Financial statements (Unaudited)
Department of Finance Canada

For the year ended
March 31, 2017

Statement of Management Responsibility including Internal Control over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2017, and all information contained in these statements rests with the management of the Department of Finance Canada (the Department). These financial statements have been prepared by management using the Government's accounting policies, which are based on Canadian public sector accounting standards.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfil its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of the Department's financial transactions. Financial information submitted in the preparation of the *Public Accounts of Canada*, and included in the Department's *Departmental Results Report*, is consistent with these financial statements.

Management is also responsible for maintaining an effective system of internal control over financial reporting (ICFR) designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* and other applicable legislation, regulations, authorities and policies.

Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout the Department and through conducting an annual risk-based assessment of the effectiveness of the system of ICFR.

The system of ICFR is designed to mitigate risks to a reasonable level based on an ongoing process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments.

A risk-based assessment of the system of ICFR for the year ended March 31, 2017 was completed in accordance with the Treasury Board *Policy on Internal Control* and the results and action plans are summarized in the Annex.

The effectiveness and adequacy of the Department's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of the Department's operations, and by the Departmental Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting, and which recommends the financial statements to the Deputy Minister.

The financial statements of the Department have not been audited.

Paul Rochon, Deputy Minister	Dale Denny, Acting Chief Financial Officer
Ottawa, Canada	
September 1, 2017	

Department of Finance Canada
Statement of Financial Position (Unaudited)
As at March 31
(in thousands of dollars)

	2017	2016
Liabilities		
Deposit liabilities (note 4)	214,594	247,118
Accounts payable and accrued liabilities (note 5)	211,635	133,409
Taxes payable under tax collection agreements (note 6)	2,385,335	4,326,846
Interest payable (note 7)	4,252,812	4,536,595
Notes payable to international organizations (note 8)	36,161	35,313
Matured debt (note 9)	409,975	384,959
Unmatured debt (note 10)	707,789,516	682,717,607
Employee future benefits (note 13)	4,265	5,621
Total gross liabilities	**715,304,293**	**692,387,468**
Liabilities held on behalf of Government (note 14)	(36,161)	(35,313)
Total net liabilities	**715,268,132**	**692,352,155**
Financial assets		
Due from Consolidated Revenue Fund	4,418,061	4,589,089
Cash held as collateral (note 15)	6,873,299	6,556,959
Coin inventory	8,292	7,494
Accounts receivable (note 16)	116,517	200,604
Taxes receivable under tax collection agreements (note 17)	9,620,407	6,158,888
Foreign exchange accounts (note 18)	98,797,449	93,538,697
Crown borrowings (note 19)	51,863,952	48,196,182
Loans receivable (note 20)	1,275,019	1,278,082
Investments and capital share subscriptions (note 21)	243,701	257,740
Total gross financial assets	**173,216,697**	**160,783,735**
Financial assets held on behalf of Government (note 14)	(3,214,544)	(3,623,825)
Total net financial assets	**170,002,153**	**157,159,910**
Departmental net debt	**545,265,979**	**535,192,245**
Non-financial assets		
Tangible capital assets (note 22)	14,389	15,717
Prepaid expenses	240	76
Total non-financial assets	**14,629**	**15,793**
Departmental net financial position	**(545,251,350)**	**(535,176,452)**

Contractual obligations (note 23)

Contingent liabilities (note 24)

The accompanying notes form an integral part of these financial statements.

Paul Rochon, Deputy Minister
Ottawa, Canada
September 1, 2017

Dale Denny, Acting Chief Financial Officer

Department of Finance Canada
Statement of Operations and Departmental Net Financial Position (Unaudited)
For the Year Ended March 31
(in thousands of dollars)

	2017 Planned Results	2017	2016
Expenses			
Transfer and taxation payment programs	66,484,400	67,046,165	64,390,313
Treasury and financial affairs	22,878,000	21,256,751	22,732,354
Economic and fiscal policy framework	65,805	68,700	63,278
Internal services	59,504	67,987	65,587
Total expenses	**89,487,709**	**88,439,603**	**87,251,532**
Revenues			
Investment income	1,625,931	2,397,464	2,603,510
Sale of domestic coinage	106,156	137,903	123,172
Interest on bank deposits	187,363	230,741	221,582
Net foreign currency gain	-	155,528	164,436
Other income	133,299	195,381	155,416
Revenues earned on behalf of Government (note 27)	(2,052,647)	(3,116,906)	(3,268,014)
Total revenues	**102**	**111**	**102**
Net cost of operations before government funding and transfers	**89,487,607**	**88,439,492**	**87,251,430**
Government funding and transfers			
Net cash provided by Government		78,510,761	78,165,871
Change in due from the Consolidated Revenue Fund		(171,028)	(558,377)
Services provided without charge by other government departments (note 25a)		24,861	21,797
Transfer of the transition payments for implementing salary payments in arrears		-	(23)
Net cost of operations after government funding and transfers		**10,074,898**	**9,622,162**
Departmental net financial position - beginning of year		**(535,176,452)**	**(525,554,290)**
Departmental net financial position - end of year		**(545,251,350)**	**(535,176,452)**

Segmented information (note 26)

The accompanying notes form an integral part of these financial statements.

Department of Finance Canada
Statement of Change in Departmental Net Debt (Unaudited)
For the Year Ended March 31
(in thousands of dollars)

	2017	2016
Net cost of operations after government funding and transfers	**10,074,898**	**9,622,162**
Changes due to tangible capital assets		
Acquisition of tangible capital assets	-	73
Amortization of tangible capital assets	(1,320)	(1,371)
Proceeds from disposal of capital assets	(14)	-
Gain on disposal of tangible capital assets	6	-
Total change due to tangible capital assets	**(1,328)**	**(1,298)**
Change due to prepaid expenses	**164**	**47**
Net increase in departmental net debt	**10,073,734**	**9,620,911**
Departmental net debt - beginning of year	**535,192,245**	**525,571,334**
Departmental net debt - end of year	**545,265,979**	**535,192,245**

The accompanying notes form an integral part of these financial statements.

Department of Finance Canada
Statement of Cash Flows (Unaudited)
For the Year Ended March 31
(in thousands of dollars)

	2017	2016
Operating activities		
Net cost of operations before government funding and transfers	88,439,492	87,251,430
Non-cash items:		
Amortization of tangible capital assets (note 22)	(1,320)	(1,371)
Gain on disposal of capital assets	6	-
Amortization of discounts on loans receivable	5,630	4,792
Amortization of discounts of Crown borrowings	11,270	13,971
Amortization of discounts/premiums on unmatured debt	(1,922,956)	(2,372,307)
Unrealized foreign exchange gains on the Foreign exchange accounts	61,057	2,085,581
Unrealized foreign exchange losses on debt	(38,611)	(2,027,376)
Services provided without charge by other government departments (note 25a)	(24,861)	(21,797)
Transition payments for implementing salary payments in arrears	-	23
Variations in Statement of Financial Position:		
Increase in assets	3,462,481	387,868
Decrease/(increase) in liabilities	2,180,948	(2,484,505)
Cash used in operating activities	**92,173,136**	**82,836,309**
Capital investing activities		
Acquisition of tangible capital assets (note 22)	-	73
Proceeds from disposal of tangible capital assets	(14)	-
Cash (provided)/used in capital investing activities	**(14)**	**73**
Investing activities		
Investments in Foreign exchange accounts	32,145,878	43,541,345
Repayments from Foreign exchange accounts	(26,757,805)	(38,453,475)
Issuance of Crown borrowings	52,001,746	54,501,185
Repayment of Crown borrowings	(48,345,246)	(52,474,274)
Issuance of loans receivable	147,947	35,800
Repayment of loans receivable	(35,863)	(32,886)
Cash used in investing activities	**9,156,657**	**7,117,695**
Financing activities		
Net issuance from cross-currency swaps	537,463	(21,065)
Issuance of debt	(528,626,825)	(478,164,051)
Repayment of debt	504,954,004	459,839,951
Cash held as collateral	316,340	6,556,959
Cash (provided) in financing activities	**(22,819,018)**	**(11,788,206)**
Net cash provided by Government of Canada	**78,510,761**	**78,165,871**

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements (Unaudited)

1. Authority and objectives

The Department is established under the *Financial Administration Act* as a Department of the Government of Canada.

The Department contributes to a strong economy and sound public finances for Canadians. It does so by monitoring developments in Canada and around the world to provide first-rate analysis and advice to the Government of Canada and by developing and implementing fiscal and economic policies that support the economic and social goals of Canada and its people. The Department also plays a central role in ensuring that government spending is focused on results and delivers value for taxpayer dollars. The Department interacts extensively with other federal organizations and acts as an effective conduit for the views of participants in the economy from all parts of Canada.

To achieve its strategic outcome the Department articulates its plans and priorities based on the programs below.

Transfer and taxation payment programs: This Program enables the Government of Canada to meet its transfer and taxation payment commitments. The Program administers transfer and taxation payments to provinces and territories and Aboriginal governments in compliance with legislation and negotiated agreements. The Program also fulfills commitments and agreements with international financial organizations to support the economic advancement of developing countries. The Government of Canada sometimes enters into agreements or enacts legislation to respond to unforeseen pressures. These commitments can result in payments, generally statutory transfer payments, to a variety of recipients, including individuals, organizations and other levels of government.

Treasury and financial affairs: This Program provides analysis, research and advice to ministers and senior government officials on the management of the treasury and the financial affairs of the Government of Canada. The Program ensures that the treasury and financial affairs of the Government of Canada are efficiently managed on behalf of Canadian taxpayers. The Program provides direction for Canada's debt management activities, including the funding of debt and service costs for new borrowings. This Program manages investments in financial assets so that the Government of Canada can meet its liquidity needs. The Program supports the ongoing refinancing of government debt coming to maturity, the execution of the Budget Plan, and other financial operations of the government, including governance of the borrowing activities of major federal government-backed entities, such as Crown corporations. The Program also oversees the system that ensures that Canada has an adequate supply of circulating Canadian currency (banknotes and coins) to meet the needs of the Canadian economy.

Economic and fiscal policy framework: This Program is the main source of advice and recommendations to the Minister of Finance, other ministers and senior government officials on issues, policies and programs of the Government of Canada in the areas of economic, fiscal and social policy; federal-provincial relations; the financial sector; taxation; and international trade and finance. The Program ensures that ministers and senior government officials can make informed decisions on economic, fiscal and financial sector policies, programs and proposals. Ultimately, the Program contributes to building a sound and sustainable fiscal and economic framework that generates sufficient revenues and aligns the management of expenditures with the Budget Plan and the financial operations of the Government of Canada.

Internal services: Internal Services are groups of related activities and resources that are administered to support the needs of programs and other corporate obligations of an organization. Internal services include only those activities and resources that apply across an organization, and not those provided to a specific program. The groups of activities are Management and Oversight Services; Communications Services; Legal Services; Human Resources Management Services; Financial Management Services; Information Management Services; Information Technology Services; Real Property Services; Materiel Services; and Acquisition Services.

