

**PROVINCE OF MANITOBA
NOTES TO THE QUARTERLY FINANCIAL REPORT
FOR THE SIX MONTHS - APRIL TO SEPTEMBER 1999**

This report presents the unaudited financial results of the Province of Manitoba for the second quarter of the 1999/2000 fiscal year. These financial statements incorporate the impact of the Province's change in accounting policy respecting tangible capital assets and, as such, include amortization expense related to capital assets in the statements of operating expenditure. All assets acquired in the second quarter are reported in a new statement of Part B - Capital Investment in accordance with the new accounting policy as presented in the 1999/2000 Estimates of Expenditure.

The implementation of a new financial management information system on April 1, 1999 will facilitate further developments in accounting policies that are intended to make the information in these unaudited statements more comprehensive and current. These changes are described in more detail later in the document under the section, "Changes In Accounting Policy".

The structure of the statements has been adjusted to reflect the change in government organization that was announced in October, 1999. The comparative data provided for the 1998/99 fiscal year has been restated to reflect the current organizational structure of departments as well as the impact of the change in accounting policy related to tangible capital assets.

SECOND QUARTER - ACTUAL TO ESTIMATE

The second quarter deficit of \$251.5 million was \$1.7 million lower than the projection of \$253.2 million. The estimate represents expenditure and revenue projections for the period and generally varies due to differences between the planned and actual flows of revenue and expenditure. For the six month period expenditures were \$12.4 million more than planned due mostly to higher than projected health expenditures. Revenues were \$14.1 million more than projected primarily due to stronger than anticipated taxation revenue receipts.

SECOND QUARTER COMPARED TO PREVIOUS YEAR'S RESULTS

The second quarter deficit was \$57.3 million higher than the same period last year. The increase results from a \$162.0 million increase in expenditures, primarily due to increased spending on health and emergency expenditures. Increases in Education and Training and Family Services and Housing are the result of expenditures related to the transfer of labour market programs from the federal government and income assistance programs from the City of Winnipeg. These increased expenditures from transfers of programming are offset respectively by increased federal revenue and through an offsetting reduction in grant funding to the City by the Department of Intergovernmental Affairs. In total, revenue has increased \$179.8 million from 1998/99 mainly as a result of increased taxation revenue and the receipt of the Federal Health Supplement.

YEAR END PROJECTION

A year end projection is not included in this report pending finalization of an independent review of the Province's financial position. A Provincial general election was held on September 21, 1999 and a new government was sworn-in on October 5, 1999. As a result of information obtained during the transition period, an independent financial review of the Province's fiscal position was requested and is being undertaken by Deloitte and Touche LLP.

An interim report, released on November 17, 1999, indicated that the financial result for the 1999/2000 year is projected to be a deficit in the range of \$262 million to \$417 million rather than the budgeted surplus of \$21.4 million.

The projected increase is attributed to a \$325 million potential increase in expenditures primarily in health, education and training and emergency expenditures resulting from programming under way, commitments made and flood and fire suppression funding requirements that all emerged prior to the end of the second quarter. The report also included \$10 million in new health spending to address hallway medicine.

The review also indicated that Provincial revenues were expected to increase by \$42 million primarily in corporate income tax, retail sales tax and mining tax revenue sources.

The final report on the Province's financial position is expected early in the new year and will be incorporated in the Province's third quarter financial report.

CHANGES IN ACCOUNTING POLICY

Effective April 1, 1999, the Province implemented an accounting change with respect to tangible capital assets in accordance with new accounting standards issued by the Canadian Institute of Chartered Accountants. The change in reporting results in the expenditure on tangible assets being amortized "on an expense basis" over the useful life of the asset.

To reflect this change in accounting policy, expenditure now has two separate components, Part A - Operating Expenditure and Part B - Capital Investment.

Part A - Operating Expenditure represents expenditure consistent with previous years excluding expenditures now defined as Capital Investment under the new accounting policy, including the addition of amortization costs for capital assets.

Part B - Capital Investment is the expenditure for the acquisition of assets now defined as capital investments under the new accounting policy. It is important to note that, for multi-year projects, this authority represents only the annual cost required to acquire the assets and not the total cost of a project or asset.

