



---

**ANNUAL**

---

**FINANCIAL**

---

**REPORT**

---

of the Government of Canada

Fiscal Year 1999-2000

---

**Canada**

© Her Majesty the Queen in Right of Canada (2000)  
All rights reserved

All requests for permission to reproduce this document or any part thereof shall be addressed to Public Works and Government Services Canada.

Available from the  
Distribution Centre  
Department of Finance Canada  
Room P-135, West Tower  
300 Laurier Avenue West  
Ottawa, Ontario K1A 0G5  
Tel: (613) 943-8665  
Fax: (613) 996-0901

**Price: \$16.00 (including GST)**  
(This price includes the *Fiscal Reference Tables*)

This document is available free on the Internet at  
<http://www.fin.gc.ca/>

*Cette publication est également disponible en français.*

Cat No.: F1-25/2000E  
ISBN 0-660-18294-7





---

# ANNUAL FINANCIAL REPORT

---

of the Government of Canada

## Fiscal Year 1999-2000

In the February 2000 budget, the Government committed to a balanced budget or better for 1999-2000. This was after setting aside a \$3-billion Contingency Reserve in order to ensure that the fiscal target would be realized. It also included an allocation of \$6.2 billion to key priorities for Canadians including: a \$2.5-billion cash supplement under the Canada Health and Social Transfer for health and higher education; \$1.3 billion for initiatives to make the economy more innovative, such as the \$0.9 billion for the Canada Foundation for Innovation; \$0.8 billion to meet Canada's international obligations; and funding to assist Canadian farmers.

As a result of a better than expected economic performance, budgetary revenues grew much more strongly in the last quarter of 1999-2000 than forecast in Budget 2000, while program spending was lower. As a result, for fiscal year 1999-2000, there was a budgetary surplus of \$12.3 billion – \$9.3 billion above the \$3-billion Contingency Reserve. This surplus was applied to reducing the net public debt. This marks the third consecutive year in which the federal government has reported a budgetary surplus – the last time that this happened was in the late 1940s and early 1950s. As a result, the stock of net public debt has declined by \$18.7 billion in just three years. Market debt – the debt issued on credit markets – fell even faster than net public debt. Over the last three fiscal years, \$20.4 billion of market debt has been retired.



This large paydown of net public debt is welcome news. Canada's debt level is high, both by historical Canadian and international standards. A high debt burden means that a large portion of the revenue the Government collects from taxpayers must go towards debt servicing payments rather than to reduce taxes, to fund valued programs and services or to pay down the debt. Reducing the debt burden also lessens the exposure of the fiscal situation to economic shocks, especially an increase in interest rates or prolonged slowdowns in economic activity. And a lower debt burden ensures that younger Canadians do not pay an unduly large portion of the debt.

Net public debt as a percentage of the economy is now at 58.9 per cent, a decline of more than 12 percentage points from its peak of 71.2 per cent in 1995-96. On an international basis, Canada has made more progress in reducing its debt burden than any other G-7 country. Public debt charges now account for about 25 cents of each revenue dollar received – back to where it was in 1981-82, whereas in 1995-96 it amounted to 36 cents. The Debt Repayment Plan, coupled with sustained economic growth, will ensure that both the stock of debt and the debt burden continue to decline.

The better fiscal outcome is not unique to the federal government. Most provinces as well as other major industrialized nations are reporting much better than expected financial results for the fiscal year just ended.

The Auditor General of Canada, Denis Desautels, has expressed a “clean” opinion on these financial statements. As his term expires at the end of March 2001, these will be the last financial statements on which he will express an audit opinion. Although there have been on occasion differences in interpretation between the Auditor General and the Government, the dedication and professionalism brought to the office by Mr. Desautels are exemplary. Canadians and the Government have been extremely well served during his tenure. I wish him well in whatever new endeavour he pursues.

The 1998-99 edition of the *Annual Financial Report* included a user survey. The results regarding the content and organization of the report were generally very positive and the majority of respondents felt that there was a sufficient amount of information. I wish to thank all of those who responded.

The financial data in this report are based on the audited results, which will appear in more detail in the 2000 *Public Accounts of Canada*, 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, 1999–March 31, 2000) and detail the factors affecting these results. In addition, the *Fiscal Reference Tables* have been updated to incorporate the results for 1999-2000 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 Paul Martin, P.C., M.P.  
Minister of Finance

---

## TABLE OF CONTENTS

Report Highlights .....	5
Budgetary Revenues .....	8
Budgetary Expenditures .....	11
The Budgetary Balance, Financial Requirements/Source and Debt .....	16
The “Scorecard” .....	19
Opinion of the Auditor General on the Condensed Financial Statements of the Government of Canada .....	21
Condensed Financial Statements of the Government of Canada .....	23

## REPORT HIGHLIGHTS

- Budgetary surplus of \$12.3 billion in 1999-2000, following surpluses of \$3.5 billion in 1997-98 and \$2.9 billion in 1998-99. The last time the budget was in surplus for three consecutive years was 1951-52.
- By accounting practices used in most other countries, a financial source for the fourth consecutive year was reported – the only G-7 country to do so.
- Net public debt was down \$18.7 billion from its peak in 1996-97 to stand at \$564.5 billion. The net public debt-to-GDP ratio was down to 58.9 per cent from a peak of 71.2 per cent in 1995-96.
- Market debt – the debt issued on credit markets – fell even faster than net public debt. Over the last three fiscal years, \$20.4 billion of market debt has been retired.

### The Budgetary Balance

At the time of the February 1999 budget, private sector economists expected nominal income – a proxy for the federal tax base – to advance by only 2.7 per cent in 1999. However, this was revised up to 5.1 per cent in September 1999 and 5.4 per cent in the February 2000 budget.

The much stronger than expected growth in the economy resulted in much higher revenues and lower employment insurance benefits than forecast at the time of the February 1999 budget. At the time of the February 2000 budget, an underlying budgetary surplus of \$9.2 billion was expected for 1999-2000. Of that amount, a

\$3-billion Contingency Reserve was maintained to ensure that the budgetary target of a balanced budget or better would be realized. That left a planning surplus after the Contingency Reserve of \$6.2 billion. This surplus was allocated to a number of key priorities: a cash supplement of \$2.5 billion to the Canada Health and Social Transfer was made available to help the provinces and territories fund post-secondary education and health care; \$1.3 billion was directed to initiatives to make the economy more innovative, including the \$0.9-billion transfer to the Canada Foundation for Innovation; another \$0.8 billion was allocated to meet Canada's international obligations; and additional financial assistance was provided to Canadian farmers.

However, data that became available after the 2000 budget indicated that nominal income growth averaged 6.2 per cent for 1999, and this strength continued into 2000. As a result, budgetary revenues were \$5.8 billion higher than estimated in the February 2000 budget while expenditures were \$3.5 billion lower. This, in combination with the \$3-billion Contingency Reserve, resulted in a budgetary surplus for 1999-2000 of \$12.3 billion – all of which has been applied to reducing the net public debt.

In 1993-94, the federal deficit stood at \$42 billion. The actions taken in the 1994, 1995 and 1996 budgets, coupled with sustained economic growth, resulted in the elimination of that deficit in just four years.

