable		115		(64)
Inventories		4		(1)
Prepaid expenses		66		(66)
Accounts payable and accrued liabilities		(111)		26
Employee future benefits		13		10
		87		(95)
Cash provided by operating activities		74		13
Capital				
Acquisition of tangible capital assets		(69)		-
Cash applied to capital activities		(69)		-
Increase in cash and cash equivalents		5		13
Cash and cash equivalents, beginning of year		346		333
Cash and cash equivalents, end of year	$	351	$	346
Supplementary Information				
Interest received	$	2	$	-

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

For the year ended March 31, 2012

(000's)

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. Basis of Accounting

As of April 1, 2011, the Agency adopted Public Sector Accounting (PSA) Standards with a transition date of April 1, 2010. More details on this transition are provided in Note 4.

The adoption of PSA standards includes early adoption of PS 3450 Financial Instruments, PS 1201 Financial Statement Presentation, and new PS 3410 Government Transfers.

(000's)

3. Significant Accounting Policies

a. Revenue
Training and consulting revenue is recorded on an accrual basis by specific project.

b. Expenses
All expenses incurred for goods and services are recorded on an accrual basis.

c. Financial Assets
Portfolio investments are short-term deposits with original maturities of more than three months. These investments are recognized at cost.

d. Liabilities
Liabilities are present obligations as a result of transactions and events occurring prior to the end of the fiscal year. The settlement of liabilities will result in the future transfer of assets or other form of settlement. Liabilities are recorded at the estimated amount ultimately payable.

e. Non-financial Assets

(i) Inventories
Inventories held for use are classified as non-financial assets.

(ii) Prepaid Expenses
Prepaid expenses are payments for goods or services which will provide economic benefit in future periods. The prepaid amount is recognized as an expense in the year the goods or services are consumed.

(iii) Tangible Capital Assets
Tangible capital assets are recognized at cost. Cost includes the purchase price as well as other acquisition cost. The costs of tangible capital assets, less any residual value, are amortized over their estimated useful lives 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.

f. Measurement Uncertainty
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.

(000's)

4. First-time Adoption of Public Sector Accounting Standards

In previous years, the Agency was classified as a Government Business-Type Organization (GBTO) and followed the recommendations of the Canadian Institute of Chartered Accountants (CACA) Accounting handbook - Part V. In October 2009, the Public Sector Accounting Board (PSAB) determined that the category will cease to exist for fiscal years ending on or after January 1, 2011 and GBTOs are required to reclassify themselves in accordance with Public Sector Accounting (PSA) standards. In accordance with the recommendations of the Public Sector Accounting Handbook, the Agency has determined that it is as an "other government organization" and has determined the PSA Standards are the most appropriate framework for reporting purposes.

These new standards were required to be applied retroactively. The impacts of this change are as follows:

(a) Portfolio investments	March 31 2011	April 1 2010
Portfolio investments as per previous financial statements	$ -	$ -
Less: Amounts reclassified from long-term investments (Note (i))	39	39
Portfolio investments as per PSA Standards	$ 39	$ 39

(b) Employee future benefits	March 31 2011	April 1 2010
Severance liability as per previous financial statements	$ 66	$ 56
Add: Sick pay benefits (Note (ii))	15	15
Employee future benefits as per PSA Standards	$ 81	$ 71

(c) Accumulated surplus	March 31 2011	April 1 2010
Accumulated surplus as per previous financial statements	$ 457	$ 354
Less: Sick pay benefits (Note (ii))	(15)	(15)
Accumulated surplus as per PSA Standards	$ 442	$ 339

Notes

(i) PSA Standards require information about designated assets to be disclosed in the notes, and not on the statement of financial position. Therefore, designated assets previously classified as "long-term investments" are reclassified to "portfolio investments" on the statement of financial position.

(ii) Under the previous accounting standards, the Agency was not required to accrue a liability for sick pay benefits that accumulated but did not vest. However, PSA Standards require accrual of non-vesting sick pay benefits as they are earned by employees.

(000's)

5. Financial Instruments and Financial Risk Management

Financial assets and liabilities are classified into one of the two measurement categories: (a) fair value; or (b) cost or amortized cost.

The Agency records its financial assets and liabilities at cost, which include cash and cash equivalents, accounts receivable and portfolio investments. The Agency also records its financial liabilities at cost, which include accounts payable and accrued liabilities.

Gains and losses on financial instruments measured at fair value are recorded in accumulated surplus as remeasurement gains and losses until realized. Upon disposition of the financial instruments, the cumulative remeasurement gains and losses are reclassified to the statement of operations. Gains and losses on financial instruments measured at cost or amortized cost are recognized in the statement of operations in the period the gain or loss occurs.

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 cash equivalents, portfolio investments and accounts receivable.

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

	2012	2011
Cash and cash equivalents	$ 351	$ 346
Accounts receivable	141	256
Portfolio investments	39	39
	$ 531	$ 641

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

(000's)

5. **Financial Instruments and Financial Risk Management** (continued)

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

Management has determined that no allowance for doubtful accounts is required as at March 31, 2012.

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 cash and cash equivalents and portfolio investments.

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

Foreign Currency Risk

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

For the year ended March 31, 2012

(000's)

6. Accounts Payable and Accrued Liabilities

		2012		2011
Trade accounts payable and accrued liabilities	**$**	**48**	$	147
Accrued salaries		**13**		11
Accrued vacation and overtime		**63**		77
	$	**124**	$	235

7. Employee Future Benefits

		2012		2011
Severance benefits	**$**	**79**	$	66
Sick pay benefits		**15**		15
	$	**94**	$	81

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 is required to pay annually to the Province of Manitoba an amount equal to its employees' current pension contributions. The amount paid for 2012 was $34 ($35 in 2011). Under this agreement, the Agency has no further pension liability.

(000's)

7. Employee Future Benefits (continued)

Severance 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, 2011. 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, 2012 was $79 ($66 as at March 31, 2011), 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, 2011 valuation, and in the determination of the March 31, 2012 present value of the accrued severance benefit obligation were:

Annual rate of return	
Inflation component	2.00%
Real rate of return	4.00%
	6.00%
Annual salary increase rates	
Annual productivity increase	1.00%
Annual general salary increase	2.75%
	3.75%

The severance liability at March 31 includes the following components:

	2012	2011
Accrued benefit liability	**$ 112**	$ 78
Unamortized actuarial gains (losses)	**(33)**	(12)
Severance benefit liability	**$ 79**	$ 66

For the year ended March 31, 2012

(000's)

7. **Employee Future Benefits** (continued)

The total expenses related to severance benefits at March 31 include the following components:

	2012	2011
Interest on obligation	$ 7	$ 5
Employer service cost	4	5
Amortization of actuarial loss over the expected average remaining service life of the employee group	2	-
	$ 13	$ 10

Sick pay benefits

The Agency provides sick leave benefits for employees that accumulate but do not vest. The accrued benefit obligation related to sick leave entitlement earned by employees is determined using a valuation model developed by an actuary. The valuation is based on employee demographics, sick leave usage and actuarial assumptions. These assumptions include a 6.00% annual return and a 3.75% annual salary increase.

For the year ended March 31, 2012

(000's)

8. Tangible Capital Assets

2012

		Opening Balance		Additions		Disposals		Closing Balance
Cost								
Office equipment	$	6	$	-	$	-	$	6
Furniture and fixtures		52		69		-		121
Computer equipment		20		-		-		20
		78		69		-		147
Accumulated Amortization								
Office equipment		4		-		-		4
Furniture and fixtures		32		7		-		39
Computer equipment		16		1		-		17
		52		8		-		60
Net book value	$	26	$	61	$	-	$	87

2011

		Opening Balance		Additions		Disposals		Closing Balance
Cost								
Office equipment	$	6	$	-	$	-	$	6
Furniture and fixtures		52		-		-		52
Computer equipment		20		-		-		20
		78		-		-		78
Accumulated Amortization								
Office equipment		4		-		-		4
Furniture and fixtures		29		3		-		32
Computer equipment		14		2		-		16
		47		5		-		52
Net book value	$	31	$	(5)	$	-	$	26

(000's)

9. Designated Assets

The Agency has allocated $39 (2011 - $39) of its temporary investments as designated assets for cash received from the Province of Manitoba with regard to the severance pay benefits accumulated to March 31, 1998 for certain of the Agency' employees. This amount is held in an interest bearing account until the cash is required to discharge the related liabilities. Any unused balance is re-invested annually.

10. 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 year are as follows:

2013	$	92

11. 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.

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 and the transactions are measured at the exchange amount.

13. Budgeted Figures

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the management of the Agency.

Independent Auditors' Report

To the Special Operating Agencies Financial Authority:

We have audited the accompanying financial statements of Pineland Forest Nursery, which comprise the statement of financial position as at March 31, 2012, March 31, 2011, and April 1, 2010 and the statements of operations and accumulated surplus (deficit), change in net debt and cash flows for the years 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 public sector accounting standards, 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, 2012, March 31, 2011 and April 1, 2010 and the results of its operations, changes in net debt and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Canadian public sector accounting standards.

Winnipeg, Manitoba

June 4, 2012

MNP LLP

Chartered Accountants

Pineland Forest Nursery
An Agency of the Special Operating Agencies Financing Authority
Statement of Financial Position
As at March 31, 2012

	March 31, 2012 (In thousands)	*March 31, 2011 (In thousands)*	*April 1, 2010 (In thousands)*
Financial Assets			
Portfolio investments	**187**	187	187
Accounts receivable (Note 6)	**998**	869	1,711
	1,185	1,056	1,898
Liabilities			
Working capital advances (Note 7)	**2,663**	2,146	2,200
Accounts payable and accruals	**262**	290	230
Unearned revenue	**63**	97	622
Employee future benefits (Note 8)	**338**	308	288
Borrowings from the Province of Manitoba (Note 9)	**1,607**	1,752	1,733
	4,933	4,593	5,073
Net Debt	**(3,748)**	(3,537)	(3,175)
Non-financial Assets			
Inventories held for use	**162**	142	136
Prepaid expenses	**37**	36	27
Tangible capital assets (Note 10)	**2,578**	2,907	3,182
	2,777	3,085	3,345
Accumulated Surplus (Deficit)	**(971)**	(452)	170

Designated assets (Note 11)

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 Operations and Accumulated Surplus (Deficit)
For the Year Ended March 31, 2012

	2012 Budget (In thousands)	**2012 Actual (In thousands)**	2011 Actual (In thousands)
Revenues - Private sector			
Overwinter	910	**756**	768
Current	229	**181**	237
Seed services	60	**38**	70
Other	5	**40**	39
	1,203	**1,015**	1,114
Revenues - Province of Manitoba			
Overwinter	948	**1,031**	928
Current	201	**223**	219
Seed services	40	**36**	37
Trees for tomorrow	-	**183**	148
Other	20	**8**	2
	1,209	**1,481**	1,334
Total revenues	2,412	**2,496**	2,448
Operating expenses *(Schedule 1)*	824	**939**	943
General administrative expenses			
Amortization	477	**453**	481
Interest - operating and capital loan	145	**130**	116
Salaries, wages and benefits	1,599	**1,493**	1,530
	2,221	**2,076**	2,127
Total expenses	3,045	**3,015**	3,070
Net loss	(633)	**(519)**	(622)
Accumulated surplus (deficit), beginning of year	(452)	**(452)**	170
Accumulated deficit, end of year	(1,085)	**(971)**	(452)

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 Change in Net Debt
For the Year Ended March 31, 2012

	2012 Budget (In thousands)	***2012 Actual (In thousands)***	*2011 Actual (In thousands)*
Net loss	(633)	**(519)**	(622)
Tangible capital assets			
Acquisition of tangible capital assets	(155)	**(124)**	(206)
Amortization of tangible capital assets	477	**453**	481
	322	**329**	275
Other non-financial assets			
Increase in inventory held for use	-	**(20)**	(6)
Increase in prepaid expense	-	**(1)**	(9)
	-	**(21)**	(15)
Increase in net debt	(311)	**(211)**	(362)
Net debt, beginning of year	(3,537)	**(3,537)**	(3,175)
Net debt, end of year	(3,848)	**(3,748)**	(3,537)

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, 2012

	2012 Actual (In thousands)	2011 Actual (In thousands)
Cash provided by (applied to):		
Operating		
Net loss	**(519)**	(622)
Amortization of tangible capital assets	**453**	481
	(66)	(141)
Change in:		
Accounts receivable	**(129)**	842
Accounts payable and accruals	**(28)**	60
Unearned revenue	**(34)**	(525)
Employee future benefits	**30**	20
Inventories	**(20)**	(6)
Prepaid expenses	**(1)**	(9)
	(248)	241
Capital		
Acquisition of tangible capital assets	**(124)**	(206)
Financing		
Borrowings from the Province of Manitoba	**-**	149
Debt repayments to the Province of Manitoba	**(145)**	(130)
	(145)	19
Increase (decrease) in cash resources	**(517)**	54
Working capital advances, beginning of year	**(2,146)**	(2,200)
Working capital advances, end of year	**(2,663)**	(2,146)

The accompanying notes are an integral part of these financial statements

1. Nature of 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. Basis of Accounting

As of April 1, 2011, the Nursery adopted Public Sector Accounting (PSA) Standards with a transition date of April 1, 2010. More details on this transition are provided in Note 4.

The adoption of PSA Standards includes early adoption of PS 3450 Financial Instruments, PS 1201 Financial Statement Presentation, and new PS 3410 Government Transfers.

3. Significant Accounting Policies

Revenue

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 and included in accounts receivable. Any excess of amounts billed over revenue recorded on a percentage of completion basis is recorded as unearned revenue.

Expenses

All expenses are recorded on an accrual basis.

Financial Assets

Portfolio Investments are investments that are capable of reasonably prompt liquidation and are recognized at cost.

Liabilities

Liabilities are present obligations as a result of transactions and events occurring prior to the end of the fiscal year. The settlement of the liabilities will result in the future transfer or use of assets or other form of settlement. Liabilities are recorded at the estimated amount ultimately payable.

Non-financial Assets

Non-financial assets do not normally provide resources to discharge liabilities of the Financing Authority. These assets are normally employed to provide future services.

Inventories held for use are classified as non-financial assets.

Prepaid expenses are payments for goods or services which will provide economic benefit in future periods. The prepaid amount is recognized as an expense in the year the goods or services are consumed.

Tangible Capital Assets are recognized at cost. Cost includes the purchase price as well as other acquisition costs. Amortization is provided using the declining balance method at rates intended to amortize the cost of assets over their estimated useful lives.

	Rate
Buildings - 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.

Long-lived assets

Long-lived assets consist of tangible capital assets. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Nursery performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying amount of an asset, or group of assets, may not be recoverable. The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted future cash flows from its use and disposal. Impairment is measured as the amount by which the asset's carrying amount exceeds its fair value. Fair value is measured using prices for similar items. Any impairment is included in loss for the year.

Measurement uncertainty

The preparation of financial statements 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. Amortization is based on the estimated useful lives of tangible capital assets. 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.

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.

(In thousands)

4. First-time Adoption of Public Sector Accounting Standards

In previous fiscal years, the Nursery classified itself as a Government Business-Type Organization (GBTO) and followed the recommendations of the Canadian Institute of Chartered Accountants (CICA) Accounting Handbook - Part V. In October 2009, the Public Sector Accounting Board (PSAB) determined that the category will cease to exist for fiscal years ending on or after January 1, 2011, and GBTOs are required to reclassify themselves in accordance with Public Sector Accounting (PSA) Standards. In accordance with recommendations of the Public Sector Accounting Handbook, the Nursery has determined that it is an “other government organization” and has determined that PSA Standards are the most appropriate framework for reporting purposes, and has followed PS 2125 – First-time adoption by government organizations.

These new standards were required to be applied retroactively. The impacts of this change are as follows:

a)	**Unearned revenue**	*March 31, 2011*	*April 1, 2010*
	Unearned revenue as per previous financial statements	97	825
	Less: adjustments for government transfers previously deferred – Note (i)	-	(203)
	Unearned revenue as per PSA Standards	97	622

b)	**Employee future benefits**	*March 31, 2011*	*April 1, 2010*
	Severance liability as per previous financial statements	282	262
	Add : sick pay benefits – Note (ii)	26	26
	Employee future benefits as per PSA Standards	308	288

c)	**Accumulated surplus (deficit)**	*March 31, 2011*	*April 1, 2010*
	Equity as per previous financial statements	(426)	(7)
	Add : adjustments for government transfers previously deferred – Note (i)	-	203
	Less: sick pay benefits – Note (ii)	(26)	(26)
	Accumulated surplus (deficit) as per PSA Standards	(452)	170

d)	**Net loss**	*Year ended March 31, 2011*
	Net loss as per previous financial statements	(419)
	Less: adjustments for government transfers previously deferred – Note (i)	(203)
	Net loss as per PSA Standards	(622)

Notes:

(i) Under PSA Standards, government transfers are recognized as revenue when the transfers are authorized and any eligibility criteria are met, to the extent the transfers have any stipulations that give rise to a liability

(ii) Under the previous accounting standards, the Financing Authority was not required to accrue a liability for sick pay benefits that accumulated but did not vest. However, PSA Standards require accrual of non-vesting sick pay benefits as they are earned by employees.

(In thousands)

5. Financial Instruments and Financial Risk Management

Measurement

Financial instruments are classified into one of the two measurement categories: (a) fair value; or (b) cost or amortized cost.

The Nursery records its financial assets at cost, which include accounts receivable and portfolio investments. The Nursery also records its financial liabilities at cost, which include accounts payable and borrowings.

Gains and losses on financial instruments measured at fair value are recorded in accumulated surplus as re-measurement gains and losses until realized. Upon disposition of the financial instruments, the cumulative re-measurement gains and losses are reclassified to the statement of operations. Gains and losses on financial instruments measured at cost or amortized cost are recognized in the statement of operations in the period the gain or loss occurs.

The Nursery did not incur any re-measurement gains and losses during the year (2011 - $nil).

Financial risk management - overview

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

Credit risk

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

The maximum exposure of the Nursery to credit risk is:

	March 31 2012	*March 31 2011*	*April 1 2010*
Portfolio investments	**187**	187	187
Accounts receivable	**998**	869	1,711
	1,185	1,056	1,898

Portfolio investments: The Nursery is not exposed to significant credit risk as these amounts are held by the Minister of Finance.

Accounts receivable: The Nursery is not exposed to significant credit risk as the balance is due from a large client base, and payment in full is typically collected when it is due. The Nursery manages this credit risk through close monitoring of overdue accounts. 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.

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

	March 31 2012	*March 31 2011*	*April 1 2010*
Balance, beginning of the year	**43**	49	43
Provision for (recovery of) receivable impairment	**-**	(6)	6
Amounts written off	**-**	-	-
Balance, end of the year	**43**	43	49

(In thousands)

5. Financial Instruments and Financial Risk Management *(Continued from previous page)*

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.

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 portfolio investments and borrowings.

The interest rate risk on portfolio investments is considered low as the original deposits are reinvested at rates for investments with similar terms and conditions.

The Nursery manages its interest rate risk on borrowings through the exclusive use of fixed rate terms for its borrowings.

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.

6. Accounts receivable

	March 31 2012	*March 31 2011*	*April 1 2010*
Trade receivable:			
Province of Manitoba	**298**	382	1,035
Other	**298**	181	398
	596	563	1,433
Allowance for doubtful accounts	**(43)**	(43)	(49)
	553	520	1,384
Unbilled revenue	**435**	335	327
Goods and Services Tax receivable	**10**	14	-
	998	869	1,711

7. Working capital advances

The Financing Authority has provided the Nursery with an authorized line of working capital of $3,000 of which $2,663 was advanced at March 31, 2012 (March 31, 2011 - $2,146, April 1, 2010 - $2,200). The indebtedness bears interest at prime less 1% (March 31, 2011 – prime less 1%, April 1, 2010 – prime less 1%).

(In thousands)

8. Employee future benefits

	March 31 2012	*March 31 2011*	*April 1 2010*
Severance benefits	**312**	282	262
Sick pay benefits	**26**	26	26
	338	308	288

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 Superannuation 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 2012 was $67 (2011 - $67).

Under this agreement, the Nursery has no further pension liability.

Severance benefits

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, 2011. 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, 2012 was $312 (March 31, 2011 - $282, April 1, 2010 - $262), 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, 2011 valuation, and in the determination of the March 31, 2012 present value of the accrued severance benefit obligation were:

Annual rate of return	
inflation component	2.00%
real rate if return	4.00%
	6.00%

Assumed salary increase rates	
annual productivity increase	0.75%
annual general salary increase	3.00%
	3.75%

Sick pay benefits

The Financing Authority provides sick leave benefits for employees that accumulate but do not vest. The accrued benefit obligation related to sick leave entitlement earned by employees is determined using a valuation model developed by an actuary. The valuation is based on employee demographics, sick leave usage and actuarial assumptions. These assumptions include a 6.00% annual return and a 3.75% annual salary increase.

(In thousands)

9. Borrowings from the Province of Manitoba

	March 31 2012	*March 31 2011*	*April 1 2010*
Capital purchase loan payable in monthly installments of $6,317, plus interest at 5.125%, due July 2023.	**859**	935	1,011
Capital purchase loan payable in monthly installments of $2,727, plus interest at 4.875%, due July 2023.	**371**	404	436
Capital purchase loan payable in monthly installments of $1,786, plus interest at 4.875%, due July 2023.	**243**	265	286
Capital purchase loan payable in monthly installments of $1,250, plus interest at 3.875%, due January 2021.	**134**	149	-
	1,607	1,752	1,733

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

2013	145
2014	145
2015	145
2016	145
2017	145

10. Tangible Capital Assets

	2012				*2011*
	Opening Balance	**Additions**	**Disposals**	**Closing Balance**	Total
Cost					
Buildings	**6,057**	**101**	**-**	**6,158**	6,057
Equipment	**2,021**	**23**	**-**	**2,044**	2,021
Total cost	**8,078**	**124**	**-**	**8,202**	8,078
Accumulated Amortization					
Buildings	**3,457**	**370**	**-**	**3,827**	3,457
Equipment	**1,714**	**83**	**-**	**1,797**	1,714
Total accumulated amortization	**5,171**	**453**	**-**	**5,624**	5,171
Net					
Buildings	**2,600**	**(269)**	**-**	**2,331**	2,600
Equipment	**307**	**(60)**	**-**	**247**	307
Total	**2,907**	**(329)**	**-**	**2,578**	2,907

As at April 1, 2010, buildings had a cost of $5,920, accumulated amortization of $3,051 for a net book value of $2,869. Equipment had a cost of $1,952, accumulated amortization of $1,639 for a net book value of $313.

11. Designated Assets

The Nursery has allocated $187 (March 31 2011 - $187, April 1, 2010 - $187) of its portfolio investments as designated assets for cash received from the Province of Manitoba for the vacation entitlements earned by employees of the Nursery prior to its designation as an SOA and the severance pay benefits accumulated to March 31, 1998 for certain of their employees. This amount is held in an interest bearing account until the cash is required to discharge the related liabilities. Any unused balance is re-invested annually.

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.

Pineland Forest Nursery
An Agency of the Special Operating Agencies Financing Authority
Schedule 1 - Schedule of Operating Expenses
For the Year Ended March 31, 2012

	2012 Budget (In thousands)	***2012 Actual (In thousands)***	*2011 Actual (In thousands)*
Operating expenses			
Departmental services and professional fees	30	**28**	30
Freight	34	**48**	41
Bad debts (recovery)	-	**-**	(6)
Marketing	5	**5**	5
Natural gas and hydro	220	**244**	259
Office	65	**69**	63
Property taxes and insurance	70	**81**	71
Repairs and maintenance	130	**150**	138
Supplies	260	**305**	321
Travel	10	**9**	21
	824	**939**	943

Management's Responsibility for Financial Reporting

The accompanying financial statements are the responsibility of the management of THE PROPERTY REGISTRY and have been prepared in accordance with Public sector accounting standards. 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 to the audit report date.

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 external audit is to express an independent opinion on whether the financial statements of THE PROPERTY REGISTRY are fairly represented in accordance with Public sector accounting standards. The Independent Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

On behalf of Management
THE PROPERTY REGISTRY

Barry Effler, Chief Operating Officer

Grant Kernested, Acting Director of Finance

June 8, 2017
Date

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 Property Registry**, which comprise the statement of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010, and the statements of operations, change in net financial assets and cash flow for the years ended March 31, 2012 and March 31, 2011, 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 Public sector accounting standards, 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 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, 2012, March 31, 2011, and April 1, 2010, and the results of its operations and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Public sector accounting standards.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba
June 8, 2012

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THE PROPERTY REGISTRY
An Agency of the Special Operating Agencies Financing Authority
Province of Manitoba
Statement of Financial Position
(in thousands)

	March 31 2012	March 31 2011	April 1 2010
Financial Assets			
Cash and cash equivalents (Note 6)	$ **11,388**	$ 10,959	$ 8,725
Accounts receivable (Note 7)	**722**	329	571
Portfolio investments	**1,602**	1,602	4,102
	13,712	12,890	13,398
Liabilities			
Accounts payable and accruals	**2,204**	1,604	1,268
Unearned revenue	**1,690**	1,558	1,422
Employee future benefits (Note 8)	**1,786**	1,722	1,691
Land titles assurance fund (Note 9)	**33**	27	23
Borrowings from the Province of Manitoba (Note 10)	**2,540**	900	-
	8,253	5,811	4,404
Net financial assets	**5,459**	7,079	8,994
Non-financial Assets			
Prepaid expenses	**201**	76	53
Tangible capital assets (Note 11)	**2,023**	962	569
	2,224	1,038	622
Accumulated surplus (Note 12)	$ **7,683**	$ 8,117	$ 9,616

Designated assets (Note 13)
Commitments (Note 14)
Contingencies (Note 15)

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 Operations
(in thousands)

For the years ended March 31	2012	2012	2011
	Budget	**Actual**	Actual
Revenue			
Fees and other revenues	$ 21,949	$ 23,671	$ 22,651
Revenue from entities within the Province of Manitoba	520	513	544
Investment income	33	84	62
	22,502	24,268	23,257
Expenses			
Salaries and employee benefits	10,098	8,689	8,871
Operating expenses (per schedule)	4,750	4,337	4,125
Amortization	640	426	334
Contributed services	260	250	259
Government system fee	-	-	167
	15,748	13,702	13,756
Net income before the transfer of funds to the Province of Manitoba	6,754	10,566	9,501
Transfer of funds to the Province of Manitoba (Note 16)	11,000	11,000	11,000
Annual deficit	(4,246)	(434)	(1,499)
Accumulated surplus, beginning of year	7,186	8,117	9,616
Accumulated surplus, end of year	$ 2,940	$ 7,683	$ 8,117

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 Change in Net Financial Assets
(in thousands)

For the years ended March 31		2012		2012		2011
		Budget		Actual		Actual
Annual deficit	$	(4,246)	$	(434)	$	(1,499)
Tangible capital assets						
Acquisition of tangible capital assets		(2,258)		(1,487)		(727)
Amortization of tangible capital assets		640		426		334
Net acquisition of tangible capital assets		(1,618)		(1,061)		(393)
Other non-financial assets						
Increase in prepaid expense		3		(125)		(23)
		3		(125)		(23)
Increase (decrease) in net financial assets		(5,861)		(1,620)		(1,915)
Net financial assets, beginning of year		5,975		7,079		8,994
Net financial assets, end of year	$	114	$	5,459	$	7,079

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 Flow
(in thousands)

For the years ended March 31	2012 Actual	2011 Actual
Cash Provided by (applied to):		
Operating		
Annual deficit	$ (434)	$ (1,499)
Amortization of tangible capital assets	426	334
	(8)	(1,165)
Change in:		
Accounts receivable	(393)	242
Accounts payable and accruals	600	336
Unearned revenue	132	136
Employee future benefits	64	31
Land titles assurance fund	6	4
Prepaid expenses	(125)	(23)
Cash provided by (applied to) operating activities	276	(439)
Capital		
Acquisition of tangible capital assets	(1,487)	(727)
Cash applied to capital activities	(1,487)	(727)
Investing		
Portfolio investments	-	2,500
Cash provided by investing activities	-	2,500
Financing		
Borrowings from the Province of Manitoba	1,700	900
Debt repayments to the Province of Manitoba	(60)	-
Cash provided by financing activities	1,640	900
Net increase in cash	429	2,234
Cash and cash equivalents, beginning of year	10,959	8,725
Cash and cash equivalents, end of year	$ 11,388	$ 10,959

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

For the year ended March 31, 2012

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 Healthy Living, Seniors, and Consumer Affairs under the general direction of the Assistant Deputy Minister for Healthy Living, Seniors, and Consumer 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. Basis of Accounting

As of April 1, 2011, the Agency adopted Public Sector Accounting (PSA) Standards with a transition date of April 1, 2010. More details on this transition are provided in Note 4.

The adoption of PSA Standards includes early adoption of Sections PS 1201 Financial Instruments, PS 3041 Portfolio Investments, PS 3450 Financial Instruments, and new PS 3410 Government Transfers.

3. Significant Accounting Policies

a. Revenue

(i) Exchange transactions

Service revenue is recognized when the rendering of services is completed or substantially completed.

(ii) Other revenue

All other revenues are recorded on an accrual basis.

3. **Significant Accounting Policies (continued)**

b. **Expenses**

Accrual accounting

All expenses incurred for goods and services are recorded on an accrual basis.

Government transfers

Government transfers are recognized as expenses in the period in which the transfers are authorized and all eligibility criteria have been met.

c. **Financial Assets**

Portfolio Investments

Portfolio investments are short-term deposits with original maturities of more than three months. These investments are recognized at cost.

d. **Liabilities**

Liabilities are present obligations as a result of transactions and events occurring prior to the end of the period. The settlement of the liabilities will result in the future transfer or use of assets or other form of settlement. Liabilities are recorded at the estimated amount ultimately payable.

e. **Non-Financial Assets**

(i) Prepaid Expenses

Prepaid expenses are payments for goods and services which will provide economic benefit in future periods. The prepaid amount is recognized as an expense in the year the goods or services are consumed.

(ii) Tangible Capital Assets

Capital assets are recorded at cost. Cost includes the purchase price as well as other acquisition costs. 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 for computer systems. All other capital asset categories have amortization calculated at the full rate during the year of acquisition.

3. Significant Accounting Policies (continued)

f. Measurement uncertainty

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 amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. First-time Adoption of Public Sector Accounting Standards

In previous fiscal years, the Agency classified itself as a Government Business-Type Organization (GBTO) and followed the recommendations of the Canadian Institute of Chartered Accountants (CICA) Accounting Handbook - Part V. In October 2009, the Public Sector Accounting Board (PSAB) determined that the category will cease to exist for fiscal years ending on or after January 1, 2011, and GBTOs are required to reclassify themselves in accordance with Public Sector Accounting (PSA) Standards. In accordance with recommendations of the Public Sector Accounting Handbook, the Agency has determined that it is an "other government organization" and has determined that PSA Standards are the most appropriate framework for reporting purposes.

These new standards were required to be applied retroactively. The impacts of this change are as follows:

(a) Cash and cash equivalents	March 31 2011	April 1 2010
Cash and short-term deposits as per previous financial statements	$ 9,401	$ 9,803
Add: Customer deposits	1,558	1,422
Less: Amounts reclassified from short-term deposits to portfolio investments	-	(2,500)
Cash and cash equivalents balance as per PSA Standards	$ 10,959	$ 8,725

4. First-time Adoption of Public Sector Accounting Standards (continued)

(b) Portfolio investments	March 31 2011	April 1 2010
Portfolio investments as per previous financial statements	$ -	$ -
Add: Amounts reclassified from short-term deposits to portfolio investments	-	2,500
Add: Amounts reclassified from designated assets to portfolio investments (Note (i))	1,602	1,602
Portfolio investments as per PSA Standards	$ 1,602	$ 4,102

(c) Employee future benefits	March 31 2011	April 1 2010
Severance liability as per previous financial statements	$ 1,540	$ 1,509
Add: Sick pay benefits (Note (ii))	182	182
Employee future benefits as per PSA Standards	$ 1,722	$ 1,691

(d) Annual deficit	March 31 2011
Net income as per previous financial statements	$ 9,501
Less: Transfer of funds to the Province of Manitoba previously shown as a reduction of retained earnings (Note (iii))	(11,000)
Annual deficit as per PSA Standards	$ (1,499)

(e) Accumulated surplus	March 31 2011	April 1 2010
Equity as per previous financial statements	$ 8,299	$ 9,798
Less: Sick pay benefits (Note (ii))	(182)	(182)
Accumulated surplus as per PSA Standards	$ 8,117	$ 9,616

4. **First-time Adoption of Public Sector Accounting Standards** (continued)

Notes:

(i) PSA Standards require information about designated assets to be disclosed in the notes, and not on the statement of financial position. Therefore, designated assets previously classified as "long-term investments" and "restricted deposits" are reclassified to "portfolio investments" on the statement of financial position, with the information disclosed in (Note 13).

(ii) Under the previous accounting standards, the Agency was not required to accrue a liability for sick pay benefits that accumulated but did not vest. However, PSA Standards require accrual of non-vesting sick pay benefits as they are earned by employees.

(iii) Transfer of funds to the Province of Manitoba (Note 16) is now presented as an expense in the consolidated statement of operations. In the previous financial statements, this transfer was presented as a reduction of retained earnings.

5. **Financial Instruments and Financial Risk Management**

Measurement

Financial instruments are classified into one of the two measurement categories: a) fair value; or (b) cost or amortized cost.

The Agency records its financial assets at cost. Financial assets include cash and cash equivalents, accounts receivable and portfolio investments. The Agency also records its financial liabilities at cost. Financial liabilities include accounts payable and accruals and borrowings from the Province of Manitoba.

Gains and losses on financial instruments measured at fair value are recorded in accumulated surplus as remeasurement gains and losses until realized. Upon disposition of the financial instruments, the cumulative remeasurement gains and losses are reclassified to the consolidated statement of operations. Gains and losses on financial instruments measured at cost or amortized cost are recognized in the consolidated statement operations in the period the gain or loss occurs.

The Agency did not incur any re-measurement gains and losses during the year ended March 31, 2012 (2011 - $Nil).

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 cash equivalents, accounts receivable and portfolio investments.

5. **Financial Instruments and Financial Risk Management** (continued)

The maximum exposure of the Agency to credit risk at March 31, 2012 is:

		2012		2011
Cash and cash equivalents	$	11,388	$	10,959
Accounts receivable		722		329
Portfolio investments		1,602		1,602
	$	13,712	$	12,890

Cash and cash equivalents and portfolio investments: the Agency is not exposed to significant credit risk as these amounts are held by the Minister of Finance or a Chartered Bank.

Accounts receivable: The Agency is not exposed to significant credit risk as the majority of accounts receivable are with related entities. The balance is due from a large client base, and payment in full is typically collected when it is due. The Agency establishes an allowance for doubtful accoutns 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, 2012 (2011 - $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.

5. 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, portfolio investments and borrowings.

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

The Agency manages its interest rate risk on long-term debt through the exclusive use of fixed rate terms for its long-term debt.

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.

6. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with original maturities of three months or less.

	2012	2011
Restricted	$ **1,690**	$ 1,558
Unrestricted	**9,698**	9,401
Total cash and cash equivalents	**11,388**	10,959

The restricted balance represents the amount of customer deposits held in a separate bank account. These deposits remain as unearned revenue until services are provided.

7. Accounts Receivable

		2012		2011
Trade receivables	$	611	$	274
Receivable from government and departments		111		55
	$	722	$	329

8. Employee Future Benefits

		2012		2011
Severance benefits	$	1,604	$	1,540
Sick pay benefits		182		182
	$	1,786	$	1,722

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 2012 was $439 ($443 in 2011). Under this agreement, the Agency has no further pension liability.

8. **Employee Future Benefits** (continued)

Severance 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.

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, 2012 was $1,604 ($1,540 in 2011) 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, 2012 present value of the accrued severance benefit obligation were:

Annual rate of return	
Inflation component	2.00%
Real rate of return	4.00%
	6.00%
Annual salary increase rates	
Annual productivity increase	1.00%
Annual general salary increase	2.75%
	3.75%

Sick pay benefits

The Agency provides sick leave benefits for employees that accumulate but do not vest. The accrued benefit obligation related to sick leave entitlement earned by employees is determined using a valuation model developed by an actuary. The valuation is based on employee demographics, sick leave usage and actuarial assumptions. These assumptions include a 6.00% annual return and a 3.75% annual salary increase.

9. **Land Titles Assurance Fund**

Claims for loss as provided for in *The Real Properlty Act* are paid from this fund. The Agency's Land Titles Branch is responsible for the collection of desposits 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.

10. Borrowings from the Province of Manitoba

As part of the Agency's long-term business plans, there were additions to the computer systems. Pursuant to the Loan Act, the Agency was required to obtain financing from the Province of Manitoba.

Borrowing obtained through the use of available Loan Act Authority are repayable in annual instalments of principal plus interest, as follows:

Interest Rate	Annual Payment ($)	Maturity Date		2012		2011
4.2%	$60	March 31, 2026	$	**840**	$	900
3.4%	113	March 31, 2027		**1700**		-
			$	**2540**	$	900

Unused loan authority of $4,100 was available as of March 31, 2011. Of the $4,100 in available loan authority, $1,700 was drawn down at during the year ended March 31, 2012.

Interest cost is measured using the effective interest method. Principal repayments in each of the next five years are as follows:

Year		Amount
2013	$	173
2014		173
2015		173
2016		173
2017		173

11. Tangible Capital Assets

				2012	2011
	Opening balance	Additions	Disposals	Closing balance	Total
Cost					
Computer system	$ 1,390	$ 1,399	$ -	$ 2,789	$ 1,390
Office equipment	1,434	88	-	1,522	1,434
Leasehold improvements	589	-	-	589	589
Equipment under capital lease	70	-	-	70	70
	3,483	1,487	-	4,970	3,483
Accumulated amortization					
Computer system	682	319	-	1,001	682
Office equipment	1,313	67	-	1,380	1,313
Leasehold improvements	456	40	-	496	456
Equipment under capital lease	70	-	-	70	70
	2,521	426	-	2,947	2,521
	$ 962	$ 1,061	$ -	$ 2,023	$ 962

12. Accumulated Surplus

The Agency has allocated $2,326 of its accumulated surplus for a revenue fluctuation reserve fund to provide the Agency the ability to carry costs through a period of economic downturn.

13. Designated Assets

Designated assets are distinct from restricted assets. Unlike restricted assets, the Agency or the Government can readily change its by-law or resolution and use the designed assets for another purpose if the need arises. The Agency has allocated $1,602 (2011 - $1,602) of its temporary investments as designed assets for settling certain of its vacation and severance liabilities. This amount is held in an interest bearing account until the cash is required to discharge the related liabilities. Any unused balance is re-invested annually.

14. 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
2012	$ 976	$ 61	$ 1,037
2013	1,005	61	1,066
2014	1,035	61	1,096
2015	1,066	61	1,127
2016	1,098	61	1,159
Total minimum lease payments	$ 5,180	$ 305	$ 5,485

15. Contingencies

The Property Registry has been named in four 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.

16. Transfer of Funds to the Province of Manitoba

During the year, with Lieutenant-Governor-in-Council approval by Order in Council, the Agency transferred $11,000 (2011 - $11,000) of its surplus funds to the Province of Manitoba.

17. Land Transfer Tax

Land transfer tax is administered and collected by the Property Registery. 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. During the year, the amount of land transfer tax collected and remitted was $67,336 (2011 - $58,702). These amounts are not reflected in the Agency's financial statements.

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	2012	2011
Better Systems Initiative	$ 960	$ 1,003
Computer processing	505	456
Department services	68	68
Desktop services	523	617
Equipment lease	55	73
Interest and bank charges	104	55
Occupancy cost	860	855
Office supplies	153	168
Postage and delivery	125	123
Professional fees	93	49
Publications and subscriptions	27	25
Records preservation project	388	64
Repairs and maintenance	63	30
Software licensing	14	13
Special surveys	58	48
Sundry	11	11
Survey remonumentation program	170	299
Telephone	90	90
Training and staff development	44	50
Travel	26	28
	$ 4,337	$ 4,125

0155 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 public sector accounting standards. 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 23, 2012. 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 Auditors' 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 statement of financial position as at as at March 31, 2012, March 31, 2011 and April 1, 2010, and the statements of operations and accumulated surplus, change in net financial assets and cash flows for the years ended March 31, 2012 and March 31, 2011, 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 public sector accounting standards 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, 2012, March 31, 2011 and April 1, 2010, and the results of its operations, changes in net financial assets and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Canadian public sector accounting standards.

500 - 330 Portage Avenue Winnipeg, Manitoba R3C 0C4 office: (204) 945-3790 fax: (204) 945-2169
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Basis of Accounting

Without modifying our opinion, we draw attention to Note 2 of the financial statements which describes the basis of accounting. For the year ending March 31, 2012, the Public Trustee of Manitoba adopted Canadian public sector accounting standards. This resulted in significant changes to the presentation of the financial statements as compared to the prior year. These standards were applied retrospectively by management to the comparative information in these financial statements.

Office of the Auditor General

Office of the Auditor General
July 23, 2012
Winnipeg, Manitoba

THE PUBLIC TRUSTEE OF MANITOBA
(An Agency of the Special Operating Agencies Financing Authority – Province of Manitoba)
Statement of Financial Position
As at
(In Thousands)

	March 31, 2012	March 31, 2011 (Restated - Note 4)	April 1, 2010 (Restated - Note 4)
Financial assets			
Cash and cash equivalents (Note 6)	$ 3,456	$ 2,116	$ 1,639
Portfolio investments (Note 11)	515	1,015	715
Accounts receivable (Note 7)	915	931	836
	4,886	4,062	3,190
Liabilities			
Accounts payable and accrued liabilities (Note 8)	576	569	540
Employee future benefits (Note 9)	582	582	549
	1,158	1,151	1,089
Net financial assets	3,728	2,911	2,101
Non-financial assets			
Prepaid expenses	4	6	3
Tangible capital assets (Note 10)	47	57	81
	51	63	84
Accumulated surplus	$ 3,779	$ 2,974	$ 2,185

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

THE PUBLIC TRUSTEE OF MANITOBA

(An Agency of The Special Operating Agencies Financing Authority – Province of Manitoba)
Statement of Operations and Accumulated Surplus
For the Year Ended March 31
(In Thousands)

	2012 Budget (Note19)	2012 Actual	2011 Actual (Restated - Note 4)
Revenue			
Fees and other revenue (Note 13)	$ 6,109	$ 6,641	$ 6,489
Investment income	7	41	21
Total revenue	6,116	6,682	6,510
Expenses			
Amortization of tangible capital assets	31	17	27
Accommodation costs (Note 12)	401	410	401
Other administration expenses (Note 14)	1,088	1,020	915
Salaries and benefits	4,360	4,207	4,158
Pension benefits (Note 15)	196	223	220
Total expenses	6,076	5,877	5,721
Annual surplus	40	805	789
Accumulated surplus, beginning of year	2,974	2,974	2,185
Accumulated surplus, end of year	$ 3,014	$ 3,779	$ 2,974

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

THE PUBLIC TRUSTEE OF MANITOBA
(An Agency of The Special Operating Agencies Financing Authority – Province of Manitoba)
Statement of Cash Flows
For the Year Ended March 31
(In Thousands)

	2012 Actual	2011 Actual (Restated - Note 4)
Cash provided by (applied to)		
Operating		
Annual surplus	$ 805	$ 789
Amortization of tangible capital assets	17	27
	822	816
Change in:		
Accounts receivable	16	(95)
Accounts payable and accrued liabilities	7	29
Employee future benefits	-	33
Prepaid expenses	2	(3)
Cash provided by operating activities	847	780
Capital		
Acquisition of tangible capital assets	(7)	(3)
Cash applied to capital activities	(7)	(3)
Investing		
Purchases of portfolio investments	-	(500)
Proceeds from redemption of portfolio investments	500	200
Cash provided by (applied to) investing activities	500	(300)
Increase in cash and cash equivalents	1,340	477
Cash and cash equivalents		
Beginning of year	2,116	1,639
End of year	$ 3,456	$ 2,116
Supplemental cash flow information		
Interest received (paid), net	$ 35	$ 11

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

THE PUBLIC TRUSTEE OF MANITOBA
(An Agency of The Special Operating Agencies Financing Authority – Province of Manitoba)
Statement of Change in Net Financial Assets
For the Year Ended March 31
(In Thousands)

	2012 Budget (Note19)	2012 Actual	2011 Actual (Restated - Note 4)
Annual surplus	$ 40	$ 805	$ 789
Tangible capital assets			
Acquisition of tangible capital assets	(15)	(7)	(3)
Amortization of tangible capital assets	31	17	27
Net change in tangible capital assets	16	10	24
Other non-financial assets			
Decrease (increase) in prepaid expenses	-	2	(3)
Net change in other non-financial assets	-	2	(3)
Increase in net financial assets	56	817	810
Net financial assets, beginning of year	2,911	2,911	2,101
Net financial assets, end of year	$ 2,967	$ 3,728	$ 2,911

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

Notes to Financial Statements

Year Ended March 31, 2012
(In Thousands)

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.

2. Basis of accounting

As of April 1, 2011 the Agency adopted Canadian Public Sector Accounting (PSA) Standards with a transition date of April 1, 2010.

The adoption of PSA Standards includes the early adoption of Sections PS 3450 *Financial Instruments*, PS 1201 *Financial Statement Presentation* and PS 3041 *Portfolio Investments*.

3. Significant accounting policies

a) Revenue recognition

i. Administration fees are charged as earned 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.

ii. Other fees are recognized and charged to an account as services are provided.

iii. Statutory fees are recognized as revenue when received.

b) Tangible capital assets

Tangible capital assets are recorded at cost and are amortized annually at the following rates and methods:

Furnishings and equipment	20%, declining balance basis
Computer hardware & software	20%, straight-line basis, 10% in year of acquisition, software purchase less than $1 are expensed in year of acquisition
Leasehold improvements	20%, straight-line basis

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Agency's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expenses in the statement of operations and accumulated surplus.

c) Measurement Uncertainty

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.

d) Capital disclosures

The Agency's capital consists of the accumulated surplus from operations.

The Agency's capital management policy is to maintain sufficient capital to meet its objectives through its accumulated surplus. The Agency has developed risk management strategies, as described in Note 5, to preserve the accumulated surplus. 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.

e) Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and short-term highly liquid investments that are readily convertible to a known amount of cash and that are subject to an insignificant risk of change in value. These short-term investments generally have a maturity of three months or less at acquisition and are held for the purpose of meeting short-term cash commitments rather than for investing.

f) Prepaid expenses

Prepaid expenses include insurance and deposits and are charged to expense over the periods expected to benefit from it.

g) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

Transfers include entitlements, grant and transfers under shared cost agreements. Grants and transfers are recorded as expenses when the transfer is authorized and eligibility criteria have been met by the recipient.

4. First-time adoption of Public Sector Accounting Standards

In previous fiscal years, the Agency classified itself as a Government Business-Type Organization (GBTO) and followed the recommendations of the Canadian Institute of Chartered Accountants Handbook – Part V. In October 2009, the Public Sector Accounting Board (PSAB) determined that this category would cease to exist for fiscal years beginning on or after January 1, 2011 and that GBTO's are required to reclassify themselves in accordance with Public Sector Accounting (PSA) Standards. In accordance with the recommendations of the Public Sector Accounting Handbook, the Agency has determined that it is an "other government organization" and has determined that the PSA Standards are the most appropriate framework for reporting purposes.

The Agency has not utilized any transitional exemptions on the adoption of PSA standards.

Under the previous accounting standards, the Agency was not required to accrue a liability for sick pay benefits that accumulated but did not vest. However, PSA Standards require accrual of non-vesting sick pay benefits as they are earned by employees. The impact of this change is as follows:

(In Thousands)

		March 31, 2011	April 1, 2010
a)	**Employee future benefits**		
	Severance liability as per previous financial statements	$ 497	$ 464
	Add: sick pay benefits -	85	85
	Employee future benefits as per PSA Standards	$ 582	$ 549

		March 31, 2011	April 1, 2010
b)	**Accumulated surplus**		
	Equity as per previous financial statements	$ 3,059	$ 2,270
	Less: sick pay benefits -	(85)	(85)
	Accumulated surplus as per PSA Standards	$ 2,974	$ 2,185

There was no impact on net income for the years ended March 31, 2012 and 2011. In addition, the above-noted adjustments have not resulted in significant changes to the Agency's operating, capital and investing cash flows as presented in the statement of cash flow in financial statements previously reported.

5. Financial Instruments and Financial Risk Management

Measurement

Financial instruments are classified into one of two measurement categories: (a) fair value; or (b) cost or amortized cost.

The Agency records its financial assets at amortized cost. Financial assets include cash and cash equivalents, portfolio investments and accounts receivable. The Agency also records its financial liabilities at cost. Financial liabilities include accounts payable and accrued liabilities.

Gains and losses on financial instruments measured at fair value are recorded in accumulated surplus as re-measurement gains and losses until realized. Upon disposition of the financial instruments, the cumulative re-measurement gains and losses are reclassified to the statement of operations and accumulated surplus. Gains and losses on financial instruments measured at cost or amortized cost are recognized in the statement of operations and accumulated surplus in the period the gain or loss occurs.

The Agency did not incur any re-measurement gains and losses during the year ended March 31, 2012 (2011 - $nil).

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

(In Thousands)

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 cash equivalents, portfolio investments and accounts receivable.

The maximum exposure of the Agency to credit risk is as follows:

	2012	2011
Cash and cash equivalents	$ 3,456	$ 2,116
Portfolio investments	515	1,015
Accounts receivable	915	931
	$ 4,886	$ 4,062

Cash and cash equivalents and portfolio investments: The Agency is not exposed to significant credit risk as the cash and cash equivalents and portfolio investments 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.

The aging of accounts receivable and allowance for doubtful accounts as at March 31, 2012 was:

	Net	Allowance
Current	$ 915	$ 39
30-60 days past billing date	-	-
61-90 days past the billing date	-	-
Greater than 90 days past the billing date	-	-
	$ 915	$ 39

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.

(In Thousands)

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 cash and cash equivalents and portfolio investments.

The interest rate risk on cash and cash equivalents and portfolio investments is considered to be low because of their short-term nature and amounts are 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 a foreign currency.

6. Cash and cash equivalents

	2012	2011
Cash	$ 1,731	$ 926
Demand deposits	1,725	990
Guaranteed investment certificates	-	200
	$ 3,456	$ 2,116

7. Accounts receivable

	2012	2011
Fees receivable	$ 920	$ 945
Allowance for doubtful accounts	(39)	(40)
	881	905
Interest receivable	20	14
Advances to client accounts	8	6
Cost recoveries	6	6
	$ 915	$ 931

Notes to Financial Statements
Year Ended March 31, 2012
(In Thousands)

8. Accounts payable and accrued liabilities

	2012	2011
Operating expenses payable	$ 109	$ 135
Salaries and benefits payable	88	66
Vacation entitlements earned	349	340
GST payable to Canada Revenue Agency	30	28
	$ 576	$ 569

9. Employee future benefits

	2012	2011
Severance benefits	$ 497	$ 497
Sick pay benefits	85	85
	$ 582	$ 582

Severance 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, 2011. 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, 2012 was $590 (2011 - $560). An actuarial loss of $93 (2011 - $63) will be amortized over the 15 year expected average remaining service life (EARSL) of the employee group.

The severance benefit liability at March 31 includes the following components:

	2012	2011
Accrued benefit liability	$ 590	$ 560
Unamortized actuarial gains (losses)	(93)	(63)
Severance benefit liability	$ 497	$ 497

(In Thousands)

The total expenses related to severance benefits at March 31 include the following components:

	2012	2011
Interest on obligation	$ 38	$ 38
Employer service cost	17	16
Amortization of actuarial loss over EARSL	(2)	(8)
Total expense related to severance benefit	$ 53	$ 46

Significant long-term actuarial assumptions used in the March 31, 2011 valuation, and in the determination of the March 31, 2012 present value of the accrued severance benefit obligation were:

Annual rate of return	
Inflation component	2.00%
Real rate of return	4.00%
	6.00%
Assumed salary increase rates	
Annual productivity increase	1.00%
Annual general salary increase	2.75%
	3.75%

Sick pay benefits

The Agency provides its employees with sick leave benefits that accumulate but do not vest. The accrued benefit obligation related to sick leave entitlement earned by employees is determined using a valuation model developed by an actuary. The valuation is based on employee demographics, sick leave usage and actuarial assumptions. These assumptions include a 6.00% discount rate and a 3.75% annual salary increase.

10. Tangible capital assets

	2012			
	Opening Balance	Additions	Disposals	Closing Balance
Cost				
Furnishings & equipment	$ 312	$ 7	$ -	$ 319
Computer hardware & software	118	-	-	118
Leasehold improvements	37	-	-	37
Total cost	$ 467	$ 7	$ -	$ 474
Accumulated Amortization				
Furnishings & equipment	$ 265	$ 11	$ -	$ 276
Computer hardware & software	113	4	-	117
Leasehold improvements	32	2	-	34
Total accumulated amortization	$ 410	$ 17	$ -	$ 427
Net book value	$ 57	$ (10)	$ -	$ 47

Notes to Financial Statements
Year Ended March 31, 2012
(In Thousands)

	2011			
	Opening Balance	Additions	Disposals	Closing Balance
Cost				
Furnishings & equipment	$ 312	$ -	$ -	$ 312
Computer hardware & software	118	-	-	118
Leasehold improvements	34	3	-	37
Total cost	$ 464	$ 3	$ -	$ 467
Accumulated Amortization				
Furnishings & equipment	$ 253	$ 12	$ -	$ 265
Computer hardware & software	105	8	-	113
Leasehold improvements	25	7	-	32
Total accumulated amortization	$ 383	$ 27	$ -	$ 410
Net book value	$ 81	$ (24)	$ -	$ 57

11. Designated assets

Portfolio investments consist of designated assets and non-redeemable investments and guaranteed investment certificates. The Agency has allocated $515 (2011 - $515) of its portfolio investments as designated assets for cash received from the Province of Manitoba for the severance pay benefits accumulated to March 31, 1998 for certain of their employees. This amount is held in an interest bearing account until the cash is required to discharge the related liabilities. Any unused balance is re-invested annually.

12. Commitments

The Public Trustee has an arrangement with the Province of Manitoba, through the Department of Infrastructure and Transportation, for rental of its facilities at 155 Carlton Street in Winnipeg and its facility in the Provincial Building in Brandon. Accommodation costs are estimated to be $410 for the year ended March 31, 2013.

13. Fees and other revenue

	2012	2011
Administration	$ 5,640	$ 5,582
Legal	455	399
Income tax	321	298
Inspection	225	210
	$ 6,641	$ 6,489

Notes to Financial Statements
Year Ended March 31, 2012
(In Thousands)

14. Other Administration expenses

	2012	2011
Computer expenses	$ 591	$ 574
Courier charges	7	5
Insurance, loss, damage	43	19
Office supplies	66	57
Other	8	4
Personnel expenses	28	23
Photocopy	6	8
Postage	64	57
Professional fees	36	13
Publications	7	6
Public communications	7	2
Records Centre charges	16	26
Rentals, equipment	7	4
Repairs and maintenance	4	3
SAP costs	7	6
Support services - Department of Justice	21	21
Telephone	53	49
Travel	49	38
	$ 1,020	$ 915

15. 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 annually to the Province an amount equal to her employees' current pension contributions. The amount paid at March 31, 2012 was $223 (2011 - $220). Under this agreement, The Public Trustee has no further pension liability.

16. 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.

17. 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 $326 (2011 - $584). These amounts are not reflected in these financial statements.

18. Estates and trusts under administration

The client assets under administration at March 31, 2012 total approximately $226,000 (2011 - $222,000). The trust activities of The Public Trustee are reported in the financial statements of Estates and Trusts under Administration.

19. Budgeted figures

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by The Public Trustee.

20. Reclassification of comparative financial statements

Certain amounts in the financial statements for the year ended March 31, 2011, presented for comparative purposes, have been reclassified to conform to the presentation adopted in the financial statements for the year ended March 31, 2012.

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, results of operations, change in net debt, and cash flow, in compliance with legislation, and in accordance with generally accepted accounting principles established by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants. 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 **, 2012.

Management maintains internal controls to properly safeguard the Agency's assets. These controls also provide reasonable assurance that the books and records from which the financial statements are derived accurately reflect all transactions in all material respects, 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 compliance with legislation, and in accordance with generally accepted accounting principles established by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants. 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

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 statement of financial position as at March 31, 2012, and the statements of operations, change in net debt, 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 compliance with legislation, and in accordance with generally accepted accounting principles established by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants, 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 purposes 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, 2012, and the results of its operations, its change in net debt, and its cash flow for the year than ended in compliance with legislation, and in accordance with generally accepted accounting principles established by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants.

The Exchange

chartered accountants LLP
Winnipeg, Manitoba
June 14, 2012

VEHICLE AND EQUIPMENT MANAGEMENT AGENCY

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

Statement of Financial Position

(In Thousands)

March 31, 2012

	March 31 2012	March 31 2011 *(Note 15)*	April 1 2010 *(Note 15)*
FINANCIAL ASSETS			
Cash and cash equivalents	**$ 191**	$ 342	$ 191
Receivables *(Note 6)*	**7,250**	10,400	7,007
Portfolio investments *(Note 8, 11)*	**1,439**	1,439	270
Receivable from the Province of Manitoba	**-**	-	1,903
Inventory for resale	**3,554**	3,347	2,968
	12,434	15,528	12,339
LIABILITIES			
Working capital advances *(Note 7)*	**5,851**	5,943	6,290
Accounts payable and accrued liabilities	**4,939**	6,107	4,815
Unearned revenue	**2,230**	2,132	1,898
Severance pay liability *(Note 8)*	**1,717**	1,659	1,709
Borrowings from the Province of Manitoba *(Note 9)*	**88,191**	86,566	79,158
	102,928	102,407	93,870
NET DEBT	**(90,494)**	(86,879)	(81,531)
NON-FINANCIAL ASSETS			
Prepaid expenses	**2,865**	2,744	2,517
Tangible capital assets *(Note 10)*			
Vehicles and equipment	**114,612**	109,899	103,418
Office and shop equipment	**319**	334	373
Computer hardware and software	**17**	16	56
Leasehold improvements	**135**	103	108
	115,083	110,352	103,955
	117,948	113,096	106,472
ACCUMULATED SURPLUS	**$ 27,454**	$ 26,217	$ 24,941

Designated assets *(Note 11)*
Commitments *(Note 12)*

VEHICLE AND EQUIPMENT MANAGEMENT AGENCY

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

Statement of Operations

(In Thousands)

Year Ended March 31, 2012

	2012 Projected (Unaudited)	**2012 Actual**	2011 Actual (Note 15)
REVENUES			
Vehicle and equipment utilization	$ 48,806	**$ 49,877**	$ 48,796
Fuel billings	17,743	**22,838**	18,643
Insurance and other billings	5,041	**5,173**	4,674
Other revenue (Page 17)	9,348	**9,901**	9,580
	80,938	**87,789**	81,693
EXPENSES			
Salaries and wages	10,002	**9,146**	9,208
Vehicle and equipment operating expenses (Page 17)	57,469	**64,629**	58,487
Administrative expenses (Page 17)	6,480	**6,348**	6,298
Community service	55	**38**	61
Interest expense	3,896	**3,891**	3,863
	77,902	**84,052**	77,917
INCOME FROM OPERATIONS	3,036	**3,737**	3,776
Transfers during the year to the Province of Manitoba	2,500	**2,500**	2,500
NET INCOME	536	**1,237**	1,276
ACCUMULATED SURPLUS, BEGINNING OF YEAR	24,854	**26,217**	24,941
ACCUMULATED SURPLUS, END OF YEAR	$ 25,390	**$ 27,454**	$ 26,217

VEHICLE AND EQUIPMENT MANAGEMENT AGENCY

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

Statement of Change in Net Debt

(In Thousands)

Year Ended March 31, 2012

	2012 Projected *(Unaudited)*	**2012 Actual**	2011 Actual *(Note 15)*
Net income	$ 536	**$ 1,237**	$ 1,276
Tangible capital assets			
Acquisition of tangible capital assets	(26,527)	**(26,315)**	(26,664)
Amortization of tangible capital assets	19,557	**19,672**	18,711
Gain on disposal of tangible capital assets, net	(963)	**(452)**	(669)
Proceeds from disposal of tangible capital assets	3,000	**2,364**	2,225
Net acquisition of tangible capital assets	(4,933)	**(4,731)**	(6,397)
Increase in prepaid expenses during the year	(77)	**(121)**	(227)
INCREASE IN NET DEBT	(4,474)	**(3,615)**	(5,348)
NET DEBT, BEGINNING OF YEAR	(89,882)	**(86,879)**	(81,531)
NET DEBT, END OF YEAR	$ (94,356)	**$ (90,494)**	$ (86,879)

VEHICLE AND EQUIPMENT MANAGEMENT AGENCY

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

Statement of Cash Flow

(In Thousands)

Year Ended March 31, 2012

Cash provided by (applied to):	2012 Projected *(Unaudited)*	**2012 Actual**	2011 Actual *(Note 15)*
OPERATING ACTIVITIES			
Net income	$ 536	**$ 1,237**	$ 1,276
Amortization of tangible capital assets	19,557	**19,672**	18,711
Gain on disposal of tangible capital assets, net	(963)	**(452)**	(669)
Increase in severance pay liability	163	**125**	157
Payment of severance pay benefits	(94)	**(67)**	(207)
	19,199	**20,515**	19,268
Change in:			
Receivables	(335)	**3,150**	(3,399)
Inventory for resale	(60)	**(207)**	(379)
Accounts payable and accrued liabilities	102	**(1,168)**	1,292
Unearned revenue	60	**98**	234
Prepaid expenses	(77)	**(121)**	(227)
Cash provided by operating activities	18,889	**22,267**	16,789
CAPITAL ACTIVITIES			
Proceeds from disposal of tangible capital assets	3,000	**2,364**	2,225
Acquisition of vehicles and equipment	(26,004)	**(26,182)**	(26,600)
Acquisition of office and shop equipment	(454)	**(58)**	(40)
Acquisition of computer hardware and software	(21)	**(13)**	-
Acquisition of leasehold improvements	(48)	**(62)**	(24)
Cash applied to capital activities	(23,527)	**(23,951)**	(24,439)
INVESTING ACTIVITIES			
Portfolio investments	-	**-**	(1,163)
Cash applied to investing activities	-	**-**	(1,163)
FINANCING ACTIVITIES			
Borrowings from the Province of Manitoba	13,000	**12,500**	17,500
Debt repayments to the Province of Manitoba	(11,077)	**(10,875)**	(10,092)
Collection of receivable from the Province of Manitoba for severance pay, vacation pay and banked time	-	**-**	1,903
Cash provided by financing activities	1,923	**1,625**	9,311
INCREASE (DECREASE) IN CASH	(2,715)	**(59)**	498
WORKING CAPITAL ADVANCES, NET OF CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	(5,326)	**(5,601)**	(6,099)
WORKING CAPITAL ADVANCES, NET OF CASH AND CASH EQUIVALENTS, END OF YEAR	$ (8,041)	**$ (5,660)**	$ (5,601)

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.

2. BASIS OF ACCOUNTING

As of April 1, 2011, the Agency adopted Public Sector Accounting (PSA) Standards with a transition date of April 1, 2010. More details on this transition are provided in Note 4 to these financial statements.

The adoption of PSA Standards includes the early adoption of PS 1201 Financial Statement Presentation, PS 3041 Portfolio Investments, PS 3450 Financial Instruments, and new PS 3410 Government Transfers.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenues

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. All revenues are recorded on an accrual basis.

Expenses

All expenses incurred for goods and services are recognized at the gross amount on an accrual basis. Government transfers are recognized as expenses in the period in which the transfers are authorized and all eligibility criteria have been met.

