



Agriculture and
Agri-Food Canada

Agriculture et
Agroalimentaire Canada

AGRICULTURE AND AGRI-FOOD CANADA

**Consolidated Financial Statements (Unaudited)
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 consolidated financial statements for the year ended March 31, 2017, and all information contained in these statements rests with the management of Agriculture and Agri-Food Canada. These consolidated 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 consolidated financial statements. Some of the information in the consolidated financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of Agriculture and Agri-Food Canada's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in Agriculture and Agri-Food Canada's *Departmental Results Report*, is consistent with these consolidated financial statements.

Management is also responsible for maintaining an effective system of internal control over financial reporting 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 consolidated 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 Agriculture and Agri-Food Canada and through conducting an annual assessment of the effectiveness of the system of internal control over financial reporting.

The system of internal control over financial reporting 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.

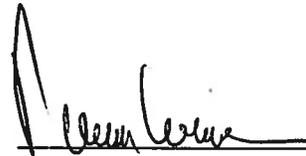
A risk-based assessment of the system of internal control over financial reporting for the year ended March 31, 2017 was completed in accordance with the Treasury Board *Policy on Internal Control* and the results and action plans are summarized in the annex.

The effectiveness and adequacy of Agriculture and Agri-Food Canada's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of Agriculture and Agri-Food Canada's operations, and by the Departmental Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

The consolidated financial statements of Agriculture and Agri-Food Canada have not been audited.



Chris Forbes, Deputy Minister



Pierre Corriveau, Chief Financial Officer

Ottawa, Canada
August 25, 2017

AGRICULTURE AND AGRI-FOOD CANADA

Consolidated Statement of Financial Position (Unaudited)

As at March 31

(in thousands of dollars)

	<u>2017</u>	<u>2016</u>
Liabilities		
Accounts payable and accrued liabilities (Note 4)	\$ 953,494	\$ 833,211
Vacation pay and compensatory leave	26,169	23,781
Deferred revenue (Note 6)	17,518	16,081
Employee future benefits (Note 7)	19,194	24,559
Other liabilities (Note 8)	<u>53,339</u>	<u>54,692</u>
Total liabilities	1,069,714	952,324
Financial assets		
Due from Consolidated Revenue Fund	958,419	830,813
Accounts receivable and advances (Note 9)	39,391	58,986
Loans receivable (Note 10)	<u>265,587</u>	<u>291,131</u>
Total gross financial assets	1,263,397	1,180,930
Financial assets held on behalf of Government		
Accounts receivable and advances (Note 9)	(460)	(663)
Loans receivable (Note 10)	<u>(265,587)</u>	<u>(291,131)</u>
Total financial assets held on behalf of Government	(266,047)	(291,794)
Total net financial assets	<u>997,350</u>	<u>889,136</u>
Departmental net debt	<u>72,364</u>	<u>63,188</u>
Non-financial assets		
Prepaid expenses and inventory	4,729	4,257
Tangible capital assets (Note 11)	<u>412,924</u>	<u>390,485</u>
Total non-financial assets	417,653	394,742
Departmental net financial position (Note 12)	<u>\$ 345,289</u>	<u>\$ 331,554</u>

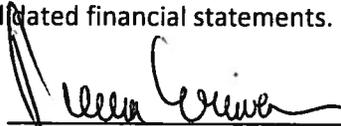
Environmental liabilities (Note 5)

Contractual obligations (Note 13)

Contingencies (Note 14)

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


Chris Forbes, Deputy Minister


Pierre Corriveau, Chief Financial Officer

Ottawa, Canada
August 25, 2017

AGRICULTURE AND AGRI-FOOD CANADA

Consolidated Statement of Operations and Departmental Net Financial Position (Unaudited)

For the year ended March 31

(in thousands of dollars)

