

**PROVINCE OF MANITOBA
NOTES TO THE QUARTERLY FINANCIAL REPORT
FOR THE SIX MONTHS - APRIL TO SEPTEMBER 1998**

This report presents the unaudited financial results of the Province of Manitoba for the second quarter of the 1998/99 fiscal year. These financial statements have been prepared on a cash basis without adjustments for normal year-end entries.

The comparative data provided for the 1997/98 fiscal year has been recast to reflect the organizational structure of departments established in the 1998/99 Estimates.

SECOND QUARTER - ACTUAL TO ESTIMATE

The second quarter deficit of \$195.7 million was \$72.0 million less than the \$267.7 million projected. The estimate represents cash flow projections for the period. The major variances arise from timing differences between the cash flow of receipts and disbursements.

SECOND QUARTER COMPARED TO PREVIOUS YEAR'S RESULTS

The second quarter deficit was \$4.0 million lower than the same period last year. The decrease reflects a \$45.8 million increase in revenue primarily from growth in various own source revenues partially offset by a \$41.8 million increase in expenditure resulting mainly from timing differences of certain payments.

The growth in own source revenue includes a \$22.2 million, or 3.2%, year over year increase in individual income tax, and a \$19.9 million, or 5.7%, year over year increase in retail sales tax. Transfers from the federal government are also higher than for the same period last year mainly due to timing differences, particularly transfers related to the 1997 flood.

YEAR END PROJECTION

The 1998/99 year-end surplus is now forecast to be \$27.0 million, a \$4.0 million increase from the surplus projected in the 1998 Budget. This revised surplus is based on increased revenues of \$58.5 million, or 1.0%, offset by a \$54.5 million, or 1.0%, increase in expenditures.

The impact of flood-related adjustments has been reflected in the increases in revenues and expenditures noted above. There is a projected \$56.0 million decrease in 1998/99 flood-related expenditures and revenues. This results from greater levels of 1997 flood disaster assistance flowing in 1997/98 rather than in 1998/99 as anticipated at the time the budget was prepared. Flood-proofing measures are continuing in 1998/99 and subsequent years and the province is negotiating a reasonable federal contribution toward projects designed to protect individuals and businesses from future flooding.

Revenue is projected to increase primarily as a result of a \$114.5 million increase in various revenue sources offset by the \$56.0 million reduction in 1997 flood costs as described above. This increase is primarily due to the positive impact of revised population data that was noted in the first quarterly report. As discussed in previous reports, federal data also confirms the flood-related data distortion that will result in 1998/99 individual income tax revenue being higher than budget but mostly offset by a corresponding decrease in equalization revenue. Overall, other revenue sources continue to perform well and are on track to meet budget projections.

Expenditures are projected to increase due to the net impact of a \$110.5 million increase offset by a \$56.0 million reduction in 1997 flood costs as described above. Projected funding increases are primarily for health care, as well as for justice programs, family services, highway improvements and public debt interest costs.

PROGRESS REPORT ON ACCOUNTING FOR CAPITAL ASSETS

The 1998 Budget indicated that the province intends to implement an accounting change with respect to tangible capital assets in accordance with new accounting standards issued by the Canadian Institute of Chartered Accountants. This change will occur in the fiscal year 1999/2000.

Tangible capital assets are a significant economic resource of governments and a key component of the delivery of many government programs. Traditionally, governments have absorbed the cost of these assets in the fiscal year in which they were acquired. The change in reporting being addressed next year will result in the expenditure on tangible assets being amortized "on an expense basis" over the useful life of the asset.

Extensive work is currently being undertaken to adapt the 1999/2000 budget and subsequent public accounts to this improved accounting practice.

BORROWING ACTIVITY

The original borrowing requirement for the 1998/99 fiscal year of \$1,345.2 million has increased to \$1,716.5 million to accommodate refunding Manitoba Hydro promissory notes and to fund an allocation to the Provincial Sinking Fund for the repurchase of foreign debt. This estimate includes \$1,482.9 million for refinancing maturing debt issues with the balance required for self-sustaining programs, including Manitoba Hydro.