Financial assets

(i) Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks. Bank overdrafts and bank borrowings are considered to be financing activities.

(ii) Receivables

Receivables are recorded at the lower of cost and net realizable value. Amounts doubtful of collection are recorded when there is uncertainty that the amounts will be realized.

(iii) Portfolio investments

Portfolio investments are short-term deposits with original maturities of more than three months. These investments are recognized at amortized cost.

(iv) Inventory for resale

Inventories for resale are valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis.

Liabilities

Liabilities present obligations as a result of transactions and events occurring prior to the end of the fiscal year. The settlement of the liabilities will result in the future transfer or use of assets or other form of settlement. Liabilities are recorded in the financial statements when there is an appropriate basis of measurement and a reasonable estimate can be made of the amounts involved.

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

Non-financial assets

Non-financial assets do not normally provide resources to discharge liabilities of the Agency. These assets are normally employed to provide future services.

(i) Prepaid expenses

Prepaid expenses are payments for goods or services that will provide economic benefit in future periods. The prepaid amount is recognized as an expense in the year that the goods or services are consumed.

(ii) Tangible capital assets

Tangible capital assets are recognized at cost. Cost includes the purchase price as well as other acquisition costs such as freight charges, transportation, insurance costs and duties. Modifications or additions to the original asset are capitalized and recognized at cost.

The values of tangible capital assets are written down when conditions indicate that the values of the future economic benefits associated with the tangible capital assets are less than their book values.

The costs of tangible capital assets, less their estimated residual values, are amortized over their useful lives in the following manner:

Vehicles and equipment	30%, declining balance method
Vehicles and equipment (signed lease agreement)	Straight-line over term of lease
Office and shop equipment	20%, declining balance method
Computer hardware and software	20%, straight-line method
Leasehold improvements	10%, straight-line method

Measurement uncertainty

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 amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(In Thousands)

4. FIRST-TIME ADOPTION OF PUBLIC SECTOR ACCOUNTING STANDARDS

In previous fiscal years, the Agency classified itself as a Government Business-Type Organization (GBTO) and followed the recommendations of the Canadian Institute of Chartered Accountants Accounting Handbook – Part V. In October 2009, the Public Sector Accounting Board (PSAB) determined that the category will cease to exist for fiscal years ending on or after January 1, 2011, and that GBTOs are required to reclassify themselves in accordance with Public Sector Accounting (PSA) Standards. In accordance with recommendations of the Public Sector Accounting Handbook, the Agency has determined that it is an "other government organization" and has determined that PSA Standards are the most appropriate framework for reporting purposes.

These new standards are required to be applied retroactively. There were no material impacts on the assets or liabilities of the Agency as a result of this change in standards in the current or prior periods. Net income for the year ended March 31, 2011, was impacted as follows:

Net income as reported in previous financial statements	$ 3,766
Less: Transfer of funds to the Province of Manitoba is now presented as an expense in the Statement of Operations. In previous financial statements, this transfer was presented as a reduction of retained earnings	(2,500)
Net income as reported in accordance with PSA Standards	$ 1,276

PSA Standards require information about designated assets to be disclosed in the notes to the financial statements, and not in the statement of financial position. Therefore, designated assets previously classified as "long-term investments" are reclassified to "portfolio investments" in the statement of financial position, with the information disclosed in Note 11.

5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Measurement

Financial instruments are classified into one of the two measurement categories: (a) fair value; or (b) cost or amortized cost.

The Agency records its financial assets at cost or amortized cost. Financial assets include cash and cash equivalents, accounts receivable and portfolio investments. The Agency also records its financial liabilities at cost. Financial liabilities include working capital advances, accounts payable and accrued liabilities, and borrowings.

Gains and losses on financial instruments measured at fair value are recorded in accumulated surplus as re-measurement gains and losses until realized. Upon disposition of the financial instruments, the cumulative re-measurement gains and losses are reclassified to the statement of operations. Gains and losses on financial instruments measured at cost or amortized cost are recognized in the statement of operations in the period the gain or loss occurs.

The Agency did not incur any re-measurement gains and losses during the year ended March 31, 2012 (2011 - $nil).

(In Thousands)

5. 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; and interest rate 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, receivables and portfolio investments.

The maximum exposure of the Agency to credit risk as of March 31, 2012, is:

	2012	2011
Cash and cash equivalents	**$ 191**	$ 342
Receivables	**7,250**	10,400
Portfolio investments	**1,439**	1,439
	$ 8,880	$ 12,181

Cash and cash equivalents, and portfolio investments: The Agency is not exposed to significant credit risk as these amounts are primarily held by the Province of Manitoba.

Receivables: The Agency is not exposed to significant credit risk since the receivables are with departments, agencies and Crown corporations with the Manitoba provincial government, or are with organizations within the broader public sector that are funded in part by the provincial or federal governments. The receivable balances are from a large client base, and payment in full is typically collected when it is due. An allowance for doubtful accounts was not recorded as of March 31, 2012.

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 with draw downs from its available working capital advances and its other borrowings from the Province of Manitoba. Regular determinations of the Agency's working capital advances limit and its other 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.

(In Thousands)

5. 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 from operations 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 cash, cash equivalents, portfolio investments, working capital advances, and to other borrowings.

The interest rate risk on cash, cash equivalents and working capital advances is considered to be low because of their short term nature. The interest rate risk on portfolio investments is considered low as the original deposits are reinvested at rates for investments with similar terms and conditions.

The Agency manages its interest rate risk on long term borrowings through the exclusive use of fixed rate terms on each amount borrowed.

6. RECEIVABLES

	2012	2011
Trade	**$ 2,844**	$ 5,386
Accrued trade	**3,779**	4,410
Insurance rebate receivable	**627**	604
	$ 7,250	$ 10,400

7. WORKING CAPITAL ADVANCES

The Agency has an authorized line of working capital advance of $10,000, $5,851 of which was used as of March 31, 2012 (2011 - $5,943). Advances bear interest at prime less 1% and are not secured by specific assets.

(In Thousands)

8. 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. For the Mechanical Equipment Services employees, that responsibility is reflected by the payment by the Province of $1,163 on July 31, 2010. The $1,433 in combined payments is held in an interest bearing trust account until the cash is required to discharge the related liability.

An actuarial valuation report was completed for the severance pay liability as of March 31, 2011. 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, 2012, was $1,717 (2011 - $1,659).

Significant long-term actuarial assumptions used in the March 31, 2011, valuation, and in the determination of the March 31, 2012, present value of the accrued severance benefit obligation, were:

Annual rate of return	
Inflation component	2.00%
Real rate of return	4.00%
	6.00%
Assumed salary increase rates	
Annual productivity increase	1.00%
Annual general salary increase	2.75%
	3.75%

9. BORROWINGS FROM THE PROVINCE OF MANITOBA

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.

(In Thousands)

9. BORROWINGS FROM THE PROVINCE OF MANITOBA *(continued)*

Borrowings obtained through the use of available Loan Act Authority are repayable in semi-annual instalments of principal and interest, as follows:

Interest rate	Semi-annual payment ($)	Maturity date	2012	2011
4.875%	137	September 30, 2011	**$ -**	$ 133
4.75%	102	September 30, 2011	**-**	100
4.625%	475	March 31, 2012	**-**	919
4.75%	137	September 30, 2012	**133**	391
5%	142	September 30, 2012	**138**	405
4%	345	March 31, 2013	**670**	1,314
4.05%	140	September 30, 2013	**404**	660
3.875%	355	September 30, 2013	**1,025**	1,677
2.625%	376	September 30, 2014	**1,807**	2,498
4.875%	148	March 31, 2015	**814**	1,060
2.625%	215	March 31, 2015	**1,231**	1,621
4.125%	117	September 30, 2015	**755**	951
2.5%	482	September 30, 2015	**3,208**	4,075
2.563%	271	September 30, 2016	**2,292**	2,767
2.05%	581	September 30, 2016	**4,975**	-
3.45%	186	March 31, 2017	**1,695**	2,000
2.375%	213	March 31, 2017	**2,000**	-
2.25%	269	September 30, 2017	**2,765**	-
4.875%	237	September 30, 2023	**4,133**	4,396
3,4%	102	September 30, 2023	**1,932**	-
5%	334	March 31, 2024	**5,982**	6,338
4.875%	192	March 31, 2024	**3,457**	3,665
4.5%	162	September 30, 2024	**3,066**	3,246
4%	201	September 30, 2025	**4,161**	4,389
4.55%	162	March 31, 2026	**3,333**	3,500
5%	80	March 31, 2030	**1,877**	1,940
			51,853	48,045

Amount of debt owing in connection with the transfer of Mechanical Equipment Services branch net assets on April 1, 2009

4.875%	2,018	March 31, 2024	**36,338**	38,521
Amount of borrowings owing to the Province of Manitoba at year-end			**$ 88,191**	$ 86,566

(In Thousands)

9. BORROWINGS FROM THE PROVINCE OF MANITOBA *(continued)*

Unused loan authority of $12,100 was available as of March 31, 2011. An additional $11,000 of loan authority availability was approved during June 2011 in The Loan Act, 2011. Of the $23,100 in available loan authority, 12,500 was drawn down at various times during the year ended March 31, 2012.

All borrowings from the Province of Manitoba are payable in instalments of principal and interest on March 31 and September 30 each year. Interest cost is measured using the effective interest method.

As of March 31, 2012, principal repayments in each of the next five years on the combined outstanding balances owing to the Province of Manitoba are as follows:

2013	$ 11,040
2014	9,969
2015	9,450
2016	8,086
2017	6,934

10. TANGIBLE CAPITAL ASSETS

	2012				2011
Cost	Opening balance	Additions	Disposals	**Closing balance**	Total
Vehicles and equipment	$ 208,801	$ 26,182	$ (15,580)	**$ 219,403**	$ 208,801
Office and shop equipment	1,327	58	(2)	**1,383**	1,327
Computer hardware and software	408	13	(2)	**419**	408
Leasehold improvements	735	62	-	**797**	735
	211,271	26,315	(15,584)	**222,002**	211,271
Accumulated amortization					
Vehicles and equipment	98,902	19,558	(13,669)	**104,791**	98,902
Office and shop equipment	993	74	(3)	**1,064**	993
Computer hardware and software	392	10	-	**402**	392
Leasehold improvements	632	30	-	**662**	632
	100,919	19,672	(13,672)	**106,919**	100,919
Net book value	$ 110,352	$ 6,643	$ (1,912)	**$ 115,083**	$ 110,352

11. DESIGNATED ASSETS

The Agency has allocated $1,439 (2011 - $1,439) of its portfolio investments as designated assets for its severance pay benefits.

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 2012/13 are established annually based on the approved budget for the Department of Infrastructure and Transportation. Occupancy charges for 2012/13 are estimated at $2,348 for the year, to be paid in quarterly instalments during 2012/13.

(b) VEMA's approved 2012/13 Business Plan calls for $2,500 to be paid to the Consolidated Fund of the Province of Manitoba for the year in quarterly instalments of $625 each.

13. INVENTORY

The amount of parts inventory recognized as an expense during the year ended March 31, 2012, was $9,036 (2011 - $7,625). This entire amount has been included in repairs and maintenance, page 17.

14. 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.

The pension liability related to the CSSA's defined benefit plan is included in the Province of Manitoba's financial statements. Accordingly, no provision is required in the Agency's financial statements relating to the effects of participation in the plan by the Agency and its employees.

The Agency is regularly required to pay to the Province an amount equal to the current pension contributions paid by its employees. The amount paid for 2011/12 was $523 (2010/11 - $537).

15. RECLASSIFICATION OF COMPARATIVE FINANCIAL STATEMENTS

Certain of the amounts in the financial statements for the year ended March 31, 2011, and in the statement of financial position as of April 1, 2010, all presented for comparative purposes, have been reclassified to conform to the presentation adopted in the financial statements for the year ended March 31, 2012.

VEHICLE AND EQUIPMENT MANAGEMENT AGENCY

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

Other Revenue and Expenses *(Schedule 1)*

(In Thousands)

Year Ended March 31, 2012

	2012 Projected *(Unaudited)*	**2012 Actual**	2011 Actual *(Note 15)*
OTHER REVENUE			
Autopac service	$ 650	**$ 613**	$ 600
Gain on disposal of tangible capital assets, net	963	**452**	669
Garage regular service	4,723	**6,093**	5,389
Insurance premium rebates	1,262	**1,279**	1,238
Interest income	10	**14**	9
Other service revenue	40	**136**	108
Radio Services	1,700	**1,314**	1,567
	$ 9,348	**$ 9,901**	$ 9,580
VEHICLE AND EQUIPMENT OPERATING EXPENSES			
Amortization of tangible capital assets	$ 19,364	**$ 19,537**	$ 18,582
Fuel	18,273	**23,223**	19,066
Insurance premiums	5,260	**5,297**	4,888
Licenses	159	**159**	157
Repairs and maintenance *(Note 13)*	14,413	**16,413**	15,794
	$ 57,469	**$ 64,629**	$ 58,487
ADMINISTRATIVE EXPENSES			
Amortization of tangible capital assets	$ 193	**$ 135**	$ 129
Fleet management information system	432	**377**	413
Human resource overhead	2,252	**2,042**	2,095
Occupancy costs	2,476	**2,497**	2,510
Other costs	637	**717**	651
Professional fees	30	**29**	23
SOAFA charges	6	**6**	6
Supplies and materials	274	**378**	293
Telephone and communication	180	**167**	178
	$ 6,480	**$ 6,348**	$ 6,298

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements and all the information in the annual report are the responsibility of the management of Vital Statistics Agency and have been prepared in accordance with Public Sector Accounting Standards. 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 11, 2012.

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 the transactions and that established policies and procedures are followed.

The responsibility of Bulat & Poustie is to express an independent opinion on whether the financial statements of Vital Statistics Agency are fairly presented in accordance with Public Sector Accounting Standards. The Independent Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

On behalf of Management,
Vital Statistics Agency

Susan Boulter, Chief Operating Officer
June 11, 2012

BULAT & POUSTIE
CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITOR'S 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 statement of financial position as at March 31, 2012 and the statement of operations, statement of change in net debt, 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 Public Sector Accounting Standards, 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 Vital Statistics Agency as at March 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with Public Sector Accounting Standards.

BULAT & POUSTIE

Bulat & Poustie

CHARTERED ACCOUNTANTS

June 11, 2012
Winnipeg, Manitoba

VITAL STATISTICS AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

STATEMENT OF FINANCIAL POSITION
(in thousands)
AS AT MARCH 31, 2012

		March 31, 2012		March 31, 2011 (Restated, note 4)		April 1, 2010
FINANCIAL ASSETS						
Cash and cash equivalents, note 7	**$**	**-**	$	-	$	267
Accounts receivable, note 8		**114**		355		41
Portfolio investments		**94**		94		94
Inventories for resale		**109**		137		129
		317		586		531
LIABILITIES						
Bank indebtedness, note 7	**$**	**37**	$	3	$	-
Accounts payable and accruals		**103**		168		48
Unearned revenue		**94**		112		106
Accrued unused vacation entitlements		**173**		166		184
Employee future benefits, note 9		**258**		226		248
		665		675		586
NET DEBT		**(348)**		(89)		(55)
NON-FINANCIAL ASSETS						
Prepaid expenses		**65**		79		50
Tangible capital assets, note 10		**1,385**		1,500		1,672
		1,450		1,579		1,722
ACCUMULATED SURPLUS		**1,102**		1,490		1,667

Designated assets, note 11
Commitments, note 12

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 OPERATIONS
(in thousands)
FOR THE YEAR ENDED MARCH 31, 2012

	2012 Budget	**2012 Actual**	2011 Actual (Restated, note 4)
REVENUE			
Net sales	$ 3,870	**$ 3,208**	$ 3,205
Proceeds from government departments	249	**331**	463
Interest	-	**1**	1
	4,119	**3,540**	3,669
EXPENSES			
Salaries and employee benefits	2,540	**2,069**	2,021
Operating expenses, Schedule 1	1,004	**1,149**	1,083
Amortization	427	**330**	362
	3,971	**3,548**	3,466
Net income before the transfer of funds to the Province of Manitoba	148	**(8)**	203
Transfer of funds to the Province of Manitoba, note 13	380	**380**	380
NET INCOME (LOSS)	(232)	**(388)**	(177)
ACCUMULATED SURPLUS, BEGINNING OF YEAR	1,490	**1,490**	1,667
ACCUMULATED SURPLUS, END OF YEAR	$ 1,258	**$ 1,102**	$ 1,490

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 CHANGE IN NET DEBT
(in thousands)
FOR THE YEAR ENDED MARCH 31, 2012

	2012 Budget	**2012 Actual**	2011 Actual (Restated, note 4)
NET INCOME (LOSS)	$ (232)	**$ (388)**	$ (177)
TANGIBLE CAPITAL ASSETS			
Acquisition of tangible capital assets	(125)	**(215)**	(190)
Amortization of tangible capital assets	427	**330**	362
Net acquisition of tangible capital assets	302	**115**	172
OTHER NON-FINANCIAL ASSETS			
Decrease (increase) in prepaid expenses	-	**14**	(29)
DECREASE (INCREASE) IN NET DEBT	70	**(259)**	(34)
NET DEBT, BEGINNING OF YEAR	(52)	**(89)**	(55)
NET DEBT, END OF YEAR	$ 18	**$ (348)**	$ (89)

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, 2012

	2012 Actual	2011 Actual (Restated, note 4)
CASH PROVIDED BY (APPLIED TO):		
OPERATING		
Net income (loss)	$ (388)	$ (177)
Amortization of tangible capital assets	330	362
	(58)	185
Changes in the following:		
Accounts receivable	241	(311)
Inventories for resale	28	(8)
Accounts payable and accruals	(65)	120
Unearned revenue	(18)	6
Accrued unused vacation entitlements	7	(19)
Employee future benefits	32	(21)
Prepaid expenses	14	(29)
	181	(77)
CAPITAL		
Acquisition of tangible capital assets	(215)	(193)
DECREASE IN CASH AND CASH EQUIVALENTS	(34)	(270)
CASH AND CASH EQUIVALENTS (BANK INDEBTEDNESS), BEGINNING OF YEAR	(3)	267
CASH AND CASH EQUIVALENTS (BANK INDEBTEDNESS), END OF YEAR	$ (37)	$ (3)
Supplementary information:		
Interest received	$ 1	$ 1

The accompanying notes are an integral part of the financial statements

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 Healthy Living, Seniors and Consumer Affairs Department under the general direction of the Minister of Healthy Living, Seniors 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. BASIS OF ACCOUNTING

As of April 1, 2011, the Agency adopted Public Sector Accounting (PSA) Standards with a transition date of April 1, 2010. More details on this transition are provided in Note 5.

The adoption of PSA Standards includes early adoption of PS 1201 Financial Statement Presentation, PS 3041 Portfolio Investments, PS 3450 Financial Instruments, and new PS 3410 Government Transfers.

3. SIGNIFICANT ACCOUNTING POLICIES

Deferred Revenue and Revenue Recognition

Government transfers

Government transfer without eligibility criteria or stipulations is recognized as revenue when the transfer is authorized.

Government transfer with eligibility criteria but without stipulations is recognized as revenue when the transfer is authorized and all eligibility criteria have been met.

Government transfer with or without eligibility criteria but with stipulations is recognized as revenue in the period the transfer is authorized and all eligibility criteria have been met, except when and to the extent that the transfer gives rise to a liability.

Significant Accounting Policies - continued

Exchange transactions

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.

Other revenue

All other revenues are recorded on an accrual basis.

Expenses

Accrual accounting

All expenses incurred for goods and services are recorded on an accrual basis.

Government transfers

Government transfer without eligibility criteria or stipulations is recognized as revenue when the transfer is authorized.

Financial Assets

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balance, and investments with a maturity of three months or less from the date of acquisition.

Portfolio investments

Portfolio investments are short-term deposits with original maturities of more than three months. The investments are recognized at cost.

Inventories for resale

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.

Liabilities

Liabilities are present obligations as a result of transactions and events occurring prior to the end of the fiscal year. The settlement of the liabilities will result in the future transfer or use of assets or other form of settlement. Liabilities are recorded at the estimated amount ultimately payable.

Non-Financial Assets

Non-financial assets do not normally provided resources to discharge liabilities of the Agency. These assets are normally employed to provide future services.

Prepaid expenses

Prepaid expenses are payments for goods or services which will provide economic benefit in futures periods. The prepaid amount is recognized as an expense in the year the goods or services are consumed.

(in thousands)

Significant Accounting Policies - continued

Tangible capital assets

Tangible capital assets are recorded at cost. Costs includes the purchase price as well as other acquisition costs. The costs of tangible capital assets are amortized over their estimated useful lives 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

Measurement Uncertainty

The preparation of the 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.

4. FIRST-TIME ADOPTION OF PUBLIC SECTOR ACCOUNTING STANDARDS

In previous fiscal years, the Agency classified itself as a Government Business-Type Organization (GBTO) and followed the recommendations of the Canadian Institute of Chartered Accountants (CICA) Accounting Handbook - Part V. In October 2009, the Public Sector Accounting Board (PSAB) determined that the category will cease to exist for fiscal years ending on or after January 1, 2011, and GBTOs are required to reclassify themselves in accordance with Public Sector Accounting (PSA) Standards. in accordance with recommendations of the Public Sector Accounting Handbook, the Agency has determined that it is an "other government organization" and has determined that PSA Standards are the most appropriate framework for reporting purposes.

These new standards were required to be applied retroactively. The impacts of this change are as follows:

Unearned revenue	March 31, 2011	April 1, 2010
Deferred revenue as per previous financial statements	$ 573	$ 427
Less: government transfers previously deferred - Note (i)	(461)	(321)
Unearned revenue as per PSA standards	$ 112	$ 106

(in thousands)

First-Time Adoption of Public Sector Accounting Standards - continued

Employee future benefits	March 31, 2011	April 1, 2010
Severance liability as per previous financial statements	$ 189	$ 211
Add: sick pay benefits previously unrecorded - Note (ii)	37	37
Employee future benefits as per PSA standards	$ 226	$ 248

Accumulated surplus	March 31, 2011	April 1, 2010
Equity as per previous financial statements	$ 1,066	$ 1,383
Add: government transfers previously deferred - Note (i)	461	321
Less: sick pay benefits previously unrecorded - Note (ii)	(37)	(37)
Accumulated surplus as per PSA Standards	$ 1,490	$ 1,667

Net income	Year ended March 31, 2011
Net income as per previous financial statements	$ 63
Add: change in government transfers previously deferred - Note (i)	140
Less: transfer of funds to the Province of Manitoba previously shown as a reduction of retained earnings - Note (iii)	(380)
Net income (loss) as per PSA Standards	$ (177)

Notes:

(i) Government assistance towards the acquisition of tangible capital assets was previously deferred and amortized over the life of the related asset. Under PSA Standards, government transfers are recognized as revenue when the transfers are authorized and any eligibility criteria are met, to the extent the transfers have any stipulations that give rise to a liability.

(ii) Under the previous accounting standards, Vital Statistics Agency was not required to accrue a liability for sick pay benefits that accumulated but did not vest. However, PSA Standards require accrual of non-vesting sick pay benefits as they are earned by employees.

(iii) Transfer of funds to the Province of Manitoba (Note 13) is now presented as an expense in the statement of operations, In the previous financial statements, this transfer was presented as a reduction of retained earnings.

(in thousands)

5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Measurement

Financial instruments are classified into one of the two measurement categories: (a) fair value; or (b) cost or amortized cost.

The Agency records its financial assets at cost, which include cash and cash equivalents, portfolio investments, accounts receivable, and inventories for resale. The Agency also records its financial liabilities at cost, which includes accounts payable and accruals.

Gains and losses on financial instruments measured at fair value are recorded in accumulated surplus as re-measurement gains and losses until realized. Upon disposition of the financial instruments, the cumulative re-measurement gains and losses are reclassified to the statement of operations. Gains and losses on financial instruments measured at cost or amortized cost are recognized in the statement of operations in the period the gain or loss occurs.

The Agency did not incur any re-measurement gains and losses during the year (2011 - $nil).

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, accounts receivable and portfolio investments.

The maximum exposure of the Agency to credit risk at year end is:

	2012	2011
Cash on hand and balances in bank, note 7	**$ 8**	$ 14
Accounts receivable	**114**	355
Portfolio investments	**94**	94
	$ 216	$ 463

Cash and cash equivalents, and portfolio investments: The Agency is not exposed to significant credit risk as these instruments 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.

Financial Instruments and Financial Risk Management - continued

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

	2012	2011
Balance, beginning of the year	**$ 4**	$ 5
Provision for receivable impairment	**-**	1
Amounts written off	**-**	(1)
Amounts recovered	**-**	(1)
Balance, end of the year	**$ 4**	$ 4

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.

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 portfolio investments.

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

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.

6. 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 $6 for the year ended March 31, 2012 (2011 - $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 $8 for the year ended March 31, 2012 (2011 - $10).

(in thousands)

7. CASH AND CASH EQUIVALENTS, AND BANK INDEBTEDNESS

	2012	2011
Cash on hand and balances in bank	$ 8	$ 14
Working capital advances	(45)	(17)
	$ (37)	$ (3)

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, 2012 the Agency has accessed working capital advances of $45 (2011 - $17).

8. ACCOUNTS RECEIVABLE

	2012	2011
Trade	$ 118	$ 81
Service Canada	-	245
Canada Revenue Agency	-	33
	118	359
Less: Allowance for doubtful accounts	4	4
	$ 114	$ 355

9. EMPLOYEE FUTURE BENEFITS

	2012	2011
Severance benefits	$ 221	$ 189
Sick pay benefits	37	37
	$ 258	$ 226

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 2012 was $96 (2011 - $88). Under this agreement, the Agency has no further pension liability.

(in thousands)

Employee Future Benefits - continued

Severance 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, 2011. 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, 2012 was $221 (2011 - $189). 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, 2011 valuation, and in the determination of the March 31, 2012 present value of the accrued severance benefit obligation were:

Annual rate of return	
Inflation component	2.00 %
Real rate of return	4.00 %
	6.00 %
Assumed salary increase rates	
Annual productivity increase	1.00 %
Annual general salary increase	2.75 %
	3.75 %

Sick pay benefits

Vital Statistics Agency provides sick leave benefits for employees that accumulate but do not vest. The accrued benefit obligation related to sick leave entitlement earned by employees is determined using a valuation model developed by an actuary. The valuation is based on employee demographics, sick leave usage and actuarial assumptions. These assumptions include a 6.00% annual return and a 3.75% annual salary increase.

(in thousands)

10. TANGIBLE CAPITAL ASSETS

	2012				2011
	Opening Balance	Additions	Disposals	Closing Balance	Total
Cost					
Data conversion	$ 2,555	$ -	$ -	$ 2,555	$ 2,555
Furniture and fixtures	121	1	-	123	121
Information system	1,434	186	-	1,620	1,434
Leasehold improvements	98	1	-	99	98
National Routing System	416	6	-	422	416
Office equipment	192	21	-	213	192
Security equipment	75	-	-	75	75
	4,891	215	-	5,107	4,891
Accumulated amortization					
Data conversion	1,580	195	-	1,775	1,580
Furniture and fixtures	118	1	-	120	118
Information system	1,133	78	-	1,211	1,133
Leasehold improvements	90	3	-	93	90
National Routing System	222	39	-	261	222
Office equipment	183	7	-	190	183
Security equipment	65	7	-	72	65
	3,391	330	-	3,722	3,391
Net book value	$ 1,500	$ (115)	$ -	$ 1,385	$ 1,500

11. DESIGNATED ASSETS

The Agency has allocated $94 (2011 - $94) of its portfolio investments as designated assets for cash received from the Province of Manitoba for vacation entitlements earned by employees of the Agency prior to its designation as an SOA and the severance pay benefits accumulated to March 31, 1998 for certain of their employees. This amount is held by an interest bearing account until the cash is required to discharge the related liabilities. Any unused balance is re-invested annually.

12. COMMITMENTS

The Agency has not entered into a lease agreement with the Province of Manitoba for rental of facilities at 254 Portage Avenue. Occupancy charges for the year ending March 31, 2013 are estimated to be $197 (2011 - $202).

13. TRANSFER OF FUNDS TO THE PROVINCE OF MANITOBA

During the year, with Lieutenant-Governor-in-Council approval by Order in Council, the Agency transferred $380 (2011 - $380) of its surplus funds to the Province of Manitoba.

VITAL STATISTICS AGENCY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

Schedule 1

SCHEDULE OF OPERATING EXPENSES
(in thousands)
FOR THE YEAR ENDED MARCH 31, 2012

	2012 Budget	**2012 Actual**	2011 Actual
Accommodation	$ 202	**$ 202**	$ 209
Central government charges	70	**65**	60
Computer information system	222	**248**	276
Office equipment support	25	**26**	23
Office supplies	25	**27**	21
Other operating expenses	83	**76**	74
Printed material supplies	105	**154**	132
Professional fees	20	**61**	47
Supplies for mechanized systems	-	**23**	22
Telecommunications	44	**59**	53
Training	8	**5**	4
Transportation and freight	200	**203**	162
	$ 1,004	**$ 1,149**	$ 1,083

Schedule 2

SCHEDULE OF PUBLIC SECTOR COMPENSATION DISCLOSURE
(in thousands)
FOR THE YEAR ENDED MARCH 31, 2012

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

EMPLOYEE	TITLE	COMPENSATION 2012	COMPENSATION 2011
Susan Boulter	Chief Operating Officer	**$ 95**	$ 95
Linda Harlos	Assistant Director / Senior Legislative, Policy & Privacy Analyst	**76**	72
Wesley Dropko	Manager, Information Technology	**74**	71
Edwin Norrington	Manager of Accounting and Communication	**72**	72
Dorothy Painchaud	Corrections Clerk	**-**	60
Lucy Lutrzykowski	Manager of Application Processing	**54**	53
June Buzahora	Corrections Clerk	**54**	-
Frances Beer	Manager of Registration Systems	**50**	50

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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, 2012, 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.

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KPMG Canada provides services to KPMG LLP.

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, 2012, 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 20, 2012

Winnipeg, Canada

SPORT MANITOBA INC.

Statement of Financial Position

March 31, 2012, with comparative figures for 2011

	2012	2011
Assets		
Current assets:		
Cash (note 11)	$ 2,854,792	$ 715,717
Accounts receivable	355,343	1,605,258
Inventories	19,162	26,380
Prepaid expenses and deposits	107,662	98,490
	3,336,959	2,445,845
Marketable securities [note 2(f)]	100,000	101,420
Long-term accounts receivable	50,367	50,367
Capital assets (note 3)	16,199,114	16,469,881
	$ 19,686,440	$ 19,067,513

	2012	2011

Liabilities, Deferred Contributions and Net Assets

	2012	2011
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,708,335	$ 1,704,215
Current portion of loan payable (note 6)	223,549	210,921
	1,931,884	1,915,136
Loan payable (note 6)	15,063,745	15,287,294
Deferred contributions relating to (note 7):		
Expenses of future periods	811,248	917,483
Capital assets	1,620,375	537,167
	2,431,623	1,454,650
Net assets:		
Unrestricted	(812,852)	(597,081)
Internally restricted [note 2(e)]:		
Initiatives program	87,107	88,107
Coaching	26,875	26,875
Future major repairs and upgrades	75,000	–
Princess Royal Pan Am Scholarship endowment [note 2(f)]	100,000	101,420
Invested in capital assets (note 11)	783,058	791,112
	259,188	410,433
KidSport Canada trust assets (note 4)		
Commitments (note 8)		
	$ 19,686,440	$ 19,067,513

See accompanying notes to financial statements.

On behalf of the Board:

____________________ Director

____________________ Director

SPORT MANITOBA INC.

Statement of Operations

Year ended March 31, 2012, with comparative figures for 2011

	Operating Fund	Restricted Funds	Capital Asset Fund	2012 Total	2011 Total
Revenue:					
Province of Manitoba:					
Program support	$ 11,412,700	$ –	$ –	$ 11,412,700	$ 11,376,000
Bingo allocation	341,170	–	–	341,170	193,500
Other grants	281,404	–	–	281,404	187,700
Government of Canada support	159,500	–	–	159,500	165,000
Sport Medicine Centre	232,710	–	–	232,710	17,216
Amortization of deferred contributions	–	–	51,792	51,792	78,405
Other income	302,599	–	–	302,599	339,094
Bilateral funding:					
Province of Manitoba	200,000	–	–	200,000	200,000
Federal Government	200,000	–	–	200,000	200,000
	13,130,083	–	51,792	13,181,875	12,756,915
Expenses:					
Grants					
Sport groups for sport development	7,635,859	–	–	7,635,859	7,825,955
Bilateral sport development programs	400,000	–	–	400,000	411,173
Sport Medicine Centre	437,007	–	–	437,007	29,393
Administration and services provided to sport groups:					
Occupancy	1,818,937	–	–	1,818,937	1,533,602
Operating	370,739	–	–	370,739	530,162
Administration	1,534,939	–	–	1,534,939	1,597,733
Member services	1,567,547	1,000	–	1,568,547	1,532,710
Cost recovered from sport groups	(1,016,811)	–	–	(1,016,811)	(966,345)
Amortization	–	–	582,483	582,483	533,818
	12,748,217	1,000	582,483	13,331,700	13,028,201
Excess (deficiency) of revenue over expenses	$ 381,866	$ (1,000)	$ (530,691)	$ (149,825)	$ (271,286)

See accompanying notes to financial statements.

SPORT MANITOBA INC.

Statement of Changes in Net Assets

Year ended March 31, 2012, with comparative figures for 2011

	Unrestricted	Internally restricted initiatives program	Internally restricted coaching fund	Internally restricted future major repairs and upgrades	Princess Royal Pan Am Scholarship endowment	Invested in capital assets	2012 Total	2011 Total
Net assets, beginning of year	$ (597,081)	$ 88,107	$ 26,875	$ –	$ 101,420	$ 791,112	$ 410,433	$ 684,579
Excess (deficiency) of revenue over expenses	381,866	(1,000)	–	–	–	(530,691)	(149,825)	(271,286)
Capital assets acquired	(311,716)	–	–	–	–	311,716	–	–
Principal payments on loan payable	(210,921)	–	–	–	–	210,921	–	–
Change in unrealized loss on endowment investments	–	–	–	–	(1,420)	–	(1,420)	(2,860)
Internally imposed restriction [note 2(e)]	(75,000)	–	–	75,000	–	–	–	–
Net assets, end of year	$ (812,852)	$ 87,107	$ 26,875	$ 75,000	$ 100,000	$ 783,058	$ 259,188	$ 410,433

See accompanying notes to financial statements.

SPORT MANITOBA INC.

Statement of Cash Flows

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Cash provided by (used in):		
Operating activities:		
Deficiency of revenue over expenses	$ (149,825)	$ (271,286)
Items not involving cash:		
Amortization of capital assets	582,483	533,818
Amortization of deferred contributions related to capital assets	(51,792)	(78,405)
Change in non-cash items related to operations	1,145,846	177,770
	1,526,712	361,897
Investing activities:		
Additions to capital assets	(311,716)	(447,799)
Increase in deferred contributions related to capital assets	1,135,000	26,613
	823,284	(421,186)
Financing activities:		
Principal repayments of loan payable	(210,921)	(199,007)
Increase (decrease) in cash	2,139,075	(258,296)
Cash, beginning of year	715,717	974,013
Cash, end of year	$ 2,854,792	$ 715,717
Supplementary cash flow information:		
Interest paid	$ 897,778	$ 909,693

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	3 - 20 years
Print shop equipment	3 - 30 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 which includes operations of The Sport for Life Sport Medicine Centre.

The Sport for Life Sport Medicine Centre is a multidisciplinary clinic that offers patient care for sport medicine and orthopedic injuries including sport medicine, physiotherapy, athletic therapy, massage, chiropractic and nutrition.

(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 must be approved by the Board. During the year, the Board authorized expenditures of $1,000.

The Board of Directors has also internally restricted certain net assets to be used for coaching initiatives.

2. Significant accounting policies (continued):

During the year, the Board of Directors internally restricted resources amounting to $75,000 to be used to fund future major repairs and upgrades required for 145 Pacific Avenue. This amount was transferred from the unrestricted net assets. These internally restricted amounts are not available for other purposes without prior approval of the Board of Directors.

(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.

2. Significant accounting policies (continued):

Except for held-for trading designated financial instruments, transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset or liability's carrying value at inception and amortized over the expected life of the financial instrument using the effective interest method. For held-for trading financial assets and liabilities, transaction costs are recorded in the statement of operations as incurred.

The organization has adopted the Canadian Institute of Chartered accountants (CICA) Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*. In accordance with the Accounting Standards Board's decision to exempt not-for-profit organizations from the disclosure requirements with respect to financial instruments contained within Section 3862, *Financial Instruments - Disclosures*, and Section 3863, *Financial Instruments - Presentation*, the organization has elected not to adopt these standards in the financial statements.

(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:

	Cost	Accumulated amortization	2012 Net book value	2011 Net book value
Land	$ 1,200,000	$ –	$ 1,200,000	$ 1,200,000
Building	15,389,228	797,516	14,591,712	14,894,852
Computers	176,081	136,960	39,121	63,690
Furniture and equipment	641,152	344,944	296,208	236,431
Print shop equipment	218,799	164,639	54,160	53,088
Leasehold improvements	40,577	22,664	17,913	21,820
	$ 17,665,837	$ 1,466,723	$ 16,199,114	$ 16,469,881

4. **KidSport Canada trust assets:**

In accordance with a Delegation of Authority agreement with KidSport Canada signed March 19, 2008, the organization is holding $802,744 of assets in trust for KidSport Canada as at March 31, 2012 (2011 - $501,597). 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 2014.

6. **Loan payable:**

	2012	2011
Loan payable to Province of Manitoba bearing interest at 5.90%, unsecured, repayable in monthly installments of $92,392 including interest, maturing February 24, 2040	$ 15,287,294	$ 15,498,215
Current portion of loan payable	223,549	210,921
	$ 15,063,745	$ 15,287,294

Principal repayments over the next five years are as follows:

2013	$ 223,549
2014	236,933
2015	251,118
2016	266,153
2017	282,087

7. Deferred contributions:

Deferred contributions related to expenses of future periods represent restricted funding received for future expenses.

	2012	2011
Balance, beginning of year	$ 917,483	$ 353,185
Contributions in the current year	181,377	791,257
Amounts amortized to revenue	(287,612)	(226,959)
Balance, end of year	$ 811,248	$ 917,483

Deferred contributions for expenses of future periods are comprised of the following:

	2012	2011
Future bids, MB Games sponsorship, coaching and programming and storage of equipment	$ 273,464	$ 119,643
Sport for Life Centre	37,239	47,840
High Performance Athlete Initiative	500,545	750,000
	$ 811,248	$ 917,483

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.

	2012	2011
Balance, beginning of year	$ 537,167	$ 258,959
Contributions in the current year	1,135,000	356,613
Amounts amortized to revenue	(51,792)	(78,405)
Balance, end of year	$ 1,620,375	$ 537,167

Deferred contributions related to capital assets are comprised of the following:

	2012	2011
Sport for Life Centre Phase 1	$ 155,375	$ 207,167
Sport for Life Centre Phase 2	1,465,000	330,000
	$ 1,620,375	$ 537,167

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 $47,500 for the year ending March 31, 2013, subject to the present levels of funding from the Province of Manitoba being maintained.

(b) The organization has an agreement with Canadian Sport Centre Manitoba Inc. to provide funding for the implementation of programs and services in support of the pursuit of excellence by high performance athletes and coaches in Manitoba. The terms of this agreement have committed the organization to provide funding of $180,500 for the year ending March 31, 2013 subject to the present levels of funding from the Province of Manitoba being maintained.

(c) The organization has an agreement with Manitoba Sports Hall of Fame and Museum Incorporated to provide funding in the amount of $330,000 for the construction and fit-out of the Manitoba Sports Hall of Fame and Museum at 145 Pacific Ave., for the year ending March 31, 2013.

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. In addition, the organization provided the Hall of Fame $170,000 (2011 – $70,000) towards the construction and fit-out of the Manitoba Sports Hall of Fame and Museum.

The accounts receivable from the Hall of Fame in the amount of $76,367 (2011 - $76,367), is non-interest bearing, and has no fixed terms of repayment.

9. Manitoba Sports Hall of Fame and Museum Incorporated (continued):

The following represents the financial position and the results of operations of the Hall of Fame as at March 31:

	2012	2011
Assets	$ 427,579	$ 237,192
Liabilities	$ 415,775	$ 240,453
Net assets (deficit)	11,804	(3,261)
	$ 427,579	$ 237,192
Revenues	$ 129,359	$ 121,415
Expenses	114,294	112,570
Excess of revenues over expenses	$ 15,065	$ 8,845

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:

	2012	2011
Assets	$ 1,028,778	$ 1,012,476
Liabilities	$ 1,000	$ 1,000
Deferred contributions	401,813	400,313
Unrestricted net assets	118,710	106,163
Pan Am Games Legacy fund	505,000	505,000
Restricted Bud Tinsley fund	2,255	–
	$ 1,028,778	$ 1,012,476
Revenue	$ 32,663	$ 51,929
Expenses	17,861	327,731
Excess (deficiency) of revenue over expenses	$ 14,802	$ (275,802)

During the year, the Foundation provided $13,500 (2011 - $12,000) of scholarship grants to Manitoba athletes.

11. Invested in capital assets:

Invested in capital assets is calculated as follows:

	2012	2011
Capital assets	$ 16,199,114	$ 16,469,881
Amounts financed by:		
Loan payable	(15,287,294)	(15,498,215)
Deferred contributions	(1,620,375)	(537,167)
Unspent cash proceeds	1,491,613	356,613
	$ 783,058	$ 791,112

12. Pension plan:

The organization has a defined contribution pension plan. Pension expense for the year ended March 31, 2012 was $115,560 (2011 - $106,573).

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, 2012, with comparative figures for 2011

	2012	2011
Occupancy expenses:		
Interest on loan payable	$ 897,778	$ 909,693
Member services	145,267	155,945
Utilities	149,621	149,437
Security and janitorial services	135,566	126,650
Salaries	74,479	63,937
Property repairs and maintenance	57,427	63,434
Insurance and taxes	357,362	61,475
Sport for Life Centre	1,437	3,031
	$ 1,818,937	$ 1,533,602
Operating expenses:		
Courier	$ 11,965	$ 12,547
Multi-sport games support	133,541	231,813
Postage	56,681	67,819
Repairs and maintenance	87,526	96,420
Service bureau fees	4,504	6,263
Stationery	21,593	51,665
Telephone	54,929	63,635
	$ 370,739	$ 530,162
Administration expenses:		
Advertising, marketing and media programs	$ 157,560	$ 220,922
Coaching development	96,541	93,015
Community and regional development programs	123,965	139,702
Delivery and freight	1,675	1,686
Hall of Fame administration	11,682	9,448
Insurance	10,171	10,788
KidSport programs	30,297	21,952
Long-term athlete development	20,089	13,128
Meetings	26,710	22,384
Membership dues and subscriptions	3,665	7,578
Office supplies and stationery	6,924	10,097
Photocopying	6,379	5,562
Postage	7,114	5,128
Printing	10,255	10,523
Professional development	6,415	10,849
Professional fees	28,790	19,300
Respect in Sport	95,051	119,938
Salaries and benefits	844,064	821,482
Service bureau fees	4,739	5,179
Telephone	26,599	22,323
Travel	11,853	20,368
Volunteer and staff recognition	4,401	6,381
	$ 1,534,939	$ 1,597,733

SPORT MANITOBA INC.

Schedule - Administration and Services Provided to Sport Groups (continued)

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Member services expenses:		
Salaries and benefits	1,567,547	1,532,710
Amortization:		
Amortization of leasehold improvements	$ 7,510	$ 7,274
Amortization of other capital assets	574,973	526,044
	$ 582,483	$ 533,318

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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, 2012, and the 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 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, 2012 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 27, 2012

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TRAVEL MANITOBA
Statement of Financial Position

March 31	2012	2011
Assets		
Current Assets		
Cash and short-term deposits (Note 2)	$ 1,215,653	$ 787,905
Trade accounts receivable	621,892	1,274,550
Prepaid expenses	35,988	29,740
	1,873,533	2,092,195
Due from the Province of Manitoba (Note 3)	150,413	204,727
Capital assets (Note 4)	131,033	128,015
	$ 2,154,979	$ 2,424,937
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,273,683	$ 1,234,042
Deferred revenue	78,852	-
	1,352,535	1,234,042
Retirement allowances and other benefits payable (Note 5)	454,633	441,434
	1,807,168	1,675,476
Contingencies and commitments (Note 7)		
Net Assets		
Unrestricted	141,778	546,446
Restricted for purchase of capital assets	75,000	75,000
Invested in capital assets	131,033	128,015
	347,811	749,461
	$ 2,154,979	$ 2,424,937

Approved on behalf of the Board of Directors:

_______________________ 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	2012	2011
Revenue		
Province of Manitoba		
Operating	$ **7,613,000**	$ 7,602,000
Other initiatives - Federal and provincial funding	**1,839,500**	2,475,600
Partnership and leveraged marketing	**712,446**	493,880
Other	**22,526**	9,959
	10,187,472	10,581,439
Expenditures		
Marketing and industry development	**8,442,340**	7,822,996
Visitor services	**1,173,506**	1,448,637
Corporate services	**953,784**	782,805
Amortization	**12,099**	16,598
Contribution to Manitoba Homecoming Inc.	**7,393**	315,000
	10,589,122	10,386,036
Excess (deficiency) of revenue over expenditures for the year	$ **(401,650)**	$ 195,403

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 — **2012** / 2011

	Unrestricted	Restricted for Purchase of Capital Assets	Invested in Capital Assets	Total 2012	Total 2011
Net assets, beginning of year	$ 546,446	$ 75,000	$ 128,015	$ 749,461	$ 554,058
Excess (deficiency) of revenue over expenditures for the year	(389,551)	-	(12,099)	(401,650)	195,403
Acquisition of capital assets	(15,117)	-	15,117	-	-
Net assets, end of year	$ 141,778	$ 75,000	$ 131,033	$ 347,811	$ 749,461

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	2012	2011
Cash Flows from Operating Activities		
Excess (deficiency) of revenue over expenditures for the year	$ (401,650)	$ 195,403
Adjustment for non cash items		
Amortization	12,099	16,598
Loss on disposal of equipment	-	23,825
	(389,551)	235,826
Changes in non-cash working capital		
Trade accounts receivable	652,658	527,055
Prepaid expenses	(6,248)	27,388
Accounts payable and accrued liabilities	39,641	(527,038)
Deferred revenue	78,852	-
	764,903	27,405
Due from Province of Manitoba	54,314	19,706
Retirement allowances and other benefits payable	13,199	(50,486)
	442,865	232,451
Cash Flows from Investing Activities		
Acquisition of capital assets	(15,117)	(22,626)
Disposition of capital assets	-	2,625
	(15,117)	(20,001)
Net increase in cash and cash equivalents	427,748	212,450
Cash and cash equivalents, beginning of year	787,905	575,455
Cash and cash equivalents, end of year	$ 1,215,653	$ 787,905

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

For the year ended March 31, 2012

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 less accumulated amortization and are amortized on a declining balance basis over the estimated useful lives of the assets at the following rates:

Computer hardware	30%
Computer software	30%
Furniture and equipment	5%
Leasehold improvements	5%

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 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 and 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

- 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.

For the year ended March 31, 2012

Financial Instruments (continued)

Transaction costs are expensed as incurred.

All transactions related to financial instruments are recorded on a settlement date basis.

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.

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.

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.

For the year ended March 31, 2012

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.

New Accounting Pronouncements

In December 2010, the Accounting Standards Board and Public Sector Accounting Board ("Boards") issued new standards for not-for-profit organizations (NPOs) as follows:

For government (public sector) NPOs they have a choice of Public Sector Accounting standards with the current series of NPO-specific standards added with some minor changes or 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 Public Sector Accounting standards with the current NPO-specific standards, however has not yet determined the impact of this change on 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 grow tourism revenues by harnessing the collective investment in tourism to create strong connections between visitors and Manitoba's unique experiences. 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.

A dedicated account has been established to safeguard $100,000 for the Organization's retirement allowance obligation and enhanced pension benefit costs. Interest earned will be retained in the account.

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 $54,314 related to employees no longer employed by the Organization. The receivable from the Province of Manitoba as at March 31, 2012 is $150,413 ($204,727 in 2011).

4. Capital Assets

	2012		2011	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer hardware	$ 36,734	$ 19,036	$ 27,825	$ 14,340
Computer software	29,503	27,850	29,503	26,161
Furniture and equipment	22,294	3,494	16,086	2,668
Leasehold improvements	111,644	18,762	111,644	13,874
	$ 200,175	$ 69,142	$ 185,058	$ 57,043
Cost less accumulated amortization		$ 131,033		$ 128,015

5. Retirement Allowances and Other Benefits Payable

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 April 1, 2012 and the most recent finalized and approved actuarial valuation report for the enhanced pension benefits was at December 31, 2010.

The significant actuarial assumptions adopted in measuring the Organization's retirement allowance obligation and costs are as follows:

	2012	2011
Benefit costs for the year ended March 31		
Discount rate	6.00%	6.00%
Rate of compensation increase	2.75%	2.75%
Employer contributions	$ 161,103	$ 125,095

The significant actuarial assumptions adopted in measuring the Organization's enhanced pension benefit and costs are as follows:

	2012	2011
Benefit costs for the year ended March 31		
Discount rate	6.00%	6.00%
Rate of compensation increase	3.75%	3.75%
Employer contributions	$ 2,512	$ 1,425
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:

	2012	2011
Trade accounts receivable	**$ 621,892**	$ 1,274,550
Due from the Province of Manitoba	**150,413**	204,727
	$ 772,305	$ 1,479,277

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 non-trade 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.

6. Financial Instrument Risk Management (continued)

Fair Value

The carrying values of cash and 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 $609,608. In addition, the Organization leases computer equipment from the Province of Manitoba. The anticipated charge for the year ended March 31, 2013 is $13,978.

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, 2012, this line of credit had not been drawn upon.

8. Non-monetary Transactions

During 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 $42,581 ($41,827 in 2011).

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 net assets for purchase of capital assets and its net assets investment in capital assets. There have been no changes to what the organization considers to be its capital since the previous period.

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 of Director's discretion.

OFFICE OF THE
AUDITOR GENERAL
MANITOBA

Independent Auditor's Report

To the Lieutenant Governor in Council
To the Legislative Assembly of Manitoba
To the Governing Council of the University College of the North

We have audited the accompanying financial statements of the University College of the North, which comprise the statement of financial position as at March 31, 2012, and the statements of operations, 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 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 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 University College of the North as at March 31, 2012, 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

June 28, 2012
Winnipeg, Manitoba

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

UNIVERSITY COLLEGE OF THE NORTH

STATEMENT 1

STATEMENT OF FINANCIAL POSITION

	GENERAL FUND	CAPITAL CAMPAIGN FUND	STUDENT AWARD FUND	ENDOWMENT FUND	March 31, 2012	March 31, 2011
ASSETS						
CURRENT						
Cash and cash equivalents	$ 5,171,371	$ 546,897	$ 151,889	$	$ 5,870,157	$ 10,137,083
Short-term investments				552,600	552,600	452,600
Accounts receivable *(Note 4)*	5,152,371	1	2,052		5,154,424	4,813,305
Due from Province of Manitoba *(Note 6)*	752,589				752,589	752,589
Inventory	217,620				217,620	218,700
Prepaid expenses	1,276,132				1,276,132	1,208,762
	12,570,083	546,898	153,941	552,600	13,823,522	17,583,039
LONG TERM						
Capital assets *(Note 5)*	15,942,037				15,942,037	9,123,959
Due from Province of Manitoba *(Note 6)*	793,500				793,500	793,500
	16,735,537				16,735,537	9,917,459
	$ 29,305,620	$ 546,898	$ 153,941	$ 552,600	$ 30,559,059	$ 27,500,498
LIABILITIES						
CURRENT						
Accounts payable and accrued liabilities *(Note 7)*	$ 3,125,528	$	$ 500	$	$ 3,126,028	$ 2,823,020
Deferred revenue	2,727,094				2,727,094	1,595,367
Deferred contributions *(Note 8)*	2,454,857				2,454,857	3,187,168
Accrued vacation benefits	2,514,837				2,514,837	2,349,061
Current portion on long term debt *(Note 9)*	47,923				47,923	
	10,870,239		500		10,870,739	9,954,616
LONG TERM						
Deferred contributions related to capital assets *(Note 10)*	8,982,674				8,982,674	7,665,296
Accrued severance benefits *(Note 11)*	1,940,936				1,940,936	1,717,092
Long term debt *(Note 9)*	1,352,077				1,352,077	
	12,275,687				12,275,687	9,382,388
FUND BALANCES						
NET ASSETS INVESTED IN CAPITAL ASSETS	5,562,625				5,562,625	1,458,665
NET ASSETS RESTRICTED FOR FUND PURPOSES		546,898	153,441	552,600	1,252,939	1,084,839
NET ASSETS INTERNALLY RESTRICTED *(Note 14)*	5,125,399				5,125,399	4,931,506
UNRESTRICTED NET ASSETS	(4,528,330)				(4,528,330)	688,484
	6,159,694	546,898	153,441	552,600	7,412,633	8,163,494
	$ 29,305,620	$ 546,898	$ 153,941	$ 552,600	$ 30,559,059	$ 27,500,498

Approved by the Governing Council

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University College of the North

Statement 2

Statement of Operations

	General Fund	Capital Campaign Fund	Student Award Fund	Endowment Fund	12 Months Ended March 31, 2012	9 Months Ended March 31, 2011
REVENUES						
Grants						
Council on Post-Secondary Education	$ 30,540,258	$	$	$	$ 30,540,258	$ 23,993,685
Other Province of Manitoba	1,503,649				1,503,649	498,018
Government of Canada	334,725				334,725	488,397
Amortization of deferred contributions related to capital assets	602,901				602,901	349,156
Ancillary sales and services	1,788,910				1,788,910	1,515,262
Donations	270	53,903	158,299	100,000	312,472	409,877
Investment income	100,718	5,681	6,662		113,061	48,472
Contract training	1,114,013				1,114,013	1,202,528
Tuition and student fees	3,114,965				3,114,965	2,304,121
Other revenue	1,467,306				1,467,306	900,254
Gain on disposal of capital assets	1,254				1,254	
	40,568,969	59,584	164,961	100,000	40,893,514	31,709,770
EXPENSES						
Advertising and public relations	673,119				673,119	443,882
Amortization of capital assets	689,917				689,917	354,127
Bad debt	5,000				5,000	
Cost of goods sold	1,011,464				1,011,464	879,017
Facility costs	1,026,204				1,026,204	758,934
Furniture and minor equipment	1,630,335				1,630,335	1,094,063
Insurance	169,920				169,920	115,453
Interest on long term debt	42,609				42,609	
Library acquisitions	219,773				219,773	128,331
Loss on disposal of capital assets						1,454
Maintenance and repairs	234,164				234,164	125,068
Operational supplies and services	6,711,864				6,711,864	3,468,524
Property taxes	557,199				557,199	406,000
Rentals and leases	468,002				468,002	459,450
Salaries and employee benefits	25,636,822				25,636,822	18,590,665
Scholarships and bursaries			156,445		156,445	137,400
Telephone and communication	660,013				660,013	556,336
Travel	1,530,779				1,530,779	1,076,490
Utilities	220,746				220,746	101,912
	41,487,930		156,445		41,644,375	28,697,106
EXCESS REVENUES (EXPENSES)	$ (918,961)	$ 59,584	$ 8,516	$ 100,000	$ (750,861)	$ 3,012,664

UNIVERSITY COLLEGE OF THE NORTH

STATEMENT 3

STATEMENT OF CHANGES IN FUND BALANCES

	GENERAL FUND	CAPITAL CAMPAIGN FUND	STUDENT AWARD FUND	ENDOWMENT FUND	TOTAL MARCH 31, 2012	TOTAL MARCH 31, 2011
FUND SURPLUS, *beginning of period*	$ 7,078,655	$ 487,314	$ 144,925	$ 452,600	$ 8,163,494	$ 5,150,830
EXCESS REVENUES (EXPENSES)	(918,961)	59,584	8,516	100,000	(750,861)	3,012,664
FUND SURPLUS, *end of period*	$ 6,159,694	$ 546,898	$ 153,441	$ 552,600	$ 7,412,633	$ 8,163,494

UNIVERSITY COLLEGE OF THE NORTH

STATEMENT 4

STATEMENT OF CASH FLOWS

	12 MONTHS ENDED MARCH 31, 2012	9 MONTHS ENDED MARCH 31, 2011
CASH FLOWS FROM		
OPERATING ACTIVITIES		
Excess Revenues (Expenses)		
General Fund	$ (918,961)	$ 2,738,088
Capital Campaign Fund	59,584	137,511
Student Award Fund	8,516	37,065
Endowment Fund	100,000	100,000
	(750,861)	3,012,664
Add (deduct) items not affecting cash:		
Loss (gain) on disposal of capital assets	(1,254)	1,454
Amortization of capital assets	689,917	354,127
Amortization of deferred contributions related to capital assets	(602,901)	(349,156)
	(665,099)	3,019,089
Add (deduct) changes in non-cash working capital components related to operating activities:		
Accounts receivable	(341,119)	(62,408)
Inventory	1,080	(42,159)
Prepaid expenses	(67,370)	63,056
Accounts payable and accrued liabilities	303,008	482,021
Deferred revenue	1,131,727	228,904
Deferred contributions	(732,311)	15,356
Accrued vacation benefits	165,776	(62,155)
Accrued severance benefits	223,844	(47,234)
	19,536	3,594,470
FINANCING ACTIVITIES		
Deferred contributions related to capital assets	1,920,279	3,694,570
Advances of long term debt	1,400,000	
	3,320,279	3,694,570
INVESTING ACTIVITIES		
Increases in short term investments	(100,000)	(100,000)
Purchase of capital assets	(7,510,001)	(4,082,827)
Proceeds from disposal of capital assets	3,260	
	(7,606,741)	(4,182,827)
NET INCREASE (DECREASE) IN CASH FLOWS DURING THE PERIOD	(4,266,926)	3,106,213
CASH AND CASH EQUIVALENTS, *beginning of period*	10,137,083	7,030,870
CASH AND CASH EQUIVALENTS, *end of period*	$ 5,870,157	$ 10,137,083

Supplemental Cash Flow Information:		
Interest Received	$ 116,881	$ 42,645
Interest Paid	$ 42,609	$ -

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*.

Effective July 1, 2010 UCN changed its year end from June 30, to March 31. Accordingly, these financial statements report the comparative figures as at March 31, 2011 for the nine month period then ended.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of UCN have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations. 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 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.

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

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.

b) 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 UCN of April 1, 2011 will require the presentation of the April 1, 2011 statement of financial position and restatement of the March 31, 2012 statement of financial position and statement of operations in accordance with PSA 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. UCN is currently assessing the impact of those differences.

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, accrued vacation benefits, and long term debt.

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.

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

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 Long term debt

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. Long term debt approximates fair value as it was entered into near year end.

The carrying value of the due from Province of Manitoba - severance benefits approximates its fair value, as the annual interest accretion is funded.

d) Revenue Recognition

Tuition and student fees are recognized as revenue in the semester or term earned.

Revenue from Contract Training contracts is recognized during the period 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 present are recognized as revenue in the period 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) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term investments with maturity dates of less than 90 days.

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

f) Inventory

Inventory is recorded at the lower of cost or net realizable value. Cost of goods sold on the Statement of Operations includes inventory expensed during the period.

g) Capital Assets

Amortization of capitalized assets is recorded on a straight line basis, using the half year rule, commencing in the year of acquisition over the following periods:

Automotive equipment	5 years
Computer equipment	5 years
Other equipment	10 years
Buildings	40 years
Building Improvements	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.

Construction in progress is not amortized until construction is complete.

h) 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. Significant estimates included in the financial statements include allowance for doubtful accounts, net realizable value of inventory, amortization and accrued severance benefits costs.

i) 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 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.

3. CHANGE IN ACCOUNTING POLICY

During the year, UCN changed its accounting policy for the treatment of actuarial gains and losses with respect to its obligation for severance benefits. Previously, UCN recognized the actuarial gain or loss in the period the gains or losses arise. Actuarial gains and losses are now 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 arises.

UCN changed the policy to systematically recognize the actuarial gains or losses over the average remaining service life of the employees.

This change in accounting policy has been accounted for retroactively with no change to prior year net assets or accrued severance benefits.

4. ACCOUNTS RECEIVABLE

	2012	2011
UCN Fund		
Students	$ 981,817	$ 1,128,111
Contract Training	1,275,992	775,531
Due from Council on Post-Secondary Education (COPSE)	1,679,944	1,765,664
Other	1,544,511	1,509,112
	5,482,264	5,178,418
Less: Allowance for doubtful accounts	(490,561)	(501,640)
	$ 4,991,703	$ 4,676,778
Inter-Universities Services Fund		
Students	$ 159,493	$ 129,367
Other	7,211	9,423
	166,704	138,790
Less: Allowance for doubtful accounts	(6,036)	(4,747)
	$ 160,668	$ 134,043
General Fund	$ 5,152,371	$ 4,810,821
Capital Campaign Fund	1	455
Student Award Fund	2,052	2,029
	$ 5,154,424	$ 4,813,305

5. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value 2012
UCN Fund			
Automotive equipment	$ 883,714	$ 641,065	$ **242,649**
Computer equipment	1,352,093	808,980	**543,113**
Other equipment	3,153,484	1,212,944	**1,940,540**
Buildings/improvements	4,801,916	403,675	**4,398,241**
Construction in progress	7,588,833		**7,588,833**
Land	446,067		**446,067**
Library holdings	714,161		**714,161**
	$ 18,940,268	$ 3,066,664	$ **15,873,604**
Inter-Universities Services Fund			
Automotive equipment	$ 120,558	$ 69,341	$ **51,217**
Computer equipment	60,174	58,934	**1,240**
Other equipment	40,686	24,710	**15,976**
	$ 221,418	$ 152,985	$ **68,433**
TOTALS FOR 2012	$ 19,161,686	$ 3,219,649	$ **15,942,037**

	Cost	Accumulated Amortization	Net Book Value 2011
UCN Fund			
Automotive equipment	$ 841,476	$ 577,022	$ **264,454**
Computer equipment	1,246,654	627,485	**619,169**
Other equipment	2,973,173	960,303	**2,012,870**
Buildings/improvements	1,288,610	281,115	**1,007,495**
Construction in progress	4,443,813		**4,443,813**
Library holdings	714,161		**714,161**
	$ 11,507,887	$ 2,445,925	$ **9,061,962**
Inter-Universities Services Fund			
IUS Automotive Equipment	$ 90,873	$ 53,662	$ **37,211**
IUS Computer Equipment	60,174	53,971	**6,203**
IUS Miscellaneous	40,686	22,103	**18,583**
	$ 191,733	$ 129,736	$ **61,997**
TOTALS FOR 2011	$ 11,699,620	$ 2,575,661	$ **9,123,959**

6. 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 period'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.

