

**PROVINCE OF MANITOBA
NOTES TO THE PRELIMINARY UNAUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1998**

These preliminary statements for the year ended March 31, 1998 are subject to audit. The amounts reported represent the most current data available and it is expected that they will remain largely unchanged when final audited financial statements are issued for the year.

The financial results of the fiscal year have been prepared on a basis consistent with the accounting policies of the Province which are detailed in the Public Accounts. The comparative data provided for the 1996/97 fiscal year has been recast to reflect the organizational structure of departments established in the 1997/98 Estimates.

1997/98 YEAR-END RESULTS

For the 1997/98 fiscal year, a budgetary surplus of \$76.4 million was achieved, a \$49.6 million increase from the \$26.8 million surplus projected in the 1997 Budget and a \$32.9 million increase from the surplus of \$43.5 million projected in the Third Quarter Financial Report.

Total revenue was \$5,842.5 million, an increase of \$430.7 million, or 8.0%, from the budget estimate of \$5,411.8 million. A large part of the increase was due to cost-shared recoveries of \$172.2 million from the federal government related to the 1997 Spring flood. As stated in the third quarter report, the flood also affected 1996 personal income tax return filings and the related data used to calculate equalization which resulted in increased 1997/98 equalization payments. Our third quarter report indicated a \$105.7 million increase in equalization revenue from the budget estimate due to this data distortion. The anticipated reversal of the data distortion will eventually result in a decrease in equalization revenue and a corresponding increase in individual income tax revenue in future years. Subsequent to the third quarter report, revised projections were received from the federal government to further increase 1997 entitlements by \$37.3 million to result in a \$143.0 million total increase in equalization revenue from the budget estimate.

Own-source revenue has increased \$101.7 million, or 2.6%, from the budget estimate and includes a \$45.1 million, or 5.8%, increase in retail sales tax (a 9.0% increase over 1996/97 results), a \$10.6 million increase in corporation capital tax, a \$6.4 million increase in tobacco tax and a \$19.7 million increase in other revenue including a \$6.8 million increase in water power rentals and a \$4.5 million increase in automobile and motor carrier licence fees. The improvement in own-source revenue reflects the improved performance of the Manitoba economy. Manitoba's economic performance in 1997 was very strong. Retail sales grew 8.4%. Total capital investment is projected to have risen by 15.4% in 1997, the largest increase in 12 years. Employment grew by 2.4%, the largest increase in 11 years.

Total revenue was \$343.5 million higher than 1996/97 as a result of \$172.2 million in 1997 flood-related recoveries from the federal government, and a \$175.3 million improvement in own-source revenue including growth in retail sales tax, mining tax and individual income tax and a transfer from the Fiscal Stabilization Fund to offset federal reductions in funding for social programs.

Total operating and capital expenditure was \$5,691.2 million, an increase of \$381.1 million, or 7.2%, from the budget estimate of \$5,310.1 million. The increase in expenditures is primarily due to \$218.2 million related to the 1997 Spring flood and additional requirements of \$87.4 million for health programs including \$33.0 million for medical services, \$32.8 million for hospital services and \$20.2 million for home care assistance. Other increases include a \$37.0 million increase in the provision for Year 2000 improvements and modifications for systems used to deliver critical services and a \$13.6 million increase in education and training programs. Public debt costs of \$520.1 million were virtually unchanged from the budget estimate.

Total operating and capital expenditure increased by \$283.3 million, or 5.2%, from 1996/97 actual expenditures. This increase is comprised of 1997 Spring flood costs of \$218.2, increased hospital, medical and home care expenditures, the provision for Year 2000 systems improvements and modifications, and increased support for education, partially offset by a \$19.0 million decrease in interest on the public debt.

1997 SPRING FLOOD

Expenditures related to the 1997 Spring flood include disaster assistance payments to individuals and businesses and funding support to individuals, businesses and communities undertaking various flood proofing projects to protect against future flooding. Almost all of the 1997/98 expenditures relate to disaster assistance, however, some flood proofing has been undertaken.

The following table indicates the departmental expenditure as well as the related recoveries from the Government of Canada.