In order to make year over year comparisons meaningful, the actual expenditures to September 30, 1998 have been adjusted to reflect the impact of the change in the capital asset accounting policy. This restatement affects the amounts for some departments as amortization for the period is added and amounts that would have been classified as Part B - Capital Investment were recorded as such. The restatement impacts on total expenditure as follows.

	<u>Part A</u>	<u>Part B</u>
	<u>Operating Expenditure</u>	<u>Capital Investment</u>
	(thousands of dollars)	
Expenditure to September 30, 1998	2,805,652	
Restatement of Capital Expenditure		
Deduct: To Part B - Capital Investment	(6,370)	6,370
Add: Amortization of Capital Assets	4,952	
Adjusted Expenditure to September 30, 1998	<u>2,804,234</u>	<u>6,370</u>

In addition to changes to accounting policy with respect to capital assets, the implementation of a new financial management information system on April 1, 1999 will facilitate further developments in accounting policies that are intended to make the information in these unaudited statements more comprehensive and current. Most notably, these statements include all accounts payable related to goods purchased. Previously, these purchases were accounted for when the actual cash payment flowed versus when the goods were received. The 1998/99 actual expenditures have not been restated for this change. Additional changes that improve the statements will be implemented over the coming months. As we further implement accrual accounting in the Quarterly Financial Reports, detail will be provided on the nature of each change and its impact where significant.

DEBT RETIREMENT

The legislated 1999/2000 transfer to the Debt Retirement Fund of \$75 million was incorporated in the first quarter. This transfer, combined with money already set aside in the Debt Retirement Fund, was used to pay off \$305 million of Manitoba's debt in April. These transactions are shown in the statement entitled, "Debt Retirement Fund" on page 10 of this financial report.

BORROWING ACTIVITY

The original estimate of borrowing requirements for the 1999/2000 fiscal year of \$2,356.1 million has increased to \$2,467.2 million to reflect an increase in savings bond redemptions and an increased allocation to the Provincial Sinking Fund. This includes \$1,023.0 million for refinancing maturing debt issues with the balance required for self-sustaining programs, including Manitoba Hydro, and to fund an allocation to the Provincial Sinking Fund for the repurchase of foreign debt.

For the period April 1, 1999 to September 30, 1999, \$1,311.8 million has been borrowed; \$250.7 million was raised through the issue of Builder Bonds Series 5 with the remainder raised in the public market.

**PROVINCE OF MANITOBA
OPERATING FUND
STATEMENT OF REVENUE AND EXPENDITURE
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 1999
(with comparative figures for September 30, 1998)
(UNAUDITED)**

1998/99 ACTUAL (thousands of dollars)	1999/2000 ACTUAL (thousands of dollars)	INCREASE (DECREASE)		1999/2000 ACTUAL	ESTIMATE	VARIANCE
				(thousands of dollars)		
Revenue						
1,830,474	1,912,703	82,229	Own Source Revenue	1,912,703	1,898,863	13,840
779,425	876,965	97,540	Government of Canada	876,965	876,674	291
<u>2,609,899</u>	<u>2,789,668</u>	<u>179,769</u>	Total Revenue	<u>2,789,668</u>	<u>2,775,537</u>	<u>14,131</u>
Expenditure						
2,477,238	2,724,752	247,514	Program Expenditure	2,724,752	2,712,274	12,478
326,996	241,503	(85,493)	Public Debt Costs	241,503	241,500	3
<u>2,804,234</u>	<u>2,966,255</u>	<u>162,021</u>	Total Expenditure	<u>2,966,255</u>	<u>2,953,774</u>	<u>12,481</u>
<u>-</u>	<u>75,000</u>	<u>75,000</u>	Debt Retirement	<u>75,000</u>	<u>75,000</u>	<u>-</u>
<u>(194,335)</u>	<u>(251,587)</u>	<u>57,252</u>	Budgetary Deficit	<u>(251,587)</u>	<u>(253,237)</u>	<u>(1,650)</u>

**PROVINCE OF MANITOBA
OPERATING FUND
STATEMENT OF REVENUE
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 1999
(with comparative figures for September 30, 1998)
(UNAUDITED)**