	2012	2011
Accrued vacation benefits	$ 752,589	$ 752,589
Accrued severance benefits	$ 793,500	$ 793,500

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2012	2011
UCN Fund		
Accrued liabilities	$ 906,842	$ 710,079
Wages and benefits payable	605,236	474,616
Trade accounts payable	1,542,409	1,589,553
Due to Student Associations	16,691	19,872
	$ 3,071,178	$ 2,794,120
Inter-Universities Services Fund		
Trade Accounts Payable	$ 54,350	$ 28,400
General Fund	3,125,528	2,822,520
Student Award Fund	500	500
	$ 3,126,028	$ 2,823,020

8. DEFERRED CONTRIBUTIONS

Deferred contributions reported in each fund relate to designated contributions received in the current period that are related to expenditures of a subsequent period. Changes in deferred contributions during the period are as follows:

	Beginning of Year	Increases	Decreases	End of Year
UCN Fund	$ 3,187,168	$ 1,094,654	$ 1,826,965	$ 2,454,857

9. LONG TERM DEBT

	2012
Mortgage payable to the Province of Manitoba bearing interest at 3.75 %, due March 31, 2032, repayable in monthly blended instalments of $8,300.	$ 1,400,000
Less: Current portion	47,923
	$ 1,352,077

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

2013	$ 47,923
2014	49,752
2015	51,650
2016	53,620
2017	55,666
	$ 258,611

10. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS

	Beginning of Year	Increases	Decreases	End of Year
UCN Fund	$ 7,603,297	$ 1,890,594	$ 579,652	$ 8,914,239
Inter-Universities Services Fund	61,999	29,685	23,249	68,435
	$ 7,665,296	$ 1,920,279	$ 602,901	$ 8,982,674

11. ACCRUED SEVERANCE BENEFITS

	2012	2011
UCN Fund		
Balance, beginning of period	$ 1,636,568	$ 1,689,810
Actuarial loss	560,808	
Benefits accrued	171,574	82,768
Interest on accrued benefits	142,829	82,378
Severance paid	(103,529)	(218,388)
Balance, end of period	$ 2,408,250	$ 1,636,568
Unamortized actuarial loss	(560,808)	
Severance liability	$ 1,847,442	$ 1,636,568
Inter-Universities Services Fund		
Balance, beginning of period	80,524	74,516
Actuarial loss	35,127	
Benefits accrued	5,453	2,375
Interest on accrued benefits	7,517	3,633
Balance, end of period	$ 128,621	$ 80,524
Unamortized actuarial loss	(35,127)	
Severance liability	$ 93,494	$ 80,524
	$ 1,940,936	$ 1,717,092

An actuarial valuation of the severance obligations as at December 31, 2010 was conducted by Ellement & Ellement Consulting Actuaries. The key actuarial assumptions were updated as at March 31, 2011 based on information provided by the actuary. The key actuarial assumptions were a rate of return of 6.5% (March 31, 2011 - 6.5%), 2.0% inflation (March 31, 2011 - 2.0%), salary rate increases of 2.75% (March 31, 2011 - 2.75%). The accrued benefit cost method with salary projection was used and the liabilities have been extrapolated to March 31, 2012 using the projection formula provided by the actuary. The expected effective date of the next actuarial valuation will be no later than March 31, 2014.

12. 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. Employees hired on or after October 1, 2002 were funded directly by UCN. Commencing April 1, 2009, UCN was required to match all their employees' current pension contributions.

The total contributions for the year ending March 31, 2012 was $1,186,394 (March 31, 2011 - $928,047). 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.

13. 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:

2013	$594,751
2014	132,730
2015	55,149
2016	62,002
2017	60,000

14. NET ASSETS INTERNALLY RESTRICTED

Appropriations from the Unrestricted Fund are made to provide for future funding for innovations funds, fiscal stabilization, programming initiatives, conference and the establishment of a science lab.

	Opening Balance	Increases	Decreases	Ending Balance
UCN Fund				
Fiscal Stabilization	$ 2,573,507	$ 1,106,475	$	$ 3,679,982
Programming Initiatives	1,057,722		1,057,722	
Total	$ 3,631,229	$ 1,106,475	$ 1,057,722	$ 3,679,982
Inter-Universities Services Fund				
Innovations Fund	$ 1,150,277	$ 145,140	$	$ 1,295,417
Conferences	50,000			50,000
Science Lab	100,000			100,000
Total	1,300,277	145,140		1,445,417
	$ 4,931,506	$ 1,251,615	$ 1,057,722	$ 5,125,399

15. RELATED PARTY TRANSACTIONS

UCN is related in terms of common ownership to all Province of Manitoba created departments, agencies and Crown Corporations. UCN enters into transactions with these entities in the normal course of business. These transactions are recorded at the exchange amount. The amount of $1,026,204 (March 31, 2011 - $758,934) 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 March 31, 2012 $4.98 million (March 31, 2011 - $9.2 million), included in both cash and cash equivalents and short-term investments, was invested with the Province of Manitoba.

16. 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 UCN'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 was:

16. RISK MANAGEMENT *(continued)*

	Carrying Amount 2012	2011
Financial assets held for trade;		
Cash and cash equivalents	$ **5,870,157**	$ 10,137,083
Short-term investments	**552,600**	452,600
Loans and receivables:		
Accounts receivable	**5,154,424**	4,813,305
Due from Province of Manitoba - vacation and severance benefits	**1,546,089**	1,546,089
Totals	$ **13,123,270**	$ 16,949,077

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 its 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.

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 exposed to limited interest risk as all investments held are short-term in nature and are held by the Province of Manitoba and the long term debt is fixed rate.

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.

17. 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.

Unrestricted Funds
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.

Restricted Funds
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.

Funds Invested in Capital Assets
Funds invested in capital assets are managed with the long term objective of acquiring and maintaining the capital assets required to facilitate UCN's operations.

As at March 31, 2012, 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 period.

18. INTER-FUND TRANSFERS

	Unrestricted		Internally Restricted		Student Award Fund	Endowment Fund
	UCN Fund	IUS Fund	UCN Fund	IUS Fund		
Fiscal Stabilization	$ (48,753)	$	$ 48,753	$	$	$
Innovations		(145,140)		145,140		
March 31, 2012	$ (48,753)	$ (145,140)	$ 48,753	$ 145,140	$	$
March 31, 2011	$ (1,542,139)	$ (281,295)	$ 1,542,139	$ 281,295	$	$

19. 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. Upon transfer to the First Nation communities, a loss will be recorded for the deficiency between the funded amounts and the total amounts capitalized. As at March 31, 2012 $7.4 million (March 31, 2011 - $4.5 million) has been spent throughout the various Regional Centres.

20. CONTINGENCIES

UCN 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 UCN, or the outcomes are not determinable. No provision has been made in the financial statements in respect of these claims, as of March 31, 2012.

UNIVERSITY COLLEGE OF THE NORTH

STATEMENT 1A

STATEMENT OF FINANCIAL POSITION - GENERAL

	UCN FUND	IUS FUND	MARCH 31, 2012	MARCH 31, 2011
ASSETS				
CURRENT				
Cash and cash equivalents	$ 3,540,335	$ 1,631,036	$ 5,171,371	$ 9,506,828
Accounts receivable *(Note 4)*	4,991,703	160,668	5,152,371	4,810,821
Due to/from other funds	110,058	(110,058)		
Due from Province of Manitoba *(Note 6)*	752,589		752,589	752,589
Inventory	217,620		217,620	218,700
Prepaid expenses	1,275,375	757	1,276,132	1,208,762
	10,887,680	1,682,403	12,570,083	16,497,700
LONG TERM				
Capital assets *(Note 5)*	15,873,604	68,433	15,942,037	9,123,959
Due from Province of Manitoba *(Note 6)*	788,490	5,010	793,500	793,500
	16,662,094	73,443	16,735,537	9,917,459
	$ 27,549,774	$ 1,755,846	$ 29,305,620	$ 26,415,159
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities *(Note 7)*	$ 3,071,178	$ 54,350	$ 3,125,528	$ 2,822,520
Deferred revenue	2,727,094		2,727,094	1,595,367
Deferred contributions *(Note 8)*	2,454,857		2,454,857	3,187,168
Accrued vacations benefits	2,420,687	94,150	2,514,837	2,349,061
Current portion long term debt *(Note 9)*	47,923		47,923	
	10,721,739	148,500	10,870,239	9,954,116
LONG TERM				
Deferred contributions related to capital assets *(Note 10)*	8,914,239	68,435	8,982,674	7,665,296
Accrued severance benefits *(Note 11)*	1,847,442	93,494	1,940,936	1,717,092
Long term debt *(Note 9)*	1,352,077		1,352,077	
	12,113,758	161,929	12,275,687	9,382,388
FUND BALANCES				
NET ASSETS INVESTED IN CAPITAL ASSETS	5,562,625		5,562,625	1,458,665
NET ASSETS INTERNALLY RESTRICTED *(Note 14)*	3,679,982	1,445,417	5,125,399	4,931,506
UNRESTRICTED NET ASSETS	(4,528,330)		(4,528,330)	688,484
	4,714,277	1,445,417	6,159,694	7,078,655
	$ 27,549,774	$ 1,755,846	$ 29,305,620	$ 26,415,159

UNIVERSITY COLLEGE OF THE NORTH

STATEMENT 2A

STATEMENT OF OPERATIONS - GENERAL

	UCN FUND	IUS FUND	12 MONTHS ENDED, MARCH 31, 2012	9 MONTHS ENDED MARCH 31, 2011
REVENUES				
Grants				
Council on Post-Secondary Education	$ 29,378,293	$ 1,161,965	$ 30,540,258	$ 23,993,685
Other Province of Manitoba	1,503,649		1,503,649	498,018
Government of Canada	334,725		334,725	488,397
Amortization of deferred contributions related to capital assets	579,652	23,249	602,901	349,156
Ancillary sales and services	1,788,910		1,788,910	1,515,262
Donations	270		270	
Investment income	97,250	3,468	100,718	46,373
Contract training	1,114,013		1,114,013	1,202,528
Tuition and student fees	2,652,723	462,242	3,114,965	2,304,121
Other revenue	1,420,566	46,740	1,467,306	900,254
Gain on disposal of capital assets	1,254		1,254	
	38,871,305	1,697,664	40,568,969	31,297,794
EXPENSES				
Advertising and public relations	651,537	21,582	673,119	443,882
Amortization of capital assets	666,668	23,249	689,917	354,127
Bad debt		5,000	5,000	
Cost of goods sold	1,011,464		1,011,464	879,017
Facility costs	1,026,204		1,026,204	758,934
Furniture and minor equipment	1,576,479	53,856	1,630,335	1,094,063
Insurance	168,813	1,107	169,920	115,453
Interest on long term debt	42,609		42,609	
Library acquisitions	219,773		219,773	128,331
Loss on disposal of capital assets				1,454
Maintenance and repairs	223,748	10,416	234,164	125,068
Operational supplies and services	6,534,251	177,613	6,711,864	3,468,524
Property taxes	557,199		557,199	406,000
Rentals and leases	453,842	14,160	468,002	459,450
Salaries and employee benefits	24,519,655	1,117,167	25,636,822	18,590,665
Telephone and communication	649,828	10,185	660,013	556,336
Travel	1,412,590	118,189	1,530,779	1,076,490
Utilities	220,746		220,746	101,912
	39,935,406	1,552,524	41,487,930	28,559,706
EXCESS REVENUES (EXPENSES)	$ (1,064,101)	$ 145,140	$ (918,961)	$ 2,738,088

University College of the North

Statement 3A

Statement of Changes in Fund Balances - General

	Unrestricted			Internally Restricted			Net Assets	Total	
	UCN Fund	IUS Fund	Total	UCN Fund	IUS Fund	Total	Invested in Capital Assets	March 31, 2012	March 31, 2011
FUND SURPLUS, *beginning of period*	$ 688,484	$	$ 688,484	$ 3,631,229	$ 1,300,277	$ 4,931,506	$ 1,458,665	$ 7,078,655	$ 4,340,567
EXCESS REVENUES (EXPENSES)	(1,064,101)	145,140	(918,961)					(918,961)	2,738,088
Amortization of capital assets	666,668	23,249	689,917				(689,917)		
Amortization of deferred contributions related to capital assets	(579,652)	(23,249)	(602,901)				602,901		
Purchase of capital assets	(7,480,316)	(29,685)	(7,510,001)				7,510,001		
Deferred contributions related to capital assets	1,890,594	29,685	1,920,279				(1,920,279)		
Disposal of capital assets	(1,254)		(1,254)				1,254		
Long term debt on capital assets	1,400,000		1,400,000				(1,400,000)		
INTER-FUND TRANSFERS (Note 18)	(48,753)	(145,140)	(193,893)	48,753	145,140	193,893			
FUND SURPLUS, *end of period*	$ (4,528,330)	$	$ (4,528,330)	$ 3,679,982	$ 1,445,417	$ 5,125,399	$ 5,562,625	$ 6,159,694	$ 7,078,655

UNIVERSITY COLLEGE OF THE NORTH

SCHEDULE 1

SCHEDULE OF OTHER GRANT REVENUE
(UNAUDITED)

	12 MONTHS ENDED MARCH 31, 2012	9 MONTHS ENDED MARCH 31, 2011
Province of Manitoba		
Representative Work Force - Aboriginal and Northern Affairs	$ 20,000	$
Adult Learning Centre - Manitoba Advanced Education and Literacy	424,770	289,768
Brandon University - BUNTEP	704,300	
Computer Based Learning System - Manitoba Competitive Training	104,607	73,203
Labour and Immigration	35,986	
Manitoba Hydro	104,876	58,060
Public Library Services	60,639	27,726
Red River Community College	8,471	
Summer Enrichment - Manitoba Education	40,000	49,261
	$ 1,503,649	$ 498,018

SCHEDULE 2

SCHEDULE OF ANCILLARY SALES AND SERVICES
(UNAUDITED)

	12 MONTHS ENDED MARCH 31, 2012	9 MONTHS ENDED MARCH 31, 2011
Bookstore	$ 1,113,796	$ 1,029,777
Cafeteria	282,968	236,427
Residence	392,146	249,058
	$ 1,788,910	$ 1,515,262

SCHEDULE 3

SCHEDULE OF TUITION AND STUDENT FEES
(UNAUDITED)

	12 MONTHS ENDED MARCH 31, 2012	9 MONTHS ENDED MARCH 31, 2011
Apprenticeship	$ 883,834	$ 460,009
Core-funded programs	1,701,683	1,499,394
Continuing Education	67,206	52,981
	$ 2,652,723	$ 2,012,384

UNIVERSITY COLLEGE OF THE NORTH

SCHEDULE 4

STATEMENT OF UCN EXPENDITURES BY FUNCTION

(UNAUDITED)

	SALARIES AND BENEFITS	OTHER	TOTAL 12 MONTHS ENDED MARCH 31, 2012	TOTAL 9 MONTHS ENDED MARCH 31, 2011
Academic	$ 12,507,728	$ 4,740,377	**$ 17,248,105**	$ 11,364,859
Administration	3,609,390	3,486,641	**7,096,031**	4,752,052
Ancillary Sales and Services	783,455	1,298,332	**2,081,787**	1,633,805
Continuing Education	153,030	13,075	**166,105**	98,472
Library	707,394	591,636	**1,299,030**	736,355
Contract Training	939,306	393,301	**1,332,607**	1,221,038
Insurance Claims		35,713	**35,713**	43,639
Information Technology	844,236	1,017,925	**1,862,161**	1,406,402
Plant	787,048	2,562,222	**3,349,270**	2,451,195
Program Support	4,189,740	1,274,857	**5,464,597**	3,867,833
	$ 24,521,327	$ 15,414,079	**$ 39,935,406**	$ 27,575,650

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The University is responsible for the preparation of the 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 financial statements present fairly the University's financial position as at March 31, 2012 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 financial statements. The Board has delegated certain responsibilities to its Audit and Risk Management Committee including the responsibility for reviewing the annual financial statements and meeting with management and the Auditor General of Manitoba on matters relating to financial reporting. The Auditor General has full access to the Audit and Risk Management Committee with or without the presence of management. The Board has approved the 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 financial statements. The integrity of internal controls is reviewed on an ongoing basis by the Audit and Risk Management Committee, Audit Services, and the Auditor General.

The financial statements for the year ended March 31, 2012 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 financial statements.

The original was signed by:

Deborah J. McCallum,
Vice-President (Administration)

Winnipeg, Manitoba
June 26, 2012

INDEPENDENT AUDITOR'S REPORT

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 financial statements of the University of Manitoba, which comprise the statement of financial position as at March 31, 2012, and the 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 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 University as at March 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The original was signed by:

June 26, 2012
Winnipeg, Manitoba

Carol Bellringer, FCA, MBA
Auditor General

500 - 330 Portage Avenue Winnipeg, Manitoba R3C 0C4 office: (204) 945-3790 fax: (204) 945-2169
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UNIVERSITY OF MANITOBA
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31
(in thousands of dollars)

	2012	2011
Assets		
Current Assets		
Cash	$ 101,368	$ 109,444
Marketable Investments	20,000	
Accounts Receivable *(Note 3)*	74,081	75,230
Inventories	3,348	3,411
Prepaid Expenses	1,097	551
	199,894	**188,636**
Long Term Assets		
Loan Receivable *(Note 4)*	130,878	24,286
Investments *(Note 5)*	553,309	537,587
Capital Assets, Net of Accumulated Amortization *(Note 7)*	917,277	843,385
	1,601,464	1,405,258
	$ 1,801,358	**$ 1,593,894**
Liabilities		
Current Liabilities		
Accounts Payable	$ 49,813	$ 55,119
Unearned Revenue	6,521	5,278
Staff Vacation Entitlements	11,412	10,809
Bank Loans	15,570	8,712
Current Portion of Capital Lease Obligations *(Note 8)*	234	347
Current Portion of Long Term Debt *(Note 9)*	3,901	3,739
	87,451	**84,004**
Long Term Liabilities		
Other Long Term Liabilities *(Note 10)*	5,856	2,714
Capital Lease Obligations *(Note 8)*	200	307
Long Term Debt *(Note 9)*	305,258	211,965
Employee Future Benefits *(Note 11)*	67,924	65,552
Pension Obligation *(Note 15)*	24,074	23,124
	403,312	**303,662**
Fund Balances	1,310,595	1,206,228
	$ 1,801,358	**$ 1,593,894**

Contractual Obligations and Contingencies (Note 20)

The original was signed by:

The original was signed by:

Janice Lederman – Chair

Patricia Bovey – Vice-Chair

(The accompanying Notes form an integral part of the Financial Statements)

STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES
FOR THE YEARS ENDED MARCH 31
(in thousands of dollars)

	General Funds (Note 2D)	Restricted Funds (Note 2E)	Endowment Fund (Note 2F)	2012 Total Funds	2011 Total Funds
Revenue:					
Tuition and Related Fees	$ 123,191	$	$	$ 123,191	$ 117,529
Contributions, Donations,					
Non-Government Grants	2,653	65,169	13,256	81,078	84,781
Net Investment Income *(Note 16)*	5,426	24,686	(3,078)	27,034	45,350
Miscellaneous Income	17,070	3,626		20,696	12,125
Government Grants:					
Council on Post-Secondary Education	304,147	6,817		310,964	294,560
Other Province of Manitoba	15,799	52,925		68,724	72,289
Government of Canada	10,760	82,851		93,611	93,833
Sales of Goods and Services	31,010	721		31,731	32,274
Ancillary Services	37,025			37,025	32,793
	547,081	236,795	10,178	794,054	785,534
Expense:					
Academic	291,347	105,457		396,804	383,840
Libraries	16,872	9		16,881	16,997
Student Affairs	16,786	30		16,816	15,854
Administration	35,051	2,591		37,642	36,882
Plant Maintenance	32,858			32,858	34,640
Other Academic Support	21,124	16		21,140	19,252
General	23,024	5,890		28,914	31,443
Student Awards	7,850	38,691		46,541	42,695
Interest		16,863		16,863	11,310
Amortization of Capital Assets		49,654		49,654	47,217
Ancillary Services	28,926			28,926	27,277
Actuarially Determined Employee Future Benefits	2,372			2,372	3,602
Change in Pension Obligation *(Note 15)*	950			950	(2,187)
Staff Benefits Contra	(6,674)			(6,674)	(6,194)
	470,486	219,201		689,687	662,628
Net Revenue (Expense)	76,595	17,594	10,178	104,367	122,906
Inter-Fund Transfers (Note 13)	(76,147)	74,682	1,465		
Net Increase to Fund Balances	448	92,276	11,643	104,367	122,906
Fund Balances Beginning of the Year	15,258	958,282	232,688	1,206,228	1,083,322
Fund Balances End of the Year	$ 15,706	$ 1,050,558	$ 244,331	$ 1,310,595	$ 1,206,228
Unrestricted Funds	$ (67,264)	$	$	$ (67,264)	$ (65,741)
Internally Restricted Funds	82,970	39,016		121,986	117,020
Externally Restricted Funds		196,283	244,331	440,614	429,469
Invested in Capital Assets		815,259		815,259	725,480
	$ 15,706	**$ 1,050,558**	**$ 244,331**	**$ 1,310,595**	**$ 1,206,228**

(The accompanying Notes form an integral part of the Financial Statements)

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 2D)	Specific Provisions Fund (Note 2D)	Expenses Funded From Future Revenues (Note 2D)	2012 Total General Funds	2011 Total General Funds
Revenue:					
Tuition and Related Fees	$ 123,191	$	$	$ 123,191	$ 117,529
Contributions, Donations, Non-Government Grants	2,653			2,653	2,231
Net Investment Income *(Note 16)*	5,426			5,426	4,317
Miscellaneous Income	17,070			17,070	9,603
Government Grants:					
Council on Post-Secondary Education	304,147			304,147	288,282
Other Province of Manitoba	15,799			15,799	15,184
Government of Canada	10,760			10,760	9,373
Sales of Goods and Services	31,010			31,010	31,375
Ancillary Services	37,025			37,025	32,793
	547,081			547,081	510,687
Expense:					
Academic	291,347			291,347	277,322
Libraries	16,872			16,872	16,901
Student Affairs	16,786			16,786	15,791
Administration	35,051			35,051	34,469
Plant Maintenance	32,858			32,858	34,643
Other Academic Support	21,124			21,124	18,891
General	23,024			23,024	24,898
Student Awards	7,850			7,850	6,473
Ancillary Services	28,926			28,926	27,277
Actuarially Determined Employee Future Benefits	2,372			2,372	3,602
Change in Pension Obligation *(Note 15)*	950			950	(2,187)
Staff Benefits Contra	(6,674)			(6,674)	(6,194)
	470,486			470,486	451,886
Net Revenue	76,595			76,595	58,801
Inter-Fund Transfers (Note 13)	(76,581)	1,971	(1,537)	(76,147)	(59,548)
Net Increase (Decrease) to Fund Balances	14	1,971	(1,537)	448	(747)
Fund Balances Beginning of the Year	2,289	80,999	(68,030)	15,258	16,005
Fund Balances End of the Year	$ 2,303	$ 82,970	$ (69,567)	$ 15,706	$ 15,258
Unrestricted Funds	$ 2,303	$	$ (69,567)	$ (67,264)	$ (65,741)
Internally Restricted Funds		82,970		82,970	80,999
	$ 2,303	**$ 82,970**	**$ (69,567)**	**$ 15,706**	**$ 15,258**

(The accompanying Notes form an integral part of the Financial Statements)

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 2E)	Research and Special Fund (Note 2E)	Staff Benefits Fund (Note 2E)	Trust Fund (Note 2E)	2012 Total Restricted Funds	2011 Total Restricted Funds
Revenue:						
Contributions, Donations, Non-Government Grants	$ 6,304	$ 48,923	$ 3,323	$ 6,619	$ 65,169	$ 66,686
Net Investment Income *(Note 16)*	3,460		999	20,227	24,686	24,590
Miscellaneous Income	2,905	550	171		3,626	2,522
Government Grants:						
Council on Post-Secondary Education	6,817				6,817	6,278
Other Province of Manitoba	24,813	28,112			52,925	57,105
Government of Canada	21,675	61,176			82,851	84,460
Sales of Goods and Services		721			721	899
	65,974	139,482	4,493	26,846	236,795	242,540
Expense:						
Academic		105,457			105,457	106,518
Libraries		9			9	96
Student Affairs		30			30	63
Administration		2,591			2,591	2,413
Plant Maintenance					–	(3)
Other Academic Support		16			16	361
General			3,485	2,405	5,890	6,545
Student Awards		24,089		14,602	38,691	36,222
Interest	16,863				16,863	11,310
Amortization of Capital Assets	49,654				49,654	47,217
	66,517	132,192	3,485	17,007	219,201	210,742
Net Revenue	(543)	7,290	1,008	9,839	17,594	31,798
Inter-Fund Transfers (Note 13)	90,322	(16,995)	(110)	1,465	74,682	55,730
Net Increase (Decrease) to Fund Balances	89,779	(9,705)	898	11,304	92,276	87,528
Fund Balances Beginning of the Year	725,480	104,365	(5,296)	133,733	958,282	870,754
Fund Balances End of the Year	$ 815,259	$ 94,660	$ (4,398)	$145,037	$ 1,050,558	$ 958,282
Internally Restricted Funds	$	$	$ 762	$ 38,254	$ 39,016	$ 36,021
Externally Restricted Funds		94,660	(5,160)	106,783	196,283	196,781
Invested in Capital Assets	815,259				815,259	725,480
	$815,259	**$ 94,660**	**$ (4,398)**	**$145,037**	**$1,050,558**	**$ 958,282**

(The accompanying Notes form an integral part of the Financial Statements)

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31
(in thousands of dollars)

	General Funds	Restricted Funds	Endowment Funds	2012 Total Funds	2011 Total Funds
Operating Activities:					
Net Revenue	$ 76,595	$ 17,594	$ 10,178	$ 104,367	$ 122,906
Amortization of Capital Assets		49,654		49,654	47,217
	76,595	67,248	10,178	154,021	170,123
Net Change in Non-Cash Working Capital Items	53,437	(49,373)		4,064	(638)
Net Change in Other Long Term Liabilities	346	2,796		3,142	486
Net Change in Pension Obligation	950			950	(2,187)
Net Change in Employee Future Benefits	67	2,305		2,372	3,602
Net Cash Generated through Operating Activities	131,395	22,976	10,178	164,549	171,386
Investing Activities:					
Increase in Loan Receivable		(106,592)		(106,592)	(24,286)
Increase in Long Term Investments	(50,150)	46,071	(11,643)	(15,722)	(55,740)
Purchase of Capital Assets		(123,546)		(123,546)	(138,755)
Net Cash Generated used in Investing Activities	(50,150)	(184,067)	(11,643)	(245,860)	(218,781)
Financing Activities:					
Proceeds from Capital Lease Obligations		168		168	279
Proceeds from Long Term Debt		103,591		103,591	23,976
Contractual Interest Added to Loan Principal		3,002		3,002	309
Principal Repayment on Capital Lease Obligations		(388)		(388)	(450)
Refinancing of Long Term Debt		(7,075)		(7,075)	
Principal Repayment on Long Term Debt		(6,063)		(6,063)	(4,094)
Net Cash Generated through Financing Activities		93,235		93,235	19,932
Net Increase (Decrease) in Cash	81,245	(67,856)	(1,465)	11,924	(27,463)
Inter-Fund Adjustments	(76,147)	74,682	1,465		
Cash Beginning of Year	21,798	87,646		109,444	136,907
Cash End of Year	$ 26,896	$ 94,472	$	$ 121,368	$ 109,444
Cash is defined as:					
Cash	$ 6,896	$ 94,472	$	$ 101,368	$ 109,444
Marketable Investments	20,000			20,000	
	$ 26,896	$ 94,472	$	$ 121,368	$ 109,444
Supplemental cash flow information:					
Interest Received	$ 4,387	$ 6,245		$ 10,632	$ 7,907
Dividends Received		$ 7,134		$ 7,134	$ 5,807
Interest Paid		$ 10,617		$ 10,617	$ 11,249

(The accompanying Notes form an integral part of the Financial Statements)

NOTES TO THE 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 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.

Effective July 28, 2011, Smartpark Development Corporation, a wholly owned subsidiary of the University of Manitoba, transferred its net assets to the University and the Corporation was dissolved. The University assumed operations of the research park.

B. FUND ACCOUNTING

The University classifies resources used for various purposes into separate Funds which correspond to its major activities and objectives. The 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.

C. 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.

D. 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, Pharmacy/Post Office, and Smartpark 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 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.

E. 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 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 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.

F. 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.

G. 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.

H. CONTRIBUTED MATERIALS AND SERVICES

Gifts-in-kind are recorded in the 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 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 financial statements, are critical to the successful functioning of the University.

I. 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 statement of operations. Fair value of investments is determined based on year end quoted market prices.

J. PLEDGES RECEIVABLE

The University does not record pledges receivable in its 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.

K. INVENTORIES

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

L. 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.

M. 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.

N. 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, prorated on services, and management's 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.

O. 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 loans, staff vacation entitlements, other long term liabilities, and long term debt.

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 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. 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, investments, and derivatives as held-for-trading, which are measured at fair 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 loans, long term debt, and other long term liabilities, excluding derivatives, 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 and Treasury Services, 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.

P. 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.

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.

Q. 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.

R. 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. Derivatives are recorded at fair value and in determining the fair value, the credit risk of the counterparty is considered

S. 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 board (PSAB) 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, 2011 will require the restatement and presentation of the April 1, 2011 Statement of Financial Position, for comparative purposes and the restatement of the March 31, 2012 figures in the March 31, 2013 financial statements. The University is currently assessing the impact of those differences.

3. ACCOUNTS RECEIVABLE

	2012	2011
Business, Industry and Foundations	$ 20,490	$ 21,871
Federal Government	20,345	19,501
Other	13,399	13,977
Provincial Government	15,123	16,422
Students	4,724	3,459
	$ 74,081	$ 75,230

4. LOAN RECEIVABLE

The University has a loan agreement with BBB Stadium Inc. (BBB) related to the construction of a 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 million while the second phase is not to exceed $85 million. 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. The interest rate on the second phase is 4.65% until June 1, 2053 and is due and payable in full on November 24, 2058.

Any amounts received by BBB in the form of insurance proceeds, entitled to be retained by BBB 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, shall be paid to the University and be applied to the repayment of the loan, firstly to the accrued interest and secondly to principal outstanding, for both phases of the loan, on a pro-rata basis.

Payment terms of the first phase and second phase of the loan receivable are as follows:

FIRST PHASE:
BBB is required to make payments to the University equivalent to the aggregate of:

- Any amounts received by BBB 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 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.

SECOND PHASE:
Interest will be calculated annually and unpaid interest until July 15, 2017 shall be added to the first phase of the loan. Any unpaid interest after July 15, 2017 shall be added to the second phase of the loan and compounded annually. Payments in respect of principal shall be made in amounts determined by BBB, on or before each of:

(i) July 15, 2013;
(ii) July 15, 2014;
(iii) July 15, 2015; and
(iv) July 15, 2016.

Annual payments of principal and interest over the remainder of the second phase loan term are to be paid on or before July 15 of each calendar year commencing on July 15, 2017 based on the amortization of the loan following the July 15, 2016 payment.

	2012	2011
First Phase interest and principal outstanding	$ 78,311	$ 24,286
Second Phase principal outstanding	52,567	
	$ 130,878	$ 24,286

The University has an equal long term debt loan payable to the Province of Manitoba (Note 9).

5. INVESTMENTS

	2012 Fair Value	2011 Fair Value
General Funds		
Bonds and Other Fixed Income Securities:		
Other Provincial	$	$ 14,565
Corporate	130,727	124,596
	130,727	139,161
Trust & Endowment		
Bankers Acceptances, Guaranteed Investment Certificates and Cash	15,593	18,169
Bonds and Other Fixed Income Securities:		
Government of Canada	23,686	24,245
Province of Manitoba	3,227	2,193
Other Provincial	18,566	13,216
Corporate	1,004	3,210
Other	69	77
Municipal	4 ,599	4,398
	51,151	47,339
Equities:		
Canadian Equities	133,029	129,512
US Equities	69,677	62,515
International Equities	45,595	46,875
	248,301	238,902
Pooled Real Estate Fund	56,488	48,676
	371,533	353,086
Capital		
Bankers Acceptances, Guaranteed Investment Certificates and Cash	20,129	17,998
Staff Benefits		
Money Market Funds and Cash	792	732
Bonds	10,446	9,070
Equities:		
Canadian Equities	7,391	6,968
US Equities	4,462	4,019
International Equities	4,419	3,899
	16,272	14,886
Mortgage Fund	2,988	2,607
	30,498	27,295
Research & Special		
Other Investments	422	47
Total Investments	**$ 553,309**	**$ 537,587**

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% (2011, 1.40%); term to maturity: less than one year.
- Government and Corporate bond funds: 2.84% (2011, 2.82%); 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

During the year ended March 31, 2012, the University recognized net unrealized losses of $3,331 (2011 net unrealized gains, $24,971) on investments classified as held-for-trading, which are recorded in net investment income in the 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:

	2012	2011
Financial Assets Held-For-Trading:		
Cash	$ 101,368	$ 109,444
Marketable Investments	20,000	
Investments	553,309	537,587
Loans and Receivables:		
Accounts Receivable	74,081	75,230
Loan Receivable	130,878	24,286
Totals	**$ 879,636**	**$ 746,547**

The University manages the credit risk related to these items as follows:

Cash is held in Chartered banks and marketable investments are held in high quality Canadian money market instruments. 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 (Note 3) is related to Restricted Funds 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 (Note 4) is offset by a loan payable (Note 9) from the Province of Manitoba with matching terms of repayment.

7. CAPITAL ASSETS, NET OF ACCUMULATED AMORTIZATION

	2012		2011	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Assets Under Capital Lease	$ 3,632	$ 3,191	$ 3,526	$ 2,840
Buildings and Major Renovations	886,708	200,550	745,989	183,148
Computer Hardware and Electronics	100,815	83,695	98,961	79,015
Construction in Progress	41,377		96,074	
Furniture and Equipment	227,344	147,313	208,165	134,348
Land	28,681		27,994	
Library Books	176,115	127,923	168,136	121,353
Parking Lots	8,481	2,605	8,280	2,187
Rare Books and Manuscripts	5,734		5,271	
Vehicles	7,745	6,618	7,810	6,418
Works of Art	2,540		2,488	
	1,489,172	571,895	1,372,694	529,309
Less Accumulated Amortization	571,895		529,309	
Net Book Value	**$ 917,277**		**$ 843,385**	

8. CAPITAL LEASE OBLIGATIONS

Minimum lease payments which include principal and interest under the capital lease obligations are as follows:

2013	$ 247
2014	130
2015	72
2016	6
Total Minimum Lease Payments	455
Less: Interest at 2.22%	(21)
	434
Less: Current Portion	234
	$ 200

9. LONG TERM DEBT

	2012	2011
Province of Manitoba:		
Promissory Note, 5.23% due March 1, 2035	$ 66,264	$ 67,715
Promissory Note, 5.55% due April 1, 2036	68,184	69,498
Promissory Note, 5.35% due February 1, 2040	30,079	30,533
Loan, First Phase, 4.65% due June 1, 2038	78,311	24,286
Loan, Second Phase, 4.65% until June 1, 2053, due November 24, 2058	52,567	
	295,405	192,032
Term Loans:		
Multi Tenant Facility, 5.975% due October 31, 2012		1,219
Multi Tenant Facility, 5.95% due January 22, 2014		1,150
		2,369
Bankers Acceptances with Interest Rate Swaps:		
Multi Tenant Facility, 3.85% due February 11, 2019		7,075
Arthur V. Mauro Student Residence, 5.62% due September 5, 2028	13,754	14,228
	13,754	21,303
	309,159	215,704
Less Current Portion:		
Province of Manitoba	(3,398)	(3,221)
Term Loans		(44)
Bankers Acceptances	(503)	(474)
	(3,901)	(3,739)
	$ 305,258	**$ 211,965**

Interest expense on long term debt was $14,058 (2011, $10,828), including the change in the fair value of the interest rate swaps of $1,206 (2011, $70).

The fair value of long term debt is approximately $336,092 (2011, $226,901) compared to a carrying value of $309,159 (2011, $215,704). 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 $13,754 as at March 31, 2012 (2011, $14,228).

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, 2016. The notional principal underlying this swap agreement as at March 31, 2011 was $7,075. During the year the swap agreement was refinanced with a stamping fee committed until November 30, 2012. The amount is now included in bank loans.

The fair value of the swap agreements on the bank loan and long term debt at March 31, 2012 was $5,510 (2011, $2,368) and has been recorded in other long-term liabilities (Note 10).

The University has entered into a loan agreement with the Province of Manitoba 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 million while the second phase is not to exceed $85 million. The interest rate on the first phase of the loan is 4.65% and the first phase of the loan is due and payable in full on June 1, 2038. The second phase of the loan bears interest at 4.65% until June 1, 2053 and is due and payable in full on November 24, 2058.

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, firstly to the accrued interest and second to the principal outstanding, for both phases of the loan, on a pro-rata basis.

Additional terms of repayment of the loan are as follows:

LOAN, FIRST PHASE:

The amount of the annual payment of principal and interest on the loan is equivalent to the aggregate of:

- any amounts paid by BBB 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, unless the parties agree otherwise in writing.

LOAN, SECOND PHASE:

Interest will be calculated annually and unpaid interest until July 31, 2017 shall be added to the first phase of the loan. Any unpaid interest after July 31, 2017 shall be added to the second phase of the loan and compounded annually. Payments in respect of principal shall be made in amounts as received from BBB, on or before each of:

(i) July 31, 2013;

(ii) July 31, 2014;

(iii) July 31, 2015; and

(iv) July 31, 2016.

Annual payments of principal and interest over the remainder of the second phase loan term are to be paid on or before July 31 of each calendar year commencing on July 31, 2017 based on the amortization of the loan following the July 31, 2016 payment. Payments are applied firstly to accrued interest after July 31, 2017 and secondly to principal outstanding.

Any accrued interest and principal outstanding on the second phase of the loan as at November 24, 2058 is due and payable in full, subject to receipt of accrued interest and principal outstanding from BBB, unless the parties agree otherwise in writing.

Principal and interest outstanding at March 31 are:

	2012	2011
Loan, First Phase	$ 75,000	$ 23,977
Loan, First Phase Accrued Interest	2,869	309
Loan, Second Phase Accrued Interest	442	
	78,311	24,286
Loan, Second Phase	52,567	
	$ 130,878	**$ 24,286**

Principal repayments on long term debt payable over the next five years are as follows:

	Province of Manitoba	Bankers Acceptances	Total
2013	$ 3,398	$ 503	$ 3,901
2014	3,586	533	4,119
2015	3,783	567	4,350
2016	3,992	603	4,595
2017	4,212	639	4,851
Thereafter	276,434	10,909	287,343
	$ 295,405	**$ 13,754**	**$ 309,159**

10. OTHER LONG TERM LIABILITIES

Amounts included in other long term liabilities are as follows:

	2012	2011
Refundable deposit	$ 346	$ 346
Fair Value of Financial Derivatives	5,510	2,368
	$ 5,856	**$ 2,714**

11. EMPLOYEE FUTURE BENEFITS

The University of Manitoba provides certain health, dental and group life benefits for its retired employees who have met the eligibility criteria and long term disability benefits for current employees. Post retirement pension benefits are also provided for specifically entitled retirees.

Health, dental and group life benefits are provided to employees who retired prior to July 1, 2004 on a non contributory basis. The group life benefits are indexed post retirement. For eligible employees retiring on or after July 1, 2004, no group life benefit is available, and retired former employees share in the cost of the health and dental benefits.

The long term disability income benefit is provided on a contributory basis.

Post retirement pension benefits are provided to specifically entitled employees who retired prior to 1993. The adjustments for a year are determined as the lesser of the amounts that can be provided by a weighted average percentage salary increase at the University, or the excess interest approach provided under the University of Manitoba Pension Plan (1993). One hundred percent of the adjustments are paid by the University.

The University measures the fair value of assets and the accrued benefit obligations for the non pension and post retirement pension adjustments as of March 31. The most recent actuarial valuations of the non pension benefit plans were as of March 31, 2010 with the next valuations due as of March 31, 2013. The actuarial valuation of the post retirement pension adjustments was as of March 31, 2012.

The Accrued Benefit Obligation for the non pension benefit plans and the post retirement adjustments are reported in the University's 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	
	2012	2011	2012	2011	2012	2011
Benefit Cost	$ 5,054	$ 4,500	$ 226	$ 163	$ 5,280	$ 4,663
Accrued Benefit Obligation	64,041	61,356	3,883	4,196	67,924	65,552
Plan Assets	27,372	24,232	1,418	1,662	28,790	25,894
Employer Contribution	5,509	5,061			5,509	5,061
Employees' Contributions	3,322	2,978			3,322	2,978
Benefits Paid	6,584	6,109	590	652	7,174	6,761

Plan assets consist of:

	Non-Pension Benefit Plans		Post-Retirement Adjustments	
	2012	2011	2012	2011
Equities	54%	55%	55%	56%
Fixed Income	34%	33%	35%	34%
Other	12%	12%	10%	10%
Total	100%	100%	100%	100%

Key Assumptions are:	Non-Pension Benefit Plans		Post-Retirement Adjustments	
	2012	2011	2012	2011
Accrued benefit obligation at March 31: Discount rate	4.30%	5.00%	4.30%	5.00%
Benefit Cost for year ended March 31: Discount rate	5.00%	5.50%	5.00%	5.75%
Expected rate of return on assets	5.00%	5.50%	5.00%	5.75%
Health Care Cost Trend Rates at March 31:				
Initial rate	8.00%	8.25%		
Ultimate rate	6.00%	6.00%		
Year ultimate rate reached	2020	2020		
Dental Care Cost Trend Rates at March 31:	4.00%	4.00%		

12. INTER-FUND ADVANCES AND LOANS

Inter-Fund advances and loans at March 31 are as follows:

	2012	2011
General Operating Fund:		
Due to Capital	$ (57,853)	$ (3,685)
Due to Trust	(3,529)	(4,656)
	$ (61,382)	$ (8,341)
Capital Asset Fund:		
Due from Operating	$ 57,853	$ 3,685
Due to Research		(5,961)
Due to Trust		(909)
	$ 57,853	$ (3,185)
Trust Fund:		
Due from Operating	$ 3,529	$ 4,656
Due from Capital		909
	$ 3,529	$ 5,565
Research and Special Fund:		
Due from Capital	$	$ 5,961
	$	$ 5,961

13. INTER-FUND TRANSFERS

	General Operating	Specific Provisions	Expenses Funded From Futures Revenues	Capital Asset	Research and Special	Staff Benefits	Trust Fund	Endow-ment Fund
Employee Future Benefits	$ 2,372	$	$ (67)	$	$	$ (2,305)	$	$
Net Change in Vacation Pay & Pension Liability	1,470		(1,470)					
Benefit Premiums Net of Employer Contributions for Staff Benefits	(2,195)					2,195		
Appropriations for Specific Provisions:								
Capital Asset Replacements & Improvements	(5,310)	5,310						
Unit Carryovers, Special Projects & Initiatives	(68,508)	68,508						
Funding of Capital Asset Additions	(63,105)	(2,343)		76,652	(11,047)		(157)	
Long Term Debt Repayments	(5,486)			5,489	(3)			
Student Contributions to UniversityDevelopment Funds	(738)							738
Student Contributions for Technology	(3,703)			3,703				
Scholarships, Bursaries & Prizes	(7,620)	(100)			(3,091)		10,811	
Other Net Transfers					(21)		(706)	727
Overhead Recoveries	3,348				(3,348)			
Funding of General Operating Expenses	77,523	(69,404)			(502)		(7,617)	
Unit Capital Development Assessment	(4,478)			4,478				
Funding of Research Projects	(151)				1,017		(866)	
March 31, 2012	$ (76,581)	$ 1,971	$ (1,537)	$ 90,322	$ (16,995)	$ (110)	$ 1,465	$ 1,465
March 31, 2011	$ (58,783)	$ (1,535)	$ 770	$ 72,296	$ (8,397)	$ (3,158)	$ (5,011)	$ 3,818

14. CONTRIBUTED CAPITAL ASSETS

Contributions recognized in the Capital Asset Fund include contributed building, capital equipment, library books and artwork of $822 (2011, $836).

15. PENSION PLANS

The University is the sponsor of three pension plans, The University of Manitoba Pension Plan (1970), The University of Manitoba GFT Pension Plan (1986), and The University of Manitoba Pension Plan (1993).

During the year, The University created separate Pension Committees to act as Plan Administrator for each of the 1993 and 1986 plan. The University is the Plan Administrator for the 1970 plan.

Each of the 1993 Pension Committee and 1986 Pension Committee have the following responsibilities for their respective plans:

- monitor the operation of the plan;
- take responsibility for the plan's administration;
- ensure that the plan is in compliance with all applicable legislation; and
- act in an advisory capacity to the University Board of Governors, making recommendations as required.

All three pension plans issue their own financial statements, none of which form part of the University's financial statements.

The University's pension liability for the 1993 Plan is the net of pension obligations less plan assets and adjusted for any unamortized actuarial gains or losses. For the 1986 Plan, the University has no pension liability as pension obligations equal plan assets. The University has no pension liability for 1970 Plan.

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.

At December 31, 2010, the actuarial method used to value the liabilities was the projected unit credit method, consistent with the funding valuations. Under this method, the amendment to increase future contributions had no effect on the pension obligations for the 1993 Plan because the obligations for the supplementary pensions are based on the projection to retirement of contributions and service accrued to the valuation date only.

For 2011, the actuarial method used to value the liabilities was changed to the projected unit credit method, prorated on services. Under this method, the amendment to increase future contributions also affects the determination of the accrued benefit obligations.

The financial impact of the change in method has been reflected as two adjustments to the accrued benefit obligations: an increase of $4,023 related prorating on services and a decrease of $15,150 related to the plan amendment to increase future contributions.

The $4,023 has also been reflected as an increase in the current year pension expense. The $15,150 has been accounted for as an actuarial gain and was applied against the unamortized actuarial losses. The unamortized net actuarial losses will be amortized over EARSL.

An actuarial valuation for accounting purposes was prepared by a firm of consulting actuaries as at December 31, 2009 and extrapolated to December 31, 2011.

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:

	2011	2010
Accrued Benefit Obligation		
Actuarial present value of accrued pension benefits at beginning of year, as previously reported	$ 1,017,033	$ 936,458
Plan amendment	(15,150)	
Actuarial present value of accrued pension benefits, at the beginning of year, as adjusted	$ 1,001,883	$ 936,458
Adjustment pro rating on service to December 31	4,023	
Interest accrued on defined benefits	20,133	21,706
Interest accrued (decreased) on member accounts	(15,561)	54,671
Benefits accrued	39,905	36,353
Benefits paid	(74,922)	(77,727)
Actuarial losses	15,599	6,588
Change in assumptions	22,453	38,984
Actuarial present value of accrued pension benefits at end of year	$ 1,013,513	$ 1,017,033
Plan Assets		
Fair value, at beginning of year	$ 939,571	$ 889,022
Actual return on plan assets	(24,506)	86,295
Employer contributions calendar year	26,268	25,682
Employee contributions	17,803	16,093
Transfer from other plans	205	206
Benefits paid	(74,922)	(77,727)
Fair value, at end of year	$ 884,419	$ 939,571
Reconciliation of Pension Liability		
Accrued benefit obligation	$ 1,013,513	$ 1,017,033
Plan assets	(884,419)	(939,571)
Plan deficit	129,094	77,462
Contributions during fiscal year in excess of calendar year	(4,531)	(2,092)
Adjusted plan deficit	124,563	75,370
Unamortized net actuarial losses	(100,489)	(52,246)
Pension liability	$ 24,074	$ 23,124
Pension Liability		
Pension liability, beginning of year	$ 23,124	$ 25,311
Employer contributions, fiscal year	(28,707)	(27,327)
Net benefit plan expense	29,657	25,140
Pension liability, end of year	$ 24,074	$ 23,124
Net Benefit Plan Expense		
Current service cost, net of employee contributions	$ 21,898	$ 20,054
Interest costs at discount rate	55,069	54,946
Expected return on plan assets	(55,455)	(52,269)
Amortization of actuarial loss	4,122	2,409
Adjustment pro rating on service to December 31	4,023	
Net benefit plan expense	$ 29,657	$ 25,140

Significant Long-term Actuarial Assumptions	2011	2010
Discount rate	4.3%	5.0%
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%	4.75%
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 2012 was $4.1 million (2011, $5.9 million).

The unamortized net actuarial losses shown above, which were determined on the basis of this valuation and extrapolation 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 2012 was $4.0 million (2011, $5.0 million).

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 $2,001 (2011, $1,929) and this is included in the statement of operations as an expense.

1970 PLAN

There were no university employees earning pension entitlements in 2011 in the 1970 Plan. As a result, the University made no contributions to the Plan during the year.

16. NET INVESTMENT INCOME (LOSS)

2012	General Operating Fund	Staff Benefits Fund	Trust Fund	Capital Fund	Endowment Fund	Total Funds
Net Realized Investment Income:						
Interest	$ 4,387	$ 546	$ 2,239	$ 3,460	$	$ 10,632
Dividends			7,134			7,134
Gains (losses) on sale of investments	(258)	648	12,209			12,599
	4,129	1,194	21,582	3,460		30,365
Change in fair value of investments	1,297	(195)	(1,355)		(3,078)	(3,331)
Total	**$ 5,426**	**$ 999**	**$ 20,227**	**$ 3,460**	**$ (3,078)**	**$ 27,034**

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**

17. CAPITAL DISCLOSURES

A. CAPITAL MANAGEMENT

General Funds (Note 2d)

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 2e and 2f)

The University also maintains externally and internally restricted funds (Note 2e) and an endowment fund (Note 2f).

The restricted funds are managed with the objectives to spend the funds in accordance with the various terms and not spend beyond the resources that have been provided. Individual funds are established and carefully monitored both within the departments and within central administration. In the event of an over expenditure or ineligible expenditure, the department would be responsible for funding the costs from other resources. In the case of the Capital Asset Fund, at the approval of the Province of Manitoba, the University is permitted to enter into long term debt to assist with the financing of capital assets.

The endowment fund is managed with the long term objective of preserving the capital of the individual endowment accounts to achieve inter-generational equity, whereby current students are neither advantaged nor disadvantaged compared to future students. The goal is to earn investment returns, adjusted for inflation, which will support the ongoing expenditures and commitments of the fund. The Trust Investment Committee ("the Committee") is responsible for the investment of endowment assets. Assets are invested in accordance with an Investment Policy Statement. The Committee determines an asset mix that meets the return objectives of the fund while assuming an appropriate level of risk. Each individual asset (within the mandate of the approved asset mix) is invested by professional external managers, and the portfolio is rebalanced to the target asset mix according to the Investment Policy Statement. The asset mix is reviewed annually to assess whether the risk and return objectives of the fund are met.

The approved spending rate of the net investment income earned on the endowment fund, plus inflation, must be supported by the long term investment. The spending rate is set by the Vice-President (Administration) based on the recommendation of the Committee and reviewed annually to determine the viability of maintaining the rate in light of long term investment performance. The performance of the fund is subject to volatility. The endowment fund is monitored through full market cycles to assess the effectiveness of the asset mix and spending rates which are then adjusted accordingly.

B. QUANTITATIVE DATA

The University's capital comprises its fund balances, which include unrestricted funds, internally restricted funds, externally restricted funds, and funds invested in capital assets. Capital in the restricted funds also includes long term debt. The University's Statement of Operations and Changes in Fund Balances sets out fund balances at the beginning and end of the year.

As at March 31, 2012, 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). BBB 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 are the City of Winnipeg, the University of Manitoba and the Winnipeg Football Club. Activities of BBB 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 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 (Note 9), and the University has committed to loan an equal amount to BBB (Note 4). As at March 31, 2012 and for year then ended the related party transactions with BBB and the corresponding transactions with the Province of Manitoba are as follows:

Amounts borrowed from the Province of Manitoba and advanced to BBB under the loan agreements

	2012	2011
Loan Receivable, including accrued interest	$130,878	$24,286
Interest Income on loan	$3,002	$309
Loan Payable, including accrued interest	$130,878	$24,286
Interest Expense on loan	$3,002	$309

All transactions with BBB and the Province of Manitoba are recorded at exchange amounts.

Effective July 28, 2011, Smartpark Development Corporation, a wholly owned subsidiary of the University of Manitoba, transferred its net assets of $4,056 (assets $33,430, liabilities $29,374) to the University and the Corporation was dissolved. The University assumed operations of the research park.

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 $26,495 (2011, $61,504).

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, 2012.

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 $44.2 million as of November 2011, 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 31, 2011, is estimated at $3.1 million. The March 31, 2012 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, 2011 have been reclassified, where appropriate, to conform with the presentation adopted for the year ended March 31, 2012.

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 for not-for-profit organizations. 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
Associate Vice-President Finance & Comptroller

Winnipeg, Manitoba
June 28, 2012

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, 2012, 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, the consolidated financial statements present fairly, in all material respects, the financial position of the University of Winnipeg as at March 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Original signed by
Carol Bellringer

June 28, 2012
Winnipeg, Manitoba

Carol Bellringer, FCA, MBA
Auditor General

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

THE UNIVERSITY OF WINNIPEG
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at March 31, 2012
(with comparative figures for 2011)

Statement I

ASSETS

	2012 $000	2011 $000
Current Assets:		
Cash and Cash Equivalents (Notes 4, 11)	$18,352	$30,051
Short Term Investments (Note 4)	295	900
Accounts Receivable (Note 17)	7,842	7,555
Current Portion of Long Term Receivables (Note 7)	38	37
Due from Related Parties (Note 24)	343	503
Prepaid Expenses	1,258	1,098
Inventories (Note 5)	40	25
	28,168	40,169
Long Term Investments (Note 6)	2,019	1,953
Long Term Receivables (Note 7)	3,845	3,880
Capital Assets (Note 8 a)	173,481	165,864
Intangible Assets (Note 8 b)	946	877
	$208,459	$212,743

LIABILITIES AND NET ASSETS

	2012 $000	2011 $000
Current Liabilities:		
Accounts Payable and Accrued Liabilities	$7,960	$15,245
Deferred Revenue	7,921	8,205
Deferred Contributions (Note 9)	8,937	8,105
Staff Benefits Payable (Note 10)	1,806	1,740
Current Portion of Obligations Under Capital Leases (Note 12)	242	294
Current Portion of Long Term Debt (Note 13)	1,729	1,458
Due to Related Parties (Note 24)	957	621
	29,552	35,668
Obligations under Capital Leases (Note 12)	436	628
Long Term Liabilities (Note 13)	46,536	43,856
Deferred Capital Contributions (Note 14)	123,010	121,694
Accrued Pension Liability (Note 19)	0	1,784
Net Assets:		
Unrestricted Net Deficiency	(11,956)	(8,893)
Internally Restricted Net Assets (Note 15)	1,655	1,761
Endowments (Note 16)	3,172	2,628
Investment in Capital Assets	16,054	13,617
	8,925	9,113
	$208,459	$212,743

Special Purpose and Trust Assets (Notes 4, 16)
Commitments (Note 19)
Contractual Obligations (Notes 12, 20, 21, 22)
Contingencies (Note 23)

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, 2012
(with comparative figures for 2011)

Statement II

	2012 $000	2011 $000
REVENUE		
Government Grants:		
Council on Post Secondary Education	$57,343	$52,107
Other Province of Manitoba	3,463	4,324
Government of Canada	4,462	4,112
Student Academic Fees	35,922	34,564
Gifts, Grants and Bequests	3,450	3,583
Investment Income	1,858	1,372
Sales of Services and Products	1,290	1,168
Other Revenues	9,216	9,512
Amortization of Deferred Capital Contributions (Note 14)	3,509	2,550
	120,513	113,292
EXPENSES		
Salaries	65,692	63,395
Staff Benefits	10,426	8,478
Supplies, Services and Other Expenses	19,719	17,667
Cost of Sales	331	314
Building, Utilities and Related Expenses	10,912	9,443
Interest	2,255	1,515
Provincial and Municipal Taxes	1,564	1,498
Scholarships and Awards	3,883	3,283
Gifts to Related Party (Note 24)	965	1,219
Amortization of Capital Assets	5,498	4,418
	121,245	111,230
Excess (Deficiency) of Revenue over Expenses from Operations	(732)	2,062

See accompanying notes to the financial statements.

THE UNIVERSITY OF WINNIPEG
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
For the Year Ended March 31, 2012
(with comparative figures for 2011)

Statement III

	2012					2011
	UNRESTRICTED NET DEFICIENCY $000	INTERNALLY RESTRICTED NET ASSETS (Note 15) $000	ENDOWMENTS (Note 16) $000	INVESTMENT IN CAPITAL ASSETS $000	TOTAL $000	TOTAL $000
BALANCE, BEGINNING OF YEAR	($8,893)	$1,761	$2,628	$13,617	$9,113	$7,051
Excess (Deficiency) of Revenue Over Expenses	(732)				(732)	2,062
Endowment Contributions			570		570	0
Endowment custodial/management fees			(26)		(26)	0
Transfers:						
Internally Funded:						
Capital Asset Additions	(4,237)			4,237	0	0
Amortization of Deferred Capital Contributions	(3,509)			3,509	0	0
Amortization of Capital Assets	5,498			(5,498)	0	0
Disposal of Capital Assets	19			(19)	0	0
Repayment of Long Term Debt	(208)			208	0	0
Internally Restricted Net Assets	(208)	208			0	0
Strategic Provisions – Reductions (Note 15)	330	(330)			0	0
Strategic Provisions – Additions (Note 15)	(16)	16			0	0
NET CHANGE FOR THE YEAR	(3,063)	(106)	544	2,437	(188)	2,062
BALANCE, END OF YEAR	($11,956)	$1,655	$3,172	$16,054	$8,925	$9,113

See accompanying notes to the financial statements.

THE UNIVERSITY OF WINNIPEG
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended March 31, 2012
(with comparative figures for 2011)

Statement IV

	2012 $000	2011 $000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from:		
Government Grants	$64,368	$64,814
Student Academic Fees	37,171	34,400
Gifts, Grants and Bequests	3,592	794
Investment Income	1,866	1,410
Sales of Services and Products	1,272	2,045
Other Revenues	9,438	11,069
Cash Paid for:		
Salaries	(68,419)	(62,887)
Staff Benefits	(11,856)	(8,378)
Supplies, Services and Other Expenses	(21,318)	(16,453)
Cost of Sales	(317)	(1,330)
Building, Utilities and Related Expenses	(14,298)	(7,044)
Interest Paid	(2,255)	(1,515)
Provincial and Municipal Taxes	(1,565)	(1,487)
Scholarships and Awards	(3,883)	(3,292)
Gifts to Related Party	(586)	(1,241)
	(6,790)	10,905
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash Purchase of Capital Assets	(12,799)	(46,645)
Advances from (to) 460 Portage Avenue Joint Venture	0	3,734
Purchase of Long Term Investments	(370)	0
Proceeds on Maturity of Long Term Investments	295	517
Collections of Long Term Receivables	35	26
	(12,839)	(42,368)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment and Retirement of Long Term Debt	(1,495)	(1,651)
Long Term Debt Proceeds – Building Purchases and Construction	4,250	11,798
Contributions Received for Endowment	570	0
Deferred Capital Contributions	4,000	29,054
	7,325	39,201
NET INCREASE (DECREASE) IN CASH AND SHORT TERM INVESTMENTS	(12,304)	7,738
CASH AND SHORT TERM INVESTMENTS, BEGINNING OF YEAR	30,951	23,213
CASH AND SHORT TERM INVESTMENTS, END OF YEAR	$18,647	$30,951
Cash and Short Term Investments consists of:		
Cash and Cash Equivalents	18,352	30,051
Short Term Investments	295	900
	$18,647	$30,951

Excluded from Investing and Financing Activities are equipment acquired under Capital Leases and the related obligations under Capital Leases totalling $62 (2011 - $723).

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

A) Basis of Accounting and Principles of Consolidation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations. The consolidated financial statements of the University include the University's investment in the 460 Portage Avenue Joint Venture (Note 25) which is accounted for using the proportional consolidation method. The University of Winnipeg Foundation (the Foundation) and the University of Winnipeg Community Renewal Corporation (UWCRC), both controlled entities, are not consolidated in these consolidated financial statements, but details of their financial results are included in the notes to the consolidated financial statements (Notes 21 and 22 respectively).

B) Components of Net Assets

The University's net assets are presented in the financial statements in the following four categories.

The Unrestricted Net Deficiency reflects the operating position of the University and encompasses the general revenues and expenditures of undertaking the University's activities. Operating expenditures are funded primarily from grants, student academic fees and other revenues.

Internally Restricted Net Assets represents funds segregated from the University's general operating funds for specific purposes as well as gift revenue retained by the University trust fund that is general purpose in nature.

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.

The Investment in Capital Assets represents funds used to acquire capital assets utilized in the University's operations.

C) 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.

D) 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.

Externally restricted non-capital and non-endowment contributions are deferred and are recognized as revenue in the period in which the related expenses are incurred.

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 revenue in the periods in which the related amortization expense of the funded capital asset is recorded.

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 interest expense and the related funding from COPSE to offset the interest expense over the terms of the promissory notes are both excluded from the statement of operations and changes in fund balances.

Endowment contributions are recorded as direct increases in net assets in the period in which they are received.

E) 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.

F) Investments

Investments are measured 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.

G) Inventories

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

H) Capital Assets and Intangibles

Purchased capital assets and collections of the University are recorded at cost. Donated assets are recorded at estimated fair market value on the date received. Collections include Art Work and Rare Books recorded at fair value derived by independent appraisal at the time of acquisition or donation. 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

I) 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 and long term receivables are classified as loans and receivables; accounts payable and accrued liabilities, staff benefits payable, 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 and available-for-sale 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 and available-for-sale financial assets and liabilities, transaction costs are recorded in the statement of operations as incurred.

J) **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 assets or liabilities.

Level 2 – for instruments measured using significant observable inputs, either directly or indirectly, and

Level 3 – for instruments measured using inputs that are not based on observable market data or using valuations based on quoted prices for similar instruments and are significant to the fair value measurement.

K) **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.

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.

3. 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 University has determined it qualifies as a Government Not-for-Profit entity as defined in the PSA standards. The transition date for the University of April 1, 2011 will require the presentation of the April 1, 2011 consolidated statement of financial position and the restatement of the March 31, 2012 figures in the March 31, 2013 consolidated financial statements. The University is currently assessing the impact of the differences between PSA standards and the current basis of financial reporting.

(AMOUNTS IN THOUSANDS)

4. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	2012	2011
Operating Funds	$7,823	$18,658
Sponsored Research and Designated Funds	4,164	3,793
	11,987	22,451
Special Purpose and Trust Funds	6,365	7,600
	$18,352	$30,051

Trust funds are restricted funds held for deferred contributions - $3,763 (2011 - $3,664) and endowments - $859 (2011 - $0). Special purpose funds are comprised of internally restricted net assets - $913 (2011 - $707), due to operating - $67 (2011 - $3,046) and due to related party - $763 (2011 - $183).

Short term investments - $295 (2011 - $900) consist of fixed income investments.

5. Inventories

Inventory consists of finished goods, comprised primarily of bulk paper. During the year ended March 31, 2012, inventories totalling $92 were expensed (2011 - $138) to Cost of Sales.

6. Long Term Investments

Long term investments are comprised of the following:

	2012	2011
Fixed Income Instruments	$1,295	$1,229
Equity investment in properties	724	724
	$2,019	$1,953

Long term investments consist of endowments of $2,019 (2011 - $1,953). Long term investments are recorded at fair value with the exception of the equity investment in properties for which current market information is not readily available and is therefore carried at estimated fair value on the date the asset was received.

(AMOUNTS IN THOUSANDS)

7. Long Term Receivables

Long term receivables are comprised of the following:

	2012	2011
Receivable from the 460 Portage Avenue Joint Venture		
Promissory Notes Secured by:		
460 Portage Ave. Interest Rate 5.6%, due December 31, 2050	$8,646	$8,707
460 Portage Ave Interest Rate 7.00%, due March 1, 2018	349	394
	8,995	9,101
Less: University of Winnipeg component (Note 25)	(5,997)	(6,067)
	2,998	3,034
Receivable from Plug-In ICA		
460 Portage Ave. Interest Rate 4.65%, due December 31, 2020	885	883
	3,883	3,917
Less: Current Portion	(38)	(37)
	$3,845	$3,880

Annual principal payments receivable on the notes during the next five years and thereafter are: 2013 - $38, 2014 - $40, 2015 - $43, 2016 - $46, 2017 - $48, thereafter - $3,668.