2. Summary of significant accounting policies

These financial statements have been prepared using the Government's accounting policies stated below, which are based on Canadian public sector accounting standards. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian public sector accounting standards.

Significant accounting policies are as follows:

a) Parliamentary authorities

The Department is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to the Department do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the *Statement of Operations and Departmental Net Financial Position* and in the *Statement of Financial Position* are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting.

The planned results amounts in the Expenses and Revenues sections of the *Statement of Operations and Departmental Net Financial Position* are the amounts reported in the *Future-oriented Statement of Operations* included in the *2016-17 Report on Plans and Priorities*. Planned results are not presented in the Government funding and transfers section of the *Statement of Operations and Departmental Net Financial Position* and in the *Statement of Change in Departmental Net Debt* because these amounts were not included in the *2016-17 Report on Plans and Priorities*.

b) Net cash provided by Government

The Department operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by the Department is deposited to the CRF, and all cash disbursements made by the Department are paid from the CRF. The net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments of the Government.

c) Amounts due from the Consolidated Revenue Fund

Amounts due from the CRF are the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that the Department is entitled to draw from the CRF without further authorities to discharge its liabilities.

d) Revenues

- The Department reports revenues on an accrual basis.
- Investment income is recognized as revenue in accordance with the terms and conditions of underlying agreements or relevant legislation as applicable.
- Sale of domestic coinage is recognized in the period that the sale took place.
- Interest on bank deposits is recognized as revenue when earned.
- Net foreign currency gains are determined by reference to prevailing exchange rates at the time of transaction and at the year-end date as applicable on foreign currency denominated items.
- Guarantee fees are recognized when earned and are determined by reference to the terms of the guarantee program or underlying contract.
- Uncashed Receiver General cheques, warrants and bank account cheques for all departments and agencies are recognized as revenue of the Department if they remain outstanding 10 years after the date of issue.
- Unclaimed matured bonds are recognized as revenue if they remain unredeemed 15 years after the date of call or maturity, whichever is earlier.
- Unclaimed bank balances are recognized as revenue when there has been no owner activity in relation to the balance for a period of 40 years.
- Other revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenue takes place.
- Revenues earned on behalf of the Government represent revenues that are non-respendable which are not available to discharge the Department's liabilities. While the Deputy Minister is expected to maintain accounting control, he has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented as a reduction of the entity's gross revenues.

e) Expenses

- The Department reports expenses on an accrual basis.
- Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met the eligibility criteria or the entitlements established for the transfer payment program. In situations where payments do not form part of an existing program, transfer payments are recorded as expenses when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements.
- Interest and other costs are recognized when incurred and include interest, amortization of debt discounts, premiums and commissions, and servicing and issue costs. Amortization of discounts and premiums is performed on a straight line basis.
- Operating expenses are recognized as incurred.
- The cost of domestic coinage sold is recognized in the period in which the related sale took place.
- Net foreign currency losses are determined by reference to prevailing exchange rates at the time of transaction and at the year-end date as applicable on foreign currency denominated items.
- Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.
- Services provided without charge by other government departments for accommodation, employer contributions to the health and dental insurance plans and legal services are recorded as operating expenses at their estimated cost.

f) Employee future benefits

Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multi-employer pension plan administered by the Government. The Department's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. The Department's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

Severance benefits: Employees entitled to severance benefits under labour contracts or conditions of employment earn these benefits as services necessary to earn them are rendered. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

g) Coin inventory

Coin inventory is valued at the lower of cost and net realizable value. Cost is determined using the average cost method.

h) Accounts receivable

Accounts receivable are stated at the lower of cost and net recoverable value. A valuation allowance is recorded for accounts receivable where recovery is considered uncertain.

i) Foreign exchange accounts

Short-term deposits, marketable securities, and special drawing rights held in the Foreign exchange accounts are recorded at cost. Marketable securities are adjusted for amortization of purchase discounts and premiums. Purchases and sales of securities are recorded at the settlement date. Write-downs to reflect other than temporary impairment in the fair value of securities, if any, are included in Net foreign currency gain or loss in the *Statement of Operations and Departmental Net Financial Position*.

Canada's subscriptions, allocation of special drawing rights, notes payable to and loans receivable from the International Monetary Fund are recorded at cost.

j) Foreign currency transactions

Transactions involving foreign currencies are translated into Canadian dollar equivalents using rates of exchange in effect at the time of those transactions. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the rate of exchange in effect at year-end. Gains and losses resulting from foreign currency transactions are included in revenues or expenses in Treasury and Financial Affairs, Transfer and Taxation Payment Programs, and Internal Services in the *Statement of Operations and Departmental Net Financial Position*.

k) Loans receivable

Loans receivable are initially recorded at cost and are adjusted to reflect the concessionary terms of those loans made on a long-term, low interest, or interest-free basis. An allowance for valuation is further used to reduce the carrying value of loans receivable to amounts that approximate their net realizable value. The allowance is determined based on estimated probable losses that exist on the remaining portfolio.

When the terms of a loan are concessionary, such as those provided with a low or no interest clause, they are recorded at their estimated net present value. A portion of the unamortized discount is recorded as revenue each year to reflect the change in the present value of loans outstanding.

l) Investments and capital share subscriptions

Investments and capital share subscriptions are recorded at cost net of allowances. Allowances are determined based on a combination of expected return and likelihood of capital recovery. Given their nature, investments in certain international financial institutions are not expected to generate direct financial returns nor to be recovered. In those cases, investments are fully provisioned.

m) Derivative financial instruments

Derivative financial instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates or other financial measures specified in the underlying contracts. Derivative financial instruments that the Department is currently party to include cross-currency swap agreements and foreign exchange forward contracts.

Cross-currency swap agreements and foreign exchange forward contracts are initially recorded at cost and are translated into Canadian dollars at the exchange rate in effect at the reporting date. The translated values of cross-currency swap agreements are included as part of Unmatured debt reflecting their longer term nature. The translated values of foreign exchange forward contracts are included as part of Accounts payable and accrued liabilities as these have maturities that are short term in nature.

For cross-currency swap agreements where domestic debt has been converted into foreign debt, any exchange gains or losses are offset by the exchange gains or losses on foreign currency advances to the Exchange Fund Account.

For foreign exchange forward contracts, any exchange gains or losses are offset by the exchange gains or losses on loan balances with the International Monetary Fund.

Interest paid and payable, and interest received and receivable on cross-currency swap agreements are included in Interest on unmatured debt.

n) Tangible capital assets

All tangible capital assets and leasehold improvements having an initial cost of $10 thousand or more are recorded at their acquisition cost. The Department does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, assets located on Indian Reserves and museum collections.

Amortization of tangible capital assets is performed on a straight-line basis over the estimated useful life of the asset as follows:

Asset class	Amortization Period
Computer hardware	Five years
Informatics software	Three years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement
Machinery and equipment	Five to ten years
Motor vehicles	Three years

o) Unmatured debt

When a marketable bond is exchanged or repurchased, and the transaction results in an extinguishment of the debt, the difference between the carrying amount of the debt instrument and the net consideration paid is recognized in the *Statement of Operations and Departmental Net Financial Position*.

An extinguishment occurs on the repurchase of bonds, or when there is an exchange of bonds with an existing bond holder and the terms of the original debt and the replacement debt are substantially different. Exchanged bonds are considered to have substantially different terms when the discounted present value of the cash flows under the new terms, including any amounts paid on the exchange, and discounted using the average effective interest rate of the original debt, is at least 10 percent different from the discounted present value of the remaining cash flows of the original debt.

If an exchange of bonds with an existing bond holder does not result in an extinguishment, the carrying amount of the debt is adjusted for any amounts paid on the exchange, and the unamortized premiums or discounts relating to the original debt and arising on the exchange transaction are amortized over the remaining term to maturity of the replacement debt on a straight line basis.

p) Cash held as collateral

Effective April 2015, the Department implemented a two-way collateral program in accordance with Credit Support Annex (CSA) agreements for cross-currency swap agreements. This program is administered by the Bank of Canada, and requires the Department and counterparties to provide collateral, either in the form of securities or cash (CAD or USD), based on the terms and conditions of the agreements, or when the fair value of a contract exceeds a minimum threshold.

Collateral provided by the Department, in the form of cash, is recorded as an asset on the *Statement of Financial Position*. Collateral posted by the Government of Canada in the form of securities, if any, are not derecognized.

q) Deposit liabilities

Deposits that are repayable on demand are recorded as liabilities.

Deposit liabilities can also include collateral received in the form of cash in accordance with CSA agreements for cross-currency swap agreements. Securities pledged to the Government of Canada, if any, are not recognized as assets in the absence of default.

r) Contingent liabilities

Contingent liabilities are potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

Provisions for liabilities arising under the terms of a loan guarantee program are made when it is likely that a payment will be made and an amount can be estimated.

s) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, valuation allowances for loans receivable, valuation allowances for investments and capital share subscriptions, discounts on loans receivable, accruals of taxes receivable and taxes payable under tax collection agreements, the liability for employee future benefits and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

t) Liabilities and financial assets held on behalf of Government

Liabilities and financial assets held on behalf of Government are presented in these financial statements as the Deputy Minister must maintain accounting control for these elements.

The classification of financial assets as held on behalf of Government is determined based on the ability to discharge that financial asset or financial assets against the Department’s liabilities or to increase the value of those financial assets without further authority from Parliament. The classification of liabilities as held on behalf of Government is determined based on the ability to increase the value of those liabilities without further authorities or within prescribed limits or ceilings.

3. Parliamentary authorities

The Department receives most of its funding through annual parliamentary authorities. Items recognized in the *Statement of Operations and the Departmental Net Financial Position* and the *Statement of Financial Position* in one year may be funded through parliamentary authorities in prior, current or future years. Accordingly, the Department has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

a) Reconciliation of net cost of operations to current year authorities used

Reconciliation of net cost of operations to current year authorities used	2017	2016
	(in thousands of dollars)	
Net cost of operations before government funding and transfers	88,439,492	87,251,430
Adjustments for items affecting net cost of operations but not affecting authorities:		
Allowance on loans, investments and advances	2,230	8,037
Inventory charged to program expense	2,759	2,685
Employee future benefits	1,356	340
Amortization of tangible capital assets	(1,320)	(1,371)
Services provided without charge by other government departments	(24,861)	(21,797)
Prepaid expenses	(34)	(24)
Concessionary of loans receivable	(26,027)	-
Other expenses not being charged to authorities:		
Incentive for the elimination of capital tax	-	28,000
Other	(204)	1,208
Total items affecting net cost of operations but not affecting authorities	(46,101)	17,078
Adjustments for items not affecting net cost of operations but affecting authorities:		
Advances and prepaid expenses	52,023,515	54,522,576
Loans receivable from the International Monetary Fund	-	128,631
Recovery of transitional assistance provided under sales tax harmonization agreement	-	(319,800)
Loans receivable from International and other organizations	-	160,761
Acquisitions of tangible capital assets	-	73
Transition payments for implementing salary payments in arrears	-	23
Other	27,975	58,433
Total items not affecting net cost of operations but affecting authorities	52,051,490	54,550,697
Current year authorities used	140,444,881	141,819,205

b) Authorities provided and used

Authorities provided and used	2017	2016
	(in thousands of dollars)	
Authorities provided:		
Vote 1 – Program expenditures	112,597	-
Vote 1 – Operating expenditures	-	109,122
Vote 5 – Grants and contributions	-	3,035
Statutory authorities:		
Transfer payments	67,016,959	64,102,275
Interest on unmatured debt	14,138,651	15,101,078
Other interest costs	7,027,348	7,543,413
Purchase of domestic coinage	93,555	90,547
Other	106,570	138,074
Total statutory authorities	88,383,083	86,975,387
Non-budgetary authorities:		
Crown borrowings	52,014,329	54,514,501
International organizations	-	289,392
Other organizations	9,000	8,000
Total non-budgetary authorities	52,023,329	54,811,893
Total authorities provided	140,519,009	141,899,437
Less:		
Authorities available for future years	(68,588)	(68,573)
Lapsed authorities:		
Vote 1 – Program expenditures	(5,540)	-
Vote 1 – Operating expenditures	-	(11,651)
Vote 5 – Grants and contributions	-	(8)
Current year authorities used	140,444,881	141,819,205

For fiscal year 2016-17, the departmental operating expenditures and grants and contributions expenditures were consolidated into Vote 1 - Program expenditures.