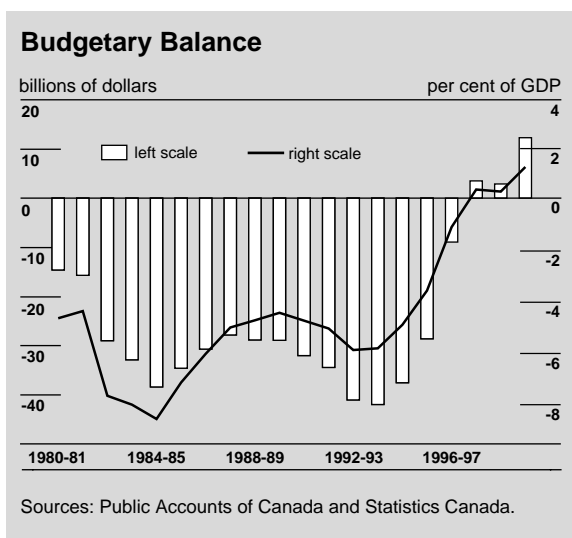


Table 1

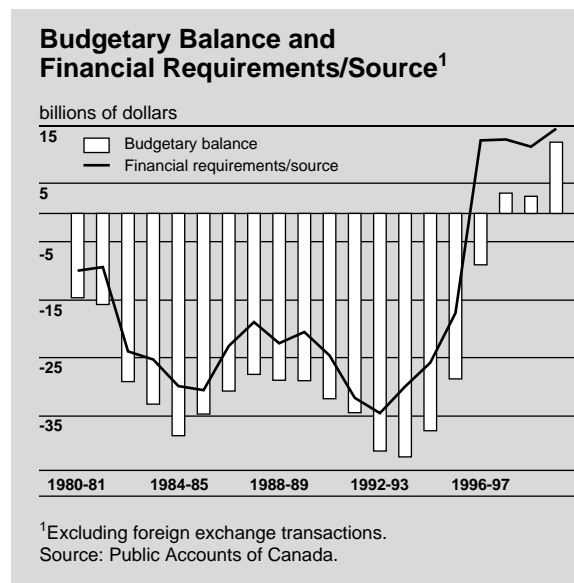
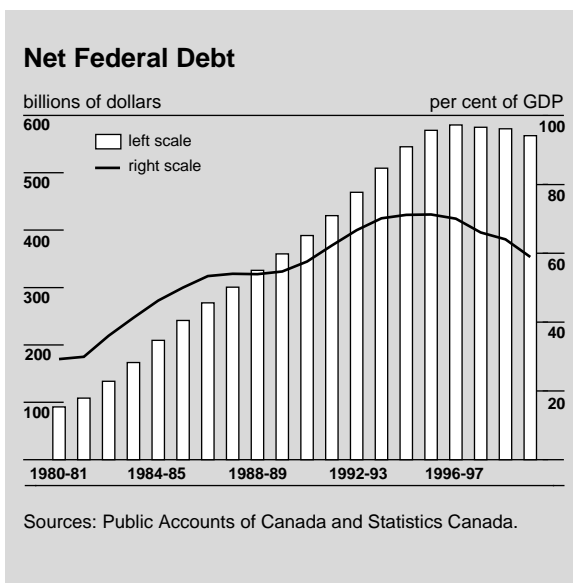
**Financial Highlights**

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
	(\$ billions)						
Budgetary transactions							
Revenues	116.0	123.3	130.3	140.9	153.2	155.7	165.7
Program spending	-120.0	-118.7	-112.0	-104.8	-108.8	-111.4	-111.8
Operating balance	-4.0	4.6	18.3	36.1	44.4	44.3	53.9
Public debt charges	-38.0	-42.0	-46.9	-45.0	-40.9	-41.4	-41.6
<b>Budgetary balance</b>	<b>-42.0</b>	<b>-37.5</b>	<b>-28.6</b>	<b>-8.9</b>	<b>3.5</b>	<b>2.9</b>	<b>12.3</b>
Non-budgetary transactions							
Net financial requirements/source (excludes foreign exchange transactions)	-29.9	-25.8	-17.2	1.3	12.7	11.5	14.6
Foreign exchange transactions	-2.1	-1.4	-4.7	-7.8	-2.2	-5.7	-6.8
Total financial requirements/source	-32.0	-27.3	-21.9	-6.5	10.6	5.8	7.7
Net change in borrowings	31.2	27.0	28.5	7.3	-9.6	-6.9	-4.0
Net change in cash balances	-0.7	-0.2	6.7	0.8	1.0	-1.1	3.7
Financial position							
Total liabilities	-546.4	-584.8	-624.7	-640.7	-638.5	-640.3	-638.7
Total financial assets	38.2	39.1	50.4	57.5	58.8	63.5	74.2
Accumulated deficit (net public debt)	-508.2	-545.7	-574.3	-583.2	-579.7	-576.8	-564.5
Financial results (% of GDP)							
Budgetary revenues	16.0	16.1	16.1	16.9	17.4	17.3	17.3
Program spending	16.6	15.5	13.9	12.6	12.4	12.4	11.7
Public debt charges	5.2	5.5	5.8	5.4	4.7	4.6	4.3
Budgetary balance	-5.8	-4.9	-3.5	-1.1	0.4	0.3	1.3
Net public debt	70.1	71.1	71.2	70.0	66.0	64.0	58.9

In 1997-98, a budgetary surplus of \$3.5 billion was recorded, the first surplus in 28 years. This was followed by surpluses of \$2.9 billion in 1998-99 and \$12.3 billion in 1999-2000.

This turnaround in the budgetary balance reflects the combined effects of lower program spending, primarily reflecting the expenditure reduction measures introduced since 1993, and higher revenues, primarily reflecting the growth in the economy. The contributions are best viewed in terms of their relationship to gross domestic product (GDP). Over the period 1993-94 to 1999-2000, there was an improvement of

7.1 percentage points of GDP in the budgetary balance – from a deficit of 5.8 per cent of GDP in 1993-94 to a surplus of 1.3 per cent of GDP in 1999-2000. Over two-thirds of this improvement is attributable to the decline in program spending – from 16.6 per cent of GDP in 1993-94 to 11.7 per cent of GDP in 1999-2000. Budgetary revenues increased by 1.3 percentage points of GDP – representing less than 20 per cent of the overall improvement in the budgetary balance, while public debt charges, as a per cent of GDP, declined by 0.9 of a percentage point, accounting for about 13 per cent of the improvement in the budgetary balance.



## Net Public Debt

The 1999-2000 surplus of \$12.3 billion brings the federal government's net public debt – the accumulation of annual deficits and surpluses – down to \$564.5 billion. As a share of GDP, the net public debt dropped to 58.9 per cent, down 12.3 percentage points from the peak of 71.2 per cent in 1995-96. The decline in the ratio in 1999-2000 is the largest since 1951-52.

This ratio is generally recognized as the most appropriate indicator of the debt burden as it measures debt relative to the ability of the Government and the country's taxpayers to finance it. This is the fourth consecutive year in which the debt-to-GDP ratio has declined and this is the lowest ratio since 1990-91. The net public debt at the end of 1999-2000 was \$18,408 for each Canadian, down from \$18,972 a year earlier.

Net public debt consists of interest-bearing debt and other liabilities, net of 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.

- In 1999-2000, market debt declined by \$4.0 billion to \$456.4 billion. This reflected a smaller stock of marketable bonds, offset in part by a larger stock of Treasury bills. This brings the decline in market debt since 1996-97 to \$20.4 billion.

- Overall, interest-bearing debt was \$597.9 billion, up \$2.9 billion from 1998-99, as the decline in market debt was more than offset by an increase of \$6.9 billion in liabilities to public sector pensions and other accounts.

## Financial Requirements/Source

Financial requirements/source measures the difference between cash coming in to the Government and cash going out. Most industrialized countries currently use a measure comparable to the financial requirements/source as their main budget measure.

