AUDITORS' REPORT

To the Mayor and Members of City Council
The City of Winnipeg

We have audited the statement of financial position of **The City of Winnipeg Golf Services – Special Operating Agency** as at December 31, 2005 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of **The City of Winnipeg Golf Services – Special Operating Agency** as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Winnipeg, Canada,
March 9, 2006.

Chartered Accountants

THE CITY OF WINNIPEG
GOLF SERVICES - SPECIAL OPERATING AGENCY

STATEMENT OF FINANCIAL POSITION

As at December 31
(in thousands of dollars)

	2005	2004 (Restated Note 9)
ASSETS		
Current		
Accounts receivable	$ 85	$ 3
Inventory	80	111
Prepaid expenses	5	5
	170	119
Capital assets (Note 3)	23,713	23,677
	$ 23,883	$ 23,796
LIABILITIES		
Current		
Due to City of Winnipeg - General Revenue Fund (Note 4)	$ 1,160	$ 265
Accounts payable and accrued liabilities	83	9
Vacation payable	41	47
Current portion of long-term debt (Note 5)	21	12
	1,305	333
Retirement allowance (Note 6a)	146	146
Long-term debt - City of Winnipeg (Note 5)	3,605	3,380
	5,056	3,859
SURPLUS		
Contributed surplus	20,574	20,574
Deficit	(1,747)	(637)
	18,827	19,937
	$ 23,883	$ 23,796

See accompanying notes to the financial statements

THE CITY OF WINNIPEG
GOLF SERVICES - SPECIAL OPERATING AGENCY

STATEMENT OF OPERATIONS AND DEFICIT

For the years ended December 31
(in thousands of dollars)

	2005	2004 (Restated Note 9)
REVENUES		
Green fees	**$ 1,869**	$ 2,101
Equipment rentals	**171**	176
Concessions	**109**	128
Merchandise sales	**108**	121
Net revenue from leasing operations	**38**	12
Other	**26**	120
Total Revenues	**2,321**	2,658
EXPENSES		
Salaries and employee benefits (Note 6)	**1,263**	1,294
Services (Note 7)	**660**	591
Municipal tax equivalency charge (Note 8)	**263**	264
Amortization (Note 3)	**239**	227
Material, parts and supplies	**238**	265
Debt and finance charges	**222**	211
Provision for doubtful accounts	**213**	18
Rent (Note 7b)	**15**	17
Total Expenses	**3,113**	2,887
Net loss from operations	**(792)**	(229)
DEFICIT, BEGINNING OF YEAR	**(637)**	(191)
Transfer to The City of Winnipeg - General Revenue Fund	**(318)**	(217)
DEFICIT, END OF YEAR	**$ (1,747)**	$ (637)

See accompanying notes to the financial statements

THE CITY OF WINNIPEG
GOLF SERVICES - SPECIAL OPERATING AGENCY

STATEMENT OF CASH FLOWS

For the years ended December 31
(in thousands of dollars)

NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:

	2005	2004 (Restated Note 9)
OPERATING		
Net loss for the year	**$ (792)**	$ (229)
Non-cash items related to operations		
Increase in retirement allowance	**-**	25
Amortization	**239**	227
Working capital from operations	**(553)**	23
Net change in working capital	**17**	(3)
	(536)	20
FINANCING		
Increase in due to City of Winnipeg - General Revenue Fund	**895**	207
Increase in long-term debt - City of Winnipeg	**234**	109
Transfer to City of Winnipeg - General Revenue Fund	**(318)**	(217)
	811	99
INVESTING		
Purchase of capital assets	**(275)**	(122)
DECREASE IN CASH POSITION	**-**	(3)
CASH POSITION, BEGINNING OF YEAR	**-**	3
CASH POSITION, END OF YEAR	**$ -**	$ -

See accompanying notes to the financial statements

THE CITY OF WINNIPEG
GOLF SERVICES - SPECIAL OPERATING AGENCY

NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2005
(in thousands of dollars)

1. *Description of Business*

On February 23, 2000, Council directed that a Business Plan and Operating Charter for a Golf Services - Special Operating Agency ("Agency") be prepared and further that the municipal golf course operations be realigned under the purview of the Planning, Property and Development Department.

The Agency manages the golf courses operated by the City and administers the agreements for those courses under lease or contract to other parties. The intent of the Agency is to maximize the annual return to the City on golf operations and ensure the long term sustainability of the City's golf course assets.

