



## **VOLUME 4 - SECTION 4**

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	FISCAL YEAR ENDED	PAGE
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<b>TABLE OF CONTENTS</b>			<b>FISCAL YEAR ENDED</b>	<b>PAGE</b>
--------------------------	--	--	--------------------------	-------------

	FISCAL YEAR ENDED	PAGE
<b>TABLE OF CONTENTS</b>		

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	FISCAL YEAR ENDED	PAGE
TABLE OF CONTENTS		

TABLE OF CONTENTS		
	FISCAL YEAR ENDED	PAGE

	FISCAL YEAR ENDED	PAGE
<b>TABLE OF CONTENTS</b>		

<hr/>					
<b>TABLE OF CONTENTS</b>		FISCAL YEAR ENDED	PAGE		
<hr/>					

<b>TABLE OF CONTENTS</b>		
	FISCAL YEAR ENDED	PAGE





# **SPECIAL OPERATING AGENCIES**

**CROWN LANDS AND PROPERTY AGENCY**  
*(An Agency of the Government of Manitoba)*  
**Financial Statements**  
**Year Ended March 31, 2018**

### **Management's Responsibility for Financial Reporting**

The accompanying financial statements are the responsibility of the management of Crown Lands and Property Agency (the Agency) and have been prepared in accordance with legislation, and in accordance with generally accepted accounting principles established by the Public Sector Accounting Board of The Chartered Professional Accountants Canada.

In carrying out its responsibilities, management maintains appropriate systems of internal and administrative controls designed to provide reasonable assurance that transactions are executed in accordance with proper authorization, that assets are properly accounted for and safeguarded, and that financial information produced is relevant and reliable.

Management met with the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the financial statements.

Exchange Chartered Professional Accountants, LLP as the Agency's appointed external auditors, have audited the financial statements. The Auditors' report is addressed to the financing authority and appears on the following page. 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 to obtain reasonable assurance that the financial statements are free of material misstatement and present fairly the financial position and results of the Agency in accordance with Canadian Public Sector Accounting Standards.

On behalf of the Agency's management,

Original Document Signed

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Mr. Normand Le Neal, Financial Officer

Original Document Signed

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Ms Grace DeLong, Chief Operating  
Officer

Portage la Prairie, MB



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## INDEPENDENT AUDITORS' REPORT

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To the Special Operating Agencies Financing Authority of Crown Lands and Property Agency (An Agency of the Government of Manitoba)

We have audited the accompanying financial statements of Crown Lands and Property Agency, (An Agency of the Government of Manitoba), which comprise the statement of financial position as at March 31, 2018 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 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 Crown Lands and Property Agency, (An Agency of the Government of Manitoba), as at March 31, 2018 and the results of its operations and its cash flow for the year then ended in accordance with Canadian public sector accounting standards.

*Exchange*

Chartered Professional Accountants LLP  
Winnipeg, Manitoba  
June 8, 2018

**CROWN LANDS AND PROPERTY AGENCY***(An Agency of the Government of Manitoba)***Statement of Financial Position****March 31, 2018****(In thousands)**

	2018	2017
<b>FINANCIAL ASSETS</b>		
Accounts receivable <i>(Note 3)</i>	\$ 463	\$ 543
Restricted cash <i>(Note 12)</i>	271	582
Severance pay benefits, vacation pay and banked time cash in trust <i>(Note 7)</i>	670	670
Assets held in trust <i>(Notes 4, 8)</i>	3	3
	<u>\$ 1,407</u>	<u>\$ 1,798</u>
<b>LIABILITIES</b>		
Working capital advance <i>(Note 9)</i>	\$ 1,855	\$ 3,020
Accounts payable and accrued liabilities <i>(Note 10)</i>	675	476
Deferred income	1	14
Trust fund liability <i>(Note 8)</i>	3	3
Severance pay liability <i>(Note 11)</i>	311	322
Client held funds <i>(Note 12)</i>	271	582
Deferred leases <i>(Note 13)</i>	209	46
Surplus land sales <i>(Note 5)</i>	1,506	863
Long term debt <i>(Note 14)</i>	95	-
	<u>4,926</u>	<u>5,326</u>
<b>NET DEBT</b>	<u>\$ (3,519)</u>	<u>\$ (3,528)</u>
<b>NON-FINANCIAL ASSETS</b>		
Prepaid expenses <i>(Note 3)</i>	\$ 55	\$ 99
Tangible capital assets <i>(Notes 3, 6)</i>	302	86
	<u>357</u>	<u>185</u>
<b>ACCUMULATED DEFICIT</b>	<u>\$ (3,162)</u>	<u>\$ (3,343)</u>

COMMITMENTS *(Note 15)***ON BEHALF OF THE BOARD**\_\_\_\_\_  
*Director*\_\_\_\_\_  
*Director*

See notes to financial statements

**CROWN LANDS AND PROPERTY AGENCY***(An Agency of the Government of Manitoba)***Statement of Operations****Year Ended March 31, 2018****(In thousands)**

	<b>Budget 2018</b>	<b>2018</b>	<b>2017</b>
<b>REVENUE</b>			
Sales	\$ 6,543	\$ 4,446	\$ 4,542
Interest income	-	4	4
	<b>6,543</b>	<b>4,450</b>	<b>4,546</b>
<b>EXPENSES</b>			
Advertising	20	2	4
Amortization	147	40	51
Computer maintenance costs	261	168	162
Contributed services	76	22	56
Desktop operating lease	201	187	185
Employee training	59	12	10
Insurance	4	2	4
Interest on working capital advance	102	64	51
Meals and accommodations	7	2	3
Office	28	18	17
Postage	53	54	60
Printing	38	30	28
Professional fees	323	319	283
Publications	21	15	12
Relocation expense	4	-	2
Rental	286	287	286
Repairs and maintenance	30	10	20
Salaries and benefits	4,161	2,952	3,102
Telephone	42	48	44
Travel	76	37	22
	<b>5,939</b>	<b>4,269</b>	<b>4,402</b>
<b>ANNUAL SURPLUS</b>	<b>604</b>	<b>181</b>	<b>144</b>
ACCUMULATED DEFICIT - BEGINNING OF YEAR	<b>(3,670)</b>	<b>(3,343)</b>	<b>(3,487)</b>
ACCUMULATED DEFICIT - END OF YEAR	<b>\$ (3,066)</b>	<b>\$ (3,162)</b>	<b>\$ (3,343)</b>

See notes to financial statements

**CROWN LANDS AND PROPERTY AGENCY***(An Agency of the Government of Manitoba)***Statement of Change in Net Debt****Year Ended March 31, 2018****(In thousands)**

	Budget 2018	2018	2017
<b>ANNUAL SURPLUS</b>	\$ 604	\$ 181	\$ 144
Purchase of tangible capital assets	(2,130)	(255)	(43)
Amortization of tangible capital assets	147	40	50
Decrease (increase) in prepaid expenses	(195)	43	(56)
<b>DECREASE (INCREASE) IN NET DEBT</b>	(1,574)	9	95
<b>NET DEBT - BEGINNING OF YEAR</b>	(3,983)	(3,528)	(3,623)
<b>NET DEBT - END OF YEAR</b>	\$ (5,557)	\$ (3,519)	\$ (3,528)

See notes to financial statements

**CROWN LANDS AND PROPERTY AGENCY***(An Agency of the Government of Manitoba)***Statement of Cash Flow****Year Ended March 31, 2018****(In thousands)**

	<b>2018</b>	<b>2017</b>
<b>OPERATING ACTIVITIES</b>		
Cash receipts from customers	\$ <b>4,516</b>	\$ 4,556
Cash paid to suppliers and employees	<b>(3,923)</b>	(4,536)
Interest paid	<b>(63)</b>	(51)
Increase (decrease) in deferred leases	<b>163</b>	(49)
Decrease in severance pay liability	<b>(11)</b>	(8)
Increase (decrease) in surplus land sales	<b>643</b>	(1,434)
Cash flow from (used by) operating activities	<b>1,325</b>	(1,522)
<b>INVESTING ACTIVITY</b>		
Purchase of tangible capital assets	<b>(255)</b>	(43)
<b>FINANCING ACTIVITY</b>		
Proceeds from long term debt	<b>95</b>	-
<b>INCREASE (DECREASE) IN CASH</b>	<b>1,165</b>	(1,565)
WORKING CAPITAL ADVANCE - BEGINNING OF YEAR	<b>(3,020)</b>	(1,455)
<b>WORKING CAPITAL ADVANCE - END OF YEAR</b>	<b>\$ (1,855)</b>	<b>\$ (3,020)</b>



# **CROWN LANDS AND PROPERTY AGENCY**

*(An Agency of the Government of Manitoba)*

## **Notes to Financial Statements**

**Year Ended March 31, 2018**

**(In thousands)**

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### **1. NATURE OF ORGANIZATION**

The Crown Lands and Property Agency fits within two service sectors:

- Direct Public Services where the Agency provides mandated land administration services directly to external customers (individuals) on behalf of SD and MA.
- Internal Services to Government where the Agency provides mandated real estate related services to other government departments and agencies to support efficient management of government

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

The Agency consolidates the services previously provided by Land 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 Infrastructure 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 Corporate Services Division of Manitoba Infrastructure under the general direction of the Chief Operating Officer and the Assistant Deputy Minister of Corporate Services Division, and ultimately the policy direction of the Deputy Minister and Minister.

The Agency remains bound by relevant legislation and regulations.

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

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### **2. BASIS OF ACCOUNTING**

The financial statements of the Agency have been prepared in accordance with Canadian Public Sector Accounting Standards as recommended by the public Sector Accounting Board (PSAB).

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# **CROWN LANDS AND PROPERTY AGENCY**

*(An Agency of the Government of Manitoba)*

## **Notes to Financial Statements**

**Year Ended March 31, 2018**

**(In thousands)**

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### **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 revenue and expenses during the reporting period. Actual results could differ from these estimates.

#### Revenue recognition

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

Other branch areas: appropriation funding in Manitoba Agriculture and Sustainable Development is continuing in order to pay the Agency the costs it incurs for providing services to the public (on behalf of Manitoba Agriculture and Sustainable Development).

#### Financial Assets

##### **1. 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.

##### **2. Accounts receivable**

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.

#### 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.

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**CROWN LANDS AND PROPERTY AGENCY**

*(An Agency of the Government of Manitoba)*

**Notes to Financial Statements**

**Year Ended March 31, 2018**

**(In thousands)**

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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
Computer - Major applications	15 years	straight-line method

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# **CROWN LANDS AND PROPERTY AGENCY**

*(An Agency of the Government of Manitoba)*

## **Notes to Financial Statements**

**Year Ended March 31, 2018**

**(In thousands)**

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### **4. 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 accounts receivable. 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, 2018 (2017 - \$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.

#### 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, 2018 is:

	<u>2018</u>	<u>2017</u>
Accounts receivable	\$ 463	\$ 543

Cash: 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 concentration of credit risk, since the receivables are from a large client base. An allowance for doubtful accounts of \$NIL was recorded as of March 31, 2018 (2017 - \$NIL).

*(continues)*

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# **CROWN LANDS AND PROPERTY AGENCY**

*(An Agency of the Government of Manitoba)*

## **Notes to Financial Statements**

**Year Ended March 31, 2018**

**(In thousands)**

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### **4. 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 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.

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### **5. SURPLUS LAND SALES**

Surplus land sales consist of properties which are not under the Crown Lands Act but are under the departmental jurisdiction. These properties are being sold on behalf of clients with the net proceeds issued to the consolidated fund or charged back to the client if the sale is not finalized.

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**CROWN LANDS AND PROPERTY AGENCY***(An Agency of the Government of Manitoba)***Notes to Financial Statements****Year Ended March 31, 2018****(In thousands)****6. TANGIBLE CAPITAL ASSETS**

	<b><u>2018</u></b>			
	Opening balance	Additions	Disposals	Closing balance
<u>Cost</u>				
Equipment	\$ 120	\$ -	\$ -	\$ 120
Computer equipment	150	38	-	188
Computer software	111	-	-	111
Furniture and fixtures	195	30	-	225
Computer - Major applications	-	187	-	187
	<u>\$ 576</u>	<u>\$ 255</u>	<u>\$ -</u>	<u>\$ 831</u>
<u>Accumulated amortization</u>				
Equipment	\$ 104	\$ 8	\$ -	\$ 112
Computer equipment	131	12	-	142
Computer software	84	12	-	96
Furniture and fixtures	171	8	-	179
	<u>490</u>	<u>40</u>	<u>-</u>	<u>529</u>
	<u>\$ 86</u>	<u>\$ 215</u>	<u>\$ -</u>	<u>\$ 302</u>
	<b><u>2017</u></b>			
<u>Cost</u>				
Equipment	\$ 109	\$ 11	\$ -	\$ 120
Computer equipment	150	-	-	150
Computer software	98	13	-	111
Furniture and fixtures	176	19	-	195
	<u>\$ 533</u>	<u>\$ 43</u>	<u>\$ -</u>	<u>\$ 576</u>
<u>Accumulated amortization</u>				
Equipment	\$ 90	\$ 14	\$ -	\$ 104
Computer equipment	117	14	-	131
Computer software	74	10	-	84
Furniture and fixtures	159	12	-	171
	<u>440</u>	<u>50</u>	<u>-</u>	<u>490</u>
	<u>\$ 93</u>	<u>\$ (7)</u>	<u>\$ -</u>	<u>\$ 86</u>

See notes to financial statements

# **CROWN LANDS AND PROPERTY AGENCY**

*(An Agency of the Government of Manitoba)*

## **Notes to Financial Statements**

**Year Ended March 31, 2018**

**(In thousands)**

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

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

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### **8. ASSETS HELD IN TRUST**

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

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### **9. WORKING CAPITAL ADVANCE**

The Agency has an authorized line of working capital from the Province of Manitoba of \$6,000 of which \$1,855 was used as at March 31, 2018 (2017 - \$3,020). The advance is unsecured, and interest is charged at Prime less 1% on the daily balance.

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### **10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>2018</b>	<b>2017</b>
Trade accounts payable	\$ 333	\$ 124
Accrued wages, vacation pay and banked time	284	294
Sick pay leave obligation	57	57
Goods and services tax	1	1
	<b>\$ 675</b>	<b>\$ 476</b>

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**CROWN LANDS AND PROPERTY AGENCY**

*(An Agency of the Government of Manitoba)*

**Notes to Financial Statements**

**Year Ended March 31, 2018**

**(In thousands)**

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**11. SEVERANCE PAY LIABILITY**

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

The severance benefit at March 31 included the following components:

	<b>2018</b>	<b>2017</b>
Balance, beginning of year	\$ <b>249</b>	\$ 247
Actuarial loss (gain)	<b>47</b>	-
Benefits accrued	<b>21</b>	19
Interest on accrued benefits	<b>11</b>	15
Severance paid	<b>(34)</b>	(32)
Accrued benefit liability	<b>294</b>	249
Add: unamortized actuarial gains	<b>17</b>	73
Severance benefit liability	<b>\$ 311</b>	\$ 322

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**12. CLIENT HELD FUNDS**

The Agency invoices and collects funds on behalf of other departments. All amounts received for these departments are recorded as a liability and are held in a separate bank account.

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**13. DEFERRED LEASES**

The Agency manages leases on behalf of clients. The Agency remits to the consolidated fund the difference of revenue generated and the costs to manage the leases.

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**14. LONG TERM DEBT**

Loan owed to the Province of Manitoba with a floating interest rate of prime less 0.75%. No set repayment plan until all loan installments have been advanced.

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**15. COMMITMENTS**

During the year ended March 31, 2018, the Agency incurred costs of \$287 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 signed a service agreement for the design and implementation of computer software. The total cost of the agreement is \$308. As at March 31, 2018, \$88 of the agreement has been capitalized as part of the computer - major applications additions.

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# **CROWN LANDS AND PROPERTY AGENCY**

*(An Agency of the Government of Manitoba)*

## **Notes to Financial Statements**

**Year Ended March 31, 2018**

**(In thousands)**

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### **16. 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.

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### **17. RELATED PARTY TRANSACTIONS**

The Agency provides services to various other government departments. These departments make up approximately 96% of the revenue for the Agency. The Agency's ability to continue as a viable operation is dependent upon these transactions.

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### **18. CONTINGENT LIABILITY**

As at March 31, 2018, there were four outstanding claims. The claims do not clearly articulate the Agency's involvement, outside of its role in administering compensation. It is unknown at this time if there are any future liabilities related to these claims.

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**Entrepreneurship Manitoba  
Financial Statements**

*March 31, 2018  
(in thousands of dollars)*

## Management's Responsibility

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To the Special Operating Agencies Financing Authority:

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.

MNP LLP is appointed 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 with management to discuss their audit findings.

July 13, 2018

Signed "Jeff Hodge"  
Chief Executive Officer

Signed "Jason Lacasse"  
Chief Financial Officer

## Independent Auditors' Report

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To the Special Operating Agencies Financing Authority and Entrepreneurship Manitoba:

We have audited the accompanying financial statements of Entrepreneurship Manitoba, a Special Operating Agency of the Government of the Province of Manitoba, which comprise the statement of financial position as at March 31, 2018, and the statements of operations, change in net financial 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 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 Entrepreneurship Manitoba as at March 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Winnipeg, Manitoba

July 13, 2018

*MNP LLP*

Chartered Professional Accountants

# Entrepreneurship Manitoba Statement of Financial Position

As at March 31, 2018  
(in thousands of dollars)

	2018	2017
<b>Financial assets</b>		
<b>Current</b>		
Cash and cash equivalents	6,454	8,673
Accounts receivable	166	305
Portfolio investments (Note 3)	219	738
<b>Total financial assets</b>	<b>6,839</b>	<b>9,716</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accruals	260	393
Deferred revenue	376	-
Accrued vacation entitlements	457	433
Provision for loan guarantees (Note 4)	922	879
Employee future benefits (Note 5)	449	455
Borrowings from the Province of Manitoba (Note 6)	1,187	1,517
<b>Total financial liabilities</b>	<b>3,651</b>	<b>3,677</b>
<b>Net financial assets</b>	<b>3,188</b>	<b>6,039</b>
<b>Designated assets (Note 8)</b>		
<b>Non-financial assets</b>		
Tangible capital assets (Note 7)	6,571	6,349
Inventories of supplies	33	35
Prepaid expenses	11	11
<b>Total non-financial assets</b>	<b>6,615</b>	<b>6,395</b>
<b>Accumulated surplus</b>	<b>9,803</b>	<b>12,434</b>

The accompanying notes are an integral part of these financial statements

# Entrepreneurship Manitoba Statement of Operations

For the year ended March 31, 2018  
(in thousands of dollars)

	2018 Budget	2018	2017
<b>Revenue</b>			
Fees and services	9,574	10,188	10,293
Immigration settlement transfer	1,750	1,750	1,750
Investment income	30	56	35
	11,354	11,994	12,078
<b>Expenses</b>			
Amortization	237	232	6
Operating expenses (Schedule 1)	3,420	2,712	3,225
Salaries and employee benefits	4,694	4,072	4,123
	8,351	7,016	7,354
<b>Net income before transfer to the Province of Manitoba</b>	<b>3,003</b>	<b>4,978</b>	4,724
<b>Transfer to the Province of Manitoba (Note 9)</b>	<b>7,840</b>	<b>7,609</b>	2,500
<b>Net income (loss) for the year</b>	<b>(4,837)</b>	<b>(2,631)</b>	2,224
<b>Accumulated surplus, beginning of year</b>	<b>10,726</b>	<b>12,434</b>	10,210
<b>Accumulated surplus, end of year</b>	<b>5,889</b>	<b>9,803</b>	12,434

# Entrepreneurship Manitoba

## Statement of Change in Net Financial Assets

*For the year ended March 31, 2018  
(in thousands of dollars)*

	<i>2018 Budget</i>	<i>2018</i>	<i>2017</i>
<b>Net income (loss) for the year</b>	<b>(4,837)</b>	<b>(2,631)</b>	2,224
Acquisition of tangible capital assets	<b>(300)</b>	<b>(454)</b>	(1,095)
Amortization of tangible capital assets	<b>237</b>	<b>232</b>	6
<b>Net acquisition of tangible capital assets</b>	<b>(63)</b>	<b>(222)</b>	(1,089)
Change in inventories of supplies during the year	-	<b>2</b>	4
<b>Net acquisition of other non-financial assets</b>	-	<b>2</b>	4
<b>Increase (decrease) in net financial assets</b>	<b>(4,900)</b>	<b>(2,851)</b>	1,139
<b>Net financial assets, beginning of year</b>	<b>4,069</b>	<b>6,039</b>	4,900
<b>Net financial assets, end of year</b>	<b>(831)</b>	<b>3,188</b>	6,039

# Entrepreneurship Manitoba Statement of Cash Flows

For the year ended March 31, 2018  
(in thousands of dollars)

	2018	2017
<b>Cash provided by (used for) the following activities</b>		
<b>Operating activities</b>		
Net income (loss) for the year	(2,631)	2,224
Non-cash items		
Amortization	232	6
	(2,399)	2,230
Changes in working capital accounts		
Accounts receivable	139	19
Accounts payable and accrued liabilities	(133)	(558)
Deferred revenue	376	-
Accrued vacation entitlements	24	(50)
Provision for loan guarantees	43	48
Employee future benefits	(6)	(41)
Inventories of supplies	2	4
	(1,954)	1,652
<b>Financing activity</b>		
Repayment of borrowings from the Province of Manitoba	(330)	(330)
<b>Capital activity</b>		
Acquisition of tangible capital assets	(454)	(1,095)
<b>Investing activity</b>		
Change in portfolio investments	519	(3)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(2,219)</b>	<b>224</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>8,673</b>	<b>8,449</b>
<b>Cash and cash equivalents, end of year</b>	<b>6,454</b>	<b>8,673</b>



**1. Operations**

Effective April 1, 2013, Entrepreneurship Manitoba (the "Agency") commenced operations as a Government of Manitoba Special Operating Agency ("SOA") under *The Special Operating Agencies Financing Authority Act* (C.C.S.M cS185) by Order in Council No. 78/2013. The Agency Integrates the operations of the former Companies Office and Manitoba Jobs and the Economy's Small Business Development Branch, Competitiveness Initiatives Branch and the Business Settlement Office of the Business Immigration and Investment Branch.

The Agency is in the department of Growth Enterprise and Trade and is under the policy direction of the Minister and the Deputy Minister. The Agency remains bound by relevant legislation and regulations. The Agency is also bound by administrative policy except where specific exemptions have been provided for in its operating charter in order to meet business objectives.

**2. Significant accounting policies**

These financial statements are the representations of management, prepared in accordance with Canadian public sector accounting standards and including the following significant accounting policies:

***Revenue recognition***

Fees and services

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

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.

Other revenue

Investment income and all other revenue is recognized on an accrual basis.

***Expenses***

Expenses

All expenses incurred for goods and services are recognized on an accrual basis when the related goods or services are received.

Government transfers

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

**2. Significant accounting policies** *(Continued from previous page)*

**Financial assets**

Cash and cash equivalents

Cash and cash equivalents include cash on hand and short term investments and deposits 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.

**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.

**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 estimated useful lives as follows:

	<b>Method</b>	<b>Rate</b>
System development costs	straight-line	15 years
Furniture and fixtures	straight-line	5 years
Computer equipment and software	straight-line	5 years
Leasehold improvements	straight-line	5 years
Office equipment	straight-line	5 years

In the year of acquisition amortization is taken at one-half of the rates noted above.

Prepaid expenses

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

Inventories of supplies

Inventories of supplies are recorded at cost and recognized as an expense in the period the supplies are used or consumed.

**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. Actual results may differ from these estimates.

**2. Significant accounting policies** *(Continued from previous page)*

Areas requiring the use of significant estimates include the allowance for accounts receivable deemed uncollectible, useful lives of tangible capital assets, provisions for loan guarantees and employee future benefits. Changes to the underlying assumptions and estimates or legislative changes in the near term could have a material impact on the provisions recognized. These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in the statement of operations in the periods in which they become known.

**3. Portfolio investments**

Portfolio investments consist of deposits held with the Province of Manitoba, bearing interest at rates ranging from 1.17% to 1.72% per annum (2017 - 0.63% to 0.69% per annum), maturing between April 2018 and March 2019 (2017 - April 2017 and March 2018). Amounts with original maturities of three months or less are included in cash and cash equivalents.

**4. Provision for loan guarantees**

Effective April 1, 2013, responsibility for the Province's Manitoba Business Start Loan Guarantee Program was transferred to the Agency. Losses on these loan guarantees are recorded in the accounts when it is likely that a payment will be made to honour a guarantee and when the amount of the anticipated loss can be reasonably estimated. The amount of the provision for loan losses is determined by taking into consideration the Program's historical loss experience and current economic conditions. Any increase or decrease in the provision is recognized in operating expenses for the year.

Under *The Loan Act*, the Province guarantees loans up to \$30 each made by participating financial institutions to new owner-managed businesses operating in Manitoba. Business Start Loans are five year term loans at prime plus 1.00% interest with a one year deferral on principal repayment. In the event of a Business Start Loan default within the five year term, the lender can make a claim for the outstanding loan balance and up to 120 days of interest. When the Agency makes a claim payment, the lender will assign the defaulted loan to the Agency, which allows for potential recovery from the borrower by the Agency.

As at March 31, 2018, there is a revolving authorized limit of \$5,000, with debt totaling \$4,191 (2017 - \$3,779) being guaranteed under the Manitoba Business Start Loan Guarantee Program.

As at March 31, 2018, the Agency has recorded a provision of \$922 for these loan guarantees (2017 - \$879). The increase in the provision of \$43 (2017 - \$48) represents the loan guarantee losses recognized as an expense during the year. In addition, the Agency made total loan guarantee payments during the year of \$159 (2017 - \$227) for total loan guarantee losses and payments during the year of \$202 (2017 - \$275).

As at March 31, 2018, no amounts receivable relating to defaulted loans assigned to the Agency are included in these financial statements due to the uncertainty of recovering any amounts relating to these defaulted loans (2017 - \$nil). Recoveries, if any, will be recognized in the period in which payments are received.

**5. Employee future benefits**

Included in employee future benefits are severance benefits of \$390 (2017 - \$396) and sick pay benefits of \$59 (2017 - \$59).

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. The CSSA established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the Government of the Province of Manitoba (the "Province"), including the Agency, through the Civil Service Superannuation Fund.

Effective March 31, 2001, pursuant to an agreement with the Province, 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 2018 was \$253 (2017 - \$275). Under this agreement, the Agency has no further pension liability.

**5. Employee future benefits** (Continued from previous page)

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 ("EARSL") of the related employee group.

An actuarial report was completed for the severance pay liability as of March 31, 2017. 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, 2018 is \$390 (2017 - \$396), with the total actuarial losses of \$128 (2017 - \$168) based on the completed actuarial reports being amortized over the 15 year EARSL of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2017 valuation, and in the determination of the March 31, 2018 present value of the accrued severance benefit obligation include an annual rate of return of 3.80% (2017 - 6.00%) and annual salary increases of 2.75% (2017 - 3.75%).

The severance liability as at March 31, 2018 includes the following components:

	<b>2018</b>	2017
Accrued benefit liability, beginning of year	<b>499</b>	551
Current period service costs	<b>31</b>	33
Interest on accrued benefits	<b>24</b>	28
Severance benefits paid	<b>(72)</b>	(113)
Accrued benefit liability, end of year	<b>482</b>	499
Less: unamortized actuarial losses	<b>(92)</b>	(103)
Severance benefit liability, end of year	<b>390</b>	396

The total expense related to severance benefits for the year ended March 31, 2018 includes current period service costs of \$31 (2017 - \$28), interest on accrued benefits of \$24 (2017 - \$33) and amortization of actuarial losses over EARSL of \$11 (2017 - \$11), for a total expense related to severance benefits of \$66 (2017 - \$72).

Sick pay benefits

The Agency provides sick leave benefits for employees that accumulate but do not vest. The accrued benefit liability related to sick leave entitlements 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. The Agency's sick leave benefit liability as at March 31, 2018 based on the valuation model is \$59 (2017 - \$59). The increase in the sick leave liability of \$nil (2017 - \$nil) represents the total sick leave benefit expense for the year.

# Entrepreneurship Manitoba Notes to the Financial Statements

*For the year ended March 31, 2018  
(in thousands of dollars)*

## 6. 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 below 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:

	2018	2017
Loan repayable in quarterly instalments of \$33 plus interest at 4.00% per annum, maturing in 2021	399	532
Loan repayable in quarterly instalments of \$49 plus interest at 3.00% per annum, maturing in 2022	788	985
	<b>1,187</b>	<b>1,517</b>

Interest is measured using the effective interest method. Approximate scheduled principal payments in each of the next four years are as follows (in thousands):

2019	330
2020	330
2021	330
2022	197

## 7. Tangible capital assets

	Cost	Additions	Disposals	Accumulated amortization	2018 Net book value
System development costs	6,330	454	-	229	6,555
Furniture and fixtures	151	-	-	143	8
Computer equipment and software	118	-	-	118	-
Leasehold improvements	40	-	-	40	-
Office equipment	27	-	-	19	8
	<b>6,666</b>	<b>454</b>	<b>-</b>	<b>549</b>	<b>6,571</b>

	Cost	Additions	Disposals	Accumulated amortization	2017 Net book value
System development costs	5,245	1,085	-	-	6,330
Furniture and fixtures	146	5	-	141	10
Computer equipment and software	118	-	-	118	-
Leasehold improvements	40	-	-	40	-
Office equipment	22	5	-	18	9
	<b>5,571</b>	<b>1,095</b>	<b>-</b>	<b>317</b>	<b>6,349</b>

**8. Designated assets**

As at March 31, 2018, the Agency has a total of \$1,075 (2017 - \$1,075) of its cash and cash equivalents and portfolio investments designated for specific purposes as described below.

The Agency has allocated \$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 former Companies Office prior to its designation as a Special Operating Agency and the severance pay benefits accumulated to March 31, 1998 for certain employees. In addition, \$213 was received from the Province of Manitoba for vacation and severance benefits transferred to the Agency relating to the reorganization effective April 1, 2013. These amounts are held in interest bearing trust accounts until the cash is required to discharge the related liabilities for severance and vacation entitlements. Any unused balance is re-invested annually.

Also relating to the reorganization effective April 1, 2013, \$644 was received from the Province of Manitoba for the total provision for loan guarantees transferred to the Agency as of this date. This amount is also held in an interest bearing account until cash is required to discharge the related liabilities for loan guarantees.

**9. Transfer of funds to the Province of Manitoba**

During the year, with Lieutenant-Governor-in-Council approval by Order in Council, the Agency transferred \$7,609 (2017 - \$2,500) of its surplus funds to the Province of Manitoba. These amounts are recorded as an expense in the statement of operations.

**10. Financial instruments and financial risk management**

The Agency does not have any significant financial instruments subsequently measured at fair value or denominated in a foreign currency therefore the Agency did not incur any remeasurement gains or losses during the year (2017 - \$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 carrying amount of the Agency's cash and cash equivalents, accounts receivable and portfolio investments best represents the maximum exposure to credit risk.

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 best 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, 2018 is \$nil (2017 - \$nil). The entire balance of accounts receivable was current as of March 31, 2018.

***Liquidity risk***

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

The Agency manages the 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.

**10. Financial instruments and financial risk management** *(Continued from previous page)*

**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 of cash and cash equivalents is considered to be low due to 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.

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 currency 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.

# Entrepreneurship Manitoba

## Schedule 1 - Schedule of Operating Expenses

*For the year ended March 31, 2018  
(in thousands of dollars)*

	2018	2017
Advertising and brochures	-	17
Audit fees	12	6
BSI allocation	195	502
Bad debts	-	1
Bank and credit card charges	84	77
Commissioner for Oath and Notary Public fees	133	148
Communications and telephone	74	73
Computer expenses	82	238
Computer programming	123	248
Conference and convention registration fees	4	1
Desktop support costs	253	237
Disaster recovery and electronic storage	60	47
Education and training expenses	5	16
Equipment maintenance and rentals	7	6
Grants and sponsorships	1	68
Hall rentals	10	15
Hospitality	-	1
Insurance	13	13
Interest on long-term debt	47	58
Legal services	25	68
Library materials	11	18
Loan guarantee losses and payments	202	275
Manitoba Business Links - net of recoveries	323	201
Miscellaneous	83	82
Name search applications	221	167
New system maintenance	125	-
Occupancy	293	299
Payroll processing	21	22
Postage and courier	116	81
Promotional materials	1	1
Publications	3	18
Seminar hall rental	2	13
Stationery	81	100
Subscriptions	10	25
Translation services	1	-
Travel and transportation	62	40
Website hosting fees	4	-
Workshops	25	43
	<b>2,712</b>	<b>3,225</b>



**FOOD DEVELOPMENT CENTRE**  
**FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

## **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 May 23, 2018.

Management maintains internal controls to properly safeguard the assets of Food Development Centre 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 LLP, Chartered Professional Accountants, 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 Auditor's 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

Original Document Signed

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Robin Young  
Acting Chief Operating Officer

Original Document Signed

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Mike Lalla  
Manager of Support Services

## INDEPENDENT AUDITOR'S REPORT

To the Special Operating Agencies Financing Authority  
and Food Development Centre

### Report on the Financial Statements

We have audited the accompanying financial statements of Food Development Centre, an agency of the Government of Manitoba, which comprise the statements of financial position as at March 31, 2018 and the statements of operations, change in net (debt) 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 the 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 the financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Food Development Centre as at March 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.



May 23, 2018  
Winnipeg, Canada

Chartered Professional Accountants

**FOOD DEVELOPMENT CENTRE  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

Statement of Financial Position

(in thousands)

March 31, 2018

	2018 Actual	2017 Actual
<b>Financial assets</b>		
Cash and cash equivalents	\$ 439	\$ 825
Accounts receivable (Note 5)	199	581
Portfolio investments	41	41
	679	1,447
<b>Liabilities</b>		
Accounts payable and accrued liabilities (Note 6)	248	298
Deferred revenue	62	122
Accrued vacation and overtime entitlements	259	292
Employee future benefits (Note 7)	381	371
Borrowings from the Province of Manitoba (Note 8)	1,091	1,314
	2,041	2,397
<b>Net (debt) financial assets</b>	(1,362)	(950)
<b>Non-financial assets</b>		
Tangible capital assets (Note 9)	7,865	8,799
Prepaid expenses	20	33
	7,885	8,832
<b>Accumulated surplus</b>	\$ 6,523	\$ 7,882

Designated assets (Note 10)

Subsequent event (Notes 8 and 14)

See accompanying notes to financial statements.

**FOOD DEVELOPMENT CENTRE**  
**AN AGENCY OF THE PROVINCIAL GOVERNMENT**  
**PROVINCE OF MANITOBA**

Statement of Operations

(in thousands)

Year ended March 31, 2018

	2018 Budget	2018 Actual	2017 Actual
Revenue:			
Grants:			
Province of Manitoba operating grant	\$ 2,020	\$ 2,020	\$ 2,020
Other grants	193	193	193
	2,213	2,213	2,213
Fee for service	1,171	684	1,080
Lease revenue	441	83	358
Administration fees (Note 11)	953	864	871
Other	-	4	4
Investment income	2	4	3
	4,780	3,852	4,529
Expenses:			
Salaries and benefits	2,634	2,535	2,456
Supplies and project expenses	188	191	208
Purchased services	85	92	64
Travel and transportation	66	37	35
Courier and freight	37	27	34
Marketing	51	29	36
Library publications	5	4	6
Occupancy expenses	455	349	360
Ag Weather Program (Note 11)	200	149	144
Administrative expenses (Schedule 1)	959	891	1,019
	4,680	4,304	4,362
Net income (loss) before the following:	100	(452)	167
Amortization of tangible capital assets	1,342	925	973
(Gain) loss on disposal of tangible capital assets (Note 9)	-	(18)	25
Write-down of tangible capital assets (Note 9)	-	-	646
	1,342	907	1,644
Net (loss) for the year	(1,242)	(1,359)	(1,477)
Accumulated surplus, beginning of year	8,170	7,882	9,359
Accumulated surplus, end of year	\$ 6,928	\$ 6,523	\$ 7,882

See accompanying notes to financial statements.

**FOOD DEVELOPMENT CENTRE  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

Statement of Change in Net (Debt) Financial Assets

(in thousands)

Year ended March 31, 2018

	2018 Budget	2018 Actual	2017 Actual
Net (loss) for the year	\$ (1,242)	\$ (1,359)	\$ (1,477)
Tangible capital assets:			
Acquisition of tangible capital assets	(242)	-	(60)
Disposals and write-downs of tangible capital assets	-	9	696
Amortization of tangible capital assets	1,342	925	973
Net acquisition of tangible capital assets	1,100	934	1,609
Other non-financial assets:			
Decrease in prepaid expenses	-	13	6
Net acquisition of other non-financial assets	-	13	6
(Decrease) increase in net (debt) financial assets	(142)	(412)	138
Net (debt) financial assets, beginning of year	(1,242)	(950)	(1,088)
Net (debt) financial assets, end of year	\$ (1,384)	\$ (1,362)	\$ (950)

See accompanying notes to financial statements.

**FOOD DEVELOPMENT CENTRE  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

Statement of Cash Flow

(in thousands)

Year ended March 31, 2018

	2018 Actual	2017 Actual
Cash provided by (applied to)		
Operating activities:		
Net (loss) for the year	\$ (1,359)	\$ (1,477)
Adjustments for:		
Amortization of tangible capital assets	925	973
(Gain) loss on disposal of tangible capital assets	(18)	25
Write-down of tangible capital assets	-	646
	(452)	167
Changes in the following:		
Accounts receivable	382	894
Accounts payable and accrued liabilities	(50)	(224)
Deferred revenue	(60)	(79)
Accrued vacation and overtime entitlements	(33)	40
Employee future benefits	10	46
Prepaid expenses	13	6
Cash (applied to) provided by operating activities	(190)	850
Capital activities:		
Acquisition of tangible capital assets	-	(60)
Proceeds on disposal of tangible capital assets	27	25
Cash provided by (applied to) capital activities	27	(35)
Financing activities:		
Repayment of borrowings from the Province of Manitoba	(223)	(193)
Cash (applied to) financing activities	(223)	(193)
Change in cash and cash equivalents	(386)	622
Cash and cash equivalents, beginning of year	825	203
Cash and cash equivalents, end of year	\$ 439	\$ 825

See accompanying notes to financial statements.

**FOOD DEVELOPMENT CENTRE  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

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Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

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**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. The Financing Authority finances the Centre through repayable loans and working capital advances. This 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 part of the Department of Manitoba Agriculture under the general direction of the Assistant Deputy Minister and 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, clients of the Centre, academia and Government provides direction on policy and operating activities.

**2. Basis of accounting**

These financial statements have been prepared in accordance with Canadian public sector accounting standards which are Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board.

**3. Summary of significant accounting policies**

**(a) Revenue**

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.

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**FOOD DEVELOPMENT CENTRE  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

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Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

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**3. Summary of significant accounting policies (continued)**

**(a) Revenue (continued)**

Fee for service

Fee for service revenue is recognized when the services provided are complete or substantially complete and when collection is reasonably assured.

Lease revenue

Lease revenue is recognized on the accrual basis according to the terms of the underlying lease agreement(s).

Administration fees

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

Other revenue

Investment income and all other revenue is recognized on the accrual basis.

**(b) Expenses**

All expenses incurred for goods and services are recorded on the accrual basis when the related goods or services are received.

**(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.

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**FOOD DEVELOPMENT CENTRE  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

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Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

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**3. Summary of significant accounting policies (continued)**

**(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.

Prepaid expenses

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

	<u>Method</u>	<u>Rate</u>
Equipment - commercial and product development	Straight-line	10-15 years
Computer hardware and software	Straight-line	5 years
Building improvements	Straight-line	25 years

Inventories of supplies

Inventories of supplies are recorded at cost and recognized as an expense in the period the supplies are used or consumed.

**(f) Financial instruments - 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 cost or amortized cost are recognized in the statement of operations in the period the gain or loss occurs. Gains and losses on financial instruments measured at fair value, if any, 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.

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**FOOD DEVELOPMENT CENTRE  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

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Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

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**3. Summary of significant accounting policies (continued)**

**(g) 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. These estimates are reviewed periodically and adjustments are recognized in the period they become known. Actual results may differ from these estimates.

**4. 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 \$370 was used at March 31, 2018 (2017 - \$210).

**5. Accounts receivable**

Accounts receivable at March 31 is comprised of the following:

	2018	2017
Trade accounts receivable	\$ 275	\$ 366
Other receivables	40	28
Due from the Growing Forward 2 Program (Note 11)	65	362
Allowance for doubtful accounts (Note 12)	(181)	(175)
	<u>\$ 199</u>	<u>\$ 581</u>

**6. Accounts payable and accrued liabilities**

Accounts payable and accrued liabilities at March 31 is comprised of the following:

	2018	2017
Trade payables and accrued liabilities	\$ 245	\$ 288
Provincial sales and goods and services taxes payable	3	10
	<u>\$ 248</u>	<u>\$ 298</u>

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**FOOD DEVELOPMENT CENTRE  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

**7. Employee future benefits**

	2018	2017
Severance benefits	\$ 347	\$ 325
Sick pay benefits	34	46
	<b>\$ 381</b>	<b>\$ 371</b>

**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. 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.

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. Commencing 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 the year ended March 31, 2018 was \$234 (2017 - \$255). 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 the actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life (EARS�) of the related employee group.

An actuarial report was completed for the severance pay liability as at March 31, 2017. 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, 2018 is \$347 (2017 - \$325), with the total net actuarial losses of \$47 (2017 - \$18) based on the completed actuarial reports being amortized over the 15 year EARS� of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2017 valuation, and in the determination of the March 31, 2018 present value of the accrued severance benefit liability, are:

Annual rate of return:	
Inflation component	2.00% (2017 - 2.00%)
Real rate of return	1.80% (2017 - 4.00%)
	<b>3.80% (2017 - 6.00%)</b>
Assumed salary increase rates:	
Annual productivity increase	1.00% (2017 - 1.00%)
Annual general salary increase	2.75% (2017 - 2.75%)
	<b>3.75% (2017 - 3.75%)</b>

**FOOD DEVELOPMENT CENTRE  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

**7. Employee future benefits (continued)**

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

	2018	2017
Accrued benefit liability, beginning of year	\$ 340	\$ 298
Actuarial losses	29	-
Current period service costs	29	24
Interest on accrued severance benefits	14	18
Severance benefits paid	(23)	-
Accrued benefit liability, end of year	389	340
Less: unamortized actuarial losses	(42)	(15)
Severance benefit liability, end of year	\$ 347	\$ 325

Total severance benefits paid during the year ended March 31, 2018 were \$23 (2017 - \$nil). The total expense related to severance benefits for the year ended March 31 includes the following components:

	2018	2017
Current period service costs	\$ 29	\$ 24
Interest on accrued severance benefits	14	18
Amortization of actuarial losses over EARS	2	1
Total expense related to severance benefits	\$ 45	\$ 43

**Sick pay benefits**

The Centre provides sick leave benefits for employees that accumulate but do not vest. The accrued benefit obligation related to sick leave entitlements 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 5.00% (2017 - 5.00%) annual return and a 1.50% (2017 - 1.50%) annual salary increase. The Centre's sick leave benefit liability at March 31, 2018 is \$34 (2017 - \$46). The (decrease) increase in the sick leave benefit liability of \$(12) (2017 - increase of \$2) represents the total sick leave benefit (recovery) expense for the year.

**FOOD DEVELOPMENT CENTRE  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

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Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

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**8. Borrowings from the Province of Manitoba**

By virtue of the Management Agreement between the Financing Authority and the Minister of Rural Development, 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 below on behalf of the Centre.

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

	2018	2017
5.8% repayable in annual instalments of \$18 principal plus interest, maturing in April 2017	\$ -	\$ 18
5.625% repayable in annual instalments of \$175 principal plus interest, maturing in May 2019	350	525
Currently interest only at prime less 0.75% payable quarterly with no scheduled principal repayments, maturing in March 2031	741	771
	\$ 1,091	\$ 1,314

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Interest is measured using the effective interest method.

During the year ended March 31, 2018, the Centre made principal payments of \$30 (2017 - \$nil) on the loan with no scheduled principal repayments. Subsequent to year end, this loan was paid in full by the Centre (see Note 14).

Approximate scheduled principal repayments in each of the next five years, or until maturity, are as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 175
2020	175

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**FOOD DEVELOPMENT CENTRE  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

**9. Tangible capital assets**

	2018			
	Opening Balance	Additions	Write-downs/ Disposals	Closing Balance
<b>Cost</b>				
Equipment - commercial and product development	\$ 6,252	\$ -	\$ (102)	\$ 6,150
Computer hardware and software	96	-	-	96
Building improvements	14,108	-	-	14,108
	<b>\$ 20,456</b>	<b>\$ -</b>	<b>\$ (102)</b>	<b>\$ 20,354</b>
<b>Accumulated Amortization</b>				
Equipment - commercial and product development	\$ (4,415)	\$ (380)	\$ 93	\$ (4,702)
Computer hardware and software	(96)	-	-	(96)
Building improvements	(7,146)	(545)	-	(7,691)
	<b>\$ (11,657)</b>	<b>\$ (925)</b>	<b>\$ 93</b>	<b>\$ (12,489)</b>
<b>Net book value</b>	<b>\$ 8,799</b>	<b>\$ (925)</b>	<b>\$ (9)</b>	<b>\$ 7,865</b>

As at March 31, 2018, the total net book value of tangible capital assets not subject to amortization is \$106 (2017 - \$106).

	2017			
	Opening Balance	Additions	Disposals	Closing Balance
<b>Cost</b>				
Equipment - commercial and product development	\$ 6,935	\$ 13	\$ (696)	\$ 6,252
Computer hardware and software	96	-	-	96
Building improvements	14,061	47	-	14,108
	<b>\$ 21,092</b>	<b>\$ 60</b>	<b>\$ (696)</b>	<b>\$ 20,456</b>
<b>Accumulated Amortization</b>				
Equipment - commercial and product development	\$ (4,006)	\$ (409)	\$ -	\$ (4,415)
Computer hardware and software	(96)	-	-	(96)
Building improvements	(6,582)	(564)	-	(7,146)
	<b>\$ (10,684)</b>	<b>\$ (973)</b>	<b>\$ -</b>	<b>\$ (11,657)</b>
<b>Net book value</b>	<b>\$ 10,408</b>	<b>\$ (913)</b>	<b>\$ (696)</b>	<b>\$ 8,799</b>

During the year ended March 31, 2017, commercial and product development equipment with an original cost of \$696 was written down to its estimated value of \$50 resulting in a write-down of \$646 recognized as an expense for the year. Subsequently, the asset was sold for proceeds of \$25 resulting in a loss on disposal of \$25.

**FOOD DEVELOPMENT CENTRE  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

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Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

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**10. Designated assets**

The Centre has allocated \$41 (2017 - \$41) of its portfolio investments as designated assets for cash received from the Province of Manitoba for 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 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. Administration fees**

The Centre has total administration fee revenue of \$864 (2017 - \$871) from administering the following programs during the year:

**(a) Growing Forward 2 Program**

The Centre has been authorized by Treasury Board to administer the non-business risk management programs under the joint Canada-Manitoba Growing Forward 2 Framework Agreement (the "Growing Forward 2 Program") and to collect an administration fee for these services. The Centre's administration of the Growing Forward 2 Program runs from April 1, 2013 to March 31, 2018.

The administration fee under the current Growing Forward 2 Program is based on recoveries of certain expenses included in a Memorandum of Understanding between the Centre and Manitoba Agri-Food and Rural Development, now Manitoba Agriculture. The recoveries include specified percentages of certain salaries and administrative costs incurred by the Centre as well as full recovery of any direct program costs. The total administration fees received or receivable for the year ended March 31, 2018 pursuant to the Growing Forward 2 Program are \$700 (2017 - \$713), with \$407 (2017 - \$346) being recoveries of direct salaries and program costs. Amounts due from the Growing Forward 2 Program are non-interest bearing with no formal terms of repayment. The total amount due from the Growing Forward 2 Program as at March 31, 2018 is \$65 (2017 - \$362).

Although the Growing Forward 2 Program is administered by the Centre, control of the program remains with the Government of Canada, Department of Agriculture and Agri-Food. Therefore, the financial statements of the Growing Forward 2 Program have not been consolidated into the financial statements of the Centre. As at March 31, 2018, the total funds on deposit relating to Growing Forward 2 funding is \$10,555 (2017 - \$10,640). These funds are not included in the financial statements of the Centre.

**(b) Ag Weather Program**

Pursuant to a Memorandum of Understanding between Manitoba Agri-Food and Rural Development (MAFRD), Manitoba Infrastructure and Transportation (MIT) and the Centre, the Centre is administering the incremental operating costs incurred by MIT pursuant to a partnership agreement between MAFRD and MIT relating to an enhanced wireless network of weather monitoring stations in Manitoba. Given the strategic relationship between MAFRD and MIT to improve weather information to Manitoba clients, the Centre has been authorized to administer the incremental operating costs incurred by MIT in order to ensure the administration is consistent with the existing Growing Forward 2 initiative (above). The administration fee under the current Ag Weather Program is based on 10% of all funds administered on behalf of MIT. The Centre's administration of the Ag Weather Program runs from April 28, 2015 to March 31, 2018. For the year ended March 31, 2018, total expenses incurred by the Centre relating to the Ag Weather Program amounted to \$149 (2017 - \$144) resulting in total administration fees received or receivable of \$164 (2017 - \$158).

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**FOOD DEVELOPMENT CENTRE  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

**12. Financial instruments and financial risk management**

The Centre does not have any significant financial instruments subsequently measured at fair value or denominated in a foreign currency therefore the Centre did not incur any remeasurement gains or losses during the year (2017 - \$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.

**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 are cash and cash equivalents, accounts receivable and portfolio investments.

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

	2018	2017
Cash and cash equivalents	\$ 439	\$ 825
Accounts receivable	199	581
Portfolio investments	41	41
	\$ 679	\$ 1,447

Cash and cash equivalents and portfolio investments: The Centre is not exposed to significant credit risk as these amounts are held by a reputable Canadian financial institution and 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 or related entities and payment in full is typically collected when due. The Centre manages this credit risk through close monitoring of any 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 as at March 31, 2018 is \$181 (2017 - \$175) with changes to the allowance for doubtful accounts during the year as follows:

	2018	2017
Balance, beginning of the year	\$ 175	\$ 80
Provision for receivable impairment	6	102
Amounts written off during the year	-	(7)
Balance, end of the year	\$ 181	\$ 175

Bad debt expense (recovery) for the year ended March 31, 2018 includes \$8 of recoveries relating to accounts receivable balances previously written off (2017 - \$nil) for total bad debt expense (recovery) for the year of \$(2) (2017 - expense of \$102).

**FOOD DEVELOPMENT CENTRE  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

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Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

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**12. Financial instruments and financial risk management (continued)**

The aging of accounts receivable and the related allowance for doubtful accounts as at March 31, 2018 is as follows:

	Accounts Receivable	Allowance	Net
Current	\$ 145	\$ (4)	\$ 141
30-60 days past the billing date	53	(11)	42
61-90 days past the billing date	5	(5)	-
Over 90 days past the billing date	177	(161)	16
Balance, end of the year	\$ 380	\$ (181)	\$ 199

**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 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 Centre's net income (loss) 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 Centre is not exposed to significant foreign currency risk as it does not have any significant financial instruments denominated in a foreign currency.

**13. Comparative information**

Certain of the amounts from the year ended March 31, 2017 have been reclassified to conform to the financial statement presentation adopted for the current year.

**14. Subsequent event**

Subsequent to year end, the Centre received a government transfer in the amount of \$741 which was authorized prior to year end with the eligibility requirement that the transfer be recognized as revenue and used for the repayment of debt in the year ending March 31, 2019 (see Note 8). Therefore, this transfer has not been accrued in the financial statements of the Centre for its year ended March 31, 2018.

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**FOOD DEVELOPMENT CENTRE  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

Schedule of Administrative Expenses

Schedule 1

(in thousands)

Year ended March 31, 2018

	2018 Budget	2018 Actual	2017 Actual
Accreditation and licensing fees	\$ 8	\$ 7	\$ 7
Advisory committee fees	1	1	1
Bad debt expense (recovery)	15	(2)	102
Bank charges	5	4	4
Computer expenses	125	120	107
Equipment rental and repairs	179	139	135
Insurance	90	73	80
Interest on borrowings	46	37	46
Memberships	4	4	5
Office supplies and telephone	59	45	58
Professional fees	40	80	36
Property taxes	288	292	288
Repairs and maintenance	60	71	131
Training	39	20	19
	\$ 959	\$ 891	\$ 1,019

**GREEN MANITOBA ECO SOLUTIONS**  
*(An Agency of the Government of Manitoba)*

**Financial Statements**

**(In Thousands)**

**For The Periods Ended April 12, 2017 and March 31, 2017**

**(Unaudited)**

**GREEN MANITOBA ECO SOLUTIONS***(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)***Statement of Financial Position****(In Thousands)****As at April 12, 2017 and March 31, 2017****(Unaudited)**

	<b>April 12, 2017</b>	<b>March 31, 2017</b>
	<b>(Note 2)</b>	
<b>FINANCIAL ASSETS</b>		
Cash	\$ -	\$ 2,677
Accounts receivable	-	-
	-	<b>2,677</b>
<b>LIABILITIES</b>		
Accounts payable and accruals	-	165
Severance liability	-	35
Deferred Revenue	-	5
	-	<b>205</b>
<b>NET FINANCIAL ASSETS</b>	-	<b>2,472</b>
<b>ACCUMULATED SURPLUS</b>	\$ -	\$ <b>2,472</b>

**GREEN MANITOBA ECO SOLUTIONS***(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)***Statement of Operations****(In Thousands)****For the Periods Ended April 12, 2017 and March 31, 2017****(Unaudited)**

	<b>12 days ended April 12, 2017 Actual (Note 2)</b>	<b>Year ended March 31, 2017 Actual</b>
<b>REVENUE</b>		
Funding	\$ 50	\$ 2,654
<b>EXPENSES</b>		
Advertising and promotion	-	21
Computer	-	63
Contracted services	-	41
Office	18	26
Professional fees	-	20
Program supplies and services	1,788	1,877
Salaries and benefits	-	736
Training	-	6
Travel	-	14
	<u>1,806</u>	<u>2,804</u>
Annual deficit before the transfer of net assets to SOAFA	(1,756)	(150)
Transfer of net assets to SOAFA (Note 2)	716	-
Annual deficit	<u>(2,472)</u>	<u>(150)</u>
<b>ACCUMULATED SURPLUS, BEGINNING OF PERIOD</b>	2,472	2,622
<b>ACCUMULATED SURPLUS, END OF PERIOD</b>	<u>\$ -</u>	<u>\$ 2,472</u>

# **GREEN MANITOBA ECO SOLUTIONS**

*(An Agency of the Government of Manitoba)*

## **Notes to Financial Statements**

**For the Period Ended April 12, 2017**

**(Unaudited)**

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### **1. NATURE OF ORGANIZATION**

Effective April 1, 2006, Green Manitoba Eco Solutions (Green Manitoba) was designated as a Special Operating Agency (SOA) pursuant to the Special Operating Agencies Financial 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 (government, 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 the public to acquire information about provincial sustainability issues. The SOA delivers programs and services related to waste reduction, climate change action, environmental sustainability education and water conservation.

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 Sustainable Development 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 Sustainable Development and operates under policy direction of the Assistant Deputy Minister, Environmental Stewardship 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.

### **2. REVOCATION OF SOA DESIGNATION**

The designation of the Agency as a special operating agency under *The Special Operating Agencies Financing Authority Act* was revoked by a Manitoba Order in Council dated April 5, 2017 and its operating charter was cancelled effective the end of the day April 12, 2017. As at the end of the day on April 12, 2017, the net assets of the Agency were transferred to SOAFA. Effective April 13, 2017, the former operations of the Agency will continue to operate as a branch of the Department of Sustainable Development.

# **Industrial Technology Centre**

**An Agency of the Government of  
Manitoba**

**Financial Statements  
March 31, 2018**



## **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 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 ITC 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  
Industrial Technology Centre (ITC)

Original Document Signed  
Trevor Cornell  
Chief Operating Officer

Original Document Signed  
David Olafson  
Manager Corporate Services

May 8, 2018



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BDO Canada LLP  
700 - 200 Graham Avenue  
Winnipeg MB R3C 4L5 Canada

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## Independent Auditor's Report

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### To the Special Operating Agencies Financing Authority

We have audited the accompanying financial statements of the **INDUSTRIAL TECHNOLOGY CENTRE, An Agency of the Government of Manitoba**, which comprise the statement of financial position as at March 31, 2018, 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 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 **INDUSTRIAL TECHNOLOGY CENTRE, An Agency of the Government of Manitoba** as at March 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

*BDO Canada LLP*

Chartered Professional Accountants  
Winnipeg, Manitoba  
May 8, 2018

**Industrial Technology Centre**  
**An Agency of the Government of Manitoba**  
**Statement of Financial Position**  
**As at March 31, 2018**  
(In Thousands)

	<b>March 31, 2018</b>	<b>March 31, 2017</b>
<b>Financial Assets</b>		
Cash and cash equivalents	\$ 371	\$ 229
Accounts receivable	279	265
Portfolio investments	103	103
	<u>753</u>	<u>597</u>
<b>Liabilities</b>		
Accounts payable and accruals	304	347
Unearned revenue	-	-
Employee future benefits (Note 6)	332	342
Borrowings from the Province of Manitoba (Note 7)	-	-
	<u>636</u>	<u>689</u>
<b>Net Debt</b>	<u>117</u>	<u>(92)</u>
<b>Non-financial Assets</b>		
Prepaid expenses	48	50
Tangible capital assets (Note 8)	425	638
	<u>473</u>	<u>688</u>
<b>Accumulated Surplus</b>	<u>\$ 590</u>	<u>\$ 596</u>
Designated assets (Note 9)		
Commitments (Note 10)		

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

**Industrial Technology Centre**  
**An Agency of the Government of Manitoba**  
**Statement of Operations**  
**For the Year Ended March 31, 2018**  
(In Thousands)

	<b>2018</b>		<b>2017</b>
	<b>Budget</b>	<b>Actual</b>	<b>Actual</b>
<b>Revenue</b>			
Province of Manitoba	\$ 730	\$ 730	\$ 730
Fee for service	2,004	1,948	1,818
Other	57	65	60
<b>Total revenue</b>	<b>2,791</b>	<b>2,743</b>	<b>2,608</b>
<b>Expense</b>			
Advertising and promotion	49	48	55
Amortization of tangible capital assets	233	236	262
Audit and legal	12	13	8
Bad debts	2	-	-
Building maintenance	55	73	69
Computer	20	18	23
Equipment	58	98	64
Fees and memberships	37	36	37
Insurance	35	37	35
Interest and service charges	5	5	5
Library	19	18	20
Office	47	45	47
Professional development	20	1	6
Project supplies and subcontract	79	91	60
Purchased services	5	5	5
Rent and property tax	294	293	296
Salaries and benefits	1,748	1,647	1,685
Travel	25	33	34
Utilities	48	52	53
<b>Total expense</b>	<b>2,791</b>	<b>2,749</b>	<b>2,764</b>
<b>Annual deficit, before transfer of funds to the Province of Manitoba</b>	-	(6)	(156)
<b>Transfer of funds to the Province of Manitoba</b>	-	-	100
<b>Annual deficit</b>	-	(6)	(256)
<b>Accumulated surplus, beginning of year</b>	<b>665</b>	<b>596</b>	<b>852</b>
<b>Accumulated surplus, end of year</b>	<b>\$ 665</b>	<b>\$ 590</b>	<b>\$ 596</b>

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

**Industrial Technology Centre**  
**An Agency of the Government of Manitoba**  
**Statement of Change in Net Debt**  
**For the Year Ended March 31, 2018**  
(In Thousands)

	<b>2018</b>		<b>2017</b>
	<b>Budget</b>	<b>Actual</b>	<b>Actual</b>
Annual deficit	\$ -	\$ (6)	\$ (256)
Tangible capital assets			
Acquisition of tangible capital assets	(175)	(23)	(131)
Amortization of tangible capital assets	233	236	262
Net acquisition of tangible capital assets	58	213	131
Other non-financial assets			
Decrease (increase) in prepaid expense	-	2	(9)
Net acquisition of other non-financial assets	-	2	(9)
<b>(Increase) decrease in net debt</b>	58	209	(134)
<b>Net debt, beginning of year</b>	(58)	(92)	42
<b>Net debt, end of year</b>	<u>\$ -</u>	<u>\$ 117</u>	<u>\$ (92)</u>

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

**Industrial Technology Centre**  
**An Agency of the Government of Manitoba**  
**Statement of Cash Flow**  
**For the Year Ended March 31, 2018**  
(In Thousands)

	<b>2018</b>	<b>2017</b>
	<b>Actual</b>	<b>Actual</b>
Cash provided by (applied to):		
<b>Operating</b>		
Annual deficit	\$ (6)	\$ (256)
Amortization of tangible capital assets	236	262
	230	6
Change in:		
Accounts receivable	(14)	(55)
Accounts payable and accruals	(43)	(52)
Unearned revenue	-	-
Employee future benefits	(10)	17
Prepaid expenses	2	(9)
Cash provided by (applied to) operating activities	165	(93)
<b>Capital</b>		
Acquisition of tangible capital assets	(23)	(131)
Cash applied to capital activities	(23)	(131)
	142	(224)
Increase (decrease) in cash	229	453
Cash and cash equivalents at beginning of year	\$ 371	\$ 229
Cash and cash equivalents at end of year	\$ 371	\$ 229

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

**Industrial Technology Centre**  
**An Agency of the Government of Manitoba**  
**Notes to Financial Statements**  
(In Thousands)

For the Year Ended March 31, 2018

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**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 Growth, Enterprise and Trade under the general direction of the Executive Director, Enterprise.

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 Growth, Enterprise and Trade 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 Growth, Enterprise and Trade 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**

The financial statements are prepared in accordance with Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board.

**Industrial Technology Centre**  
**An Agency of the Government of Manitoba**  
**Notes to Financial Statements**  
(In Thousands)

For the Year Ended March 31, 2018

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**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.



**Industrial Technology Centre**  
**An Agency of the Government of Manitoba**  
**Notes to Financial Statements**  
(In Thousands)

For the Year Ended March 31, 2018

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**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 Government of Manitoba**  
**Notes to Financial Statements**  
(In Thousands)

For the Year Ended March 31, 2018

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**4. 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 2017).

**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 the Agency to credit risk at March 31 is:

	2018	2017
Cash and cash equivalents	\$ 371	\$ 229
Accounts receivable	279	265
Portfolio investments	103	103
	<u>\$ 753</u>	<u>\$ 597</u>

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.

**Industrial Technology Centre**  
**An Agency of the Government of Manitoba**  
**Notes to Financial Statements**  
(In Thousands)

For the Year Ended March 31, 2018

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

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, 2018 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.

**Foreign Currency Risk**

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

**5. Working Capital Advances**

The Agency has an authorized line of working capital advance up to a maximum of \$300. As at March 31, 2018 working capital advances were nil (Nil in 2017). The line bears interest at prime less 1% and is not secured by specific assets.

**Industrial Technology Centre**  
**An Agency of the Government of Manitoba**  
**Notes to Financial Statements**  
(In Thousands)

For the Year Ended March 31, 2018

**6. Employee Future Benefits**

	2018	2017
Severance benefits	\$ 310	\$ 319
Sick pay benefits	22	23
	<u>\$ 332</u>	<u>\$ 342</u>

**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 2018 is \$106 (2017 - \$111). 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 its employees. The amount of its 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, 2017. 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, 2018 is \$310 (\$319 in 2017), with an actuarial adjustment being amortized over the 15-year expected average remaining service life (EARS�) of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2017 valuation, and in the determination of the March 31, 2018 present value of the accrued severance benefit obligation, were:

Discount rate	<u>3.80%</u>
Assumed salary increase rates - annual productivity increase	1.00%
- annual general salary increase	<u>2.75%</u>
	<u>3.75%</u>

**Industrial Technology Centre**  
**An Agency of the Government of Manitoba**  
**Notes to Financial Statements**  
(In Thousands)

For the Year Ended March 31, 2018

**6. Employee Future Benefits (continued)**

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

	2018	2017
Accrued benefit liability		
Balance, beginning of year	\$ 310	\$ 284
Actuarial loss	35	-
Benefits accrued	10	10
Interest on accrued benefits	13	16
Severance paid	(29)	-
Balance, end of year	339	310
Add: Unamortized actuarial gains (losses)	(29)	9
Severance benefit liability	<u>\$ 310</u>	<u>\$ 319</u>

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

	2018	2017
Interest on obligation	\$ 13	\$ 16
Current period benefit cost	10	10
Amortization of actuarial gains over EARS	(3)	(3)
Total expense related to severance benefit	<u>\$ 20</u>	<u>\$ 23</u>

**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 3.80% discount rate and a 3.75% annual salary increase.

**7. Borrowings from the Province of Manitoba**

The Industrial Technology Centre has authorized loan authority of \$250 under The Loan Act, 2017. This loan authority is unutilized as at March 31, 2018.

**Industrial Technology Centre**  
**An Agency of the Government of Manitoba**  
**Notes to Financial Statements**  
(In Thousands)

For the Year Ended March 31, 2018

**8. Tangible Capital Assets**

	2018		
	Opening		Closing
	Balance	Additions	Balance
<b>Cost</b>			
Furniture and fixtures	\$ 33	\$ -	\$ 33
Office and laboratory equipment	2,776	11	2,787
Computer equipment and software	455	12	467
Leasehold improvements	290	-	290
	3,554	23	3,577
<b>Accumulated Amortization</b>			
Furniture and fixtures	33	-	33
Office and laboratory equipment	2,253	204	2,457
Computer equipment and software	406	22	428
Leasehold improvements	224	10	234
	2,916	236	3,152
<b>Net</b>	<b>\$ 638</b>	<b>\$ (213)</b>	<b>\$ 425</b>

	2017		
	Opening		Closing
	Balance	Additions	Balance
<b>Cost</b>			
Furniture and fixtures	\$ 33	\$ -	\$ 33
Office and laboratory equipment	2,674	102	2,776
Computer equipment and software	436	19	455
Leasehold improvements	280	10	290
	3,423	131	3,554
<b>Accumulated Amortization</b>			
Furniture and fixtures	29	4	33
Office and laboratory equipment	2,028	225	2,253
Computer equipment and software	382	24	406
Leasehold improvements	215	9	224
	2,654	262	2,916
<b>Net</b>	<b>\$ 769</b>	<b>\$ (131)</b>	<b>\$ 638</b>

**Industrial Technology Centre**  
**An Agency of the Government of Manitoba**  
**Notes to Financial Statements**  
(In Thousands)

For the Year Ended March 31, 2018

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**9. Designated Assets**

The Agency has allocated \$103 (\$103 in 2017) 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 reinvested annually.

**10. 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:

2019	\$194
2020	194
2021	194
2022	194
2023	194

**MANITOBA EDUCATION, RESEARCH  
AND LEARNING INFORMATION  
NETWORKS**

**An Agency of the Government of  
Manitoba**

**Financial Statements  
For the year ended March 31, 2018**



## **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 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 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 Canadian 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 of MERLIN:

Original Document Signed

**Kiley Bender, Acting Chief Operating Officer**

Original Document Signed

**David Olafson, Controller**

May 11, 2018



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700 - 200 Graham Avenue  
Winnipeg MB R3C 4L5 Canada

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## Independent Auditor's Report

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### 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 Government of Manitoba** which comprise the statement of financial position as at March 31, 2018, and the statements of operations, change in net debt, 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 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 Government of Manitoba** as at March 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

*BDO Canada LLP*

Chartered Professional Accountants

Winnipeg, Manitoba  
May 11, 2018

# MANITOBA EDUCATION, RESEARCH AND LEARNING INFORMATION NETWORKS

An Agency of the Government of Manitoba

## Statement of Financial Position

(In Thousands)

March 31	2018	2017
<b>Financial Assets</b>		
Cash and cash equivalents (Note 6)	\$ 1,443	\$ 384
Accounts receivable	526	452
Portfolio investments	47	47
	<u>2,016</u>	<u>883</u>
<b>Liabilities</b>		
Accounts payable and accruals	470	511
Unearned revenue	1,485	856
Employee future benefits (Note 7)	171	155
	<u>2,126</u>	<u>1,522</u>
<b>Net debt</b>	<u>(110)</u>	<u>(639)</u>
<b>Non-financial Assets</b>		
Prepaid expenses	437	590
Tangible capital assets (Note 8)	638	655
	<u>1,075</u>	<u>1,245</u>
<b>Accumulated surplus</b>	<u>\$ 965</u>	<u>\$ 606</u>

Designated assets (Note 9)

# MANITOBA EDUCATION, RESEARCH AND LEARNING INFORMATION NETWORKS

An Agency of the Government of Manitoba

## Statement of Operations

(In Thousands)

For the year ended March 31	2018	2018	2017
	Budget	Actual	Actual
<b>Revenue</b>			
Province of Manitoba	\$ 346	\$ 346	\$ 346
Fee for goods and services	5,111	5,284	5,300
Other	-	12	2
	<u>5,457</u>	<u>5,642</u>	<u>5,648</u>
<b>Expense</b>			
Advertising and promotion	16	10	20
Amortization of tangible capital assets	313	323	272
Audit and legal fees	14	11	12
Communication and bandwidth	259	194	194
Cost of purchases for resale	2,109	2,211	2,421
Course delivery	90	34	54
Equipment repair and maintenance	340	371	318
Manitoba Network connections	660	829	715
Occupancy	77	76	75
Office and miscellaneous	49	35	43
Professional development	20	1	2
Purchased services	81	-	30
Salaries and benefits	1,409	1,177	1,235
Travel	20	11	13
	<u>5,457</u>	<u>5,283</u>	<u>5,404</u>
<b>Annual surplus</b>	-	359	244
<b>Accumulated surplus, beginning of year</b>	<u>482</u>	<u>606</u>	<u>362</u>
<b>Accumulated surplus, end of year</b>	<u>\$ 482</u>	<u>\$ 965</u>	<u>\$ 606</u>

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



# MANITOBA EDUCATION, RESEARCH AND LEARNING INFORMATION NETWORKS

An Agency of the Government of Manitoba

## Statement of Change in Net Debt

*(In Thousands)*

<b>For the year ended March 31</b>	<b>2018</b>	<b>2018</b>	<b>2017</b>
	<b>Budget</b>	<b>Actual</b>	<b>Actual</b>
<b>Annual surplus</b>	<b>\$ -</b>	<b>\$ 359</b>	<b>\$ 244</b>
<b>Tangible Capital Assets</b>			
Acquisition of tangible capital assets	(300)	(306)	(280)
Amortization of tangible capital assets	313	323	272
<b>Net acquisition of tangible capital assets</b>	<b>13</b>	<b>17</b>	<b>(8)</b>
<b>Other Non-financial Assets</b>			
Decrease in prepaid expenses	135	153	152
<b>Decrease in net debt</b>	<b>148</b>	<b>529</b>	<b>388</b>
<b>Net debt, beginning of year</b>	<b>(725)</b>	<b>(639)</b>	<b>(1,027)</b>
<b>Net debt, end of year</b>	<b>\$ (577)</b>	<b>\$ (110)</b>	<b>\$ (639)</b>

# MANITOBA EDUCATION, RESEARCH AND LEARNING INFORMATION NETWORKS

An Agency of the Government of Manitoba

## Statement of Cash Flows

(In Thousands)

For the year ended March 31	2018	2017
<b>Cash provided by (applied to):</b>		
<b>Operating Activities</b>		
Annual surplus	\$ 359	\$ 244
Amortization of tangible capital assets	323	272
	682	516
Changes in:		
Accounts receivable	(74)	(796)
Accounts payable and accruals	(41)	180
Unearned revenue	629	513
Employee future benefits	16	13
Prepaid expenses	153	152
Cash provided by operating activities	1,365	578
<b>Capital Activities</b>		
Acquisition of tangible capital assets	(306)	(280)
<b>Increase in cash and cash equivalents</b>	1,059	298
<b>Cash and cash equivalents, beginning of year</b>	384	86
<b>Cash and cash equivalents, end of year</b>	\$ 1,443	\$ 384

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# **MANITOBA EDUCATION, RESEARCH AND LEARNING INFORMATION NETWORKS**

**An Agency of the Government of Manitoba  
Notes to Financial Statements**

*(In Thousands)*

**For the year ended March 31, 2018**

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## **1. Nature of Organization**

Effective April 1, 1995, Manitoba Education, Research and Learning Information Networks (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. Effective April 1, 2015, Agency operates as part of Finance under the general direction of the Assistant Deputy Minister.

The Agency is financed through the Special Operating Agencies Financing Authority (SOAFA). SOAFA has the mandate to hold and acquire assets required for and resulting from 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 SOAFA and the Minister of Finance assigns responsibility to the Agency to manage and account for Agency related assets and operations on behalf of SOAFA.

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

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

## **2. Basis of Accounting**

The financial statements are prepared in accordance with Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board.

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# MANITOBA EDUCATION, RESEARCH AND LEARNING INFORMATION NETWORKS

An Agency of the Government of Manitoba  
Notes to Financial Statements

(In Thousands)

**For the year ended March 31, 2018**

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## 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.



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# MANITOBA EDUCATION, RESEARCH AND LEARNING INFORMATION NETWORKS

An Agency of the Government of Manitoba  
Notes to Financial Statements

(In Thousands)

For the year ended March 31, 2018

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## 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

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# MANITOBA EDUCATION, RESEARCH AND LEARNING INFORMATION NETWORKS

An Agency of the Government of Manitoba  
Notes to Financial Statements

(In Thousands)

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For the year ended March 31, 2018

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### 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. 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 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 year the gain or loss occurs.

The Agency did not incur any remeasurement gains and losses during the years ended March 31, 2018 and 2017.

#### 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.

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**MANITOBA EDUCATION, RESEARCH AND LEARNING  
INFORMATION NETWORKS**  
An Agency of the Government of Manitoba  
**Notes to Financial Statements**  
(In Thousands)

**For the year ended March 31, 2018**

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

Credit Risk

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

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

	<b>2018</b>	2017
Cash and cash equivalents	\$ 1,443	\$ 384
Accounts receivable	526	452
Portfolio investments	47	47
Maximum exposure to credit risk	<b>\$ 2,016</b>	<b>\$ 883</b>

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 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 allowance for doubtful accounts balance at March 31, 2018 was \$5.

Liquidity Risk

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

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



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# MANITOBA EDUCATION, RESEARCH AND LEARNING INFORMATION NETWORKS

An Agency of the Government of Manitoba  
Notes to Financial Statements

(In Thousands)

For the year ended March 31, 2018

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## 4. Financial Instruments and Financial Risk Management (continued)

### Market Risk

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

### 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.

## 5. Working Capital Advances

The Agency has an authorized line of working capital advances up to \$2.0 million. As at March 31, 2018 working capital advances were \$NIL (\$NIL in 2017). The line bears interest at prime less 1% and is not secured by specific assets.

## 6. Cash and Cash Equivalents

The Agency invests all surplus cash in short-term deposits with the Province of Manitoba, which are made up of term deposits with maturities of up to three months.

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## MANITOBA EDUCATION, RESEARCH AND LEARNING INFORMATION NETWORKS

An Agency of the Government of Manitoba

### Notes to Financial Statements

(In Thousands)

For the year ended March 31, 2018

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#### 7. Employee Future Benefits

	2018	2017
Severance benefits	\$ 154	\$ 141
Sick pay benefits	17	14
	<u>\$ 171</u>	<u>\$ 155</u>

#### 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 2018 was \$82 (\$93 in 2017). 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 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.

# MANITOBA EDUCATION, RESEARCH AND LEARNING INFORMATION NETWORKS

An Agency of the Government of Manitoba  
Notes to Financial Statements

(In Thousands)

**For the year ended March 31, 2018**

## 7. Employee Future Benefits (continued)

### Severance Benefits (continued)

An actuarial report was completed for the severance pay liability as of March 31, 2017. 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, 2018 was \$154 (\$141 in 2017), with an actuarial adjustment being amortized over the 15 year expected average remaining service life (EARSLS) of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2017 valuation, and in the determination of the March 31, 2018 present value of the accrued severance benefit obligation were:

Annual rate of return:	
Discount rate	<u>3.80%</u>
Annual salary increase rates:	
Annual productivity increase	1.00%
Annual general salary increase	<u>2.75%</u>
	<u>3.75%</u>

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

	<u>2018</u>	<u>2017</u>
Accrued benefit liability		
Balance, beginning of year	\$ 146	\$ 135
Actuarial loss	36	-
Benefits accrued	5	4
Interest on accrued benefits	7	8
Severance paid	-	(1)
Balance, end of year	<u>194</u>	<u>146</u>
Less unamortized actuarial losses	<u>(40)</u>	<u>(5)</u>
Severance benefit liability	<u>\$ 154</u>	<u>\$ 141</u>

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**MANITOBA EDUCATION, RESEARCH AND LEARNING  
INFORMATION NETWORKS**

**An Agency of the Government of Manitoba**

**Notes to Financial Statements**

*(In Thousands)*

**For the year ended March 31, 2018**

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**7. Employee Future Benefits (continued)**

Severance Benefits (continued)

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

	<u>2018</u>	<u>2017</u>
Interest on obligation	\$ 7	\$ 8
Current period benefit cost	5	4
Amortization of actuarial losses over EARS	2	2
Total expense related to severance benefit	<u>\$ 14</u>	<u>\$ 14</u>

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 3.80% discount rate and a 3.75% annual salary increase.



# MANITOBA EDUCATION, RESEARCH AND LEARNING INFORMATION NETWORKS

An Agency of the Government of Manitoba

Notes to Financial Statements

(In Thousands)

For the year ended March 31, 2018

## 8. Tangible Capital Assets

	2018			
	Opening Balance	Additions	Disposals	Closing Balance
<b>Cost</b>				
Computer hardware	\$ 2,052	\$ 284	\$ -	\$ 2,336
Computer software	110	22	-	132
Equipment and furniture	48	-	-	48
Leaseholds	20	-	-	20
	<b>2,230</b>	<b>306</b>	<b>-</b>	<b>2,536</b>
<b>Accumulated Amortization</b>				
Computer hardware	1,408	317	-	1,725
Computer software	102	5	-	107
Equipment and furniture	45	1	-	46
Leaseholds	20	-	-	20
	<b>1,575</b>	<b>323</b>	<b>-</b>	<b>1,898</b>
<b>Net book value</b>	<b>\$ 655</b>	<b>\$ (17)</b>	<b>\$ -</b>	<b>\$ 638</b>
	2017			
	Opening Balance	Additions	Disposals	Closing Balance
<b>Cost</b>				
Computer hardware	\$ 1,772	\$ 280	\$ -	\$ 2,052
Computer software	110	-	-	110
Equipment and furniture	48	-	-	48
Leaseholds	20	-	-	20
	<b>1,950</b>	<b>280</b>	<b>-</b>	<b>2,230</b>
<b>Accumulated Amortization</b>				
Computer hardware	1,141	267	-	1,408
Computer software	99	3	-	102
Equipment and furniture	43	2	-	45
Leaseholds	20	-	-	20
	<b>1,303</b>	<b>272</b>	<b>-</b>	<b>1,575</b>
<b>Net book value</b>	<b>\$ 647</b>	<b>\$ 8</b>	<b>\$ -</b>	<b>\$ 655</b>



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**MANITOBA EDUCATION, RESEARCH AND LEARNING  
INFORMATION NETWORKS**

**An Agency of the Government of Manitoba  
Notes to Financial Statements**

*(In Thousands)*

**For the year ended March 31, 2018**

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**9. Designated Assets**

The Agency has allocated \$47 (\$47 in 2017) 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 reinvested annually.

**MANITOBA FINANCIAL SERVICES  
AGENCY**

**Financial Statements**  
**For the year ended March 31, 2018**

## Management's Responsibility for Financial Reporting

The accompanying financial statements are the responsibility of the management of the **MANITOBA FINANCIAL SERVICES 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 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 FINANCIAL SERVICES AGENCY** are fairly represented in accordance with Canadian 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

**MANITOBA FINANCIAL SERVICES AGENCY**

Original Document Signed

\_\_\_\_\_  
Donald G. Murray, CAO, MFSA Chair and CEO, MSC

Original Document Signed

\_\_\_\_\_  
Marlene Nemes, CPA, CMA, Controller

May 11, 2018

\_\_\_\_\_  
Date



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Winnipeg MB R3C 4L5 Canada

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## Independent Auditor's Report

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### To The Special Operating Agencies Financing Authority

We have audited the accompanying financial statements of the **MANITOBA FINANCIAL SERVICES AGENCY**, which comprise the statement of financial position as at March 31, 2018, and the statements of operations and accumulated surplus, change in net financial 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 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 FINANCIAL SERVICES AGENCY** as at March 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### Other Matter

We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the schedules or exhibits on pages 15 - 16 of the **MANITOBA FINANCIAL SERVICES AGENCY's** financial statements.

*BDO Canada LLP*

Chartered Professional Accountants

Winnipeg, Manitoba

May 11, 2018



**MANITOBA FINANCIAL SERVICES AGENCY**  
**Statement of Financial Position**  
*(in thousands)*

<b>March 31</b>	<b>2018</b>	<b>2017</b>
<b>Financial Assets</b>		
Cash and cash equivalents (Note 5)	\$ 21,532	\$ 21,506
Accounts receivable (Note 6)	115	71
Portfolio investments	1,019	1,019
	<b>22,666</b>	<b>22,596</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	77	33
Accrued vacation entitlements	310	302
Employee future benefits (Note 7)	522	500
	<b>909</b>	<b>835</b>
<b>Net financial assets</b>	<b>21,757</b>	<b>21,761</b>
<b>Non-financial Assets</b>		
Tangible capital assets (Note 8)	55	72
Prepaid expenses	61	52
	<b>116</b>	<b>124</b>
<b>Accumulated surplus</b>	<b>\$ 21,873</b>	<b>\$ 21,885</b>

Designated assets (Note 9)  
Commitments (Note 10)

**MANITOBA FINANCIAL SERVICES AGENCY**  
**Statement of Operations and Accumulated Surplus**  
*(in thousands)*

<b>For the year ended March 31</b>	<b>2018</b>	<b>2018</b>	<b>2017</b>
	<b>Budget</b>	<b>Actual</b>	<b>Actual</b>
<b>Revenue</b>			
Fees	\$ 18,493	\$ 21,772	\$ 20,760
Interest	65	170	114
Miscellaneous	15	98	28
	<b>18,573</b>	<b>22,040</b>	<b>20,902</b>
<b>Expenses</b>			
Amortization - capital assets	24	25	27
CSA initiatives*	105	70	71
Contract services	390	254	278
Education/Information initiatives	122	50	45
Miscellaneous	37	26	25
Office materials and supplies	74	69	69
Premises	557	557	547
Professional services	122	109	303
Research resources	54	68	46
Salaries and benefits	4,196	3,659	3,806
Staff development and professional dues	58	39	30
Telecommunications	81	75	77
Travel	91	51	84
	<b>5,911</b>	<b>5,052</b>	<b>5,408</b>
<b>Annual operating surplus</b>	<b>12,662</b>	<b>16,988</b>	<b>15,494</b>
<b>Transfer to the Province of Manitoba (Note 11)</b>	<b>12,000</b>	<b>12,000</b>	<b>11,800</b>
<b>Annual surplus</b>	<b>662</b>	<b>4,988</b>	<b>3,694</b>
<b>Accumulated surplus, beginning of year</b>	<b>21,885</b>	<b>21,885</b>	<b>23,191</b>
<b>Additional Transfer to the Province of Manitoba (Note 11)</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>
<b>Accumulated surplus, end of year</b>	<b>\$ 17,547</b>	<b>\$ 21,873</b>	<b>\$ 21,885</b>

\* Canadian Securities Administrators

**MANITOBA FINANCIAL SERVICES AGENCY**  
**Statement of Change in Net Financial Assets**  
*(in thousands)*

<b>For the year ended March 31</b>	<b>2018</b>	<b>2018</b>	<b>2017</b>
	<b>Budget</b>	<b>Actual</b>	<b>Actual</b>
<b>Annual surplus</b>	<b>\$ 662</b>	<b>\$ 4,988</b>	<b>\$ 3,694</b>
<b>Tangible Capital Assets</b>			
Acquisition of tangible capital assets	(10)	(8)	-
Amortization of tangible capital assets	24	25	27
<b>Net change in tangible capital assets</b>	<b>14</b>	<b>17</b>	<b>27</b>
<b>Other Non-financial Assets</b>			
(Decrease) increase in prepaid expense	-	(9)	113
<b>Net acquisition of other non-financial assets</b>	<b>-</b>	<b>(9)</b>	<b>113</b>
<b>Increase in net financial assets</b>	<b>676</b>	<b>4,996</b>	<b>3,834</b>
<b>Net financial assets, beginning of year</b>	<b>18,102</b>	<b>21,761</b>	<b>22,927</b>
<b>Additional transfer to the Province of Manitoba</b>	<b>(5,000)</b>	<b>(5,000)</b>	<b>(5,000)</b>
<b>Net financial assets, end of year</b>	<b>\$ 13,778</b>	<b>\$ 21,757</b>	<b>\$ 21,761</b>

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

**MANITOBA FINANCIAL SERVICES AGENCY**  
**Statement of Cash Flows**  
*(in thousands)*

<b>For the year ended March 31</b>	<b>2018</b>	<b>2017</b>
<b>Cash provided by (applied to):</b>		
<b>Cash Flows from Operating Activities</b>		
Annual surplus	\$ 4,988	\$ 3,694
Amortization of tangible capital assets	25	27
	<u>5,013</u>	<u>3,721</u>
Changes in non-cash working capital balances		
Accounts receivable	(44)	(45)
Prepaid expenses	(9)	113
Accounts payable and accrued liabilities	44	(161)
Accrued vacation entitlements	8	1
Accrued salaries and benefits	-	(227)
Employee future benefits	22	46
	<u>5,034</u>	<u>3,448</u>
<b>Cash Flows from Capital Activities</b>		
Acquisition of capital assets	(8)	-
<b>Cash Flows from Financing Activities</b>		
Transfer to Province of Manitoba	(5,000)	(5,000)
<b>Increase (decrease) in cash and cash equivalents</b>	<u>26</u>	<u>(1,552)</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>21,506</u>	<u>23,058</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 21,532</u>	<u>\$ 21,506</u>
<b>Supplementary Information</b>		
Interest received	\$ 147	\$ 113



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# MANITOBA FINANCIAL SERVICES AGENCY

## Notes to Financial Statements

(in thousands)

**For the year ended March 31, 2018**

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### **1. Nature of Organization**

Effective April 1, 1999 the Lieutenant Governor in Council designated 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 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 Manitoba Securities Commission in delivering regulated services to clients. The Manitoba Securities Commission subsequently came under the umbrella of the Finance Department with the Minister of Finance responsible for the Agency.