	1997/98 ACTUAL EXPENDITURE	1997/98 ACTUAL RECOVERIES	NET COST TO MANITOBA
	(thousands of dollars)		
Agriculture			
- flood proofing loan assistance costs	684	-	684
Natural Resources			
- flood proofing costs	9,989	4,994	4,995
Other Appropriations (Emergency Expenditures)			
- disaster financial assistance	200,903	167,206	33,697
- Jobs & Economic Recovery Initiative	6,665	-	6,665
Total Other Appropriations	207,568	167,206	40,362
TOTAL	218,241	172,200	46,041

COMPLIANCE WITH BALANCED BUDGET LEGISLATION

The Balanced Budget, Debt Repayment and Taxpayer Protection Act was passed by the Legislature on November 3, 1995.

Subject to limited exceptions, this Act requires the government to achieve a balanced budget (i.e. the government is not to incur a deficit) in every fiscal year commencing on or after April 1, 1995. The Act also specifies how annual surpluses are to be utilized. They may be allocated to either the Fiscal Stabilization Fund or the Debt Retirement Fund, or declared as surplus at year-end.

Based on the year-end budgetary surplus of \$76.4 million, the government is in compliance with the requirements of this Act. The 1997/98 surplus is being transferred to the Fiscal Stabilization Fund. See page 10 for the status of the Fiscal Stabilization Fund as at March 31, 1998.

BORROWING ACTIVITY

The borrowing requirement for the Province and Crown corporations for the 1997/98 fiscal year increased \$360.8 million over the original estimate, from \$1,586.6 million to \$1,947.4 million, to accommodate the call of two issues prior to maturity and refunding a portion of the promissory notes of Manitoba Hydro at lower interest costs. Actual funds raised were comprised of \$1,897.4 million for refinancing maturing debt issues and \$50.0 million for self-sustaining purposes.

For the period April 1, 1997 to March 31, 1998, \$1,947.4 million was borrowed; \$287.8 million was raised through the issue of Province of Manitoba Hydro Savings Bonds with the remainder raised in the public market.

**PROVINCE OF MANITOBA
OPERATING FUND
STATEMENT OF REVENUE AND EXPENDITURE
FOR THE YEAR ENDED MARCH 31, 1998
(with comparative figures for March 31, 1997)
(UNAUDITED)**

1996/97 ACTUAL	1997/98 ACTUAL	INCREASE (DECREASE)		1997/98		
(thousands of dollars)				ACTUAL	ESTIMATED	VARIANCE
				(thousands of dollars)		
5,495,174	5,842,545	347,371	Total Operating Revenue	5,842,545	5,411,847	430,698
5,092,083	5,358,193	266,110	Total Operating Expenditure	5,358,193	4,993,344	364,849
403,091	484,352	81,261	Operating Surplus Before Deposit to Debt Retirement Fund	484,352	418,503	65,849
-	75,000	75,000	Deposit to Debt Retirement Fund	75,000	75,000	-
403,091	409,352	6,261	Operating Surplus	409,352	343,503	65,849
315,788	332,972	17,184	Capital Expenditure	332,972	316,740	16,232
3,842	-	(3,842)	Less: Federal Recoveries	-	-	-
311,946	332,972	21,026	Net Capital Expenditure	332,972	316,740	16,232
91,145	76,380	(14,765)	Budgetary Surplus Before Extraordinary Items	76,380	26,763	49,617
414,641	-	(414,641)	Extraordinary Items: Net Proceeds from Manitoba Telephone System Divestiture	-	-	-
150,000	-	(150,000)	Less: Debt Repayment - Hospitals and Personal Care Homes	-	-	-
264,641	-	(264,641)	Net Extraordinary Items	-	-	-
355,786	76,380	(279,406)	Surplus after Extraordinary Items	76,380	26,763	49,617
(355,786)	(76,380)	279,406	Less: Net Revenue Transferred to Fiscal Stabilization Fund (see note)	(76,380)	(26,763)	(49,617)
-	-	-	Net Result - Transferred to Accumulated Deficit	-	-	-

NOTE: Transfer to Fiscal Stabilization Fund

Section 9(a) of the Balanced Budget, Debt Repayment and Taxpayer Protection Act requires that, if a surplus exists in a fiscal year, the Minister of Finance will first transfer as a minimum any amount of that surplus required to bring the Fiscal Stabilization Fund to its target level as set out in the Fiscal Stabilization Act. The target level is a minimum of 5% of the expenditure for the Operating Fund - or approximately \$285 million. The full amount of the current surplus of \$76.4 million is being transferred to the Fiscal Stabilization Fund which results in a Fund balance of \$565.2 million as at March 31, 1998 (see page 10).