1998/99 ACTUAL	1999/2000 ACTUAL	INCREASE (DECREASE)		1999/2000 ESTIMATE	VARIANCE
(thousands of dollars)				(thousands of dollars)	
			Taxation:		
			Consumer and Corporate Affairs		
17,998	19,033	1,035	- Insurance Corporations Tax	19,033	1,302
7,034	6,710	(324)	- Land Transfer Tax	6,710	(390)
			Industry, Trade and Mines		
1,185	1,328	143	- Oil and Natural Gas Tax	1,328	70
			Finance		
101,234	89,670	(11,564)	- Corporation Income Tax	89,670	(3,828)
720,459	796,681	76,222	- Individual Income Tax	796,681	2,715
61,344	69,934	8,590	- Corporation Capital Tax	69,934	4,877
66,477	67,204	727	- Gasoline Tax	67,204	48
90,731	89,662	(1,069)	- Levy for Health and Education	89,662	(1,154)
2,290	6,231	3,941	- Mining Tax	6,231	5,514
26,456	26,082	(374)	- Motive Fuel Tax	26,082	1,231
367,790	388,725	20,935	- Retail Sales Tax	388,725	4,413
18,867	19,367	500	- Revenue Act, 1964, Part I	19,367	679
48,678	49,486	808	- Tobacco Tax	49,486	527
1,746	766	(980)	- Environmental Protection Tax	766	(226)
<u>1,532,289</u>	<u>1,630,879</u>	<u>98,590</u>		<u>1,630,879</u>	<u>15,778</u>
			Other Revenue:		
38,939	32,723	(6,216)	Conservation	32,723	2,164
3,698	1,577	(2,121)	Consumer and Corporate Affairs	1,577	(44)
36,521	36,074	(447)	Highways and Government Services	36,074	(1,025)
116,056	114,000	(2,056)	Revenue from Lotteries	114,000	(1,000)
72,080	68,500	(3,580)	Liquor Control Commission	68,500	(500)
30,891	28,950	(1,941)	Other Departments	28,950	(1,533)
<u>298,185</u>	<u>281,824</u>	<u>(16,361)</u>		<u>281,824</u>	<u>(1,938)</u>
<u>1,830,474</u>	<u>1,912,703</u>	<u>82,229</u>	Total Own Source Revenue	<u>1,912,703</u>	<u>13,840</u>
			Government of Canada:		
535,244	464,404	(70,840)	Equalization	464,404	-
232,372	253,071	20,699	Canada Health and Social Transfer	253,071	-
-	130,595	130,595	Federal Health Supplement	130,595	-
			Other		
4,251	21,378	17,127	- Education and Training	21,378	2,006
3,297	1,501	(1,796)	- Family Services and Housing	1,501	-
-	2,482	2,482	- Health	2,482	(347)
4,261	3,534	(727)	- Other Departments	3,534	(1,368)
<u>779,425</u>	<u>876,965</u>	<u>97,540</u>		<u>876,965</u>	<u>291</u>
<u>2,609,899</u>	<u>2,789,668</u>	<u>179,769</u>	Total Revenue	<u>2,789,668</u>	<u>14,131</u>

**PROVINCE OF MANITOBA
OPERATING FUND
STATEMENT OF PART A – OPERATING EXPENDITURE
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 1999
(with comparative figures for September 30, 1998)
(UNAUDITED)**