These notes are carried at the amortized cost using the effective interest rate method.

(AMOUNTS IN THOUSANDS)

8. Capital Assets and Intangibles

	2012		2011	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
(a) Capital Assets				
Land	$9,054	$0	$8,557	$0
Buildings, Additions and Improvements	174,951	26,701	110,746	23,916
Library Acquisitions	13,704	12,098	13,549	11,830
Furnishings and Equipment	36,677	25,021	33,733	23,362
Collections	1,517	0	1,400	0
Buildings Under Construction	725	0	56,075	0
Equipment Under Capital Leases	1,861	1,188	1,800	888
	238,489	$65,008	225,860	$59,996
Less Accumulated Amortization	65,008		59,996	
Net Book Value	$173,481		$165,864	

Furnishings and Equipment include Vehicles and Computer Equipment.

	2012	2011
(b) Intangible Assets		
Major System Computer Software	$3,149	$2,916
Less Accumulated Amortization	2,203	2,039
Net Book Value	$ 946	$ 877

9. 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.

	2012	2011
Balance, Beginning of Year	$8,105	$8,051
Contributions Received	13,261	10,584
Contributions Expended	(11,464)	(9,475)
Transferred to Foundation (Note 24)	(965)	(1,055)
Balance, End of Year	$8,937	$8,105
Balance Consists of:		
Sponsored Research and Designated Funds	$4,913	$4,259
Special Purpose Trust	3,763	3,664
Operating Funds	261	182
	$8,937	$8,105

(AMOUNTS IN THOUSANDS)

10. Staff Benefits Payable

The balance of staff benefits payable is comprised of accrued vacation pay of $1,806 (2011 - $1,740).

11. 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, 2012 or March 31, 2011.

12. Obligations under Capital Leases

The following is a schedule of future minimum lease payments for equipment under capital leases expiring between June 1, 2012 and March 31, 2016 together with the balances of the obligations under capital leases:

2012/13	262
2013/14	218
2014/15	169
2015/16	73
Total minimum lease payments	722
Less amount representing interest at approximately 3.5%	(44)
Balance of Obligations under Capital Leases	678
Less: Current Portion of Obligations under Capital Leases	(242)
Obligations under Capital Leases	$ 436

Interest expense for the current year on the lease obligations amounted to $22 (2011 - $29).

13. Long Term Liabilities

	2012	2011
Promissory Notes	$47,711	$44,870
Mortgages Payable	38	75
Supplementary Pensions Payable	516	369
	48,265	45,314
Less: Current Portion of Long Term Liabilities	(1,729)	(1,458)
	$46,536	$43,856

(AMOUNTS IN THOUSANDS)

	2012	2011
Province of Manitoba Promissory Notes Secured by:		
509 Ellice and 433 Young Street Interest rate 4.45%, due April 15, 2015	$302	$400
Duckworth Athletic Complex Expansion Interest rate 5.55%, due October 31, 2047	1,932	1,949
McFeetors Hall Interest rate 4.10%, due September 30, 2013	600	900
McFeetors Hall Interest rate 5.25%, due October 31, 2049	10,743	10,832
460 Portage Avenue Interest rate 4.65%, due December 31, 2020	2,472	2,696
460 Portage Avenue Interest rate 5.60%, due December 31, 2050	9,142	9,206
460 Portage Avenue Interest rate 2.625%, due October 31, 2016	2,000	2,406
366 Spence Street & 336 Young Street Interest rate 4.95%, due March 31, 2051	694	700
Richardson College for the Environment & Science Complex – Parking Lot Interest rate 4.95%, due March 31, 2051	3,868	3,900
Richardson College for the Environment & Science Complex Interest rate 2.35%, due January 31, 2020	1,962	0
Richardson College for the Environment & Science Complex Variable interest rate per annum, equal to prime less 0.75 percent due, January 31, 2020	2,250	0
	35,965	32,989
Province of Manitoba Unsecured Notes:		
491 Portage Avenue – Annex Interest rate 5.40%, due July 31, 2050	2,765	2,787
Pension Settlement Interest rate 5.35%, due January 31, 2050	8,632	8,700
	11,397	11,487
Other Promissory Notes:		
460 Portage Avenue – Deferred Land Lease Interest rate 7.00%, due March 1, 2018	349	394
	$47,711	$44,870

(AMOUNTS IN THOUSANDS)

The University received capital funding from the Provincial Government as a contribution towards the Richardson College for the Environment and Science Complex Building and Deferred Maintenance expenditures on campus. The funding was financed by promissory notes payable to the Province of Manitoba bearing interest at rates ranging from 4.85% to 5.95%. The notes are repayable over a term of 40 years, due between February 2047 and November 2050. Repayment is funded by dedicated grants from the Province of Manitoba. This funding has been treated as a restricted grant and recorded as deferred capital contributions where it paid for an asset which was capitalized (such as the Richardson College for the Environment and Science Complex), or recognized as revenue in the period expended, if the expenditure did not meet the definition of a capital asset. The loan payments, off-setting revenues and debt outstanding are not recorded in the University's financial statements. The Balance of Debt outstanding at March 31, 2012 is $53,784 (2011 - $54,686).

Annual principal payments on the notes during the next five years and thereafter are: 2013 - $1,642; 2014 - $1,690; 2015 - $1,440; 2016 - $1,403; 2017 - $1,256; thereafter - $40,280.

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 year are $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 2013 is $49.

Interest expense during the year on long term liabilities totalled $2,303 (2011 - $1,724) of which $48 (2011 - $209) was capitalized during the year.

14. Deferred Capital Contributions

Deferred capital contributions represent unamortized external contributions related to the purchase of capital assets in the amount of $122,353 (2011 - $121,694) and funds held for future capital project expenditures in the amount of $657 (2011 - $0). The amortization of deferred capital contributions is recorded as revenue in the Statement of Operations.

	2012	2011
Balance, Beginning of Year	$121,694	$92,638
Contributions Received	3,602	29,593
Contributions from University of Winnipeg Foundation	1,223	2,013
Amortization of Deferred Capital Contributions	(3,509)	(2,550)
Balance, End of Year	$123,010	$121,694

(AMOUNTS IN THOUSANDS)

15. Internally Restricted Net Assets

Internally restricted net assets balance at March 31, 2012 is $1,655 (2011 - $1,761). It consists of cumulative net unrestricted trust income of $913 (2011 - $705) and strategic provisions of $742 (2011 - $1,056).

The cumulative net unrestricted trust income of $742 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, 2011	Reductions	Additions	March 31, 2012
Infrastructure				
Capital Reserve	$477	(177)		$ 300
Building Renovations	50			50
Strategic Development				
Internal Research Grants	2	(2)		0
Project Development	527	(151)	16	392
	$1,056	($ 330)	$ 16	$ 742

16. Net Assets Restricted for Endowment Purposes

Endowments are comprised of long term investments of $2,019 – Note 6 (2011 - $1,953) and cash and short term investments of $1,153 (2011 – $675).

Endowments of $2,322 (2011 - $1,978) are held in trust in accordance with the terms of a certain bequest. In 2012, the University has a 10% share in the income distribution from this trust (2011 – 10% share).

(AMOUNTS IN THOUSANDS)

17. 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	
	2012	**2011**
Financial Assets Held-For-Trading:		
Cash and Cash Equivalents	$18,352	$30,051
Short Term Investments	295	900
Financial Assets Available for Sale:		
Long Term Investments – Fixed Income Instruments	2,019	1,953
Loans and Receivables:		
Accounts Receivable	7,842	7,555
Current Portion of Long Term Receivables	38	37
Due From Related Parties	343	503
Long Term Receivables	3,845	3,880
	$32,734	$44,879

The University manages the credit risk related to these items by maintaining its cash and cash equivalents and its short and 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 the 460 Portage Avenue Joint Venture.

(AMOUNTS IN THOUSANDS)

The aging of accounts receivable at March 31 is as follows:

	2012	2011
Accounts Receivable, gross		
Current	$6,942	$6,326
Past Due	1,206	1,555
	8,148	7,881
Less: Allowance for Doubtful Accounts	(306)	(326)
Accounts Receivable, net	$7,842	$7,555

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 primarily 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 the University's 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 payable, 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. There have been no transfers between levels during the year.

Investments at Fair Value as at March 31, 2012				
	Level 1	Level 2	Level 3	Total
Cash & Cash Equivalents	$18,352			$18,352
Short Term Investments		295		295
Fixed Income Investments		1,295		1,295
	$18,352	$1,590		$19,942

(AMOUNTS IN THOUSANDS)

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

18. 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, 2012, there were no changes in capital management strategy, and the University has met its externally imposed capital requirements.

19. 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, 2011 the fair value of the Plan's net assets was $135,201 (2010 - $139,414). 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, 2011 are $107,892 and $165,453 respectively. The corresponding values for the plan assets and plan obligations projected to the fiscal year-end, March 31, 2012 are $112,111 and $166,481 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 2011	December 31 2010
Balance, Beginning of Year	$26,350	$21,850
Contributions	3,297	3,465
Benefits and Refunds Paid	(1,948)	(1,156)
Net Investment Return	(389)	2,191
Balance, End of Year	$27,310	$26,350

(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. As the Plan is currently under 90% funded on a solvency basis, annual valuations are required.

An actuarial valuation of the Plan was prepared and filed with the Manitoba Pension Commission as at December 31, 2007 by Eckler Ltd. (Eckler), a firm of consulting actuaries. The membership data as at December 31,2007 was subsequently projected to December 31,2008 and used to prepare an actuarial valuation at that date, which was extrapolated by Eckler to December 31,2010 for the purpose of determining the pension expense for the fiscal year ending March 31,2012.

A second valuation of the Plan was prepared by Eckler and filed with the Manitoba Pension Commission as at December 31, 2010. The results were extrapolated by them to December 31, 2011 for the purpose of determining the benefit obligation as at December 31, 2011.

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.

Change in Accrued Benefit Obligation

	December 31 2011	December 31 2010
Accrued Benefit Obligation, January 1	$137,402	$123,437
Current Service Cost	2,525	2,225
Interest Cost	6,828	7,230
Benefits and Refunds Paid	(9,142)	(8,085)
Plan Amendment	3,289	0
Actuarial Loss	24,551	12,595
Accrued Benefit Obligation, December 31	$165,453	$137,402

(AMOUNTS IN THOUSANDS)

Change in Fair Value of Plan Assets

	December 31 2011	December 31 2010
Fair Value of Plan Assets, January 1	$113,074	$107,573
Actual Return on Plan Assets, Net of Expenses	(1,326)	10,777
Employer Contributions	4,501	1,957
Employee Contributions	785	852
Benefits and Refunds Paid	(9,142)	(8,085)
Fair Value of Plan Assets, December 31	$107,892	$113,074

The plan assets at December 31, 2011 consist of Domestic Fixed Income investments of $52,882, Canadian Equity investments of $34,388, US Equity investments $8,723, International Equity investments of $9,378, cash and cash equivalents of $2,547 and net accruals of ($26). Asset allocation is determined and monitored by the independent Board of Trustees.

Reconciliation of Funded Status

	March 31 2012	March 31 2011
Funded Status – Deficit at December 31	($57,561)	($24,328)
Employer Contributions after December 31	1,167	403
Unamortized Transitional Asset	(1,364)	(1,820)
Unamortized Past Service Cost	2,995	0
Unamortized Net Actuarial Loss	55,264	23,961
Accrued Benefit Asset (Liability), before Valuation Allowance	501	(1,784)
Valuation Allowance	(501)	0
Accrued Benefit Asset (Liability), net of Valuation Allowance	$ 0	($1,784)

(AMOUNTS IN THOUSANDS)

Components of Pension Expense

	December 31 2011	December 31 2010
Employer Share of Current Service Cost	$1,740	$1,373
Interest Cost	6,828	7,230
Expected Return on Plan Assets	(6,502)	(6,296)
Amortization of Transitional Asset	(456)	(456)
Amortization of Past Service Cost	294	0
Amortization of Actuarial Loss	1,076	412
Increase in Valuation Allowance	501	0
Net Pension Expense	$3,481	$2,263

Significant actuarial assumptions used in the determination of the pension expense 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%
Expected rate of return on Plan Assets		5.85%	5.55%

Significant actuarial assumptions used in the determination of the defined benefit obligation at December 31 were:

Discount rate	- pre and post-retirement	4.40%	5.00%
	- provision for post-retirement indexing	0.50%	0.50%
Rate of salary increase	- 2009	2.50%	2.50%
	- thereafter	3.40%	3.40%

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, 2010 confirms that the defined benefit segment of the Plan has a solvency deficiency of $25,256 and a solvency ratio of 0.752.

(AMOUNTS IN THOUSANDS)

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, 2010 was $25,377 and the annual deficiency funding payments are $2,637, which the University will continue to make until the deficiency is eliminated.

In addition, because of the going-concern deficiency at December 31, 2010, the University is also required to make an additional contribution of $894 (2010 - $291) to cover the current service shortfall.

The Board of Trustees made seven amendments to the Plan in 2011. These amendments included a number of administrative changes to reflect revisions to the Pension Benefits Act in the year. These changes included defining the interest rate to be used in crediting member contribution accounts, clarifying what expenses the Plan is responsible for paying to the University, permitting non-resident and critically ill members to unlock their benefits, and changes related to the normal pension commencement date and late pension commencement.

The Plan was also amended to define how interest would be calculated on outstanding surplus entitlements, permitting voluntary days without pay, and increased the employee and employer contributions to the Plan in accordance with collective agreements negotiated between the University and its various bargaining units.

20. 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:

2012/13	$3,653
2013/14	2,289
2014/15	2,191
2015/16	1,503
2016/17	1,148
Thereafter	10,264
	$21,048

21. 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 2011-2012 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 $468 for the year (2011 - $550). 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, 2012 for occupancy and support services and the corresponding grant to the Foundation to offset these costs was $183 (2011 - $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 (3.5% for 2011-2012) 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 3.5% for those gifts received in the first quarter, ½ of 3.5% in the second quarter and ¼ of 3.5% for those gifts received in the third quarter). Based on this formula, the Foundation provided the University with $1,174 in 2011-2012 ($1,100 in 2010-2011).

The Foundation is entitled to an annual administration fee equal to ½ of 1% of the Endowment Fund capital of the previous year (or such other higher percentage as the University may agree to from time to time). On April 24, 2008, the University confirmed its continued support of the Foundation by providing that the Foundation may continue to retain an annual administration fee of 2% each year for the duration of the Capital Campaign.

(d) Endowment Supplemental Agreement

This agreement, signed on July 22, 2008, formalizes practices in place between the Foundation and the University with respect to the handling of residuals, immature funds and the calculation of the award based on the agreed percentage.

The financial information of the Foundation is not consolidated in the University's financial statements and is provided within this note and Note 24 on Related Party Transactions and Balances. The Foundation is a controlled entity of the University based upon the following factors:

i) The University has a significant economic interest in the Foundation which conducts its activities for the exclusive benefit of the University.

ii) The Foundation requires the University's consent to amend its by-laws.

iii) The objectives of the Foundation and the University have the common purpose to strengthen, deepen and advance the University's mission.

Financial Position:

The Foundation follows the restricted fund method of accounting for contributions. The Foundation maintains separate funds within its assets and follows the principles of fund accounting to record the day to day transactions.

(AMOUNTS IN THOUSANDS)

The financial position of the Foundation at March 31 is summarized as follows:

	2012	2011
Statement of Financial Position:		
Assets	$41,206	$40,010
Liabilities	280	525
Fund Balances:		
Operating Fund	298	181
Unrestricted Fund	8	2
Investment in Capital Assets	4	25
Building and Program Fund	598	674
Funds Held Pending Terms of Reference	195	79
Unrestricted Bequests	135	44
Endowment Fund	39,688	38,480
	40,926	39,485
	$41,206	$40,010
Statement of Operations		
Sources of Funds:		
Transfer from University of Winnipeg	$283	$516
Investment Income	1,277	1,367
Unrealized Gain (Loss) on Investments	(762)	1,779
University of Winnipeg Support Funding	651	723
Endowment Administration Fee	775	685
Loss on Disposal of Assets	(11)	0
Annual Donations	6,767	4,836
	8,980	9,906
Uses of Funds:		
Endowment - Gifts to the University	1,174	1,100
Endowment - Administration Fee	775	685
Endowment - Administration Expenses	119	106
Operations	1,521	1,560
Donations Gifted to the University of Winnipeg	3,950	4,368
	7,539	7,819
Increase in Funds	$1,441	$2,087

(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 2 years as follows:

2012/13	210
2013/14	180
	$ 390

For 2011-2012, the University and the Foundation agreed that the operating grant would be $468. However, no formal agreement has been signed to reflect this change.

22. 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 $49 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 $272 for management services related to student housing and food services.

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 2011-12 fiscal year.

(AMOUNTS IN THOUSANDS)

The financial position of UWCRC at March 31 is summarized as follows:

	2012	2011 (Restated)
Statement of Financial Position:		
Assets:		
Cash	$214	$179
Accounts Receivable	249	130
Income Taxes Recoverable	0	38
Due from University of Winnipeg (Note 23)	0	12
Capital Assets	620	787
Investments, at Equity	4,191	4,142
	$5,274	$5,288
Liabilities and Net Assets:		
Accounts Payable and Accrued Liabilities	$24	$80
Current Portion of Long Term Debt	26	29
Due to University of Winnipeg	96	0
Long Term Debt	167	248
Deferred Capital Contributions	315	411
Net Assets	4,646	4,520
	$5,274	$5,288

	2012	2011 (Restated)
Statement of Operations and Changes in Net Assets:		
Revenue		
Share of Equity Income	$145	$155
Consulting	706	681
Other	243	79
	1,094	915
Expenses		
Salaries and Benefits	502	413
Consulting and Professional Fees	118	216
Supplies, Services and Other Expenses	348	218
	968	847
Excess of Revenue over Expenses	126	68
Net Assets – Beginning of Year	1,439	1,371
Prior Period Adjustment	3,081	3,081
Net Assets, As Restated	4,520	4,452
Net Assets – End of Year	$4,646	$4,520

(AMOUNTS IN THOUSANDS)

Upon adoption of accounting standards for private enterprises, the Joint Venture owning the land and building situated at 491 Portage Avenue elected to increase the carrying value of that property to fair value as permitted under the transitional standards. As a result the carrying value of the capital assets was increased by $14,154 at March 31, 2011. This resulted in an increase in the corporation's 25% share of ventures' capital as at March 31, 2011 of $3,081 ($3,539 net of $458 in future income taxes).

23. 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, 2012.

24. 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 2011-2012 was $53 (2010-2011 - $53). 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:

	2012	2011
From the University to the Foundation:		
i) Operating grant	$468	$550
ii) Gifts of residuals for endowment	$283	$516
iii) Gifts of matching funds for endowment	$682	$539
iv) Occupancy & Support Agreement (Note 21 b)	$183	$173
From the Foundation to the University:		
i) Transfer of annual donations	$3,950	$4,368
ii) Income allocation	$1,174	$1,100
iii) Occupancy & Support Agreement (Note 21 b)	$183	$173
From the University to UWCRC		
i) Consulting fees (excluding GST)	$634	$641
From UWCRC to the University		
i) Management fees	$190	$220
From the University to the Joint Venture		
i) Lease expense	$691	$173
ii) Capital contribution	$127	$484
From the Joint Venture to the University		
i) Service fees	$88	$44

(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:

	2012	2011
Due from Related Party		
Foundation	$159	$359
UWCRC	134	70
460 Portage Avenue Joint Venture	50	74
	343	503
Due from 460 Portage Avenue Joint Venture		
Notes Receivable (Note 7)	8,995	9,101
Due to Related Parties		
Foundation	919	539
UWCRC	38	82
	$ 957	$ 621

In addition to those related transactions disclosed elsewhere in these financial statements, the University is related in terms of common ownership to all Province of Manitoba created departments, agencies and Crown corporations. The University enters into transactions with these entities in the normal course of business. These transactions are recorded at the exchange amount.

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 venturers 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 24.

(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 years ended March 31.

	2012	2011
Statement of Financial Position		
Assets:		
Accounts Receivable and Prepaid Expenses	20	4
Capital Assets	6,910	6,942
Intangible Asset	1,291	1,325
	8,221	8,271
Liabilities and Venturers' Equity		
Accounts Payable and Accrued Liabilities	6	5
Due to the University of Winnipeg	6,097	6,116
Deferred Capital Contributions	399	320
Venturers Equity	1,719	1,830
	8,221	8,271
Statement of Operations		
Revenues		
Rental Revenue	75	12
Amortization of Deferred Capital Contribution	5	3
Expense Recovery from Venturers	571	142
	651	157
Expenses		
Building Operating	271	109
Interest	342	151
Amortization	117	58
Amortization of Intangible Asset	33	8
	763	326
Net Loss	(112)	(169)
Statement of Cash Flows		
Cash Receipts from Tenants & Venturers	637	155
Cash Paid to Suppliers	(275)	(109)
Interest Paid	(342)	(151)
Cash Flows used by Operating Activities	20	(105)
Venturers' Contributions	0	667
Proceeds from Long Term Financing	0	6,085
Capital Contributions Received	85	322
Other Financing Activities	(20)	31
Cash Flows from Financing Activities	65	7,105
Cash Flows used in Investing Activities – Purchase of Capital Assets	(85)	(7,000)
Net Change in Cash Position	0	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.

26. Reclassification of Comparative Figures

Certain 2011 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2012.

Management's Responsibility

To the Shareholder of Venture Manitoba Tours Ltd.:

The accompanying financial statements of Venture Manitoba Tours Ltd. are the responsibility of management and have been approved by the Board of Directors.

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian public sector accounting standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors is composed primarily of Directors who are neither management nor employees of the Organization. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Board is also responsible for recommending the appointment of the Organization's external auditors.

MNP LLP is appointed by the directors to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.

June 27, 2012

General Manager/Chief Executive Officer

MNP

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 statement of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010 and the statements of operations and accumulated deficit, changes in net debt and cash flows for the years 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 public sector accounting standards, 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, 2012, March 31, 2011 and April 1, 2010 and the results of its operations, changes in net debt and its cash flows for the years then ended in accordance with Canadian public sector accounting standards.

Winnipeg, Manitoba
June 27, 2012

MNP LLP
Chartered Accountants

Venture Manitoba Tours Ltd.
Statement of Financial Position
As at March 31, 2012

	2012	2011	April 1 2010
Financial assets			
Cash	**124,520**	-	57,110
Accounts receivable	**4,676**	14,905	5,917
Inventory *(Note 5)*	**36,278**	38,469	34,473
	165,474	53,374	97,500
Liabilities			
Bank indebtedness *(Note 6)*	-	53,484	-
Accounts payable and accruals	**76,552**	85,721	99,796
Customer deposits	**4,189**	5,085	5,167
Advances from the Province of Manitoba *(Note 7)*	**250,000**	250,000	250,000
Capital lease obligations *(Note 8)*	**197,056**	-	-
	527,797	394,290	354,963
Net debt	**(362,323)**	(340,916)	(257,463)
Contingency *(Note 9)*			
Non-financial assets			
Tangible capital assets *(Schedule 1)*	**792,691**	688,353	674,293
Prepaid expenses and deposits	**37,780**	45,302	53,618
	830,471	733,655	727,911
Accumulated surplus *(Note 10), (Note 11)*	**468,148**	392,739	470,448

Approved on behalf of the Board

____________________ **Director** ____________________ **Director**

The accompanying notes are an integral part of these financial statements

Venture Manitoba Tours Ltd.
Statement of Operations and Accumulated Surplus
For the year ended March 31, 2012

	Budget (Unaudited)	2012	2011
Sales	1,353,000	1,307,785	1,138,919
Cost of sales	1,083,887	881,133	936,390
Gross margin	269,113	426,652	202,529
Operating expenses *(Schedule 2)*	170,887	175,085	165,771
Earnings from operations	98,226	251,567	36,758
Other income (expense)			
Amortization	(122,614)	(176,158)	(141,467)
Gain on disposal of assets	-	-	42,000
Development study	-	-	(15,000)
	(122,614)	(176,429)	(114,467)
Annual surplus (deficit)	(24,388)	75,409	(77,709)
Accumulated surplus, beginning of year		392,739	470,448
Accumulated surplus, end of year		468,148	392,739

The accompanying notes are an integral part of these financial statements

Venture Manitoba Tours Ltd.
Statement of Change in Financial Net Debt
For the year ended March 31, 2012

	Budget *(Unaudited)*	***2012***	*2011*
Annual surplus (deficit)	**(24,388)**	**75,409**	(77,709)
Purchases of tangible capital assets	**-**	**(280,496)**	(155,527)
Amortization of tangible capital assets	**122,614**	**176,158**	141,467
	122,614	**(104,338)**	(14,060)
Use of prepaid expenses	**-**	**7,522**	8,316
Decrease (increase) in net debt	**98,226**	**(21,407)**	(83,453)
Net debt, beginning of year		**(340,916)**	(257,463)
Net debt, end of year		**(362,323)**	(340,916)

The accompanying notes are an integral part of these financial statements

	2012	2011
Cash provided by (used for) the following activities		
Operating activities		
Cash received from customers	**1,316,828**	1,129,840
Cash paid to suppliers and employees	**(1,048,928)**	(1,126,665)
Interest received	**288**	12
Interest paid	**(6,744)**	(254)
	261,444	2,933
Financing activities		
Advances of capital lease obligations	**254,326**	-
Repayments of capital lease obligations	**(57,270)**	-
	197,056	-
Investing activities		
Purchases of tangible capital assets	**(280,496)**	(155,527)
Proceeds on disposal of tangible capital assets	**-**	42,000
	(280,496)	(113,527)
Increase (decrease) in cash resources	**178,004**	(110,594)
Cash resources (deficiency), beginning of year	**(53,484)**	57,110
Cash resources (deficiency), end of year	**124,520**	(53,484)

Cash resources (deficiency) are composed of:

Cash	**124,520**	-
Bank indebtedness	-	(53,484)
	124,520	(53,484)

The accompanying notes are an integral part of these financial statements

MNP

1. 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 exempt from paying income tax under subsection 149(1)(d) of the Income Tax Act.

2. Change in accounting framework

Effective April 1, 2010, the Company adopted the recommendations relating to other government organizations, as set out in the Canadian public sector accounting standards. Pursuant to the recommendations, the change was applied retroactively, and prior periods have been restated.

Previously, the Company had followed generally accepted accounting standards. Under the new recommendations, the Company will be required to follow the *Accounting Policies* listed in Note 4.

First-time adoption of Canadian public sector accounting standards

In preparing these financial statements, the Company has elected to apply the following transitional provision permitted by PS 2125 First-time Adoption by Government Organizations at the date of transition to Canadian public sector accounting standards ("public sector accounting standards"):

Tangible capital assets

Effective March 31, 2012, the Company adopted the Public Sector Accounting Board's (PSAB) new recommendation for tangible capital assets under PS 3150 *Tangible Capital Assets*. The revised Section establishes standards on accounting for and reporting tangible capital assets in a Company's financial statements. There was no material impact on the financial statements from the retrospective application of the new accounting recommendations.

3. Impact of adopting Canadian public sector accounting standards

These are the Company's first financial statements prepared in accordance with Canadian public sector accounting standards. The accounting policies in Note 4 have been applied in preparing the financial statements for the year ended March 31, 2012, the comparative information for the year ended March 31, 2011 and the statement of financial position as at April 1, 2010.

The transition to Canadian public sector accounting has not affected the statements of financial position, operations and accumulated deficit, changes in financial net debt or cash flows as previously reported under Canadian generally accepted accounting principles (GAAP).

4. Significant accounting policies

These financial statements have been prepared in accordance with Canadian public sector accounting standards and including 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.

Tangible capital assets

Tangible capital assets are recorded at cost. Contributed tangible capital assets are recorded at their fair value at the date of contribution.

Amortization

Amortization is provided using the straight-line method at rates intended to amortize the cost of tangible capital 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
Equipment under capital lease	5	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

Revenues from the golf course and clubhouse are recognized when services are provided and collection is reasonably assured

Measurement uncertainty

The preparation of financial statements in conformity with Canadian public sector accounting standards 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 revenue 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 tangible capital assets.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in deficit in the periods in which they become known.

Long-lived assets

Long-lived assets consist of tangible capital assets. 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 deficit for the year.

4. Significant accounting policies *(Continued from previous page)*

Financial instruments

Financial instruments include cash, accounts receivable, accounts payable and accruals, advances from the Province of Manitoba and capital lease obligations. Unless otherwise stated, it is management's opinion that the Company is not exposed to significant interest, currency or credit risk arising from the financial instruments. Unless otherwise stated, the book value of the Company's financial assets and liabilities approximates their fair value due to the short-term maturities of the instruments.

5. Inventory

The cost of inventories recognized as an expense and included in cost of sales amount to $59,337 (2011 - $72,107).

6. Bank indebtedness

Bank indebtedness includes an operating line of credit with a limit of $250,000 (March 31, 2011 - $250,000; April 1, 2010 - $250,000), bearing interest at Royal Bank of Canada's prime interest rate and secured by the Province of Manitoba.

7. Advances from the Province of Manitoba

The Advances from the Province of Manitoba are unsecured, non-interest bearing and due on demand.

8. Contingency

The Collective Agreement with the Union expired on Sept 30, 2010. A new Collective Agreement has not been negotiated. Management is unable to determine the potential impact of the new Collective Agreement on the financial statements.

9. Capital lease obligations

	2011	*2010*
Golf cart lease payable in monthly instalments of $9,545 from May to October per year, including interest at 6.4%, plus applicable taxes, due October 2015. As at April 1, 2010 the balance was $nil.	**197,056**	-

Minimum lease payments related to the obligations under capital lease are as follows:

2013	57,270
2012	57,270
2015	57,270
2016	55,511
	227,321
Less: imputed interest	(30,265)
	197,056

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10. Accumulated surplus

	2012	2011
Deficit	**(3,175,352)**	(3,250,761)
Share Capital (Note 11)	**3,643,500**	3,643,500
	468,148	392,739

As at April 1, 2010, accumulated deficit consisted of a deficit of ($3,173,052) and share capital of $3,643,500.

11. Share capital

	2012	2011
Authorized		
Unlimited Common shares		
Issued		
Common shares		
3,643,500 Common shares	**3,643,500**	3,643,500

12. Commitments

The Company operates the Falcon Lake Golf Course, Games Area and the Restaurant/Lounge under lease agreements with the Province of Manitoba for an annual amount of $114,700 (2011 - $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 $6,000.

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13. 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, 2012, the Company had the following balances with entities in the Government Reporting Entity:

	2012	*2011*
Payable to (receivable from):		
Manitoba Hydro	**644**	1,196
Manitoba Liquor Control Commission	**(300)**	-
	344	1,196

During the year, the Company had the following transactions with entities in the Government Reporting Entity:

	2012	*2011*
Expenses paid to:		
Department of Conservation	**114,700**	109,441
Manitoba Hydro	**17,134**	13,594
Manitoba Liquor Control Commission	**25,049**	19,061
Manitoba Public Insurance	**1,632**	1,781
	158,515	143,877

Schedule 1 - Schedule of Tangible Capital Assets

For the year ended March 31, 2012

	Staff quarters	Automotive	Computer equipment	Golf course improvements	Equipment under capital lease	2012	2011
Cost							
Balance, beginning of year	**102,395**	**1,087,036**	**68,175**	**653,500**	**-**	**1,911,106**	1,822,133
Acquisition of tangible capital assets	**-**	**8,858**	**-**	**15,238**	**256,400**	**280,496**	155,527
Disposal of tangible capital assets	**-**	**-**	**-**	**-**	**-**	**-**	(66,554)
Balance, end of year	**102,395**	**1,095,894**	**68,175**	**668,738**	**256,400**	**2,191,602**	1,911,106
Accumulated amortization							
Balance, beginning of year	**57,321**	**919,728**	**67,281**	**178,423**	**-**	**1,222,753**	1,147,840
Annual amortization	**4,096**	**101,199**	**894**	**18,689**	**51,280**	**176,158**	141,467
Disposal	**-**	**-**	**-**	**-**	**-**	**-**	(66,554)
Balance, end of year	**61,417**	**1,020,927**	**68,175**	**197,112**	**51,280**	**1,398,911**	1,222,753
Net book value of tangible capital assets	**40,978**	**74,967**	**-**	**471,626**	**205,120**	**792,691**	688,353
2011 Net book value of tangible capital assets	45,074	167,308	894	475,077	-	688,353	

The net book value of tangible capital assets at April 1, 2010 was as follows:

Staff quarters	49,169
Automotive	148,709
Computer equipment	3,579
Golf course improvements	472,836
	674,293

	Budget (Unaudited)	2012	2011
Computer software	-	**916**	-
Credit card discount	**17,600**	**19,954**	16,244
Directors' fees	**12,000**	**9,300**	16,240
Equipment rentals	**500**	**471**	586
Insurance and leases	**11,000**	**10,350**	9,736
Interest and bank charges	**2,000**	**818**	254
Membership fees	**-**	**480**	50
Miscellaneous	**2,400**	**1,486**	1,492
Office	**500**	**708**	586
Printing and stationary	**1,000**	**1,404**	1,995
Professional fees	**12,000**	**12,000**	7,000
Repairs and maintenance	**5,000**	**1,268**	2,823
Restaurant expenses	-	**9,694**	-
Salaries, wages and benefits	**73,237**	**76,569**	77,021
Sales office rent	**6,300**	**6,138**	6,292
Tee reservations	**2,400**	**2,321**	4,568
Telephone and postage	**4,400**	**3,920**	3,983
Training and education	**7,550**	**7,139**	7,012
Transportation	**8,000**	**6,078**	5,929
Utilities	**5,000**	**4,071**	3,960
	170,887	**175,085**	165,771

GOVERNMENT ENTERPRISES

MANAGEMENT'S RESPONSIBILITY

Management of the Deposit Guarantee Corporation of Manitoba is responsible for the integrity and fair presentation of the financial statements included in the annual report. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

In discharging its responsibility, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, proper records are maintained and assets safeguarded.

The Board of Directors of the Corporation oversees management's responsibilities for the financial reporting procedures and internal control systems. The Board reviews the financial statements in detail prior to approving the statements for publication.

The Finance and Audit Committee recommends the appointment of the external auditor and reviews the terms of the external audit engagement, annual fees, audit plans and scope, and management letter recommendations.

Vernon MacNeill, MBA	S. J. Nowicky, CMA
Chief Executive Officer	Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

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To the Board of Directors of
Deposit Guarantee Corporation of Manitoba

We have audited the accompanying consolidated financial statements of the Deposit Guarantee Corporation of Manitoba, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes to the consolidated financial statements.

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 International Financial Reporting Standards, 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 audits. We conducted our audits 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 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 opinions.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Deposit Guarantee Corporation of Manitoba as at December 31, 2011, December 31, 2010, and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

Chartered Accountants

February 24, 2012
Winnipeg, Manitoba

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(IN CANADIAN DOLLARS)

	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
ASSETS			
Cash (Note 7)	$ 283,973	$ 290,682	$ 675,866
Marketable securities (Note 8)	187,368,115	158,219,817	142,559,599
Assessments receivable (Note 9)	3,827,753	3,545,168	3,040,289
Current tax receivable (Note 13)	54,350	30,754	-
Prepaid expenses and other assets (Note 10)	47,723	489,491	75,830
Other Investments (Note 11)	72,260	72,260	72,260
Property and equipment (Note 12)	266,874	343,372	175,577
Deferred tax assets (Note 13)	43,000	47,054	36,700
	$ 191,964,048	**$ 163,038,598**	**$ 146,636,121**
LIABILITIES			
Accounts payable and accrued liabilities (Note 14)	$ 258,365	$ 372,146	$ 337,009
Defined benefit obligation (Note 15)	293,450	397,098	264,650
Current tax liability (Note 13)	-	-	62,558
Deferred tax liability (Note 13)	1,150,664	188,274	160,242
Total liabilities	**1,702,479**	**957,518**	**824,459**
Contingent liabilities (Note 16)			
CORPORATION EQUITY			
Retained earnings	183,039,320	158,731,999	143,430,686
Accumulated other comprehensive income	7,222,249	3,349,081	2,380,976
Total corporation equity	190,261,569	162,081,080	145,811,662
	$ 191,964,048	**$ 163,038,598**	**$ 146,636,121**

Approved by the Board – February 24, 2012

______________________, Director

Ron Pozernick

______________________, Director

Jacob P. Janzen

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(IN CANADIAN DOLLARS)

YEAR ENDED DECEMBER 31	2011	2010
REVENUES		
Regular assessments (Note 17)	$ 15,311,011	$ 14,180,669
Financial assistance repayments (Note 17)	46,655	502,001
Investment revenue (Note 17)	5,361,594	4,791,148
	20,719,260	19,473,818
EXPENSES		
Operating expense (Note 18)	4,009,429	3,894,119
Credit union merger expense (Note 18)	3,719	5,118
	4,013,148	3,899,237
INCOME BEFORE INCOME TAXES	16,706,112	15,574,581
Income tax expense (Note 13)	418,978	273,268
NET INCOME FOR THE YEAR	16,287,134	15,301,313
OTHER COMPREHENSIVE INCOME		
Net change in fair value of available-for-sale financial assets	4,835,558	996,137
Income tax on other comprehensive income	(962,390)	(28,032)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX	3,873,168	968,105
COMPREHENSIVE INCOME	**$ 20,160,302**	**$ 16,269,418**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(IN CANADIAN DOLLARS)

	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME UNREALIZED GAINS/ LOSSES AVAILABLE-FOR-SALE FINANCIAL ASSETS	TOTAL
Balance at January 1, 2010	$ 143,430,686	$ 2,380,976	$ 145,811,662
Net Income	15,301,313	-	15,301,313
Other comprehensive income	-	968,105	968,105
Total comprehensive income	15,301,313	968,105	16,269,418
Balance at December 31, 2010	$ 158,731,999	$ 3,349,081	$ 162,081,080
Balance at January 1, 2011	$ 158,731,999	$ 3,349,081	$ 162,081,080
Net income	16,287,134	-	16,287,134
Other comprehensive income	-	3,873,168	3,873,168
Total comprehensive income	16,287,134	3,873,168	20,160,302
Net assets acquired on amalgamation with La Société d'assurance-dépôts des caisses populaires du Manitoba (Note 3)	8,020,187	-	8,020,187
Balance at December 31, 2011	$ 183,039,320	$ 7,222,249	$ 190,261,569

CONSOLIDATED STATEMENT OF CASH FLOWS

(IN CANADIAN DOLLARS)

YEAR ENDED DECEMBER 31	2011	2010
OPERATING ACTIVITIES		
Net income	$ 16,287,134	$ 15,301,313
Non-cash expense (recovery) – deferred taxes	4,054	(10,354)
Non-cash expense – depreciation	135,932	125,928
Net increase in assessments receivable	(282,585)	(504,879)
Net decrease (increase) in prepaid expenses and other assets	441,768	(413,661)
Net increase in taxes receivable	(23,596)	(93,312)
Net (decrease) increase in accounts payable and accrued liabilities	(789,964)	35,137
Net (decrease) increase in retirement benefit obligation	(103,648)	132,448
Cash flows generated by operating activities	15,669,095	14,572,620
INVESTING ACTIVITIES		
Net assets acquired on amalgamation (Note 3)	649,682	-
Net increase in marketable securities	(16,266,052)	(14,664,081)
Purchase of property and equipment, net of disposal proceeds	(59,434)	(293,723)
Cash flows used in investing activities	(15,675,804)	(14,957,804)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,709)	(385,184)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	290,682	675,866
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 283,973	$ 290,682
SUPPLEMENTARY CASH FLOW INFORMATION		
Income taxes paid	$ 272,708	$ 376,934

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN CANADIAN DOLLARS, UNLESS OTHERWISE NOTED)

1.0 Nature of Organization

On January 1, 2011, the Credit Union Deposit Guarantee Corporation and La Société d'assurance-dépôts des caisses populaires du Manitoba amalgamated, under the provision of subsection 163.2 of the Credit Union and Caisses Populaires Act, to create the Deposit Guarantee Corporation of Manitoba. The registered address of the Corporation is 390-200 Graham Avenue, Winnipeg, Manitoba, Canada.

The Deposit Guarantee Corporation of Manitoba (the "Corporation") is a deposit guarantee corporation established under The Credit Unions and Caisses Populaires Act of Manitoba. All of the operational activities of the Corporation are focused on achieving its legislated objectives:

- Guarantee deposits in Manitoba credit unions and caisses populaires (thereafter "credit unions").
- Promote credit union development of sound business practices to protect them from financial losses; and
- Ensure the credit unions operate under sound business practices.

Without limiting the generality of the foregoing, the Corporation shall do such things as are necessary to enable a credit union assigned to it to satisfy the claims of the members of the credit union for withdrawals of deposits.

2.0 Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These are the Corporation's first consolidated financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows is provided in note 5.

The consolidated financial statements were authorized for issue by the Board of Directors on February 24, 2012.

3.0 Amalgamation

The operations of both the Credit Union Deposit Guarantee Corporation and La Société d'assurance-dépôts des caisses populaires du Manitoba prior to the amalgamation on January 1, 2011 were governed by the legislation in accordance with the Credit Union and Caisses Populaires Act. The Deposit Guarantee Corporation of Manitoba, which was subsequently formed by the amalgamation of the Credit Union Deposit Guarantee Corporation and La Société d'assurance-dépôts des caisses populaires du Manitoba, is also governed by that same legislation.

The amalgamation of the Credit Union Deposit Guarantee Corporation and La Société d'assurance-dépôts des caisses populaires du Manitoba was accounted for prospectively as a combination of entities under common control at carrying values on January 1, 2011. The consolidated statements of financial position, comprehensive income, changes in equity, and cash flows for the comparative period prior to January 1, 2011 have not been restated as the operations of La Société d'assurance-dépôts des caisses populaires du Manitoba were effectively integrated with the operations of the Credit Union Deposit Guarantee Corporation.

4.0 Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS.

4.1 Basis of consolidation

The consolidated financial statements include the accounts of T.S.F. Holdings Limited, a wholly-owned subsidiary, which was incorporated for the purpose of purchasing and collecting loans guaranteed by the Corporation under merger and liquidation agreements.

4.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for available-for-sale financial assets, which are measured at fair value in the statement of financial position.

4.3 Cash

Cash consists of cash on hand, and chequing and demand balances with Credit Union Central of Manitoba and chartered banks.

4.4 Property and equipment

Property and equipment are stated in the statement of financial position at historical cost, less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property and equipment have materially different useful lives, they are accounted for as separate items (major components) of property and equipment.

Depreciation and impairment are recognized in net income. Depreciation has been calculated on the following basis:

Automobiles	- 30% declining-balance
Furniture and equipment	- 20% declining-balance
Computer hardware	- 2½ years straight-line
Leasehold improvements	- Term of lease straight-line

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property and equipment, and are recognized net within depreciation of operating expenses.

4.5 Regular assessments, special assessments, and financial assistance repayments

Regular assessments, special assessments, and financial assistance repayments are measured at the fair value of the consideration received or receivable.

Credit union regular assessments, special assessments and financial assistance repayments are recognized as follows:

- Credit union regular assessments are recognized when earned. Regular assessments are determined quarterly, and accrued for monthly. Credit union payments are received quarterly.
- Special assessments are recognized when earned. Special assessments are only charged if, in the opinion of the Corporation's Board, the guarantee fund is, or is about to be, impaired.
- Financial assistance repayments are recognized when received.

4.6 Financial assets

All financial assets are recognized and derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as fair value through profit and loss (FVTPL), which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at FVTPL', 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

4.6.1 Classification

Cash	Loans and receivables
Marketable securities	Available-for-sale
Assessments receivable	Loans and receivables
Prepaid expenses and other assets	Loans and receivables
Other investments	Available-for-sale

4.6.2 Fair value through profit and loss (FVTPL)

FVTPL financial assets are those classified as held for trading or are designated as such upon initial recognition. Held for trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in income. The Corporation does not hold any financial assets classified as FVTPL.

4.6.3 Available-for-sale (AFS)

AFS financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or held-for-trading investments. Except as mentioned below, AFS financial assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized when the cumulative gain or loss is transferred to income.

AFS financial assets that do not have quoted market prices in an active market are recorded at cost.

Interest on interest-bearing available-for-sale financial assets is calculated using the effective interest method and recorded in investment revenue.

4.6.4 Loans and receivables

Cash and assessments receivables with fixed or determinable payments are classified as ‘loans and receivables’. Loans and receivables are accounted for at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

4.6.5 Impairment of financial assets

Financial assets, other than those designated as FVTPL, are regularly assessed on an individual basis for indicators of impairment at each balance sheet date. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include but is not limited to:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

When an AFS financial asset is considered to be impaired, cumulative losses previously recognized in other comprehensive income are reclassified to net income in the period. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

4.6.6 Derecognition of financial assets

The Corporation derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Corporation recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Corporation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Corporation continues to recognize the financial asset and also recognizes a collateralized borrowing for proceeds received.

4.7 Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities.

4.7.1 Classification

Accounts payable and accrued liabilities	Other liabilities
Defined benefit obligation	Other liabilities

4.7.2 Liabilities at FVTPL

Financial liabilities are classified as FVTPL when the financial liability is either held for trading or it is designated as at FVTPL. The Corporation has not designated any non-derivative financial liabilities as held for trading or FVTPL.

Financial liabilities designated as held for trading are those non-derivative financial liabilities that the Corporation elects to designate on initial recognition as instruments that it will measure at fair value, netted against interest on investments. Historically, these are short-term liabilities when the recognition of interest would be immaterial. These are accounted for in the same manner as held for trading assets.

4.7.3 Other liabilities

Accounts payable and accrued liabilities and retirement benefit obligation are classified as 'other liabilities'. Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

4.8 Effective interest method

The Corporation uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

4.9 Transaction Costs

Transaction costs are expensed as incurred for financial instruments classified as FVTPL. Transaction costs for financial assets classified as available-for-sale, loans and receivables, and other liabilities are netted against the carrying value of the asset or liability and are then recognized over the expected life of the instrument using the effective interest method.

4.10 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Corporation does not have finance leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

4.11 Employee benefits

4.11.1 Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net income in the periods during which services are rendered by employees.

4.11.2 Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Corporation's net obligation is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the end of the reporting period on high-quality corporate bonds. The calculation is performed annually by a qualified actuary using the projected unit credit method.

The Corporation recognizes all actuarial gains and losses arising from the defined benefit plan immediately in net income, and reports them in retained earnings.

4.11.3 Termination benefits

Termination benefits are recognized as an expense when the Corporation is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

4.11.4 Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

4.12 Provision for financial assistance to credit unions

The provision for financial assistance to credit unions is based on potential losses that may arise due to merger, liquidation arrangements, or dissolution. The provision is established based on an individual credit union's probability of requirement for assistance and an assessment of the aggregate risk in the credit union systems.

4.13 Assets acquired from merger/dissolution of credit unions

Loans and real property acquired as a result of merger or dissolution proceedings are recorded at estimated net realizable value.

4.14 Taxation

Income tax expense represents the sum of the current tax and deferred tax. Tax is recognized as an expense or recovery in net income except to the extent that it relates to items that are recognized outside net income.

4.14.1 Current income tax

Current income tax is based on taxable income for the year. Taxable income differs from income as reported in the consolidated statements of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Corporation's current tax liabilities is measured at the amount expected to be paid to (recovered from) the taxation authorities using the tax rates that have been enacted or substantively enacted at the balance sheet date.

4.14.2 Deferred Tax

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in its subsidiary except where it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects, at each balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its current tax assets and liabilities on a net basis.

4.15 New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Corporation, except for IFRS 9 *Financial Instruments*, which becomes mandatory for the Corporation's 2015 consolidated financial statements and is expected to impact the classification and measurement of financial assets. The new standards applicable to the Corporation are described below.

IFRS 9 – Financial Instruments

The IASB tentatively approved the adoption of the proposed new IFRS 9, *Financial Instruments* standard to be effective January 1, 2015.

The new standard requires all financial assets to be classified on initial recognition at amortized cost or fair value while eliminating the existing categories of available-for-sale, held to maturity, and loans and receivables.

The new standard also requires:

- embedded derivatives to be assessed for classification together with their financial asset host;
- a single expected loss impairment method be used for financial assets; and
- amendments to the criteria for hedge accounting and measuring effectiveness

The full impact of IFRS 9 on the Corporation will be evaluated after the remaining stages of the IASB's project to replace IAS 39: Financial Instruments – impairment methodology, hedge accounting, and asset and liability offsetting – are finalized. The Corporation continues to actively monitor developments in this area.

IFRS 13 – Fair Value

Effective January 1, 2013, the Corporation will adopt the guidance in IFRS 13, Fair Value Measurement for the measurement and disclosure of assets and liabilities held at fair value. The standard refines the measurement and disclosure requirements and aims to achieve consistency with other standard setters to improve the visibility to financial statement users.

The Corporation is currently evaluating the impact this standard will have on its financial statements when it becomes effective January 1, 2013.

IAS 1 – Presentation of Financial Statements

Effective on January 1, 2013, the Corporation will adopt the guidance in the amended IAS 1, Presentation of Financial Statements. The amended standard includes requirements that other comprehensive income (OCI) be classified by nature and grouped between those items that will be reclassified subsequently to profit or loss (when specific conditions are met) and those that will not be reclassified. Other amendments include changes to discontinued operations and overall financial statement presentation.

The Corporation is evaluating the impact this standard will have on the presentation of its financial statements.

IAS 17 – Leases

The IASB issued an exposure draft proposing a new accounting model for leases where both lessees and lessors would record the assets and liabilities on the balance sheet at the present value of the lease payments arising from all lease contracts. The new classification would be the right-of-use model, replacing the operating and finance lease accounting models that currently exist.

The full impact of adoption of the proposed changes will be determined once the final lease standard is issued, which is proposed to be in 2012.

5.0 Explanation of transition to IFRS

These are the Corporation's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in note 4 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these consolidated financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS consolidated statement of financial position at January 1, 2010 (the Corporation's date of transition).

At transition to IFRS the Corporation applied IFRS 1 which requires the Corporation to reconcile retained earnings and accumulated other comprehensive income for prior periods presented. The adoption of IFRS has had no impact on the Corporation's financial position, financial performance and cash flows. IFRS has resulted in a number of presentation changes to the Corporation's consolidated financial statements. There were no accounting policy changes as a result of the transition to IFRS.

IFRS does not allow the use of hindsight to recreate or revise estimates and consequently the estimates previously made by the Corporation under the previous Canadian generally accepted accounting principles were not revised when converting to IFRS.

The following notes detail applicable options that were available to the Corporation during the transition to IFRS, under IFRS 1 *First-time Adoption of IFRS.*

5.1 Property and equipment

IFRS 1 permits the Corporation to measure an item of property or equipment at the date of transition to IFRS at its fair value and use that fair value as its deemed cost as that date. For subsequent measurement, IFRS permits the Corporation to either:

- depreciate the property or equipment over the estimated remaining useful life; or
- revalued at regular intervals, where changes in valuation are recognized through net income, or other comprehensive income.

The Corporation elected not to use the exemption, permitting revaluation, under IFRS 1, resulting in no financial impact upon transition.

5.2 Leases

IFRS 1 permits the Corporation to apply transitional provisions of IFRS Interpretations Committee ("IFRIC") 4 *Determining Whether an Arrangement Contains a Lease* as at the date of transition. This allows the Corporation to determine only whether any existing arrangement at the date of transition to IFRS contains a lease, and if so, apply IAS 17 *Leases* from the inception of that arrangement.

The Corporation elected to use this exemption. No existing arrangements contained a lease, therefore no financial impact was experienced upon transition.

5.3 Employee benefits

IFRS 1 permits the Corporation to reset unamortized actuarial gains and losses to zero at the date of transition. This option was not applicable to the Corporation as all actuarial gains and losses had been recognized through net income at the date of transition. Therefore, no financial impact was experienced upon transition.

IFRS 1 permits the Corporation to disclose required notation for each accounting period prospectively from the transition date, rather than for the current and previous four periods. The Corporation elected to use this exemption. This exemption is specifically related to the aforementioned requirement. In the future the Corporation will prospectively disclose these notations as required.

6.0 Critical accounting judgments and key sources of estimation uncertainty

In the application of the Corporation's accounting policies, which are described in note 4, management are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

6.1 Critical judgments in applying accounting policies

There are no critical judgments, apart from those involving estimations, that management has made in the process of applying the Corporation's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

6.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

6.2.1 Provision for financial assistance to credit unions

6.2.1.1 Individual provisions for credit union assistance

Individual provisions and contingencies for financial assistance are recognized in accordance with IFRS. The process defined below will be applied quarterly at minimum, and more frequently if required. Credit union analysis will consider:

- an individual credit union's rating
- an individual credit union's financial strength, including capital strength to absorb potential losses and earning trends
- whether a credit union appears to have appropriately valued assets
- whether levels of collective and individual allowances appear reasonable
- provisions and contingencies related to assisted mergers and arrangements

The Corporation has determined that there are no individual provisions for credit union assistance required.

6.2.1.2 Collective provision for credit union assistance

The collective accrual for financial assistance is based on five-year, ten-year, and twenty-year averages of loss experience and other components that consider capital shortfalls and insufficient capital levels. This will include management's judgment based on historical information and other factors.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN CANADIAN DOLLARS, UNLESS OTHERWISE NOTED)

In addition, a collective provision may be deemed necessary based on the Corporation's best estimate of current aggregate risk to the Corporation as determined by evaluating the following conditions:

- market and economic conditions
- credit union analysis
- historic loss experience

The Corporation has determined that there is no collective provision for credit union assistance required.

6.2.2 Estimates of fair values

Financial instrument carrying value necessarily reflect the prevailing market and the liquidity premiums embedded within the market pricing methods the Corporation relies upon.

Fair values of marketable securities and other investments classified as available-for-sale are determined with reference to quoted market bid price primarily provided by third party independent pricing sources. Where prices are not quoted in a normally active market, fair values are determined by valuation models. The Corporation maximizes the use of observable input and minimizes the use of unobservable inputs when measuring fair value. The Corporation obtains quoted prices in active markets, when available, for identical assets at the balance sheet date to measure marketable securities and other investments at fair value.

7.0 Cash

Cash includes cash on hand, and in current accounts with Credit Union Central of Manitoba, RBC Dexia and Scotiabank. Cash at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

As at	December 31, 2011	December 31, 2010	January 1, 2010
Cash on hand	250	250	250
Credit Union Central of Manitoba	276,637	285,625	669,742
Scotiabank	909	770	461
RBC Dexia Investor Services	6,177	4,037	5,413
	283,973	**290,682**	**675,866**

8.0 Marketable securities

Marketable securities include term deposits with Credit Union Central of Manitoba, treasury bills, government bonds, and schedule 1 bank deposit notes. Marketable securities at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

As at	December 31, 2011	December 31, 2010	January 1, 2010
Term deposits	7,012,020	5,203,848	9,319,338
Treasury bills	3,868,885	-	644,863
Government bonds	161,466,753	137,232,424	116,562,436
Schedule 1 bank deposit notes	15,020,457	15,783,545	16,032,962
	187,368,115	**158,219,817**	**142,559,599**

8.1 Assets pledged as security

Term deposits with Credit Union Central of Manitoba with a carrying amount of $5,000,000 (2010 – $5,000,000) have been pledged to secure an operating line of credit for the Corporation. The pledge agreement is renewed annually. The Corporation is not permitted to pledge these assets as security for other borrowings or to sell them to another entity.

9.0 Assessments receivable

Assessments receivable are classified as 'loans and receivables' and therefore measured at amortized cost.

Assessments receivable refer to the outstanding balance, owed by credit unions, for the fourth quarter assessment, or any special assessment, charged by the Corporation. Outstanding balances are always paid within 31 days of the year end.

As at	December 31, 2011	December 31, 2010	January 1, 2010
Assessment receivable	**3,827,753**	**3,545,168**	**3,040,289**

10.0 Prepaid expenses and other assets

Prepaid expenses and other assets are classified as 'loans and receivables' and therefore measured at amortized cost.

As at	December 31, 2011	December 31, 2010	January 1, 2010
Prepaid office expenses	23,024	7,983	31,934
Prepaid occupancy expenses	22,171	19,914	36,853
Financial assistance repayment receivable	-	455,523	-
Employee loans	2,528	6,071	7,043
	47,723	**489,491**	**75,830**

11.0 Other Investments

As at	December 31, 2011	December 31, 2010	January 1, 2010
Credit Union Central of Manitoba shares, at cost	68,000	68,000	68,000
Concentra Trust shares, at cost	4,260	4,260	4,260
	72,260	**72,260**	**72,260**

These shares are not readily marketable, and there are no contractual or guaranteed rates of return on these investments. The yields earned on these shares have approximated rates earned by the Corporation on other investments, and in management's opinion, fair value of the shares will not differ significantly from the above stated net book values. The credit risk inherent in the shares is considered to be insignificant. There are no intentions to dispose of these shares in the foreseeable future.

12.0 Property and equipment

As at	December 31, 2011	December 31, 2010	January 1, 2010
Net carrying amounts of:			
Automobiles	9,638	13,769	19,670
Furniture and equipment	80,919	88,347	63,258
Computer hardware	61,369	74,022	84,414
Leasehold improvements	114,948	167,234	8,235
	266,874	**343,372**	**175,577**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN CANADIAN DOLLARS, UNLESS OTHERWISE NOTED)

	Automobiles	Furniture & equipment	Computer hardware	Leasehold improvements	Total
Cost					
Balance at January 1, 2010	30,378	125,841	337,603	181,544	675,366
Additions	-	43,807	53,069	196,847	293,723
Retirements/Disposals	-	-	(74,162)	-	(74,162)
Balance at December 31, 2010	30,378	169,648	316,510	378,391	894,927
Additions	-	11,782	42,896	4,756	59,434
Retirements/Disposals	-	(1,390)	(8,618)	-	(10,008)
Balance at December 31, 2011	30,378	180,040	350,788	383,147	944,353

	Automobiles	Furniture & equipment	Computer hardware	Leasehold improvements	Total
Accumulated depreciation					
Balance at January 1, 2010	10,708	62,583	253,189	173,309	499,789
Retirements/Disposals	-	-	(74,162)	-	(74,162)
Depreciation expense	5,901	18,718	63,461	37,848	125,928
Balance at December 31, 2010	16,609	81,301	242,488	211,157	551,555
Retirements/Disposals	-	(1,390)	(8,618)	-	(10,008)
Depreciation expense	4,131	19,210	55,549	57,042	135,932
Balance at December 31, 2011	20,740	99,121	289,419	268,199	677,479

13.0 Income taxes

13.1 Income tax recognized in net income

Year ended December 31	2011	2010
Current tax		
Current tax expense in respect of the current year	249,122	283,622
Adjustments recognized in the current year in relation to the current tax of previous years	-	-
	249,122	283,622

Deferred tax		
Deferred tax expense recognized in the current year	169,856	(10,354)
Adjustments to deferred tax attributable to changes in tax rates and laws	-	-
Write-downs (reversals of previous write-downs) of deferred tax assets	-	-
	169,856	(10,354)
Total tax expense relating to continuing operations	418,978	273,268

The expense for the year can be reconciled to the accounting income as follows:

Year ended December 31	**2011**	**2010**
Income from continuing operations	16,706,112	15,574,581
Income tax expense	2,004,733	1,856,490
Non-taxable credit union assessments	(1,842,920)	(1,749,685)
Benefit of losses realized on amalgamation	(13,569)	-
Non-deductible operating expenses	4,686	2,506
Change in income tax rates	(3,664)	(12,700)
	149,266	96,611
Adjustments recognized in the current year in relation to the deferred tax of prior years	269,712	176,657
Income tax expense recognized in net income	418,978	273,268

The tax rate used for the 2011 and 2010 reconciliations above is the corporate rate of 12% and 11.92% respectively payable on taxable income under tax law in Manitoba.

13.2 Income tax recognized in other comprehensive income

Year ended December 31	**2011**	**2010**
Deferred tax		
Fair value re-measurement of available-for-sale financial assets	962,390	28,302
Total income tax recognized in other comprehensive income	962,390	28,302

13.3 Current tax assets and liabilities

As at	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Current tax assets			
Tax refund receivable	54,350	30,754	-
Current tax liability			
Income tax payable	-	-	(62,558)
	54,350	30,754	(62,558)

(IN CANADIAN DOLLARS, UNLESS OTHERWISE NOTED)

13.4 Deferred tax balances

The following is the analysis of deferred tax assets/(liabilities) presented in the consolidated statement of financial position:

As at	December 31, 2011	December 31, 2010	January 1, 2010
Deferred tax assets	43,000	47,054	36,700
Deferred tax liabilities	(1,150,664)	(188,274)	(160,242)
	(1,107,664)	(141,220)	(123,542)

2010	Opening balance	Recognized in net income	Recognized in OCI	Acquisitions/ disposals	Closing balance
Deferred tax assets/ (liabilities) in relation to:					
Property and equipment	4,700	(1,327)	-	-	3,373
Retirement allowance	32,000	11,681	-	-	43,681
AFS financial assets	(160,242)	13,070	(41,102)	-	(188,274)
Other	-	-	-	-	-
	(123,542)	23,424	(41,102)	-	-
Tax losses	-	-	-	-	-
Other	-	-	-	-	-
	(123,542)	23,424	(41,102)	-	(141,220)

2011	Opening balance	Recognized in net income	Recognized in OCI	Acquisitions/ disposals	Closing balance
Deferred tax assets/ (liabilities) in relation to:					
Property and equipment	3,373	4,334	-	-	7,707
Retirement allowance	43,681	(8,388)	-	-	35,293
AFS financial assets	(188,274)	(165,812)	(796,578)	-	(1,150,664)
Other	-	-	-	-	-
	(141,220)	(169,866)	(796,578)	-	(1,107,664)
Tax losses	-	-	-	-	-
Other	-	-	-	-	-
	(141,220)	(169,866)	(796,578)	-	(1,107,664)

14.0 Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are classified as 'other liabilities' and therefore measured at amortized cost.

Accounts payable refers to trades payable and insured savings accounts. Trades payable are outstanding invoices to vendors, payable upon receipt. Insured savings accounts are deposits acquired through mergers of credit unions. Accrued liabilities refer to obligations to vendors where no invoice has been received.

As at	December 31, 2011	December 31, 2010	January 1, 2010
Accounts payable	18,140	35,778	75,055
Insured savings accounts	29,031	37,031	39,031
Accrued liabilities	211,194	299,337	222,923
	258,365	**372,146**	**337,009**

15.0 Post employment plans

15.1 Defined contribution plans

The Corporation contributes to two defined contribution retirement benefit plans for all qualifying employees. The benefit plans are operated by the Co-operative Superannuation Society and Great-West Life Assurance Company. The Corporation is required to match employee's contributions of a specified percentage of payroll costs to the benefit plans. The only obligation of the Corporation with respect to the retirement benefit plan is to make specified contributions.

The total expense recognized in the income statement of $121,513 (2010: $110,415) represents contributions payable to these plans by the Corporation at rates specified in the rules of the plans. As at December 31, 2011, all contributions due in respect of the 2011(2010) reporting period had been paid over to the plans.

15.2 Defined benefit plan

The Corporation operates an unfunded defined benefit plan for qualifying employees. Under the plan, employees are entitled to retirement benefits varying between 17% and 50% of final salary on attainment of a retirement age of 55. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuation of the defined benefit obligation was carried out at December 31, 2011 by Eckler Ltd. consultants and actuaries. The present value of the defined benefit obligation, and related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The Corporation does not hold plan assets to offset the obligation created through the actuarial valuation. The annual variance in the valuation is recorded as a salary expense within operating expenses, and is included in the consolidated statement of financial position.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Valuation at December 31	2011	2010
Discount rate(s)	4.1%	4.7%
Expected rate(s) of salary increase	4.5%	4.5%
Assumed retirement age	62	62

Amounts recognized in net income in respect to this defined benefit plan are as follows:

Year ended December 31	2011	2010
Current service cost	36,580	32,050
Actuarial losses recognized in the year	13,690	4,551
Past service costs	-	82,026
Interest costs	11,120	13,821
	61,390	**132,448**

(IN CANADIAN DOLLARS, UNLESS OTHERWISE NOTED)

The expense for the year is included in salaries and employee benefits in the schedule of consolidated operating expenses.