- There was a financial source (excluding foreign exchange transactions) of \$14.6 billion in 1999-2000 – the fourth consecutive year in which a financial source has been recorded – the only G-7 country to do so.

During the course of the fiscal year, there was a net requirement of \$6.8 billion relating to foreign exchange transactions, up from a net requirement of \$5.7 billion in 1998-99. Including these amounts, the financial source in total was \$7.7 billion, up from a source of \$5.8 billion in 1998-99.



## BUDGETARY REVENUES

Table 2 on page 10 shows budgetary revenues on both a budget, or “net”, basis and on a “gross” basis. The net figures reflect the way in which revenues and expenditures are presented to Parliament and in the Government’s annual budget. On a gross basis, the tax expenditures netted against revenues are included as part of spending, while the items netted against spending are included as part of revenues, thereby increasing both revenues and spending with no impact on the budgetary balance.

Tax expenditures netted against revenues are:

- the Canada Child Tax Benefit (CCTB);
- the quarterly goods and services tax (GST) credit; and
- repayments of Old Age Security benefits.

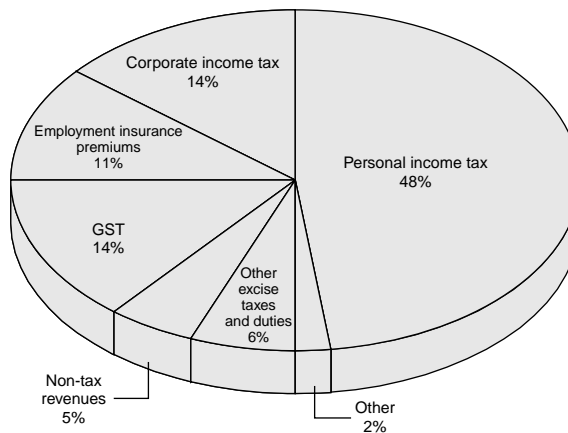
Departmental revenues netted against spending are:

- revenues of consolidated Crown corporations; and
- revenues levied by departments for specific services, such as the costs of policing services in provinces.

On a net basis, revenues grew strongly in 1999-2000 to \$165.7 billion, an increase of \$10.0 billion, or 6.4 per cent, from the 1998-99 level. In 1998-99, revenues increased by only \$2.5 billion.

The revenue ratio – net budgetary revenues as a percentage of GDP – represents an approximate measure of the overall “tax burden” in that it compares the total of all revenues collected to the size of the economy. The revenue ratio stood at 17.3 per cent in 1999-2000, unchanged from 1998-99. However, as some important components of income subject to taxation are excluded from the Statistics Canada measure of GDP, such as capital gains and income from trusted pension plans, this ratio overstates the tax burden. Therefore, caution should be exercised in interpreting this ratio.

### Composition of Net Revenues for 1999-2000



Source: Public Accounts of Canada.

Net personal income tax revenues, the largest component of budgetary revenues, were up \$6.9 billion, or 9.5 per cent, in 1999-2000, accounting for more than two-thirds of the overall growth in revenues. This is in sharp contrast to the increase of only 2.4 per cent reported in 1998-99.

- Of this increase, about \$3 billion, or about 40 per cent, reflected the impact of prior-year adjustments. Gross remittances received include not only federal personal income tax liabilities but also provincial income tax liabilities, as set out under the tax collection agreements with participating provinces, and employee and employer premium contributions for employment insurance and the Canada Pension Plan. On a monthly basis, deductions for these liabilities are based on estimates, with adjustments made once either preliminary or final data become available from the Canada Customs and Revenue Agency. In 1998-99, there were large transfers from personal income tax revenues, pertaining to under-estimations of these deductions during the course of the fiscal year. The reverse occurred in 1999-2000.

- Most of the remaining increase is attributable to the growth in the underlying tax base. According to Statistics Canada, wages and salaries, the largest component of the tax base, increased by 5.1 per cent in 1999, up from an increase of 4.7 per cent in 1998. This increase reflected both a strong gain in the number of people employed, up 2.8 per cent from 1998, and increases in average wages and salaries. In addition, Statistics Canada's definition of personal income excludes some important income components subject to taxation, such as capital gains and income from trusteed pension plans, which have outpaced the growth in personal income in recent years.
- Dampening the impact of these factors were higher refunds pertaining to the 1998 taxation year, up \$1.9 billion from 1998-99, in part reflecting fewer refunds processed in March 1999, and the impact of tax reduction initiatives introduced in the 1998 and 1999 budgets. General tax relief measures, such as an increase in the amount of income that Canadians can receive on a tax-free basis, the elimination of the general federal surtax and increases in the CCTB are estimated to have reduced personal income tax revenues by an incremental \$3.0 billion in 1999-2000.

Corporate income tax revenues increased \$1.6 billion in 1999-2000, or 7.4 per cent, reversing the decline of 4.1 per cent in 1998-99. After declining 5.6 per cent in 1998, corporate profits rebounded strongly in 1999, increasing by nearly 24 per cent. However, the application of prior-year losses and higher refunds pertaining to the lower profits in 1998 restrained the net increase in corporate income tax revenues in 1999-2000. Other income tax revenues, which closely mirror the performance of corporate profits, were up \$0.6 billion, or 20.6 per cent.

Employment insurance premium revenues declined \$0.9 billion, or 4.4 per cent, in 1999-2000.

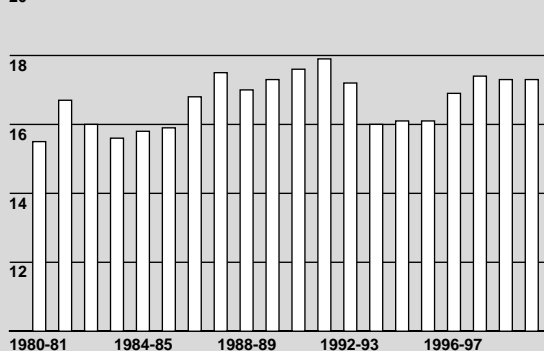
- The employee premium rate (per \$100 of insurable earnings) was reduced from \$2.70 for 1998 to \$2.55 for 1999 and to \$2.40 for 2000 (with a corresponding decline in the employer rate). The net impact of these rate reductions was to lower revenues by about \$1.5 billion in 1999-2000.
- Net transfers relating to prior-year adjustments were lower in 1999-2000 than in 1998-99, resulting in an incremental decline of about \$0.4 billion.
- Significantly dampening the effect of these factors was the strong increase in the number of people employed.

Net excise taxes and duties increased \$1.5 billion, or 4.7 per cent, up from a gain of only 1.7 per cent recorded in 1998-99. However, there were significant variations among the various components.

- Virtually all of the year-over-year increase occurred in net GST revenues, up \$2.1 billion, or 10.2 per cent. Consumer expenditures on durable goods and new homes were up sharply in 1999.
- Customs import duties declined 10.8 per cent, reflecting the reductions in tariffs, as specified under international agreements.

### Revenue Ratio

revenues as a per cent of GDP



Sources: Department of Finance and Statistics Canada.

- Other excise taxes and duties were down 4.4 per cent, due primarily to the elimination of the air transportation tax effective November 1, 1998.

Net non-tax revenues increased \$0.3 billion, or 4.0 per cent, in 1999-2000, primarily reflecting gains from the foreign exchange accounts, increased recoveries and higher revenues from the sale of broadcasting licences.

Gross budgetary revenues in 1999-2000 were \$12.4 billion higher than net budgetary revenues of which: \$6.0 billion was for the CCTB, \$2.9 billion for the quarterly GST tax credit, \$1.4 billion for revenues of consolidated Crown corporations and \$2.6 billion for revenues levied by departments, which are credited back to the programs giving rise to these revenues. The increase in the CCTB payments was attributable to the increase in benefits announced in the 1998 budget.

