Annual Financial Report

of the Government of Canada

Fiscal Year 2003–2004

Canada

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The Government of Canada posted a budgetary surplus of $9.1 billion in 2003–04, marking the seventh consecutive year in which it has recorded a surplus—the first time this has occurred since Confederation.

Consistent with generally accepted accounting principles, the entire $9.1 billion has been applied to reduce the federal debt. The better-than-expected outcome is primarily due to much higher-than-expected budgetary revenues in the final quarter of the fiscal year, in part reflecting stronger-than-expected nominal income growth in that quarter. As well, the revenue yield—that is, the amount of tax revenue collected per dollar of income—was significantly higher than anticipated, particularly in light of the incremental tax reductions that came into effect as part of the Five-Year Tax Reduction Plan.

As a result of the budgetary surpluses recorded since 1997–98, the federal debt (accumulated deficit) has been reduced by $61.4 billion to $501.5 billion from its peak of $562.9 billion in 1996–97. Taking all levels of government together (federal, provincial and local governments and the Canada and Quebec Pension Plan), the Organisation for Economic Co-operation and Development estimates that Canada was the only Group of Seven (G-7) country to post a surplus in 2003.

Department of Finance Canada　Ministère des Finances Canada

Federal debt as a percentage of the economy was 41.1 per cent in 2003–04, a reduction of 27.3 percentage points from its peak of 68.4 per cent in 1995–96. On an international basis, for the total government sector Canada has made more progress in reducing its debt burden than any other G-7 country. From having the second highest debt burden in the mid-1990s, Canada's net debt burden was below the G-7 average and below those in the United States, France, Germany, Italy and Japan in 2003. The United Kingdom had a marginally lower debt burden than Canada in 2003.

The reduction in the federal debt burden is important for a variety of reasons. A lower debt burden, resulting from a reduction in interest-bearing debt, means that a smaller portion of the revenue the Government collects from taxpayers must go towards debt-servicing payments, thereby leaving more resources for reducing taxes and funding valued programs and services. The savings to the Canadian taxpayer from lower debt servicing costs stand at over $3 billion per year. A lower debt burden also lessens the exposure of Canada's fiscal situation to economic shocks, especially an increase in interest rates or a prolonged slowdown in economic activity. Sustained balanced budgets and putting the debt on a steady downward track have also restored Canada's Triple-A credit rating in financial markets. Since this effectively sets the standard for the whole country, everyone benefits—from provinces and municipalities to individuals wanting to buy a home, start a business or run a farm.

Simple fairness also demands that future generations not be saddled with a debt they did not incur. Right now, even after the progress we've made in eliminating the deficit and reducing debt, annual debt-servicing costs (at some $35 billion) are still the largest single expense of the Government of Canada. Unless we continue to reduce the debt burden, the inheritance we leave to our children and grandchildren will be a heavy mortgage on their futures.

We also have to begin to prepare now for an aging population. In Canada the real force of this demographic trend will hit when the baby boomers begin to retire around 2010—a little over six years from now. As the largest generation ever leaves the workforce, a much smaller one will be left to take its place. This will have at least two profound effects on our society: first, there will be greater demand for the social programs we value, particularly health care; and second, there will be fewer people working to support those programs. This again speaks to why it is so important to pay down debt, year after year. The less debt we carry, the more flexibility we have to meet emerging demographic pressures.

In the March 2004 budget, we set an objective of reducing Canada's debt-to-GDP (gross domestic product) ratio from about 41 per cent today to 25 per cent within 10 years. Achieving the 25-per-cent debt-to-GDP ratio will mean that less government revenue will have to go to pay interest on public debt and that billions of dollars more will be available to help make up for fewer Canadians in the workplace of the future.

Good fiscal management requires that the Government equip itself with the best possible economic and fiscal projections. To that end, I have launched a comprehensive review of how we do our economic and fiscal forecasting. Such a review was last done in 1994 and much has changed since then—including the elimination of the deficit, the Government's commitment to maintaining a balanced budget or better each year, and the shift to full accrual accounting for the presentation of the Government's financial statements. The time has again come to test our assumptions and make sure that we are still using best practices—benchmarking ourselves against the best in the world. The Government of Canada is grateful to Mr. Tim O'Neill, a distinguished private sector economist, for leading this important analysis. It is my hope that such a review could be completed in time for the next federal budget.

The financial data in this report are based on the audited results, which will appear in more detail in the *Public Accounts of Canada 2004,* scheduled for tabling in the House of Commons this fall. They cover the federal government's spending and revenue performance for the past fiscal year (April 1, 2003 to March 31, 2004) and detail the factors affecting these results. In addition, the *Fiscal Reference Tables* publication has been updated to incorporate the results for 2003–04 and historical revisions to the *National Economic and Financial Accounts* published by Statistics Canada. These tables are an integral part of this report.

The Honourable Ralph Goodale, P.C., M.P.
Minister of Finance

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Note to Readers

The figures contained in this report are presented on a net basis, consistent with the presentations in the budgets and in the Appropriation Acts, as approved by Parliament. In contrast, the figures in the *Public Accounts of Canada 2004* are presented on a gross basis. The differences in classification affect both budgetary revenues and program expenses by a corresponding amount and, as such, have no impact on the budgetary balance. The impact of these classification differences on budgetary revenues and program expenses is explained in this report.

The Government reports all revenues and expenses on an accrual basis. Further details on the Government's accounting policies can be found in the section entitled "Notes to the Condensed Financial Statements" and in the *Public Accounts of Canada 2004*.

Report Highlights

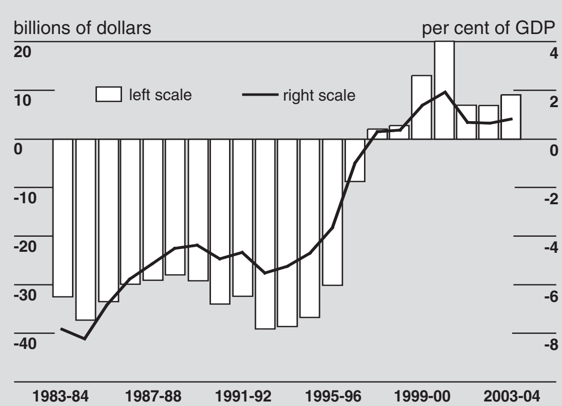
- On a full accrual basis of accounting, a budgetary surplus of $9.1 billion was achieved in 2003–04. This marks the seventh consecutive year the federal budget has been in surplus.
- Federal debt stood at $501.5 billion at the end of 2003–04, down $61.4 billion from its peak of $562.9 billion in 1996–97. The federal debt-to-GDP ratio is 41.1 per cent, down sharply from its peak of 68.4 per cent in 1995–96. It is at its lowest level since 1983–84.
- Market debt—the debt issued on credit markets—as a percentage of GDP has declined to 36.1 per cent from the peak of 58.2 per cent in 1995–96.
- The revenue-to-GDP ratio declined in 2003–04 to 15.3 per cent. While it has fallen by 1.7 percentage points since 2000–01, primarily reflecting the impact of the tax reductions announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, it was little changed in 2003–04 notwithstanding the legislated decline in corporate and personal taxes.
- The program expenses-to-GDP ratio increased slightly to 11.6 per cent in 2003–04 from 11.5 per cent in 2002–03.
- Public debt charges declined by $1.5 billion in 2003–04. As a percentage of revenues, public debt charges were 19.2 per cent in 2003–04, down from its peak of about 39 per cent in 1990–91. It is now at its lowest level since the late 1970s.

The Budgetary Balance

A budgetary surplus of $9.1 billion was recorded in 2003–04, up $2.1 billion from the surplus of $7.0 billion in 2002–03. The increase in the surplus is primarily due to strong growth in nominal income—the applicable tax base for budgetary revenues—up 5.3 per cent, and a decline in public debt charges, reflecting the decline in short-term interest rates. Budgetary revenues increased by $8.4 billion, or 4.7 per cent, reflecting strong growth in corporate (up $5.2 billion or 23.4 per cent) and personal (up $3.2 billion or 3.9 per cent) income tax revenues. Public debt charges declined by $1.5 billion, or 4.0 per cent. Program expenses increased by $7.8 billion, or 5.8 per cent, primarily reflecting the impact of previous budget measures.