The amount included in the statement of financial position arising from the Corporation's obligation in respect of its defined benefit plans is the present value of the unfunded defined benefit obligation.

Movements in the present value of the defined benefit obligation in the current period were as follows:

Year ended December 31	2011	2010
Opening benefit obligation	397,098	264,650
Current service cost	36,580	32,050
Actuarial losses recognized in the year	13,690	4,551
Past service costs	-	82,026
Interest costs	11,120	13,821
Benefits paid	(165,038)	-
Closing defined benefit obligation	**293,450**	**397,098**

16.0 Contingent liabilities

The Corporation guaranteed $18.778 billion (2010: $16.198 billion) in credit union deposits at the end of the current year. Based on its ongoing monitoring procedures, the Corporation has concluded that a provision for such contingencies does not need to be established at this time.

17.0 Revenue

Year ended December 31	2011	2010
Revenue		
Regular assessments	15,311,011	14,180,669
Financial assistance repayments	46,655	502,001
	15,357,666	14,682,670
Investment revenue		
Interest income	29,231	28,688
Available-for-sale investments	4,731,059	4,210,247
Realized gains and losses on disposal of marketable securities	597,361	549,998
Dividends received	3,943	2,215
	5,361,594	4,791,148
	20,719,260	**19,473,818**

18.0 Expenses

18.1 Operating expense

An analysis of the Corporation's operating expenses from continuing operations can be found in the Schedule of Consolidated Operating Expenses.

18.2 Credit union merger expense

This expense represents operating costs for T.S.F. Holdings Limited. The following is an analysis of the expense from continuing operations.

Year ended December 31	2011	2010
Professional services	1,286	1,987
Insured savings premiums	2,433	3,131
	3,719	**5,118**

19.0 Financial instruments

19.1 Significant accounting policies

Details of the significant accounting policies and methods adopted (including criteria for recognition, the basis for measurement, and the basis for recognition of income and expenses), for each class of financial asset and financial liability are disclosed in notes 4.6 and 4.7 of the financial statements.

19.2 Class disclosure

The following is the disclosure of financial assets by class.

As at	December 31, 2011	December 31, 2010	January 1, 2010
Loans and receivables			
Cash	283,973	290,682	675,866
Assessments receivable	3,827,753	3,545,168	3,040,289
Prepaid expenses and other assets	47,723	489,491	75,830
	4,159,449	4,325,341	3,791,985
Available-for-sale			
Marketable securities	187,368,115	158,219,817	142,559,599
Other investments	72,260	72,260	72,260
	187,440,375	158,292,077	142,631,859
	191,599,824	**162,617,418**	**146,423,844**

The following is the disclosure of financial liabilities by class.

As at	December 31, 2011	December 31, 2010	January 1, 2010
Other liabilities			
Accounts payable and accrued liabilities	258,365	372,146	337,009
Defined benefit obligation	293,450	397,098	264,650
	551,815	**769,244**	**601,659**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN CANADIAN DOLLARS, UNLESS OTHERWISE NOTED)

19.3 Capital risk management

The Corporation manages its capital to maintain a capital structure that provides the flexibility to provide liquidity to support its obligation to guarantee deposits in credit unions.

The capital structure consists of Corporation equity. In order to maintain or adjust its capital structure, the Corporation has a $5,000,000 line of credit agreement with Credit Union Central of Manitoba.

The Corporation's capital management objectives are unchanged from the last reporting period. The Corporation has set an equity target of 1% of deposits in credit unions by December 31, 2017. This equity target has been approved by the Superintendent of the Financial Institutions. The Board of Directors reviews the Corporation's equity position annually to ensure progress towards the 2017 equity target. Where the aggregate shortfall of credit union capital exceeds one-sixteenth of one percent of total deposits and accrued interest, the Corporation shall, within the ensuing year, increase its capital above the annual target to offset the shortfall.

19.4 Financial risk management

The Corporation is exposed to risks of varying degrees of significance which could affect its ability to support its obligation to guarantee deposits at credit unions. The main objectives of the Corporation's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to these risks. The principal financial risks to which the Corporation is exposed include interest rate risk, credit risk, and liquidity risk.

The Corporation seeks to minimize the effects of these risks by utilizing a conservative investment policy. The investment policy contains written principles, addressing interest rate risk, credit risk, and liquidity risk. Compliance with policy is monitored by the external investment manager on a continuous basis.

The Finance department reports quarterly to the Board of Directors on policy compliance and risk exposures.

19.4.1 Interest rate risk management

The Corporation is exposed to fluctuations in interest rates that could affect the cash flows from term deposits and marketable securities at the time of maturity and reinvestment of individual instruments. These fluctuations could affect the fair values of financial assets and liabilities, and the Corporation's ability to support its obligation to guarantee deposits in credit unions.

To mitigate the interest rate risk, the Corporation's investment policy restricts the duration of the portfolio to within plus or minus one year of the blended duration of:

- DEX Short Term Government Bond Index 90%
- DEX Real Return Bond Index 10%

The Corporation may use derivative financial instruments to manage interest rate risk. No derivative financial instruments were used during the year.

19.4.1.1 Interest revenue on investments by classification

Year ended December 31	2011	2010
Financial assets		
Loans and receivables	29,231	28,688
Available-for-sale	4,731,059	4,210,247
	4,760,290	**4,238,935**

Financial liabilities

There are no interest costs on financial liabilities.

19.4.1.2 Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for financial instruments at the end of the reporting period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Corporation's:

- net income for the year ended 31 December 2011 would increase/decrease by $39,605/$39,641 (2010: decrease/increase by $89,287/$88,395). This is mainly attributable to the Corporation's exposure to interest rates on maturing investments; and
- other comprehensive income for the year would decrease/increase by $3,546,846 (2010: decrease/increase by $2,818,523) mainly as a result of the changes in the fair value of available-for-sale fixed rate instruments.

The Corporation's sensitivity to interest rates has increased during the current period, mainly due to the increase in the size of the portfolio.

19.4.2 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Corporation. The Corporation's exposure to credit risk consists principally of:

- fixed income securities with federal, provincial, and municipal governments, and schedule 1 banks;
- term deposits placed with Credit Union Central of Manitoba; and
- assessments receivable from credit unions.

Measures are taken to mitigate each exposure to credit risk.

- The Corporation's investment policy only permits holding marketable securities of counterparties with an investment grade rating of at least A(low), or its equivalent. This information is supplied by independent rating agencies.
- The Corporation's policy is to limit investments in Credit Union Central of Manitoba, to those, pledged as security for the line of credit agreement ($5,000,000 as at December 31, 2011).
- The Corporation monitors the financial strength of individual credit unions on a monthly basis.

Historically, the Corporation has not experienced any bad debts related to any of these counterparties.

The table below shows the credit risk exposure, by credit rating, at the end of the reporting period using DBRS' credit rating symbols.

As at	December 31, 2011	December 31, 2010	January 1, 2010
Credit rating			
AAA	125,718,572	70,854,264	93,084,112
AA	45,608,421	58,834,116	24,737,914
A	10,930,235	23,327,589	13,282,697
	182,257,228	**153,015,969**	**131,104,723**
Unrated			
Credit Union Central of Manitoba	5,110,887	5,203,848	11,454,876
	187,368,115	**158,219,817**	**142,559,599**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN CANADIAN DOLLARS, UNLESS OTHERWISE NOTED)

The table below shows the credit risk exposure, by issuer, at the end of the reporting period.

As at	December 31, 2011	December 31, 2010	January 1, 2010
Government	165,335,637	137,232,424	117,207,299
Corporate	22,032,478	20,987,393	25,352,300
	187,368,115	**158,219,817**	**142,559,599**

19.4.3 Liquidity risk management

Liquidity risk is the risk of having insufficient financial resources to meet the Corporation's cash and funding requirements in support of the guarantee of deposits at credit unions. The Corporation's approach to manage its liquidity risk is to ensure, as far as possible, that it will have cash, demand and term deposits and marketable securities which meet its annual capital target.

- Management expects that the Corporation's principal sources of funds will be cash generated from credit union regular assessments and interest earned on its investments to support its financial obligation to guarantee deposits at credit unions.
- A $5,000,000 line of credit is secured with Credit Union Central of Manitoba to meet any short-term shortfall in regular assessments and interest earned.
- In the event that the investment portfolio must be drawn upon, Corporate policy is that all investments are easily disposable in the secondary bond market.

The following table details the Corporation's expected maturity for its financial assets and financial liabilities. The table has been drawn up based on the undiscounted contractual maturities of the financial assets and financial liabilities including interest that will be earned on those assets and liabilities.

As at	December 31, 2011	December 31, 2010	January 1, 2010
Financial Assets			
Less than three months	4,874,004	20,002,794	4,367,801
Three to six months	4,647,586	-	1,015,626
Six months to one year	5,157,063	7,223,393	-
One to five years	156,044,072	116,552,874	124,215,112
Over five years	16,929,363	14,731,438	13,636,926
Total interest sensitive assets	187,652,088	158,510,499	143,235,465

Financial Liabilities
There are no interest sensitive liabilities.

19.4.4 Fair value of financial instruments

19.4.4.1 Fair value of financial instruments carried at amortized cost

The Corporation considers that the carrying amounts of financial assets and financial liabilities recognized at amortized cost in the financial statements approximate their fair values.

19.4.4.2 Valuation techniques and assumptions applied for the purposes of measuring fair value

The Corporation has categorized its assets and liabilities that are carried at fair value on a recurring basis, based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy. Financial assets and liabilities measured at fair value on a recurring basis on the balance sheet are categorized as follows:

Level 1: Fair value is based on unadjusted quoted bid prices for identical assets or liabilities in an active market.

Level 2: Fair value is based on quoted bid prices for similar assets or liabilities in active markets, valuation that is based on significant observable inputs or inputs that are derived principally from or corroborated with observable market data through correlation or other means. The types of assets and liabilities classified as Level 2 generally include Government of Canada bonds, Province of Manitoba bonds, other provincial government bonds, municipal bonds, and Schedule I Chartered Bank Deposit Notes.

Level 3: Fair value is based on valuation techniques that require one or more of significant unobservable inputs or the use of broker quotes. These unobservable inputs reflect the Corporation's assumptions about the assumptions market participants would use in pricing the asset or liability.

The following table presents the Corporation's assets and liabilities that are carried at fair value on a recurring basis.

As at December 31, 2011	Level 1	Level 2	Level 3	Total
Assets				
Cash	283,973	-	-	283,973
Marketable securities	-	187,368,115	-	187,368,115
Other investments	-	-	72,260	72,260
Total assets measured at fair value on a recurring basis	283,973	187,368,115	72,260	187,724,348

Liabilities
There are no liabilities carried at fair value on a recurring basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN CANADIAN DOLLARS, UNLESS OTHERWISE NOTED)

20.0 Related party transactions

Balances and transactions between the Corporation and its subsidiary, T.S.F. Holdings Limited, which is a related party of the Corporation, have been eliminated on consolidations and are not disclosed in this note.

20.1 Loans to related parties

As at	December 31, 2011	December 31, 2010	January 1, 2010
Loans to key management personnel	-	518	287
	-	**518**	**287**

Key management personnel are defined as the Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, and Chief Operations Officer.

The Corporation provides interest free loans to employees for:

- medical equipment not covered under the insured benefits package and necessary for effective performance of their duties.
- computer equipment for the employee's own use and consistent with the technology utilized by the Corporation.

The maximum loan size is $7,500, repayable by payroll deduction over a maximum period of three years.

20.2 Compensation of key management personnel

The remuneration of key management personnel is determined by the Board of Directors. The remuneration of key management personnel during the year was as follows:

Year ended December 31	2011	2010
Salaries	603,970	615,695
Short-term benefits	10,359	17,522
Post-employment benefits	58,441	59,800
Other long-term benefits	-	-
	672,770	**693,017**

20.3 Board members' remuneration and expenses

The remuneration of the Board of Directors is determined by the Lieutenant Governor in Council. The remuneration of board members during the year was as follows:

Year ended December 31	2011	2010
Board member remuneration	120,655	114,048
Expenses	45,105	47,501
	165,760	**161,549**

21.0 Operating lease arrangements

21.1 Lease arrangements

The Corporation is the lessee on an operating lease related to a five-year agreement for office space. This agreement represents the second renewal, expiring on December 31, 2013. There are no further renewal options available on this agreement.

The Corporation is the lessee on operating leases related to four-year agreements for corporate vehicles. Both leases expire January 31, 2012. The Corporation has the option to purchase the leased vehicles.

21.2 Payments recognized as an expense.

The Corporation recognized $136,341 (2010: $145,458) in lease payments for the year.

21.3 Non-cancellable operating lease commitments

	2011	**2010**
No later than one year	122,655	136,341
Later than one year and not later than five years	125,681	248,336
Later than five years	-	-
	248,336	**384,677**

No liabilities have been recognized in respect of non-cancellable operating lease commitments.

SCHEDULE OF CONSOLIDATED OPERATING EXPENSES

(IN CANADIAN DOLLARS)

YEAR ENDED DECEMBER 31	2011	2010
Salaries and employee benefits	2,430,823	2,258,636
Contract staff	18,393	28,990
Credit Union Central of Manitoba – program funding	241,281	233,125
Staff travel	170,828	162,619
Staff training	70,257	63,264
Occupancy	241,279	243,306
Office	163,942	122,473
Professional services	88,492	115,148
Investment management fees	207,544	236,988
Special projects	54,381	135,366
Board members' remuneration and expenses (Note 20)	165,760	161,549
Depreciation	135,932	125,928
	3,988,912	3,887,392
Bonding administration expense	20,517	6,727
	4,009,429	**3,894,119**

MANAGEMENT REPORT

For the year ended March 31, 2012

The accompanying consolidation 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 statement 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 28, 2012. 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:

Scott A. Thomson, CA
President and Chief Executive Officer

Vince A. Warden, CMA, FCMA
Senior Vice-President,
Finance & Administration and Chief Financial Officer

Winnipeg, Canada
June 28, 2012

AUDITOR'S 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, 2012 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, 2012 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 28, 2012

Chartered Accountants

Ernst & Young LLP

CONSOLIDATED STATEMENT OF INCOME

For the year ended March 31

		Notes	2012	2011
			millions of dollars	
Revenues				
Electric	Manitoba		1 210	1 218
	Extraprovincial	3	363	398
Gas	Commodity		197	261
	Distribution		132	143
			1 902	2 020
Cost of gas sold			197	261
			1 705	1 759
Expenses				
Operating and administrative			472	463
Finance expense		4	423	425
Depreciation and amortization			381	393
Water rentals and assessments		5	119	120
Fuel and power purchased			146	106
Capital and other taxes			103	102
			1 644	1 609
Net Income			61	150

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended March 31

	2012	2011
	millions of dollars	
Retained earnings, beginning of year	2 389	2 239
Net income	61	150
Retained earnings, end of year	2 450	2 389

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at March 31

	Notes	2012	2011
		millions of dollars	
Assets			
Property, Plant and Equipment			
In service	6	13 631	12 967
Less accumulated depreciation	6	4 984	4 752
		8 647	8 215
Construction in progress	6	3 150	2 739
		11 797	10 954
Current Assets			
Cash and cash equivalents		50	70
Accounts receivable and accrued revenue		328	403
Interest receivable		4	4
Materials and supplies, at average cost	7	106	85
		488	562
Other Assets			
Sinking fund investments	8	372	282
Goodwill and intangible assets	9	268	260
Regulated assets	10	310	309
Other deferred assets	11	556	515
		1 506	1 366
		13 791	12 882

Approved on behalf of the Board:

William C. Fraser, FCA
Chair of the Board

James Husiak, CA
Chair of the Audit Committee

	Notes	2012	2011
		millions of dollars	
Liabilities and Equity			
Long-Term Debt			
Long-term debt net of sinking fund investments		8 729	8 335
Sinking fund investments shown as assets	8	372	282
	12	9 101	8 617
Current Liabilities			
Accounts payable and accrued liabilities	13	361	336
Accrued interest		104	95
Current portion of long-term debt	12	281	30
		746	461
Other Liabilities			
Asset purchase obligation	14	207	207
Other deferred liabilities	15	542	459
		749	666
Contributions in Aid of Construction		318	295
Equity			
Retained earnings		2 450	2 389
Accumulated other comprehensive income		327	367
		2 777	2 756
Non-controlling interest	22	100	87
		2 877	2 843
		13 791	12 882

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended March 31

	2012	2011
	millions of dollars	
Operating Activities		
Cash receipts from customers	1 998	2 029
Cash paid to suppliers and employees	(1 048)	(1 043)
Interest paid	(418)	(422)
Interest received	35	31
Cash provided by operating activities	567	595
Financing Activities		
Proceeds from long-term debt	698	915
Sinking fund withdrawals	23	646
Retirement of long-term debt	(25)	(723)
Other	29	(164)
Cash provided by financing activities	725	674
Investing Activities		
Property, plant and equipment, net of contributions	(1 124)	(1 166)
Sinking fund payments and deposits	(98)	(119)
Other	(90)	(88)
Cash used for investing activities	(1 312)	(1 373)
Net decrease in cash and cash equivalents	(20)	(104)
Cash and cash equivalents, beginning of year	70	174
Cash and cash equivalents, end of year	50	70

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended March 31

	2012	2011
	millions of dollars	
Net income	61	150
Other comprehensive income		
Unrealized foreign exchange (losses) gains on debt in cash flow hedges	(54)	79
Realized foreign exchange losses on debt in cash flow hedges reclassified to income	-	1
Unrealized fair value gains on available-for-sale U.S. sinking fund investments	14	2
	(40)	82
Comprehensive income	21	232

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME
For the year ended March 31

	2012	2011
	millions of dollars	
Balance, beginning of year	367	285
Other comprehensive (loss) income	(40)	82
Balance, end of year	327	367

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The consolidated financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) as set forth in Part V of the Canadian Institute of Chartered Accountants (CICA) Accounting Handbook, "Pre-Changeover Accounting Standards" and include the significant accounting policies described hereafter.

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 GAAP, the Corporation applies standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of Canadian 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 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 - 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.

- Rate reduction - On January 17, 2012, the PUB issued Board Order 5/12 which directed that the 2.9% electricity rate increase previously approved on an interim basis effective April 1, 2010 be reduced to 1.9% and that the associated revenue be set aside until further direction is provided by the PUB. The cumulative impact for fiscal 2011 and 2012 has been recorded as a regulated liability. The disposition of this regulatory liability will be determined at a future PUB hearing.

- Regulatory costs - Costs associated with regulatory hearings are deferred and amortized on a straight-line basis over periods up to 5 years.

Manitoba Hydro's other significant accounting policies are as follows:

a) **Property, Plant and Equipment**

Property, plant and equipment is stated at cost which includes direct labour, materials, contracted services, a proportionate share of overhead costs and interest applied at the average cost of debt. 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	20 - 125 years
	-Thermal	5 - 65 years
Transmission	-Lines	10 - 85 years
	-Stations	15 - 65 years
Distribution		10 - 75 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. A depreciation study was completed during 2011-12 which included a comprehensive review of the major components within each asset class. Adjustments to the component groupings and to the estimated service lives were implemented in 2011-12.

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, the Enhanced Hydro Benefit Plan (EHBP), 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 foreign currencies are translated into Canadian dollars 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 dollars 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 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 – 10 years
Land easements	75 years

The estimated service lives of intangible assets are based upon depreciation studies conducted periodically by the Corporation. A depreciation study was completed during 2011-12 which resulted in changes to the estimated service lives.

q) **Non-Controlling Interest**

Non-controlling interest represents the outstanding ownership interests attributable to third parties in the Corporation's limited partnerships. The portion of the property, plant and equipment not owned by the Corporation is reflected as non-controlling interest within the equity section of the balance sheet.

r) **Use of Estimates**

The preparation of financial statements in accordance with Canadian 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

Depreciation Rate Estimates

Depreciation is recognized on a straight-line remaining-life basis with estimated service lives of assets being based upon depreciation studies conducted periodically by the Corporation. In accordance with a depreciation study completed in 2011-12, the estimated useful lives of a number of asset components were extended. This change in estimate was applied prospectively effective April 1, 2011 and resulted in a $36 million decrease in depreciation and amortization expense in 2011-12.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

Effective April 1, 2011, the Corporation adopted CICA Handbook 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. Section 1601 establishes the standards for preparing consolidated financial statements and Section 1602 requires non-controlling interests to be presented as part of equity on the consolidated balance sheet. These standards will be applied prospectively to business combinations whose acquisition date is on or after the date of adoption. As a result of adopting Section 1602, the Corporation has reclassified its non-controlling interest to a separate component of equity. The adoption of Sections 1582 and 1601 had no impact on the consolidated financial statements.

Future Accounting Changes

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board (AcSB) announced that publicly accountable enterprises would 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 would 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 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. In March 2012, the AcSB announced an additional optional one-year deferral of IFRS for qualifying entities with rate-regulated activities. Manitoba Hydro meets the AcSB criteria for the deferral and intends to adopt Part I IFRS for its 2013-14 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 2013-14 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.

NOTE 3 EXTRAPROVINCIAL REVENUES

	2012	2011
	millions of dollars	
United States	315	335
Canada	48	63
	363	398

U.S. extraprovincial revenues were translated into Canadian dollars at exchange rates in effect at the date of the transaction. The average effective exchange rate for the year was \$1.00 U.S. = \$0.98 Canadian (2011 - \$1.00 U.S. = \$1.03 Canadian).

NOTE 4 FINANCE EXPENSE

	2012	2011
	millions of dollars	
Interest on debt	603	573
Interest capitalized	(170)	(138)
Amortization of premiums and discounts	-	3
Investment income	(13)	(18)
Realized foreign exchange losses on debt in cash flow hedges	-	1
Realized losses on revaluation of dual currency bonds	3	4
	423	425

Included in interest on debt is $85 million (2011 - $80 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 (2011 - 1.0%).

NOTE 5 WATER RENTALS AND ASSESSMENTS

	2012	2011
	millions of dollars	
Water rentals	111	114
Assessments	8	6
	119	120

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 (2011 - $3.34 per MWh).

NOTE 6 PROPERTY, PLANT AND EQUIPMENT

	2012			2011		
	In service	Accumulated depreciation	Construction in progress	In service	Accumulated depreciation	Construction in progress
	millions of dollars					
Generation						
Hydraulic	5 188	1 658	2 276	4 855	1 601	2 013
Thermal	475	260	11	475	239	7
Transmission lines	855	296	246	793	285	260
Substations	2 668	1 260	489	2 559	1 193	357
Distribution	3 268	1 193	105	3 144	1 156	52
Other	1 177	317	23	1 141	278	50
	13 631	4 984	3 150	12 967	4 752	2 739

NOTE 7 MATERIALS AND SUPPLIES

	2012	2011
	millions of dollars	
Materials and supplies	65	64
Natural gas inventory	41	21
	106	85

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 $98 million (2011 - $119 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.

	2012	2011
	millions of dollars	
Canadian investments	129	55
U.S. investments	217	198
Premium on purchase of sinking fund investments	26	29
	372	282

Canadian investments have a weighted average term to maturity of 1 day (2011 - 1 day) and an effective yield to maturity of 1.0% (2011 - 1.0%). U.S. investments have a weighted average term to maturity of 6.0 years (2011 - 7.0 years) and an effective yield to maturity of 4.8% (2011 - 5.1%). U.S. investments are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date, $1.00 U.S. = $1.00 Canadian (2011 - $1.00 U.S. = $0.97 Canadian). The March 31, 2012 balance includes $28 million (2011 - $14 million) of unrealized fair value gains.

NOTE 9 GOODWILL AND INTANGIBLE ASSETS

	2012			2011		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
			millions of dollars			
Intangible Assets						
Computer software and application development	201	93	108	206	101	105
Land easements	64	12	52	59	12	47
	265	105	160	265	113	152
Goodwill	108	-	108	108	-	108
	373	105	268	373	113	260

The additions to intangible assets for the year totaled $27 million (2011 - $23 million). In total, intangible assets of $20 million (2011 - $17 million) were amortized to operations during the period.

NOTE 10 REGULATED ASSETS

		2012	2011
		millions of dollars	
Power Smart programs	- electric	174	172
	- gas	44	39
Site restoration costs		36	38
Deferred taxes		31	33
Acquisition costs		21	22
Regulatory costs		4	5
		310	309

If the Corporation was 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 2012 would have been reduced by $1 million (2011 - $10 million).

In total, regulated assets of $43 million (2011 - $39 million) were amortized to operations during the period.

NOTE 11 OTHER DEFERRED ASSETS

	2012	2011
	millions of dollars	
Advances to St. Joseph Windfarm Inc. (excluding current portion)	235	199
Accrued benefit asset (Note 18)	127	129
Advances to Taskinigahp Power Corporation (Note 22)	100	84
Contract receivables	74	76
Affordable Energy Fund (Note 21)	20	27
	556	515

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 provided advances of $250 million, which will be repaid with interest over 20 years. In addition, Manitoba Hydro has provided 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

	2012	2011
	millions of dollars	
Advances from the Province of Manitoba		
represented by debenture debt of the Province	9 095	8 467
Manitoba HydroBonds	136	44
Manitoba Hydro-Electric Board Bonds	194	197
	9 425	8 708
Less: Current portion of long-term debt	281	30
	9 144	8 678
Adjustment to carrying value of dual currency bonds	(24)	(28)
Debt discounts and premiums	9	(6)
Transaction costs	(28)	(27)
	9 101	8 617

During the year, the Corporation arranged long-term financing of $698 million (2011 - $915 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 $177 million (2011 - $16 million) of debt maturities and $104 million (2011 - $14 million) of floating-rate Manitoba HydroBonds with maturity dates in 2013 and 2017. 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 $74 million (2011 - $75 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:

					2012	2011
		millions of Canadian dollars				
Years of Maturity	Canadian	Cdn Yields	U.S.	U.S. Yields	Total	Total
2013	281	3.4%			281	177
2014	474	4.1%	338	5.2%	812	803
2015	109	2.0%	100	2.9%	209	100
2016	313	4.7%			313	314
2017	308	3.8%			308	301
	1 485	3.9%	438	4.6%	1 923	1 695
2018-2022	1 472	5.7%	1 449	7.2%	2 921	2 881
2023-2027	450	6.2%	150	2.8%	600	596
2028-2032	1 019	8.8%			1 019	1 019
2033-2037	505	5.0%			505	505
2038-2042	1 950	4.8%			1 950	1 550
2043-2063	507	4.5%			507	432
	7 388	5.5%	2 037	6.6%	9 425	8 678

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 dollars at the exchange rate prevailing at the balance sheet date, $1.00 U.S. = $1.00 Canadian (2011 - $1.00 U.S. = $0.97 Canadian).

NOTE 13 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2012	2011
	millions of dollars	
Accounts payable and accrued liabilities	308	323
Regulated liabilities		
Purchased gas variance accounts	30	13
Rate reduction	23	-
	361	336

The Corporation passes all costs related to the purchase and transportation of natural gas on to 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 $17 million (2011 - increased by $10 million).

Similarly, if the Corporation was not subject to rate regulation, the rate reduction would not have reduced income in the current year, and net income would have increased by $23 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.

NOTE 15 OTHER DEFERRED LIABILITIES

	2012	2011
	millions of dollars	
Mitigation liability (Note 20)	251	185
Accrued benefit liability (Note 18)	156	154
Refundable advances from customers	87	72
Affordable Energy Fund (Note 21)	20	27
Transmission development fund	16	-
Asset retirement obligations	9	15
Other	3	6
	542	459

In 2011-12, the Corporation recorded a liability for the transmission development fund for both the Wuskwatim transmission line and the Herblet Lake transmission line as outlined in the Wuskwatim Project Development Agreement. These funds will be used for community development purposes by eligible First Nations and small or remote northern communities in the vicinity of the transmission lines.

In 2011-12, the Corporation reduced its obligation associated with the estimated removal and disposal costs of polychlorinated biphenyl (PCB) impregnated cable at the Brandon thermal generation station. The change in estimate was applied prospectively and resulted in a reduction of $6 million to the asset retirement obligation and a corresponding reduction of $6 million to depreciation expense.

Asset retirement obligations continue to be recognized for the future decommissioning of the Brandon thermal generating station and for the partial decommissioning of the Pointe du Bois generating station spillway. The Corporation estimates the undiscounted cash flows required to settle the asset retirement obligations are approximately $18 million (2011 - $31 million), $14 million (2011 - $27 million) of which is expected to be incurred in 2024 to decommission the Brandon thermal generating station and $4 million (2011 - $4 million) is expected to be incurred by March 2016 for the partial decommissioning of the Pointe du Bois generating station spillway. 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:

	2012		2011	
Financial Instruments	Carrying Value	Fair Value	Carrying Value	Fair Value
		millions of dollars		
Held-for-Trading				
Cash and cash equivalents	50	50	70	70
Loans and Receivables				
Accounts receivable and accrued revenue	328	328	403	403
Interest receivable	4	4	4	4
Available-for-Sale				
Sinking fund investments	372	372	282	282
Other Financial Liabilities				
Long-term debt (including current portion)	9 382	11 712	8 647	10 045
Accounts payable and accrued liabilities	361	361	336	336
Accrued interest	104	104	95	95
Asset purchase obligation	207	340	207	280

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 their fair values.

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 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 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 credit 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 further mitigate credit risk. The maximum exposure to credit risk related to domestic and export energy sales is its fair 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:

			2012	2011
	Domestic	Extraprovincial	Total	Total
		millions of dollars		
Under 30 days	232	21	253	316
31 to 60 days	14	-	14	17
61 to 90 days	8	-	8	8
Over 90 days	28	-	28	28
	282	21	303	369
Provision at end of period	(8)	-	(8)	(8)
Total accounts receivable	274	21	295	361

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. The Corporation meets its financial obligations when due through cash generated from operations, short-term borrowings, long-term borrowings advanced from the Province of Manitoba and sinking fund withdrawals.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative liabilities as at the balance sheet date:

	Carrying Value	2013	2014	2015	2016	2017	2018 and thereafter
				millions of dollars			
Non-derivative financial liabilities							
Accounts payable and accrued liabilities	361	361	-	-	-	-	-
Asset purchase obligation	207	16	16	16	16	16	16*
Long-term debt**	9 486	896	1 410	792	898	863	13 914
		1 273	1 426	808	914	879	13 930
Derivative financial liabilities							
Commodity derivatives							
Fixed price swap contracts	1	1	-	-	-	-	-
		1	-	-	-	-	-
		1 274	1 426	808	914	879	13 930

*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. and through borrowing in U.S. markets. 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, 2012, unrealized foreign exchange translation losses of $54 million (2011 - $79 million gains) were recognized in other comprehensive income and nominal net losses (2011 - $1 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 at March 31, 2012, 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 (2011 - $0.2 million), while other comprehensive income would increase (decrease) by $182 million (2011 - $174 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, floating rate long-term debt, and fixed rate long-term debt maturing within 12 months, less sinking fund withdrawals, offset by the change in interest capitalization. As at March 31, 2012, an increase or decrease of 1% in the interest rate would reduce or increase net income, respectively, by $10 million (2011 - $9 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 electricity price risk that results from volatility of market prices and natural gas price risk through its purchase of gas for delivery to customers throughout Manitoba. The Corporation mitigates commodity price risk through its limited use of derivative financial instruments restricted to contracts for differences and natural gas price swaps. Manitoba Hydro does not use derivative contracts for trading or speculative purposes.

A contract for differences was entered into until December 2012 to fix the price of electricity exports for 85 600 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 Corporation has entered into natural gas price swaps until July 2016 to purchase 413 980 gigajoules of natural gas at a weighted average fixed price of $5.12/GJ. The weighted average forward price of the swaps per AECO at March 31, 2012 was $2.95/GJ. 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:

	2012	2011
	millions of dollars	
Cashless collar contracts	-	(1)
Fixed price swap contracts	(1)	-
Contracts for differences	1	1

Fair values of price swaps are calculated using the monthly forward AECO price as reported by the Natural Gas Exchange as at March 31, 2012.

Fair values of contracts for differences are calculated using the monthly forward electricity prices at pricing points specified in the contracts.

NOTE 17 CAPITAL MANAGEMENT

Manitoba Hydro manages its capital structure to ensure that there is sufficient equity to absorb the financial effects of adverse circumstances and to ensure continued access to stable low-cost funding for capital projects and 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:

	2012	2011
	dollars are in millions	
Long-term debt, net of sinking fund investments	8 729	8 335
Current portion, long-term debt	281	30
Less: Cash and cash equivalents	(50)	(70)
Net debt	8 960	8 295
Retained earnings	2 450	2 389
Accumulated other comprehensive income	327	367
Contributions in aid of construction	318	295
Non-controlling interest	100	87
Total equity	3 195	3 138
Equity ratio	26%	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 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. Effective January 1, 2012, the EHBP was implemented. The EHBP is available to all current employees participating in the CSSB plan and provides enhanced pension benefits by improving the pension formula used to calculate pension for active service accrued after June 1, 2006. In 2011, the EHBP was included as an accrued benefit liability in other employee future benefits. In 2012, the EHBP was implemented in accordance with provincial legislation and assets were transferred to the CSSB to fund the obligation. 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 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 funds (MH Pension Fund and EHBP) 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 pertaining to the MH Pension Fund, the EHBP and the Centra Gas curtailed pension plans:

	MH Pension Fund		Enhanced Hydro Benefit Plan		Centra Gas curtailed pension plans		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
				millions of dollars				
Plan Assets at Fair Value								
Balance at beginning of year	763	694	-	-	84	73	847	767
Actual return on plan assets	14	81	-	-	2	10	16	91
Employer contributions	23	24	11	-	2	6	36	30
Benefit payments and refunds	(42)	(36)	-	-	(4)	(5)	(46)	(41)
	758	763	11	-	84	84	853	847
Accrued Benefit Obligation								
Balance at beginning of year	837	774	-	-	86	82	923	856
Transfer in-other benefits	-	-	9	-	-	-	9	-
Interest on obligation	54	50	-	-	6	5	60	55
Current service cost	27	25	2	-	-	-	29	25
Benefit payments and refunds	(43)	(36)	-	-	(4)	(4)	(47)	(40)
Actuarial losses	137	24	-	-	10	3	147	27
	1 012	837	11	-	98	86	1 121	923
Deficit at end of year	(254)	(74)	-	-	(14)	(2)	(268)	(76)
Unamortized past service costs	-	-	-	-	2	2	2	2
Unamortized transitional balance	(2)	(3)	-	-	-	(1)	(2)	(4)
Unamortized net actuarial loss	353	177	-	-	42	30	395	207
Accrued benefit asset	97	100	-	-	30	29	127	129

Pension assets are valued at market rates and are invested as follows:

	MH Pension Fund Fair Value		Centra Gas curtailed pension plans Fair Value	
	2012	2011	2012	2011
	millions of dollars			
Equities	495	508	57	56
Bonds and debentures	181	178	22	21
Real estate	79	71	4	4
Short-term investments	3	6	1	3
	758	763	84	84

Manitoba Hydro has $11 million on deposit with the CSSB for the EHBP. The investment income earned on the EHBP funds is based on the market value rate of return that is earned by the Civil Service Superannuation Fund. Manitoba Hydro does not have a separate portfolio of assets.

The return on pension fund assets for the MH Pension Fund was 2.1% (2011 - 12.1%). The return for the Centra Gas curtailed plan fund assets was 2.0% (2011 - 12.1%). The weighted average term to maturity on fixed income investments is 9.5 years (2011 - 9.1 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, 2011. 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, including the EHBP will occur in December 2012. 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, 2011.

The significant actuarial assumptions adopted in measuring the Corporation's pension and other employee benefit obligations are as follows:

	2012	2011
Discount rate - pensions	5.25%	6.50%
Discount rate - other benefits	5.50%	6.50%
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	2.0%	2.5%

The Corporation's pension expense related to each of the pension benefit plans is as follows:

	CSSB Plan		Enhanced Hydro Benefit Plan		Centra Gas curtailed pension plans	
	2012	2011	2012	2011	2012	2011
			millions of dollars			
Current service cost	27	25	2	-	-	-
Administrative fees	2	2	-	-	-	-
Canada Pension Plan	14	14	-	-	-	-
Interest on obligation	54	50	-	-	6	5
Expected return on plan assets	(58)	(56)	-	-	(6)	(6)
Amortization of net experience loss	3	1	-	-	1	1
Amortization of transitional gain	(1)	(1)	-	-	-	-
	41	35	2	-	1	-

Pension expense for the former Winnipeg Hydro employees is equal to employer contributions to the WCEBP in addition to employer remittances to the Canada Pension Plan. Total contributions to the WCEBP during the year amounted to $1.0 million (2011 - $0.9 million) and reflect an employer contribution rate approximating 3.9% of pensionable earnings to January 18, 2012 and 3.8% of pensionable earnings thereafter.

Manitoba Hydro also provides some non-pension employee future benefits including banked incidental and vacation days, long-term disability, retiree health spending, sick leave vesting and severance.

The following table presents information concerning other employee future benefits:

	Other Benefits	
	2012	2011
	millions of dollars	
Accrued Benefit Liability		
Balance at beginning of year	166	157
Interest on obligation	7	3
Current service cost	21	23
Benefit payments	(18)	(14)
Transfers to EHBP	(9)	-
Actuarial loss (gain)	6	(3)
	173	166
Unamortized past service costs	(8)	(10)
Unamortized transitional obligation	(3)	(4)
Unamortized net actuarial (loss) gain	(6)	2
Accrued benefit liability	156	154

NOTE 19 COMMITMENTS AND CONTINGENCIES

Manitoba Hydro has energy purchase commitments of $1 651 million (2011 - $1 562 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 2039, and natural gas purchases, which expire in 2013. In addition, other outstanding commitments principally for construction, are approximately $771 million (2011 - $673 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, 2012 totaled $305 million (2011 - $305 million) and do not have specific maturity dates. Letters of credit in the amount of $10 million (2011 - $4 million) have been issued for energy related transactions with maturities until 2013.

NOTE 20 MITIGATION

Manitoba Hydro's mitigation program addresses past, present and ongoing adverse effects of hydroelectric development. The mitigation program, established in the late 1970s to address project impacts through alleviation of adverse effects, remedial works, offsetting programs and residual monetary compensation, grew out of the experience of planning and development of the Lake Winnipeg Regulation and Churchill River Diversion projects. The Northern Flood Agreement, signed December 16, 1977, created a process that addressed ongoing mitigation and compensation for adverse effects of hydroelectric development in five signatory First Nation communities (Nelson House, Split Lake, York Landing, Norway House and Cross Lake). The mitigation program continues to address impacts arising from past hydro-electric developments, particularly for Aboriginal people residing or engaged in resource harvesting in the project area, and it is essential for operating and future development purposes.

Expenditures recorded or settlements reached to mitigate the impacts of all projects amounted to $123 million during the year (2011 - $92 million). In recognition of future anticipated mitigation payments, the Corporation has recorded a liability of $251 million (2011 - $185 million). To March 31, 2012, $948 million (2011 - $825 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, 2012 amounted to $11 million (2011 - $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 $7 million (2011 - $4 million) during the year were charged to operations with the asset and liability accounts reduced accordingly. As at March 31, 2012, the balance remaining in the Fund amounted to $20 million (2011 - $27 million).

NOTE 22 NON-CONTROLLING INTEREST

Manitoba Hydro has entered into a partnership agreement with Taskinigahp Power Corporation (TPC) to carry on the business of developing, owning and operating the Wuskwatim Generating Station. TPC is owned beneficially by Nisichawayasihk Cree Nation (NCN). The generating station is currently under construction and projected to be placed in service in the summer of 2012.

The ownership interest of TPC in the Wuskwatim Power Limited Partnership of $100 million (2011 - $87 million) is represented as a non-controlling interest in the financial statements.

In accordance with the partnership agreements, Manitoba Hydro provides debt financing to TPC. As at March 31, 2012, Manitoba Hydro has provided advances to TPC of $91 million (2011 - $78 million). The advances are repayable by TPC, with interest, subsequent to the in-service date of the Wuskwatim Generating Station.

NOTE 23 SEGMENTED INFORMATION

The Corporation operates primarily in two business segments: electricity and gas. Each segment has its own particular economic characteristics and differs in nature, production processes and technology. The electricity segment encompasses the generation, transmission and distribution of electricity. The gas segment represents natural gas supply and distribution activities through the operations of Centra Gas. The corporate segment represents the costs to acquire Centra Gas and to integrate its operations into those of Manitoba Hydro. These costs are allocated to gas and electricity segments in accordance with the synergies and benefits derived by each of these segments as a result of the acquisition.

The following table contains information related to the operating results, assets, liabilities, contributions in aid of construction and retained earnings by segment:

	Electricity		Gas		Corporate		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
				millions of dollars				
Revenues (1)	1 573	1 616	132	143	-	-	1 705	1 759
Expenses								
Operating and administrative	410	402	62	61	-	-	472	463
Finance expense	385	388	19	18	19	19	423	425
Depreciation and amortization	353	366	26	25	2	2	381	393
Water rentals and assessments	119	120	-	-	-	-	119	120
Fuel and power purchased	146	106	-	-	-	-	146	106
Capital and other taxes	84	82	19	20	-	-	103	102
Corporate allocation	9	9	12	12	(21)	(21)	-	-
	1 506	1 473	138	136	-	-	1 644	1 609
Net income (loss)	67	143	(6)	7	-	-	61	150
Total assets	13 203	12 288	588	594	-	-	13 791	12 882
Total liabilities	10 196	9 345	400	399	-	-	10 596	9 744
Contributions in aid of construction	285	262	33	33	-	-	318	295
Retained earnings	2 416	2 349	34	40	-	-	2 450	2 389

(1) Revenues are stated net of cost of gas sold of $197 million (2011 - $261 million) and Manitoba Hydro International project costs of $19 million (2011 - $23 million).

NOTE 24 COMPARATIVE FIGURES

Where appropriate, comparative figures for 2011 have been reclassified in order to conform to the presentation adopted in 2012.

CONSOLIDATED FINANCIAL STATEMENTS

Manitoba Lotteries Corporation
March 31, 2012 and 2011

Page 2453

STRENGTH

MANAGEMENT REPORT

The accompanying consolidated financial statements are the responsibility of management and have been prepared in accordance with the accounting policies stated in the consolidated financial statements. Management has prepared the consolidated financial statements in accordance with International Financial Reporting Standards. 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 unless otherwise stated.

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 International Financial Reporting Standards.

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 International Financial Reporting Standards. The Independent 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, 2012.

Winston Hodgins
PRESIDENT & CEO

Tracy Graham
EXECUTIVE VICE PRESIDENT, FINANCE & CFO

INDEPENDENT AUDITORS' REPORT

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 statements of financial position as at March 31, 2012 and 2011 and April 1, 2010 and the consolidated statements of net income, comprehensive income and equity and cash flows for the years ended March 31, 2012 and 2011, 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 International Financial Reporting Standards, 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 audits. We conducted our audits 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 audits 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, 2012 and 2011 and April 1, 2010 and the results of its operations and its cash flows for the years ended March 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Ernst & Young LLP

CHARTERED ACCOUNTANTS
WINNIPEG, CANADA,
JULY 6, 2012.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(IN THOUSANDS OF CANADIAN DOLLARS)

	Notes	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
ASSETS				
Current Assets				
Cash		**$ 30,850**	$ 32,012	$ 27,491
Trade and other receivables	5	**15,929**	12,037	9,600
Inventories	6	**1,310**	1,601	1,457
Prepayments	7	**3,042**	2,182	2,107
		51,131	47,832	40,655
Non-Current Assets				
Property and equipment, net	8	**184,209**	175,910	172,132
Intangible assets, net	9	**4,122**	4,977	5,568
		188,331	180,887	177,700
TOTAL ASSETS		**$ 239,462**	$ 228,719	$ 218,355
LIABILITIES AND EQUITY				
Current Liabilities				
Trade and other payables	10	**$ 36,712**	$ 46,435	$ 35,674
Payable to the Province of Manitoba		**19,273**	19,401	1,673
Current portion of long-term debt	11	**13,614**	17,221	17,562
		69,599	83,057	54,909
Non-Current Liabilities				
Long-term debt	11	**163,583**	135,300	142,621
Provision for employee pension benefits	12	**1,280**	784	825
		164,863	136,084	143,446
Commitments and contingencies	16			
Equity				
Contributed surplus		–	4,578	15,000
Retained earnings		**5,000**	5,000	5,000
		5,000	9,578	20,000
TOTAL LIABILITIES AND EQUITY		**$ 239,462**	$ 228,719	$ 218,355

(see accompanying notes to the consolidated financial statements)

On behalf of the Board,

Tannis Mindell
DIRECTOR & CHAIR OF THE BOARD OF DIRECTORS

Gerald Rosenby
DIRECTOR & CHAIR OF THE AUDIT & RISK MANAGEMENT COMMITTEE

Manitoba Lotteries Corporation

CONSOLIDATED STATEMENTS OF NET INCOME, COMPREHENSIVE INCOME AND EQUITY

FOR THE YEARS ENDED MARCH 31
(IN THOUSANDS OF CANADIAN DOLLARS)

	Notes	2012	2011
Revenue		**$ 569,027**	$ 562,407
Direct Expenses			
VLT commissions		**33,707**	33,766
Gaming direct expenses	13	**5,459**	5,851
Non-gaming cost of sales	13	**8,184**	8,267
		521,677	514,523
Operating expenses	13	**124,013**	135,951
Depreciation and amortization		**30,743**	36,282
Goods and Services Tax		**3,807**	4,749
		158,563	176,982
Operating Income		**363,114**	337,541
Share of profit of Western Canada Lottery Corporation	14	**67,675**	77,022
Interest expense on long-term debt		**(6,813)**	(8,435)
Interest income		**306**	501
Income Before Allocations and Payments		**424,282**	406,629
Allocations and Payments			
Gaming Commission fees and Crown levy		**3,142**	3,116
First Nations allocation		**43,775**	43,661
Manitoba Jockey Club Inc. contribution		**5,991**	5,457
Tourism contribution		**25,377**	25,141
Responsible gaming funding		**3,763**	3,634
Casino bingo volunteer program		**3,939**	3,941
	15	**85,987**	84,950
NET INCOME AND COMPREHENSIVE INCOME		**338,295**	321,679
EQUITY, BEGINNING OF THE YEAR		**9,578**	20,000
Allocation to the Province of Manitoba		**(338,295)**	(321,679)
Allocation to the Province of Manitoba – contributed surplus		**(4,578)**	(10,422)
Total Allocation to the Province of Manitoba		**(342,873)**	(332,101)
EQUITY, END OF THE YEAR		**$ 5,000**	$ 9,578

(see accompanying notes to the consolidated financial statements)

Manitoba Lotteries Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31
(IN THOUSANDS OF CANADIAN DOLLARS)

	2012	2011
Operating activities		
Net income and comprehensive income	**$ 338,295**	$ 321,679
Add (deduct) items not involving cash:		
Depreciation related to property and equipment	**29,517**	34,891
Depreciation on assets related to First Nations Casinos	**2,682**	2,673
Amortization related to intangible assets	**1,226**	1,391
Gain on disposal of property and equipment	**(745)**	(423)
Provision for employee pension benefits	**496**	(41)
	371,471	360,170
Net change in non-cash working capital items:		
Decrease (increase) in trade and other receivables	**(3,892)**	(2,437)
Decrease (increase) in inventories	**291**	(144)
Decrease (increase) in prepayments	**(860)**	(75)
Increase (decrease) in trade and other payables	**(9,723)**	10,761
Cash provided by operating activities	**357,287**	368,275
Investing activities		
Purchase of property and equipment	**(40,635)**	(41,342)
Purchase of intangible assets	**(371)**	(800)
Proceeds from disposal of property and equipment	**882**	423
Cash used in investing activities	**(40,124)**	(41,719)
Financing activities		
Cash distributions to the Province of Manitoba:		
Current year	**(338,600)**	(312,700)
Prior year	**(4,401)**	(1,673)
Proceeds from long-term debt	**41,950**	11,000
Repayment of long-term debt	**(17,274)**	(18,662)
Cash used in financing activities	**(318,325)**	(322,035)
Net increase (decrease) in cash during the year	**(1,162)**	4,521
Cash, beginning of the year	**32,012**	27,491
Cash, end of the year	**$ 30,850**	$ 32,012
Supplemental cash flow information		
Interest paid	**$ 7,108**	$ 9,231

(see accompanying notes to the consolidated financial statements)

Page 2455

Manitoba Lotteries Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2012
(in thousands of Canadian dollars)

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. The registered office of the Corporation is located at 830 Empress Street, Winnipeg, Manitoba.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Adoption of IFRS and basis of presentation

The consolidated financial statements of the Corporation for the year ended March 31, 2012 were authorized for issue by the Board of Directors on July 6, 2012.

These consolidated financial statements were prepared on a going concern basis, using historical cost except for certain financial instruments which are reported at fair value. The consolidated financial statements are presented in Canadian dollars, the functional currency of the Corporation, and all values are rounded to the nearest thousand dollars ($000) except where otherwise indicated.

(b) Statement of compliance

The consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (IFRS) and related interpretations as issued by the International Accounting Standards Board (IASB). As these consolidated financial statements represent the Corporation's initial presentation of its results and financial position under IFRS, they were prepared in accordance with IFRS 1 – *First-time Adoption of International Financial Reporting Standards.*

The Corporation's consolidated financial statements were previously prepared based on Canadian Generally Accepted Accounting Principles (Canadian GAAP). Canadian GAAP differs in some areas from IFRS; therefore, in preparing these consolidated financial statements, management has amended certain accounting and valuation methods previously applied to comply with IFRS. The comparative figures for the year ended March 31, 2011 were restated to reflect these adjustments. Any information considered material to the understanding of the Corporation's transition to IFRS, along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on the consolidated statement of financial position and the consolidated statement of net income, comprehensive income and equity, are included in note 19.

(c) Basis of consolidation

These consolidated financial statements 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.

MLC Holdings Inc. has been fully consolidated since the date of inception and will continue to be consolidated until the date when control ceases. The financial statements of MLC Holdings Inc. are prepared for the same reporting period as Manitoba Lotteries using consistent accounting policies. All intercompany transactions and accounts have been eliminated on consolidation.

(d) 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 WCLC, 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 Corporation has significant influence, but not control, over the financial and operating policies of the WCLC and therefore accounts for its share of the results of the operations of the WCLC (considered an associate) using the equity method. The financial statements of the WCLC are prepared for the same reporting period and the Corporation's share of the profits calculated based on relative sales levels by jurisdiction is disclosed in note 14.

(e) 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.

(f) Foreign currency translation

Functional currency is the currency of the primary economic environment in which the Corporation operates and is normally the currency in which the Corporation generates and expends cash. Each entity determines its own functional currency and items included in the financial statements are measured using that functional currency. The Corporation's functional currency and presentation currency is Canadian dollars (CAD).

Foreign currency transactions are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate at the reporting date and all differences are recorded in the consolidated statement of net income, comprehensive income and equity. Non-monetary assets and liabilities and revenue and expenses that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transactions.

(g) Financial instruments

Upon initial recognition the Corporation designates its financial assets as fair value through profit and loss or loans and receivables and its financial liabilities as other financial liabilities. All financial instruments are initially measured at fair value plus directly attributable transaction costs.

The Corporation's financial assets include cash and trade and other receivables. The Corporation's financial liabilities include trade and other payables, payable to the Province of Manitoba and long-term debt.

(i) Fair value through profit and loss

Cash is classified as fair value through profit and loss and is measured at fair value. Any gains or losses arising on the revaluation to fair value are recorded in the consolidated statement of net income, comprehensive income and equity.

(ii) Loans and receivables

Trade and other receivables are classified as loans and receivables which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, these financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Any gains or losses and any losses arising from impairment are recognized in the consolidated statement of net income, comprehensive income and equity.

(iii) Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Any gains or losses are recognized in the consolidated statement of net income, comprehensive income and equity.

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or the Corporation has transferred its rights to receive cash flows from the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing financial liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. Any difference in the respective carrying amounts of the financial liability is recognized in the consolidated statement of net income, comprehensive income and equity.

(h) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and any accumulated impairment losses. Cost includes expenditures directly attributable to the acquisition of the assets. Subsequent costs are included in an asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be reliably measured. If the costs of a certain component of property and equipment are significant in relation to the total cost of the asset, these are accounted for and depreciated separately. All other repairs and maintenance costs are charged to the consolidated statement of net income, comprehensive income and equity as incurred.

MANITOBA LOTTERIES CORPORATION – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED MARCH 31, 2012
(IN THOUSANDS OF CANADIAN DOLLARS)

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs associated with the borrowing of funds. The Corporation capitalized borrowing costs for all qualifying assets where construction commenced on or after the IFRS opening consolidated statement of financial position of April 1, 2010.

Depreciation is charged to the consolidated statement of net income, comprehensive income and equity based on cost, less estimated residual value, on a straight-line basis over the estimated useful life of the asset as follows:

Furniture and equipment	3-5 years
Gaming equipment	5-8 years
Assets related to First Nations Casinos	5-7 years
Parking lots and roads	15 years
Major building components	10-50 years
Building structures	50 years

The assets' residual values, useful lives and methods of depreciation are reviewed at each fiscal year-end and are adjusted prospectively, if appropriate.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the consolidated statement of net income, comprehensive income and equity when the asset is derecognized.

(i) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date based on whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases which transfer to the Corporation substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the consolidated statement of net income, comprehensive income and equity.

Subsequent to initial recognition, the leased asset is accounted for in accordance with the accounting policy applicable to that asset. Leased assets are depreciated over the shorter of the estimated useful life and the lease term.

Other leases are classified as operating leases and the leased assets are not recognized on the Corporation's consolidated statement of financial position. Operating lease payments are recognized as an expense in the consolidated statement of net income, comprehensive income and equity on a straight-line basis over the term of the lease.

(j) Intangible assets

Acquired intangible assets of the Corporation consist of finite life computer software. Intangible assets acquired separately are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization is charged to the consolidated statement of net income, comprehensive income and equity on a straight-line basis over the estimated useful life of the asset as follows:

Computer software	5-10 years

The assets' useful lives and methods of amortization are reviewed at each fiscal year-end and adjusted prospectively, if appropriate.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of net income, comprehensive income and equity when the asset is derecognized.

(k) Cash

For the purpose of the consolidated statement of cash flows, cash consists of cash on hand and bank balances. Cash at banks earn interest at floating rates based on daily bank deposit rates.

(l) Inventories

Inventories consist of bingo paper, breakopen tickets, and consumables. Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and condition are accounted for as the purchase cost assigned on a weighted average basis.

(m) Impairment

(i) Financial assets

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have occurred after initial recognition that have had a negative effect on the estimated future cash flows of that asset. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

If there is objective evidence that an impairment loss has occurred, the amount of the loss measured at amortized cost is calculated as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows discounted at the current effective interest rate.

MANITOBA LOTTERIES CORPORATION – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED MARCH 31, 2012
(IN THOUSANDS OF CANADIAN DOLLARS)

(ii) Non-financial assets

The Corporation assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, the Corporation estimates the asset's recoverable amount. For the purposes of impairment testing, non-financial assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, the cash-generating unit (CGU).

The recoverable amount of a non-financial asset or CGU is the greater of its fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses, if applicable, are recognized in the consolidated statement of net income, comprehensive income and equity.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Impairment loss reversals are recognized in the consolidated statement of net income, comprehensive income and equity in a manner consistent with the originally recognized impairment loss.

(n) Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. The expense relating to any provision is presented in the consolidated statement of net income, comprehensive income and equity net of any reimbursement and, if the effect of the time value of money is material, is discounted using a rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase to the provision due to the passage of time is recognized as a finance cost.

(o) 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 multi-employer 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. Based on limited information available from the Fund, the Corporation has judged this information to be insufficient to properly allocate any potential pension plan deficits and is therefore not able to reliably determine its participation in any potential future deficit. As a result, the Corporation expenses contributions made to the pension plan as if the plan was a defined contribution plan.

For employees whose annual earnings exceed the limit under the Fund, a pension liability is established. This liability is determined actuarially on an annual basis.

Actuarial gains and losses are recognized in the statement of net income, comprehensive income and equity immediately.

The Corporation also makes contributions for employees and officers to a money purchase pension plan at prescribed rates, which are recorded as an operating expense.

(p) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and sales taxes. The Corporation assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Corporation has concluded that it is acting as principal in all of its revenue arrangements.

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 online accounting system for sale to customers. Video lottery and other gaming revenue is recorded at the time of play, net of prizes paid. Administration fees related to First Nations are recorded at the time services are rendered.

(q) Promotional allowances

Promotional allowances include the value of food, beverages and other items provided on a complimentary basis to patrons. The value of these complimentary items is included in gross revenue and then deducted as a promotional allowance to arrive at net revenue.

The Corporation also operates a loyalty points 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. Where a revenue transaction includes points awarded under the program, the revenue allocated to the points is deferred based on the fair value of the awards, which is assigned as 0.01 per point earned, and recognized as revenue when the points are redeemed and the Corporation fulfills its obligation to supply the awards.

(r) 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 in the consolidated statement of net income, comprehensive income and equity.

An input tax credit is claimed for GST paid on non-gaming expenditures.

MANITOBA LOTTERIES CORPORATION – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED MARCH 31, 2012
(IN THOUSANDS OF CANADIAN DOLLARS)

(s) Changes in accounting policies

During the year, the Corporation chose to adopt the following standards:

(i) IAS 24 – *Related Party Disclosures* has been revised to clarify and simplify the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The revised standard is mandatory for annual periods beginning on or after January 1, 2011, with earlier adoption permitted. The adoption of this standard by the Corporation is included in note 18 of these consolidated financial statements.

(ii) The IASB issued IFRS 10 – *Consolidated Financial Statements*, which defines the principal of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements; IFRS 11 – *Joint Arrangements*, which requires a party to a joint arrangement to determine the type of the joint arrangement by assessing its rights and obligations arising from the arrangement and IFRS 12 – *Disclosures of Interests in Other Entities*, which sets out disclosure requirements of an entity's interests in other entities. In addition, IAS 27 – *Separate Financial Statements* and IAS 28 – *Investments in Associates and Joint Ventures* have been amended to reflect the issuance of these new standards. The new standards are mandatory for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The adoption of these standards by the Corporation is reflected in the consolidated statement of net income, comprehensive income and equity and note 14 of these consolidated financial statements.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts recognized in the consolidated financial statements of the Corporation are discussed below.

(a) Determination of useful lives for tangible and intangible assets

The Corporation has based the determination of the useful lives for their tangible and intangible assets on a detailed review of all empirical data for the different asset classes. The Corporation annually reviews the validity of the useful lives applied to the different asset classes based on current circumstances and considers the impact of any external or internal changes in the Corporation's environment which may indicate the requirement to reconsider these useful lives.

(b) 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 future redemption liability of $3,233 (2011 – $2,817) is included in trade and other payables 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 will be recorded in the consolidated statement of net income, comprehensive income and equity.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following standards which are reasonably expected to be applicable to the Corporation have been issued but were not yet effective at the date of issuance of the Corporation's consolidated financial statements.

(i) IAS 1 – *Presentation of Financial Statements* was amended in June 2011 to improve the consistency and clarity of the presentation of items of other comprehensive income by requiring items to be grouped on the basis of whether or not they may be subsequently reclassified to profit or loss. The amendments are effective for annual periods beginning on or after July 1, 2012 and their adoption is not expected to have an impact on the Corporation's consolidated financial statements.

(ii) IFRS 9 – *Financial Instruments* applies to the classification and measurement of financial instruments as defined in IAS 39 – *Financial Instruments: Recognition and Measurement.* The standard is effective for annual periods beginning on or after January 1, 2013 and the Corporation is currently evaluating the impact adoption will have on the classification and measurement of its financial instruments.

(iii) IFRS 13 – *Fair Value Measurement* provides guidance on the measurement of the fair value of financial or non-financial assets and liabilities when required or permitted by IFRS. While the underlying concepts in IFRS 13 are consistent with current practice, the application of certain principles and the disclosure requirements could have a significant impact on an entity's financial statements. The standard is effective for annual periods beginning on or after January 1, 2013 and the Corporation is currently evaluating the impact of adoption of the new standard.

Page 2460

MANITOBA LOTTERIES CORPORATION – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED MARCH 31, 2012
(IN THOUSANDS OF CANADIAN DOLLARS)

5. TRADE AND OTHER RECEIVABLES

	2012	2011	April 1, 2010
Western Canada Lottery Corporation	**$ 7,259**	$ 7,517	$ 5,140
Trade	**8,162**	3,791	3,048
First Nations	**292**	467	906
Goods and Services Tax	**3**	23	250
Employee computer program	**213**	239	256
	$ 15,929	$ 12,037	$ 9,600

The Corporation's exposure to credit risks related to trade and other receivables is disclosed in note 17.

6. INVENTORIES

	2012	2011	April 1, 2010
Bingo paper	**$ 359**	$ 417	$ 462
Breakopen tickets	**372**	511	345
Consumable supplies	**227**	202	291
Restaurant	**157**	169	148
Store merchandise	**195**	302	211
	$ 1,310	$ 1,601	$ 1,457

7. PREPAYMENTS

	2012	2011	April 1, 2010
Maintenance contracts	**$ 1,996**	$ 1,101	$ 1,105
Insurance	**465**	455	461
Entertainer and sponsorship deposits	**124**	157	109
Rent	**127**	131	85
Other	**330**	338	347
	$ 3,042	$ 2,182	$ 2,107

8. PROPERTY AND EQUIPMENT

	Land	Buildings and parking lots	Gaming equipment	Furniture and equipment	Assets related to First Nations Casinos	Work in progress (WIP)	Total
COST							
April 1, 2010	$ 5,798	$ 167,958	$ 158,922	$ 83,191	$ 19,028	$ 10,500	$ 445,397
Additions	11,337	4,946	7,837	5,119	289	11,814	41,342
Transfers from WIP	–	3,823	228	6,022	–	(10,073)	–
Disposals	–	–	(2,306)	(565)	–	–	(2,871)
March 31, 2011	17,135	176,727	164,681	93,767	19,317	12,241	483,868
Additions	6,883	1,003	6,930	3,388	266	22,165	40,635
Transfers from WIP	–	2,068	578	4,736	116	(7,498)	–
Disposals	–	(171)	(4,873)	(236)	(2,731)	–	(8,011)
March 31, 2012	**$ 24,018**	**$ 179,627**	**$ 167,316**	**$ 101,655**	**$ 16,968**	**$ 26,908**	**$ 516,492**
DEPRECIATION							
April 1, 2010	$ –	$ 83,217	$ 109,284	$ 69,184	$ 11,580	$ –	$ 273,265
Depreciation	–	6,608	20,622	7,661	2,673	–	37,564
Disposals	–	–	(2,306)	(565)	–	–	(2,871)
March 31, 2011	–	89,825	127,600	76,280	14,253	–	307,958
Depreciation	–	9,375	12,483	7,659	2,682	–	32,199
Disposals	–	(71)	(4,843)	(229)	(2,731)	–	(7,874)
March 31, 2012	**$ –**	**$ 99,129**	**$ 135,240**	**$ 83,710**	**$ 14,204**	**$ –**	**$ 332,283**
NET BOOK VALUE							
March 31, 2012	**$ 24,018**	**$ 80,498**	**$ 32,076**	**$ 17,945**	**$ 2,764**	**$ 26,908**	**$ 184,209**
March 31, 2011	17,135	86,902	37,081	17,487	5,064	12,241	175,910
April 1, 2010	5,798	84,741	49,638	14,007	7,448	10,500	172,132

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 depreciation is recorded for these assets.