4. Deposit liabilities

The following table presents details of deposit liabilities:

Deposit liabilities	2017	2016
	(in thousands of dollars)	
Canada Hibernia Holding Corporation (note 4a)	98,374	97,935
Canada Eldor Inc. (note 4b)	21,749	21,651
Collateral deposits (note 4c)	94,471	127,532
Total deposit liabilities	214,594	247,118

a) Canada Hibernia Holding Corporation—Abandonment reserve fund

This account is a demand deposit established to record funds that will be used by Canada Hibernia Holding Corporation to defray future abandonment costs that will be incurred at the closure of the Hibernia field.

The interest payable is calculated at a rate equivalent to 90 percent of the weekly three-month Treasury bill tender rate.

b) Canada Eldor Inc.—Holdback—Privatization—CDEV

This account was established pursuant to subsection 129(1) of the *Financial Administration Act*. This special purpose money is to be used to meet costs incurred on the sale of Crown corporations and demand for payment by purchasers pursuant to the acquisition agreement and costs incurred by the CDEV in connection with their sale.

The interest payable is calculated at a rate equivalent to 90 percent of the weekly three-month Treasury bill tender rate.

c) Collateral deposits

This account was established to record cash received as credit support under collateral agreements with financial institutions for cross-currency swap agreements.

5. Accounts payable and accrued liabilities

The following table presents details of the Department's accounts payable and accrued liabilities:

Accounts payable and accrued liabilities	2017	2016
	(in thousands of dollars)	
Accounts payable - external parties (note 5a)	18,010	27,377
Accounts payable - other government departments and agencies	164,484	49,644
Provision for redemption of Canadian pennies (note 5b)	4,979	6,940
Foreign exchange forward contracts (note 5c)	19,029	45,275
Accrued liabilities	5,133	4,173
Total accounts payable and accrued liabilities	211,635	133,409

a) Accounts payable - external parties

Accounts payable - external parties includes an amount of $2.68 million which relates to the Common School Funds for Ontario and Quebec. This account was established under 12 *Victoria 1849*, Chapter 200, to record the proceeds from the sale of lands set apart for the support and maintenance of common schools in Upper and Lower Canada, now Ontario and Quebec. Interest of $134 thousand —apportioned on the basis of population—is paid directly to these provinces on a semi-annual basis, at the rate of 5 percent per annum, and is charged to Interest and other costs.

b) Provision for redemption of Canadian pennies

In *Canada's Economic Action Plan 2012*, the Government announced its intention to cease production of the penny and to start withdrawing it from circulation as of February 4, 2013. As part of this initiative, Canadians have the option of redeeming their pennies at their face value.

This provision reflects the estimated remaining net cost to the Government of this initiative as of March 31, 2017.

c) Foreign exchange forward contracts

This amount represents the net translated notional values of foreign exchange forward contracts outstanding at March 31, 2017. These amounts were settled on April 05, 2017 and are discussed at note 11.

6. Taxes payable under tax collection agreements

Pursuant to various tax collection agreements, the Canada Revenue Agency (CRA) collects and administers personal income taxes, corporate taxes, Harmonized Sales Tax, sales tax, and goods and services tax on behalf of certain provinces, territories and Aboriginal governments. Amounts collectible by the CRA, but not yet remitted to the Department, are described at note 17.

At March 31, the balance in the accounts pertaining to taxes collectible and payable to provinces, territories and Aboriginal governments under tax collection agreements is as follows:

Taxes payable under tax collection agreements	April 1/2016	Receipts and other credits	Payments and other charges	March 31/2017
				(in thousands of dollars)
Corporate taxes	3,742,980	19,245,950	16,061,769	6,927,161
Personal income taxes	4,124,998	64,715,595	69,948,584	(1,107,991)
Harmonized Sales Tax	(3,541,132)	28,404,468	28,297,171	(3,433,835)
First Nations Goods and Services Tax	-	17,245	17,245	-
First Nations Sales Tax	-	8,338	8,338	-
Total taxes payable under tax collection agreements	4,326,846	112,391,596	114,333,107	2,385,335

The Department ultimately transfers these amounts directly to the participating provinces, territories and Aboriginal governments in accordance with established payment schedules.

Given that the Government of Canada reports information on a fiscal year basis while tax information is calculated on a calendar year basis, there can be transactions related to several tax years during any given fiscal year. Taxes payable therefore include amounts assessed, estimates of assessments based upon cash received, adjustments from reassessments, and adjustments relating to previous tax years payable to provincial, territorial and Aboriginal governments.

7. Interest payable

The following table presents details of interest payable:

Interest payable	2017	2016
	(in thousands of dollars)	
Domestic debt	3,515,912	3,706,665
Retail debt	698,654	792,710
Foreign debt	32,368	36,251
International Monetary Fund Balances	5,878	969
Total interest payable	4,252,812	4,536,595

8. Notes payable to international organizations

Non-interest bearing demand notes are issued in lieu of cash in respect of subscriptions and contributions to international organizations. The notes are presented for encashment according to their terms of agreement.

At March 31, the amount outstanding is as follows:

Notes payable to international organizations	2017	2016
	(in thousands of dollars)	
International Bank for Reconstruction and Development	31,895	31,147
Multilateral Investment Guarantee Agency	4,266	4,166
Total notes payable to international organizations	36,161	35,313

9. Matured debt

Matured debt consists of debt that has matured but has not yet been redeemed.

At March 31, the amount outstanding is as follows:

Matured debt	2017	2016
	(in thousands of dollars)	
Retail debt (matured from 2001 to 2017)	403,020	377,076
Marketable bonds (matured from 2001 to 2017)	6,955	7,883
Total matured debt	409,975	384,959

10. Unmatured debt

The Department borrows in both domestic and international markets on behalf of the Government of Canada.

Domestic debt consists of treasury bills, marketable bonds and retail debt.

> The treasury bills balance at March 31, 2017, was $6.0 billion (nil in 2016) in odd issue bills, $40.1 billion ($41 billion in 2016) in three month bills, $27.2 billion ($29.7 billion in 2016) in six month bills, and $63.4 billion ($67.4 billion in 2016) in 364 day bills.
>
> Marketable bonds consist of outstanding domestic Government of Canada bonds with remaining terms to maturity ranging from 1 to 48 years.
>
> Retail debt includes Canada Savings Bonds which are redeemable on demand by the holder, with accrued interest calculated to the end of the previous month; no interest is paid if redeemed during the first three months following the date of issue.

Foreign debt is issued by the Government of Canada under the government's foreign currency borrowing program. It consists of marketable bonds, Canada bills and medium term notes. Marketable bonds include bonds assumed by Finance Canada on February 5, 2001, on the dissolution of Petro Canada Limited.

> Marketable bonds are either issued in US dollars or Euros. They are issued to provide long term foreign funds and have remaining terms to maturity ranging from 1 to 7 years.
>
> Canada bills are short-term certificates of indebtedness issued in the US money market.

Cross-currency revaluation refers to the net notional value of cross-currency swap agreements in place at March 31, 2017 translated into Canadian dollar equivalents using year-end market rates. Cross-currency swap agreements are entered into to effectively convert portions of domestic debt into foreign debt in order to meet foreign funding requirements. Remaining terms to maturity range from 1 to 10 years.

The Government has entered into individual cross-currency swap agreements with various counterparties. Terms and conditions associated with these outstanding agreements are established using International Swaps and Derivatives Association (ISDA) master agreements, which are in place with each counterparty. Cross-currency swap agreements are used primarily to fund foreign-denominated asset levels in the Foreign exchange accounts.

Included in Cross-currency revaluation is $1,636 million ($757 million in 2016) related to individual cross-currency swap agreements that have a net foreign-exchange asset value to the Government upon revaluation and $9,400 million ($9,148 million in 2016) relating to individual cross-currency swap agreements that have a net foreign-exchange liability value, resulting in an overall cross-currency swap net liability revaluation of $7,764 million ($8,391 million in 2016).

Further details are discussed in note 11.

At March 31, unmatured debt is composed of the following:

Unmatured debt	Face value	Unamortized (discounts)/ premiums	Net book value 2017	Net book value 2016
			(in thousands of dollars)	
Domestic debt:				
Treasury bills	136,700,000	(236,144)	136,463,856	137,893,835
Marketable bonds	535,861,146	5,573,008	541,434,154	509,393,837
Retail debt	4,533,342	-	4,533,342	5,076,053
Total domestic debt	677,094,488	5,336,864	682,431,352	652,363,725
Foreign debt:				
Marketable bonds	11,508,189	(8,228)	11,499,961	15,345,014
Canada bills	3,521,450	(4,190)	3,517,260	4,744,164
Medium term notes	2,606,655	(2,448)	2,604,207	2,429,414
Total foreign debt	17,636,294	(14,866)	17,621,428	22,518,592
Total domestic and foreign debt	694,730,782	5,321,998	700,052,780	674,882,317
Less: Government holdings			-	(500,000)
Less: Securities held for the retirement of unmatured foreign debt			(27,141)	(56,102)
Net domestic and foreign debt			700,025,639	674,326,215
Cross-currency revaluation:				
Payables			80,124,560	71,863,899
Receivables			(72,360,683)	(63,472,507)
Total cross-currency revaluation			7,763,877	8,391,392
Total unmatured debt			707,789,516	682,717,607
Domestic debt fair value			733,441,761	719,710,331
Foreign debt fair value			17,966,982	23,052,708

Contractual maturities of unmatured debt by currency over the next five years, at face value, are as follows:

Contractual maturities of unmatured debt Maturing year	Canadian dollars[1]	US dollars[2]	Euro[3]	Total
				(in thousands of dollars)
2018	205,751,735	8,176,100	-	213,927,835
2019	93,039,058	4,343,560	-	97,382,618
2020	70,510,492	1,234,812	2,837,800	74,583,104
2021	40,788,304	764,527	213,000	41,765,831
2022	42,135,744	66,495	-	42,202,239
2023 to 2065	224,869,155	-	-	224,869,155
Total contractual maturities of unmatured debt	677,094,488	14,585,494	3,050,800	694,730,782

The effective average annual interest rates are as follows:

Effective average annual interest rates	2017	2016
	%	%
Treasury bills	0.54	0.50
Marketable bonds—domestic	2.26	2.49
Retail debt	0.66	0.67
Marketable bonds—foreign	1.90	1.68
Canada bills	0.77	0.43
Medium term notes	1.06	0.70

11. Derivative and fair values of financial instruments

a) Derivative financial instruments

i) Swap agreements

Government debt is issued at both fixed and variable interest rates and is denominated in Canadian dollars, US dollars and Euros. The Government has entered into cross-currency swap agreements to facilitate the management of its debt structure. Using cross-currency swap agreements, Canadian dollar and other foreign currency debt has been converted into US dollars or other foreign currencies with either fixed interest rates or variable interest rates. As a normal practice, the Government's swap positions are held to maturity.