In the March 2004 budget, the Government estimated the budgetary surplus at $1.9 billion for 2003–04. This amount was allocated to the Contingency Reserve. This was after responding to a number of shocks that hit the economy in 2003—the bovine spongiform encephalopathy (BSE) crisis, the severe acute respiratory syndrome (SARS) outbreak, Hurricane Juan across Atlantic Canada, and forest fires in British Columbia. It was also after providing an additional $2.4 billion to the provinces and territories for health care. The better-than-expected outcome for 2003–04 compared to the March 2004 budget estimate is primarily attributable to much higher-than-expected budgetary revenues in the final quarter of the fiscal year, in part reflecting much stronger-than-expected income growth in the first quarter of 2004. In addition, the revenue yield—that is,

Budgetary Balance



Sources: *Public Accounts of Canada* and Statistics Canada.

the amount of tax revenue collected per dollar of income—was significantly higher than anticipated. A decline in the ratio had been expected, given the scheduled $4.5-billion tax decrease in 2003–04 as part of the $100-billion Five-Year Tax Reduction Plan.

Budgetary revenues were $5.1 billion higher, due primarily to stronger-than-expected growth in personal and corporate income tax revenues and in other revenues. Program expenses were $2.0 billion lower than expected, in part reflecting higher-than-expected lapses resulting from the year-end spending freeze and delays in implementing initiatives from previous budgets.

The budgetary surplus of $9.1 billion, or 0.7 per cent of GDP, in 2003–04 represents a substantial improvement from the deficit of $38.5 billion, or 5.3 per cent of GDP, in 1993–94. As a percentage of GDP, all of this fiscal improvement since 1993–94 is attributable to the decline in total expenses. Program expenses as a percentage of GDP declined from 15.7 per cent in 1993–94 to 11.6 per cent in 2003–04, while public debt charges fell from 5.5 per cent in 1993–94 to 2.9 per cent in 2003–04. In contrast, budgetary revenues fell from 16.0 per cent in 1993–94 to 15.3 per cent in 2003–04.

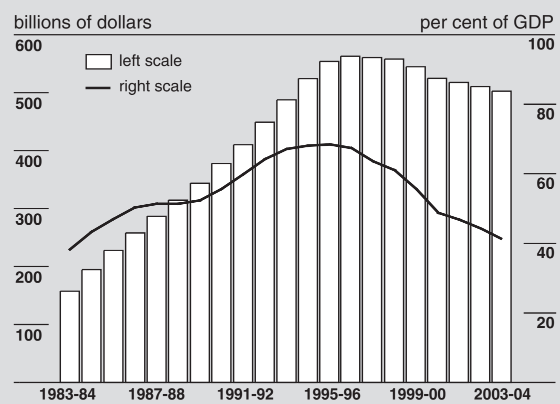
Sound financial management has been at the core of the Government's economic strategy over the past 10 years. This strategy has put an end to almost three decades of chronic deficits and replaced them with seven consecutive surpluses—an achievement unparalleled since Confederation. The commitment to sound financial management allowed Canada to post a total government sector budgetary surplus in 2003, while all other G-7 countries recorded deficits. It has brought Canada's total government sector debt-to-GDP ratio from the second highest in the G-7 in the mid-1990s to the second lowest level in 2003.

Since posting its first budgetary surplus in 1997–98, Canada has led the G-7 in job creation and real GDP growth. The Government's fiscal credibility allowed monetary policy to support the economy during the global slowdown in 2001 and to cope with a series of significant shocks that hit the Canadian economy in 2003.

Federal Debt

The 2003–04 surplus of $9.1 billion brings the federal debt—the accumulation of annual deficits and surpluses—down to $501.5 billion. From its peak of $562.9 billion in 1996–97, federal debt has declined by $61.4 billion. As a share of GDP, federal debt dropped to 41.1 per cent in 2003–04, down 27.3 percentage points from the peak of 68.4 per cent in 1995–96. This is the eighth consecutive year in which the federal debt-to-GDP ratio has declined, bringing it to its lowest level since 1983–84. Federal debt at the end of 2003–04 was $15,758 for each Canadian, down from $16,188 a year earlier and down from $18,876 at the end of 1996–97, the last year the federal government recorded a deficit.

Federal Debt (Accumulated Deficit)



Sources: *Public Accounts of Canada* and Statistics Canada.

Federal Debt (Accumulated Deficit)

Since 2002–03 the financial statements of the Government of Canada have been presented on a full accrual basis of accounting. Under the previous accounting standard—modified accrual accounting—net debt and the accumulated deficit were identical. Under the new standard, net debt now includes a comprehensive costing for financial liabilities but excludes non-financial assets. The accumulated deficit includes both. It is the sum of all surpluses and deficits in the past.

Federal debt, referred to in the budget documents and the *Annual Financial Report of the Government of Canada*, is the accumulated deficit. It is the federal government's main measure of debt, as annual changes in this measure determine the budgetary balance.

Table 1

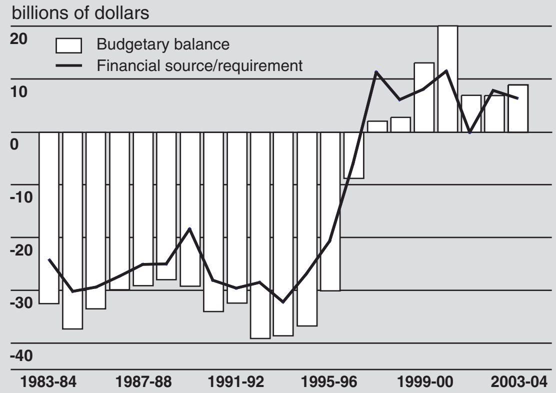
Financial Highlights

	1997–98	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04
				($ billions)			
Budgetary transactions							
Revenues	152.1	156.1	166.1	182.7	171.7	177.8	186.2
Expenses							
Program expenses	-106.9	-110.0	-109.6	-118.7	-125.0	-133.6	-141.4
Public debt charges	-43.1	-43.3	-43.4	-43.9	-39.7	-37.3	-35.8
Total expenses	-150.0	-153.3	-153.0	-162.6	-164.7	-170.9	-177.1
Budgetary balance	**2.1**	**2.8**	**13.1**	**20.2**	**7.0**	**7.0**	**9.1**
Non-budgetary transactions	9.0	2.4	-5.3	-8.9	-7.4	0.6	-2.8
Financial source/requirement	11.1	5.2	7.9	11.3	-0.3	7.6	6.2
Net change in financing activities	-9.6	-6.2	-4.0	-10.0	-4.1	-2.5	-2.2
Net change in cash balances	1.5	-1.0	3.8	1.3	-4.4	5.1	4.1
Cash balance at end of period	11.7	10.7	14.5	15.8	11.4	16.5	20.5
Financial position							
Total liabilities	711.3	714.9	715.8	715.1	704.3	700.1	701.1
Total financial assets	103.3	108.3	120.9	138.8	133.4	135.3	144.8
Net debt	607.9	606.6	595.0	576.3	570.9	564.8	556.3
Non-financial assets	47.2	48.7	50.2	51.7	53.4	54.2	54.8
Federal debt (accumulated deficit)	**560.7**	**557.9**	**544.7**	**524.6**	**517.5**	**510.6**	**501.5**
Financial results (% of GDP)							
Budgetary revenues	17.2	17.1	16.9	17.0	15.5	15.4	15.3
Program expenses	12.1	12.0	11.2	11.0	11.3	11.5	11.6
Public debt charges	4.9	4.7	4.4	4.1	3.6	3.2	2.9
Budgetary balance	0.2	0.3	1.3	1.9	0.6	0.6	0.7
Federal debt (accumulated deficit)	63.5	61.0	55.4	48.7	46.7	44.1	41.1

Note: Numbers may not add due to rounding.