**PROVINCE OF MANITOBA
OPERATING FUND
STATEMENT OF REVENUE
FOR THE YEAR ENDED MARCH 31, 1998
(with comparative figures for March 31, 1997)
(UNAUDITED)**

1996/97 ACTUAL	1997/98 ACTUAL	INCREASE (DECREASE)		1997/98		
(thousands of dollars)				ACTUAL	ESTIMATED	VARIANCE
				(thousands of dollars)		
TAXATION:						
			Consumer and Corporate Affairs			
35,727	36,079	352	- Insurance Corporations Tax	36,079	35,500	579
9,069	11,784	2,715	- Land Transfer Tax	11,784	9,000	2,784
			Energy and Mines			
4,833	4,256	(577)	- Oil and Natural Gas Tax	4,256	3,168	1,088
			Finance			
241,234	192,703	(48,531)	- Corporation Income Tax	192,703	190,100	2,603
1,411,929	1,431,075	19,146	- Individual Income Tax	1,431,075	1,436,100	(5,025)
108,691	118,688	9,997	- Corporation Capital Tax	118,688	108,100	10,588
153,020	152,157	(863)	- Gasoline Tax	152,157	151,500	657
208,593	216,194	7,601	- Levy for Health and Education	216,194	209,400	6,794
6,764	24,304	17,540	- Mining Tax	24,304	15,000	9,304
65,286	65,928	642	- Motive Fuel Tax	65,928	64,400	1,528
2,674	-	(2,674)	- Pari Mutuel Tax	-	-	-
761,373	830,143	68,770	- Retail Sales Tax	830,143	785,000	45,143
50,958	51,757	799	- Revenue Act, 1964, Part I	51,757	52,000	(243)
109,638	112,917	3,279	- Tobacco Tax	112,917	106,500	6,417
2,740	2,812	72	- Environmental Protection Tax	2,812	3,000	(188)
112	111	(1)	- Other Taxes	111	112	(1)
<u>3,172,641</u>	<u>3,250,908</u>	<u>78,267</u>		<u>3,250,908</u>	<u>3,168,880</u>	<u>82,028</u>
GOVERNMENT OF CANADA:						
1,086,931	1,164,320	77,389	Equalization	1,164,320	1,021,300	143,020
			Social Transfers			
585,778	507,139	(78,639)	- Canada Health and Social Transfer	507,139	499,000	8,139
35	(3,177)	(3,212)	- Canada Assistance Plan	(3,177)	-	(3,177)
<u>585,813</u>	<u>503,962</u>	<u>(81,851)</u>		<u>503,962</u>	<u>499,000</u>	<u>4,962</u>
			Other			
9,617	15,258	5,641	- Education	15,258	7,752	7,506
4,970	844	(4,126)	- Highways and Transportation	844	1,556	(712)
164	5,145	4,981	- Natural Resources	5,145	179	4,966
5,855	168,231	162,376	- Emergency Expenditures	168,231	1,023	167,208
22,582	26,370	3,788	- Other Departments	26,370	24,303	2,067
<u>43,188</u>	<u>215,848</u>	<u>172,660</u>		<u>215,848</u>	<u>34,813</u>	<u>181,035</u>
<u>1,715,932</u>	<u>1,884,130</u>	<u>168,198</u>		<u>1,884,130</u>	<u>1,555,113</u>	<u>329,017</u>

1996/97 ACTUAL	1997/98 ACTUAL	INCREASE (DECREASE)		1997/98		
(thousands of dollars)				ACTUAL	ESTIMATED	VARIANCE
				(thousands of dollars)		
20,784	8,104	(12,680)	OTHER REVENUE:			
10,564	7,541	(3,023)	Consumer and Corporate Affairs	8,104	6,960	1,144
66,232	71,076	4,844	Energy and Mines	7,541	4,639	2,902
78,373	82,078	3,705	Highways and Transportation	71,076	66,974	4,102
211,097	220,265	9,168	Natural Resources	82,078	72,653	9,425
144,175	149,432	5,257	Manitoba Lotteries Corporation	220,265	223,000	(2,735)
-	3,970	3,970	Liquor Control Commission	149,432	146,600	2,832
11,549	518	(11,031)	Special Operating Agencies	3,970	3,300	670
			Sale of Government Assets	518	430	88
			Fiscal Stabilization Fund - Allocation			
-	100,000	100,000	in Support of Social Programs	100,000	100,000	-
67,669	64,523	(3,146)	Other Departments	64,523	63,298	1,225
610,443	707,507	97,064		707,507	687,854	19,653
5,499,016	5,842,545	343,529	TOTAL REVENUE	5,842,545	5,411,847	430,698