1. Includes Treasury bills, marketable bonds and retail debt.
2. Includes marketable bonds and medium term notes issued in US dollars and Canada bills.
3. Includes marketable bonds and medium term notes issued in Euros.

The interest paid or payable and the interest received or receivable on all swap transactions are recorded as part of Interest and other costs. Unrealized gains or losses due to fluctuations in the foreign exchange value of the swaps are presented in the Cross-currency revaluation account and are recognized as part of Net foreign currency gain or loss in the *Statement of Operations and Departmental Net Financial Position*.

Cross-currency swaps with contractual or notional principal amounts outstanding at March 31, stated in Canadian dollars, are as follows:

Cross-currency swaps with contractual or notional principal amounts **Maturing year**	**2017**	**2016**
	(in thousands of dollars)	
2017	-	5,378,534
2018	6,514,894	5,858,701
2019	6,545,440	7,010,562
2020	6,712,312	7,484,979
2021	11,193,493	11,405,351
2022	7,004,328	5,343,336
2023 to 2027	42,154,093	29,382,436
Total cross-currency swaps with contractual or notional principal amounts	80,124,560	71,863,899

ii) Foreign exchange forward contracts

The Government funds loans with the International Monetary Fund (IMF) as part of the Foreign exchange accounts, which are denominated in special drawing rights (SDRs), with US dollars. Since the currency value of the SDR is based upon a basket of key international currencies (the US dollar, Euro, Japanese yen, pound sterling and Chinese Renminbi), a foreign exchange mismatch results, whereby fluctuations in the value of the loan asset are not equally offset by fluctuations in the value of the related funding liability. Therefore, the Government enters into forward contracts to hedge this foreign exchange risk.

Unrealized gains and losses due to fluctuations in the foreign exchange value of these contracts are recorded in Accounts payable and accrued liabilities and are recognized as part of the Net foreign currency gain or loss in the *Statement of Operations and Departmental Net Financial Position*.

Foreign exchange forward contracts with contractual or notional principal amounts outstanding total $1.36 billion ($1.36 billion in 2016), maturing in 2017-18.

b) Fair value of financial instruments

The following tables present the carrying value and the fair value of certain financial instruments.

Fair values are government estimates and are generally calculated using market conditions at a specific point in time where a market exists. Fair values of instruments with a short life span or of a non-negotiable nature are assumed to approximate carrying values. Fair values may not reflect future market conditions nor the actual values obtainable should the instrument be exchanged on the market. The calculations are subjective in nature and involve inherent uncertainties due to unpredictability of future events.

Carrying and fair value of financial instruments	2017 Carrying value	2017 Fair value	2016 Carrying value	2016 Fair value
				(in thousands of dollars)
Assets				
Foreign exchange accounts	98,797,449	99,033,874	93,538,697	95,839,767
Crown borrowings	51,863,952	52,157,521	48,196,182	48,600,600
Liabilities				
Total domestic and foreign debt	700,052,780	751,408,743	674,882,317	742,763,039

Fair values of the Cross-currency revaluation and Foreign exchange forward contracts are the estimated amount that the Government would receive or pay, based on market factors, if the contracts were terminated on March 31, 2017.

They are established by discounting the expected cash flows of the Cross-currency revaluation and Foreign exchange forward contracts, calculated from the contractual or notional principal amounts, using year-end market interest and exchange rates. A positive (negative) fair value indicates that the Government would receive (make) a payment if the agreements were terminated on March 31, 2017.

Notional and fair value of derivative financial instruments	2017 Notional value	2017 Fair value	2016 Notional value	2016 Fair value
				(in thousands of dollars)
Cross-currency revaluation (net)	(7,763,877)	(6,949,446)	(8,391,392)	(7,263,207)
Foreign exchange forward contracts (net)	(19,029)	(18,682)	(45,275)	(47,288)

12. Financial risk

a) Credit risk related to swap and foreign exchange forward contracts

The Department manages its exposure to credit risk by dealing principally with financial institutions having acceptable credit ratings. Credit risk is also managed through collateral provisions in swap and foreign exchange forward contracts. Counterparties must pledge collateral to the Government, which, in the event of default, could be liquidated to mitigate credit losses.

Effective April 2015, the Government of Canada began implementation of two-way Credit Support Annex (CSA) agreements for its cross-currency swap portfolio.

At March 31, collateral pledged and held under two-way CSA agreements was as follows:

	2017			
	Nominal amount		Fair value	
	Posted by Government of Canada	Posted by counterparties	Posted by Government of Canada	Posted by counterparties
				(in thousands of dollars)
Cash	6,873,299	94,471	6,873,299	94,471
Securities	-	2,002,350	-	2,539,205
Total	6,873,299	2,096,821	6,873,299	2,633,676

The Department does not have a significant concentration of credit risk with any individual institution and does not anticipate any counterparty credit loss with respect to its swap and foreign exchange forward contracts.

The following table presents the contractual or notional principal amounts of the swap and foreign exchange forward contracts organized by credit ratings based on published Standard & Poor's credit ratings and stand-alone credit profiles at year-end:

Notional amounts of swap and foreign exchange forward contracts	**2017**	**2016**
	(in thousands of dollars)	
A+	26,602,283	21,853,904
A	22,009,738	18,979,714
A-	32,810,444	29,786,404
BBB	66,495	2,603,044
Total notional amounts of swap and foreign exchange forward contracts	81,488,960	73,223,066

b) Managing foreign currency risk and sensitivity analysis to foreign currency exposures

Interest rate and foreign currency risks are managed using a strategy of matching the duration and the currency of the Exchange Fund Account assets and the related foreign currency borrowings of the Government. As at March 31, 2017, the impact of price changes affecting the Exchange Fund Account assets and the liabilities funding these assets naturally offset each other, resulting in no significant impacts to the Government's net debt. Assets related to the IMF are only partially matched by related foreign currency borrowings, as they are denominated in SDR; however, foreign exchange risks relating to loans to the IMF have been managed through entering into various foreign exchange forward contracts.

The majority of the Exchange Fund Account foreign currency assets and liabilities are held in four currency portfolios: the US dollar, the Euro, Pound sterling and the Japanese yen. At March 31, 2017, a one percent appreciation in the Canadian dollar as compared to the US dollar, the Euro, Pound sterling and the Japanese yen would result in a foreign exchange loss of $5 million ($2 million in 2016) due to the exposure of the US dollar portfolio, a foreign exchange loss of $8 million ($2 million in 2016) due to the exposure of the Euro portfolio and a foreign exchange gain of $1 million ($2 million in 2016) due to the exposure of the Pound sterling. There is no significant exposure related to the Japanese yen portfolio.

13. Employee future benefits

a) Pension benefits

The Department's employees participate in the public service pension plan (the “Plan”), which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

Both the employees and the Department contribute to the cost of the Plan. Due to the amendment of the *Public Service Superannuation Act* following the implementation of provisions related to the *Economic Action Plan* 2012, employee contributors have been divided into two groups - Group 1 relates to existing plan members as of December 31, 2012 and Group 2 relates to members joining the Plan as of January 1, 2013. Each group has a distinct contribution rate.

The expense amounts to $7.3 million ($7.60 million in 2016). For Group 1 members, the expense represents approximately 1.12 times (1.25 times in 2016) the employee contributions and, for Group 2 members, approximately 1.08 times (1.24 times in 2016) the employee contributions.

The Department's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan’s sponsor.

b) Severance benefits

Severance benefits provided to the Department's employees were previously based on an employee's eligibility, years of service and salary at termination of employment. However, since 2011 the accumulation of severance benefits for voluntary departures progressively ceased for substantially all employees. Employees subject to these changes were given the option to be paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits upon departure from the public service. By March 31, 2017, substantially all settlements for immediate cash out were completed. Severance benefits are unfunded and, consequently, the outstanding obligation will be paid from future authorities.

The changes in the obligations during the year were as follows:

Severance benefits	2017	2016
	(in thousands of dollars)	
Accrued benefit obligation, beginning of year	5,621	5,961
Expense for the year	(1,121)	(41)
Benefits paid during the year	(235)	(299)
Accrued benefit obligation, end of year	4,265	5,621

14. Liabilities and financial assets held on behalf of Government

a) Liabilities held on behalf of Government

Notes payable to international organizations are related to investments made in those entities. Since the Department must obtain separate authorities to make these investments these items are considered liabilities held on behalf of Government.

b) Financial assets held on behalf of Government

A distinction is made between financial assets that are available to discharge the Department's liabilities and those that are not. Financial assets that are not available to discharge the Department's liabilities are considered to be held on behalf of Government and are therefore presented as a reduction of the Department's gross financial assets.

Financial assets held on behalf of Government include amounts related to non-respendable revenues as well as loans receivable and investments and capital share subscriptions which if repaid could not be used to discharge other liabilities.

The following table presents details of the liabilities and financial assets held on behalf of Government:

Liabilities and financial assets held on behalf of Government	2017	2016
	(in thousands of dollars)	
Liabilities held on behalf of Government:		
Notes payable to international organizations (note 8)	36,161	35,313
Total liabilities held on behalf of Government	36,161	35,313
Financial assets held on behalf of Government:		
Accounts receivable (note 16)	116,517	200,604
Foreign exchange accounts (note 18)	1,996,259	2,186,637
Loans receivable (note 20)	858,067	978,844
Investments and capital share subscriptions (note 21)	243,701	257,740
Total financial assets held on behalf of Government	3,214,544	3,623,825

15. Cash held as collateral

This account records cash deposited by the Government as credit support under collateral agreements with financial institutions. Interest is received on the balance.

Effective April 2015, the Department implemented a two-way collateral program in accordance with Credit Support Annex (CSA) agreements for cross-currency swaps. This program is administered by the Bank of Canada, and requires the Department and counterparties to provide collateral, either in the form of securities or cash (CAD or USD), based on the terms and conditions of agreements, or when the fair value of a contract exceeds a minimum threshold.