The amount of borrowing costs capitalized during the 2012 fiscal year was $286 (2011 – nil). The rate used to determine the amount of borrowing costs eligible for capitalization was 2.250%, the effective interest rate of the specific borrowing.

The net book value of buildings and parking lots held under finance leases at the end of the 2012 fiscal year is $4,469 (2011 – $4,748) and consists of land being used for parking facilities at the McPhillips Station Casino and the Video Lotto office building located in Morris, Manitoba.

MANITOBA LOTTERIES CORPORATION – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED MARCH 31, 2012
(IN THOUSANDS OF CANADIAN DOLLARS)

9. INTANGIBLE ASSETS

	Computer Software – Acquired
COST	
April 1, 2010	$ 12,435
Additions	800
March 31, 2011	13,235
Additions	371
March 31, 2012	**$ 13,606**
AMORTIZATION	
April 1, 2010	$ 6,867
Amortization	1,391
March 31, 2011	8,258
Amortization	1,226
March 31, 2012	**$ 9,484**
NET BOOK VALUE	
March 31, 2012	**$ 4,122**
March 31, 2011	4,977
April 1, 2010	5,568

10. TRADE AND OTHER PAYABLES

	2012	2011	April 1, 2010
Trade	**$ 24,780**	$ 35,015	$ 24,467
Vacation	**8,962**	8,556	8,051
Interest	**17**	26	822
Jackpot liability	**2,611**	2,481	1,973
Province of Manitoba taxes	**342**	357	361
	$ 36,712	$ 46,435	$ 35,674

(IN THOUSANDS OF CANADIAN DOLLARS)

11. LONG-TERM DEBT

	2012	2011	April 1, 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.	124,313	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 installments of $679 plus interest until May 10, 2012. The interest rate on the debt at March 31, 2012 was 1.531%.	679	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.	421	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.	1,530	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.	408	548	688
Province of Manitoba, bearing interest at the prevailing Canadian Dealer Offered Rate plus 0.90%, repayable in quarterly principal installments of $550 plus interest until August 31, 2015. The interest rate on the debt at March 31, 2012 was 2.177%.	7,700	9,900	–
Province of Manitoba, bearing interest at the prevailing Royal Bank Prime Rate less 0.75%, interest only payable quarterly. No fixed repayment schedule and maturity date. The interest rate on the debt at March 31, 2012 was 2.250%.	30,800	–	–
Province of Manitoba, bearing interest at 2.375%, repayable in monthly principal installments of $70 plus interest until March 31, 2017.	4,200	–	–
Province of Manitoba, bearing interest at 2.375%, repayable in monthly principal installments of $108 plus interest until March 31, 2017.	6,500	–	–
Province of Manitoba, bearing interest at 2.375%, repayable in monthly principal installments of $8 plus interest until August 31, 2016.	398	–	–
Finance 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.	248	292	332
	177,197	152,521	160,183
Less current portion of long-term debt	13,614	17,221	17,562
	$ 163,583	$ 135,300	$ 142,621

All long-term debt is unsecured and the fair market value at March 31, 2012 is $194,644. The Corporation's exposure to liquidity risks related to long-term debt is disclosed in note 17.

12. PROVISION FOR EMPLOYEE PENSION BENEFITS

The Corporation has a defined contribution money purchase pension plan and is a member of the multi-employer Civil Service Superannuation Fund. These pension plans cover substantially all employees and both require contributions to be made to separately administered funds.

The pension expense related to the Corporation's contributions to the multi-employer Civil Service Superannuation Fund is $4,073 (2011 – $3,430). Based on limited information available from the Fund, the Corporation has judged this information to be insufficient to properly allocate any potential pension plan deficits and is therefore not able to reliably determine its participation in any potential future deficit. As a result, the Corporation's contribution to the Fund is recorded in operating expenses. The Corporation's share of the multi-employer plan accrued benefit obligation has been actuarially measured for accounting purposes as at March 31, 2012 using the accumulated benefit cost method prorated based on service, a discount rate of 4.50% (2011 – 5.00%) and management's best estimate of expected plan performance, salary escalation and retirement ages of employees.

A pension liability of $1,280 (2011 – $784) has been established for employees whose annual earnings exceed the limit under the Civil Service Superannuation Fund. A loss of $495 was experienced in the current year based on the most recently available actuarial assessment of pension obligations as at March 31, 2012 and is included in the above pension expense.

The pension expense related to the Corporation's contributions to the money purchase plan is $147 (2011 – $146) and is recorded in operating expenses.

13. EXPENSES BY NATURE

Gaming direct expenses consist primarily of costs associated with the operation and maintenance of the Corporation's electronic gaming and table games equipment. Non-gaming cost of sales consist primarily of costs associated with the Corporation's entertainment, food & beverage and retail store operations.

The Corporation's operating expenses by their nature are as follows:

	2012	2011
Employee benefits	$ 92,413	$ 90,618
Community support	1,921	2,097
Consultant and professional fees	2,936	3,609
Maintenance	6,030	15,966
Marketing	6,105	6,761
Property taxes	3,140	3,050
Sundry	3,250	4,789
Supplies and equipment	3,197	3,776
Telecommunications	1,222	1,362
Transportation and vehicles	1,445	1,503
Utilities	2,354	2,420
	$ 124,013	$ 135,951

(IN THOUSANDS OF CANADIAN DOLLARS)

14. SHARE OF PROFIT OF WCLC

	2012	2011
Revenue	**$ 223,422**	$ 242,131
Prizes, commissions & other cost of sales	**149,820**	159,367
WCLC partner equalization	**3,598**	3,459
Payment to Government of Canada	**2,329**	2,283
Profit	**$ 67,675**	$ 77,022

The WCLC earned revenue in the 2012 fiscal year in the amount of $1,183,804 (2011 – $1,268,947), of which the Corporation's share calculated based on relative sales levels by jurisdiction is 19% (2011 – 19%). The WCLC's total profit for the 2012 fiscal year was $400,725 (2011 – $440,295) of which the Corporation's share is 17% (2011 – 17%).

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 residing in Manitoba.

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.

15. ALLOCATIONS AND PAYMENTS

	2012	2011
Gaming Commission fees and Crown levy	**$ 3,142**	$ 3,116
First Nations allocation	**43,775**	43,661
Manitoba Jockey Club Inc. contribution	**5,991**	5,457
Tourism contribution	**25,377**	25,141
Responsible gaming funding	**3,763**	3,634
Casino bingo volunteer program	**3,939**	3,941
	$ 85,987	$ 84,950

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.

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.

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.

The Corporation provides contributions towards supporting tourism in Manitoba through the VLT program.

Responsible gaming funding includes amounts paid to the Addictions Foundation of Manitoba and other organizations for their responsible gaming research and programming.

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.

16. COMMITMENTS AND CONTINGENCIES

(a) Lease obligations

The Corporation has entered into commercial leases on certain buildings and parking lots which have an average remaining term of 2 to 10 years with options for renewal after that date. In addition, the Corporation has entered into commercial leases on certain motor vehicles which have a remaining term ranging between 1 to 7 years with no renewal option included in the contracts. The future minimum rental payments relating to operating leases are as follows:

2013	$ 1,036
2014	616
2015	217
2016	149
2017	141
Subsequent years	450
	$ 2,609

(b) Legal claims

Incidental to the nature of its business, the Corporation is defending various pending legal actions and claims. While the outcome of these claims cannot be determined, management is of the opinion that the appropriate adjustments 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 was named as a party to a lawsuit related to Scratch 'n Win lottery tickets in March 2009. No steps have been taken to proceed with the claim since it was filed and the possibility of a payout related to this action cannot be determined at this time; therefore no provision for any liability has been made in the consolidated financial statements.

(c) Purchase commitments

At the end of the 2012 fiscal year the Corporation had purchase commitments of $25,704 including $8,957 related to casino construction projects and $16,747 related to VLT replacement activities.

17. FINANCIAL INSTRUMENTS

The Corporation is exposed to interest rate, liquidity 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.

Risk management policies have been established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The Corporation's management oversees the management of these risks in accordance with the risk management policies and framework approved by the Board of Directors.

(a) 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 based on 78% (2011 – 91%) of long-term debt having a fixed interest rate. The impact on the Corporation's income associated with the variable interest rate long-term debt is not considered significant.

(b) 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 a significant portion of the long-term debt is repayable in either quarterly or monthly installments.

The table below summarizes the maturity profile of the Corporation's financial liabilities based on contractual undiscounted payments.

2012	On demand	Less than 1 year	1 year	2 years	3 years	4 years	5 years	>5 years
Trade and other payables	**$ 2,611**	**$ 34,101**	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**
Payable to the Province of Manitoba	**–**	**19,273**	**–**	**–**	**–**	**–**	**–**	**–**
Long-term debt	**–**	**13,614**	**11,753**	**11,362**	**10,138**	**8,968**	**6,750**	**114,612**
	$ 2,611	**$ 66,988**	**$ 11,753**	**$ 11,362**	**$ 10,138**	**$ 8,968**	**$ 6,750**	**$ 114,612**

2011	On demand	Less than 1 year	1 year	2 years	3 years	4 years	5 years	>5 years
Trade and other payables	$ 2,481	$ 43,954	$ –	$ –	$ –	$ –	$ –	$ –
Payable to the Province of Manitoba	–	19,401	–	–	–	–	–	–
Long-term debt	–	17,221	11,384	9,523	9,132	7,908	6,791	90,562
	$ 2,481	$ 80,576	$ 11,384	$ 9,523	$ 9,132	$ 7,908	$ 6,791	$ 90,562

(c) 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 centralized credit management and collection practices and, where applicable, the establishment of a reasonable allowance for non-collectible amounts which is netted against trade and other receivables. The requirement for impairment is analyzed at each reporting date for every customer on an individual basis. The maximum credit risk exposure is the carrying value of each class of financial asset disclosed in note 5 and it is management's opinion that the Corporation does not have significant concentration risk.

Page 2464

MANITOBA LOTTERIES CORPORATION – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED MARCH 31, 2012
(IN THOUSANDS OF CANADIAN DOLLARS)

The aging of trade and other receivables at the end of the 2012 fiscal year is as follows:

Neither impaired nor past due	$ 15,896
Not impaired and past due as follows:	
Within 30 days	10
31 to 60 days	8
61 to 90 days	2
Over 90 days	13
Allowance for doubtful accounts	–
	$ 15,929

(d) Capital management

The Corporation's capital is comprised of long-term debt and equity. 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.

(e) 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. 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.

The Corporation's financial instruments consist of cash, trade and other receivables, trade and other payables, payable to the Province of Manitoba and long-term debt. 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	$ 30,850	$ –	$ –	$ 30,850
	$ 30,850	$ –	$ –	$ 30,850

18. RELATED PARTY DISCLOSURES

The Corporation is related to various other government agencies, ministries and Crown corporations under the common control of the Government of Manitoba. All transactions with these related parties are in the normal course of operations and are measured at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year-end are unsecured and settlement occurs in cash. These transactions include long-term debt with the Province of Manitoba as disclosed in note 11 of these consolidated financial statements.

Compensation of key management personnel of the Corporation, which is recognized as an operating expense during the year, is as follows:

	2012	2011
Short-term employee benefits	**$ 1,613**	$ 1,471
Post-employment pension and medical benefits	**67**	68
	$ 1,680	$ 1,539

19. FIRST-TIME ADOPTION OF IFRS

Canadian publicly accountable enterprises, including the Corporation, are required to prepare their consolidated financial statements in accordance with IFRS for periods beginning on or after January 1, 2011. The consolidated financial statements included herein for the year ended March 31, 2012 have been prepared based on IFRS. Comparative results for the year ended March 31, 2011, previously prepared in accordance with Canadian GAAP, have been restated based on IFRS.

The Corporation has prepared consolidated financial statements which comply with IFRS applicable for periods beginning on or after April 1, 2010 as described in the significant accounting policies disclosed in note 2. In preparing these consolidated financial statements, the Corporation's opening consolidated statement of financial position was prepared as at April 1, 2010, the Corporation's date of transition to IFRS. This note explains the principal adjustments made by the Corporation in restating its Canadian GAAP consolidated statement of financial position as at April 1, 2010 and its previously reported Canadian GAAP consolidated financial statements for the year ended March 31, 2011.

In preparing the consolidated financial statements in accordance with IFRS 1 – *First-time Adoption of International Financial Reporting Standards*, retrospective application of IFRS to create or revise estimates is prohibited. Adjustments made to restate items previously prepared in accordance with Canadian GAAP to IFRS are presented in the tables below. No significant presentation differences have been made to the consolidated statement of cash flows upon transition to IFRS.

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain standards. The Corporation has applied the following exemptions in preparing these consolidated financial statements:

(i) The Corporation has elected to apply the transitional provision in IFRIC 4 – *Determining Whether an Arrangement contains a Lease* and has assessed all arrangements as at the date of transition.

(ii) The Corporation has elected to apply the transitional provision in IAS 23 – *Borrowing Costs* and has assessed whether or not borrowing costs should be capitalized as at the date of transition.

Page 2465

RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT APRIL 1, 2010

(IN THOUSANDS OF CANADIAN DOLLARS)

	Notes	Canadian GAAP	IFRS Adjustments	IFRS
ASSETS				
Current Assets				
Cash		$ 27,491	$ –	$ 27,491
Trade and other receivables		9,600	–	9,600
Inventories	A	2,628	(1,171)	1,457
Prepayments		2,107	–	2,107
		41,826	(1,171)	40,655
Non-Current Assets				
Property and equipment, net	A – D	156,735	15,397	172,132
Intangible assets, net	C	–	5,568	5,568
Other assets	D	4,794	(4,794)	–
		161,529	16,171	177,700
TOTAL ASSETS		**$ 203,355**	**$ 15,000**	**$ 218,355**
LIABILITIES AND EQUITY				
Current Liabilities				
Trade and other payables		$ 35,674	$ –	$ 35,674
Payable to the Province of Manitoba		1,673	–	1,673
Current portion of long-term debt		17,562	–	17,562
		54,909	–	54,909
Non-Current Liabilities				
Long-term debt		142,621	–	142,621
Provision for employee pension benefits		825	–	825
		143,446	–	143,446
Commitments and contingencies				
Equity				
Contributed surplus	B	–	15,000	15,000
Retained earnings		5,000	–	5,000
		5,000	15,000	20,000
TOTAL LIABILITIES AND EQUITY		**$ 203,355**	**$ 15,000**	**$ 218,355**

RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 2011

(IN THOUSANDS OF CANADIAN DOLLARS)

	Notes	Canadian GAAP	IFRS Adjustments	IFRS
ASSETS				
Current Assets				
Cash		$ 32,012	$ –	$ 32,012
Trade and other receivables		12,037	–	12,037
Inventories	A	2,646	(1,045)	1,601
Prepayments		2,182	–	2,182
		48,877	(1,045)	47,832
Non-Current Assets				
Property and equipment, net	A – D	170,723	5,187	175,910
Intangible assets, net	C	–	4,977	4,977
Other assets	D	4,541	(4,541)	–
		175,264	5,623	180,887
TOTAL ASSETS		**$ 224,141**	**$ 4,578**	**$ 228,719**
LIABILITIES AND EQUITY				
Current Liabilities				
Trade and other payables		$ 46,435	$ –	$ 46,435
Payable to the Province of Manitoba		19,401	–	19,401
Current portion of long-term debt		17,221	–	17,221
		83,057	–	83,057
Non-Current Liabilities				
Long-term debt		135,300	–	135,300
Provision for employee pension benefits		784	–	784
		136,084	–	136,084
Commitments and contingencies				
Equity				
Contributed surplus	B	–	4,578	4,578
Retained earnings		5,000	–	5,000
		5,000	4,578	9,578
TOTAL LIABILITIES AND EQUITY		**$ 224,141**	**$ 4,578**	**$ 228,719**

Page 2466

RECONCILIATION OF CONSOLIDATED STATEMENT OF NET INCOME, COMPREHENSIVE INCOME AND EQUITY

FOR THE YEAR ENDED MARCH 31, 2011
(IN THOUSANDS OF CANADIAN DOLLARS)

	Notes	Canadian GAAP	IFRS Adjustments	IFRS
Revenue	E & F	$ 811,061	$ (248,654)	$ 562,407
Direct Expenses				
Cost of sales	E – G	209,650	(209,650)	–
VLT commissions	G	–	33,766	33,766
Gaming direct expenses	G	–	5,851	5,851
Non-gaming cost of sales	G	–	8,267	8,267
		601,411	(86,888)	514,523
Operating expenses	A & F	140,783	(4,832)	135,951
Depreciation and amortization	A & B	24,651	11,631	36,282
Goods and Services Tax		4,749	–	4,749
		170,183	6,799	176,982
Operating Income		431,228	(93,687)	337,541
Share of profit of Western Canada Lottery Corporation	E	–	77,022	77,022
Interest expense on long-term debt		(8,435)	–	(8,435)
Interest income	F	–	501	501
Income Before Allocations and Payments		422,793	(16,164)	406,629
Allocations and Payments				
WCLC partner equalization	E	3,459	(3,459)	–
Payment to Government of Canada	E	2,283	(2,283)	–
Gaming Commission fees and Crown levy		3,116	–	3,116
First Nations allocation		43,661	–	43,661
Manitoba Jockey Club Inc. contribution		5,457	–	5,457
Tourism contribution		25,141	–	25,141
Responsible gaming funding		3,634	–	3,634
Casino bingo volunteer program		3,941	–	3,941
		90,692	(5,742)	84,950
NET INCOME AND COMPREHENSIVE INCOME		332,101	(10,422)	321,679
EQUITY, BEGINNING OF THE YEAR		5,000	15,000	20,000
Allocation to the Province of Manitoba		(332,101)	10,422	(321,679)
Allocation to the Province of Manitoba – contributed surplus	B	–	(10,422)	(10,422)
Total Allocation to the Province of Manitoba		(332,101)	–	(332,101)
EQUITY, END OF THE YEAR		**$ 5,000**	**$ 4,578**	**$ 9,578**

Notes to the reconciliation of the consolidated statements of financial position as at April 1, 2010 and March 31, 2011 and the reconciliation of the consolidated statement of net income, comprehensive income and equity at March 31, 2011:

A. Under Canadian GAAP, the Corporation classified replacement parts related to property and equipment as inventory. Under IFRS, the replacement parts have been classified as property and equipment. This change has resulted in a reclassification adjustment on the consolidated statement of net income, comprehensive income and equity which had no impact on consolidated net income and comprehensive income.

B. Under IFRS, if the costs of a certain component of property and equipment are significant in relation to the total cost of the asset these are accounted for and depreciated separately. This is known as the component approach. Upon transition to IFRS, the Corporation applied the component approach and determined that adjustments were required to the useful lives and depreciation rates of the components of certain items of property and equipment. These changes resulted in a net increase of $15,000 to the net book value of such assets and a corresponding increase in contributed surplus. For the year ended March 31, 2011, this adjustment resulted in the recognition of an additional expense of $10,422 and an adjustment to the allocation to the Province of Manitoba to the revised net income and contributed surplus in the amount of $10,422.

C. Upon transition to IFRS, computer software has been classified as intangible assets. This change had no impact on the consolidated statement of net income, comprehensive income and equity.

D. Under Canadian GAAP, the Corporation classified the parking lot held under a finance lease as other assets. Under IFRS, the parking lot has been classified as property and equipment. This change had no impact on the consolidated statement of net income, comprehensive income and equity.

E. Under Canadian GAAP, the Corporation proportionately consolidated its share of WCLC's profit. Under IFRS, the Corporation uses the equity method to account for its share of the profit of the WCLC. This change has resulted in a number of reclassification adjustments on the consolidated statement of net income, comprehensive income and equity, none of which had an impact on consolidated net income and comprehensive income.

F. The Corporation determined that in order to comply with IFRS a number of reclassifications were required on the consolidated statement of net income, comprehensive income and equity as follows: interest income has been reclassified from operating income to income before allocations and payments and certain promotional allowances previously included in cost of sales and operating expenses have been reclassified as a net decrease to revenue. These adjustments had no impact on consolidated net income and comprehensive income.

G. Upon transition to IFRS, the Corporation presents expenses on the consolidated statement of net income, comprehensive income and equity by their nature. As a result, items of cost of sales have been reclassified into more appropriate categories signifying the nature of the expenditure. This adjustment had no impact on consolidated net income and comprehensive income.

H. The transition from Canadian GAAP to IFRS has not had a material impact on the consolidated statement of cash flows.

20. EVENTS AFTER THE REPORTING PERIOD

On April 17, 2012, the Province announced that The Liquor Control Commission (MLCC) and Manitoba Lotteries Corporation would be merged into a single entity and the regulatory oversight for liquor control, currently managed by MLCC would be merged with the MGCC. Each Crown Corporation operates under a separate Act and will continue to function as a separate legal entity until they are combined under common legislation, which is anticipated to occur in 2013.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements are the responsibility of management and are prepared in accordance with International Financial Reporting Standards. 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 International Financial Reporting Standards.

M. J. McLaren
President and Chief Executive Officer

H. D. Reichert, CA
Vice-President, Finance and Chief Financial Officer

May 31, 2012

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 Statements of Financial Position as at February 29, 2012, February 28, 2011 and March 1, 2010, the Statements of Operations, Comprehensive Income, Changes in Equity and Cash Flows for the years ended February 29, 2012 and February 28, 2011, 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 International Financial Reporting Standards, 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 audits. We conducted our audits 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 in our audits 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 29, 2012, February 28, 2011 and March 1, 2010, and its financial performance and its cash flows for the years ended February 29, 2012 and February 28, 2011 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
Winnipeg, Canada
May 31, 2012

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 Statement of Financial Position at February 29, 2012 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policy obligations and the financial statements fairly present the results of the valuation.

Joe S. Cheng
Fellow, Canadian Institute of Actuaries
Toronto, Canada
May 31, 2012

FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)	Notes	**February 29, 2012**	February 28, 2011 [1]	March 1, 2010 [1]
Assets				
Cash and investments	4	**1,550,606**	1,776,096	1,804,144
Equity investments	4	**502,675**	526,972	387,092
Investment property	4&5	**190,990**	123,521	38,541
Due from other insurance companies	6	**2,545**	11,971	10,656
Accounts receivable		**304,155**	292,035	289,711
Prepaid expenses		**996**	949	981
Deferred policy acquisition costs	7	**40,547**	46,950	43,143
Reinsurers' share of unearned premiums	17	**3,340**	9,760	11,853
Reinsurers' share of unpaid claims	17&18	**31,291**	42,407	59,489
Property and equipment	8	**123,266**	123,137	111,323
Deferred development costs	9	**36,799**	38,232	34,618
		2,787,210	2,992,030	2,791,551
Liabilities				
Due to other insurance companies	10	**5,791**	13,386	23,386
Accounts payable and accrued liabilities	11	**57,849**	361,579	49,482
Financing lease obligation	12	**4,536**	4,586	–
Unearned premiums and fees	14	**479,592**	460,587	449,554
Provision for employee current benefits	15	**21,109**	19,174	18,833
Provision for employee future benefits	16	**301,261**	257,812	226,834
Provision for unpaid claims	17&18	**1,485,445**	1,441,145	1,628,528
		2,355,583	2,558,269	2,396,617
Equity				
Retained Earnings				
Basic Insurance Retained Earnings				
Rate Stabilization Reserve		**155,700**	140,525	154,000
Retained Earnings		**57,983**	–	89,348
Information Technology Optimization Fund	20	**–**	65,000	–
		213,683	205,525	243,348
Non-Basic Retained Earnings				
Retained Earnings		**139,060**	101,457	87,744
Extension Development Fund	21	**20,769**	43,227	48,279
		159,829	144,684	136,023
		373,512	350,209	379,371
Accumulated Other Comprehensive Income	22	**58,115**	83,552	15,563
Total Equity		**431,627**	433,761	394,934
		2,787,210	2,992,030	2,791,551

[1] Refer to Note 33 for effects of adopting IFRS

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

Approved by the Board of Directors:

Jake Janzen
Chairperson

Kerry Bittner
Vice-Chairperson

STATEMENTS OF OPERATIONS

For the years ended

(in thousands of Canadian dollars)	Notes	February 29, 2012	February 28, 2011 (1)
Earned Revenues			
Gross premiums written		**967,565**	941,378
Premiums ceded to reinsurers		**(8,025)**	(11,654)
Net premiums written		**959,540**	929,724
Increase (decrease) in gross unearned premiums		**(17,735)**	(8,726)
Increase (decrease) in reinsurers' share of unearned premiums		**(6,420)**	(2,093)
Net premiums earned		**935,385**	918,905
Service fees and other revenue	*23*	**25,046**	22,330
The Drivers and Vehicles Act operations recovery	*24*	**27,325**	20,995
Total Earned Revenues		**987,756**	962,230
Claims Costs			
Direct claims incurred		**710,002**	421,828
Claims incurred ceded to reinsurers		**(8,152)**	(3,417)
Net claims incurred		**701,850**	418,411
Claims expense		**132,325**	110,857
Loss prevention/Road safety		**15,828**	18,052
Total Claims Costs		**850,003**	547,320
Expenses			
Operating		**113,554**	117,104
Commissions		**77,437**	78,510
Premium taxes		**28,071**	18,329
Regulatory/Appeal		**3,457**	4,109
Total Expenses		**222,519**	218,052
Underwriting income (loss)		**(84,766)**	196,858
Investment income	*4*	**118,975**	95,658
Gain on disposal of property		**3,214**	–
Net income (loss) from annual operations	*25*	**37,423**	292,516
Surplus distribution	*26*	**(14,120)**	(321,678)
Net income (loss) after surplus distribution	*25*	**23,303**	(29,162)

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the years ended

(in thousands of Canadian dollars)	Notes	February 29, 2012	February 28, 2011 (1)
Net income (loss) after surplus distribution	*25*	**23,303**	(29,162)
Other Comprehensive Income (Loss)			
Unrealized gains (losses) on Available for Sale assets	*22*	**(23,310)**	85,227
Reclassification of net realized (gains) losses related to Available for Sale assets	*22*	**(2,127)**	(17,238)
Other Comprehensive Income (Loss) for the period		**(25,437)**	67,989
Total Comprehensive Income (Loss)		**(2,134)**	38,827

(1) Refer to Note 33 for effects of adopting IFRS

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

STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)	Basic: Rate Stabilization Reserve (RSR)	Basic: Retained Earnings (B-RE)	Basic: IT Optimization Fund (ITOF)	Non-Basic: Retained Earnings (NB-RE)	Non-Basic: Extension Development Fund (EDF)	Corporate: Retained Earnings	Corporate: Accumulated Other Comprehensive Income	Corporate: Equity
Balance at March 1, 2010 (Note 33)	154,000	89,348		87,744	48,279	379,371	15,563	394,934
Net income (loss) after surplus distribution for the year		(37,823)		8,661		(29,162)		(29,162)
Other comprehensive income (loss) for the year							67,989	67,989
Transfer between RSR, B-RE & ITOF	(13,475)	(51,525)	65,000					
Transfer between NB-RE & EDF				5,052	(5,052)			
Balance at February 28, 2011	140,525	–	65,000	101,457	43,227	350,209	83,552	433,761
Net income (loss) after surplus distribution for the year		8,158		15,145		23,303		23,303
Other comprehensive income (loss) for the year							(25,437)	(25,437)
Transfer between RSR & B-RE	15,175	(15,175)						
Transfer between B-RE & ITOF		65,000	(65,000)					
Transfer between NB-RE & EDF				22,458	(22,458)			
Balance at February 29, 2012	155,700	57,983	–	139,060	20,769	373,512	58,115	431,627

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

STATEMENTS OF CASH FLOWS

For the years ended

(in thousands of Canadian dollars)	Notes	February 29, 2012	February 28, 2011 [1]
Cash Flows from (to) Operating Activities:			
Net income (loss) after surplus distribution		**23,303**	(29,162)
Non-cash items:			
Depreciation of property and equipment		**6,747**	7,600
Amortization of deferred development costs		**8,406**	5,594
Amortization of bond discount and premium		**4,911**	4,939
(Gain) loss on sale of investments		**(41,831)**	(32,796)
Unrealized (gain) loss on Fair Value Through Profit or Loss bonds		**(26,122)**	3,653
Unrealized (gain) loss on investment in real estate		**(15,631)**	(3,455)
Unrealized (gain) loss on investment in infrastructure		**(645)**	–
Write-down of investments		**13,599**	736
		(27,263)	(42,891)
Net change in non-cash balances:			
Due from other insurance companies		**9,426**	(1,315)
Accounts receivable and prepaid expenses		**(12,167)**	(2,292)
Deferred policy acquisition costs		**6,403**	(3,807)
Reinsurers' share of unearned premiums and unpaid claims		**17,536**	19,175
Due to other insurance companies		**(7,596)**	(10,000)
Accounts payable and accrued liabilities		**(303,730)**	312,097
Unearned premiums and fees		**19,005**	11,033
Provision for employee current benefits		**1,935**	340
Provision for employee future benefits		**43,449**	30,978
Provision for unpaid claims		**44,300**	(187,383)
		(181,439)	168,826
		(208,702)	125,935
Cash Flows from (to) Investing Activities:			
Purchase of investments		**(1,093,650)**	(1,221,086)
Proceeds from sale of investments		**1,386,583**	1,091,854
Acquisition of property and equipment net of proceeds from disposals		**(6,876)**	(19,414)
Financing lease obligation		**(50)**	4,586
Deferred development costs incurred		**(6,973)**	(9,208)
		279,034	(153,268)
Increase (decrease) in Cash and Short-Term Investments		**70,332**	(27,333)
Cash and short-term investments beginning of year		**65,556**	92,889
Cash and Short-Term Investments End of Year	4	**135,888**	65,556

Supplemental Cash Flow Information

Interest received	**35,389**	52,734
Dividends received	**12,570**	10,037

[1] No significant presentation differences have been made to the Statements of Cash Flows upon transition to IFRS. Refer to Note 33 for effects of adopting IFRS

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

NOTES TO FINANCIAL STATEMENTS

1. STATUS OF 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. The address of the Corporation's registered office is 234 Donald Street, Winnipeg, 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 (Note 3). For financial reporting purposes, due to the immateriality of the financial results of the discontinued general insurance operations (Note 27), the operations are reported as part of the Special Risk Extension line of business. The basic universal compulsory automobile insurance line of business rates are approved by the Public Utilities Board of Manitoba (Note 34).

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

Statement of Compliance

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 International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Corporation adopted IFRS in accordance with IFRS 1, *First Time Adoption of International Financial Reporting Standards*, and IFRS was first applied at March 1, 2010. These are the Corporation's first financial statements prepared in accordance with IFRS. Previously, Manitoba Public Insurance Corporation's financial statements were prepared in accordance with Canadian generally accepted accounting principles (GAAP) as issued by the Canadian Institute of Chartered Accountants. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the reported financial position and financial performance of the Corporation is provided in Note 33.

The financial statements were authorized for issue by the Board of Directors on May 31, 2012.

In preparing these financial statements, the Corporation's management has amended certain accounting and measurement methods previously applied under Canadian GAAP in order to comply with IFRS. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation is provided in Note 33. This note includes the following reconciliations of amounts previously reported under Canadian GAAP with amounts reported under IFRS:

- Statements of operations and comprehensive income for the comparative periods ended February 28, 2011.
- Statements of financial position and changes in equity at the date of transition to IFRS, March 1, 2010 and at the end of the comparative period, February 28, 2011.

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.

Basis of Presentation

The Corporation presents its Statement of Financial Position broadly in order of liquidity.

These statements are presented in thousands of Canadian dollars except as otherwise specified.

Seasonality

The automobile insurance business, which reflects the primary business of the Corporation, is seasonal in nature. While net premiums earned are generally stable from quarter to quarter, underwriting income is typically highest in the first and second quarter of each year and lowest in the fourth quarter of each year. This is driven mainly by weather conditions which may vary significantly between quarters.

Basis of Measurement

The Corporation prepares its financial statements as a going concern, using the historical cost basis, except for financial instruments. Measurement of the financial instruments is detailed in Note 4.

Estimates and Judgments

The preparation of financial statements requires management to make estimates and judgments 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.

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 depreciated over their estimated useful life.

The Corporation has classified or designated its financial assets and liabilities in the following categories:

- available for sale (AFS)
- held to maturity (HTM)
- financial assets and liabilities at fair value through profit or loss (FVTPL), formerly held for trading (HFT)
- cash and short-term investments, loans and receivables
- other financial liabilities

Corporate investments that are determined to be impaired are written down to their expected recoverable amount. Equity investments, classified as AFS, would be considered impaired if there is objective evidence of a significant or prolonged decline in the fair value of the investment below its cost.

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 Statement of Financial Position 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 impaired. As long as an AFS asset is held and not impaired, the gains and losses are not recognized in the Statement of Operations. When the asset is disposed of, or has become impaired, the gain or loss is recognized in the Statement of Operations and the amount is deducted from OCI.

Transaction costs related to AFS financial assets are capitalized on initial recognition.

ii) **HTM Financial Assets**

HTM financial assets are carried at amortized cost on the Statement of Financial Position starting on the settlement date.

Transaction costs related to financial assets and liabilities classified as HTM are capitalized on initial recognition, when applicable.

iii) **FVTPL Financial Assets**

FVTPL financial assets are carried at fair value on the Statement of Financial Position starting on the settlement date and the changes in fair value are recorded in the Statement of Operations.

The fair value of FVTPL 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 FVTPL 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 2.0% 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 AFS.

Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; or
- It is becoming probable that the borrower will enter bankruptcy or financial reorganization; or
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

When an AFS asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

Derecognition of Financial Assets

The Corporation derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Corporation recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Corporation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Corporation continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Financial Liabilities

All financial liabilities are designated as other financial liabilities and are recorded in the Statement of Financial Position at amortized cost. Financial liabilities include:

- Due to other insurance companies and accounts payable and accrued liabilities which are all current liabilities.
- Financing lease obligation which is a non-current liability, payable over the life of the lease.

The carrying value of the Corporation's financial liabilities approximates their fair value.

Fair Value Determination

The fair values 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. Refer to Note 4 for further information on the fair value of financial instruments.

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 depreciation. Depreciation is provided on a straight-line basis which will depreciate the cost of each asset to its residual value 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 depreciated on a straight-line basis over 40 years.

Leasehold improvements are depreciated over the term of the lease plus the first renewal period.

Depreciation of construction in progress will begin, in accordance with the above policy, when construction has been completed.

Investment Property (Non-Financial Instruments)

In the determination of what constitutes investment property relative to property and equipment, the Corporation has considered the intended use of the property, the ability to sell the property, and the ability of the Corporation to lease the property or a portion of the property under a finance lease.

The Corporation's investment property, which is property held to earn rentals and/or capital appreciation, is measured initially at its cost, including transaction costs. The Corporation has elected to use the cost model to subsequently value its investment property. Therefore, the investment property's carrying amount is valued at cost less accumulated depreciation and impairment losses. Depreciation is based on the useful life of each component of the investment property along with the property's residual value. The Corporation assesses its investment property for impairment on an annual basis in accordance with the impairment test guidance set forth in IAS 36, *Impairment of Assets*.

Depreciation is provided on a straight-line basis which will depreciate the cost of each asset to its residual value over its estimated useful life:

- HVAC systems — 20 years
- roofing systems — 30 years
- elevators/escalators — 30 years
- buildings — 40 years

Depreciation of construction in progress will begin, in accordance with the above policy, when construction has been completed.

Deferred Development Costs (Intangible Assets)

The costs of developing major information systems that are expected to provide an economic benefit to the Corporation 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.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset and use or sell it.
- The ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses.

Impairment of Tangible and Intangible Assets (Other Than Financial Assets)

At each Statement of Financial Position date, the Corporation reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Corporation estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

MANITOBA PUBLIC INSURANCE AS A LESSEE

Assets held under finance leases are initially recognized as assets of the Corporation at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease liability.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

MANITOBA PUBLIC INSURANCE AS A LESSOR

Manitoba Public Insurance leases retail, office and parking space to various food chains, stores, offices and individuals in cityplace properties, a building and parking facilities owned by the Corporation. All of these leases are considered operating leases.

Revenue

PREMIUMS

Written premiums comprise the premiums on contracts incepting in the fiscal year. Earned premiums represent the portion of written premiums earned through the year by way of insurance coverage. Written and earned premiums are stated gross of commissions and premium taxes payable and are reported on a gross basis and net of amounts ceded to reinsurance companies.

UNEARNED PREMIUMS

The liability for unearned premiums is the portion of premiums that relate to the unexpired term of each insurance contract.

INTEREST REVENUE

Interest revenue is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

DIVIDEND INCOME

Dividend income from investments is recognized when the Corporation's rights to receive payments is established.

REALIZED GAINS AND LOSSES

The realized gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortized cost as appropriate.

The realized gain or loss on disposal of Property and Equipment is the difference between the proceeds received, net of transaction costs, and its original cost or depreciated cost as appropriate.

UNREALIZED GAINS AND LOSSES

Unrealized gains or losses represent the difference between the carrying value at the year-end and the carrying value at the previous year-end or purchase value during the year, less the reversal of previously recognized unrealized gains or losses in respect of disposals during the year.

Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that the Corporation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

PROVISION FOR EMPLOYEE CURRENT BENEFITS

The provision for employee current benefits includes accruals for vacation pay and sick 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.

The Corporation values its pension benefit plan at December 31, 2011. Roll-forward procedures are performed to ensure that the December 31, 2011 valuation is a reliable estimate of the valuation at February 29, 2012.

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. Changes in experience gains and losses are recognized in the current period.

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

IFRS 4, *Insurance Contracts* permits the continued use of insurance liability valuation methods previously used under Canadian GAAP. The Corporation establishes reserves for payment of claims and adjustment expenses that arise from the Corporation's insurance products. The reserve balance represents the expected ultimate cost to settle claims occurring prior to, but still outstanding as of, the reporting date. There are two categories of loss reserves: (1) reserves for reported losses and (2) reserves incurred but not yet reported (IBNR) losses. In addition, reserves are set up for internal loss adjustment expenses, which include estimated internal costs and other expenses that are expected to be incurred to finalize the settlement of the losses. The Corporation discounts its liabilities for unpaid claims and includes a provision for adverse deviations. Liabilities for unpaid claims are estimated using the input of assessment for individual cases reported to the Corporation and statistical analyses for the claims incurred but not reported. Claims and adjustment expenses are charged to income as incurred.

All of the Corporation's insurance policies meet the definition of an insurance contract and have been accounted for in accordance with IFRS 4.

LIABILITY ADEQUACY TEST

At each end of the reporting period, insurance liability adequacy tests are performed to ensure the adequacy of the contract liabilities, net of related Deferred Policy Acquisition Costs (DPAC) and Reinsurers' Share of Unpaid Claims. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. A premium deficiency exists when estimated future claims and related expenses exceed unearned premiums. Any resulting deficiency is recognized first by writing down the DPAC with any remainder recognized as a liability.

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.

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, call centre statistics, premiums written ratios and claims incurred ratios. The basis for allocation of indirect shared expenses is approved by the Board of Directors.

iii. The allocation of improvement initiative costs is based on a review of each project to determine which line of business will benefit from the project. The allocation basis for each project is approved by the Board of Directors.

Reinsurance Ceded

Premiums, claims and expenses are reported gross and 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 or losses arising on translation are charged to operations in the current year.

Changes in unrealized foreign exchange currency translation amounts for AFS equity investments are recorded in other 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

In 2010/2011, 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. In 2011/2012, the Corporation's Board of Directors approved the transfer of $65.0 million from the IT Optimization Fund back to Basic Retained Earnings and $10.0 million from the Extension Development Fund back to Extension Retained Earnings, eliminating the funds established for IT optimization projects. Management has been authorized to enter into an agreement to have Data Centre Optimization services provided by a third party. Given this agreement, the nature of the IT optimization costs has changed from being capital intensive to an annual management service fee. Consequently, the IT Optimization Fund is no longer required.

Extension Development Fund

The Extension Development Fund (EDF) is an appropriation from the non-Basic Lines Retained Earnings. The EDF was established to defray the costs of projects undertaken to maximize the opportunities presented by the 2004 merger of Manitoba Public Insurance and the Division of Driver and Vehicle Licensing.

Retained Earnings

Retained earnings are comprised of the accumulation of net income or losses for the Basic and non-Basic lines of business. Non-Basic lines of business consists of Extension and Special Risk Extension lines of business and *The Drivers and Vehicles Act* operations.

Comprehensive Income

Comprehensive income consists of net income (loss) after surplus distribution and other comprehensive income (loss). Changes in unrealized gains and losses on financial assets classified as AFS, and related changes in unrealized foreign exchange currency translation amounts are recorded in other comprehensive income, and included in accumulated other comprehensive income until recognized in the Statement of Operations. Accumulated other comprehensive income is included on the Statement of Financial Position as a separate component.

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the application of the Corporation's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Corporation must make an assessment of whether accounts receivable are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment of accounts receivable. At February 29, 2012 the allowance for doubtful accounts on accounts receivable is $7.1 million (Note 31).

DEFERRED DEVELOPMENT COSTS (INTANGIBLE ASSETS)

Deferred development costs represent $36.8 million of total assets on the Statement of Financial Position at February 29, 2012 (Note 9). A significant portion of ongoing expenditures relate to information systems development. Management estimates the expected period of benefit over which capitalized costs will be amortized. The considerations which form the basis of the assumptions for these estimated useful lives include the timing of technological obsolescence and customer service requirements, as well as historical experience and internal plans for the projected use of the information systems.

PROVISION FOR UNPAID CLAIMS

The Appointed Actuary is appointed by the Board of Directors of the Corporation. With respect to preparation of these financial statements, the Appointed Actuary is required to carry out a valuation of the policy liabilities and to provide an opinion to the Corporation's Board of Directors regarding their appropriateness at the reporting date. The factors and techniques used in the valuation are in accordance with accepted actuarial practice, applicable legislation and associated regulations.

Provisions for unpaid claims and adjustment expenses are valued based on Canadian accepted actuarial practice, which are designed to ensure the Corporation establishes an appropriate reserve on the Statement of Financial Position to cover insured losses with respect to the reported and unreported claims incurred as of the end of each accounting period and claims expenses. The policy liabilities include a provision for unpaid claims and adjustment expenses on the expired portion of policies and of future obligations on the unexpired portion of policies. In performing the valuation of the liabilities for these contingent future events, the Appointed Actuary makes assumptions as to future loss ratios, trends, reinsurance recoveries, investment rates of return, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies.

The assumptions underlying the valuation of provisions for unpaid claims and adjustment expenses are reviewed and updated by the Corporation on an ongoing basis to reflect recent and emerging trends in experience.

PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY (NON-FINANCIAL INSTRUMENTS)

The Corporation estimates the useful life and residual value for all Property and Equipment and Investment Property which include all significant components.

PROVISION FOR EMPLOYEE FUTURE BENEFITS

The Corporation has a defined benefit pension plan, severance benefit plan and a post retirement extended health benefit plan. The determination of expense and liability associated with employee future benefits requires the use of critical assumptions such as discount rates, expected mortality rate, inflation rates, expected salary increases and expected health care cost increases. Due to the nature of the estimates used in the valuation process there is inherent measurement uncertainty within the employee future benefit assumptions. See Note 16 for further details of the significant estimates and changes impacting the current period financial statements.

FAIR VALUE OF LEVEL THREE AFS AND FVTPL INVESTMENTS

Due to the nature of Level 3 investments, they are valued using an approved valuation technique which requires the use of significant assumptions such as discount rates and volatility of future cash flows. Management considers current market information when selecting a discount rate and estimating the future cash flows related to each internally valued financial asset. See Note 4 for further details of valuation methods and assumptions.

CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The following are the critical judgments, apart from those involving estimations that management have made in the process of applying the Corporation's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Held to Maturity Investments

Management has classified certain municipal, hospital and school bonds as held to maturity. The assessment of the Corporation's intent and ability to hold these investments until maturity is a matter of judgment. To determine the Corporation's intent and ability to hold the investment until maturity, management considers internal investment policies, documented risk management policies, and the overall financial performance of the Corporation.

Leases

The Corporation enters into leasing arrangements for general business purposes. The assessment of when substantially all of the significant risks and rewards of ownership of leased assets are transferred is a matter of judgment. This judgment impacts the Corporation's classification of leases as operating relative to financing leases.

Future Changes in Accounting Policy and Disclosure

The International Accounting Standards Board (IASB) issued IFRS 9, *Financial Instruments* in November 2009. This standard is the completion of the first part of a three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard is to reduce complexity compared to IAS 39. The Standard is effective for annual periods beginning on or after January 1, 2015. Restatement of comparative period financial statements is not required on initial application.

In May, 2011, the IASB issued IFRS 13, *Fair Value Measurement*. This standard sets out, in a single IFRS, a framework to measure fair value and requires disclosures about fair value measurement. The Standard is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The IASB issued amendments to IAS 19, *Employee Benefits* in June, 2011. The amendments will improve the recognition and disclosure requirements for defined benefit plans. The new requirements are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

Also in June, 2011, the IASB issued amendments to IAS 1, *Financial Statement Presentation* which improves how components of other comprehensive income are presented. The new requirements are effective for annual periods beginning on or after July 1, 2012.

The IASB is undertaking Phase II of the Insurance Contracts project to develop a standard to replace the interim IFRS 4, *Insurance Contracts* that was developed in Phase I. The revised exposure draft of the new IFRS is planned to occur in 2012 with an effective date to be confirmed.

4. 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 (2011 – nil).

Short-term investments have a total principal amount of $146,359,000 (2011 – $59,732,000) comprised of provincial short-term deposits with effective interest rates of 0.86% (2011 – 0.85%), 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 29, 2012.

Cash and Investments

(in thousands of Canadian dollars)

As at February 29, 2012	Financial Instruments: Classified as Available for Sale	Financial Instruments: Classified as Held to Maturity	Financial Instruments: Classified as Fair Value Through Profit or Loss	Non-Financial Instruments	Total Carrying Value
Cash and short-term investments	135,888				135,888
Bonds					
Federal			121,282		121,282
Manitoba:					
Provincial			289,926		289,926
Municipal		17,591	36,952		54,543
Hospitals			12,482		12,482
Schools		490,157			490,157
Other provinces:					
Provincial			319,976		319,976
Municipal			58,034		58,034
Corporations			49,957		49,957
	–	507,748	888,609	–	1,396,357
Other investments	6,771				6,771
Infrastructure			11,590		11,590
Cash and investments	142,659	507,748	900,199	–	1,550,606
Equity investments	502,675				502,675
Investment property			154,086	36,904	190,990
	645,334	507,748	1,054,285	36,904	2,244,271

(in thousands of Canadian dollars)

As at February 28, 2011	Financial Instruments: Classified as Available for Sale	Financial Instruments: Classified as Held to Maturity	Financial Instruments: Classified as Fair Value Through Profit or Loss	Non-Financial Instruments	Total Carrying Value
Cash and short-term investments	65,556				65,556
Bonds					
Federal			359,113		359,113
Manitoba:					
Provincial			314,930		314,930
Municipal		20,347	38,367		58,714
Hospitals			12,497		12,497
Schools		458,395			458,395
Other provinces:					
Provincial			434,387		434,387
Municipal			36,450		36,450
Corporations			28,928		28,928
	–	478,742	1,224,672	–	1,703,414
Other investments	7,126				7,126
Cash and investments	72,682	478,742	1,224,672	–	1,776,096
Equity investments	526,972				526,972
Investment property			85,799	37,722	123,521
	599,654	478,742	1,310,471	37,722	2,426,589

(in thousands of Canadian dollars)

As at March 1, 2010	Financial Instruments: Classified as Available for Sale	Financial Instruments: Classified as Held to Maturity	Financial Instruments: Classified as Fair Value Through Profit or Loss	Non-Financial Instruments	Total Carrying Value
Cash and short-term investments	92,888				92,888
Bonds					
Federal			374,189		374,189
Manitoba:					
Provincial			343,462		343,462
Municipal		23,598	60,823		84,421
Hospitals			12,901		12,901
Schools		425,182			425,182
Other provinces:					
Provincial			408,012		408,012
Municipal			12,461		12,461
Corporations			42,978		42,978
	–	448,780	1,254,826	–	1,703,606
Other investments	7,650				7,650
Cash and investments	100,538	448,780	1,254,826	–	1,804,144
Equity investments	387,092				387,092
Investment property				38,541	38,541
	487,630	448,780	1,254,826	38,541	2,229,777

The fair value of HTM bonds including schools, certain municipal and certain hospitals is based on their carrying value, which approximates market value.

The following table presents the financial instruments measured at fair value, classified by valuation method.

The three levels have been defined as follows:

Level 1 – Unadjusted quoted market prices of identical assets 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.

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.

(in thousands of Canadian dollars)

As at February 29, 2012	**Level 1**	**Level 2**	**Level 3**
FVTPL financial assets			
Bonds	**75,592**	**799,821**	**13,196**
Infrastructure			**11,590**
Investment property		**154,086**	
Total FVTPL financial assets	**75,592**	**953,907**	**24,786**
AFS financial assets			
Cash and short term investments	**135,888**		
Other investments			**6,771**
Equity investments	**502,675**		
Total AFS financial assets	**638,563**	**–**	**6,771**
Total assets measured at fair value	**714,155**	**953,907**	**31,557**

(in thousands of Canadian dollars)

As at February 28, 2011	Level 1	Level 2	Level 3
FVTPL financial assets			
Bonds	195,425	1,015,893	13,354
Infrastructure			
Investment property		85,799	
Total FVTPL financial assets	195,425	1,101,692	13,354
AFS financial assets			
Cash and short term investments	65,556		
Other investments			7,126
Equity investments	526,972		
Total AFS financial assets	592,528	–	7,126
Total assets measured at fair value	787,953	1,101,692	20,480

(in thousands of Canadian dollars)

As at March 1, 2010	Level 1	Level 2	Level 3
FVTPL financial assets			
Bonds	364,915	876,640	13,271
Infrastructure			
Investment property			
Total FVTPL financial assets	364,915	876,640	13,271
AFS financial assets			
Cash and short term investments	92,888		
Other investments			7,650
Equity investments	387,092		
Total AFS financial assets	479,980	–	7,650
Total assets measured at fair value	844,895	876,640	20,921

Fair value measurement of instruments included in Level 3	FVTPL		AFS	
(in thousands of Canadian dollars)	**2012**	2011	**2012**	2011
Balance at March 1	**13,354**	13,271	**7,126**	7,650
Total gains/(losses)				
Included in net income	**(158)**		**(1,489)**	(595)
Included in other comprehensive income		83	**1,294**	1,062
Purchases	**11,590**		**120**	156
Sales			**(280)**	(1,147)
Balance at February 29/28	**24,786**	13,354	**6,771**	7,126

Impairment

Impaired investments included in the Corporation's portfolio include the following:

(in thousands of Canadian dollars)

As at February 29, 2012	**Gross**	**Impaired**	**Net**
By investment type			
Available for sale	**30,044**	**(13,599)**	**16,445**
	30,044	**(13,599)**	**16,445**

(in thousands of Canadian dollars)

As at February 28, 2011	Gross	Impaired	Net
By investment type			
Available for sale	1,314	(736)	578
	1,314	(736)	578

(in thousands of Canadian dollars)

As at March 1, 2010	Gross	Impaired	Net
By investment type			
Available for sale	9,622	(3,061)	6,561
	9,622	(3,061)	6,561

Investment Income

(in thousands of Canadian dollars)	**2012**	2011
Interest income	**37,914**	53,761
Gain (loss) on sale of Fair Value Through Profit or Loss bonds	**39,704**	14,821
Unrealized gain (loss) on Fair Value Through Profit or Loss bonds	**26,122**	(3,653)
Unrealized gain (loss) on investment property	**15,631**	3,455
Gain (loss) on infrastructure investments	**519**	
Unrealized gain (loss) on infrastructure investments	**645**	
Dividend income	**12,444**	10,191
Gain (loss) on sale of equities	**2,126**	18,352
Gain (loss) on foreign exchange	**(1)**	81
Income from investment property	**1,502**	2,509
Write-down of investments	**(13,599)**	(736)
Investment management fees	**(4,032)**	(3,123)
Total	**118,975**	95,658

Income from investment property consists of gross rental income of $11,022,000 (2011 – $10,905,000) and gross rental expenses of $9,520,000 (2011 – $8,396,000).

Investment income is net of investment management fees paid to the Department of Finance in the amount of $4.0 million (2011 – $3.1 million). This includes $2.7 million (2011 – $1.8 million) of fees the province paid to outside managers on the Corporation's behalf.

5. INVESTMENT PROPERTY – NON-FINANCIAL INSTRUMENTS

(in thousands of Canadian dollars)	Cityplace Building*	Adjacent Surface Parking Lots	Adjacent Parkade	Total
Cost				
Balance at March 1, 2010	23,822	4,578	10,822	39,222
Additions				
Balance at February 28, 2011	23,822	4,578	10,822	39,222
Additions				
Balance at February 29, 2012	23,822	4,578	10,822	39,222
Accumulated Depreciation				
Balance at March 1, 2010	495		186	681
Depreciation	596		223	819
Balance at February 28, 2011	1,091		409	1,500
Depreciation	595		223	818
Balance at February 29, 2012	1,686	–	632	2,318
Carrying Amounts				
At March 1, 2010	23,327	4,578	10,636	38,541
At February 28, 2011	22,731	4,578	10,413	37,722
At February 29, 2012	22,136	4,578	10,190	36,904
Fair Value at February 29, 2012	34,192	6,600	10,250	51,042

* Includes the portion of the cityplace building not used for administrative purposes

6. DUE FROM OTHER INSURANCE COMPANIES

(in thousands of Canadian dollars)	**2012**	2011
Balance at March 1	**11,971**	10,656
Claims paid ceded to reinsurers	**3,969**	20,499
Less: recovery from reinsurers	**(13,395)**	(19,184)
Balance at February 29/28	**2,545**	11,971

7. DEFERRED POLICY ACQUISITION COSTS

(in thousands of Canadian dollars)	Premium Taxes		Commissions		Writedowns		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Balance at March 1	**12,770**	12,508	**34,741**	32,040	**(561)**	(1,405)	**46,950**	43,143
Deferred during the year	**28,603**	18,591	**77,017**	81,211			**105,620**	99,802
Expensed during the year	**(28,071)**	(18,329)	**(77,437)**	(78,510)			**(105,508)**	(96,839)
Write-down (reverse write-down)					**(6,515)**	844	**(6,515)**	844
Balance at February 29/28	**13,302**	12,770	**34,321**	34,741	**(7,076)**	(561)	**40,547**	46,950

Premium deficiencies are recognized first by writing down deferred policy acquisition costs with any remainder recognized as a liability. Refer to Note 3 for more information.

8. PROPERTY AND EQUIPMENT

(in thousands of Canadian dollars)	Land & Buildings [(1)]	Furniture & Equipment [(2)]	Property under Finance Lease [(3)]	Property under Construction [(4)]	Total
Cost					
Balance at March 1, 2010	85,239	66,928		33,976	186,143
Additions	8,427	3,746	1,253	6,014	19,440
Disposals		(722)		(10)	(732)
Transfer from (out of) Property under Construction	21,379		12,162	(33,541)	
Balance at February 28, 2011	115,045	69,952	13,415	6,439	204,851
Additions	2,344	3,791	25	1,889	8,049
Disposals	(2,944)	(1,010)			(3,954)
Transfer from (out of) Property under Construction	4,532			(4,532)	
Balance at February 29, 2012	118,977	72,733	13,440	3,796	208,946
Accumulated Depreciation					
Balance at March 1, 2010	17,991	56,829			74,820
Disposals		(706)			(706)
Depreciation	2,639	4,654	307		7,600
Balance at February 28, 2011	20,630	60,777	307	–	81,714
Disposals	(2,073)	(708)			(2,781)
Depreciation	3,028	3,383	336		6,747
Balance at February 29, 2012	21,585	63,452	643	–	85,680
Carrying Amounts					
At March 1, 2010	67,248	10,099		33,976	111,323
At February 28, 2011	94,415	9,175	13,108	6,439	123,137
At February 29, 2012	97,392	9,281	12,797	3,796	123,266

(1) Includes land, land improvements, leasehold improvements and building components: elevators, escalators, HVAC systems, roofing systems.
(2) Includes furniture, equipment, computer equipment and vehicles.
(3) Includes property located at 1284 Main Street in Winnipeg held under a financing lease. Refer to Note 12 for financing lease obligations.
(4) The Corporation is in the process of restoring the parkade in cityplace. Refer to Note 28 for commitments.

9. DEFERRED DEVELOPMENT COSTS

(in thousands of Canadian dollars)	Internally Developed Intangible Assets
Cost	
Balance at March 1, 2010	67,082
Additions	9,208
Balance at February 28, 2011	76,290
Additions	6,973
Balance at February 29, 2012	83,263
Accumulated Amortization	
Balance at March 1, 2010	32,464
Amortization expense	5,594
Balance at February 28, 2011	38,058
Amortization expense	8,406
Balance at February 29, 2012	46,464
Carrying Amounts	
At March 1, 2010	34,618
At February 28, 2011	38,232
At February 29, 2012	36,799

10. DUE TO OTHER INSURANCE COMPANIES

(in thousands of Canadian dollars)	**2012**	2011
Balance at March 1	**13,386**	23,386
Increase (decrease) in reinsurance ceded premiums written less installment payments	**(6,271)**	(3,789)
Increase (decrease) in amounts received as collateral for reinsurers' share of unpaid claims	**(1,324)**	(6,211)
Balance at February 29/28	**5,791**	13,386

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

(in thousands of Canadian dollars)	**February 29, 2012**	February 28, 2011	March 1, 2010
Due to the Province of Manitoba	**8,959**	7,727	9,401
Surplus distribution		321,678	
Payroll	**1,387**	558	111
Broker commissions	**10,488**	9,996	7,187
Provision for fleet rebates	**10,496**	9,919	9,558
International Registration Program payable to other jurisdictions	**2,502**	1,564	2,055
Other payables and accrued liabilities	**24,017**	10,137	21,170
	57,849	361,579	49,482

12. FINANCING 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 IAS 17, *Leases*, the land portion has been recorded as an operating lease and the building portion as a financing lease. The details of the financing lease are as follows:

	2012	2011
Interest rate	**6.70%**	7.12%
Interest expense for the year (in thousands of Canadian dollars)	**307**	301
Financing lease obligation at February 29/28 (in thousands of Canadian dollars)	**4,536**	4,586

The minimum lease payments are as follows:

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
(in thousands of Canadian dollars)	**2012**	2011	**2012**	2011
Not later than one year	**356**	357	**343**	344
Later than one year and not later than five years	**1,460**	1,441	**1,275**	1,259
Later than five years	**7,360**	7,735	**4,189**	4,281
Total	**9,176**	9,533	**5,807**	5,884

13. OPERATING LEASES

AS A LESSEE:

The Corporation leases offices in Winnipeg, Brandon, Portage la Prairie, Steinbach and Winkler and vehicles temporarily assigned to certain Corporate employees. These leases are classified as operating leases in accordance with IAS 17, *Leases*. The lease terms for the offices are all under ten years and the lease terms of the vehicles are all under five years. Also classified as an operating lease is the land portion of the Service Centre located at 1284 Main Street in Winnipeg. Refer to Note 12 Financing Lease Obligation. None of the leases are subleased and no contingent rent is payable for any of the lease arrangements.

Non-cancellable operating lease rentals are payable as follows:

(in thousands of Canadian dollars)	**2012**	2011
Not later than one year	**957**	1,068
Later than one year and not later than five years	**1,959**	2,405
Later than five years	**2,679**	3,180
Total	**5,595**	6,653

During the year ended February 29, 2012, $1,040,000 was recognized as an expense for operating leases (2011 - $1,104,000) in the Statement of Operations.

AS A LESSOR:

On May 1, 2009, the Corporation purchased the cityplace property located in downtown Winnipeg including the Cityplace building, two adjacent parking lots and one adjacent parkade. The Cityplace building includes five floors of office space, three floors of parking and two floors of retail space. The Corporation uses approximately 60% of the building for administrative purposes and leases out the remaining 40%. The leases are all classified as operating leases.

Future minimum lease payments under non-cancellable leases to be received are:

(in thousands of Canadian dollars)	**2012**	2011
Not later than one year	**3,129**	3,129
Later than one year and not later than five years	**11,288**	10,879
Later than five years	**5,260**	7,751
Total	**19,677**	21,759

During the year ended February 29, 2012, income from investment property includes gross rental income from operating leases of $11,022,000 (2011 - $10,905,000) and gross rental expenses pertaining to operating leases of $9,520,000 (2011 - $8,396,000). Included in rental income is income contingent on retail sales of $160,000 (2011 - $184,000).

14. UNEARNED PREMIUMS AND FEES

(in thousands of Canadian dollars)	**2012 Gross**	**2012 Reinsurers' Share**	2011 Gross	2011 Reinsurers' Share
Unearned premiums				
Balance at March 1	**425,652**	**9,760**	416,926	11,853
Premiums written	**967,565**	**8,025**	941,378	11,654
Premiums earned	**(949,830)**	**(14,445)**	(932,652)	(13,747)
Balance at February 29/28	**443,387**	**3,340**	425,652	9,760
Prepaid premiums	**31,922**		31,094	
Unearned fees	**4,283**		3,841	
Balance at February 29/28	**479,592**	**3,340**	460,587	9,760

(in thousands of Canadian dollars)	**February 29, 2012**	February 28, 2011	March 1, 2010
Unearned premiums – gross	**443,387**	425,652	416,926
Prepaid premiums	**31,922**	31,094	29,296
Unearned fees	**4,283**	3,841	3,332
	479,592	460,587	449,554

15. PROVISION FOR EMPLOYEE CURRENT BENEFITS

The provision for employee current benefits includes banked vacation, accrued vacation and sick leave liabilities.

(in thousands of Canadian dollars)	**2012**	2011
Balance at March 1	**19,174**	18,833
Provisions	**16,434**	12,944
Payments	**(14,499)**	(12,603)
Balance at February 29/28	**21,109**	19,174

16. 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, 2011, with the next scheduled actuarial valuation being December 31, 2012.

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 29/28 and the corresponding economic assumptions are as follows:

	Pension Benefit Plan		Other Benefit Plans	
	2012	2011	**2012**	2011
Discount rate	**4.20%**	4.85%	**4.20%**	4.85%
Inflation rate	**2.00%**	2.00%		
Expected salary increase	**2.90%**	2.90%		
Expected health care cost increase			**6.00%**	6.50%

	Pension Benefit Plan		Other Benefit Plans	
(in thousands of Canadian dollars)	**2012**	2011	**2012**	2011
Balance at March 1	**218,872**	189,113	**38,940**	37,721
Current service cost	**10,773**	9,318	**3,819**	4,824
Interest cost	**10,631**	9,990	**738**	764
Benefits paid	**(6,591)**	(5,980)	**(2,668)**	(3,537)
Actuarial (gains) losses	**26,730**	16,431	**17**	(832)
Balance at February 29/28	**260,415**	218,872	**40,846**	38,940
Employee contribution for the year	**6,603**	6,387	**–**	–

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.

	Pension Benefit Plan		Other Benefit Plans	
(in thousands of Canadian dollars)	**2012**	2011	**2012**	2011
Current service cost	**10,773**	9,318	**3,820**	4,824
Interest cost	**10,631**	9,990	**738**	764
Actuarial (gains) losses pertaining to interest	**16,840**	10,352		
Actuarial (gains) losses pertaining to expenses	**9,890**	6,079	**17**	(832)
	48,134	35,739	**4,575**	4,756

17. INSURANCE CONTRACTS

The following is a summary of the insurance contract provisions and related reinsurance assets as at the end of February, 2012 and 2011 and as at the date of transition to IFRS, March 1, 2010.