Federal debt consists of interest-bearing debt and other liabilities, net of financial and non-financial assets. Interest-bearing debt, in turn, consists of unmatured, or market, debt and the Government's obligations to internally held accounts—primarily the liabilities for the federal government employees' pension plans. All of the decrease in the federal debt of $9.1 billion in 2003–04 is attributable to an increase of $9.5 billion in financial assets—cash and accounts receivable and loans, investments and advances. Market debt declined by $2.2 billion while obligations to pension and other accounts increased by $2.6 billion. Both other liabilities and non-financial assets increased by $0.6 billion.

Budgetary Balance and Financial Source/Requirement



Sources: *Public Accounts of Canada* and Statistics Canada.

Financial Source/Requirement

The financial source/requirement measures the difference between cash coming in to the Government and cash going out. There was a financial source of $6.2 billion in 2003–04, compared to a financial source of $7.6 billion in 2002–03. This lower source is primarily attributable to higher cash requirements for investing activities, in part due to increased direct financing to students.

BUDGETARY REVENUES

Budgetary revenues were reported at $186.2 billion, an increase of $8.4 billion, or 4.7 per cent, from 2002–03. Nominal income—the applicable tax base for revenues—advanced by 5.3 per cent in 2003, up from the increase of 4.5 per cent in 2002. The net impact of stronger nominal income growth in 2003 on revenues was somewhat dampened by the incremental impact of the tax reductions introduced in previous budgets, especially the restoration of full indexation of the personal income tax system, increases in the Canada Child Tax Benefit (which are netted against personal income tax revenues) and reductions in the corporate income tax rate. However, the revenue yield, at 15.3 per cent, was significantly higher than expected, given the legislated tax reductions. Most of the increase in budgetary revenues resulted from higher personal and corporate income taxes.

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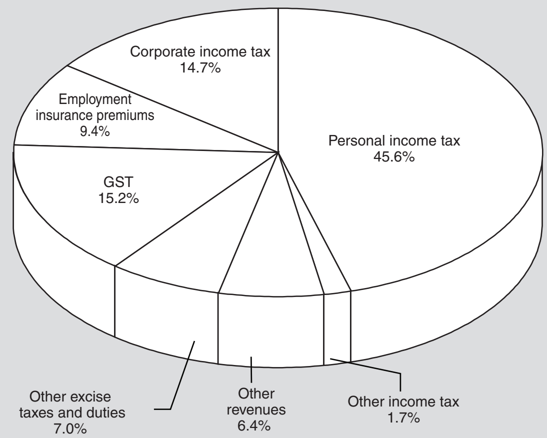


Source: *Public Accounts of Canada*.

Budgetary revenues were $5.1 billion higher than estimated in the March 2004 budget. The higher revenues are attributable to the

Table 2
Revenues

	2002–03	2003–04	Net change	
		($ millions)		(%)
Tax revenues				
Net income tax collections				
Personal income tax	81,707	84,895	3,188	3.9
Corporate income tax	22,222	27,431	5,209	23.4
Other income tax revenues	3,291	3,142	-149	-4.5
Total	107,220	115,468	8,248	7.7
Other taxes and duties				
Goods and services tax (GST)	28,248	28,286	38	0.1
Customs import duties	3,278	2,887	-391	-11.9
Energy taxes	4,935	4,952	17	0.3
Air Travellers Security Charge	421	410	-11	-2.6
Other excise taxes and duties	4,475	4,830	355	7.9
Total	41,357	41,365	8	0.0
Net tax revenues	**148,577**	**156,833**	**8,256**	**5.6**
Employment insurance premium revenues	17,870	17,546	-324	-1.8
Net other revenues				
Crown corporation revenues	3,748	4,719	971	25.9
Foreign exchange revenues	3,379	2,090	-1,289	-38.1
Other revenues	4,258	5,020	762	17.9
Total	11,385	11,828	443	3.9
Net budgetary revenues	**177,832**	**186,207**	**8,375**	**4.7**

Note: Numbers may not add due to rounding.

stronger-than-expected economic growth in the final quarter of the 2003–04 fiscal year and to a higher-than-estimated revenue yield. Notwithstanding a scheduled $4.5-billion tax decrease in 2003–04 as part of the $100-billion Five-Year Tax Reduction Plan, the revenue yield was roughly unchanged, whereas a decline had been expected. For example, corporate income tax revenues were up 23.4 per cent, significantly stronger than the 10.0-per-cent increase in corporate profits, despite a 2-percentage-point reduction in the general tax rate. Similarly, personal income tax revenues increased 3.9 per cent, stronger than the 3.0-per-cent increase in the applicable tax base, despite increases to the various thresholds and the Canada Child Tax Benefit.

Personal income tax revenues, the largest component at over 45 per cent of budgetary revenues, increased by $3.2 billion, or 3.9 per cent, in 2003–04. This is stronger than the growth of 3.0 per cent in personal income, which is somewhat surprising in light of the impact of the tax reduction measures introduced in previous budgets. As part of the $100-billion Five-Year Tax Reduction Plan, first announced in the February 2000 budget, tax rates were reduced, thresholds at which the tax rates are effective were increased, and the Canada Child Tax Benefit was enhanced. The impact of these measures was to reduce personal income tax revenues by an incremental $2.7 billion in 2003–04. The Canada Child Tax Benefit was also increased in the February 2003 budget.

Corporate income tax revenues increased by $5.2 billion, or 23.4 per cent, in 2003–04, following two consecutive years of decline. The increase in 2003–04 well exceeded the 10.0-per-cent growth in corporate profits. The much stronger growth in corporate income tax revenues compared to corporate profits is somewhat surprising, given the reduction in the federal tax rate from 25 per cent effective January 1, 2002 to 23 per cent effective January 1, 2003. In 2000 the tax rate was 28 per cent. The increase in corporate income tax revenues is in part attributable to the application of loss carry-forwards in 2002–03 due to the decline in profits in 2001, which reduced tax revenues in 2002–03, and strong growth in profits in the financial sector, in part reflecting valuation gains associated with the appreciation of the Canadian dollar.

Other taxes and duties were virtually unchanged from 2002–03, after recording a gain of $4.2 billion, or 11.4 per cent, in 2002–03.

- Goods and services tax (GST) revenues increased by $38 million, or 0.1 per cent, following a gain of $3.0 billion in 2002–03. Weakness in consumer expenditures, especially durable goods, and a decline in the Canadian-dollar value of imports, in part reflecting the appreciation of the Canadian dollar, restrained the growth in GST revenues in 2003–04. In addition, rebates were up, reflecting the March 2004 budget decision to provide a full rebate of GST and the federal portion of the harmonized sales tax (from 57.14 per cent to 100 per cent) paid by municipalities, effective February 1, 2004.
- Customs import duties declined $0.4 billion, or 11.9 per cent, primarily reflecting the impact of the appreciation in the value of the Canadian dollar.
- Energy taxes were virtually unchanged, while the impact of tobacco excise tax increases in 2002 accounted for most of the increase of $0.4 billion, or 7.9 per cent, in other excise taxes and duties. The Air Travellers Security Charge, which came into effect April 1, 2002, was down slightly, reflecting lower demand for air travel, in part due to the outbreak of SARS and the conflict in Iraq. The revenues from this charge are used to fund the new air security initiatives announced in the 2001 budget.

Employment insurance premium revenues declined $0.3 billion, or 1.8 per cent, as the reduction in premium rates more than offset the impact of the increase in the number of people employed and therefore paying premiums. The employee premium rate (per $100 of insurable earnings) was reduced from $2.20 for 2002 to $2.10 for 2003 and $1.98 for 2004 (with a corresponding decline in the employer rate).

Other revenues consist of net gains/losses from Crown corporations such as the Bank of Canada, Export Development Canada and Canada Mortgage and Housing Corporation; foreign exchange revenues; and other revenues, primarily from the sale of goods and services. Other revenues were up $0.4 billion, or 3.9 per cent, primarily reflecting higher profits from Crown corporations (up $1.0 billion) and other revenues (up $0.8 billion).