16. Accounts receivable

The following table presents details of the Department accounts receivable:

Accounts receivable	**2017**	**2016**
	(in thousands of dollars)	
Accrued interest income - Crown borrowings	68,765	69,335
Accrued investment income	41,220	125,262
Receivables - Other government departments and agencies	5,297	5,889
Receivables - External parties	1,235	118
Total accounts receivable	116,517	200,604

17. Taxes receivable under tax collection agreements

Taxes receivable include taxes collected or collectible by the CRA on behalf of provincial, territorial or Aboriginal governments that have not yet been remitted to the Department.

The following table presents details of taxes receivable under tax collection agreements:

Taxes receivable under tax collection agreements	2017	2016
	(in thousands of dollars)	
Corporate taxes	6,904,337	3,211,614
Personal income taxes	6,625,954	7,808,338
Harmonized Sales Tax	(3,656,717)	(4,631,082)
First Nations Goods and Services Tax	1,251	1,464
First Nations Sales Tax	644	705
Provincial benefit programs	(255,062)	(232,151)
Total taxes receivable under tax collection agreements	9,620,407	6,158,888

The Department ultimately transfers these amounts directly to the participating provincial, territorial or Aboriginal governments in accordance with established payment schedules. Amounts payable are described in note 6.

Provincial benefit programs include benefit amounts paid by CRA directly to recipients on behalf of provincial governments. Transfers to the provincial governments are ultimately reduced by these amounts.

18. Foreign exchange accounts

The foreign exchange accounts represent the largest component of the official international reserves of the Government of Canada and consist of the following:

Foreign exchange accounts	2017	2016
	(in thousands of dollars)	
Investments held in the Exchange Fund Account	104,671,317	99,192,825
Accrued net revenue from the Exchange Fund Account	1,996,259	2,186,637
Total investments held in Exchange Fund Account (note 18a)	106,667,576	101,379,462
Subscriptions to the International Monetary Fund (note 18b)	19,892,297	20,169,658
Loans receivable from the International Monetary Fund (note 18c)	1,125,087	1,278,001
Notes payable to the International Monetary Fund (note 18d)	(18,082,200)	(18,332,452)
Special drawing rights allocations (note 18e)	(10,805,311)	(10,955,972)
Total foreign exchange accounts	98,797,449	93,538,697
Fair value	99,033,874	95,839,767

a) Investments held in Exchange Fund Account

This account records the moneys advanced from the Government to the Exchange Fund Account, in Canadian and other currencies, for the purchase of gold, foreign currencies and securities, and SDRs.

The Exchange Fund Account is operated under the provision of the *Currency Act*. Total advances are limited to US$150 billion as of March 2015.

The following table details international reserves held in and advances to the Exchange Fund Account:

Investments held in Exchange Fund Account	2017	2016
	(in thousands of dollars)	
US dollar cash on deposit	11,818,493	5,303,299
US dollar short-term deposits	66,535	-
US dollar marketable securities	53,722,589	56,638,538
Euro cash on deposit	2,188,475	304,349
Euro marketable securities	17,936,519	20,161,615
British pound sterling cash on deposit	131,335	113,920
British pound sterling marketable securities	9,293,628	7,534,512
Japanese yen cash on deposit	8,071	180,612
Japanese yen marketable securities	1,323,445	711,711
Special drawing rights	10,178,486	10,430,906
Total investments held in Exchange Fund Account	106,667,576	101,379,462

b) Subscriptions to the International Monetary Fund

This account records the value of Canada's subscription ("quota") to the capital of the IMF. The IMF is an international organization of 189 member countries that operates in accordance with its Articles of Agreement.

The amount by which the sum of Canada's subscriptions plus loans to the IMF under special facilities exceeds the IMF's holdings of Canadian dollars represents the amount of foreign exchange which Canada is entitled to draw from the IMF on demand for balance of payments purposes. The subscription is expressed in terms of SDR, a unit of account defined in terms of a "basket" of five major currencies, the US dollar, Euro, Japanese yen, pound sterling and Chinese Renminbi.

Canada has accumulated its subscriptions through settlements to the IMF in Canadian dollars, gold and SDRs. Annual maintenance of value payments are made to, or received from, the IMF when the Canadian dollar depreciates or appreciates against the SDR, in order to maintain the SDR-value of the IMF's holdings of Canadian dollars.

In 2017 the receipts and other credits consisted of a valuation adjustment of $277 million.

c) Loans receivable from the International Monetary Fund

This account records the value of interest-bearing loans made under Canada's multilateral and bilateral lending arrangements with the IMF. The purpose of these arrangements is to provide temporary resources to the IMF which works to promote economic growth and safeguard the stability of the international monetary system.

There are three outstanding lending arrangements with the IMF outside of the quota system: the multilateral New Arrangements to Borrow (NAB), the General Arrangements to Borrow (GAB) and the temporary bilateral borrowing agreement.

Canada's current participation in the NAB is governed by the November 2012 NAB Decision which incorporated technical amendments made as a result of the IMF's 14^{th} General Review of Quotas. The maximum lending by Canada to the IMF under these arrangements is SDR 3,874 million. As at March 31, 2017, SDR 623.5 million or $1,125 million (SDR 699 million or $1,278 million in 2016) in lending has been provided by Canada to the IMF under the NAB. Canada recently renewed its participation in the NAB for another five year period pursuant to the November 2016 NAB Decision (effective November 2017).

Canada also participates in the GAB which was most recently renewed in December 2013. The maximum lending by Canada to the IMF under these arrangements is limited to SDR 893 million. As at March 31, 2017, no lending had been provided to the IMF under the GAB.

In early 2017, Canada extended a temporary bilateral credit line to the IMF in the amount of SDR 8,200 million for a maximum period of four years, as part of a collective effort with 34 other nations to foster global economic and financial stability. As at March 31, 2017, no lending had been provided to the IMF under the bilateral credit line.

Collectively, the outstanding loans under multilateral and bilateral arrangements with the IMF cannot exceed SDR 12,967 million at any given time. This reflects the maximum commitment under the NAB, GAB and bilateral borrowing agreement.

At March 31, 2017, a total of SDR 623.5 million or $1,125 million was outstanding under these arrangements. Amounts advanced under these arrangements are considered part of the Official International Reserves of Canada.

d) Notes payable to the International Monetary Fund

This account records non-marketable, non-interest bearing notes issued by the Government to the IMF. These notes are payable on demand and are subject to redemption or re-issue, depending on the needs of the IMF for Canadian currency.

Canadian dollar holdings of the IMF include these notes and a small working balance (initially equal to one-quarter of one percent of Canada's subscription) held on deposit at the Bank of Canada.

In 2017, notes payable to the IMF decreased by $250 million.

e) Special drawing rights allocations

This account records the value of SDRs allocated to Canada by the IMF. The SDR is an international currency created by the IMF, and allocated to countries participating in its Special Drawing Rights Department. It represents a liability of Canada, as circumstances could arise whereby Canada could be called upon to repay these allocations, in part or in total.

As an asset, SDRs represent rights to purchase currencies of other countries participating in the IMF's Special Drawing Rights Department, as well as to make payments to the IMF itself. All SDRs allocated to Canada by the IMF have either been used to settle subscriptions in the IMF, or have been advanced to the Exchange Fund Account.

There was no allocation of SDRs by the IMF to Canada during the year. In 2017, payments and other charges consisted of a valuation adjustment of $151 million.

19. Crown borrowings

The following table presents details of Crown borrowings issued as at March 31:

Crown borrowings	Face value	Unamortized discounts	Net book value 2017	Net book value 2016
			(in thousands of dollars)	
Canada Mortgage and Housing Corporation	7,374,211	93	7,374,118	7,819,277
Farm Credit Canada	25,683,700	4,466	25,679,234	23,434,805
Business Development Bank of Canada	18,810,600	-	18,810,600	16,942,100
Total Crown borrowings	51,868,511	4,559	51,863,952	48,196,182
Fair value			52,157,521	48,600,600

Contractual maturities of outstanding loans with Crown corporations over the next five years, at face value, are as follows:

Contractual maturities of unmatured loans by Crown corporations Maturing year	Canada Mortgage and Housing Corporation	Farm Credit Canada	Business Development Bank	Total
			(in thousands of dollars)	
2018	1,265,007	9,821,700	18,810,600	29,897,307
2019	1,257,588	6,804,000	-	8,061,588
2020	1,112,331	4,732,000	-	5,844,331
2021	1,445,885	1,294,000	-	2,739,885
2022	665,170	2,808,000	-	3,473,170
2023 and thereafter	1,628,230	224,000	-	1,852,230
Total contractual maturities of unmatured loans by Crown corporations	7,374,211	25,683,700	18,810,600	51,868,511

The effective average annual interest rates are as follows:

Effective average annual interest rates	Canada Mortgage and Housing Corporation	Farm Credit Canada	Business Development Bank
Short Term fixed interest rate	0.47 %	0.56 %	- %
Long Term fixed interest rate	2.12 %	0.89 %	0.55 %
Short Term floating interest rate	- %	0.43 %	0.43 %
Long Term floating interest rate	- %	0.43 %	- %

20. Loans receivable

The following table presents the various components of loans receivable due to the Department.

Loans receivable	Face value	Unamortized discounts / Valuation allowance	Net book value 2017	Net book value 2016
				(in thousands of dollars)
Government business enterprises				
Canada Lands Company Ltd. (note 20a)	407,530	22,448	385,082	257,892
Downsview Park Inc. (note 20b)	48,000	16,130	31,870	41,346
Total Government business enterprises	455,530	38,578	416,952	299,238
Provincial and territorial governments				
Federal-Provincial fiscal arrangements (note 20c)	342,122	52,400	289,722	415,817
Municipal Development and Loan Board (note 20d)	315	-	315	315
Winter Capital Projects Fund (note 20e)	2,900	2,900	-	-
Total Provincial and territorial governments	345,337	55,300	290,037	416,132
International and other organizations				
International Monetary Fund - Poverty Reduction and Growth Trust (note 20f)	257,974	10,000	247,974	262,007
International Finance Corporation - Global Agriculture and Food Securities Program (note 20g)	40,721	40,721	-	-
Global Environment Facility (note 20h)	10,000	10,000	-	-
Canadian Commercial Bank (note 20i)	42,202	42,202	-	-
Total International and other organizations	350,897	102,923	247,974	262,007
National governments				
Ukraine (note 20j)	400,000	79,944	320,056	300,705
Total National governments	400,000	79,944	320,056	300,705
Total loans receivable	1,551,764	276,745	1,275,019	1,278,082

The breakdown of loans receivable by organizational body is outlined as follows:

Loans receivable by enterprise type	Face value	Unamortized discounts / Valuation allowance	Net book value 2017	Proportion
		(in thousands of dollars)		%
Total Government business enterprises	455,530	38,578	416,952	33%
Total Provincial and territorial governments	345,337	55,300	290,037	23%
Total International and other organizations	350,897	102,923	247,974	19%
Total National governments	400,000	79,944	320,056	25%
Total Loans receivable by enterprise type	1,551,764	276,745	1,275,019	100%

The amount of loans receivable outstanding in foreign currencies, the Canadian dollar equivalent and the basis of translation is outlined in the table below.