The Manitoba Financial Services Agency, a Special Operating Agency (SOA), was established as of October 1, 2012 by Order in Council. The Manitoba Securities Commission (Commission) was merged with Financial Institutions Regulation Branch (FIRB) to form The Manitoba Financial Securities Agency (MFSA). The Commission and FIRB now operate as divisions of the MFSA. The Chief Administrative Officer of the MFSA is also the Chair of the Commission. The Minister of Finance continues to be responsible for the Agency.

### **2. Basis of Accounting**

The financial statements are prepared in accordance with Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board.

### **3. Significant Accounting Policies**

#### Revenue

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

#### Expenses

- (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.

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# MANITOBA FINANCIAL SERVICES AGENCY

## Notes to Financial Statements

(in thousands)

**For the year ended March 31, 2018**

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### **3. Significant Accounting Policies (continued)**

#### 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

- (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.

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# MANITOBA FINANCIAL SERVICES AGENCY

## Notes to Financial Statements

(in thousands)

**For the year ended March 31, 2018**

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### 4. 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 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 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.

#### 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 the Agency to credit risk at March 31 is:

	2018	2017
Cash and cash equivalents	\$ 21,532	\$ 21,506
Accounts receivable	115	71
Portfolio investments	1,019	1,019
	<u>\$ 22,666</u>	<u>\$ 22,596</u>

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.



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# MANITOBA FINANCIAL SERVICES AGENCY

## Notes to Financial Statements

(in thousands)

For the year ended March 31, 2018

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#### 4. Financial Instruments and Financial Risk Management (continued)

Accounts receivable: The Agency 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 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, 2018 (Nil in 2017).

##### Liquidity Risk

Liquidity can be defined as an organization's ability to meet its financial obligations as they come due.

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

##### Market Risk

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

##### Interest Rate Risk

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

#### 5. Cash and Cash Equivalents

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

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## MANITOBA FINANCIAL SERVICES AGENCY

### Notes to Financial Statements

*(in thousands)*

**For the year ended March 31, 2018**

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**6. Accounts Receivable**

	2018	2017
Accrued interest	\$ 37	\$ 16
Trade	78	55
	<u>\$ 115</u>	<u>\$ 71</u>

**7. Employee Future Benefits**

Pension Benefits

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

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the Agency transferred to the Province of Manitoba 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 2018 was \$213 (\$216 in 2017). Under this Agreement, the Agency has 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, 2017. 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, 2018 is \$522 (\$500 in 2017). The actuarial loss of \$46 based on actuarial reports is being amortized over the 15 year expected average remaining service life (EARS�) of the employee group.

# MANITOBA FINANCIAL SERVICES AGENCY

## Notes to Financial Statements

(in thousands)

**For the year ended March 31, 2018**

### 7. Employee Future Benefits (continued)

Significant long-term actuarial assumptions used in the March 31, 2017 valuation, and in the determination of the March 31, 2018 present value of the accrued severance benefit obligation were:

Annual rate of return	3.80 %
Assumed salary increase rate:	
Annual productivity increase	1.00 %
Annual general salary increase	2.75 %
	3.75 %

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

	2018	2017
Accrued benefit liability		
Balance, beginning of year	\$ 539	\$ 497
Actuarial loss	12	-
Benefits accrued	23	26
Interest on accrued benefits	21	30
Severance paid	(27)	(14)
Balance, end of year	568	539
Less unamortized actuarial losses	(46)	(39)
Severance benefit liability	\$ 522	\$ 500

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

	2018	2017
Interest on obligation	\$ 21	\$ 30
Current period benefit cost	23	26
Amortization of actuarial losses over EARS	4	4
Total expense related to severance benefit	\$ 48	\$ 60

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 Agency has not recorded an accrued sick pay benefit obligation as it has been determined to be immaterial.



**MANITOBA FINANCIAL SERVICES AGENCY**  
**Notes to Financial Statements**  
*(in thousands)*

**For the year ended March 31, 2018**

**8. Tangible Capital Assets**

	<b>2018</b>			
	<b>Opening Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Closing Balance</b>
<b>Cost</b>				
Office equipment	\$ 61	\$ -	\$ -	\$ 61
Furniture and fixtures	221	8	-	229
Leasehold improvements	74	-	-	74
Computer hardware	143	-	-	143
Computer software	869	-	-	869
	<b>1,368</b>	<b>8</b>	<b>-</b>	<b>1,376</b>
<b>Accumulated Amortization</b>				
Office equipment	51	4	-	55
Furniture and fixtures	188	15	-	203
Leasehold improvements	47	5	-	52
Computer hardware	143	-	-	143
Computer software	867	1	-	868
	<b>1,296</b>	<b>25</b>	<b>-</b>	<b>1,321</b>
<b>Net book value</b>	<b>\$ 72</b>	<b>\$ (17)</b>	<b>\$ -</b>	<b>\$ 55</b>
	<b>2017</b>			
	<b>Opening Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Closing Balance</b>
<b>Cost</b>				
Office equipment	\$ 61	\$ -	\$ -	\$ 61
Furniture and fixtures	221	-	-	221
Leasehold improvements	74	-	-	74
Computer hardware	143	-	-	143
Computer software	869	-	-	869
	<b>1,368</b>	<b>-</b>	<b>-</b>	<b>1,368</b>
<b>Accumulated Amortization</b>				
Office equipment	47	4	-	51
Furniture and fixtures	174	14	-	188
Leasehold improvements	40	7	-	47
Computer hardware	143	-	-	143
Computer software	866	1	-	867
	<b>1,270</b>	<b>26</b>	<b>-</b>	<b>1,296</b>
<b>Net book value</b>	<b>\$ 98</b>	<b>\$ (26)</b>	<b>\$ -</b>	<b>\$ 72</b>

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## **MANITOBA FINANCIAL SERVICES AGENCY**

### **Notes to Financial Statements**

*(in thousands)*

**For the year ended March 31, 2018**

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#### **9. 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 designated assets for another purpose if the need arises. The Agency has allocated \$1,019 (\$1,019 in 2017) of its portfolio investments as designated assets for the following purposes:

The Agency maintains separate deposits of \$750 (\$750 in 2017) 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 Agency has received \$269 (\$269 in 2017) 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. The principal of this note is re-invested annually and the interest is deposited in the Agency's trust account.

#### **10. Commitments**

The Agency has entered into a lease agreement commencing October 1, 2005 for rental of facilities at 400 St. Mary Avenue, which expires September 30, 2020.

The Agency has entered into a lease agreement as of December 31, 2013 which includes rental of 207 - 400 St. Mary Avenue (FIRB occupancy) and the remainder of the 5th floor for the Manitoba Securities Commission, which expires April 30, 2026.

Minimum annual lease payments for these agreements total \$545 per year for each of the next four years.

#### **11. 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 \$17,000 (\$16,800 in 2017). The Treasury Board approved a payment target of \$12,000 for the year ended March 31, 2018, with a one time payment of \$5,000 in the first quarter.



**MANITOBA FINANCIAL SERVICES AGENCY**  
**Schedule of Operating Income**  
**The Manitoba Securities Commission**  
**(Unaudited)**  
*(in thousands)*

<b>For the year ended March 31</b>	<b>2018</b>	<b>2018</b>	<b>2017</b>
	<b>Budget</b>	<b>Actual</b>	<b>Actual</b>
<b>Revenue</b>			
Fees	\$ 16,567	\$ 19,971	\$ 18,933
Interest	65	170	114
Miscellaneous	1	2	2
	<u>16,633</u>	<u>20,143</u>	<u>19,049</u>
<b>Expenses</b>			
Amortization - capital assets	24	25	27
CSA initiatives*	105	70	71
Contract services	353	221	243
Education/Information initiatives	122	50	45
Miscellaneous	34	21	21
Office materials and supplies	64	54	57
Premises	443	451	443
Professional membership and dues	27	24	20
Professional services	90	71	152
Research resources	52	67	45
Salaries and benefits	3,424	3,017	3,080
Staff development and professional dues	22	13	8
Telecommunications	68	64	66
Travel	81	43	75
	<u>4,909</u>	<u>4,191</u>	<u>4,353</u>
<b>Annual operating surplus</b>	<b>\$ 11,724</b>	<b>\$ 15,952</b>	<b>14,696</b>

\* Canadian Securities Administrators

**MANITOBA FINANCIAL SERVICES AGENCY**  
**Schedule of Operating Income**  
**Financial Institutions Regulation Branch**  
**(Unaudited)**  
*(in thousands)*

<b>For the year ended March 31</b>	<b>2018</b>	<b>2018</b>	<b>2017</b>
	<b>Budget</b>	<b>Actual</b>	<b>Actual</b>
<b>Revenue</b>			
Fees	\$ 1,926	\$ 1,801	\$ 1,827
Miscellaneous	14	96	26
	<b>1,940</b>	<b>1,897</b>	<b>1,853</b>
<b>Expenses</b>			
Contract services	37	33	35
Miscellaneous	3	5	4
Office materials and supplies	11	15	12
Premises	114	106	104
Professional services	32	38	151
Research resources	2	1	1
Salaries and benefits	772	642	726
Staff development and professional dues	9	2	2
Telecommunications	12	11	11
Travel	10	8	9
	<b>1,002</b>	<b>861</b>	<b>1,055</b>
<b>Annual operating surplus</b>	<b>\$ 938</b>	<b>\$ 1,036</b>	<b>\$ 798</b>

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**MANITOBA LEARNING RESOURCE CENTRE**  
**An Agency of the Government of Manitoba**  
**Province of Manitoba**

Financial Statements

For the year ended March 31, 2018



## INDEPENDENT AUDITOR'S REPORT

To the Legislative Assembly of Manitoba  
To the Manitoba Learning Resource Centre  
To the Special Operating Agencies Financing Authority

We have audited the accompanying financial statements of the Manitoba Learning Resource Centre which comprise the statement of financial position as at March 31, 2018, and the statements of operations and accumulated surplus, change in net financial 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 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 Learning Resource Centre as at March 31, 2018, and the results of its operations, changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

*Office of the Auditor General*

Office of the Auditor General  
July 24, 2018  
Winnipeg, Manitoba



**Manitoba Learning Resource Centre**  
**An Agency of the Government of Manitoba**  
**Statement of Financial Position**

(in thousands)

March 31

2018

2017

**Financial assets**

Cash	\$ 3	\$ 4
Accounts receivable	221	343
Portfolio investments	64	64
Inventories for resale	<u>2,172</u>	<u>2,310</u>
	<u>2,460</u>	<u>2,721</u>

**Liabilities**

Working capital advance (Note 5)	1,485	1,615
Accounts payable and accruals	291	453
Customer deposit accounts	254	91
Accrued severance liability (Note 6)	<u>60</u>	<u>57</u>
	<u>2,090</u>	<u>2,216</u>

**Net financial assets**

<u>370</u>	<u>505</u>
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**Non-financial assets**

Prepaid expenses	6	6
Tangible capital assets (Note 7)	<u>22</u>	<u>30</u>
	<u>28</u>	<u>36</u>

**Accumulated surplus**

<u>\$ 398</u>	<u>\$ 541</u>
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**Designated assets (Note 8)**

**Manitoba Learning Resource Centre**  
**An Agency of the Government of Manitoba**  
**Statement of Operations and Accumulated Surplus**

(in thousands)

Year Ended March 31

	2018 Budget	2018 Actual	2017 Actual
<b>Sales</b>	<u>\$ 7,559</u>	<u>\$ 6,900</u>	<u>\$ 7,368</u>
<b>Cost of goods sold</b>			
Inventory, beginning of year	2,582	2,310	2,374
Purchases	6,290	5,798	6,265
Transportation in	37	29	38
Transportation out	<u>96</u>	<u>102</u>	<u>93</u>
	9,005	8,239	8,770
Inventory, end of year	<u>2,432</u>	<u>2,172</u>	<u>2,310</u>
Cost of goods sold	<u>6,573</u>	<u>6,067</u>	<u>6,460</u>
<b>Gross profit</b>	<u>986</u>	<u>833</u>	<u>908</u>
<b>General and administrative expenses</b>			
Amortization	19	9	9
Bad debts	35	40	33
Computer expense	71	61	56
Employee benefits	87	69	79
Interest	33	32	25
Marketing	7	9	-
Office	15	13	13
Office occupancy	49	49	49
Postage	2	2	2
Professional services	16	14	14
Salaries	391	380	373
Telephone	6	6	6
Training	5	1	1
Travel	10	1	6
Warehouse occupancy	89	89	89
Warehouse service	<u>201</u>	<u>201</u>	<u>201</u>
	<u>1,036</u>	<u>976</u>	<u>956</u>
<b>Annual deficit</b>	<u>(50)</u>	<u>(143)</u>	<u>(48)</u>
<b>Accumulated surplus, beginning of year</b>	<u>530</u>	<u>541</u>	<u>589</u>
<b>Accumulated surplus, end of year</b>	<u>\$ 480</u>	<u>\$ 398</u>	<u>\$ 541</u>

See accompanying notes to the financial statements.



**Manitoba Learning Resource Centre**  
**An Agency of the Government of Manitoba**  
**Statement of Change in Net Financial Assets**

(in thousands)

Year Ended March 31

	2018 Budget	2018 Actual	2017 Actual
Annual deficit	\$ (50)	\$ (143)	\$ (48)
Tangible capital assets			
Acquisition of tangible capital assets	(25)	(1)	(4)
Amortization of tangible capital assets	<u>19</u>	<u>9</u>	<u>9</u>
Net reduction (acquisition) of tangible capital assets	<u>(6)</u>	<u>8</u>	<u>5</u>
Other non-financial assets			
Increase in prepaid expense	<u>-</u>	<u>-</u>	<u>(2)</u>
Net acquisition of other non-financial assets	<u>-</u>	<u>-</u>	<u>(2)</u>
Decrease in net financial assets	(56)	(135)	(45)
Net financial assets, beginning of year	<u>461</u>	<u>505</u>	<u>550</u>
Net financial assets, end of year	<u>\$ 405</u>	<u>\$ 370</u>	<u>\$ 505</u>

See accompanying notes to the financial statements.

**Manitoba Learning Resource Centre**  
**An Agency of the Government of Manitoba**  
**Statement of Cash Flows**

(in thousands)

Year Ended March 31

2018

2017

Increase (decrease) in cash

**Operating**

Annual deficit	\$ (143)	\$ (48)
Amortization of tangible capital assets	<u>9</u>	<u>9</u>

(134) (39)

**Changes in**

Accounts receivable	122	502
Inventories for resale	138	64
Accounts payable and accruals	(162)	(122)
Customer deposit accounts	163	(83)
Accrued severance liability	3	4
Prepaid expenses	<u>-</u>	<u>(2)</u>

130 324

**Capital**

Acquisition of tangible capital assets	<u>(1)</u>	<u>(4)</u>
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**Financing**

Repayment of working capital advance	<u>(130)</u>	<u>(319)</u>
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(Decrease) increase in cash (1) 1

Cash, beginning of year 4 3

Cash, end of year \$ 3 \$ 4

**Supplemental cash flow information:**

Interest received	\$ 2	\$ 3
Interest paid	\$ 30	\$ 26



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# **Manitoba Learning Resource Centre**

## **An Agency of the Government of Manitoba**

### **Notes to the Financial Statements**

(In thousands)

For the year ended March 31, 2018

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#### **1. Nature of operations**

In 1931, the Manitoba Text Book Bureau (MTBB) was created as a branch of the Department of Education and Training. It was established to achieve economies of scale and reduce the cost of learning resources for schools in Manitoba. In December 2016, under The Statutes Correction and Minor Amendments Act (Education Act), the name of the entity was officially changed to the Manitoba Learning Resource Centre (LRC).

Effective April 1, 1996, the LRC 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 LRC 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 LRC through working capital advances. This financial framework enables the LRC to operate in a business-like manner according to public policy expectations.

A Management Agreement between the SOAFA and the Minister of Education, being the Minister responsible for the Agency at that time, assigns responsibility to the LRC to manage and account for the LRC's related assets and operations on behalf of SOAFA.

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

The LRC 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.

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#### **2. Basis of accounting**

The financial statements are prepared in accordance with Canadian public sector accounting standards as recommended by the Public Sector Accounting Board.

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**Manitoba Learning Resource Centre**  
**An Agency of the Government of Manitoba**  
**Notes to the Financial Statements**

(in thousands)

For the year ended March 31, 2018

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**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 LRC. 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.

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# **Manitoba Learning Resource Centre**

## **An Agency of the Government of Manitoba**

### **Notes to the Financial Statements**

(in thousands)

For the year ended March 31, 2018

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#### **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.

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#### **4. 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 LRC records its financial assets at cost, which include cash, portfolio investments, accounts receivable and inventories for resale. The LRC also records its financial liabilities at cost, which include working capital advance, accounts payable and accruals 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 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 LRC did not incur any re-measurement gains and losses during the year (2017 - \$nil).

##### **Financial risk management - overview**

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

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**Manitoba Learning Resource Centre**  
**An Agency of the Government of Manitoba**  
**Notes to the Financial Statements**

(in thousands)

For the year ended March 31, 2018

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**4. Financial instruments and financial risk management (continued)**

**Credit risk**

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

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

	<u>2018</u>	<u>2017</u>
Cash	\$ 3	\$ 4
Accounts receivable	221	343
Portfolio investments	<u>64</u>	<u>84</u>
	<u>\$ 288</u>	<u>\$ 411</u>

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

Accounts receivable: The LRC 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 LRC manages this credit risk through close monitoring of overdue accounts.

The LRC 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	\$ 182
Provision for receivable impairment	38
Amounts written off	<u>-</u>
Balance, end of the year	<u>\$ 220</u>

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**Manitoba Learning Resource Centre**  
**An Agency of the Government of Manitoba**  
**Notes to the Financial Statements**

(In thousands)

For the year ended March 31, 2018

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**4. Financial instruments and financial risk management (continued)**

**Liquidity risk**

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

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

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# **Manitoba Learning Resource Centre**

## **An Agency of the Government of Manitoba**

### **Notes to the Financial Statements**

(in thousands)

For the year ended March 31, 2018

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#### **5. Working capital advance**

The LRC has an authorized line of working capital advances of \$3,000, of which \$1,485 was used as of March 31, 2018 (2017 - \$1,615). The working capital advance bears interest at a rate set by the Minister of Finance and is due on demand.

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#### **6. Accrued severance liability**

Effective April 1, 1998, the LRC 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, 2017. The report provides a formula to update the liability on an annual basis. The LRC's actuarially determined net liability for accounting purposes as at March 31, 2018 was \$60 (2017 - \$57), with the actuarial gain of \$30 (2017 - \$30) 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, 2017 valuation, and in the determination of the March 31, 2018 present value of the accrued severance benefit obligation were:

Discount rate	
Province's weighted average rate of borrowing	3.80%
Assumed salary increase rates	
annual productivity increase	1.00%
annual general salary increase	<u>2.75%</u>
	<u>3.75%</u>

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

	<u>2018</u>	<u>2017</u>
Accrued benefit liability	\$ 50	\$ 45
Unamortized actuarial gains	<u>10</u>	<u>12</u>
Severance benefit liability	<u>\$ 60</u>	<u>\$ 57</u>

**Manitoba Learning Resource Centre**  
**An Agency of the Government of Manitoba**  
**Notes to the Financial Statements**

(in thousands)

For the year ended March 31, 2018

**6. Accrued severance liability (continued)**

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

	<u>2018</u>	<u>2017</u>
Interest on obligation	\$ 2	\$ 3
Employer service cost	3	3
Severance payout	-	-
Amortization of actuarial gains over EARS	<u>(2)</u>	<u>(2)</u>
Total expense related to severance benefit	<u>\$ 3</u>	<u>\$ 4</u>

**7. Tangible capital assets**

	<u>2018</u>				<u>2017</u>
	<u>Opening Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Closing Balance</u>	<u>Closing Balance</u>
<b>Cost</b>					
Computer equipment	\$ 155	\$ -	\$ -	\$ 155	\$ 155
Computer software	132	1	-	133	132
Office equipment and furniture	48	-	-	48	48
Video recording equipment	<u>51</u>	<u>-</u>	<u>-</u>	<u>51</u>	<u>51</u>
Total cost	<u>386</u>	<u>1</u>	<u>-</u>	<u>387</u>	<u>386</u>
<b>Accumulated Amortization</b>					
Computer equipment	155	-	-	155	155
Computer software	107	8	-	115	107
Office equipment and furniture	44	1	-	45	44
Video recording equipment	<u>50</u>	<u>-</u>	<u>-</u>	<u>50</u>	<u>50</u>
Total accumulated amortization	<u>356</u>	<u>9</u>	<u>-</u>	<u>365</u>	<u>356</u>
Net	<u>\$ 30</u>	<u>\$ (8)</u>	<u>\$ -</u>	<u>\$ 22</u>	<u>\$ 30</u>

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# **Manitoba Learning Resource Centre**

## **An Agency of the Government of Manitoba**

### **Notes to the Financial Statements**

(in thousands)

For the year ended March 31, 2018

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#### **8. Designated assets**

The LRC has allocated \$64 (2017 - \$64) of its portfolio investments as designated assets for cash received from the Province of Manitoba as settlement for the vacation entitlements earned by employees of the LRC prior to its designation as an SOA and the severance pay benefits accumulated to March 31, 1998 for certain of the LRC's employees. This amount is held in an interest bearing account. Any unused balance is re-invested annually. Funds are to be used for payments to employees for their outstanding vacation and severance pay amounts.

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#### **9. Related party transactions**

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

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#### **10. Pension benefits**

Employees of the LRC 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 LRC, through the Civil Service Superannuation Fund. At December 31, 2016, the Fund had a deficit of \$4.3 billion.

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the LRC transferred to the Province the pension liability for its employees. Commencing April 1, 2001, the LRC is required to pay annually to the Province an amount equal to its employees' current pension contributions. The amount paid for 2018 was \$26 (2017 - \$28). Under this agreement, the LRC has no further pension liability.

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#### **11. Budgeted figures**

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the management of the LRC.





# MAGNUS LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

ADVISORY · ASSURANCE & ACCOUNTING · TAXATION · TRANSACTION CONSULTING

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## MATERIALS DISTRIBUTION AGENCY

(An Agency of the Government 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 May 28, 2018.

Management maintains internal controls to properly safeguard the assets of Materials Distribution Agency 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 LLP, Chartered Professional Accountants, 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 Auditor's 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

### Original Document Signed

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David Bishop  
Chief Operating Officer

### Original Document Signed

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Joel Hershfield, CPA(ret), CMA(ret)  
Manager of Finance and Technology



## INDEPENDENT AUDITOR'S REPORT

To the Special Operating Agencies Financing Authority  
and Materials Distribution Agency

### Report on the Financial Statements

We have audited the accompanying financial statements of Materials Distribution Agency, an agency of the Government of Manitoba, which comprise the statements of financial position as at March 31, 2018 and the statements of operations, change 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 the 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 the 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 Materials Distribution Agency as at March 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

May 28, 2018  
Winnipeg, Canada

Chartered Professional Accountants

**MATERIALS DISTRIBUTION AGENCY**  
**AN AGENCY OF THE PROVINCIAL GOVERNMENT**  
**PROVINCE OF MANITOBA**

Statement of Financial Position

(in thousands)

March 31, 2018

	2018 Actual	2017 Actual
<b>Financial assets</b>		
Cash and cash equivalents	\$ -	\$ 406
Accounts receivable (Note 4)	2,464	1,855
Portfolio investments	512	512
Inventories for resale (Note 6)	1,591	1,634
	4,567	4,407
<b>Liabilities</b>		
Cash and cash equivalents overdraft	329	-
Accounts payable and accrued liabilities	2,594	2,217
Employee future benefits (Note 7)	812	761
	3,735	2,978
<b>Net financial assets</b>	832	1,429
<b>Non-financial assets</b>		
Tangible capital assets (Note 8)	3,567	2,780
Prepaid expenses	153	162
	3,720	2,942
<b>Accumulated surplus</b>	\$ 4,552	\$ 4,371

Designated assets (Note 9)

See accompanying notes to financial statements.

**MATERIALS DISTRIBUTION AGENCY**  
**AN AGENCY OF THE PROVINCIAL GOVERNMENT**  
**PROVINCE OF MANITOBA**

Statement of Operations

(in thousands)

Year ended March 31, 2018

	2018 Budget	2018 Actual	2017 Actual
Revenue:			
Warehouse sales (Schedule 1)	\$ 16,100	\$ 16,003	\$ 16,234
Service revenue (Schedule 1)	12,443	12,882	12,385
Interest income	3	4	3
	28,546	28,889	28,622
Expenses:			
Cost of sales	12,500	12,478	12,993
Salaries and benefits	5,765	5,189	5,357
Occupancy costs	1,127	1,202	1,148
Operating expenses (Schedule 2)	8,335	8,876	8,174
Administrative expenses (Schedule 2)	730	763	681
	28,457	28,508	28,353
Net income before transfer of funds to the Province of Manitoba	89	381	269
Transfer of funds to the Province of Manitoba (Note 11)	200	200	200
Net (loss) income for the year	(111)	181	69
Accumulated surplus, beginning of year	4,302	4,041	4,371
Accumulated surplus, end of year	\$ 3,930	\$ 4,552	\$ 4,371

See accompanying notes to financial statements.

**MATERIALS DISTRIBUTION AGENCY**  
**AN AGENCY OF THE PROVINCIAL GOVERNMENT**  
**PROVINCE OF MANITOBA**

Statement of Change in Net Financial Assets

(in thousands)

Year ended March 31, 2018

	2018 Budget	2018 Actual	2017 Actual
Net (loss) income for the year	\$ (111)	\$ 181	\$ 69
Tangible capital assets			
Acquisition of tangible capital assets	(1,200)	(2,363)	(1,748)
Disposals of tangible capital assets	-	123	80
Amortization of tangible capital assets	1,210	1,453	1,304
Net acquisition of tangible capital assets	10	(787)	(364)
Other non-financial assets			
Decrease (increase) in prepaid expenses	5	9	(36)
Net acquisition of other non-financial assets	5	9	(36)
Change in net financial assets	(96)	(597)	(331)
Net financial assets, beginning of year	1,554	1,429	1,760
Net financial assets, end of year	\$ 1,458	\$ 832	\$ 1,429

See accompanying notes to financial statements.

**MATERIALS DISTRIBUTION AGENCY**  
**AN AGENCY OF THE PROVINCIAL GOVERNMENT**  
**PROVINCE OF MANITOBA**

Statement of Cash Flow

(in thousands)

Year ended March 31, 2018

	2018 Actual	2017 Actual
Cash provided by (applied to)		
Operating activities:		
Net income for the year	\$ 181	\$ 69
Adjustments for:		
Amortization	1,453	1,304
(Gain) on disposal of tangible capital assets (Note 8)	(17)	(12)
	1,617	1,361
Changes in the following:		
Accounts receivable	(609)	913
Inventories for resale	43	17
Prepaid expenses	9	(36)
Accounts payable and accrued liabilities	377	(693)
Employee future benefits	51	(4)
Cash provided by operating activities	1,488	1,558
Capital activities:		
Acquisition of tangible capital assets	(2,363)	(1,748)
Proceeds on disposal of tangible capital assets	140	92
Cash (applied to) capital activities	(2,223)	(1,656)
Change in cash and cash equivalents	(735)	(98)
Cash and cash equivalents, beginning of year	406	504
Cash and cash equivalents, end of year	\$ (329)	\$ 406

See accompanying notes to financial statements.

**MATERIALS DISTRIBUTION AGENCY  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

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Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

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**1. Nature of organization**

The Government of Manitoba established a central warehouse operation in 1974 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 services. 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 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 and 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 Agency assigns responsibility to the Agency to manage and account for Agency-related assets and operations on behalf of the Financing Authority.

The Agency is now part of the Department of Finance under the general direction of the Associate Deputy Minister, Central Services Division, and ultimately the policy direction of the Deputy Minister and Minister. The Agency remains bound by relevant legislation and regulations. The Agency is also bound by administrative policy except where specific exemptions have been provided in its charter in order to meet business objectives.

Effective April 1, 2012 the Agency is administering the vaccine program on behalf of Manitoba Health.

**2. Basis of accounting**

These financial statements have been prepared in accordance with Canadian public sector accounting standards which are Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board.

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**MATERIALS DISTRIBUTION AGENCY  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

---

Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

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**3. Summary of significant accounting policies**

**(a) Revenue**

Warehouse sales

Revenue is recognized when the goods are shipped and when collection is reasonably assured.

Service revenue

Service revenue is recognized when the related services are completed or substantially completed pursuant to the underlying contracts, where applicable, and when collection is reasonably assured.

Other revenue

Investment income and all other revenue is recognized on the accrual basis.

**(b) Expenses**

Accrual basis of accounting

All expenses incurred for goods and services are recognized on the 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 investments and deposits 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.

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**MATERIALS DISTRIBUTION AGENCY  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

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Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

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**3. Summary of 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	10 years straight-line
Office equipment	20% straight-line
Mail finishing 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) Financial instruments - 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 cost or amortized cost are recognized in the statement of operations in the period the gain or loss occurs. Gains and losses on financial instruments measured at fair value, if any, 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.

**(g) 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. These estimates are reviewed periodically and adjustments are recognized in the period they become known. Actual results may differ from these estimates.

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**MATERIALS DISTRIBUTION AGENCY  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

**4. Accounts receivable**

Accounts receivable at March 31 is comprised of the following:

	2018	2017
Trade accounts receivable	\$2,459	\$ 1,920
Other receivables	70	-
Allowance for doubtful accounts	(65)	(65)
	<u>\$2,464</u>	<u>\$ 1,855</u>

**5. Working capital advances**

The Special Operating Agencies Financing Authority has provided the Agency with an authorized line of working capital of \$600 (2017 - \$1,000) of which \$nil was used at March 31, 2018 (2017 - \$nil).

**6. Inventories for resale**

	2018	2017
Medical supplies	\$ 716	\$ 866
Health equipment	181	150
Stationery	445	408
Janitorial	245	207
Furniture	4	3
	<u>\$ 1,591</u>	<u>\$ 1,634</u>

**7. Employee future benefits**

	2018	2017
Severance benefits	\$ 742	\$ 691
Sick pay benefits	70	70
	<u>\$ 812</u>	<u>\$ 761</u>

**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. 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 the current pension contributions of its employees. The amount paid for the year ended March 31, 2018 was \$330 (2017 - \$366). Under this agreement, the Agency has no further pension liability as at year end.

**MATERIALS DISTRIBUTION AGENCY**  
**AN AGENCY OF THE PROVINCIAL GOVERNMENT**  
**PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

**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 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 expected and/or because of changes in the actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life (EARS�) of the related employee group.

An actuarial report was completed for the severance pay liability as of March 31, 2017. 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, 2018 is \$742 (2017 - \$691), with the total net actuarial losses of \$82 (2017 - \$38) based on the completed actuarial reports being amortized over the 15 year EARS� of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2017 valuation, and in the determination of the March 31, 2018 present value of the accrued severance benefit liability, are:

Annual rate of return:	
Inflation component	2.00% (2017 - 2.00%)
Real rate of return	1.80% (2017 - 4.00%)
	3.80% (2017 - 6.00%)
Assumed salary increase rates:	
Annual productivity increase	1.00% (2017 - 1.00%)
Annual general salary increase	2.75% (2017 - 2.75%)
	3.75% (2017 - 3.75%)

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

	2018	2017
Accrued benefit liability, beginning of year	\$ 705	\$ 711
Actuarial losses	44	-
Interest on accrued severance benefits	28	43
Current period service costs	38	34
Severance benefits paid during the year	(17)	(83)
Accrued benefit liability, end of year	798	705
Less: unamortized actuarial losses	(56)	(14)
Severance benefit liability, end of year	\$ 742	\$ 691

**MATERIALS DISTRIBUTION AGENCY  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

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Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

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**7. Employee future benefits (continued)**

The total expense related to severance benefits for the year ended March 31 includes the following components:

	2018	2017
Interest on accrued severance benefits	\$ 28	\$ 43
Current period service costs	38	34
Amortization of actuarial losses over EARSL	3	2
Total expense related to severance benefits	\$ 69	\$ 79

**Sick pay benefits**

The Agency provides sick leave benefits for employees that accumulate but do not vest. The accrued benefit liability related to sick leave entitlements 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 5.00% annual return and a 3.00% annual salary increase. The Agency's sick leave benefit liability as at March 31, 2018 based on the valuation model is \$70 (2017 - \$70). The increase (decrease) in the sick leave benefit liability of \$nil (2017 - \$nil) represents the total sick leave benefit expense (recovery) for the year.

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**MATERIALS DISTRIBUTION AGENCY**  
**AN AGENCY OF THE PROVINCIAL GOVERNMENT**  
**PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

**8. Tangible capital assets**

	2018			
	Opening Balance	Additions	Disposals	Closing Balance
<b>Cost</b>				
Computer equipment	\$ 310	\$ 3	\$ -	\$ 313
Furniture and fixtures	165	-	-	165
Leasehold improvements	1,154	6	-	1,160
Office equipment	64	-	-	64
Mail finishing equipment	542	-	-	542
Rental equipment	13,228	2,341	(3,059)	12,510
Warehouse equipment	1,371	13	-	1,384
	\$ 16,834	\$ 2,363	\$ (3,059)	\$ 16,138
<b>Accumulated amortization</b>				
Computer equipment	\$ (262)	\$ (10)	\$ -	\$ (272)
Furniture and fixtures	(164)	-	-	(164)
Leasehold improvements	(937)	(37)	-	(974)
Office equipment	(64)	-	-	(64)
Mail finishing equipment	(397)	(27)	-	(424)
Rental equipment	(11,172)	(1,313)	2,936	(9,549)
Warehouse equipment	(1,058)	(66)	-	(1,124)
	\$ (14,054)	\$ (1,453)	\$ 2,936	\$ (12,571)
<b>Net book value</b>	\$ 2,780	\$ 910	\$ (123)	\$ 3,567

During the year ended March 31, 2018, rental equipment additions totaling \$123 (2017 - \$80) were sold for proceeds of \$140 (2017 - \$92) resulting in a gain on disposal of tangible capital assets of \$17 (2017 - \$12) included in total health equipment sales for the year.

**MATERIALS DISTRIBUTION AGENCY**  
**AN AGENCY OF THE PROVINCIAL GOVERNMENT**  
**PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

**8. Tangible capital assets (continued)**

	2017			
	Opening Balance	Additions	Disposals	Closing Balance
<b>Cost</b>				
Computer equipment	\$ 279	\$ 31	\$ -	\$ 310
Furniture and fixtures	165	-	-	165
Leasehold improvements	1,147	7	-	1,154
Office equipment	64	-	-	64
Mail finishing equipment	542	-	-	542
Rental equipment	11,646	1,662	(80)	13,228
Warehouse equipment	1,323	48	-	1,371
	\$ 15,166	\$ 1,748	\$ (80)	\$ 16,834
<b>Accumulated amortization</b>				
Computer equipment	\$ (253)	\$ (9)	\$ -	\$ (262)
Furniture and fixtures	(163)	(1)	-	(164)
Leasehold improvements	(900)	(37)	-	(937)
Office equipment	(64)	-	-	(64)
Mail finishing equipment	(363)	(34)	-	(397)
Rental equipment	(10,022)	(1,150)	-	(11,172)
Warehouse equipment	(985)	(73)	-	(1,058)
	\$ (12,750)	\$ (1,304)	\$ -	\$ (14,054)
<b>Net book value</b>	\$ 2,416	\$ 444	\$ (80)	\$ 2,780

**9. Designated assets**

The Agency has allocated \$412 (2017 - \$412) of its portfolio investments totaling \$512 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 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.

**10. Commitments**

The agency has no significant non-routine operating lease or other commitments.

**MATERIALS DISTRIBUTION AGENCY  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

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Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

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**11. Transfer of funds to the Province of Manitoba**

During the year ended March 31, 2018, with Lieutenant-Governor approval by Order in Council, the Agency transferred \$200 (2017 - \$200) of its surplus funds to the Province of Manitoba.

**12. Financial instruments and financial risk management**

The Agency does not have any significant financial instruments subsequently measured at fair value or denominated in a foreign currency therefore the Agency did not incur any remeasurement gains or losses during the year (2017 - \$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 primarily of cash and cash equivalents, accounts receivable and portfolio investments.

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

	2018	2017
Cash and cash equivalents	\$ -	\$ 406
Accounts receivable	2,464	1,855
Portfolio investments	512	512
	\$ 2,976	\$ 2,773

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 as at March 31, 2018 is \$65 (2017 - \$65). The total provision for receivable impairment during the year was \$nil (2017 - \$nil) and there were no reversals of previously recognized impairments during the current or prior year.

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**MATERIALS DISTRIBUTION AGENCY  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

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Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

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**12. Financial instruments and financial risk management (continued)**

The aging of accounts receivable and the related allowance for doubtful accounts at March 31, 2018 is as follows:

	Accounts receivable	Allowance	Net
Current	\$ 2,161	\$ -	\$ 2,161
30-60 days past the billing date	185	-	185
61-90 days past the billing date	29	-	29
90 days past the billing date	154	(65)	89
Balance, end of the year	\$ 2,529	\$ (65)	\$ 2,464

**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.

**13. Budget information**

The budget information for the year ended March 31, 2018 has been restated to reflect the transfer payment to the Province of Manitoba as an expense for the year in accordance with Canadian public sector accounting standards.

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**MATERIALS DISTRIBUTION AGENCY**  
**AN AGENCY OF THE PROVINCIAL GOVERNMENT**  
**PROVINCE OF MANITOBA**

Schedule of Warehouse Sales and Service Revenue

(in thousands)

Year ended March 31, 2018

Schedule 1

	2018	2017
Warehouse sales:		
Medical supplies	\$ 7,342	\$ 7,330
Stationery	4,229	4,612
Janitorial	2,263	2,234
Health equipment	1,767	1,466
Furniture	401	575
Special projects	1	17
	\$ 16,003	\$ 16,234
Service revenue:		
Mail services	\$ 5,511	\$ 5,181
Equipment rentals	4,099	3,955
Manitoba Textbook Bureau	290	290
Freight	1,105	1,005
Moving	657	601
Storage	344	388
Vaccine program	673	637
Copy centre	9	10
Disposal services	28	81
Other revenue and recoveries	166	237
	\$ 12,882	\$ 12,385

# Schedule of Operating and Administrative Expenses

(in thousands)

Year ended March 31, 2018

Schedule 2

	2018	2017
Operating expenses:		
Amortization	\$ 1,453	\$ 1,304
Copy centre	5	5
Equipment rentals	119	140
Freight	2,025	2,011
Mail services	4,442	3,979
Moving expenses	499	430
Vehicle	126	124
Warehouse supplies	207	181
	<u>\$ 8,876</u>	<u>\$ 8,174</u>
Administrative expenses:		
Computer	\$ 248	\$ 236
Miscellaneous	11	16
Office	339	296
Professional fees	14	12
Promotion and marketing	27	25
Telephone	114	91
Training	10	5
	<u>\$ 763</u>	<u>\$ 681</u>

**OFFICE OF THE FIRE COMMISSIONER**  
**FINANCIAL STATEMENTS**  
**MARCH 31, 2018**



### **Management's Responsibility for Financial Reporting**

The accompanying financial statements are the responsibility of management of 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 May 22, 2018.

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

On behalf of Management of  
Office of the Fire Commissioner

Original Document Signed

David Schafer  
Fire Commissioner

Original Document Signed

Cindy Giesbrecht, CPA, CGA  
Director of Support Services

## INDEPENDENT AUDITOR'S REPORT

To the Special Operating Agencies Financing Authority  
and 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 Government of Manitoba, which comprise the statement of financial position as at March 31, 2018 and the statements of operations, change 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 the 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 the 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 Office of the Fire Commissioner as at March 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.



May 22, 2018  
Winnipeg, Canada

Chartered Professional Accountants

**OFFICE OF THE FIRE COMMISSIONER  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

Statement of Financial Position

(in thousands)

March 31, 2018

	2018 Actual	2017 Actual
<b>Financial assets</b>		
Cash and cash equivalents	\$ 16,864	\$ 20,266
Accounts receivable (Note 4)	1,001	872
Portfolio investments	787	787
	18,652	21,925
<b>Liabilities</b>		
Accounts payable and accrued liabilities (Note 5)	1,425	1,666
Deferred revenue and government grants (Note 6)	976	763
Employee future benefits (Note 7)	1,108	1,044
	3,509	3,473
<b>Net financial assets</b>	15,143	18,452
<b>Non-financial assets</b>		
Tangible capital assets (Note 8)	7,980	7,508
Prepaid expenses	157	128
Inventories of supplies	334	334
	8,471	7,970
<b>Accumulated surplus</b>	\$ 23,614	\$ 26,422

Designated assets (Note 9)

Commitments (Note 10)

See accompanying notes to financial statements.

**OFFICE OF THE FIRE COMMISSIONER  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

Statement of Operations

(in thousands)

Year ended March 31, 2018

	2018 Budget	2018 Actual	2017 Actual
Revenue (Schedule 1):			
Government grants/transfers:			
Province of Manitoba	\$ 130	\$ 134	\$ 305
Federal Government	516	386	480
	646	520	785
Fees and other revenue	17,637	17,026	18,295
Investment income	40	72	48
	18,323	17,618	19,128
Expenses:			
Salaries and employee benefits	11,030	9,948	10,087
Mutual Aid expenses	390	357	286
Transportation (Schedule 2)	675	567	582
Communications (Schedule 3)	385	333	415
Supplies and services (Schedule 4)	2,235	1,569	1,942
Minor capital expenses	150	111	293
Amortization of tangible capital assets	1,000	971	839
(Gain) loss on disposal of tangible capital assets	-	(4)	17
Other operating expenses (Schedule 5)	1,433	1,574	1,481
	17,298	15,426	15,942
Net income before transfer of funds to the Province of Manitoba	1,025	2,192	3,186
Transfer of funds to the Province of Manitoba (Note 11)	5,000	5,000	950
Net (loss) income for the year	(3,975)	(2,808)	2,236
Accumulated surplus, beginning of year	25,691	26,422	24,186
Accumulated surplus, end of year	\$ 21,716	\$ 23,614	\$ 26,422

See accompanying notes to financial statements.

**OFFICE OF THE FIRE COMMISSIONER  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

Statement of Change in Net Financial Assets

(in thousands)

Year ended March 31, 2018

	2018 Budget	2018 Actual	2017 Actual
Net (loss) income for the year	\$ (3,975)	\$ (2,808)	\$ 2,236
Tangible capital assets:			
Acquisitions of tangible capital assets	(1,570)	(1,444)	(1,319)
Disposals of tangible capital assets	-	2	74
Amortization of tangible capital assets	1,000	971	839
Net acquisition of tangible capital assets	(570)	(471)	(406)
Other non-financial assets:			
(Increase) in prepaid expenses	(25)	(30)	(8)
Net acquisition of other non-financial assets	(25)	(30)	(8)
Change in net financial assets	(4,570)	(3,309)	1,822
Net financial assets, beginning of year	15,604	18,452	16,630
Net financial assets, end of year	\$ 11,034	\$ 15,143	\$ 18,452

See accompanying notes to financial statements.



**OFFICE OF THE FIRE COMMISSIONER  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

Statement of Cash Flow

(in thousands)

Year ended March 31, 2018

	2018 Actual	2017 Actual
Cash provided by (applied to)		
Operating activities:		
Net (loss) income for the year	\$ (2,808)	\$ 2,236
Adjustments for:		
Amortization of tangible capital assets	971	839
(Gain) loss on disposal of tangible capital assets	(4)	17
	(1,841)	3,092
Changes in the following:		
Accounts receivable	(129)	(264)
Accounts payable and accrued liabilities	(241)	(290)
Deferred revenue and government grants	213	214
Employee future benefits	64	60
Prepaid expenses	(30)	(8)
Cash provided by operating activities	(1,964)	2,804
Capital activities:		
Acquisitions of tangible capital assets	(1,444)	(1,319)
Proceeds on disposal of tangible capital assets	6	57
Cash (applied to) capital activities	(1,438)	(1,262)
Change in cash and cash equivalents	(3,402)	1,542
Cash and cash equivalents, beginning of year	20,266	18,724
Cash and cash equivalents, end of year	\$ 16,864	\$ 20,266

See accompanying notes to financial statements.

**OFFICE OF THE FIRE COMMISSIONER  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

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Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

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**1. Nature of organization**

Effective April 1, 1996, the Office of the Fire Commissioner (the "Agency") was 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, 1996, a Transfer Agreement between the Government of Manitoba (Labour) and the Special Operating Agencies Financing Authority (SOAFA), a corporation pursuant to *The Special Operating Agencies Financing Authority 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 for these assets to the Agency to manage and account for the related assets and operations on behalf of the Financing Authority. The Agency does not hold title to these 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 former 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 Agency is now part of the Department of Growth, Enterprise and Trade and is ultimately under the policy direction of the Minister of Growth, Enterprise and Trade. 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.

During the year ended March 31, 2013, the Agency's operating charter was updated and an Audit Committee established to oversee the financial reporting and overall operations of the Agency.

**2. Basis of accounting**

These financial statements have been prepared in accordance with Canadian public sector accounting standards which are Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board.

**3. Summary of significant accounting policies**

**(a) Revenue**

Government grants/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.

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**OFFICE OF THE FIRE COMMISSIONER  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

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Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

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**3. Summary of significant accounting policies (continued)**

**(a) Revenue (continued)**

Fees and other revenue

Insurance levy revenue is recognized in accordance with the underlying legislation. *The Fires Prevention and Emergency Response Act* imposes a special assessment on licensed insurers in Manitoba equal to a set percentage of total property insurance premiums. The levy rate is currently set at 1.25% (2017 - 1.25%). The Agency collects this levy based on the value of premiums and assessments relating to property insurance premiums in a calendar year. Levy revenue with respect to the 2017 calendar year is recognized as revenue in the fiscal year ending March 31, 2018 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.

Inspection technical services revenue 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* are recognized on the accrual basis.

Codes and standards revenue including building, mobile home and plumbing code inspections and permits under *The Buildings and Mobile Homes Act* is recognized on the accrual basis.

Fire inspections, investigations and reports under *The Fires Prevention and Emergency Response Act* are recognized on the accrual basis.

Tuition fees, emergency services and other conferences revenue are recognized on the accrual basis.

Amounts received in advance for tuition fees, conferences and inspection technical services are deferred on the statement of financial position and recognized as revenue during the period the revenue relates to.

Investment income and all other revenue is recognized on the accrual basis.

**(b) Expenses**

Expenses

Expenses incurred for goods and services are recorded on the accrual basis when the related goods or services are received.

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 investments and deposits with original maturities of three months or less.

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**OFFICE OF THE FIRE COMMISSIONER  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

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Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

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**3. Summary of significant accounting policies (continued)**

**(c) Financial assets (continued)**

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:

Building	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
Leasehold improvements	10% declining balance

Prepaid expenses

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

Inventories of supplies

Inventories of supplies are recorded at cost and recognized as an expense in the year the supplies are consumed.

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**OFFICE OF THE FIRE COMMISSIONER  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

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Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

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**3. Summary of significant accounting policies (continued)**

**(f) Financial instruments - 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 cost or amortized cost are recognized in the statement of operations in the period the gain or loss occurs. Gains and losses on financial instruments measured at fair value, if any, 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.

**(g) 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. These estimates are reviewed periodically and adjustments are recognized in the period they become known. Actual results may differ from these estimates.

**4. Accounts receivable**

	2018	2017
Financial Institutions Branch of the Department of Finance - Fire Prevention Levy	\$ 559	\$ 291
National Search and Rescue Secretariat - New Search and Rescue Initiative	-	176
Trade accounts receivable	914	724
Allowance for doubtful accounts (Note 13)	(472)	(319)
	\$ 1,001	\$ 872

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**5. Accounts payable and accrued liabilities**

	2018	2017
Trade payables and accruals	\$ 521	\$ 817
Vacation and overtime entitlements	838	840
City of Winnipeg - professional services	53	-
Provincial sales and goods and services taxes payable	13	9
	\$ 1,425	\$ 1,666

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**OFFICE OF THE FIRE COMMISSIONER  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

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Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

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**6. Deferred revenue and government grants**

Included in deferred revenue and government grants at year end is \$432 (2017 - \$250) relating to funding received from Public Safety Canada for the Heavy Urban Search and Rescue Program for which the related eligible expenditures have not been incurred. Pursuant to the funding agreement, these expenditures along with all final reports must be submitted to Public Safety Canada by June 30, 2018 or the funding must be returned.

**7. Employee future benefits**

	2018	2017
Severance benefits	\$ 959	\$ 893
Sick pay benefits	149	151
	\$ 1,108	\$ 1,044

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**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. 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, 2011, the Agency was required to pay to the Province an amount equal to the current pension contributions of its employees. The amount paid for the year ended March 31, 2018 was \$645 (2017 - \$704). 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 expected and/or because of changes in the actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life (EARSL) of the related employee group.

An actuarial report was completed for the severance pay liability as at March 31, 2017. 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, 2018 is \$959 (2017 - \$893), with the net actuarial losses of \$289 (2017 - \$220) based on the completed actuarial reports being amortized over the 15 year EARSL of the employee group.

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**OFFICE OF THE FIRE COMMISSIONER  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

**7. Employee future benefits (continued)**

Significant long-term actuarial assumptions used in the March 31, 2017 valuation, and in the determination of the March 31, 2018 present value of the accrued severance benefit liability, are:

Annual rate of return:	
Inflation component	2.00% (2017 - 2.00%)
Real rate of return	1.80% (2017 - 4.00%)
	3.80% (2017 - 6.00%)
Assumed salary increase rates:	
Annual productivity increase	1.00% (2017 - 1.00%)
Annual general salary increase	2.75% (2017 - 2.75%)
	3.75% (2017 - 3.75%)

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

	2018	2017
Accrued benefit liability, beginning of year	\$ 1,013	\$ 969
Actuarial losses	69	-
Current period service costs	68	62
Interest on accrued severance benefits	41	58
Severance benefits paid	(58)	(76)
Accrued benefit liability, end of year	1,133	1,013
Less: unamortized actuarial losses	(174)	(120)
Severance benefit liability, end of year	\$ 959	\$ 893

The total expense related to severance benefits for the year ended March 31 includes the following components:

	2018	2017
Current period service costs	\$ 68	\$ 62
Interest on accrued severance benefits	41	58
Amortization of actuarial losses over EARS	15	14
Total expense related to severance benefits	\$ 124	\$ 134

**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 entitlements 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 5.00% (2017 - 5.00%) annual return and a 3.00% (2017 - 3.00%) annual salary increase. The Agency's sick leave benefit liability as at March 31, 2018 based on the valuation model is \$149 (2017 - \$151). The (decrease) in the sick leave benefit liability of \$(2) (2017 - increase of \$2) represents the total sick leave benefit (recovery) expense for the year.

**OFFICE OF THE FIRE COMMISSIONER  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

**8. Tangible capital assets**

	2018			
	Opening Balance	Additions	Disposals	Closing Balance
<b>Cost</b>				
Buildings	\$ 7,835	\$ -	\$ -	\$ 7,835
Practical training site	2,772	-	-	2,772
Equipment	3,043	435	-	3,478
Fire engines	2,118	-	-	2,118
Other vehicles	1,260	426	(10)	1,676
Air compressors	1,391	312	-	1,703
Furniture	294	-	-	294
Computer equipment and software	501	140	-	641
Leasehold improvements	74	-	-	74
Capital assets under construction	-	131	-	131
	<b>\$ 19,288</b>	<b>\$ 1,444</b>	<b>\$ (10)</b>	<b>\$ 20,722</b>
<b>Accumulated amortization</b>				
Buildings	\$ (3,680)	\$ (207)	\$ -	\$ (3,887)
Practical training site	(1,928)	(84)	-	(2,012)
Equipment	(2,128)	(199)	-	(2,327)
Fire engines	(1,547)	(171)	-	(1,718)
Other vehicles	(1,030)	(134)	8	(1,155)
Air compressors	(829)	(127)	-	(956)
Furniture	(154)	(28)	-	(182)
Computer equipment and software	(464)	(16)	-	(480)
Leasehold improvements	(20)	(5)	-	(25)
	<b>\$ (11,780)</b>	<b>\$ (971)</b>	<b>\$ 8</b>	<b>\$ (12,742)</b>
<b>Net book value</b>	<b>\$ 7,508</b>	<b>\$ 473</b>	<b>\$ (2)</b>	<b>\$ 7,980</b>

As at March 31, 2018, the total net book value of tangible capital assets not subject to amortization is \$304 (2017 - \$nil). Amortization will commence once construction is complete and the assets are in use.



**OFFICE OF THE FIRE COMMISSIONER  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

**8. Tangible capital assets (continued)**

	2017			
	Opening Balance	Additions	Disposals	Closing Balance
<b>Cost</b>				
Buildings	\$ 7,873	\$ -	\$ (38)	\$ 7,835
Practical training site	2,848	-	(76)	2,772
Equipment	3,859	356	(1,172)	3,043
Fire engines	1,827	539	(248)	2,118
Other vehicles	1,450	154	(344)	1,260
Air compressors	1,269	251	(129)	1,391
Furniture	345	19	(70)	294
Computer equipment and software	588	-	(87)	501
Leasehold improvements	74	-	-	74
	\$ 20,133	\$ 1,319	\$ (2,164)	\$ 19,288
<b>Accumulated amortization</b>				
Buildings	(3,500)	(216)	36	(3,680)
Practical training site	(1,914)	(88)	74	(1,928)
Equipment	(3,129)	(126)	1,127	(2,128)
Fire engines	(1,585)	(204)	242	(1,547)
Other vehicles	(1,305)	(42)	317	(1,030)
Air compressors	(856)	(115)	142	(829)
Furniture	(193)	(28)	67	(154)
Computer equipment and software	(535)	(14)	85	(464)
Leasehold improvements	(14)	(6)	-	(20)
	\$ (13,031)	\$ (839)	\$ (2,090)	\$ (11,780)
<b>Net book value</b>	\$ 7,102	\$ 480	\$ (74)	\$ 7,508

**9. Designated assets**

The Agency has allocated \$787 (2017 - \$787) 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 for severance pay benefits for certain of its employees. As at March 31, 2018, \$559 (2017 - \$559) is designated for the vacation entitlements and severance pay benefits accumulated to March 31, 1998 for certain of its employees and \$228 (2017 - \$228) is designated for the severance pay benefits accumulated to April 1, 2011 for employees transferred from the former Mechanical and Engineering Branch, now Inspection Technical Services. 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.

**OFFICE OF THE FIRE COMMISSIONER  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

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Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

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**10. Commitments**

The Agency has entered into a lease agreement with the City of Brandon for the land on which the practical training facility has been constructed. The term of the lease expires May 31, 2022. Minimum annual rent is \$18 due in equal monthly installments, plus all operating costs with respect to the subject land.

The Agency has entered into leases on a fleet of 48 vehicles.

These leases give rise to lease commitments as follows:

2019	\$	250
2020		212
2021		188
2022		164
2023		117
Thereafter		57

**11. Transfer of funds to the Province of Manitoba**

During the year, with Lieutenant-Governor-in-Council approval by Order in Council, the Agency transferred \$5,000 (2017 - \$950) of its surplus funds to the Province of Manitoba.

**12. Professional services - Growth, Enterprise and Trade**

The Agency has a professional services agreement with the Department of Growth, Enterprise and Trade for the provision of legislation and policy services to the Agency as required throughout the year. The total amount paid pursuant to this agreement for the year ended March 31, 2018 was \$56 (2017 - \$75). As at year end, no additional amounts are owing pursuant to this agreement for the year ended March 31, 2018.

**13. Financial instruments and financial risk management**

The Agency does not have any significant financial instruments subsequently measured at fair value or denominated in a foreign currency therefore the Agency did not incur any remeasurement gains or losses during the year (2017 - \$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 primarily of cash and cash equivalents, accounts receivable and portfolio investments.

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**OFFICE OF THE FIRE COMMISSIONER  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

**13. Financial instruments and financial risk management (continued)**

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

	2018	2017
Cash and cash equivalents	\$ 16,864	\$ 20,266
Accounts receivable	1,001	872
Portfolio investments	787	787
	<u>\$ 18,652</u>	<u>\$ 21,925</u>

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

Accounts receivable: The Agency is exposed to credit risk on its trade accounts receivable. 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, 2018 is \$472 (2017 - \$319). The change in the allowance for doubtful accounts during the year is as follows:

	2018	2017
Balance, beginning of the year	\$ 319	\$ 234
Provision for receivable impairment	153	85
Balance, end of the year	<u>\$ 472</u>	<u>\$ 319</u>

Bad debt expense for the year includes \$nil (2017 - \$25) of adjustments to accounts receivable for total bad debt expense for the year of \$153 (2017 - \$110).

The aging of accounts receivable and the related allowance for doubtful accounts at March 31, 2018 is as follows:

	Accounts receivable	Allowance	Net
Current	\$ 812	\$ -	\$ 812
30-60 days past the billing date	155	-	155
61-90 days past the billing date	34	-	34
Over 90 days past the billing date	472	(472)	-
Balance, end of the year	<u>\$ 1,473</u>	<u>\$ (472)</u>	<u>\$ 1,001</u>

**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.

**OFFICE OF THE FIRE COMMISSIONER  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

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Notes to Financial Statements

(in thousands)

Year ended March 31, 2018

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**13. Financial instruments and financial risk management (continued)**

**Market risk**

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

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.

**14. Comparative information**

Certain of the amounts for the year ended March 31, 2017 have been reclassified to conform to the financial statement presentation adopted in the current year.

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**OFFICE OF THE FIRE COMMISSIONER**  
**AN AGENCY OF THE PROVINCIAL GOVERNMENT**  
**PROVINCE OF MANITOBA**

Schedule 1 - Revenue

(in thousands)

Year ended March 31, 2018

	2018 Budget	2018 Actual	2017 Actual
Revenue:			
Government grants/transfers:			
Province of Manitoba:			
Indigenous and Municipal Relations -			
Mutual Aid	\$ 130	\$ 130	\$ 130
Sustainable Development - Emergency Response			
Cost Recovery	-	4	150
Sustainable Development - FireSmart Initiative	-	-	25
Total Province of Manitoba	130	134	305
Federal Government:			
Public Safety Canada - New Initiative Fund	-	-	176
Public Safety Canada - Heavy Urban Search			
and Rescue Program	516	368	304
Indian Affairs and Northern Development	-	18	-
Total Federal Government	516	386	480
Fees and other revenue:			
Insurance Levy	9,094	8,912	8,816
Inspection technical services	5,043	4,678	5,967
Codes and standards	2,300	2,364	2,291
Tuition fees	1,000	895	986
Fire inspections, investigations and reports	180	126	183
Other revenue	20	51	52
Total fees and other revenue	17,637	17,026	18,295
Investment income	40	72	48
	\$ 18,323	\$ 17,618	\$ 19,128

**OFFICE OF THE FIRE COMMISSIONER  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

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Schedule 2 - Transportation Expenses

(in thousands)

Year ended March 31, 2018

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	2018 Budget	2018 Actual	2017 Actual
Transportation expenses:			
Vehicle leases	\$ 500	\$ 405	\$ 361
Travel	150	134	152
Fuel - owned vehicles	20	19	16
Emergency response	-	9	53
Boards and committees	5	-	-
	\$ 675	\$ 567	\$ 582

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**OFFICE OF THE FIRE COMMISSIONER  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

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Schedule 3 - Communications Expenses

(in thousands)

Year ended March 31, 2018

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	2018 Budget	2018 Actual	2017 Actual
Communications expenses:			
Communications	\$ 200	\$ 183	\$ 176
Postage and courier	85	74	93
Marketing	30	48	50
Public education material	70	28	96
	\$ 385	\$ 333	\$ 415

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**OFFICE OF THE FIRE COMMISSIONER  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

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Schedule 4 - Supplies and Services Expenses

(in thousands)

Year ended March 31, 2018

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	2018 Budget	2018 Actual	2017 Actual
Supplies and services expenses:			
Supplies	\$ 225	\$ 199	\$ 217
Repairs and maintenance	275	326	337
Rent	400	380	389
Professional services - Growth, Enterprise and Trade (Note 12)	80	56	75
Professional fees - contracted services	500	291	347
Professional fees - legal and audit	80	34	87
Mutual Aid - air compressor maintenance	140	100	122
Fuel - training supplies	20	21	21
Utilities	95	97	99
Other	20	27	33
Emergency response	400	38	215
	\$ 2,235	\$ 1,569	\$ 1,942

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**OFFICE OF THE FIRE COMMISSIONER  
AN AGENCY OF THE PROVINCIAL GOVERNMENT  
PROVINCE OF MANITOBA**

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Schedule 5 - Other Operating Expenses

(in thousands)

Year ended March 31, 2018

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	2018 Budget	2018 Actual	2017 Actual
Other operating expenses:			
Desktop management	\$ 555	\$ 538	\$ 509
Travel	325	336	367
Bad debt expense	25	153	110
Property taxes	170	158	154
Insurance	150	143	137
Clothing	60	130	66
Publications	50	9	46
Professional development	50	63	55
Boards and committees	5	-	-
Seminar and conference registration	10	2	6
Memberships and subscriptions	10	15	10
Mutual Aid - meetings	3	-	2
Other	20	27	19
	\$ 1,433	\$ 1,574	\$ 1,481

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**Pineland Forest Nursery**  
**An Agency of the Government of Manitoba**  
**Financial Statements**  
*March 31, 2018*

## Management's Responsibility

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Pineland Forest Nursery's (the "Nursery") 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 Nursery's financial position, results of operations, change in net debt, and cash flows, in compliance with legislation, and in accordance with generally accepted accounting principles established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. 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 May 16, 2018.

Management maintains internal controls to properly safeguard the Nursery'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 Nursery's financial statements have been audited by MNP LLP, independent external auditors. The auditors' responsibility is to express an independent opinion on whether the financial statements of the Nursery 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 the Nursery's management,

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Michael Doig,  
Acting General Manager

Winnipeg, Manitoba  
May 16, 2018

## Independent Auditors' Report

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To the Special Operating Agencies Financing Authority of Pineland Forest Nursery:

We have audited the accompanying financial statements of Pineland Forest Nursery, which comprise the statement of financial position as at March 31, 2018 and the statements of operations and accumulated deficit, change in net debt 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 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, 2018 and the results of its operations, change in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Winnipeg, Manitoba

May 16, 2018

*MNP LLP*  
Chartered Professional Accountants

**Pineland Forest Nursery**  
**An Agency of the Government of Manitoba**  
**Statement of Financial Position**

*As at March 31, 2018*

	<b>2018</b>	<b>2017</b>
	<i>(in thousands)</i>	<i>(in thousands)</i>
<b>Financial assets</b>		
Portfolio investments	<b>187</b>	187
Accounts receivable (Note 4)	<b>888</b>	536
	<b>1,075</b>	723
<b>Liabilities</b>		
Working capital advances (Note 5)	<b>4,800</b>	3,661
Accounts payable and accruals	<b>211</b>	196
Unearned revenue	<b>530</b>	932
Employee future benefits (Note 6)	<b>363</b>	387
Borrowings from the Province of Manitoba (Note 7)	<b>737</b>	882
	<b>6,641</b>	6,058
<b>Net Debt</b>	<b>(5,566)</b>	(5,335)
<b>Non-financial assets</b>		
Inventories held for use	<b>164</b>	194
Prepaid expenses	<b>8</b>	9
Tangible capital assets (Note 8)	<b>1,393</b>	1,454
	<b>1,565</b>	1,657
<b>Accumulated Deficit</b>	<b>(4,001)</b>	(3,678)

Designated assets (Note 9)

**Approved by:**

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General Manager / Chief Operating Officer

Original Document Signed

Acting Manager of Administration

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

**Pineland Forest Nursery**  
**An Agency of the Government of Manitoba**  
**Statement of Operations and Accumulated Deficit**

*For the year ended March 31, 2018*

	<i>2018 Budget (in thousands)</i>	<i>2018 Actual (in thousands)</i>	<i>2017 Actual (in thousands)</i>
<b>Revenues - Private Sector</b>			
Overwinter	608	794	831
Current	140	82	191
Seed services	50	93	84
Other	5	7	13
	803	976	1,119
<b>Revenues - Province of Manitoba</b>			
Overwinter	701	696	625
Current	1	43	107
Seed services	5	35	34
Other	50	20	23
	757	794	789
<b>Total revenues</b>	1,560	1,770	1,908
<b>Operating Expenses (Schedule 1)</b>	660	649	833
<b>General administrative expenses</b>			
Amortization	108	107	110
Interest - operating and capital loan	180	127	113
Salaries, wages and benefits	1,140	1,210	1,355
	1,428	1,444	1,578
<b>Total expenses</b>	2,088	2,093	2,411
<b>Net loss</b>	(528)	(323)	(503)
<b>Accumulated deficit, beginning of year</b>	(3,678)	(3,678)	(3,175)
<b>Accumulated deficit, end of year</b>	(4,206)	(4,001)	(3,678)

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

**Pineland Forest Nursery**  
**An Agency of the Government of Manitoba**  
**Statement of Change in Net Debt**

*For the year ended March 31, 2018*

	<i>2018</i> <i>Budget</i> <i>(in thousands)</i>	<i>2018</i> <i>Actual</i> <i>(in thousands)</i>	<i>2017</i> <i>Actual</i> <i>(in thousands)</i>
<b>Net loss</b>	(528)	(323)	(503)
<b>Tangible capital assets</b>			
Acquisition of tangible capital assets	(50)	(46)	(53)
Amortization of tangible capital assets	108	107	110
	58	61	57
<b>Other non-financial assets</b>			
Decrease in inventories held for sale	-	30	118
Decrease in prepaid expense	-	1	-
	-	31	118
<b>Decrease (increase) in net debt</b>	(470)	(231)	(328)
<b>Net debt, beginning of year</b>	(5,335)	(5,335)	(5,007)
<b>Net debt, end of year</b>	(5,805)	(5,566)	(5,335)

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

**Pineland Forest Nursery**  
**An Agency of the Government of Manitoba**  
**Statement of Cash Flows**  
*For the year ended March 31, 2018*

	<b>2018</b>	<b>2017</b>
	<b>Actual</b>	<b>Actual</b>
	<b>(in thousands)</b>	<b>(in thousands)</b>
<b>Cash provided by (applied to):</b>		
<b>Operating</b>		
Net loss	(323)	(503)
Amortization of tangible assets	107	110
	(216)	(393)
Change in:		
Accounts receivable	(352)	808
Accounts payable and accruals	15	(93)
Unearned revenue	(402)	(4)
Employee future benefits	(24)	30
Inventories	30	118
Prepaid expenses	1	-
	(948)	466
<b>Capital</b>		
Acquisition of tangible capital assets	(46)	(53)
<b>Financing</b>		
Debt repayments to the Province of Manitoba	(145)	(145)
<b>Increase (decrease) in cash resources</b>	<b>(1,139)</b>	<b>268</b>
<b>Working capital advances, beginning of year</b>	<b>(3,661)</b>	<b>(3,929)</b>
<b>Working capital advances, end of year</b>	<b>(4,800)</b>	<b>(3,661)</b>

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



# **Pineland Forest Nursery**

## **An Agency of the Government of Manitoba**

### **Notes to the Financial Statements**

*For the year ended March 31, 2018  
(In thousands)*

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#### **1. Nature of Organization**

In 1953, Pineland Provincial Forestry Nursery was established to meet all the forest 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, (the "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 Sustainable Development 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 the department of Manitoba Sustainable Development under the general direction of the Assistant Deputy Minister of Sustainable Development and ultimately the policy direction of the Deputy Minister and the Minister. Pineland Forest Nursery remains bound by relevant legislation and regulations. It is also bound by administrative policy, except where specific exemptions have been provided for in its charter in order to meet business objectives.

#### **2. Significant Accounting Policies**

These financial statements are the representations of management, prepared in accordance with Canadian public sector accounting standards and include the following significant accounting policies.

##### ***Basis of presentation***

Sources of revenue and expenses are recorded on the accrual basis of accounting. The accrual basis of accounting recognizes revenue as they become available and measurable; expenses are recognized as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

##### ***Asset classification***

Assets are classified as either financial or non-financial. Financial assets are assets that could be used to discharge existing liabilities or finance future operations. Non-financial assets are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities but are employed to deliver government services, may be consumed in normal operations and are not for resale in the normal course of operations.

##### ***Cash and cash equivalents***

Cash and cash equivalents include balances with banks and short-term investments with maturities of three months or less. Cash subject to restrictions that prevent its use for current purposes is included in restricted cash.

##### ***Portfolio investments***

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

**Pineland Forest Nursery**  
**An Agency of the Government of Manitoba**  
**Notes to the Financial Statements**

*For the year ended March 31, 2018*  
*(In thousands)*

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**2. Significant Accounting Policies** *(Continued from previous page)*

***Net debt***

The Nursery's financial statements are presented so as to highlight net debt as the measurement of financial position. The net debt of the Nursery is determined by its liabilities less its financial assets. Net debt combined with non-financial assets comprises a second indicator of financial position, accumulated deficit.

***Non-financial assets***

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

Inventories held for use are classified as non-financial assets and are recorded at cost.

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	4-20%
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 operations for the year.

***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.

**Pineland Forest Nursery**  
**An Agency of the Government of Manitoba**  
**Notes to the Financial Statements**

*For the year ended March 31, 2018*  
*(In thousands)*

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**2. Significant Accounting Policies** *(Continued from previous page)*

***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 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. Unbilled accounts receivable and unearned revenue are based on estimated percentage of completion. 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.

**3. Financial Instruments and Financial Risk Management**

**Measurement**

***Amortized cost***

The Nursery has classified the following financial assets in the amortized cost category: accounts receivable. These assets are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the trade date.

Accounts receivable are subsequently measured at their amortized cost, using the effective interest method. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal payments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectability.

The Nursery has classified the following liabilities in the amortized cost category: working capital advances, accounts payable and accruals and borrowings from the Province of Manitoba. These liabilities are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the trade date.

Working capital advances, accounts payable and accruals and borrowings from the Province of Manitoba are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash payments are exactly discounted over the liability's expected life, or other appropriate period, to their net carrying value. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount.

**Pineland Forest Nursery**  
**An Agency of the Government of Manitoba**  
**Notes to the Financial Statements**

*For the year ended March 31, 2018*  
*(In thousands)*

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**3. Financial Instruments and Financial Risk Management** *(Continued from previous page)*

*Fair value*

The Nursery has classified portfolio investments in the fair value category. These assets are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the trade date.

Investments are subsequently measured at their fair value. Investments in equity instruments that do not have quoted market prices in an active market are measured at fair value using alternative means of estimation. Gains and losses arising from changes in fair value, except for impairment losses and foreign exchange translation adjustments, are recognized in the statement of remeasurement gains and losses as a remeasurement gain or loss, until the financial asset is sold or otherwise derecognized. Upon derecognition, the cumulative gain or loss previously recognized in the statement of remeasurement gains or losses is transferred to the consolidated statement of operations.

**Financial risk management - overview**

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

**Credit risk**

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

The maximum exposure of the Nursery to credit risk is:

	<b>2018</b>	2017
Portfolio investments	<b>187</b>	187
Accounts receivable	<b>888</b>	536
	<b>1,075</b>	723

Portfolio investments: The Nursery is not exposed to significant credit risk as these amounts are held by the Minister of Finance. Portfolio investments have a fixed interest rate of 1.72% and mature March 2019.

Accounts receivable: Accounts receivable from two customers represents 81% (2017 - 69%) of total accounts receivable as at March 31, 2018. The Nursery believes that there is minimal risk associated with the collection of these amounts. 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.

**Pineland Forest Nursery**  
**An Agency of the Government of Manitoba**  
**Notes to the Financial Statements**

*For the year ended March 31, 2018*  
*(In thousands)*

**3. Financial Instruments and Financial Risk Management** *(Continued from previous page)*

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

	<b>2018</b>	<b>2017</b>
Balance, beginning of the year	<b>43</b>	43
Provision for (recovery of) receivable impairment	-	-
Amounts written off	-	-
Balance, end of the year	<b>43</b>	43

***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 fixed rates for investments with similar terms and conditions.

The Nursery is exposed to interest rate cash flow risk with respect to its borrowings, as described in note 5, which bears interest with a floating rate over prime.

***Foreign currency risk***

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

**4. Accounts receivable**

	<b>2018</b>	<b>2017</b>
Trade receivable:		
Province of Manitoba	<b>369</b>	1
Other	<b>258</b>	263
	<b>627</b>	264
Allowance for doubtful accounts	<b>(43)</b>	(43)
	<b>584</b>	221
Unbilled revenue	<b>297</b>	307
Goods and Services Tax receivable	<b>7</b>	8
	<b>888</b>	536

# Pineland Forest Nursery

## An Agency of the Government of Manitoba

### Notes to the Financial Statements

*For the year ended March 31, 2018  
(In thousands)*

#### 5. Working capital advances

The Financing Authority has provided the Nursery with an authorized line of working capital of \$5,000 (2017 - \$5,000) of which \$4,495 was advanced at March 31, 2018 (2016 - \$3,661). The indebtedness bears interest at prime less 1% (2017 – prime less 1%). Prime rate as at March 31, 2018 is 3.45%.

#### 6. Employee future benefits

	2018	2017
Severance benefits	344	366
Sick pay benefits	19	21
	<b>363</b>	<b>387</b>

##### 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 2018 was \$76 (2017 - \$88).

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, 2014. 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, 2018 was \$344 (2017 - \$366), 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, 2014 valuation, and in the determination of the March 31, 2018 present value of the accrued severance benefit obligation were:

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

**Pineland Forest Nursery**  
**An Agency of the Government of Manitoba**  
**Notes to the Financial Statements**

*For the year ended March 31, 2018*  
*(In thousands)*

**6. Employee future benefits** *(Continued from previous page)*

**Sick pay benefits**

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

**7. Borrowings from the Province of Manitoba**

	<b>2018</b>	2017
Capital purchase loan payable in monthly installments of \$6,317, plus interest at 5.125%, due July 2023.	<b>404</b>	480
Capital purchase loan payable in monthly installments of \$2,727, plus interest at 4.875%, due July 2023.	<b>175</b>	207
Capital purchase loan payable in monthly installments of \$1,786, plus interest at 4.875%, due July 2023.	<b>114</b>	136
Capital purchase loan payable in monthly installments of \$1,250, plus interest at 3.875%, due February 2021.	<b>44</b>	59
	<b>737</b>	882

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

2019	145
2020	145
2021	142
2022	130
2023	130

**Pineland Forest Nursery**  
**An Agency of the Government of Manitoba**  
**Notes to the Financial Statements**

*For the year ended March 31, 2018*  
*(In thousands)*

**8. Tangible capital assets**

	<b>2018</b>			
	<b>Opening Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Closing Balance</b>
<b>Cost</b>				
Buildings	6,263	6	-	6,269
Equipment	2,178	40	-	2,218
<b>Total cost</b>	<b>8,441</b>	<b>46</b>	<b>-</b>	<b>8,487</b>
<b>Accumulated Amortization</b>				
Buildings	4,950	69	-	5,019
Equipment	2,037	38	-	2,075
<b>Total accumulated amortization</b>	<b>6,987</b>	<b>107</b>	<b>-</b>	<b>7,094</b>
<b>Net</b>				
Buildings	1,313	(63)	-	1,250
Equipment	141	2	-	143
<b>Total</b>	<b>1,454</b>	<b>(61)</b>	<b>-</b>	<b>1,393</b>

	<b>2017</b>			
	<b>Opening Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Closing Balance</b>
<b>Cost</b>				
Buildings	6,254	9	-	6,263
Equipment	2,134	44	-	2,178
<b>Total cost</b>	<b>8,388</b>	<b>53</b>	<b>-</b>	<b>8,441</b>
<b>Accumulated Amortization</b>				
Buildings	4,877	73	-	4,950
Equipment	2,000	37	-	2,037
<b>Total accumulated amortization</b>	<b>6,877</b>	<b>110</b>	<b>-</b>	<b>6,987</b>
<b>Net</b>				
Buildings	1,377	(64)	-	1,313
Equipment	134	7	-	141
<b>Total</b>	<b>1,511</b>	<b>(57)</b>	<b>-</b>	<b>1,454</b>



**Pineland Forest Nursery**  
**An Agency of the Government of Manitoba**  
**Notes to the Financial Statements**

*For the year ended March 31, 2018*  
*(In thousands)*

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**9. Designated assets**

The Nursery has allocated \$187 (2017 - \$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.

**10. 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.

**11. Subsequent event**

On May 3, 2018, the Province of Manitoba announced the operations of Pineland Forest Nursery will cease effective December 31, 2018 and is seeking a buyer to take over the facility.

**Pineland Forest Nursery**  
**An Agency of the Government of Manitoba**  
**Schedule 1 - Schedule of Operating Expenses**

*For the Year Ended March 31, 2018*

	<i>2018</i>	<i>2018</i>	<i>2017</i>
	<i>Budget</i>	<i>Actual</i>	<i>Actual</i>
	<i>(In thousands)</i>	<i>(In thousands)</i>	<i>(In thousands)</i>
<b>Operating expenses</b>			
Departmental services and professional fees	25	21	26
Freight	25	30	29
Marketing	5	3	4
Natural gas and hydro, Biomass fuel	225	219	292
Office	30	27	32
Property taxes and insurance	55	54	55
Repairs and maintenance	120	109	179
Supplies	170	181	209
Travel	5	5	7
	660	649	833

**The Public Guardian and Trustee of Manitoba  
An Agency of the Province of Manitoba**

**Financial Statements  
March 31, 2018**

## **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 24, 2018. 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 Guardian and Trustee of Manitoba – An Agency of the Province of Manitoba 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 Canadian Public Sector Accounting Standards. The Auditors' Report outlines the scope of the audit examination and provides the audit opinion.

The Public Guardian and Trustee have reviewed and approved these financial statements and the Annual Report in advance of its release and have approved its content and authorized its release.

Original Document Signed

Douglas R. Brown  
Public Guardian and Trustee



## INDEPENDENT AUDITOR'S REPORT

To the Legislative Assembly of Manitoba,  
To the Public Guardian and Trustee of Manitoba, and  
To the Special Operating Agencies Financing Authority

We have audited the accompanying financial statements of The Public Guardian and Trustee of Manitoba which comprise the statement of financial position as at March 31, 2018, and the statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **The Public Guardian and Trustee's Responsibility for the Financial Statements**

The Public Guardian and Trustee 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 the Public Guardian and Trustee 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 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 the Public Guardian and Trustee, 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 Public Guardian and Trustee of Manitoba as at March 31, 2018, and the results of its operations, changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Office of the Auditor General  
July 24, 2018  
Winnipeg, Manitoba



**PUBLIC GUARDIAN AND TRUSTEE OF MANITOBA**  
**An Agency of the Province of Manitoba**  
Statement of Financial Position  
As at March 31, 2018  
(In Thousands)

	<u>March 31,</u> <u>2018</u>	<u>March 31,</u> <u>2017</u>
Financial assets		
Cash and cash equivalents (Note 5)	\$ 6,092	\$ 4,966
Portfolio investments (Note 10)	515	515
Accounts receivable (Note 6)	<u>1,207</u>	<u>1,199</u>
	<u>7,814</u>	<u>6,680</u>
Liabilities		
Accounts payable and accrued liabilities (Note 7)	578	569
Employee future benefits (Note 8)	<u>730</u>	<u>682</u>
	<u>1,308</u>	<u>1,251</u>
Net financial assets	<u>6,506</u>	<u>5,429</u>
Non-financial assets		
Prepaid expenses	19	7
Tangible capital assets (Note 9)	<u>60</u>	<u>61</u>
	<u>79</u>	<u>68</u>
Accumulated surplus	<u>\$ 6,585</u>	<u>\$ 5,497</u>

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



**PUBLIC GUARDIAN AND TRUSTEE OF MANITOBA**  
**An Agency of the Province of Manitoba**  
Statement of Operations and Accumulated Surplus  
For the Year Ended March 31, 2018  
(In Thousands)

	2018 <u>Budget</u> (Note 18)	2018 <u>Actual</u>	2017 <u>Actual</u>
Revenue			
Fees and other revenue (Note 12)	\$ 7,260	\$ 7,960	\$ 7,086
Investment income	<u>48</u>	<u>86</u>	<u>57</u>
Total revenue	<u>7,308</u>	<u>8,046</u>	<u>7,143</u>
Expenses			
Amortization of tangible capital assets (Note 9)	55	25	25
Accommodation costs (Note 11)	438	426	403
Other administration expenses (Note 13)	1,126	1,046	1,072
Salaries and benefits	5,363	5,106	4,871
Pension benefits (Note 14)	<u>355</u>	<u>356</u>	<u>384</u>
Total expenses	<u>7,337</u>	<u>6,958</u>	<u>6,755</u>
Annual surplus	(29)	1,088	388
Accumulated surplus, beginning of year	5,497	5,497	5,109
Accumulated surplus, end of period year	<u>\$ 5,468</u>	<u>\$ 6,585</u>	<u>\$ 5,497</u>

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



**PUBLIC GUARDIAN AND TRUSTEE OF MANITOBA**  
**An Agency of the Province of Manitoba**  
Statement of Cash Flows  
For the Year Ended March 31, 2018  
(In Thousands)

	2018 <u>Actual</u>	2017 <u>Actual</u>
Cash provided by (applied to)		
Operating		
Annual surplus	\$ 1,088	\$ 388
Amortization of tangible capital assets	<u>25</u>	<u>25</u>
	1,113	413
Changes in non-cash working capital balances:		
Accounts receivable	(8)	(197)
Accounts payable and accrued liabilities	9	(507)
Employee future benefits	48	25
Prepaid expenses	<u>(12)</u>	<u>(2)</u>
Cash provided by operating activities	<u>1,150</u>	<u>(265)</u>
Capital		
Acquisition of tangible capital assets	<u>(24)</u>	<u>(26)</u>
Cash applied to capital activities	<u>(24)</u>	<u>(26)</u>
Net increase (decrease) in cash	1,126	(291)
Cash and cash equivalents		
Beginning of year	<u>4,966</u>	<u>5,257</u>
End of year	<u>\$ 6,092</u>	<u>\$ 4,966</u>
Supplemental cash flow information		
Interest received	\$ <u>80</u>	\$ <u>58</u>

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





**PUBLIC GUARDIAN AND TRUSTEE OF MANITOBA**  
**An Agency of the Province of Manitoba**  
Statement of Changes in Net Financial Assets  
For the Year Ended March 31, 2018  
(In Thousands)

	2018 <u>Budget</u> (Note 18)	2018 <u>Actual</u>	2017 <u>Actual</u>
Annual Surplus	\$ (29)	\$ 1,088	\$ 388
Tangible capital assets			
Acquisition of tangible capital assets	(241)	(24)	(26)
Amortization of tangible capital assets	<u>55</u>	<u>25</u>	<u>25</u>
Net change in tangible capital assets	<u>(186)</u>	<u>1</u>	<u>(1)</u>
Other non-financial assets			
Decrease (increase) in prepaid expenses	<u>(2)</u>	<u>(12)</u>	<u>(2)</u>
Net change in other non-financial assets	<u>(2)</u>	<u>(12)</u>	<u>(2)</u>
Net increase in net financial assets	(217)	1,077	385
Net financial assets, beginning of year	<u>5,429</u>	<u>5,429</u>	<u>5,044</u>
Net financial assets, end of year	<u>\$ 5,212</u>	<u>\$ 6,506</u>	<u>\$ 5,429</u>

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



## **1. Nature of organization**

The Public Guardian and Trustee of Manitoba – An Agency of the Special Operating Agencies Financing Authority – Province of Manitoba (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 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. Effective April 1, 2014 The Public Guardian and Trustee’s name was changed from The Public Trustee upon the enactment of legislation which updated and clarified the statutory roles of the office.