The Agency commenced operations on January 1, 2002.

2. *Summary of Significant Accounting Policies*

The preparation of periodic financial statements necessarily involves the use of estimates and approximations because the precise determination of financial data frequently depends on future events. These financial statements have been prepared by management within reasonable limits of materiality and within the framework of accounting policies summarized below.

The financial statements have been prepared on the basis of Canadian generally accepted accounting principles and include the following significant accounting policies:

Inventory

Inventory is recorded at the lower of cost and net realizable value.

Capital assets

Land and buildings are stated at assessed values as of January 1, 2002, which were determined by the City of Winnipeg Property and Assessment Department. All golf course improvements incurred up to January 1, 2002 are assumed to be fully amortized. Equipment on hand as at January 1, 2002, is recorded at its estimated net realizable value on that date. Subsequent acquisitions are recorded at cost.

Capital assets are amortized over the estimated useful life using the following rates and methods:

Building	4%	Straight-line
Equipment	10%	Straight-line
Golf course improvements	5%	Straight-line

Revenue recognition

Green fees and equipment rental income are recognized when the services are provided. Sale of goods are recorded when the customer receives the product.

2. *Summary of Significant Accounting Policies (continued)*

Financial instruments

Financial instruments include accounts receivable, due to City of Winnipeg - General Revenue Fund, accounts payable and accrued liabilities, and long-term debt. It is management's opinion that the Agency is not exposed to significant interest, currency or credit risks arising from these financial instruments. The book value of the Agency's financial assets and liabilities approximates their fair value.

3. *Capital Assets*

	Cost	Accumulated Amortization	Net Book Value 2005	2004 (Restated Note 9)
Land	$ 20,376	$ -	$ 20,376	$ 20,376
Building	2,540	406	2,134	2,235
Equipment	1,342	401	941	938
Golf course improvements	246	15	231	128
Work in progress	31	-	31	-
	$ 24,535	$ 822	$ 23,713	$ 23,677

In 2005, it was discovered that the building located at the Canoe Club at the inception of the Agency was owned by the City of Winnipeg but was not included in the capital assets transferred to Golf Services. The net book value of buildings as at December 31, 2004 was increased by $98 thousand to correct this error. Related amortization expense was increased by $5 thousand.

4. *Due to City of Winnipeg - General Revenue Fund*

The City of Winnipeg operates a centralized treasury function with a single operating bank account in the General Revenue Fund. Consequently, the Agency does not have a bank account. Bank transactions are credited or charged to the "Due (to)/from" account when they are processed through the bank. Interest is credited or charged based on the City's average short-term earnings (cost of funds) on the single bank account. The limit of this line of credit is $400 thousand at a rate of 6.5%. The line of credit is currently in excess of this amount. The 2006 selection report includes a recommendation that the line of credit be extended to $1,650 thousand. The interest paid in 2005 was $20 thousand (2004 - $8 thousand).

5. *Long-Term Debt - City of Winnipeg*

	2005	2004 (Restated Note 9)
Golf Course Reserve		
Golf course improvements loans, interest at 6%, with principal repayments scheduled over 10 years, commencing in:		
- 2004	$ 63	$ 69
- 2005	69	75
- 2006	115	115
- 2007	246	-
	493	259

5. *Long-Term Debt - City of Winnipeg (continued)*

General Revenue Fund		
Start-up loan, interest at 6%, repayable in annual payments of $264 thousand, commencing in 2007	**3,133**	3,133
	3,626	3,392
Current portion of long-term debt	**(21)**	(12)
	$ 3,605	$ 3,380

a) Principal repayments due within the next five years are as follows:

2006	$ 21
2007	61
2008	64
2009	68
2010	72
Thereafter	3,340
	$ 3,626

b) Interest on the golf course improvements loan during the year was $23 thousand (2004 - $12 thousand) and has been paid to the Golf Course Reserve.

Interest on the start-up loan was $188 thousand (2004 - $181 thousand) during the year and has been paid to the General Revenue Fund.

c) Cash paid for interest during the year was $211 thousand (2004 - $193 thousand).