	<u>2017</u>	<u>2017</u>	<u>2016</u>
	Planned Results		
Expenses			
Business Risk Management	\$ 1,319,606	\$ 1,317,160	\$ 987,100
Science, Innovation, Adoption and Sustainability	509,637	535,343	548,574
Industry Capacity	90,812	414,511	63,493
Internal Services	254,600	286,613	257,271
Market Access, Negotiations, Sector Competitiveness, and Assurance Systems	163,157	151,468	197,668
Canadian Pari-Mutuel Agency	10,279	9,350	8,531
Farm Products Council of Canada	2,993	2,813	3,074
Expenses Incurred on behalf of Government	<u>(11)</u>	<u>(28)</u>	<u>(11)</u>
	2,351,073	2,717,230	2,065,700
Revenues			
Sale of goods and services	71,573	75,163	79,351
Interest	14,547	12,666	13,097
Crop Reinsurance Fund	1,500	1,409	1,375
Joint project and cost sharing agreements	6,505	7,067	5,953
Gain on disposal of assets	2,527	3,844	4,549
Revenues earned on behalf of Government	<u>(30,174)</u>	<u>(33,842)</u>	<u>(33,861)</u>
	66,478	66,307	70,464
Net cost of operations before government funding and transfers	2,284,595	2,650,923	1,995,236
Government funding and transfers			
Net cash provided by Government		2,480,484	1,956,536
Change in due from Consolidated Revenue Fund		127,606	8,864

AGRICULTURE AND AGRI-FOOD CANADA

Consolidated Statement of Operations and Departmental Net Financial Position (Unaudited)

For the year ended March 31

(in thousands of dollars)

	<u>2017</u>	<u>2016</u>
Services provided without charge by other government departments (Note 15)	56,552	56,181
Transfer of the transition payments for implementing salary payments in arrears	(1)	(103)
Transfer of assets from other government departments	<u>17</u>	<u>275</u>
Net cost of operations after government funding and transfers	(13,735)	(26,517)
Departmental net financial position - Beginning of year	331,554	305,037
Departmental net financial position - End of year	<u>\$ 345,289</u>	<u>\$ 331,554</u>

Segmented information (Note 16)

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

AGRICULTURE AND AGRI-FOOD CANADA

Consolidated Statement of Change in Departmental Net Debt (Unaudited)

For the year ended March 31

(in thousands of dollars)

	<u>2017</u>	<u>2016</u>
Net cost of operations after government funding and transfers	\$ (13,735)	\$ (26,517)
Change due to tangible capital assets (Note 11)		
Acquisition of tangible capital assets	87,380	62,923
Amortization of tangible capital assets	(40,885)	(39,073)
Proceeds from disposal of tangible capital assets	(4,347)	(5,844)
Net (loss) or gain on disposal of tangible capital assets including adjustments	(19,363)	3,288
Non-cash changes of tangible capital assets	(363)	(25)
Transfer from other government departments	<u>17</u>	<u>275</u>
Total change due to tangible capital assets	<u>22,439</u>	<u>21,544</u>
Change due to prepaid expenses and inventory	472	(428)
Net increase (decrease) in departmental net debt	9,176	(5,401)
Departmental net debt - Beginning of year	63,188	68,589
Departmental net debt - End of year	<u>\$ 72,364</u>	<u>\$ 63,188</u>

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

AGRICULTURE AND AGRI-FOOD CANADA

Consolidated Statement of Cash Flows (Unaudited)

For the year ended March 31

(in thousands of dollars)

	<u>2017</u>	<u>2016</u>
Operating activities		
Net cost of operations before government funding and transfers	\$ 2,650,923	\$ 1,995,236
Non-cash items:		
Amortization of tangible capital assets	(40,885)	(39,073)
Gain (Loss) on disposal of tangible capital assets	(19,363)	3,288
Non-cash changes of tangible capital assets	(363)	(25)
Services provided without charge by other government departments (Note 15)	(56,552)	(56,181)
Transition payments for implementing salary payments in arrears	1	103
Variations in Consolidated Statement of Financial Position:		
Increase (decrease) in accounts receivable and advances	(19,392)	11,160
Increase (decrease) in prepaid expenses and inventory	472	(428)
Decrease (increase) in accounts payable and accrued liabilities	(120,283)	(15,044)
Decrease (increase) in vacation pay and compensatory leave	(2,388)	637
Decrease (increase) in deferred revenue	(1,437)	(4,476)
Decrease (increase) in employee future benefits	5,365	1,925
Decrease (increase) in other liabilities	<u>1,353</u>	<u>2,335</u>
Cash used in operating activities	2,397,451	1,899,457
Capital investing activities		
Acquisition of tangible capital assets	87,380	62,923
Proceeds from disposal of tangible capital assets	<u>(4,347)</u>	<u>(5,844)</u>
Cash used in capital investing activities	83,033	57,079
Net cash provided by Government of Canada	<u>\$ 2,480,484</u>	<u>\$ 1,956,536</u>

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

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

Note 1 - Authority and objectives

The Department of Agriculture and Agri-Food was established in 1868. Under the *Department of Agriculture and Agri-Food Act*, the Minister is responsible for agriculture, products derived from agriculture and research related to agriculture, and products derived from agriculture including the operation of experimental farm stations unless they have been assigned by law to another department, board, or agency.