**PROVINCE OF MANITOBA
OPERATING FUND
STATEMENT OF EXPENDITURE
FOR THE YEAR ENDED MARCH 31, 1998
(with comparative figures for March 31, 1997)
(UNAUDITED)**

1996/97 ACTUAL	1997/98 ACTUAL	INCREASE (DECREASE)		1997/98		
(thousands of dollars)				ACTUAL	ESTIMATED	VARIANCE
				(thousands of dollars)		
16,163	16,656	493	Legislative Assembly	16,656	16,851	(195)
2,981	3,162	181	Executive Council	3,162	3,568	(406)
83,380	94,800	11,420	Agriculture	94,800	98,529	(3,729)
197	728	531	Children and Youth Secretariat	728	742	(14)
3,960	4,128	168	Civil Service Commission	4,128	4,269	(141)
6,049	6,143	94	Community Support Programs	6,143	6,096	47
17,586	9,860	(7,726)	Consumer and Corporate Affairs	9,860	10,508	(648)
51,762	53,084	1,322	Culture, Heritage and Citizenship	53,084	52,293	791
1,018,760	1,045,776	27,016	Education and Training	1,045,776	1,032,138	13,638
37,125	41,078	3,953	Employee Benefits and Other Payments	41,078	39,766	1,312
16,137	13,019	(3,118)	Energy and Mines	13,019	14,312	(1,293)
13,262	12,933	(329)	Environment	12,933	13,237	(304)
656,757	655,480	(1,277)	Family Services	655,480	661,509	(6,029)
751,653	729,717	(21,936)	Finance	729,717	730,450	(733)
42,048	47,642	5,594	Government Services	47,642	50,463	(2,821)
1,880,514	1,914,547	34,033	Health	1,914,547	1,827,163	87,384
220,697	219,415	(1,282)	Highways and Transportation	219,415	223,731	(4,316)
65,602	48,572	(17,030)	Housing	48,572	44,610	3,962
34,131	36,456	2,325	Industry, Trade and Tourism	36,456	38,521	(2,065)
172,557	178,341	5,784	Justice	178,341	172,147	6,194
12,956	12,726	(230)	Labour	12,726	12,835	(109)
87,701	105,118	17,417	Natural Resources	105,118	92,584	12,534
17,414	16,801	(613)	Northern Affairs	16,801	17,322	(521)
49,950	45,732	(4,218)	Rural Development	45,732	49,735	(4,003)
529	518	(11)	Seniors Directorate	518	530	(12)
14,962	14,903	(59)	Sport	14,903	14,903	-
863	845	(18)	Status of Women	845	893	(48)
70,132	74,392	4,260	Urban Affairs	74,392	72,745	1,647
14,310	39,415	25,105	Enabling Appropriations	39,415	6,809	32,606
47,733	249,178	201,445	Other Appropriations	249,178	60,825	188,353
-	-	-	Year-End Savings	-	(60,000)	60,000
5,407,871	5,691,165	283,294	TOTAL EXPENDITURE	5,691,165	5,310,084	381,081

PROVINCE OF MANITOBA
OPERATING FUND
STATEMENT OF ACCUMULATED DEFICIT
FOR THE YEAR ENDED MARCH 31, 1998
 (with comparative figures for March 31, 1997)
(UNAUDITED)

	1997/98	1996/97
	(thousands of dollars)	(thousands of dollars)
ACCUMULATED DEFICIT, BEGINNING OF YEAR	7,076,378	7,127,770
Prior years' adjustments:		
Accrual of Accounts Receivable	-	(8,460)
Manitoba Lotteries Fund Transfer	-	(31,763)
Taxation - Doubtful Accounts Receivable	4,497	-
Municipal Assistance Program	9,900	-
Repurchase of Serial Debentures of School Divisions and Districts	(9,464)	(11,169)
Net Result for the year	-	-
ACCUMULATED DEFICIT, END OF YEAR	<u>7,081,311</u>	<u>7,076,378</u>