For the period April 1, 1998 to September 30, 1998, \$1,035.7 million has been borrowed; \$187.9 million was raised through the issue of Builder Bonds Series 4 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, 1998
(with comparative figures for SEPTEMBER 30, 1997)
(UNAUDITED)**

1997/98 ACTUAL (thousands of dollars)	1998/99 ACTUAL (thousands of dollars)	INCREASE (DECREASE)		1998/99 ACTUAL ESTIMATE VARIANCE (thousands of dollars)		
Revenue						
1,795,338	1,830,474	35,136	Own Source Revenue	1,830,474	1,813,535	16,939
768,717	779,425	10,708	Government of Canada	779,425	794,711	(15,286)
<u>2,564,055</u>	<u>2,609,899</u>	<u>45,844</u>	Total Revenue	<u>2,609,899</u>	<u>2,608,246</u>	<u>1,653</u>
Program Expenditure						
2,308,484	2,327,526	19,042	Current	2,327,526	2,382,853	(55,327)
137,607	151,130	13,523	Capital	151,130	162,982	(11,852)
<u>2,446,091</u>	<u>2,478,656</u>	<u>32,565</u>	Total Program Expenditure	<u>2,478,656</u>	<u>2,545,835</u>	<u>(67,179)</u>
317,706	326,996	9,290	Public Debt Costs	326,996	330,127	(3,131)
<u>2,763,797</u>	<u>2,805,652</u>	<u>41,855</u>	Total Expenditure	<u>2,805,652</u>	<u>2,875,962</u>	<u>(70,310)</u>
<u>(199,742)</u>	<u>(195,753)</u>	<u>(3,989)</u>	Budgetary Deficit	<u>(195,753)</u>	<u>(267,716)</u>	<u>(71,963)</u>

**PROVINCE OF MANITOBA
OPERATING FUND
STATEMENT OF REVENUE
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 1998
(with comparative figures for September 30, 1997)
(UNAUDITED)**

1997/98 ACTUAL	1998/99 ACTUAL	INCREASE (DECREASE)	1998/99			
			ACTUAL	ESTIMATE	VARIANCE	
(thousands of dollars)			(thousands of dollars)			
			Taxation:			
			Consumer and Corporate Affairs			
17,916	17,998	82				
5,379	7,034	1,655	- Insurance Corporations Tax	17,998	17,558	440
			- Land Transfer Tax	7,034	5,796	1,238
			Energy and Mines			
2,092	1,185	(907)	- Oil and Natural Gas Tax	1,185	1,327	(142)
			Finance			
97,817	101,234	3,417	- Corporation Income Tax	101,234	101,230	4
698,281	720,459	22,178	- Individual Income Tax	720,459	714,914	5,545
61,204	61,344	140	- Corporation Capital Tax	61,344	58,014	3,330
67,980	66,477	(1,503)	- Gasoline Tax	66,477	66,097	380
105,680	90,731	(14,949)	- Levy for Health and Education	90,731	92,936	(2,205)
3,444	2,290	(1,154)	- Mining Tax	2,290	6,736	(4,446)
26,923	26,456	(467)	- Motive Fuel Tax	26,456	26,266	190
347,884	367,790	19,906	- Retail Sales Tax	367,790	363,263	4,527
18,380	18,867	487	- Revenue Act, 1964, Part I	18,867	18,688	179
48,727	48,678	(49)	- Tobacco Tax	48,678	47,150	1,528
1,352	1,746	394	- Environmental Protection Tax	1,746	1,130	616
<u>1,503,059</u>	<u>1,532,289</u>	<u>29,230</u>		<u>1,532,289</u>	<u>1,521,105</u>	<u>11,184</u>
			Government of Canada:			
515,148	535,244	20,096	Equalization	535,244	535,380	(136)
250,258	232,372	(17,886)	Canada Health and Social Transfer	232,372	232,236	136
			Other			
1,147	4,251	3,104	- Education	4,251	19,448	(15,197)
-	3,297	3,297	- Family Services	3,297	3,050	247
2,164	4,261	2,097	- Other	4,261	4,597	(336)
<u>768,717</u>	<u>779,425</u>	<u>10,708</u>		<u>779,425</u>	<u>794,711</u>	<u>(15,286)</u>

**PROVINCE OF MANITOBA
OPERATING FUND
STATEMENT OF REVENUE
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 1998
(with comparative figures for September 30, 1997)
(UNAUDITED)**