Loans receivable by currency	Face value	CAD Equivalent	Exchange Rate 2017	Proportion
	(in thousands of dollars)			%
CAD	1,293,790	1,293,790	N/A	83%
SDR	142,961	257,974	1.8045	17%
		1,551,764		100%

Government business enterprises

a) Canada Lands Company Ltd. (CLC)

Canada Lands Company Limited (originally Public Works Lands Company Limited) was incorporated under the *Companies Act* in 1956 and was continued under the *Canada Business Corporations Act*. The Corporation is a Crown corporation named in Part I of Schedule III of the *Financial Administration Act* and is wholly-owned by the Government of Canada. The Corporation conducts its business through Canada Lands Company CLC Limited (CLC), its principal wholly-owned subsidiary. CLC's objective is to carry out a commercially-oriented and orderly disposal program of certain Government real properties and the management of certain select properties. In undertaking this objective, CLC may manage, develop and dispose of real properties, either in the capacity of owner or as agent of the Government.

CLC has acquired an interest in a number of real properties from the Government in consideration for the issuance of promissory notes, which bear no interest and are repayable from the proceeds of the sale of the properties in respect of which they were issued. The notes were discounted using the Consolidated Revenue Fund lending rate applicable to Crown corporations and recorded at their discounted value.

During the year, new promissory notes were issued for an amount of $147.9 million ($27.8 million in 2016), and were discounted by $3.6 million ($0.4 million in 2016). An amount of $22.2 million ($20.5 million in 2016) was repaid during the year and an amount of $5.1 million ($4.2 million in 2016) was amortized to income. The balance in the account represents the balance of the notes receivable net of the corresponding unamortized discount.

b) Downsview Park Inc.

Located in Toronto, Downsview Park is a unique urban recreational green space, a safe and peaceful place developed according to the principles of environmental, economic and social sustainability, for Canadians to enjoy in all seasons.

Downsview Park Inc. issued a promissory note which is non-interest bearing and is repayable in full on July 31, 2050. During the year, an amount of $10.0 million (nil in 2016) was repaid and an amount of $0.5 million ($0.6 million in 2016) was amortized to income.

Canada Lands Company Limited is the parent company of CLC and Downsview Park. The promissory notes are discounted using the CRF lending rate applicable to Crown corporations at the time of issuance and are recorded at their discounted value at March 31, 2017.

Provincial and territorial governments

c) Federal-Provincial fiscal arrangements

These amounts represent net overpayments in respect of transfer payments to provinces under the *Constitutions Acts 1867 to 1982*, the *Federal-Provincial Arrangements Act,* and other statutory authorities.

The overpayments are non-interest bearing and will be repaid by reducing transfer payments in subsequent years.

d) Municipal Development and Loan Board

Loans have been made to provinces and municipalities to augment or accelerate municipal capital works programs.

The loans bear interest at rates from 5.25 to 5.375 percent per annum and are repayable in annual or semi-annual installments over 15 to 50 years.

e) Winter Capital Projects Fund

Loans have been made to provinces, provincial agencies and municipalities to assist in the creation of employment.

The loans bear interest at rates from 7.4 to 9.5 percent per annum and are repayable either in annual installments over 5 to 20 years, or at maturity.

The loans are fully provisioned.

International and other organizations

f) International Monetary Fund - Poverty Reduction and Growth Trust

This account records the loan to the International Monetary Fund's Poverty Reduction and Growth Trust (formerly the Poverty Reduction and Growth Facility) in order to provide assistance to qualifying low-income countries as authorized by the *Bretton Woods and Related Agreements Act*, and various appropriation acts.

The total loan authority pursuant to the *Bretton Woods and Related Agreements Act* was set at $550 million or such greater amount as may be fixed by the Governor in Council. The Governor in Council subsequently increased the limit to SDR 1.2 billion, and in the current year this limit was increased to SDR 1.7 billion.

As at March 31, 2017, Canada has lent a total of SDR 851.5 million or $1,537 million (SDR 851.5 million or $1,558 million in 2016) to the Poverty Reduction and Growth Trust. Of this amount, SDR 708.6 million or $1,279 million (SDR 702.9 million or $1,286 million in 2016) has been repaid.

The outstanding balance of SDR 143.0 million or $258 million (SDR 148.7 million or $272 million in 2016) was translated into Canadian dollars at the year-end closing rate of exchange of $1.80447 ($1.82963 in 2016) [CAD to SDR Rate] per SDR. During the year, transactions included repayments and an exchange valuation adjustment.

Separately, Canada has also made budgetary contributions towards an interest subsidy amounting to SDR 215.2 million (SDR 215.2 million in 2016).

g) International Finance Corporation - Global Agriculture and Food Securities Program (IFC-FSI)

This account records Canada's financial assistance to the IFC for participation in the G8 Food Security Initiative (FSI) as authorized by the *Bretton Woods and Related Agreements Act* and various appropriation acts.

During the year amounts for front-end and commitment fees, interest and capital were repaid in accordance with the administration agreement signed between the IFC and the Government of Canada.

As at March 31, 2017, advances to the IFC-FSI amounted to $41 million ($46 million in 2016).

h) Global Environment Facility (GEF)

This account records the funding of a facility for environmental funding in developing countries in the areas of ozone, climate change biodiversity and international waters as authorized by the *Bretton Woods and Related Agreements Act*, and various appropriation acts.

Advances to the GEF are made in non-negotiable, non-interest bearing demand notes that are later encashed.

As at March 31, 2017, advances to the GEF amounted to $10 million ($10 million in 2016).

i) Canadian Commercial Bank

Advances have been made to the Canadian Commercial Bank representing the Government's participation in the support group as authorized by the *Canadian Commercial Bank Financial Assistance Act*. These funds represent the Government's participation in the loan portfolio that was acquired from the Bank and the purchase of outstanding debentures from existing holders.

National governments

j) Ukraine

Pursuant to section 8.3(1) of the *Bretton Woods and Related Agreements Act*, the Minister of Finance, by order of the Governor in Council, is authorized to extend certain forms of financial assistance to a foreign state. The provision of such financial assistance is contingent upon that state having an arrangement with the International Monetary Fund and upon the satisfactory participation of other countries with Canada in the provision of financial assistance.

Funding for such transactions is provided by the Minister of Finance out of the CRF. The maximum amount of financial assistance that can be provided under legislation is US$2.5 billion in respect of any particular foreign state and US$5 billion in respect of all foreign states.

As at March 31, 2017, the outstanding loan balance to the Ukraine was $400 million ($400 million for 2016). There were no other balances or transactions in respect to Ukraine or other foreign states during the year.

These loans bear interest at rates ranging between 1.4 and 2.1 percent and have repayment term of 5 years.

21. Investments and capital share subscriptions

The following table presents details of investments and capital share subscriptions that the Department participates in:

Investments and capital share subscriptions	Face value	Unamortized discounts / Valuation allowance	Net book value 2017	Net book value 2016
			(in thousands of dollars)	
International Development Association (note 21a)	11,614,178	11,614,178	-	-
European Bank for Reconstruction and Development (note 21b)	287,521	287,521	-	-
International Bank for Reconstruction and Development (note 21c)	572,004	572,004	-	-
International Finance Corporation (note 21d)	108,177	108,177	-	-
International Finance Corporation-Financial Mechanisms for Climate Change Facility (note 21e)	308,247	64,546	243,701	257,740
Multilateral Investment Guarantee Agency (note 21f)	14,273	14,273	-	-
Total investments and capital share subscriptions	12,904,400	12,660,699	243,701	257,740

a) International Development Association (IDA)

This account records Canada's contributions and subscriptions to the IDA, as authorized by the *Bretton Woods and Related Agreements Act*, and various appropriation acts. The contributions and subscriptions to the IDA, which is part of the World Bank Group, are used to lend funds to the poorest developing countries for development purposes, on highly favourable terms (no interest, with a 35 to 40 year maturity and 10 years of grace).

As at March 31, 2017, Canada’s total participation in IDA amounted to $11.61 billion ($11.17 billion in 2016).

b) European Bank for Reconstruction and Development

This account records Canada's subscriptions to the capital of the European Bank for Reconstruction and Development (EBRD), as authorized by the *European Bank for Reconstruction and Development Agreement Act*, and various appropriation acts.

At year-end, Canada has subscribed to 102,249 shares (102,049 shares in 2016) of the EBRD's authorized capital valued at EUR 1.02 billion (EUR 1.02 billion in 2016).

Only EUR 212.9 million (EUR 212.9 million in 2016) or about 21 percent (21 percent in 2016) of Canada's share subscription is considered "paid-in". The balance is callable meaning the institution can request the resources in the unlikely event that it requires them to meet its financial obligations to bondholders. Payments for the share subscription are authorized by the Act. Each payment to the EBRD is comprised of cash and a promissory note.

Canada's contingent liability for the callable portion of its shares was EUR $807.6 million (EUR 807.6 million in 2016).

Up to and including March 31, 2017 Canada's total cash contributions into the "paid-in" capital of the EBRD total US$216.2 million (US$216.2 million in 2016).

c) International Bank for Reconstruction and Development (World Bank)

This account records Canada's subscriptions to the capital of the International Bank for Reconstruction and Development (World Bank), as authorized by the *Bretton Woods and Related Agreements Act*, and various appropriation acts.

As at March 31, 2017, Canada has subscribed to 58,354 shares (58,354 shares in 2016). The total value of these shares is US$7.04 billion (US$7.04 billion in 2016), of which US$417.8 million (US$417.8 million in 2016) plus $16.4 million ($16.4 million in 2016) has been paid-in. The remaining portion is callable.

The callable portion is subject to call by the World Bank under certain circumstances. Canada's contingent liability for the callable portion of its shares is US$6.61 billion (US$6.61 billion in 2016).

d) International Finance Corporation

This account records Canada's subscription to the capital of the International Finance Corporation, which is part of the World Bank Group, as authorized by the *Bretton Woods and Related Agreements Act*, and various appropriation acts.

As at March 31, 2017, Canada has subscribed to 81,342 shares (81,342 shares in 2016). These shares have a total value of US$81.3 million (US$81.3 million in 2016), all of which has been paid-in.

e) International Finance Corporation - Financial Mechanisms for Climate Change Facility

This account records Canada's financial support of the IFC's - Financial Mechanisms for Climate Change (FMCC) facility as authorized by the *Bretton Woods and Related Agreements Act* and various appropriation acts. The FMCC supports private sector engagement in climate change mitigation and adaptation activities through the provision of concessional financing arrangements.