Table 2  
**Budgetary Revenues**

	1998-99	1999-00	Net Change	
		(\$ millions)		(%)
Net income tax collections				
Personal income tax	72,488	79,378	6,890	9.5
Corporate income tax	21,575	23,170	1,595	7.4
Other	2,901	3,499	598	20.6
Total	96,964	106,047	9,083	9.4
Employment insurance premium revenues	19,363	18,512	-851	-4.4
Net excise taxes and duties				
Goods and services tax (GST)	20,684	22,790	2,106	10.2
Customs import duties	2,359	2,105	-254	-10.8
Other excise taxes/duties				
Energy taxes	4,716	4,757	41	0.9
Other	3,640	3,234	-406	-11.2
Total	8,356	7,991	-365	-4.4
Total	31,399	32,886	1,486	4.7
Net tax revenues	147,726	157,445	9,719	6.6
Net non-tax revenues				
Return on investments	4,991	5,251	260	5.2
Other non-tax revenues	2,954	3,012	58	2.0
Total	7,945	8,263	318	4.0
<b>Net budgetary revenues</b>	<b>155,671</b>	<b>165,708</b>	<b>10,037</b>	<b>6.4</b>
Adjustments				
Canada Child Tax Benefit	5,715	6,000	285	5.0
Old Age Security benefit repayment	-496	-554	-58	11.7
Quarterly GST credit	2,850	2,920	70	2.5
Revenues netted against expenditures	2,305	2,625	320	13.9
Revenues of consolidated Crown corporations	1,498	1,391	-107	-7.1
Net adjustment	11,872	12,382	510	4.3
<b>Gross budgetary revenues</b>	<b>167,543</b>	<b>178,090</b>	<b>10,547</b>	<b>6.3</b>

## BUDGETARY EXPENDITURES

Table 3 on page 15 presents budgetary expenditures on both a gross and net basis. The differences are identical to those between gross and net budgetary revenues.

Net budgetary expenditures amounted to \$153.4 billion in 1999-2000, up \$0.6 billion, or 0.4 per cent, from 1998-99. The “expenditure ratio” – net budgetary expenditures as a percentage of net budgetary revenues – stood at 92.6 per cent in 1999-2000, down from 98.1 per cent in 1998-99. In 1993-94, the expenditure ratio stood at 136.2 per cent.

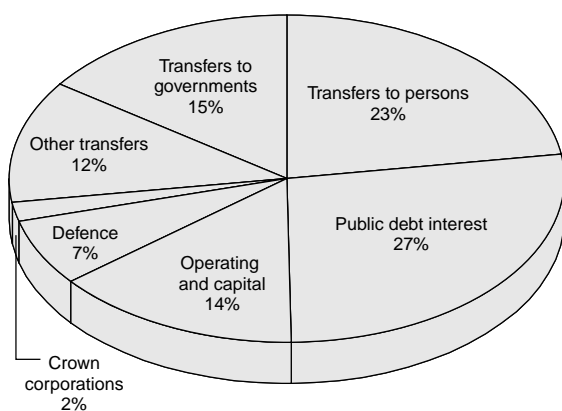
Public debt charges increased by \$0.3 billion, or 0.6 per cent, in 1999-2000. They are affected by interest rate developments as well as by the stock and composition of interest-bearing debt.

- The average effective interest rate on the Government’s interest-bearing debt (unmatured debt and pension liabilities) was 7.4 per cent in 1999-2000, unchanged from 1998-99. The average effective interest rate on unmatured debt was 6.7 per cent, while that on pension and other accounts was 9.6 per cent. Since 1989-90, the average effective interest rate on interest-bearing debt has declined by 3.5 percentage points, with virtually all of this attributable to lower average effective interest rates on unmatured debt – down 4.5 percentage points.

- The stock of total interest-bearing debt increased slightly in 1999-2000, from \$595.0 billion to \$597.9 billion. However, the stock of market debt declined by \$4.0 billion to \$456.4 billion, while the liabilities to pension and other accounts increased by \$6.9 billion to \$141.5 billion. Since 1993-94, the share of market debt has declined by about 4 percentage points with a corresponding increase in the liabilities for pension and other accounts. Within market debt, the share of marketable bonds has increased by about 20 percentage points, while that for Treasury bills and Canada Savings Bonds has declined.

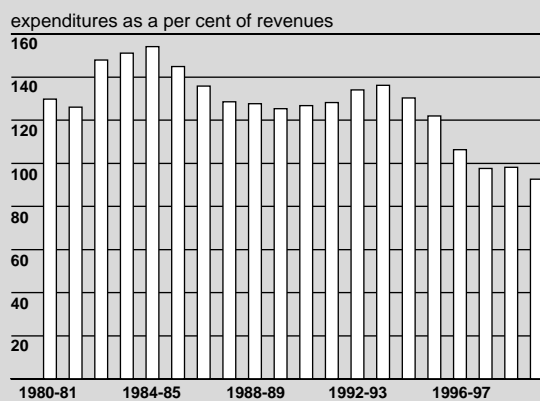
The interest ratio – public debt charges as a percentage of net budgetary revenues – declined from 26.6 per cent in 1998-99 to 25.1 per cent in 1999-2000. This ratio means that, in 1999-2000, the Government spent about 25 cents of every revenue dollar on interest on the public debt. This is down from the peak of 36 cents in 1995-96 and is the lowest ratio since 1981-82. This is money that must be paid to meet the Government’s obligations on its debt. The lower the ratio, the more flexibility the Government has to address the key priorities of Canadians.

### Composition of Net Expenditures for 1999-2000

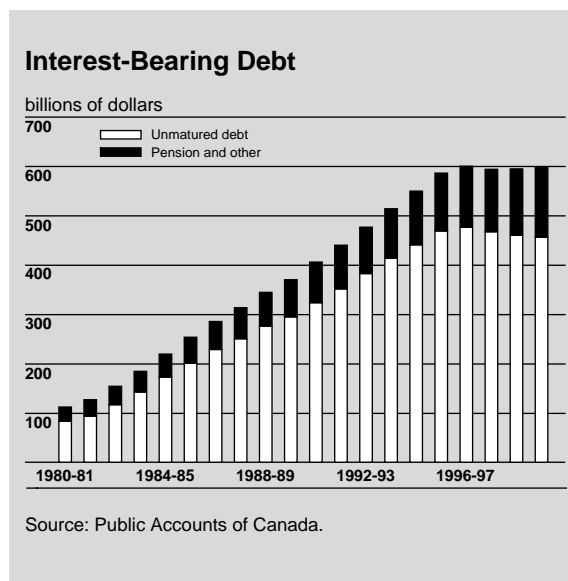
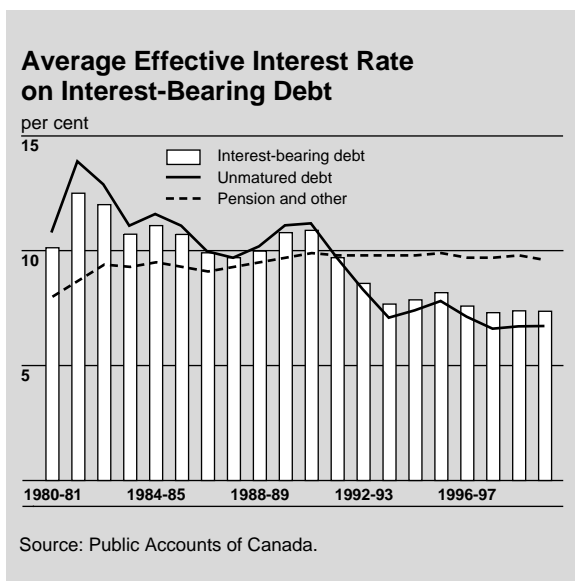


Source: Public Accounts of Canada.