1997/98 ACTUAL	1998/99 ACTUAL	INCREASE (DECREASE)		1998/99		
(thousands of dollars)				ACTUAL	ESTIMATE	VARIANCE
				(thousands of dollars)		
			Other Revenue:			
4,605	3,029	(1,576)	- Energy and Mines	3,029	3,178	(149)
3,115	717	(2,398)	- Finance	717	837	(120)
33,105	34,711	1,606	- Highways and Transportation	34,711	32,741	1,970
37,512	38,825	1,313	- Natural Resources	38,825	36,331	2,494
186,677	192,136	5,459	- Crown Corporations	192,136	190,000	2,136
27,265	28,767	1,502	- Other Departments	28,767	29,343	(576)
<u>292,279</u>	<u>298,185</u>	<u>5,906</u>		<u>298,185</u>	<u>292,430</u>	<u>5,755</u>
<u>2,564,055</u>	<u>2,609,899</u>	<u>45,844</u>	Total Revenue	<u>2,609,899</u>	<u>2,608,246</u>	<u>1,653</u>

**PROVINCE OF MANITOBA
OPERATING FUND
STATEMENT OF EXPENDITURE
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 1998
(with comparative figures for September 30, 1997)
(UNAUDITED)**

1997/98 ACTUAL	1998/99 ACTUAL	INCREASE (DECREASE)		1998/99		
(thousands of dollars)				ACTUAL	ESTIMATE	VARIANCE
				(thousands of dollars)		
7,755	8,747	992	Legislative Assembly	8,747	9,640	(893)
1,380	1,506	126	Executive Council	1,506	1,582	(76)
35,917	41,361	5,444	Agriculture	41,361	41,586	(225)
124	1,100	976	Children and Youth Secretariat	1,100	1,323	(223)
1,997	2,062	65	Civil Service Commission	2,062	2,242	(180)
3,470	3,645	175	Community Support Programs	3,645	3,663	(18)
4,508	4,619	111	Consumer and Corporate Affairs	4,619	4,761	(142)
26,173	26,144	(29)	Culture, Heritage and Citizenship	26,144	27,267	(1,123)
537,661	500,126	(37,535)	Education and Training	500,126	508,872	(8,746)
18,598	23,486	4,888	Employee Benefits and Other Payments	23,486	22,930	556
5,399	5,229	(170)	Energy and Mines	5,229	5,607	(378)
6,875	7,054	179	Environment	7,054	7,135	(81)
300,349	305,054	4,705	Family Services	305,054	315,248	(10,194)
511,603	528,239	16,636	Finance	528,239	532,014	(3,775)
16,061	23,418	7,357	Government Services	23,418	22,818	600
869,681	913,351	43,670	Health	913,351	947,864	(34,513)
133,774	130,136	(3,638)	Highways and Transportation	130,136	126,022	4,114
17,644	12,800	(4,844)	Housing	12,800	13,272	(472)
9,876	10,359	483	Industry, Trade and Tourism	10,359	11,496	(1,137)
70,452	75,013	4,561	Justice	75,013	78,188	(3,175)
6,247	6,119	(128)	Labour	6,119	6,471	(352)
39,504	60,178	20,674	Natural Resources	60,178	64,736	(4,558)
9,683	10,156	473	Northern Affairs	10,156	10,891	(735)
39,161	36,242	(2,919)	Rural Development	36,242	41,851	(5,609)
240	267	27	Seniors Directorate	267	277	(10)
6,528	10,206	3,678	Sport	10,206	10,205	1
393	387	(6)	Status of Women	387	414	(27)
25,155	29,889	4,734	Urban Affairs	29,889	29,145	744
735	745	10	Enabling Appropriations	745	1,021	(276)
56,854	28,014	(28,840)	Other Appropriations	28,014	27,421	593
<u>2,763,797</u>	<u>2,805,652</u>	<u>41,855</u>	Total Expenditure	<u>2,805,652</u>	<u>2,875,962</u>	<u>(70,310)</u>

**PROVINCE OF MANITOBA
OPERATING FUND
STATEMENT OF VALUATION AND PURPOSE OF
DIRECT AND GUARANTEED DEBT OUTSTANDING
SEPTEMBER 30, 1998
(with comparative figures for March 31, 1998)
(UNAUDITED)**