The Department provides information, research and technology, and policies and programs to achieve security of the food system, health of the environment and innovation for growth.

Business Risk Management

Agriculture and Agri-Food Canada has a comprehensive suite of Business Risk Management programs to better equip producers with the tools and capacity to manage business risks. This suite provides support for income losses, a disaster-relief framework and insurance to protect farmers against production losses due to uncontrollable natural hazards, as well as research, development, implementation, and administration of new agricultural risk management tools. In addition to the Business Risk Management suite, Agriculture and Agri-Food Canada provides producers with the ability to market their products when conditions and prices may be more favourable through loan guarantee programs.

Science, Innovation, Adoption and Sustainability

Agriculture and Agri-Food Canada contributes to innovation and sustainability of the agriculture, agri-food and agri-based products sector through science and associated activities designed to improve profitability in new and existing products, services, processes, and markets. Agriculture and Agri-Food Canada provides research, development and knowledge transfer that enhances the sector's resiliency, fosters new areas of opportunity for the sector and supports sector competitiveness, as well as coordinated and informed decision making. Agriculture and Agri-Food Canada promotes integrated planning, engaging industry, government and academia, and collaborative action to accelerate the flow of science and technology along the innovation continuum in support of industry-defined strategies for future success. Farmers, agri-entrepreneurs and agri-based enterprises are supported in their efforts to adopt new technologies and commercialize new products and services. Pathfinding and transformational research help to define future sustainable opportunities and prepare the sector for emerging opportunities and challenges.

Industry Capacity

This program helps build capacity of the sector and businesses to sustainably succeed in a market-driven and competitive world. The program encourages the use of sound business management practices, while also enabling businesses in the sector to understand their financial situation, be profitable and invest where needed. It provides for enhanced participation by young or new entrants, First Nations clients, and clients in specific sub-sectors in transition. The program also supports the sector and its businesses to improve access to key infrastructure.

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

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

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; Material Services; and Acquisition Services.

Market Access, Negotiations, Sector Competitiveness, and Assurance Systems

Agriculture and Agri-Food Canada supports and equips industry for commercial success in order to maximize the sector's long-term profitability and competitiveness. In pursuing this objective, and in close collaboration with the Canadian agriculture, agri-food and agri-based products sector, Agriculture and Agri-Food Canada works to enhance access to markets, facilitates industry-led activities aimed at developing international markets and assurance systems, and provides information to help position industry to capitalize on market opportunities both at home and abroad. Assurance systems include systems, standards and tools for food safety, biosecurity, traceability, surveillance, animal welfare, and other market attributes.

Canadian Pari-Mutuel Agency

Section 204 of the *Criminal Code of Canada* designates the Minister of Agriculture and Agri-Food responsible for making the regulations that direct the lawful conduct of pari-mutuel betting in Canada on horse racing. The Canadian Pari-Mutuel Agency is a special operating agency within Agriculture and Agri-Food Canada that approves and supervises pari-mutuel betting conducted at racetracks and betting theatres across Canada, with the objective of ensuring that betting is conducted in a way that is fair to the betting public. Costs associated with the activities of the Canadian Pari-Mutuel Agency are recovered through a levy on every dollar bet in Canada on horse races. The levy is currently set at eight-tenths of a cent of every dollar bet. Canadian Pari-Mutuel Agency's strategic plans are focused on regulating and supervising pari-mutuel betting on horse races in the most modern, effective and transparent manner.

Farm Products Council of Canada

Established under the *Farm Products Agencies Act*, the Farm Products Council of Canada is an oversight body that reports to Parliament through the Minister of Agriculture and Agri-Food (the Minister). The *Farm Products Agencies Act* provides for the creation of national marketing agencies, which are not subject to the *Competition Act*, as well as promotion and research agencies. The Farm Products Council of Canada supervises these agencies, and works with them to ensure that the supply management system for poultry and eggs and promotion-research activities for beef cattle work in the balanced interest of all stakeholders, from producers to consumers, and can evolve to respond to current and future challenges. The Farm Products Council of Canada also provides advice and recommendations to the Minister, collaborates with provincial supervisory boards and actively works with the Department and Agriculture and Agri-Food portfolio organizations.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