### Expenditure Ratio



Source: Public Accounts of Canada.

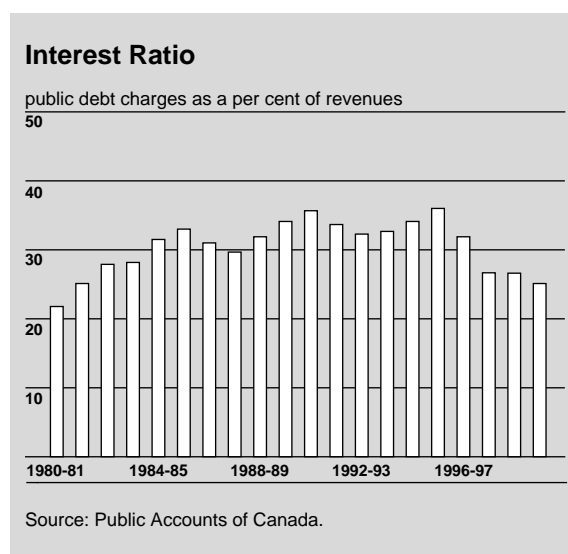


Net program spending – net budgetary expenditures less public debt charges – increased \$0.4 billion, or 0.3 per cent, in 1999-2000. The program share – net program spending as a percentage of net budgetary revenues – amounted to 67.4 per cent, down from 71.6 per cent in 1998-99. In 1993-94, the program share was 103.5 per cent.

Within program spending, major transfer payments to persons, consisting of elderly benefits and employment insurance benefits, increased marginally, up \$46 million, or 0.1 per cent.

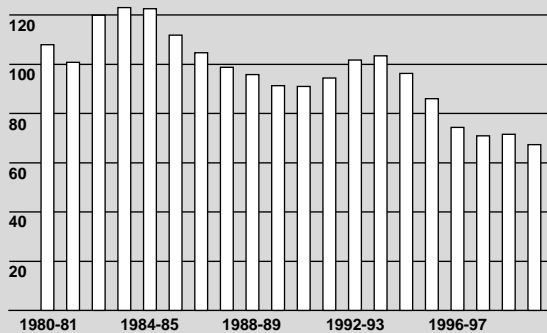
- Elderly benefits consist of Old Age Security payments, Guaranteed Income Supplement payments and spouse's allowance payments. Total benefits were up \$629 million in 1999-2000, reflecting both higher average benefits, which are indexed to inflation, and an increase in the number of recipients.
- Employment insurance benefits declined \$583 million, or 4.9 per cent, in 1999-2000. Regular benefit payments were \$0.7 billion lower, reflecting the decline in the number of unemployed. In contrast, transfers to the provinces under the Labour Market Development Agreements and payments under special benefits, such as sickness, maternity and parental benefits, were slightly higher.

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 small transfer programs) and Alternative Payments for Standing Programs. Net cash transfers declined by \$2.3 billion in 1999-2000, or 8.9 per cent. However, all of this decline was attributable to a lower CHST cash supplement in 1999-2000 than in 1998-99 and the inclusion of large prior-year Equalization entitlements in 1998-99.



## Program Share

program spending as a per cent of revenues  
140



Source: Public Accounts of Canada.

- The CHST – a block-funded transfer – supports health care, post-secondary education, social assistance and social services. It provides support in the form of cash and tax transfers to the provinces and territories. In the 1998 budget, the cash floor was increased from \$11 billion to \$12.5 billion.
- In the 1999 budget, the Government announced a special payment of \$3.5 billion to be paid to a third-party trust to be drawn by the provinces and territories for health care needs over a period of three years. This supplement was charged to the 1998-99 fiscal year. In the 2000 budget, the Government announced another special payment, this time of \$2.5 billion. This payment was also made to a third-party trust to be drawn by the provinces and territories for post-secondary education and health care over a period of four years. This supplement was charged to the 1999-2000 fiscal year.
- Equalization is the largest of the transfers under fiscal arrangements. Under the Equalization program, the federal government transfers funds to the less prosperous provinces so that they can provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

In 1998-99, tax data for previous taxation years indicated much stronger revenue gains in the non-Equalization receiving provinces than in the Equalization-receiving provinces, thereby resulting in large retroactive entitlement adjustments in 1998-99. In the absence of these adjustments, payments in 1999-2000 would have increased roughly in line with the growth in nominal income.

- 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.

Direct program spending – total program spending less major transfers to persons and other levels of government – consists of subsidies and other transfer payments, expenditures related to Crown corporations, defence spending, and operating and capital expenditures of non-defence departments and agencies. Spending in this component amounted to \$53.8 billion in 1999-2000, up \$2.6 billion, or 5.1 per cent, from 1998-99. This increase was entirely attributable to the impact of the initiatives announced in the 2000 budget, which totalled \$3.4 billion.

Within direct program spending:

- Subsidies and other transfer payments declined by \$0.2 billion, or 1.1 per cent, as the ending of the special transitional assistance programs to fishers and plant workers affected by the East Coast groundfish crisis, lower spending on labour market programs, reduced liabilities against loans outstanding and the ending of transitional assistance to NAV CANADA associated with the transfer of air navigational services more than offset the impact of new initiatives announced in Budget 2000.

The latter included:

- \$900 million to the Canada Foundation for Innovation (CFI) to award funds to help post-secondary educational institutions, research hospitals and not-for-profit institutions modernize their research infrastructure. This brings the Government's total transfer to the CFI to \$1.9 billion.
- \$160 million to Genome Canada to fund the activities of five genome science centres.
- \$100 million to create a revolving fund – the Green Municipal Investment Fund – to support projects in areas such as energy and water savings, urban transit and waste diversion.
- \$60 million to fund the Canadian Foundation for Climate and Atmospheric Sciences.
- \$586 million for income disaster assistance to help Canadian farmers.
- Expenditures related to Crown corporations were down \$0.5 billion, or 15.6 per cent, from 1998-99. This component includes appropriations to consolidated Crown corporations (those Crown corporations that rely on government funding as their principal source of revenue) and the annual profit and losses for enterprise Crown corporations. The decline was largely attributable to the increase in net profits of enterprise Crown corporations.
- Operating and capital expenditures include the costs of defence, government administration and delivery of specific services to the public, such as:
  - health care to Aboriginals and veterans;
  - research undertaken by government departments;
  - food inspection;
  - Coast Guard and air and sea rescue;
  - operation of national parks and historic sites;

- collection of taxes;
- operation of federal correctional institutions and provision of police services; and
- administration of programs.

Spending in this component increased \$3.3 billion, or 11.6 per cent, from 1998-99. Of this amount:

- Defence spending increased \$1.4 billion, primarily attributable to increased funding to assist the military in meeting Canada's international commitments in Kosovo. In addition, the 1999 budget provided funding to address compensation and benefit pressures.
- Non-defence departmental operating and capital spending increased \$1.9 billion. About half of this increase was attributable to the increased employee benefit costs in large part associated with the resumption of collective bargaining after six years of legislative wage restraint. In addition, during the fiscal year, the Treasury Board Secretariat conducted a major review of the capacity of a number of government departments to deliver existing programs. This review resulted in an increase in funding of about \$500 million in a limited number of areas that were considered as essential to the health and safety of Canadians and to the sustainability of quality public services. Most of this incremental funding was directed to Citizenship and Immigration Canada, the Royal Canadian Mounted Police and Fisheries and Oceans Canada.