As at March 31, 2017 advances to the IFC-FMCC amount to $308.2 million ($322.3 million in 2016). During the year, amounts were recovered through the FMCC trust mechanism based on the terms and conditions of project funding which is administered by the IFC in accordance with the administration agreement signed between IFC and the Government of Canada.

f) Multilateral Investment Guarantee Agency

This account records Canada's subscriptions to the capital of the Multilateral Investment Guarantee Agency, as authorized by the *Bretton Woods and Related Agreements Act*, and various appropriation acts.

As at March 31, 2017, Canada has subscribed to 5,225 shares (5,225 shares in 2016). The total value of these shares is US$56.5 million (US$56.5 million in 2016), of which US$10.7 million (US$10.7 million in 2016) is paid-in and the remaining portion is callable.

The callable portion is subject to call by the Multilateral Investment Guarantee Agency under certain circumstances. Canada's contingent liability for the callable portion of its shares is US$45.8 million (US$45.8 million in 2016).

22. Tangible capital assets

Tangible capital assets	Cost					Accumulated amortization					Net book value	
Capital asset class	Opening balance	Acquisitions	Adjustments	Disposals and write-offs	Closing balance	Opening balance	Amortization	Adjustments	Disposals and write-offs	Closing balance	2017	2016
											(in thousands of dollars)	
Informatics equipment	3,866	-	(205)	-	3,661	1,173	559	(205)	-	1,527	2,134	2,693
Informatics software	44	-	-	-	44	30	14	-	-	44	-	14
Leasehold improvements	11,516	-	-	-	11,516	768	460	-	-	1,228	10,288	10,748
Machinery and equipment	3,021	-	-	290	2,731	768	286	-	290	764	1,967	2,253
Motor vehicles	83	-	-	28	55	74	1	-	20	55	-	9
Total capital assets	18,530	-	(205)	318	18,007	2,813	1,320	(205)	310	3,618	14,389	15,717

23. Contractual obligations

The nature of the Department's activities can result in some large multi-year contracts and obligations whereby the Department will be obligated to make future payments in order to carry out its transfer payments programs or when the services/goods are received.

Significant contractual obligations that can be reasonably estimated are summarized as follows:

Contractual obligations	2018	2019	2020	2021	2022 and thereafter	Total
						(in thousands of dollars)
Transfer payment						
International Development Association	492,810	492,810	489,700	34,090	689,220	2,198,630
African Development Fund	-	-	-	12,521	389,187	401,708
Total contractual obligations	492,810	492,810	489,700	46,611	1,078,407	2,600,338

24. Contingent liabilities

Contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. They are grouped into two categories as follows:

a) Callable share capital

The Department has callable share capital in certain international organizations that could require payments to those organizations.

The following table presents details of callable share capital as at March 31:

Callable share capital	2017	2016
		(in thousands of dollars)
European Bank for Reconstruction and Development	1,145,960	1,193,450
International Bank for Reconstruction and Development	8,785,930	8,579,809
Multilateral Investment Guarantee Agency	60,913	59,483
Total callable share capital	9,992,803	9,832,742

b) Loan guarantees

Mortgage or Hypothecary Protection Insurance

The *Protection of Residential Mortgage or Hypothecary Insurance Act* (PRMHIA) received Royal Assent on June 26, 2011 and came into force on January 1, 2013.

The PRMHIA authorizes the Minister of Finance to provide protection in respect of certain mortgage or hypothecary insurance contracts written by approved mortgage insurers. Under the PRMHIA, a payment in respect of this guarantee would only be made if a winding-up order were made in respect of an approved mortgage insurer that had written an insurance contract guaranteed under the PRMHIA. In that case, the Minister would honour lender claims for insured mortgages in default, subject to: *(1)* any proceeds the beneficiary has received from the underlying property or the insurer's liquidation, and *(2)* a deductible of 10 percent of the original principal amount of the insured mortgage.

As at March 31, 2017, the aggregate outstanding principal amount of loans that are guaranteed under the PRMHIA is estimated at $291.2 billion ($242.5 billion in 2016). Any payment made by the Minister is subject to a deductible equal to 10 percent of the original principal amount of these loans, or $32.9 billion ($26.8 billion in 2016). The principal amount outstanding does not refer to anticipated losses or payments in respect of the guarantee. No provision has been made in these accounts for payments under the guarantee.

As at March 31, 2017, there are two approved mortgage insurers under the PRMHIA: Genworth Financial Mortgage Insurance Company Canada, and Canada Guaranty Mortgage Insurance Company.

International Bank for Reconstruction and Development

During the year, pursuant to section 8.3(1) of the *Bretton Woods and Related Agreements Act*, the Minister of Finance, by order of the Governor in Council, authorized a partial loan guarantee in the amount of US$118 million to the International Bank for Reconstruction and Development (IBRD) in respect to a US$1,443.82 million loan entered into between the IBRD and the Republic of Iraq.

Under this guarantee, the Department would make payment to the IBRD in the event that the Republic of Iraq is more than six months late in meeting a scheduled interest or principal payment to the IBRD. The Department would only be required to pay a pro-rata share of the loan repayment that is past due, up to a fixed aggregate amount of US$118 million.

In the event that any portion of the guarantee is called, Canada would receive a claim from the IBRD against the Republic of Iraq, and would have the option to pursue recovery. At this point, no losses are anticipated with respect to this guarantee and no provision has been made.

25. Related party transactions

The Department is related as a result of common ownership to all government departments, agencies, and Crown corporations. The Department enters into transactions with these entities in the normal course of business and on normal trade terms. In addition, the Department has an agreement with the Treasury Board of Canada Secretariat related to the provision of accounting services. During the year, the Department received common services which were obtained without charge from other government departments as disclosed below.

a) Common services received without charge from other government departments

During the year, the Department received services without charge from certain common service organizations, related to accommodation, legal services, and the employer's contribution to the health and dental insurance plans. These services received without charge have been recorded in the Department's *Statement of Operations and Departmental Net Financial Position* as follows:

Services received without charge	2017	2016
	(in thousands of dollars)	
Accommodation	15,993	13,120
Employer's contribution to the health and dental insurance plans	6,646	6,303
Legal services	2,222	2,374
Total services received without charge	24,861	21,797

The Government has centralized some of its administrative activities for efficiency, cost-effectiveness purposes and economic delivery of programs to the public. As a result, the Government uses central agencies and common service organizations so that one department performs services for all other departments and agencies without charge. The cost of these services, such as the payroll and cheque issuance services provided by Public Services and Procurement Canada and audit services provided by the Office of the Auditor General, are not included in the Department's *Statement of Operations and Departmental Net Financial Position*.

b) Other transactions with related parties

Other transactions with related parties	2017	2016
	(in thousands of dollars)	
Expenses - Other government departments and agencies	7,026,092	7,567,167
Revenues - Other government departments and agencies	134	132

Expenses disclosed exclude common services provided without charge, which are disclosed in note 25a. These amounts include expenses and revenues pertaining to Assets and liabilities held on behalf of Government as well as Interest on superannuation and other accounts.

26. Segmented Information

Presentation by segment is based on the Department's program alignment architecture. The presentation by segment is based on the same accounting policies as described in the Summary of significant accounting policies in note 2. The following table presents the expenses incurred and revenues generated for the main programs, by major object of expenses and by major type of revenues. The segment results for the period are as follows:

Segmented information	Transfer and Taxation Payment Programs	Treasury and Financial Affairs	Economic and Fiscal Policy Framework	Internal Services	2017 Total	2016 Total
Expenses					(in thousands of dollars)	
Transfer payments						
Provinces and territories (note 26a)	66,550,166	-	-	-	66,550,166	63,901,264
International organizations	490,590	-	-	-	490,590	484,773
Non-profit institutions and organizations	4,000	-	10	-	4,010	3,027
Total transfer payments	67,044,756	-	10	-	67,044,766	64,389,064
Interest and other costs						
Interest on unmatured debt (note 26b)	-	14,128,601	-	-	14,128,601	15,090,434
Interest on superannuation and other accounts (note 26c)	-	7,027,348	-	-	7,027,348	7,543,413
Other Interest and costs	-	10,006	-	-	10,006	10,645
Total interest and other costs	-	21,165,955	-	-	21,165,955	22,644,492
Operating expenses (note 26d)	1,409	-	58,782	67,985	128,176	130,112
Cost of domestic coinage sold	-	90,796	-	-	90,796	87,862
Other expenses	-	-	9,908	2	9,910	2
Total expenses	67,046,165	21,256,751	68,700	67,987	88,439,603	87,251,532
Revenues						
Investment income						
Crown borrowings-interest	-	374,059	-	-	374,059	381,802
Exchange Fund Account-net revenues	-	1,996,259	-	-	1,996,259	2,186,637
Other interest	23,442	3,645	59	-	27,146	35,071
Total investment income	23,442	2,373,963	59	-	2,397,464	2,603,510
Sale of domestic coinage	-	137,903	-	-	137,903	123,172
Guarantee fees	127,556	-	-	-	127,556	109,500
Interest on bank deposits	-	230,741	-	-	230,741	221,582
Unclaimed cheques and other	-	66,844	770	211	67,825	45,916
Net foreign currency gain	18,085	137,438	-	5	155,528	164,436
Revenues earned on behalf of Government (note 27)	(169,083)	(2,946,889)	(829)	(105)	(3,116,906)	(3,268,014)
Total revenues	-	-	-	111	111	102
Net cost from operations	67,046,165	21,256,751	68,700	67,876	88,439,492	87,251,430

a) Transfer payments to provinces and territories

Transfer payments to provinces and territories are paid pursuant to the *Federal-Provincial Fiscal Relations Act, Budget Implementation Acts*, and other statutory authorities.

For the period ending March 31, transfer payments to provinces and territories include the following:

Transfer payments to provinces and territories	2017	2016
	(in thousands of dollars)	
Canada Health Transfer	36,057,581	34,024,618
Fiscal Equalization	17,950,295	17,749,334
Canada Social Transfer	13,347,956	12,959,181
Quebec Abatement	(4,451,002)	(4,451,366)
Territorial Financing	3,602,980	3,561,034
Statutory Subsidies	42,356	34,363
Incentive for Provinces to Eliminate Taxes on Capital	-	24,100
Total transfer payments to provinces and territories	66,550,166	63,901,264

b) Interest on unmatured debt

Interest on unmatured debt includes interest incurred, amortization of debt discounts/premiums, net interest on cross-currency and interest rate swaps.

