

Manitoba Finance
Fiscal Stabilization Fund

Annual Report
2007-2008



**MINISTER OF
FINANCE**

Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

HIS HONOUR JOHN HARVARD
Lieutenant-Governor of the Province of Manitoba
Winnipeg, Manitoba

May It Please Your Honour:

The undersigned has the honour to present the Annual Report of the Fiscal Stabilization Fund for the year ended March 31, 2008.

Respectfully submitted,

Honourable Greg Selinger
Minister Responsible for the
Fiscal Stabilization Fund

FUND PROFILE

Long-term planning is an essential element of fiscal responsibility. Provincial revenue can be subject to year-to-year volatility while expenditures, such as debt servicing costs, vary significantly with financial market conditions.

When revenue growth is unusually high or exceptional revenues are received, positive results may be sharply increased. This gives rise to pressures for program spending or tax cuts on the basis of a single year improvement, which cannot necessarily be sustained in the longer term. The 1989 Manitoba Budget Address announced the creation of the Fiscal Stabilization Fund (Fund), which would be used as a fiscal shock absorber, helping the province avoid disruption to programs or major tax increases. Withdrawals from the Fund may be made when revenue is constrained or there are exceptional expenditure requirements.

The Fund was established retroactively at March 31, 1989 under the authority of *The Fiscal Stabilization Fund Act*, which received Royal Assent on December 13, 1989. The legislated purpose of the Fund is to assist in stabilizing the fiscal position of the Government from year to year and to improve long-term fiscal planning. Under the provisions of the Act, the Government may deposit in the Fund any part of the revenue or other financial assets received in the Consolidated Fund in any fiscal year and shall credit to the Fund any earnings from investment of the Fund. All or part of the Fund balance could be transferred to the Consolidated Fund in accordance with the provisions of the Act. *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*, amended in 2000, made related amendments to *The Fiscal Stabilization Fund Act*. The major changes ensure that transfers to and from the Fiscal Stabilization Fund are not recorded as revenue, but as transfers, and proceeds from the sale of a Crown corporation are not used in determining whether there is a positive or negative balance for a fiscal year.

2007-2008 ACTIVITIES

At the beginning of the year the Fund had assets of \$663.2 million, which were invested and accorded market rates of interest. In 2007-2008, the Fund earned \$27.0 million in interest.

The 2007 Manitoba Budget had projected an \$37.0 million draw from the Fund to the Operating Fund to meet fiscal targets.

The Balanced Budget, Debt Repayment and Taxpayer Accountability Act and *The Fiscal Stabilization Fund Act* require that any Operating Fund positive balance in the fiscal year be transferred to the Fund until its target level is reached. The Minister of Finance has the authority to transfer additional positive balances to the Fund as he considers appropriate. The 2007-2008 positive balance of \$127.9 million was transferred to the Fund.

FISCAL STABILIZATION FUND
STATEMENT OF RESPONSIBILITY

The accompanying financial statements are the responsibility of management of the Department of Finance and have been prepared in accordance with Canadian generally accepted accounting principles. These accounting principles have been applied on a basis consistent with that of the preceding year. In management's opinion, the financial statements have been properly prepared with reasonable limits of materiality, incorporating management's best judgment regarding estimates and other data available up to September 17, 2008.

Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of the financial information and to properly safeguard assets of the Fund.

The responsibility of the Auditor General is to express an independent, professional opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

On behalf of Management

Betty-Anne Pratt, CA
Provincial Comptroller
September 17, 2008



AUDITOR'S REPORT On The Fiscal Stabilization Fund

To the Legislative Assembly of Manitoba

I have audited the statement of financial position of the Fiscal Stabilization Fund as at March 31, 2008 and the statement of revenue and fund balance for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2008 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Winnipeg, Manitoba
September 17, 2008

Carol Bellringer, FCA, MBA
Auditor General

**FISCAL STABILIZATION FUND
STATEMENT OF FINANCIAL POSITION**

As at March 31, 2008
(in thousands)

	2008 \$	2007 \$
ASSETS		
Funds on Deposit with the Minister of Finance (Note 3)	<u>818,076</u>	<u>663,150</u>
FUND BALANCE		
Fund Balance	<u>818,076</u>	<u>663,150</u>

**FISCAL STABILIZATION FUND
STATEMENT OF REVENUE
AND FUND BALANCE**

For the Year Ended March 31, 2008
(in thousands)