**PROVINCE OF MANITOBA
OPERATING FUND
STATEMENT OF VALUATION AND PURPOSE OF
DIRECT AND GUARANTEED DEBT OUTSTANDING
MARCH 31, 1998
(with comparative figures for March 31, 1997)
(UNAUDITED)**

Canadian Dollar Equivalent at Date of Issue Mar 31/98	Canadian Dollar Equivalent at Date of Issue Mar 31/97	Increase (Decrease) Mar 31/98 over Mar 31/97		Canadian Dollar Valuation (Note 1) Mar 31/98	Canadian Dollar Valuation (Note 1) Mar 31/97	Increase (Decrease) Mar 31/98 over Mar 31/97
(thousands of dollars)				(thousands of dollars)		
Direct Debt Payable in:						
8,575,028	7,913,617	661,411	Canadian Dollars	8,575,028	7,913,617	661,411
2,654,435	2,832,768	(178,333)	Issues Swapped to Canadian Dollars	2,746,411	2,930,815	(184,404)
4,074,490	4,583,730	(509,240)	U.S. Dollars	4,895,424	5,337,523	(442,099)
1,271,824	804,471	467,353	Issues Swapped to U.S. Dollars	1,363,002	885,139	477,863
16,575,777	16,134,586	441,191	Total Direct Debt	17,579,865	17,067,094	512,771
Guaranteed Debt Payable in:						
507,565	560,033	(52,468)	Canadian Dollars	507,565	560,033	(52,468)
532,500	601,893	(69,393)	U.S. Dollars	532,500	601,893	(69,393)
1,040,065	1,161,926	(121,861)	Total Guaranteed Debt	1,040,065	1,161,926	(121,861)
17,615,842	17,296,512	319,330	Total Direct and Guaranteed Debt (Note 2)	18,619,930	18,229,020	390,910
5,302,251	4,677,624	624,627	Less: Sinking Fund Investments	5,302,251	4,677,624	624,627
12,313,591	12,618,888	(305,297)	Net Direct and Guaranteed Debt (Note 3)	13,317,679	13,551,396	(233,717)

Note 1: The Canadian Dollar Valuation is calculated using the foreign currency exchange rates in effect at March 31, 1998 and March 31, 1997 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 March 31, 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 78% in Canadian dollars (76% at March 31, 1997) and 22% in U.S. dollars (24% at March 31, 1997) while Manitoba Hydro was payable 38% in Canadian dollars (40% at March 31, 1997) and 62% in U.S. dollars (60% at March 31, 1997).

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

	March 31, 1998		March 31, 1997	
	(in thousands)	(per capita)	(in thousands)	(per capita)
		(Note 4)		(Note 4)
General Government Programs	6,763,278	5,920	6,807,955	5,964
The Manitoba Hydro-Electric Board	5,568,799	4,874	5,531,663	4,846
Other	985,602	863	1,211,778	1,082
	<u>13,317,679</u>	<u>11,657</u>	<u>13,551,396</u>	<u>11,892</u>

Note 4: Per capita data is based upon population figures at April 1, 1998 and April 1, 1997, as reported by Statistics Canada.

**PROVINCE OF MANITOBA
STATEMENT OF THE FISCAL STABILIZATION FUND
FOR THE YEAR ENDED MARCH 31, 1998
(with comparative figures for March 31, 1997)
(UNAUDITED)**

	1997/98	1996/97
	(thousands of dollars)	
Fund Balance, Beginning of Year	577,494	210,350
Revenue:		
Investments	11,625	11,553
Transfer from Operating Fund Revenue	76,380	355,786
	88,005	367,339
Expenditure:		
Transfer to Operating Fund Revenue (Note 1)	100,344	195
Fund Balance, End of Year (Note 2)	565,155	577,494

Note 1: Includes the \$100 million committed in the 1997 Budget to offset reductions in federal transfer payments for health, education and support to families and \$344 thousand for expenditures from the Economic Innovation and Technology Fund.

Note 2: As a result of the planned deposits and withdrawals noted in the 1998 Budget, the fund balance is projected to be \$374.9 million as at March 31, 1999.