Consistent with the difference between gross and net budgetary revenues, gross budgetary expenditures were \$12.4 billion higher than net budgetary expenditures. The differences are described in the section on budgetary revenues.

Table 3

**Budgetary Expenditures**

	1998-99	1999-00	Net Change	
		(\$ millions)		(%)
Net major transfers to persons				
Elderly benefits	22,781	23,410	629	2.8
Employment insurance benefits	11,884	11,301	-583	-4.9
Total	34,665	34,711	46	0.1
Major transfers to other levels of government				
Canada Health and Social Transfer (CHST)	12,500	12,500	0	0.0
Fiscal arrangements	10,398	10,721	323	3.1
Alternative Payments for Standing Programs	-2,150	-2,425	-275	12.8
Subtotal	20,748	20,796	48	0.2
Special payments:				
CHST cash supplement	3,500	2,500	-1,000	-28.6
Prior-year adjustments				
CHST	28	-109		
Fiscal arrangements	1,247			
Other		56		
Total	25,523	23,243	-2,280	-8.9
Net direct program spending				
Subsidies and other transfers				
Agriculture and Agri-food	1,194	1,518	324	27.1
Foreign Affairs and International Trade	2,065	2,114	49	2.4
Health Canada	1,180	1,161	-19	-1.6
Human Resources Development	2,429	2,008	-421	-17.3
Indian Affairs and Northern Development	4,101	4,185	84	2.0
Industry/regional agencies	2,282	2,971	689	30.2
Veterans Affairs	1,377	1,402	25	1.8
Other	4,107	3,176	-931	-22.7
Total	18,735	18,535	-200	-1.1
Crown corporations				
Canada Mortgage and Housing Corporation	1,865	1,928	63	3.4
Canadian Broadcasting Corporation	912	879	-33	-3.6
Other	720	146	-574	-79.7
Total	3,497	2,953	-544	-15.6
Operating and capital expenditures				
Defence	8,781	10,201	1,420	16.2
All other departments	20,192	22,120	1,928	9.5
Total	28,973	32,321	3,348	11.6
Net direct program spending	51,205	53,809	2,604	5.1
<b>Net program spending</b>	<b>111,393</b>	<b>111,763</b>	<b>370</b>	<b>0.3</b>
Public debt charges	41,394	41,647	253	0.6
<b>Net budgetary expenditures</b>	<b>152,787</b>	<b>153,410</b>	<b>623</b>	<b>0.4</b>
Adjustments				
Canada Child Tax Benefit	5,715	6,000	285	5.0
Old Age Security benefit repayment	-496	-554	-58	11.7
Quarterly goods and services tax credit	2,850	2,920	70	2.5
Revenues netted against expenditures	2,305	2,625	320	13.9
Revenues of consolidated Crown corporations	1,498	1,391	-107	-7.1
Net adjustment	11,872	12,382	510	4.3
<b>Gross budgetary expenditures</b>	<b>164,659</b>	<b>165,792</b>	<b>1,133</b>	<b>0.7</b>



## THE BUDGETARY BALANCE, FINANCIAL REQUIREMENTS/SOURCE AND DEBT

The budgetary balance is the most comprehensive measure of the federal government's fiscal results. It is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. The budgetary balance covers only those activities over which the Government has legislative control.

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

Non-budgetary transactions in 1999-2000 resulted in a net source of funds amounting to \$2.3 billion, down from a net source of \$8.6 billion in 1998-99. Among the major components:

- Loans, investments and advances recorded a net requirement of \$0.3 billion, compared to a net source of \$0.5 billion in 1998-99.
- Pensions and other accounts, at \$7.0 billion, were unchanged from 1998-99.
- Other transactions recorded a net requirement of \$4.4 billion, compared to a net source of \$1.1 billion in 1998-99.

With a budgetary surplus of \$12.3 billion and a net source of funds from non-budgetary transactions of \$2.3 billion, there was a net financial source, excluding foreign exchange transactions, of \$14.6 billion in 1999-2000, up from the financial source of \$11.5 billion in 1998-99. This marks the fourth consecutive year in which a financial source was recorded.

Total financial requirements/source includes foreign exchange transactions. Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability of the Canadian dollar in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. During 1999-2000, foreign exchange transactions resulted in a net requirement of funds amounting to \$6.8 billion, compared to a net requirement of \$5.7 billion in 1998-99.

As a result, there was a total financial source – the budgetary surplus plus non-budgetary and foreign exchange transactions – of \$7.7 billion in 1999-2000, compared to a source of \$5.8 billion in 1998-99.

With this total financial source, the Government retired \$4.0 billion of its market debt and increased its cash balances by \$3.7 billion. Cash balances at March 31, 2000, stood at \$13.0 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, 2000, interest-bearing debt amounted to \$597.9 billion, up slightly from the level a year earlier. Other liabilities, which include accounts payable and accrued liabilities, amounted to \$40.7 billion, down \$4.6 billion from 1998-99. As a result, total liabilities, or gross debt, stood at \$638.7 billion.

Table 4

**Budgetary Balance and Financial Requirements/Source**

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
	(\$ billions)						
Budgetary balance	-42.0	-37.5	-28.6	-8.9	3.5	2.9	12.3
Non-budgetary transactions							
Loans, investments and advances	0.6	0.3	2.7	0.3	2.0	0.5	-0.3
Pensions and other accounts							
Public sector pensions (net)	6.2	6.9	6.8	6.3	3.3	5.0	5.9
Canada Pension Plan	-0.1	0.7	0.2	0.1	0.5	1.2	0.8
Other	0.2	1.0	0.6	0.5	0.1	0.9	0.2
Total	6.2	8.7	7.6	6.9	3.8	7.0	7.0
Other transactions	5.4	2.6	1.1	3.0	3.4	1.1	-4.4
Total	12.2	11.6	11.4	10.2	9.3	8.6	2.3
Net financial requirements/source (excluding foreign exchange transactions)	-29.9	-25.8	-17.2	1.3	12.7	11.5	14.6
Foreign exchange transactions	-2.1	-1.4	-4.7	-7.8	-2.2	-5.7	-6.8
Total financial balance	-32.0	-27.3	-21.9	-6.5	10.6	5.8	7.7
Net change in borrowings	31.2	27.0	28.5	7.3	-9.6	-6.9	-4.0
Change in cash balances	-0.7	-0.2	6.7	0.8	1.0	-1.1	3.7
Cash in bank (March 31)	2.1	1.9	8.6	9.4	10.4	9.3	13.0

Table 5

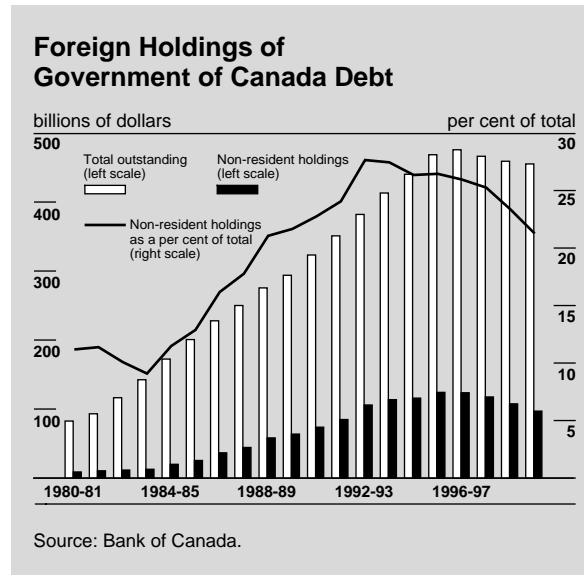
**Outstanding Debt at Year-End**

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
	(\$ billions)						
Interest-bearing debt							
Unmatured debt	414.0	441.0	469.5	476.9	467.3	460.4	456.4
Pension and other accounts	100.5	109.2	116.8	123.7	127.5	134.6	141.5
Total	514.5	550.2	586.4	600.6	594.8	595.0	597.9
Other liabilities	31.9	34.6	38.3	40.1	43.7	45.3	40.7
Total liabilities (gross debt)	546.4	584.8	624.7	640.7	638.5	640.3	638.7
Financial assets	38.2	39.1	50.4	57.5	58.8	63.5	74.2
Accumulated deficit (net public debt)	508.2	545.7	574.3	583.2	579.7	576.8	564.5