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 the Agency’s 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 Agency status, assists the Agency to sustain the provision of high quality service to its clients.

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

The Agency continues to be part of Manitoba Justice. The Agency is a corporation sole with perpetual succession. As a corporate entity, the Agency functions separately from government and is capable of suing or being sued on behalf of the clients, trusts and estates which are administered by the Agency.

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

## **2. Basis of accounting**

The financial statements are prepared in accordance with Canadian Public Sector Accounting Standards as recommended by the Public Sector Accounting Board.

## **3. Significant accounting policies**

### **a) Revenue recognition**

- i. Administration fees are charged quarterly as earned to client accounts based on the anniversary date of the account in accordance with the provisions of *The Public Guardian and Trustee Act*. Fees revenue recognized during the year consists of all fees charged.
- ii. Other fees are recognized and charged to an account as services are provided.
- iii. Statutory legal fees as prescribed in *The Public Guardian and Trustee Act* 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 and software Document management	20%, straight-line basis, 10% in the year of acquisition, software purchases 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 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 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 period. Actual results could differ from these estimates.

Significant estimates used in the financial statements include allowance for doubtful accounts, amortization of tangible capital assets, sick benefits and accrued severance benefits costs.

## 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 4, 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 the date of 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 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.

h) Adoption of new accounting standards

On April 1, 2017 the Agency adopted Canadian public sector accounting standards PS 2200 related party disclosures, PS 3210 assets, PS 3320 contingent assets, PS 3380 contractual rights, and PS 3420 inter-entity transactions. The adoption of these standards did not result in any adjustments to the financial statements as at April 1, 2017.

#### 4. 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.

Financial instruments including cash and cash equivalents, portfolio investments, accounts receivable and accounts payable and accrued liabilities, are initially recorded at their fair value and are subsequently measured at amortized cost. 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. As at March 31, 2018, the Agency does not have any financial instruments measured at fair value. In the event financial instruments are measured at fair value gains and losses would be 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.

The Agency did not incur any re-measurement gains and losses during the year ended March 31, 2018 (2017 - \$nil).

The Agency has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk and market risk which includes 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 is as follows:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$6,092	\$4,966
Portfolio investments	515	515
Accounts receivable	<u>1,207</u>	<u>1,199</u>
	<u>\$7,814</u>	<u>\$6,680</u>



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.

### **Credit Risk**

Accounts receivable: The Agency is not exposed to significant credit risk as the receivable is composed of fees due from a diverse client base. The Agency establishes an allowance for doubtful accounts that represents its estimate of potential credit losses.

The aging of fees receivable and allowance for doubtful accounts on the accrued administration fees as at March 31, 2018 was as follows:

	Net	Allowance
Current (note 6)	1,216	\$ 52
30-60 days past the billing date	-	-
61-90 days past the billing date	-	-
More than 90 days past the billing date	-	-
	<u>1,216</u>	<u>\$ 52</u>

### **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. The Agency's accounts payable and accrued liabilities mature within 12 months.

### **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 risk that 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 because 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 foreign currencies.



## 5. Cash and cash equivalents

	<u>2018</u>	<u>2017</u>
Cash	\$ 3,992	\$ 3,241
Demand deposits	<u>2,200</u>	<u>1,725</u>
	<u>\$ 6,092</u>	<u>\$ 4,966</u>

## 6. Accounts receivable

	<u>2018</u>	<u>2017</u>
Fees receivable	\$ 1,216	\$ 1,251
Allowance for doubtful accounts	<u>(52)</u>	<u>(80)</u>
	1,164	1,171
Interest receivable	23	15
Advances to clients	14	7
Cost recoveries	<u>6</u>	<u>6</u>
	<u>\$ 1,207</u>	<u>\$ 1,199</u>

## 7. Accounts payable and accrued liabilities

	<u>2018</u>	<u>2017</u>
Operating expenses payable	\$ 104	\$ 134
Vacation entitlements earned	442	402
GST payable to Canada Revenue Agency	<u>32</u>	<u>33</u>
	<u>\$ 578</u>	<u>\$ 569</u>

## 8. Employee future benefits

	<u>2018</u>	<u>2017</u>
Severance benefits	\$ 635	\$ 587
Sick pay benefits	<u>95</u>	<u>95</u>
	<u>\$ 730</u>	<u>\$ 682</u>

### 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, 2017. 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, 2018 was \$742 (2017 - \$690). The actuarial loss of \$228 based on actuarial reports is being amortized over the 15 year expected average remaining service life ("EARSL") of the employee group. Benefits paid during the year were \$27 (2017 – \$59).

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

	<u>2018</u>	<u>2017</u>
Balance beginning of year	\$ 690	\$ 679
Increase due to change in discount rate	19	-
Benefits accrued	33	29
Interest on accrued benefits	27	41
Severance paid	<u>(27)</u>	<u>(59)</u>
Accrued benefit liability	742	690
Less: unamortized actuarial losses	<u>(107)</u>	<u>(103)</u>
Severance benefit liability	<u>\$ 635</u>	<u>\$ 587</u>

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

	<u>2018</u>	<u>2017</u>
Interest on obligation	\$ 27	\$ 41
Employer service cost	33	29
Amortization of actuarial loss over EARSL	<u>15</u>	<u>14</u>
Total expense related to severance benefits	<u>\$ 75</u>	<u>\$ 84</u>

Significant long-term actuarial assumptions used in the March 31, 2017 valuation, and in the determination of the March 31, 2018 present value of the accrued severance benefit obligation were:

	<u>2018</u>	<u>2017</u>
Discount rate <sup>1</sup>	3.80%	6.00%
Assumed salary increase rates	1.00%	1.00%
Annual productivity increase	<u>2.75%</u>	<u>2.75%</u>
Annual general salary increase	<u>3.75%</u>	<u>3.75%</u>

<sup>1</sup> In 2018 the discount rate was changed to reflect the province's weighted average rate of borrowing.

### **Sick pay benefits**

The Agency provides its employees with sick leave benefits that accumulate but do not vest. The liability for accumulating, non-vesting sick pay benefits is based upon a review of past experience to extrapolate a liability based upon expected future utilization of currently accumulated benefit. The Agency is presenting the sick pay benefit liability at the 2018 value \$95.



## 9. Tangible capital assets

2018				
	Opening Balance	Additions	Disposals	Closing Balance
Cost				
Furnishings and equipment	\$ 343	\$ -	\$ -	\$ 343
Computer hardware and software	123	2	-	125
Document management	17	2	-	19
Leasehold improvements	103	20	-	123
Total cost	<u>\$ 586</u>	<u>\$ 24</u>	<u>\$ -</u>	<u>\$ 610</u>
Accumulated amortization				
Furnishings and equipment	\$ 316	\$ 5	\$ -	\$ 321
Computer hardware and software	122	1	-	123
Document management	3	2	-	5
Leasehold improvements	84	17	-	101
Total accumulated amortization	<u>\$ 525</u>	<u>\$ 25</u>	<u>\$ -</u>	<u>\$ 550</u>
Net book value	<u>\$ 61</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ 60</u>

2017				
	Opening Balance	Additions	Disposals	Closing Balance
Cost				
Furnishings and equipment	\$ 343	\$ -	\$ -	\$ 343
Computer hardware and software	123	-	-	123
Document management		17	-	17
Leasehold improvements	94	9	-	103
Total cost	<u>\$ 560</u>	<u>\$ 26</u>	<u>\$ -</u>	<u>\$ 586</u>
Accumulated amortization				
Furnishings and equipment	\$ 309	\$ 7	\$ -	\$ 316
Computer hardware and software	121	1	-	122
Document management		3	-	3
Leasehold improvements	70	14	-	84
Total accumulated amortization	<u>\$ 500</u>	<u>\$ 25</u>	<u>\$ -</u>	<u>\$ 525</u>
Net book value	<u>\$ 60</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 61</u>

## 10. Designated portfolio investments

Portfolio investments consist of designated assets and non-redeemable investments and guaranteed investment certificates. The Agency has allocated \$515 (2017 - \$515) of its portfolio investments as designated assets for cash received from the Province of Manitoba as settlement for the severance pay benefits accumulated to March 31, 1998 for certain of its employees. This amount is held in an interest bearing account. Any unused balance is re-invested annually. Funds are to be used for payments to employees for their outstanding severance pay amounts. Interest during the year amounted to \$3 (2017 - \$3)





## 11. Commitments

The Agency 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 \$426 for the year ended March 31, 2019.

## 12. Fees and other revenue

	<u>2018</u>	<u>2017</u>
Administration	\$ 6,825	\$ 6,141
Legal fees	429	373
Income taxes	388	279
Inspection	<u>318</u>	<u>293</u>
	<u>\$ 7,960</u>	<u>\$ 7,086</u>

## 13. Other administration expenses

	<u>2018</u>	<u>2017</u>
Computer expenses	\$ 643	\$ 631
Courier charges	6	9
Insurance, loss, damage	25	31
Office supplies	79	79
Other	2	5
Personnel expenses	23	27
Photocopies	2	2
Postage	73	73
Professional fees	18	41
Publications	2	2
Public communications	8	11
Records Centre charges	33	34
Rentals, equipment	1	1
Repairs and maintenance	11	8
Support services - Department of Justice	22	21
Telephone	52	52
Travel	<u>46</u>	<u>45</u>
	<u>\$ 1,046</u>	<u>\$ 1,072</u>

## 14. 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. 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 at March 31 was \$356 (2017 - \$384). Under this agreement, the Agency has no further pension liability. As at December 31, 2017 the Civil Service Superannuation Fund had a deficit of \$4.4 billion.



## **15. Related party transactions**

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

## **16. Escheats to the Crown**

Escheats to the Crown relate to estates of deceased persons with no heirs. These estates are sent by the Public Guardian and Trustee to the Department of Finance annually. Escheats to the Crown, received by the Agency during the year and remitted to the Minister of Finance, amounted to \$43 (2017 - \$102). These amounts are not reflected in these financial statements.

## **17. Estates and trusts under administration**

The client assets under administration at March 31, 2018 totaled approximately \$260,000 (2017 - \$260,000). The trust activities of the Agency are reported in a separate Estates and Trusts under Administration financial statements.

## **18. Budgeted figures**

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the Agency.



# Management's Responsibility for Financial Reporting



## 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 flows, in compliance with legislation, and in accordance with generally accepted accounting principles established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. 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 21, 2018.

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

On behalf of the Agency's management,

### Original Document Signed

Sean Savage  
A/Chief Operating Officer

### Original Document Signed

Joel Hershfield  
Manager, Finance and Administration

Winnipeg, Manitoba  
June 21, 2018



An Agency of the Manitoba Government

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## Independent Auditors' Report

### Independent Auditors' Report

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To the Special Operating Agencies Financing Authority of Vehicle and Equipment Management Agency (VEMA):

We have audited the accompanying financial statements of Vehicle and Equipment Management Agency (VEMA) (an Agency of the Special Operating Agencies Financing Authority Province of Manitoba), which comprise the statement of financial position as at March 31, 2018, and the statements of operations, changes in net debt 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 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 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 Vehicle and Equipment Management Agency (VEMA) (an Agency of the Special Operating Agencies Financing Authority Province of Manitoba), as at March 31, 2018, and the results of its operations, changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Winnipeg, Manitoba

June 21, 2018

*MNP LLP*

Chartered Professional Accountants

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**MNP**  
LLP

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## Financial Statements

### Statement of Financial Position

March 31, 2018

(In thousands of dollars)

	March 31 2018	March 31 2017
<b>Financial assets</b>		
Cash and cash equivalents	\$ 1,706	\$ 447
Receivables (Note 5)	7,176	6,069
Portfolio investments (Notes 6 and 10)	1,433	1,433
Inventory for resale	5,537	4,553
	<b>15,852</b>	<b>12,502</b>
<b>Liabilities</b>		
Working capital advances (Note 7)	0	955
Accounts payable and accrued liabilities	3,767	4,314
Unearned revenue	2,723	3,294
Severance pay liability (Note 6)	1,480	1,500
Borrowings from the Province of Manitoba (Note 8)	114,856	119,131
	<b>122,826</b>	<b>129,194</b>
<b>Net debt</b>	<b>(106,974)</b>	<b>(116,692)</b>
<b>Non-financial assets</b>		
Prepaid expenses	3,042	2,831
Tangible capital assets (Note 9)		
Vehicles and equipment	132,335	139,371
Office and shop equipment	333	406
Computer hardware and software	3	4
Leasehold improvements	260	223
	<b>132,931</b>	<b>140,004</b>
	<b>135,973</b>	<b>142,835</b>
<b>Accumulated surplus</b>	<b>\$ 28,999</b>	<b>\$ 26,143</b>
Designated assets (Note 10)		
Commitments (Note 11)		

See accompanying notes to financial statements.

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## Financial Statements

### Statement of Operations Year Ended March 31, 2018 (In thousands of dollars)

	2018		2017
	Projected	Actual	Actual (Note 13)
<b>Revenues</b>			
Vehicle and equipment utilization	\$ 57,000	\$ 58,326	\$ 58,110
Fuel billings	19,000	18,301	19,058
Insurance and other billings	5,200	5,303	5,151
Other revenue (Page 25)	10,000	11,709	9,362
	91,200	93,639	91,681
<b>Expenses</b>			
Salaries and benefits	11,500	10,504	11,229
Vehicle and equipment operating expenses (Page 25)	69,000	69,647	69,472
Administrative expenses (Page 25)	4,000	4,226	4,288
Community service	40	36	61
Interest expense	4,000	3,870	3,936
	88,540	88,283	88,986
<b>Income from operations</b>	2,660	5,356	2,695
Transfers during the year to the Province of Manitoba	2,500	2,500	2,500
<b>Net income</b>	160	2,856	195
Accumulated surplus, beginning of year	25,324	26,143	25,948
<b>Accumulated surplus, end of year</b>	\$ 25,484	\$ 28,999	\$ 26,143

See accompanying notes to financial statements.

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## Financial Statements

### Statement of Change in Net Debt Year Ended March 31, 2018 *(In thousands of dollars)*

	2018		2017 Actual
	Projected	Actual	
Net income	\$ 160	\$ 2,856	\$ 195
Tangible capital assets			
Acquisition of tangible capital assets	(25,400)	(24,670)	(33,118)
Amortization of tangible capital assets	28,115	28,439	27,590
Gain on disposal of tangible capital assets, net	(1,200)	(2,152)	(768)
Proceeds from disposal of tangible capital assets	4,000	5,456	4,065
Net acquisition of tangible capital assets	5,515	7,073	(2,231)
Decrease (increase) in prepaid expenses during the year	0	(211)	36
<b>Decrease (increase) in net debt</b>	5,675	9,718	(2,000)
Net debt, beginning of year	(120,190)	(116,692)	(114,692)
<b>Net debt, end of year</b>	<b>\$ (114,515)</b>	<b>\$ (106,974)</b>	<b>\$ (116,692)</b>

*See accompanying notes to financial statements.*

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## Financial Statements

### Statement of Cash Flows Year Ended March 31, 2018 (In thousands of dollars)

Cash provided by (applied to):

	2018	2017
<b>Operating activities</b>		
Net income	\$ 2,856	\$ 195
Amortization of tangible capital assets	28,439	27,590
Gain on disposal of tangible capital assets, net	(2,152)	(768)
Increase in severance pay liability	115	124
Payment of severance pay benefits	(135)	(155)
	<b>29,123</b>	26,986
Change in:		
Receivables	(1,107)	(399)
Inventory for resale	(984)	113
Accounts payable and accrued liabilities	(547)	(5,474)
Unearned revenue	(571)	(672)
Prepaid expenses	(211)	36
Cash provided by operating activities	<b>25,703</b>	20,590
<b>Capital activities</b>		
Proceeds from disposal of tangible capital assets	5,456	4,065
Acquisition of vehicles and equipment	(24,605)	(32,967)
Acquisition of office and shop equipment	(1)	(59)
Acquisition of computer hardware and software	(0)	(4)
Acquisition of leasehold improvements	(64)	(88)
Cash applied to capital activities	<b>(19,214)</b>	(29,053)
<b>Financing activities</b>		
Borrowings from the Province of Manitoba	18,000	27,000
Debt repayments to the Province of Manitoba	(22,275)	(20,390)
Cash provided by (applied to) financing activities	<b>(4,275)</b>	6,610
<b>Increase (decrease) in cash</b>	<b>2,214</b>	(1,853)
Cash and cash equivalents, net of working capital advances (working capital advances, net of cash and cash equivalents), beginning of year	<b>(508)</b>	1,345
<b>Cash and cash equivalents, net of working capital advances (working capital advances, net of cash and cash equivalents), end of year</b>	<b>\$ 1,706</b>	<b>\$ (508)</b>

See accompanying notes to financial statements.



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# Financial Statements

## Notes to Financial Statements

**Year Ended March 31, 2018**

*(In thousands of dollars)*

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### **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 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", or the "Agency"). VEMA combines the acquisition, management and disposal of both light duty and heavy duty vehicles and equipment under common management.

VEMA was a part of the Department of Infrastructure and Transportation through March 31, 2015, under the general direction of the Assistant Deputy Minister, Supply and Services Division, and ultimately the policy direction of the Deputy Minister and the Minister. As of April 1, 2015, the Agency was transitioned from Infrastructure and Transportation to the Department of Finance, and is now under the direction of the Associate Deputy Minister of Finance, Central Services, and ultimately the policy direction of the Minister of Finance.

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 assigns responsibility to VEMA to manage and account for the Agency-related assets and operations on behalf of SOAFA.

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

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### **2. Basis of accounting**

The Agency's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards as recommended by the Public Sector Accounting Board.

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***For the Year Ended March 31, 2018***

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## **Financial Statements**

### **Notes to Financial Statements**

**Year Ended March 31, 2018**

*(In thousands of dollars)*

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### **3. Summary of significant accounting policies**

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#### 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 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 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 in the financial statements when there is an appropriate basis of measurement and a reasonable estimate can be made of the amounts involved.

#### 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.

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# Financial Statements

## Notes to Financial Statements

Year Ended March 31, 2018

(In thousands of dollars)

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### 3. Summary of significant accounting policies (continued)

(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. Judgment is required in determining the future economic benefit of all non-financial assets, especially in the estimation of the useful lives of tangible capital assets. Actual results could differ from these estimates.

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### 4. 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, receivables 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 from the Province of Manitoba.

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

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**For the Year Ended March 31, 2018**

## Financial Statements

### Notes to Financial Statements

**Year Ended March 31, 2018**

*(In thousands of dollars)*

#### **4. Financial instruments and financial risk management** (continued)

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.

As the Agency has no financial instruments measured at fair value, it did not incur any re-measurement gains and losses during the year ended March 31, 2018 (2017 - \$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; 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 and cash equivalents, receivables and portfolio investments.

The maximum exposure of the Agency to credit risk as of March 31, 2018, is:

	<b>2018</b>	2017
Cash and cash equivalents	<b>\$ 1,706</b>	\$ 447
Receivables	<b>7,176</b>	6,069
Portfolio investments	<b>1,433</b>	1,433
	<b>\$ 10,315</b>	\$ 7,949

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, 2018 (2017 - \$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 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. The

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# Financial Statements

## Notes to Financial Statements

Year Ended March 31, 2018

(In thousands of dollars)

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### 4. Financial instruments and financial risk management (continued)

contractual maturities of the Agency's borrowings from the Province of Manitoba are included in note 8. Working capital advances are due on demand.

#### 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 and 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.

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### 5. Receivables

	March 31 2018	March 31 2017
Trade	\$ 4,310	\$ 5,196
Accrued trade	2,116	123
Insurance rebate receivable	750	750
	<u>\$ 7,176</u>	<u>\$ 6,069</u>

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### 6. Severance pay liability

The Agency records accumulated severance pay benefits for its employees. Severance pay is determined by multiplying years of service, to a maximum of 15 years, by the weekly salary at date of retirement, provided the employee has reached nine years of service and retires from the Province. There is also additional severance pay for employees with 20 or more years of accumulated service. The estimate is based upon the method of calculation set by the Province of Manitoba.

The Province has accepted responsibility for the severance benefits accumulated by the Agency's employees through specific dates. For the Fleet Vehicles Agency employees, that responsibility is reflected through the payment by the Province of \$270 on March 31, 2009. For the Mechanical Equipment Services employees, that responsibility is reflected through 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.

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**For the Year Ended March 31, 2018**

## Financial Statements

### Notes to Financial Statements

**Year Ended March 31, 2018**

*(In thousands of dollars)*

#### **6. Severance pay liability** (continued)

An actuarial valuation report was completed for the severance pay liability as of April 1, 2017. 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.

Significant long-term actuarial assumptions used in the April 1, 2017, valuation, and in the determination of the March 31, 2018, present value of the accrued severance benefit obligations were:

Annual rate of return	
Inflation component	2.00%
Real rate of return	4.00%
	<u>6.00%</u>
Assumed salary increase rates	
Annual productivity increase	1.00%
Annual general salary increase	2.00%
	<u>3.00%</u>

Actuarial valuation report updates are prepared every three years. Actuarial adjustments that result from the updates are absorbed by VEMA as a part of the benefits and interest accrued during the year in which the adjustment amounts are known.

The severance pay liability as of March 31 included the following components:

	<b>2018</b>	2017
Severance pay liability, beginning of year	<b>\$ 1,500</b>	\$ 1,531
Benefits and interest accrued during the year	<b>115</b>	124
Severance benefits paid during the year	<b>(135)</b>	(155)
	<b><u>\$ 1,480</u></b>	<u>\$ 1,500</u>

#### **7. Working capital advances**

The Agency has an authorized line of working capital advances of \$5,000 as of March 31, 2018, none of which was used as of that date (2017 - \$955). Advances bear interest at prime less 1% and are unsecured.

#### **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 Vehicle and Equipment Management Agency.

Borrowings obtained through the use of available Loan Act authority are repayable in semi-annual instalments of principal and interest, as follows:

## Financial Statements

### Notes to Financial Statements Year Ended March 31, 2018 (In thousands of dollars)

#### 8. Borrowings from the Province of Manitoba (continued)

Interest rate	Semi-annual payment (\$)	Maturity date	2018	2017
2.25%	269	September 30, 2017	\$ 0	\$ 266
2.125%	530	September 30, 2017	0	524
2.125%	212	March 31, 2018	0	417
2.2%	232	September 30, 2018	230	682
2.75%	754	September 30, 2018	744	2,201
2.5%	535	September 30, 2019	1,566	2,578
2.5%	482	September 30, 2019	1,409	2,320
2.625%	272	March 31, 2020	1,052	1,559
1.875%	631	September 30, 2020	3,070	4,258
1.8125%	265	March 31, 2021	1,541	2,036
2.125%	530	March 31, 2021	3,063	4,042
2%	267	September 30, 2021	1,793	2,283
2.3125%	269	September 30, 2021	1,800	2,288
1.875%	789	September 30, 2021	5,323	6,781
2.25%	478	March 31, 2022	3,640	4,500
2.8%	526	September 30, 2022	4,423	5,333
2.625%	569	September 30, 2022	4,801	0
2.4375%	338	March 31, 2023	3,162	3,750
2.875%	540	March 31, 2023	5,000	0
4.875%	237	September 30, 2023	2,262	2,613
3.4%	102	September 30, 2023	1,017	1,182
2.625%	488	September 30, 2023	4,967	5,796
2.75%	246	September 30, 2023	2,491	0
5%	334	March 31, 2024	3,431	3,910
4.875%	192	March 31, 2024	1,977	2,254
2.625%	349	March 31, 2024	3,846	4,431
4.5%	162	September 30, 2024	1,805	2,039
2.3%	516	September 30, 2024	6,196	7,070
2.75%	263	March 31, 2025	3,325	3,750
4%	201	September 30, 2025	2,582	2,872
3.9%	158	September 30, 2025	2,034	2,263
4.55%	162	March 31, 2026	2,156	2,375
3.21%	357	March 31, 2026	5,000	0
3.3%	213	September 30, 2027	3,444	3,748
3.25%	127	September 30, 2027	2,064	2,247
3.375%	86	March 31, 2028	1,441	1,561
5%	80	March 31, 2030	1,425	1,510
			<b>94,080</b>	<b>95,439</b>

## Financial Statements

### Notes to Financial Statements

#### Year Ended March 31, 2018

(In thousands of dollars)

#### 8. Borrowings from the Province of Manitoba (continued)

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	<b>20,776</b>	23,692
Amount of borrowings owing to the Province of Manitoba at year-end			<b>\$ 114,856</b>	\$ 119,131

Unused loan authority of \$8,000 was available as of March 31, 2017. An additional \$20,000 of loan authority availability was approved in The Loan Act, 2017, with \$8,000 of the combined availability drawn down on September 30, 2017, and a further \$10,000 of the availability drawn down on March 31, 2018. Unused loan authority available as of March 31, 2018, was \$10,000.

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, 2018, principal repayments in each of the next five years on the combined outstanding balances owing to the Province of Manitoba are as follows:

2019	\$ 22,932
2020	21,607
2021	20,063
2022	17,137
2023	14,327

#### 9. Tangible capital assets

Cost	2018			Closing balance
	Opening balance	Additions	Disposals	
Vehicles and equipment	\$ 277,979	\$ 24,605	\$ (21,725)	<b>\$ 280,859</b>
Office and shop equipment	1,783	1	(58)	<b>1,726</b>
Computer hardware and software	394	0	(0)	<b>394</b>
Leasehold improvements	1,007	64	(0)	<b>1,071</b>
	<b>281,163</b>	<b>24,670</b>	<b>(21,783)</b>	<b>284,050</b>
Accumulated amortization				
Vehicles and equipment	138,608	28,338	(18,422)	<b>148,524</b>
Office and shop equipment	1,377	73	(57)	<b>1,393</b>
Computer hardware and software	390	1	(0)	<b>391</b>
Leasehold improvements	784	27	(0)	<b>811</b>
	<b>141,159</b>	<b>28,439</b>	<b>(18,479)</b>	<b>151,119</b>
Net book value	<b>\$ 140,004</b>	<b>\$ (3,769)</b>	<b>\$ (3,304)</b>	<b>\$ 132,931</b>



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## Financial Statements

### Notes to Financial Statements Year Ended March 31, 2018 (In thousands of dollars)

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#### 9. Tangible capital assets (continued)

Cost	2017			Closing balance
	Opening balance	Additions	Disposals	
Vehicles and equipment	\$ 270,507	\$ 32,967	\$ (25,495)	\$ 277,979
Office and shop equipment	1,724	59	(0)	1,783
Computer hardware and software	399	4	(9)	394
Leasehold improvements	919	88	(0)	1,007
	273,549	33,118	(25,504)	281,163
Accumulated amortization				
Vehicles and equipment	133,328	27,478	(22,198)	138,608
Office and shop equipment	1,292	85	(0)	1,377
Computer hardware and software	398	1	(9)	390
Leasehold improvements	758	26	(0)	784
	135,776	27,590	(22,207)	141,159
Net book value	\$ 137,773	\$ 5,528	\$ (3,297)	\$ 140,004

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#### 10. Designated assets

The Agency has allocated \$1,433 (2017 - \$1,433) of its portfolio investments as designated assets for its severance pay liability.

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#### 11. 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 2018/19 are established annually based on the approved budget for the Accommodation Services division of Central Services, Finance. Occupancy charges for 2018/19 are estimated at \$2,500 for the year, to be paid in quarterly instalments during 2018/19.
- (b) VEMA's approved 2018/19 Business Plan calls for \$2,700 to be paid to the Consolidated Fund of the Province of Manitoba for the year in quarterly instalments of \$675 together with a payment by June 30, 2019, of 50% of the Agency's actual net income for the 2018/19 year that is in excess of its projected net income for the year of \$817.

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#### 12. 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

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***For the Year Ended March 31, 2018***

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## **Financial Statements**

**Notes to Financial Statements**  
**Year Ended March 31, 2018**  
*(In thousands of dollars)*

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### **12. Pension benefits** (continued)

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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 2018 was \$681 (2017 - \$787).

### **13. Comparative financial statements**

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Certain reclassifications have been made in the financial statements for the year ended March 31, 2017, to make their presentation comparable to that in the actual financial statements for the year ended March 31, 2018.

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## Financial Statements

### Schedule of Other Revenue and Expenses Year Ended March 31, 2018 (In thousands of dollars)

	2018		2017
	Projected	Actual	Actual (Note 13)
<b>Other revenue</b>			
Body shop service	\$ 750	\$ 903	\$ 779
Gain on disposal of tangible capital assets, net	1,200	2,152	768
Garage regular service	5,000	6,049	4,968
Insurance premium rebates	1,500	1,730	1,670
Interest income	10	10	9
Other service revenue	140	175	156
Radio Services	1,400	690	1,012
	<u>\$ 10,000</u>	<u>\$ 11,709</u>	<u>\$ 9,362</u>
<b>Vehicle and equipment operating expenses</b>			
Amortization of tangible capital assets	\$ 28,000	\$ 28,339	\$ 27,478
Fuel	19,300	18,610	18,848
Insurance premiums	5,500	5,561	5,625
Licenses	150	149	149
Repairs and maintenance	16,050	16,988	17,372
	<u>\$ 69,000</u>	<u>\$ 69,647</u>	<u>\$ 69,472</u>
<b>Administrative expenses</b>			
Amortization of tangible capital assets	\$ 115	\$ 100	\$ 112
Fleet management information system	450	409	431
Occupancy costs	2,600	2,498	2,488
Other costs	450	779	835
Professional fees	20	19	28
SOAFA charges	6	7	7
Supplies and materials	215	270	236
Telephone and communication	144	144	151
	<u>\$ 4,000</u>	<u>\$ 4,226</u>	<u>\$ 4,288</u>

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**VITAL STATISTICS AGENCY**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31, 2018**

## **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 judgment regarding all necessary estimates and all other data available to June 27, 2018.

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

Original Document Signed

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Alena Lukes, Acting Director  
June 27, 2018

## 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 Government of Manitoba which comprise the statement of financial position as at March 31, 2018 and the statement of operations, statement of change in net financial assets (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, 2018, and its financial performance and its cash flows for the year then ended in accordance with Public Sector Accounting Standards.



June 27, 2018  
Winnipeg, Manitoba

CHARTERED PROFESSIONAL ACCOUNTANTS

**VITAL STATISTICS AGENCY**  
**AN AGENCY OF THE GOVERNMENT OF MANITOBA**

**STATEMENT OF FINANCIAL POSITION**  
(in thousands)  
**AS AT MARCH 31, 2018**

	2018	2017
<b>FINANCIAL ASSETS</b>		
Cash and cash equivalents, note 6	\$ 552	\$ 299
Accounts receivable, note 7	118	140
Portfolio investments	94	94
Inventories for resale	194	139
	<b>958</b>	<b>672</b>
<b>LIABILITIES</b>		
Accounts payable and accruals	\$ 85	\$ 37
Unearned revenue	188	173
Accrued unused vacation entitlements	199	193
Employee future benefits, note 8	270	280
	<b>742</b>	<b>683</b>
<b>NET FINANCIAL ASSETS (DEBT)</b>	<b>216</b>	<b>(11)</b>
<b>NON-FINANCIAL ASSETS</b>		
Prepaid expenses	166	64
Tangible capital assets, note 9	441	488
	<b>607</b>	<b>552</b>
<b>ACCUMULATED SURPLUS</b>	<b>\$ 823</b>	<b>\$ 541</b>
Designated assets, note 10		
Commitments, note 11		

The accompanying notes are an integral part of the financial statements

**VITAL STATISTICS AGENCY**  
**AN AGENCY OF THE GOVERNMENT OF MANITOBA**

**STATEMENT OF OPERATIONS**  
**(in thousands)**  
**FOR THE YEAR ENDED MARCH 31, 2018**

	2018 Budget	2018 Actual	2017 Actual
<b>REVENUE</b>			
Net sales	\$ 3,791	\$ 3,795	\$ 3,747
Proceeds from government departments	165	229	300
Interest	1	1	1
	<b>3,957</b>	<b>4,025</b>	<b>4,048</b>
<b>EXPENSES</b>			
Salaries and employee benefits	2,468	2,360	2,382
Operating expenses, Schedule 1	1,270	1,147	1,126
Amortization	119	96	120
Funeral Board of Manitoba operating grant	-	-	140
	<b>3,857</b>	<b>3,603</b>	<b>3,768</b>
Net income before the transfer of funds to the Province of Manitoba	100	422	280
Transfer of funds to the Province of Manitoba, note 12	140	140	120
<b>NET INCOME (LOSS)</b>	<b>(40)</b>	<b>282</b>	<b>160</b>
<b>ACCUMULATED SURPLUS, BEGINNING OF YEAR</b>	<b>541</b>	<b>541</b>	<b>381</b>
<b>ACCUMULATED SURPLUS, END OF YEAR</b>	<b>\$ 501</b>	<b>\$ 823</b>	<b>\$ 541</b>

The accompanying notes are an integral part of the financial statements



VITAL STATISTICS AGENCY  
AN AGENCY OF THE GOVERNMENT OF MANITOBA

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS (DEBT)  
(in thousands)  
FOR THE YEAR ENDED MARCH 31, 2018

	2018 Budget	2018 Actual	2017 Actual
<b>NET INCOME</b>	\$ (40)	\$ 282	\$ 160
<b>TANGIBLE CAPITAL ASSETS</b>			
Acquisition of tangible capital assets	-	(49)	(29)
Amortization of tangible capital assets	119	96	120
Net acquisition of tangible capital assets	119	47	91
<b>OTHER NON-FINANCIAL ASSETS</b>			
Decrease (increase) in prepaid expenses	-	(102)	21
<b>INCREASE IN NET FINANCIAL ASSETS</b>	79	227	272
<b>NET DEBT, BEGINNING OF YEAR</b>	(11)	(11)	(283)
<b>NET FINANCIAL ASSETS (DEBT), END OF YEAR</b>	\$ 68	\$ 216	\$ (11)

The accompanying notes are an integral part of the financial statements

**VITAL STATISTICS AGENCY**  
**AN AGENCY OF THE GOVERNMENT OF MANITOBA**

**STATEMENT OF CASH FLOWS**  
**(in thousands)**  
**FOR THE YEAR ENDED MARCH 31, 2018**

	2018 Actual	2017 Actual
<b>CASH PROVIDED BY (APPLIED TO):</b>		
<b>OPERATING</b>		
Net income	\$ 282	\$ 160
Amortization of tangible capital assets	96	120
	378	280
Changes in the following:		
Accounts receivable	22	(26)
Inventories for resale	(55)	55
Accounts payable and accruals	48	(288)
Unearned revenue	14	40
Accrued unused vacation entitlements	7	(3)
Employee future benefits	(10)	33
Prepaid expenses	(102)	21
	302	112
<b>CAPITAL</b>		
Acquisition of tangible capital assets	(49)	(29)
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>253</b>	<b>83</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>299</b>	<b>216</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 552</b>	<b>\$ 299</b>
Supplementary information:		
Interest paid	\$ -	\$ -
Interest received	\$ 1	\$ 1

The accompanying notes are an integral part of the financial statements

**VITAL STATISTICS AGENCY**  
**AN AGENCY OF THE GOVERNMENT OF MANITOBA**

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**NOTES TO FINANCIAL STATEMENTS**  
**(in thousands)**  
**MARCH 31, 2018**

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**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 disinterments 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**

The financial statements are prepared in accordance with Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board.

**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.

**VITAL STATISTICS AGENCY  
AN AGENCY OF THE GOVERNMENT OF MANITOBA**

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**NOTES TO FINANCIAL STATEMENTS  
(in thousands)  
MARCH 31, 2018**

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**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, bank indebtedness, 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 cost 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 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.

**VITAL STATISTICS AGENCY**  
**AN AGENCY OF THE GOVERNMENT OF MANITOBA**

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**NOTES TO FINANCIAL STATEMENTS**  
(in thousands)  
**MARCH 31, 2018**

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**Significant Accounting Policies - continued**

**Tangible capital assets**

Tangible capital assets are recorded 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:

	<u>Rate</u>	<u>Method</u>
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. 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 (2017 - \$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.

**VITAL STATISTICS AGENCY**  
**AN AGENCY OF THE GOVERNMENT OF MANITOBA**

**NOTES TO FINANCIAL STATEMENTS**  
(in thousands)  
**MARCH 31, 2018**

**Financial Instruments and Financial Risk Management - continued**

The maximum exposure of the Agency to credit risk at year end is:

	2018	2017
Cash on hand and balances in bank, note 6	\$ 552	\$ 299
Accounts receivable	118	140
Portfolio investments	<u>94</u>	<u>94</u>
	<u>\$ 764</u>	<u>\$ 533</u>

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.

The aging of accounts receivable and allowance for doubtful accounts as of March 31, 2018 was:

	<u>Net</u>	<u>Allowance</u>
Current	\$ 95	\$ -
31-60 days past billing date	11	-
61-90 days past billing date	3	-
Greater than 90 days past the billing date	<u>9</u>	<u>-</u>
Balance, end of the year	<u>\$ 118</u>	<u>\$ -</u>

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

	2018	2017
Balance, beginning of the year	\$ -	\$ 1
Amounts written off	<u>-</u>	<u>(1)</u>
Balance, end of the year	<u>\$ -</u>	<u>\$ -</u>

**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.

**VITAL STATISTICS AGENCY  
AN AGENCY OF THE GOVERNMENT OF MANITOBA**

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**NOTES TO FINANCIAL STATEMENTS  
(in thousands)  
MARCH 31, 2018**

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**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 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.

**5. WAIVER OF FEES**

The Agency charges no fee for services in exchange for services from the following organizations:

- (a) The Manitoba Bureau of Statistics.
- (b) Vital Statistics Offices in other jurisdictions through agreements to exchange information between jurisdictions as it relates to one another's residency or birthplace.

Services provided under the above agreements are valued at \$32 for the year ended March 31, 2018 (2017 - \$32).

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 \$5 for the year ended March 31, 2018 (2017 - \$5).

**VITAL STATISTICS AGENCY**  
**AN AGENCY OF THE GOVERNMENT OF MANITOBA**

**NOTES TO FINANCIAL STATEMENTS**  
(in thousands)  
**MARCH 31, 2018**

**6. CASH AND CASH EQUIVALENTS, AND BANK INDEBTEDNESS**

	2018	2017
Cash on hand and balances in bank less outstanding cheques	\$ 552	\$ 299

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 \$212 limit (2017 - \$212) for working capital advances and a capital supply of \$250 for the Agency. At March 31, 2018 the Agency has accessed working capital advances of \$nil (2017 - \$nil).

**7. ACCOUNTS RECEIVABLE**

	2018	2017
Trade	\$ 118	\$ 140

**8. EMPLOYEE FUTURE BENEFITS**

	2018	2017
Severance benefits	\$ 233	\$ 243
Sick pay benefits	37	37
	\$ 270	\$ 280

**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 2018 was \$127 (2017 - \$154). Under this agreement, the Agency has no further pension liability.



**VITAL STATISTICS AGENCY**  
**AN AGENCY OF THE GOVERNMENT OF MANITOBA**

**NOTES TO FINANCIAL STATEMENTS**  
(in thousands)  
**MARCH 31, 2018**

**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, 2017. 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, 2018 was \$233 (2017 - \$243). The actuarial loss of \$182 (2017 - \$94) 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, 2017 valuation, and in the determination of the March 31, 2018 present value of the accrued severance benefit obligation were:

Annual rate of return	<u>3.80 %</u>
Assumed salary increase rates	
Annual productivity increase	1.00 %
Annual general salary increase	<u>2.75 %</u>
	<u>3.75 %</u>

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

	<b>2018</b>	<b>2017</b>
Balance, beginning of year	\$ 243	\$ 210
Actuarial loss	129	47
Benefits accrued	14	15
Interest on accrued benefits	13	13
Severance paid	(44)	(2)
Accrued benefit liability	355	283
Less: unamortized actuarial losses	(122)	(40)
Severance benefit liability	\$ 233	\$ 243

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

	<b>2018</b>	<b>2017</b>
Interest on obligation	\$ 13	\$ 13
Current period benefit cost	14	15
Amortization of actuarial gain over EARSL	6	6
Total expense related to severance benefits	\$ 33	\$ 34

VITAL STATISTICS AGENCY  
AN AGENCY OF THE GOVERNMENT OF MANITOBA

NOTES TO FINANCIAL STATEMENTS  
(in thousands)  
MARCH 31, 2018

Employee Future Benefits - continued

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.

9. TANGIBLE CAPITAL ASSETS

	2018			
	Opening Balance	Additions/ Transfers	Disposals	Closing Balance
<b>Cost</b>				
Data conversion	\$ 2,580	\$ 9	\$ -	\$ 2,589
Furniture and fixtures	134	-	-	134
Information system	1,619	-	-	1,619
Leasehold improvements	99	-	-	99
National Routing System	448	20	-	468
Office equipment	221	(3)	-	218
Security equipment	75	23	-	98
	5,176	49	-	5,225
<b>Accumulated amortization</b>				
Data conversion	2,299	51	-	2,350
Furniture and fixtures	127	2	-	129
Information system	1,487	27	-	1,514
Leasehold improvements	99	-	-	99
National Routing System	384	16	-	400
Office equipment	217	-	-	217
Security equipment	75	-	-	75
	4,688	96	-	4,784
<b>Net book value</b>	\$ 488	\$ (47)	\$ -	\$ 441

VITAL STATISTICS AGENCY  
AN AGENCY OF THE GOVERNMENT OF MANITOBA

NOTES TO FINANCIAL STATEMENTS  
(in thousands)  
MARCH 31, 2018

Tangible Capital Assets - continued

	2017			
	Opening Balance	Additions/ Transfers	Disposals	Closing Balance
<b>Cost</b>				
Data conversion	\$ 2,555	\$ 25	\$ -	\$ 2,580
Furniture and fixtures	133	1	-	134
Information system	1,619	-	-	1,619
Leasehold improvements	99	-	-	99
National Routing System	448	-	-	448
Office equipment	218	3	-	221
Security equipment	75	-	-	75
	5,147	29	-	5,176
<b>Accumulated amortization</b>				
Data conversion	2,235	64	-	2,299
Furniture and fixtures	125	2	-	127
Information system	1,453	34	-	1,487
Leasehold improvements	99	-	-	99
National Routing System	368	16	-	384
Office equipment	213	4	-	217
Security equipment	75	-	-	75
	4,568	120	-	4,688
<b>Net book value</b>	\$ 579	\$ (91)	\$ -	\$ 488

10. DESIGNATED ASSETS

The Agency has allocated \$94 (2017 - \$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.

11. 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, 2019 are estimated to be \$189 (2018 - \$189).

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 \$140 (2017 - \$120) of its surplus funds to the Province of Manitoba.

**VITAL STATISTICS AGENCY  
AN AGENCY OF THE GOVERNMENT OF MANITOBA**

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**NOTES TO FINANCIAL STATEMENTS  
(in thousands)  
MARCH 31, 2018**

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**13. COMPARATIVE FIGURES**

Certain comparative figures on Schedule 1 have been restated to conform with the classification used in the current year.

VITAL STATISTICS AGENCY  
AN AGENCY OF THE GOVERNMENT OF MANITOBA

Schedule 1

SCHEDULE OF OPERATING EXPENSES  
(in thousands)  
FOR THE YEAR ENDED MARCH 31, 2018

	2018 Budget	2018 Actual	2017 Actual (Note 13)
Accommodation	\$ 189	\$ 190	\$ 189
Central government charges	46	46	43
Computer information system	275	258	248
Digital imaging	26	30	29
Manitoba Gazette charges	25	22	25
Office equipment support	8	6	6
Office supplies	25	22	24
Other operating expenses	55	44	20
Printed material supplies	212	168	212
Professional fees	65	36	41
Security	45	45	-
Telecommunications	53	49	51
Training	8	1	1
Transportation and freight	238	230	237
	\$ 1,270	\$ 1,147	\$ 1,126

**Special Operating Agencies Financing Authority**  
**Non-consolidated Statement of Financial Position**  
**As at March 31, 2018**  
(Unaudited)

	<b>March 31, 2018</b>	<b>March 31, 2017</b>
<b>Financial Assets</b>		
Cash and cash equivalents	\$ 1,130,351	\$ 449,459
<b>Liabilities</b>		
Accounts payable and accruals	5,805	31,129
<b>Accumulated Surplus</b>	<u>\$ 1,124,546</u>	<u>\$ 418,330</u>

**Special Operating Agencies Financing Authority**  
**Non-consolidated Statement of Operations and Accumulated Surplus**  
**For the Year Ended March 31, 2018**  
(Unaudited)

	<b>2018</b>	<b>2017</b>
<b>Revenue</b>		
Transfer from Green Manitoba Eco Solutions	716,118	-
<b>Total revenue</b>	<u>716,118</u>	<u>-</u>
<b>Expense</b>		
Supplies and services	9,902	17,290
<b>Total expense</b>	<u>9,902</u>	<u>17,290</u>
<b>Net income (loss)</b>	706,216	(17,290)
<b>Accumulated surplus, beginning of year</b>	418,330	435,620
<b>Accumulated surplus, end of year</b>	<u>\$ 1,124,546</u>	<u>\$ 418,330</u>

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# Financial Statements of the Université de Saint-Boniface

March 31, 2018

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## **Independent Auditor's Report**

To the Manitoba Legislative Assembly and  
To the Board of Governors of the Université de Saint-Boniface

We have audited the accompanying financial statements of the Université de Saint-Boniface, which comprise the statement of financial position as at March 31, 2018, the statement of operations and changes in fund balances, the statement of remeasurement gains, and the cash flow statement for the year then ended, as well as 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 evidence we have obtained as part of our audit 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 Université de Saint-Boniface as at March 31, 2018 and its activities, remeasurement gains and cash flows for the year then ended, in accordance with Canadian public sector accounting standards.

 S.E.N.C.R.L./s.r.l.

June 26, 2018  
Chartered Professional Accountants  
Winnipeg, Manitoba



# Université de Saint-Boniface

## Statement of

As at March 31, 2018

						2018	2017
	Notes	General Operating Fund	Restricted Funds	Capital Assets Fund	Endowment Fund	Total	Total
		\$	\$	\$	\$	\$	\$
<b>Assets</b>							
Current assets							
Cash		646,383				646,383	1,440,888
Accounts receivable and other assets	3	1,351,137	106,407	155,750		1,613,294	1,113,662
		1,997,520	106,407	155,750		2,259,677	2,554,550
Investments	4	26,333,695			17,914,257	44,247,952	42,091,044
Capital assets	5			27,484,268		27,484,268	26,965,996
Interfund accounts		(19,109,490)	19,651,747	(152,415)	(389,842)	73,991,897	71,611,590
		9,221,725	19,758,154	27,487,603	17,524,415		
<b>Liabilities</b>							
Current liabilities							
Accounts payable and accrued expenses		4,143,626	35,847			4,179,473	4,044,810
Deferred income		395,460				395,460	347,833
Deferred contributions	6	868,222				868,222	1,280,528
		5,407,308	35,847			5,443,155	5,673,171
Commitments	8						
<b>Fund balances</b>							
Unrestricted		2,052,846				2,052,846	2,051,966
Restricted	9		19,722,307			19,722,307	18,116,556
Invested in capital assets				27,487,603		27,487,603	26,965,996
Endowed	10				16,188,123	16,188,123	15,126,619
		2,052,846	19,722,307	27,487,603	16,188,123	65,450,879	62,261,137
<b>Accumulated remeasurement gains</b>		1,761,571			1,336,292	3,097,863	3,677,282
		9,221,725	19,758,154	27,487,603	17,524,415	73,991,897	71,611,590

The notes to the financial statements are an integral part of these statements.

On behalf of the Board of Governors

"Antoine Hacault", Chair

"Gabor Csepregi", President

**Université de Saint-Boniface**  
**Statement of Operations and Changes in Fund Balances**  
For the year ended March 31, 2018

2018					
Notes	General Operating Fund	Restricted Funds	Capital Assets Fund	Endowment Fund	Total
	\$	\$	\$	\$	\$
<b>Revenues</b>					
Grants					
Provincial	17,699,482	—	445,458	—	18,144,940
Federal	3,849,674	490,024	681,098	—	5,020,796
Tuition fees	5,132,391	—	—	—	5,132,391
Investment income	1,741,590	—	—	1,300,723	3,042,313
Other revenue	1,394,193	103,240	—	2,211	1,499,644
Donations	22,575	500,982	—	228,562	752,119
Rental and parking charges	701,378	—	—	—	701,378
	<b>30,541,283</b>	<b>1,094,246</b>	<b>1,126,556</b>	<b>1,531,496</b>	<b>34,293,581</b>
<b>Expenses</b>					
Salaries and benefits	22,676,691	533,871	—	—	23,210,562
Supplies and other expenses	4,524,530	163,805	8,663	151,649	4,848,647
Amortization - capital assets	—	—	1,194,809	—	1,194,809
Travel and conferences	633,119	40,596	—	—	673,715
Utilities	634,184	—	—	—	634,184
Scholarships and awards	11,906	183,739	—	346,277	541,922
	<b>28,480,430</b>	<b>922,011</b>	<b>1,203,472</b>	<b>497,926</b>	<b>31,103,839</b>
Excess (deficiency) of revenues over expenses before transfers	<b>2,060,853</b>	<b>172,235</b>	<b>(76,916)</b>	<b>1,033,570</b>	<b>3,189,742</b>
<b>Transfers</b>					
Interest	(380,959)	380,959	—	—	—
Allocations for future projects	(1,361,518)	1,361,518	—	—	—
Allocations for indirect costs	50,000	(50,000)	—	—	—
Project funding	54,577	(54,577)	—	—	—
Reclassification of restrictions	(50)	(27,884)	—	27,934	—
Purchase/transfer of capital assets	(422,023)	(176,500)	598,523	—	—
	<b>(2,059,973)</b>	<b>1,433,516</b>	<b>598,523</b>	<b>27,934</b>	<b>—</b>
<b>Excess revenues over expenses net of transfers</b>	<b>880</b>	<b>1,605,751</b>	<b>521,607</b>	<b>1,061,504</b>	<b>3,189,742</b>
Fund balance, beginning of year	2,051,966	18,116,556	26,965,996	15,126,619	62,261,137
<b>Fund balance, end of year</b>	<b>2,052,846</b>	<b>19,722,307</b>	<b>27,487,603</b>	<b>16,188,123</b>	<b>65,450,879</b>

The notes to the financial statements are an integral part of these statements.

**Université de Saint-Boniface**
**Statement of Operations and Changes in Fund Balances (cont'd)**

For the year ended March 31, 2018

						2017
Notes	General	Restricted	Capital Assets	Endowment	Total	
	Operating Fund	Funds	Fund	Fund		
	\$	\$	\$	\$	\$	
<b>Revenues</b>						
Grants						
Provincial	17,683,069	—	2,420	—	17,685,489	
Federal	3,782,992	542,195	355,154	—	4,680,341	
Tuition fees	5,249,700	—	—	—	5,249,700	
Investment income	4	1,640,173	—	1,088,059	2,728,232	
Other revenue	1,414,307	55,616	—	2,216	1,472,139	
Donations	20,300	531,094	—	200,760	752,154	
Rental and parking charges	685,348	—	—	—	685,348	
	30,475,889	1,128,905	357,574	1,291,035	33,253,403	
<b>Expenses</b>						
Salaries and benefits	22,963,315	546,112	—	—	23,509,427	
Supplies and other expenses	4,115,988	77,891	—	141,776	4,335,655	
Amortization - capital assets	—	—	1,130,160	—	1,130,160	
Travel and conferences	641,865	63,994	—	—	705,859	
Utilities	576,698	—	—	—	576,698	
Scholarships and awards	58,528	53,850	—	412,135	524,513	
	28,356,394	741,847	1,130,160	553,911	30,782,312	
Excess (deficiency) of revenues over expenses before transfers	2,119,495	387,058	(772,586)	737,124	2,471,091	
<b>Transfers</b>						
Interest	(364,566)	364,566	—	—	—	
Allocations for future projects	(1,473,500)	1,473,500	—	—	—	
Allocations for indirect costs	50,400	(50,400)	—	—	—	
Project funding	(115,009)	115,009	—	—	—	
Reclassification of restrictions	—	(42,944)	—	42,944	—	
Purchase/transfer of capital assets	(210,702)	(1,069,500)	1,280,202	—	—	
	(2,113,377)	790,231	1,280,202	42,944	—	
<b>Excess revenues over expenses net of transfers</b>	6,118	1,177,289	507,616	780,068	2,471,091	
Fund balance, beginning of year	2,045,848	16,939,267	26,458,380	14,346,551	59,790,046	
<b>Fund balance, end of year</b>	2,051,966	18,116,556	26,965,996	15,126,619	62,261,137	

The notes to the financial statements are an integral part of these statements.

**Université de Saint-Boniface**  
**Statement of Remeasurement Gains**  
For the year ended March 31, 2018

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	<b>2018</b>		2017
	<b>General Operating Fund</b>	<b>Endowment Fund</b>	<b>Total</b>
	\$	\$	\$
Accumulated remeasurement gains, beginning of year	<b>2,018,936</b>	<b>1,658,346</b>	<b>3,677,282</b>
Unrealized gains on investment portfolio	<b>712,270</b>	<b>490,018</b>	<b>1,202,288</b>
Net gains realized on investment portfolio, reclassified in the statement of operations	<b>(969,635)</b>	<b>(812,072)</b>	<b>(1,781,707)</b>
Net remeasurement gains (losses)	<b>(257,365)</b>	<b>(322,054)</b>	<b>(579,419)</b>
Accumulated remeasurement gains, end of year	<b>1,761,571</b>	<b>1,336,292</b>	<b>3,097,863</b>

The notes to the financial statements are an integral part of these statements.

**Université de Saint-Boniface**  
**Cash Flow Statement**  
For the year ended March 31, 2018

	2018	2017
	\$	\$
<b>Operating Activities</b>		
Excess revenues over expenses before transfers	3,189,742	2,471,091
Items not affecting cash flow		
Amortization - capital assets	1,194,809	1,130,160
Deferred contributions reported as revenue	(1,337,695)	(776,872)
Capital loss	8,663	—
	3,055,519	2,824,379
Changes in non-cash working capital items		
Accounts receivable and other assets	(499,632)	162,066
Accounts payable and accrued expenses	134,663	34,011
Deferred income	47,627	37,348
	2,738,177	3,057,804
<b>Investing Activities</b>		
Net increase in investments	(2,736,327)	(2,445,354)
Purchase of capital assets	(1,725,078)	(1,637,776)
Sale of capital assets	3,334	—
	(4,458,071)	(4,083,130)
<b>Financing activities</b>		
Deferred contributions – monies received	925,389	1,289,900
(Decrease)/increase in cash	(794,505)	264,574
Cash, beginning of year	1,440,888	1,176,314
<b>Cash, end of year</b>	<b>646,383</b>	<b>1,440,888</b>

The notes to the financial statements are an integral part of these statements.

## **1. Summary of Activities and Significant Accounting Policies**

### *Authority and Objectives*

The Université de Saint-Boniface (USB) was incorporated in the Province of Manitoba in 1871. It is governed by its Board of Governors under the authority of The Université de Saint-Boniface Act (C.C.S.M., c. U150).

The USB is a registered charity and is therefore exempt from the payment of income tax, pursuant to section 149 of the Income Tax Act.

The USB's capital is comprised of the following funds: unrestricted, restricted, capital asset investment and endowment. There have been no changes in what the USB considers to be its capital since the previous year.

The USB's objectives are to meet the educational needs of the Francophone community and to promote their linguistic, cultural, economic and social well-being. In order to achieve these objectives, the USB provides a broad range of French-language opportunities in the areas of education and research.

The USB manages its capital in order to maintain adequate resources to meet its objectives. The USB also maintains adequate resources to meet its obligations such as general and administrative expenses, major repairs and the purchase of necessary capital assets.

### *Fund Accounting*

These financial statements have been prepared in accordance with Canadian public sector accounting standards with the component of accounting standards applicable to non-profit organizations as prescribed by the Public Sector Accounting Board (Chapter PS 4200).

The USB has adopted the fund accounting method and the restricted fund method of recognizing contributions.

The USB has four main funds: the General Operating Fund, the Restricted Funds, the Capital Assets Fund and the Endowment Fund.

#### *General Operating Fund*

The General Operating Fund accounts for program delivery and administrative activities. This fund reports unrestricted resources and restricted operating grants. It includes the following operations and activities:

- University sector
- College sector
- Continuing education
- Support services, which include, among other things, administrative, financial and IT operations and student services.

**1. Summary of Significant Accounting Policies (cont'd)**

*Fund Accounting (cont'd)*

*Restricted Funds*

The Restricted Funds include the internally and externally restricted funds and the Research Fund. The Internally Restricted Fund is made up of monies set aside by the Board of Governors for various future needs. The Externally Restricted Fund is subject to restrictions set by a donor or third party. The Research Fund accounts for the carrying out of projects and research-related activities.

*Capital Assets Fund*

The Capital Assets Fund reports USB equity that is not available for other purposes because it has been invested in capital assets.

*Endowment Fund*

The Endowment Fund is comprised of money or securities received by way of bequest, endowment or donation, the capital of which is to be maintained at its original amount, as per the donor's or testator's instructions.

*Revenue Recognition*

Restricted contributions related to general operations are recognized as revenue of the General Operating Fund in the year in which the related expenses are incurred, or the project or activity is completed. Restricted contributions paid to the Capital Assets Fund, the Restricted Funds and the Endowment Fund are recognized as revenue in the year in which they are received.

Unrestricted contributions are recognized as revenue of the General Operating Fund in the year they are received.

Funding agreements entered into, in the form of promissory notes, with the Manitoba Department of Finance for the construction or acquisition of capital assets are recorded as capital asset grants. These notes will be reimbursed using future funding received from Manitoba Education and Training. Future funding received from the Department in connection with the promissory notes to cover interest and principal payments is not included in the statement of operations and changes in fund balances.

Capital asset grants are recognized as revenue in the statement of operations and changes in fund balances in accordance with the restricted fund method of accounting.

Contributions for endowment are recognized as revenue in the Endowment Fund. Given that it is restricted, investment income earned on Endowment Fund resources is recognized as revenue of the Endowment Fund.

**1. Summary of Significant Accounting Policies (cont'd)**

*Financial Instruments*

The USB records its financial instruments at fair value or at the amortized cost.

*Fair Value*

This category includes cash, derivative instruments, and investments in equity instruments listed on active markets. The USB has chosen to record these financial instruments at fair value.

They are initially recorded at cost upon purchase and then held at fair value. Unrealized gains and losses on fair value are recorded on the statement of remeasurement gains until they are realized. When they are realized, they are transferred to, and recorded on, the statement of operations and changes in fund balances.

Transaction costs related to financial instruments recorded at fair value are reported as expenses when incurred.

When a decrease in fair value is determined to be more than temporary, the amount of the loss is deducted from the accumulated remeasurement gains and losses and reported on the statement of operations and changes in fund balances. When the financial instrument is sold, the amount accumulated in the accumulated remeasurement gains and losses with regard to this instrument is transferred from the net assets and reported on the statement of operations and changes in fund balances.

During the fiscal year, the USB did not acquire any derivative products, whether as instruments to mitigate foreign exchange or interest rate risk or to manage foreign exchange positions.

*Amortized Cost*

This category includes accounts receivable, accounts payable and accrued expenses.

These assets are initially recorded at cost then held at the amortized cost calculated on the basis of the effective interest rate method less a deduction for their loss in value.

The decrease in value of the financial instruments reported at the amortized cost is recorded when the amount of the loss is known with sufficient accuracy and there is no realistic likelihood of recovery. The financial instruments are then adjusted at their net recoverable value and the decreased value is reported on the statement of operations and changes in fund balances.

*Inventories*

Purchases of supplies are expensed in the year of acquisition and the value of inventories is not recorded at year-end as it is considered negligible. The USB contracts out food services and does not operate a bookstore.



**1. Summary of Significant Accounting Policies (cont'd)**

*Capital Assets*

Purchased capital assets are recorded at cost less accumulated amortization. Donated capital assets are recorded at fair market value at the date of donation. Amortization is provided on a straight-line basis over the assets' estimated useful lives, which are as follows:

Buildings and improvements	25-60 years
Parking lot	20 years
Equipment, furniture and furnishings	10 years
Computer equipment	5 years

Amortization is reported in the Capital Assets Fund.

Library acquisitions (books, periodicals, digital video, compact disks, etc.) are catalogued and expensed in the year of acquisition. The rare-book collection, most of which is donated, is inventoried and insured, but its contents are not recorded or amortized as capital assets. No estimate of the value of this collection is available.

*Artwork*

Artwork is reported as equipment and furnishings at fair market value if it is possible to provide a reasonable estimate thereof. Artwork is not amortized. The value of artwork as at March 31, 2018 was \$263,000 (\$144,000 as at March 31, 2017).

*Volunteer Services*

Volunteers contribute hundreds of hours per year to assist USB programs and activities. As it cannot be reasonably estimated, the value of these contributions is not reported in the financial statements.

*Use of Estimates*

Under the Canadian public sector accounting standards, the preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the year. In particular, estimates were made to determine the fair value of investments, liabilities related to paid leave, the duration of the useful life of capital assets and the allowance for doubtful accounts. Actual results could differ from the best estimates made by management, as additional information becomes available.

*Employee Pension Plan*

The USB provides its employees with a defined contribution pension plan. The USB's contributions to the plan are recorded as expenses in the year of contribution.

**1. Summary of Significant Accounting Policies (cont'd)**

*New Accounting Pronouncements*

As of April 1, 2012, the USB chose to adopt the Canadian public sector accounting standards with the option of chapters PS 4200 to 4270 for Canadian not-for-profit organizations (PSA Standards for GNFPOs).

Starting on April 1, 2019, the Province of Manitoba is requiring not-for-profit organizations in the public sector to follow the Canadian accounting standards for the public sector without applying chapters PS 4200 to 4270. This change will take effect for the period ending March 31, 2020. Management is currently assessing the impact of this change on the USB's financial statements.

**2. Line of Credit**

The USB has a line of credit to a maximum of \$3,000,000 bearing interest at the financial institution's prime rate of 3.70 % as at March 31, 2018 (3.05% as at March 31, 2017) plus 0.25%. The line of credit is guaranteed by a first ranking general security agreement over USB assets, not including capital assets. The USB was not using this line of credit as at March 31, 2018, or March 31, 2017.

**3. Accounts Receivable and Other Assets**

	<b>2018</b>	2017
	\$	\$
Federal government	<b>589,071</b>	528,275
Provincial government	<b>141,000</b>	88,500
Tuition fees	<b>85,866</b>	121,407
Contracts and other	<b>549,181</b>	313,559
Allowance for doubtful accounts	<b>(77,514)</b>	(96,167)
	<b>1,287,604</b>	955,574
Prepaid expenses	<b>325,690</b>	158,088
	<b>1,613,294</b>	1,113,662

**4. Investments**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Cash and money market	<b>827,136</b>	1,482,154
Fixed income securities	<b>17,568,320</b>	18,723,368
Canadian shares	<b>5,834,544</b>	7,859,916
Foreign shares – US	<b>6,980,376</b>	4,725,456
Other foreign shares	<b>11,805,696</b>	8,038,958
Alternate investments	<b>1,231,880</b>	1,261,192
	<b>44,247,952</b>	42,091,044

The fixed income securities bear interest ranging from 1.90% to 6.63% (1.90% to 6.63% in 2017) and mature between June 2019 and June 2108 (March 2018 and June 2108 in 2017).

Although the USB has investments maturing in less than a year, management intends to immediately reinvest these funds. For this reason, the investments are all categorized as long-term.

Investment income is made up of interest, dividends and net realized gains, as shown below:

	<b>2018</b>		<b>2017</b>
	<b>General Operating Fund</b>	<b>Endowment Fund</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Interest	<b>313,276</b>	<b>177,382</b>	<b>490,658</b>
Dividends	<b>458,679</b>	<b>311,267</b>	<b>769,946</b>
Net realized gains	<b>969,635</b>	<b>812,074</b>	<b>1,781,709</b>
	<b>1,741,590</b>	<b>1,300,723</b>	<b>3,042,313</b>

**5. Capital Assets**

	Land	Buildings and improvements	Parking lot	Equipment, furniture and furnishings	Computer equipment	Total
	\$	\$	\$	\$	\$	\$
Cost						
Balance, beginning of year	480,330	34,888,447	952,389	7,597,011	3,100,841	47,019,018
Additions: purchases	—	1,173,532	—	463,546	88,000	1,725,078
Less: outflows	—	—	—	(55,717)	—	(55,717)
Balance, end of year	480,330	36,061,979	952,389	8,004,840	3,188,841	48,688,379
Accumulated amortization						
Balance, beginning of year	—	10,925,656	374,067	6,073,057	2,680,242	20,053,022
Additions : amortization	—	627,336	47,619	325,102	194,752	1,194,809
Less: sale or disposition	—	—	—	(43,720)	—	(43,720)
Balance, end of year	—	11,552,992	421,686	6,354,439	2,874,994	21,204,111
Net book value as at March 31, 2018	480,330	24,508,987	530,703	1,650,401	313,847	27,484,268
Net book value as at March 31, 2017	480,330	23,962,791	578,322	1,523,954	420,599	26,965,996

## **6. Deferred Contributions**

Deferred contributions represent unspent grants received for specific projects and activities. Changes in the deferred contributions are as follows:

	<b>2018</b>	2017
	\$	\$
Balance, beginning of year	<b>1,280,528</b>	767,500
Contributions received	<b>925,389</b>	1,289,900
Transfers to revenue	<b>(1,337,695)</b>	(776,872)
Net change	<b>(412,306)</b>	513,028
Balance, end of year	<b>868,222</b>	1,280,528

## **7. Employee Benefits, Paid Leave and Pension Plan Obligations**

### *Benefits*

Obligations related to future benefits other than pension pertain to the medical, dental and life insurance and disability plans made available to staff. These plans are funded through premiums paid to private insurers by the USB and its staff.

### *Paid Leave: Accrued Sick Leave*

The USB has a self-insured short-term disability plan and meets these costs as being related to leave due to illness or accident. The USB allocates to certain groups of employees a specific number of days each year in leave for illness or injury, however these days are not funded from the outset. Employees can accumulate sick leave not used during the year to the maximum authorized in the collective agreement or employment contract. Accrued sick days can be used in future years provided that the convalescence period does not exceed the number of sick days accumulated by the employee to a maximum of 180 days. Sick days are paid at the salary in effect when they are taken. Obligations related to accrued sick days are estimated by the USB based on past use and are recorded under accounts payable and accrued expenses.

### *Paid Leave: Other*

Faculty study and sabbatical leaves are expensed in the year taken.

Annual staff vacation and administrative leave are expensed when owed.

### *Employee Pension Plan*

The USB provides its employees with a defined contribution pension plan (the "Plan") to which employees contribute. The USB's only responsibility in this regard is to pay its contributions, and it assumes no liability with respect to the investment performance of the Plan.

## **7. Employee Benefit, Paid Leave and Pension Plan Obligations (cont'd)**

### *Employee Pension Plan (cont'd)*

The Plan meets the requirements of the The Pension Benefits Act of Manitoba and the Income Tax Act as well as the related regulations. The pension committee is responsible for managing the Plan. The committee is made up of three voting members elected by the Plan members or appointed by the union, as the case may be. The USB appoints four voting representatives, one of whom is the Vice-President for Administration and Finance. The committee also includes one non-voting member elected or appointed to represent the Plan members.

The financial statements of the Plan are separate from the financial statements of the USB.

The net assets available for the benefits of the Plan as at December 31, the end of its fiscal year, evolved as follows:

	<b>As at December 31</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Net assets available for benefits at beginning of year	<b>27,062,333</b>	26,633,446
Membership fees		
Employer	<b>1,359,317</b>	1,377,671
Members	<b>1,359,317</b>	1,377,671
Other	<b>51,764</b>	41,819
Net investment income	<b>2,484,047</b>	1,528,130
Benefits paid	<b>(2,015,684)</b>	(3,896,404)
	<b>3,238,761</b>	428,887
Net assets available for benefits, end of year	<b>30,301,094</b>	27,062,333

Employer contributions for the period ended March 31, 2018 were \$1,370,585 (\$1,364,571 in 2017) and are recorded as expenses on the statement of operations and changes in fund balances.

## **8. Commitments**

### *Equipment Rental and Maintenance Contracts*

The USB has lease obligations that cover equipment and services integral to operations. The lease obligations expire at various dates over the next five years. These lease contracts require annual payments of less than \$300,000.

### *Self-insurance*

The USB is a member of the Canadian Universities Reciprocal Insurance Exchange (CURIE), a self-insurance co-operative comprised of more than 60 Canadian universities and colleges. CURIE insures against property damage, general liability and errors and omissions risks. If premiums and accumulated reserves are insufficient to cover expenses and claims, the USB may be required to pay additional amounts.

**9. Restricted Fund Balances**

a) Breakdown of Restricted Fund Balances

				2018
	Internally Restricted	Externally Restricted	Research	Total
	\$ (Note 9 b)	\$ (Note 9 c)	\$ (Note 9 d)	\$
Revenues				
Federal grants	—	—	490,024	490,024
Other revenue	—	—	103,240	103,240
Donations	—	500,982	—	500,982
	—	500,982	593,264	1,094,246
Expenses				
Salaries and benefits	—	—	533,871	533,871
Supplies and other expenses	—	350	163,455	163,805
Travel and conferences	—	—	40,596	40,596
Scholarships and awards	—	183,739	—	183,739
	—	184,089	737,922	922,011
Excess (deficiency) of revenues over expenses before transfers	—	316,893	(144,658)	172,235
Transfers				
Interest	380,959	—	—	380,959
Allocations for future projects	1,361,518	—	—	1,361,518
Allocations for indirect costs	—	—	(50,000)	(50,000)
Project funding	(172,500)	(9,005)	126,928	(54,577)
Reclassification of restrictions	—	(27,884)	—	(27,884)
Purchase/transfer of capital assets	(176,500)	—	—	(176,500)
	1,393,477	(36,889)	76,928	1,433,516
Excess (deficiency) of revenues over expenses, net of transfers	1,393,477	280,004	(67,730)	1,605,751
Fund balance, beginning of year	16,303,760	1,305,472	507,324	18,116,556
Fund balance, end of year	17,697,237	1,585,476	439,594	19,722,307

**9. Restricted Fund Balances (cont'd)**

a) Breakdown of Restricted Fund Balances (cont'd)

				2017
	Internally restricted funds	Externally restricted funds	Research	Total
	\$ (Note 9 b)	\$ (Note 9 c)	\$ (Note 9 d)	\$
Revenues				
Federal grants	—	—	542,195	542,195
Other revenue	—	—	55,616	55,616
Donations	—	531,094	—	531,094
	—	531,094	597,811	1,128,905
Expenses				
Salaries and benefits	—	—	546,112	546,112
Supplies and other expenses	—	—	77,891	77,891
Travel and conferences	—	—	63,994	63,994
Scholarships and awards	—	53,850	—	53,850
	—	53,850	687,997	741,847
Excess (deficiency) of revenues over expenses before transfers	—	477,244	(90,186)	387,058
Transfers				
Interest	364,566	—	—	364,566
Allocations for future projects	1,473,500	—	—	1,473,500
Allocations for indirect costs	—	—	(50,400)	(50,400)
Project funding	—	(50,000)	165,009	115,009
Reclassification of restrictions	—	(42,944)	—	(42,944)
Purchase/transfer of capital assets	(1,069,500)	—	—	(1,069,500)
	768,566	(92,944)	114,609	790,231
Excess revenues over expenses net of transfers	768,566	384,300	24,423	1,177,289
Fund balance, beginning of year	15,535,194	921,172	482,901	16,939,267
Fund balance, end of year	16,303,760	1,305,472	507,324	18,116,556



**9. Restricted Fund Balances (cont'd)**

b) Internally Restricted Fund

						2018	2017
	Scholarships and awards	Future campaigns/ donation matching	Strategic projects	Major capital projects	Transition funding for programs and services	Total	Total
	\$	\$	\$	\$	\$	\$	\$
Excess revenues over expenses before transfers	—	—	—	—	—	—	—
Transfers							
Interest	66,026	22,159	30,182	198,388	64,204	380,959	364,566
Allocations for future projects	—	—	—	1,281,518	80,000	1,361,518	1,473,500
Project funding	—	—	—	(172,500)	—	(172,500)	—
Purchase/transfer of capital assets	—	—	—	(176,500)	—	(176,500)	(1,069,500)
Excess revenues over expenses net of transfers	66,026	22,159	30,182	1,130,906	144,204	1,393,477	768,566
Balance, beginning of year	3,001,181	1,007,213	1,371,890	8,085,102	2,838,374	16,303,760	15,535,194
Balance, end of year	3,067,207	1,029,372	1,402,072	9,216,008	2,982,578	17,697,237	16,303,760

**9. Restricted Fund Balances (cont'd)**

b) Internally Restricted Fund (cont'd)

The Internally Restricted Fund is made up of monies which the Board of Governors designated for this purpose. It consists of provisions established for various needs, situations and events both known and unknown.

A Board policy governs the process for establishing, increasing and cancelling such provisions and for withdrawing monies from these provisions. In accordance with the current policy, internally restricted funds bear interest at the consumer price index rate of 2.2% (2.3% in 2017). This measure is to protect the funds from inflation.

The Internally Restricted Fund primarily includes the following types of assets:

**Scholarships and Awards** – Investment income on the balance of this fund is available to enhance the annual budgetary allocation to student awards derived from the Externally Restricted Fund, the Endowment Fund and annual donations and grants.

**Future Fundraising Campaigns/Donation Matching** - Funds set aside to supplement, as required, resources available for the purpose of organizing a major fundraising campaign and for the donation- and contributions-matching program.

**Strategic Projects** – These funds are used to make up the difference between the amounts needed and the resources available to complete projects or to undertake short-term strategic projects. Project categories include but are not limited to the following:

- i) Research: funds available to supplement the General Operating Fund for research projects carried out by professors;
- ii) Library: funds available to supplement the General Operating Fund to purchase teaching and research materials;
- iii) Recruitment, marketing, student support, language support, safety and other operating projects: funds available to supplement basic needs on a case-by-case basis when available resources are insufficient.

**Major Capital Projects** – Funds available to carry out preliminary phases of expansion projects at the USB, to cover a portion of capital costs for projects or to acquire additional capital assets.

**Transition Funding for Programs and Services** – Funds available to maintain, over the short term, programs or services affected by a decrease in government funding or a partial or total withdrawal of funding.

c) Externally Restricted Fund

The Externally Restricted Fund includes donations subject to restrictions stipulated by the donor as to their use, but for which the capital need not be maintained in perpetuity. This fund records the donations received for infrastructure projects, research projects or other defined objectives.

As part of its fiduciary responsibilities, the USB ensures that all donations received subject to restrictions are expended for the purpose for which they were provided.

## **9. Restricted Fund Balances (cont'd)**

### **d) Research Fund**

The Research Fund consists of grants for research activities. Grants are received primarily from the federal government, but also from other public sources.

In accordance with conditions set out under funding agreements, the USB ensures that all grants subject to restrictions are used for the purpose for which they were provided.

## **10. Endowment Fund**

The Endowment Fund includes, among others, funds from families, foundations and corporations. It includes externally restricted donations, the principal of which must be maintained in perpetuity. The investment income generated from the endowments must be used in accordance with the various purposes intended by the donors, such as student scholarships and awards. The USB established a policy with the objective of protecting the real value of these endowments by limiting the amounts of income available for spending and requiring the re-investment of a certain amount of the earned income. The amount added for capital protection may vary from year to year depending on the fluctuations of annual returns on investments, but the long-term goal is that the amount will compensate for the cumulative effect of inflation.

As part of its fiduciary responsibilities, the USB ensures that all donations received subject to restrictions are expended for the purpose for which they were provided.

## **11. Financial Instruments**

	<b>Fair value</b>	<b>Amortized cost</b>	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash	<b>646,383</b>	—	<b>646,383</b>	1,440,888
Accounts receivable	—	<b>1,287,604</b>	<b>1,287,604</b>	955,574
Investments	<b>44,247,952</b>	—	<b>44,247,952</b>	42,091,044
Accounts payable and accrued expenses	—	<b>(4,179,473)</b>	<b>(4,179,473)</b>	(4,044,810)
	<b>44,894,335</b>	<b>(2,891,869)</b>	<b>42,002,466</b>	40,442,696

### *Fair Value Hierarchy*

The following table provides an analysis of the financial instruments assessed following their initial recording at fair value, based on how the fair value can be observed:

- Level 1: Prices (not adjusted) listed on active markets for identical assets or liabilities.
- Level 2: Data other than the listed prices referred to in Level 1 that are observable for assets or liabilities, directly (i.e. prices) or indirectly (i.e. price derivatives);
- Level 3: Data related to assets or liabilities that are not based on observable market data (unobservable data).

## **11. Financial Instruments (cont'd)**

### *Fair Value Hierarchy (cont'd)*

The fair value hierarchy requires the use of observable market data whenever such data exists. Financial instruments are classified at the lowest level for which significant data has been taken into account in assessing fair value.

The financial instruments recorded at fair value in the statement of financial positions are based on the following hierarchy:

				2018
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	646,383	—	—	646,383
Investments	20,201,312	24,046,640	—	44,247,952
	20,847,695	24,046,640	—	44,894,335
				2017
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	1,440,888	—	—	1,440,888
Investments	22,106,484	19,984,560	—	42,091,044
	23,547,372	19,984,560	—	43,531,932

### *Investment Policy*

In the course of its normal operations, the USB is exposed to various risks including credit, market and foreign exchange risk. The USB's goal with respect to risk management is to optimize the risk-return ratio within defined limits, by applying management and risk management strategies, policies and processes that are integrated into all its activities.

### *Credit Risk*

Credit risk relates to the potential exposure that the other party to a financial instrument will fail to discharge an obligation and cause the USB to incur a financial loss. The USB is primarily exposed to credit risk from cash, investments and accounts receivable. The book value of the financial assets on the statement of financial position represents the maximum credit risk on the statement date.

The cash-related credit risk is considered negligible as the deposit accounts are held with recognized financial institutions that have a good external credit rating.

The credit risk related to Accounts Receivable – Grants is considered negligible as the monies are receivable from the provincial and federal governments.

## **11. Financial Instruments (cont'd)**

### *Credit Risk (cont'd)*

The credit risk related to Accounts Receivable – Tuition and Other is limited, as the monies come from a large client base and payment is typically made in full when due. The USB has established an allowance for doubtful accounts that represents its assessment of potential credit losses. The amount of this allowance is established based on management's assessments and assumptions regarding current market conditions, client analysis and historical trends in payment.

Concentration of investment risks exists when a significant proportion of the portfolio is invested in securities with similar characteristics or subject to similar economic, political or other conditions. The USB's statement of investment policy and procedures, which is reviewed annually, defines permitted investments and provides guidelines and restrictions on acceptable investments, which minimizes credit risk. The USB monitors the financial health of its investments on an ongoing basis with the assistance of its finance and audit committee, investment sub-committee and investment advisors.

As at March 31, the ageing of accounts receivable is as follows:

	<b>2018</b>	2017
	<b>\$</b>	\$
Current	<b>762,191</b>	356,428
30–59 days	<b>3,194</b>	226
60–89 days	<b>246,046</b>	256,625
90 days and over	<b>349,242</b>	438,462
	<b>1,360,673</b>	1,051,741

### *Market Risk*

Market risk is the risk of variation in the fair value of financial instruments resulting from fluctuations in the parameters affecting their value, particularly interest rate, exchange rate and volatility.

### *Interest Rate Risk*

Interest rate risk arises from the possibility that changes in interest rates will affect cash flows or the fair value of financial instruments. The USB is exposed to this risk when it invests in interest-bearing financial instruments. Investments are thus exposed to the risk that their fair value will fluctuate in accordance with changes in market interest rates.

# **11. Financial Instruments (cont'd)**

## *Interest Rate Risk (cont'd)*

The following table shows the USB's exposure to interest-rate risk associated with investments recorded at fair value, classified by maturity date.

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Under 90 days	<b>88,178</b>	119,100
90 days-1 year	<b>—</b>	784,025
1-5 years	<b>2,723,475</b>	3,024,055
5-10 years	<b>3,425,585</b>	3,999,242
Over 10 years	<b>3,709,766</b>	5,036,934
No maturity date	<b>7,621,316</b>	5,760,012
	<b>17,568,320</b>	18,723,368
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Investments associated with an interest rate	<b>17,568,320</b>	18,723,368
Investments not associated with an interest rate	<b>26,679,632</b>	23,367,676
	<b>44,247,952</b>	42,091,044

As at March 31, 2018, with all other variables being constant, a 0.50% fluctuation in the interest rate would have had an estimated impact on the fair value of fixed income instruments of \$386,000 (\$515,000 as at March 31, 2017).

## *Foreign exchange risk*

Fluctuations in the value of the Canadian dollar relative to foreign currencies affect the value, in Canadian dollars, of all marketable securities held by the USB. As at March 31, 2018, the USB is exposed to foreign exchange risk due to the cash denominated in US dollars, and the investments in US dollars (see investment details in note 4). All other variables remaining constant, if the Canadian dollar had appreciated or depreciated by 1% relative to the US dollar, the respective increase or decrease in the fair value of assets would have been approximately \$91,050 (\$80,941 as at March 31, 2017). Actual results may differ from this sensitivity analysis.

**11. Financial Instruments (cont'd)**

*Other Price Risk*

Other price risk represents the potential loss caused by a change in the fair value of the financial instruments. The USB's investments are subject to normal market fluctuation and the inherent risks of investing in the markets.

The USB is exposed to other price risk by reason of the securities in its investment portfolio, given that price changes in the market would entail changes in the fair value of those instruments.

The majority of investments are long-term investments to support the General Operating Fund, the Restricted Funds and the Endowment Fund. These investments consist mainly in shares, bonds, and money market instruments and are thus by nature exposed to other price risk.

The USB manages its other price risk by means of its investment policy, which sets out the guidelines and restrictions for each category of eligible investments, with a view to reducing risk while obtaining long-term performance that meets its needs.

*Liquidity Risk*

Liquidity risk is the risk that the USB be unable to honour its cash flow obligations when due. The USB reduces this risk by managing its operations and monitoring expected cash outflows through its budgeting process, and by maintaining investments that can be converted into cash in the event of an unexpected cash outflow.

The following table presents a schedule of payment dates for undiscounted contractual cash flow obligations related to financial liabilities:

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
0-12 months	<b>3,650,391</b>	3,520,697
1-5 years	<b>529,082</b>	524,113
Over 5 years	<b>—</b>	<b>—</b>
	<b>4,179,473</b>	4,044,810

**Université de Saint-Boniface****Notes to Financial Statements**March 31, 2018

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**12. Related-Party Transactions**

The Centre d'apprentissage et de garde d'enfants de Saint-Boniface inc. (the "Centre") is an not-for-profit organization created to promote education by establishing and operating a learning centre and establishing and providing child care services. The USB currently has the capacity to dictate the Centre's operating, investment and financing activities. The Centre is controlled by the USB, but not consolidated into its financial statements.

The only financial transaction the Centre has made since it was created is to receive conditional provincial funding of \$900,000 in trust.

The Centre's financial statement as at March 31, 2018 is as follows:

	<b>2018</b>	2017
	\$	\$
Current assets	<b>900,000</b>	—
Current liabilities	<b>900,000</b>	—
Fund balance	—	—
	<b>900,000</b>	—

**13. Contractual entitlements**

The USB entered into a lease agreement for the rental of certain offices and rooms. The rental income amounts to \$9,933 a month, and the lease expires on July 31, 2019, with an option to renew for a five-year term ending in July 31, 2024.



# **FINANCIAL STATEMENTS**

**March 31, 2018**

P.O. BOX 3000  
THE PAS, MANITOBA, CANADA, R9A 1M7  
(204) 627-8500  
[www.ucn.ca](http://www.ucn.ca)





## STATEMENT OF RESPONSIBILITY

The accompanying financial statements are the responsibility of the management of University College of the North and have been prepared in accordance with Canadian public sector accounting standards for government not-for-profit organizations, including the 4200 series of standards, as issued by the Public Sector Accounting Board of The Chartered Professional Accountants of Canada.

In carrying out its responsibilities, management maintains appropriate systems of internal and administrative controls designed to provide reasonable assurance that transactions are executed in accordance with proper authorization, that assets are properly accounted for and safeguarded, and that financial information produced is relevant and reliable.

The Governing Council of University College of the North met with management and external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the financial statements.