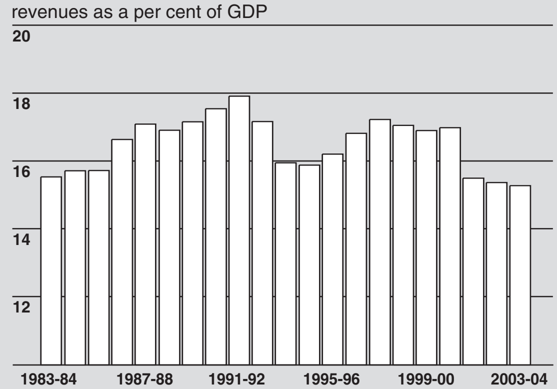
In contrast, foreign exchange revenues were down $1.3 billion due to the appreciation in the value of the Canadian dollar, as the assets in the Exchange Fund Account are denominated in foreign currencies.

The revenue ratio—budgetary revenues as a percentage of GDP—represents an approximate measure of the overall federal "tax burden" in that it compares the total of all federal revenues collected to the size of the economy. The revenue ratio stood at 15.3 per cent in 2003–04, down slightly from 2002–03. A significant decline had been expected, suggesting that the tax yield was higher than assumed at the time of the March 2004 budget.

It should be noted that some components of income subject to taxation are excluded from the Statistics Canada measure of GDP, such as capital gains and income from trusteed pension plans. As a result, this ratio overstates the effective tax burden. In addition, the nominal income estimates are subject to annual revision by Statistics Canada, which has resulted in changes in this ratio once revised data are incorporated. Therefore, caution should be exercised in interpreting this ratio.

The figures in Table 2 are presented on a "net" basis, reflecting the way in which revenues and expenses are presented to Parliament in the Government's annual budget. As a result, the Canada Child Tax Benefit is netted against personal income tax revenues. Departmental revenues that are levied for specific services, such as the contract costs of policing services in provinces, are netted against expenses, as such revenues are credited to the department in accordance with parliamentary authority. Expenses of consolidated Crown corporations in excess of their appropriations are netted against their total revenues. This classification has the effect of reducing both revenues and expenses but has no impact on the budgetary balance. Table 3 shows the impact of "grossing up" budgetary revenues for these adjustments. In 2003–04, they amounted to $12.3 billion, virtually unchanged from the previous fiscal year. The largest component is the Canada Child Tax Benefit, amounting to $8.1 billion in 2003–04, up 3.1 per cent from 2002–03. As a result, gross budgetary revenues were $198.5 billion in 2003–04, up 4.4 per cent from 2002–03.

Revenue Ratio



Sources: Department of Finance and Statistics Canada.

Table 3
Reconciliation Between Net and Gross Budgetary Revenues

	2002–03	2003–04	Net change	
		($ millions)		(%)
Net budgetary revenues	**177,832**	**186,207**	**8,375**	**4.7**
Adjustments				
Canada Child Tax Benefit	7,823	8,062	239	3.1
Revenues netted against program expenses	3,020	3,076	56	1.9
Expenses of consolidated Crown corporations	1,557	1,201	-356	-22.8
Net adjustment	12,400	12,340	-60	-0.5
Gross budgetary revenues	**190,232**	**198,547**	**8,315**	**4.4**

Note: Numbers may not add due to rounding.

Total Expenses

Total expenses consist of two components—public debt charges and program expenses. In 2003–04 total expenses amounted to $177.1 billion, up $6.3 billion, or 3.7 per cent, from 2002–03 (see Table 4). Public debt charges declined by $1.5 billion, or 4.0 per cent, while program expenses advanced $7.8 billion, or 5.8 per cent. Program expenses were $2.0 billion lower than estimated in the 2004 budget. This underestimation is considerably lower than in each of the two previous fiscal years.

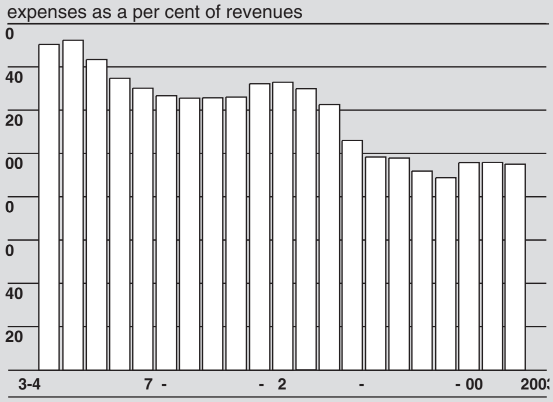
The expense ratio—total expenses as a percentage of budgetary revenues—stood at 95.1 per cent in 2003–04, down a full percentage point from 2002–03. In 1993–94 the expense ratio stood at 133.2 per cent. This meant that revenues were insufficient to cover total expenses and the Government incurred a deficit.

Public debt charges declined by $1.5 billion, or 4.0 per cent, to $35.8 billion in 2003–04, primarily attributable to a decline in the average effective interest rates on interest-bearing debt.

- The average effective interest rate on the Government's interest-bearing debt (unmatured debt and pension liabilities) was 5.8 per cent in 2003–04, compared to 6.0 per cent in 2002–03. The average effective interest rate was 5.3 per cent on unmatured debt, compared to 5.7 per cent in 2002–03. In contrast, the average effective interest rate was 6.8 per cent on pension and other accounts, unchanged from 2002–03.
- The stock of total interest-bearing debt increased by $0.4 billion, from $620.7 billion in 2002–03 to $621.1 billion in 2003–04. The stock of market debt declined by $2.2 billion to $440.2 billion, while liabilities to pension and other accounts increased by $2.6 billion to $180.9 billion.

The interest ratio—public debt charges as a percentage of budgetary revenues—declined from 21.0 per cent in 2002–03 to 19.2 per cent in 2003–04. This ratio means that, in 2003–04, the Government spent just over 19 cents of every revenue dollar on interest on the public debt. This is down from the peak of about 39 cents in 1990–91 and is the lowest this ratio has been since the late 1970s. This is money that must be paid to meet the Government's ongoing obligations on its debt. The lower the ratio, the more flexibility the Government has to address the key priorities of Canadians.

Exps



Source: Department of Finance.

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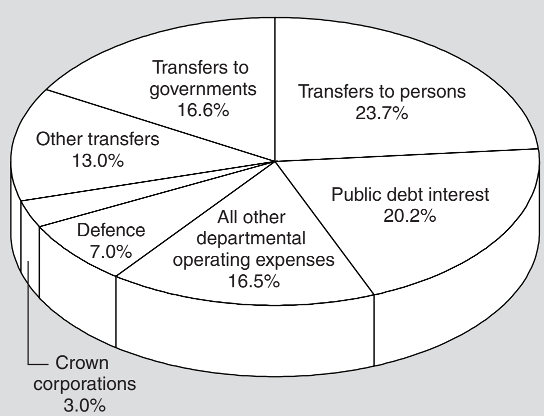


Source: *Public Accounts of Canada.*

Table 4
Total Expenses

	2002–03	2003–04	Net change	
		($ millions)		(%)
Transfers payments				
Major transfers to persons				
Elderly benefits	25,692	26,902	1,210	4.7
Employment insurance benefits	14,496	15,058	562	3.9
Total	40,188	41,960	1,772	4.4
Major transfers to other levels of government				
Canada Health and Social Transfer	18,600	20,341	1,741	9.4
Canada Health and Social Transfer supplement	2,500	2,000	-500	
Diagnostic/Medical Equipment Fund	1,500		-1,500	
National Immunization Fund		400	400	
Fiscal arrangements	10,366	9,351	-1,015	-9.8
Alternative Payments for Standing Programs	-2,321	-2,700	-379	16.3
Total	30,645	29,392	-1,253	-4.1
Subsidies and other transfers[1]	19,987	22,964	2,977	14.9
Total transfer payments	90,820	94,316	3,496	3.8
Other program expenses				
Crown corporations				
Canada Mortgage and Housing Corporation	1,979	2,092	113	5.7
Canadian Broadcasting Corporation	1,047	1,066	19	1.8
Other cultural agencies	481	539	58	12.1
Canadian Air Transport Security Authority	259	351	92	35.4
Other	1,228	1,316	88	7.2
Total	4,994	5,365	371	7.4
Defence	11,332	12,449	1,117	9.9
All other departments and agencies	26,447	29,225	2,778	10.5
Total other program expenses	42,773	47,039	4,266	10.0
Net program expenses	**133,593**	**141,355**	**7,762**	**5.8**
Public debt charges	37,270	35,769	-1,501	-4.0
Net expenses	**170,863**	**177,124**	**6,261**	**3.7**

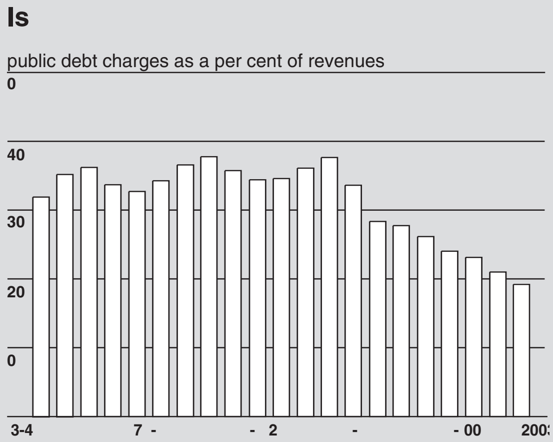
[1] See Table 5 for details.