(in thousands of Canadian dollars)	**February 29, 2012**	February 28, 2011	March 1, 2010
Gross Insurance Contract Provisions			
Outstanding case reserves	**1,009,538**	990,792	904,884
Provision for incurred but not reported claims	**239,785**	338,816	594,796
Provision for internal loss adjusting expenses	**141,691**	125,405	123,347
Effect of discounting	**(194,697)**	(260,937)	(277,018)
Provision for adverse deviation	**289,128**	247,069	282,519
Total Gross Provision for Unpaid Claims	**1,485,445**	1,441,145	1,628,528
Total Gross Provision for Unearned Premiums	**443,387**	425,652	416,926
Total Gross Insurance Contract Provisions	**1,928,832**	1,866,797	2,045,454
Reinsurance Ceded			
Outstanding case reserves	**27,195**	38,680	53,564
Provision for incurred but not reported claims	**1,817**	506	2,756
Effect of discounting	**(493)**	(462)	(1,619)
Provision for adverse deviation	**2,772**	3,683	4,788
Total Reinsurers' Share of Unpaid Claims	**31,291**	42,407	59,489
Total Reinsurers' Share of Unearned Premiums	**3,340**	9,760	11,853
Total Reinsurers' Share of Insurance Contract Provisions	**34,631**	52,167	71,342
Net Insurance Contract Provisions			
Outstanding case reserves	**982,343**	952,112	851,320
Provision for incurred but not reported claims	**237,968**	338,310	592,040
Provision for internal loss adjusting expenses	**141,691**	125,405	123,347
Effect of discounting	**(194,204)**	(260,475)	(275,399)
Provision for adverse deviation	**286,356**	243,386	277,731
Total Net Provision for Unpaid Claims	**1,454,154**	1,398,738	1,569,039
Total Net Provision for Unearned Premiums	**440,047**	415,892	405,073
Total Net Insurance Contract Provisions	**1,894,201**	1,814,630	1,974,112

The following is a summary of the insurance contract provisions and related reinsurance assets by line of business as at the end of February, 2012 and 2011 and as at the date of transition to IFRS, March 1, 2010.

(in thousands of Canadian dollars)			**February 29, 2012**
	Gross	**Reinsurance Ceded**	**Net**
Basic	**1,641,690**	**24,313**	**1,617,377**
Extension	**93,823**	**260**	**93,563**
Special Risk Extension	**98,888**	**7,779**	**91,109**
Total undiscounted	**1,834,401**	**32,352**	**1,802,049**
Discounting with Provision for Adverse Deviation	**94,431**	**2,279**	**92,152**
Total Insurance Contract Provisions	**1,928,832**	**34,631**	**1,894,201**

(in thousands of Canadian dollars)			February 28, 2011
	Gross	Reinsurance Ceded	Net
Basic	1,688,301	39,187	1,649,114
Extension	100,167	673	99,494
Special Risk Extension	92,197	9,086	83,111
Total undiscounted	1,880,665	48,946	1,831,719
Discounting with Provision for Adverse Deviation	(13,868)	3,221	(17,089)
Total Insurance Contract Provisions	1,866,797	52,167	1,814,630

(in thousands of Canadian dollars)			March 1, 2010
	Gross	Reinsurance Ceded	Net
Basic	1,828,629	46,981	1,781,648
Extension	103,092	1,943	101,149
Special Risk Extension	108,232	19,249	88,983
Total undiscounted	2,039,953	68,173	1,971,780
Discounting with Provision for Adverse Deviation	5,501	3,169	2,332
Total Insurance Contract Provisions	2,045,454	71,342	1,974,112

18. CLAIMS LIABILITIES

METHODOLOGY AND ASSUMPTIONS

The best estimates of claim liabilities are determined based on a review of the projected ultimate claim liabilities using various standard actuarial techniques. In particular, the techniques used to project ultimate claim liabilities include the incurred loss development method, the paid loss development method, the incurred Bornheutter-Ferguson method, and the paid Bornheutter-Ferguson method. The projected ultimate claim liabilities are then determined by selection of the most appropriate technique by line of business, coverage, and maturity of the accident year.

Loss Development Method

The loss development method projects ultimate claims for each accident year using the reported/paid losses as at the valuation date, and assuming that future development on these losses is similar to prior accident years' development. The underlying assumption of the method is that the reported/paid-to-date losses will continue to develop in a similar manner in the future.

Bornheutter-Ferguson Method

The Bornheutter-Ferguson Method projects ultimate claims for each accident year by adding the expected unreported/unpaid losses to the reported/paid losses as at the valuation date. The expected unreported/unpaid losses are determined as the product of the expected loss ratio and the percent unreported/unpaid, the latter based on the maturity of the accident year. An implicit assumption of this method is that the reported/paid-to-date losses contain no informational value as to the amount of losses yet to be reported/paid.

Claim liabilities are initially determined on an undiscounted gross basis. Ceded claim liabilities are then deducted to determine the claim liabilities on an undiscounted net basis.

By line of business and coverage, losses paid and incurred for the last 19 accident years, on a gross basis, are organized in a triangular form by accident year and development period. Adjustments are made to the triangles for Comprehensive coverage and indexed coverages:

- For Comprehensive coverage, catastrophic losses are removed from the triangles. For the purpose of the valuation, catastrophic losses are defined as losses from a single catastrophic event whereby the incurred losses from the event exceed the Corporation's catastrophe retention level for the applicable accident year. The claim liabilities for these catastrophic losses are evaluated separately.
- For indexed coverages, prior years' losses are brought to current benefit levels so that the loss development factors are unaffected by indexation.

Ratios of loss amounts at successive development years are calculated to build loss development factor triangles. Loss development factors are selected based on observed historical development pattern. Judgment is used whenever there is significant variability in the observed historical development pattern, which happens with coverages with a small number of claims. Judgment is also used, in the absence of available supporting data, to determine tail factors for long-tailed coverages.

The loss data does not include internal loss adjustment expenses (ILAE). As such, a provision for ILAE is determined based on the observed historical ratios of paid ILAE to paid losses. The method assumes that half of the ILAE is paid when the claim is first set up, with the remaining half being paid to maintain the claim. An ILAE ratio is selected based on the observed historical ratios. Half of the selected ratio is applied to case reserves. The full ratio is applied to incurred but not reported (IBNR) losses.

The loss data includes salvage and subrogation. As such, a separate analysis is not performed.

Ceded claim liabilities and net claim liabilities are determined as follows:

- For catastrophe reinsurance, estimates of gross claim liabilities are determined for each catastrophic loss. The net claim liabilities are determined as the gross claim liabilities less the applicable recovery. The ceded claim liabilities are the applicable recovery.
- For casualty reinsurance, aggregate ceded claim liabilities by insurance year are determined taking into consideration discounting, retention levels, and other contract provisions. These liabilities are deducted from gross claim liabilities to determine net claim liabilities.

The undiscounted claim liabilities are adjusted to determine the discounted claim liabilities on an actuarial present value basis. Two adjustments are made to conform to the Actuarial Standards of Practice of the Canadian Institute of Actuaries:

- The undiscounted claim liabilities are discounted based on a selected discount rate, which is determined based on the average duration weighted yield for the Corporation's bond portfolio as at the end of the fiscal year.
- Provisions for adverse deviation are added to the discounted claim liabilities to obtain the discounted claim liabilities on an actuarial present value basis.

The estimates for unearned premium liabilities are also tested to ensure that they are sufficient to pay for future claims and expenses in servicing the unexpired policies as of the valuation date.

CHANGES IN ASSUMPTIONS

Basic Accident Benefits – Weekly Indemnity Tail

In the February 28, 2011 valuation, the selected tail factor for Basic Accident Benefits – Weekly Indemnity included a 6.00% load. This load was removed in the February 29, 2012 valuation given that virtually all open weekly indemnity claims are fully reserved (after 10 years), and the payment amounts are stable over time. This change decreased the discounted net claim liabilities by $55.0 million.

Change in Discount Rate

The selected discount rate, determined based on the average duration weighted yield for the Corporation's bond portfolio, decreased by 55 basis points between the February 28, 2011 valuation and the February 29, 2012 valuation. This decrease in the selected discount rate increased the discounted net claim liabilities by $76.3 million and ILAE provision by $7.7 million.

Interest Rate Margin for Adverse Deviation

For the year ended February 29, 2012, the average duration weighted yield of the Corporation's bond portfolio decreased from 4.10% to 3.55%. In that same period, Manitoba's inflation rate has averaged 3.00% compared to the Corporation's forecast of 2.00%. In light of the higher than forecasted inflation rate, coupled with the decreasing trend in the average yield, the interest rate margin for adverse deviation was increased by 25 basis points to reflect the higher uncertainty in the selected interest rate. The increase in the interest rate margin increased the discounted net claim liabilities by $32.8 million and ILAE provision by $3.3 million.

Provision for Future Deductible Increase

In the February 28, 2011, valuation, an IBNR provision was included to cover latent glass claims in the event of a deductible increase. This provision was removed for the current valuation, since it was opined that such a provision should not be accrued until an effective date is assured. The removal of this provision decreased the discounted net claim liabilities by $8.9 million.

Internal Loss Adjustment Expense Provision

For the Basic line of business, in light of recent significant decreases in unpaid claims, the methodology for determining the ILAE provision used in the valuation as of February 28, 2011, which compares the paid ILAE to the average of the paid and incurred losses, is no longer appropriate. As such, the methodology has been revised to the paid ILAE to paid losses method. The same change to the methodology is made to the Extension and Special Risk Extension (SRE) lines of business to standardize the approach used.

In addition, in the valuation as of February 28, 2011, the selected ILAE ratio was applied only to "pure" IBNR – the estimated portion of total IBNR reserved for accidents which have not been reported as of the valuation date. For the current valuation, the selected ILAE ratio has been applied to total IBNR, which better recognizes that the ILAE associated with closing long-term claims will likely be greater than that reflected in the historical ratios.

The total effect of both the change in the selected ILAE ratios and applying the selected ILAE ratio to total IBNR is an increase in the ILAE provision of $13.4 million.

The provision for unpaid claims, including adjustment expenses, by major claims category includes:

(in thousands of Canadian dollars) **Balance at February 29, 2012**	**Gross**	**Reinsurers' Share**	**Net**
Automobile Insurance Division			
Liability	**1,341,719**	**27,640**	**1,314,079**
Physical Damage	**139,929**	**3,651**	**136,278**
	1,481,648	**31,291**	**1,450,357**
Discontinued Operations - Personal/Commercial Lines	**3,797**		**3,797**
	1,485,445	**31,291**	**1,454,154**

(in thousands of Canadian dollars) Balance at February 28, 2011	Gross	Reinsurers' Share	Net
Automobile Insurance Division			
Liability	1,271,794	37,655	1,234,139
Physical Damage	165,944	4,752	161,192
	1,437,738	42,407	1,395,331
Discontinued Operations - Personal/Commercial Lines	3,407		3,407
	1,441,145	42,407	1,398,738

(in thousands of Canadian dollars) Balance at March 1, 2010	Gross	Reinsurers' Share	Net
Automobile Insurance Division			
Liability	1,481,548	43,313	1,438,235
Physical Damage	143,021	16,176	126,845
	1,624,569	59,489	1,565,080
Discontinued Operations - Personal/Commercial Lines	3,959		3,959
	1,628,528	59,489	1,569,039

CHANGES IN UNPAID CLAIMS AND ILAE PROVISIONS

Gross

(in thousands of Canadian dollars)	2012	2011
Discounted unpaid claims at March 1	**1,315,858**	1,505,308
Effect of discounting and Provision for Adverse Deviation	**14,079**	(5,264)
Undiscounted unpaid claims at March 1	**1,329,937**	1,500,044
Ultimate claims for current accident year	**624,935**	633,832
Payment on current accident year claims	**(383,086)**	(360,672)
Change in ultimate claims from prior accident years	**(76,243)**	(225,093)
Payments on prior accident years claims	**(246,220)**	(218,503)
Undiscounted unpaid claims at February 29/28	**1,249,323**	1,329,608
Effect of discounting and Provision for Adverse Deviation	**94,431**	(13,868)
Discounted unpaid claims at February 29/28	**1,343,754**	1,315,740
ILAE provision	**141,691**	125,405
Total unpaid claims provision	**1,485,445**	1,441,145

Reinsurance Ceded

(in thousands of Canadian dollars)	2012	2011
Discounted unpaid claims at March 1	**42,410**	59,534
Effect of discounting and Provision for Adverse Deviation	**(3,222)**	(3,169)
Undiscounted unpaid claims at March 1	**39,188**	56,365
Ultimate claims for current accident year	**468**	530
Payment on current accident year claims		
Change in ultimate claims from prior accident years	**8,617**	2,797
Payments on prior accident years claims	**(19,261)**	(20,506)
Undiscounted unpaid claims at February 29/28	**29,012**	39,186
Effect of discounting and Provision for Adverse Deviation	**2,279**	3,221
Discounted unpaid claims at February 29/28	**31,291**	42,407
ILAE provision		
Total unpaid claims provision	**31,291**	42,407

Net of Reinsurance Ceded

(in thousands of Canadian dollars)	2012	2011
Discounted unpaid claims at March 1	**1,273,448**	1,445,774
Effect of discounting and Provision for Adverse Deviation	**17,301**	(2,095)
Undiscounted unpaid claims at March 1	**1,290,749**	1,443,679
Ultimate claims for current accident year	**624,467**	633,302
Payment on current accident year claims	**(383,086)**	(360,672
Change in ultimate claims from prior accident years	**(84,860)**	(227,890)
Payments on prior accident years claims	**(226,959)**	(197,997)
Undiscounted unpaid claims at February 29/28	**1,220,311**	1,290,422
Effect of discounting and Provision for Adverse Deviation	**92,152**	(17,089)
Discounted unpaid claims at February 29/28	**1,312,463**	1,273,333
ILAE provision	**141,691**	125,405
Total unpaid claims provision	**1,454,154**	1,398,738

According to accepted actuarial practice, the discounted reserve includes a provision for adverse deviation of $286.4 million (2011 – $243.4 million) comprised of a claims development component of $137.6 million (2011 – $135.6 million), an interest rate component of $147.4 million (2011 – $106.0 million) and a reinsurance component of $1.4 million (2011 - $1.8 million).

Net claims incurred and adjustment expenses include no losses from catastrophes in the current fiscal year (2011 – nil). Catastrophes are an inherent risk to the Corporation and may contribute materially to the year-to-year fluctuations in the Corporation's results of operations and financial condition when they occur.

Changes in the estimate of net unpaid claims for discontinued operations recognized during the fiscal year ended February 29, 2012 are a increase of $0.4 million (2011 – decrease of $0.4 million). All of the net unpaid claims relate to loss dates prior to October 1, 1990.

Unpaid claim liabilities are carried at values that reflect their remaining estimated ultimate costs for all accident years.

DEVELOPMENT OF ULTIMATE CLAIMS

Gross (in thousands of Canadian dollars)	Accident Year 2008	2009	2010	2011	2012	5 Year Total
Estimate of ultimate claims costs						
At end of accident year	691,105	605,403	641,527	633,832	624,935	
One year later	672,845	591,749	611,578	627,341		
Two years later	669,780	576,028	608,583			
Three years later	638,322	556,758				
Four years later	636,848					
Current estimate of cumulative claims costs	636,848	556,758	608,583	627,341	624,935	3,054,465
Cumulative payments to date	558,501	490,658	507,722	517,708	383,086	2,457,675

Net of Reinsurance Ceded (in thousands of Canadian dollars)	Accident Year 2008	2009	2010	2011	2012	5 Year Total
Estimate of ultimate claims costs						
At end of accident year	649,685	604,931	618,906	633,302	624,467	
One year later	632,232	591,300	590,027	626,998		
Two years later	629,452	575,766	586,459			
Three years later	598,086	556,563				
Four years later	595,361					
Current estimate of cumulative claims costs	595,361	556,563	586,459	626,998	624,467	2,989,848
Cumulative payments to date	518,557	490,659	488,081	517,708	383,087	2,398,092

There is uncertainty in the estimation process. The actual amount of ultimate claims can only be ascertained once all claims are closed. The unpaid claim liabilities for Personal Injury Protection Plan (PIPP) benefits represent the majority of the Corporation's claim liabilities. PIPP claim liabilities are also the most uncertain because of the long term nature of these benefits. A 5.00% increase in net PIPP claim liabilities is equal to approximately $40.0 million. Such a change could occur if the expected future development of payments to lifetime PIPP claimants is higher than anticipated. A 1.00% decrease in the interest rate would increase PIPP claim liabilities by approximately $110.0 million. However, this impact would be largely offset by gains on the Corporation's fixed income portfolio. Changes to assumptions for other coverages or lines of business are considered to be less material.

19. REINSURANCE

The Corporation follows the practice of obtaining reinsurance to limit its exposure to losses. Under agreements in effect at February 29, 2012, these reinsurance agreements limit the Corporation's exposure on a casualty basis to a maximum amount of $5.0 million (2011 – $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 (2011 – $16.7 million). These arrangements protect the Corporation against losses up to $266.7 million (2011 – $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.

20. INFORMATION TECHNOLOGY OPTIMIZATION FUND

Activity in the Information Technology Optimization Fund includes:

(in thousands of Canadian dollars)	2012	2011
Balance at March 1	**65,000**	
Transfer from (to) Basic Insurance Retained Earnings	**(65,000)**	65,000
Balance at February 29/28	**–**	65,000

See Note 3 for full details of the Extension Developement Fund.

21. EXTENSION DEVELOPMENT FUND

Activity in the Extension Development Fund includes:

(in thousands of Canadian dollars)	2012	2011
Balance at March 1	**43,227**	48,279
Transfer (to) from Non-Basic Retained Earnings for IT optimization projects	**(10,000)**	10,000
Transfer (to) Non-Basic Retained Earnings for program costs	**(12,458)**	(15,052)
Balance at February 29/28	**20,769**	43,227

See Note 3 for full details of the Extension Development Fund.

22. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated Other Comprehensive Income (AOCI) reflects the net unrealized gain or loss on financial assets classified as AFS. Changes in AOCI by type of asset are presented below.

(in thousands of Canadian dollars)	Equity Investments	Other Investments	Total AOCI
Balance at March 1, 2010	14,813	750	15,563
Unrealized gains (losses) on AFS assets	84,761	466	85,227
Reclassification of net realized (gains) losses related to AFS assets	(17,833)	595	(17,238)
Balance at February 28, 2011	81,741	1,811	83,552
Unrealized gains (losses) on AFS assets	(24,604)	1,294	(23,310)
Reclassification of net realized (gains) losses related to AFS assets	(2,127)		(2,127)
Balance at February 29, 2012	55,010	3,105	58,115

23. SERVICE FEES AND OTHER REVENUE

(in thousands of Canadian dollars)	2012	2011
Transaction fees	**7,701**	6,363
Time payment fees	**2,578**	2,453
Time payment interest	**12,236**	10,097
Late payment fees	**881**	1,031
Dishonoured payment fees	**771**	696
Identity card/Enhanced identity card fees	**439**	290
Other miscellaneous revenue	**440**	1,400
	25,046	22,330

24. *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 provided funding to the Corporation in the amount of $21.0 million annually, from October, 2004 to March, 2011, to defray the cost borne by the Corporation for DVA operations. Beginning April 1, 2011 the Province of Manitoba increased 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 Canadian dollars)	**2012**	2011
Vehicle registration fees	**138,082**	130,845
Driver licensing fees	**22,681**	20,990
	160,763	151,835

25. NET INCOME (LOSS) FROM ANNUAL OPERATIONS

The lines of business reported net income (loss) from annual operations as follows:

(in thousands of Canadian dollars)	**2012**	2011
Basic insurance	**22,278**	283,855
Extension insurance	**21,836**	25,199
Special risk extension insurance	**(2,191)**	10,416
The Drivers and Vehicles Act operations	**(4,500)**	(26,954)
	15,145	8,661
Net income (loss) from annual operations	**37,423**	292,516
Surplus distribution	**(14,120)**	(321,678)
Net income (loss) after surplus distribution	**23,303**	(29,162)

26. SURPLUS DISTRIBUTION

During the last quarter of the previous fiscal year, based on the Public Utilities Board Orders 122/10 and 43/11, a surplus distribution of Basic motor vehicle premiums written based on 2009/2010 rates, estimated to be $321.7 million, was recorded. The surplus distribution was actualized in May, 2011 when $318.5 million was paid to Basic policyholders.

On June 6, 2011, in response to customer feedback, the Corporation applied to the Public Utilities Board, requesting that the Board vary its Order 43/11, regarding the distributed rebate. The Corporation requested permission to issue an additional rebate of $16.0 million, estimated to be 5.0% of the original rebate. The most recent rebate, like previous rebates, was calculated on premiums paid in the 2009/2010 insurance year. The Corporation requested that all ratepayers receive the "greater of" calculation based on both premiums paid in fiscal year 2009/2010 and on the 2009/2010 insurance rating year. This would ensure affected customers receive a rebate based on the calculation that was most advantageous to them and eliminated any potential disadvantage based on their particular vehicle or Autopac insurance purchasing decisions.

On June 23, 2011, the additional proposed surplus distribution was approved by the Public Utilities Board in its Order 86/11. The additional surplus was actualized during the third quarter of 2011/2012 when $17.3 million was paid to Basic policyholders.

27. 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 a net loss of $0.2 million (2011 – net income of $0.6 million) which is reported as part of the Special Risk Extension line of business (Note 25). Included in the provision for unpaid claims is $3.8 million (2011 – $3.4 million) relating to discontinued operations.

28. COMMITMENTS

The Corporation has committed $2.5 million for the restoration of the parkade and the construction of a daycare in cityplace.

29. RELATED-PARTY TRANSACTIONS

Key management personnel are comprised of all members of the Board of Directors and the named Executive. The summary of compensation of key management personnel for the year is as follows:

(in thousands of Canadian dollars)	**2012**	2011
Short-term benefits	**1,674**	1,754
Post-employment benefits	**51**	45
Other long-term benefits	**20**	19
Termination benefits	**269**	346
	2,014	2,164

Key management personnel and their close relatives may have insurance policies with the Corporation as required by *The Manitoba Public Insurance Corporation Act*. The terms and conditions of such transactions are the same as those available to all policy holders and employees of the Corporation.

30. 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 one corporate initiative:

> 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. (Refer to Notes 3 and 21 for full details of the Extension Development Fund.)

Basic Retained Earnings are comprised of the Rate Stabilization Reserve (RSR) and Retained Earnings in excess of the RSR. The Corporation's Board of Directors' current target RSR level is $210.0 million based on the 2011 Basic Insurance Dynamic Capital Adequacy Test (DCAT) report. In his report, the Corporation's internal actuary concluded that a minimum RSR level of $210.0 million would be required for Basic to achieve a satisfactory future financial condition. An RSR level lower than $210.0 million would result in a "not satisfactory" opinion because there were plausible adverse scenarios identified where liabilities exceed assets. In 2010, the Corporation began using the maximum of the Public Utilities Board RSR target in its Public Utilities Board rate applications for ratemaking purposes.

The Public Utilities Board of Manitoba, by its Order 162/11, has established the Basic RSR target for rate-setting purposes to be $77.9 million to $155.7 million. The target is reflective of 10.0% to 20.0% of written premiums.

In the same order, the Public Utilities Board agreed that it would revisit the RSR target during the 2013 General Rate Application process.

The Corporation's Board of Directors' current target level for Extension Retained Earnings is $35.0 million based on the 2011 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 2011 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.

31. 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 29, 2012, total U.S. dollar financial instruments had a carry value of $134,951,000 U.S. ($134,330,000 Cdn) which is approximately 5.0% 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% return in Canadian dollars. The agreement also provides that at predetermined future dates, the Corporation pays a fixed 7.5% rate based on the U.S. $10,000,000 par value of the bond and receives 5.76% 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 - %	
	2012	2011
Federal	**2.17**	2.34
Provincial	**2.82**	3.32
Municipal	**3.38**	4.14
Hospitals	**2.50**	3.45
Schools	**5.47**	5.67
Corporations	**3.32**	4.93

As at February 29, 2012, 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 $68.7 million (2011 - $82.2 million). As all of the Corporation's marketable fixed income assets are now classified as FVTPL, all changes would affect 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 its unpaid claims liability and therefore, any change in interest rates related to these investments is largely mitigated by 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 29, 2012, a 10.0% change in the fair value of the Corporation's equity portfolio would result in a $50.2 million (2011 - $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 impaired (Refer to Note 3). 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 Statement of Financial Position. The maximum credit exposure is the carrying value of the asset net of any allowance for loss.

(in thousands of Canadian dollars)	**2012**	2011	2010
Bonds	**1,396,357**	1,703,414	1,703,606
Due from other insurance companies	**2,545**	11,971	10,656
Accounts receivable	**304,155**	292,035	289,711
Reinsurance receivable	**27,268**	38,007	49,289
Maximum credit risk exposure on the Statement of Financial Position	**1,730,325**	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 primarily to Moody's Investors Service. All Manitoba municipal, schools and hospitals bonds are backed by the province of Manitoba and, as such, have been assigned the credit rating of the Province of Manitoba Bonds.

	February 29, 2012		February 28, 2011		March 1, 2010	
	Carrying Value (in thousands of Canadian dollars)	**Percentage of Portfolio**	Carrying Value (in thousands of Canadian dollars)	Percentage of Portfolio	Carrying Value (in thousands of Canadian dollars)	Percentage of Portfolio
Aaa	**190,790**	**13.6**	438,066	25.7	421,669	24.7
Aa	**1,158,928**	**83.0**	1,238,750	72.7	1,244,625	73.1
A	**45,446**	**3.3**	25,548	1.5	24,411	1.4
Not rated	**1,193**	**0.1**	1,050	0.1	12,901	0.8
	1,396,357	**100.0**	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 Canadian dollars)	**February 29, 2012**	February 28, 2011	March 1, 2010
Policy and time payments	**275,706**	264,026	260,983
Accrued interest	**23,202**	25,601	26,783
Subrogation and other receivables	**12,304**	10,895	12,493
Allowance for doubtful accounts	**(7,057)**	(8,487)	(10,548)
	304,155	292,035	289,711

Details of the allowance for doubtful accounts are as follows:

(in thousands of Canadian dollars)	**2012**	2011
Balance at March 1	**8,487**	10,548
Accounts written off	**(1,227)**	(1,653)
Current period provision	**(203)**	(408)
Balance at February 29/28	**7,057**	8,487

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 $3.0 million (2011 – $4.4 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 2011/2012 fiscal year, nine reinsurers share the Corporation's casualty reinsurance coverage, ranging from 2.5% to 35.0% on any one layer. The reinsurer exposed to 35.0% 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 2011/2012 fiscal year, 15 reinsurers share the Corporation's catastrophe reinsurance coverage, none holding more than 22.0% of the reinsurance exposure on any one layer. The 2011/2012 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 2011/2012 and no allowance for doubtful accounts has been established as at February 29, 2012.

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 Statement of Financial Position date, the present value of expected payments totals $157.0 million (2011 – $138.5 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 Canadian dollars)	Within One Year	One Year To Five Years	After Five Years	Total Carrying Value
				February 29, 2012
Federal	**13,392**	**50,468**	**57,422**	**121,282**
Manitoba				
Provincial	**27,719**	**29,632**	**232,575**	**289,926**
Municipal	**17,013**	**21,680**	**15,850**	**54,543**
Hospitals		**12,482**		**12,482**
Schools	**3,030**	**7,792**	**479,335**	**490,157**
Other Provinces				
Provincial	**41,487**	**41,071**	**237,418**	**319,976**
Municipal		**5,383**	**52,651**	**58,034**
Corporations		**23,574**	**26,383**	**49,957**
	102,641	**192,082**	**1,101,634**	**1,396,357**

(in thousands of Canadian dollars)	Within One Year	One Year To Five Years	After Five Years	Total Carrying Value
				February 28, 2011
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 Canadian dollars)	Within One Year	One Year To Five Years	After Five Years	Total Carrying Value
				March 1, 2010
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

32. NON-CURRENT ASSETS AND LIABILITIES

The following table presents financial assets and liabilities the Corporation expects to recover or settle in 12 months or greater at February 29, 2012, February 28, 2011 and March 1, 2010.

(in thousands of Canadian dollars)	**February 29, 2012**	February 28, 2011	March 1, 2010
Assets:			
Bonds	**1,293,716**	1,638,507	1,666,560
Equity investments	**502,675**	526,972	387,092
Investment property	**154,086**	85,799	
Infrastructure and other investments	**18,361**	7,126	7,650
Reinsurers' share of unpaid claims	**28,427**	37,600	40,992
Total assets	**1,997,265**	2,296,004	2,102,294
Liabilities:			
Financing lease obligation	**4,180**	4,229	
Provision for unpaid claims	**1,228,332**	1,150,790	1,362,278
Total liabilities	**1,232,512**	1,155,019	1,362,278
Net assets due after one year	**764,753**	1,140,985	740,016

33. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Canadian publicly accountable enterprises, including Manitoba Public Insurance, are required to prepare their financial statements, in accordance with International Financial Reporting Standards (IFRS) for periods beginning on or after January 1, 2011. The financial statements included herein have been prepared based on IFRS. Comparative results for the twelve months ended February 28, 2011, previously reported based on Canadian Generally Accepted Accounting Principles (GAAP), have been restated based on IFRS which required the preparation of an opening IFRS Statement of Financial Position on the Corporation's Transition Date to IFRS, March 1, 2010.

No significant presentation differences have been made to the Statement of Cash Flows upon transition to IFRS.

In preparing the financial statements in accordance with IFRS 1, *First-time adoption of IFRS,* retrospective application of IFRS to create or revise estimates is prohibited. Adjustments made to restate items previously prepared in accordance with Canadian GAAP to IFRS are presented in the Reconciliations from Canadian GAAP to IFRS tables below.

IFRS 1, First-time adoption of IFRS – Exemption

IFRS 1 allows for a number of electable exemptions upon first-time adoption to IFRS. The Corporation has elected the following exemptions in preparing its opening March 1, 2010, Statement of Financial Position:

Designation of Financial Instruments – The Corporation has elected to use the IFRS 1 exemption and change the classification of AFS Bonds to FVTPL. The effect of this change is detailed in Note B of the Reconciliations from Canadian GAAP to IFRS tables presented below.

Claims Development – The Corporation has elected to disclose only five years of information related to claims development, in the February 29, 2012 year-end financial statements, consistent with the transition provisions of IFRS 4, *Insurance Contracts* (Note 18). Each subsequent year, the Corporation will add an additional year of disclosure until such time as it is disclosing ten years.

Defined Benefit Plans – The Corporation has elected to disclose only two years of information relating to the present value of the defined benefit obligation and the experience adjustment arising on plan benefits upon transition, in the February 29, 2012 year-end financial statements (Note 16). Each subsequent year, the Corporation will add an additional year of disclosure until such time as it is disclosing five years.

Arrangements Containing a Lease – The Corporation has elected to apply the transitional provision in IFRIC 4, *Determining whether or not an Arrangement contains a Lease.* This election allows the Corporation to use the facts and circumstances that exist at the transition date to determine whether or not arrangements existing at transition date contain a lease.

RECONCILIATIONS FROM CANADIAN GAAP TO IFRS

Statement of Financial Position

as at March 1, 2010 (in thousands of Canadian dollars)	Notes	Canadian GAAP	IFRS Adjustments	IFRS
Assets				
Cash and investments		1,804,144		1,804,144
Equity investments		387,092		387,092
Investment property	*D.*	15,215	23,326	38,541
Due from other insurance companies		10,656		10,656
Accounts receivable		289,711		289,711
Prepaid expenses		981		981
Deferred policy acquisition costs		43,143		43,143
Reinsurers' share of unearned premiums		11,853		11,853
Reinsurers' share of unpaid claims		59,489		59,489
Property and equipment	*D.*	134,649	(23,326)	111,323
Deferred development costs		34,618		34,618
		2,791,551	–	2,791,551
Liabilities				
Due to other insurance companies		23,386		23,386
Accounts payable and accrued liabilities		49,482		49,482
Financing lease obligation				–
Unearned premiums and fees		449,554		449,554
Provision for employee current benefits	*A.*	15,666	3,167	18,833
Provision for employee future benefits		226,834		226,834
Provision for unpaid claims		1,628,528		1,628,528
		2,393,450	3,167	2,396,617
Equity				
Retained Earnings				
Basic Insurance Retained Earnings		154,000		154,000
Rate Stabilization Reserve	*A. & B.*	70,709	18,639	89,348
Retained Earnings				
Information Technology Optimization Fund				
		224,709	18,639	243,348
Non-Basic Retained Earnings				
Retained Earnings	*A. & B.*	85,389	2,355	87,744
Extension Development Fund		48,279		48,279
		133,668	2,355	136,023
		358,377	20,994	379,371
Accumulated Other Comprehensive Income	*B.*	39,724	(24,161)	15,563
Total Equity		398,101	(3,167)	394,934
		2,791,551	–	2,791,551

Statement of Financial Position

as at February 28, 2011 (in thousands of Canadian dollars)	Notes	Canadian GAAP	IFRS Adjustments	IFRS
Assets				
Cash and investments		1,776,096		1,776,096
Equity investments		526,972		526,972
Investment property	*D.*	100,791	22,730	123,521
Due from other insurance companies		11,971		11,971
Accounts receivable		292,035		292,035
Prepaid expenses		949		949
Deferred policy acquisition costs		46,950		46,950
Reinsurers' share of unearned premiums		9,760		9,760
Reinsurers' share of unpaid claims		42,407		42,407
Property and equipment	*D.*	145,867	(22,730)	123,137
Deferred development costs		38,232		38,232
		2,992,030	–	2,992,030
Liabilities				
Due to other insurance companies		13,386		13,386
Accounts payable and accrued liabilities		361,579		361,579
Financing lease obligation		4,586		4,586
Unearned premiums and fees		460,587		460,587
Provision for employee current benefits	*A.*	16,007	3,167	19,174
Provision for employee future benefits		257,812		257,812
Provision for unpaid claims		1,441,145		1,441,145
		2,555,102	3,167	2,558,269
Equity				
Retained Earnings				
Basic Insurance Retained Earnings				
Rate Stabilization Reserve	*A. & B.*	127,880	12,645	140,525
Retained Earnings				
Information Technology Optimization Fund		65,000		65,000
		192,880	12,645	205,525
Non-Basic Retained Earnings				
Retained Earnings	*A. & B.*	99,969	1,488	101,457
Extension Development Fund		43,227		43,227
		143,196	1,488	144,684
		336,076	14,133	350,209
Accumulated Other Comprehensive Income	*B.*	100,852	(17,300)	83,552
Total Equity		436,928	(3,167)	433,761
		2,992,030	–	2,992,030

Statement of Operations

For the year ended February 28, 2011 (in thousands of Canadian dollars)	Notes	Canadian GAAP	IFRS Adjustments	IFRS
Earned Revenues				
Gross premiums written		941,378		941,378
Premiums ceded to reinsurers		(11,654)		(11,654)
Net premiums written		929,724		929,724
Increase (decrease) in gross unearned premiums		(8,726)		(8,726)
Increase (decrease) in reinsurers' share of unearned premiums		(2,093)		(2,093)
Net premiums earned		918,905		918,905
Service fees & other revenue	*C. & D.*	16,907	5,423	22,330
The Drivers and Vehicles Act operations recovery		20,995		20,995
Total Earned Revenues		956,807	5,423	962,230
Claims Costs				
Direct claims incurred		421,828		421,828
Claims incurred ceded to reinsurers		(3,417)		(3,417)
Net claims incurred		418,411		418,411
Claims expense		110,857		110,857
Loss prevention/Road safety		18,052		18,052
Total Claims Costs		547,320	–	547,320
Expenses				
Operating	*C. & D.*	109,904	7,200	117,104
Commissions		78,510		78,510
Premium taxes		18,329		18,329
Regulatory/Appeal		4,109		4,109
Total Expenses		210,852	7,200	218,052
Underwriting income (loss)		198,635	(1,777)	196,858
Investment income	*B. & D.*	100,742	(5,084)	95,658
Gain on disposal of property				
Net income (loss) from annual operations		299,377	(6,861)	292,516
Surplus distribution		(321,678)		(321,678)
Net income (loss) after surplus distribution		(22,301)	(6,861)	(29,162)

Statement of Comprehensive Income (Loss)

For the year ended February 28, 2011 (in thousands of Canadian dollars)	Notes	Canadian GAAP	IFRS Adjustments	IFRS
Net income (loss) after surplus distribution		(22,301)	(6,861)	(29,162)
Other Comprehensive Income (loss)				
Unrealized gains (losses) on Available for Sale assets		84,613	614	85,227
Reclassification of net realized (gains) losses related to Available for Sale assets		(23,485)	6,247	(17,238)
Other Comprehensive Income (loss) for the period	*B.*	61,128	6,861	67,989
Total Comprehensive Income (loss)		38,827	–	38,827

Statement of Changes in Equity

Retained Earnings

(in thousands of Canadian dollars)	Notes	Basic: Rate Stabilization Reserve	Basic: Retained Earnings	Basic: IT Optimization Fund	Basic: Total Retained Earnings	Non-Basic: Retained Earnings	Non-Basic: Extension Development Fund	Non-Basic: Total Retained Earnings	Corporate: Total Retained Earnings
Balance at February 28, 2010 (GAAP)		154,000	70,709		224,709	85,389	48,279	133,668	358,377
Accounts payable and accrued liabilities – provision for sick leave	*A.*		(2,378)		(2,378)	(789)		(789)	(3,167)
Investments – reclassification from AFS to FVTPL	*B.*		21,017		21,017	3,144		3,144	24,161
Total adjustments		–	18,639	–	18,639	2,355	–	2,355	20,994
Balance at March 1, 2010 (IFRS)		154,000	89,348	–	243,348	87,744	48,279	136,023	379,371
Balance at February 28, 2011 (GAAP)		127,880		65,000	192,880	99,969	43,227	143,196	336,076
Accounts payable and accrued liabilities – provision for sick leave	*A.*	(2,378)			(2,378)	(789)		(789)	(3,167)
Investments – reclassification from AFS to FVTPL	*B.*	15,023			15,023	2,277		2,277	17,300
Total adjustments		12,645	–	–	12,645	1,488	–	1,488	14,133
Balance at February 28, 2011 (IFRS)		140,525	–	65,000	205,525	101,457	43,227	144,684	350,209

Accumulated Other Comprehensive Income

(in thousands of Canadian dollars)	Notes	Bonds	Equity Investments	Other Investments	Total Accumulated Other Comprehensive Income
Balance at February 28, 2010 (GAAP)		24,161	14,813	750	39,724
Investments – reclassification from AFS to FVTPL	*B.*	(24,161)			(24,161)
Balance at March 1, 2010 (IFRS)		–	14,813	750	15,563
Balance at February 28, 2011 (GAAP)		17,300	81,741	1,811	100,852
Investments – reclassification from AFS to FVTPL	*B.*	(17,300)			(17,300)
Balance at February 28, 2011 (IFRS)		–	81,741	1,811	83,552

A. Upon transition to IFRS, a provision for sick leave benefits has been established for $3,167,000. Under IFRS, a provision is required for plans that allow for sick leave entitlements to be carried forward to future years. The provision was calculated based on the average number of employees who receive sick leave benefits in a given year in excess of the plan's entitlement. The plan's current entitlement is one and one-half days of sick leave per month (subject to a doctor's certification in certain instances) for each full time employee. Employees do not receive any payout upon leaving the Corporation for any unused sick leave entitlements accrued. The provision did not materially change between the March 1, 2010 transition date to IFRS and February, 28, 2011 and therefore, no change to the provision was recorded in fiscal year 2010/2011. Under Canadian GAAP, there was no equivalent requirement to establish such a provision.

B. Upon transition to IFRS, the Corporation has elected to change bonds previously classified as AFS to FVTPL as permitted by IFRS 1, *First-Time Adoption of International Financial Reporting Standards*. Under Canadian GAAP, the fair value of AFS bonds was reported in Other Comprehensive Income on the Statement of Comprehensive Income and in Accumulated Other Comprehensive Income (AOCI) on the Balance Sheet. As a result of the election exercised under IFRS 1, the fair value of FVTPL bonds of $24,161,000 was transferred from AOCI to Retained Earnings on March 1, 2010.

   During the year ended February 28, 2011, the fair value of FVTPL bonds decreased by $6,861,000 and is now reported as Investment Income on the Statement of Operations under IFRS. Previously under Canadian GAAP, the bonds were classified as AFS and the decrease in fair value was reported in Other Comprehensive Income on the Statement of Comprehensive Income.

C. As permitted under Canadian GAAP, debit and credit card fees were previously charged against Service Fees and Other Revenue. Under IFRS, debit and credit card fees are charged to Operating Expenses.

   During the year ended February 28, 2011, Service Fees and Other Revenue and Operating Expenses both increased by $7,796,000 as a result of this change. This change has no effect on Net Income (Loss) from Annual Operations.

D. Under Canadian GAAP, the entire cityplace building was classified as Property and Equipment on the Balance Sheet. Under IFRS, the portion of the cityplace building that is not used by the Corporation (40.0%) is classified as Investment Property on the Statement of Financial Position. This change resulted in two adjustments on the Statement of Operations, neither of which has an effect on Net Income (Loss) from Annual Operations.

   i. Under Canadian GAAP, rental income received from the cityplace building was reported as Service Fees and Other Revenue. Under IFRS, rental income from the cityplace building is reported as Investment Income.

      During the year ended February 28, 2011, Service Fees and Other Revenue decreased and Investment Income increased by $2,373,000 as a result of this change.

   ii. Under Canadian GAAP, the related depreciation expense was reported as an Operating Expense. Under IFRS, the related depreciation expense is reported as an offset to Investment Income.

      During the year ended February 28, 2011, Operating Expenses and Investment Income decreased by $596,000 as a result of this change.

34. RATE REGULATION

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.

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.

ROMAN ZUBACH.
Acting/President & Chief Executive Officer

INGRID LOEWEN
Chief Financial & Strategy Officer

AUDITORS' REPORT

INDEPENDENT AUDITORS' 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 sheets as at March 31, 2012 and 2011 and April 1, 2010 and the statements of income and comprehensive income, profit payable to the Province of Manitoba and cash flows and for the years ended March 31, 2012 and 2011, 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 International Financial Reporting Standards, 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 audits. We conducted our audits 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 audits 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, 2012 and 2011 and April 1, 2010 and the results of its operations, profit payable to the Province of Manitoba and its cash flows for the years ended March 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Accountants
Winnipeg, Canada,
June 1, 2012

BALANCE SHEETS

(in thousands of Canadian dollars)

	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
	$	$	$
ASSETS			
Current			
Cash and cash equivalents	**9,904**	8,399	9,190
Accounts receivable	**22,121**	20,308	20,726
Inventory *[note 7]*	**41,183**	38,311	35,690
Prepaid expenses	**1,442**	1,328	1,256
Total current assets	**74,650**	68,346	66,862
Cash and cash equivalents [restricted]	**—**	—	46,360
Property and equipment, net *[note 8]*	**31,050**	28,773	27,122
Intangible assets, net *[note 9]*	**7,378**	6,424	7,298
	113,078	103,543	147,642
LIABILITIES			
Current			
Accounts payable - trade and other	**44,323**	40,140	35,982
Goods and Services Tax payable	**1,955**	708	1,096
Manitoba Retail Sales Tax payable	**1,707**	1,522	1,471
Profit payable to the Province of Manitoba	**39,048**	39,529	39,988
Environmental Protection Tax payable	**147**	140	141
Deferred licence fees	**862**	342	327
Total current liabilities	**88,042**	82,381	79,005
Provision for employee pension benefits *[note 10]*	**20,804**	17,551	64,964
Provision for retirement allowances *[note 11]*	**4,232**	3,611	3,673
	113,078	103,543	147,642

See accompanying notes

On behalf of the Commission:

Chair of the Board

Chair of the Audit Committee

Acting/President & Chief Executive Officer

Chief Financial & Strategy Officer

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

Years ended March 31

	2012	2011
	$	$
Sales *[schedule]*	**652,622**	621,880
Cost of sales *[schedule]*	**325,236**	307,762
Gross profit *[schedule]*	**327,386**	314,118
Other income *[note 12]*	**3,748**	3,687
	331,134	317,805
General and administrative expenses *[note 13]*	**76,864**	67,687
Net profit and comprehensive income for the year	**254,270**	250,118

See accompanying notes

STATEMENTS OF PROFIT PAYABLE TO THE PROVINCE OF MANITOBA

[in thousands of Canadian dollars]

	$
Balance at April 1, 2010	39,988
Net profit and comprehensive income for the year	250,118
Transfers to Province of Manitoba - current year's profit	(202,800)
Transfers to Province of Manitoba - prior year's profit	(47,777)
Balance at March 31, 2011	39,529
Net profit and comprehensive income for the year	254,270
Transfers to Province of Manitoba - current year's profit	(203,200)
Transfers to Province of Manitoba - prior year's profit	(51,551)
Balance at March 31, 2012	39,048

See accompanying notes

STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

Years ended March 31

	2012	2011
	$	$
OPERATING ACTIVITIES		
Cash receipts		
Sales - spirits, wine, refreshment beverages, and beer	**650,673**	622,044
Annual licence fees and other	**5,994**	5,248
Goods and Services Tax	**33,206**	31,639
Manitoba Retail Sales Tax	**22,581**	21,437
Environmental Protection Tax	**2,088**	2,020
	714,542	682,388
Cash disbursements		
Purchases - merchandise, federal duty, excise and sales taxes, and other costs	**326,180**	305,894
General and administrative expenses	**68,585**	66,392
Goods and Services Tax	**31,960**	32,027
Manitoba Retail Sales Tax	**22,396**	21,386
Manitoba Waste Reduction and Prevention Levy	**—**	34
Environmental Protection Tax	**2,081**	2,021
	451,202	427,754
Cash provided by operating activities	**263,340**	254,634
INVESTING ACTIVITIES		
Acquisition of property and equipment	**(7,084)**	(4,848)
Cash used in investing activities	**(7,084)**	(4,848)
FINANCING ACTIVITIES		
Transfers to Province of Manitoba - current year's profit	**(203,200)**	(202,800)
Transfers to Province of Manitoba - prior year's profit	**(51,551)**	(47,777)
Cash used in financing activities	**(254,751)**	(250,577)
Net increase (decrease) in cash during the year	**1,505**	(791)
Cash and cash equivalents, beginning of year	**8,399**	9,190
Cash and cash equivalents, end of year	**9,904**	8,399

See accompanying notes

SCHEDULE OF SALES, COST OF SALES AND GROSS PROFIT

(in thousands of Canadian dollars)

Years ended March 31

	Spirits	Wine	Refreshment beverages	Beer	Total
	$	$	$	$	$
Sales					
Stores	**156,513**	**98,942**	**14,833**	**50,635**	**320,923**
Liquor vendors	**35,042**	**9,787**	**3,712**	**7,657**	**56,198**
Licensees	**20,108**	**5,017**	**1,766**	**234,233**	**261,124**
Specialty wine stores	**28**	**14,256**	**93**	**—**	**14,377**
Total sales for 2012	**211,691**	**128,002**	**20,404**	**292,525**	**652,622**
Total sales for 2011	205,545	122,176	19,172	274,987	621,880
Cost of sales					
Total cost of sales for 2012	**83,676**	**59,327**	**9,303**	**172,930**	**325,236**
Total cost of sales for 2011	81,320	56,229	8,714	161,499	307,762
Gross profit for 2012	**128,015**	**68,675**	**11,101**	**119,595**	**327,386**
Gross profit for 2011	124,225	65,947	10,458	113,488	314,118

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

1. NATURE OF ORGANIZATION

The financial statements of The Liquor Control Commission [the "MLCC"] for the year ended March 31, 2012 were authorized for issue in accordance with a resolution of the Board of Commissioners on June 1, 2012. The MLCC was formed in 1923 as an agency of the Government of Manitoba under *The Liquor Control Act*. The registered office is located at 1555 Buffalo Place, Winnipeg, Manitoba. 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*. All net profit earned from the sale of liquor, or from licence and permit fees, or otherwise arising in the administration of *The Liquor Control Act*, shall be paid to the Province of Manitoba.

2. BASIS OF PRESENTATION

The financial statements of the MLCC have been prepared on a historical cost basis except for certain financial instruments which are reported at fair value. The financial statements are presented in Canadian dollars, which is the functional currency of the MLCC, and all values are rounded to the nearest thousand dollars ($000) except when otherwise indicated.

The financial statements of the MLCC have been prepared in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board. The first date at which IFRS was applied was April 1, 2010 [the "Transition Date"]. The effects of the transition from Canadian generally accepted accounting principles ["GAAP"] to IFRS as of the Transition Date on the balance sheet, statements of income and comprehensive income, and statement of cash flows can be found in note 17.

3. SIGNIFICANT ACCOUNTING POLICIES

[a] Cash and cash equivalents in the balance sheet includes cash on hand, current balances with banks and outstanding electronic fund transactions forwarded to banks. Cash and cash equivalents [restricted] consist of cash balances held in a trust account which were advanced by the Province of Manitoba to fund retiring benefits. In September 2010, the balance in this trust account [$46,408] was transferred to the Civil Service Superannuation Board ["CSSB"] who maintain a separate fund for the MLCC pension assets.

[b] Accounts receivable include electronic fund transactions to be forwarded to banks after March 31.

[c] Inventories of goods for resale are valued at the lower of average cost and net realizable value. Cost comprises purchase price, import duties and freight. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

Inventory write-downs are reversed if the estimated calculations of the recoverable amount change. Write-downs are reversed only to the extent that the carrying value does not exceed the carrying value that would have been determined if no write-down had been recognized.

[d] Revenue is recognized to the extent that it is probable that the economic benefits will flow to the MLCC and the revenue can be reliably measured. For the sale of products, revenue is recognized when the significant rewards of ownership of the products have passed to the buyer, usually on delivery of the products. Other operating income from licence and permit fees, merchandising program fees and administration and other fees is recognized when the MLCC's right to receive the payment is established and MLCC has no further obligation to provide goods or services or on a straight-line basis over the licence term. Revenue is measured at the fair value of the consideration received, excluding sales taxes.

The MLCC assesses its revenue arrangements in order to determine if it is acting as principal or agent. The MLCC has concluded that it is acting as a principal in all of its revenue arrangements, except for the third-party AIR MILES® program in which MLCC participates. The AIR MILES® program allows customers to earn AIR MILES® points when they purchase products in the MLCC's retail stores. The redemption of points by customers is the responsibility of the third-party AIR MILES® program. Consideration received and the related expense is recorded net in other income as MLCC is acting as an agent for the AIR MILES® program.

[e] Revenues, expenses and assets are recognized net of the amount of sales and goods and services tax, and environmental protection tax, except:

[i] Where the sales and goods and services tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales and goods and services tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and,

[ii] Receivables and payables that are stated with the amount of sales and goods and services tax included.

The net amount of sales and goods and services tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

[f] Transactions in foreign currencies are initially recorded by the MLCC at the MLCC's Canadian dollar functional currency exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date. All differences are taken to the statement of income and comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date the fair value is determined.

[g] Property and equipment is stated at cost, net of accumulated amortization and any accumulated impairment losses, if any. Costs include directly attributable costs. Repair and maintenance costs are recognized in the statement of income and comprehensive income as incurred. Amortization is calculated on a straight-line basis over the useful life of the asset as follows:

Buildings	15 to 40 years
Leasehold improvements	Straight-line basis over the remaining term of the lease
Paving	25 years
Equipment and furniture	5 to 40 years
Vehicles	5 years

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the statements of income and comprehensive income when the asset is derecognized.

The assets' residual values, useful lives and methods of amortization are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

[h] Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognized as an expense in the statements of income and comprehensive income on a straight-line basis over the lease term. Leases that contain pre-determined, fixed rental increases are recognized over the life of the lease. Property leases are analyzed into separate components for land and buildings and tested to establish whether the components are operating leases or finance leases. Premiums paid for land are treated as a prepayment of an operating lease rental and recognized on a straight-line basis over the life of the lease.

[i] Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the expenditure is reflected in the statements of income and comprehensive income in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortized on a straight-line basis over the useful economic life of the asset. Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method are reviewed at the end of each reporting period and are treated as changes in estimates. The amortization expense is recognized in the statement of income and comprehensive income in the expense category consistent with the function of the intangible assets.

Gains and losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statements of income and comprehensive income when the asset is derecognized.

A summary of the amortization policies applied to the MLCC's intangible assets is as follows:

Computer software	3 - 15 years

[j] The MLCC assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, a test is performed on the affected asset to assess its recoverable amount against carrying value. An impaired asset is written down to its recoverable amount, which is the higher of its value in use or its fair value less costs to sell. If there is an indication of an increase in fair value of an asset that had previously been impaired, then it is recognized by reversing the impairment, but only to the extent that the recoverable amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized for the asset.

[k] Financial instruments are assessed and recognized in accordance with IAS 39. Financial instruments are recognized in the balance sheet when the MLCC becomes a party to the contractual terms of the instrument, which represents the trade date. Financial assets are removed from the balance sheet when the contractual rights to the cash flows from the asset cease. Financial liabilities are removed from the balance sheet when the obligation is met, cancelled or ends.

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

The classification of the MLCC's financial assets and financial liabilities is performed at initial recognition and are measured as follows:

[i] Cash and cash equivalents are classified as fair value through profit and loss and measured at fair value. The gains or losses arising on the revaluation to fair value at the end of the year are recorded in net profit.

[ii] 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 method.

[iii] Accounts payable, profit payable to the Province of Manitoba and other taxes payable are classified as loans and borrowings and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest method.

The MLCC assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. The carrying amount of financial assets carried at amortized cost is reduced through the use of an allowance account and the amount of the loss is recognized in the statements of income and comprehensive income.

The fair value of financial instruments traded in an active market is determined by quoted market prices. Financial instruments not traded in an active market are valued using an appropriate valuation technique. An analysis of fair values of financial instruments and further details as to how they are measured is provided in note 14.

[l] Provisions are recognized when the MLCC has a present obligation [legal or constructive] as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

[m] The MLCC maintains a defined benefit pension plan in accordance with the provision of The Civil Service Superannuation Act administered by the Civil Service Superannuation Board. 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 provided the highest earnings. The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method. The liability is determined actuarially every three years with the balances for the intervening years being determined by a formula provided by the actuary. Actuarial gains and losses are recognized in income immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation [using a discount rate based on high quality corporate bonds] less the fair value of plan assets out of which the obligations are to be settled. Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the MLCC nor can they be paid directly to the MLCC. Fair value is based on market price information and, in the case of quoted securities, it is the published bid price.

The MLCC has also agreed to provide certain additional post-retirement healthcare benefits, which are unfunded.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the MLCC's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

The cost of defined pension plan and other post employment healthcare benefits and the present value of the pension obligation are determined using actuarial valuations. In addition, the provision for retirement allowances is actuarially determined and is recorded based on a formula provided by the Province of Manitoba. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates, retirement rates and future pension increases. Due to the complexity of the valuations, the underlying assumptions and its long-term nature, a defined benefit obligation and provision for retirement allowances are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rate of corporate bonds in the respective currency with at least an AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the populations of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables for Canada. Future salary increases and pension increases are based on expected future inflation rates for Manitoba.

Further details about the assumptions are outlined in notes 10 and 11.

5. CHANGES IN ACCOUNTING POLICIES

The MLCC chose to adopt the following standards:

[a] IFRS 7 – *Financial Instruments: Disclosures* and the related amendment to IFRS 1 – *First-time Adoption of International Financial Reporting* Standards were incorporated into Part 1 of the Canadian Institute of Chartered Accountants Handbook. These amendments were made to Part 1 in January 2011 and are effective for annual periods beginning on or after July 1, 2011. Earlier adoption is permitted. The amendments relate to required disclosures for transfers of financial assets to help users of the financial statements evaluate the risk exposures relating to such transfers and the effect of those risks on an entity's financial position. The adoption of IFRS 7 did not have any impact on the MLCC's disclosures.

[b] IAS 24 [revised] – *Related-party Disclosures* supercedes IAS 24 – *Related-party Disclosures*. IAS 24 [revised] is mandatory for annual periods beginning on or after January 1, 2011 with earlier application permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The adoption of IAS 24 [revised] by the MLCC resulted in minor modifications to the related-party disclosures in note 16.

6. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the MLCC's financial statements are listed below. The listing only includes standards and interpretations issued which the MLCC reasonably expects to be applicable at a future date. The MLCC intends to adopt these standards when they become effective.

[a] IAS 1 - *Presentation of Financial Statements* was amended on June 16, 2011. The amendments enhance the presentation of other comprehensive income ["OCI"] in the financial statements, primarily by requiring the components of OCI for items that may be reclassified to the statements of income and comprehensive income to be presented separately from those that remain in equity. The amendments are effective for annual periods beginning on or after January 1, 2012. The MLCC is currently assessing the impact of the amendments on its financial statements.

[b] IFRS 9 – *Financial Instruments* reflects the first phase of the IASB's work on replacing the existing standards for financial instruments [IAS 39] and applies to classification and measurement of financial instruments as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the MLCC's financial assets. The MLCC will quantify the effect in conjunction with the other phases when issued, to present a comprehensive picture.

[c] IFRS 13 – *Fair Value Measurement* does not change the circumstances under which an entity is required to use fair value, but rather provides guidance on how to measure the fair value of financial or non-financial assets and liabilities when required or permitted by IFRS. While many of the concepts in IFRS 13 are consistent with current practice, certain principles could have a significant effect. The disclosure requirements are substantial and could present additional challenges. IFRS 13 is effective for annual periods commencing on or after January 1, 2013, and will be applied prospectively. The MLCC is currently evaluating the implications of the new standard.

[d] IAS 19 [revised] – *Employee Benefits* was amended in June 2011. The amendments include eliminating the option to defer the recognition of gains and losses, streamlining the presentation of changes to assets and liabilities with all changes from re-measurement to be recognized in other comprehensive income and enhancing the disclosure of the characteristics of defined benefit plans and the risks that companies are exposed to through participation in these plans. The amended version of IAS 19 is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The MLCC is currently evaluating the impact of these revised standards.

NOTES TO FINANCIAL STATEMENTS
(in thousands of Canadian dollars)

7. INVENTORY

Inventory consists of the following:

	March 31, 2012	March 31, 2011	April 1, 2010
	$	$	$
Warehouse	**28,386**	26,029	23,802
Stores	**12,797**	12,282	11,888
	41,183	38,311	35,690

The amount of unpaid and unrecorded Customs and Excise duties on owned merchandise held in bond is approximately $4,361 at March 31, 2012 [2011 - $3,806].

8. PROPERTY AND EQUIPMENT

	Land	Buildings	Leasehold improvements	Paving	Equipment and Furnishings	Vehicles	Total
	$	$	$	$	$	$	$
COST:							
At April 1, 2010	120	17,472	11,198	496	12,967	639	42,892
Additions	—	925	2,325	24	1,204	197	4,675
Disposals	—	—	(84)	—	(222)	(180)	(486)
At March 31, 2011	120	18,397	13,439	520	13,949	656	47,081
Additions	—	542	3,159	—	2,196	118	6,015
Disposals	—	—	—	—	(66)	(73)	(139)
At March 31, 2012	**120**	**18,939**	**16,598**	**520**	**16,079**	**701**	**52,957**
AMORTIZATION:							
At April 1, 2010	—	5,027	5,544	122	4,738	339	15,770
Amortization	—	386	845	27	1,589	91	2,938
Disposals	—	—	(71)	—	(193)	(136)	(400)
At March 31, 2011	—	5,413	6,318	149	6,134	294	18,308
Amortization	—	547	1,010	20	2,027	116	3,720
Disposals	—	—	—	—	(55)	(66)	(121)
At March 31, 2012	**—**	**5,960**	**7,328**	**169**	**8,106**	**344**	**21,907**
NET BOOK VALUE:							
At April 1, 2010	120	12,445	5,654	374	8,229	300	27,122
At March 31, 2011	120	12,984	7,121	371	7,815	362	28,773
At March 31, 2012	**120**	**12,979**	**9,270**	**351**	**7,973**	**357**	**31,050**

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

9. INTANGIBLE ASSETS

	Computer Software - acquired
	$
COST:	
At April 1, 2010	11,577
Additions	—
Disposals	(475)
At March 31, 2011	11,102
Additions	1,291
Disposals	—
At March 31, 2012	**12,393**
AMORTIZATION:	
At April 1, 2010	4,279
Amortization	913
Disposals	(514)
At March 31, 2011	4,678
Amortization	337
Disposals	—
At March 31, 2012	**5,015**
NET BOOK VALUE:	
At April 1, 2010	7,298
At March 31, 2011	6,424
At March 31, 2012	**7,378**

10. PROVISION FOR EMPLOYEE PENSION BENEFITS

The MLCC maintains a defined benefit pension plan in accordance with the provision of *The Civil Service Superannuation Act* administered by the CSSB.

Net benefit expense is comprised of:

	2012	2011
	$	$
Current service cost	**2,011**	1,804
Interest cost	**3,574**	3,573
Actuarial loss recognized in the year	**2,222**	4,068
Manitoba Finance matching pension contributions	**—**	(1,255)
Administration and management fees	**187**	144
Return on plan assets	**(801)**	(5,762)
Net benefit expense	**7,193**	**2,572**

Accrued benefit liability is comprised of:

	2012	2011
	$	$
Defined benefit obligation	**76,243**	71,489
Fair value of plan assets	**55,439**	53,938
Accrued benefit liability	**20,804**	17,551

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

March 31, 2012 and 2011

Changes in the present value of the defined benefit obligation are as follows:

	2012	2011
	$	$
Defined benefit obligation, beginning of year	**71,489**	64,964
Actuarial loss (gain) on obligation	**2,222**	4,068
Current service cost	**2,011**	1,804
Interest cost	**3,574**	3,573
Benefits paid	**(3,053)**	(2,920)
Defined benefit obligation, end of year	**76,243**	71,489

Changes in the fair value of the plan assets are as follows:

	2012	2011
	$	$
Fair value of plan assets, beginning of year	**53,938**	—
Transfer of restricted cash	**—**	46,360
Return on plan assets	**801**	5,762
Contributions by employer	**700**	561
Manitoba Finance matching pension contributions	**—**	1,255
Fair value of plan assets, end of year	**55,439**	53,938

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2012	2011
	%	%
Cash and cash equivalents	**2.3**	5.3
Bonds and debentures	**26.2**	25.2
Canadian equities	**25.8**	27.0
United States equities	**20.0**	17.8
International equities	**25.7**	24.7

The key actuarial assumptions used in determining the MLCC's provision for employee pension benefits were at the following weighted average rates:

	2012	2011
	%	%
Discount Rate	**4.50**	5.00
Inflation	**2.00**	2.50
Rate of future compensation increases	**3.75**	4.25
Post retirement indexing	**1.67**	1.67

Expected contributions to the defined benefit pension plan for the year ending March 31, 2013 are as follows:

	$
Employee contributions	2,154
MLCC contributions	712

(in thousands of Canadian dollars)

11. PROVISION FOR RETIREMENT ALLOWANCES

Effective April 1, 1998, the MLCC commenced recording accumulated retirement allowances for its employees. Eligible employees are entitled to receive a retirement allowance equal to one week's pay, to a maximum of 25 weeks, for each year of continuous employment based on the current salary at date of retirement. The provision recorded is calculated based on a formula provided by the actuary.