The Office of the Auditor General as University College of the North's appointed external auditors, have audited the financial statements. The Auditors report is addressed to the Lieutenant Governor in Council, the Legislative Assembly of Manitoba and the Governing Council of the University College of the North and appears on the following page. 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 to obtain reasonable assurance that the financial statements are free of material misstatement and present fairly the financial position and results of University College of the North in accordance with Canadian public sector accounting standards for government not-for-profit organizations, including the 4200 series of standards.

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Cam Mateika  
Chair, UCN Governing Council



## 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, 2018, 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 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 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, 2018, and the results of its operations, changes in fund balances, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

*Office of the Auditor General*

Office of the Auditor General  
August 23, 2018  
Winnipeg, Manitoba



# UNIVERSITY COLLEGE OF THE NORTH

STATEMENT 1

## STATEMENT OF FINANCIAL POSITION

MARCH 31

	GENERAL FUND	CAPITAL CAMPAIGN FUND	STUDENT AWARD FUND	ENDOWMENT FUND	MARCH 31, 2018	MARCH 31, 2017
<b>ASSETS</b>						
<b>CURRENT</b>						
Cash and cash equivalents	\$ 11,221,882	\$	\$ 181,870	\$	\$ 11,403,752	\$ 11,344,060
Short-term investments (Note 4)				1,075,802	1,075,802	1,071,783
Accounts receivable (Note 5)	3,247,045		55,118		3,302,163	4,045,928
Due from Province of Manitoba (Note 7)	752,589				752,589	752,589
Inventory	267,205				267,205	248,591
Due from other funds	5,913		50,000	100,000	155,913	
Prepaid expenses	811,222				811,222	1,010,210
	<u>16,305,856</u>		<u>286,988</u>	<u>1,175,802</u>	<u>17,768,646</u>	<u>18,473,161</u>
<b>LONG TERM</b>						
Prepaid expenses	446,137				446,137	518,582
Capital assets (Note 6)	20,258,536				20,258,536	20,147,849
Due from Province of Manitoba (Note 7)	793,500				793,500	793,500
	<u>21,498,173</u>				<u>21,498,173</u>	<u>21,459,931</u>
	<u>\$ 37,804,029</u>	<u>\$</u>	<u>\$ 286,988</u>	<u>\$ 1,175,802</u>	<u>\$ 39,266,819</u>	<u>\$ 39,933,092</u>
<b>LIABILITIES</b>						
<b>CURRENT</b>						
Accounts payable and accrued liabilities (Note 8)	\$ 2,953,095	\$	\$ 900	\$	\$ 2,953,995	\$ 3,322,071
Accrued vacation benefits	3,273,559				3,273,559	3,064,121
Due to other funds	50,000		105,913		155,913	
Deferred revenue	660,434				660,434	986,613
Deferred contributions (Note 9)	3,113,901				3,113,901	4,833,233
Current portion on long term debt (Note 10)	59,994				59,994	57,790
	<u>10,110,983</u>		<u>106,813</u>		<u>10,217,796</u>	<u>12,263,828</u>
<b>LONG TERM</b>						
Deferred revenue	446,137				446,137	518,582
Deferred contributions related to capital assets (Note 11)	10,592,233				10,592,233	10,139,914
Accrued severance benefits (Note 12)	3,984,115				3,984,115	3,651,700
Long term debt (Note 10)	1,023,605				1,023,605	1,083,599
	<u>16,046,090</u>				<u>16,046,090</u>	<u>15,393,795</u>
<b>FUND BALANCES</b>						
NET ASSETS INVESTED IN CAPITAL ASSETS	8,628,343				8,628,343	8,893,028
NET ASSETS RESTRICTED FOR FUND PURPOSES			180,175	1,175,802	1,355,977	1,358,936
NET ASSETS INTERNALLY RESTRICTED (Note 15)	2,256,633				2,256,633	2,133,198
UNRESTRICTED NET ASSETS	<u>761,980</u>				<u>761,980</u>	<u>(109,693)</u>
	<u>11,646,956</u>	<u>-</u>	<u>180,175</u>	<u>1,175,802</u>	<u>13,002,933</u>	<u>12,275,469</u>
	<u>\$ 37,804,029</u>	<u>\$ -</u>	<u>\$ 286,988</u>	<u>\$ 1,175,802</u>	<u>\$ 39,266,819</u>	<u>\$ 39,933,092</u>

Approved by the Governing Council

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# UNIVERSITY COLLEGE OF THE NORTH

STATEMENT 2

## STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31

	GENERAL FUND	CAPITAL CAMPAIGN FUND	STUDENT AWARD FUND	ENDOWMENT FUND	MARCH 31, 2018	MARCH 31, 2017
REVENUES						
Grants						
Post-Secondary Education	\$ 35,880,946	\$	\$	\$	\$ 35,880,946	\$ 36,363,185
Other Province of Manitoba	538,038				538,038	698,190
Government of Canada	52,365				52,365	95,912
Amortization of deferred contributions related to capital assets	1,002,108				1,002,108	943,580
Ancillary sales and services	2,780,298				2,780,298	2,902,666
Donations		425	58,531	104,019	162,975	235,512
Investment income	149,316	1,367	10,738		161,421	96,151
Contract training	1,133,003				1,133,003	890,925
Tuition and student fees	4,021,199				4,021,199	3,966,251
Other revenue	1,259,504				1,259,504	1,243,049
Gain on disposal of capital assets	14,585				14,585	
	<u>46,831,362</u>	<u>1,792</u>	<u>69,269</u>	<u>104,019</u>	<u>47,006,442</u>	<u>47,435,421</u>
EXPENSES						
Advertising and public relations	492,688				492,688	536,878
Amortization of capital assets	1,339,176				1,339,176	1,442,593
Bad debts	78,635				78,635	345,632
Cost of goods sold	1,320,115				1,320,115	1,329,660
Facility costs	2,118,645				2,118,645	2,118,645
Furniture and minor equipment	509,142				509,142	1,036,952
Insurance	132,976				132,976	167,500
Interest on long term debt	41,816				41,816	43,939
Library acquisitions	144,801				144,801	261,337
Loss on disposal of capital assets						30,753
Maintenance and repairs	147,395				147,395	124,250
Operational supplies and services	4,789,153				4,789,153	4,442,735
Property taxes	531,600				531,600	520,610
Rentals and leases	501,898				501,898	464,888
Salaries and employee benefits	31,605,099				31,605,099	30,933,186
Scholarships and bursaries			64,344		64,344	130,927
Telephone and communication	661,730				661,730	663,918
Travel	1,422,094				1,422,094	1,558,202
Utilities	377,671				377,671	360,996
	<u>46,214,634</u>	<u>64,344</u>	<u>64,344</u>		<u>46,278,978</u>	<u>46,513,601</u>
EXCESS REVENUES	<u>\$ 616,728</u>	<u>\$ 1,792</u>	<u>\$ 4,925</u>	<u>\$ 104,019</u>	<u>\$ 727,464</u>	<u>\$ 921,820</u>

# UNIVERSITY COLLEGE OF THE NORTH

STATEMENT 3

## STATEMENT OF CHANGES IN FUND BALANCES

YEAR ENDED MARCH 31

	GENERAL FUND	CAPITAL CAMPAIGN FUND	STUDENT AWARD FUND	ENDOWMENT FUND	TOTAL	
					MARCH 31, 2018	MARCH 31, 2017
FUND SURPLUS, <i>beginning of year</i>	\$ 10,916,533	\$ 171,686	\$ 115,467	\$ 1,071,783	\$ 12,275,469	\$ 11,353,649
EXCESS REVENUES	616,728	1,792	4,925	104,019	727,464	921,820
INTER-FUND TRANSFERS <i>(Note 19)</i>	<u>113,695</u>	<u>(173,478)</u>	<u>59,783</u>			
FUND SURPLUS, <i>end of year</i>	<u>\$ 11,646,956</u>	<u>\$ -</u>	<u>\$ 180,175</u>	<u>\$ 1,175,802</u>	<u>\$ 13,002,933</u>	<u>\$ 12,275,469</u>

# UNIVERSITY COLLEGE OF THE NORTH

STATEMENT 4

## STATEMENT OF CASH FLOWS

	MARCH 31, 2018	MARCH 31, 2017
CASH FLOWS FROM		
OPERATING ACTIVITIES		
Excess Revenues (Expenses)		
General Fund	\$ 616,728	\$ 814,364
Capital Campaign Fund	1,792	1,407
Student Award Fund	4,925	4,889
Endowment Fund	<u>104,019</u>	<u>101,160</u>
	727,464	921,820
Add (deduct) items not affecting cash:		
Loss (gain) on disposal of capital assets	(14,585)	30,753
Amortization of capital assets	1,339,176	1,442,593
Amortization of deferred contributions related to capital assets	<u>(1,002,108)</u>	<u>(943,580)</u>
	1,049,947	1,451,586
Add (deduct) changes in non-cash working capital components related to operating activities:		
Accounts receivable	743,765	(407,363)
Inventory	(18,614)	(3,430)
Prepaid expenses	271,433	(453,123)
Accounts payable and accrued liabilities	(368,076)	(2,361,132)
Deferred revenue	(398,624)	500,744
Deferred contributions	(1,719,332)	(922,433)
Accrued vacation benefits	209,438	40,608
Accrued severance benefits	332,416	463,393
Due to other funds	(155,913)	
Due from other funds	<u>155,913</u>	<u></u>
	<u>102,353</u>	<u>(1,691,150)</u>
FINANCING ACTIVITIES		
Deferred contributions related to capital assets	1,454,427	2,000,522
Repayment of long term debt	<u>(57,790)</u>	<u>(55,666)</u>
	<u>1,396,637</u>	<u>1,944,856</u>
CAPITAL ACTIVITIES		
Purchase of capital assets	(1,454,427)	(2,031,275)
Proceeds from disposal of capital assets	<u>19,149</u>	<u>-</u>
	<u>(1,435,278)</u>	<u>(2,031,275)</u>
INVESTING ACTIVITY		
Increases in short-term investments	<u>(4,019)</u>	<u>(201,160)</u>
	<u>(4,019)</u>	<u>(201,160)</u>
NET INCREASE (DECREASE) IN CASH FLOWS DURING THE YEAR	59,693	(1,978,729)
CASH AND CASH EQUIVALENTS, <i>beginning of year</i>	<u>11,344,060</u>	<u>13,322,789</u>
CASH AND CASH EQUIVALENTS, <i>end of year</i>	<u>\$ 11,403,753</u>	<u>\$ 11,344,060</u>
Supplemental Cash Flow Information:		
Interest Received	\$ 150,270	\$ 97,042
Interest Paid	\$ 41,816	\$ 43,939

# UNIVERSITY COLLEGE OF THE NORTH

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31

### 1. NATURE OF OPERATIONS

The University College of the North (UCN) operates under the authority of *The University College of the North Act* Chapter U55 of the *Continuing Consolidation of the Statutes of Manitoba*, which came into force July 1, 2004. This Act provides for the continuation of Keewatin Community College, as established under *The Colleges Act* as a board-governed institution on April 1, 1993.

The purpose of UCN is to provide post-secondary education in northern Manitoba. It should be learner and community-centred, be characterized by a culture of openness, inclusiveness and tolerance, and be respectful of Aboriginal and northern values and beliefs.

The educational purposes of UCN are to serve the educational needs of Aboriginal and northern Manitobans and to enhance the economic and social well-being of northern Manitoba.

UCN has a tax-exempt status as a registered charity under *The Income Tax Act*.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of UCN have been prepared in accordance with Canadian public sector accounting standards for government not-for-profit organizations (GNFPO), including the PS 4200 series of standards, as issued by the Public Sector Accounting Board. 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 all other transactions related to educational and ancillary activities of UCN.

##### *2. Inter-Universities Services Fund (IUS)*

The IUS Fund consists of transactions related to the educational programs of the Inter-Universities Services Program which is administered by UCN.

#### **Capital Campaign Fund**

The Capital Campaign Fund consists of transactions related to donations received towards the development and capital needs of UCN.



# UNIVERSITY COLLEGE OF THE NORTH

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31

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

#### ***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) Financial Instruments

The financial instruments at UCN consist of cash and cash equivalents, short-term investments, accounts receivable, due from Province of Manitoba - vacation and severance benefits, accounts payable and accrued liabilities, accrued vacation benefits and long-term debt.

UCN classifies its financial instruments as either fair value or amortized cost. UCN's accounting policy for each category is as follows:

##### Fair Value

These financial instruments are initially and subsequently carried at fair value. Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations. Transaction costs are expensed as incurred.

When a decline in fair value occurs which is determined by UCN to be other than of a temporary nature, the amount of the loss is removed from accumulated remeasurement gains and losses and recognized in the statement of operations. On sale, the amount held in accumulated remeasurement gains and losses associated with that instrument is removed from net assets and recognized in the statement of operations.

UCN does not have any remeasurement gains or losses and therefore no statement of remeasurement gains and losses is required.

##### Amortized Cost

Financial instruments in this category are initially measured at fair value and are subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets. Transaction costs are added to the carrying value of the financial instrument.

If an impairment loss is determined by UCN and there is no realistic prospect of recovery the financial asset(s) are written down to net recoverable value with the writedown being recognized in the statement of operations.

#### c) 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:

UCN follows the restricted fund method of accounting for contributions.

Unrestricted contributions and grants are recognized as revenue when received or receivable.

# UNIVERSITY COLLEGE OF THE NORTH

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31

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

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.

#### d) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term investments with maturity dates of less than 90 days when purchased.

#### e) 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.

#### f) 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.

Construction in progress is not amortized until construction is complete.

#### g) Measurement Uncertainty

The preparation of financial statements in accordance with Canadian public sector accounting standards 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.

#### h) Severance Benefits

UCN accrues its obligation for employee future benefits relating to severance. The cost of severance benefits earned by employees is actuarially determined using the accrued benefits cost method.

Actuarial gains or losses are 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.

# UNIVERSITY COLLEGE OF THE NORTH

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31

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

#### i) Accounting Changes

On April 1, 2017, the University College adopted Canadian public sector accounting standards PS 2200 Related party disclosures, PS 3420 Inter-entity transactions, PS 3210 Assets, PS Contingent Assets, and PS 3380 Contractual rights. The adoption of these standards did not result in an accounting policy change for the University and did not result in any adjustments to the financial statements as at April 1, 2017.

### 3. FINANCIAL INSTRUMENT CLASSIFICATION

Financial instruments are classified as follows:

	Fair Value	2018 Amortized Cost	Total
Cash and cash equivalents	\$ 11,403,752	\$	\$ 11,403,752
Short-term investments	1,075,802		1,075,802
Accounts receivable		3,302,163	3,302,163
Due from Province of Manitoba		1,546,089	1,546,089
Accounts payable and accrued liabilities		2,953,995	2,953,995
Accrued vacation benefits		3,273,559	3,273,559
Long term debt		1,083,599	1,083,599
	<u>\$ 12,479,554</u>	<u>\$ 12,159,405</u>	<u>\$ 24,638,959</u>

#### Fair Value Hierarchy

PS 3450 – Financial Instruments – requires the disclosure of a three-level hierarchy for the fair value measurements based upon the transparency of inputs to the valuation of financial instruments carried on the Statement of Financial Position at fair value.

The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 – Inputs for the asset or liability that are not based on observable market data.

The fair value hierarchy of all financial instruments measured at fair value on the statement of financial position are level one. There were no transfers between levels for the years ended March 31, 2017 and 2018.

### 4. SHORT-TERM INVESTMENTS

Short-term investments mature between April 3, 2018 and November 29, 2018 and bear interest between .72% and 1.72%.

# UNIVERSITY COLLEGE OF THE NORTH

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31

### 5. ACCOUNTS RECEIVABLE

	2018	2017
<i>UCN Fund</i>		
Students	\$ 2,183,513	\$ 2,141,200
Contract Training	630,889	947,787
Due from Post-Secondary Education	133,961	135,130
Due from Adult Learning & Literacy	123,930	206,550
Other	<u>310,012</u>	<u>826,496</u>
	3,382,305	4,257,163
Less: Allowance for doubtful accounts	<u>(337,569)</u>	<u>(359,535)</u>
	<u>\$ 3,044,736</u>	<u>\$ 3,897,628</u>
<i>Inter-Universities Services Fund</i>		
Students	\$ 209,899	\$ 154,480
Other	<u>7,331</u>	<u>4,000</u>
	217,230	158,480
Less: Allowance for doubtful accounts	<u>(14,921)</u>	<u>(12,475)</u>
	<u>\$ 202,309</u>	<u>\$ 146,005</u>
<i>General Fund</i>	\$ 3,247,045	\$ 4,043,633
<i>Capital Campaign Fund</i>		118
<i>Student Award Fund</i>	<u>55,118</u>	<u>2,177</u>
	<u>\$ 3,302,163</u>	<u>\$ 4,045,928</u>

# UNIVERSITY COLLEGE OF THE NORTH

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31

### 6. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value 2018
<i>UCN Fund</i>			
Automotive equipment	\$ 824,253	\$ 812,416	\$ 11,837
Computer equipment	2,250,925	1,788,630	462,295
Other equipment	5,215,322	3,303,409	1,911,913
Buildings/improvements	20,206,571	3,633,407	16,573,164
Construction in progress	110,287		110,287
Land	446,067		446,067
Library holdings	714,161		714,161
	<u>\$ 29,767,586</u>	<u>\$ 9,537,862</u>	<u>\$ 20,229,724</u>
<i>Inter-Universities Services Fund</i>			
Automotive equipment	\$ 84,131	\$ 84,131	\$
Computer equipment	43,427	43,427	
Other equipment	70,984	42,172	28,812
	<u>\$ 198,542</u>	<u>\$ 169,730</u>	<u>\$ 28,812</u>
TOTALS FOR 2018	<u>\$ 29,966,128</u>	<u>\$ 9,707,592</u>	<u>\$ 20,258,536</u>

	Cost	Accumulated Amortization	Net Book Value 2017
<i>UCN Fund</i>			
Automotive equipment	\$ 1,044,907	\$ 995,668	\$ 49,239
Computer equipment	2,250,925	1,570,483	680,442
Other equipment	4,991,227	2,892,866	2,098,361
Buildings/improvements	17,957,656	2,974,735	14,982,921
Construction in progress	1,141,909		1,141,909
Land	446,067		446,067
Library holdings	714,161		714,161
	<u>\$ 28,546,852</u>	<u>\$ 8,433,752</u>	<u>\$ 20,113,100</u>
<i>Inter-Universities Services Fund</i>			
Automotive equipment	\$ 84,131	\$ 84,131	\$
Computer equipment	43,427	43,427	
Other equipment	70,984	36,235	34,749
	<u>\$ 198,542</u>	<u>\$ 163,793</u>	<u>\$ 34,749</u>
TOTALS FOR 2017	<u>\$ 28,745,394</u>	<u>\$ 8,597,545</u>	<u>\$ 20,147,849</u>

# UNIVERSITY COLLEGE OF THE NORTH

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31

### 7. 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.

	2018	2017
Accrued vacation benefits	\$ <u>752,589</u>	\$ <u>752,589</u>
Accrued severance benefits	\$ <u>793,500</u>	\$ <u>793,500</u>

### 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018	2017
<i>UCN Fund</i>		
Accrued liabilities	\$ 853,431	\$ 778,817
Wages and benefits payable	583,484	532,865
Trade accounts payable	1,387,745	1,906,368
Due to Student Associations	<u>25,309</u>	<u>25,275</u>
	\$ 2,849,969	\$ 3,243,325
<i>Inter-Universities Services Fund</i>		
Trade Accounts Payable	<u>103,126</u>	<u>76,646</u>
<i>General Fund</i>	\$ 2,953,095	\$ 3,319,971
<i>Student Award Fund</i>	<u>900</u>	<u>2,100</u>
	\$ <u>2,953,995</u>	\$ <u>3,322,071</u>

### 9. 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
<i>UCN Fund</i>	\$ <u>4,833,233</u>	\$ <u>938,377</u>	\$ <u>2,657,709</u>	\$ <u>3,113,901</u>

# UNIVERSITY COLLEGE OF THE NORTH

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31

### 10. LONG TERM DEBT

	2018	2017
Mortgage payable to the Province of Manitoba bearing interest at 3.75%, due March 31, 2032, repayable in monthly blended installments of \$8,300.	\$ 1,083,599	\$ 1,141,389
Less: Current portion	<u>(59,994)</u>	<u>(57,790)</u>
	<u>\$ 1,023,605</u>	<u>\$ 1,083,599</u>

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

2019	\$ 62,283
2020	64,660
2021	67,126
2022	69,687
2023	<u>72,346</u>
	<u>\$ 336,102</u>

### 11. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS

	Beginning of Year	Increases	Decreases	End of Year
<i>UCN Fund</i>	\$ 10,105,166	\$ 1,454,427	\$ 996,172	\$ 10,563,421
<i>Inter-Universities Services Fund</i>	<u>34,748</u>	<u>          </u>	<u>5,936</u>	<u>28,812</u>
	<u>\$ 10,139,914</u>	<u>\$ 1,454,427</u>	<u>\$ 1,002,108</u>	<u>\$ 10,592,233</u>

# UNIVERSITY COLLEGE OF THE NORTH

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31

### 12. ACCRUED SEVERANCE BENEFITS

	2018	2017
Severance Benefit Liability:		
<i>UCN Fund</i>		
Balance, beginning of period	\$ 3,659,784	\$ 3,095,763
Actuarial loss (gain)	(94,891)	146,026
Benefits accrued	275,607	281,617
Interest on accrued benefits	213,894	194,507
Severance paid	(220,499)	(58,129)
Balance, end of period	\$ 3,833,895	\$ 3,659,784
Net unamortized actuarial loss	(60,651)	(196,277)
Severance liability	\$ 3,773,244	\$ 3,463,507

#### *Inter-Universities Services Fund*

Balance, beginning of period	\$ 201,329	\$ 174,606
Actuarial loss (gain)	(4,994)	7,686
Benefits accrued	8,192	8,100
Interest on accrued benefits	11,780	10,937
Balance, end of period	\$ 216,307	\$ 201,329
Net unamortized actuarial loss	(5,436)	(13,136)
Severance liability	\$ 210,871	\$ 188,193
	\$ 3,984,115	\$ 3,651,700

#### Severance Benefit Expense:

##### *UCN Fund*

Interest on accrued benefits	\$ 213,894	\$ 194,507
Employer service cost	275,607	281,616
Amortization of net actuarial loss over EARS	40,753	24,510
Total expense related to severance benefit	\$ 530,254	\$ 500,633

##### *Inter-Universities Services Fund*

Interest on accrued benefits	\$ 11,780	\$ 10,937
Employer service cost	8,193	8,100
Amortization of net actuarial loss over EARS	2,705	1,851
Total expense related to severance benefit	\$ 22,678	\$ 20,888
	\$ 552,932	\$ 521,521



# UNIVERSITY COLLEGE OF THE NORTH

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31

### 12. ACCRUED SEVERANCE BENEFITS *(continued)*

An actuarial valuation of the severance obligations as at December 31, 2016 was conducted by Ellement Consulting Group. The key actuarial assumptions were updated as at March 31, 2017 based on information provided by the actuary. The key actuarial assumptions were a rate of return of 6.0% (2017 - 6.0%), 1.11% inflation (2017 - 1.15%), salary rate increases of 3.75% (2016 - 3.75%). The accrued benefit cost method with salary projection was used and the liabilities have been extrapolated to March 31, 2018 using the projection formula provided by the actuary. The expected effective date of the next actuarial valuation will be no later than March 31, 2018.

During the year UCN experienced an actuarial gain of \$99,885 (2016 - actuarial loss of \$153,712). The amortization on the actuarial net loss in 2018 is \$43,458 (UCN \$40,753; IUS \$2,705) and in 2017 is \$26,361 (UCN \$24,510; IUS \$1,851).

### 13. PENSION COSTS AND OBLIGATIONS

UCN's employees are contributing members of the provincially operated Civil Service Superannuation Plan or the Teacher's Retirement Allowances 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, 2018 was \$1,858,576 (2017 - \$1,891,166). 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. As at December 31, 2016, the Civil Service Superannuation Fund had a deficit of \$4.3 billion and the Teacher's Retirement Allowances Fund had a deficit of \$3.6 billion.

### 14. 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:

2019	1,145,505
2020	351,461
2021	78,975
2022	65,512
2023	15,686

# UNIVERSITY COLLEGE OF THE NORTH

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31

### 15. NET ASSETS INTERNALLY RESTRICTED

Appropriations from the Unrestricted Fund are made to provide for future funding for fiscal stabilization, innovations funds, conferences and the establishment of a science lab.

	Opening Balance	Increases	Decreases	Ending Balance
<i>UCN Fund</i>				
Fiscal Stabilization	\$ 424,256	\$ 66,744	\$ _____	\$ 491,000
Total	\$ 424,256	\$ 66,744	\$ _____	\$ 491,000
<i>Inter-Universities Services Fund</i>				
Innovations Fund	\$ 1,558,942	\$ 56,691	\$ _____	\$ 1,615,633
Conferences	50,000			50,000
Science Lab	100,000			100,000
Total	\$ 1,708,942	\$ 56,691	\$ _____	\$ 1,765,633
	\$ 2,133,198	\$ 123,435	\$ _____	\$ 2,256,633

### 16. 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 \$2,118,645 (2017 - \$2,118,645) in facility costs was paid to Manitoba Infrastructure and Transportation for the rental of buildings in The Pas. The addition of the new Thompson campus was funded by the Province of Manitoba and opened in May 2014. UCN will pay facility costs for both The Pas campus and the new Thompson campus. Funds available for short-term investments are invested with the Province of Manitoba. At March 31, 2018 \$10,178,278 (2017 - \$11,735,663), included in both cash and cash equivalents and short-term investments, was invested with the Province of Manitoba.

### 17. 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:

	Carrying Amount	
	2018	2017
Cash and cash equivalents	\$ 11,403,752	\$ 11,344,060
Short-term investments	1,075,802	1,071,783
Accounts receivable	3,302,163	4,045,928
Due from Province of Manitoba - vacation and severance benefits	1,546,089	1,546,089
Totals	\$ 17,327,806	\$ 18,007,860

# UNIVERSITY COLLEGE OF THE NORTH

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31

### 17. RISK MANAGEMENT (continued)

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. Amounts due from the the Province of Manitoba are typically collected when due.

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.

	0-30 Days	31-60 Days	61-90 Days	91+ Days	Total
Student receivables	\$ 164,209	\$ 164,208	\$ 234,583	\$ 2,032,395	\$ 2,595,395
Government receivables	123,930	-		283,961	407,891
Other receivables	<u>399,542</u>	<u>34,111</u>	<u>4,185</u>	<u>213,529</u>	<u>651,367</u>
Gross receivables	687,681	198,319	238,768	2,529,885	3,654,653
Less: Allowance for doubtful accounts		<u>(14,296)</u>	<u>(30,361)</u>	<u>(307,833)</u>	<u>(352,490)</u>
Net receivables	<u>\$ 687,681</u>	<u>\$ 184,023</u>	<u>\$ 208,407</u>	<u>\$ 2,222,052</u>	<u>\$ 3,302,163</u>

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.

The following table sets out the contractual maturities of financial liabilities;

	2018			
	Within 6 Months	6 months to 1 Year	1-5 Years	5 Years +
Accounts payable and accrued liabilities	\$ 2,330,692	\$ 303,180	\$ 106,250	\$ 213,873
Accrued vacation benefits	2,151,804	557,858	494,360	69,537
Long term debt	<u>29,716</u>	<u>30,278</u>	<u>336,103</u>	<u>687,502</u>
	<u>\$ 4,512,212</u>	<u>\$ 891,316</u>	<u>\$ 936,713</u>	<u>\$ 970,912</u>

### 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.

# UNIVERSITY COLLEGE OF THE NORTH

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31

### 17. RISK MANAGEMENT *(continued)*

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.

### 18. 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 Advanced Learning Division.

#### 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, 2018, 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. UCN Governing Council approved the transfer of Capital Campaign fund to the UCN fund and Student Award fund.

### 19. INTER-FUND TRANSFERS

	Unrestricted		Internally Restricted		Student Award Fund	Capital Campaign Fund
	UCN Fund	IUS Fund	UCN Fund	IUS Fund		
Fiscal Stabilization	\$ (66,744)	\$	\$ 66,744	\$	\$	\$
Capital Campaign	113,695				59,783	(173,478)
Innovations		(56,691)		56,691		
March 31, 2018	\$ 46,951	\$ (56,691)	\$ 66,744	\$ 56,691	\$ 59,783	\$ (173,478)
March 31, 2017	\$ (54,769)	\$ (13,972)	\$ 54,769	\$ 13,972	\$	\$

# UNIVERSITY COLLEGE OF THE NORTH

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31

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### 20. 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 were funded using capital grants. Regional Centres located on First Nations land were managed, owned and operated by UCN during construction either directly or through contracts with the First Nation. Ownership and facility management may transfer to local First Nations governments in accordance with KIP terms and conditions after completion. If transferred 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, 2015, construction on the eight Regional Centres has been completed at a cost of \$10,523,630. UCN has deferred the funding and capitalized the expenditures to Building/Improvements and the assets are amortized accordingly.

### 21. 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. UCN believes they have made adequate provision in the financial statements in respect of these claims, as of March 31, 2018.

### 22. LINE OF CREDIT

UCN has an approved borrowing limit of \$2,000,000 at an interest rate of 2.4% and is secured by a guarantee from the Province of Manitoba with no fixed terms of repayment. At March 31, 2018 the balance was nil (March 2017 - nil).

### 23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year presentation.

# UNIVERSITY COLLEGE OF THE NORTH

STATEMENT 1A

## STATEMENT OF FINANCIAL POSITION - GENERAL

MARCH 31

	UCN FUND	IUS FUND	MARCH 31, 2018	MARCH 31, 2017
<b>ASSETS</b>				
<b>CURRENT</b>				
Cash and cash equivalents	\$ 7,960,514	\$ 3,261,368	\$ 11,221,882	\$ 11,057,102
Accounts receivable (Note 5)	3,044,736	202,309	3,247,045	4,043,633
Due to/from other funds	1,269,217	(1,263,304)	5,913	
Due from Province of Manitoba (Note 7)	752,589		752,589	752,589
Inventory	267,205		267,205	248,591
Prepaid expenses	809,366	1,856	811,222	1,010,210
	<u>14,103,627</u>	<u>2,202,229</u>	<u>16,305,856</u>	<u>17,112,125</u>
<b>LONG TERM</b>				
Prepaid expenses	446,137		446,137	518,582
Capital assets (Note 6)	20,229,723	28,813	20,258,536	20,147,849
Due from Province of Manitoba (Note 7)	788,490	5,010	793,500	793,500
	<u>21,464,350</u>	<u>33,823</u>	<u>21,498,173</u>	<u>21,459,931</u>
	<u>\$ 35,567,977</u>	<u>\$ 2,236,052</u>	<u>\$ 37,804,029</u>	<u>\$ 38,572,056</u>
<b>LIABILITIES</b>				
<b>CURRENT</b>				
Accounts payable and accrued liabilities (Note 8)	\$ 2,849,966	\$ 103,129	\$ 2,953,095	\$ 3,319,971
Accrued vacations benefits	3,145,952	127,607	3,273,559	3,064,121
Due to other funds	50,000		50,000	
Deferred revenue	660,434		660,434	986,613
Deferred contributions (Note 9)	3,113,901		3,113,901	4,833,233
Current portion long term debt (Note 10)	59,994		59,994	57,790
	<u>9,880,247</u>	<u>230,736</u>	<u>10,110,983</u>	<u>12,261,728</u>
<b>LONG TERM</b>				
Deferred revenue	446,137		446,137	518,582
Deferred contributions related to capital assets (Note 11)	10,563,421	28,812	10,592,233	10,139,914
Accrued severance benefits (Note 12)	3,773,244	210,871	3,984,115	3,651,700
Long term debt (Note 10)	1,023,605		1,023,605	1,083,599
	<u>15,806,407</u>	<u>239,683</u>	<u>16,046,090</u>	<u>15,393,795</u>
<b>FUND BALANCES</b>				
NET ASSETS INVESTED IN CAPITAL ASSETS	8,628,343		8,628,343	8,893,028
NET ASSETS INTERNALLY RESTRICTED (Note 15)	491,000	1,765,633	2,256,633	2,133,198
UNRESTRICTED NET ASSETS	761,980		761,980	(109,693)
	<u>9,881,323</u>	<u>1,765,633</u>	<u>11,646,956</u>	<u>10,916,533</u>
	<u>\$ 35,567,977</u>	<u>\$ 2,236,052</u>	<u>\$ 37,804,029</u>	<u>\$ 38,572,056</u>

# UNIVERSITY COLLEGE OF THE NORTH

STATEMENT 2A

## STATEMENT OF OPERATIONS - GENERAL

YEAR ENDED MARCH 31

	UCN FUND	IUS FUND	MARCH 31, 2018	MARCH 31, 2017
REVENUES				
Grants				
Post-Secondary Education	\$ 34,825,746	\$ 1,055,200	\$ 35,880,946	\$ 36,363,185
Other Province of Manitoba	538,038		538,038	698,190
Government of Canada	52,365		52,365	95,912
Amortization of deferred contributions related to capital assets	996,172	5,936	1,002,108	943,580
Ancillary sales and services	2,780,298		2,780,298	2,902,666
Investment income	142,358	6,958	149,316	92,690
Contract training	1,133,003		1,133,003	890,925
Tuition and student fees	3,481,173	540,026	4,021,199	3,966,251
Other revenue	1,253,195	6,309	1,259,504	1,243,049
Gain on disposal of capital assets	<u>10,455</u>	<u>4,130</u>	<u>14,585</u>	
	<u>45,212,803</u>	<u>1,618,559</u>	<u>46,831,362</u>	<u>47,196,448</u>
EXPENSES				
Advertising and public relations	485,989	6,699	492,688	536,878
Amortization of capital assets	1,333,240	5,936	1,339,176	1,442,593
Bad debts	71,976	6,659	78,635	345,632
Cost of goods sold	1,320,115		1,320,115	1,329,660
Facility costs	2,118,645		2,118,645	2,118,645
Furniture and minor equipment	503,150	5,992	509,142	1,036,952
Insurance	132,976		132,976	167,500
Interest on long term debt	41,816		41,816	43,939
Library acquisitions	144,801		144,801	261,337
Loss on disposal of capital assets				30,753
Maintenance and repairs	146,532	863	147,395	124,250
Operational supplies and services	4,693,018	96,135	4,789,153	4,442,145
Property taxes	531,600		531,600	520,610
Rentals and leases	482,430	19,468	501,898	464,888
Salaries and employee benefits	30,433,460	1,171,639	31,605,099	30,933,186
Telephone and communication	657,216	4,514	661,730	663,918
Travel	1,182,261	239,833	1,422,094	1,558,202
Utilities	<u>377,671</u>		<u>377,671</u>	<u>360,996</u>
	<u>44,656,896</u>	<u>1,557,738</u>	<u>46,214,634</u>	<u>46,382,084</u>
EXCESS REVENUES	\$ <u>555,907</u>	\$ <u>60,821</u>	\$ <u>616,728</u>	\$ <u>814,364</u>

# UNIVERSITY COLLEGE OF THE NORTH

## STATEMENT OF CHANGES IN FUND BALANCES - GENERAL

STATEMENT 3A

YEAR ENDED MARCH 31

	UNRESTRICTED			INTERNALLY RESTRICTED			NET ASSETS INVESTED IN CAPITAL ASSETS	TOTAL	
	UCN FUND	IUS FUND	TOTAL	UCN FUND	IUS FUND	TOTAL		MARCH 31, 2018	MARCH 31, 2017
FUND SURPLUS, <i>beginning of year</i>	\$ (109,693)	\$	\$ (109,693)	\$ 424,256	\$ 1,708,942	\$ 2,133,198	\$ 8,893,028	\$ 10,916,533	\$ 10,102,169
EXCESS REVENUES	555,907	60,821	616,728					616,728	814,364
CHANGE IN NET ASSETS INVESTED IN CAPITAL ASSETS									
Amortization of capital assets	1,333,240	5,936	1,339,176				(1,339,176)		
Amortization of deferred contributions related to capital assets	(996,172)	(5,936)	(1,002,108)				1,002,108		
Purchase of capital assets	(1,454,427)		(1,454,427)				1,454,427		
Deferred contributions related to capital assets	1,454,427		1,454,427				(1,454,427)		
Gain on disposal of capital assets	(10,455)	(4,130)	(14,585)				14,585		
Long term debt on capital assets	(57,798)		(57,798)				57,798		
INTER-FUND TRANSFERS (Note 19)	46,951	(56,691)	(9,740)	66,744	56,691	123,435		113,695	
FUND SURPLUS, <i>end of year</i>	\$ 761,980	\$	\$ 761,980	\$ 491,000	\$ 1,765,633	\$ 2,256,633	\$ 8,628,343	\$ 11,646,956	\$ 10,916,533



# UNIVERSITY COLLEGE OF THE NORTH

SCHEDULE 1

## SCHEDULE OF OTHER GRANT REVENUE

(UNAUDITED)

	MARCH 31, 2018	MARCH 31, 2017
Province of Manitoba		
Adult Learning Centre - Manitoba Advanced Education and Literacy	\$ 413,100	\$ 413,100
Family Services		78,100
Finance		85,062
Jobs and The Economy		550
Office of the Fire Commissioner	650	
Post Secondary Education	28,365	1,383
Public Library Services	50,408	79,395
Sport Culture and Heritage	4,300	600
Summer Enrichment - Manitoba Education	40,000	40,000
Sustainable Development	1,215	
	<u>\$ 538,038</u>	<u>\$ 698,190</u>

SCHEDULE 2

## SCHEDULE OF ANCILLARY SALES AND SERVICES

(UNAUDITED)

	MARCH 31, 2018	MARCH 31, 2017
Bookstore	\$ 1,356,201	\$ 1,393,990
Cafeteria	635,434	584,615
Residence	<u>788,663</u>	<u>924,061</u>
	<u>\$ 2,780,298</u>	<u>\$ 2,902,666</u>

SCHEDULE 3

## SCHEDULE OF TUITION AND STUDENT FEES

(UNAUDITED)

	MARCH 31, 2018	MARCH 31, 2017
Apprenticeship	\$ 900,412	\$ 1,019,363
Core-funded programs	2,561,378	2,391,600
Continuing Education	<u>19,383</u>	<u>47,928</u>
	<u>\$ 3,481,173</u>	<u>\$ 3,458,891</u>

# UNIVERSITY COLLEGE OF THE NORTH

SCHEDULE 4

## STATEMENT OF UCN EXPENDITURES BY FUNCTION

(UNAUDITED)

	SALARIES AND BENEFITS	OTHER	TOTAL	
			MARCH 31, 2018	MARCH 31, 2017
Academic	\$ 14,867,538	\$ 1,756,333	<b>\$ 16,623,871</b>	\$ 16,283,666
Administration	5,614,998	3,990,934	<b>9,605,932</b>	9,434,352
Ancillary Sales and Services	1,309,747	1,997,818	<b>3,307,565</b>	3,241,946
Continuing Education	87,519	45,109	<b>132,628</b>	89,658
Library	921,684	594,291	<b>1,515,975</b>	1,512,297
Contract Training	1,149,416	325,178	<b>1,474,594</b>	1,317,806
Insurance Claims				41,337
Information Technology	1,045,608	665,696	<b>1,711,304</b>	2,207,518
Plant	1,061,173	3,611,279	<b>4,672,452</b>	4,641,512
Program Support	<u>4,288,067</u>	<u>1,324,508</u>	<u><b>5,612,575</b></u>	<u>6,042,550</u>
	<u>\$ 30,345,750</u>	<u>\$ 14,311,146</u>	<u><b>\$ 44,656,896</b></u>	<u>\$ 44,812,642</u>

# 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 Canadian public sector accounting standards established by the Public Sector Accounting Board of Chartered Professional Accountants Canada, including the standards for government not for profit organizations. The University believes the financial statements present fairly the University's financial position as at March 31, 2018 and the results of its operations for the year ending March 31, 2018.

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 the 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 and Audit Services.

The financial statements for the year ended March 31, 2018 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 his examination and provides his opinion on the fairness of presentation of the financial statements.

Original signed by

David T. Barnard, Ph.D.  
President and Vice-Chancellor

Winnipeg, Manitoba  
June 26, 2018



## 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 accompanying financial statements of the University of Manitoba, which comprise the statement of financial position as at March 31, 2018, and the statements of operations and changes in fund balances, remeasurement gains and losses, 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 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 University of Manitoba as at March 31, 2018, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended, in accordance with Canadian public sector accounting standards.

**Original document signed by  
Norm Ricard**

June 26, 2018  
Winnipeg, Manitoba

Norm Ricard, CPA, CA  
Auditor General

# FINANCIAL STATEMENTS

**UNIVERSITY OF MANITOBA**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT MARCH 31, 2018**  
(in thousands of dollars)

	2018	2017
<b>Assets</b>		
<i>Current Assets</i>		
Cash and Cash Equivalents (Note 4)	\$ 330,370	\$ 319,579
Accounts Receivable (Note 5)	86,354	68,599
Inventories	3,336	3,164
Prepaid Expenses	2,638	1,789
Current Portion of Loan Receivable (Note 6)	3,244	
	<b>425,942</b>	<b>393,131</b>
<i>Long Term Assets</i>		
Loan Receivable (Note 6)	78,730	198,971
Investments (Note 7)	929,251	834,911
Capital Assets, Net of Accumulated Amortization (Note 9)	1,145,096	1,109,930
	<b>2,153,077</b>	<b>2,143,812</b>
	<b>\$ 2,579,019</b>	<b>\$ 2,536,943</b>
<b>Liabilities</b>		
<i>Current Liabilities</i>		
Accounts Payable	\$ 70,494	\$ 53,819
Unearned Revenue (Note 10)	24,520	18,030
Vacation and Sick Leave Liability	16,323	15,597
Current Portion of Long Term Debt (Note 11)	9,917	6,337
	<b>121,254</b>	<b>93,783</b>
<i>Long Term Liabilities</i>		
Long Term Debt (Note 11)	258,824	385,738
Other Long Term Liabilities (Note 12)	7,380	8,931
Employee Future Benefits (Note 13)	83,992	81,053
Pension Liability (Note 16)	20,427	24,343
	<b>370,623</b>	<b>500,065</b>
<b>Fund Balances</b>		
Unrestricted (Note 21)	(64,544)	(67,546)
Internally Restricted (Note 24)	242,096	207,899
Externally Restricted (Note 25)	329,502	289,821
Invested in Capital Assets (Note 25)	1,106,685	1,044,625
Endowed (Note 25)	473,403	468,296
	<b>2,087,142</b>	<b>1,943,095</b>
	<b>\$ 2,579,019</b>	<b>\$ 2,536,943</b>

Contractual Obligations and Contingencies (Note 27)

Original signed by

Original signed by

Jeff Lieberman – Chair

Rafi Mohammed – Vice-Chair

(The accompanying Notes form an integral part of the Financial Statements)

# FINANCIAL STATEMENTS

**UNIVERSITY OF MANITOBA**  
**STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED MARCH 31, 2018**  
(in thousands of dollars)

	<b>General Funds (Note 2D)</b>	<b>Restricted Funds (Note 2E)</b>	<b>Endowment Fund (Note 2F)</b>	<b>2018 Total Funds</b>	<b>2017 Total Funds</b>
<b>Revenue</b>					
Tuition and Related Fees	\$ 170,139	\$	\$	\$ 170,139	\$ 163,571
Donations	2,676	17,299	10,467	30,442	34,506
Non-Government Grants	5,116	79,149		84,265	83,984
Net Investment Income (Note 17)	7,047	54,176		61,223	56,939
Miscellaneous Income	8,111	6,742		14,853	15,009
Government Grants:					
Manitoba Education and Training	356,822	6,701		363,523	363,777
Other Province of Manitoba	25,976	37,471		63,447	59,462
Government of Canada	9,804	98,317		108,121	84,471
City of Winnipeg	151	30		181	51
Sales of Goods and Services	34,724	428		35,152	35,101
Ancillary Services	38,416			38,416	37,983
Gain on Long Term Debt (Note 11)		118,682		118,682	
	<b>658,982</b>	<b>418,995</b>	<b>10,467</b>	<b>1,088,444</b>	<b>934,854</b>
<b>Expense</b>					
Salaries	359,896	38,675		398,571	389,628
Staff Benefits and Pay Levy	66,783	7,017		73,800	84,284
Materials, Supplies and Services	54,881	56,466		111,347	101,054
Amortization of Capital Assets		55,595		55,595	54,645
Student Assistance	15,351	45,455		60,806	57,511
Professional Consulting and Externally					
Contracted Services	16,673	29,889		46,562	45,104
Travel and Conferences	12,084	13,158		25,242	23,024
Utilities, Municipal Taxes and Insurance	19,746	68		19,814	19,207
Interest		13,611		13,611	19,074
Maintenance and Repairs	9,026	418		9,444	6,252
Loss on Loan Receivable Allowance (Note 6)		118,682		118,682	
Loss on Disposal of Capital Assets					1,000
	<b>554,440</b>	<b>379,034</b>		<b>933,474</b>	<b>800,783</b>
<b>Net Revenue from Operating Activities</b>	104,542	39,961	10,467	154,970	134,071
Inter-Fund Transfers (Note 23)	(72,812)	72,231	581		
Net Increase to Fund Balances from					
Operating Activities	31,730	112,192	11,048	154,970	134,071
Fund Balances from Operating Activities					
Beginning of Year	66,220	1,404,412	324,739	1,795,371	1,661,300
Fund Balances from Operating Activities					
End of Year	97,950	1,516,604	335,787	1,950,341	1,795,371
Accumulated Remeasurement Gains (Losses)					
End of Year	87	(902)	137,616	136,801	147,724
<b>Fund Balances End of Year</b>	<b>\$ 98,037</b>	<b>\$ 1,515,702</b>	<b>\$ 473,403</b>	<b>\$ 2,087,142</b>	<b>\$1,943,095</b>

(The accompanying Notes form an integral part of the Financial Statements)

# FINANCIAL STATEMENTS

**UNIVERSITY OF MANITOBA**  
**STATEMENT OF REMEASUREMENT GAINS AND LOSSES**  
**FOR THE YEAR ENDED MARCH 31, 2018**  
(in thousands of dollars)

	General Funds	Restricted Funds	Endowment Fund	2018 Total Funds	2017 Total Funds
<b>Accumulated Remeasurement Gains (Losses)</b>					
<b>Beginning of Year</b>	\$ 3	\$ 4,164	\$ 143,557	\$ 147,724	\$ 86,161
Unrealized Gains (Losses) Attributed to:					
Derivatives		1,441		1,441	1,239
Foreign Exchange	87	(3,074)		(2,987)	72
Portfolio Investments		5,419	3,295	8,714	52,121
Designated Fair Value Investments		23,128	(9,236)	13,892	36,371
Amounts Reclassified to the Statement of Operations and Changes in Fund Balances:					
Foreign Exchange	(3)	3,698		3,695	342
Portfolio Investments		(26,921)		(26,921)	(25,173)
Designated Fair Value Investments		(8,757)		(8,757)	(3,409)
<b>Net Remeasurement Gains (Losses) for the Year</b>	84	(5,066)	(5,941)	(10,923)	61,563
<b>Accumulated Remeasurement Gains</b>					
<b>End of Year</b>	\$ 87	\$ (902)	\$ 137,616	\$ 136,801	\$ 147,724

*(The accompanying Notes form an integral part of the Financial Statements)*

# FINANCIAL STATEMENTS

**UNIVERSITY OF MANITOBA**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED MARCH 31, 2018**  
(in thousands of dollars)

	<b>General Funds</b>	<b>Restricted Funds</b>	<b>Endowment Fund</b>	<b>2018 Total Funds</b>	<b>2017 Total Funds</b>
<b>Operating Activities</b>					
Net Revenue from Operating Activities	\$ 104,542	\$ 39,961	\$ 10,467	\$ 154,970	\$ 134,071
Amortization of Capital Assets		55,595		55,595	54,645
	104,542	95,556	10,467	210,565	188,716
Net Change in Non-Cash Working Capital Items	6,199	(1,084)		5,115	8,167
Net Change in Other Long Term Liabilities	(110)	(1,441)		(1,551)	2,752
Net Change in Pension Obligation	(3,916)			(3,916)	3,771
Net Change in Employee Future Benefits	346	2,593		2,939	4,527
Loss on Disposal of Capital Assets					1,000
Gain on Long Term Debt		(118,682)		(118,682)	
Loss on Loan Receivable Allowance		118,682		118,682	
<i>Net Cash generated through Operating Activities</i>	107,061	95,624	10,467	213,152	208,933
<b>Investing Activities</b>					
Principal Repayment on Loan Receivable		2,118		2,118	1,338
Net Decrease (Increase) in Long Term Investments	(56,728)	(37,487)	(11,048)	(105,263)	(76,094)
<i>Net Cash generated through (used in) Investing Activities</i>	(56,728)	(35,369)	(11,048)	(103,145)	(74,756)
<b>Capital Activities</b>					
Purchase of Capital Assets		(90,761)		(90,761)	(80,870)
<i>Net Cash used in Capital Activities</i>		(90,761)		(90,761)	(80,870)
<b>Financing Activities</b>					
Principal Repayment on Long Term Debt		(8,455)		(8,455)	(7,352)
<i>Net Cash generated through (used in) Financing Activities</i>		(8,455)		(8,455)	(7,352)
<b>Net Increase (Decrease) in Cash</b>	50,333	(38,961)	(581)	10,791	45,955
Inter-Fund Transfers	(72,812)	72,231	581		
<i>Cash and Cash Equivalents Beginning of Year</i>	72,683	246,896		319,579	273,624
<b><i>Cash and Cash Equivalents End of Year</i></b>	<b>\$ 50,204</b>	<b>\$ 280,166</b>	<b>\$</b>	<b>\$ 330,370</b>	<b>\$ 319,579</b>
Supplementary cash flow information:					
Interest Received (Note 19)	\$ 6,634	\$ 3,283	\$	\$ 9,917	\$ 7,658
Interest Paid (Note 19)	\$	\$ 9,807	\$	\$ 9,807	\$ 10,130

(The accompanying Notes form an integral part of the Financial Statements)



# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2018

(in thousands of dollars)

### I. 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 Canadian public sector accounting standards established by the Public Sector Accounting Board of Chartered Professional Accountants Canada, including the standards for government not-for-profit organizations. The University has adopted the restricted fund method of accounting for contributions.

The University controls UM Properties GP Inc. (Note 18), UM Properties Holding Inc. (Note 18) and Partners for Health and Development in Africa (PHDA) (Note 19), but does not consolidate the accounts for the purposes of these financial statements.

The University has an 8.33% (2017, 8.33%) interest in TRIUMF (Note 18), a joint venture which operates a national laboratory for particle and nuclear physics. The University uses the modified equity method of accounting to record its interest in TRIUMF.

#### 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 Funds. The Restricted Funds include the Capital Asset, Research and Special, Staff Benefits and Trust Funds. The Endowment Fund includes endowed 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, investment income, 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 and in Note 23.

### Expenses Funded From Future Revenues Fund:

The Expenses Funded from Future Revenues Fund records the amount of non-vesting sick leave benefits and 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 liability.

## 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 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 Manitoba Education and Training (MET), 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 MET 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, which includes 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 related governing contracts and agreements.

# FINANCIAL STATEMENTS

## **Staff Benefits Fund:**

The Staff Benefits Fund is divided into Fund Accounts for the Pension Reserve, and for each of the Self-Insured Plans, which are the Long Term Disability Income Plan and the Dental 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 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 in the Statement of Remeasurement Gains and Losses.

## **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. Investment income earned on endowments is recorded in the appropriate Trust Fund depending on the restrictions imposed by the original donor.

Investment income, including realized gains or losses, is recorded in the Statement of Operations and Changes in Fund Balances in the appropriate Fund depending on the restrictions imposed. Unrestricted investment income is recorded as unrestricted income in the General Operating Fund.

The change in fair value (unrealized gains or losses) of investments is recorded in the Statement of Remeasurement Gains and Losses until the investments are sold.

## **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 fundraising 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. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of highly liquid investments that are used to meet short term operating needs. They are readily convertible to cash and mature within one year from acquisition. Any cash or other investments maturing within one year that are held by portfolio managers are classified as long term investments and are recorded at fair value or designated to fair value. Portfolio managers maintain a cash balance within investment portfolios as part of their overall long term mandate, as well as to facilitate trades and the rebalancing of funds.

## 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 calculated on a straight-line basis over the assets' estimated useful life 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 include works of art, rare books and manuscripts, museum specimens and other archival material. The associated library, faculty or school 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 initially record them at fair value and to fund maintenance expenses from the General Operating Fund. The cost of maintenance is not tracked and is therefore not determinable.

## N. PENSION COSTS

The University sponsors two pension plans for its employees and retirees: The University of Manitoba Pension Plan (1993) and The University of Manitoba GFT Pension Plan (1986). The 1986 Plan is a defined contribution plan and as a result the pension costs are based on contributions required by the plan.

The Pension Costs for the 1993 Plan are determined actuarially using the projected unit credit actuarial cost method, pro-rated on service 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 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 16.

# FINANCIAL STATEMENTS

## O. FINANCIAL INSTRUMENTS

The financial instruments of the University consist of cash and cash equivalents, accounts receivable, loan receivable, investments, accounts payable, vacation and sick leave liability, loans, other long term liabilities, and long term debt.

All financial instruments are recognized at cost or amortized cost, or fair value.

Cash and cash equivalents are recognized at cost. Accounts receivable, loan receivable, fixed income investments and preferred shares held in the General Funds, accounts payable, loans, vacation and sick leave liability, other long term liabilities (excluding derivative financial instruments), and long term debt are recognized at amortized cost.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense. Transaction costs are a component of cost for financial instruments measured at cost or amortized cost.

Financial instruments recognized at fair value include Canadian equities, US equities and derivatives. Bonds and other fixed income securities and pooled funds have been designated to fair value other than corporate bonds and preferred shares which are recognized at cost, and the investment in TRIUMF which is recognized at modified equity. Pooled funds are valued by the fund managers.

Unrealized gains and losses from the change in fair value of these financial instruments are reflected in the Statement of Remeasurement Gains and Losses until disposition.

Transaction costs are expensed for financial instruments measured at fair value.

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the Statement of Operations and Changes in Fund Balances. Future recoveries of impaired assets are recorded in the Statement of Operations and Changes in Fund Balance when received. Interest is not recorded on financial assets that are deemed to be impaired. A write-down of a portfolio investment to reflect a loss in value is not reversed for a subsequent increase in value.

Financial instruments are classified using a fair value hierarchy that reflects the significance of inputs to valuation techniques used to measure fair value. The fair value hierarchy used has the following levels:

**Level 1** – Inputs that reflect unadjusted publicly quoted prices in active markets for identical assets or liabilities that the University has the ability to access at the measurement date.

**Level 2** – Inputs other than publicly quoted prices that are either directly or indirectly observable for the asset or liability.

**Level 3** – Inputs that are unobservable. There is little if any market activity. Inputs into the determination of fair value require significant management judgment or estimation.

## P. OTHER EMPLOYEE FUTURE BENEFITS

The University accrues its obligations for other employee future benefit plans relating to health, dental, sick leave, long term disability, and group life insurance. The cost of non-vesting sick leave benefits has been determined using management's best estimates. The cost of the long term disability plan for employees and the cost of non-pension and post-retirement benefits for retired employees are actuarially determined using the projected benefit method pro-rated on service, management's best estimates for the discount rate for liabilities, the expected rate of return on assets, retirement ages and expected future cost trends. For current active employees, the cost of other employee future benefit plans relating to health, dental, and group life insurance is the premiums charged under the plans to the University.

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 and losses on post-retirement adjustments are amortized on a straight-line basis over the life expectancy of the group, commencing in the year following the year the respective annual actuarial gains or losses arise.

Actuarial gains and losses of other benefit plans 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.

## Q. FOREIGN CURRENCY TRANSLATION

Monetary assets, liabilities and investments at fair value, denominated in foreign currencies, are translated at the year-end exchange rate. The unrealized foreign currency translation gains or losses of these financial instruments are reflected in the Statement of Remeasurement Gains and Losses. Revenues and expenses are translated at exchange rates on the transaction dates. Realized gains or losses arising from these translations are included in the Statement of Operations and Changes in Fund Balances.

## 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 both counterparties is considered.

## 3. CHANGES IN ACCOUNTING POLICY

Effective April 1, 2017 the University adopted five new accounting standards. Related Party Transactions (PS 2200), Assets (PS 3210), Contingent Assets (PS 3320), Contractual Rights (PS 3380) and Inter-Entity Transactions (PS 3420). The adoption of these standards has resulted in additional note disclosures where necessary.

## 4. CASH AND CASH EQUIVALENTS

	2018	2017
Cash	\$ 47,882	\$ 72,789
Guaranteed Investment Certificates	282,488	246,790
	<b>\$ 330,370</b>	<b>\$ 319,579</b>

## 5. ACCOUNTS RECEIVABLE

	2018	2017
Business, Industry and Foundations	\$ 43,175	\$ 30,605
Provincial Government	14,549	13,382
Federal Government	8,224	8,588
Investment Income and Interest	7,765	4,525
Advances	5,744	1,515
External Sales and Cost Recoveries	3,892	5,228
Students	2,958	4,705
Miscellaneous	47	51
	<b>\$ 86,354</b>	<b>\$ 68,599</b>

# FINANCIAL STATEMENTS

## 6. LOAN RECEIVABLE

The University has a loan agreement with Triple B Stadium Inc. (Triple B) related to the construction of Investors Group Field 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 and 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 Triple B in the form of insurance proceeds entitled to be retained by Triple B 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:

Triple B is required to make payments to the University equivalent to the aggregate of:

- Any amounts received by Triple B 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 Triple B 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 December 15, 2017 shall be added to the first phase of the loan. Any unpaid interest after December 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 Triple B, on or before December 15, 2017.

Annual payments of principal and interest over the remainder of the second phase loan term are to be paid on or before December 15 of each calendar year commencing on December 15, 2018 based on the amortization of the loan following the December 15, 2017 payment.

### INVESTORS GROUP FIELD LOAN:

	2018	2017
First Phase interest and principal outstanding	\$ 118,682	\$ 116,971
Second Phase principal outstanding	81,974	82,000
	200,656	198,971
Allowance For First Phase	(118,682)	
	81,974	198,971
Less Current Portion	(3,244)	
	<b>\$ 78,730</b>	<b>\$ 198,971</b>

The First and Second Phase loans have an equal long term debt loan payable to the Province of Manitoba (Note 11).

In consultation with the Province of Manitoba, the University has reviewed the projected cash flow from *The Community Revitalization Tax Increment Financing Act* and other sources. Given the current economic circumstances the University has concluded there will be insufficient amounts available to repay the First Phase receivable, including accrued interest. As a result, the University has established an allowance.



# FINANCIAL STATEMENTS

Since the long term debt can only be repaid when the University receives these payments from Triple B, the University has established an allowance for the First Phase loan payable in an equal amount (Note 11).

These allowances have been recorded in the Statement of Operations and Changes in Fund Balances as both revenue and expense.

## 7. INVESTMENTS

	2018				2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Investments Held at Fair Value:</b>								
Cash and Money Market Funds	\$ 10,301	\$	\$	\$ 10,301	\$ 5,937	\$	\$	\$ 5,937
Canadian Equities	192,110			192,110	196,118			196,118
US Equities	218,922			218,922	202,568			202,568
	421,333			421,333	404,623			404,623
<b>Investments Designated to Fair Value:</b>								
Cash and Money Market Funds		2,921		2,921		2,677		2,677
Bonds and Other Fixed								
Income Securities		69,792		69,792		57,502		57,502
Pooled Bond Fund		13,984		13,984		12,727		12,727
Pooled Canadian Equities		18,842		18,842		18,703		18,703
Pooled US Equities		6,675		6,675		6,434		6,434
Pooled International Equities		115,956		115,956		117,034		117,034
Pooled Real Estate Fund		119,940		119,940		113,248		113,248
Pooled Mortgage Fund		8,267		8,267		7,548		7,548
		356,377		356,377		335,873		335,873
<b>Investments Held at Amortized Cost:</b>								
Corporate Bonds				103,042				55,505
Preferred Shares				46,211				36,936
				149,253				92,441
<b>Investments Held at Modified Equity:</b>								
TRIUMF				2,288				1,974
	\$ 421,333	\$ 356,377	\$	\$ 929,251	\$ 404,623	\$ 335,873	\$	\$ 834,911

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.

The fair value of investments held at amortized cost is \$146,469 (2017, \$91,585). As at March 31, 2018 and March 31, 2017 there were no transfers of investments between levels 1, 2 or 3.

## 8. RISK EXPOSURE AND MANAGEMENT

The University uses a disciplined, fundamental approach in its investment selection and management, which consists of an intensive and ongoing research process of investment opportunities across a broad range of investment vehicles of various types of issuers (government, corporate or financial). As a result, the University is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests. The University, through the work of its investment committees and Treasury Office, has an investment policy statement in place governing asset mix,



# FINANCIAL STATEMENTS

permitted investments, diversification, and minimum credit quality. The most important risks relate to market risk: other price risk, interest rate risk, foreign currency risk, credit risk and liquidity risk. These risks and the related risk management practices employed by the University are detailed below.

## OTHER PRICE RISK

Other price risk represents the potential loss that can be caused by a change in the fair value of a financial instrument. The University's investments are subject to normal market fluctuations and the risks inherent in investment in the capital markets. Investments held to meet short term obligations focus on credit quality and liquidity to minimize the effect of other price risk on fair value. The majority of investments which are held for the long term to support the Endowment Fund are equities, bonds, segregated funds and pooled funds, and are subject to other price risk given their nature and the long term holding periods. Other price risk is managed through diversification provided by the Endowment Fund's asset allocation strategy, which emphasizes the importance of managing other price risk by maintaining appropriate levels of risk required to achieve consistent long term returns that meet the investment objectives of the Endowment Fund.

## INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. The University is subjected to this risk when it invests in interest-bearing financial instruments, or when it borrows funds using derivative financial instruments. Both investments and financial derivatives are exposed to the risk that their fair value will fluctuate due to changes in the prevailing levels of market interest rates.

The tables below summarize the University's exposure to interest rate risk related to financial instruments categorized by maturity dates.

### INTEREST RATE EXPOSURE AS AT MARCH 31, 2018

	Less than 90 days	90 days to 1 year	1 year to 5 years	5 years to 10 years	Greater than 10 years	Total
Cash Equivalents and Investments	37.2%	22.7%	7.7%	31.0%	1.4%	100%
Financial Derivatives		32.5%	17.1%	50.4%		100%

### INTEREST RATE EXPOSURE AS AT MARCH 31, 2017

	Less than 90 days	90 days to 1 year	1 year to 5 years	5 years to 10 years	Greater than 10 years	Total
Cash Equivalents and Investments	32.7%	34.2%	7.4%	24.0%	1.7%	100%
Financial Derivatives			30.7%	69.3%		100%

	March 31, 2018		March 31, 2017	
	Interest bearing instruments	Non-interest bearing instruments	Interest bearing instruments	Non-interest bearing instruments
Cash Equivalents and Investments	\$ 480,795	\$ 730,944	\$ 382,650	\$ 699,051
Financial Derivatives	\$ 3,500	\$	\$ 4,941	\$

As at March 31, 2018, a 0.5% fluctuation in interest rates, with all other variables held constant, would have an estimated impact as follows:

	2018	2017
Fair Value of Fixed Income Instruments	\$ 5,018	\$ 3,439
Interest Rate Swaps	\$ 775	\$ 1,000
Net Investment Income	\$ 2,579	\$ 2,105

## FOREIGN CURRENCY RISK

The University has cash and cash equivalents, receivables and payables denominated in foreign currencies and holds investments in foreign currency equity markets in both the Trust and Endowment Funds, and the Staff Benefits Fund. The income from these investments is used to meet financial liabilities denominated in Canadian dollars. The University does not actively manage foreign exchange risk.

The University's exposure in cash and investments to foreign currencies is shown below:

	2018		2017	
	\$	%	\$	%
Canadian Dollar	\$ 893,008	70.9%	\$ 807,998	70.0%
US Dollar	255,363	20.3%	235,008	20.4%
Euro	34,546	2.7%	34,351	3.0%
Japanese Yen	28,698	2.3%	27,834	2.4%
British Pound Sterling	18,901	1.5%	21,792	1.9%
Swiss Franc	14,077	1.1%	12,498	1.1%
Other	15,028	1.2%	15,009	1.2%
	<b>\$ 1,259,621</b>	<b>100.0%</b>	<b>\$ 1,154,490</b>	<b>100.0%</b>

As at March 31, 2018, an appreciation of 10% in the Canadian dollar versus foreign currencies exchange rates would increase investments and net remeasurement gains by approximately \$36,661 (2017, \$34,649), while a depreciation of 10% would decrease investments and net remeasurement gains by approximately \$36,661 (2017, \$34,649).

## CREDIT RISK

Credit risk represents the potential loss that the University would incur if its counterparties failed to perform in accordance with the terms of their obligations. The University invests in financial assets that have an investment grade as rated primarily by DBRS. Should DBRS not rate an issuer, the University may use Standard & Poor's, followed by the Moody's equivalent. Ratings for securities which subject the University to credit risk are noted below:

### % of Total Interest Bearing Investments

Investment Rating	2018		2017	
	\$	%	\$	%
R-1High	\$ 197,604	41.1%	\$ 161,090	42.1%
R-1Mid	28,112	5.8%	32,793	8.6%
R-1Low			498	0.1%
AAA	37,425	7.8%	25,589	6.7%
AA	123,042	25.6%	74,607	19.5%
A	28,712	6.0%	26,706	7.0%
BBB	5,702	1.2%	6,170	1.6%
CC	146			
Not Rated	60,052	12.5%	55,197	14.4%
	<b>\$ 480,795</b>	<b>100.0%</b>	<b>\$ 382,650</b>	<b>100.0%</b>

The University manages credit risk related to fixed income investments by focusing on high credit quality. Cash and cash equivalents are held in Canadian Chartered banks and Manitoba credit unions. Trust, Endowment and Capital Asset Fund investments are held in diverse portfolios of investments with counterparties considered to be of high quality.

The University also has credit risk related to accounts receivable and loan receivable. A significant portion of the University's accounts receivable 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

# FINANCIAL STATEMENTS

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 related to the loan receivable is offset by a loan payable to the Province of Manitoba with matching terms of repayment.

## LIQUIDITY RISK

The University aims to retain sufficient cash and cash equivalents to maintain liquidity and meet short term obligations. Most of the University's investments are considered readily realizable and liquid, thus liquidity risk is considered minimal. Investments that are not as liquid, such as the investment in the pooled real estate fund, are considered to be held for long term periods in conjunction with the investment objectives, risk tolerance and time horizon of the Endowment Fund.

## 9. CAPITAL ASSETS, NET OF ACCUMULATED AMORTIZATION

	2018		2017	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Assets Under Capital Lease	\$ 2,532	\$ 2,532	\$ 2,557	\$ 2,557
Buildings and Major Renovations	1,257,048	335,892	1,162,234	310,252
Computer Hardware, Software and Electronics	101,856	95,421	100,178	93,007
Construction in Progress	41,222		78,497	
Furniture and Equipment	295,346	224,569	283,054	214,017
Land	29,777		29,739	
Library Books	228,904	170,596	221,512	165,698
Parking Lots	10,138	5,447	9,983	4,948
Rare Books and Manuscripts	7,414		7,312	
Vehicles	9,102	7,638	8,870	7,513
Works of Art	3,852		3,986	
	1,987,191	842,095	1,907,922	797,992
Less Accumulated Amortization	842,095		797,992	
<b>Net Book Value</b>	<b>\$ 1,145,096</b>		<b>\$ 1,109,930</b>	

## 10. UNEARNED REVENUE

	2018	2017
Unearned Revenue	\$ 16,306	\$ 12,482
Deferred Contributions:		
Balance, Beginning of Year	5,548	1,352
Contributions Received	5,000	5,000
Less Amounts Recognized as Revenue	(2,334)	(804)
Balance, End of Year	8,214	5,548
	<b>\$ 24,520</b>	<b>\$ 18,030</b>

Deferred contributions represent unspent externally restricted contributions received for operating purposes from Manitoba Health.

## II. LONG TERM DEBT

	2018	2017
Stadium Long Term Debt:		
Province of Manitoba Loan, First Phase, 4.65% due June 1, 2038	\$ 118,682	\$ 116,971
Province of Manitoba Loan, Second Phase, 4.65% until June 1, 2053, due November 24, 2058	81,974	82,000
	200,656	198,971
Other Long Term Debt:		
Province of Manitoba:		
Promissory Note, 5.23% blended monthly payments \$413 due March 1, 2035	55,767	57,752
Promissory Note, 5.55% blended monthly payments \$428 due April 1, 2036	58,568	60,401
Promissory Note, 3.75% blended monthly payments \$129 due September 30, 2039	22,742	23,417
Promissory Note, 5.35% blended monthly payments \$173 due February 1, 2040	26,776	27,403
Term loans (with floating interest rates based on Bankers' Acceptance rates plus stamping fees):		
Multi-Tenant Facility, due February 28, 2019	7,192	7,442
Multi-Tenant Facility, due November 30, 2022	5,492	5,780
Arthur V. Mauro Student Residence, due October 1, 2023	10,230	10,909
	186,767	193,104
Allowance for First Phase (Note 6)	(118,682)	
	268,741	392,075
Less Current Portion:		
Province of Manitoba, Stadium	(3,244)	
Province of Manitoba	(5,391)	(5,120)
Term Loans	(1,282)	(1,217)
	(9,917)	(6,337)
	\$ 258,824	\$ 385,738

The effective interest rate on each of the term loans is the fixed interest rate based on an interest rate swap agreement plus a stamping fee (Note 12).

Interest expense on long term debt was \$13,611 (2017, \$19,074).

The University entered into a loan agreement with the Province of Manitoba related to the construction of Investors Group Field. 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 secondly 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 Triple B Stadium Inc. (Triple B) to the University in respect of the Triple B 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.

# FINANCIAL STATEMENTS

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 Triple B, unless the parties agree otherwise in writing.

## LOAN, SECOND PHASE:

Interest will be calculated annually and unpaid interest until December 31, 2017 shall be added to the first phase of the loan. Any unpaid interest after December 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 Triple B, on or before December 31, 2017.

Annual payments of principal and interest over the remainder of the second phase loan term are to be paid on or before December 31 of each calendar year commencing on December 31, 2018, based on the amortization of the loan following the December 31, 2017 payment. Payments are applied firstly to accrued interest after December 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 Triple B, unless the parties agree otherwise in writing.

Principal and interest outstanding at March 31 are:

	2018	2017
Loan, First Phase	\$ 75,000	\$ 75,000
Loan, First Phase Accrued Interest	21,104	22,265
Loan, Second Phase Accrued Interest	22,578	19,706
	118,682	116,971
Loan, Second Phase	81,043	82,000
Loan, Second Phase Accrued Interest	931	
	200,656	198,971
Allowance for First Phase	(118,682)	
	<b>\$ 81,974</b>	<b>\$ 198,971</b>

Principal repayments on long term debt payable over the next five years are as follows:

	Province of Manitoba, Stadium	Province of Manitoba	Term Loans	Total
2019	\$ 3,244	\$ 5,391	\$ 1,282	\$ 9,917
2020	768	5,676	1,355	7,799
2021	804	5,976	1,429	8,209
2022	841	6,293	1,507	8,641
2023	880	6,627	1,592	9,099
Thereafter	75,437	133,890	15,749	225,076
	<b>\$ 81,974</b>	<b>\$ 163,853</b>	<b>\$ 22,914</b>	<b>\$ 268,741</b>

## 12. OTHER LONG TERM LIABILITIES

	2018	2017
<b>Fair Value of Financial Derivatives:</b>		
Student Residence	\$ 1,765	\$ 2,516
Multi-Tenant Facility 150 Innovation Drive	599	908
Multi-Tenant Facility 900 One Research Road	1,136	1,517
	<b>3,500</b>	<b>4,941</b>
Retirement Allowance	3,880	3,990
	<b>\$ 7,380</b>	<b>\$ 8,931</b>
Fair Value of Financial Derivatives Beginning of Year	\$ 4,941	\$ 6,180
Unrealized (Gain) Loss Reported in the Statement of Remeasurement Gains and Losses	(1,441)	(1,239)
Fair Value of Financial Derivatives End of Year	\$ 3,500	\$ 4,941

Financial Derivatives are classified as Level 3.

### DERIVATIVE FINANCIAL LIABILITIES

The University has entered into separate interest rate swap agreements for three term loans. Each loan has a stamping fee and a floating interest rate based on Bankers' Acceptance rates. The floating interest rate has been swapped to a fixed rate as follows:

- The interest rate swap agreement for the loan for the construction of the Arthur V. Mauro Student Residence has a fixed interest rate of 5.62% that is committed until September 1, 2028. The notional principal underlying this swap agreement was \$10,230 as at March 31, 2018 (2017, \$10,909).
- The interest rate swap agreement for the loan for the development of the multi-tenant facility at 150 Innovation Drive has a fixed interest rate of 4.07% that is committed until February 13, 2032. The notional principal underlying this swap agreement as at March 31, 2018 was \$5,492 (2017, \$5,780).
- The interest rate swap agreement for the loan for the addition to the multi-tenant facility at 900 – One Research Road has a fixed interest rate of 4.4% that is committed until August 5, 2035. The notional principal underlying this swap agreement was \$7,192 as at March 31, 2018 (2017, \$7,442).

Under the terms of the agreements, the respective monthly interest and principal repayments are required similar to a conventional amortizing loan over a 25 year period.

### RETIREMENT ALLOWANCE

In 2017, the University entered into a letter of understanding with the University of Manitoba Faculty Association (UMFA) to provide a retirement allowance to eligible UMFA members in exchange for their voluntarily and irrevocable agreement to retire. The allowance is dependent upon the UMFA member's age and the number of advance years of notice given to the University prior to retirement. To be eligible, the member must be at least fifty-five years of age and have at least fifteen years of service at the University on a date that they have chosen as their retirement date. UMFA members have up to three years to enroll in the program and must retire within three years of their enrolment. The University's policy is to record the estimated liability once members enroll. As at March 31, 2018, the estimated liability is \$5,913 (2017, \$4,849) with \$2,033 (2017, \$859) being a current liability included in accounts payable and \$3,880 (2017, \$3,990) representing a long term liability.

# FINANCIAL STATEMENTS

## 13. EMPLOYEE FUTURE BENEFITS

The University 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 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. A firm of consulting actuaries prepared an actuarial valuation for the post-retirement adjustments plan as at March 31, 2018. They also prepared extrapolations to March 31, 2018 of the 2016 actuarial valuations for the non-pension benefit plans. The actuarial gains and losses are amortized over nine years commencing in the year following the year the respective annual actuarial gains or losses arise.

The Accrued Benefit Obligations 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	Total
	2018	2017	2018	2017	2018	2017
Accrued Benefit Obligations	\$ 75,552	\$ 72,988	\$ 1,845	\$ 2,068	\$ 77,397	\$ 75,056
Unamortized Actuarial Gains	6,483	5,863	112	134	6,595	5,997
<b>Employee Future Benefits</b>						
<b>Liability</b>	<b>\$ 82,035</b>	<b>\$ 78,851</b>	<b>\$ 1,957</b>	<b>\$ 2,202</b>	<b>\$ 83,992</b>	<b>\$ 81,053</b>
Benefit Cost	\$ 4,440	\$ 4,486	\$ 52	\$ 67	\$ 4,492	\$ 4,553
Plan Assets	58,642	54,441	639	763	59,281	55,204
Employer Contribution	5,457	5,441	173	186	5,630	5,627
Employees' Contributions	3,466	3,428			3,466	3,428
Benefits Paid	8,158	8,093	346	372	8,504	8,465
Plan assets consist of:						
	2018	2017	2018	2017		
Money Market Funds and Cash	4.4%	4.4%	4.4%	4.4%		
Equities	51.6%	52.4%	51.6%	52.4%		
Fixed Income	21.5%	21.1%	21.5%	21.1%		
Pooled Real Estate	9.8%	9.6%	9.8%	9.6%		
Mortgage Fund	12.7%	12.5%	12.7%	12.5%		
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>		

Continued on page 45...

...Continued from page 44

	<b>Non-Pension Benefit Plans</b>		<b>Post-Retirement Adjustments</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Significant Long-term Actuarial Assumptions:				
Discount Rate	5.4%	5.5%	5.4%	5.5%
Benefit Cost for Year Ended March 31:				
Discount Rate	5.5%	5.6%	5.5%	5.6%
Expected Rate of Return on Assets	5.5%	5.6%	5.5%	5.6%
Health Care Cost Trend Rates at March 31:				
Initial Rate	7.5%	7.5%		
Ultimate Rate	5.0%	5.0%		
Year Ultimate Rate Reached	2027	2027		
Dental Care Cost Trend				
Rates at March 31:	5.0% to 2018, 4.5% thereafter	5.0% to 2018, 4.5% thereafter		

## 14. INTER-FUND ADVANCES AND LOANS

As at March 31, 2018, the Restricted Funds owed the General Funds \$4,106. At March 31, 2017, the General Funds owed the Restricted Funds \$3,703.

## 15. CONTRIBUTED CAPITAL ASSETS

Contributions recognized in the Capital Asset Fund include contributed building, capital equipment, library books and artwork of \$353 (2017, \$979).

## 16. PENSION PLANS

The University is the sponsor of two pension plans, The University of Manitoba GFT Pension Plan (1986), and The University of Manitoba Pension Plan (1993). During the year the 1970 Plan was merged with the 1993 Plan.

The University has separate Pension Committees to act as Plan Administrator for each of the 1993 and 1986 Plans.

Each of the 1993 Pension Committee and 1986 Pension Committee has 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.

Both 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.

### 1993 PLAN

The University of Manitoba Pension Plan (1993) is a money purchase plan with a defined benefit minimum. The following is a summary of the Plan:



# FINANCIAL STATEMENTS

Staff members of the University, other than those eligible for membership in The University of Manitoba GFT Pension Plan (1986), are eligible for membership in The University of Manitoba Pension Plan (1993). The Plan members contributed at the rate of 9.0% of salary less an adjustment for the Canada Pension Plan during the year. The University matches these contributions. If an actuarial valuation reveals a deficiency in the fund, *The Pension Benefits Act* of the Province of Manitoba requires that the University make additional contributions to fund the deficiency.

The Plan provides for full and immediate vesting on termination of employment, subject to the provisions of *The Pension Benefits Act* of the Province of Manitoba.

At retirement, the Plan provides that the Member's Contribution Account and University Contribution Account are applied to establish retirement income known as a plan annuity. This annuity is determined using a pension factor established by the Actuary and is paid from the Plan. The Plan provides that if the defined benefit pension based on a formula involving the member's years of service and highest average earnings exceeds the plan annuity, the difference (known as a supplementary pension) is paid from the Plan.

The Plan provides for retirement benefits paid from the Plan to be increased using an excess interest approach, provided such increase can be afforded by the Plan as confirmed by the Actuary.

At the December 31, 2016 valuation of the Plan, there were 5,209 active member accounts with an average salary weighted age of 52.0 for academic staff and 46.8 for support staff, and 1,314 annuitants and other recipients.

The actuarial method used to value the liabilities is the projected unit credit method, prorated on services. An actuarial valuation for accounting purposes was prepared by a firm of consulting actuaries as at December 31, 2016 and extrapolated to December 31, 2017.

The University uses a December 31 measurement date for reporting plan assets and obligations. Pension liability is calculated as follows:

	2017	2016
<b>Accrued Benefit Obligations</b>		
Actuarial present value of accrued pension benefits, beginning of year	\$ 1,199,887	\$ 1,173,668
Interest accrued on defined benefits	23,815	24,924
Interest accrued on member accounts	68,097	61,725
Benefits accrued	58,014	57,093
Benefits paid	(96,661)	(102,617)
Actuarial gains (losses)	(8,332)	(8,839)
Plan amendment	377	
Change in actuarial assumptions	(3,565)	(6,067)
Actuarial present value of accrued pension benefits, end of year	1,241,632	1,199,887
<b>Plan Assets</b>		
Fair value, beginning of year	1,156,502	1,099,448
Actual return on plan assets	108,807	99,919
Employer contributions calendar year	34,693	34,092
Employee contributions	26,288	25,462
Transfer from other plans	2,761	198
Benefits paid	(96,661)	(102,617)
Fair value, end of year	1,232,390	1,156,502
Plan deficit	9,242	43,385
Contributions during fiscal year in excess of calendar year	(8,996)	(8,994)
Adjusted plan deficit	246	34,391
Unamortized net actuarial gains (losses)	20,181	(10,048)
<b>Pension Liability</b>	<b>\$ 20,427</b>	<b>\$ 24,343</b>

Continued on page 47...

# FINANCIAL STATEMENTS

...Continued from page 46

## Net Benefit Plan Expense

Current service cost, net of employee contributions	\$ 31,366	\$ 31,433
Interest costs at discount rate	62,966	62,383
Expected return on plan assets	(62,645)	(60,369)
Prior period cost	(2,024)	
Amortization of net actuarial losses	1,116	5,030
Net benefit plan expense	\$ 30,779	\$ 38,477

## Reconciliation of Unamortized Gains (Losses)

Expected average remaining service life	9.00	9.00
Net unamortized gain (loss), beginning of year	\$ (10,048)	\$ (45,268)
New net gain (loss) for current year	29,113	30,190
Amortization for current year	1,116	5,030
Net unamortized gain (loss), end of year	\$ 20,181	\$ (10,048)

## Plan Assets Measured at Fair Value Consist of:

Cash and Other	\$ 28,784	\$ 20,867
Bonds and Debentures	145,843	143,834
Canadian Equities	257,194	255,768
Mortgages	167,969	163,076
Real Estate	125,100	99,061
Foreign Equities	507,500	473,896
	\$ 1,232,390	\$ 1,156,502

## Significant Long-Term Actuarial Assumptions

Discount rate	5.50%	5.50%
Expected rate of return on assets	5.50%	5.50%
Rate of general salary increase	0% 2018, 0.75% 2019, 1% 2020, 1.5% 2021, 2.5% thereafter	1.5% to 2022, 2.5% thereafter
Interest assumption for converting member accumulations to annuities	3.75%	3.75%
Mortality	Canadian Pensioners' Mortality 2014 Public Sector Table, with age-related adjustments. Projected generationally from 2014 using Scale CPM-B.	Canadian Pensioners' Mortality 2014 Public Sector Table, with age-related adjustments. Projected generationally from 2014 using Scale CPM-B.

Pension Plan Assets are valued at market values. The expected rate of return on plan assets net of expenses is 5.5% (2016, 5.5%). The actual return on pension fund assets was 9.5% (2016, 9.3%).

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 2018 was \$4.6 million (2017, \$3.5 million).

The unamortized net actuarial gains (losses) shown above, which were determined on the basis of the 2016 actuarial valuation and the 2017 extrapolation for accounting purposes, are being amortized over a period of nine years (expected

# FINANCIAL STATEMENTS

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 fifteen years. The payments are \$4.0 million annually until the going concern deficit is eliminated, based on the December 2016 funding valuation. This total payment for fiscal 2018 was \$3.7 million (2017, \$5.1 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 Pension Benefits Act* and the funding deficit payments are being paid by the University over the maximum of fifteen years as indicated above.

## 1986 PLAN

For the 1986 Plan, which is a money purchase plan for active members, the University recorded contributions of \$2,089 (2017, \$1,976) and this is included in the Statement of Operations and Changes in Fund Balances as an expense.

## 17. NET INVESTMENT INCOME

	General Funds	Restricted Funds	Total 2018	Total 2017
Non Portfolio Investments:				
Interest	\$ 3,228	\$ 5,366	\$ 8,594	\$ 13,183
Net Gains	413		413	
	3,641	5,366	9,007	13,183
Portfolio Investments:				
Interest	3,406	1,720	5,126	3,420
Dividends		11,412	11,412	11,754
Net Gains on Sale of Investments		35,678	35,678	28,582
	3,406	48,810	52,216	43,756
	\$ 7,047	\$ 54,176	\$ 61,223	\$ 56,939

## 18. INTEREST IN RELATED ENTITIES

### UM PROPERTIES LIMITED PARTNERSHIP

In 2008, the University purchased approximately 120 acres of land from the Southwood Golf and Country Club (Southwood lands). The University is pursuing the development of the Southwood lands through UM Properties Limited Partnership (the Partnership) which was created in 2016-17.

The Partnership is responsible for the planning and development of the infrastructure and roadways of the Southwood lands and will negotiate with builders/developers for the construction of residential and commercial buildings located on the Southwood lands. It is the intent of the University to transfer an interest in the lands to the Partnership by selling its fee simple interest, or by entering into a long term lease.

The Partnership has a sole general partner and sole limited partner. UM Properties GP Inc. is the general partner and a wholly owned subsidiary of the University. UM Properties Trust (the Trust) is a legal trust and is the limited partner.