Note: Numbers may not add due to rounding.

Program expenses amounted to $141.4 billion in 2003–04, an increase of $7.8 billion, or 5.8 per cent, from 2002–03. Increases were recorded in all major components with the exception of major transfers to other levels of government. The decline in this component is attributable to the inclusion of larger one-time payments to provinces and territories for health care in 2002–03 than in 2003–04 and lower equalization entitlements due to prior-year adjustments. The increases in the other components primarily reflect the impact of previous budget measures as well as one-time adjustments that lowered expenses in 2002–03.

Major transfer payments to persons increased by $1.8 billion, or 4.4 per cent.

- Elderly benefits consist of Old Age Security, Guaranteed Income Supplement and Allowance payments. Total benefits were up $1.2 billion, or 4.7 per cent, in 2003–04, reflecting both higher average benefits, which are indexed to inflation, and an increase in the number of recipients.



Source: Department of Finance.

- Employment insurance benefits consist of regular benefits, special benefits (sickness, maternity, paternity, adoption and fishing) and labour market adjustment benefits. Total benefits increased by $0.6 billion in 2003–04, reflecting both an increase in the number of beneficiaries and an increase in average weekly benefits. The increase in benefit payments was about equally split between regular benefit payments and special benefits, in particular the increase in parental benefits.

Major transfer payments to other levels of government include the Canada Health and Social Transfer (CHST), fiscal arrangements (equalization, transfers to the territories, as well as a number of smaller transfer programs) and Alternative Payments for Standing Programs. Transfers declined by $1.3 billion, or 4.1 per cent, in 2003–04, following an increase of $4.0 billion in 2002–03, or 15.1 per cent. This decline is attributable to lower one-time special transfers for health care and lower equalization entitlements due to prior-year adjustments.

- The CHST—a block-funded transfer—supports health care, post-secondary education, social assistance and social services, including early childhood development. It provides support in the form of cash and tax transfers to the provinces and territories. As part of the September 2000 and February 2003 health accords, the federal government legislated an incremental $1.7 billion to be paid in 2003–04. However, one-time transfers in 2003–04 were less than in 2002–03. In 2002–03, an incremental $2.5 billion was transferred in the form of a special supplement and an additional $1.5-billion investment was provided to the Diagnostic/Medical Equipment Fund to be used by the provinces and territories in support of specialized staff training and equipment, to improve access to publicly funded diagnostic services. In 2003–04, an incremental $2.0 billion was transferred in the form of a special supplement and $0.4 billion to support a national immunization strategy and to assist provinces and territories in enhancing their public health capacities.
- Total entitlements under fiscal arrangements decreased by $1.0 billion to $9.4 billion, primarily reflecting lower equalization entitlements. Under the equalization program, the federal government transfers funds to the less prosperous provinces so that they can provide their residents with public services reasonably comparable to those in other provinces without having to resort to higher-than-average taxation. The decline in equalization entitlements reflects stronger-than-expected economic growth in 2002 in the equalization-receiving provinces relative to the non-equalization-receiving provinces and, hence, a convergence in the estimated provincial fiscal capacity of the equalization-receiving provinces relative to the equalization standard. This has been carried forward into 2003–04. The decline in 2003–04 is primarily attributable to the recording of a receivable for recoveries related to the overpayments in 2002–03.
- The Alternative Payments for Standing Programs represent recoveries of federal tax point abatements under contracting-out arrangements. These arrangements allow provinces to assume the administrative and financial authority for certain federal-provincial programs. In turn, the federal government provides provinces with tax points, the value of which are netted against total entitlements and accordingly recovered from cash transfers. These recoveries reflect the growth in the value of the tax points.

Subsidies and other transfers advanced by $3.0 billion, or 14.9 per cent (see Table 5). About half of this increase ($1.4 billion) is attributable to special assistance to the Canadian cattle industry following the discovery in May 2003 of a case of BSE and the resulting closure of export markets to Canadian beef and cattle. An additional $330 million was provided to the province of Ontario in recognition of its extraordinary effort to protect public health during the SARS outbreak. Most of the remaining increase in this component is attributable to previous budget measures. These include a commitment to increase Canada's international assistance by 8 per cent per year; the establishment of the Primary Health Care Transition Fund as part of the September 2000 health accord; increased assistance to students; increased funding to the granting councils (Canadian Institutes of Health Research, Natural Sciences and Engineering Research Council [NSERC] and Social Sciences and Humanities Research Council [SSHRC]); and endowments of $250 million to Sustainable Development Technology Canada and $85 million to the Canadian Council on Learning.

Table 5

Subsidies and Other Transfers

	2002–03	2003–04	Net change	
		($ millions)		(%)
Agriculture and Agri-Food				
BSE recovery program		1,401	1,401	
Other	2,654	2,519	-135	-5.1
Foreign Affairs and International Trade	2,456	2,683	227	9.3
Health Canada				
First Nations and Inuit health	678	702	24	3.6
Canadian Institutes of Health Research	587	647	60	10.2
Primary Health Care Transition Fund	48	209	161	334.2
Grant to Ontario: SARS		330	330	
Other	401	576	175	43.5
Human Resources Development				
Student assistance programs	582	804	223	38.2
Labour market programs	716	735	20	2.8
Canadian Council on Learning		85	85	
Other	304	407	103	33.7
Indian Affairs and Northern Development	4,649	4,794	145	3.1
Industry/regional agencies/granting councils				
Technology Partnerships Canada	328	312	-16	-4.9
Infrastructure Canada	253	334	82	32.3
Regional agencies	667	761	95	14.2
NSERC/SSHRC	784	1,134	350	44.7
Other	417	492	75	18.0
Canada Foundation for Innovation	500		-500	
Canada Health Infoway	600	100	-500	-83.3
Genome Canada	75		-75	
Sustainable Development Technology Canada		250	250	
Other	3,290	3,687	398	12.1
Total	**19,987**	**22,964**	**2,977**	**14.9**

Note: Numbers may not add due to rounding.

Other program expenses—total program expenses less transfers—consist of expenses related to Crown corporations, and operating expenses of departments and agencies, including National Defence. These expenses amounted to $47.0 billion in 2003–04, up $4.3 billion, or 10.0 per cent, from 2002–03. Part of this increase is attributable to special adjustments which lowered expenses in 2002–03 and were not repeated in 2003–04. Within this component:

- Expenses related to Crown corporations increased $0.4 billion to $5.4 billion in 2003–04. This component includes appropriations to consolidated Crown corporations (those Crown corporations that rely on government funding as their principal source of revenue).
- Defence expenses increased $1.1 billion, or 9.9 per cent, primarily reflecting incremental funding of $800 million provided in the 2003 budget to strengthen Canada's military. Incremental funding was also provided for mission costs to support Canada's international commitments.
- All other departmental and agency expenses increased by $2.8 billion, or 10.5 per cent, following a slight decline in 2002–03 due to downward adjustments to allowances for loans and other liabilities.