Canadian Dollar Equivalent at Date of Issue Sept 30/98	Canadian Dollar Equivalent at Date of Issue Mar 31/98	Increase (Decrease) Sept 30/98 over Mar 31/98		Canadian Dollar Valuation (Note 1) Sept 30/98	Canadian Dollar Valuation (Note 1) Mar 31/98	Increase (Decrease) Sept 30/98 over Mar 31/98
(thousands of dollars)				(thousands of dollars)		
Direct Debt Payable in:						
9,302,473	8,575,028	727,445	Canadian Dollars	9,274,673	8,575,028	699,645
2,535,580	2,654,435	(118,855)	Issues Swapped to Canadian Dollars	2,624,530	2,746,411	(121,881)
4,308,044	4,074,490	233,554	U.S. Dollars	5,578,318	4,895,424	682,894
811,824	1,271,824	(460,000)	Issues Swapped to U.S. Dollars	975,683	1,363,002	(387,319)
<u>16,957,921</u>	<u>16,575,777</u>	<u>382,144</u>	Total Direct Debt	<u>18,453,204</u>	<u>17,579,865</u>	<u>873,339</u>
Guaranteed Debt Payable in:						
484,249	507,565	(23,316)	Canadian Dollars	484,249	507,565	(23,316)
396,429	532,500	(136,071)	U.S. Dollars	396,429	532,500	(136,071)
<u>880,678</u>	<u>1,040,065</u>	<u>(159,387)</u>	Total Guaranteed Debt	<u>880,678</u>	<u>1,040,065</u>	<u>(159,387)</u>
17,838,599	17,615,842	222,757	Total Direct and Guaranteed Debt (Note 2)	19,333,882	18,619,930	713,952
<u>5,582,179</u>	<u>5,302,251</u>	<u>279,928</u>	Less: Sinking Fund Investments	<u>5,582,179</u>	<u>5,302,251</u>	<u>279,928</u>
<u><u>12,256,420</u></u>	<u><u>12,313,591</u></u>	<u><u>(57,171)</u></u>	Net Direct and Guaranteed Debt (Note 3)	<u><u>13,751,703</u></u>	<u><u>13,317,679</u></u>	<u><u>434,024</u></u>

Note 1: The Canadian Dollar Valuation is calculated using the foreign currency exchange rates in effect at September 30, 1998 and March 31, 1998 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, 1998, total gross debt was payable 64% in Canadian dollars and 36% in U.S. dollars. Of this total, General Purpose Debt and Other Debt was payable 77% in Canadian dollars (78% at March 31, 1998) and 23% in U.S. dollars (22% at March 31, 1998) while Manitoba Hydro was payable 42% in Canadian dollars (38% at March 31, 1998) and 58% in U.S. dollars (62% at March 31, 1998)

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

	September 30, 1998		March 31, 1998	
	(in thousands)	(per capita) (Note 4)	(in thousands)	(per capita) (Note 4)
General Government Programs	6,849,498	6,003	6,763,278	5,920
The Manitoba Hydro-Electric Board	5,961,856	5,225	5,568,799	4,874
Other	940,349	824	985,602	863
	<u>13,751,703</u>	<u>12,052</u>	<u>13,317,679</u>	<u>11,657</u>

Note 4: Per capita data is based upon population figures at July 1, 1998 and April 1, 1998, as reported by Statistics Canada.

**PROVINCE OF MANITOBA
FISCAL STABILIZATION FUND
PROJECTION FOR THE YEAR ENDING MARCH 31, 1999
(with comparative figures for March 31, 1998)
(UNAUDITED)**

	1998/99 Projection	1997/98 Actual
	(thousands of dollars)	
Fund Balance, Beginning of Year	<u>565,003</u>	<u>577,494</u>
Revenue:		
Interest Earnings	16,800	11,625
Budgetary Surplus	<u>26,958</u>	<u>76,228</u>
	<u>43,758</u>	<u>87,853</u>
Expenditure:		
Accelerated Debt Retirement	75,000	
Allocation in Support of Social Programs	60,000	100,000
Capital Initiatives	50,000	
Flood Costs	32,300	
Economic Innovation and Technology Fund Transfer	<u>1,000</u>	<u>344</u>
	<u>218,300</u>	<u>100,344</u>
Fund Balance, End of Year	<u><u>390,461</u></u>	<u><u>565,003</u></u>

**PROVINCE OF MANITOBA
OPERATING FUND
PROJECTION TO YEAR END
FOR THE YEAR ENDING MARCH 31, 1999
(UNAUDITED)**

	<u>Revised Projection</u>	<u>Budget Projection</u>
	(thousands of dollars)	
Revenue	5,967,643	5,909,175
Expenditure	5,790,685	5,736,136
Surplus Before Debt Retirement	<u>176,958</u>	<u>173,039</u>
Less: Debt Retirement	150,000	150,000
Budgetary Surplus	<u><u>26,958</u></u>	<u><u>23,039</u></u>