UM Properties Holdings Inc. (the Corporate Trustee) is a wholly owned subsidiary of the University, and is the sole trustee of the Trust. Income will flow from the Partnership to the Trust. The Corporate Trustee is responsible to allocate the taxable income of the Trust in any given year. The University and the J.W. Dafoe Foundation are the beneficiaries of the Trust.

The Trust is taxable on any taxable income that is not allocated to the beneficiaries.

There was minimal financial activity in 2017-18.

## 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 Subsection 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. 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 from time to time. The gifts received in fiscal 2018 were \$2,067 (2017, \$1,406).

## TRIUMF

The University has an 8.33% (2016, 8.33%) interest in TRIUMF, a joint venture which operates a national laboratory for particle and nuclear physics. The University uses the modified equity method of accounting to record its interest in TRIUMF.

Available financial information in respect of TRIUMF is disclosed below:

	March 31, 2017	U of M's Proportionate Share	March 31, 2016	U of M's Proportionate Share
<b>Statement of Financial Position:</b>				
Assets	\$ 47,730	\$ 3,976	\$ 32,020	\$ 2,667
Liabilities	20,262	1,688	8,322	693
<b>Net Assets</b>	<b>\$ 27,468</b>	<b>\$ 2,288</b>	<b>\$ 23,698</b>	<b>\$ 1,974</b>
<b>Statement of Operations:</b>				
Revenue	\$ 74,694	\$ 6,222	\$ 71,873	\$ 5,987
Expenses	70,925	5,908	68,286	5,688
<b>Surplus for the Year</b>	<b>\$ 3,769</b>	<b>\$ 314</b>	<b>\$ 3,587</b>	<b>\$ 299</b>
<b>Statement of Cash Flows:</b>				
Cash Provided by (Used in):				
Operating Activities	\$ 15,597	\$ 1,299	\$ 5,364	\$ 447
Investing Activities	(148)	(12)	(7,171)	(597)
<b>Increase (Decrease) in Cash</b>	<b>\$ 15,449</b>	<b>\$ 1,287</b>	<b>\$ (1,807)</b>	<b>\$ (150)</b>

TRIUMF's financial statements have been prepared in accordance with section 11B of the TRIUMF joint venture agreement. TRIUMF has adopted Canadian Public Sector Accounting Standards (PSAS), including accounting standards that apply to government not-for-profit organizations, except that all property, plant and equipment purchased or constructed for use at TRIUMF and related decommissioning costs (if any) are expensed in the period in which the costs are incurred. The financial statements for the year ended March 31, 2018 are not available.

TRIUMF follows the restricted fund method of accounting for contributions.

# FINANCIAL STATEMENTS

## 19. OTHER RELATED PARTY TRANSACTIONS

The University has significant influence in Triple B Stadium Inc. (Triple B). Triple B is a for-profit corporation established to develop, own and operate a stadium as a venue for professional and university football and community athletics. The members of Triple B are the City of Winnipeg, the University of Manitoba and the Winnipeg Football Club. Activities of Triple B 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 Triple B related to the use of the stadium for university football games and events at nil charge.

As at March 31, 2018 and for the year then ended, the related party transactions pertaining to Investors Group Field, with Triple B and the Province of Manitoba were as follows:

	2018	2017
Loans Receivable, including accrued interest	\$ 81,974	\$ 198,971
Loans Payable, including accrued interest	\$ 81,974	\$ 198,971
Revenue and Expenses:		
Investment Income	\$ 3,803	\$ 8,945
Gain on Long Term Debt	\$ 118,682	
Interest Expense	\$ 3,803	\$ 8,945
Loss on Loan Receivable Allowance	\$ 118,682	

The investment income from Triple B and related interest expense of \$3,803 (2017, \$8,945) has been included in the Statement of Operations and Changes in Fund Balances. However, these amounts have not been included in Statement of Cash Flow supplementary information as the interest was neither received nor paid during the year. Any related payments received for the loan receivable and payments made on the related debt were applied against the outstanding principal.

The University controls Partners for Health and Development in Africa (PHDA), a non-profit, non-governmental organization registered in Kenya. PHDA has a March 31 year end. Its main purpose is to promote health and economic development in Kenya and Africa, including promotion of health and economic services in HIV/AIDS and population and reproductive health. PHDA uses International Public Sector Accounting Standards.

The University funds the operations of PHDA by the transfer of research grants. PHDA is not permitted under local government restrictions to transfer any assets back to the University. Available financial information in respect of PHDA is disclosed below. The financial statements for the year ended March 31, 2018 are not available. PHDA operates in Kenyan Schillings and the amounts below have been converted to Canadian dollars.

	March 31, 2017	March 31, 2016
<b>Statement of Financial Position:</b>		
Assets	\$ 510	\$ 800
Liabilities	379	354
<b>Net Assets</b>	<b>\$ 131</b>	<b>\$ 446</b>
<b>Statement of Operations:</b>		
Revenue	\$ 5,140	\$ 6,026
Expenses	5,454	5,687
<b>Surplus (Loss) for the Year</b>	<b>\$ (314)</b>	<b>\$ 339</b>
Cash Provided by (Used in):		
Operating Activities	\$ (172)	\$ 353
Investing Activities	(9)	(60)
<b>Increase (Decrease) in Cash</b>	<b>\$ (181)</b>	<b>\$ 293</b>

Total transfers in 2017 to PHDA were \$4,494 (2016, \$5,633).

# FINANCIAL STATEMENTS

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

## 20. EXPENSE BY FUNCTION

	General Funds	Restricted Funds	2018 Total Funds	2017 Total Funds
<b>Expense</b>				
Academic	\$ 341,093	\$ 126,830	\$ 467,923	\$ 455,692
Amortization		55,595	55,595	54,645
Student Assistance	15,351	45,455	60,806	57,511
Plant Maintenance	47,130	13	47,143	43,335
Administration and General	33,057	14,688	47,745	39,766
Ancillary Services	25,111		25,111	25,699
Computing and Communications	26,179		26,179	24,044
Other Academic and Research Support	24,252	4,159	28,411	26,522
Student Services	18,947		18,947	18,793
Interest		13,611	13,611	19,074
Libraries	16,725	1	16,726	16,991
External Relations	11,303		11,303	11,174
Actuarially Determined Employee Future Benefits	2,939		2,939	4,527
Change in Pension Liability	(3,916)		(3,916)	3,771
Staff Benefits Contra	(3,731)		(3,731)	(1,761)
Loss on Loan Receivable Allowance		118,682	118,682	
Loss on Disposal of Capital Assets				1,000
<b>Total</b>	<b>\$ 554,440</b>	<b>\$ 379,034</b>	<b>\$ 933,474</b>	<b>\$ 800,783</b>

# FINANCIAL STATEMENTS

## 21. STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES – GENERAL FUNDS

	General Operating Fund	Specific Provisions Fund	Expenses Funded From Future Revenues Fund	2018 Total General Funds	2017 Total General Funds
<b>Revenue</b>					
Tuition and Related Fees	\$ 170,139	\$	\$	\$ 170,139	\$ 163,571
Donations	2,676			2,676	3,849
Non-Government Grants	5,116			5,116	4,845
Net Investment Income ( <i>Note 17</i> )	7,047			7,047	4,765
Miscellaneous Income	8,111			8,111	7,309
Government Grants:					
Manitoba Education and Training	356,822			356,822	356,762
Other Province of Manitoba	25,976			25,976	24,601
Government of Canada	9,804			9,804	10,836
City of Winnipeg	151			151	51
Sales of Goods and Services	34,724			34,724	34,595
Ancillary Services	38,416			38,416	37,983
	<b>658,982</b>			<b>658,982</b>	<b>649,167</b>
<b>Expenses</b>					
Salaries	359,896			359,896	350,262
Staff Benefits and Pay Levy	66,783			66,783	76,961
Materials, Supplies and Services	54,881			54,881	48,728
Student Assistance	15,351			15,351	15,437
Professional Consulting and Externally Contracted Services	16,673			16,673	19,220
Travel and Conferences	12,084			12,084	11,209
Utilities, Municipal Taxes and Insurance	19,746			19,746	19,174
Maintenance and Repairs	9,026			9,026	5,880
	<b>554,440</b>			<b>554,440</b>	<b>546,871</b>
<b>Net Revenue from Operating Activities</b>	104,542			104,542	102,296
Inter-Fund Transfers ( <i>Note 23</i> )	(104,540)	28,812	2,916	(72,812)	(70,765)
Net Increase (Decrease) to Fund					
Balances from Operating Activities	2	28,812	2,916	31,730	31,531
Fund Balances from Operating Activities					
Beginning of Year	2,384	133,769	(69,933)	66,220	34,689
Fund Balances from Operating Activities					
End of Year	2,386	162,581	(67,017)	97,950	66,220
Accumulated Remeasurements Gains (Losses) End of Year	87			87	3
<b>Fund Balances End of Year</b>	<b>\$ 2,473</b>	<b>\$ 162,581</b>	<b>\$ (67,017)</b>	<b>\$ 98,037</b>	<b>\$ 66,223</b>
Unrestricted Funds	\$ 2,473	\$	\$ (67,017)	\$ (64,544)	\$ (67,546)
Internally Restricted Funds ( <i>Note 24</i> )		162,581		162,581	133,769
	<b>\$ 2,473</b>	<b>\$ 162,581</b>	<b>\$ (67,017)</b>	<b>\$ 98,037</b>	<b>\$ 66,223</b>

# FINANCIAL STATEMENTS

## 22. STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES – RESTRICTED FUNDS

	Capital Asset Fund	Research and Special Fund	Staff Benefits Fund	Trust Fund	2018 Total Restricted Funds	2017 Total Restricted Funds
<b>Revenue</b>						
Donations	\$ 7,051	\$ 37	\$	\$ 10,211	\$ 17,299	\$ 9,824
Non-Government Grants	1,098	78,051			79,149	79,139
Net Investment Income (Note 17)	4,648	465	1,020	48,043	54,176	52,174
Miscellaneous Income	2,727	314	3,701		6,742	7,700
Government Grants:						
Manitoba Education and Training	6,701				6,701	7,015
Other Province of Manitoba	5,635	31,836			37,471	34,861
Government of Canada	21,322	76,995			98,317	73,635
City of Winnipeg	30				30	
Sales of Goods and Services	27	401			428	506
Gain on Long Term Debt (Note 11)	118,682				118,682	
	<b>167,921</b>	<b>188,099</b>	<b>4,721</b>	<b>58,254</b>	<b>418,995</b>	<b>264,854</b>
<b>Expenses</b>						
Salaries		38,675			38,675	39,366
Staff Benefits and Pay Levy		7,017			7,017	7,323
Materials, Supplies and Services		49,504	6,434	528	56,466	52,326
Amortization of Capital Assets	55,595				55,595	54,645
Student Assistance		24,203		21,252	45,455	42,074
Professional Consulting and Externally						
Contracted Services		25,953	141	3,795	29,889	25,884
Travel and Conferences		13,158			13,158	11,815
Utilities, Municipal Taxes and Insurance		68			68	33
Interest	13,611				13,611	19,074
Maintenance and Repairs		418			418	372
Loss on Loan Receivable Allowance (Note 6)	118,682				118,682	
Loss on Disposal of Capital Assets						1,000
	<b>187,888</b>	<b>158,996</b>	<b>6,575</b>	<b>25,575</b>	<b>379,034</b>	<b>253,912</b>
<b>Net Revenue (Loss) from Operating Activities</b>	(19,967)	29,103	(1,854)	32,679	39,961	10,942
Inter-Fund Transfers (Note 23)	80,586	(7,494)	1,137	(1,998)	72,231	64,870
Net Increase (Decrease) to Fund						
Balances from Operating Activities	60,619	21,609	(717)	30,681	112,192	75,812
Fund Balances from Operating						
Activities Beginning of Year	1,044,055	142,122	(11)	218,246	1,404,412	1,328,600
Fund Balances from Operating						
Activities End of Year	1,104,674	163,731	(728)	248,927	1,516,604	1,404,412
Accumulated Remeasurements						
Gains (Losses) End of Year	2,011	694	11,577	(15,184)	(902)	4,164
<b>Fund Balances End of Year</b>	<b>\$ 1,106,685</b>	<b>\$ 164,425</b>	<b>\$ 10,849</b>	<b>\$ 233,743</b>	<b>\$ 1,515,702</b>	<b>\$ 1,408,576</b>
Internally Restricted Funds (Note 24)	\$	\$ 8,715	\$ 3,059	\$ 67,741	\$ 79,515	\$ 74,130



# FINANCIAL STATEMENTS

Externally Restricted Funds (Note 25)		155,710	7,790	166,002	329,502	289,821
Invested in Capital Assets (Note 25)	1,106,685				1,106,685	1,044,625
	<b>\$ 1,106,685</b>	<b>\$ 164,425</b>	<b>\$ 10,849</b>	<b>\$ 233,743</b>	<b>\$1,515,702</b>	<b>\$ 1,408,576</b>

## 23. INTER-FUND TRANSFERS

	General Operating Fund	Specific Provisions Fund	Expenses Funded From Future Revenues Fund	Total General Funds	Total Restricted Funds	Endowment Fund
Funding of Capital Asset Additions:						
Current Year Acquisitions	\$ (21,620)	\$	\$	\$ (21,620)	\$ 21,620	\$
Centrally Funded Projects	(20,190)			(20,190)	20,190	
Faculty and Unit Funded Projects	(19,527)	(412)		(19,939)	19,939	
<b>Total Funding of Capital Asset Additions</b>	<b>(61,337)</b>	<b>(412)</b>		<b>(61,749)</b>	<b>61,749</b>	
Debt Funding:						
Ancillary Services	(4,978)			(4,978)	4,978	
Faculties	(1,542)			(1,542)	1,542	
Unit Capital Development Assessment	(5,358)			(5,358)	5,358	
Student Contributions for Technology	(3,589)			(3,589)	3,589	
Other	(555)			(555)	555	
<b>Total Debt Funding</b>	<b>(16,022)</b>			<b>(16,022)</b>	<b>16,022</b>	
Scholarships, Bursaries and Prizes:						
Faculty and Unit Funded	(2,354)			(2,354)	2,352	2
Centrally Funded	(7,516)			(7,516)	7,458	58
<b>Total Scholarships, Bursaries and Prizes</b>	<b>(9,870)</b>			<b>(9,870)</b>	<b>9,810</b>	<b>60</b>
Transfers to Provisions for Specific Projects:						
Faculty and Unit Funded	(9,159)	9,159				
Centrally Funded	(12,607)	12,607				
<b>Total Transfers to Provisions for Specific Projects</b>	<b>(21,766)</b>	<b>21,766</b>				
Benefit Premiums Net of Employer						
Contributions for Staff Benefits	(3,731)			(3,731)	3,731	
Student Contribution to University						
Development Fund	(1,041)			(1,041)	210	831
Overhead Recoveries	6,265			6,265	(6,265)	
Funding of General Operating Expenses	20,314	(4,129)		16,185	(16,185)	
Net Change in Unit Carryover	(11,587)	11,587				
Funding of Research Projects	(5,442)			(5,442)	5,442	
Employee Future Benefits	2,939		(346)	2,593	(2,593)	
Pension Liability	(3,916)		3,916			
Vacation and Sick Leave Liability	654		(654)			
Other Net Transfers					310	(310)
<b>March 31, 2018</b>	<b>\$ (104,540)</b>	<b>\$ 28,812</b>	<b>\$ 2,916</b>	<b>\$ (72,812)</b>	<b>\$ 72,231</b>	<b>\$ 581</b>
March 31, 2017	\$ (102,278)	\$ 36,101	\$ (4,588)	\$ (70,765)	\$ 64,870	\$ 5,895

## 24. INTERNALLY RESTRICTED FUND BALANCES

Internally restricted fund balances represent amounts set aside by the University for specific purposes. Within the Specific Provisions Fund is \$110,401 (2017, \$91,609) that is set aside at the request of faculties and units while \$52,180 (2017, \$42,160) has been set aside at the discretion of senior administration. Included in the \$110,401 is faculty and unit carryover of \$87,448 (2017, \$75,861). Although the entire provision balance of \$162,581 (2017, \$133,769) is deemed internally restricted, senior administration is not able to repurpose the \$110,401 (2017, \$91,609) as it is bound by certain restrictions including collective agreements.

	2018	2017
<b>General Funds</b>		
Specific Provisions	\$ 162,581	\$ 133,769
<b>Restricted Funds</b>		
Research and Special	8,715	7,296
Staff Benefits	3,059	2,729
Trust	67,741	64,105
	79,515	74,130
<b>Total Internally Restricted Fund Balances</b>	<b>\$ 242,096</b>	<b>\$ 207,899</b>

## 25. EXTERNALLY RESTRICTED FUND BALANCES

Externally restricted fund balances represent unexpended fund balances to be used in future years. External parties have imposed specific restrictions on how the funds can be used and the terms cannot be altered without explicit permission from these funders. Endowed fund balances represent donations received that must be held in perpetuity. The endowed contributions generate an investment return which is made available for spending in the Trust Fund. Invested in Capital Assets represents capital assets and the net assets held for capital purchases or debt repayment.

	2018	2017
<b>Endowed</b>	<b>\$ 473,403</b>	<b>\$ 468,296</b>
<b>Invested in Capital Assets</b>	<b>\$ 1,106,685</b>	<b>\$ 1,044,625</b>
<b>Externally Restricted</b>		
Research and Special	\$ 155,710	\$ 134,896
Staff Benefits	7,790	6,037
Trust	166,002	148,888
<b>Externally Restricted</b>	<b>\$ 329,502</b>	<b>\$ 289,821</b>
	<b>\$ 1,909,590</b>	<b>\$ 1,802,742</b>

## 26. CONTRACTUAL RIGHTS

As part of its operations, the University enters into agreements with varying expiry dates for which it is entitled to receive revenues in the form of rental agreements. Total amounts outstanding from these agreements are as follows:

2019	\$ 2,984
2020	2,042
2021	822
2022	483
2023	483
Thereafter	7,759
	<b>\$ 14,573</b>

# FINANCIAL STATEMENTS

## 27. CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The University 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 amounted to \$57,420 (2017, \$39,950). The contractual obligations relating to service contracts was \$21,461 (2017, \$27,912).

In 2017, the University of Manitoba Faculty Association (UMFA) filed an application for remedy for unfair labour practice against the University. UMFA brought forward these allegations with The Manitoba Labour Board and alleged that the University failed to bargain collectively in good faith under *The Labour Relations Act*. UMFA was seeking both financial and non-financial remedies.

On January 28, 2018, the Manitoba Labour Board issued its decision and ordered the University to:

- Pay up to \$2 to UMFA
- Pay up to \$2 to each UMFA member
- Apologize in writing to UMFA

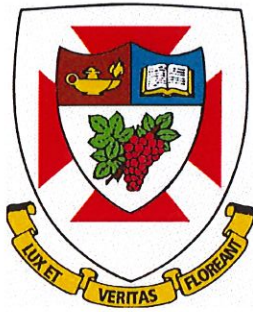
On May 11, 2018 the University issued an apology to UMFA members and agreed to pay the maximum penalty of \$2,402 which has been accrued.

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 \$60,700 as of March 31, 2017, 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, 2017 is estimated at \$4,100 (2016, \$2,800). The March 31, 2018 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.

The University is a defendant in a number of legal proceedings arising in the normal course of business. While the ultimate outcome and liability of these proceedings cannot be reasonably estimated at this time, the University believes that any settlement will not have a material adverse effect on the financial position or the results of operations of the University. Management has concluded that none of the claims meet the criteria for recognizing a liability.

## 28. COMPARATIVE FIGURES

Comparative figures for the year ended March 31, 2017 have been reclassified, where appropriate, to conform with the presentation adopted for the year ended March 31, 2018.



# THE UNIVERSITY OF WINNIPEG

WINNIPEG, MANITOBA, CANADA

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED MARCH 31, 2018**



# THE UNIVERSITY OF WINNIPEG

## UNIVERSITY OF WINNIPEG

### MANAGEMENT REPORT

The accompanying consolidated financial statements are the responsibility of management and have been prepared in accordance with Canadian public sector accounting standards (PSAS) for government not-for-profit organizations (GNFPOs), including the 4200 series of standards, as issued by the Public Sector Accounting Board.

The University's Board of Regents is responsible for overseeing the business affairs of the University including approving the consolidated financial statements. The Board has delegated the responsibility for reviewing these annual consolidated financial statements and meeting with management and the external auditor on matters relating to the financial reporting to its Audit and Risk Committee. The external auditor has full access to the Audit and Risk Committee with or without the presence of management. The Board of Regents has reviewed and approved these annual consolidated financial statements.

In management's opinion, these annual consolidated 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 integrity of internal controls is reviewed on an on-going basis by the University's Audit Services.

The external auditor, KPMG LLP, is responsible for auditing these annual consolidated financial statements and for issuing a report thereon. The Auditor's Report outlines the scope of his examination and provides his opinion on the fairness of presentation.

On Behalf of Management

*(Original signed by Michael Emslie)*

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Michael Emslie, CPA, CA  
Vice-President Finance & Administration

*(Original signed by Gary Pawlychka)*

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Gary Pawlychka, CPA, CGA  
Executive Director, Financial Reporting

Winnipeg, Manitoba  
June 18, 2018





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## INDEPENDENT AUDITORS' REPORT

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, 2018, the consolidated 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 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.

### *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 our 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, we 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 The University of Winnipeg as at March 31, 2018, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Signed "**KPMG LLP**"

Chartered Professional Accountants

June 18, 2018

Winnipeg, Canada

**THE UNIVERSITY OF WINNIPEG**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
As at March 31, 2018, with comparative information for 2017  
Amounts in Thousands

**Statement I**

	2018	2017
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents (Notes 3, 7)	\$ 34,946	\$ 31,392
Short Term Investments (Note 4)	484	102
Accounts Receivable (Note 15)	6,317	3,169
Current Portion of Long Term Receivables (Note 5)	43	41
Due from Related Parties (Note 22)	1,069	1,909
Prepaid Expenses and other assets	1,529	1,625
	<u>44,388</u>	<u>38,238</u>
Long Term Investments (Note 4)	2,330	1,767
Long Term Receivable (Note 5)	4,441	4,444
Capital Assets (Note 6)	197,132	197,977
	<u>\$ 248,291</u>	<u>\$ 242,426</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 15,545	\$ 11,864
Deferred Revenue	7,229	6,626
Deferred Contributions (Note 9)	10,708	9,691
Accrued Vacation Pay	2,580	2,739
Current Portion of Obligations Under Capital Leases (Note 10)	64	157
Current Portion of Long Term Debt (Note 12)	1,409	1,352
Due to Related Parties (Note 22)	966	668
	<u>38,501</u>	<u>33,097</u>
Obligations under Capital Leases (Note 10)	-	64
Long Term Liabilities (Note 12)	64,084	65,433
Deferred Capital Contributions (Note 11)	127,282	129,001
Obligations for Compensated Absences (Note 8)	350	418
Pension Obligation (Note 16)	8,204	10,087
	<u>238,421</u>	<u>238,100</u>
Net Assets:		
Unrestricted Net Deficiency	(24,163)	(28,168)
Internally Restricted (Note 13)	7,473	6,651
Externally Restricted (Note 14)	3,622	3,671
Investment in Capital Assets	22,938	22,172
	<u>9,870</u>	<u>4,326</u>
	<u>\$ 248,291</u>	<u>\$ 242,426</u>
Special Purpose and Trust Assets (Notes 3, 13)		
Contractual Obligations (Notes 10, 17, 19, 20)		
Contractual Rights (Note 18)		
Contingencies (Note 24)		

Approved by the Board of Regents

(Original signed by Albina Moran)

Chair, Board of Regents

(Original signed by Annette Trimbee)

President & Vice Chancellor

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



**THE UNIVERSITY OF WINNIPEG**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
For The Year Ended March 31, 2018 , with comparative information for 2017  
Amounts in Thousands

**Statement II**

	2018	2017
<b>REVENUE</b>		
Government Grants:		
Education and Advanced Learning	\$ 71,118	\$ 71,262
Province of Manitoba, other	1,045	793
Government of Canada	7,561	6,571
Student Academic Fees	48,723	45,186
Gifts and Bequests	3,675	4,118
Interest Income	788	644
Sales of Services and Products	3,559	3,167
Other Revenues	6,424	8,056
Amortization of Deferred Capital Contributions (Note 11)	3,967	3,872
	<u>146,860</u>	<u>143,669</u>
<b>EXPENSES</b>		
Salaries and Benefits	91,697	91,713
Supplies, Services and Other Expenses	18,284	16,640
Cost of Sales	898	922
Building, Utilities and Related Expenses	12,540	14,537
Interest	3,152	3,178
Provincial and Municipal Taxes	1,901	1,878
Scholarships and Awards	5,179	4,529
Gifts to Related Party (Note 22)	1,061	2,008
Amortization of Capital Assets	6,555	6,320
	<u>141,267</u>	<u>141,725</u>
Excess of Revenue over Expenses	<u>\$ 5,593</u>	<u>\$ 1,944</u>

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

**THE UNIVERSITY OF WINNIPEG**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**  
For the Year Ended March 31, 2018 , with comparative information for 2017  
Amounts in Thousands

**Statement III**

	.....2018.....				
	Unrestricted Net Deficiency	Internally Restricted (Note 13)	Externally Restricted (Note 14)	Investment in Capital Assets	Total
<b>BALANCE, BEGINNING OF YEAR</b>	\$ (28,168)	\$ 6,651	\$ 3,671	\$ 22,172	\$ 4,326
Excess of Revenue over Expenses	5,363	230	-	-	5,593
Endowment Contributions	-	-	81	-	81
Endowment Custodial/Management Fees	-	-	(130)	-	(130)
Transfers:					
Capital Asset Additions	(2,487)	-	-	2,487	-
Amortization of Deferred Capital Contributions	(3,967)	-	-	3,967	-
Amortization of Capital Assets	6,555	-	-	(6,555)	-
Repayment of Long Term Debt	(867)	-	-	867	-
Internally Restricted - Reductions (Note 13)	362	(362)	-	-	-
Internally Restricted - Additions (Note 13)	(954)	954	-	-	-
<b>NET CHANGE FOR THE YEAR</b>	<u>4,005</u>	<u>822</u>	<u>(49)</u>	<u>766</u>	<u>5,544</u>
<b>BALANCE, END OF YEAR</b>	<u>\$ (24,163)</u>	<u>\$ 7,473</u>	<u>\$ 3,622</u>	<u>\$ 22,938</u>	<u>\$ 9,870</u>
	.....2017.....				
	Unrestricted Net Deficiency	Internally Restricted (Note 13)	Externally Restricted (Note 14)	Investment in Capital Assets	Total
<b>BALANCE, BEGINNING OF YEAR</b>	\$ (30,118)	\$ 6,390	\$ 3,590	\$ 22,439	\$ 2,301
Excess of Revenue over Expenses	1,460	484	-	-	1,944
Endowment Contributions	-	-	115	-	115
Endowment Custodial/Management Fees	-	-	(34)	-	(34)
Transfers:					
Capital Asset Additions	(1,688)	-	-	1,688	-
Amortization of Deferred Capital Contributions	(3,872)	-	-	3,872	-
Amortization of Capital Assets	6,320	-	-	(6,320)	-
Repayment of Long Term Debt	(493)	-	-	493	-
Internally Restricted - Reductions (Note 13)	800	(800)	-	-	-
Internally Restricted - Additions (Note 13)	(577)	577	-	-	-
<b>NET CHANGE FOR THE YEAR</b>	<u>1,950</u>	<u>261</u>	<u>81</u>	<u>(267)</u>	<u>2,025</u>
<b>BALANCE, END OF YEAR</b>	<u>\$ (28,168)</u>	<u>\$ 6,651</u>	<u>\$ 3,671</u>	<u>\$ 22,172</u>	<u>\$ 4,326</u>

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

**THE UNIVERSITY OF WINNIPEG**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the Year Ended March 31, 2018 , with comparative information for 2017  
Amounts in Thousands

**Statement IV**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Received from:		
Government Grants	\$ 77,311	\$ 79,459
Student Academic Fees	50,142	46,046
Gifts, Grants and Bequests	4,352	3,567
Interest Income	782	638
Sales of Services and Products	3,440	3,177
Other Revenues	7,113	7,356
Cash Paid for:		
Salaries and Benefits	(92,832)	(92,454)
Supplies, Services and Other Expenses	(18,988)	(15,750)
Cost of Sales	(921)	(924)
Building, Utilities and Related Expenses	(12,105)	(14,427)
Interest Paid	(3,152)	(3,155)
Provincial and Municipal Taxes	(1,899)	(1,874)
Scholarships and Awards	(5,179)	(4,529)
Gifts to Related Party	(801)	(1,649)
	<u>7,263</u>	<u>5,481</u>
<b>CASH FLOWS FROM CAPITAL ACTIVITIES:</b>		
Acquisition of Capital Assets	(4,787)	(5,875)
	<u>(4,787)</u>	<u>(5,875)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds on Maturity of Long Term Investments	(563)	427
Collections of Long Term Receivables	3	4
Advances (to) from 7049651 Manitoba Association Inc.	983	(1,007)
	<u>423</u>	<u>(576)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment and Retirement of Long Term Debt	(1,292)	(1,564)
Deferred Capital Contributions	2,248	5,789
Contributions Received for Endowment	81	115
	<u>1,037</u>	<u>4,340</u>
<b>NET INCREASE IN CASH AND SHORT TERM INVESTMENTS</b>	<u>3,936</u>	<u>3,370</u>
<b>CASH AND SHORT TERM INVESTMENTS, BEGINNING OF YEAR</b>	<u>31,494</u>	<u>28,124</u>
<b>CASH AND SHORT TERM INVESTMENTS, END OF YEAR</b>	<u>\$ 35,430</u>	<u>\$ 31,494</u>
Cash and Short Term Investments consist of:		
Cash and Cash Equivalents	34,946	31,392
Short Term Investments	484	102
	<u>\$ 35,430</u>	<u>\$ 31,494</u>

A Statement of Remeasurement Gains and Losses has been excluded as there have been no remeasurement gains or losses.

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



**THE UNIVERSITY OF WINNIPEG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the Year Ended March 31, 2018  
Amounts in Thousands

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**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, research and service. The University also operates the Collegiate, an independent high school and a number of other education related activities. The University is a not-for-profit organization and, as such, is exempt from income taxes under the Income Tax Act (Canada).

**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 public sector accounting standards (PSAS) for government not-for-profit organizations (GNFPOs), including the 4200 series of standards, as issued by the Public Sector Accounting Board. The consolidated financial statements of the University include the University's investment in the 460 Portage Avenue Joint Venture, (Note 23) a government partnership, which is accounted for using the proportional consolidated method. The University of Winnipeg Foundation Inc. (the Foundation) and the University of Winnipeg Community Renewal Corporation (UWCRC), both controlled entities, are not consolidated in these financial statements, but details of their consolidated financial results are included in the notes to the consolidated financial statements (Notes 19 and 20 respectively).

**B) Revenue Recognition**

The University follows the deferral method of accounting for contributions such that the 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 have external stipulations imposed that specify how resources must be used.

Operating grants are recognized as revenue in the period received or receivable. Tuition fees and sales of goods and services are recognized as revenue in the period in which the services are rendered or goods are sold.

Externally restricted non-capital and non-endowment contributions are recognized as revenue in the period in which the related expenses are incurred. Externally restricted endowment contributions are recorded as direct increases in net assets in the period in which they are received.

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 and amortized into revenue at a rate corresponding with the amortization rate for the related capital asset.

Promissory notes payable to 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 Manitoba Education and Training are, in substance, capital grants. These capital grants 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 Manitoba Education and Training over the terms of the promissory notes are both excluded from the statement of operations and changes in fund balances.

**C) 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.

**D) Long Term Receivables**

Long term receivables are carried at amortized cost using the effective interest method. Long term receivables are due from a related joint venture with a non-related partner and are secured by the 460 Portage Avenue property.

**E) Tangible Capital Assets**

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 which include art work and rare books are 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:

Building, additions and improvements	60 years
Library acquisitions	10 years
Furnishings and equipment	10 years
Major system computer software	10 years
Computer equipment	5 years
Vehicles	5 years
Leasehold improvements	Term of lease
Equipment under capital lease	Term of lease

**F) Accrued Vacation Pay**

The University recognizes vacation pay as an expense on the accrual basis.

**G) Other Employee Benefits**

The University provides health benefits and pension plan contributions to eligible employees in receipt of long term disability benefits. The costs are actuarially determined using management's best estimate of health care costs, disability recovery rates and discount rates. Adjustments to these costs arising from changes in estimates and experience gains and losses are recorded in the financial statements in the year they occur.

University employees appointed to a position expected to last one year or more are entitled to 180 days of sick leave that is non-vesting, non-accumulating and event driven. The benefit expense and liabilities are recorded when the triggering event occurs.

**H) Financial Instruments**

All currently held financial instruments are reported at cost or amortized cost. The effective interest method is used to recognize interest income or expense. Transaction expenses related to all financial instruments are expensed as incurred.

**I) Trusted Pension Plan**

The University contributes to the University of Winnipeg Trusted Pension Plan for University employees. The Plan has both defined benefit and defined contribution components. The pension expense for the defined benefit component of the pension plan is determined actuarially using the projected unit credit actuarial cost method which incorporates management's best estimates of investment performance, salary escalation, retirement ages of employees and members mortality. Consistent with PS 3250 the University has amortized actuarial gains and losses over the estimated average remaining service life (EARSL) of active members of the defined benefit plan. The amortization amount for a year is determined by dividing the unamortized balance at the end of the previous year by the EARSL.

The pension expense for the defined contribution component of the pension plan equals the contributions made during the year.



**THE UNIVERSITY OF WINNIPEG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the Year Ended March 31, 2018  
Amounts in Thousands

---

**J) Loan Guarantees**

The University guarantees a condition of a loan on the land and building situated at 491 Portage Avenue (the Property) as part of its relationship with UWCRC. The University takes responsibility for ensuring that the debt service coverage ratio on the Property does not go below 1.0:1.0. In the event the Property falls below that ratio, the University would be required to lease space in the Property at normal commercial rents, or ensure that another tenant is obtained to bring the ratio back to 1.0:1.0 or higher. The unrelated owners in the Property have fully indemnified the University for the guarantee until October 31, 2018, and a share of the guarantee thereafter on the basis of their ownership (75%) in the Property.

**K) Use of Judgments**

The preparation of the University's financial statements in conformity with PSAS for GNFPOs requires management to make judgments, apart from those involving estimations, in applying accounting policies that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as reported amounts of revenue and expenses during the reporting period. Items requiring the use of judgments include the selection of cut-off dates used to determine when to end the processing of transactions received after March 31, the decision to record reconciling and correcting items or not (application of materiality) and the assessment of outstanding legal issues and the need to disclose a resulting contingent liability.

**L) Use of Estimates**

The preparation of the University's financial statements in conformity with PSAS for GNFPOs 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 revenue and expenses during the period. Items requiring the use of significant estimates include the useful life of capital assets, allowance for doubtful accounts, and the actuarial estimation of compensated absences liabilities and pension obligation. Actual results could differ from these estimates.

**M) Accounting Changes**

On April 1, 2017, the University adopted Canadian public sector accounting standards PS2200 Related party disclosures, PS3420 Inter-entity transactions, PS3210 Assets, PS3320 Contingent Assets, and PS3380 Contractual rights. The adoption of these standards did not result in an accounting policy change for the University and did not result in any adjustments to the financial statements as at April 1, 2017.

**3. Cash and Cash Equivalents**

	2018	2017
Operating Funds	\$ 18,936	\$ 13,900
Internally Restricted	7,556	6,651
Sponsored Research and Designated Funds	3,199	3,901
	<u>29,691</u>	<u>24,452</u>
Special Purpose and Trust Funds	4,446	5,138
Externally Restricted (Endowments)	809	1,802
	<u>\$ 34,946</u>	<u>\$ 31,392</u>

**THE UNIVERSITY OF WINNIPEG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the Year Ended March 31, 2018  
Amounts in Thousands

**4. Long Term Investments**

	2018	2017
Canada and Provincial Bonds	\$ 2,606	\$ 1,661
Municipal Bonds	208	208
	<u>2,814</u>	<u>1,869</u>
Short-term portion	(484)	(102)
	<u>\$ 2,330</u>	<u>\$ 1,767</u>

Investments are comprised of Canadian government and municipal bonds with various maturity dates bearing interest at rates ranging from 2.1% to 4.5%

**5. Long Term Receivables**

	2018	2017
Receivable from the 460 Portage Avenue Joint Venture		
Promissory Notes Secured by:		
460 Portage Ave (Interest Rate 5.6%, due December 31, 2050)	\$ 8,200	\$ 8,285
460 Portage Ave (Interest Rate 3.8%, due October 31, 2052)	2,660	2,696
	<u>10,860</u>	<u>10,981</u>
Less: University of Winnipeg component	(7,240)	(7,321)
	<u>3,620</u>	<u>3,660</u>
Receivable from Plug-in ICA		
460 Portage Ave. (Interest Rate 4.65%, due December 31, 2020)	864	825
	<u>4,484</u>	<u>4,485</u>
Less: Current Portion	(43)	(41)
	<u>\$ 4,441</u>	<u>\$ 4,444</u>

Annual principal payments receivable on the notes during the next five years and thereafter are: 2019 - \$43, 2020 - \$45, 2021 - \$47, 2022 - \$50, 2023 - \$52, thereafter - \$3,383.

These notes are carried at amortized cost using the effective interest method.

**6. Capital Assets**

	2018		2017	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 11,479	\$ -	\$ 10,119	\$ -
Buildings, Additions and Improvements	217,785	45,766	216,363	42,069
Library Acquisitions	13,737	12,851	14,136	13,182
Furnishings and Equipment	46,161	37,136	43,860	34,948
Collections	1,573	-	1,573	-
Major System Computer Software	4,394	2,764	4,394	2,525
Assets Under Construction	418	-	57	-
Equipment Under Capital Leases	2,336	2,234	2,336	2,137
	<u>297,883</u>	<u>\$ 100,751</u>	<u>292,838</u>	<u>\$ 94,861</u>
Less Accumulated Amortization	(100,751)		(94,861)	
Net Book Value	<u>\$ 197,132</u>		<u>\$ 197,977</u>	

Furnishings and Equipment include Vehicles and Computer Equipment.



THE UNIVERSITY OF WINNIPEG  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended March 31, 2018  
Amounts in Thousands

**7. 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, 2018 or March 31, 2017.

**8. Obligations for Compensated Absences**

The University provides health benefits and pension plan contributions to employees receiving long term disability (LTD) benefits.

Health benefit premiums are paid by the University until the earlier of recovery and return to work, death, or attainment of the normal pension commencement date. For health benefits the liability for each current recipient is the actuarial present value of future premiums for each employee based on the current monthly premium, future assumed inflation for health benefits' premiums, the interest discount rate and assumed probabilities of recovery prior to normal pension commencement date. The following assumptions were made in determining the actuarial present value of future premiums:

- A discount rate of 5.80%
- Health benefit premium inflation of 5% per year.
- LTD recovery rates from the 1987 Commissioner's Group Disability Table
- Canada Pension Plan earnings base increase at 3% per year

The University pays the required pension contribution on behalf of employees receiving LTD benefits, into the University of Winnipeg Trusteed Pension Plan in accordance with the provisions of the pension plan (see Note 16). Contributions are calculated based on the salary rate at the time of disability and the current yearly maximum pensionable earnings (YMPE). The liability for each member is the actuarial present value of future contributions based on the salary at disability, the projected future YMPE and yearly maximum contributory earnings (YMCE), the applicable contribution formula, the interest discount rate and assumed probabilities of recovery prior to normal pension commencement date.

**9. Deferred Contributions**

Deferred contributions represent unspent externally restricted funding received for special purposes such as Sponsored Research and Designated Funds and Special Purpose Trust consisting primarily of scholarships and bursaries, library acquisitions and lecture funds.

	2018	2017
Balance, Beginning of Year	\$ 9,691	\$ 11,909
Contributions Received	14,108	12,074
Contributions Expensed	(12,240)	(12,534)
Transferred to Foundation (Note 22)	(851)	(1,758)
Balance, End of Year	<u>\$ 10,708</u>	<u>\$ 9,691</u>
Balance Consists of:		
Sponsored Research and Designated Funds	\$ 5,042	\$ 4,554
Special Purpose Trust	5,666	5,137
	<u>\$ 10,708</u>	<u>\$ 9,691</u>

**10. Obligations under Capital Leases**

The following is a schedule of future minimum lease payments for equipment under capital leases expiring between July 22, 2018 and September 30, 2018 together with the balances of the obligations under capital leases:

2018/19	\$ 65
Less: Amount representing interest at approximately 2.5%	<u>(1)</u>
Balance of Obligations under Capital Leases	64
Less: Current Portion of Obligations under Capital Leases	<u>(64)</u>
Obligations under Capital Leases	<u>\$ -</u>

Interest expense for the current year on the lease obligations amounted to \$5 (2017 - \$10).



THE UNIVERSITY OF WINNIPEG  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended March 31, 2018  
Amounts in Thousands

**11. Deferred Capital Contributions**

	2018	2017
Balance, Beginning of Year	\$ 129,001	\$ 127,083
Contributions Received	1,741	1,179
Contributions from the Foundation	507	4,611
Less: Amortization of Deferred Capital Contributions	(3,967)	(3,872)
Balance, End of Year	<u>\$ 127,282</u>	<u>\$ 129,001</u>

Deferred capital contributions represent unamortized external contributions related to the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the Statement of Operations.

**12. Long Term Liabilities**

	2018	2017
Promissory Notes	\$ 65,146	\$ 66,443
Supplementary Pensions Payable	347	342
	<u>65,493</u>	<u>66,785</u>
Less: Current Portion of Long Term Liabilities	(1,409)	(1,352)
	<u>\$ 64,084</u>	<u>\$ 65,433</u>

	2018	2017
Province of Manitoba Promissory Notes Secured by:		
Duckworth Expansion (Interest rate 5.55%, due October 31, 2047)	1,809	1,832
McFeetors Hall:		
Interest rate 5.25%, due October 31, 2049	10,099	10,221
460 Portage Avenue		
Interest rate 4.65%, due December 31, 2020	887	1,183
Interest rate 5.60%, due December 31, 2050	8,670	8,760
Interest rate 3.80%, due October 31, 2052	2,659	2,696
366 Spence & 336 Young (Interest rate 4.95%, due March 31, 2051)	653	661
Richardson College for the Environment & Science Complex		
Interest rate 4.95%, due March 31, 2051 (Parking Lot)	3,641	3,683
Interest rate 2.35%, due January 31, 2020	492	752
Variable interest rate of prime less 0.75%, due January 31, 2020	-	-
United RecPlex		
Interest rate 4.10%, due October 31, 2054	18,601	18,816
Interest rate 3.90%, due October 31, 2055	3,067	3,102
	<u>50,578</u>	<u>51,706</u>
Province of Manitoba Unsecured Notes:		
491 Portage Annex (Interest rate 5.40%, due July 31, 2050)	2,612	2,641
Pension Settlement (Interest rate 5.35%, due January 31, 2050)	8,133	8,228
Pension Plan Special Payments (Interest rate 4.15%, due May 31, 2053)	1,892	1,915
Pension Plan Special Payments (Interest rate 4.10%, due Dec. 1, 2054)	1,931	1,953
	<u>14,568</u>	<u>14,737</u>
	<u>\$ 65,146</u>	<u>\$ 66,443</u>

Annual principal payments on the notes during the next five years and thereafter are: 2019 - \$1,353; 2020 - \$1,367, 2021 - \$1,109; 2022 - \$897, 2023 - \$941, thereafter - \$59,479.

**THE UNIVERSITY OF WINNIPEG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the Year Ended March 31, 2018  
Amounts in Thousands

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 2018 is \$56 (2017 - \$54).

Interest expense during the year on long term liabilities totalled \$3,129 (2017 - \$3,185).

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 3.75% to 5.95%. The notes are repayable over a term of 40 years, due between February 2047 and March 2057. 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, 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, 2018 is \$70,456 (2017 - \$72,223).

**13. Internally Restricted Net Assets**

	March 31, 2017	Reductions	Additions	March 31, 2018
Unrestricted Trust Income	\$ 1,813	\$ (127)	\$ -	\$ 1,686
Internally Restricted	2,964	-	357	3,321
Strategic Provisions:				
Capital Reserve	304	(207)	-	97
Project Development	1,570	(155)	954	2,369
	1,874	(362)	954	2,466
	<u>\$ 6,651</u>	<u>\$ (489)</u>	<u>\$ 1,311</u>	<u>\$ 7,473</u>

The cumulative net unrestricted trust income is available to fund various internally created scholarships.

Internally Restricted represents internally funded research and designated activities as well as internally funded academic professional allowances. Actual funding and expenses related to Internally Restricted activities are charged to operations (see Statement III).

Strategic provisions 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 net assets (see Statement III).

**14. Externally Restricted Net Assets (Endowments)**

	2018	2017
Cash and Short Term Investments	\$ 1,292	\$ 1,904
Long Term Investments (Note 4)	2,330	1,767
	<u>\$ 3,622</u>	<u>\$ 3,671</u>

Endowments of \$2,972 (2017 - \$3,021) are held in trust in accordance with the terms of a designated bequest. In 2018, the University has a 10% share in the income distribution from this trust (2017 - 10% share). The majority of the University's Endowment Fund was transferred to the Foundation in 2004 (Note 19).

**15. Financial Instrument Risk Management**

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. The University manages its financial assets in accordance with the Board of Regents Financial Oversight and Budgeting Policy.



**THE UNIVERSITY OF WINNIPEG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the Year Ended March 31, 2018  
Amounts in Thousands

---

**Credit Risk**

Credit risk is the risk of financial loss to the University if a counterparty to a financial instrument fails to discharge an obligation.

Accounts receivable are due, for the most part, from various levels of government and students. The carrying amount of accounts receivable has been reduced through the use of an impairment allowance, set up based on the University's historical experience regarding collections.

The aging of accounts receivable at March 31 is as follows:

	2018	2017
Accounts Receivable, gross		
Current	\$ 4,336	\$ 1,625
Past Due	3,004	2,350
	<u>7,340</u>	<u>3,975</u>
Less: Allowance for Doubtful Accounts	(1,023)	(806)
Accounts Receivable, net	<u>\$ 6,317</u>	<u>\$ 3,169</u>

The credit risk on cash and cash equivalents and short and long term fixed income investments is considered low as the counterparties are highly rated financial institutions. The credit risk regarding the equity investment in properties is considered low as the underlying assets are quality commercial properties. 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 property therefore no allowance has been provided for.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

**Interest Rate Risk**

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates.

The University is exposed to this risk through its cash equivalents and long-term liabilities. 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 and are measured at amortized cost using the effective interest method; therefore have no exposure to risk associated with changes in interest rates.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

**Liquidity Risk**

Liquidity risk is the risk that the University will not be able to meet all cash outflow obligations as they come due. The University mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting and maintaining investments that may be converted to cash in the near-term if unexpected cash outflows arise. 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.

Current liabilities include deferred revenue and accrued vacation pay which will not be settled directly with cash. The sum of remaining liabilities is less than the value of current assets as at March 31, 2017.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

**THE UNIVERSITY OF WINNIPEG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the Year Ended March 31, 2018  
Amounts in Thousands

**16. University of Winnipeg Trusteed Pension Plan (the Plan)**

The Plan was established as a contributory defined benefit pension plan effective September 1, 1972 and covers substantially all employees of the University, except those who are members of the United Church of Canada Pension Plan. The Plan is registered under the Income Tax Act and the Manitoba Pension Benefits Act (Registration #309914). The defined benefit segment of the Plan was closed to new members effective January 1, 2001. New plan members effective January 1, 2001 join the defined contribution segment of the Plan.

Prior to July 2008, the University was responsible for the administration of the Plan. An independent Board of Trustees is now responsible for the administration of the Plan and is the trustee of the pension fund. The pension fund assets are invested on the advice of professional investment managers and are held under a Trust Agreement by a trust company.

Contributions are made by the University based on the salary of each active member in accordance with the provisions of the Plan. Members do not contribute if they are in receipt of benefits from the University's LTD plan.

**Defined Contribution Obligation**

Members of the defined contribution segment contribute 6.2% of their salary not in excess of \$110.1 plus 30% of the Canada Pension Plans Year's Maximum Pensionable Earnings (YMPE) to the Plan. The University contributions match member contributions.

The activity in the defined contribution segment of the Plan in the period was:

	Dec. 31, 2017	Dec. 31, 2016
Balance, Beginning of Year	\$ 68,169	\$ 59,877
Contributions	6,560	6,273
Benefits and Refunds Paid	(3,550)	(2,811)
Net Investment Return	6,262	4,830
Balance, End of Year	<u>\$ 77,441</u>	<u>\$ 68,169</u>
Expense recognized for the period ending December 31	\$ 3,250	\$ 3,092

**Defined Benefit Obligation**

Pensions are provided on the basis of final average earnings and service. The maximum pension per year of service is \$1.722. Inflation protection is provided based on the four year average net investment earnings of the pension fund in excess of 6%, limited to the increase in the CPI. At the December 31, 2016 valuation of the defined benefit segment of the Plan, there were 133 active members with an average age of 58.8. There were 38 former employees entitled to deferred pension benefits and 277 retirees and survivors receiving pension benefits.

Members contribute 8.0% of salary up to the Canada Pension Plan Year's Basic Exemption (YBE), 6.2% between the YBE and YMPE and 8.0% in excess of the YMPE. Members contribute only on salary not in excess of \$86.1 plus 30% of the YMPE.

The University contribution formula rates are 100 basis points higher than the member contribution formula rates. The University also contributes any additional amounts required under the Pension Benefits Act.

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. Valuations may be required more frequently depending on the financial position of the Plan. As the Plan is currently under 90% funded on a solvency basis, annual valuations are required.

Actuarial valuations are performed by Eckler Ltd. (Eckler) using the projected benefit method. The latest actuarial valuation of the Plan was prepared and filed with the Manitoba Pension Commission as at December 31, 2016, and the results were extrapolated to December 31, 2017. There is a net unamortized actuarial loss to be amortized on a straight-line basis over the expected average remaining service of the employee group (6.6 years).



**THE UNIVERSITY OF WINNIPEG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the Year Ended March 31, 2018  
Amounts in Thousands

Actuarial valuations are based on a number of assumptions about future events, such as inflation rates, interest rates, salary increases and mortality. The assumptions used reflect the University's best estimates. At December 31, 2017, the expected future inflation rate is 2.00%. Salaries are assumed to increase 3.00% per year, plus a promotion and merit increase for academic members only. Pensions are assumed to increase by 0.75% per year. The discount rate used to determine the accrued benefit obligation and current service cost is 5.80%.

Pension fund assets are valued at market values. The expected rate of return on plan assets net of investment expenses is 5.80%. The actual return on pension fund assets in 2017 was 10.54%.

**Change in Accrued Benefit Obligation - Calendar Year Ending December 31**

	2017	2016
Accrued Benefit Obligation, Beginning of Year	\$ 141,537	\$ 144,515
Current Service Cost	1,635	1,830
Interest Cost	8,116	8,237
Benefits and Refunds Paid	(11,891)	(11,646)
Actuarial (gain) loss	3,139	(1,399)
Accrued Benefit Obligation, End of Year	<u>\$ 142,536</u>	<u>\$ 141,537</u>

**Change in Market Value of Plan Assets - Calendar Year Ending December 31**

	2017	2016
Market Value of Plan Assets, Beginning of Year	\$ 131,687	\$ 126,586
University Contributions	3,483	4,021
Member Contributions	674	760
Benefit Payments	(11,891)	(11,646)
Actual Return on Plan Assets	13,462	12,129
Plan Expenses	(174)	(163)
Market Value of Plan Assets, End of Year	<u>137,241</u>	<u>131,687</u>
Expected market value of assets at end of year	<u>131,379</u>	<u>126,819</u>
Gain (loss) on plan assets	<u>\$ 5,862</u>	<u>\$ 4,868</u>

**The plan assets for the Calendar Year Ending December 31 consist of:**

	2017	2016
Domestic fixed income	\$ 47,206	\$ 29,622
Canadian equity	23,781	26,887
U.S. equity	15,718	19,980
International equity	34,783	38,587
Real Estate	14,562	14,044
Cash and cash equivalents	1,104	2,317
Net accruals	87	250
	<u>\$ 137,241</u>	<u>\$ 131,687</u>

Asset allocation is determined and monitored by the independent Board of Trustees.

**Reconciliation of Unamortized Gains/(Losses) - Fiscal Year Ending March 31**

	2018	2017
Expected average remaining service life	6.7	7.3
Net unamortized gain (loss), Beginning of year	\$ 1,186	\$ (5,887)
New net gain (loss) for current year	2,723	6,267
Amortization for current year	(177)	806
Net unamortized gain (loss), End of year	<u>\$ 3,732</u>	<u>\$ 1,186</u>

**THE UNIVERSITY OF WINNIPEG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the Year Ended March 31, 2018  
Amounts in Thousands

**Pension Expense - Fiscal Year Ending March 31**

	2018	2017
University service cost	\$ 961	\$ 1,070
Interest cost	8,116	8,237
Expected return on Plan Assets	(7,600)	(7,261)
Amortization of net actuarial gains/(losses)	(177)	806
Plan expenses	174	163
Net pension expense	<u>\$ 1,474</u>	<u>\$ 3,015</u>

**Reconciliation of Deficit to Accrued Liability, End of Fiscal Year**

	2018	2017
Deficit, end of year	\$ (5,295)	\$ (9,850)
University contributions after the measurement date	823	949
Net unamortized amounts	<u>(3,732)</u>	<u>(1,186)</u>
Accrued benefit liability, end of year	(8,204)	(10,087)
Valuation allowance, end of year	-	-
Accrued benefit liability, net of valuation allowance, end of year	<u>\$ (8,204)</u>	<u>\$ (10,087)</u>

**Significant Actuarial Assumptions used in the determination of the Pension Expense are:**

	%	%
Discount rate	5.95	5.90
Post-retirement indexing	0.75	0.75
Rate of salary increases	3.00	3.00
Expected rate of return on plan assets	5.95	5.90

**Significant Actuarial Assumptions used in the determination of the defined benefit obligation at December 31 are:**

	%	%
Discount rate	5.80	5.95
Post-retirement indexing	0.75	0.75
Rate of salary increase	3.00	3.00

**Funding Obligation**

In the event that the actuarial valuation of the Plan for funding purposes 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, 2016 confirms that the defined benefit segment of the Plan has a solvency deficiency of \$40,044 and a solvency ratio of 0.723 (2015 - 0.671).

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, 2016 was \$18,803 and the annual deficiency funding payments are \$2,229, which the University will continue to make until the deficiency is eliminated.

In addition, because of the going-concern deficiency at December 31, 2016, the University was required to make an additional contribution in 2017 of \$430 (2016 - \$417) in order to fully fund the cost of accruing benefits and administration expenses.

**THE UNIVERSITY OF WINNIPEG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the Year Ended March 31, 2018  
Amounts in Thousands

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**17. 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 August 31, 2029. The above obligations require annual payments over the next five years and thereafter as follows:

	Lease	Contracts	Total
2018/19	\$ 1,845	\$ 434	\$ 2,279
2019/20	1,705	-	1,705
2020/21	1,738	-	1,738
2021/22	1,804	-	1,804
2022/23	1,740	-	1,740
Thereafter	7,643	-	7,643
	<u>\$ 16,475</u>	<u>\$ 434</u>	<u>\$ 16,909</u>

**18. Contractual Rights**

As part of its operations, the University enters into agreements with varying expiry dates for which it is entitled to receive leasing revenues. Total amounts outstanding from these agreements are as follows:

2018/19	\$ 895
2019/20	455
2020/21	260
2021/22	59
2022/23	44
Thereafter	-
	<u>\$ 1,713</u>

**19. 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 Foundation is a charitable not-for-profit organization and, as such, is exempt from income taxes under the *Income Tax Act (Canada)*.

The establishment of the Foundation is based upon mutually binding agreements between the University and the Foundation. Endowment Fund agreements formalize management of the Endowment Fund including the annual income allocation to the University from the Endowment Fund and payment of an administration fee from the Endowment Fund to the Foundation. The Coordination, Cooperation and Fund Agreement and the Occupancy and Support Agreement outline support services provided by the University to the Foundation and provide for an operating grant from the University to the Foundation. Details of resulting amounts are shown in the Related Parties Note 22.

As the Foundation is a controlled entity of the University, their financial statements have been prepared in accordance with PSAS for GNFPOs, including the 4200 series of standards, as issued by the Public Sector Accounting Board.

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.



**THE UNIVERSITY OF WINNIPEG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the Year Ended March 31, 2018  
Amounts in Thousands

The financial position of the Foundation at March 31, which includes the University of Winnipeg Foundation USA Inc., a controlled entity, is summarized as follows:

	2018	2017
<b>Statement of Financial Position</b>		
Assets	\$ 70,033	\$ 69,306
Liabilities	\$ 804	\$ 992
Fund Balances:		
Operating Fund	1,322	930
Unrestricted Fund	-	236
Investment in Capital Assets	16	22
Building and Program Fund	1,483	1,543
Endowment Fund	66,408	65,583
	69,229	68,314
	\$ 70,033	\$ 69,306
<b>Statement of Operations:</b>	2018	2017
Source of Funds:		
Transfer from University of Winnipeg	\$ 851	\$ 1,758
Investment Income	12,755	4,682
University of Winnipeg support funding	180	220
Annual donations	3,977	6,643
	17,763	13,303
Use of Funds:		
Endowment - gifts to the University	2,050	1,904
Gifts to other charities	973	5
Endowment - administration expenses	226	269
Operations	1,252	1,418
Donations gifted to the University	2,585	4,681
	7,086	8,277
Increase in funds	\$ 10,677	\$ 5,026
<b>Statement of Cash Flows:</b>	2018	2017
Operating activities:		
Increase in funds	\$ 10,677	\$ 5,026
Items not involving a current outlay of cash	7	7
Change in non-cash working capital balances	(524)	67
Increase in funds from operations	10,160	5,100
Capital activities	(2)	(1)
Investing activities	(9,845)	(4,788)
Financing activities	(308)	(1,649)
Increase in cash	5	(1,338)
Cash, beginning of year	2,747	4,085
Cash, end of year	\$ 2,752	\$ 2,747



**THE UNIVERSITY OF WINNIPEG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the Year Ended March 31, 2018  
Amounts in Thousands

**20. University of Winnipeg Community Renewal Corporation**

The University of Winnipeg Community Renewal Corporation (UWCRC) was incorporated on April 6, 2005 as a corporation without share capital. UWCRC is a charitable not-for-profit organization and, as such, is exempt from income taxes under the *Income Tax Act (Canada)*. UWCRC holds ownership interests in for-profit subsidiary entities that are taxable.

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. UWCRC will manage, as part of its mandate, projects on behalf of the University. This will involve the development of a comprehensive Campus and Community Development Plan, assessment of particular development projects and the development of partnerships with community, private and public sector organizations. Details of resulting amounts are shown in the Related Parties Note 22.

As UWCRC is a controlled entity of the University, their financial statements have been prepared in accordance with PS 4200 series of standards, as issued by the Public Sector Accounting Board.

UWCRC holds a 25% investment in the land and building situation at 491 Portage Avenue ("Property") in Winnipeg, Manitoba. 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.

The Property is pledged as security for an \$18,000 mortgage bearing interest at 5.49% maturing March 2031 and an advance bearing interest of 7.039% maturing June 2029 with Manulife Financial Inc. The funds were advanced to the 491 Portage Avenue Joint Venture. The principal outstanding at March 31, 2018 is \$10,967 (2017 - \$11,526). The mortgage and advance are secured by an \$18,000 debenture registered against the title of the property, share pledge agreements, and the postponement of claims by the joint venturers to a total of \$3,000.

UWCRC records its 25% investment in the Property on a modified equity basis as a result of significant influence.

The financial position of UWCRC at March 31 is summarized as follows:

	2018	2017
<b>Statement of Financial Position:</b>		
<b>Assets</b>		
Cash	\$ 70	\$ 439
Accounts receivable	46	111
Due from related parties	1,379	16
Capital assets	593	594
Investments, at equity	5,766	5,694
	<u>\$ 7,854</u>	<u>\$ 6,854</u>
<b>Liabilities and Net Assets</b>		
Accounts payable and other liabilities	\$ 94	\$ 116
Current portion of long term debt	31	30
Line of credit	321	-
Due to University of Winnipeg (Note 22)	782	518
Long term debt	710	741
Deferred capital contributions	276	282
Net assets	5,640	5,167
	<u>\$ 7,854</u>	<u>\$ 6,854</u>

THE UNIVERSITY OF WINNIPEG  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended March 31, 2018  
Amounts in Thousands

**Statement of Operations and Changes in Net Assets**

Revenue		
Share of equity income	\$ 247	\$ 130
Consulting	1,451	1,027
Other	118	104
	<u>1,816</u>	<u>1,261</u>
Expenses		
Salaries and benefits	1,129	1,088
Consulting and professional fees	93	230
Supplies, services and other expenses	121	282
	<u>1,343</u>	<u>1,600</u>
Excess (deficiency) of revenue over expenses	473	(339)
Net assets, beginning of year	5,167	5,506
Net assets, end of year	<u>\$ 5,640</u>	<u>\$ 5,167</u>

**Statement of Cash Flows**

Decrease in funds from operations	\$ 265	\$ (467)
Investing activities	175	(112)
Financing activities	(809)	47
Decrease in cash	<u>(369)</u>	<u>(532)</u>
Cash, beginning of year	439	971
Cash, end of year	<u>\$ 70</u>	<u>\$ 439</u>

**21. 7049651 Manitoba Association Inc.**

7049651 Manitoba Association Inc. ("Downtown Commons") was incorporated on December 29, 2014 as a corporation without share capital. The Downtown Commons is a non-charitable not-for-profit organization and, as such, is exempt from income taxes under the *Income Tax Act (Canada)*. The Downtown Commons is a controlled entity of UWCRC.

The Downtown Commons mandate is to supply long-term residential accommodation to low and moderate-income households, including the provision of housing on a rent-geared-to-income basis. A number of units have also been established for use by University of Winnipeg students.

**THE UNIVERSITY OF WINNIPEG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the Year Ended March 31, 2018  
Amounts in Thousands

The financial statements have been prepared in accordance with Canadian standards for non-for-profit organizations.

The financial position of the Downtown Commons at March 31 is summarized as follows:

	2018	2017
<b>Statement of Financial Position:</b>		
<b>Assets</b>		
Cash and capital reserve funds	\$ 286	\$ 1,472
Accounts receivable	230	402
Prepaid expenses and other assets	43	39
Capital assets	30,429	30,339
	<u>\$ 30,988</u>	<u>\$ 32,252</u>
<b>Liabilities and Net Assets</b>		
Accounts payable and other liabilities	\$ 187	\$ 326
Current portion of long term debt	289	278
Banker's acceptance notes	2,189	3,530
Due to related parties	5	993
Long term debt	25,865	26,154
Deferred contributions	1,102	-
Deferred capital contributions	281	164
Net assets	1,070	807
	<u>\$ 30,988</u>	<u>\$ 32,252</u>
<b>Statement of Operations and Changes in Net Assets</b>		
<b>Revenue</b>		
Rental revenue	\$ 1,400	\$ 697
Grants	948	256
Other	113	20
	<u>2,461</u>	<u>973</u>
<b>Expenses</b>		
Interest and bank charges	1,151	376
Building, utilities and related expenses	572	254
Supplies, services and other	179	198
Amortization of capital assets	296	73
	<u>2,198</u>	<u>901</u>
Excess of revenue over expenses	263	72
Net assets, beginning of year	807	735
Net assets, end of year	<u>\$ 1,070</u>	<u>\$ 807</u>
<b>Statement of Cash Flows</b>		
Increase (decrease) in funds from operations	\$ 584	\$ (22)
Investing activities	(385)	(8,706)
Financing activities	(1,385)	9,042
Increase (decrease) in cash	<u>(1,186)</u>	<u>314</u>
Cash, beginning of year	1,472	1,158
Cash, end of year	<u>\$ 286</u>	<u>\$ 1,472</u>



THE UNIVERSITY OF WINNIPEG  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the Year Ended March 31, 2018  
Amounts in Thousands

**22. Related Party Transactions and Balances**

The Foundation and UWCRC are controlled entities of the University. The Trusteed Pension Plan, the 460 Portage Avenue Joint Venture and Diversity Food Services (Diversity) are also related parties. Diversity, an unincorporated joint venture, is related to the University by way of UWCRC owning 100% of the issued share capital of a numbered company which jointly controls Diversity.

During the year ending March 31, the University incurred transactions as follows:

	2018	2017
From the University to the Foundation:		
i) Operating grant	\$ -	\$ 40
ii) Gifts of residuals for endowment	\$ 797	\$ -
iii) Gifts of matching funds for endowment	\$ -	\$ 557
iv) Occupancy and Support Agreement	\$ 180	\$ 180
v) Transfer of endowment funds	\$ 54	\$ 1,201
From the Foundation to the University:		
i) Transfer of annual donations	\$ 2,585	\$ 4,681
ii) Income allocation	\$ 2,050	\$ 1,904
iii) Occupancy and Support Agreement	\$ 180	\$ 180
From the University to UWCRC:		
i) Consulting fees (excluding GST)	\$ 203	\$ 460
From UWCRC to the University:		
i) Management fees	\$ 30	\$ 30
From the University to the Joint Venture:		
i) Lease expense	\$ 756	\$ 764
From the Joint Venture to the University:		
i) Service fees	\$ 100	\$ 98
From the University to Diversity:		
i) Food services	\$ 995	\$ 874
From Diversity to the University:		
i) Rental revenue	\$ 106	\$ 88

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 has 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:

	2018	2017
Due from related parties:		
Foundation	\$ 278	\$ 418
7049651 Manitoba Association Inc.	4	987
UWCRC	787	504
	<u>1,069</u>	<u>1,909</u>
Due from 460 Portage Avenue Joint Venture:		
Notes receivable (Note 5)	<u>10,860</u>	<u>10,981</u>
Due to related parties:		
Foundation	817	557
460 Portage Joint Venture	149	111
	<u>\$ 966</u>	<u>\$ 668</u>

**THE UNIVERSITY OF WINNIPEG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the Year Ended March 31, 2018  
Amounts in Thousands

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.

**23. 460 Portage Avenue Joint Venture**

The University entered into an unincorporated Joint Venture Agreement with the Plug-In Institute of Contemporary Art (Plug-in) in July 2009. The purpose of the joint venture is to construct and operate a building primarily intended to provide space for the operations of the University and Plug-In on a break-even basis. The terms of the operation of the joint venture are defined in the Joint Venture Agreement. Both the University and Plug-In are registered charities, exempt from income taxes under the *Income Tax Act (Canada)*.

The joint venture consists of the bottom three floors of the building known as 460 Portage Avenue as well as the parking lot directly behind the building. Plug-In has one third ownership of the joint venture, with the University owning the remainder. The Joint Venture Agreement provides each party with a veto over significant decisions related to the building. The operations of the joint venture are managed by the University as a trustee of the joint venture. Operating expenses for the entire building are included in the joint venture. Recoveries for expenses related to the 4th floor which is entirely owned by the University are included as recoveries from the University (Note 22).

The joint venture financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. The following is a summary of the University's proportionate share of the financial position, results of operations and cash flows of the joint venture included in the consolidated financial statements for the year ended March 31. There are no significant differences in accounting policies from those followed by the University.

**Statement of Financial Position**

	2018	2017
Assets:		
Accounts receivable and prepaid expenses	\$ 22	\$ 69
Capital assets	8,932	7,691
Intangible asset	1,092	1,125
	<u>10,046</u>	<u>8,885</u>
Liabilities and Venturer's Capital:		
Accounts payable and accrued liabilities	\$ 1,371	\$ 5
Due to Related Parties	6,942	7,100
Deferred capital contributions	380	387
Venturer's capital	1,252	1,308
Capital Reserve	101	85
	<u>\$ 10,046</u>	<u>\$ 8,885</u>

**Statement of Operations**

	2018	2017
Revenues:		
Rental revenue	\$ 103	\$ 97
Amortization of deferred capital contributions	7	7
Expense recovery from Venturers	597	601
	<u>707</u>	<u>705</u>
Expenses:		
Building operating	220	245
Interest	376	380
Amortization	118	118
Amortization of intangible asset	33	33
	<u>\$ 747</u>	<u>\$ 776</u>
Deficiency of revenues over expenses	<u>\$ (40)</u>	<u>\$ (71)</u>

**THE UNIVERSITY OF WINNIPEG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the Year Ended March 31, 2018  
Amounts in Thousands

<b>Statement of Cash Flows</b>	<b>2018</b>	<b>2017</b>
Cash receipts from tenants and Venturers	\$ 681	\$ 698
Cash paid to suppliers and employees	(151)	(163)
Interest paid	(376)	(380)
Cash flows from operating activities	154	155
Repayment of long term debt	(81)	(77)
Other financing activities	(73)	(67)
Cash flows used in financing activities	(154)	(144)
Cash flows used in investing activities - purchase of capital assets	-	(11)
Net change in cash position	\$ -	\$ -

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 consolidated.

#### **24. 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.

The University, acting as trustee for the 460 Portage Avenue Joint Venture had entered into an agreement with an unrelated third party to purchase the land known as 460 Portage Avenue. The agreement calls for a final payment equal to the difference between \$2 million and the appraised value of the said land based on vacant unimproved land as at December 31, 2017. An appraiser valued the unimproved land at \$4.04 million at December 31, 2017. The balance owing of \$2.04 million has been recorded by the Joint Venture as a liability at March 31, 2018. The University has recorded it's share of the increased land value and accrued liability.

#### **25. Reclassification of Comparative Figures**

Certain 2017 comparative numbers have been reclassified to conform with the financial statement presentation adopted for 2018.

**VENTURE MANITOBA TOURS LTD. AUDITED FINANCIAL STATEMENTS FOR THE YEAR  
ENDED MARCH 31, 2018 WERE NOT AVAILABLE AT THE TIME OF PRINTING THE PROVINCE  
OF MANITOBA PUBLIC ACCOUNTS VOLUME IV.**



# GOVERNMENT BUSINESS ENTERPRISES



DEPOSIT GUARANTEE CORPORATION OF MANITOBA



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## 2017 Consolidated Financial Statements

## Management's Responsibility

Management of the Deposit Guarantee Corporation of Manitoba (DGCM) is responsible for the integrity and fair presentation of the consolidated 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 DGCM oversees management's responsibilities for the financial reporting procedures and internal control systems. The Board reviews the consolidated financial statements in detail prior to approving the statements for publication.

The Board's Finance & 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.

Original Document Signed

Vernon MacNeill, MBA  
Chief Executive Officer

Original Document Signed

S. Joe Nowicky, CPA, CMA  
Chief Financial Officer

## Independent Auditor's Report

Deloitte LLP  
360 Main Street  
Suite 2300  
Winnipeg MB R3C 3Z3  
Canada

To the Board of Directors of the Deposit Guarantee Corporation of Manitoba

Tel: (204) 942-0051  
Fax: (204) 947-9390  
[www.deloitte.ca](http://www.deloitte.ca)

We have audited the accompanying consolidated financial statements of the Deposit Guarantee Corporation of Manitoba, which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statements of comprehensive income, changes in equity and cash flows for the year ended December 31, 2017, 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.

### *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 Deposit Guarantee Corporation of Manitoba as at December 31, 2017, and its financial performance and its cash flows for the year ended December 31, 2017 in accordance with International Financial Reporting Standards.



Chartered Accountants

March 9, 2018  
Winnipeg, Manitoba

# Consolidated Statement of Financial Position

(in thousands of dollars)

As at December 31	2017	2016
<b>ASSETS</b>		
Cash (Note 5)	\$ 1,504	\$ 913
Investments (Note 6)	299,110	280,206
Assessments receivable (Note 7)	5,481	5,249
Current tax receivable (Note 8)	-	84
Deferred tax assets (Note 8)	537	335
Other assets (Note 9)	252	329
	<u>\$ 306,884</u>	<u>\$ 287,116</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (Note 10)	\$ 373	\$ 267
Defined benefit obligation (Note 11)	585	574
Deferred tax liability (Note 8)	-	12
Total liabilities	<u>958</u>	<u>853</u>
Contingent liabilities (Note 12)		
<b>CORPORATION EQUITY</b>		
Retained earnings	306,082	286,162
Accumulated other comprehensive (loss) income	<u>(156)</u>	<u>101</u>
Total corporation equity	<u>305,926</u>	<u>286,263</u>
	<u>\$ 306,884</u>	<u>\$ 287,116</u>

Approved by the Board March 9, 2018

Original Document Signed

**Bryan Rempel**, CPA, CA  
Board Chair

Original Document Signed

**Paul Gilmore**  
Finance & Audit Committee Chair

# Consolidated Statement of Comprehensive Income

(in thousands of dollars)

Year Ended December 31	2017	2016
<b>REVENUES</b>		
Regular assessments (Note 13)	\$ 21,542	\$ 20,636
Investment income (Note 13)	3,618	2,027
	<u>25,160</u>	<u>22,663</u>
<b>EXPENSES</b>		
Operating expenses (Note 14)	<u>5,346</u>	<u>5,409</u>
<b>INCOME BEFORE INCOME TAXES</b>	<u>19,814</u>	<u>17,254</u>
Income tax recovery (Note 8)	<u>(106)</u>	<u>(370)</u>
<b>NET INCOME</b>	<u>19,920</u>	<u>17,624</u>
<b>OTHER COMPREHENSIVE LOSS</b>		
<b>Items that may be reclassified subsequently to net income</b>		
Unrealized gains (losses) on available-for-sale assets	82	(31)
Income tax (expense) recovery	(9)	3
Realized (gains) losses on available-for-sale assets	(370)	8
Income tax expense (recovery)	<u>40</u>	<u>(1)</u>
<b>Total items that may be reclassified</b>	<u>(257)</u>	<u>(21)</u>
<b>OTHER COMPREHENSIVE LOSS, NET OF INCOME TAX</b>	<u>(257)</u>	<u>(21)</u>
<b>COMPREHENSIVE INCOME</b>	<u>\$ 19,663</u>	<u>\$ 17,603</u>

# Consolidated Statement of Changes in Equity

(in thousands of dollars)

		<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income [Unrealized Gains (Losses) Available- For-Sale Financial Assets]</b>	<b>Total</b>
Balance at January 1, 2016	\$	268,538	\$ 122	\$ 268,660
Net income		17,624	-	17,624
Other comprehensive loss		-	(21)	(21)
Total comprehensive income		17,624	(21)	17,603
Balance at December 31, 2016	\$	286,162	\$ 101	\$ 286,263
Balance at January 1, 2017	\$	286,162	\$ 101	\$ 286,263
Net income		19,920	-	19,920
Other comprehensive loss		-	(257)	(257)
Total comprehensive income		19,920	(257)	19,663
Balance at December 31, 2017	\$	306,082	\$ (156)	\$ 305,926

# Consolidated Statement of Cash Flows

(in thousands of dollars)

Year Ended December 31

2017

2016

## OPERATING ACTIVITIES

Net income	\$	19,920	\$	17,624
Non-cash recovery – deferred income taxes		(214)		(290)
Non-cash expense – depreciation		110		106
Net increase in assessments receivable		(232)		(234)
Net decrease (increase) in prepaid expenses		24		(20)
Net decrease in current net tax receivable		84		212
Net increase (decrease) in accounts payable and accrued liabilities		106		(56)
Net increase in defined benefit obligation		11		105

### Cash flows generated by operating activities

19,809 17,447

## INVESTING ACTIVITIES

Net increase in investments, net of deferred tax liability		(19,161)		(17,357)
Purchase of property and equipment, net of disposal proceeds		(57)		(53)

### Cash flows used in investing activities

(19,218) (17,410)

## INCREASE IN CASH

591 37

## CASH, BEGINNING OF YEAR

913 876

## CASH, END OF YEAR

\$ 1,504 \$ 913

## SUPPLEMENTARY CASH FLOW INFORMATION

Income taxes (recovered) paid	\$	(84)	\$	(296)
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# Notes to Consolidated Financial Statements

(in thousands of dollars, unless otherwise noted)

## 1 Nature of organization

The Deposit Guarantee Corporation of Manitoba (DGCM) is a deposit guarantee corporation established under *The Credit Unions and Caisses Populaires Act* of Manitoba (*The Act*). All of the operational activities of DGCM are focused on achieving its legislated objectives:

- Guarantee deposits in Manitoba credit unions and caisses populaires (hereinafter credit unions)
- Promote credit union development of sound business practices to protect them from financial losses
- Ensure the credit unions operate under sound business practices

Without limiting the generality of the foregoing, DGCM 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. The registered address of DGCM is 390-200 Graham Avenue, Winnipeg, Manitoba, Canada.

## 2 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements were authorized for issue by the Board of Directors on February 28, 2018.

## 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements in accordance with IFRS.

### a) 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 DGCM under merger and liquidation agreements. All intercompany balances and transactions have been eliminated upon consolidation.

### b) 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 consolidated statement of financial position.

### c) Cash

Cash consists of cash on hand, and chequing and demand balances with Credit Union Central of Manitoba (CUCM) and chartered banks.



## d) Regular assessments, special assessments, and financial assistance repayments

Credit union 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 DGCM's Board, the Guarantee Fund is, or is about to be, impaired.
- Financial assistance repayments are recognized when received.

## e) 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 at 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.

### i. Classification

Cash	Loans and receivables
Fixed income investments	Available-for-sale
Equity investments	Available-for-sale
Derivative assets	Fair value through profit and loss
Assessments receivable	Loans and receivables

### ii. 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 AFS financial assets is calculated using the effective interest method and recorded in investment revenue.

### iii. Loans and receivables

Cash, certain other assets, and assessments receivable 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.

#### **iv. Impairment of financial assets**

DGCM determines, at each balance sheet date, whether there is objective evidence that a financial asset or a group of financial assets, other than those classified or designated as FVTPL, are impaired. Those financial assets are impaired according to either debt, equity, or loans and receivables impairment model. The appropriate impairment model is determined based on:

- the characteristics of each instrument;
- the capacity of the issuer to pay dividends or interest; and
- DGCM's intention to either hold or sell the financial asset.

Under the debt impairment model, a financial asset is impaired if there is objective evidence of impairment, as a result of one or more loss events (a payment default for example) that occurred after initial recognition and that loss event has an impact on the estimated future cash flows of the financial asset. Under the debt impairment model, a security is impaired when it is probable that the future cash flows will not be recovered based on credit considerations rather than based on the fair value of that security. The debt model is used to assess impairments for fixed income investments which have been purchased with the intent of holding for the long-term.

Under the equity impairment model, objective evidence of impairment includes a significant or prolonged decline in the fair value of an investment below cost. It also includes information about significant changes with an adverse effect that have taken place in the environments in which the issuer operates, indicating that the cost of an equity instrument may not be recovered. The equity model is used to assess the impairment for equity investments.

Under the loans and receivables impairment model, loans and receivables that are individually significant are tested for impairment when there is a payment default or when there are objective indications that the counterparty will not honor its obligations. Loans and receivables which have not been individually impaired are grouped by similar characteristics to be tested for impairment.

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.

#### **v. Derecognition of financial assets**

DGCM 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 DGCM neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, DGCM recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If DGCM retains substantially all the risks and rewards of ownership of a transferred financial asset, DGCM continues to recognize the financial asset and also recognizes a collateralized borrowing for proceeds received.

**f) Financial liabilities**

Financial liabilities are classified as either financial liabilities at FVTPL or 'other financial liabilities'.

**i. Classification**

Accounts payable and accrued liabilities

Other financial liabilities

**ii. Other financial liabilities**

Accounts payable and accrued liabilities are classified as other financial liabilities. Other financial liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

**g) Derivative financial instruments**

DGCM uses derivative products as risk management instruments to hedge currency risk on investment income. DGCM's policy guidelines prohibit the use of derivative instruments for speculative purposes.

All derivatives including those that are embedded in financial and non-financial contracts that are not closely related to the host contracts are recorded at fair value on the Consolidated Statement of Financial Position. Unrealized and realized fair value gains and losses are recorded in investment income on the Consolidated Statement of Comprehensive Income. Derivatives are valued using Bloomberg intraday spot rates.

To qualify for hedge accounting, the relationship between the hedged item and the hedging instrument must meet several conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, the relationship does not qualify for hedge accounting treatment and both the hedged item and hedging instrument are reported independently as if there was no hedging relationship.

Where a hedging relationship exists, DGCM documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking derivatives that are used in hedging transactions to specific assets on the Consolidated Statement of Financial Position. DGCM also assesses, both at the hedge's inception and on an ongoing basis, whether derivatives that are used in hedging transactions are effective in offsetting changes in fair values of hedged items. Hedge effectiveness is reviewed quarterly through correlation testing. Hedge accounting is discontinued when the hedge no longer qualifies for hedge accounting.

For fair value hedges on equity investments, changes in fair value of both the hedging instrument and the hedged risk are recorded in investment income and consequently any ineffective portion of the hedged risk is recorded in net income. DGCM currently has instruments designated as fair value hedges.

**h) Foreign currency translation**

DGCM's consolidated financial statements are presented in Canadian dollars, DGCM's functional currency.

**i) Effective interest method**

DGCM 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.

**j) Transaction costs**

Transaction costs are expensed as incurred for financial instruments classified as FVTPL. Transaction costs for financial assets classified as AFS, loans and receivables, and other financial 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.

**k) 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. DGCM does not have finance leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

**l) Employee benefits****i. 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 plans are recognized as an employee benefit expense in net income in the periods during which services are rendered by employees.

**ii. Defined benefit plan**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. DGCM's defined benefit plan is a retirement allowance, limited to a single future obligation, as a proportion of an employee's annual salary. DGCM'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. Termination benefits are recognized as an expense at the earlier of the following dates:

- when DGCM recognizes costs for a restructuring within the scope of IAS 37 that includes the payment of termination benefits, or
- when DGCM can no longer withdraw the offer of those benefits

If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.



**iii. Short-term employee benefits**

Short-term employee benefits are obligations that are expected to be settled wholly within 12 months of the end of the annual reporting period in which the employees render related services. These obligations are measured on an undiscounted basis.

**m) 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.

**n) 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.

**o) 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.

**i. 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. DGCM's current tax liabilities are 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.

**ii. 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 realized, 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 DGCM 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 DGCM intends to settle its current tax assets and liabilities on a net basis.

#### **p) Changes in accounting policies**

DGCM adopted the narrow scope of amendments to IAS 7 *Statement of Cash Flows* to improve information provided to users of financial statements about an entity's financing activities, and IAS 12 *Income Taxes* clarifying the accounting for deferred tax assets for unrealized losses on debt instruments. The amendments are effective for periods beginning on or after January 1, 2017. These amendments did not result in a material impact on DGCM's consolidated financial statements.

#### **q) 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, 2017, and have not been applied in preparing these consolidated financial statements.

##### **IFRS 9 – Financial Instruments**

In July 2014, the International Accounting Standards Board (IASB) finalized the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which will supersede IAS 39 - *Financial Instruments: Recognition and Measurement* in its entirety. Key requirements of IFRS 9 are:

*Financial Assets* – All recognized financial assets that are within the scope of IAS 39 - *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held-for-trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

*Financial Liabilities* – With regard to the measurement of financial liabilities designated as FVTPL, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

*Impairment Methodology* – In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

*Hedge Accounting* – In November 2013, a standard was issued on a new general hedge accounting model, together with corresponding disclosures about risk management activity for those applying hedge accounting. The new model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements.

The standard is effective January 1, 2018. The transition to IFRS 9 is managed by the Chief Financial Officer. To date, DGCM's efforts have been focused on updating accounting policies to address key aspects of the Standard including classification and measurement of financial instruments, updating impairment models and assessing the use of hedge accounting under IFRS 9. DGCM continues to make progress towards finalizing its assessment of IFRS 9. At this stage, the anticipated impact of IFRS 9 is limited to the adoption of the expected credit loss model, generating a 12-month expected credit loss, reclassifying approximately \$39 of AOCI as a provision against the underlying asset.

#### **IFRS 15 – Revenue from Contracts with Customers**

In May 2014, the IASB issued IFRS 15 - *Revenue from Contracts with Customers* which provides a single revenue recognition standard to align the financial reporting of revenue from contracts with customers (credit union assessments) and related costs.

The revenue arising from financial instruments is not required to apply the revenue recognition requirements in IFRS 15. A company would recognize revenue when it transfers goods or services to a customer in the amount of consideration the company expects to receive from the customer.

The standard is effective January 1, 2018. The adoption of this standard will not have a significant impact on DGCM's consolidated financial statements.

#### **IFRS 16 – Leases**

In January 2017, the IASB issued IFRS 16 – *Leases*. The most significant change introduced by IFRS 16 is a single lessee accounting model, bringing leases on-balance sheet for lessees. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. DGCM is evaluating the impact this standard will have on its financial statements.