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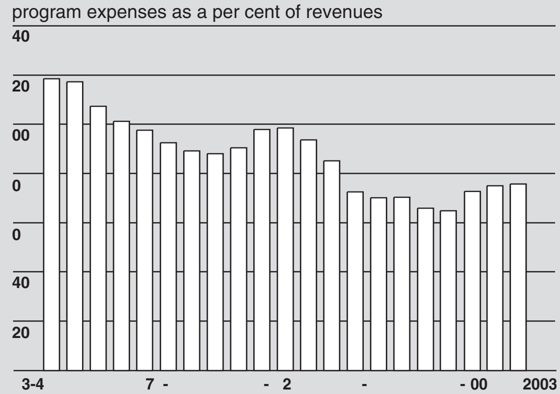
program expenses as a per cent of revenues



Source: Department of Finance.

The program share—program expenses as a percentage of budgetary revenues—amounted to 75.9 per cent in 2003–04, up slightly from 75.1 per cent in 2002–03. In 1993–94 the program share was 98.6 per cent.

The above numbers are presented on a "net" basis, as discussed in the previous section, "Budgetary Revenues." Gross expenses are $12.3 billion higher than net expenses, as shown in Table 6.

Table 6

Reconciliation Between Net and Gross Expenses

	2002–03	2003–04	Net change	
		($ millions)		(%)
Net expenses	**170,863**	**177,124**	**6,261**	**3.7**
Adjustments				
Canada Child Tax Benefit	7,823	8,062	239	3.1
Revenues netted against program expenses	3,020	3,076	56	1.9
Expenses of consolidated Crown corporations	1,557	1,201	-356	-22.8
Net adjustment	12,400	12,340	-60	-0.5
Gross expenses	**183,263**	**189,464**	**6,201**	**3.4**

Note: Numbers may not add due to rounding.

The Budgetary Balance, Financial Source/Requirement and Debt

The budgetary balance is the most comprehensive measure of the federal government's fiscal results. It is presented on a full accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made, and recording tax revenues when earned, regardless of when the cash is received.

In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. It differs from the budgetary balance in that it includes cash transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, foreign exchange activities, and changes in other financial assets, liabilities and non-financial assets. These activities are included as part of non-budgetary transactions. The conversion from full accrual to cash accounting is also reflected in non-budgetary transactions.

As shown in Table 7, non-budgetary transactions in 2003–04 resulted in a net requirement of funds amounting to $2.8 billion, compared to a source of $0.6 billion in 2002–03. This decline reflects increased requirements for other investing activities, primarily for increased borrowings related to the Canada Student Loans Program, and for accounts payable, receivable, accruals and allowances.

With a budgetary surplus of $9.1 billion and a net requirement from non-budgetary transactions of $2.8 billion, there was a financial source of $6.2 billion in 2003–04, compared to a source of $7.6 billion in 2002–03.

With this financial source, the Government retired $2.2 billion of its market debt and increased its cash balances by $4.1 billion. Cash balances at March 31, 2004, stood at $20.5 billion.

Total liabilities consist of interest-bearing debt and other liabilities. Interest-bearing debt includes market debt and liabilities for pension and other accounts. At March 31, 2004, interest-bearing debt amounted to $621.1 billion, up $0.4 billion from a year earlier (see Table 8). Other liabilities, which include accounts payable and accrued liabilities, amounted to $80.0 billion, up $0.6 billion from 2002–03. As a result, total liabilities at March 31, 2004, stood at $701.1 billion, up $1 billion from the previous year.

Financial assets consist of cash and accounts receivable, including tax receivables, foreign exchange accounts and loans, investments and advances. Financial assets totalled $144.8 billion at March 31, 2004, up $9.5 billion from March 31, 2003. Increases were recorded in cash and accounts receivable (up $8.3 billion) and in loans, investments and advances (up $5.8 billion), while net assets in foreign exchange accounts declined by $4.6 billion. The latter primarily reflects a decline in foreign currency borrowings. As a result, net debt stood at $556.3 billion at March 31, 2004, down $8.5 billion from March 31, 2003, and $52.7 billion below the peak of $609 billion at March 31, 1997. As a per cent of GDP, net debt dropped to 45.6 per cent in 2003–04, down 28.2 percentage points from its peak of 73.9 per cent in 1995–96. This is the eighth consecutive year in which the net debt-to-GDP ratio has declined.

Non-financial assets, consisting of tangible capital assets, inventories and prepaid expenses, amounted to $54.8 billion at March 31, 2004, up $0.6 billion from March 31, 2003.

Table 7

Budgetary Balance, Financial Source/Requirement and Net Financing Activities

	1997–98	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04
				($ billions)			
Surplus for the year	**2.1**	**2.8**	**13.1**	**20.2**	**7.0**	**7.0**	**9.1**
Non-budgetary transactions							
Pensions and other accounts							
Public sector pensions (net)	3.3	5.0	5.9	0.8	-2.3	-1.2	1.9
Canada Pension Plan	0.5	1.2	0.8	0.2	0.4	0.3	0.4
Other	0.9	1.1	0.8	2.2	0.9	1.2	0.4
Total	4.6	7.3	7.6	3.2	-1.0	0.3	2.6
Capital investing activities	-3.3	-3.7	-3.8	-3.8	-4.4	-4.8	-4.4
Other investing activities	2.8	3.4	3.1	0.4	1.5	0.5	-2.4
Other activities							
Accounts payable, receivable, accruals and allowances	4.7	-1.1	-7.6	-2.3	-4.2	-1.9	-6.8
Foreign exchange activities	-2.2	-5.7	-6.8	-8.8	-1.8	3.1	4.6
Amortization of tangible capital assets	2.3	2.3	2.3	2.3	2.6	3.3	3.5
Total other activities	4.9	-4.5	-12.2	-8.8	-3.4	4.6	1.4
Total non-budgetary transactions	9.0	2.4	-5.3	-8.9	-7.4	0.6	-2.8
Financial source/requirement	**11.1**	**5.2**	**7.9**	**11.3**	**-0.3**	**7.6**	**6.2**
Net change in financing activities							
Marketable bonds	15.8	9.6	-0.9	1.0	-1.1	-5.6	-9.5
Treasury bills	-23.1	-15.4	2.9	-11.2	5.5	10.4	9.0
Canada Savings Bonds	-2.7	-2.1	-1.2	-0.4	-2.3	-1.4	-1.3
Other	0.4	1.7	-4.9	0.5	-6.2	-5.9	-0.4
Total	-9.6	-6.2	-4.0	-10.0	-4.1	-2.5	-2.2
Change in cash balances	1.5	-1.0	3.8	1.3	-4.4	5.1	4.1
Cash at end of year	**11.7**	**10.7**	**14.5**	**15.8**	**11.4**	**16.5**	**20.5**

Note: Numbers may not add due to rounding.

With total liabilities of $701.1 billion, financial assets of $144.8 billion and non-financial assets of $54.8 billion, the federal debt (accumulated deficit) stood at $501.5 billion at March 31, 2004, down a total of $9.1 billion from 2002–03 and $61.4 billion from its peak in 1996–97. All of the decline in federal debt between 2002–03 and 2003–04 is attributable to the increase in financial assets.

Foreign holdings of the Government of Canada's outstanding market debt are estimated at $60.0 billion at the end of March 2004, representing 13.6 per cent of the Government's total market debt.

Table 8
Outstanding Debt at Year-End

	1997–98	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04
				($ billions)			
Liabilities							
Accounts payable and accrued liabilities	81.2	83.7	81.1	87.2	81.5	79.4	80.0
Interest-bearing debt							
Unmatured debt	469.2	463.0	459.0	449.0	444.9	442.4	440.2
Pension and other accounts	160.9	168.2	175.8	179.0	177.9	178.3	180.9
Total	630.1	631.2	634.8	628.0	622.8	620.7	621.1
Total liabilities	711.3	714.9	715.8	715.1	704.3	700.1	701.1
Financial assets							
Cash and accounts receivable	55.2	55.9	61.0	67.0	59.8	62.6	70.9
Foreign exchange accounts	29.0	34.7	41.5	50.3	52.0	49.0	44.3
Loans, investments and advances	19.2	17.8	18.4	21.6	21.6	23.7	29.5
Total financial assets	103.3	108.3	120.9	138.8	133.4	135.3	144.8
Net debt	**607.9**	**606.6**	**595.0**	**576.3**	**570.9**	**564.8**	**556.3**
Non-financial assets							
Tangible capital assets	40.2	41.5	42.9	44.2	45.7	47.0	47.7
Inventories	6.2	6.3	6.5	6.6	6.4	6.1	6.1
Prepaid expenses	0.9	0.9	0.9	0.9	1.2	1.1	0.9
Total non-financial assets	47.2	48.7	50.2	51.7	53.4	54.2	54.8
Federal debt (accumulated deficit)	**560.7**	**557.9**	**544.7**	**524.6**	**517.5**	**510.6**	**501.5**

Note: Numbers may not add due to rounding.