For the period ending March 31, interest on unmatured debt includes the following:

Interest on unmatured debt	2017	2016
	(in thousands of dollars)	
Interest on domestic debt:		
Marketable bonds	13,047,043	13,908,274
Treasury bills	737,081	861,166
Retail debt	45,421	34,267
Total interest on domestic debt	13,829,545	14,803,707
Interest on foreign debt:		
Marketable bonds	249,167	267,386
Medium term notes	22,189	9,516
Canada bills	27,700	9,825
Total interest on foreign debt	299,056	286,727
Total interest on unmatured debt	14,128,601	15,090,434

c) Interest on superannuation and other accounts

For the period ending March 31, interest on superannuation and other accounts includes the following:

Interest on superannuation and other accounts	2017	2016
	(in thousands of dollars)	
Superannuation accounts	6,711,453	7,227,628
Other specified purpose accounts	192,919	203,274
Retirement compensation arrangement accounts	105,002	105,105
Special drawing rights allocations	16,686	5,788
Canada Pension Plan account	1,288	1,618
Total interest on superannuation and other accounts	7,027,348	7,543,413

The Department funds interest on interest-bearing specified purpose accounts established by all departments and agencies, including superannuation accounts and retirement compensation arrangement accounts established for the benefit of public service employees and members of the Royal Canadian Mounted Police and the Canadian Forces, the Canada Pension Plan Account, and other accounts.

d) Operating expenses

The following table presents details of operating expenses by category:

Operating expenses	2017	2016
	(in thousands of dollars)	
Salaries and wages	76,795	78,407
Professional and special services	13,410	12,267
Accommodation	15,993	13,120
Contribution to employee benefit plans	10,489	11,026
Information services	3,167	8,190
Transportation and telecommunications	2,877	2,560
Amortization of tangible capital assets	1,320	1,371
Machinery and equipment	2,396	1,333
Rentals	1,336	1,201
Repairs and maintenance	372	357
Acquisition of land, buildings and equipment	-	249
Other subsidies and payments	21	31
Total operating expenses	128,176	130,112

27. Revenues earned on behalf of Government

The following table presents details of the revenues earned on behalf of Government:

Revenues earned on behalf of Government	2017	2016
	(in thousands of dollars)	
Crown borrowing-interest	374,059	381,802
Exchange Fund Account-net revenues	1,996,259	2,186,637
Other interest	27,146	35,071
Sale of domestic coinage	137,903	123,172
Guarantee fees	127,556	109,500
Interest on bank deposits	230,741	221,582
Unclaimed cheques and other	67,714	45,814
Net foreign currency gain	155,528	164,436
Total revenues earned on behalf of Government	3,116,906	3,268,014

Revenues earned on behalf of Government represent revenue which the Department cannot re-spend to fund other departmental activities.

28. Comparative information

Comparative figures have been reclassified where necessary to conform to the current year's presentation.

Department of Finance Canada

Annex to the *Statement of Management Responsibility Including Internal Control over Financial Reporting of the Department of Finance Canada for Fiscal Year 2016-17 (Unaudited)*

1. INTRODUCTION

This document provides summary information on the measures taken by the Department of Finance Canada (the Department) to maintain an effective system of internal control over financial reporting (ICFR) as well as information on internal control management assessment results and related action plans.

Detailed information on the Department's authority, mandate and program activities can be found in the Departmental Results Report and *Departmental Plan* (formally referred to as the Departmental Performance Results and the *Report on Plans and Priorities*).

2. DEPARTMENTAL SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING

2.1 Internal control management

The Department has an established governance and accountability structure to support departmental assessment efforts and oversight of its system of internal control.

A departmental internal control framework approved by the Deputy Minister and the Chief Financial Officer (CFO) is in place which includes:

- Accountability structures relating to internal control management to support sound financial management including clear roles and responsibilities for employees in their areas of responsibility for control management;
- Ongoing communication and training on statutory requirements, policies and procedures for sound financial management and control;
- A group dedicated to ICFR under the direction of the CFO with a primary focus on maintaining documentation in support of business processes and associated key risks and control points;
- A risk-based internal audit plan which includes audits and reviews related to business processes assessed under the *Policy on Internal Control*;
- An *Office of Values and Ethics* to provide service and guidance on values and ethics issues, discuss ethical dilemmas in accordance with the *Values and Ethics Code for the Public Sector, Policy on Conflict of Interest and Post-Employment* and the *Department of Finance Code of Conduct* to underline the need for employees to avoid, and if necessary, resolve conflicts of interest between their official duties and their personal interests. Mandatory annual reporting is an important feature of the code;
- A *Disclosure of Wrongdoing Protection Officer*, housed within the *Office of Values and Ethics*, to facilitate protected disclosures of wrongdoing in accordance with the *Public Servants Disclosure Protection Act*;
- Monitoring and regular updates on internal control management plus assessment results and action plans presented to the Departmental Audit Committee (DAC) and senior management; and,
- Advice provided by the DAC to the Deputy Minister on the adequacy and functioning of the Department’s risk management, control and governance frameworks and processes.

2.2 Service arrangements relevant to the financial statements

The Department relies on other organizations for the processing of certain transactions that are recorded in its financial statements.

Common-to-government arrangements:

- Public Services and Procurement Canada (PSPC) centrally administers banking arrangements and related processes, the payment and processing of salaries and the procurement of goods and services consistent with the Department's delegation of authority;
- Treasury Board of Canada Secretariat (TBS) provides the Department with information used to calculate various accruals and allowances, such as loan provisions and the accrued severance liability;
- The Department of Justice provides legal services to the Department; and,
- Shared Services Canada (SSC) provides information technology (IT) infrastructure services in the area of data centre and network services.

Specific departmental arrangements:

- The Bank of Canada has shared responsibility with the Department for maintaining the financial records and accounts for the domestic debt of Canada and the Exchange Fund Account of Canada, for which the Bank acts as fiscal agent. These responsibilities include ensuring all related financial systems and processes are effectively designed and operating;
- Canada Revenue Agency (CRA) provides the financial information used by the Department to determine taxes receivable from CRA under tax collection agreements, including accrual-based methodologies to determine amounts receivable at year-end;
- TBS provides financial management and accounting services for operating expenses, managed through a shared-services arrangement; and,
- TBS provides the Department and other departments with its SAP financial system platform through which is captures and reports on financial transactions. As the service provider, TBS is responsible for ensuring that IT-general controls over the SAP environment are designed and operating effectively. As the client, the Department retains responsibility over certain IT-general controls over the SAP environment, such as user access controls and segregation of duties.

3. DEPARTMENTAL ASSESSMENT RESULTS DURING FISCAL YEAR 2016-17

The key findings and significant adjustments required from the current year's assessment activities are summarized below.

New or significantly amended key controls – in the current year, there were new or significantly amended key controls in existing processes which required a reassessment.

- **Payroll & Benefits**: Following the transition to the new pay center and the Phoenix payroll system, new processes and controls have been implemented to mitigate issues arising from the transition, such as a HR liaison office, internal tracking of pay issues, bi-weekly analysis of pay files and monitoring of under and overpayments. The internal control group is in the process of developing a robust control framework within the Department for pay related transactions. This includes a review of the controls under the Department's responsibilities to validate the design effectiveness of the controls in place.

- **Crown Borrowing Program**: On April 1, 2017, the Department implemented the Treasury & Risk Management (TRM) module within the existing SAP environment. TRM will provide automated accounting and reporting on Crown borrowings. As part of the transition to the new module, the system was tested while under development and design and operational effectiveness testing was performed post-implementation. In addition, pre-existing systems continue to be run in parallel to ensure data integrity.

Ongoing monitoring program

Business process

The Department assesses the design and operational effectiveness of its high-risk business processes on an annual basis as part of its rotational ongoing monitoring program (OGM).

This year, the Department completed its reassessment of entity-level controls, IT-general controls under departmental management and the following business processes:

Key control areas	Assessed level of financial-reporting risk	Approach to assessment
Transfer payments	High	Design and operational effectiveness
Domestic debt	High	Design and operational effectiveness
Crown borrowing	High	Design and operational effectiveness
International organizations	High	Design and operational effectiveness
Official International Reserves	High	Design and operational effectiveness
Domestic coinage	Medium	Design and operational effectiveness
Payroll & benefits	Low	Design effectiveness
Operating expenses	Medium	Operational effectiveness

Based on the work performed, key controls tested performed as intended.

Operating expenses

The Department has implemented a data analytics program in January 2016. This program analyzes accounting and other financial data for anomalies from a compliance and/or process efficiency standpoint using industry-standard data analytics software. The objective of the analysis is to detect operational, and compliance risk. The monitoring report produced quarterly support management in overseeing these activities:

- Travel
- Travel card purchases
- Accounts payable
- Acquisition cards
- Financial monitoring
- Material management contracts and amendments

Service arrangements relevant to the financial statements

- **SAP environment**: Initiated in 2016, the service-provider provides an annual CSAE 3416[1] report prepared by an external auditor on the state of internal controls in the shared SAP environment. The results for this year confirm, with one material exception, that the controls related to the control objectives were appropriately designed and implemented. The only exception noted is in the area of change management relating to an inadequate segregation of duties between the developers and those transporting the changes to production. The Office of the Auditor General (OAG) has concurred with the results of CSAE 3416 report, and has highlighted an additional control weakness related to the timeliness of terminating user accounts, which they deem important for future ITGC reliance.

- **IT Infrastructure:** Following the review of the IT Infrastructure at SSC, OAG followed up on the 2015 management letter observations. Four out of the seven observations, relating to weaknesses in access controls remain unresolved.

- The Department will monitor the progress of the service providers to ensure that these deficiencies are addressed in 2017-18.

[1] The Canadian Standard on Assurance Engagement 3416 (CSAE 3416), Reporting on Controls at a Service Organization, provides the Department with the assurance that the service-provider is maintaining effective and efficient internal controls related to financial, informational, or security reporting. This examination formally designated as CICA 5970 is the Canadian equivalent of the American Institute of CPA (AICPA) SSAE 16 audit compliance standards.

4. DEPARTMENTAL ACTION PLAN

4.1 Progress during fiscal year 2016-17

The Department continued to conduct its ongoing monitoring according to the previous fiscal year's rotational plan as shown in the following table:

Previous year's rotational ongoing monitoring plan for current year	Status
Transfer payments	Completed as planned and no remedial actions required
Domestic debt	Completed as planned and no remedial actions required
Crown borrowing	Completed as planned and no remedial actions required
International organizations	Completed as planned and no remedial actions required
Official International Reserves	Completed as planned and no remedial actions required
Domestic coinage	Completed as planned and no remedial actions required
Operating expenses	Completed as planned and no remedial actions required
Entity-level controls	Completed as planned and no remedial actions required
It-general controls under departmental management	Completed as planned and no remedial actions required

Payroll & Benefits: The review has been added during the year and limited to the design effectiveness of the controls under the Department's responsibility. The review will be ongoing until the operational effectiveness testing is completed.

4.2 Action plan for the next fiscal year and subsequent years

The Department's rotational ongoing monitoring plan over the next three years, based on an annual validation of high risk processes and controls, shown in the following table:

Key control area	Assessed level of financial-reporting risk	2017-18 assessment scope	2018-19 assessment scope	2019-20 assessment scope
Transfer payments	High	Yes	Yes	Yes
Domestic debt	High	Yes	Yes	Yes
Crown borrowing	High	Yes	Yes	Yes
International organizations	High	Yes	Yes	Yes
Official International Reserves	High	Yes	Yes	Yes
Operating expenses	Medium	Yes	Yes	Yes
Domestic coinage	Medium	No	Yes	No
Payroll & benefits	Low	Yes	Yes	Yes

Entity-level and IT-general controls will be validated on an annual basis. Operating expenses are monitored on an ongoing basis under the data analytic program.