## **4 Critical accounting judgments and key sources of estimation uncertainty**

In the application of DGCM's accounting policies, which are described in Note 3, 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.

### **a) 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 DGCM's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

## **b) 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.

### **i. Provision for financial assistance to credit unions**

- 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 risk rating as established by DGCM
- 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

DGCM has determined that there are no individual provisions for credit union assistance required.

- 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.

In addition, a collective provision may be deemed necessary based on DGCM's best estimate of current aggregate risk to DGCM as determined by evaluating the following conditions:

- market and economic conditions
- credit union analysis
- historic loss experience

DGCM has determined that there is no collective provision for credit union assistance required.

### **ii. Estimates of fair values**

Financial instrument carrying values reflect the prevailing market and the liquidity premiums embedded within the market pricing methods DGCM relies upon.

Fair values of marketable investments classified as AFS are determined with reference to quoted market prices, within the bid/ask spread, 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. DGCM maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring value. DGCM 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.



## 5 Cash

Cash includes cash on hand, and current accounts with CUCM, CIBC Mellon, 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 consolidated statement of financial position as follows:

<b>As at December 31</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Cash on hand	1	1
CUCM	811	847
Scotiabank	1	4
CIBC Mellon	691	61
	<u>1,504</u>	<u>913</u>

## 6 Investments

Investments include fixed income investments and equity investments. A summary of investments as reflected in the consolidated statement of financial position is as follows:

<b>As at December 31</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
<b>Fixed income investments</b>		
GICs	9,939	10,099
Treasury bills	51,086	108,413
Government bonds	144,102	62,554
Corporate bonds	42,691	99,068
	<u>247,818</u>	<u>280,134</u>
<b>Equity investments</b>		
Canadian equities	15,074	-
Global equities and bond funds (net of forward contracts)	28,324	-
Canadian real estate	7,822	-
CUCM and Concentra Shares	72	72
	<u>51,292</u>	<u>72</u>
	<u>299,110</u>	<u>280,206</u>

### a) Assets pledged as security

GICs with CUCM with a carrying amount of \$10,000 (2016: \$10,000) have been pledged to secure an operating line of credit for DGCM. The pledge agreement is renewed annually. DGCM is not permitted to pledge these assets as security for other borrowings or to sell them to another entity.

## 7 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 DGCM. Significantly all of the outstanding balances are collected within 31 days of year-end.

<b>As at December 31</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Assessments receivable	<u>5,481</u>	<u>5,249</u>

## 8 Income taxes

### a) Income tax recognized in net income

<b>Year ended December 31</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
<b>Current tax</b>		
Current tax expense (recovery) in respect of the current year	76	(84)
Adjustments recognized in the current year in relation to the current tax of previous year	<u>-</u>	<u>-</u>
	<u>76</u>	<u>(84)</u>
<b>Deferred tax</b>		
Deferred tax recovery recognized in the current year	<u>(182)</u>	<u>(286)</u>
Total tax recovery relating to continuing operations	<u>(106)</u>	<u>(370)</u>

The expense for the year can be reconciled to the accounting income as follows:

<b>Year ended December 31</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Income from continuing operations	<u>19,814</u>	<u>17,254</u>
Income tax expense at statutory rate	2,080	1,898
Non-taxable credit union assessments	(2,262)	(2,270)
Non-deductible operating expenses	-	-
Change in income tax rates	-	-
Foreign withholding taxes	76	-
Adjustments recognized in the current year in relation to the current tax of previous years	<u>-</u>	<u>12</u>
	<u>(106)</u>	<u>(358)</u>
Adjustments recognized in the current year in relation to the deferred tax of prior years	<u>-</u>	<u>(12)</u>
Income tax (recovery) expense recognized in net income	<u>(106)</u>	<u>(370)</u>

The tax rate used for the 2017 and 2016 reconciliations above is the corporate rate of 10.5% and 10.5% respectively payable on taxable income under tax law in Manitoba.

### b) Income tax recognized in other comprehensive income

<b>Year ended December 31</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
<b>Deferred tax</b>		
Fair value re-measurement of AFS financial assets	<u>(9)</u>	<u>(3)</u>
Total income tax expense recognized in other comprehensive income	<u>(9)</u>	<u>(3)</u>

### c) Current tax assets and liabilities

As at December 31	2017	2016
<b>Current tax assets</b>		
Tax refund receivable	-	84
<b>Current tax liability</b>		
Income tax payable	-	-
	-	84

### d) 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	2017	2016
Deferred tax assets	537	335
Deferred tax liability	-	12

	Opening balance	Recognized in net income	Recognized in Other Comprehensive Income	Closing balance
<b>2016</b>				
<b>Deferred tax assets/ (liabilities) in relation to:</b>				
Property and equipment	(4)	-	-	(4)
Defined benefit obligation	52	12	-	64
Loss carryforwards	-	275	-	275
AFS financial assets	(15)	-	3	(12)
	33	287	3	323
Tax losses	-	-	-	-
Other	-	-	-	-
	33	287	3	323
<b>2017</b>				
<b>Deferred tax assets/ (liabilities) in relation to:</b>				
Property and equipment	(4)	2	-	(2)
Defined benefit obligation	64	(3)	-	61
Loss carryforwards	275	184	-	459
AFS financial assets	(12)	-	31	19
	323	183	31	537
Tax losses	-	-	-	-
Other	-	-	-	-
	323	183	31	537

## 9 Other assets

Other assets include prepaid expenses, accounts receivable, employee loans, and property and equipment. A summary of other assets as reflected in the consolidated statement of financial position is as follows:

<b>As at December 31</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Prepaid expenses	51	73
Employee loans	4	5
Property and equipment	197	251
	<u>252</u>	<u>329</u>

## 10 Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are classified as other financial liabilities and therefore measured at amortized cost.

Accounts 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.

<b>As at December 31</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Accounts payable	74	39
Insured savings accounts	13	13
Accrued liabilities	286	215
	<u>373</u>	<u>267</u>

## 11 Post-employment plans

### a) Defined contribution plans

DGCM contributes to two defined contribution retirement benefit plans for all qualifying employees. These benefit plans are operated by the Co-operative Superannuation Society and Great-West Life Assurance Company. DGCM is required to match employee's contributions of a specified percentage of earnings to the benefit plans. The only obligation of DGCM with respect to the retirement benefit plans is to make specified contributions.

The total expense recognized in the income statement of \$175 (2016: \$172) represents contributions payable to these plans by DGCM at rates specified in the rules of the plans. As at December 31, 2017, all contributions due in respect of the 2017 and 2016 reporting periods had been remitted to the plans.

### b) Defined benefit plan

DGCM operates an unfunded defined benefit plan, referred to as a retirement allowance, for qualifying employees. Under the plan, employees are entitled to a one-time retirement benefit varying between 17% and 50% of the final salary on attainment of a minimum retirement age of 55. No other post-retirement benefits are provided to these employees.

This benefit is self-insured, with no plan texts between DGCM and any third-party. The benefit exists outside the scope of provincial and federal legislation, and is not subject to any regulatory framework. DGCM is solely responsible for the governance of the benefit.

# DEPOSIT GUARANTEE CORPORATION OF MANITOBA 2017 CONSOLIDATED FINANCIAL STATEMENTS

The risks associated with the benefit are strictly financial in nature, primarily driven by any concentration in age groups of employees. Current evaluations show no material concentration of age groupings at December 31, 2017.

The most recent actuarial valuation of the defined benefit obligation was carried out in October 2017 by Eckler Ltd. 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 principal assumptions used for the purposes of the actuarial valuations were as follows:

<b>As at December 31</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Discount rates	3.25%	3.10%
Expected rates of salary increase	3.00%	4.00%
Assumed retirement age	62	62

Amounts recognized in net income in respect to this defined benefit plan are as follows:

<b>Year ended December 31</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Current service cost	61	57
Actuarial (gains) losses recognized in the year	(70)	34
Past service costs	-	-
Interest costs	20	20
	<u>11</u>	<u>111</u>

Actuarial gains and losses, and service costs, including curtailments and settlements, are recognized immediately through net income, and recorded in salaries and employee benefits in the schedule of consolidated operating expenses.

The amount included in the statement of financial position arising from DGCM's obligation in respect of its defined benefit plan 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:

<b>Year ended December 31</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Opening defined benefit obligation	574	469
Current service cost	61	57
Actuarial (gains) losses recognized in the year	(70)	34
Past service costs	-	-
Interest costs	20	20
Benefits paid	-	(6)
Closing defined benefit obligation	<u>585</u>	<u>574</u>

DGCM does not hold plan assets to offset the defined benefit obligation. Funding is provided from cash accounts to pay benefits over a period of up to 24 months following employee retirement.

The maturity profile of the obligation is outlined as follows:

<b>As at December 31</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Within one year	54	-
Later than one year and not later than five years	255	230
Later than five years	276	344
	<u>585</u>	<u>574</u>



## 12 Contingent liabilities

As at December 31, 2017, DGCM guaranteed \$27.4 billion (2016: \$26.3 billion) in credit union deposits. Based on its ongoing monitoring procedures, DGCM has concluded that a provision for such contingencies does not need to be established at this time.

As at December 31, 2017, DGCM has provided a loan indemnification with a maximum exposure of \$480 (2016: \$545). DGCM has concluded that a provision for loss does not need to be established at this time.

## 13 Revenue

<b>Year ended December 31</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
<b>Assessments</b>		
Regular assessments	21,542	20,636
<b>Investment income</b>		
Interest income – loans and receivables	43	25
Interest income – AFS	2,533	1,992
Dividend income – AFS	970	2
Realized gains and losses on disposal of marketable investments	370	8
Unrealized and realized gains and losses on foreign exchange	(298)	-
	<u>3,618</u>	<u>2,027</u>
	<u>25,160</u>	<u>22,663</u>

## 14 Operating expenses

<b>Year ended December 31</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Corporate governance	164	155
Salaries and benefits	3,475	3,480
Contract and professional fees	384	300
CUCM program funding	274	322
Occupancy	430	402
Administration	363	427
Travel	180	204
Other	76	119
	<u>5,346</u>	<u>5,409</u>

## 15 Financial instruments

### a) Class disclosure

The following is the disclosure of financial assets by class:

<b>As at December 31</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
<b>Loans and receivables</b>		
Cash	1,504	913
Assessments receivable	5,481	5,249
Prepaid expenses and employee loans	55	78
	<u>7,040</u>	<u>6,240</u>
<b>AFS</b>		
Fixed income investments	247,818	280,134
Equity investments	51,292	72
	<u>299,110</u>	<u>280,206</u>
	<u>306,150</u>	<u>286,446</u>

The following is the disclosure of financial liabilities by class:

<b>As at December 31</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
<b>Other financial liabilities</b>		
Accounts payable and accrued liabilities	<u>373</u>	<u>267</u>

### b) Capital risk management

DGCM 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 DGCM equity. In order to maintain or adjust its capital structure, DGCM has a \$10,000 line of credit agreement with CUCM. The facility bears an interest rate of 3.00%, payable on demand, subject to annual review on or before March 31, 2018.

DGCM's capital management objective is to maintain total equity (retained earnings and accumulated other comprehensive income) within a range of 95 to 115 basis points (bps) of deposits in credit unions. This equity target range has been approved by the Superintendent of Financial Institutions Regulations Branch. The Board of Directors reviews DGCM's equity position quarterly to ensure prudent positioning within the target range. Where the aggregate shortfall of credit union capital exceeds one-sixteenth of one percent of total deposits and accrued interest, DGCM shall net the shortfall against its equity for this calculation.

### c) Financial risk management

DGCM is exposed to risks of varying degrees of significance which could affect its ability to support its obligation to guarantee deposits in credit unions. The main objectives of DGCM'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 DGCM is exposed include interest rate risk, credit risk, liquidity risk, equity price risk, and currency risk.

DGCM 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, liquidity risk, equity price risk, and currency risk. The investment policy is approved by the Registrar, in compliance with subsection 144(h) of *The Act*. 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.

## i. Interest rate risk management

DGCM is exposed to fluctuations in interest rates that could affect the cash flows from GICs and marketable investments at the time of maturity and reinvestment of individual instruments. These fluctuations could affect the fair values of financial assets and liabilities, and DGCM's ability to support its obligation to guarantee deposits in credit unions.

To manage interest rate risk, DGCM's investment policy restricts the concentration (asset mix) of segregated and pooled fixed income investments within the portfolio. As well, the aggregate duration of segregated and pooled fixed income investments to within 0.25 years of respective benchmark indices, as noted below.

Asset class	Maximum asset mix	Benchmark index
GICs	5.00%	Laddered 1-5 year certificates
Government bonds	56.25%	FTSE TMX Short Term Government Bond
Corporate bonds	25.00%	FTSE TMX All Corporate Bond
Global bonds	6.25%	Barclays Global Aggregate Bond (CDN \$)

To further mitigate interest rate risk, the policy permits the allocation of some or all of the portfolio into cash and short-term investments with an aggregate duration within 0.10 years of the FTSE TMX Canada 91-day T-Bills Index for protection from loss of principal and ensure sufficient cash is held to finance the operations of DGCM.

DGCM may use derivative financial instruments to manage interest rate risk. No derivative financial instruments were used during the year for this purpose.

### • 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 bps 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 bps higher/lower and all other variables were held constant, DGCM's:

- net income for the year ended December 31, 2017, would increase/decrease by \$218/\$214 (2016: increase/decrease by \$934/\$870). This is attributable to DGCM's exposure to interest rates on current accounts and maturing investments, and
- other comprehensive income for the year would decrease/increase by \$3,930 (2016: decrease/increase by \$359) mainly as a result of the changes in the fair value of AFS fixed rate instruments.

DGCM's net income and comprehensive income sensitivity to interest rates has increased during the current period due to a larger investment portfolio.



## ii. Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to DGCM. DGCM's exposure to credit risk consists principally of:

- fixed income investments with Canadian federal, provincial and municipal governments, and corporations
- equity investment in global bond funds
- derivative instruments for hedging purposes
- GICs with CUCM
- assessments receivable from credit unions

Measures are taken to mitigate each exposure to credit risk:

- DGCM's investment policy only permits holding marketable investment-grade (BBB or higher) fixed income investments. Ratings are determined by independent rating agencies. Credit risk exposure is limited to that contained within respective benchmark indices.
- Credit risk with derivative instruments is evaluated quarterly. It is DGCM's practice to transact in derivatives only with the most creditworthy financial intermediaries.
- DGCM's policy is to limit investments in CUCM, to those, pledged as security for the line of credit agreement (\$10,000 as at December 31, 2017).
- DGCM monitors the financial strength of individual credit unions on a monthly basis.

Assessments receivable from credit unions are unrated. Significantly all of the outstanding balances are collected within 31 days of year-end. Historically, DGCM has not experienced bad debts related to any of these counterparties.

The table below shows the credit risk exposure of investments, by credit rating, at the end of the reporting period using DBRS' credit rating symbols:

<b>As at December 31</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
<b>Credit rating</b>		
AAA	165,663	108,413
AA	38,600	73,755
A	28,009	87,867
BBB	19,997	-
	<u>252,269</u>	<u>270,035</u>
<b>Unrated</b>		
CUCM GICs	9,939	10,099
	<u>262,208</u>	<u>280,134</u>

The table below shows the credit risk exposure of investments, by issuer, at the end of the reporting period:

<b>As at December 31</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Government	205,516	170,967
Corporate	56,692	109,167
	<u>262,208</u>	<u>280,134</u>

### iii. Liquidity risk management

Liquidity risk is the risk of having insufficient financial resources to meet DGCM's cash and funding requirements in support of the guarantee of deposits in credit unions. DGCM's approach to manage its liquidity risk is to ensure, as far as possible, that it will have cash, demand and GICs, and marketable investments which meet its annual capital target.

Management expects that DGCM'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 in credit unions.

A \$10,000 line of credit is secured with CUCM to meet any short-term deficiencies in regular assessments and interest earned.

In the event that the investment portfolio must be drawn upon, DGCM's policy is that at least 95% of the portfolio is tradeable in major Canadian and American bond and equity markets. Redemptions on the residual balance can be made on a quarterly basis.

The following table details DGCM's expected maturity for its segregated debt instrument 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. Excluded from the table below are Canadian and US equities totaling \$36,902 (2016: \$72).

As at December 31	2017	2016
<b>Financial assets</b>		
Under one year	56,917	272,960
One to five years	182,001	8,087
Five to ten Years	12,533	-
Ten to twenty years	4,751	-
Over twenty years	7,510	-
	<u>263,712</u>	<u>281,047</u>

#### Financial liabilities

All financial liabilities are due within one year.

### iv. Equity price risk management

Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets and other pricing risk.

To manage equity price risk, DGCM's investment policy restricts the concentration (asset mix) of equity-based investments within the portfolio, and ensure they are passively managed against established diversified indices, as noted in the table below.

Asset class	Maximum asset mix	Benchmark index
Canadian Equities	6.25%	S&P/TSX Composite Index
Global Equities	6.25%	MSCI World Index (CDN \$)

The best estimate return assumptions for equities are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact asset cash flows. A 10% increase/decrease on equity market prices would increase/decrease other comprehensive income by \$2,588 (2016: nil).

## **v. Currency risk management**

Currency risk relates to DGCM holding financial instruments in different currencies. Changes in foreign exchange rates can expose DGCM to the risk of foreign exchange losses. DGCM has investments in investments denominated in U.S. dollars. In accordance with IFRS, foreign currency translation gains and losses from these investments, net of hedging activities and tax effects, are recorded in net income. A 10% weakening or strengthening of the Canadian dollar would not have a material impact on net income or total comprehensive income as DGCM uses derivative financial instruments to manage currency risk.

## **vi. Fair value of financial instruments**

### **Fair value of financial instruments carried at amortized cost**

DGCM considers that the carrying amounts of financial assets and financial liabilities recognized at amortized cost in the financial statements approximate their fair values.

### **Valuation techniques and assumptions applied for the purposes of measuring fair value**

DGCM 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 financial liabilities measured at fair value on a recurring basis on the balance sheet are categorized as follows:

**Level 1:** Fair value measurements utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that DGCM has the ability to access. Assets utilizing Level 1 inputs include cash, treasury bills, Canadian equities exchange traded funds (ETFs), and global equities and bond ETFs.

**Level 2:** Fair value measurements utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 assets include government bonds and corporate bonds, which use quoted prices for similar assets and liabilities in active markets as inputs for valuation. Level 2 assets also include GICs, which use interest rates and yield curves that are observed at commonly quoted intervals as inputs for valuations.

**Level 3:** Fair value measurements utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability. Level 3 assets include a Canadian real estate fund, which is valued primarily based on the discounted cash flow approach, however direct capitalization and comparable sale methodologies are also employed, where appropriate. Level 3 assets also include shares held with CUCM and Concentra, which are held at cost, representing fair value at the end of the reporting period.

# DEPOSIT GUARANTEE CORPORATION OF MANITOBA 2017 CONSOLIDATED FINANCIAL STATEMENTS

The following table presents DGCM's assets and liabilities that are carried at fair value on a recurring basis.

<b>As at December 31, 2016</b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>	<b><u>Total</u></b>
<b>Assets measured at fair value</b>				
Cash	913	-	-	913
Fixed income investments				
GICs	-	10,099	-	10,099
Treasury bills	108,413	-	-	108,413
Government bonds	-	62,554	-	62,554
Corporate bonds	-	99,068	-	99,068
Equity investments				
Canadian equities	-	-	72	72
Total assets measured at fair value on a recurring basis	<u>109,326</u>	<u>171,721</u>	<u>72</u>	<u>281,119</u>
 <b>As at December 31, 2017</b>				
	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>	<b><u>Total</u></b>
<b>Assets measured at fair value</b>				
Cash	1,504	-	-	1,504
Fixed income investments				
GICs	-	9,939	-	9,939
Treasury bills	51,086	-	-	51,086
Government bonds	-	144,102	-	144,102
Corporate bonds	-	42,691	-	42,691
Equity investments				
Canadian equities	15,074	-	72	15,146
Global equities and bond funds	28,324	-	-	28,324
Canadian real estate	-	-	7,822	7,822
Total assets measured at fair value on a recurring basis	<u>95,988</u>	<u>196,732</u>	<u>7,894</u>	<u>300,614</u>

There were no transfers of DGCM's assets between Level 1 and Level 2 in the year.

## **Liabilities measured at fair value**

There are no liabilities carried at fair value on a recurring basis.

# DEPOSIT GUARANTEE CORPORATION OF MANITOBA 2017 CONSOLIDATED FINANCIAL STATEMENTS

The following presents additional information about assets measured at fair value on a recurring basis and for which DGCM has utilized Level 3 inputs to determine fair value:

<b>2017</b>	<b>Canadian real estate</b>	<b>CUCM and Concentra shares</b>
Balance, beginning of year	-	72
Total gains	515	-
Purchases	7,307	-
Sales	-	-
Other	-	-
Balance, end of year	<u>7,822</u>	<u>72</u>
Total gains for the year included in investment income	<u>-</u>	<u>-</u>
Change in unrealized gains for the year included in earnings for assets held at December 31, 2017	<u>515</u>	<u>-</u>

The following table sets out information about significant unobservable inputs used at year-end in measuring assets and liabilities categorized as Level 3 in fair value hierarchy:

<b>Type of asset</b>	<b>Canadian real estate</b>	<b>CUCM and Concentra shares</b>
Valuation approach	Property valuations are generally determined using models based on expected capitalization rates and models that discount expected future net cash flows. The determination of the fair value of investment property requires the use of estimates such as future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market rates.	CUCM and Concentra shares have been held in excess of 35 years, to support co-operative resources for Manitoba credit unions. The shares do not have an active market and cannot be readily disposed of. As a result, the shares are valued at original cost.
Significant unobservable inputs	Discount rate Reversionary rate Vacancy rate	None
Input values	Discount range 5.25%-10% Reversionary range 4.25%-9% Vacancy weighted average 9.2%	None



Type of asset	Canadian real estate	CUCM and Concentra shares
Inter-relationship between key inputs and fair value measurement	<p>A decrease/increase in the discount rate would result in an increase/decrease in fair value.</p> <p>A decrease/increase in the reversionary rate would result in an increase/decrease in fair value.</p> <p>A decrease/increase in the expected vacancy rate would generally result in an increase/decrease in fair value.</p>	None

## vii. Derivative financial instruments

In the normal course of managing exposure to fluctuations in foreign exchange rates, DGCM is an end-user of forward contracts. Forward contracts are for three-terms, with successive renewals upon maturity, to match the existing currency risk exposure. These forward contracts are designated as accounting hedges.

As at December 31, 2017, DGCM had forward contracts with a FMV of \$635 (2016: nil). The notional value of the contracts was \$23,103 (2016: nil). The counterparty of forward contracts is JP Morgan Chase Bank, New York. The maturity date of the contracts is March 22, 2018.

# 16 Related party transactions

## a) Loans to related parties

Key management personnel are defined as the Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, and Chief Operations Officer.

DGCM 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 DGCM

The maximum loan size is \$8, repayable by payroll deduction over a maximum period of three years.

Outstanding loans to key management personnel at the end of 2017 was nil (2016: nil).

## b) Compensation of key management personnel

The remuneration of key management personnel is determined by the Board of Directors. The aggregate remuneration of key management personnel during the year was as follows:

Year ended December 31	2017	2016
Salaries	833	771
Short-term benefits	33	25
Post-employment benefits	55	102
	<u>921</u>	<u>898</u>

**c) 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:

<b>Year ended December 31</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Board member remuneration	114	113
Expenses	50	42
	<u>164</u>	<u>155</u>

**17 Operating lease arrangements****a) Lease arrangements**

DGCM is the lessee on an operating lease related to a six-year agreement for office space. This agreement expires on December 31, 2018. DGCM has the option to renew the lease for one additional term of five years at the expiration of the existing term.

DGCM is the lessee on an operating lease related to a month-to-month agreement for a disaster recovery backup site. There is no expiry date on this lease agreement. DGCM is the lessee on operating leases related to four-year agreements for two corporate vehicles. The leases will expire February 6, 2020 and February 22, 2021. DGCM has the option to purchase the leased vehicles.

**b) Payments recognized as an expense**

DGCM recognized \$193 (2016: \$197) in lease payments for the year.

**c) Non-cancellable operating lease commitments**

<b>As at December 31</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
No later than one year	195	186
Later than one year and not later than five years	28	194
Later than five years	-	-
	<u>223</u>	<u>380</u>

No liabilities have been recognized in respect of non-cancellable operating lease commitments.

## The Public Interest Disclosure (Whistleblower Protection) Act

The Deposit Guarantee Corporation of Manitoba (DGCM) is designated as a government body for purposes of *the Public Interest Disclosure (Whistleblower Protection) Act (the Act)*. *The Act* requires that government bodies disclose, in their annual reports, any activities regulated by this legislation.

*The Act* came into effect in April 2007. This law gives employees a clear process for disclosing concerns about significant and serious matters (wrongdoing) in the Manitoba public service sector, and strengthens protection from reprisal. *The Act* builds on protections already in place under other statutes, as well as collective bargaining rights, policies, practices and processes in the Manitoba public service.

Wrongdoing under *the Act* may be: contravention of federal or provincial legislation; an act or omission that endangers public safety, public health, or the environment; gross mismanagement; or, knowingly directing or counseling a person to commit a wrongdoing. *The Act* is not intended to deal with routine operational or administrative matters.

A disclosure made by an employee in good faith, in accordance with *the Act*, and with a reasonable belief that wrongdoing has been or is about to be committed is considered to be a disclosure under *the Act*, whether or not the subject matter constitutes wrongdoing. All disclosures receive careful and thorough review to determine if action is required under *the Act*, and must be reported in a department's annual report in accordance with Section 18 of *the Act*.

The following is a summary of disclosures received by DGCM for the fiscal year ended December 31, 2017:

Information Required Annually (per Section 18 of <i>the Act</i> )	Fiscal Year 2017
The number of disclosures received, and the number acted on and not acted on. Subsection 18(2)(a)	Nil
The number of investigations commenced as a result of a disclosure. Subsection 18(2)(b)	Nil
In the case of an investigation that results in a finding of wrongdoing, a description of the wrongdoing and any recommendations or corrective actions taken in relation to the wrongdoing, or the reasons why no corrective action was taken. Subsection 18(2)(c)	Nil



## Management Report

For the year ended March 31, 2018

The accompanying consolidated financial statements have been prepared by management of the Manitoba Hydro-Electric Board (the corporation), who are responsible for the integrity, consistency and reliability of the information presented. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

The preparation of the consolidated financial statements necessarily involves the use of estimates and assumptions based on management's judgments, particularly when transactions affecting the current period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances. The preparation of the consolidated financial statements includes information regarding the estimated impact of future events and transactions. Actual results in the future may differ from the present assessment of this information because future events and circumstances may not occur as expected. The consolidated financial statements have been prepared within reasonable limits of materiality in light of information available up to June 27, 2018.

In meeting its responsibility for the reliability of financial information, management maintains and relies on a comprehensive system of internal controls, which is designed to provide reasonable assurance that the corporation's assets are safeguarded and appropriately accounted for, that financial information is relevant, reliable and accurate, and that transactions are properly authorized and executed. The system includes formal policies and procedures as well as the appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function evaluates the effectiveness of these controls and reports its findings to management and the Audit Committee of the Board of Directors.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit Committee, which is comprised of outside and unrelated directors, meets periodically with management, the internal auditors and the external auditors to satisfy itself that each group has properly discharged its responsibility with respect to internal controls and financial reporting. The Audit Committee reviews the consolidated financial statements and management's discussion and analysis and recommends their approval to the Board of Directors. The external auditors have full and open access to the Audit Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of the financial reporting and the effectiveness of the system of internal controls.

The consolidated financial statements were reviewed by the Audit Committee, and on their recommendation, were approved by the Board of Directors. The consolidated financial statements have been examined by KPMG LLP, independent external auditors appointed by the Lieutenant Governor in Council. The external auditors' responsibility is to express their opinion on whether the consolidated financial statements are fairly presented in accordance with International Financial Reporting Standards. The Independent Auditors' Report outlines the scope of their examination and their opinion.

On behalf of management:

### Original Document Signed

Kelvin Shepherd, P. Eng  
President & Chief Executive Officer

Winnipeg, Canada  
June 27, 2018

### Original Document Signed

Jamie McCallum  
Chief Finance & Strategy Officer

## Independent Auditors' Report

### *To the Board of Directors of Manitoba Hydro-Electric Board*

We have audited the accompanying consolidated financial statements of Manitoba Hydro-Electric Board, which comprise the consolidated statement of financial position as at March 31, 2018, the consolidated statements of income, cash flows, comprehensive income and changes in equity for the year then ended, and notes, comprising 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 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 our judgement, 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, we 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 consolidated financial position of Manitoba Hydro-Electric Board as at March 31, 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Comparative Information*

Without modifying our opinion, we draw attention to Note 3(s) to the consolidated financial statements which indicates that certain comparative information in the statement of cash flows presented for the year ended March 31, 2017 has been restated for changes in accounting policies.

The consolidated financial statements of Manitoba Hydro-Electric Board as at and for the year ended March 31, 2017, excluding the restatements described in Note 3(s) to the consolidated financial statements, were audited by another auditor who expressed an unmodified opinion on those financial statements on July 5, 2017.

As part of our audit of the consolidated financial statements as at and for the year ended March 31, 2018 we audited the restatements described in Note 3(s) to the consolidated financial statements that were applied to restate the comparative information in the statement of cash flows presented for the year ended March 31, 2017. In our opinion, the restatements are appropriate and have been properly applied.

We were not engaged to audit, review, or apply any procedures to the March 31, 2017 consolidated financial statements other than with respect to the restatements described in Note 3(s) to the consolidated financial statements. Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.



Chartered Professional Accountants

June 27, 2018

Winnipeg, Canada

**Consolidated Statement of Income**

For the year ended March 31

*millions of Canadian dollars*

	Notes	2018	2017
<b>Revenues</b>			
Domestic			
Electric		1 464	1 419
Gas		343	342
Extraprovincial	5	437	460
Other	6	86	106
		<b>2 330</b>	<b>2 327</b>
<b>Expenses</b>			
Finance expense	7	641	645
Operating and administrative	8	586	608
Depreciation and amortization	9	430	402
Cost of gas sold		196	183
Water rentals and assessments		126	131
Fuel and power purchased	10	130	132
Capital and other taxes	11	146	135
Other expenses	12	548	104
Finance income		(23)	(17)
		<b>2 780</b>	<b>2 323</b>
Net income (loss) before net movement in regulatory balances		<b>(450)</b>	4
Net movement in regulatory balances	20	<b>479</b>	55
<b>Net Income</b>		<b>29</b>	<b>59</b>
Net income (loss) attributable to:			
<b>Manitoba Hydro</b>		<b>37</b>	71
Non-controlling interests	29	(8)	(12)
		<b>29</b>	<b>59</b>

The accompanying notes are an integral part of the consolidated financial statements.

## Consolidated Statement of Financial Position

As at March 31

millions of Canadian dollars

	Notes	2018	2017
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	13	642	646
Accounts receivable and accrued revenue	14	428	385
Prepaid expenses		39	123
Inventory	15	112	108
		<b>1 221</b>	1 262
<b>Property, Plant and Equipment</b>	16	<b>21 979</b>	19 757
<b>Non-Current Assets</b>			
Goodwill		107	107
Intangible assets	18	408	293
Loans and other receivables	19	410	353
		<b>925</b>	753
Total assets before regulatory deferral balance		<b>24 125</b>	21 772
Regulatory deferral balance	20	<b>1 044</b>	566
<b>Total assets and regulatory deferral balance</b>		<b>25 169</b>	22 338

On behalf of the Board of Directors:

### Original Document Signed

Marina R. James  
Chair of the Board

### Original Document Signed

Melanie McKague  
Chair of the Audit Committee

	Notes	2018	2017
<b>Liabilities and Equity</b>			
<b>Current Liabilities</b>			
Current portion of long-term debt	21	1 000	336
Accounts payable and accrued liabilities	22	742	1 083
Notes payable	23	50	-
Other liabilities	24	162	98
Accrued interest		126	114
		<b>2 080</b>	1 631
<b>Long-Term Debt</b>	21	<b>18 200</b>	16 102
<b>Non-Current Liabilities</b>			
Other long-term liabilities	25	623	638
Employee future benefits	26	908	818
Deferred revenue	27	769	642
Provisions	28	60	70
		<b>2 360</b>	2 168
Total liabilities		<b>22 640</b>	19 901
<b>Equity</b>			
Retained earnings		2 936	2 899
Accumulated other comprehensive loss		(688)	(709)
<b>Equity attributable to Manitoba Hydro</b>		<b>2 248</b>	2 190
Non-controlling interests	29	205	170
Total equity		<b>2 453</b>	2 360
Total liabilities and equity before regulatory deferral balance		<b>25 093</b>	22 261
Regulatory deferral balance	20	76	77
<b>Total liabilities, equity and regulatory deferral balance</b>		<b>25 169</b>	22 338

The accompanying notes are an integral part of the consolidated financial statements.

## Consolidated Statement of Cash Flows

For the year ended March 31

millions of Canadian dollars

	Notes	2018	2017
<b>Operating Activities</b>			
Net income		29	59
Add back:			
Depreciation and amortization	8	430	402
Finance expense	7	641	645
Net movement impacts on depreciation, amortization and finance expense		11	17
Finance income		(23)	(17)
Adjustments for non-cash items		(23)	(13)
Adjustments for changes in non-cash working capital accounts			
Accounts receivable and accrued revenue		(43)	3
Prepaid expenses		85	(83)
Accounts payable and accrued liabilities		(339)	364
Other		28	63
Interest received		23	17
Interest paid		(913)	(834)
Cash (used for) provided by operating activities		(94)	623
<b>Investing Activities</b>			
Additions to property, plant and equipment		(2 652)	(2 678)
Additions to intangible assets		(137)	(121)
Additions to regulatory deferral balances		(105)	(87)
Contributions received		199	133
Cash paid to the City of Winnipeg		(16)	(16)
Cash paid for mitigation obligations		(30)	(21)
Cash paid for major development obligations		(15)	(11)
Other		(8)	14
Cash used for investing activities		(2 764)	(2 787)

	Notes	2018	2017
<b>Financing Activities</b>			
Proceeds from long-term debt	21	3 400	2 186
Retirement of long-term debt	21	(582)	(320)
Repayment from (advances to) external entities		(58)	(53)
Proceeds from partnership issuances		44	42
Proceeds from short-term borrowings	23	50	–
Sinking fund investment withdrawals	17	165	146
Sinking fund investment purchases	17	(165)	(146)
Cash provided by financing activities		2 854	1 855
Net decrease in cash and cash equivalents		(4)	(309)
Cash and cash equivalents, beginning of year		646	955
<b>Cash and cash equivalents, end of year</b>		<b>642</b>	<b>646</b>

The accompanying notes are an integral part of the consolidated financial statements.



## Consolidated Statement of Comprehensive Income

For the year ended March 31

*millions of Canadian dollars*

	2018	2017
<b>Net Income</b>	<b>29</b>	<b>59</b>
<b>Other comprehensive income (loss)</b>		
<b>Items that will not be reclassified to income</b>		
Net experience (losses) gains on pensions	(58)	94
<b>Items that will be reclassified to income</b>		
Cash flow hedges - unrealized foreign exchange gains (losses) on debt	57	(47)
<b>Items that have been reclassified to income</b>		
Cash flow hedges - realized foreign exchange losses on debt	22	20
	<b>21</b>	<b>67</b>
<b>Comprehensive Income</b>	<b>50</b>	<b>126</b>
 Comprehensive income (loss) attributable to:		
<b>Manitoba Hydro</b>	<b>58</b>	<b>138</b>
Non-controlling interests	(8)	(12)
	<b>50</b>	<b>126</b>

The accompanying notes are an integral part of the consolidated financial statements.

**Consolidated Statement of Changes in Equity***millions of Canadian dollars*

	Notes	Retained earnings	Accumulated other comprehensive income (loss)	<b>Manitoba Hydro</b>	Non-controlling interests	Total equity
Balance as at April 1, 2016		2 828	(776)	<b>2 052</b>	140	2 192
Net income (loss)		71	-	<b>71</b>	(12)	59
Other comprehensive income		-	67	<b>67</b>	-	67
Comprehensive income (loss)		71	67	<b>138</b>	(12)	126
Change in ownership interest	29	-	-	-	42	42
Balance as at March 31, 2017		2 899	(709)	<b>2 190</b>	170	2 360
Net income (loss)		37	-	<b>37</b>	(8)	29
Other comprehensive income		-	21	<b>21</b>	-	21
Comprehensive income (loss)		37	21	<b>58</b>	(8)	50
Change in ownership interest	29	-	-	-	43	43
<b>Balance as at March 31, 2018</b>		<b>2 936</b>	<b>(688)</b>	<b>2 248</b>	<b>205</b>	<b>2 453</b>

The accompanying notes are an integral part of the consolidated financial statements.

## Note 1 Reporting entity

The Manitoba Hydro-Electric Board and the Manitoba Power Commission were amalgamated in 1961 by enactment of *The Manitoba Hydro Act* to form a Crown corporation in the Province of Manitoba named Manitoba Hydro (the corporation). Manitoba Hydro's mandate is to provide for the continuance of a supply of energy adequate for the needs of the Province and to engage in and to promote economy and efficiency in the development, generation, transmission, distribution, supply and end-use of energy. The head office of the corporation is located at 360 Portage Avenue, Winnipeg, Manitoba.

These consolidated financial statements include the accounts of Manitoba Hydro and its wholly-owned subsidiaries including Centra Gas Manitoba Inc. (Centra), Minell Pipelines Ltd. (Minell), Manitoba Hydro International Ltd. (MHI), Manitoba Hydro Utility Services Ltd. (MHUS), Teshmont LP Holdings Ltd. (which has a 40% ownership interest in the Teshmont Consultants Limited Partnership) and 6690271 Manitoba Ltd. (a subsidiary that was formed to participate in the development of a new transmission line in the U.S.). These consolidated financial statements also include Manitoba Hydro's 67% ownership interest in the Wuskwatim Power Limited Partnership (WPLP) and its 75% ownership interest in the Keeyask Hydropower Limited Partnership (KHLP). For purposes of consolidation, all significant intercompany accounts and transactions have been eliminated.

## Note 2 Basis of presentation

### (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

These consolidated financial statements were approved for issue by the Manitoba Hydro-Electric Board on June 27, 2018.

### (b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for the following material items in the consolidated statement of financial position:

- Financial instruments accounted for in accordance with the financial instrument categories defined in Note 3(n)
- Employee future benefits defined in Note 3(k)
- Provisions defined in Note 3(l).

### (c) Functional and presentation currency

The consolidated financial statements are presented in millions of Canadian dollars, the functional currency of the corporation.

**(d) Use of estimates and judgment**

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect amounts reported as assets, liabilities, income and expenses.

Areas of significant management estimates and judgments are outlined in the following summary and significant accounting policies included in Note 3:

- Accrued revenue for domestic electricity and natural gas deliveries not yet billed at year-end and allowance for doubtful accounts (Note 3(b))
- Useful life estimates for depreciable and amortizable assets (Notes 3(g), 16 and 18)
- Determination of cash generating unit as it pertains to impairment testing (Note 3(h) and (j))
- Measurement of accrued liabilities (Note 22)
- Measurement of other long-term liabilities and underlying estimates of future cash flows (Note 25)
- Measurement of employee future benefits and underlying actuarial assumptions (Notes 3(k) and 26)
- Measurement of provisions and underlying estimates of future cash flows (Notes 3(l) and 28)
- Fair value measurement of financial instruments (Notes 3(n) and 30)
- Identification and reporting of operating segments (Note 34).

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

**Note 3 Significant accounting policies****(a) Regulatory deferral accounts**

In January 2014, the International Accounting Standards Board (IASB) issued an interim standard, IFRS 14 *Regulatory Deferral Accounts*, which provides guidance on accounting for the effects of rate regulation under IFRS. This guidance allows entities that conduct rate-regulated activities to continue to recognize regulatory deferral accounts. This interim standard is effective for financial reporting periods beginning on or after January 1, 2016. The corporation has elected to adopt IFRS 14 in its consolidated financial statements. The interim standard is only intended to provide temporary guidance until the IASB completes its comprehensive project on rate-regulated activities. IFRS 14 remains in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB.



## Notes to the Consolidated Financial Statements

For the year ended March 31, 2018

(in millions of Canadian dollars)

Regulatory deferral account balances usually represent timing differences between the recognition of items of income or expenses for regulatory purposes and the recognition of those items for financial reporting purposes. Regulatory deferral account balances arising from rate-regulated activities are recognized and measured separately if they do not meet the criteria to be recognized as an asset or liability in accordance with other standards. The balances recorded as regulatory deferral balances will be recovered or refunded in future rates, based on approvals by the Public Utilities Board of Manitoba (PUB). These amounts would otherwise have been included in the determination of net income in the year they are incurred.

Under rate regulation, the prices charged for the sale of electricity and natural gas within Manitoba are subject to review and approval by the 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 natural gas service plus a sufficient contribution to retained earnings.

The following regulatory deferral account balances are initially recorded at cost and amortized on a straight-line basis using the specified periods:

Demand side management (DSM) programs	10 years
Site restoration costs	15 years
Deferred taxes	30 years
Acquisition costs	30 years
Regulatory costs	up to 5 years
Ineligible overhead	34 years

The Affordable Energy Fund is amortized to the consolidated statement of income at the same rate as the obligation is drawn down. The purchased gas variance account (PGVA) is recovered or refunded over a period determined by the PUB.

The amortization of the loss on disposal of assets, change in depreciation methodologies from average service life (ASL) to equal life group (ELG), difference in depreciation rate used for gas meters and the impact of the 2014 depreciation study will be determined by the PUB at a future regulatory proceeding.

### **(b) Revenue recognition**

Domestic electricity and natural gas revenues are recognized upon delivery to the customer and charged in accordance with rates approved by the PUB. Unbilled revenues are recorded based on an estimated amount of electricity and natural gas delivered and not yet billed at year-end.

Extraprovincial electricity revenue is recorded upon the delivery of energy or settlement of the financial transaction.

Consulting, technology and maintenance services and other miscellaneous revenue is recognized when services are provided or goods are shipped to the customer. Revenue from fixed price contracts is recognized under the percentage-of-completion method. The percentage of completion is determined by comparing the costs incurred at the consolidated statement of financial position date to the total estimated costs, which include costs incurred plus anticipated costs for completing a contract.

Deferred revenue related to customer contributions is recognized over the life of the related asset for which the contribution was received.

**(c) Cost of gas**

Natural gas is recorded at purchased cost upon delivery to gas customers.

**(d) Finance expense and finance income**

Finance expense includes interest on short and long-term borrowings and the provincial debt guarantee fee paid to the Province of Manitoba, foreign exchange gains and losses, the mark to market of foreign exchange forward contracts, accretion expense on provisions and other long-term liabilities, offset by interest capitalized for those qualifying assets under construction. Foreign exchange gains and losses include amounts that had been recognized in other comprehensive income and reclassified from equity to net income in the same periods during which the hedged forecast cash flows (being U.S. export revenues) affect net income. All borrowing costs are recognized using the effective interest rate method. Finance income includes interest earned on loans and advances to external parties and temporary investments.

**(e) 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 are subject to an insignificant risk of changes in value.

**(f) Inventory**

Materials and supplies, fuel and natural gas inventories are valued at the lower of average cost and net realizable value. Replacement cost is used as management's best estimate of the net realizable value for materials and supplies and fuel inventory.

Materials, supplies, fuel and natural gas are charged to inventory when purchased and not immediately required for use. These inventories are expensed or capitalized when used. Those materials, supplies and fuel purchased for immediate use are expensed directly.

**(g) Property, plant and equipment**

Property, plant and equipment (PP&E) is recorded at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, contracted services, direct labour and interest applied at the weighted average cost of debt outstanding during the period. 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.

Depreciation is calculated on a straight-line remaining life basis using the ELG procedure. The major components of generating stations are depreciated over the lesser of the remaining life of the major components or the remaining life of the associated generating station.

Generation	4 – 125 years
Transmission lines	10 – 85 years
Substations	15 – 65 years
Distribution systems	10 – 75 years
Other	5 – 100 years

The estimated service lives of the assets are based upon depreciation studies conducted periodically by the corporation. A depreciation study was last completed in 2015.

The net gain or loss on retirement of these assets is charged to depreciation in the period incurred and then removed through net movement in regulatory balances. When the costs of removing an asset from service are incurred to facilitate the installation of a new asset, the costs to remove the asset from service are added to the costs of the new asset. When an asset is retired from service and not replaced with a similar asset, the costs of removing the asset from service are treated similarly to the net gain or loss on retirement of assets.

A reasonable estimate of the present value of the future cash flows required to retire an asset from service is recorded when the recognition criteria for a provision (Note 3(l)(i)) are met. An equivalent amount is added to the carrying cost of the related asset and is amortized over the asset's remaining service life. The discount rate used to measure the cash flows reflects current market assessments of the time value of money and the risks specific to the obligation.

**(h) Goodwill**

Goodwill represents the amount of the corporation's investments in Centra 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.

**(i) Intangible assets**

Intangible assets include computer application development costs, land easements and transmission rights. Intangible assets are recorded at cost less accumulated amortization. The cost of computer application development includes software, direct charges for labour, materials, contracted services and interest during development applied at the weighted average cost of debt outstanding during the period. The corporation's intangible assets have finite useful lives and are amortized over their useful lives on a straight-line basis with the amortization included in depreciation and amortization expense. The expected useful lives are as follows:

Computer application development	5 – 11 years
Land easements	75 years
Transmission rights	1 – 12 years

Transmission rights are amortized over the contractual period of the right plus a one-term renewal. The estimated service lives of computer application development and land easements are based upon depreciation studies conducted periodically by the corporation. A depreciation study was last completed in 2015.

**(j) Impairment of non-financial assets**

Non-financial assets subject to impairment testing include goodwill, intangible assets and property, plant and equipment. The corporation tests goodwill and material intangible assets under construction at least annually for impairment. Assets subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment test is performed by comparing the carrying amount of the asset or cash generating unit (CGU) to its recoverable amount. The recoverable amount is calculated as the higher of the fair value less costs to sell and the present value of the future cash flows from an asset or CGU. The corporation has determined its CGUs to be at the segment level. This is the lowest level for which there are separately identifiable cash flows as rates for electricity and natural gas revenue are set by the PUB at the segment level. An impairment would be recognized as a charge against operations in the year of impairment if the carrying amount exceeds the recoverable amount.



**(k) Employee future benefits**

Manitoba Hydro provides future benefits, including pension and other benefits, to both existing and retired employees.

The costs and obligations of defined benefit pension plans and other benefits are determined by an independent actuary using the accrued benefit actuarial cost method and reflect management's best estimate of future compensation increases, service lives and inflation. Pension expense consists of the cost of pension benefits earned during the year and net interest income or expense. Interest income on plan assets is determined by multiplying the fair value of the plan assets by the discount rate used to determine the accrued benefit obligation at the start of the annual reporting period. This considers any changes in the plan assets held during the period as a result of contributions and benefit payments. Interest expense on the accrued benefit obligation is determined by multiplying the accrued benefit obligation by the discount rate used at the start of the annual reporting period.

Experience gains or losses on the asset and actuarial gains or losses on the obligation are recognized in other comprehensive income (OCI) in the period in which they occur. Past service costs, which arise when a change is made to plan benefits, are recognized immediately in profit or loss.

Other future benefits earned by employees include vacation, vested sick leave, severance and retirement health plans. Where applicable, the future costs of these benefits are determined by an independent actuary and reflect management's best estimates.

**(l) Provisions**

In accordance with International Accounting Standards (IAS) 37 *Provisions, Contingent Liabilities and Contingent Assets*, a provision is required to be recognized where there is a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation, the timing or amount of which are uncertain.

**(i) Asset retirement obligations**

Asset retirement obligations are estimated by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as a finance expense.

**(ii) Affordable Energy Fund**

The Affordable Energy Fund was determined based on Provincial Legislation. The timing of disbursements is uncertain due to the unpredictability of future customer participation.

(iii) Mitigation

Provisions arising from Manitoba Hydro's mitigation program are recognized when there is an expectation that expenditures will be incurred to address the adverse effects of past hydroelectric development on Indigenous and other communities. These provisions are based on management's best estimate of the consideration required to settle the obligation. The corporation reviews its estimates of future mitigation expenditures on an ongoing basis.

(iv) Major development

Provisions arising from Manitoba Hydro's major development projects are recognized when there is an expectation that expenditures will be incurred to address project-related adverse effects on Indigenous and other communities. These provisions are based on management's best estimate of the consideration required to settle the obligation. The corporation reviews its estimates of future major development expenditures on an ongoing basis.

(v) Other provisions

Other provisions have been established for obligations discovered, which require recognition in the financial statements due to the likelihood of settlement and the presence of an obligation, either from past events or constructive in nature.

**(m) Government grants**

Government grants are recognized when there is reasonable assurance they will be received and the corporation will comply with the conditions associated with the grant. Government grants that compensate the corporation for expenses incurred are recognized in profit or loss in the same period in which the expenses are recognized. Grants that compensate the corporation for the cost of an asset are recorded as deferred revenue and recognized in other revenue over the service life of the related asset.

**(n) 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 except for those financial instruments measured at fair value through profit or loss. Transaction costs directly attributable to the acquisition of financial instruments classified as fair value through profit or loss are expensed as incurred. Measurement in subsequent periods depends on the classification of the instrument. Financial instruments are classified into one of the following categories: loans and receivables, fair value through profit or loss, available-for-sale or other financial liabilities.

Financial instruments classified as loans and receivables and other financial liabilities are carried at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are subsequently measured at fair value with unrealized gains and losses recorded in OCI until the instrument is derecognized or impaired. Financial instruments classified as fair value through profit or loss are subsequently measured at fair value with changes in fair value recognized in the consolidated statement of income in the period in which they arise.

Financial assets classified as loans and receivables are subject to impairment testing at the end of each reporting period. Impairment losses are recorded when there is objective evidence that impairment has occurred due to one or more events such as default or delinquency in interest or principal payments, or significant financial difficulty experienced by the counterparty. Trade receivables that are not assessed for impairment individually are assessed for impairment on a collective basis. Objective evidence of impairment includes the corporation's past historical loss rates applied to groups for which the historical loss rates were observed.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced with substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability is recorded at fair value. The differences in the respective carrying amounts are recognized as gains or losses in net income.

**(o) Foreign currency translation**

Revenues and expenses resulting from transactions in foreign currencies are translated to Canadian dollar equivalents at exchange rates approximating those in effect at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the reporting 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.

**(p) Derivatives**

The corporation does not engage in derivative trading or speculative activities. All derivative instruments are carried at fair value on the consolidated statement of financial position 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 the consolidated statement of income.

**(q) Hedges**

The corporation has designated cash flow 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. 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.

**(r) Non-controlling interests**

Non-controlling interests represent the outstanding ownership interests attributable to third parties in the corporation's limited partnerships. The portion of the equity not owned by the corporation is reflected as non-controlling interests within the equity section of the consolidated statement of financial position. The portion of the net income or net loss attributable to the parent and non-controlling interests is reported on the consolidated statement of income.

**(s) Change in accounting policy**

For the year ended March 31, 2018, the corporation elected to present cash flows from operating activities using the indirect method, as compared to the direct method used for the year ended March 31, 2017, as it provides more relevant information. The comparative information has been reclassified for this change in presentation. Additionally, cash flows related to capitalized interest of \$248 million in the year ended March 31, 2017 have been reclassified from investing activities to operating activities in order to present cash flows related to capitalized interest consistently with interest cash flows that are not capitalized.

**Note 4 Future accounting pronouncements**

The following new standards and amendments are not yet effective for the year ended March 31, 2018, and have not been applied in preparing these consolidated financial statements. The corporation does not have any plans to early adopt the new standards and the full extent of the impact on adoption of the following standards is not known at this time:

**IFRS 9 – Financial Instruments**

IFRS 9 *Financial Instruments* was finalized in July 2014 and replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance for the classification and measurement of financial assets and liabilities, a new expected credit loss model to measure impairment of financial assets and significant improvements in hedge accounting. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. This new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

## IFRS 15 – Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014 and replaces IAS 18 *Revenue* and IFRS Interpretations Committee (IFRIC) 18 *Transfers of Assets from Customers*. The standard provides a single five-step model to be applied to all contracts with customers to determine when to recognize revenue and at what amount. The underlying principle of IFRS 15 is that an entity recognizes revenue that shows the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

## IFRS 16 – Leases

IFRS 16 *Leases* was issued in January 2016 and replaces current lease accounting requirements under IFRS. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. This new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 *Revenue from Contracts with Customers* has also been applied.

## Note 5 Extraprovincial revenue

	2018	2017
Dependable sales	260	249
Opportunity sales	168	202
Other	9	9
	<b>437</b>	<b>460</b>

Dependable sales are sourced from Manitoba Hydro's hydraulic energy available during lowest water conditions and typically with a duration of greater than six months. Opportunity sales are based on excess energy, are generally over shorter periods and are transacted primarily in markets operated by an independent system operator such as the Midcontinent Independent System Operator.

The majority of extraprovincial revenue is from sales to the U.S. The average effective exchange rate for the year was \$1.00 U.S. = \$1.29 Canadian (2017 – \$1.00 U.S. = \$1.31 Canadian).

**Note 6 Other revenue**

	2018	2017
Consulting, technology and maintenance services	55	56
Customer contributions	17	18
Miscellaneous revenue	14	32
	<b>86</b>	<b>106</b>

Consulting, technology and maintenance services consist of professional consulting, operations, maintenance and project management services provided to energy sectors world-wide.

Customer contributions are the recognition of deferred revenue related to contributions in aid of construction (Note 27) and the recovery of period costs from customers.

**Note 7 Finance expense**

	2018	2017
Interest on debt	768	711
Provincial debt guarantee fee	158	136
Accretion	32	29
Interest capitalized	(343)	(248)
Foreign exchange loss	26	17
	<b>641</b>	<b>645</b>

The Provincial debt guarantee fee during the year was 1.00% of the corporation's total outstanding debt guaranteed by the Province of Manitoba (2017 – 1.00%). Interest was capitalized during the year at 4.80% (2017 – 4.89%).

**Note 8 Operating and administrative**

	2018	2017
Salaries and benefits	436	457
External services	96	99
Materials, motor vehicles and supplies	35	35
Other	19	17
	<b>586</b>	<b>608</b>

Additional salaries and benefits, including termination benefits, are included in other expenses (Note 12) in the amount of \$67 million (2017 – \$19 million).

## Note 9 Depreciation and amortization

	2018	2017
Depreciation of property, plant and equipment (Note 16)	395	383
Amortization of intangible assets (Note 18)	24	22
Loss (gain) on disposal of property, plant and equipment	11	(3)
	430	402

## Note 10 Fuel and power purchased

	2018	2017
Wind purchases	73	73
Transmission charges	35	46
Power purchases	16	5
Thermal fuel purchases	6	8
	130	132

Included in power purchases above is amortization of transmission rights of \$1 million (2017 - \$2 million).

## Note 11 Capital and other taxes

	2018	2017
Corporate capital tax	95	84
Property tax and grants in lieu of tax	37	38
Payroll tax	14	13
	146	135

## Note 12 Other expenses

	2018	2017
Discontinuance of Conawapa Generating Station development (Note 20)	379	-
Demand side management expenses	75	61
Restructuring costs	50	4
Consulting, technology and maintenance expenses	32	33
Miscellaneous	12	6
	548	104

Of the total other expenses, \$466 million (2017 - \$67 million) are subsequently deferred in regulatory deferral balances through net movement in regulatory balances (Note 20).

## Note 13 Cash and cash equivalents

	2018	2017
Temporary investments	454	525
Cash	186	116
Restricted cash	2	5
	<b>642</b>	<b>646</b>

Temporary investments consist of cash invested with the Province of Manitoba and have a maturity of less than 30 days. Restricted cash consists of deposits held for letters of guarantees for customer contracts, callable at any time.

## Note 14 Accounts receivable and accrued revenue

	2018	2017
Trade accounts receivable	289	249
Accrued revenue	89	85
Other receivables	28	21
Taxes receivable	21	20
Current portion of loans and other receivables (Note 19)	20	21
Allowance for doubtful accounts	(19)	(11)
	<b>428</b>	<b>385</b>

## Note 15 Inventory

	2018	2017
Materials and supplies	67	66
Natural gas	26	25
Fuel	19	17
	<b>112</b>	<b>108</b>

Inventory recognized as an expense during the year was \$40 million (2017 – \$41 million). The write-down of inventory during 2018 was nil (2017 – \$1 million). No reversals of write-downs occurred during the year (2017 – nil).



## Note 16 Property, plant and equipment

	Generation	Transmission lines	Substations	Distribution systems	Other	Construction in progress	Total
<b>Cost or deemed cost</b>							
Balance, April 1, 2016	6 106	763	2 372	2 824	979	4 837	17 881
Additions	119	22	36	218	53	2 519	2 967
Disposals and/or retirements	(7)	(3)	(5)	(15)	(18)	-	(48)
Assets placed in service*	47	15	87	64	32	(245)	-
Transfers to (from) PP&E	(1)	1	1	(4)	1	(25)	(27)
Balance, March 31, 2017	6 264	798	2 491	3 087	1 047	7 086	20 773
Additions	127	15	65	198	41	2 564	3 010
Disposals and/or retirements	(8)	(1)	(12)	(19)	(22)	-	(62)
Assets placed in service*	70	17	119	50	16	(272)	-
Transfers to (from) PP&E	(2)	-	69	(68)	(1)	(379)	(381)
<b>Balance, March 31, 2018</b>	<b>6 451</b>	<b>829</b>	<b>2 732</b>	<b>3 248</b>	<b>1 081</b>	<b>8 999</b>	<b>23 340</b>
<b>Accumulated depreciation</b>							
Balance, April 1, 2016	239	26	155	148	105	-	673
Depreciation expense	130	14	89	89	61	-	383
Disposals and/or retirements	(6)	(1)	(6)	(10)	(17)	-	(40)
Balance, March 31, 2017	363	39	238	227	149	-	1 016
Depreciation expense	133	14	94	93	61	-	395
Disposals and/or retirements	(7)	(1)	(9)	(13)	(20)	-	(50)
Transfers to (from) PP&E	-	-	3	(3)	-	-	-
<b>Balance, March 31, 2018</b>	<b>489</b>	<b>52</b>	<b>326</b>	<b>304</b>	<b>190</b>	<b>-</b>	<b>1 361</b>
<b>Net book value</b>							
Balance, March 31, 2017	5 901	759	2 253	2 860	898	7 086	19 757
<b>Balance, March 31, 2018</b>	<b>5 962</b>	<b>777</b>	<b>2 406</b>	<b>2 944</b>	<b>891</b>	<b>8 999</b>	<b>21 979</b>

\*Represents projects that were in construction in progress at the beginning of the year.

Included in additions is interest capitalized during construction of \$337 million (2017 – \$243 million).

## Note 17 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 \$165 million (2017 – \$146 million). Interest earned on sinking fund investments is recognized in finance expense. As at March 31, 2018 sinking fund investments totaled nil (2017 – nil).

## Note 18 Intangible assets

	Computer application development	Land easements	Transmission rights	Under development	Total
<b>Cost or deemed cost</b>					
Balance, April 1, 2016	120	87	10	21	238
Additions	12	38	29	20	99
Retirements	(3)	-	-	-	(3)
Assets placed into service*	15	2	-	(17)	-
Transfers	-	-	25	-	25
Balance, March 31, 2017	144	127	64	24	359
Additions	9	17	101	14	141
Retirements	(2)	-	-	-	(2)
Assets placed into service*	8	1	-	(9)	-
<b>Balance, March 31, 2018</b>	<b>159</b>	<b>145</b>	<b>165</b>	<b>29</b>	<b>498</b>
<b>Accumulated amortization</b>					
Balance, April 1, 2016	37	2	5	-	44
Amortization	21	2	2	-	25
Retirements	(3)	-	-	-	(3)
Balance, March 31, 2017	55	4	7	-	66
Amortization	22	2	1	-	25
Retirements	(1)	-	-	-	(1)
<b>Balance, March 31, 2018</b>	<b>76</b>	<b>6</b>	<b>8</b>	<b>-</b>	<b>90</b>
<b>Net book value</b>					
Balance, March 31, 2017	89	123	57	24	293
<b>Balance, March 31, 2018</b>	<b>83</b>	<b>139</b>	<b>157</b>	<b>29</b>	<b>408</b>

\*Represents projects that were in "under development" at the beginning of the year.

Computer application development is a combination of internally developed and externally acquired intangible assets. Included in additions is interest capitalized during development of \$4 million (2017 – \$2 million).



## Notes to the Consolidated Financial Statements

For the year ended March 31, 2018

(in millions of Canadian dollars)

### Note 19 Loans and other receivables

	2018	2017
Loans to Keeyask investment entities (Note 29)	185	135
Loan to Wuskwatim investment entity (Note 29)	142	135
Contract receivables and other	103	104
	430	374
Less: current portion (Note 14)	(20)	(21)
	410	353

Accrued interest related to loans receivable is included in the loan balances above and is recognized in finance income.

**Note 20 Regulatory deferral balances**

	March 31, 2017	Balances arising in the year	Recovery / reversal	March 31, 2018	Remaining recovery / reversal period (years)
<b>Regulatory deferral debit balances</b>					
<b>Electric</b>					
DSM programs <sup>1</sup>	253	64	(36)	281	1 - 10
Site restoration	28	1	(3)	26	1 - 15
Change in depreciation method	91	32	-	123	*
Deferred ineligible overhead	61	20	(2)	79	1 - 34
Acquisition costs	9	-	-	9	13 - 16
Affordable Energy Fund	4	-	-	4	***
Loss on disposal of assets	10	9	-	19	**
Regulatory costs	6	10	(2)	14	1 - 5
Conawapa	-	379	-	379	1 - 30
<b>Gas</b>					
DSM programs <sup>1</sup>	61	11	(9)	63	1 - 10
Deferred taxes	21	2	(3)	20	11
Site restoration	3	-	-	3	1 - 15
Loss on disposal of assets	9	2	-	11	**
Change in depreciation method	6	2	-	8	*
Regulatory costs	1	1	(1)	1	1 - 5
Deferred ineligible overhead	2	1	-	3	34
Change in depreciation rate - meters	1	-	-	1	**
	566	534	(56)	1 044	
<b>Regulatory deferral credit balances</b>					
<b>Electric</b>					
DSM deferral	49	-	-	49	**
<b>Gas</b>					
DSM deferral	8	-	-	8	**
PGVA	17	(195)	193	15	****
Impact of 2014 depreciation study	3	1	-	4	**
	77	(194)	193	76	
Net movement in regulatory balances		728	(249)	479	

<sup>1</sup> Included in DSM programs is the difference between actual and planned expenditures for electric and gas DSM programs for the fiscal years 2013 to 2017.

\* In Order 59/18, the PUB directed Manitoba Hydro to not amortize the cumulative depreciation difference between the ASL and ELG methods of depreciation for rate-setting.

\*\* The amortization periods for these accounts will be determined by the PUB as part of a future regulatory proceeding.

\*\*\* The Affordable Energy Fund is amortized to the consolidated statement of income at the same rate as the provision (Note 28) is drawn down.

\*\*\*\* The PGVA is recovered or refunded in future rates.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2018

(in millions of Canadian dollars)

	March 31, 2016	Balances arising in the year	Recovery / reversal	March 31, 2017	Remaining recovery / reversal period (years)
<b>Regulatory deferral debit balances</b>					
Electric					
DSM programs <sup>1</sup>	232	56	(35)	253	1 - 10
Site restoration	31	1	(4)	28	1 - 15
Change in depreciation method	60	31	-	91	*
Deferred ineligible overhead	40	21	-	61	1 - 34
Acquisition costs	10	-	(1)	9	14 - 17
Affordable Energy Fund	4	-	-	4	***
Loss on disposal of assets	9	1	-	10	**
Regulatory costs	4	4	(2)	6	1 - 5
Gas					
DSM programs <sup>1</sup>	57	13	(9)	61	1 - 10
Deferred taxes	23	2	(4)	21	12
Site restoration	3	-	-	3	1 - 15
Loss on disposal of assets	6	3	-	9	**
Change in depreciation method	4	2	-	6	*
Regulatory costs	1	1	(1)	1	1 - 5
Deferred ineligible overhead	2	-	-	2	**
Change in depreciation rate - meters	-	1	-	1	**
	486	136	(56)	566	
<b>Regulatory deferral credit balances</b>					
Electric					
DSM deferral	43	6	-	49	**
Gas					
DSM deferral	6	2	-	8	**
PGVA	1	(182)	198	17	****
Impact of 2014 depreciation study	2	1	-	3	**
	52	(173)	198	77	
Net movement in regulatory balances		309	(254)	55	

<sup>1</sup> Included in DSM programs is the difference between actual and planned expenditures for electric and gas DSM programs for the fiscal years 2013 to 2017.

\* In Order 59/18, the PUB directed Manitoba Hydro to not amortize the cumulative depreciation difference between the ASL and ELG methods of depreciation for rate-setting.

\*\* The amortization periods for these accounts will be determined by the PUB as part of a future regulatory proceeding.

\*\*\* The Affordable Energy Fund is amortized to the consolidated statement of income at the same rate as the provision (Note 28) is drawn down.

\*\*\*\* The PGVA is recovered or refunded in future rates.

The balances arising in the year consist of additions to regulatory deferral balances. The recovery/reversal consists of amounts recovered from customers through the amortization of existing regulatory balances or rate riders. The net impact of these transactions results in the net movement in regulatory deferral balances on the consolidated statement of income.

Balances arising in the year include \$2 million (2017 – \$2 million) for carrying costs on deferred taxes, the Affordable Energy Fund and the PGVA.

The regulatory deferral debit balances of the corporation consist of the following:

DSM program expenditures are incurred for energy conservation programs to encourage residential, commercial and industrial customers to use energy more efficiently.

Site restoration expenditures are incurred for the remediation of contaminated corporate facilities and diesel generating sites.

Change in depreciation method represents the cumulative annual difference in depreciation expense between the ASL method of depreciation as applied by Manitoba Hydro prior to its transition to IFRS and the ELG method as applied by Manitoba Hydro under IFRS.

Deferred ineligible overhead is the cumulative annual difference in overhead capitalized for financial reporting purposes under IFRS and overhead capitalized for rate setting purposes.

Acquisition costs relate to costs associated with the acquisition of Centra and Minell (July 1999) and Winnipeg Hydro (September 2002).

The Affordable Energy Fund relates to future DSM expenditures in connection with *The Winter Heating Cost Control Act*. The intent of the Affordable Energy Fund is to provide funding for projects that would not otherwise be funded by DSM programs.

Loss on disposal of assets is the net asset retirement losses for those assets retired prior to or subsequent to reaching their expected service life as determined under the ELG method of depreciation.

Regulatory costs are those incurred as a result of electric and gas regulatory hearings.

Deferred taxes are the taxes paid by Centra (July 1999) as a result of its change to non-taxable status upon acquisition by Manitoba Hydro.



Conawapa relates to the one-time transfer of costs incurred to date in relation to the Conawapa Generating Station project which has been discontinued.

Change in depreciation rate on meters represents the difference between depreciation on gas meters between the 20-year rate used for financial reporting purposes and the 25-year rate used for rate-setting purposes.

The regulatory deferral credit balances of the corporation consist of the following:

Purchased gas variance 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. Purchased gas variance accounts are reflected as a regulatory debit or credit depending if the amounts represent a recovery from or a refund to the customers, respectively.

Impact of 2014 depreciation study represents the cumulative unamortized difference in depreciation between the ASL method based on the 2010 depreciation study and the ASL method based on the 2014 depreciation study. The PUB requires the use of 2010 ASL depreciation rates for Centra for rate setting purposes pending review at the next gas regulatory proceeding.

DSM deferral - In Orders 43/13 and 85/13, the PUB directed that the differences between actual and planned spending on electric and gas DSM programs for the 2013 and 2014 fiscal years be recognized as a liability. In Order 73/15, the PUB further directed that the difference in fiscal 2015 and 2016 spending be added to this deferral. Consistent with Order 73/15, the difference in spending for 2017 was also added to the deferral. The cumulative differences have been recorded as a regulatory deferral credit balance with an offsetting balance recorded as a regulatory deferral debit balance. In Order 59/18, the PUB directed Manitoba Hydro to discontinue the deferral of differences between actual and planned DSM spending; as such, the difference in spending beginning in fiscal 2018 has not been added to the deferral. The disposition of the cumulative balances will be determined by the PUB at a future regulatory proceeding.

**Note 21 Long-term debt**

	Advances from the Province	Manitoba HydroBonds	Manitoba Hydro-Electric Board Bonds	Other*	Total
Balance, April 1, 2016	14 437	26	145	(81)	14 527
Issues	2 163	-	-	23	2 186
Maturities	(301)	(19)	-	-	(320)
Foreign exchange adjustments	42	-	-	1	43
Amortization of net premiums and transaction costs	-	-	-	2	2
Balance, March 31, 2017	16 341	7	145	(55)	16 438
Issues	3 380	-	-	20	3 400
Maturities	(560)	(2)	(20)	-	(582)
Foreign exchange adjustments	(52)	-	-	(6)	(58)
Amortization of net premiums and transaction costs	-	-	-	2	2
	19 109	5	125	(39)	19 200
Less: current portion	(990)	(5)	(5)	-	(1 000)
<b>Balance, March 31, 2018</b>	<b>18 119</b>	<b>-</b>	<b>120</b>	<b>(39)</b>	<b>18 200</b>

\*Other includes adjustments to carrying value of dual currency bonds, transaction costs and debt discounts and premiums.

During the year, the corporation arranged long-term financing of \$3 400 million (2017 – \$2 186 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 \$995 million (2017 – \$330 million) of debt maturities and \$5 million (2017 – \$6 million) of Manitoba HydroBonds with a maturity date in 2018.

Long-term debt is guaranteed by the Province of Manitoba, with the exception of Manitoba Hydro-Electric Board Bonds in the amount of \$65 million (2017 – \$65 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:

Years of maturity	Canadian	Canadian yields	U.S.	U.S. yields	2018 Total	2017 Total
2019	1 000	7.2%	-	-	<b>1 000</b>	996
2020	297	4.7%	71	6.5%	<b>368</b>	374
2021	975	3.0%	322	8.3%	<b>1 297</b>	1 308
2022	303	1.7%	838	9.4%	<b>1 141</b>	1 119
2023	980	1.8%	193	3.7%	<b>1 173</b>	496
	3 555	2.6%	1 424	8.1%	<b>4 979</b>	4 294
2024-2028	3 737	3.0%	-	-	<b>3 737</b>	2 789
2029-2033	1 056	8.1%	-	-	<b>1 056</b>	1 006
2034-2038	1 035	4.7%	-	-	<b>1 035</b>	1 035
2039-2043	2 194	4.3%	-	-	<b>2 194</b>	2 194
2044-2048	2 852	3.4%	-	-	<b>2 852</b>	2 852
2049-2065	3 386	3.6%	-	-	<b>3 386</b>	1 986
	17 815	3.8%	1 424	8.1%	<b>19 239</b>	16 156

Included in the above Canadian maturity amounts are ten (2017 – seven) dual currency bonds with the principal amount repayable in Canadian currency and interest payments denominated in U.S. currency. Six dual currency bonds mature in the 2018-19 fiscal year in the amount of \$490 million Canadian (2017 - \$490 million), three mature in the 2019-20 fiscal year in the amount of \$122 million Canadian (2017 - nil), while one matures in the 2025-26 fiscal year in the amount of \$130 million Canadian (2017 - \$130 million). U.S. debt is translated into Canadian dollars at the exchange rate prevailing at the consolidated statement of financial position date, \$1.00 U.S. = \$1.29 Canadian (2017 – \$1.00 U.S. = \$1.33 Canadian).

## Note 22 Accounts payable and accrued liabilities

	2018	2017
Trade and other payables	<b>611</b>	964
Employee payroll and benefit accruals	<b>77</b>	68
Taxes payable	<b>44</b>	40
Water rentals and assessments	<b>10</b>	11
	<b>742</b>	1 083

Included in accounts payable and accrued liabilities are accruals based on an estimated amount of services completed or goods and materials received but not invoiced.

**Note 23 Notes Payable**

	2018	2017
Balance, April 1	-	-
Issues	150	-
Maturities	(100)	-
Balance, March 31	50	-

Notes payable at March 31, 2018 had a weighted average term to maturity of nine days and a weighted average rate of 1.25%. *The Manitoba Hydro Act* grants the corporation the power to issue short-term promissory notes up to an aggregate amount of \$500 million denominated in Canadian and/or U.S. currency which includes access to bank credit facilities that provide for overdrafts and notes payable under certain conditions.

**Note 24 Other liabilities**

	2018	2017
Current portion of other long-term liabilities (Note 25)	90	78
Current portion of deferred revenue (Note 27)	71	19
Current portion of provisions (Note 28)	1	1
	162	98

The current portion of other long-term liabilities consists of the current portions of mitigation liability of \$37 million (2017 – \$26 million), major development liability of \$32 million (2017 – \$31 million), perpetual obligation to the City of Winnipeg for the acquisition of Winnipeg Hydro of \$16 million (2017 – \$16 million) and refundable advances from customers of \$5 million (2017 – \$5 million).

The current portion of deferred revenue represents Bipole III contributions in the amount of \$54 million (2017 – nil) as well as customer contributions in aid of construction and advance payments from customers for extraprovincial sales, software maintenance and international consulting work.

The current portion of provisions represents the asset retirement obligation for the removal and disposal of polychlorinated biphenyl (PCB) contaminated fluid in equipment bushings at transmission and distribution stations and for the decommissioning of the coal pile associated with the Brandon Thermal Generating Station.

## Note 25 Other long-term liabilities

	2018	2017
Mitigation liability	204	209
Major development liability	213	210
Perpetual obligation	215	215
Refundable advances from customers	79	79
Other	2	3
	713	716
Less: current portion (Note 24)	(90)	(78)
	623	638

### Mitigation

Manitoba Hydro's mitigation program addresses past, present and ongoing adverse effects of historical hydroelectric development. The mitigation program, established in the late 1970s to address project impacts through alleviation of adverse effects, remedial works and residual 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 Indigenous communities. The mitigation program was expanded to address impacts arising from all past hydroelectric developments (prior to the Wuskwatim generating station), particularly for Indigenous people residing or engaged in resource harvesting in the project areas, and it is essential for operating and future development purposes.

Expenditures recorded or settlements reached to mitigate the impacts of historical hydroelectric development amounted to \$46 million during the year (2017 – \$63 million). Payments made during the year totaled \$69 million (2017 – \$43 million). In recognition of future mitigation payments, the corporation has recorded a liability of \$204 million (2017 – \$209 million). There are other mitigation issues, the outcomes of which are not determinable at this time.

Included in mitigation liabilities are obligations assumed on behalf of the Province of Manitoba with respect to certain northern development projects. The corporation has assumed obligations totaling \$146 million for which water power rental charges were fixed until March 31, 2001. The obligation outstanding as at March 31, 2018 totaled \$8 million (2017 – \$8 million).

The discount rates used to determine the present value of mitigation obligations range from 2.95% to 8.50%.

## Major development

Beginning with the development of the Wuskwatim generating station, project-related adverse effects are identified and addressed during project planning (including the environmental assessment process), which is done in advance of project construction. As such, mitigation measures are built into project design where possible. The costs for these mitigation measures, as well as any residual compensation requirements, are therefore accounted for in the capital cost estimates for each individual project.

Programs and adverse effects agreements have been negotiated to mitigate and compensate for all anticipated project-related impacts for major new generation and transmission development projects including Wuskwatim, Keeyask, Bipole III and the Manitoba-Minnesota transmission line. The corporation has recorded a liability of \$213 million (2017 – \$210 million) to reflect these agreements. These expenditures are included in the costs of the associated projects and amortized over the life of the assets. Payments made during the year totaled \$20 million (2017 – \$19 million).

The discount rates used to determine the present value of the major development obligation range from 2.95% to 5.05%.

## Perpetual obligation

Effective September 3, 2002, the corporation acquired the net assets of Winnipeg Hydro from the City of Winnipeg. The obligation represents the net present value of payments to the City of Winnipeg of \$16 million per annum in perpetuity.

The discount rate used to determine the present value of the perpetual obligation was 7.45%.

## Note 26 Employee future benefits

	2018	2017
Net pension liability	634	540
Other employee future benefits liability	274	278
	908	818

## Pension plans

Manitoba Hydro and its employees are participating members of the Civil Service Superannuation Plan (the Plan) established under *The Civil Service Superannuation Act (CSSA)*. Manitoba Hydro employees are eligible for pension benefits based on years of service and on the average earnings of the five best years. As a non-matching employer, the provisions of the CSSA require the corporation to contribute approximately 50% of the pension disbursements made to retired employees. Manitoba Hydro provides its portion of pension benefits through a separately administered fund, the Manitoba Hydro Pension Fund (MHPF). Manitoba Hydro and employees make contributions based on a percentage of pensionable earnings in accordance with the CSSA. The corporation expects to pay \$35 million in contributions to this defined benefit plan in fiscal 2019.

Manitoba Hydro employees with pensionable service after June 1, 2006 are eligible for an additional pension benefit under the Enhanced Hydro Benefit Plan (EHBP). The EHBP improves the pension formula used to calculate pension benefits. Manitoba Hydro funds the enhanced pension benefit through contributions based on 0.50% of pensionable earnings to a separate trust account that is managed by the Civil Service Superannuation Board (CSSB). The EHBP funds are co-mingled with the Civil Service Superannuation Fund (CSSF) assets for investment purposes. The corporation expects to pay \$2 million in contributions to this defined benefit plan in fiscal 2019.

The former employees of Centra are entitled to pension benefits earned under the Centra curtailed pension plans. The Centra curtailed pension plans are Registered Pension Trusts as defined in the *Income Tax Act (Canada)*. The Master Trust is made up of three individual plans including the Centra Gas Manitoba Inc. Pension Plan for Salaried Employees, the Centra Gas Manitoba Inc. Union Employees' Pension Plan and the Centra Gas Manitoba Inc. (Rural) Local 681 Pension Plan. Centra is required to make special payments to the plans at amounts considered necessary to ensure that the benefits will be fully provided for at retirement as determined in the actuarial valuation dated December 31, 2016. The corporation expects to pay \$1 million in special payments to these defined benefit plans in fiscal 2019. The plans are registered with the Pension Commission of Manitoba and subject to the rules and regulations of *The Pension Benefits Act of Manitoba*. The Master Trust assets are held in trust with State Street Trust Company of Canada. The CSSB acts as the investment manager.

MHUS employees are eligible for pension benefits under the Plan. As a matching employer under the CSSA, MHUS is required to match employee contributions at a prescribed rate. MHUS' pension expense is recognized at the time contributions are made. Manitoba Hydro does not carry a pension asset or obligation on its consolidated financial statements related to MHUS.

The former employees of Winnipeg Hydro continue to earn benefits under the Winnipeg Civic Employee Benefits Program (WCEBP), which upon the acquisition of Winnipeg Hydro, Manitoba Hydro became a participating employer. The WCEBP is a defined benefit plan that provides pension benefits based on years of service and on the average earnings of the five best years. Manitoba Hydro does not carry a pension asset or obligation on its consolidated financial statements related to the former employees of Winnipeg Hydro. The WCEBP is governed by an independent board of trustees and a trust agreement that limits Manitoba

Hydro's contribution rates. The structure of the trust agreement also limits Manitoba Hydro's exposure to future unfunded liabilities. Contributions to the plan are accounted for similar to a defined contribution plan.

MHI sponsors a defined contribution group registered retirement plan. MHI matches 100% of the employee contributions at prescribed contribution rates. The cost of the pension benefits is charged to pension expense as services are rendered. Manitoba Hydro does not carry a pension asset or obligation on its consolidated financial statements for the MHI defined contribution plan.

An independent actuary calculates the liability for pension expense purposes as at December 31 each year with the most recent actuarial valuations being completed as at December 31, 2017. The next actuarial valuations for all plans will occur as at December 2018.

These valuations incorporate management's assumptions and take into consideration the long-term nature of the pension plans. The actuary selects the demographic assumptions. The corporation's management in consultation with the actuary determines the economic assumptions such as discount rate. The accrued benefit actuarial cost method with salary projection is used to determine the pension benefit obligation and current service cost.

The following table presents information pertaining to the Manitoba Hydro Plan, the EHBP and the Centra curtailed plans that are recognized in the consolidated financial statements:

	Manitoba Hydro Plan		EHBP		Centra curtailed pension plans		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
<b>Plan assets at fair value</b>								
Balance at beginning of year	1 015	938	27	24	130	121	1 172	1 083
Return on assets	69	104	3	2	8	13	80	119
Employer contributions	37	37	2	2	2	1	41	40
Benefit payments and refunds	(77)	(64)	(1)	(1)	(6)	(5)	(84)	(70)
	1 044	1 015	31	27	134	130	1 209	1 172
<b>Pension obligation</b>								
Balance at beginning of year	1 553	1 515	38	35	121	121	1 712	1 671
Interest cost	59	59	1	1	5	5	65	65
Current service cost	52	60	3	4	-	-	55	64
Benefit payments and refunds	(77)	(64)	(1)	(1)	(6)	(5)	(84)	(70)
Actuarial losses (gains) arising from changes in financial assumptions	87	(17)	3	(1)	5	-	95	(18)
	1 674	1 553	44	38	125	121	1 843	1 712
Net pension (liability) asset	(630)	(538)	(13)	(11)	9	9	(634)	(540)

The gain on pension fund assets for the MHPF for the fiscal year ended March 31, 2018 was 7.4% (2017 – 11.7% return). The gain for the Centra curtailed plan fund assets for the year ended March 31, 2018 was 7.0% (2017 – 11.9% return). The weighted average term to maturity on fixed income investments is 10.7 years (2017 – 9.9 years).

The investment income earned on the EHBP funds is based on the market rate of return that is earned by the CSSF. For the year ended December 31, 2017, the CSSF earned a rate of return of 10.8% (2017 – 5.66%) on fund assets.

The most recent actuarial valuations for the pension plans for going concern funding purposes were prepared as at December 31, 2017, at which date the Manitoba Hydro Plan was 89% and the EHBP was 104% funded. The Manitoba Hydro Plan is exempt from the funding and solvency test funding requirements of *The Pension Benefits Act*. The Centra curtailed pension plans are subject to a solvency valuation for funding purposes with the latest valuation taking place as at December 31, 2017. The Centra Salaried, Union and Rural plans were 98%, 105% and 95% funded, respectively, at that date.

The corporation's pension expense related to each of the pension benefit plans is as follows:

	Manitoba Hydro Plan		EHBP		Centra curtailed pension plans	
	2018	2017	2018	2017	2018	2017
Current service cost	52	60	3	4	-	-
Interest on assets	(41)	(39)	(1)	(1)	(5)	(5)
Interest on obligation	59	59	1	1	5	5
Administrative fees	4	4	-	-	1	1
	74	84	3	4	1	1

Pension expense for the former Winnipeg Hydro employees is equal to employer contributions to the WCEBP. Total contributions to the WCEBP during the year amounted to \$1 million (2017 – \$1 million) and reflect an employer contribution rate approximating 7.6% of pensionable earnings as of January 2, 2018. Pension expense for MHUS and MHI is equal to the employer contributions and is expensed during the year. The amounts are not material.

## Assumptions

The significant actuarial assumptions adopted in measuring the corporation's pension and other employee benefit obligations are as follows:

	2018	2017
Discount rate - pensions	3.60%	3.80%
Discount rate - other benefits	3.60%	3.80%
Rate of compensation increase, including merit and promotions	0.00 - 2.00%	0.00 - 2.00%
Long-term inflation rate	2.10%	2.00%

## Sensitivity of assumptions

The sensitivities of the principle assumptions used to measure the defined benefit obligations are set out below:

Assumption	Change in assumption	Impact on Manitoba Hydro Plan	Impact on EHBP	Impact on Centra curtailed pension plans
Discount rate	+ 0.50%	(116)	(4)	(7)
	- 0.50%	151	5	8
Inflation rate	+ 0.10%	(20)	-	(1)
	- 0.10%	20	-	1
Wage rate	+ 0.10%	6	-	-

The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another.



### Benefit plan asset allocation

The following is a summary of the asset mix of the plans' investments at fair value:

	MHPF		Centra curtailed pension plans	
	2018	2017	2018	2017
Equities	60%	63%	59%	62%
Bonds and debentures	20%	20%	20%	20%
Real estate	13%	11%	13%	11%
Infrastructure	6%	5%	5%	5%
Private credit	1%	-	1%	-
Short-term investments	-	1%	2%	2%
	100%	100%	100%	100%

### Other employee future benefits

Manitoba Hydro also provides some unfunded non-pension employee future benefits including banked incidental days, vacation days, long-term disability, workers compensation, retiree health spending, sick leave vesting and severance. The following table presents information concerning other employee future benefits:

	2018	2017
Balance at beginning of year	278	271
Interest cost	7	7
Current service cost	19	20
Benefit payments	(37)	(22)
Actuarial loss from changes in financial assumptions	7	2
Benefits liability	274	278

**Key management personnel**

The key management personnel of the corporation have been defined as members of the Manitoba Hydro-Electric Board and Manitoba Hydro's executives. The directors' fees are authorized by the Lieutenant Governor in Council. Manitoba Hydro's executives receive a base salary, in addition to non-cash benefits, employer contributions to the corporation's post-employment defined pension plan and other post-employment benefits.