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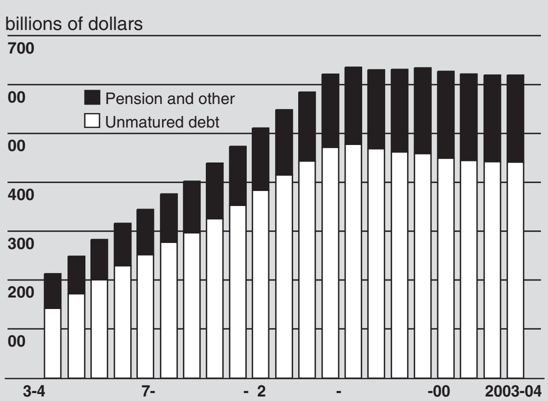

Source: *Public Accounts of Canada.*

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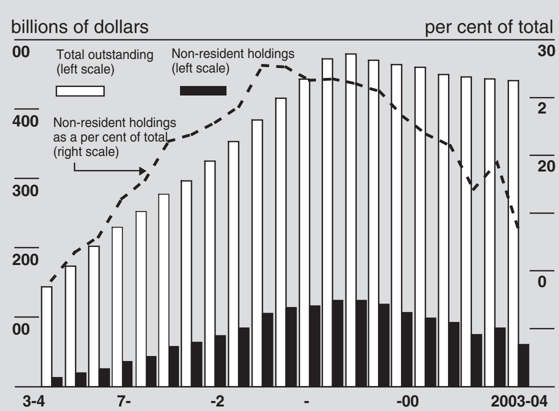

Source: Bank of Canada.

Comparison of Actual Budgetary Outcomes to Budget Estimates

This section compares the actual outcome for the major components of the budgetary balance for 2003–04 to the estimates presented in the March 2004 budget. The Government targeted a balanced budget or better for 2003–04 in the March 2004 budget. Under the Debt Repayment Plan, the fiscal target for each year is based on:

- Using the average of private sector economic forecasts for budget-planning purposes.
- Including an annual Contingency Reserve to cover risks arising from unpredictable events and unavoidable inaccuracies in the economic and fiscal models used to translate the economic assumptions into detailed budget forecasts. It is not a source of funding for new policy initiatives. If not needed, it is used to reduce the federal debt.
- Adding an extra degree of economic prudence to provide further assurance against falling back into deficit. As is normal practice, no additional prudence was added in the March 2004 budget for 2003–04, given that the fiscal year was nearly over.

After accounting for the fiscal impact of the new spending initiatives, the March 2004 budget estimated a surplus of $1.9 billion for 2003–04. This amount was allocated to the Contingency Reserve. The final audited budgetary surplus for 2003–04 was $9.1 billion.

Most of this improvement is attributable to higher budgetary revenues, up $5.1 billion from that estimated in the March 2004 budget. The higher revenues primarily relate to stronger-than-expected economic performance in the final quarter of the 2003–04 fiscal year and a higher-than-estimated tax yield from that expected at the time of the March 2004 budget.

Information received after the March 2004 budget indicated that tax liabilities with respect to the 2003 taxation year were higher than expected and that income growth in the final quarter of 2003–04 was stronger than forecast at the time of the March 2004 budget. Personal income tax revenues were $1.4 billion higher, attributable to higher-than-expected taxes paid on filing in April 2004 with respect to the 2003 taxation year. Corporate income tax revenues were $1.5 billion higher, reflecting higher settlement payments with respect to the 2003 taxation year. Corporations with a December 31 taxation year-end have 60 days to remit any taxes owing with respect to the taxation year. The stronger growth in corporate income tax revenues (up 23.4 per cent over the previous year) was surprising, given the growth in corporate profits in 2003 (up 10 per cent) and the 2-percentage-point reduction in the corporate tax rate in 2003. Excise taxes and duties were up $0.6 billion, primarily attributable to stronger GST receipts at year-end. Employment insurance premium revenues were up $0.4 billion, reflecting stronger employment gains in the final quarter of 2003–04. Higher net gains from Crown corporations explain most of the $1.3-billion increase in other revenues. The final outcome for 2003–04 indicates that the revenue yield was higher than expected at the time of the March 2004 budget, and this should carry forward into future years.

Program expenses were $2.0 billion lower than estimated in the March 2004 budget. This is considerably lower than the differences reported in each of the previous two fiscal years. Employment insurance benefits were $0.4 billion lower than expected, reflecting stronger employment gains in the final quarter of 2003–04, while elderly benefits were $0.1 billion lower. Major transfers to other levels of government were $0.3 billion higher than expected due to a lower estimated value of receivables relating to the equalization recoveries. The lower outcome for direct program expenses primarily relates to higher-than-expected lapses, in part due to the year-end freeze on discretionary spending and delays in implementing some of the previous budget initiatives.

Public debt charges were unchanged.

Table 9

Comparison of Actual Outcomes to March 2004 Budget

	Actual	2004 budget	Difference
		($ billions)	
Budgetary revenues			
Personal income tax	84.9	83.5	1.4
Corporate income tax	27.4	25.9	1.5
Other income tax	3.1	3.3	-0.1
Excise taxes and duties	41.4	40.8	0.6
Employment insurance premium revenues	17.5	17.1	0.4
Other revenues	11.8	10.5	1.3
Total	186.2	181.1	5.1
Program expenses			
Major transfers to persons			
Elderly benefits	26.9	27.0	-0.1
Employment insurance benefits	15.1	15.5	-0.4
Major transfers to other levels of government			
Canada Health and Social Transfer	22.7	22.7	0.0
Fiscal arrangements	9.4	8.7	0.6
Alternative Payments for Standing Programs	-2.7	-2.4	-0.3
All other expenses			
Subsidies and other transfers	23.0	23.8	-0.8
Crown corporations	5.4	5.5	-0.1
Defence	12.4	12.9	-0.4
Other departmental and agencies	29.2	29.7	-0.5
Total	141.4	143.4	-2.0
Public debt charges	35.8	35.8	0.0
Budgetary outcome/estimate	**9.1**	**1.9**	**7.2**

Note: Numbers may not add due to rounding.

Auditor General of Canada
Vérificatrice générale du Canada

Report of the Auditor General on the Condensed Financial Statements of the Government of Canada

To the Minister of Finance:

The accompanying condensed statements of operations and accumulated deficit, financial position, change in net debt and cash flow are derived from the complete financial statements of the Government of Canada as at March 31, 2004, and for the year then ended on which I expressed an opinion without reservation in my Report to the House of Commons dated September 7, 2004.

My Report drew two matters I have raised before to Parliament's attention: a concern about the Employment Insurance Account, and the recording of transfers to Foundations. For more complete information, readers should refer to my Report, which will be included in Volume I of the *Public Accounts of Canada 2004,* expected to be tabled in the House of Commons later this year.

The fair summarization of the complete financial statements is the responsibility of the Government. My responsibility, in accordance with the applicable Assurance Guideline of The Canadian Institute of Chartered Accountants, is to report on the condensed financial statements.

In my opinion, the accompanying condensed financial statements fairly summarize, in all material respects, the related complete financial statements in accordance with the criteria described in the Guideline referred to above.

Since these are condensed financial statements, readers are cautioned that these statements may not be appropriate for their purposes. For more information on the Government's financial position, results of operations and cash flow, reference should be made to the related complete financial statements, which will also be included in Volume I of the *Public Accounts of Canada 2004*.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
September 7, 2004

Condensed Financial Statements of the Government of Canada

The fundamental purpose of these condensed financial statements is to provide an overview of the financial affairs and resources for which the Government is responsible under authority granted by Parliament. Responsibility for the integrity and objectivity of these statements rests with the Government.