Financial assets consist of cash and accounts receivable, foreign exchange accounts and loans, investments and advances. Capital assets, inventories and net receivables for tax revenues are not included. Capital assets and inventories are fully charged to expenditures at the time of acquisition or construction while tax revenues are reported on a cash basis. Financial assets totalled \$74.2 billion at March 31, 2000, up \$10.7 billion from March 31, 1999, primarily attributable to higher cash balances at year-end and increased assets in the foreign exchange accounts as the Government continued to increase foreign exchange reserves to be more in line with other comparable countries.

As a result, the accumulated deficit, or net public debt, stood at \$564.5 billion at March 31, 2000, down \$12.3 billion from March 31, 1999, and \$18.7 billion below the peak of \$583.2 billion at March 31, 1997.

Foreign holdings of the Government of Canada's outstanding market debt are estimated at \$97.3 billion at the end of March 2000. This represented 21.3 per cent of the Government's total market debt – the lowest ratio since 1988-89.



## THE “SCORECARD”

This section compares the outcome for selected economic indicators for 1999 and the outcome for the financial results for 1999-2000 with the forecasts presented in the February 2000 budget. It also provides a comparison with the February 1999 budget forecasts for 1999-2000.

The Government targeted a balanced budget for 1999-2000 in both the 1999 and 2000 budgets. 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 pay down the public debt. For 1999-2000, the Contingency Reserve was set at \$3 billion; and
- Adding an extra degree of economic prudence to provide further assurance against falling back into deficit. In the 1999 budget, this prudence was included in the revenue and expenditure projections through adjustments to the economic assumptions. As a result, its fiscal impact was not explicitly identified. In the 2000 budget, this extra prudence is explicitly shown.

Economic growth for 1999 was significantly stronger than expected at the time of the 1999 budget. Nominal income growth, based on the average of private sector forecasts adjusted for prudence, was projected at only 2.6 per cent for 1999. With deteriorating global economic prospects during 1998, related to the Asian financial crisis, most private sector economists had become pessimistic about Canada's growth prospects. However, economic conditions improved throughout 1999 and by the time of the November 2 *Economic and Fiscal Update*, private sector economists had revised their growth forecast for 1999 to 5.1 per cent.

In the 2000 budget, it was further revised up to 5.4 per cent. Preliminary estimates from Statistics Canada, which were released in late May 2000, suggest that nominal income growth in 1999 averaged 6.2 per cent, more than double the rate expected at the time of the 1999 budget. In contrast, interest rates were little changed from those assumed at the time of the 1999 budget.

### Comparison of 1999-2000 Outcome With 2000 Budget Estimates

In comparison to the 2000 budget projections, budgetary revenues were \$5.8 billion higher. Personal income tax revenues were \$2.9 billion higher, with about \$1 billion related to recoveries from the tax collection agreement account. Non-tax revenues were \$1.1 billion higher while excise taxes and duties were \$0.9 billion higher. Program spending was \$3.7 billion lower with direct program spending accounting for \$3.1 billion. The lower than expected level of direct program spending was attributable to higher net profits from Crown enterprises and lower than assumed year-end liabilities. Public debt charges were \$0.1 billion higher. As the balanced budget target for 1999-2000 included a Contingency Reserve of \$3 billion, the overall budgetary surplus was \$12.3 billion.

Non-budgetary transactions were \$5.7 billion lower than assumed in the 2000 budget. As a result, the financial source, excluding foreign exchange transactions, was \$6.5 billion higher than assumed in the 2000 budget.

### Comparison of 1999-2000 Outcome With 1999 Budget Estimates

In comparison to the 1999 budget projections, budgetary revenues were \$9.0 billion higher, with all major components being higher. The largest changes were in personal income tax revenues (up \$4.4 billion) and corporate income tax revenues (up \$2.3 billion). Adjustments related to prior years account for about \$1 billion of the increase in personal income tax revenues.

Table 6

**The "Scorecard": Comparison of Outcomes to 2000 and 1999 Budget Estimates**

	Outcome: Difference From	
	2000 Budget	1999 Budget
<b>Economic indicators (1999)</b>		
Nominal GDP (percentage points)	0.8	3.6
Interest rates		
91-day Treasury bill rate (basis points)	2	-38
10-year government bond rate (basis points)	5	-5
<b>Financial results (1999-2000)</b>		
	(\$ billions)	
Budgetary revenues		
Personal income tax	2.9	4.4
Corporate income tax	0.7	2.3
Other income tax	0.2	0.6
Employment insurance premium revenues	0.0	0.2
Excise taxes and duties	0.9	0.6
Non-tax revenues	1.1	0.8
Total	5.8	9.0
Program spending		
Major transfers to persons		
Elderly benefits	0.1	-0.1
Employment insurance benefits	-0.4	-2.1
Major transfers to other levels of government		
Canada Health and Social Transfer	0.0	2.5
Fiscal arrangements	-0.3	0.5
Direct program spending	-3.1	-0.1
Total	-3.7	0.6
Public debt charges	0.1	-0.9
Contingency Reserve	-3.0	-3.0
<b>Budgetary outcome</b>	<b>12.3</b>	<b>12.3</b>
Non-budgetary transactions	-5.7	-2.7
Financial requirements/source (excluding foreign exchange transactions)	6.5	9.5

Total budgetary expenditures were \$0.3 billion lower than forecast in the 1999 budget, with higher program spending (up \$0.6 billion) being more than offset by lower public debt charges (down \$0.9 billion). Within program spending, employment insurance benefits were \$2.1 billion lower, primarily reflecting a lower than expected number of unemployed. Transfers to other levels of government were \$3.0 billion higher, primarily reflecting the Budget 2000 \$2.5-billion CHST cash supplement and higher Equalization entitlements. Direct program spending was slightly lower, as the impact of the new initiatives announced in Budget 2000 totalling \$3.4 billion (see Annex 1 of *The Budget Plan 2000*) was more

than offset by higher net profits from enterprise Crown corporations and lower than expected liabilities.

These developments resulted in a surplus of \$9.3 billion in 1999-2000. The Contingency Reserve of \$3 billion was not required, resulting in an overall budgetary surplus of \$12.3 billion in the budgetary outcome.

Non-budgetary transactions were \$2.7 billion lower than assumed in the 1999 budget. As a result, the financial source, excluding foreign exchange transactions, was \$9.5 billion higher than assumed in the 1999 budget.



## OPINION OF THE AUDITOR GENERAL ON THE CONDENSED FINANCIAL STATEMENTS OF THE GOVERNMENT OF CANADA

To the Minister of Finance:

The accompanying condensed statements of revenues, expenditures and accumulated deficit, assets and liabilities and changes in financial position are derived from the complete financial statements of the Government of Canada as at March 31, 2000 and for the year then ended on which I expressed an opinion without reservation in my report dated July 24, 2000. The fair summarization of the complete financial statements is the responsibility of the Government. My responsibility 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 established by The Canadian Institute of Chartered Accountants.