1998/99 ACTUAL	1999/2000 ACTUAL	INCREASE (DECREASE)		1999/2000		
(thousands of dollars)				ACTUAL	ESTIMATE	VARIANCE
				(thousands of dollars)		
8,913	12,806	3,893	Legislative Assembly	12,806	12,572	234
1,506	1,660	154	Executive Council	1,660	1,683	(23)
10,351	11,250	899	Aboriginal and Northern Affairs	11,250	11,317	(67)
42,064	42,292	228	Agriculture and Food	42,292	47,266	(4,974)
1,100	2,957	1,857	Children and Youth Secretariat	2,957	2,816	141
2,062	2,258	196	Civil Service Commission	2,258	2,229	29
3,645	5,009	1,364	Community Support Programs	5,009	3,664	1,345
67,232	66,204	(1,028)	Conservation	66,204	76,388	(10,184)
4,619	4,260	(359)	Consumer and Corporate Affairs	4,260	4,483	(223)
27,230	30,258	3,028	Culture, Heritage and Tourism	30,258	29,764	494
499,552	516,707	17,155	Education and Training	516,707	519,591	(2,884)
23,486	26,590	3,104	Employee Benefits and Other Payments	26,590	25,489	1,101
318,259	354,844	36,585	Family Services and Housing	354,844	357,285	(2,441)
528,377	436,364	(92,013)	Finance	436,364	435,441	923
913,114	1,012,151	99,037	Health	1,012,151	983,849	28,302
152,233	163,384	11,151	Highways and Government Services	163,384	153,479	9,905
12,173	12,460	287	Industry, Trade and Mines	12,460	12,756	(296)
65,549	62,539	(3,010)	Intergovernmental Affairs	62,539	63,668	(1,129)
75,048	87,566	12,518	Justice	87,566	87,601	(35)
8,029	9,445	1,416	Labour	9,445	10,470	(1,025)
312	523	211	Seniors Directorate	523	564	(41)
10,206	8,333	(1,873)	Sport	8,333	5,329	3,004
387	612	225	Status of Women	612	592	20
773	811	38	Enabling Appropriations	811	1,393	(582)
28,014	94,972	66,958	Other Appropriations	94,972	104,085	(9,113)
<u>2,804,234</u>	<u>2,966,255</u>	<u>162,021</u>	Total Expenditure	<u>2,966,255</u>	<u>2,953,774</u>	<u>12,481</u>

**PROVINCE OF MANITOBA
OPERATING FUND
STATEMENT OF PART B – CAPITAL INVESTMENT
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 1999
(with comparative figures for September 30, 1998)
(UNAUDITED)**

1998/99 ACTUAL	1999/2000 ACTUAL	INCREASE (DECREASE)		1999/2000		
(thousands of dollars)				ACTUAL	ESTIMATE	VARIANCE
				(thousands of dollars)		
578	36	(542)	Conservation	36	165	(129)
96	-	(96)	Education and Training	-	-	-
-	8,710	8,710	Family Services and Housing	8,710	8,710	-
-	3,430	3,430	Finance	3,430	3,500	(70)
5,686	18,572	12,886	Highways and Government Services	18,572	18,878	(306)
10	-	(10)	Justice	-	-	-
-	9,031	9,031	Enabling Appropriations	9,031	9,000	31
<u>6,370</u>	<u>39,779</u>	<u>33,409</u>	Total Capital Investment	<u>39,779</u>	<u>40,253</u>	<u>(474)</u>

NOTE: In 1998/99, the Better Methods Initiative (Finance), Desktop Management Initiative (Government Services), Health Information Network (Health) and Better Systems Initiative (Other Appropriations) were funded from the Government Information Systems Management Organization (Man.) Inc.

**PROVINCE OF MANITOBA
OPERATING FUND
STATEMENT OF VALUATION AND PURPOSE OF
DIRECT AND GUARANTEED DEBT OUTSTANDING
SEPTEMBER 30, 1999
(with comparative figures for March 31, 1999)
(UNAUDITED)**