These financial statements are extracted and condensed from the audited financial statements included in Section 2 of Volume I of the *Public Accounts of Canada 2004*, which are expected to be tabled in Parliament later this year. As these condensed financial statements are, by their nature, summarized, they do not include all disclosure required for financial reporting by governments in Canada. Readers interested in the disclosure of more detailed data should refer to the audited financial statements in the Public Accounts.

Table 10

Government of Canada
Condensed Statement of Operations and Accumulated Deficit
for the Year Ended March 31, 2004

	2004		2003
	Budget[1]	Actual	Actual
		($ millions)	
Revenues			
Income tax	122,100	123,530	115,043
Other taxes and duties	43,100	41,365	41,357
Employment insurance premiums	17,600	17,546	17,870
Other revenues	14,500	16,106	15,962
Total revenues	***197,300***	***198,547***	***190,232***
Expenses			
Transfer payments			
Old age security and related payments	26,800	26,902	25,692
Other levels of government	31,000	29,392	30,645
Employment insurance benefits	15,700	15,058	14,496
Other transfer payments	30,100	31,026	27,810
Total transfer payments	*103,600*	*102,378*	*98,643*
Other program expenses	52,100	51,317	47,350
Total program expenses	***155,700***	***153,695***	***145,993***
Interest on debt	37,600	35,769	37,270
Total expenses	***193,300***	***189,464***	***183,263***
Annual surplus	**4,000**[2]	**9,083**	**6,969**
Accumulated deficit, beginning of year	510,600[3]	510,576	517,545
Accumulated deficit, end of year	**506,600**	**501,493**	**510,576**

1 Derived from Budget 2003 and adjusted to a gross basis.

2 Budget 2003 disclosed the budgetary surplus as $4 billion before deducting reserves for contingency ($3 billion) and economic prudence ($1 billion).

3 Adjusted to the actual closing amount of previous year.

Table 11

Government of Canada
Condensed Statement of Financial Position
as at March 31, 2004

	2004	2003
	($ millions)	
Liabilities		
Accounts payable and accrued liabilities	79,964	79,437
Interest-bearing debt		
Unmatured debt	440,231	442,416
Pension and other liabilities	180,898	178,287
Total interest-bearing debt	*621,129*	*620,703*
Total liabilities	***701,093***	***700,140***
Financial assets		
Cash and accounts receivable	70,921	62,626
Foreign exchange accounts	44,313	48,950
Loans, investments and advances	29,548	23,748
Total financial assets	***144,782***	***135,324***
Net debt	***556,311***	***564,816***
Non-financial assets		
Tangible capital assets	47,745	47,034
Other	7,073	7,206
Total non-financial assets	***54,818***	***54,240***
Accumulated deficit	**501,493**	**510,576**

Table 12

Government of Canada
Condensed Statement of Change in Net Debt
for the Year Ended March 31, 2004

	2004		2003
	Budget[1]	Actual	Actual
	($ millions)		
Net debt, beginning of year	**564,800**[2]	**564,816**	**570,907**
Change in net debt during the year			
Annual surplus	(4,000)[3]	(9,083)	(6,969)
Acquisition of tangible capital assets	4,700	4,535	5,051
Amortization of tangible capital assets	(3,100)	(3,502)	(3,341)
Other		(455)	(832)
Net decrease in net debt	(2,400)	(8,505)	(6,091)
Net debt, end of year	**562,400**	**556,311**	**564,816**

1 Derived from Budget 2003.

2 Adjusted to the actual closing amount of previous year.

3 Budget 2003 disclosed the budgetary surplus as $4 billion before deducting reserves for contingency ($3 billion) and economic prudence ($1 billion).

Table 13

Government of Canada
Condensed Statement of Cash Flow
for the Year Ended March 31, 2004

	2004	2003
	($ millions)	
Cash provided by operating activities		
Annual surplus	9,083	6,969
Items not affecting cash	4,031	4,897
	13,114	**11,866**
Cash used for capital investment activities	**(4,444)**	**(4,763)**
Cash provided by (used for) investing activities	**(2,425)**	**498**
Total cash generated	***6,245***	***7,601***
Cash used to repay unmatured debt	**(2,185)**	**(2,475)**
Net increase in cash	**4,060**	**5,126**
Cash at beginning of year	16,486	11,360
Cash at end of year	**20,546**	**16,486**

Notes to the Condensed Financial Statements

1. Significant Accounting Policies

The Government of Canada reporting entity includes all departments, agencies, corporations and funds which are owned or controlled by the Government and which are accountable to Parliament. The financial activities of all these entities are consolidated in these statements, except for enterprise Crown corporations and other government business enterprises, which are not dependent on the Government for financing their activities. These corporations are reported under the modified equity basis of accounting. The Canada Pension Plan is excluded from the reporting entity as it is under the joint control of the Government and participating provinces.

The Government accounts for transactions on an accrual basis. Financial assets recorded on the Condensed Statement of Financial Position can provide resources to discharge liabilities or finance future operations and are recorded at the lower of cost or net realizable value. Non-financial assets cannot normally be converted into cash to finance future operations without disrupting government operations; they are recorded at cost less accumulated amortization. Liabilities are recorded at the estimated amount ultimately payable, with pension and other similar benefits being determined on an actuarial basis. Valuation allowances are established for loan guarantees, concessionary and sovereign loans, and other obligations.

Some amounts in these statements are based on estimates and assumptions made by the Government. By their nature, such estimates are subject to measurement uncertainty, although all of them are believed to be reasonable.

Comparative figures for 2003 have been reclassified to conform to the current year's presentation.

2. Contractual Commitments

Contractual commitments that will materially affect the level of future expenses include transfer payment agreements, acquisitions of goods and services, operating leases and funding of international organizations. At March 31, 2004, contractual commitments amounted to approximately $56 billion ($57 billion in 2003).

3. Contingent Liabilities

Guarantees by the Government amount to $71 billion ($75 billion in 2003) net of any recorded allowance. In addition, there are a number of contaminated sites where the Government could be obligated to incur costs. There are thousands of claims and pending and threatened litigation cases against the Government; the total amount claimed in these instances is significant but the final outcome is not determinable. Where cases are likely to be lost and an estimate of loss can be made, an amount is recorded in the financial statements. Insurance in force relating to self-sustaining insurance programs operated by three enterprise Crown corporations amounted to approximately $688 billion ($646 billion in 2003). The Government expects that it will not incur any costs to cover insurance claims under these programs.

Other Sources of Information

Public Accounts of Canada

The *Public Accounts of Canada*, as required under section 64(1) of the Financial Administration Act, are tabled in the fall of each year by the President of the Treasury Board. This report is presented in three volumes:

- Volume I contains the Government's audited financial statements and supporting schedules and information;
- Volume II contains details of financial operations by ministry; and
- Volume III contains additional information and analyses.

Budget

The budget, usually introduced in February, presents the Government's overall fiscal plan, incorporating revenue projections and spending plans, which combine to determine the resulting budgetary balance. The budget also introduces proposals for changes in taxation.

The Fiscal Monitor

This monthly newsletter produced by the Department of Finance highlights the financial results of the Government together with the reasons underlying major variances.

Debt Management Strategy

This report is tabled annually in Parliament. It provides information on the federal government's debt management strategy for the coming fiscal year.

Debt Management Report

This annual document provides an accounting of the key elements of federal debt strategy and describes various strategic and operational aspects of the Government's debt program and cash management activities over the past fiscal year.

Estimates

Each year the Government prepares Estimates in support of its request to Parliament for authority to spend public monies. This request is formalized through the tabling of appropriation bills in Parliament. The Estimates are tabled in the House of Commons by the President of the Treasury Board and consist of three parts:

Part I – The Government Expenditure Plan provides an overview of federal spending and summarizes the relationship of the key elements of the Main Estimates to the Expenditure Plan set out in the budget.

Part II – The Main Estimates directly support the Appropriations Act.

Part III – Departmental Expenditure Plans, which consist of two components—Reports on Plans and Priorities and Departmental Performance Reports.