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 changes in financial position, reference should be made to the related complete financial statements to be included in Volume I of the 2000 *Public Accounts of Canada*, expected to be tabled in the House of Commons later this year.

A handwritten signature in black ink, which appears to read 'L. Denis Desautels'.

L. Denis Desautels, FCA  
*Auditor General of Canada*

Ottawa, Canada  
July 24, 2000

## 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 the 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 1 of Volume I of the 2000

*Public Accounts of Canada*, 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 7

### Government of Canada Condensed Statement of Revenues, Expenditures and Accumulated Deficit for the Year Ended March 31, 2000

	2000	1999
	(\$ millions)	
<b>Revenues</b>		
Tax revenues		
Income tax	111,493	102,183
Excise taxes and duties	35,806	34,249
Employment insurance premiums	18,512	19,363
	<u>165,811</u>	<u>155,795</u>
Non-tax revenues	12,279	11,748
<b>Total gross revenues</b>	<b>178,090</b>	<b>167,543</b>
Amounts deducted to arrive at net revenues	12,382	11,872
<b>Total net revenues</b>	<b>165,708</b>	<b>155,671</b>
<b>Expenditures</b>		
Transfer payments		
Old Age Security and related payments	22,856	22,285
Other levels of government	23,243	25,523
Employment insurance benefits	11,301	11,884
Other transfer payments	27,455	27,300
	<u>84,855</u>	<u>86,992</u>
Crown corporation expenditures	4,344	4,995
Other program expenditures	34,946	31,278
<b>Total gross program expenditures</b>	<b>124,145</b>	<b>123,265</b>
Amounts deducted to arrive at net program expenditures	12,382	11,872
<b>Total net program expenditures</b>	<b>111,763</b>	<b>111,393</b>
Interest on debt	41,647	41,394
<b>Total net expenditures</b>	<b>153,410</b>	<b>152,787</b>
<b>Surplus for the year</b>	<b>12,298</b>	<b>2,884</b>
Accumulated deficit at beginning of year	576,824	579,708
<b>Accumulated deficit at end of year</b>	<b>564,526</b>	<b>576,824</b>

Table 8

**Government of Canada  
Condensed Statement of Assets and Liabilities  
as at March 31, 2000**

	2000	1999
	(\$ millions)	
<b>Liabilities</b>		
Payables, accruals and allowances		
Accounts payable and accruals	28,904	34,300
Allowances for guarantees and employee benefits	11,844	11,016
Total	40,748	45,316
Interest-bearing debt		
Unmatured debt		
Marketable bonds	293,927	295,752
Treasury bills	99,850	96,950
Canada Savings Bonds	26,489	27,662
Non-marketable bonds and notes	3,552	4,063
Total payable in Canadian currency	423,818	424,427
Payable in foreign currencies	32,588	36,000
Total	456,406	460,427
Pension and other accounts		
Public sector pensions	128,346	122,407
Due to Canada Pension Plan	6,217	5,427
Other	6,963	6,724
Total	141,526	134,558
Total interest-bearing debt	597,932	594,985
<b>Total liabilities</b>	<b>638,680</b>	<b>640,301</b>
<b>Assets</b>		
Cash and accounts receivable		
Cash	14,511	10,693
Accounts receivable	4,353	4,580
Total	18,864	15,273
Foreign exchange accounts	41,494	34,668
Loans, investments and advances		
Enterprise Crown corporations and other government business enterprises	10,562	11,052
National governments and international organizations	7,316	7,555
Other	4,184	4,341
Total	22,062	22,948
Less allowance for valuation	8,266	9,412
Total	13,796	13,536
<b>Total assets</b>	<b>74,154</b>	<b>63,477</b>
<b>Accumulated deficit</b>	<b>564,526</b>	<b>576,824</b>



Table 9

**Government of Canada  
Condensed Statement of Changes in Financial Position  
for the Year Ended March 31, 2000**

	2000	1999
	(\$ millions)	
<b>Cash provided by operating activities</b>		
Surplus for the year	12,298	2,884
Add expenditures not requiring cash	8,510	11,016
	20,808	13,900
Net payments from pension and other accounts	(4,010)	(3,081)
Net change in receivables, payables and accruals	(3,272)	181
	13,526	11,000
<b>Cash provided by investing activities</b>		
Net decrease in loans, investments and advances	1,139	566
<b>Cash provided by foreign exchange activities</b>		
Net increase in foreign currency borrowings	(3,412)	8,817
Net increase in foreign exchange accounts	(6,826)	(5,700)
	(10,238)	3,117
<b>Net cash generated before financing activities</b>	<b>4,427</b>	<b>14,683</b>
<b>Cash used for financing activities</b>		
Net decrease in Canadian currency borrowings	609	15,681
<b>Net increase (decrease) in cash</b>	<b>3,818</b>	<b>(998)</b>
Cash at beginning of year	10,693	11,691
<b>Cash at end of year</b>	<b>14,511</b>	<b>10,693</b>

**Government of Canada  
Notes to the Condensed Financial Statements**

**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 as investments at their original cost adjusted by an allowance for valuation to reflect their annual profits or losses. 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 basically accounts for transactions on an accrual basis. Two notable exceptions are tax revenues and related refunds, which are generally accounted for on a cash basis; and capital assets, which are fully charged to expenditures at the time of acquisition or construction.

As a consequence, the only assets recorded on the Condensed Statement of Assets and Liabilities are financial assets, as they can provide resources to discharge liabilities or finance future operations. Assets are recorded at the lower of cost or net realizable value. Liabilities are recorded on an accrual basis with public sector pension and severance liabilities 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 1999 are reclassified to conform to the current year's presentation.

### **Reporting of Revenues and Expenditures on a Gross Basis**

Detailed amounts on the Condensed Statement of Revenues, Expenditures and Accumulated Deficit are presented on a full (gross) disclosure basis only. Gross revenues include revenues of consolidated Crown corporations and revenues of government departments, agencies and funds which, on the net basis, are deducted from expenditures for budget and parliamentary authority purposes. Gross expenditures include expenditures determined through the tax system, such as child tax benefits and quarterly GST credits, that are deducted from revenues on the net basis.

### **Contractual Commitments**

Contractual commitments that will materially affect the level of future expenditures include transfer payment agreements; benefit plans for veterans and others; capital asset acquisitions and other purchases; operating and capital leases; and funding of international organizations. At March 31, 2000, contractual commitments amounted to approximately \$33 billion (\$31 billion in 1999).

### **Contingent Liabilities**

Contingent or potential liabilities that may become actual liabilities in future years include guarantees by the Government; callable share capital in international organizations; claims and pending and threatened litigation; and environmental contingencies. Contingent liabilities related to guarantees by the Government and to international organizations amount to \$67 billion (\$62 billion in 1999). The total amount claimed against the Government for other claims and pending and threatened litigation but not assessed is not determinable. Of these other claims, over \$200 billion relates to Aboriginal and comprehensive land claims. The Government is confident that the ultimate settlement for these contingent liabilities will be for amounts significantly lower than those being disclosed.

Insurance in force relating to self-sustaining insurance programs operated for the Government by three enterprise Crown corporations amounted to approximately \$555 billion (\$522 billion in 1999). The Government expects that it will not incur any costs to cover the claims for these programs.

## Other Sources of Information

### *The 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 two volumes:

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

### *The 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.

### *The 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.

### *The 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 consists 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.