	2008 \$	2007 \$
Revenue		
Interest Income	26,998	20,648
Fund Balance, beginning of year	<u>663,150</u>	<u>531,987</u>
	<u>690,148</u>	<u>552,635</u>
Transfers		
Transfer from the Operating Fund (Note 4)	<u>127,928</u>	<u>110,515</u>
	<u>127,928</u>	<u>110,515</u>
Fund Balance, end of year (Note 5)	<u>818,076</u>	<u>663,150</u>

**FISCAL STABILIZATION FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008**

1. Incorporation and Function

The Fiscal Stabilization Fund was established at March 31, 1989, under the authority of *The Fiscal Stabilization Fund Act*, which received Royal Assent on December 13, 1989. The legislated purpose of the Fund is to assist in stabilizing the fiscal position of the government from year to year and to improve long-term fiscal planning. Under the provisions of the Act, the government may deposit in the Fund any part of the revenue or other financial assets received in the Operating Fund in any fiscal year and shall credit to the Fiscal Stabilization Fund any earnings from investment of the Fiscal Stabilization Fund. All or part of the fund balance can be transferred to the Operating Fund in accordance with the provisions of the Act.

On August 18, 2000, the *Balanced Budget, Debt Repayment and Taxpayer Protection Amendment and Consequential Amendments Act* was passed amending *The Balanced Budget, Debt Repayment and Taxpayer Protection Act*, with related amendments to *The Fiscal Stabilization Fund Act* and *The Financial Administration Act*.

2. Significant Accounting Policies

a) Basis of Accounting

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for senior governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

b) Funds on Deposit with the Minister of Finance

Cash equivalents are recorded at cost which approximates market value.

c) Interest Income

Funds represented by specific investments (cash equivalents) attributed to the Fund earn interest income based upon the rates of return of those investments less a nominal administrative fee. Funds represented by cash earn interest income at the Bank of Canada overnight rate, less a nominal administrative fee. Transfers from the Fund are deemed to have occurred at the beginning of the year and transfers to the Fund occur at March 31.

3. Funds on Deposit with the Minister of Finance

	(thousands)	
	<u>2008</u>	<u>2007</u>
	\$	\$
Cash and cash equivalents	<u>818,076</u>	<u>663,150</u>

**FISCAL STABILIZATION FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008**

4. Transfer from the Operating Fund

The *Balanced Budget, Debt Repayment and Taxpayer Accountability Act* and *The Fiscal Stabilization Fund Act* require any Operating Fund positive balance to be transferred to the Fund until its target level is reached. The Minister of Finance has the authority, with the approval of the Lieutenant Governor in Council, to transfer additional positive balances to the Fund as he considers appropriate. The target level for the Fiscal Stabilization Fund is a minimum of 5% of the expenses of the Operating Fund or approximately \$470 million, based on 2007-2008 expenses. As reported in the Public Accounts of the Province of Manitoba for 2007-2008, the Operating Fund had a positive balance of \$128 million (2007 - \$110 million), which was transferred to the Fiscal Stabilization Fund.

5. Fiscal Stabilization Fund by Program

	(thousands)	
	\$ <u>2008</u>	\$ <u>2007</u>
Health Program		
Program Fund Balance - Beginning of Year	175,195	202,411
Interest Earnings	7,132	7,856
Transfer to General Programs		
- Wait Time Reduction Programming	(25,322)	(27,419)
- Other Health Related Programming	(9,144)	(7,653)
Program Fund Balance – End of Year	<u>147,861</u>	<u>175,195</u>
General Program		
Program Fund Balance – Beginning of Year	487,955	329,576
Interest Earnings	19,866	12,792
Recovered from Health Programs		
- Wait Time Reduction Programming	25,322	27,419
- Other Health Related Programming	9,144	7,653
Transfer from the Operating Fund		
- Year-end Positive Balance	<u>127,928</u>	<u>110,515</u>
Program Fund Balance – End of Year	<u>670,215</u>	<u>487,955</u>
Total Fund Balance, End of Year	<u>818,076</u>	<u>663,150</u>

It is the Government's policy to designate the Fiscal Stabilization Fund into two programs, the Health Program and the General Program. Funds were allocated to the Health Program based on funds received from the Federal Government for Wait Time Reduction Programming and Other Health Related programming. Interest earned by the Fiscal Stabilization Fund is allocated proportionately to these two programs. As funds are expended related to the Health Program, the Government will designate a transfer back to the General Program.

6. Statement of Cash Flows

A statement of cash flows has not been presented in these financial statements as no additional useful information would be provided by its inclusion.