Key management personnel compensation is as follows:

	2018	2017
Salaries and other short-term employee benefits	3	4
Post-employment benefits*	-	-
	3	4

\*Amounts round to less than \$1 million.

**Note 27    Deferred revenue**

	2018	2017
Contributions in aid of construction	483	455
Bipole III contribution	348	196
Deferred revenue	9	10
	840	661
Less: current portion (Note 24)	(71)	(19)
	769	642

Contributions in aid of construction are required from customers whenever the costs of extending service exceed specified construction allowances. These contributions include government grants. Contributions are initially recorded as deferred revenue and are subsequently recognized as revenue over the lives of the related assets.

The PUB has directed that the following percentages of approved rate increases be set aside as a Bipole III contribution to be utilized to mitigate the required rate increases when Bipole III is placed in-service:

- Order 43/13 1.50% of the approved 3.50%
- Order 49/14 0.75% of the approved 2.75%
- Order 73/15 2.15% of the approved 3.95%
- Order 59/16 3.36% of the approved 3.36%
- Order 80/17 3.36% of the approved 3.36%.

During the year, \$152 million (2017 – \$96 million) was set aside for this purpose. The PUB directed in Order 59/18, that the balance in this account should begin to be recognized in other revenue following the in-service date of Bipole III in fiscal 2018-19, amortized over a five year period.

## Note 28 Provisions

	Mitigation provisions	Major development provisions	Asset retirement obligations	Affordable Energy Fund	Other provisions	Total
Balance, April 1, 2016	23	-	27	4	-	54
Provisions made	32	-	(20)	-	4	16
Provisions used	-	-	(1)	-	-	(1)
Accretion	1	-	1	-	-	2
Balance, March 31, 2017	56	-	7	4	4	71
Provisions made	(1)	3	-	-	1	3
Provisions used	(12)	-	(1)	-	(2)	(15)
Accretion	2	-	-	-	-	2
<b>Balance, March 31, 2018</b>	<b>45</b>	<b>3</b>	<b>6</b>	<b>4</b>	<b>3</b>	<b>61</b>

	2018	2017
Analyzed as:		
Current (Note 24)	1	1
Non-current	60	70
	<b>61</b>	<b>71</b>

## Mitigation

A provision has been recognized for certain mitigation related obligations arising from ongoing adverse effects of past hydroelectric development. The amount recognized as a provision is the best estimate of the consideration required to settle the obligation at the reporting date. Once a final settlement is reached, these obligations will be transferred to other long-term liabilities (Note 25).

Discount rates used to determine the present value of mitigation related provisions were 4.00% (2017 - 3.75% to 4.15%).

## Major development

A provision has been recognized for certain major development related obligations arising from impacts of current hydroelectric development. The amount recognized as a provision is the best estimate of the consideration required to settle the obligation at the reporting date. Once a final settlement is reached, these obligations will be transferred to other long-term liabilities (Note 25).

Discount rates used to determine the present value of major development related provisions were 3.80%.

## Asset retirement obligations

An asset retirement obligation continues to be recognized for the future decommissioning of the Brandon Thermal Generating Station coal pile. The estimate was adjusted as a result of plans to repurpose parts of the station and only remove the coal pile. The corporation estimates the undiscounted cash flows required to settle the asset retirement obligations are approximately \$3 million (2017 – \$3 million), which is expected to be incurred in 2020.

The corporation recognizes an asset retirement obligation for the removal and disposal of PCB contaminated fluid in equipment bushings at transmission and distribution stations. The estimated undiscounted cash flows required to settle the asset retirement obligation are approximately \$3 million (2017 – \$4 million), which is expected to be incurred by 2024.

No funds are being set aside to settle the asset retirement obligations. The discount rates used to determine the fair market value of asset retirement obligations range from 1.80% to 2.02% (2017 - 0.75% to 1.30%).

## Affordable Energy Fund

In accordance with the requirements of *The Winter Heating Cost Control Act*, Manitoba Hydro established an Affordable Energy Fund in the initial amount of \$35 million for the purpose of providing funding for projects that would not otherwise be funded by DSM programs. Expenditures of nil (2017 – nil) during the year were charged to operations with the regulatory deferral balance and the provision reduced accordingly.

## Other provisions

Other provisions have been established for obligations discovered, which require recognition in the financial statements due to the likelihood of settlement and the presence of an obligation, either from past events or constructive in nature.

## Note 29 Non-controlling interests

	2018	2017
Wuskwatim Power Limited Partnership		
Taskinigahp Power Corporation	32	40
Keeyask Hydropower Limited Partnership		
Cree Nation Partners Limited Partnership	103	78
Fox Lake Cree Nation Keeyask Investments Inc.	35	26
York Factory First Nation Limited Partnership	35	26
	173	130
	205	170

Manitoba Hydro has entered into the WPLP 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 and associated transmission assets were placed into service during the 2012-13 year.

The 33% ownership interest of TPC in the WPLP of \$32 million (2017 – \$40 million) is represented as a non-controlling interest within the equity section of the consolidated statement of financial position. TPC's portion of the net loss of the WPLP during 2017-18 is \$8 million (2017 – \$12 million).

In accordance with the partnership agreements, Manitoba Hydro provides debt financing to TPC for investment in WPLP. As at March 31, 2018, Manitoba Hydro has provided advances to TPC of \$88 million (2017 – \$88 million). In addition, Manitoba Hydro provides advances on future WPLP distributions to NCN. As at March 31, 2018, Manitoba Hydro has provided advances to NCN of \$7 million (2017 – \$6 million). The advances plus interest are repayable by TPC through distributions from the WPLP. In exchange for forgiveness of the advances and interest, TPC has the option to put all their units back to Manitoba Hydro at any time between June 29, 2037 and June 29, 2062.

Manitoba Hydro has also entered into the KHLP with Tataskweyak Cree Nation (TCN) and War Lake First Nation (War Lake) operating as Cree Nation Partners (CNP), York Factory First Nation (York Factory) and Fox Lake Cree Nation (Fox Lake) to carry on the business of developing, owning and operating the Keeyask Generating Station. Cree Nation Partners Limited Partnership (CNPLP) is owned beneficially by TCN and War Lake through CNP, FLCN Keeyask Investments Inc. (FLCNKII) is owned beneficially by Fox Lake and York

Factory First Nation Limited Partnership (YFFNLP) is owned beneficially by York Factory. The generating station is currently under construction and projected to be placed into service in 2021.

The 15% ownership interest of CNPLP, the 5% ownership interest of FLCNKII and the 5% ownership interest of YFFNLP in the KHLP totaling \$173 million (2017 – \$130 million) is represented as a non-controlling interest within the equity section of the consolidated statement of financial position.

In accordance with the partnership agreements, Manitoba Hydro provides debt financing to CNPLP, FLCNKII and YFFNLP. As at March 31, 2018, Manitoba Hydro has provided advances to CNPLP of \$103 million (2017 – \$76 million), FLCNKII of \$34 million (2017 – \$25 million) and YFFNLP of \$34 million (2017 – \$25 million). The advances plus interest are repayable by CNPLP, FLCNKII and YFFNLP through distributions from the KHLP. In exchange for forgiveness of the advances and interest, CNPLP, FLCNKII and YFFNLP have the option at the final closing date (six months after the last unit in-service date of the Keeyask Generating Station) to convert their common units to preferred units based on their invested capital and return their common units to Manitoba Hydro or to put all their units back to Manitoba Hydro.

Summarized financial information before intercompany eliminations for WPLP and KHLP are as follows:

	2018	2017
<b>WPLP</b>		
Current assets	21	13
Non-current assets	1 504	1 526
Current liabilities	23	24
Non-current liabilities	1 405	1 393
Revenue	91	80
Net loss	(25)	(36)
<b>KHLP</b>		
Current assets	8	89
Non-current assets	4 401	3 202
Current liabilities	235	152
Non-current liabilities	3 183	2 398

## Note 30 Financial instruments

The carrying amounts and fair values of the corporation's non-derivative financial instruments were as follows:

		2018		2017	
	Level	Carrying value	Fair value	Carrying value	Fair value
<b>Fair value through profit and loss</b>					
Cash and cash equivalents	1	642	642	646	646
<b>Loans and receivables</b>					
Accounts receivable and accrued revenue	*	408	408	364	364
Loans and other receivables (including current portion)	2	430	460	374	397
<b>Other financial liabilities</b>					
Accounts payable and accrued liabilities	*	742	742	1 083	1 083
Note payable	2	50	50	-	-
Long-term debt (including current portion)	2	19 200	21 194	16 438	18 456
Mitigation liability (including current portion)	2	204	253	209	259
Major development liability (including current portion)	2	213	244	210	244
Perpetual obligation (including current portion)	2	215	385	215	370

\*carried at values that approximate fair value

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.

Fair value Level 2 measurements are derived from quoted market yields at the close of business on the consolidated statement of financial position date for similar instruments available in the capital market. There are nominal amounts measured at Level 3 that are based on internally developed valuation models, and 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 have 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, temporary 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 natural gas customer base. Customers participating in residential financing programs are subject to credit reviews and must meet specific criteria before they are approved for a residential loan or financing. Equity loans advanced to Indigenous partners are secured by their ownership investment units in the Wuskwatim and Keeyask generating stations. 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 values of the corporation's aged accounts receivable and related allowance for doubtful accounts are presented in the following table:

	Manitoba	Extraprovincial	2018	2017
Under 30 days	205	24	229	198
31 to 60 days	21	-	21	16
61 to 90 days	10	-	10	7
Over 90 days	29	-	29	28
	265	24	289	249
Allowance for doubtful accounts	(19)	-	(19)	(11)
Total accounts receivable	246	24	270	238



The provision for bad and doubtful accounts is reviewed annually, based on an estimate of aged receivables that are considered uncollectible.

## (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 as at the consolidated statement of financial position date:

	Carrying value	2019	2020	2021	2022	2023	2024 and thereafter
Non-derivative financial liabilities							
Accounts payable and accrued liabilities	742	742	-	-	-	-	-
Note payable	50	50	-	-	-	-	-
Long-term debt*	19 326	1 950	1 268	2 168	1 941	1 899	26 240
Mitigation liability	204	37	18	22	23	21	395
Major development liability	213	30	15	15	15	16	593
Perpetual obligation	215	16	16	16	16	16	16**
	20 750	2 825	1 317	2 221	1 995	1 952	27 244

\*includes current portion and interest payments but excludes the Provincial debt guarantee fee

\*\*per year in perpetuity

## (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 OCI until future hedged U.S. export revenues are realized, at which time the associated gains or losses in AOCI are recognized in net income. For the year ended March 31, 2018, unrealized foreign exchange translation gains of \$57 million (2017 – \$47 million losses) were recognized in OCI and net losses of \$22 million (2017 – \$20 million) were reclassified from OCI into net income. In addition, the corporation utilizes foreign exchange forward contracts to hedge U.S. long-term debt balances, for which hedge accounting is not applied. The monthly foreign exchange revaluation of these U.S. long-term debt balances and the mark to market of the foreign exchange forward contracts offsets in net income. The fair value of these forward contracts of \$2.6 million (2017 – nil) is included in accounts receivable and accrued revenue and classified as Level 2 fair value measurements.

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, 2018, a change in the Canadian dollar of plus (minus) \$0.10 relative to the U.S. dollar would decrease (increase) net income by \$2 million (2017 – \$8 million), while OCI would increase (decrease) by \$101 million (2017 – \$120 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 short-term and long-term debt, fixed rate long-term debt maturing within 12 months, less sinking fund withdrawals, offset by the change in interest capitalization. As at March 31, 2018, an increase or decrease of 1% in the interest rate would reduce or increase net income, respectively, by \$6 million (2017 – \$3 million), with no impact to OCI.

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 natural gas for delivery to customers throughout Manitoba. The corporation mitigates commodity price risk through its limited use of derivative financial instruments. Manitoba Hydro does not use derivative contracts for trading or speculative purposes.

The corporation has entered into commodity derivative contracts as at March 31, 2018. The fair value of these contracts of \$0.4 million (2017 – \$1 million) is included in accounts receivable and accrued revenue and classified as Level 2 fair value measurements.

## Note 31 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 long-term target is to achieve a minimum equity ratio of 25%.

The corporation's equity ratio was as follows:

	2018	2017
Long-term debt (Note 21)	18 200	16 102
Current portion of long-term debt (Note 21)	1 000	336
Notes payable (Note 23)	50	–
Less: Cash and cash equivalents (Note 13)	(642)	(646)
Net debt	18 608	15 792
Retained earnings	2 936	2 899
Accumulated other comprehensive loss	(688)	(709)
Contributions in aid of construction (Note 27)	483	455
Bipole III contribution (Note 27)	348	196
Non-controlling interest (Note 29)	205	170
Total equity	3 284	3 011
Equity ratio	15%	16%

Manitoba Hydro issues debt for its capital requirements under the authority of *The Manitoba Hydro Act*, *The Loan Act* and *The Financial Administration 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. Authority to refinance any maturing long-term debt is provided through *The Financial Administration Act*. The majority of Manitoba Hydro's long-term debt is obtained through advances from the Province of Manitoba.

## Note 32 Related parties

Manitoba Hydro is a Crown corporation controlled by the Province of Manitoba. As a result, the corporation has a related party relationship with all entities that are controlled, jointly controlled or significantly influenced by the Province of Manitoba. However, as permitted by IAS 24 *Related Party Disclosures*, the corporation is exempt from disclosure requirements relating to transactions with the Province of Manitoba and any other entity that is a related party because the Province of Manitoba has control, joint control or significant influence over both the corporation and the other entity.

Significant transactions with the Province of Manitoba and other related provincial entities consist of:

- Long-term debt – the corporation obtains the majority of its long-term debt through advances from the Province of Manitoba (Note 21),
- Provincial Debt Guarantee Fee – the corporation pays the Province of Manitoba an annual fee on the outstanding debt. The Provincial Debt Guarantee Fee of \$158 million (2017 – \$136 million) for the year was 1.00% (2017 – 1.00%) of the corporation's total outstanding debt guaranteed by the Province of Manitoba,
- Sale of electricity and natural gas – energy sales to related parties,
- Water rentals – amounts 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 (2017 – \$3.34 per MWh) totalling \$116 million (2017 – \$122 million), and
- Taxes – amounts are paid to the Province of Manitoba for corporate capital tax, payroll tax (Note 11) and provincial sales tax, all of which are incurred in the normal course of business.

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

## Note 33 Commitments and contingencies

Manitoba Hydro has energy purchase commitments of \$1 591 million (2017 – \$1 419 million) that relate to future purchases of wind, natural gas (including transportation and storage contracts), coal and electricity. Commitments are primarily for wind, which expire in 2038, and natural gas purchases, which expire in 2037. In addition, other outstanding commitments principally for construction are approximately \$2 132 million (2017 – \$3 330 million).

As at March 31, 2018, total future minimum lease payments committed under operating leases amounted to \$10 million (2017 – \$12 million).

During the year, Manitoba Hydro entered into an agreement with an independent third party pipeline company to increase pipeline capacity. As part of the agreement, the corporation has committed to pay its share of the pre-license development costs associated with the contract, limited to \$19 million, in the event that the federal license is not granted for the project. While the potential costs are quantified, no obligating event has occurred and so a provision has not been booked.

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 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. Management believes that any settlements related to these matters will not have a material adverse effect on Manitoba Hydro's consolidated financial position or results of operations.

Manitoba Hydro provides guarantees to counterparties for natural gas purchases. At March 31, 2018, there is an outstanding guarantee totaling \$30 million (2017 – \$40 million) which matures October 31, 2018. Letters of credit in the amount of \$75 million (2017 – \$74 million) have been issued for construction and energy related transactions with maturities until 2049.

## Note 34 Segmented information

Operating segments are reported consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operations, has been identified as the President and Chief Executive Officer. The corporation is managed as three segments, electricity operations, natural gas operations and other, based on how financial information is produced internally for the purposes of making operating decisions.

## Segment descriptions

### *Electric Operations*

Electric operations derives its revenue from the sale of electricity in both Manitoba and to the export markets. Manitoba Hydro's electric operations also includes subsidiaries WPLP, KHLP and 6690271 Manitoba Ltd. Electricity is sold in Manitoba to residential, commercial and industrial customers while extraprovincial sales of electricity are to the U.S. and Canadian markets. Domestic electricity sales are regulated by the PUB.

### *Natural Gas Operations*

The operations of Centra make up the entire natural gas operations segment. Centra is regulated by the PUB and generates revenue through the sale and distribution of natural gas to residential, commercial and industrial customers throughout Manitoba.

### *Other Segment*

The other segment includes the operations of all other subsidiaries of the corporation, including MHI, MHUS, Minell and Teshmont.

MHI derives its revenue by providing professional consulting, operations, maintenance and project management services to energy sectors world-wide, either exclusively or through partnerships. MHI also provides research and development services and products to the electrical power system industry.

MHUS generates revenue by providing meter reading, interactive voice response systems and contracted services primarily to Manitoba Hydro and Centra.

Minell operates a pipeline transmission system extending from Moosomin, Saskatchewan to Russell, Manitoba and is regulated by the National Energy Board. Revenues are derived through the rentals of Minell's gas transmission facilities to Centra as they are used solely for the transportation of natural gas on behalf of Centra.

Teshmont is a holding company established to acquire a 40% ownership of Teshmont Consultants Limited Partnership, which carries on a high voltage engineering and consulting practice.

## Segmented results

Results by operating segment for the years ended March 31, 2018 and 2017 are shown below. Intersegment eliminations are presented to reconcile segment results to the corporation's consolidated totals. Eliminations have been made for intersegment transactions and balances.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2018

(in millions of Canadian dollars)

	Electric operations		Natural gas operations		Other segment		Eliminations		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<b>Revenues</b>										
External revenue	1 931	1 927	345	344	54	56	-	-	2 330	2 327
Intersegment revenue	-	-	1	1	10	9	(11)	(10)	-	-
	1 931	1 927	346	345	64	65	(11)	(10)	2 330	2 327
<b>Expenses</b>										
Finance expense	601	608	21	19	1	-	18	18	641	645
Operating and administrative	517	536	63	65	17	17	(11)	(10)	586	608
Depreciation and amortization	402	375	24	23	1	2	3	2	430	402
Cost of gas sold	-	-	196	183	-	-	-	-	196	183
Water rentals and assessments	126	131	-	-	-	-	-	-	126	131
Fuel and power purchased	130	132	-	-	-	-	-	-	130	132
Capital and other taxes	130	119	16	16	-	-	-	-	146	135
Other expenses	502	60	14	12	35	35	(3)	(3)	548	104
Finance income	(23)	(17)	-	-	-	-	-	-	(23)	(17)
Corporate allocation	8	8	12	12	-	-	(20)	(20)	-	-
	2 393	1 952	346	330	54	54	(13)	(13)	2 780	2 323
Net income (loss) before net movement in regulatory deferral balances										
	(462)	(25)	-	15	10	11	2	3	(450)	4
Net movement in regulatory deferral balances	472	66	7	(11)	-	-	-	-	479	55
<b>Net Income</b>	<b>10</b>	<b>41</b>	<b>7</b>	<b>4</b>	<b>10</b>	<b>11</b>	<b>2</b>	<b>3</b>	<b>29</b>	<b>59</b>
Net income (loss) attributable to:										
<b>Manitoba Hydro</b>	<b>18</b>	<b>53</b>	<b>7</b>	<b>4</b>	<b>10</b>	<b>11</b>	<b>2</b>	<b>3</b>	<b>37</b>	<b>71</b>
Non-controlling interests	(8)	(12)	-	-	-	-	-	-	(8)	(12)
	10	41	7	4	10	11	2	3	29	59

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2018  
(in millions of Canadian dollars)

	Electric operations		Natural gas operations		Other segment		Eliminations		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Total assets	23 606	21 271	642	617	96	85	(219)	(201)	24 125	21 772
Total regulatory deferral debit balances	934	462	110	104	-	-	-	-	1 044	566
Total liabilities	22 207	19 474	528	503	16	15	(111)	(91)	22 640	19 901
Total regulatory deferral credit balances	49	49	27	28	-	-	-	-	76	77
Retained earnings	2 767	2 749	76	69	79	69	14	12	2 936	2 899

### Note 35 Comparative figures

Where appropriate, comparative figures for 2017 have been reclassified in order to conform to the presentation adopted in 2018.



# Financial statistics

For the year ended March 31

	IFRS				CGAAP					
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<i>dollars are in millions</i>										
<b>Revenues</b>										
Domestic Electric	1 464	1 419	1 399	1 424	1 405	1 341	1 193	1 200	1 145	1 127
Gas	343	342	353	427	413	328	328	403	452	578
Extraprovincial	437	460	415	384	402	329	333	358	385	533
Other	86	106	91	81	72	70	46	42	29	36
	2 330	2 327	2 258	2 316	2 292	2 068	1 900	2 003	2 011	2 274
<b>Expenses</b>										
Finance expense	641	645	620	551	470	489	423	425	410	471
Operating and administrative	586	608	614	614	558	533	481	463	440	429
Depreciation and amortization	430	402	394	378	442	423	381	393	384	368
Cost of gas sold	196	183	181	266	252	182	197	261	316	431
Water rentals and assessments	126	131	126	125	125	118	119	120	121	123
Fuel and power purchased	130	132	117	129	140	109	116	66	62	86
Capital and other taxes	146	135	123	115	117	105	103	102	99	87
Other expenses	548	104	114	77	36	30	19	23	16	13
Finance income	(23)	(17)	(23)	(26)	-	-	-	-	-	-
	2 780	2 323	2 266	2 229	2 140	1 989	1 839	1 853	1 848	2 008
Net income (loss) before net movement in regulatory accounts	(450)	4	(8)	87	152	79	61	150	163	266
Net movement in regulatory accounts	479	55	47	38	-	-	-	-	-	-
<b>Net Income</b>	29	59	39	125	152	79	61	150	163	266
Net income (loss) attributable to:										
Manitoba Hydro	37	71	49	136	174	92	61	150	163	266
Non-controlling interests	(8)	(12)	(10)	(11)	(22)	(13)	-	-	-	-
	29	59	39	125	152	79	61	150	163	266
<b>Assets</b>										
Property, plant and equipment	21 979	19 757	17 208	15 222	13 627	12 508	11 797	10 954	10 128	9 382
Sinking fund investments	-	-	-	114	111	352	372	282	822	666
Current and other assets	2 146	2 015	2 085	1 821	1 901	1 682	1 622	1 646	1 487	1 499
Regulatory deferral debits	1 044	566	486	410	-	-	-	-	-	-
	25 169	22 338	19 779	17 567	15 639	14 542	13 791	12 882	12 437	11 547
<b>Liabilities and Equity</b>										
Long-term debt	18 200	16 102	14 201	12 303	10 460	9 329	9 101	8 617	8 228	7 668
Current and other liabilities	3 671	3 157	2 799	2 603	1 913	1 937	1 495	1 127	1 328	1 637
Deferred revenue	769	642	535	459	381	340	318	295	295	296
Regulatory deferral credits	76	77	52	23	-	-	-	-	-	-
Non-controlling interests	205	170	140	120	73	95	100	87	62	39
Retained earnings	2 936	2 899	2 828	2 779	2 716	2 542	2 450	2 389	2 239	2 076
Accumulated other comprehensive income (loss)	(688)	(709)	(776)	(720)	96	299	327	367	285	(169)
	25 169	22 338	19 779	17 567	15 639	14 542	13 791	12 882	12 437	11 547
<b>Cash Flows</b>										
Operating activities	(94)	623	607	519	691	589	567	595	589	688
Financing activities	2 854	1 855	2 111	1 560	1 125	635	725	674	1 124	424
Investing activities	(2 764)	(2 787)	(2 257)	(1 727)	(1 706)	(1 242)	(1 312)	(1 373)	(1 698)	(1 086)
<b>Financial Indicators</b>										
Equity ratio <sup>1</sup>	15%	16%	17%	18%	24%	25%	26%	27%	27%	23%
Interest coverage <sup>2</sup>	1.50	1.54	1.57	1.73	1.95	1.81	1.74	1.96	2.06	2.16
Capital coverage <sup>3</sup>	0.50	1.48	1.37	1.20	1.35	1.25	1.13	1.25	1.34	1.77

<sup>1</sup> Equity ratio represents equity (retained earnings plus accumulated other comprehensive income plus contributions in aid of construction plus non-controlling interest) divided by equity plus debt (long-term debt plus notes payable minus sinking fund investments and temporary investments).

<sup>2</sup> Interest coverage represents earnings before finance expense and depreciation and amortization adjusted for net movement impacts divided by finance expense.

<sup>3</sup> Capital coverage represents internally generated funds divided by capital construction expenditures.

# Operating statistics

For the year ended March 31

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>Electric System Capability</b>										
Capability (000 kW)	5 648	5 679	5 680	5 691	5 715	5 675	5 475	5 489	5 501	5 480
Manitoba firm peak demand (000 kW)	4 735	4 801	4 460	4 688	4 720	4 535	4 343	4 261	4 359	4 477
Per cent change	(1.4)	7.6	(4.9)	(0.7)	4.1	4.4	1.9	(2.2)	(2.6)	4.8
<b>Electric System Supply</b>										
Total energy supplied (millions of kWh)										
Generation	34 613	36 433	34 990	35 044	35 392	33 230	33 235	34 102	33 961	34 528
Isolated systems	14	15	14	15	14	14	14	13	13	13
	34 627	36 448	35 004	35 059	35 406	33 244	33 249	34 115	33 974	34 541
<b>Electric Load at Generation (millions of kWh)</b>										
Integrated system	23 288	25 144	24 566	25 399	25 510	24 650	23 499	23 783	23 295	24 285
Isolated system	14	15	14	15	14	14	14	13	13	13
	23 302	25 159	24 580	25 414	25 524	24 664	23 513	23 796	23 308	24 298
Per cent change	(7.4)	2.4	(3.3)	(0.4)	3.5	4.9	(1.2)	2.1	(4.1)	1.3
<b>Electric System Deliveries (millions of kWh)</b>										
Energy delivered in Manitoba										
Residential	7 636	7 250	7 181	7 788	7 888	7 334	6 930	7 060	6 899	6 954
Commercial / Industrial	14 869	14 716	14 473	14 670	14 450	14 143	13 840	13 727	13 587	14 256
	22 505	21 966	21 654	22 458	22 338	21 477	20 770	20 787	20 486	21 210
Extraprovincial	9 448	11 272	10 281	9 811	10 537	9 087	10 244	10 344	10 860	10 122
	31 953	33 238	31 935	32 269	32 875	30 564	31 014	31 131	31 346	31 332
<b>Gas Deliveries (millions of cubic metres)</b>										
Residential	579	524	498	597	664	602	509	591	581	696
Commercial / Industrial	887	801	748	870	964	849	728	821	803	866
Transportation	582	661	600	604	652	598	629	584	619	603
	2 048	1 986	1 846	2 071	2 280	2 049	1 866	1 996	2 003	2 165
<b>Number of Customers</b>										
Electric:										
Residential	509 465	503 167	497 699	492 275	486 654	480 254	474 661	469 635	465 055	460 804
Commercial / Industrial	70 797	70 271	69 935	69 594	69 106	68 520	68 020	67 664	67 304	66 668
	580 262	573 438	567 634	561 869	555 760	548 774	542 681	537 299	532 359	527 472
Gas:										
Residential	255 868	253 357	251 142	249 313	247 010	244 768	242 813	241 123	239 535	239 597
Commercial / Industrial	26 122	25 911	25 716	25 504	25 218	25 018	24 886	24 838	24 766	23 411
	281 990	279 268	276 858	274 817	272 228	269 786	267 699	265 961	264 301	263 008
<b>Full Time Equivalent (FTE) <sup>1</sup></b>	<b>5 998<sup>2</sup></b>	6 411	6 410	6 483	6 556	6 463	6 413	6 394	6 236	6 080

<sup>1</sup> Regular FTEs includes employees of subsidiaries as well as seasonal, hourly and part-time staff. It is derived by calculating total straight time hours in the year divided by 1 916 hours per FTE. The 2017-18 FTE figure includes employees that departed the corporation through the Voluntary Departure Program/management reorganization and contains the portion of the year those employees worked prior to their departure date.

<sup>2</sup> Includes participants in Voluntary Departure Program on pre-retirement leave and/or salary continuance as at March 31, 2018



Manitoba Liquor and Lotteries Corporation

# **Consolidated Financial Statements**

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# Management Report

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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 Manitoba Liquor and Lotteries 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 Manitoba Liquor and Lotteries 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 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, 2018.

Original signed by  
**Peter Hak**  
President & Chief Executive Officer

Original signed by  
**Heather Mitchell**  
Chief Financial Officer



# Independent Auditors' Report

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To the Board of Directors of Manitoba Liquor and Lotteries Corporation

We have audited the accompanying consolidated financial statements of Manitoba Liquor and Lotteries Corporation, which comprise the consolidated statement of financial position as at March 31, 2018, and the consolidated statements of net income, comprehensive income and equity 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 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 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 Liquor and Lotteries Corporation as at March 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young LLP*

Chartered Professional Accountants  
Winnipeg, Canada  
June 19, 2018

**Consolidated Statement of Financial Position**As at March 31  
(in thousands of Canadian dollars)

	Notes	2018	2017
<b>► Assets</b>			
<b>Current assets</b>			
Cash		\$ 42,121	\$ 33,168
Trade and other receivables	5	51,300	50,305
Inventories	6	48,008	51,600
Prepayments	7	4,349	5,190
Assets held for sale, net	8	-	8,887
		<u>145,778</u>	<u>149,150</u>
<b>Non-current assets</b>			
Property and equipment, net	9	384,227	394,888
Intangible assets, net	10	11,085	11,610
		<u>395,312</u>	<u>406,498</u>
<b>TOTAL ASSETS</b>		<u><b>\$ 541,090</b></u>	<u><b>\$ 555,648</b></u>
<b>► Liabilities and Equity</b>			
<b>Current liabilities</b>			
Trade and other payables	11	\$ 120,886	\$ 106,324
Payable to the Province of Manitoba		54,362	63,725
Current portion of long-term debt	12	56,035	52,610
		<u>231,283</u>	<u>222,659</u>
<b>Non-current liabilities</b>			
Long-term debt	12	304,807	327,989
Commitments and contingencies	16		
<b>Equity</b>			
Retained earnings		5,000	5,000
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><b>\$ 541,090</b></u>	<u><b>\$ 555,648</b></u>

(see accompanying notes to the consolidated financial statements)

On behalf of the Board

Original signed by  
**Polly Craik**  
Director & Chair of the Board of DirectorsOriginal signed by  
**Nick Logan**  
Director & Vice-Chair of the Board of Directors

Manitoba Liquor and Lotteries Corporation

## Consolidated Statement of Net Income, Comprehensive Income and Equity

For the year ended March 31  
(in thousands of Canadian dollars)

	Notes	2018	2017
<b>Revenue</b>	13	\$ 1,418,810	\$ 1,360,796
<b>Cost of sales</b>	13	530,110	507,315
		888,700	853,481
Operating expenses	13	254,547	248,780
Depreciation and amortization		52,406	49,289
Goods and Services Tax		3,354	2,973
		310,307	301,042
<b>Operating income</b>		<b>578,393</b>	<b>552,439</b>
Share of profit of Western Canada Lottery Corporation	14	60,909	62,572
Interest expense on long-term debt		(11,454)	(10,636)
Interest income		937	909
<b>Income before allocations and payments</b>		<b>628,785</b>	<b>605,284</b>
Allocations and payments	15	18,423	19,230
<b>Net income and comprehensive income</b>		<b>610,362</b>	<b>586,054</b>
<b>Equity, beginning of the year</b>		5,000	5,000
Allocation to the Province of Manitoba		(610,362)	(586,054)
<b>Equity, end of the year</b>		<b>\$ 5,000</b>	<b>\$ 5,000</b>

(see accompanying notes to the consolidated financial statements)

**Consolidated Statement of Cash Flows**For the year ended March 31  
(in thousands of Canadian dollars)**► Operating activities**

	2018	2017
Net income and comprehensive income	\$ 610,362	\$ 586,054
Add (deduct) items not involving cash:		
Depreciation related to property and equipment	46,735	44,641
Depreciation on assets related to Conduct and Management agreements	4,900	4,755
Amortization related to intangible assets	5,671	4,648
Gain on disposal of property and equipment	(231)	(397)
Gain on disposal of assets held for sale	(5,769)	-
	661,668	639,701
Changes in non-cash working capital items:		
Increase in trade and other receivables	(995)	(4,383)
Decrease (increase) in inventories	3,592	(1,730)
Decrease in prepayments	841	45
Increase (decrease) in trade and other payables	14,562	(3,195)
<b>Cash provided by operating activities</b>	<b>679,668</b>	<b>630,438</b>

**► Investing activities**

Purchase of property and equipment	(41,485)	(67,595)
Purchase of intangible assets	(5,146)	(1,498)
Proceeds from disposal of property and equipment	348	425
Proceeds from disposal of assets held for sale	15,050	-
<b>Cash used in investing activities</b>	<b>(31,233)</b>	<b>(68,668)</b>

**► Financing activities**

Cash distributions to the Province of Manitoba:		
Current year	(611,000)	(578,000)
Prior year	(8,725)	-
Proceeds from long-term debt	40,360	60,211
Repayment of long-term debt	(60,117)	(48,866)
<b>Cash used in financing activities</b>	<b>(639,482)</b>	<b>(566,655)</b>
<b>Net increase (decrease) in cash during the year</b>	<b>8,953</b>	<b>(4,885)</b>
<b>Cash, beginning of the year</b>	<b>33,168</b>	<b>38,053</b>
<b>Cash, end of the year</b>	<b>\$ 42,121</b>	<b>\$ 33,168</b>

**► Supplemental cash flow information**

Interest paid	\$ 11,900	\$ 11,700
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(see accompanying notes to the consolidated financial statements)



## 1. Background

By consent of the Legislative Assembly of Manitoba, *The Manitoba Liquor and Lotteries Corporation Act* was enacted on December 5, 2013 and came into force on April 1, 2014. Under *The Manitoba Liquor and Lotteries Corporation Act*, Manitoba Liquor and Lotteries Corporation (the Corporation) was established as a Crown corporation.

The registered office of the Corporation is located at 830 Empress Street, Winnipeg, Manitoba.

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## 2. Significant Accounting Policies

### (a) Basis of presentation

The consolidated financial statements of the Corporation for the year ended March 31, 2018 were authorized for issue by the Board of Directors on June 19, 2018.

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).

### (c) Basis of consolidation

The consolidated financial statements combine the accounts of the Corporation and MLC Holdings Inc. This controlled entity was established to purchase capital assets, which are leased to the Corporation 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 the Corporation 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 (the Corporation 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 and  
Shark Club Gaming Centre**

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 the Corporation to act as its agent in the Conduct and Management (C&M) of the gaming regime.

Through a selection process, the Government of Manitoba has provided certain First Nations the opportunity to operate casinos, with the Corporation maintaining the C&M authority over these casinos. The Corporation recovers all direct gaming related expenses from First Nations Casinos and provides general administrative and compliance services upon request on a fee for service basis.

The Government of Manitoba has provided the TN Arena Limited Partnership the opportunity to establish the Shark Club Gaming Centre, with the Corporation maintaining the C&M authority over this gaming centre. As part of this authority, the Corporation recovers all direct gaming related expenses. In addition, the Corporation has entered into an agreement with the owner to perform management services on their behalf with respect to the gaming activity of the gaming centre.

**(f) Foreign currency translation**

The 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 functional currency and presentation currency of the Corporation is the Canadian dollar (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. 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) Financial instruments**

Financial instruments are recognized in the consolidated statement of financial position when the Corporation becomes a party to the contractual terms of the instrument, which represents its trade date. Upon initial recognition, the Corporation designates its financial assets as fair value through profit or 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 financial assets of the Corporation include cash and trade and other receivables. The financial liabilities of the Corporation include trade and other payables, payable to the Province of Manitoba and long-term debt.

**(i) Fair value through profit or loss**

Cash is classified as fair value through profit or 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.

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.

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 to 40 years
Gaming equipment	5 to 8 years
Assets related to C&M agreements	5 to 7 years
Parking lots and roads	15 to 25 years
Leasehold improvements	Over the remaining term of the lease
Major building components	5 to 50 years
Building structures	40 to 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.

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.

Other leases are classified as operating leases and the leased assets are not recognized on the 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. Any predetermined, fixed rental increases contained in a lease are recognized over the life 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	3 to 15 years
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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) Inventories

Inventories consist of goods for resale and consumable supplies and are valued at the lower of average 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 and are comprised of the 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.

## (l) 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.

### (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 asset's recoverable amount is estimated. 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.

## (m) 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.

## (n) Pension plans

In accordance with the provisions of the *Civil Service Superannuation Act* (CSSA), 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 are recorded as an operating expense. Under the CSSA, 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 immediately in the consolidated statement of financial position with a corresponding debit or credit to operating expenses in the period in which they occur.

The Corporation also makes contributions for certain employees and officers to a money purchase pension plan at prescribed rates, which are recorded as an operating expense.

### **(o) 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 and has concluded that it is acting as principal in all of its revenue arrangements, with the exception of the third-party AIR MILES® program in which the Corporation participates. The AIR MILES® program allows customers to earn AIR MILES® points when they purchase products in the Corporation's retail liquor stores. The redemption of points by customers is the responsibility of the third-party AIR MILES® program. Consideration received is recorded net of related expenses as the Corporation is acting as an agent for the AIR MILES® program.

Revenue from product sales is recognized when the significant rewards of ownership of the products have passed to the buyer, usually on the delivery of products. Lottery revenue is recognized 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 are recognized at the time of play, net of prizes paid.

### **(p) Promotional allowances**

Promotional allowances include the value of food, beverages and other items provided on a complimentary basis to casino 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.

### **(q) 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.

The Corporation collects GST on liquor sales, and applicable entertainment, food & beverage and casino retail store operations. An input tax credit is claimed for GST paid on non-gaming expenditures.

### **(r) Assets held for sale**

Assets held for sale are presented separately in the consolidated statement of financial position when the Corporation is committed to selling the assets, an active plan of sale has commenced, and the sale is expected to be completed within 12 months. Immediately before the initial classification of the assets as held for sale, the carrying amounts of the assets are measured in accordance with the applicable accounting policy. Assets held for sale are subsequently measured at the lower of their carrying amount and fair value less cost to sell.

### **(s) Changes in accounting policies**

During the year, the Corporation chose to adopt the following standard:

#### **(i) IAS 7 Statement of Cash Flows**

This standard was amended in January 2016 as part of the IASB's major initiative to improve presentation and disclosure in financial reports (the Disclosure Initiative). The amendments were effective for annual periods beginning on or after January 1, 2017. The adoption of the amendments to IAS 7 did not have any impact on the Corporation's 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 revenue, expenses, assets and liabilities, and the disclosure of contingent assets and liabilities as 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 of 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 \$3,061 (2017 – \$3,580) 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 consolidated financial statements.

#### (a) IFRS 9 Financial Instruments

This standard introduces new requirements for the classification and measurement of financial instruments. IFRS 9 requires all recognized financial assets that are within the scope of *IAS 39 Financial Instruments: Recognition and Measurement*, to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. Requirements for the classification and measurement of financial liabilities are largely carried forward from existing IAS 39 requirements with the exception that fair value changes due to credit risk for liabilities designated at fair value through profit or loss would generally be recorded in other comprehensive income. IFRS 9 also includes guidance on hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with certain exemptions. The Corporation is currently evaluating the impact of adoption of the new standard.

#### (b) IFRS 15 Revenue from Contracts with Customers

This standard was issued in May 2014 and supersedes existing standards and related interpretations including *IAS 18 Revenue* and *IFRIC 13 Customer Loyalty Programmes*. IFRS 15 introduces a single model for recognizing revenue from contracts with customers in a manner that depicts the transfer of goods or services to customers in amounts that

reflect the consideration to which the entity is expected to be entitled in exchange for those goods or services. The new standard is intended to enhance disclosures about revenue, provide guidance for transactions not previously addressed and improve guidance for multiple-element arrangements. The standard is effective for annual periods beginning on or after January 1, 2018 and the Corporation is currently evaluating the impact of adoption of the new standard.

#### (c) IFRS 16 Leases

This standard was issued in January 2016 and supersedes existing standard *IAS 17 Leases* and related interpretations. IFRS 16 sets out principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, referred to as the customer (lessee) and the supplier (lessor). IFRS 16 introduces a single lessee accounting model, eliminating the classification of leases as either finance or operating and will require lessees to recognize assets and liabilities for most leases. The new standard does not substantially change lessor accounting requirements therefore lessors will continue to classify leases as operating or finance. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 and the Corporation is currently evaluating the impact of adoption of the new standard.

## 5. Trade and Other Receivables

	2018	2017
Trade	\$ 47,423	\$ 43,161
Goods and Services Tax	-	4,912
Western Canada Lottery Corporation	3,877	2,232
	<b>\$ 51,300</b>	<b>\$ 50,305</b>

The Corporation's exposure to credit risk related to trade and other receivables is disclosed in note 17(d).

## 6. Inventories

	2018	2017
Warehouse	\$ 32,515	\$ 34,465
Retail locations	15,246	16,817
Consumable supplies	247	318
	<b>\$ 48,008</b>	<b>\$ 51,600</b>

The amount of unpaid and unrecorded Customs and Excise duties on owned merchandise held in bond is \$4,173 at the end of the 2018 fiscal year (2017 – \$4,865).

## 7. Prepayments

	2018	2017
Maintenance contracts	\$ 3,370	\$ 2,846
Rent	17	960
Deposits and other	831	1,037
Insurance	131	347
	<b>\$ 4,349</b>	<b>\$ 5,190</b>

## 8. Assets Held for Sale

In January 2017, the Corporation offered for sale the land, building, and parkade at 233 Kennedy Street and 218 Edmonton Street in Winnipeg, Manitoba and at the end of the 2017 fiscal year property and equipment of \$8,887 was reclassified as held for sale. During the 2018 fiscal year, assets held for sale increased to \$9,281. On June 20, 2017, the sale of the assets was finalized for net proceeds of \$15,050; resulting in a gain on disposal of \$5,769.

## Notes to Consolidated Financial Statements

For the year ended March 31, 2018  
(in thousands of Canadian dollars)

## 9. Property and Equipment

<b>Cost</b>	Land	Buildings, parking lots and roads	Leasehold improvements	Gaming equipment	Furniture and equipment	Assets related to C&M agreements	Work in progress (WIP)	Total
<b>April 1, 2016</b>	\$ 26,272	\$ 293,346	\$ 25,028	\$ 217,184	\$ 133,784	\$ 34,945	\$ 44,504	\$ 775,063
Additions	-	3,648	172	7,876	6,176	3,423	46,300	67,595
Transfers from WIP	-	7,544	45	272	146	1,763	(9,770)	-
Reclassified as held for sale	(845)	(7,266)	-	-	-	-	(1,141)	(9,252)
Disposals	-	(34)	(46)	(16,902)	(1,491)	(469)	-	(18,942)
<b>March 31, 2017</b>	25,427	297,238	25,199	208,430	138,615	39,662	79,893	814,464
Additions	-	21,316	396	11,083	4,658	609	3,423	41,485
Transfers from WIP	-	66,345	1,845	489	4,723	-	(73,402)	-
Reclassified as held for sale	-	(394)	-	-	-	-	-	(394)
Disposals	-	-	-	(3,767)	(6,160)	(654)	-	(10,581)
<b>March 31, 2018</b>	\$ 25,427	\$ 384,505	\$ 27,440	\$ 216,235	\$ 141,836	\$ 39,617	\$ 9,914	\$ 844,974

<b>Depreciation</b>	Land	Buildings, parking lots and roads	Leasehold improvements	Gaming equipment	Furniture and equipment	Assets related to C&M agreements	Work in progress (WIP)	Total
<b>April 1, 2016</b>	\$ -	\$ 121,533	\$ 10,893	\$ 127,122	\$ 105,947	\$ 23,964	\$ -	\$ 389,459
Depreciation	-	8,869	2,357	24,349	9,066	4,755	-	49,396
Reclassified as held for sale	-	(365)	-	-	-	-	-	(365)
Disposals	-	(34)	(46)	(16,902)	(1,463)	(469)	-	(18,914)
<b>March 31, 2017</b>	-	130,003	13,204	134,569	113,550	28,250	-	419,576
Depreciation	-	10,582	1,966	24,649	9,538	4,900	-	51,635
Disposals	-	-	-	(3,661)	(6,149)	(654)	-	(10,464)
<b>March 31, 2018</b>	\$ -	\$ 140,585	\$ 15,170	\$ 155,557	\$ 116,939	\$ 32,496	\$ -	\$ 460,747

<b>Net book value</b>								
<b>March 31, 2018</b>	\$ 25,427	\$ 243,920	\$ 12,270	\$ 60,678	\$ 24,897	\$ 7,121	\$ 9,914	\$ 384,227
<b>March 31, 2017</b>	25,427	167,235	11,995	73,861	25,065	11,412	79,893	394,888

Capital assets related to C&M agreements consist primarily of the cost of the gaming equipment and related computer equipment for the First Nations Casinos and Shark Club Gaming Centre.

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 2018 fiscal year was \$444 (2017 – \$1,062). The weighted average rate used to determine the amount of borrowing costs eligible for capitalization was 2.54%, 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 2018 fiscal year is \$2,823 (2017 – \$3,076) and consists of land being used for parking facilities at the McPhillips Station Casino.



## 10. Intangible Assets

Cost	Computer software - acquired
<b>April 1, 2016</b>	\$ 44,988
Additions	1,498
Disposals	(197)
<b>March 31, 2017</b>	46,289
Additions	5,146
Disposals	-
<b>March 31, 2018</b>	\$ 51,435

Amortization	
<b>April 1, 2016</b>	\$ 30,228
Amortization	4,648
Disposals	(197)
<b>March 31, 2017</b>	34,679
Amortization	5,671
Disposals	-
<b>March 31, 2018</b>	\$ 40,350

Net book value	
<b>March 31, 2018</b>	\$ 11,085
<b>March 31, 2017</b>	11,610

## 11. Trade and Other Payables

	2018	2017
Trade	\$ 77,837	\$ 69,540
Employee benefits	33,391	30,987
Jackpot liability	4,475	2,990
Province of Manitoba taxes	3,098	2,807
Goods and Services Tax	2,085	-
	<b>\$ 120,886</b>	<b>\$ 106,324</b>

## 12. Long-term Debt

	2018	2017
Province of Manitoba, bearing interest at rates ranging from 1.75% to 5.05%, repayable in monthly principal installments ranging from \$6 to \$685 plus interest with maturity dates ranging from June 15, 2018 to November 30, 2035.	\$ 360,842	\$ 380,599
Less current portion of long-term debt	56,035	52,610
	<b>\$ 304,807</b>	<b>\$ 327,989</b>

All long-term debt is unsecured and the fair market value as at March 31, 2018 is \$364,584.

The Corporation's exposure to liquidity risk related to long-term debt is disclosed in note 17(c).

## 13. Revenue, Cost of Sales and Expenses By Nature

The Corporation's revenue consists of the following:

	2018	2017
Liquor sales	\$ 796,289	\$ 770,054
VLT	354,967	344,037
Casino and online gaming	233,951	218,044
Non-gaming revenue	33,603	28,661
	<b>\$ 1,418,810</b>	<b>\$ 1,360,796</b>

The Corporation's cost of sales consists of the following:

	2018	2017
Liquor cost of sales	\$ 393,263	\$ 376,765
VLT commissions	33,893	33,013
First Nations allocation	59,362	55,306
Tourism contribution	24,580	24,253
Gaming direct expenses	9,821	9,561
Non-gaming cost of sales	9,191	8,417
	<b>\$ 530,110</b>	<b>\$ 507,315</b>

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 also provides contributions towards supporting tourism in Manitoba through the VLT program.

Gaming direct expenses consist primarily of costs associated with the operation and maintenance of the Corporation's electronic gaming equipment, table games equipment and online gaming site.

Non-gaming revenue and cost of sales consist primarily of revenue and costs associated with the Corporation's entertainment, food & beverage and casino retail store operations.

The Corporation's operating expenses by their nature are as follows:

	2018	2017
Employee benefits	\$ 168,224	\$ 167,024
Bank charges	3,464	3,574
Community support	3,156	4,443
Consultant and professional fees	2,443	3,891
Freight and delivery	4,173	3,726
Grants in lieu of taxes	5,871	6,277
Maintenance	23,189	22,621
Marketing and public awareness	11,675	11,785
Rents	16,375	9,164
Sundry	1,876	1,851
Supplies and equipment	4,763	5,004
Telecommunications	4,187	3,994
Transportation and vehicles	1,408	1,530
Utilities	3,743	3,896
	<b>\$ 254,547</b>	<b>\$ 248,780</b>

## 14. Share of Profit of WCLC

	2018	2017
Revenue	\$ 224,495	\$ 228,978
Prizes, commissions and other cost of sales	156,540	159,331
WCLC partner equalization	4,606	4,701
Payment to Government of Canada	2,440	2,374
Profit	<b>\$ 60,909</b>	<b>\$ 62,572</b>

The WCLC earned revenue in the 2018 fiscal year in the amount of \$1,285,692 (2017 – \$1,330,359), of which the Corporation's share calculated based on relative sales levels by jurisdiction is 17% (2017 – 17%). The WCLC's total profit for the 2018 fiscal year was \$432,438 (2017 – \$454,821) of which the Corporation's share is 14% (2017 – 14%).

The Province of Manitoba is a member in the WCLC. An agreement is in place with the Provinces of Alberta and Saskatchewan where the Corporation 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

	2018	2017
Social responsibility funding	\$ 9,879	\$ 9,776
LGA funding and Crown Corporations Council levy	4,654	4,713
Other community funding	3,890	4,741
	<b>\$ 18,423</b>	<b>\$ 19,230</b>

Social responsibility funding includes amounts paid to the Addictions Foundation of Manitoba and other organizations for their research and programming that promote responsible gaming and responsible liquor consumption. The Corporation is required to allocate 2% of annual anticipated consolidated net income and comprehensive income to social responsibility initiatives. Any liability associated with this funding is included in trade and other payables.

The Corporation provides funding to the Liquor and Gaming Authority of Manitoba (LGA) through the payment of annual

licence fees for employees, electronic gaming devices and retail liquor locations; as well as additional amounts directed to be paid under *The Liquor and Gaming Control Act*. The Corporation also provided funding to the Crown Corporations Council through the payment of an annual levy.

The Corporation provides funding to various charitable and community organizations throughout Manitoba.

## 16. Commitments and Contingencies

### (a) Lease obligations

The Corporation has entered into commercial leases on certain buildings and parking lots which have remaining terms ranging from 1 to 21 years. In addition, the Corporation has entered into commercial leases on certain motor vehicles which have remaining terms of one year. The future minimum rental payments relating to operating leases are as follows:

2019	\$ 8,596
2020	7,760
2021	7,128
2022	6,521
2023	6,150
Subsequent years	31,848
	<b>\$ 68,003</b>

### (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 financial position of the Corporation.

The Corporation has been named as a party to a lawsuit related to First Nations gaming in Manitoba. An amended Statement of Claim was filed in February 2018, and a Statement of Defence is being filed on behalf of the Corporation and the Government of Manitoba. 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 2018 fiscal year, the Corporation had purchase commitments of \$17,793 related to casino and retail liquor store construction projects.

## 17. Financial Instruments

The Corporation is exposed to interest rate, currency, 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 and does so through a combination of a system of internal and disclosure controls, effective cash management strategies and sound business practices.

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 100% of long-term debt having a fixed interest rate.

### (b) Currency risk

The Corporation is exposed to currency risk through liquor 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 approved liquor profit margins. Purchases denominated in foreign currencies during the 2018 fiscal year were \$7,925 (2017 – \$7,737). Accordingly, a 10% increase or decrease in the exchange rate between the Canadian dollar and other foreign currencies would result in a total increase or decrease of \$792 (2017 – \$774) assuming the inventory purchased had been sold by the end of the year.

### (c) Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulties in meeting its financial liability obligations. The Corporation manages this risk through effective cash and long-term debt management. Trade and other payables are due within one year and a significant portion of the long-term debt is repayable in either quarterly or monthly installments. Liquidity risk is further mitigated by collection terms on trade and other receivables being set at less than or equal to the payment terms of trade and other payables.

The table below summarizes the maturity profile of the Corporation's financial liabilities as at year-end based on contractual undiscounted payments.

<b>2018</b>	On demand	Less than 1 year	1 year	2 years	3 years	4 years	5 years	> 5 years
Trade and other payables	\$ 4,475	\$ 116,411	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payable to the Province of Manitoba	-	54,362	-	-	-	-	-	-
Long-term debt	-	56,035	53,115	41,946	41,326	40,858	40,791	86,771
	\$ 4,475	\$ 226,808	\$ 53,115	\$ 41,946	\$ 41,326	\$ 40,858	\$ 40,791	\$ 86,771

<b>2017</b>	On demand	Less than 1 year	1 year	2 years	3 years	4 years	5 years	> 5 years
Trade and other payables	\$ 2,990	\$ 103,334	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payable to the Province of Manitoba	-	63,725	-	-	-	-	-	-
Long-term debt	-	52,610	50,547	47,626	36,457	35,838	35,375	122,146
	\$ 2,990	\$ 219,669	\$ 50,547	\$ 47,626	\$ 36,457	\$ 35,838	\$ 35,375	\$ 122,146

#### (d) 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. Trade and other receivables are non-interest bearing and generally have 30 day terms. The requirement for impairment is analyzed at each reporting date for every customer on an individual basis and trade and other receivables are written off when management determines that they cannot be collected. 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.

The aging of trade and other receivables at the end of the 2018 fiscal year is as follows:

Neither impaired nor past due	\$ 50,920
Not impaired and past due as follows:	
Within 30 days	157
31 to 60 days	6
61 to 90 days	5
Over 90 days	216
Allowance for doubtful accounts	(4)
	\$ 51,300

**(e) 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 are considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to budget and 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 and comprehensive income to the Province of Manitoba.

**(f) 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. An active market for an asset or liability is a market in which transactions for assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - measurement based on inputs other than quoted prices included in level 1 that are observable for the asset or liability 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 - measurement based on inputs that are not observable (supported by little or no market activity) and that are significant to the fair value of the assets or liabilities.

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 value, classified using the fair value hierarchy, are as follows:

<b>2018</b>	Level 1	Level 2	Level 3	Total
Cash	\$ 42,121	\$ -	\$ -	\$ 42,121
	\$ 42,121	\$ -	\$ -	\$ 42,121
<b>2017</b>	Level 1	Level 2	Level 3	Total
Cash	\$ 33,168	\$ -	\$ -	\$ 33,168
	\$ 33,168	\$ -	\$ -	\$ 33,168

## 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 12.

Compensation of key management personnel of the Corporation, which is recognized as an operating expense during the year, is as follows:

	2018	2017
Short-term employee benefits	\$ 1,994	\$ 2,555
Post-employment pension and medical benefits	142	157
Termination benefits	-	687
	<b>\$ 2,136</b>	<b>\$ 3,399</b>

## 19. Comparative Figures

Comparative figures are presented where available. The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year's consolidated financial statements.

## 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 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 Manitoba Public Insurance Corporation's (the "Corporation") 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, Finance and Risk 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 their fee arrangements to the Board of Directors. The Appointed 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 Appointed 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 Appointed Actuary's opinion.

PricewaterhouseCoopers LLP, the Corporation's appointed external auditors, have audited the financial statements. Their Independent 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.

Original Document Signed

**Benjamin Graham**

President and Chief Executive Officer

Original Document Signed

**Mark Giesbrecht, CPA, CGA**

Vice-President, Finance and Chief Financial Officer

May 17, 2018





May 17, 2018

## **Independent Auditor's 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 statement of financial position as at February 28, 2018 and the statements of operations, comprehensive income (loss), changes in equity and cash flows for the year then ended, and the related notes, which comprise 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.

#### **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 Public Insurance Corporation as at February 28, 2018 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants**

*PricewaterhouseCoopers LLP*

*Richardson Building, One Lombard Place, Suite 2300, Winnipeg, Manitoba, Canada R3B 0X6  
T: +1 (204) 926 2400, F: +1 (204) 944 1020*

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

## **ACTUARY'S REPORT**

To the Board of Directors of Manitoba Public Insurance Corporation:

I have valued the policy liabilities and reinsurance recoverables of Manitoba Public Insurance Corporation for its statements of financial position at February 28, 2018 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 net of reinsurance recoverables makes appropriate provision for all policy obligations and the financial statements fairly present the results of the valuation.

Original Document Signed

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Joe S. Cheng

Fellow, Canadian Institute of Actuaries

Winnipeg, Manitoba

May 17, 2018

## Financial Statements

### Statement of Financial Position

As at February 28 (in thousands of Canadian dollars)	Notes	2018	2017
<b>Assets</b>			
Cash and cash equivalents	4	89,006	73,434
Investments	4	2,660,850	2,545,130
Investment property	4&5	40,646	41,686
Due from other insurance companies	6	3	29
Accounts receivable	28	477,908	455,239
Prepaid expenses		1,227	2,483
Deferred policy acquisition costs	7	24,727	24,155
Reinsurers' share of unearned premiums	14&17	133	117
Reinsurers' share of unpaid claims	17&18	2,452	1,971
Property and equipment	8	116,754	116,059
Deferred development costs	9	69,191	89,496
		<b>3,482,897</b>	<b>3,349,799</b>
<b>Liabilities</b>			
Due to other insurance companies	10	171	173
Accounts payable and accrued liabilities	11	69,217	73,051
Financing lease obligation	12	4,092	4,189
Unearned premiums and fees	14	628,837	586,626
Provision for employee current benefits	15	22,373	22,750
Provision for employee future benefits	16	446,458	405,058
Provision for unpaid claims	17&18	1,912,734	1,900,783
		<b>3,083,882</b>	<b>2,992,630</b>
<b>Equity</b>			
Retained Earnings	20	352,608	261,532
Accumulated Other Comprehensive Income	21	46,407	95,637
<b>Total Equity</b>		<b>399,015</b>	<b>357,169</b>
		<b>3,482,897</b>	<b>3,349,799</b>

Contingent Liabilities (note 32)

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

Approved by the Board of Directors:

Original Document Signed  
Brent VanKoughnet  
Chair

Original Document Signed  
Domenic Grestoni, CPA, CGA  
Chair, Audit, Finance and Risk Committee

## Statement of Operations

For the years ended February 28  
(in thousands of Canadian dollars)

	<i>Notes</i>	<b>2018</b>	2017
<b>Earned Revenues</b>			
Gross premiums written		<b>1,247,731</b>	1,169,044
Premiums ceded to reinsurers		<b>(15,381)</b>	(15,624)
Net premiums written		<b>1,232,350</b>	1,153,420
Increase in gross unearned premiums		<b>(40,608)</b>	(23,406)
Increase in reinsurers' share of unearned premiums		<b>16</b>	2
Net premiums earned		<b>1,191,758</b>	1,130,016
Service fees & other revenue	22	<b>34,187</b>	31,547
<i>The Drivers and Vehicles Act</i> operations recovery	23	<b>30,179</b>	29,272
<b>Total Earned Revenues</b>		<b>1,256,124</b>	1,190,835
<b>Claims Costs</b>			
Direct claims incurred – gross		<b>884,327</b>	980,398
Claims (recovered) incurred ceded to reinsurers		<b>(514)</b>	900
Net claims incurred		<b>883,813</b>	981,298
Claims expense		<b>161,583</b>	137,102
Loss prevention/Road safety		<b>15,345</b>	14,801
<b>Total Claims Costs</b>		<b>1,060,741</b>	1,133,201
<b>Expenses</b>			
Operating		<b>117,778</b>	122,313
Commissions		<b>80,665</b>	77,880
Premium taxes		<b>36,214</b>	34,369
Regulatory/Appeal		<b>4,458</b>	4,911
<b>Total Expenses</b>		<b>239,115</b>	239,473
<b>Underwriting loss</b>		<b>(43,732)</b>	(181,839)
<b>Investment income</b>	4	<b>134,808</b>	96,635
<b>Net income (loss) from operations</b>	24	<b>91,076</b>	(85,204)

## Statement of Comprehensive Income (Loss)

For the years ended February 28  
(in thousands of Canadian dollars)

	<i>Notes</i>	<b>2018</b>	2017
<b>Net income (loss) from operations</b>	24	<b>91,076</b>	(85,204)
<b>Other Comprehensive Income (Loss)</b>	16&21		
Items that will not be reclassified to income			
Remeasurement of Employee Future Benefits		<b>(28,560)</b>	(10,489)
Items that will be reclassified to income			
Unrealized gains on Available for Sale assets		<b>7,304</b>	103,068
Reclassification of net realized gains related to Available for Sale assets		<b>(27,974)</b>	(40,169)
Net unrealized gains (losses) on Available for Sale assets		<b>(20,670)</b>	62,899
Other Comprehensive Income (Loss) for the year		<b>(49,230)</b>	52,410
<b>Total Comprehensive Income (Loss)</b>		<b>41,846</b>	(32,794)

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

## Statement of Changes in Equity

(in thousands of Canadian dollars)	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Equity</b>
Balance as at March 1, 2016	346,736	43,227	389,963
Net loss from operations for the year	(85,204)	-	(85,204)
Other comprehensive income for the year	-	52,410	52,410
Balance as at February 28, 2017	<b>261,532</b>	<b>95,637</b>	<b>357,169</b>
Net income from operations for the year	<b>91,076</b>	-	<b>91,076</b>
Other comprehensive loss for the year	-	<b>(49,230)</b>	<b>(49,230)</b>
<b>Balance as at February 28, 2018</b>	<b>352,608</b>	<b>46,407</b>	<b>399,015</b>

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

## Statement of Cash Flows

For the years ended February 28  
(in thousands of Canadian dollars)

	<i>Notes</i>	<b>2018</b>	2017
<b>Cash Flows from (to) Operating Activities:</b>			
Net income (loss) from operations		<b>91,076</b>	(85,204)
Non-cash items:			
Depreciation of property and equipment		<b>4,973</b>	5,193
Amortization of deferred development costs		<b>20,757</b>	16,859
Amortization of bond discount and premium		<b>3,557</b>	3,516
Gain on sale of investments		<b>(25,043)</b>	(42,157)
Unrealized (gain) loss on Fair Value Through Profit or Loss bonds		<b>(9,363)</b>	23,843
Unrealized gain on pooled real estate		<b>(29,040)</b>	(16,422)
Unrealized (gain) loss on infrastructure investments		<b>(6,195)</b>	1,483
Impairment of Available for Sale investments		<b>1,078</b>	-
Impairment of deferred development costs		<b>20,258</b>	-
		<b>72,058</b>	(92,889)
Net change in non-cash balances:			
Due from other insurance companies		<b>26</b>	16
Accounts receivable and prepaid expenses		<b>(21,413)</b>	(31,486)
Deferred policy acquisition costs		<b>(572)</b>	4,689
Reinsurers' share of unearned premiums and unpaid claims		<b>(497)</b>	4,472
Due to other insurance companies		<b>(2)</b>	(5)
Accounts payable and accrued liabilities		<b>(3,834)</b>	7,016
Unearned premiums and fees		<b>42,211</b>	26,078
Provision for employee current benefits		<b>(377)</b>	65
Provision for employee future benefits		<b>12,840</b>	16,452
Provision for unpaid claims		<b>11,951</b>	131,673
		<b>40,333</b>	158,970
		<b>112,391</b>	66,081
<b>Cash Flows from (to) Investment Activities:</b>			
Purchase of investments		<b>(824,124)</b>	(831,239)
Proceeds from sale of investments		<b>753,780</b>	834,887
Acquisition of property and equipment net of proceeds from disposals		<b>(5,668)</b>	(5,600)
Financing lease obligation		<b>(97)</b>	(92)
Deferred development costs incurred		<b>(20,710)</b>	(27,925)
		<b>(96,819)</b>	(29,969)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>		<b>15,572</b>	36,112
Cash and cash equivalents beginning of year		<b>73,434</b>	37,322
<b>Cash and Cash Equivalents end of year</b>	<i>4</i>	<b>89,006</b>	73,434
<b>Supplemental cash flow information:</b>			
Interest received		<b>52,300</b>	49,083
Dividends received		<b>14,579</b>	16,075

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

# Notes to Financial Statements

February 28, 2018

## 1. Status of Corporation

The Manitoba Public Insurance Corporation (the "Corporation") was incorporated as a Crown Corporation under *The Automobile Insurance Act* in 1970. The Corporation is owned by the Province of Manitoba and the financial results of the Corporation are included in the consolidated financial statements of the Province of Manitoba. 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. For financial reporting purposes, due to the immateriality of the financial results of the discontinued general insurance operations, 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.

Under *The Drivers and Vehicles Act* (DVA), the Corporation is responsible for DVA 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 financial statements were authorized for issue by the Board of Directors on May 17, 2018.

### Appointment of External Actuary

The external 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 insurance contract liabilities and to report thereon to the Corporation's Board of Directors. Insurance contract liabilities include unearned premiums and unpaid claims and adjustment expenses.

The Appointed Actuary also uses the work of the external auditors in their verification of the information prepared by the Corporation used in the valuation of the insurance contract liabilities.

### Appointment of External Auditors

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 Appointed Actuary and their report on the Corporation's insurance contract 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.

The following balances are generally classified as current: cash and cash equivalents, investments, due to/from other insurance companies, accounts receivable, prepaid expenses, deferred policy acquisition costs, reinsurers' share of unearned premiums and unpaid claims, accounts payable and accrued liabilities, unearned premiums and fees and provision for employee current benefits.

The following balances are generally classified as non-current: investment property, property and equipment, deferred development costs, financing lease obligation, provision for employee future benefits and provision for unpaid claims.

These statements are presented in thousands of Canadian dollars which is the Corporation's functional and presentational currency 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 and insurance contract liabilities and reinsurers' share of unpaid claims. Measurement of the financial instruments is detailed in Note 3. Insurance contract liabilities and reinsurers' share of unpaid claims are measured on a discounted basis in accordance with accepted actuarial practice (which in the absence of an active market provides a reasonable proxy for fair value) as explained in Note 3.

## **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 materially 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.

### **Adoption of New and Amended Accounting Standards**

Effective March 1, 2017, the Corporation adopted the following new and amended accounting standards:

#### ***IAS 7 – Statement of Cash Flows***

In January, 2016, IAS 7 was amended to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Corporation has adopted these amendments on March 1, 2017 and has determined that there were no significant impacts to the financial statements.

#### ***Annual Improvement Cycles***

The annual improvements cycle for 2014–2016 was issued in December 2016 by the IASB and included minor amendments to IFRS 12 *Disclosure of interests in other entities*. The Corporation has adopted these amendments on March 1, 2017, and has determined that there were no significant impacts to the financial statements.



## **Investments**

Funds available for investments are managed by the Manitoba 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 recorded at cost and 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)
- loans and receivables
- other financial liabilities

The Corporation accounts for the purchase and sale of securities using settlement date accounting.

### **i) AFS Financial Assets**

AFS financial assets are initially measured at fair value on the Statement of Financial Position starting on the settlement date. Subsequent to initial recognition, AFS assets are carried at fair value with changes in fair value recorded in 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 values of FVTPL bonds including federal, provincial, certain municipal, certain hospitals, other provinces and corporations are 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 per cent and updated at each fiscal quarter. The interest rate for a customer remains unchanged throughout the term of the policy.

## **Cash and Cash Equivalents**

Cash and cash equivalents are comprised of cash, current operating accounts, provincial short term deposits (less than 90 days at the time of purchase) 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 OCI are reclassified to profit or loss in the period. Subsequent declines in value continue to be recorded through profit and loss.

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 OCI.

### ***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; and
- 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.

### ***Derivatives***

The Corporation uses currency swaps to manage the currency risk on specific foreign exchange denominated assets. Any gains or losses are recorded in the Statement of Operations under the heading "Investment income," on a fair value basis.

A currency swap is a contractual agreement for specified parties to exchange the cash flow of one currency for a fixed cash flow of another currency.

### ***Fair Value Determination***

The fair values of financial instruments are obtained from external pricing services and are based on bid prices for financial assets. Cash equivalent investments comprise investments due to mature within 90 days 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**

To the extent premium acquisition costs such as commissions and premium taxes are recoverable from unearned premiums, they are deferred and amortized to income over the term of the related policies.

### **Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Replacement costs are capitalized when incurred and if it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. All repairs and maintenance costs are recognized in net income (loss) during the period in which they occur.

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:

#### *Land & Building*

• HVAC systems	20 years
• land improvements	25 years
• roofing systems	30 years
• elevators/escalators	30 years
• buildings	40 years

#### *Furniture & Equipment*

• computer equipment	3 years
• vehicles	5 years
• furniture and equipment	10 years
• demountable wall systems	10 years

Buildings held under a long-term lease arrangement are depreciated on a straight-line basis over 40 years. Leasehold improvements are carried at cost and 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. Land is not subject to depreciation and is carried at cost.

### **Investment Property**

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 |

Tenant improvements are carried at cost and 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 and the investment property is deemed available for use. Land is not subject to depreciation and is carried at cost.

### **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 accumulated impairment losses 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; and
- 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, including directly assigned employee costs, from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditures are recognized in income or loss in the period in which they are 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)***

When specific events or circumstances arise, 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 commencement 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 in cityplace properties, a building and parking facilities owned by Manitoba Public Insurance. All of these leases are considered operating leases.

## **Revenue**

### ***Premiums***

Written premiums comprise the premiums on contracts commencing in the fiscal year. Earned premiums represent the portion of written premiums earned through the year on a prorata basis 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.

### ***Investment Income***

Investment income is recorded as it accrues. Dividend income from investments is recognized when the Corporation's rights to receive payments is established. Dividend income on common and preferred shares is recorded on the ex-dividend date. Distributions on pooled funds are recorded on the income distribution date. Gains and losses are determined and recorded as at the trade date, and are calculated on the basis of average cost. The effective interest rate method is used to amortize premiums or discounts on the purchase of bonds.

### ***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 and Corporate policy.

### ***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. Current service costs and interest costs are recognized in net income in the current period. Actuarial gains and losses are recognized in OCI in the current period.

The Corporation values its pension benefit plan annually, the most recent valuation is at December 31, 2017. Roll-forward procedures are performed to ensure that the December 31, 2017 valuation is a reliable estimate of the valuation at February 28, 2018.

#### *ii. Other Benefit Plans*

Other benefit plans consist of two post-retirement extended health plans 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. Current service costs and interest costs are recognized in net income in the current period. Actuarial gains and losses are recognized in OCI 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 pre-IFRS Canadian Generally Accepted Accounting Principles (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 for 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.

Reinsurers' share of unpaid claims are recognized when the related gross insurance claim is recognized according to the terms of the relevant reinsurance contracts.

### **Liability Adequacy Test**

At each 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 premium deficiency in unpaid claims.

### **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.

### **Structured Settlements**

In the normal course of tort claims adjudication, the Corporation settles certain long-term claims losses through the purchase of annuities under structured settlement arrangements with life insurance companies. As the Corporation does not retain any interest in the related insurance contract and obtains a legal release from the claimant, any gain or loss on the purchase of the annuity is recognized in the Statement of Operations at the date of purchase and the related claims liabilities are derecognized. While, the Corporation remains exposed to the credit risk that the life insurance companies may fail to fulfill their obligations, management believes this risk to be remote.

### **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, *The Drivers and Vehicles Act* operations 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, Contact Centre statistics, premiums written ratios and net 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 OCI, and included in accumulated other comprehensive income (AOCI) until recognized in the Statement of Operations.

## **Comprehensive Income**

Comprehensive income consists of net income (loss) from operations and other comprehensive income (loss). Changes in unrealized gains and losses on financial assets classified as AFS are recorded in OCI, and included in AOCI until recognized in the Statement of Operations. Actuarial gains and losses on employee future benefits amounts are recorded in OCI and included in AOCI. AOCI 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.



**Deferred Development Costs (Intangible Assets)**

Deferred development costs represent a significant portion of ongoing expenditures related 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**

With respect to preparation of these financial statements, the Appointed Actuary is required to carry out a valuation of the insurance contract 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. The insurance contract 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. Sensitivity of these assumptions and the impact on net insurance contract liabilities and equity are fully disclosed in Note 18.

**Provision for Employee Future Benefits**

The Corporation has a defined benefit pension plan, severance benefit plan and post retirement extended health benefit plans. The determination of expenses and liabilities 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**

Level 3 assets and liabilities would include financial instruments whose values are determined using internal pricing models, discounted cash flow methodologies, or similar techniques that are not based on observable market data, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. See Note 4 for further details of valuation methods and assumptions.

**Future Changes in Accounting Policy and Disclosure**

Certain new standards, interpretations, amendments and improvements to existing standards were issued by The International Accounting Standards Board (IASB) or International Financial Reporting Interpretations Committee (IFRIC) that are mandatory for annual reporting periods beginning on January 1, 2018; or later periods. The standards that may have an impact to the Corporation are:

**IFRS 4 – Insurance Contracts**

In September 2016, IFRS 4 *Insurance Contracts* was amended to address concerns regarding the different effective dates of IFRS 9 *Financial Instruments* and the new insurance contracts standard IFRS 17 *Insurance Contracts*. The amendment provides a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4. Alternatively, the amendment provides an option to permit entities that issue insurance contracts to reclassify, from profit or loss to OCI, the volatility arising from financial assets reclassified as FVTPL under IFRS 9 that were not FVTPL under IAS 39 *Financial Instruments: Recognition and Measurement*.

This amendment is effective for annual periods beginning on or after January 1, 2018. Based on the amendments to IFRS 4, the Corporation meets the criteria to defer IFRS 9 and is currently evaluating the impact that this standard will have on its financial statements.

#### **IFRS 7 – Financial Instruments: Disclosures**

In December 2011, IFRS 7 *Financial Instruments: Disclosures* was amended to require additional financial instrument disclosures upon transition from IAS 39 *Financial Instruments: Recognition and Measurement* to IFRS 9 *Financial Instruments*. The amendments are effective upon adoption of IFRS 9, which is effective for annual periods beginning on or after January 1, 2018. However, in September 2016, IFRS 4 *Insurance Contracts* was amended to provide an option of a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4. Therefore, qualifying entities will have the option to adopt IFRS 9 upon the adoption of IFRS 17 *Insurance Contracts*. The Corporation will qualify for a temporary exemption; thus, the amended IFRS 7 is effective for annual periods beginning on or after January 1, 2021. The Corporation is currently evaluating the impact that this standard will have on its financial statements.

#### **IFRS 9 – Financial Instruments**

IFRS 9 *Financial Instruments* was issued in July 2014 and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 is a three part standard aimed at reducing complexity in reporting financial instruments. The project has been divided into three phases: Phase 1 *Classification and measurement*, Phase 2 *Impairment* and Phase 3 *Hedge accounting*. Phase 1 was issued in November 2009 and amended in October 2010. It requires financial assets to be recorded at amortized cost or fair value depending on the entity's business model for managing the assets and their associated cash flow characteristics. All financial assets are to be measured at fair value on the balance sheet if they are not measured at amortized cost. At initial recognition, an entity may irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Phase 2 was completed in July 2014 and introduced a new expected loss impairment methodology that will result in more timely recognition of impairment losses. Phase 3 was completed in November 2013. This phase replaces the rule-based hedge accounting requirements in IAS 39 to more closely align the accounting with risk management activities.

The standard is effective for annual periods beginning on or after January 1, 2018. However, in September 2016, IFRS 4 *Insurance Contracts* was amended to provide an option of a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4. Therefore, qualifying entities will have the option to adopt IFRS 9 upon the adoption of IFRS 17 *Insurance Contracts*. The Corporation will qualify for a temporary exemption; thus, IFRS 9 is effective for annual periods beginning on or after January 1, 2021. The Corporation is currently evaluating the impact that this standard will have on its financial statements.

Note disclosures that both explain how an entity qualified for the temporary exemption and allow for comparison with other entities applying IFRS 9 will be required during the deferral period. The Corporation is evaluating the impact this will have on the financial statements.

#### **IFRS 15 – Revenue from Contracts with Customers**

IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014 and is intended to replace IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related IFRICs. The standard was issued as a result of an ongoing project to align revenue recognition between IFRS and U.S. Generally Accepted Accounting Principles. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 15 contains a scope exception which excludes insurance contracts within the scope of IFRS 4 *Insurance Contracts* and financial instruments within the scope of IFRS 9 *Financial Instruments*; therefore, this standard will have a limited impact on the Corporation.

**IFRS 16 – Leases**

IFRS 16 *Leases* was issued in January, 2016 and is intended to replace IAS 17, *Leases* and related IFRICs. This standard was issued as a result of a joint project with the U.S. Financial Accounting Standards Board. This standard provides a single lessee accounting model whereby a lessee recognizes a right-of-use asset and a lease liability for all leases. A lessee may elect to apply an exemption to the standard for: leases with a term of 12 months or less that contain no purchase options; or leases where the underlying asset has a low value. This standard is effective for annual periods beginning on or after January 1, 2019. Early application is permitted if IFRS 15 *Revenue from Contracts with Customers* has also been adopted.

**IFRS 17 – Insurance Contracts**

IFRS 17 *Insurance Contracts* was issued in May 2017 and will replace IFRS 4 *Insurance Contracts*. The intent of the standard is to establish consistent recognition, measurement, presentation and disclosure principles to provide relevant and comparable reporting of insurance contracts across jurisdictions.

The standard requires entities to measure insurance contract liabilities as the risk-adjusted present value of the cash flows plus the contractual service margin, which represents the unearned profit the entity will recognize as future service is provided. This is referred to as the general model. Expedients are specified, provided the insurance contracts meet certain conditions. If, at initial recognition or subsequently, the contractual service margin becomes negative, the contract is considered onerous and the excess is recognized immediately in the Statement of Operations. The standard also includes significant changes to the presentation and disclosure of insurance contracts within entities' financial statements.

IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2021. The standard is to be applied retrospectively unless impracticable, in which case a modified retrospective approach or fair value approach is to be used for transition. Early application is permitted where entities have also adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*. The Corporation is currently evaluating the impact that this standard will have on its financial statements.

**IAS 40 – Investment Property**

In December 2016, IAS 40 *Investment Property* was amended to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendments are effective for annual periods beginning on or after January 1, 2018. The Corporation does not expect this amendment to impact the financial statements.

**Annual Improvements**

The annual improvements process is used to make necessary but non-urgent changes to IFRSs that are not included in other projects.

The annual improvement cycle for 2014-2016 was issued in December 2016 by the IASB and included minor amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, and IAS 28 *Investments in Associates and Joint Ventures*. The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018. The Corporation does not expect these amendments to significantly impact the financial statements.

In December 2017, the IASB issued Annual Improvements Cycle 2015-2017, and included minor amendments to IFRS 3, *Business Combinations*, IFRS 11, *Joint Arrangements*, IAS 12, *Income Taxes*, and IAS 23, *Borrowing Costs*. The annual improvements process is used to make necessary but non-urgent changes to IFRS that are not included in other projects. The amendments issued are all effective for annual periods beginning on or after January 1, 2019. The Corporation is evaluating the impact these amendments will have on the consolidated financial statements.

## 4. Investments

Cash consists of cash net of cheques issued in excess of amounts on deposit.

Cash equivalent investments have a total principal amount of \$83.2 million (February 28, 2017 – \$61.5 million) comprised of provincial short-term deposits with effective interest rates of 1.10 per cent (February 28, 2017 – 0.55 per cent), with interest receivable at varying dates.

The Corporation has an unsecured operating line of credit with its principal banker in the amount of \$5.0 million (February 28, 2017 - \$5.0 million). The unsecured operating line of credit remained unutilized at February 28, 2018 (February 28, 2017 – nil).

### Cash and Investments

<b>As at February 28, 2018</b> (in thousands of Canadian dollars)	<b>Financial Instruments</b>			<b>Non-Financial Instruments</b>	<b>Total Carrying Value</b>
	<b>Classified as AFS</b>	<b>Classified as HTM</b>	<b>Classified as FVTPL</b>		
Cash and cash equivalents	<b>89,006</b>	-	-	-	<b>89,006</b>
Bonds					
Federal	-	-	<b>28,133</b>	-	<b>28,133</b>
Manitoba:					
Provincial	-	-	<b>127,637</b>	-	<b>127,637</b>
Municipal	-	<b>27,375</b>	<b>32,455</b>	-	<b>59,830</b>
Schools	-	<b>590,193</b>	-	-	<b>590,193</b>
Other provinces:					
Provincial	-	-	<b>895,322</b>	-	<b>895,322</b>
Municipal	-	-	<b>70,075</b>	-	<b>70,075</b>
Corporations	-	-	<b>115,868</b>	-	<b>115,868</b>
	-	<b>617,568</b>	<b>1,269,490</b>	-	<b>1,887,058</b>
Other investments	<b>1,351</b>	-	-	-	<b>1,351</b>
Infrastructure	-	-	<b>100,085</b>	-	<b>100,085</b>
Equity investments	<b>409,334</b>	-	-	-	<b>409,334</b>
Pooled Real Estate Fund	-	-	<b>263,022</b>	-	<b>263,022</b>
Investments	<b>410,685</b>	<b>617,568</b>	<b>1,632,597</b>	-	<b>2,660,850</b>
Investment property	-	-	-	<b>40,646</b>	<b>40,646</b>
<b>Total</b>	<b>499,691</b>	<b>617,568</b>	<b>1,632,597</b>	<b>40,646</b>	<b>2,790,502</b>

As at February 28, 2017 (in thousands of Canadian dollars)	Financial Instruments			Non-Financial Instruments	Total Carrying Value
	Classified as AFS	Classified as HTM	Classified as FVTPL		
Cash and cash equivalents	73,434	-	-	-	73,434
Bonds					
Federal	-	-	59,310	-	59,310
Manitoba:					
Provincial	-	-	142,556	-	142,556
Municipal	-	10,697	31,741	-	42,438
Schools	-	631,919	-	-	631,919
Other provinces:					
Provincial	-	-	738,625	-	738,625
Municipal	-	-	65,533	-	65,533
Corporations	-	-	59,626	-	59,626
	-	642,616	1,097,391	-	1,740,007
Other investments	1,493	-	-	-	1,493
Infrastructure	-	-	95,010	-	95,010
Equity investments	474,639	-	-	-	474,639
Pooled Real Estate Fund	-	-	233,981	-	233,981
Investments	476,132	642,616	1,426,382	-	2,545,130
Investment property	-	-	-	41,686	41,686
Total	549,566	642,616	1,426,382	41,686	2,660,250

Gross unrealized gains and gross unrealized losses included in AOCI on AFS equity and other investments are comprised as follows:

As at February 28, 2018 (in thousands of Canadian dollars)	Unrealized		
	Book Value	Gains/(Losses)	Fair Value
Equity Investments			
With unrealized gains	254,728	120,541	375,269
With unrealized losses	38,716	(4,651)	34,065
Subtotal – Equity Investments	293,444	115,890	409,334
Other Investments			
With unrealized gains	342	967	1,309
With unrealized losses	58	(16)	42
Subtotal – Other Investments	400	951	1,351
<b>Total AFS Equity and Other Investments</b>	<b>293,844</b>	<b>116,841</b>	<b>410,685</b>

As at February 28, 2017 (in thousands of Canadian dollars)	Unrealized		
	Book Value	Gains/(Losses)	Fair Value
Equity Investments			
With unrealized gains	312,371	137,854	450,225
With unrealized losses	25,851	(1,437)	24,414
Subtotal – Equity Investments	338,222	136,417	474,639
Other Investments			
With unrealized gains	28	1,126	1,154
With unrealized losses	372	(33)	339
Subtotal – Other Investments	400	1,093	1,493
Total AFS Equity and Other Investments	338,622	137,510	476,132

AFS financial assets where the investment's underlying cost is greater than the fair value, the loss has not been recognized in net income either because:

- there is not objective evidence of impairment, or
- the loss is not considered to be significant or prolonged.

## Fair Value Measurement

Financial assets that are measured at fair value are classified by their level within the fair value hierarchy. The fair value hierarchy consists of three levels that are defined on the basis of the type of inputs used to measure fair value. The classification cannot be higher than the lowest level of input that is significant to the measurement:

Level 1 – Fair value is determined based on unadjusted quoted prices of identical assets in active markets. Inputs include prices from exchanges where equity and debt securities are actively traded.

Level 2 – Level 2 valuations utilize inputs other than quoted market prices included in Level 1 that are observable, directly or indirectly, for the asset. These inputs include quoted prices for similar assets in active markets and observable inputs other than quoted prices, such as interest rates and yield curves. The fair values for some Level 2 securities were obtained from a pricing service. Pricing service inputs may include benchmark yields, reported trades, broker/dealer quotes and bid/ask spreads.