Canadian Dollar Equivalent at Date of Issue Sept. 30/99	Canadian Dollar Equivalent at Date of Issue March 31/99	Increase (Decrease) Sept. 30/99 over March 31/99		Canadian Dollar Valuation (Note 1) Sept. 30/99	Canadian Dollar Valuation (Note 1) March 31/99	Increase (Decrease) Sept. 30/99 over March 31/99
(thousands of dollars)				(thousands of dollars)		
Direct Debt Payable in:						
10,638,547	10,202,979	435,568	Canadian Dollars	10,610,747	10,175,179	435,568
2,346,461	1,991,737	354,724	Issues Swapped to Canadian Dollars	2,467,818	2,045,427	422,391
3,956,348	4,311,071	(354,723)	U.S. Dollars	4,929,786	5,517,267	(587,481)
740,294	740,294	-	Issues Swapped to U.S. Dollars	857,517	880,384	(22,867)
<u>17,681,650</u>	<u>17,246,081</u>	<u>435,569</u>	Total Direct Debt	<u>18,865,868</u>	<u>18,618,257</u>	<u>247,611</u>
Guaranteed Debt Payable in:						
621,354	479,633	141,721	Canadian Dollars	621,354	479,632	141,722
205,212	296,709	(91,497)	U.S. Dollars	205,212	296,709	(91,497)
<u>826,566</u>	<u>776,342</u>	<u>50,224</u>	Total Guaranteed Debt	<u>826,566</u>	<u>776,341</u>	<u>50,225</u>
18,508,216	18,022,423	485,793	Total Direct and Guaranteed Debt (Note 2)	19,692,434	19,394,598	297,836
6,137,645	5,766,744	370,901	Less: Sinking Fund Investments	6,137,645	5,766,744	370,901
-	230,071	(230,071)	Less: Debt Retirement Fund	-	230,071	(230,071)
<u>12,370,571</u>	<u>12,025,608</u>	<u>344,963</u>	Net Direct and Guaranteed Debt (Note 3)	<u>13,554,789</u>	<u>13,397,783</u>	<u>157,006</u>

Note 1: The Canadian Dollar Valuation is calculated using the foreign currency exchange rates in effect at September 30, 1999 and March 31, 1999 adjusted for any foreign currency contracts entered into for settlement after these dates.

Note 2: Direct and Guaranteed Debt are payable in Canadian and U.S. dollars. As at September 30, 1999, total gross debt was payable 70% in Canadian dollars and 30% in U.S. dollars. Of this total, General Purpose Debt and Other Debt was payable 82% in Canadian dollars (78% at March 31, 1999) and 18% in U.S. dollars (22% at March 31, 1999) while Manitoba Hydro was payable 47% in Canadian dollars (43% at March 31, 1999) and 53% in U.S. dollars (57% at March 31, 1999)

Note 3: The above debt was issued for the following purposes:

	September 30, 1999		March 31, 1999	
	(in thousands)	(per capita) (Note 4)	(in thousands)	(per capita) (Note 4)
General Government Programs	6,776,723	5,927	6,773,800	5,933
The Manitoba Hydro-Electric Board	5,900,076	5,160	5,676,452	4,971
Other	877,990	768	947,531	830
	<u>13,554,789</u>	<u>11,855</u>	<u>13,397,783</u>	<u>11,734</u>

Note 4: Per capita data is based upon population figures at July 1, 1999 and April 1, 1999 as reported by Statistics Canada.

**PROVINCE OF MANITOBA
FISCAL STABILIZATION FUND
PROJECTION FOR THE YEAR ENDING MARCH 31, 2000
(with comparative figures for March 31, 1999)
(UNAUDITED)**

	1999/2000 Projection	1998/99 Actual
	(thousands of dollars)	
Fund Balance, Beginning of Year	427,311	565,003
Revenue:		
Interest Earnings	11,000	16,881
Transfer from Operating Fund Revenue	-	31,130
	<u>11,000</u>	<u>48,011</u>
Expenditure:		
1998/99 Actual Transfer	-	185,703
1999/2000 Budgeted Transfer	185,000	-
	<u>185,000</u>	<u>185,703</u>
Fund Balance, End of Year	<u>253,311</u>	<u>427,311</u>

**PROVINCE OF MANITOBA
DEBT RETIREMENT FUND
PROJECTION FOR THE YEAR ENDING MARCH 31, 2000
(with comparative figures for March 31, 1999)
(UNAUDITED)**

	1999/2000 Projection	1998/99 Actual
	(thousands of dollars)	
Fund Balance, Beginning of Year	230,071	76,308
Revenue:		
Interest Earnings	32	3,763
Transfer from Operating Fund Revenue	75,000	150,000
	<u>75,032</u>	<u>153,763</u>
Expenditure:		
Debt Retirement Payment	<u>305,103</u>	<u>-</u>
Fund Balance, End of Year	<u>-</u>	<u>230,071</u>