Note 2 - Summary of significant accounting policies

These consolidated 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 Consolidated Statement of Operations and Departmental Net Financial Position and in the Consolidated 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 Consolidated Statement of Operations and Departmental Net Financial Position are the amounts reported in the Consolidated 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 Consolidated Statement of Operations and Departmental Net Financial Position and in the Consolidated Statement of Change in Departmental Net Debt because these amounts were not included in the *2016-17 Report on Plans and Priorities*.
- (b) Consolidation – These consolidated financial statements include the accounts of the sub-entities that the Deputy Minister is accountable for. The accounts of these sub-entities have been consolidated with those of the Department and all inter-organizational balances and transactions have been eliminated. The accounting entity comprises the Department of Agriculture and Agri-Food, the Farm Products Council of Canada and the Canadian Pari-Mutuel Agency. The consolidated financial statements do not include the accounts of the Canadian Grain Commission, the Canadian Dairy Commission and Farm Credit Canada because they are not under the control of Agriculture and Agri-Food Canada and therefore are not consolidated.
- (c) Net Cash Provided by Government – The Department operates within the Consolidated Revenue Fund, which is administered by the Receiver General for Canada. All cash received by the Department is deposited to the Consolidated Revenue Fund, and all cash disbursements made by the Department are paid from the Consolidated Revenue Fund. The net cash provided by Government is the difference between all cash receipts and all cash disbursements, including transactions between departments of the Government.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

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

(e) Revenues

- Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.
- Funds received from external parties for specified purposes are recorded upon receipt as deferred revenue. These revenues are recognized in the period in which the related expenses are incurred.
- Funds that have been received are recorded as deferred revenue, provided the Department has an obligation to other parties for the provision of goods, services or the use of assets in the future.
- Other revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenue takes place.
- Revenues that are non-respendable are not available to discharge the Department's liabilities.

While the Deputy Minister is expected to maintain accounting control, he or she 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 to the entity's gross revenues.

(f) Expenses – Expenses are recorded on the accrual basis

- Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met all eligibility criteria and 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 consolidated financial statements. Transfer payments that become repayable as a result of conditions specified in the contribution agreement that have come into being are recorded as a reduction to transfer payment expense and as a receivable.
- 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 the employer's contribution to the health and dental insurance plans, accommodation, legal services, and workers' compensation are recorded as operating expenses at their estimated cost.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

- (g) Employee future benefits
 - (i) Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multiemployer 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 consolidated financial statements of the Government of Canada, as the Plan's sponsor.
 - (ii) 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.
- (h) Accounts and loans receivable are stated at the lower of cost and net recoverable value. However, when the terms of the loans are concessionary, such as those provided with a low or no interest clause, they are recorded at their estimated present value. A portion of the unamortized discount is recorded as revenue each year to reflect the change in the present value of the loans outstanding. Transfer payments that are unconditionally repayable are recognized as loans receivable. A valuation allowance is recorded for accounts and loans receivable where recovery is considered uncertain.
- (i) Contingencies – Contingencies are potential recoveries or liabilities which may become actual recoveries or liabilities when one or more future events occur or fail to occur.
 - (i) Contingent liabilities – 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 if an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the consolidated financial statements.
 - (ii) Contingent recoveries – Contingent recoveries are not accrued in consolidated financial statements. However, a contingent recovery which is considered likely to be realized is disclosed in the notes to the consolidated financial statements.
- (j) Loan and price guarantees – An allowance on loans or price guarantees is recorded in the accounts when it is likely that a payment will be made to honour a guarantee and where the amount of the anticipated loss can be reasonably estimated. The amount of the allowance for losses is determined based on historical loss experience and economic conditions adversely affecting the capacity of borrowers to reimburse the loan. The allowance is reviewed on a regular basis with any changes being charged or credited to current year expenses.
- (k) Environmental liabilities consist of estimated costs related to the remediation of contaminated sites.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

Contaminated Sites – A liability for remediation of contaminated sites is recognized when all of the following criteria are satisfied: an environmental standard exists, contamination exceeds the environmental standard, the Department is directly responsible or accepts responsibility, it is expected that future economic benefits will be given up and a reasonable estimate of the amount can be made. The liability reflects the Department's best estimate of the amount required to remediate the sites to the current minimum standard for its use prior to contamination. When the cash flows required to settle or otherwise extinguish a liability are expected to occur over extended future periods, a present value technique is used. The discount rate applied is taken from the government's consolidated revenue fund monthly lending rates for periods of one year and over which is based on the Government's cost of borrowing. The discount rates used are based on the term rate associated with the estimated number of years to complete remediation. For remediation costs with estimated future cash flows spanning more than 25 years, the Government of Canada's 25-year Consolidated Revenue Fund lending rate is used as the discount rate.