6. *Employee Benefits*

a) Retirement allowance

Under the retirement allowance plan, qualifying employees become entitled to a cash payment upon retirement, death or termination of service under certain conditions (not resignation). The costs are actuarially determined using the projected benefit valuation method pro-rated on services and reflects management's best estimate of retirement ages of employees, salary escalation and length of service. In addition, adjustments arising from plan amendment, changes in assumptions, and experience gains and losses are amortized on a straight-line basis over 11.2 years, which represents the expected average remaining service life of the employee group. Amortization is calculated beginning in the year following the year of occurrence of the actuarial gains or losses.

The Agency measures its accrued retirement allowance obligation as at December 31 of each year. The most recent actuarial valuation report was at December 31, 2005.

6. *Employee Benefits (continued)*

Information about the Agency's retirement allowance benefit plan is as follows:

	2005	2004
Retirement allowance - accrued obligation:		
Balance, beginning of year	**$ 146**	$ 139
Current service cost	**3**	3
Interest cost	**8**	7
Benefit payments	**(5)**	(3)
Net actuarial gain	**(26)**	-
Balance, end of year	**126**	146
Unamortized net actuarial gain	**20**	-
Retirement allowance - accrued liability	**$ 146**	$ 146

Retirement allowance expense consist of the following:

	2005	2004
Current service cost	**$ 3**	$ 3
Interest cost	**8**	7
	$ 11	$ 10

The significant actuarial assumptions adopted in measuring the retirement allowance obligation for the year ended December 31 are as follows:

	2005	2004
Valuation interest rate	**4.50%**	5.25%
General increases in pay	**3.00%**	3.00%

b) Pension

The Agency's employees are eligible for pensions under the Winnipeg Civic Employees' Benefits Program. The Plan is a defined benefit plan. The City of Winnipeg allocates its pension costs to various departments. During the year, $55 thousand (2004 - $54 thousand) of pension costs were allocated to the Agency. An actuarial valuation for the Winnipeg Civic Employees' Benefits Program was made as of December 31, 2004 and has an actuarial surplus.

7. *Related Party Transactions*

In addition to those transactions described elsewhere in the notes, included in the Agency's revenues/expenses are the following amounts which occurred in the normal course of operations and are recorded at the exchange amount:

a) In Services, an amount of $62 thousand (2004 - $63 thousand) for general government charges has been included and paid to the General Revenue Fund which represents the estimated share of The City of Winnipeg's general expenses applicable to the Agency;

b) An amount of $15 thousand (2004 - $17 thousand) has been charged by the Civic Accommodations Fund for the rental of office space;

7. *Related Party Transactions (continued)*

c) An amount of $51 thousand (2004 - $50 thousand) has been charged by the General Revenue Fund for various supporting services provided by the Planning, Property and Development Department;

d) An amount of $99 thousand (2004 - $85 thousand) has been charged by the Building Services Fund for services provided at the various Golf Courses; and

e) An amount of $22 thousand (2004 - $4 thousand) has been charged by the Fleet Management - Special Operating Agency for insurance and rental on vehicles owned/leased by Golf Services.

8. *Municipal Tax Equivalency Charge*

Municipal realty tax equivalency charges are applicable to the five facilities owned and previously operated by the City of Winnipeg - Windsor, Kildonan, Crescent Drive, Harbour View and John Blumberg. These charges are based on estimated assessments and the mill rate that would have been applicable had these facilities been privately owned. Estimated business tax equivalency amounts are also included with respect to the three facilities operated entirely by the Agency, based on rates applicable to private golf course businesses.

9. *Correction Of Prior Period Error*

During 2005, it was discovered that capital assets in the amount of $113 thousand were not recorded by the Agency, at its inception on January 1, 2002, but were owned by the City of Winnipeg. The correction was accounted for retroactively with restatement of all prior periods reported. The effect of these changes on the 2004 comparative figures is as follows:

Financial Statement Item	Previously Reported	Change	Balance As Restated
Statement of Financial Position			
Capital assets	$ 23,579	$ 98	$ 23,677
Due to City of Winnipeg - General Revenue Fund	244	21	265
Long-term debt - City of Winnipeg	3,267	113	3,380
Deficit	(601)	(36)	(637)
Statement of Operations			
Debt and finance charges	$ 204	$ 7	$ 211
Amortization	222	5	227
Statement of Cash Flows			
Net loss for the year	$ (217)	$ (12)	$ (229)
Increase in due to City of Winnipeg - General Revenue Fund	200	7	207

10. *Comparative Figures*

The comparative figures have been reclassified to conform with the current year's presentation.