Net benefit expense is comprised of:

	2012	2011
	$	$
Current service cost	**137**	127
Interest cost	**253**	255
Actuarial loss (gain) recognized in the year	**522**	—
Benefits paid	**108**	170
Net benefit expense	**1,020**	552

Changes in the present value of the provision are as follows:

	2012	2011
	$	$
Beginning of year	**3,611**	3,673
Actuarial loss (gain) on provision	**522**	—
Current service cost	**137**	127
Interest cost	**253**	255
Retirement allowance paid	**(291)**	(444)
End of year	**4,232**	3,611

The key actuarial assumptions used in determining the MLCC's provision for retirement allowances were at the following weighted average rates:

	2012	2011
	%	%
Discount Rate	**4.00**	4.00
Inflation	**2.00**	2.00
Rate of future compensation increases	**3.75**	3.75

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

12. OTHER INCOME

Other income consists of the following:

	2012	2011
	$	$
Licence and permit fees		
Annual licence fees and licence application fees	**1,073**	1,091
Occasional permit fees	**602**	640
Monetary penalty	**21**	98
	1,696	1,829
Merchandising program fees		
Impact fees	**708**	695
AIR MILES®	**205**	13
Advertising revenue - other	**276**	217
	1,189	925
Administration and other		
Service charges and mark-up on non sale items	**441**	268
Border point fees	**177**	158
Specialty wine store fees	**28**	26
Foreign exchange	**—**	137
Miscellaneous	**217**	344
	863	933
Other income	**3,748**	3,687

13. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of the following:

	2012	2011
	$	$
Salaries and short-term benefits	**39,252**	36,074
Pension [net of return on asset of $801, 2011 - $5,762]	**7,193**	2,572
Retirement allowance	**1,020**	552
Leased premises - rentals	**7,662**	7,209
Amortization	**4,058**	3,849
Maintenance and repairs	**3,332**	3,401
Bank charges	**2,547**	2,402
Delivery charges	**2,010**	1,845
Utilities	**1,417**	1,316
Protective services	**948**	816
Printing, postage and supplies	**814**	804
Community support	**769**	717
Health and Post Secondary Education Tax levy	**767**	714
Alcohol education	**758**	837
Grants in lieu of taxes	**691**	701
Advertising and promotions	**637**	614

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

	2012	2011
	$	$
Staff training	**575**	584
Professional fees	**524**	499
Travel	**377**	316
Miscellaneous	**342**	312
Communications	**269**	227
Vehicle expenses	**259**	203
Corporation capital tax	**141**	111
Association membership	**132**	114
Crown Corporations Council levy	**117**	100
Equipment rentals	**112**	580
Product analysis	**69**	73
Insurance	**66**	68
Bad debt expense	**6**	77
	76,864	67,687

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

[a] Fair value

The MLCC applies the market approach for recurring fair value measurements. Three levels of inputs may be used to measure fair value.

Level 1 - Unadjusted, quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value of MLCC's cash and cash equivalents and cash and cash equivalents [restricted], is determined using level 1 inputs and is equivalent to its carrying value.

As at March 31, 2012 and 2011, and April 1, 2010, the carrying values of the MLCC's financial assets and liabilities including accounts receivable, accounts payable – trade and other, Goods and Services Tax payable, Manitoba Retail Sales Tax payable, profit payable to the Province of Manitoba and Environmental Protection Tax payable approximate their value. These short-term financial instruments approximate the fair value due to the relatively short period to maturity.

[b] Risk management policies

The MLCC manages risk and risk exposure through a combination of a system of internal and disclosure controls, effective cash management strategies and sound business practices. The MLCC is exposed to credit, currency and liquidity risks. The MLCC's management oversees the management of these risks in accordance with policies approved by the Board of Commissioners. The Board of Commissioners reviews and agrees on policies for managing each of these risks.

[c] Credit risk

Credit risk is the risk that a customer will fail to perform an obligation or fail to pay amounts due, causing a financial loss. MLCC's maximum exposure to credit risk is the carrying value of accounts receivable. Accounts receivable are all due within 30 days at year-end and were fully collected subsequent to year-end. Therefore no allowance for uncollectible accounts was accrued by management. Trade receivables are non-interest bearing and generally have 30-day terms. Accounts receivable are written off when management determines that they cannot be collected or they have been outstanding for greater than 120 days.

NOTES TO FINANCIAL STATEMENTS
(in thousands of Canadian dollars)

[d] 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. Purchases denominated in foreign currencies during the year ended March 31, 2012 were $8,134. Accordingly, a 10% increase or decrease in the exchange rate between Canadian and U.S. dollars would result in a total increase or decrease of $474 assuming the inventory purchased had been sold by the end of the year.

[e] Liquidity risk

Liquidity risk is the risk that the MLCC will encounter difficulties in meeting its financial liability obligations. The MLCC manages its liquidity risk through effective cash management. 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 trade payables are due within 30 days of year-end. Trade payables are non-interest bearing and generally have 30-day terms.

[f] Capital disclosures

As an agency of the Government of Manitoba, the MLCC does not maintain capital balances. Rather, in managing capital, the MLCC focuses on cash available for operations. The MLCC's objectives are to have sufficient cash 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 liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to budget. The MLCC has met its objective of having sufficient liquid resources to meet its current obligations.

15. COMMITMENTS AND CONTINGENCIES

The MLCC leases 49 buildings. Leases have expiry dates ranging from 2013 to 2029.

The future minimum annual lease payments for each of the next five years and thereafter are as follows:

	$
2013	5,559
2014	5,308
2015	5,074
2016	4,656
2017	4,136
Thereafter	25,514
	50,247

16. RELATED PARTY DISCLOSURES

The MLCC is an agency of the Government of Manitoba under *The Liquor Control Act* [the "Act"]. The Act requires the MLCC to transfer the net profit for the year annually to the Province. The net profit payable to the Province on the balance sheet represents the balance of unpaid profits as of the year-end reporting date.

Key management includes the roles of Chief Executive Officer/President and Senior Executive Management. The compensation paid or payable to key management of the MLCC is as follows:

	2012	2011
	$	$
Short-term employee benefits	**806**	683
Post-employment pension and medical benefits	**115**	102
Termination benefits	**8**	7
Total compensation paid to key management personnel	**929**	792

NOTES TO FINANCIAL STATEMENTS
(in thousands of Canadian dollars)

17. FIRST-TIME ADOPTION OF IFRS

For all periods up to and including the year ended March 31, 2011, the MLCC prepared its financial statements in accordance with Canadian GAAP. These financial statements, for the year ended March 31, 2012, are the first annual financial statements that the MLCC has prepared in accordance with IFRS with the 2011 comparatives restated accordingly.

Accordingly, the MLCC has prepared financial statements which comply with IFRS applicable for periods beginning on or after April 1, 2010 as described in the significant accounting policies in note 3. In preparing these financial statements, the MLCC's opening balance sheet was prepared as at April 1, 2010, the MLCC's Transition Date to IFRS. This note explains the principal adjustments made by the MLCC in restating its Canadian GAAP balance sheet as at April 1, 2010 and its previously reported Canadian GAAP financial statements for the year ended March 31, 2011.

IFRS 1 – *First-time Adoption of International Financial Reporting Standards* allows first-time adopters certain exemptions from the retrospective application of certain standards. IFRS has been applied retrospectively, except for certain optional and mandatory exemptions from full retrospective application, as provided for by IFRS 1 as detailed below:

- The MLCC has elected to disclose the following amounts prospectively from the Transition Date: the present value of the defined benefit pension obligation, the fair value of plan assets, the plan surplus/deficit and the experience adjustments arising on the plan assets or liabilities.
- MLCC has applied the transitional provision in IFRIC 4 - Determining Whether an Arrangement Contains a Lease and has assessed all arrangements as at the transition date.

Reconciliations

At the date of transition, MLCC's estimates under IFRS are consistent with estimates previously made under Canadian GAAP. Hindsight has not been used to create or revise these estimates.

The analysis below shows the following reconciliations required under IFRS 1.

- A reconciliation of the balance sheet as at April 1, 2010, the Transition Date, from Canadian GAAP, as previously reported, to IFRS.
- A reconciliation of the net profit payable to the Province of Manitoba as reported under Canadian GAAP as at March 31, 2011 and April 1, 2010 to the revised profit payable to the Province of Manitoba under IFRS as reported in these financial statements.
- A reconciliation of net profit paid or payable to the Province of Manitoba under Canadian GAAP to net profit and comprehensive income under IFRS for the year ended March 31, 2011.

As the MLCC is required to pay all net profits annually to the Province of Manitoba, any adjustments to net profit as a result of the adoption of IFRS will increase or decrease profit payable to the Province of Manitoba on the balance sheet.

Reconciliation of balance sheet as at April 1, 2010 is as follows:

	Canadian GAAP[1]	IAS 16 Property and equipment	IAS 19 Employee benefits	IAS 17 Leases	IFRS
	$	$	$	$	$
ASSETS					
Current					
Cash and cash equivalents	9,190	—	—	—	9,190
Accounts receivable	20,726	—	—	—	20,726
Inventory	35,690	—	—	—	35,690
Prepaid expenses	1,256	—	—	—	1,256
Total current assets	66,862	—	—	—	66,862
Cash [restricted]	46,360	—	—	—	46,360
Property and equipment, net	26,356	766	—	—	27,122
Intangible assets	2,984	4,314	—	—	7,298
	142,562	5,080	—	—	147,642

[1] *As previously reported.*

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

LIABILITIES					
Current					
Accounts payable - trade and other	34,759	—	—	1,223	35,982
Goods and Services Tax payable	1,096	—	—	—	1,096
Manitoba Retail Sales Tax payable	1,471	—	—	—	1,471
Net profit payable to the Province of Manitoba	47,777	5,080	(11,646)	(1,223)	39,988
Environmental Protection Tax payable	141	—	—	—	141
Deferred licence fees	327	—	—	—	327
Total current liabilities	85,571	5,080	(11,646)	—	79,005
Provision for employee pension benefits	53,318	—	11,646	—	64,964
Provision for retirement allowance	3,673	—	—	—	3,673
	142,562	5,080	—	—	147,642

[1] *As previously reported.*

The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted for profit payable to the Province of Manitoba and net profit and comprehensive income for the year:

Reconciliation of profit payable to the Province of Manitoba is as follows:

	As at March 31, 2011	As at April 1, 2010
	$	$
Profit payable to the Province of Manitoba under Canadian GAAP	**47,696**	47,777
Differences increasing (decreasing) reported profit payable to the Province of Manitoba:		
[a] Property and equipment	**5,080**	5,080
[b] Leases	**(1,223)**	(1,223)
[c] Employee benefits	**(12,024)**	(11,646)
Profit payable to the Province of Manitoba under IFRS	**39,529**	39,988

Reconciliation of net profit and comprehensive income is as follows:

	Year ended March 31, 2011
	$
Net profit paid or payable to the Province of Manitoba under Canadian GAAP	250,496
Differences increasing (decreasing) reported net profit and comprehensive income:	
Employee benefits	(378)
Net profit and comprehensive income under IFRS	250,118

NOTES TO FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

EXPLANATION OF RECONCILING ITEMS BETWEEN CANADIAN GAAP AND IFRS

[a] Property and equipment

Under IFRS, each component of an item of property and equipment with a cost that is significant in relation to the total cost of the item shall be amortized separately. This is known as the component approach. Compound assets, such as a building, consist of significant parts, and each significant part is amortized separately. Further, under IAS 16, the residual value and the useful life of an asset shall be reviewed on an annual basis and, if expectations differ from the previous estimate, the change is accounted for as a change in accounting estimate.

The MLCC finalized its assessment of the component approach under IFRS and determined that a building's foundation, which typically consists of a combination of concrete and steel, is a separate component from the rest of the building. Accordingly, the MLCC's buildings have been retrospectively assigned a life of 40 years for the structure component and 15 to 40 years for other building components.

Under IFRS, an entity is required to reassess its property and equipment useful-life estimates at the end of each fiscal year. Under Canadian GAAP, the timing of this review is less specific. In accordance with IAS 16, the MLCC reviewed the capital asset useful lives of its various components as at April 1, 2010 and March 31, 2011.

[b] Leases

Under IFRS, all leases were classified as operating leases under which minimum rent, including scheduled escalations were expensed on a straight-line basis over the term of the lease, including any rent-free periods. Under IFRS, minimum lease payments are allocated between the land and building elements of a lease in proportion to their relative fair values of the leasehold interests in the land and building. Under Canadian GAAP, scheduled rent escalations were expensed in the year of the escalation and minimum lease payments were not required to be separated between land and building.

[c] Employee benefits

Under IFRS, all economic assumptions should be based on current market conditions. This is particularly relevant to the discount rate. The MLCC revised previous discount rate assumptions and recalculated the resulting employee benefit liability and expense amounts. Accordingly, the March 31, 2011 discount rate was revised from 6.0% to 5.0% and the April 1, 2010 discount rate was revised from 6.5% to 5.5%. In addition, the April 1, 2010 and March 31, 2011 inflation rates were revised from 2.0% to 2.5%.

[d] Presentation of financial statements

Canadian GAAP requires certain profit or loss categories to be disclosed separately on the statement of net profit and comprehensive income. Under IFRS, a company has a choice of adopting the nature-of-expense method or the function-of-expense method in presenting its analyses of expenses, whichever provides information that is reliable and most relevant.

The MLCC has elected the function-of-expense method which classifies expenses according to their function. Accordingly, amortization, which was previously disclosed separately under Canadian GAAP, has now been allocated to general and administrative expenses.

18. SUBSEQUENT EVENTS

On April 17, 2012, the Province announced that The Liquor Control Commission ["MLCC"] and Manitoba Lotteries Corporation would be merged into a single entity and the regulatory oversight for liquor control, currently managed by MLCC would be merged with the Manitoba Gaming Control Commission. Each Crown Corporation operates under a separate Act and will continue to function as a separate legal entity until they are combined under common legislation, which is anticipated to occur in 2013.

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 international financial reporting standards. Financial information contained elsewhere in this annual report conforms to these financial statements.

Management believes the system of internal controls, review procedures and established policies provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded. Management also believes that the WCB's operations are conducted in conformity with the law and with a high standard of business conduct. The internal auditor performs periodic audits designed to test the adequacy and consistency of the WCB's internal controls.

The Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities and approved the financial statements and other financial information included in this annual report on March 16, 2012.

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 2011 consolidated financial statements.

Winston Maharaj
President and CEO

Lorena B. Trann, CMA, FCMA
Chief Financial Officer

March 16, 2012

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 statements of financial position as at December 31, 2011, December 31, 2010, and January 1, 2010, and the consolidated statements of operations and comprehensive income, consolidated statements of changes in funded position and consolidated statements of cash flows for the years 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 International Financial Reporting Standards, 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 audits. We conducted our audits 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 in our audits 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, 2011, December 31, 2010, and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011, and December 31, 2010 in accordance with International Financial Reporting Standards.

Grant Thornton LLP

Grant Thornton LLP
Chartered Accountants
Winnipeg, Manitoba

March 16, 2012

Grant Thornton

Consolidated Statement of Financial Position

(in thousands of dollars)

	Note	December 31, 2011	December 31, 2010	January 1, 2010
Assets				
Cash	3	$ 11,937	$ 8,491	$ 401
Receivables and other	4	33,508	34,460	32,689
Investment portfolio	5	1,074,151	1,055,412	972,601
Deferred assessments	7	73,756	60,988	66,648
Property, plant and equipment	8	16,732	11,665	11,563
Intangible assets	9	3,680	4,269	4,185
		$ 1,213,764	$ 1,175,285	$ 1,088,087
Liabilities and funded position				
Payables and accruals	10	$ 10,643	$ 15,159	$ 15,331
Workers' retirement annuity fund	11	18,367	17,346	15,168
Employee benefits	12	41,027	25,061	15,527
Benefit liabilities	13	930,182	909,531	913,006
Total liabilities		1,000,219	967,097	959,032
Accident fund reserve		247,004	226,727	138,575
Accumulated other comprehensive loss		(33,459)	(18,539)	(9,520)
Funded position		213,545	208,188	129,055
		$ 1,213,764	$ 1,175,285	$ 1,088,087

Authorized for issue on March 16, 2012 on behalf of the Board of Directors,

Michael D. Werier
Chairperson, Board of Directors

Wendy Sol
Audit Committee of the Board of Directors

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Operations and Comprehensive Income

Year Ended December 31
(in thousands of dollars)

	Note	2011	2010
Revenue			
Premium revenue	15	$ 267,043	$ 249,032
Investment income	5	14,518	83,833
Total revenue		281,561	332,865
Expenses			
Claim costs incurred	13	195,235	182,135
Operating expenses	16	66,049	62,578
Total expenses		261,284	244,713
Operating surplus		20,277	88,152
Other comprehensive loss			
Defined benefit plan remeasurements	12	(14,920)	(9,019)
Total comprehensive income		$ 5,357	$ 79,133

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Funded Position

Year Ended December 31
(in thousands of dollars)

	Note	2011	2010
Funded position			
Accident fund reserve			
Balance at beginning of year (as restated)		$ 226,727	$ 138,575
Operating surplus		20,277	88,152
		247,004	226,727
Accumulated other comprehensive loss			
Balance at beginning of year (as restated)		$ (18,539)	$ (9,520)
Other comprehensive loss		(14,920)	(9,019)
		(33,459)	(18,539)
Funded position, end of year		$ 213,545	$ 208,188

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

Year Ended December 31
(in thousands of dollars)

	Note	2011	2010
Operating cash flows			
Premiums from employers		$ 255,227	$ 253,045
Investment income		33,542	33,847
Claim payments	13	(174,584)	(185,610)
Purchases of goods and services		(70,787)	(62,414)
Net operating cash flows		43,398	38,868
Investing cash flows			
Purchases of investments, net of sales	5	(33,187)	(28,496)
Asset acquisitions, net of disposals		(6,765)	(2,282)
Net investing cash flows		(39,952)	(30,778)
Net increase in cash		3,446	8,090
Cash at beginning of year		8,491	401
Cash at end of year		$ 11,937	$ 8,491

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

Year Ended December 31, 2011
($ amounts in thousands of dollars unless otherwise noted)

1. NATURE OF OPERATIONS

Reporting Entity

The WCB is a statutory corporation created by the Manitoba Legislature. The WCB is a government agency of the Province of Manitoba that operates at arm's-length from government.

The Workers Compensation Board of Manitoba (the WCB) was created in 1917 under the authority of *The Workers Compensation Act* (the *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 WCB has its corporate head office in Winnipeg, Manitoba.

Funding Policy

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.

The target balance for the accident fund reserve 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. The target balance for the reserves was $314.0 million at the end of 2011 ($305.6 million in 2010).

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

Basis of Preparation

The consolidated financial statements of the WCB are prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) in effect as at December 31, 2011, which have been adopted by the Accounting Standards Board of Canada (AcSB) as Canadian generally accepted accounting principles for public interest entities. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied, except where departure from IFRS is explicitly permitted under the transitional provisions for the first time application of IFRS.

Basis of Measurement

The consolidated financial statements of the WCB have been prepared on a historic cost basis except for investment properties and those financial assets and financial liabilities that have been measured at fair value. The WCB's functional currency is the Canadian dollar, which is the currency of the primary economic environment in which the WCB operates, which is also the presentation currency of the consolidated financial statements. All financial information presented in Canadian dollars has been rounded to the nearest thousand, unless otherwise stated.

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.

Use of Estimates and Measurement Uncertainty

These financial statements have been prepared in accordance with IFRS, 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. As a result, some of the reported amounts are subject to measurement uncertainty. Measurement uncertainty exists when there is a variance between the recognized amount and another reasonable amount. Assumptions and estimates are reviewed on an ongoing basis, and any related revisions are recorded in the period in which they are adjusted. Consequently, actual results could differ from these estimates by significant amounts.

Changes in Accounting Policies

First Time Adoption of International Financial Reporting Standards

These consolidated financial statements of the WCB have been prepared for the first time in accordance with IFRS for the year ended December 31, 2011. The comparative consolidated financial statements for the year ended December 31, 2010 have been restated on an IFRS basis. The date of transition to IFRS was January 1, 2010.

IFRS 1 *First Time Adoption of IFRS* requires retrospective application of IFRS in preparing the entity's opening statement of financial position however first time adopters are allowed certain optional exemptions from the general application principle. WCB has applied the following elections:

- Fair value as deemed cost - The WCB has elected to measure land at fair value and use that fair value as deemed cost at the date of transition to IFRS. An independent appraisal was used to determine the fair value.
- Investment properties - The WCB owns real estate properties through its wholly owned real estate investment subsidiary. These real estate properties have been designated as investment properties in accordance with IAS 40 *Investment Properties*. These properties were measured at fair value at the date of transition to IFRS. The WCB has elected to use the fair value model of IAS 40 to account for these investment properties on a go forward basis. There is no impact on the financial statements as these properties were measured at fair value under GAAP.
- Insurance contracts - The WCB has elected to disclose only five years of claims experience data in its claims development tables as permitted in the first financial year in which it adopts IFRS 4 *Insurance Contracts*. These disclosures will be extended for each additional year in each succeeding year until the 10-year information requirement has been satisfied.
- Estimates - At the date of transition, estimates under IFRS are consistent with estimates previously made under GAAP.

Full details of the transition to IFRS follow in Note 21.

IFRS 9 Financial Instruments

In November 2009, the International Accounting Standards Board (IASB) issued Phase 1 of a three-part redrafting of IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 *Financial Instruments (Phase 1)* improves comparability and makes financial statements easier to understand by using a single approach to determine whether a financial asset is measured at amortized cost or fair value through profit or loss (FVTPL). The approach is based on how an entity manages its financial instruments (the business model test) and the contractual cash flow characteristics of the financial assets. The WCB has concluded that investment portfolio assets do not meet the business model test, and has classified portfolio investments as FVTPL under IFRS 9.

IFRS 9 is effective for fiscal years beginning on or after January 1, 2015 with early adoption permitted for 2009 through 2014. The WCB has elected to early adopt IFRS 9 *(Phase 1)* concurrent with the transition to IFRS effective January 1, 2010. This early adoption will result in the immediate recognition of fair value changes in income (deferred recognition through other comprehensive income is not permitted). There is no impact on the consolidated statement of financial position however the impact on the statement of operations and comprehensive income is significant. Details of the impact are included in Note 21.

IAS 19 Employee Benefits

In June 2011, the International Accounting Standards Board (IASB) issued an amendment to IAS 19 *Employee Benefits*. IAS19 is effective for fiscal years beginning on or after January 1, 2013 with early adoption permitted for 2009 through 2012. The WCB has elected to early adopt IAS 19 concurrent with the transition to IFRS effective January 1, 2010. This early adoption will result in the full recognition of the components of defined benefit plan expense in the operating surplus or other comprehensive income as required by the standard. Deferred recognition of actuarial gains and loss through use of the corridor approach is not permitted. Details of the impact are included in Note 21.

Future Accounting and Reporting Changes

The IASB is working towards continual improvement through the development of new accounting standards and the annual improvements process. The IASB will issue a number of exposure drafts of new or revised standards over the next several years. The WCB monitors the IASB work plans and publications to address any developments that may impact the organization.

The WCB is anticipating the release of several key exposure drafts from the IASB, including Phase 2 of IFRS 4 *Insurance Contracts* and IAS 17 *Leases*. At this time, the impact of these exposure drafts is not determinable.

Certain other new standards and interpretations have been issued but are not expected to have a material impact on the WCB's financial statements.

Specific Accounting Policies

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.

Receivables and other

Receivables are mainly assessed premiums due from employers, recorded at the estimated premium payable net of a provision for doubtful accounts. Sundry receivables consist of claim related overpayments, payroll related items and prepaid maintenance contracts.

Investment portfolio

The investment portfolio is managed according to the objectives and policies established by the Statement of Investment Policies and Objectives. The statement acknowledges that there is no single asset class that directly matches the obligations and objectives of the WCB, and that a portfolio diversified across a number of distinct asset classes represents the optimal means of meeting the WCB's investment objectives. The investment portfolio is comprised of:

- Portfolio investments consisting of financial assets accounted for in accordance with IFRS 9 *Financial Instruments*, and
- Investment properties consisting of real estate assets accounted for in accordance with IAS 40 *Investment Properties*.

Portfolio Investments

Classification

The WCB's investments have been designated at fair value through profit or loss (FVTPL). As such, all investments are reported at fair value. Income from interest and dividends is recognized in the period earned, and changes in fair value are presented in the period in which they arise.

Recognition and measurement

Investments are stated at fair value, which is the market value.

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.

Investments denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the statement of financial position date. Foreign currency exchange gains and losses are recorded in the period in which they arise.

Investment properties

The WCB owns real estate investment properties through its wholly owned real estate investment subsidiary. These properties are held to earn rentals or for capital appreciation or both, and are intended to be long term assets. The WCB views the investment properties as an integral component of the diversified investment portfolio with the same value and purpose as all other investment holdings.

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. A gain or loss arising from a change in the fair value of investment property is recognized in profit or loss for the period in which it arises. Income received from property managers as an income distribution is recorded as investment income, as it is presumed to be the residual of rental income net of operating expenses. It is recorded in the period received, or accrued in the period in which it is expected to be received.

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.

Property, plant and equipment

Property, plant and equipment are valued at cost, less accumulated amortization and any accumulated impairment loss. Amortization is calculated on a straight line basis over the estimated useful life of the asset, as follows:

Building	40 years
Land	not amortized
Building renovations and leasehold improvements	2 to 10 years
Computer equipment	3 to 5 years
Furniture, fixtures and equipment	5 years

An item of property, plant and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on derecognition is included in operating expenses.

The carrying amounts of the WCB's non-financial assets are reviewed at each reporting date to ensure that assets are not carried in excess of the recoverable amount.

Intangible assets

Acquired intangible assets, primarily computer software, are valued at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful life, and included in operating expenses.

Internally generated intangible assets, primarily software and systems development, including professional fees incurred to implement these assets, are valued at cost and amortized over their useful lives. 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

The carrying amounts of the WCB's non-financial assets are reviewed at each reporting date to ensure that assets are not carried in excess of the recoverable amount.

Payables and accrued liabilities

Payables and accrued liabilities are obligations to pay for goods and services acquired in the normal course of operations. The WCB records a liability and an expense for goods upon receipt or transfer of control, and for services when they are performed. Other payables include various payroll related liabilities and deposits from self insured employers. The timing and amount of payables and accrued liabilities are readily determinable. These amounts are normally settled before the end of the next reporting period.

Workers' retirement annuity fund

In accordance with Section 42(2) of *The Workers Compensation Act*, where wage loss benefits are paid to a worker after a qualifying period, the WCB is required to invest on a worker's behalf an amount equal to a percentage between five per cent and seven per cent, to provide an annuity for the worker at retirement. In addition, the worker may contribute an amount of not more than the amount contributed by the WCB. This annuity fund is part of the WCB investment portfolio and is intended to establish or replace lost pension entitlement resulting from a work-related injury or illness.

Employee Benefits

The WCB has several employee benefit plans:

Short-term benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed when the services are rendered. These benefits include wages, salary, vacation entitlements and group health plans.

Other benefit plans

The WCB sick leave plan is a multifaceted benefit plan. Sick leave credits are earned and payable in the form of sick leave in the current year. Unused sick leave credits are accumulated and carried forward to future periods, and are available to be taken as sick leave when the current year entitlement is exhausted. For employees that meet established criteria upon termination or retirement, the sick leave plan represents a post employment benefit plan that provides for payment of sick leave credits. For accounting purposes, it is treated as a defined benefit plan and the liability is valued on the basis of discount rates and other estimates that are consistent with the estimates used for defined benefit obligations. For this unfunded plan, where the WCB funds the obligation directly from its own resources, employee contributions are not required.

Pensions

The pension plan, comprised of the WCB Retirement Plan and the Supplementary Employee Retirement Plan, is funded by employee and employer contributions. 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 measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year, using actuarial assumptions that are unbiased and mutually compatible. The assumptions represent management's best estimates of the variables that will determine the ultimate cost of post-employment benefits. Actuarial assumptions are comprised of demographic assumptions on matters such as mortality and employee turnover, and financial assumptions on matters such as salary and benefit levels, interest rates and return on investments. Given the long term nature of the plan and the use of these assumptions, the resulting estimates are subject to significant uncertainty.

The Projected Unit Credit Method is used to calculate the defined benefit obligations and current service costs. This method reflects service rendered by employees to the date of valuation and incorporates actuarial assumptions regarding discount rates used to determine the present value of benefits, projected rates of salary growth and long-term expected rate of return on plan assets.

Discount rates are based on the market yields of high-quality corporate bonds.

In accordance with IAS 19, the net interest approach is used to disaggregate the costs of the pension plan. The change in the net defined benefit liability is disaggregated into the following components:

- Service cost, or the additional liability that arises from employees providing service during the period.
- Net interest or the interest expense on the net defined benefit liability calculated using the discount rate.
- Remeasurements, which are other changes in the value of the defined benefit obligation such as changes in estimates and other changes in the value of plan assets.

Service cost and net interest are recognized in operating surplus whereas remeasurements are recognized in other comprehensive income.

When past service costs arise they are recognized immediately.

Benefit Liabilities

Under the provisions of the *Act*, the WCB has a legislated obligation to accept insurance risk from employers in exchange for premiums paid for WCB coverage.

The WCB's Chief Actuary prepares a valuation of the benefit liabilities of the WCB at each year end. This valuation is conducted in accordance with accepted actuarial practice in Canada, and is subject to peer review by the WCB's consulting external actuary. 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. Differences arising from actual claims experience and assumptions used for the previous valuation, as well as the impacts of changes in legislation, policy, administrative practice or actuarial methods and assumptions, are recognized in the period that they occur.

The benefit liabilities also include an estimated liability for certain 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, 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

Accumulated other comprehensive income (AOCI) is a subsection of the funded position. It is comprised of cumulative remeasurements arising from changes in the value of defined benefit obligations that in accordance with IFRS 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.

Premium revenue is fully earned and recognized over the period that coverage is provided. Premium revenue reported in the period is recorded net of uncollectable account write-offs, interest and penalties on overdue amounts and adjustments of premiums for prior periods.

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.

3. CASH AND LINES OF CREDIT

Cash reported in the consolidated statement of financial position is comprised of:

	2011	2010
Cash in transit and in banks	$ 15,442	$ 12,249
Cheques issued and outstanding	(3,505)	(3,758)
	$ 11,937	$ 8,491

In addition, 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 were comprised of:

	2011	2010
Operating line of credit	$ -	$ 10,788
Revolving credit facility	292	20,000
Repayments during the year	(292)	(30,788)
Owing as at December 31	$ 0	$ 0

The maximum outstanding at any time during the year was $0.3 million ($8.8 million in 2010).

4. RECEIVABLES AND OTHER

Receivables and other reported in the consolidated statement of financial position is comprised of:

	2011	2010
Premiums – Class E employers	$ 29,644	$ 29,627
Provision for doubtful accounts	(1,141)	(768)
	28,503	28,859
Current assessments – Self-insured employers	3,231	3,699
Sundry	1,774	1,902
	$ 33,508	$ 34,460

5. INVESTMENT PORTFOLIO

The investment portfolio reported in the comprehensive statement of financial position is comprised of:

	2011	2010
Portfolio investments	$ 992,009	$ 976,599
Investment properties	82,142	78,813
	$ 1,074,151	$ 1,055,412

Fair Value of the Investment Portfolio

	2011	2010
Equities		
Canadian	$ 153,028	$ 170,437
Private placements	10,522	23,456
U.S.	159,472	149,704
Europe, Australasia & Far East	77,222	81,851
Emerging markets	26,805	31,870
	427,049	457,318
Real estate (see table below)		
Portfolio investments	57,282	65,722
Investment properties	82,142	78,813
	139,424	144,535
Cash and short term investments	32,829	27,326
Fixed income	474,849	426,233
Total	$ 1,074,151	$ 1,055,412

Real Estate Portfolio

The real estate portfolio can be further broken down as follows:

	2011	2010
Rental properties and other net assets	$ 176,297	$ 176,382
Mortgages payable on investment properties	(36,873)	(31,847)
Real estate investments	$ 139,424	$ 144,535

The following table represents key facts related to mortgages payable on rental properties:

Interest rates	From 3.5% to 5.71%
Interest terms	Variable and fixed
Maturity dates	From 2013 to 2033

For 2012, scheduled principal and interest payments on these mortgages total $3.1 million. The scheduled amounts of principal repayments in each of the next five years are as follows:

2012	2013	2014	2015	2016	Thereafter	Total
$1,277	$3,108	$16,158	$4,869	$477	$10,984	$36,873

Investment Income

Investment income was derived from the following sources:

	2011	2010
Canadian equities	$ 3,844	$ 4,593
Foreign equities	5,327	5,539
Cash and short term investments	240	204
Fixed income	21,764	16,960
Real estate (see table below)	6,227	16,890
Market gains (losses):		
Realized	12,431	18,020
Unrealized	(30,739)	25,975
Investment Income	19,094	88,181
Less:		
Loan interest expense	-	6
Management expenses	4,576	4,342
Portfolio expenses	4,576	4,348
Net investment income	$ 14,518	$ 83,833

Real Estate Income

The real estate income can be further broken down as follows:

	2011	2010
Rental income, net of expenses	$ 6,052	$ 6,452
Appraisal gains	175	8,038
Realized gains from property sales	-	2,400
	$ 6,227	$ 16,890

Purchases of Investments, Net of Sales

Purchases of investments, net of sales can be further broken down as follows:

	2011	2010
Purchases of investments	$ 717,645	$ 1,373,022
Proceeds on disposal of investments	(684,458)	(1,344,526)
Net purchases of investments	$ 33,187	$ 28,496

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:

2011

	Level 1	Level 2	Level 3	Total
Equities				
Canadian	$ 153,028	$ -	$ -	$ 153,028
Private placements	620	-	9,902	10,522
U.S.	159,472	-	-	159,472
Europe, Australasia & Far East	77,222	-	-	77,222
Emerging markets	26,805	-	-	26,805
	417,147	-	9,902	427,049
Cash and short term investments	32,829	-	-	32,829
Fixed income	368,198	106,651	-	474,849
Real estate	-	139,424	-	139,424
	$ 818,174	$ 246,075	$ 9,902	$ 1,074,151

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 & 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

The following table reconciles the changes in the WCB's level three fair value measurements to December 31:

	2011	2010
Balance at January 1	$ 23,456	$ 28,107
Market gains (losses):		
Realized	(64)	679
Unrealized	(11,898)	(2,415)
Purchases	215	48
Sales	(1,807)	(2,963)
Transfers in (out)	-	-
Balance at December 31	$ 9,902	$ 23,456

Commitments

The WCB has contractual agreements to contribute further funding to a maximum of $4.3 million ($1.8 million in 2010) 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:

	2011		2010	
	5 year annualized		5 year annualized	
Equities	+/- 1 standard deviation	+/- 2 standard deviation	+/- 1 standard deviation	+/- 2 standard deviation
% change in benchmark	19.8%	39.6%	19.3%	38.6%
Canadian	$30.3 million	$60.6 million	$33.6 million	$67.2 million
% change in benchmark	11.9%	23.8%	12.4%	24.8%
U.S.	$19.0 million	$38.0 million	$20.1 million	$40.2 million
% change in benchmark	16.2%	32.4%	17.6%	35.2%
Europe, Australasia and Far East	$12.5 million	$25.0 million	$14.4 million	$28.8 million
% change in benchmark	21.4%	42.8%	22.9%	45.8%
Emerging markets	$5.7 million	$11.5 million	$7.3 million	$14.6 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, 90 per cent (93 per cent in 2010) 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, 2011, these loans amounted to $96.0 million ($91.8 million in 2010).

Foreign Exchange Risk Management
The WCB has certain investments denominated in foreign currencies, which exposes the WCB to foreign currency risk. During 2011, 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 $274.3 million CAD ($275.6 million CAD in 2010) or 25.5 per cent of the portfolio (26.1 per cent in 2010).

The table below presents the effects of a material change in the Canadian/U.S. dollar exchange rates:

	CAD/USD	
	2011	2010
10% appreciation in the Canadian dollar	$(24.9 million)	$(25.1 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, 2011, the duration of the WCB's bond portfolio was 8.2 years (7.8 years in 2010).

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:

	2011		2010	
+/- basis point change	50 basis points	100 basis points	50 basis points	100 basis points
Bonds	$15.3 million	$30.6 million	$12.7 million	$25.4 million

Liquidity Risk Management

Liquidity risk is the risk that the WCB will be unable to meet its financial obligations. To manage this risk, and avoid liquidation of portfolio assets under unfavourable conditions, the WCB maintains two credit facilities as discussed in note 3.

7. DEFERRED ASSESSMENTS

The changes in deferred assessments were as follows:

	2011	2010
Balance at beginning of year	$ 60,988	$ 66,648
Increase (decrease) in future cost liability	13,603	(2,987)
Decrease in pension related transactions	(564)	(1,336)
Interest allocation	(271)	(1,337)
Net change in deferred assessments	12,768	(5,660)
Balance at end of year	$ 73,756	$ 60,988

8. PROPERTY, PLANT AND EQUIPMENT

The changes in property, plant and equipment were as follows:

	Building and land	Building renovations and leaseholds	Computer Equipment	Furniture, fixtures and equipment	Total
Cost					
As at December 31, 2010	$ 9,739	$ 4,658	$ 6,937	$ 2,347	$ 23,681
Additions	5,323	31	605	83	6,042
Disposals	-	-	(2,411)	-	(2,411)
As at December 31, 2011	15,062	4,689	5,131	2,430	27,312
Amortization					
As at December 31, 2010	(699)	(3,305)	(5,871)	(2,141)	(12,016)
Amortization charge	(72)	(190)	(622)	(91)	(975)
Disposals	-	-	2,411	-	2,411
As at December 31, 2011	(771)	(3,495)	(4,082)	(2,232)	(10,580)
Net carrying value, As at December 31, 2011	$ 14,291	$ 1,194	$ 1,049	$ 198	$ 16,732

	Building and land	Building renovations and leaseholds	Computer Equipment	Furniture, fixtures and equipment	Total
Cost					
As at December 31, 2009	$ 9,392	$ 4,479	$ 6,397	$ 2,317	$ 22,585
Additions	347	179	540	30	1,096
Disposals	-	-	-	-	-
As at December 31, 2010	9,739	4,658	6,937	2,347	23,681
Amortization					
As at December 31, 2009	(628)	(3,124)	(5,213)	(2,057)	(11,022)
Amortization charge	(71)	(181)	(658)	(84)	(994)
Disposals	-	-	-	-	-
As at December 31, 2010	(699)	(3,305)	(5,871)	(2,141)	(12,016)
Net carrying value, As at December 31, 2010	$ 9,040	$ 1,353	$ 1,066	$ 206	$ 11,665

9. INTANGIBLE ASSETS

The changes in intangible assets were as follows:

	Computer Software	Internally developed systems and software	Total
Cost			
As at December 31, 2010	$ 3,765	$ 13,162	$ 16,927
Additions	98	624	722
Disposals	(449)	(247)	(696)
As at December 31, 2011	3,414	13,539	16,953
Amortization			
As at December 31, 2010	(3,375)	(9,283)	(12,658)
Amortization charge	(275)	(1,036)	(1,311)
Disposals	449	247	696
As at December 31, 2011	(3,201)	(10,072)	(13,273)
Net carrying value, As at December 31, 2011	$ 213	$ 3,467	$ 3,680

	Computer Software	Internally developed systems and software	Total
Cost			
As at December 31, 2009	$ 3,664	$ 12,076	$ 15,740
Additions	101	1,086	1,187
Disposals	-	-	-
As at December 31, 2010	3,765	13,162	16,927
Amortization			
As at December 31, 2009	(3,048)	(8,507)	(11,555)
Amortization charge	(327)	(776)	(1,103)
Disposals	-	-	-
As at December 31, 2010	(3,375)	(9,283)	(12,658)
Net carrying value, As at December 31, 2010	$ 390	$ 3,879	$ 4,269

10. PAYABLES AND ACCRUALS

Payables and accruals are comprised of:

	2011	2010
Accounts payable and accrued liabilities	$ 2,376	$ 6,775
Research and Workplace Innovation Program	2,463	1,757
Deposits from self-insured employers	4,834	5,759
Other payables	970	868
	$ 10,643	$ 15,159

11. WORKERS' RETIREMENT ANNUITY FUND

The changes in the workers retirement annuity fund were as follows:

	2011	2010
Balance, as at January 1	$ 17,346	$ 15,168
Investment income	241	1,309
WCB contributions	1,549	1,435
Workers' contributions	405	384
Benefits paid	(1,174)	(950)
Balance, as at December 31	$ 18,367	$ 17,346

12. EMPLOYEE BENEFITS

Components of the employee benefits liability are:

	2011	2010
Employee pension plan	$ 30,672	$ 15,628
Sick leave plan	6,735	6,089
Employee vacation entitlements	3,414	3,074
Other	206	270
As at December 31	$ 41,027	$ 25,061

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, 2010. This funding valuation showed a funding deficit of $6.7 million, which the WCB is funding over fifteen years in accordance with pension regulations. The solvency deficit as at December 31, 2010 was $12.8 million. The WCB is not required to fund this deficiency as the WCB is exempt from the solvency and transfer deficiency provisions of the *Pension Benefits Act*.

Total cash payments for employee future benefits for 2011, consisting of cash contributed by the WCB to the funded pension plan and cash payments directly to beneficiaries for unfunded plans, were $4.0 million ($3.2 million in 2010). Based on historical experience and expected salary expense, the WCB expects to fund $4.2 million in 2012.

The key actuarial assumptions used to value the employee benefit liabilities for accounting purposes are as follows:

	Pension Plan		Sick Leave Plan	
	2011	2010	2011	2010
Discount rate	5.25%	5.75%	5.25%	5.75%
Rate of compensation increase	3.75%	3.75%	3.75%	3.75%

The rates shown in the 2011 column were effective as of December 31, 2011. The rates were applied in determining the benefit plan balances at December 31, 2011. The rates shown in the 2010 column were effective at December 31, 2010 and were applied in determining the 2011 benefit plan expense.

The actuarial present value of the defined benefit obligation is sensitive to changes in actuarial assumptions, the most significant assumption being the discount rate. The following table illustrates the sensitivity of the defined benefit obligations to a one per cent change in the discount rate:

	2011		2010	
	+ 1.0%	-1.0%	+1.0%	-1.0%
Pension plan	($24,534)	$24,534	($16,872)	$16,872
Sick leave plan	($590)	$699	($566)	$658

The WCB's defined benefit plan expenses are as follows:

	Pension Plan 2011	Pension Plan 2010	Sick Leave Plan 2011	Sick Leave Plan 2010
Current service cost	$ 3,486	$ 2,882	$ 306	$ 286
Net interest expense	726	255	342	358
Remeasurements	14,606	8,928	314	92
Total benefit plan expenses	$ 18,818	$ 12,065	$ 962	$ 736

As at December 31, the funding status of the defined benefit plans is as follows:

	Pension Plan 2011	Pension Plan 2010	Sick Leave Plan 2011	Sick Leave Plan 2010
Fair value of plan assets	$ 108,200	$ 102,461	$ -	$ -
Defined benefit obligation	(138,872)	(118,089)	(6,735)	(6,089)
Net defined benefit liability	$ (30,672)	$ (15,628)	$ (6,735)	$ (6,089)

Details of the WCB's net defined benefit liability are as follows:

	Pension Plan 2011	Pension Plan 2010	Sick Leave Plan 2011	Sick Leave Plan 2010
As at January 1	$ (15,628)	$ (6,456)	$ (6,089)	$ (5,666)
Benefit cost recognized in income	(4,212)	(3,137)	(648)	(644)
Remeasurements recognized in other comprehensive income	(14,606)	(8,928)	(314)	(91)
Employer contributions	3,774	2,893	316	312
Net change in net defined benefit liability	(15,044)	(9,172)	(646)	(423)
Net defined benefit liability, as at December 31	$ (30,672)	$ (15,628)	$ (6,735)	$ (6,089)

Details of the WCB's defined benefit obligations are as follows:

	Pension Plan		Sick Leave Plan	
	2011	2010	2011	2010
As at January 1	$ (118,089)	$ (96,794)	$ (6,089)	$ (5,666)
Current service cost	(5,705)	(5,084)	(306)	(286)
Interest expense	(6,705)	(6,206)	(342)	(358)
Transfers to the plan	(88)	(172)	-	-
Remeasurements consisting of:				
Actuarial losses	(11,340)	(12,653)	(314)	(91)
Benefits paid	3,055	2,820	316	312
Net change in defined benefit obligation	(20,783)	(21,295)	(646)	(423)
Defined benefit obligation, as at December 31	$ (138,872)	$ (118,089)	$ (6,735)	$ (6,089)

Details of the WCB's defined benefit plan assets are as follows:

	Pension Plan	
	2011	2010
As at January 1	$ 102,461	$ 90,338
Interest income	5,979	5,951
Employer contributions	3,774	2,893
Employee contributions	2,219	2,202
Transfers to the plan	88	172
Remeasurements consisting of:		
Actuarial (losses) gains	(3,266)	3,725
Benefits paid	(3,055)	(2,820)
Net change in plan assets	5,739	12,123
Plan assets, as at December 31	$ 108,200	$ 102,461

The fair value of the pension plan assets as at December 31 is:

	2011	2010
Equity		
Canadian	$ 31,270	$ 37,296
Foreign (including U.S.)	27,375	30,841
	58,645	68,137
Fixed income	42,414	33,402
Cash and short term	7,141	922
	$ 108,200	$ 102,461

Related Party Transactions - Pension Plan

By definition, the WCB pension plan is a related party to the WCB. Transactions between the related parties are detailed below:

	2011	2010
Transactions:		
Contributions from employees	$ 2,219	$ 2,202
Contributions from employer	3,774	2,893

There were no amounts outstanding as at December 31, 2011 or December 31, 2010.

13. 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:

	2011	2010
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:

	2011						2010
	Short Term Disability	Long Term Disability	Survivor Benefits	Healthcare Benefits	Rehabilitation Services	Total	Total
Balance at beginning of year	$ 123,735	$ 387,873	$ 152,966	$ 221,629	$ 23,328	$ 909,531	$ 913,006
Add: Claim costs incurred							
Current year	92,091	17,066	3,131	50,003	5,353	167,644	167,291
Prior years	(32,194)	32,091	(2,844)	34,209	(3,671)	27,591	14,844
	59,897	49,157	287	84,212	1,682	195,235	182,135
Less: Claim payments made							
Current year	27,814	547	587	15,508	47	44,503	48,015
Prior years	29,758	50,407	13,560	34,293	2,063	130,081	137,595
	57,572	50,954	14,147	49,801	2,110	174,584	185,610
Balance at end of year	$ 126,060	$ 386,076	$ 139,106	$ 256,040	$ 22,900	$ 930,182	$ 909,531

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 $44.4 million ($41.5 million in 2010) for the estimated long latent occupational disease liability. *The Workers Compensation Act* of Manitoba lists specific illnesses and injuries presumed to be caused by firefighting, unless the contrary is proven. In 2011, the *Act* was amended to add four cancers to the list and to extend the presumptions to certain personnel of the fire commissioner's office. Consistent with actuarial standards, a liability has not been recorded with respect to the new cancers, except in the case of claims that were submitted to the WCB during 2011. In 2014, actuarial standards will require that this liability be recorded. Based on research information, this liability could be as high as $10 million. While long latent liabilities are in general difficult to estimate, at this point, the WCB does not have sufficient experience to reliably estimate the liability for these additional cancers.

Also included in the benefit liability is $71.3 million ($63.6 million in 2010) for the future cost of administering existing claims.

Sensitivity of Actuarial Assumptions

The most significant assumption in the determination of the benefit liabilities is the discount rate.

The following table shows the sensitivity of the benefit liabilities to an immediate one per cent increase or decrease in the key assumptions used to determine the liabilities:

Change in liability in millions

	2011		2010	
+/- % change on assumed rates	**+ 1%**	**-1%**	**+1%**	**-1%**
Discount rate	($61)	$72	($55)	$64
Wage inflation rate	21	(18)	17	(16)
General inflation rate	16	(14)	18	(15)
Healthcare inflation rate	29	(24)	21	(18)

An increase in the discount rate results in a decrease to the benefit liabilities and vice versa.

An increase to any of the inflation rates results in an increase to the benefit liabilities. Each inflation rate affects only those benefits that are directly impacted by that type of inflation. For example, healthcare inflation only affects healthcare liabilities.

Liability Adequacy Test

IFRS 4 *Insurance Contracts* requires an insurer to apply a liability adequacy test that meets specified minimum requirements, as follows:

a. the test considers current estimates of all contractual cash flows, and of related cash flows such as claims handling costs, as well as cash flows resulting from embedded options and guarantees; and
b. if the test shows that the liability is inadequate, the entire deficiency is recognised in profit or loss.

If these minimum requirements are met, there are no further requirements.

The current claim benefit liability valuation meets the liability adequacy testing requirements of IFRS 4. Accordingly, a separate annual liability adequacy test is not required.

Claims Development

The table below compares actual claim liabilities to previous estimates back to the earliest period for which there is material uncertainty about the estimate and timing of claim payments.

	Injury Year					
Estimate of ultimate claims	**2006 & prior**	**2007**	**2008**	**2009**	**2010**	**2011**
End of injury year	$ 1,458,654	$ 182,168	$ 203,916	$ 184,494	$ 181,728	$ 196,690
1 year later	1,516,628	191,645	187,514	165,260	171,672	-
2 years later	1,531,656	189,544	175,901	172,820	-	-
3 years later	1,540,794	187,199	185,187	-	-	-
4 years later	1,591,397	190,159	-	-	-	-
5 years later	1,672,185	-	-	-	-	-

	Injury Year					
Cumulative claims paid	**2006 & prior**	**2007**	**2008**	**2009**	**2010**	**2011**
End of injury year	$ 158,624	$ 46,859	$ 50,599	$ 48,096	$ 46,249	$ 47,401
1 year later	285,510	82,221	84,294	77,860	74,123	-
2 years later	383,157	96,974	96,378	87,285	-	-
3 years later	467,653	106,870	104,554	-	-	-
4 years later	547,097	113,748	-	-	-	-
5 years later	620,003	-	-	-	-	-

	Injury Year						
	2006 & prior	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
Cumulative estimate of ultimate claims	$ 1,672,185	$ 190,159	$ 185,187	$ 172,820	$ 171,672	$ 196,690	$ 2,588,713
Less: Cumulative claims paid	620,003	113,748	104,554	87,285	74,123	47,401	1,047,114
Current year unpaid and unreported claims	1,052,182	76,411	80,633	85,535	97,549	149,289	1,541,599
Effect of discounting							(714,989)
Administration cost within benefit liability							71,310
Future dated long latency liability							32,262
Benefit liabilities							$930,182

14. BENEFIT LIABILITIES FOR SELF-INSURED EMPLOYERS

Note 13 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:

	2011						2010
	Short Term Disability	Long Term Disability	Survivor Benefits	Healthcare Benefits	Rehabilitation Services	Total	Total
Balance at beginning of year	$ 14,587	$ 44,188	$ 26,598	$ 30,875	$ 1,998	$ 118,246	$ 122,345
Add: Claim costs incurred							
Current year	9,459	4,009	816	7,007	508	21,799	18,752
Prior years	(1,159)	1,623	821	12,110	(368)	13,027	2,118
	8,300	5,632	1,637	19,117	140	34,826	20,870
Less: Claim payments made							
Current year	4,137	109	187	2,001	6	6,440	5,907
Prior years	4,238	4,368	3,158	6,083	188	18,035	19,062
	8,375	4,477	3,345	8,084	194	24,475	24,969
Balance at end of year	$ 14,512	$ 45,343	$ 24,890	$ 41,908	$ 1,944	$ 128,597	$ 118,246

Included in premiums and claim costs for self-insured employers are payments in the amount of $4.0 million ($3.6 million in 2010) 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 $14.2 million ($12.1 million in 2010) for self-insured employers' share of the long latent occupational disease liability and $9.3 million ($8.1 million in 2010) for the future cost of administering existing claims.

15. PREMIUM REVENUE

	2011	2010
Premiums – Class E employers	$ 227,494	$ 227,592
Assessments – Self-insured employers	26,781	27,100
Increase (decrease) in deferred assessments (Note 7)	12,768	(5,660)
Total premium revenue	$ 267,043	$ 249,032

16. OPERATING EXPENSES

	2011	2010
Salaries, employee benefits and training	$ 44,347	$ 41,655
Information technology service fees	1,630	1,631
Occupancy costs	2,093	1,915
Office supplies, services and projects	934	889
Communications	1,250	1,091
Professional fees	1,161	1,161
Donations	98	82
Amortization of capital assets	2,287	2,096
	53,800	50,520
Appeal Commission	1,222	1,181
Research and Workplace Innovation Program grants	1,279	948
Recoveries from the Government of Canada	(1,319)	(1,003)
Prevention and other (Note 17)	11,067	10,932
Total operating expenses	$ 66,049	$ 62,578

Of the total operating expenses, $5.5 million ($4.8 million in 2010) 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.

17. RELATED PARTY TRANSACTIONS

The WCB is a statutory corporation created by the Manitoba Legislature. The WCB is a government agency of the Province of Manitoba that operates at arm's-length from government. As an agency of the Province of Manitoba, the WCB applies the exemption for government-related entities in *IAS 24 Related Party Disclosures*.

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 2011, the amount charged to operations under this provision was $8.7 million ($8.7 million in 2010).

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 2011, the amount charged to operations under this provision was $0.7 million ($0.7 million in 2010).

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, 2011 are guaranteed debentures issued by the Province of Manitoba in the amount of $1.1 million ($0.9 million in 2010).

Other Related Party Disclosures

In addition to the related government entities above, the key management personnel of the WCB (comprised of the WCB executive personnel and the Board of Directors) are deemed related parties. By definition, close family members of the key management personnel are also related parties of the WCB. Any transactions or business relationships are incidental, and carried out at normal trade terms.

The WCB has a pension plan for the benefit of WCB employees, which is a related party by definition of IAS 24 *Related Party Disclosure*. Detailed information on transactions with the pension plan can be found in Note 12.

Key Management Compensation

The following table shows total compensation for the executive personnel of the WCB:

	2011	2010
Short-term employee benefits	$ 1,277	$ 1,104
Post-employment benefits	194	155
	$ 1,471	$ 1,259

Short-term employee benefits include salary, vacation, car allowances, group health and dental benefits, group life insurance, and the employer's share of contributions to the Canada Pension Plan and employment insurance.

The following table shows the total compensation for the Board of Directors of the WCB:

	2011	2010
Fees	$ 113	$ 126
Benefits	1	2
	$ 114	$ 128

The Board of Directors is comprised of 10 members appointed by the Government of Manitoba. Members' remuneration is set out in Order in Council passed by Lieutenant Governor in Council.

18. COMMITMENTS

The WCB has signed operating leases for office premises and office equipment expiring at various times until December 31, 2021. The minimum lease obligations over the next five years are:

2012	2013	2014	2015	2016	Thereafter	Total
$873	$691	$424	$314	$66	$354	$2,722

The WCB began a capital project to repair the exterior cladding on its office building located at 333 Broadway in 2010. The project is scheduled to be completed in early 2013. The estimated cost of the project is $14.8 million, with $5.7 million of capital cost incurred as at December 31, 2011.

19. 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.

20. AUDITOR INDEPENDENCE

Grant Thornton LLP did not provide non-audit services to the WCB in 2011 or 2010.

21. TRANSITION TO IFRS

As stated in Note 2, these consolidated financial statements are the first annual consolidated financial statements prepared in accordance IFRS.

The accounting policies in Note 2 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information for the year ended December 31, 2010 and the opening statement of financial position as at January 1, 2010, the date of transition to IFRS.

The WCB has applied IFRS 1 *First-time Adoption of International Financial Reporting Standards* in preparing these first consolidated financial statements. The effects of how the transition from GAAP to IFRS has affected the WCB's financial position, financial performance and cash flows are presented in the tables in this section. Further explanation is provided in the notes that accompany the tables.

Reconciliation of Financial Position

The financial position at the date of transition to IFRS can be reconciled to amounts previously reported under Canadian GAAP as follows:

		As at January 1, 2010		
	Note	GAAP	Effect of transition to IFRS	IFRS
Assets				
Cash		$ 401	$ -	$ 401
Receivables and other	b	36,292	(3,603)	32,689
Investment portfolio		972,601	-	972,601
Deferred assessments	a	68,813	(2,165)	66,648
Property, plant and equipment	c	8,347	3,216	11,563
Intangible assets		4,185	-	4,185
		$ 1,090,639	$ (2,552)	$ 1,088,087
Liabilities and funded position				
Payables and accruals	a	$ 15,076	$ 255	$ 15,331
Workers' retirement annuity fund	a	14,579	589	15,168
Employee benefits	b	6,763	8,764	15,527
Benefit liabilities		913,006	-	913,006
Total liabilities		949,424	9,608	959,032
Accident fund reserve		101,919	36,656	138,575
Accumulated other comprehensive income		39,296	(48,816)	(9,520)
Funded position		141,215	(12,160)	129,055
		$ 1,090,639	$ (2,552)	$ 1,088,087

The financial position at December 31, 2010 can be reconciled to amounts previously reported under Canadian GAAP as follows:

		As at December 31, 2010		
	Note	GAAP	Effect of transition to IFRS	IFRS
Assets				
Cash		$ 8,491	$ -	$ 8,491
Receivables and other	b	37,886	(3,426)	34,460
Investment portfolio		1,055,412	-	1,055,412
Deferred assessments	a,d	64,528	(3,540)	60,988
Property, plant and equipment	c	8,449	3,216	11,665
Intangible assets		4,269	-	4,269
		$ 1,179,035	$ (3,750)	$ 1,175,285
Liabilities and funded position				
Payables and accrued liabilities	a,d	$ 14,810	$ 349	$ 15,159
Workers' retirement annuity fund	e	16,340	1,006	17,346
Employee benefits	b	7,100	17,961	25,061
Benefit liabilities		909,531	-	909,531
Total liabilities		947,781	19,316	967,097
Accident fund reserve		165,983	60,744	226,727
Accumulated other comprehensive income		65,271	(83,810)	(18,539)
Funded position		231,254	(23,066)	208,188
		$ 1,179,035	$ (3,750)	$ 1,175,285

In addition, the total effect on the accident fund reserve is further reconciled as follows:

	Note	January 1, 2010	December 31, 2010
Accident fund reserve under GAAP		$ 101,919	$ 165,983
Fair value as deemed cost (land)	c	3,216	3,216
Employee benefit plans	b	(2,873)	(2,927)
Investments at fair value through profit and loss	a,d	39,296	65,271
Allocation to other classes and funds	a,d	(2,983)	(4,816)
Effect of transition to IFRS		36,656	60,744
Accident fund reserve under IFRS		$ 138,575	$ 226,727

The total effect on accumulated other comprehensive income is further reconciled as follows:

	Note	January 1, 2010	December 31, 2010
AOCI under GAAP		$ 39,296	$ 65,271
Employee benefit plans	b,f	(9,520)	(18,539)
Investments at fair value through profit and loss	a,d	(39,296)	(65,271)
Effect of transition to IFRS		$ (48,816)	$ (83,810)
AOCI under IFRS		$ (9,520)	$ (18,539)

Reconciliation of Consolidated Statement of Operations and Comprehensive Income

The consolidated statement of operations and comprehensive income for the year ended December 31, 2010 can be reconciled to amounts previously reported under Canadian GAAP as follows:

		Year Ended December 31, 2010		
	Note	GAAP	Effect of transition to IFRS	IFRS
Revenue				
Premium revenue	d	$ 250,356	$ (1,324)	$ 249,032
Investment income	d	57,858	25,975	83,833
Total revenue		308,214	24,651	332,865
Expenses				
Claim costs incurred	d	181,624	511	182,135
Operating expenses	e	62,526	52	62,578
Total expenses		244,150	563	244,713
Operating surplus		64,064	24,088	88,152
Other comprehensive income				
Unrealized gains on available-for-sale financial assets	d	43,995	(43,995)	-
Reclassification of realized gains to operating surplus	d	(18,020)	18,020	-
Defined benefit plan remeasurements	f	-	(9,019)	(9,019)
Other comprehensive income		25,975	(34,994)	(9,019)
Total comprehensive income		$ 90,039	$ (10,906)	$ 79,133

Reconciliation of Cash Flows

There were no material adjustments to the consolidated statement of cash flows as a result of the conversion to IFRS.

Presentation Differences

Some assets and liabilities have been reclassified into another line item under IFRS at the date of transition. Employee vacation entitlements of $3.6 million have been reclassified from payables and accruals and included in employee benefits.

The workers' retirement annuity fund of $14.6 million has been reclassified and presented separately from payables and accruals. The sick leave plan liability of $3.4 million has been reclassified from payables and accruals and included in employee benefits.

Notes to the Reconciliations

a. Accumulated other comprehensive income

Under Canadian GAAP, the entire balance of accumulated other comprehensive income (AOCI) as at January 1, 2010 consisted of the cumulative unrealized gains on available-for-sale portfolio investments of $39.3 million. Upon adoption of IFRS, the portfolio investments have been reclassified as FVTPL and the opening balance of AOCI has been reclassified to the accident fund reserve. WCB policy is to allocate investment income to the self insured employers and other funds. Accordingly, the reclassification of AOCI is further allocated from the accident fund reserve to other accounts. The final impact is as follows:

Receivables and other (increase)	$ 59
Deferred assessments (decrease)	(2,165)
Accounts payable (increase)	(255)
Workers' retirement annuity fund (increase)	(589)
Accident fund reserve (increase)	(36,346)
AOCI (decrease)	39,296

Upon adoption of IFRS, $9.5 million of unrecorded net actuarial losses on the employee benefit plans have been recorded directly to AOCI. This is discussed in note b.

b. Employee benefit liabilities

At the date of transition to IFRS, the WCB elected to early adopt amended IAS 19 *Employee Benefits*.

Under Canadian GAAP, the corridor approach was used to record actuarial gains and losses on defined benefit plans. Under the corridor approach, cumulative net actuarial gains and losses that exceeded 10 per cent of plan assets or liabilities would be amortized over the expected average remaining service life of active employees. As a result of this practice, $9.5 million of net actuarial gains and losses were not recorded in the consolidated statement of financial position. Upon transition, these are recorded directly to AOCI.

An additional employee benefits liability of $1.3 million has been recorded as a result of the requirement to recognize the cumulative actuarial losses of the sick leave plan directly to AOCI. An additional $1.0 million related to previously unrecorded past service costs has been recorded directly to the accident fund reserve.

Employee pension plan cumulative net actuarial losses of $8.2 million have been recorded directly to AOCI and $1.9 million of past service costs have been recorded directly to the accident fund reserve. As a result the pension benefit asset of $3.6 million (included in receivables and other) is eliminated, and the employee benefits liability is increased by $6.5 million.

c. Property, plant and equipment

Land was measured at cost under previous GAAP. At the date of transition to IFRS, the WCB elected to measure land at fair value as deemed cost. The independently appraised fair value of land at the date of transition to IFRS was $6.5 million, an adjustment to carrying value of $3.2 million. This was recorded directly to the accident fund reserve.

d. Investment income

Under Canadian GAAP, net unrealized gains on available-for-sale financial assets were recorded in other comprehensive income (OCI). Under IFRS, investments are designated at FVTPL and all investment income is recorded in the operating surplus. As a result, OCI of $26.0 million, the net unrealized gains on available-for-sale financial assets that occurred during 2010, has been reclassified to investment income. WCB policy is to allocate investment income to the self insured employers and other funds. Accordingly, the reclassification of OCI is further allocated to other accounts. The impact on the December 31, 2010 Consolidated Statement of Operations and Comprehensive Income is as follows:

Investment income (increase)	$ 25,975
Premium revenue (decrease)	(1,324)
Claim costs incurred (increase)	511
Unrealized gains on available for sale financial assets (decrease)	(43,995)
Reclassification of realized gains to the Consolidated Statement of Operations and Comprehensive Income (increase)	18,020
Other comprehensive income (decrease)	(25,975)

The impact on the December 31, 2010 Statement of Financial Position is as follows:

Deferred assessments (decrease)	$ (1,375)
Payables and accruals (increase)	(94)
Workers retirement annuity fund (increase)	(417)
Accident fund reserve (increase)	(24,140)
Accumulated other comprehensive income Income (decrease)	25,975

e. Operating expenses

Operating expenses have increased $54 thousand, a result of slight differences in the calculation of current service cost of employee benefit plans.

f. Defined benefit plan remeasurements

In accordance with IAS 19 *Employee Benefits* and as described in note b, defined benefit plan remeasurements of $9.0 million have been recorded in OCI for the year ended December 31, 2010.