The recorded environmental liabilities are adjusted each year, as required, for present value adjustments, inflation, new obligations, changes in management estimates and actual costs incurred.

If the likelihood of the Department's responsibility is not determinable, a contingent liability is disclosed in the notes to the financial statements. If measurement uncertainty exists, it is also disclosed in the notes to the financial statements.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

- (l) Tangible capital assets – All tangible capital assets and leasehold improvements having an initial cost of \$10,000 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, and museum collections. Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the asset as follows:

Asset Class	Amortization Period
Buildings	20 to 30 years
Works and infrastructure	15 to 40 years
Machinery and equipment	5 to 20 years
Vehicles	7 to 25 years
Computer hardware and software	3 to 5 years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement

Assets under construction are recorded in the applicable capital asset class in the year that they become available for use and are not amortized until they become available for use.

- (m) Measurement uncertainty – The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the consolidated 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, allowance for loan guarantees, the useful life of tangible capital assets, the liability for employee future benefits, and environmental liabilities. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the consolidated financial statements in the year they become known.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

Note 3 - Parliamentary authorities

The Department receives most of its funding through annual parliamentary authorities. Items recognized in the Consolidated Statement of Operations and Departmental Net Financial Position and the Consolidated 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

	<u>2017</u>	<u>2016</u>
Net cost of operations before government funding and transfers	\$ 2,650,923	\$ 1,995,236
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets	(40,885)	(39,073)
Gain (Loss) on disposal of tangible capital assets	(19,363)	3,288
Non-cash changes of tangible capital assets	(363)	(25)
Services provided without charge by other government departments	(56,552)	(56,181)
Increase (decrease) in prepaid and inventory	472	(428)
Decrease (increase) in vacation pay and compensatory leave	(2,388)	637
Decrease (increase) in accrued liabilities	(803)	(14,305)
Decrease (increase) in employee future benefits	5,461	1,625
Decrease (increase) in allowances for bad debt expenses	(14,664)	(10,990)
Refund and adjustment of prior years' expenditures	(2,784)	4,846
Respendable revenue	5,531	6,436
Other	<u>8,416</u>	<u>31,632</u>
	(117,922)	(72,538)
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisitions of tangible capital assets	87,380	62,923
Proceeds from disposal of tangible capital assets	(4,347)	(5,844)
Increase (decrease) in accounts receivable and advances	2,374	-
Increase (decrease) in loan receivables	(3,499)	(51,470)
Transition payments for implementing salary payments in arrears	<u>1</u>	<u>103</u>
	81,909	5,712
Current year authorities used	<u>\$ 2,614,910</u>	<u>\$ 1,928,410</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

(b) Authorities provided and used

	<u>2017</u>	<u>2016</u>
Authorities provided:		
Vote 1 - Operating expenditures	\$ 913,242	\$ 577,702
Vote 5 - Capital expenditures	97,479	55,490
Vote 10 - Transfer payments	373,327	435,756
Statutory amounts	<u>1,319,899</u>	<u>971,937</u>
	2,703,947	2,040,885
Less:		
Authorities available for future years	18,519	18,932
Lapsed authorities	<u>70,518</u>	<u>93,543</u>
	89,037	112,475
Current year authorities used	<u>\$ 2,614,910</u>	<u>\$ 1,928,410</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

Note 4 - Accounts payable and accrued liabilities

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

	<u>2017</u>	<u>2016</u>
Accounts payable to other government departments and agencies	\$ 9,825	\$ 10,227
Accounts payable to external parties	<u>900,816</u>	<u>772,278</u>
Total accounts payable	910,641	782,505
Accrued liabilities	<u>42,853</u>	<u>50,706</u>
Total accounts payable and accrued liabilities	<u><u>\$ 953,494</u></u>	<u><u>\$ 833,211</u></u>

At March 31, 2017, the Department has recorded an obligation for termination benefits in the amount of \$2,816,000 (\$5,606,000 in 2015-16) as part of accrued liabilities to reflect the cost saving measures announced in 2012.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

Note 5 – Environmental liabilities

Remediation of contaminated sites:

The government has developed a “Federal Approach to Contaminated Sites”, which incorporates a risk-based approach to the management of contaminated sites. Under this approach the Government has inventoried the contaminated sites on federal lands that have been identified, allowing them to be classified, managed and recorded in a consistent manner. This systematic approach aides in the identification of the high risk sites in order to allocate limited resources to those sites which pose the highest risk to the environment and human health.