Level 3 – Fair value measurements using significant inputs that are not based on observable market data are Level 3. This mainly consists of derivatives and private equity investments. In these cases prices may be determined by internal pricing models utilizing all available financial information, including direct comparison and industry sector data. For some investments, valuations are obtained annually. For periods between valuations, management assesses the validity of the valuation for current reporting purposes.

No investments were transferred between levels in 2018 or 2017.

The following table presents financial instruments measured at fair value in the Statement of Financial Position, classified by level within the fair value hierarchy.

### As at February 28, 2018

(in thousands of Canadian dollars)

	Level 1	Level 2	Level 3
FVTPL financial assets			
Bonds	-	1,255,128	14,362
Infrastructure	-	-	100,085
Pooled real estate	-	263,022	-
Total FVTPL financial assets	-	1,518,150	114,447
AFS financial assets			
Cash and cash equivalents	89,006	-	-
Other investments	-	-	1,351
Equity investments	409,334	-	-
Total AFS financial assets	498,340	-	1,351
<b>Total assets measure at fair value</b>	<b>498,340</b>	<b>1,518,150</b>	<b>115,798</b>

### As at February 28, 2017

(in thousands of Canadian dollars)

	Level 1	Level 2	Level 3
FVTPL financial assets			
Bonds	29,226	1,053,054	15,111
Infrastructure	-	-	95,010
Pooled real estate	-	233,981	-
Total FVTPL financial assets	29,226	1,287,035	110,121
AFS financial assets			
Cash and cash equivalents	73,434	-	-
Other investments	-	-	1,493
Equity investments	474,639	-	-
Total AFS financial assets	548,073	-	1,493
<b>Total assets measure at fair value</b>	<b>577,299</b>	<b>1,287,035</b>	<b>111,614</b>

Fair value measurement of instruments included in Level 3

	FVTPL		AFS	
(in thousands of Canadian dollars)	2018	2017	2018	2017
Balance at March 1	110,121	102,637	1,493	2,115
Total gains/(losses)				
Included in net income (loss)	5,446	(1,134)	-	168
Included in OCI	-	-	(142)	(202)
Purchases	-	13,266	-	-
Sales	-	(4,648)	-	(588)
Return of capital	(1,120)	-	-	-
Balance at February 28	114,447	110,121	1,351	1,493

The fair value of HTM bonds, which include schools and certain municipalities, is based on their carrying value, which approximates fair value. As of February 28, 2018, the fair value of municipal, utilities, schools and hospital bonds held to maturity is \$617.6 million (February 28, 2017 - \$642.6 million).

## Impairment

Impairment losses were based on management's best estimate of whether objective evidence of impairment exists, using available market data and other observable data. Impairment investments included in the Corporation's portfolio include the following:

### As at February 28, 2018

(in thousands of Canadian dollars)	Gross	Impaired	Net
By investment type			
AFS	6,003	(1,078)	4,925
<b>Total</b>	<b>6,003</b>	<b>(1,078)</b>	<b>4,925</b>

### As at February 28, 2017

(in thousands of Canadian dollars)	Gross	Impaired	Net
By investment type			
AFS	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Investment Income (Loss)

(in thousands of Canadian dollars)	2018	2017
Interest income	52,584	48,514
Gain (loss) on sale of FVTPL bonds	(4,045)	1,988
Unrealized gain (loss) on FVTPL bonds	9,363	(23,843)
Unrealized gain on pooled real estate	29,040	16,422
Dividends on infrastructure investments	2,006	1,560
Unrealized gain (loss) on infrastructure investments	6,195	(1,483)
Foreign exchange gain on infrastructure investments	35	-
Dividend income	12,523	14,560
Gain on sale of equities and other investments	29,052	40,169
Gain (loss) on foreign exchange	(92)	308
Income from investment property	3,445	3,050
Impairment of AFS investments	(1,078)	-
Investment management fees	(4,220)	(4,610)
<b>Total</b>	<b>134,808</b>	<b>96,635</b>

Investment income is net of investment management fees paid to the Department of Finance in the amount of \$4.2 million (February 28, 2017 - \$4.6 million). This includes \$2.8 million (February 28, 2017 - \$2.8 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*	Surface Parking Lots	Parkade	Investment Property Under Construction	Total
<b>Cost</b>					
Balance at March 1, 2016	32,296	1,040	10,822	4,511	48,669
Additions	-	-	-	664	664
Balance at February 28, 2017	<b>32,296</b>	<b>1,040</b>	<b>10,822</b>	<b>5,175</b>	<b>49,333</b>
Additions	-	-	-	<b>189</b>	<b>189</b>
Disposals	-	-	-	-	-
Transfers from Property Under Construction	-	-	<b>5,364</b>	<b>(5,364)</b>	-
Balance at February 28, 2018	<b>32,296</b>	<b>1,040</b>	<b>16,186</b>	-	<b>49,522</b>
<b>Accumulated Depreciation</b>					
Balance at March 1, 2016	4,940	-	1,523	-	6,463
Depreciation	963	-	221	-	1,184
Balance at February 28, 2017	<b>5,903</b>	-	<b>1,744</b>	-	<b>7,647</b>
Depreciation	<b>962</b>	-	<b>267</b>	-	<b>1,229</b>
Balance at February 28, 2018	<b>6,865</b>	-	<b>2,011</b>	-	<b>8,876</b>
<b>Carrying Amounts</b>					
At February 28, 2017	26,393	1,040	9,078	5,175	41,686
<b>At February 28, 2018</b>	<b>25,431</b>	<b>1,040</b>	<b>14,175</b>	-	<b>40,646</b>
<b>Fair Value at February 28, 2018</b>	<b>39,200</b>	<b>4,000</b>	<b>26,175</b>	-	<b>69,375</b>

\*Includes the portion of the cityplace building not used for administrative purposes as well as tenant improvements.

## 6. Due From Other Insurance Companies

(in thousands of Canadian dollars)	2018	2017
Balance at March 1	<b>29</b>	45
Claims paid ceded to reinsurers	<b>32</b>	3,579
Less: recovery from reinsurers	<b>(58)</b>	(3,595)
Balance at February 28	<b>3</b>	29

## 7. Deferred Policy Acquisition Costs

(in thousands of Canadian dollars)	2018	2017
Balance at March 1	<b>24,155</b>	28,844
Deferred during the year	<b>118,403</b>	111,749
Expensed during the year	<b>(114,828)</b>	(110,311)
Write-down	<b>(3,003)</b>	(6,127)
Balance at February 28	<b>24,727</b>	24,155

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 <sup>(1)</sup>	Furniture & Equipment <sup>(2)</sup>	Buildings under Finance Lease <sup>(3)</sup>	Property Under Construction <sup>(4)</sup>	Total
<b>Cost</b>					
Balance at March 1, 2016	132,299	31,835	13,451	544	178,129
Additions	75	1,277	-	4,276	5,628
Disposals	-	(1,168)	-	-	(1,168)
Balance at February 28, 2017	<b>132,374</b>	<b>31,944</b>	<b>13,451</b>	<b>4,820</b>	<b>182,589</b>
Additions	<b>109</b>	<b>1,719</b>	-	<b>4,085</b>	<b>5,913</b>
Disposals	<b>(1,887)</b>	<b>(2,161)</b>	-	-	<b>(4,048)</b>
Transfers from Property Under Construction	<b>6,968</b>	-	-	<b>(6,968)</b>	-
<b>Balance at February 28, 2018</b>	<b>137,564</b>	<b>31,502</b>	<b>13,451</b>	<b>1,937</b>	<b>184,454</b>
<b>Accumulated Depreciation</b>					
Balance at March 1, 2016	33,405	27,085	1,987	-	62,477
Disposals	-	(1,140)	-	-	(1,140)
Depreciation	3,094	1,760	339	-	5,193
Balance at February 28, 2017	<b>36,499</b>	<b>27,705</b>	<b>2,326</b>	-	<b>66,530</b>
Disposals	<b>(1,681)</b>	<b>(2,122)</b>	-	-	<b>(3,803)</b>
Depreciation	<b>3,095</b>	<b>1,542</b>	<b>336</b>	-	<b>4,973</b>
<b>Balance at February 28, 2018</b>	<b>37,913</b>	<b>27,125</b>	<b>2,662</b>	-	<b>67,700</b>
<b>Carrying Amounts</b>					
At February 28, 2017	95,875	4,239	11,125	4,820	116,059
<b>At February 28, 2018</b>	<b>99,651</b>	<b>4,377</b>	<b>10,789</b>	<b>1,937</b>	<b>116,754</b>

(1) Includes land, land improvements, leasehold improvements, buildings and building components: elevators, escalators, HVAC systems, roofing systems.

(2) Includes furniture, equipment, computer equipment, vehicles and demountable wall systems.

(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 modifying Plessis Road, Pembina and Brandon locations which began in 2015/16.

## 9. Deferred Development Costs

(in thousands of Canadian dollars)		Internally Developed Intangible Assets
<b>Cost</b>		
Balance at March 1, 2016		170,669
Additions		27,925
Balance at February 28, 2017		<b>198,594</b>
Additions		<b>20,710</b>
Impairments		<b>(20,506)</b>
<b>Balance at February 28, 2018</b>		<b>198,798</b>
<b>Accumulated Depreciation</b>		
Balance at March 1, 2016		92,239
Amortization		16,859
Balance at February 28, 2017		<b>109,098</b>
Amortization		<b>20,757</b>
Impairments		<b>(248)</b>
<b>Balance at February 28, 2018</b>		<b>129,607</b>
<b>Carrying Amounts</b>		
At February 28, 2017		89,496
<b>At February 28, 2018</b>		<b>69,191</b>

Deferred development costs of \$20.4 million (February 28, 2017 - \$46.7 million) have not yet been put into use and are currently not being amortized. Impairments of \$20.5 million (February 28, 2017 - nil) were recognized during the year and have been recorded in claims expense, loss prevention/road safety expense and operating expense on the Statement of Operations.

## 10. Due to Other Insurance Companies

(in thousands of Canadian dollars)	2018	2017
Balance at March 1	<b>173</b>	178
Change in reinsurance ceded premiums written less installment payments	<b>5</b>	-
Change in amounts received as collateral for reinsurers' share of unpaid claims	<b>(7)</b>	(5)
<b>Balance at February 28</b>	<b>171</b>	173

## 11. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are comprised of the following:

(in thousands of Canadian dollars)	2018	2017
Due to the Province of Manitoba	<b>11,972</b>	11,123
Payroll	<b>4,006</b>	3,904
Broker commissions	<b>6,229</b>	6,121
Provision for fleet rebates	<b>15,533</b>	15,642
International Registration Program payable to other jurisdictions	<b>5,789</b>	8,107
Other payables and accrued liabilities	<b>25,688</b>	28,154
<b>Balance at February 28</b>	<b>69,217</b>	73,051

## 12. Financing Lease Obligation

The Service Centre built on land in Winnipeg at 1284 Main Street and the land on which it is built 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:

(in thousands of Canadian dollars with the exception of interest rates)	2018	2017
Interest rate	6.70%	6.70%
Interest rate expense for the year	278	284
Financing lease obligations at February 28	4,092	4,189
The minimum lease payments are as follows:		
	Present Value of	
	Minimum Lease Payments	Minimum Lease Payments
(in thousands of Canadian dollars)	2018	2017
Not later than one year	375	362
Later than one year and not later than five years	1,556	1,343
Later than five years	5,054	3,591
Total	6,985	5,926

## 13. Operating Leases

### As A Lessee:

The Corporation leases offices in Winnipeg and Killarney. These leases are classified as operating leases in accordance with IAS 17, *Leases*. The lease terms for the offices are all under ten years. Also classified as an operating lease is the land portion of the Service Centre located at 1284 Main Street in Winnipeg. 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)	2018	2017
Not later than one year	397	632
Later than one year and not later than five years	693	964
Later than five years	1,308	1,508
Total	2,398	3,104

During the year ended February 28, 2018, \$635 thousand was recognized as an expense for operating leases (February 28, 2017 - \$750 thousand) in the Statement of Operations.

### As A Lessor:

The Corporation owns the cityplace property located in downtown Winnipeg including the cityplace building, one adjacent parking lot 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 per cent of the building for administrative purposes and leases out the remaining 40 per cent. Tenant improvements are 100 per cent investment property and therefore do not factor into the calculation. 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)	2018	2017
Not later than one year	3,980	3,766
Later than one year and not later than five years	7,251	8,101
Later than five years	6,283	6,852
Total	17,514	18,719

During the year ended February 28, 2018, income from investment property includes gross rental income from operating leases of \$14.3 million (February 28, 2017 - \$13.8 million) and gross rental expenses pertaining to operating leases of \$10.9 million (February 28, 2017 - \$10.8 million). Included in rental income is income contingent on retail sales of \$220 thousand (February 28, 2017 - \$202 thousand).

#### 14. Unearned Premiums and Fees

(in thousands of Canadian dollars)	Gross	2018 Reinsurers' Share	Net
Unearned premiums			
Balance at March 1	538,362	117	538,245
Premiums written	1,247,731	15,381	1,232,350
Premiums earned	(1,207,123)	(15,365)	(1,191,758)
Balance at February 28	578,970	133	578,837
Prepaid premiums	41,016	-	41,016
Unearned fees	8,851	-	8,851
<b>Balance at February 28</b>	<b>628,837</b>	<b>133</b>	<b>628,704</b>

(in thousands of Canadian dollars)	Gross	2017 Reinsurers' Share	Net
Unearned premiums			
Balance at March 1	514,956	115	514,841
Premiums written	1,169,044	15,624	1,153,420
Premiums earned	(1,145,638)	(15,622)	(1,130,016)
Balance at February 28	538,362	117	538,245
Prepaid premiums	40,106	-	40,106
Unearned fees	8,158	-	8,158
Balance at February 28	586,626	117	586,509

#### 15. Provision for Employee Current Benefits

The provision for employee current benefits includes accrued vacation and sick leave liabilities.

(in thousands of Canadian dollars)	2018	2017
Balance at March 1	22,750	22,685
Provisions incurred	15,654	15,333
Payments	(16,031)	(15,268)
Balance at February 28	22,373	22,750

#### 16. Provision for Employee Future Benefits

The Corporation has a defined benefit pension plan, severance benefit plan and 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, 2017, with the next scheduled actuarial valuation being December 31, 2018.

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. The weighted average duration of the defined benefit obligation is 15.4 years (February 28, 2017 – 15.6 years). Results from the most recent actuarial valuations, projected to February 28, 2018 and the corresponding economic assumptions are as follows:

### Assumptions:

(in thousands of Canadian dollars)	Pension Benefit Plan		Other Benefit Plans	
	2018	2017	2018	2017
Discount rate	<b>3.43%</b>	3.89%	<b>3.43%</b>	3.89%
Inflation rate	<b>2.00%</b>	2.20%		
Expected salary increase	<b>1.50%</b>	2.00%		
Expected health care cost increase (out of scope)			<b>5.00%</b>	4.90%
Expected health care cost increase (in scope)			<b>2.00%</b>	2.20%

### Change in benefit obligations:

(in thousands of Canadian dollars)	Pension Benefit Plan		Other Benefit Plans	
	2018	2017	2018	2017
Balance at March 1	<b>353,052</b>	328,390	<b>52,006</b>	49,727
Current service cost	<b>14,232</b>	13,409	<b>4,801</b>	4,880
Interest cost	<b>13,466</b>	13,656	<b>946</b>	912
Benefits paid	<b>(15,660)</b>	(12,892)	<b>(4,945)</b>	(3,513)
Remeasurement losses recognized in Other Comprehensive Income	<b>27,603</b>	10,489	<b>957</b>	-
Balance at February 28	<b>392,693</b>	353,052	<b>53,765</b>	52,006
Employee contribution for the year	<b>10,236</b>	10,202	-	-

### 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, equal to the obligation, which is 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.

### Benefit Plan Expenses

(in thousands of Canadian dollars)	Pension Benefit Plan		Other Benefit Plans	
	2018	2017	2018	2017
Current service cost	<b>14,232</b>	13,409	<b>4,801</b>	4,880
Interest cost	<b>13,466</b>	13,656	<b>946</b>	912
Total	<b>27,698</b>	27,065	<b>5,747</b>	5,792

## Sensitivity Analysis

Based on the December 31, 2017 actuarial valuation, changes to the actuarial assumptions would change the benefit obligation as follows:

### **Pension Benefit Plan**

Gain due to discount rate increasing from 3.43% to 4.43% (plus 1.00%)	(62,723)
Loss due to discount rate decreasing from 3.43% to 2.43% (minus 1.00%)	82,237
Loss due to mortality life expectancy at age 65 up one year	6,941
Loss due to inflation indexing (2/3 <sup>rd</sup> COLA) increasing 1.00%	35,842
Gain due to inflation indexing (2/3 <sup>rd</sup> COLA) decreasing 1.00%	(31,709)

### **Other Benefit Plans**

Gain due to discount rate increasing from 3.43% to 4.43% (plus 1.00%)	(4,693)
Loss due to discount rate decreasing from 3.43% to 2.43% (minus 1.00%)	6,275
Loss due to mortality life expectancy at age 65 up one year	600
Loss due to health care cost inflation indexing increasing 1.00%	6,129
Gain due to health care cost inflation indexing decreasing 1.00%	(4,688)

Expected maturity analysis of undiscounted pension benefit and other benefit plans:

(in thousands of Canadian dollars)	<b>Less than a year</b>	<b>Between 1 &amp; 2 years</b>	<b>Between 2 &amp; 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Pension benefit plan	<b>11,120</b>	<b>12,407</b>	<b>44,946</b>	<b>635,237</b>	<b>703,710</b>
Other benefit plans	<b>491</b>	<b>554</b>	<b>2,042</b>	<b>48,876</b>	<b>51,963</b>
<b>At December 31, 2017</b>	<b>11,611</b>	<b>12,961</b>	<b>46,988</b>	<b>684,113</b>	<b>755,673</b>

(in thousands of Canadian dollars)	Less than a year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years	Total
Pension benefit plan	10,173	11,437	41,889	622,866	686,365
Other benefit plans	448	511	1,912	48,751	51,622
At December 31, 2016	10,621	11,948	43,801	671,617	737,987

## 17. Insurance Contracts

The following is a summary of the insurance contract provisions and related reinsurance assets as at February 28, 2018 and 2017.

	<b>2018</b>		
	<b>Gross</b>	<b>Reinsurance Ceded</b>	<b>Net</b>
(in thousands of Canadian dollars)			
Insurance Contract Provisions			
Outstanding case reserves	<b>1,314,260</b>	<b>1,244</b>	<b>1,313,016</b>
Provision for incurred but not reported claims	<b>417,661</b>	<b>1,160</b>	<b>416,501</b>
Provision for internal loss adjusting expenses	<b>180,320</b>	<b>-</b>	<b>180,320</b>
Effect of discounting	<b>(244,684)</b>	<b>(113)</b>	<b>(244,571)</b>
Provision for adverse deviation	<b>236,332</b>	<b>161</b>	<b>236,171</b>
Premium deficiency	<b>8,845</b>	<b>-</b>	<b>8,845</b>
Provision for Unpaid Claims	<b>1,912,734</b>	<b>2,452</b>	<b>1,910,282</b>
Provision for Unearned Premiums (Note 14)	<b>578,970</b>	<b>133</b>	<b>578,837</b>
<b>Total Insurance Contract Provisions</b>	<b>2,491,704</b>	<b>2,585</b>	<b>2,489,119</b>

	<b>2017</b>		
	<b>Gross</b>	<b>Reinsurance Ceded</b>	<b>Net</b>
(in thousands of Canadian dollars)			
Insurance Contract Provisions			
Outstanding case reserves	1,222,499	646	1,221,853
Provision for incurred but not reported claims	455,728	1,345	454,383
Provision for internal loss adjusting expenses	183,506	-	183,506
Effect of discounting	(224,572)	(180)	(224,392)
Provision for adverse deviation	256,778	160	256,618
Premium deficiency	6,844	-	6,844
Provision for Unpaid Claims	1,900,783	1,971	1,898,812
Provision for Unearned Premiums (Note 14)	538,362	117	538,245
<b>Total Insurance Contract Provisions</b>	<b>2,439,145</b>	<b>2,088</b>	<b>2,437,057</b>

The following is a summary of the insurance contract provisions and related reinsurance assets by line of business as at February 28, 2018 and 2017.

	<b>2018</b>		
	<b>Gross</b>	<b>Reinsurance Ceded</b>	<b>Net</b>
(in thousands of Canadian dollars)			
Insurance Contract Provisions			
Basic	<b>2,278,168</b>	<b>1,209</b>	<b>2,276,959</b>
Extension	<b>105,133</b>	<b>35</b>	<b>105,098</b>
Special Risk Extension	<b>107,910</b>	<b>1,293</b>	<b>106,617</b>
Total undiscounted	<b>2,491,211</b>	<b>2,537</b>	<b>2,488,674</b>
Discounting with Provision for Adverse Deviation and premium deficiency	<b>493</b>	<b>48</b>	<b>445</b>
<b>Total Insurance Contract Provisions</b>	<b>2,491,704</b>	<b>2,585</b>	<b>2,489,119</b>

	<b>2017</b>		
	<b>Gross</b>	<b>Reinsurance Ceded</b>	<b>Net</b>
(in thousands of Canadian dollars)			
Basic	2,189,334	611	2,188,723
Extension	103,373	35	103,338
Special Risk Extension	107,388	1,462	105,926
Total undiscounted	2,400,095	2,108	2,397,987
Discounting with Provision for Adverse Deviation and premium deficiency	39,050	(20)	39,070
<b>Total Insurance Contract Provisions</b>	<b>2,439,145</b>	<b>2,088</b>	<b>2,437,057</b>

## 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 per cent 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 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 then 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 market value weighted yield for the Corporation's bond portfolio as at the end of the fiscal year; and
- 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**

### ***Change in Discount Rate***

The previously selected discount rate, determined based on the average duration weighted yield for the Corporation's bond portfolio, decreased by 7 basis points, from 3.39 per cent to 3.32 per cent, between the February 28, 2017 valuation and the February 28, 2018 valuation. The decrease in the selected discount rate increased the discounted net claim liabilities by \$13.0 million and ILAE provision by \$1.4 million.

### ***Change in Loss Development Factors***

The loss development factors for all coverages are reviewed and revised to reflect an additional year of actual losses. The aggregate effect of all revisions to the selected loss development factors is a decrease in the discounted net claim liabilities of \$41.0 million and ILAE provision of \$7.4 million.

### ***Change in Selected Incurred But Not Reported***

In the February 28, 2017 valuation, for both Basic Accident Benefits Weekly Indemnity and Accident Benefits Other (Indexed), the IBNR for the four most recent years were selected as the higher of the indicated IBNR using the incurred Bornheutter-Ferguson method and the paid Bornheuttter-Ferguson method. For the February, 28, 2018 valuation, this "higher of" method was applied to only the three most recent years. The change was made to recognize the change in reserving process for long-term Personal Injury Protection Plan (PIPP) claims older than 24 months.

The change in the selected IBNR decreased the discounted net claim liabilities by \$25.2 million and ILAE provision by \$4.6 million.

### ***Change in Claims Margin for Adverse Deviation***

The claims margin for adverse deviation (MFAD) are reduced for Basic Accident Benefits Weekly Indemnity and Basic Accident Benefits Other (Indexed). This change was made to recognize the change in reserving process for long-term PIPP claims, which increased the adequacy of case reserves for these claims and decreased the risk of being under reserved.

The change in the claims MFAD decreased the discounted net claim liabilities by \$26.9 million and ILAE provision by \$2.9 million.

### ***Change in ILAE Ratio***

The ILAE ratios for all lines of business are reviewed and revised to reflect recent indications. The aggregate effect of all revisions to the ILAE ratios is a decrease in the ILAE provision of \$0.6 million.

### ***Change in the Basis for Determining the Discount Rate***

The discount rate, previously determined based on the average duration weighted yield for the Corporation's bond portfolio, is now determined based on the market value weighted yield for the Corporation's bond portfolio. The change in the basis for determining the discount rate increased the discount rate by 15 basis points from 3.32 per cent to 3.47 per cent as of the February 28, 2018 valuation. This change was made to reduce the mismatch between changes in the Corporation's assets and liabilities resulting from changes in market yields. The change in the basis for determining the discount rate decreased the discounted net claim liabilities by \$26.0 million and the ILAE provision by \$2.7 million.

The provision for unpaid claims, including adjustment expenses, by major claims category includes:

**Balance at February 28, 2018**

(in thousands of Canadian dollars)	<b>Gross</b>	<b>Reinsurers' Share</b>	<b>Net</b>
Automobile Insurance Division			
Liability	<b>1,712,982</b>	<b>2,073</b>	<b>1,710,909</b>
Physical Damage	<b>197,339</b>	<b>379</b>	<b>196,960</b>
	<b>1,910,321</b>	<b>2,452</b>	<b>1,907,869</b>
Discontinued Operations-Personal/Commercial Lines	<b>2,413</b>	<b>-</b>	<b>2,413</b>
<b>Total</b>	<b>1,912,734</b>	<b>2,452</b>	<b>1,910,282</b>

**Balance at February 28, 2017**

(in thousands of Canadian dollars)	<b>Gross</b>	<b>Reinsurers' Share</b>	<b>Net</b>
Automobile Insurance Division			
Liability	1,685,173	1,610	1,683,563
Physical Damage	213,169	361	212,808
	1,898,342	1,971	1,896,371
Discontinued Operations-Personal/Commercial Lines	2,441	-	2,441
<b>Total</b>	<b>1,900,783</b>	<b>1,971</b>	<b>1,898,812</b>

## Changes in Unpaid Claims and ILAE Provision

### **Gross**

(in thousands of Canadian dollars)	2018	2017
Discounted unpaid claims at March 1	1,710,433	1,595,358
Effect of discounting and Provision for Adverse Deviation	(32,206)	(36,978)
Undiscounted unpaid claims at March 1	1,678,227	1,558,380
Ultimate claims for current accident year	850,714	849,115
Payment on current accident year claims	(518,862)	(520,286)
Change in ultimate claims from prior accident years	33,566	75,360
Payments on prior accident year claims	(311,724)	(284,342)
Undiscounted unpaid claims at February 28	1,731,921	1,678,227
Effect of discounting and Provision for Adverse Deviation	(8,352)	32,206
Premium deficiency	8,845	6,844
Discounted unpaid claims at February 28	1,732,414	1,717,277
ILAE provision	180,320	183,506
Total unpaid claims provision	1,912,734	1,900,783

### **Reinsurance Ceded**

(in thousands of Canadian dollars)	2018	2017
Discounted unpaid claims at March 1	1,971	6,445
Effect of discounting and Provision for Adverse Deviation	20	(302)
Undiscounted unpaid claims at March 1	1,991	6,143
Ultimate claims for current accident year	377	394
Change in ultimate claims from prior accident years	67	(1,241)
Payments on prior accident year claims	(31)	(3,305)
Undiscounted unpaid claims at February 28	2,404	1,991
Effect of discounting and Provision for Adverse Deviation	48	(20)
Discounted unpaid claims at February 28	2,452	1,971
Total unpaid claims provision	2,452	1,971

### **Net of Reinsurance Ceded**

(in thousands of Canadian dollars)	2018	2017
Discounted unpaid claims at March 1	1,708,462	1,588,913
Effect of discounting and Provision for Adverse Deviation	(32,226)	(36,676)
Undiscounted unpaid claims at March 1	1,676,236	1,552,237
Ultimate claims for current accident year	850,337	848,721
Payment on current accident year claims	(518,862)	(520,286)
Change in ultimate claims from prior accident years	33,499	76,601
Payments on prior accident year claims	(311,693)	(281,037)
Undiscounted unpaid claims at February 28	1,729,517	1,676,236
Effect of discounting and Provision for Adverse Deviation	(8,400)	32,226
Premium deficiency	8,845	6,844
Discounted unpaid claims at February 28	1,729,962	1,715,306
ILAE provision	180,320	183,506
Total unpaid claims provision	1,910,282	1,898,812

According to accepted actuarial practice, the discounted net claim liabilities include a provision for adverse deviation (PfAD) of \$236.2 million (February 28, 2017 – \$256.6 million). This is comprised of a claims development PfAD of \$162.5 million (February 28, 2017 – \$184.7 million), an interest rate PfAD of \$73.6 million (February 28, 2017 – \$71.8 million), and a reinsurance PfAD of \$0.1 million (February 28, 2017 – \$0.1 million).

Net claims incurred and adjustment expenses included no losses from catastrophes in the current fiscal year (February 28, 2017 – 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 28, 2018 are a decrease of \$0.03 million (February 28, 2017 – \$0.03 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

The following table represents the development of claims on the gross basis as of February 28, 2018.

<b>Gross</b>	Accident Year										
(in thousands of Canadian dollars)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estimate of ultimate claims costs for the most recent ten years:											
At end of accident year	605,403	641,528	633,831	624,935	662,672	747,160	695,156	797,589	849,115	850,714	
One year later	591,749	611,577	627,341	628,331	688,939	749,198	702,512	809,487	868,568		
Two years later	576,027	608,583	635,392	648,565	693,249	757,375	710,390	824,666			
Three years later	556,757	610,837	633,448	641,615	686,140	765,209	692,855				
Four years later	576,287	604,017	643,939	650,484	693,530	750,567					
Five years later	578,040	606,305	649,095	655,895	713,438						
Six years later	580,572	606,027	656,068	661,569							
Seven years later	580,306	609,801	655,442								
Eight years later	578,929	612,975									
Nine years later	580,291										
Current estimate of cumulative claims cost	580,291	612,975	655,442	661,569	713,438	750,567	692,855	824,666	868,568	850,714	7,211,085
Cumulative payments to date	525,340	552,112	587,240	584,491	624,241	673,503	610,133	700,663	711,647	518,862	6,088,232
Effect of discounting and PfAD on above	(880)	(1,064)	(1,543)	(1,786)	(2,233)	(1,761)	(1,288)	(1,595)	2,035	12,561	2,446
Discounted gross unpaid claims in respect of years prior to 2009											595,857
Gross claims relating to Discontinued General Insurance											2,413
ILAE provision											180,320
Premium deficiency											8,845
Total gross unpaid claims											1,912,734
Current estimate of surplus (deficiency)	25,112	28,553	(21,611)	(36,634)	(50,766)	(3,407)	2,301	(27,077)	(19,453)	-	
Percentage surplus (deficiency) of initial gross reserve	4.1%	4.5%	(3.4%)	(5.9%)	(7.7%)	(0.5%)	0.3%	(3.4%)	(2.3%)	0.0%	

The following table represents the development of claims on the net of reinsurance basis as of February 28, 2018.

<b><i>Net of Reinsurance Ceded</i></b>	<b>Accident Year</b>										
(in thousands of Canadian dollars)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estimate of ultimate claims costs for the most recent ten years:											
At end of accident year	604,932	618,906	633,302	624,467	662,195	744,364	694,710	797,164	848,721	850,337	
One year later	591,300	590,027	626,998	628,030	688,605	746,019	702,227	809,187	868,299		
Two years later	575,765	586,460	635,164	648,282	693,029	754,034	710,206	824,488			
Three years later	556,562	590,448	633,271	641,356	685,992	761,918	692,739				
Four years later	576,148	583,748	643,834	649,573	693,439	747,372					
Five years later	577,951	585,925	649,020	655,032	713,384						
Six years later	580,511	585,671	656,020	660,742							
Seven years later	580,261	589,466	655,184								
Eight years later	578,902	592,661									
Nine years later	580,281										
Current estimate of cumulative claims cost	580,281	592,661	655,184	660,742	713,384	747,372	692,739	824,488	868,299	850,337	7,185,487
Cumulative payments to date	525,340	531,813	587,241	584,062	624,241	670,591	610,132	700,662	711,647	518,863	6,064,592
Effect of discounting and PfAD on above	(880)	(1,064)	(1,558)	(1,799)	(2,233)	(1,773)	(1,288)	(1,593)	2,042	12,568	2,422
Discounted net unpaid claims in respect of years prior to 2009											595,387
Net claims relating to Discontinued General Insurance											2,413
ILAE provision											180,320
Premium deficiency											8,845
Total net unpaid claims											1,910,282
Current estimate of surplus (deficiency)	24,651	26,245	(21,882)	(36,275)	(51,189)	(3,008)	1,971	(27,324)	(19,578)	-	
Percentage surplus (deficiency) of initial gross reserve	4.1%	4.2%	(3.5%)	(5.8%)	(7.7%)	(0.4%)	0.3%	(3.4%)	(2.3%)	0.0%	

There is uncertainty inherent in the estimation process. The actual amount of ultimate claims can only be ascertained once all claims are closed. The unpaid claim liabilities for 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 per cent increase in net PIPP claim liabilities is equal to approximately \$60.5 million (February 28, 2017 - \$58.2 million). Such a change could occur if the actual future development of lifetime PIPP claimants was higher than expected.

The discount rate for the Corporation's claim liabilities is calculated based on the yield of the Corporation's fixed income portfolio. Approximately two thirds of the fixed income portfolio is composed of marketable bonds and the changes in the marketable bond yield have a direct impact on the estimated value of the Corporation's unpaid claim liabilities. A 1.00 per cent decrease in marketable bond interest rates would increase claim liabilities by approximately \$144.1 million (February 28, 2017 - \$161.5 million), while a 1.00 per cent decrease in the claim liabilities discount rate (equivalent to approximately 1.35 per cent decrease in marketable bond interest rates) would increase claim liabilities by approximately \$196.5 million (February 28, 2017 - \$180.6 million). However, this impact would be largely offset by gains on the Corporation's fixed income portfolio as described in the Interest Rate Risk section of Note 28.

## 19. Reinsurance

The Corporation follows the practice of obtaining reinsurance to limit its exposure to losses. Under agreements in effect at February 28, 2018, these reinsurance agreements limit the Corporation's exposure on a casualty basis to a maximum amount of \$5.0 million (February 28, 2017 - \$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 retained maximum of \$15.0 million (February 28, 2017 - \$15.0 million). These arrangements protect the Corporation against losses up to \$266.7 million (February 28, 2017 - \$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. 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 Personal Identification Card Fund (PICF) is an appropriation from the non-Basic lines of business Retained Earnings. The PICF was established to defray costs of the project to create a personal identification card that incorporates Manitoba Health card information. The Corporation initially transferred \$3.0 million from the non-Basic lines of business Retained Earnings. This project was closed in the 2016/17 fiscal year and the PICF was fully depleted.

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 consist of Extension and Special Risk Extension (SRE) lines of business and *The Drivers and Vehicles Act* operations.

The Basic Rate Stabilization Reserve (RSR) relates to the 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.

The Corporation's Board of Directors' current minimum target level for total equity (which includes Basic retained earnings and the Basic portion of AOCI) is \$201.0 million (February 28, 2017 - \$181.0 million) based on the 2017 Basic Insurance Dynamic Capital Adequacy Test (DCAT) report. In this report, the Corporation's Chief Actuary concluded that a minimum total equity of \$201.0 million would be required for Basic to achieve a satisfactory future financial condition. A total equity level lower than \$201.0 million results in a "not satisfactory" opinion because there were plausible adverse scenarios at the 1-in-40 year probability level where liabilities exceed assets.

In Order No. 130/17, the Public Utilities Board approved a lower DCAT-based RSR target (for total equity) of \$180.0 million and the continued use of the DCAT methodology for this purpose. However, the Corporation's Board of Directors continues to rely on the Chief Actuary's minimum target of \$201.0 million as the Public Utilities Board estimate does "not reflect best estimate expectations", as noted on page 78 of Order No. 130/17. Further, a target of \$180.0 million is not sufficient to achieve satisfactory financial conditions as calculated by the Corporation's Chief Actuary.

For the upper (maximum) RSR target for total equity, the Corporation proposed the continued use of the 100 per cent Minimum Capital Test (MCT) ratio in the 2018 General Rate Application. The MCT is a capital adequacy test used by nearly all property and casualty insurers in Canada, and at the 100 per cent level, capital available is equal to capital required. The Corporation is the only insurer in Canada that has proposed the use of 100 per cent MCT as a maximum capital target. Other public insurers have utilized 100 per cent MCT as a target capital amount or a minimum capital amount, while federally regulated private insurers have a target capital ratio (supervisory target) of 150 per cent MCT, and a minimum internal target which would be set greater than the 150 per cent supervisory target. In 2017, the Public Utilities Board set the maximum RSR target for total equity at \$325 million, which is equivalent to an MCT ratio of approximately 70 per cent.

The Corporation's Board of Directors' current target level for Extension total equity (Retained Earnings and Extension's portion of AOCI) is \$64.0 million (February 28, 2017 - \$67.0 million) based on the 2017 Extension Minimum Capital Test (MCT) report. Based on this target, the Corporation's Chief Actuary has concluded that the future financial condition of this line of business is satisfactory. The Corporation is in compliance with this target.

The Corporation's Board of Directors' current target level of \$65.0 million (February 28, 2017 - \$65.0 million) for SRE total equity (Retained Earnings and SRE's portion of AOCI) is based on the 2017 SRE MCT report. Based on this target, the Corporation's Chief Actuary has concluded that the future financial condition of this line of business is satisfactory. The Corporation is in compliance with this target.



The below charts depict the components of Retained Earnings.

### Basic

(in thousands of Canadian dollars)	Rate Stabilization Reserve (RSR)	Retained Earnings (B-RE)	Total
Balance as at March 1, 2016	194,497	-	194,497
Net loss from operations for the year	-	(123,070)	(123,070)
Transfer between RSR & B-RE	(123,070)	123,070	-
Transfer between NB-RE & RSR	27,824	-	27,824
Balance as at February 28, 2017	<b>99,251</b>	-	<b>99,251</b>
Net income from operations for the year	-	<b>34,424</b>	<b>34,424</b>
Transfer between RSR & B-RE	<b>34,424</b>	<b>(34,424)</b>	-
Transfer between NB-RE & RSR	<b>37,300</b>	-	<b>37,300</b>
Balance as at February 28, 2018	<b>170,975</b>	-	<b>170,975</b>

### Non-Basic

(in thousands of Canadian dollars)	Capital Reserve (NB-CR)	Retained Earnings (NB-RE)	Personal Identification Card Fund (PICF)	Total
Balance as at March 1, 2016	121,000	29,343	1,896	152,239
Net income from operations for the year	-	37,866	-	37,866
Transfer between NB-CR & NB-RE	11,000	(11,000)	-	-
Transfer between NB-RE & RSR	-	(27,824)	-	(27,824)
Transfer between NB-RE & PICF	-	1,896	(1,896)	-
Balance as at February 28, 2017	<b>132,000</b>	<b>30,281</b>	-	<b>162,281</b>
Net income from operations for the year	-	<b>56,652</b>	-	<b>56,652</b>
Transfer between NB-CR & NB-RE	<b>(3,000)</b>	<b>3,000</b>	-	-
Transfer between NB-RE & RSR	-	<b>(37,300)</b>	-	<b>(37,300)</b>
Balance as at February 28, 2018	<b>129,000</b>	<b>52,633</b>	-	<b>181,633</b>

### Total

(in thousands of Canadian dollars)	Total
Balance as at March 1, 2016	346,736
Net loss from operations for the year	(85,204)
Transfer between RSR & B-RE	-
Transfer between NB-CR & NB-RE	-
Transfer between NB-RE & RSR	-
Transfer between NB-RE & PICF	-
Balance as at February 28, 2017	<b>261,532</b>
Net income from operations for the year	<b>91,076</b>
Transfer between RSR & B-RE	-
Transfer between NB-CR & NB-RE	-
Transfer between NB-RE & RSR	-
Balance as at February 28, 2018	<b>352,608</b>

(in thousands of Canadian dollars)	2018	2017
RSR before transfer from Non-Basic Retained Earnings (NB-RE)	<b>133,675</b>	71,427
AOCI-Basic (Note 21)	<b>39,870</b>	81,749
	<b>173,545</b>	153,176
Transfer from NB-RE to RSR	<b>37,300</b>	27,824
Basic Target based on total equity	<b>210,845</b>	181,000

## 21. Accumulated Other Comprehensive Income

AOCI reflects the net unrealized gain or loss on financial assets classified as AFS and net actuarial gain (loss) on employee future benefits. Changes in AOCI by type of asset are presented below.

(in thousands of Canadian dollars)	<b>Equity Investments</b>	<b>Other Investments</b>	<b>Total AOCI</b>
Balance at March 1, 2016	73,050	(29,823)	43,227
Items that will not be reclassified to income			
Remeasurement of employee future benefits	-	(10,489)	(10,489)
Items that will be reclassified to income			
Unrealized gains (losses) on AFS assets	103,368	(300)	103,068
Reclassification of net realized losses related to AFS assets	(40,001)	(168)	(40,169)
Balance at February 28, 2017	<b>136,417</b>	<b>(40,780)</b>	<b>95,637</b>
Items that will not be reclassified to income			
Remeasurement of employee future benefits	-	(28,560)	(28,560)
Items that will be reclassified to income			
Unrealized gains (losses) on AFS assets	<b>7,447</b>	<b>(143)</b>	<b>7,304</b>
Reclassification of net realized losses related to AFS assets	<b>(27,974)</b>	<b>-</b>	<b>(27,974)</b>
Balance at February 28, 2018	<b>115,890</b>	<b>(69,483)</b>	<b>46,407</b>
<hr/>			
(in thousands of Canadian dollars)		<b>2018</b>	2017
Basic AOCI at February 28		<b>39,870</b>	81,749
Non-Basic AOCI at February 28		<b>6,537</b>	13,888
Total AOCI at February 28		<b>46,407</b>	95,637

## 22. Service Fees and Other Revenue

(in thousands of Canadian dollars)	<b>2018</b>	2017
Transaction fees	<b>8,465</b>	8,170
Time payment fees	<b>3,019</b>	2,946
Time payment interest	<b>17,916</b>	16,750
Late payment fees	<b>1,033</b>	927
Dishonoured payment fees	<b>1,140</b>	1,184
Identity card/Enhanced identity card fees	<b>436</b>	407
Other miscellaneous revenue	<b>2,178</b>	1,163
Total	<b>34,187</b>	31,547

## 23. The Drivers and Vehicles Act Operations Recovery

Under *The Drivers and Vehicles Act* (DVA), the Corporation is responsible for DVA operations pertaining to driver safety, vehicle registration and driver licensing, including all related financial, administrative and data processing services.

The Province of Manitoba provides funding to the Corporation to defray the cost borne by the Corporation for DVA operations. The annual Province of Manitoba payments to the Corporation, beginning April 1, 2016, is \$29.3 million per year. Beginning April 1, 2017, the government increased its payments to the Corporation to \$30.2 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)	<b>2018</b>	2017
Vehicle registration fees	<b>188,953</b>	185,512
Driver licensing fees	<b>24,988</b>	24,481
Total	<b>213,941</b>	209,993

## 24. Net Income (Loss) From Operations

The lines of business reported net income (loss) from operations is as follows:

(in thousands of Canadian dollars)	2018	2017
Basic insurance	<b>34,424</b>	(123,070)
Extension insurance	<b>44,922</b>	37,988
Special risk extension insurance	<b>10,886</b>	3,193
<i>The Drivers and Vehicles Act</i> operations	<b>844</b>	(3,315)
	<b>56,652</b>	37,866
Net income (loss) from operations	<b>91,076</b>	(85,204)

## 25. 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 income of \$0.2 million (February 28, 2017 – \$0.1 million net loss) which is reported as part of the Special Risk Extension line of business (Note 24). Included in the provision for unpaid claims is \$2.4 million (February 28, 2017 – \$2.4 million) relating to discontinued operations.

## 26. Commitments

As of February 28, 2018, the Corporation has no material commitments.

## 27. Related-Party Transactions

### Key Management Personnel

Key management personnel are comprised of all members of the Board of Directors and the named Executive management team. The summary of compensation of key management personnel for the year is as follows:

(in thousands of Canadian dollars)	2018	2017
Short term benefits	1,944	2,034
Post-employment benefits	270	44
Other long-term benefits	25	25
Termination benefits	38	53
Total	2,277	2,156

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 clients and employees of the Corporation.

### Province of Manitoba

Investment management fees paid to the Department of Finance are disclosed in Note 4.

Accounts Payable and Accrued Liabilities includes \$12.0 million (February 28, 2017 - \$11.1 million) due to the Province of Manitoba.

## 28. Insurance and Financial Risk Management

### Insurance Risk

The Corporation is exposed to insurance risk in that the risk under any one insurance contract creates the possibility that the insured event occurs and there is uncertainty regarding the amounts of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore, unpredictable.

### Financial Risk

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. As of February 28, 2018, total foreign denominated financial instruments was approximately 7.3 per cent (February 28, 2017 – 8.1 per cent) of the Corporation's investment portfolio and had carrying values noted below.

2018	2018	2017	2017
<b>\$130.8 million U.S.</b>	<b>\$167.6 million Cdn</b>	\$133.5 million U.S.	\$177.3 million Cdn
<b>£8.2 million GBP</b>	<b>\$14.6 million Cdn</b>	£7.0 million GBP	\$11.5 million Cdn
<b>\$14.1 million NZD</b>	<b>\$13.1 million Cdn</b>	\$13.5 million NZD	\$13.0 million Cdn

The Corporation has entered into a currency swap relating to a Province of Quebec provincial bond denominated in U.S. dollars for \$10.0 million. The currency swap provides a fixed 5.76 per cent return in Canadian dollars. The agreement also provides that at predetermined future dates, the Corporation pays a fixed 7.5 per cent rate based on the U.S. \$10.0 million par value of the bond and receives 5.76 per cent return based on a Canadian dollar notional value of \$13.4 million. As of February 28, 2018 the fair value of the swap was \$14.4 million (February 28, 2017 - \$15.1 million). 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 - %	
	2018	2017
Federal	<b>3.13</b>	2.15
Provincial	<b>3.00</b>	2.94
Municipal	<b>3.30</b>	3.28
Schools	<b>4.58</b>	4.61
Corporations	<b>3.35</b>	2.87

The Corporation monitors interest rate risk by calculating the duration of the fixed income portfolio and the duration of unpaid claims liabilities. The duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates. The duration of the liabilities is determined by projecting expected cash flows from the contracts using best estimates of morbidity and mortality primarily relating to PIPP claims. The duration of the assets is calculated in a consistent manner. Any gap between the duration of the assets and the duration of the liabilities is minimized by purchasing and selling fixed interest securities in order to adjust the duration of the assets appropriately. As at February 28, 2018, the Corporation's duration gap was 0.0 years (February 28, 2017 – 0.1 years).

As at February 28, 2018, a 100 basis point increase in interest rates would result in a decrease in the fair value of the Corporation's fixed income portfolio of approximately \$133.8 million (February 28, 2017 - \$120.1 million), whereas a 100 basis point decrease in interest rates would result in an increase in the fair value of the Corporation's fixed income portfolio of approximately \$161.4 million (February 28, 2017 - \$146.1 million). As all of the Corporation's marketable fixed income assets are 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. As at February 28, 2018, a 100 basis point increase in interest rates would result in a decrease in the Corporation's unpaid claim liabilities of approximately \$120.2 million (February 28, 2017 - \$132.9 million), whereas a 100 basis point decrease in interest rates would result in an increase in the Corporation's unpaid claim liabilities of approximately \$144.1 million (February 28, 2017 - \$161.5 million).

The resulting impact on net income of a 100 basis point increase in interest rates would be a decrease of \$13.6 million (February 28, 2017 - increase of \$12.8 million) whereas a 100 basis point decrease in interest rates would result in an increase in the net income of \$17.3 million (February 28, 2017 - decrease of \$15.4 million).

### **Equity Price Risk**

The fair value of equity securities held by the Corporation can be affected by changes in market prices, other than currency and interest rate risks, which may be caused by factors specific to the individual financial instrument or factors affecting all similar financial instruments. General economic conditions, political conditions and other factors affect the equity market. As at February 28, 2018, a 10.0 per cent change in the fair value of the Corporation's equity portfolio would result in a \$40.9 million (February 28, 2017 - \$47.5 million) change in OCI.

As all equities are classified as AFS, all changes in prices are recorded as OCI and do not directly impact the Statement of Operations until such time as an investment is sold or has become impaired (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)	2018	2017
Cash and cash equivalents	89,006	73,434
Bonds	1,887,058	1,740,007
Due from other insurance companies	3	29
Accounts receivable	477,908	455,239
Reinsurance receivable	2,292	1,804
Maximum credit risk exposure on the Statement of Financial Position	2,456,267	2,270,513

### **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 at February 28. 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.

	2018		2017	
	Carrying Value (in thousands of Canadian dollars)	Percentage of Portfolio	Carrying Value (in thousands of Canadian dollars)	Percentage of Portfolio
AAA	187,369	9.9%	238,494	13.7%
AA	1,570,101	83.2%	1,474,753	84.8%
A	129,588	6.9%	26,760	1.5%
Total	1,887,058	100.0%	1,740,007	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. Substantially all remaining receivables are deemed to be collectible within 12 months. 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)	2018	2017
Policy and time payments	<b>431,691</b>	411,982
Accrued interest	<b>26,538</b>	26,304
Subrogation and other receivables	<b>46,244</b>	45,720
Allowance for doubtful accounts	<b>(26,565)</b>	(28,767)
Balance at February 28	<b>477,908</b>	455,239

Details of the allowance for doubtful accounts are as follows:

(in thousands of Canadian dollars)	2018	2017
Balance at March 1	<b>28,767</b>	23,870
Accounts written off	<b>(6,810)</b>	(1,841)
Current period provision	<b>4,608</b>	6,738
Balance at February 28	<b>26,565</b>	28,767

#### 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 which there were \$0.2 million outstanding as of February 28, 2018 (February 28, 2017 – \$0.2 million). Furthermore, a corporate guideline requiring reinsurers to have a minimum credit rating of A- from A.M. Best and BBB+ credit rating from Standard & Poors is in place.

For the 2017/18 fiscal year, twelve reinsurers share the Corporation's casualty reinsurance coverage, ranging from 2.5 per cent to 35.0 per cent on any one layer. The reinsurer exposed to 35.0 per cent of the losses is licensed in Canada by the Office of the Superintendent of Financial Institutions and, therefore, subject to minimum capital requirements.

For the 2017/18 fiscal year, eighteen reinsurers share the Corporation's catastrophe reinsurance coverage, none holding more than 28.25 per cent of the reinsurance exposure on any one layer.

No material amount due from reinsurers was considered uncollectible during 2017/18 and no allowance for doubtful accounts has been established as at February 28, 2018.

#### Structured Settlements Credit Risk

The Corporation has settled some insurance claims by purchasing structured settlements from life insurers. As of the Statement of Financial Position date, the present value of expected payments totals \$137.0 million (February 28, 2017 – \$140.0 million) based on various dates of purchase. The Corporation guarantees the future annuity payments to claimants and is thus exposed to a credit risk to the extent any of the life insurers fail to fulfill their obligations. The net risk to the Corporation is the credit risk related to the life insurance companies that the annuities are purchased from. This risk is reduced to the extent of coverage provided by Assuris, the life insurance compensation insurance plan.

### ***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)	2018			Total Fair Value
	Within One Year	One Year to Five Years	After Five Years	
Federal	-	-	28,133	28,133
Manitoba				
Provincial	-	10,576	117,061	127,637
Municipal	458	1,934	57,438	59,830
Schools	1,678	28,846	559,669	590,193
Other Provinces				
Provincial	-	63,501	831,821	895,322
Municipal	5,120	21,919	43,036	70,075
Corporations	-	30,251	85,617	115,868
<b>Total</b>	<b>7,256</b>	<b>157,027</b>	<b>1,722,775</b>	<b>1,887,058</b>

(in thousands of Canadian dollars)	2017			Total Fair Value
	Within One Year	One Year to Five Years	After Five Years	
Federal	-	18,577	40,733	59,310
Manitoba				
Provincial	-	10,514	132,042	142,556
Municipal	1,790	2,475	38,173	42,438
Schools	-	29,315	602,604	631,919
Other Provinces				
Provincial	8,237	80,435	649,953	738,625
Municipal	-	28,020	37,513	65,533
Corporations	-	15,676	43,950	59,626
<b>Total</b>	<b>10,027</b>	<b>185,012</b>	<b>1,544,968</b>	<b>1,740,007</b>

### ***Liability Liquidity***

(in thousands of Canadian dollars)	2018			Total Fair Value
	Within One Year	One Year to Five Years	After Five Years	
Provision for unpaid claims				
Cash Flows – non-discounted, non-indexed	332,743	322,680	1,247,906	1,903,329

(in thousands of Canadian dollars)	2017			Total Fair Value
	Within One Year	One Year to Five Years	After Five Years	
Provision for unpaid claims				
Cash Flows – non-discounted, non-indexed	337,638	311,610	1,200,979	1,850,227



## 29. Non-Current Assets and Liabilities

The following table presents financial assets and liabilities valued on the Corporation's Statement of Financial Position that the Corporation expects to recover or settle in 12 months or greater at February 28, 2018 and February 28, 2017.

(in thousands of Canadian dollars)	2018	2017
Financial Assets		
Bonds	1,879,802	1,729,980
Equity investments	409,323	474,613
Pooled real estate	263,022	233,981
Infrastructure and other investments	101,436	96,503
Reinsurers' share of unpaid claims	1,687	1,587
	2,655,270	2,536,664
Financial Liabilities		
Financing lease obligation	3,988	4,092
Provision for unpaid claims - net	1,579,744	1,563,217
	1,583,732	1,567,309
Net asset due after one year	1,071,538	969,355

## 30. Rate Regulation

Under the provisions of *The Crown Corporations Governance 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. This business comprises approximately 87 per cent (February 28, 2017 - 88 per cent) of the total business based on net claims incurred.

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.

## 31. Subsequent Events

On March 30, 2018, the Corporation sold and transferred possession of surplus property at 1103 Pacific Avenue in Winnipeg. The property sold for \$2.5 million, resulting in a gain of \$1.7 million. Decommission of the property resulted from ongoing efforts by the Corporation to reduce its physical footprint by consolidating services to better meet customer service expectations.

## 32. Contingent Liabilities

The Corporation is subject to litigation arising in the normal course of conducting its insurance business. The Corporation is of the opinion that this litigation will not have a significant effect on the financial position, financial performance or cash flows of the Corporation.



# GOVERNMENT BUSINESS PARTNERSHIP

**North Portage Development Corporation**  
**Consolidated Financial Statements**  
*March 31, 2018*

## Independent Auditors' Report

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To the Shareholders of North Portage Development Corporation:

We have audited the accompanying consolidated financial statements of North Portage Development Corporation and its subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2018, and the consolidated statements of income and other comprehensive income, changes in equity 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 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 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 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 North Portage Development Corporation and its subsidiaries as at March 31, 2018 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Winnipeg, Manitoba

June 14, 2018

*MNP LLP*

Chartered Professional Accountants

# North Portage Development Corporation

## Consolidated Statement of Financial Position

As at March 31, 2018

	2018	2017
<b>Assets</b>		
<b>Current</b>		
Cash	1,355,885	1,353,336
Short-term investments	3,715,890	5,622,762
Accounts receivable (Note 4)	344,422	524,011
Inventory	64,355	15,392
Current portion of receivable from developers (Note 5)	134,094	97,969
Prepays and other	277,085	355,498
	5,891,731	7,968,968
<b>Non-current</b>		
Property and equipment (Note 6)	15,496,499	15,760,239
Investments in properties and infrastructure enhancements (Note 7)	59,290,428	57,878,720
Receivable from developers (Note 5)	913,854	714,709
	75,700,781	74,353,668
<b>Total assets</b>	<b>81,592,512</b>	<b>82,322,636</b>
<b>Liabilities</b>		
<b>Current</b>		
Trade and other payables (Note 8)	2,887,424	2,946,788
Funds held in trust	174,144	161,409
Deferred revenue	141,481	131,794
Current portion of long-term debt (Note 9)	447,731	423,013
	3,650,780	3,663,004
<b>Non-current</b>		
Long-term debt (Note 9)	9,337,195	9,784,602
Prepaid land rents	618,699	626,786
Deferred contributions	10,368,995	11,322,115
	20,324,889	21,733,503
	23,975,669	25,396,507
<b>Shareholders' Equity</b>		
Share capital (Note 10)	3	3
Contributed surplus	39,310,266	39,310,266
Donated land (Note 12)	8,000,000	8,000,000
Retained earnings	10,306,574	9,615,860
	57,616,843	56,926,129
	81,592,512	82,322,636

Approved on behalf of the Board

Original Document Signed

Original Document Signed

The accompanying notes are an integral part of these financial statements

**MNP**

**North Portage Development Corporation**  
**Consolidated Income Statement and Other Comprehensive Income**  
*For the year ended March 31, 2018*

	2018	2017
<b>Revenue</b>		
Parking	7,439,828	6,621,399
The Forks Market	4,217,904	3,255,721
Events, sponsorship, grants and recoveries	1,887,961	1,361,218
Lease	1,318,717	1,307,205
Rental	513,951	491,089
Investment income	215,221	244,659
	<b>15,593,582</b>	<b>13,281,291</b>
<b>Expenses</b>		
Parking	2,684,258	2,501,601
The Forks Market	3,133,988	2,542,919
The Forks Site and Events	2,381,786	2,081,626
Rental	216,455	227,865
Investment costs	60,201	74,836
Planning and development	200,242	211,512
Marketing and communications	553,217	470,672
General and administrative	2,336,194	2,194,242
Prior year expenses	87,506	105,351
Security services	727,768	493,985
	<b>12,381,615</b>	<b>10,904,609</b>
<b>Operating income before the following</b>	<b>3,211,967</b>	<b>2,376,682</b>
<b>Other expenses (income)</b>		
Interest on long-term debt	566,472	589,947
(Gain) loss on short-term investments	45,260	(336,331)
(Gain) loss on disposal of property and equipment	(21,890)	27,179
Depreciation and amortization	2,790,816	2,619,841
Amortization of deferred contributions	(1,159,849)	(1,159,849)
Donations	300,444	265,026
	<b>2,521,253</b>	<b>2,005,813</b>
<b>Profit</b>	<b>690,714</b>	<b>370,869</b>

The accompanying notes are an integral part of these financial statements

**MNP**

**North Portage Development Corporation**  
**Consolidated Statement of Changes in Equity**  
*For the year ended March 31, 2018*

	<i>Share capital</i>	<i>Donated land</i>	<i>Contributed surplus</i>	<i>Retained earnings</i>	<i>Total equity</i>
<b>Balance March 31, 2016</b>	<b>3</b>	<b>8,000,000</b>	<b>39,310,266</b>	<b>9,244,991</b>	<b>56,555,260</b>
Profit	-	-	-	370,869	370,869
<b>Balance March 31, 2017</b>	<b>3</b>	<b>8,000,000</b>	<b>39,310,266</b>	<b>9,615,860</b>	<b>56,926,129</b>
Profit	-	-	-	690,714	690,714
<b>Balance March 31, 2018</b>	<b>3</b>	<b>8,000,000</b>	<b>39,310,266</b>	<b>10,306,574</b>	<b>57,616,843</b>

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

**MNP**

# North Portage Development Corporation

## Consolidated Statement of Cash Flows

*For the year ended March 31, 2018*

	2018	2017
<b>Cash provided by (used for) the following activities</b>		
<b>Operating activities</b>		
Profit	690,714	370,869
Depreciation and amortization	2,790,816	2,619,842
Amortization or prepaid finance costs	3,789	3,788
Amortization of deferred contributions	(1,159,849)	(1,159,849)
(Gain) loss on disposal of property and equipment	(21,890)	27,179
Unrealized loss from short-term investments	-	691,105
(Gain) loss on disposition of short-term investments	45,260	(1,027,437)
	2,348,840	1,525,497
Changes in working capital accounts		
Accounts receivable	179,589	21,375
Restricted cash	-	120,808
Inventory	(48,963)	(15,392)
Prepays and other	78,413	(199,398)
Trade and other payables	(59,364)	(89,071)
Funds held in trust	12,735	(238,845)
	2,511,250	1,124,974
<b>Financing activities</b>		
Repayment of long term debt	(426,478)	(403,759)
Prepaid land rents	(8,087)	116,914
Deferred revenue	9,687	131,794
Deferred contributions received	206,729	-
	(218,149)	(155,051)
<b>Investing activities</b>		
Purchases of property and equipment and infrastructure enhancements	(4,382,595)	(4,316,762)
Proceeds from disposition of short term investments (net)	1,861,612	3,833,512
Developer receivables advanced	(350,720)	-
Proceeds from repayment of tenant receivables	-	10,179
Proceeds from repayment of developer receivables	115,450	304,913
Funds received for property and equipment	435,294	383,200
Proceeds from disposal of property and equipment	30,407	141,318
	(2,290,552)	356,360
<b>Increase in cash</b>	2,549	1,326,283
<b>Cash, beginning of year</b>	1,353,336	27,053
<b>Cash, end of year</b>	1,355,885	1,353,336

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

**MNP**



# North Portage Development Corporation

## Notes to the Consolidated Financial Statements

*For the year ended March 31, 2018*

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### 1. Nature of operations

#### **Mission**

The mission of the organization is to act as a catalyst, encouraging activities for people in the downtown area through public and private partnerships and revitalization strategies, and to work to ensure financial self-sufficiency.

North Portage Development Corporation shall be a centre of commerce, culture and living, integrated to form a diverse downtown community through a mixture of public uses including: residential, educational and entertainment facilities.

The Forks shall be developed as a "Meeting Place", a special and distinct, all season gathering and recreational place at the junction of the Red and Assiniboine Rivers, through a mixed use approach including recreational, historical and cultural, residential and institutional and supportive commercial uses.

#### **Company background**

North Portage Development Corporation (the "Company" or "NPDC") was incorporated under the Corporations Act Manitoba on December 13, 1983 and owns land and parking facilities in the North Portage area of Winnipeg, Canada. NPDC is owned equally by the Government of Canada, the Province of Manitoba, and the City of Winnipeg.

The Forks Renewal Corporation ("FRC"), a subsidiary of NPDC, was incorporated under the Corporations Act of Manitoba on July 24, 1987 and owns land known as The Forks Winnipeg, Canada, and operates The Forks Market.

Manitou Theatre Management Ltd. ("MTML"), previously named North Portage Theatre Corporation, a subsidiary of NPDC, was incorporated under the Corporations Act of Manitoba on May 27, 1986 and owns the IMAX Theatre at Portage Place, Winnipeg, Canada.

3898211 Manitoba Ltd., a subsidiary of MTML, was incorporated under the Corporations Act of Manitoba on September 16, 1998 and operates the IMAX Theatre at Portage Place, Winnipeg, Canada.

FNP Parking Inc. ("FNP"), a subsidiary of NPDC, was incorporated under the Corporations Act of Manitoba on November 6, 2006 and operates various parking locations in downtown Winnipeg, Canada including The Forks.

The Corporation is not subject to tax under provision 149(1)(d) of the Income Tax Act.

The head office for NPDC is 123 Main Street, Winnipeg, Canada.

The financial statements for the year ended March 31, 2018 were approved by the Board of the Company on June 14, 2018.

### 2. Basis of preparation

#### ***Basis of measurement***

The consolidated financial statements have been prepared on a going concern basis, under the historical basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies are set out in the notes.

#### ***Functional and presentation currency***

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars.

# North Portage Development Corporation

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2018

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### **Significant accounting judgments, estimates and assumptions**

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainties about these assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

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 revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### **Future changes to significant accounting policies**

The following standards will be effective for subsequent annual periods. The Company is currently evaluating the impact of these standards on its Financial Statements:

#### **(i) IFRS 9 - Financial Instruments**

IFRS 9 - Financial Instruments replaces IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of its financial assets. The standard is effective for years beginning on or after January 1, 2018, with earlier adoption permitted. Management does not anticipate a significant impact on the consolidated financial statements as the single approach to classifying financial assets is not expected to result in a reclassification of the Company's assets; changes to financial liabilities do not apply and the provisions on impairment and hedge accounting do not apply.

#### **(ii) IFRS 15 - Revenue from Contracts with Customers**

IFRS 15 - Revenue from Contracts with Customers replaces IAS 11 - Construction Contracts and IAS 18 - Revenue, as well as various IFRIC and SIC interpretations; specifies the steps and timing for entities to recognize revenue from contracts excluding lease contracts; enhances disclosure requirements; and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Management is assessing the impact of these changes.

#### **(iii) IFRS 16 - Leases**

IFRS 16 - Leases replaces IAS 17 - Leases and requires lessees to account for leases on balance sheet by recognizing a right of use asset and a lease liability. Lessor accounting, however remains largely unchanged and the distinction between operating and finance leases is retained. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. Management is assessing the impact of these changes.

#### **(iv) IAS 40 - Investment Property ("IAS 40")**

During December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing IAS 40 requirements. The amendment requires that an asset be transferred to, or from investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Management does not anticipate a significant impact on the consolidated financial statements as a result of the clarifications in the amendment.

**North Portage Development Corporation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2018*

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**3. Summary of significant accounting policies**

Except as noted above, the following principle accounting policies have been adopted in the preparation of these consolidated financial statements.

***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Subsidiaries include: The Forks Renewal Corporation, FNP Parking Inc., 3898211 Manitoba Ltd. and Manitou Theatre Management Ltd.

Subsidiaries are entities controlled by the Company. Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with the investee and it has the ability to affect those returns through its power over the investee. In assessing control, only rights which give the Company the current ability to direct the relevant activities and that the Company has the practical ability to exercise, is considered.

The Company determines whether it is a parent by assessing whether it controls an investee. The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

***Statement of compliance***

The financial statement of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The accounting policies have been applied consistently in all material respects.

***Foreign currency translation***

Transactions denominated in foreign currencies are translated into the functional currency of the Company at exchange rates prevailing at the transaction dates (spot exchange rates). Monetary assets and liabilities are retranslated at the exchange rates at the statement of financial position date. Exchange gains and losses on translation or settlement are recognized in profit or loss for the current period.

Non-monetary items that are measured at historical cost are translated using the exchange rates at the date of the transaction and non-monetary items that are measured at fair value are translated using the exchange rates at the date when the items' fair value was determined. Translation gains and losses are included in profit or loss.

***Revenue recognition***

Revenue is measured at the fair value of the consideration received or receivable.

***Rental and parking income***

Rental income (including The Forks Market revenue) and monthly parking income is recognized in the period in which the rental agreement relates. Casual parking income is recognized at the time payment is received from the customer.

***Investment income***

Investment income is recognized over the passage of time using the effective interest method.

***Events, sponsorship, grants and recoveries***

Events, sponsorship, government grants and recoveries are recognized in the period in which the related event occurs.

***Deferred revenue***

Consists of advance payments received and is recognized as revenue in the period in which the related event occurs.

***Cash and cash equivalents***

Cash and cash equivalents comprise cash on hand and balances with banks, net of any outstanding cheques. Cash subject to restrictions that prevent its use for current purposes is included in restricted cash.

**North Portage Development Corporation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2018*

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**3. Summary of significant accounting policies (continued from previous page)**

**Property and equipment**

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

All assets having limited useful lives are depreciated over their estimated useful lives. Assets are depreciated from the date of acquisition. Internally constructed assets are depreciated from the time an asset is available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The methods of depreciation and useful life applicable for each class of asset during the current and comparative period are as follows:

	<i>Method</i>	<i>Rate</i>
Plant and equipment	straight line	3-40 years
Equipment under finance lease	straight-line	5 years

The residual value, useful life and depreciation method applied to each class of assets are reassessed at each reporting date.

**Property under construction**

Items of property under construction are recorded at cost and are not amortized until they are complete and transferred to the appropriate category of asset.

**Impairment of tangible assets**

At the end of each reporting period, the Company reviews the carrying amounts of its tangible 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).

The 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.

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 and an impairment loss is recognized immediately in comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying value 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 immediately in income.

**Investment in properties and infrastructure enhancements**

Investment properties and infrastructure enhancements are initially recognized at cost, including transaction costs of acquisition, less accumulated amortization and accumulated impairment losses.

Amortization is calculated at the following rates:

	<i>Method</i>	<i>Rate</i>
Buildings	straight line	20-40 years
Infrastructure enhancements	straight line	40 years

**Borrowing costs**

Borrowing costs are expensed as incurred except to the extent that they are directly attributable to the acquisition or construction of a qualifying asset. Qualifying assets are assets that necessarily take a substantial period of time to reach the stage of their intended use or sale.

Borrowing costs are capitalized into the cost of qualifying assets until they are ready for their intended use or sale. All other borrowing costs are recognized in comprehensive income in the period in which they are incurred.

**3. Summary of significant accounting policies** *(continued from previous page)*

***Leases***

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease. Leases of land and building are classified separately and the minimum lease payments are allocated between the land and building elements in proportion to the relative fair values of the leasehold interests at the inception of the lease.

Assets under finance lease are amortized on a straight-line basis, over the shorter of the useful life and the lease term. The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned by the Company. The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed as part of finance costs.

*The Company as lessor*

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the term of the lease.

Land rents

Land rents for land leases that are considered to be operating leases are recognized in income as earned. Land rents received in advance are recorded as prepaid land rents and are recognized in income over the passage of time for which the amount is received.

*The Company as lessee*

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease. The corresponding liability to the lessor is included in the consolidated statement of financial position as a obligation under finance lease. Lease payments are allocated between interest expense and the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Interest expenses are recognized immediately in comprehensive income.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

In the event that inducements to enter into operating leases are received, such inducements are recognized as a liability at the outset of the lease. The benefit is recognized as a reduction of rental expense on a straight-line basis over the life of the lease.

**3. Summary of significant accounting policies (continued from previous page)**

***Financial instruments***

**Loans and receivables:**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Assets in this category include accounts receivable and receivable from developer. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

**Short-term investments**

Short-term investments consist of cash, GIC, short term investments, and active market equities. Investments are held for trading and are initially recognized at fair value and are subsequently carried at fair value with changes recognized in comprehensive income. Upon sale or impairment, the accumulated fair value adjustments recognized are included in the statement of comprehensive income.

**Financial liabilities measured at amortized cost:**

The Company has classified the following financial liabilities as financial liabilities measured at amortized cost: trade and other payables, funds held in trust, and long-term debt. These liabilities are initially recognized at their fair value. Total interest expense, calculated using the effective interest rate method, is recognized in profit (loss). Principal payments on mortgage loans due more than twelve months from the date of the balance sheet are classified as non-current liabilities.

Financial liabilities measured at amortized cost are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash payments are exactly discounted over the liability's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, and plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Net gains and losses arising from changes in fair value are recognized in profit (loss) upon derecognition.

***Derecognition of financial liabilities***

The Company derecognizes financial liabilities when the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in comprehensive income.

***Financial asset impairment***

The Company assesses impairment of all its financial assets, except those classified at fair value through profit (loss). Management considers whether there is objective evidence that a financial asset is impaired. Impairment is measured as the difference between the asset's carrying value and its fair value. Any impairment, which is not considered temporary, is included in the statement of comprehensive income.

***Provisions***

A provision is recognized, if, as a result of a past event, the Company has a legal or constructive obligation that can be estimated reliably and it is probable that a future outflow of economic benefits will be required to settle the obligation. The timing or amount of the outflow may still be uncertain.

Provisions are measured by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and specific risks of the obligation. Where there are a number of obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. All provisions are reviewed at each reporting date and adjusted accordingly to reflect the current best estimate.

# North Portage Development Corporation

## Notes to the Consolidated Financial Statements

*For the year ended March 31, 2018*

### 3. *Summary of significant accounting policies (continued from previous page)*

#### **Government grants**

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes expenses as related costs for which funded expenditures are incurred. Government grants are recognized when there is reasonable assurance that the Company will comply with the terms and conditions associated with the grants and the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

#### **Inventories**

Inventories are valued at the lower of cost and net realizable value. Cost is determined by the weighted average method. Cost comprises all costs of purchases, costs of conversion and other costs incurred in bringing inventories to their present location and condition.

### 4. **Accounts receivable**

	<b>2018</b>	<b>2017</b>
Trade receivable	<b>269,293</b>	275,288
Allowance for doubtful accounts	<b>(19,733)</b>	(9,715)
Goods and services tax receivable	<b>2,880</b>	7,910
Interest receivable	<b>91,982</b>	250,528
	<b>344,422</b>	524,011

The credit period on sale of goods and services is 30 days. The Company has recognized an allowance for doubtful debts against all receivables over 120 days because experience has shown that those amounts are not recoverable. Allowances for doubtful debts are recognized against trade receivables between 60 days and 120 days based on estimated irrecoverable amounts determined by reference to past default experience.

Aging of trade receivables that are past due but not impaired:

	<b>2018</b>	<b>2017</b>
31-60 days	<b>103,634</b>	18,335
61-90 days	<b>13,592</b>	57,296
91+ days	<b>53,004</b>	71,794
	<b>170,230</b>	147,425

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

In respect of other receivables, the Company is not exposed to any significant credit risk to any single counterparty.

**North Portage Development Corporation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2018*

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**5. Receivable from developers**

Amounts consist of the repayment of the rehabilitation costs from the developers adjacent to the streets located on the North Portage site. The below balances are unsecured.

	<i><b>2018</b></i>	<i><b>2017</b></i>
Receivable from developers bearing interest at 5% repayable at \$13,429 per month (2017 - \$11,702), maturing January 2024.	<b>1,047,948</b>	812,678
Current portion of receivable from developers	<b>(134,094)</b>	(97,969)
	<b>913,854</b>	714,709

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**North Portage Development Corporation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2018*

**6. Property and equipment**

	<i>Land</i>	<i>Property Under Construction</i>	<i>Plant and Equipment</i>	<i>Equipment Under Finance Lease</i>	<i>Total</i>
<b>Cost</b>					
Balance March 31, 2016	9,058,281	125,464	24,232,354	2,151,244	35,567,343
Additions	-	1,201,911	1,308,946	-	2,510,857
Disposals	-	(143,681)	(943,209)	(1,508,207)	(2,595,097)
Grants received for assets	-	(383,200)	-	-	(383,200)
Transfer to plant and equipment	-	(205,355)	205,355	-	-
Transfer to investments in properties and infrastructure enhancements	-	(237,994)	-	-	(237,994)
Balance at March 31, 2017	9,058,281	357,145	24,803,446	643,037	34,861,909
Additions	-	907,885	139,700	-	1,047,585
Disposals	-	(10,708)	(399,915)	-	(410,623)
Grants received for assets	-	(55,542)	(3,000)	-	(58,542)
Transfer to plant and equipment	-	(352,075)	352,075	-	-
Transfer to investment in properties and infrastructure enhancements	-	(454,848)	-	-	(454,848)
Balance at March 31, 2018	9,058,281	391,857	24,892,306	643,037	34,985,481
<b>Depreciation and impairment losses</b>					
Balance March 31, 2016	-	-	18,736,898	2,026,267	20,763,165
Depreciation charge for the year	-	-	700,217	64,888	765,105
Disposals	-	-	(918,393)	(1,508,207)	(2,426,600)
Balance at March 31, 2017	-	-	18,518,722	582,948	19,101,670
Depreciation charge for the year	-	-	737,776	51,642	789,418
Disposals	-	-	(402,106)	-	(402,106)
Balance at March 31, 2018	-	-	18,854,392	634,590	19,488,982
<b>Net book value</b>					
At March 31, 2017	9,058,281	357,145	6,284,724	60,089	15,760,239
At March 31, 2018	9,058,281	391,857	6,067,914	8,447	15,526,499

# North Portage Development Corporation

## Notes to the Consolidated Financial Statements

*For the year ended March 31, 2018*

### 7. Investment in properties and infrastructure enhancements

	<i>Land</i>	<i>Building</i>	<i>Property Under Construction</i>	<i>Infrastructure Enhancements</i>	<i>Total</i>
<b>Cost</b>					
Balance March 31, 2016	28,203,066	22,253,398	2,958,578	57,494,587	110,909,629
Additions	-	101,191	1,670,868	33,845	1,805,904
Transfer to building	-	3,148,942	(3,148,942)	-	-
Transfer from property and equipment	-	103,222	-	134,772	237,994
Balance March 31, 2017	28,203,066	25,606,753	1,480,504	57,663,204	112,953,527
Additions	-	203,135	2,764,837	367,038	3,335,010
Funds received for assets	-	-	-	(376,752)	(376,752)
Transfer to building	-	2,196,353	(2,196,353)	-	-
Transfer from property and equipment	-	226,302	-	228,546	454,848
Balance March 31, 2018	28,203,066	28,232,543	2,048,988	57,882,036	116,366,633
<b>Accumulated amortization</b>					
Balance at March 31, 2016	531,494	7,929,915	-	44,758,662	53,220,071
Amortization charge for the year	-	906,154	-	948,582	1,854,736
Balance at March 31, 2017	531,494	8,836,069	-	45,707,244	55,074,807
Amortization for the year	-	1,049,697	-	951,701	2,001,398
Balance at March 31, 2018	531,494	9,885,766	-	46,658,945	57,076,205
<b>Carrying amounts</b>					
At March 31, 2017	27,671,572	16,770,684	1,480,504	11,955,960	57,878,720
At March 31, 2018	27,671,572	18,346,777	2,048,988	11,223,091	59,290,428

**North Portage Development Corporation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2018*

**8. Trade and other payables**

	<b>2018</b>	<b>2017</b>
Trade accounts payable	719,297	852,641
Accrued liabilities	2,168,127	2,094,147
	<b>2,887,424</b>	<b>2,946,788</b>

The average credit period on purchase is 30 days. The Company has financial risk management policies in place to ensure that all payables are paid within the credit terms.

**9. Long-term debt**

	<b>2018</b>	<b>2017</b>
Montrose Mortgage Corporation loan bearing interest at 5.71% per annum, repayable in monthly blended payments of \$82,940. The loan matures on September 1, 2032 and is secured by a general security agreement together with a first charge on the following lease agreements; Cityscape Residence Corp., The Kiwanis Club of Winnipeg Seniors Building Inc., Fred Douglas Place Ltd. and Portage Place Centre Inc.	9,836,676	10,263,154
Less: current portion	447,731	423,013
Less: financing fees	51,750	55,539
	<b>9,337,195</b>	<b>9,784,602</b>

Principal repayments on long-term debt in each of the next five years are estimated as follows:

2019	447,731
2020	477,669
2021	505,333
2022	534,600
2023	565,563
Thereafter	7,305,780
	<b>9,836,676</b>

**10. Share capital**

	<b>2018</b>	<b>2017</b>
Common shares 3 (2017 - 3)	3	3

**North Portage Development Corporation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2018*

**11. Government contributions**

	2018	2017
Amounts included in deferred contributions	10,368,995	11,322,115
Contributions received in the year	768,566	282,486
Amounts recognized in income in prior years	71,158,548	71,158,548
Annual amortization of deferred contributions	1,159,849	1,159,849
Amounts recognized in income in the current year	(561,837)	(282,486)
Donated land	8,000,000	8,000,000
Contributed surplus	39,310,266	39,310,266
	<b>130,204,387</b>	<b>130,950,778</b>

**12. Donated land**

The Company acquired title and possession of 55.9 acres of land donated by the Government of Canada, the Province of Manitoba, and the City of Winnipeg as follows:

	Government of Canada	City of Winnipeg	From Core Area Initiative	Total
Acres	49.0	3.9	3.0	55.9

These lands were acquired pursuant to the Land Exchange Agreement. Donated land was recorded at fair market value as approved by the FRC Board of Corporation on June 5, 1989. During the 1992/93 fiscal year, 3.8 acres of Pioneer Blvd. and The Forks Market Road were dedicated as public rights-of-way to the City of Winnipeg. During 2003, 0.5 acres of donated land were transferred to the City of Winnipeg. During 2007, 1.65 acres of donated land was sold to the City of Winnipeg. The remaining lands under the FRC's ownership are 49.95 acres.

**13. Operating lease arrangements**

**The Company as lessee**

*Leasing arrangements*

Operating leases relate to leases of land with terms of between 5 and 10 years. All operating lease contracts over 5 years contain clauses for 5-yearly market rental reviews. The Company does not have an option to purchase the leased land at the expiry of the lease.

Estimated annual payments are as follows:

2019	139,000
2020	142,000
2021	142,200
2022	145,000
Thereafter	910,000

**The Company as lessor**

Operating leases relate to the investment property owned by the Company with lease terms of between 5 to 10 years, with an option to extend for a further 10 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period. Total lease revenue received was \$1,318,717 (2017 - \$1,307,205).

**North Portage Development Corporation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2018*

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**14. Commitments**

The Company has an obligation to operate the Imax Theatre at Portage Place for a 50 year period, ending in 2035 with annual payments of \$27,400.

FRC has leased parking, storage and an office site at The Forks to December 2018. FNP Parking Ltd. is administering the obligation. The lease, containing renewal options, calls for base monthly payments of \$4,167 and provides for payment of utilities and property taxes.

**15. Related party transactions**

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

**Compensation of key management personnel**

The remuneration of key management personnel during the year was as follows:

	<b>2018</b>	<b>2017</b>
Wages and other short-term benefits	731,079	693,015

**16. Management Capital**

The Company's capital consists of contributed surplus and donated land equity. Donated land was recorded at fair value, as approved by the Board of Corporation in FRC, in 1989.

The capital structure of the Company is comprised of the following:

	<b>2018</b>	<b>2017</b>
Total debt and deferred shareholder contributions	<b>20,153,921</b>	21,529,730
Shareholders' equity	<b>57,616,843</b>	56,926,130
	<b>77,770,764</b>	78,455,860

The Company's objective in managing capital is to safeguard its ability to continue as a going concern, in order to carry out its mission as described in Note 1.

The Company prepares a budget each year, allocating expenses to revenue they expect to earn and funding it expects to receive.

The Company monitors capital from time-to-time using a variety of measures which are applicable to its industry. Monitoring procedures are typically performed as a part of the overall management of operations and are performed with the goal of enhancing the ability of the Company to reduce the cost of capital. An investment policy is in place to guide the Company in the management of surplus funds. These guidelines ensure that capital is preserved, rates of return are maximized and funds are available as needed.

# North Portage Development Corporation

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2018

### 17. Financial instruments

The Company as part of its operations carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

#### **Credit risk**

Credit risk is the risk of financial loss because a counter party to a financial instrument fails to discharge its contractual obligations.

The maximum exposure of the Company to credit risk as of March 31, 2018 is \$1,684,943 (2017 - \$1,336,689).

The Company is not exposed to significant credit risk since the receivables are with a significant number of customers. In order to reduce its credit risk, the Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information.

#### **Foreign currency risk**

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

#### **Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through normal operating and financing activities.

The Company is exposed to interest rate risk with respect to cash, investments and long-term debt.

#### **Fair value measurement of financial instruments**

Financial assets and liabilities measured at fair value in the statement of financial position are grouped into three Levels of fair value hierarchy. The three Levels are defined based on the operability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

The Company does not have any financial instruments in the Level 3 category and there were no transfers between Levels during the year.

The short-term investments are classified as Level 1. The carrying value of the short-term investments is valued based upon the market to market basis of accounting for investment values using quoted prices of the individual investments in an active market.

The Company's Level 2 financial instruments consist of accounts receivable, trade and other payables, receivable from developers, long-term debt and funds held in trust. The carrying values of accounts receivable, trade and other payables, receivable from developers and funds held in trust approximate their fair value due to the immediate or short-term nature maturity of these instruments.

**North Portage Development Corporation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2018*

**17. Financial instruments** (continued from previous page)

**Financial instruments measured at amortized cost for which the fair value is disclosed**

The fair value of the long-term receivables and long term debt are impacted by changes in market yields which can result in differences between the carrying value and the fair value of the instruments. The fair value of the long-term receivables and long-term debt have been estimated based on the current market rates for mortgages and loans of similar terms and conditions.

The estimated fair value at March 31, 2018 of the receivable from developers is \$1,047,948 (2017 - \$812,678) and long-term debt is \$9,784,926 (2017 - \$10,207,615).

***Liquidity risk***

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivery of cash or another financial asset. The Company enters into transactions to purchase goods and services on credit, for which repayment is required at various maturity dates. Liquidity risk is measured by reviewing the Company's future net cash flows for the possibility of negative net cash flow.

Contractual maturities of long-term debt are disclosed in Note 9.

	<b>&lt; 1 year</b>	<b>1-2 years</b>	<b>&gt; 3 years</b>	<b>Total</b>
Trade and other payables	2,887,424	-	-	<b>2,887,424</b>
Funds held in trust	174,144	-	-	<b>174,144</b>
Deferred revenue	141,481	-	-	<b>141,481</b>
Prepaid land rents	133,086	16,173	469,440	<b>618,699</b>
Deferred contributions	953,120	2,319,698	7,096,177	<b>10,368,995</b>
<b>Total</b>	<b>4,289,255</b>	<b>2,335,871</b>	<b>7,565,617</b>	<b>14,190,743</b>

***Other price risk***

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company enters into transactions for short-term investments, for which the market price fluctuates.

**18. Comparative figures**

Certain prior year figures have been reclassified to conform to the current year's presentation.