The Department has identified a total of 149 sites (275 sites in 2016) where contamination may exist and assessment, remediation and monitoring may be required. Of these, the Department has identified 14 sites (17 sites in 2016) where action is possible and for which a liability of \$1,693,389 (\$2,223,119 in 2016) has been recorded. This liability estimate has been determined after the sites are assessed and is based on environmental experts reviewing the results of site assessments, and proposing possible remediation solutions.

In addition, a model based on the average of historical costs incurred for contaminated sites with similar functions was used to estimate the liability for unassessed sites. As a result, there are 50 unassessed sites (67 sites in 2016) where a liability estimate of \$1,729,699 (\$2,613,622 in 2016) has been recorded using this model.

These two estimates combined, totalling \$3,423,088 (\$4,836,741 in 2016) represent management’s best estimate of the costs required to remediate the 64 sites (84 sites in 2016) to the current minimum standard for its use prior to contamination, based on information available at the financial statement date.

Of the remaining 85 sites (191 sites in 2016), no liability for remediation has been recognized. Some of these sites are closed and some are at various stages of testing and evaluation and if remediation is required, liabilities will be reported as soon as a reasonable estimate can be determined. For other sites, the Department does not expect to give up any future economic benefits (there is likely no significant environmental impact or human health threats). These sites will be re-examined and a liability for remediation will be recognized if future economic benefits will be given up.

The following table presents the total estimated amounts of these liabilities by nature and source, the associated expected recoveries and the total undiscounted future expenditures as at March 31, 2017, and March 31, 2016. When the liability estimate is based on a future cash requirement, the amount is adjusted for inflation using a forecast CPI rate of 2%. Inflation is included in the undiscounted amount. The Government of Canada lending rate applicable to loans with similar terms to maturity has been used to discount the estimated future expenditures. The March 2017 rates range from 0.89% for 2 year term to 2.55% for a 25 or greater year term.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

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(tabular amounts in thousands of dollars)

Nature and Source of Liability								
Nature and Source	Number of Sites 2017	Estimated Liability 2017	Estimated Total Undiscounted Expenditures 2017	Estimated Recoveries 2017	Number of Sites 2016	Estimated Liability 2016	Estimated Total Undiscounted Expenditures 2016	Estimated Recoveries 2016
Fuel Related Practices ⁽¹⁾	40	1,689	1,717	-	38	1,397	1,415	-
Landfills/Waste Sites ⁽²⁾	13	604	612	-	37	2,095	2,123	-
Engineered Asset/Air & Land Transportation ⁽³⁾	2	325	328	-	1	304	308	-
Other ⁽⁴⁾	9	805	821	-	8	1,041	1,059	-
Totals	64	3,423	3,478	-	84	4,837	4,905	-

1. Contamination primarily associated with fuel storage and handling, e.g., accidental spills related to fuel storage tanks or former fuel handling practices, e.g. petroleum hydrocarbons, polyaromatic hydrocarbons and BTEX.
2. Contamination associated with former landfill/waste site or leaching from materials deposited in the landfill/waste site, e.g. metals, petroleum hydrocarbons, polyaromatic hydrocarbons, BTEX, other organic contaminants, etc.
3. Contamination associated with the operations of engineered assets such as airports, railways and roads where activities such as, fuel storage/handling, waste sites, firefighting training facilities and chemical storage areas resulted in former or accidental contamination, e.g. metals, petroleum hydrocarbons, polyaromatic hydrocarbons, BTEX and other organic contaminants. Sites often have multiple sources of contamination.
4. Contamination from other sources, e.g. use of pesticides, herbicides, fertilizers at agricultural sites; use of PCBs, firefighting training areas, firing ranges and training facilities, etc.

The Department's ongoing efforts to assess contaminated sites may result in additional environmental liabilities. Any additional liabilities will be accrued in the year in which they become known and can be reasonably estimated.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

Note 6 - Deferred revenue

Deferred revenue represents the balance at year-end of unearned revenues stemming mainly from joint collaborative agreements and cost-sharing agreements which are restricted to fund the expenditures related to specific research projects and amounts received for fees prior to services being performed. Revenue is recognized in the period that these expenditures are incurred or the service is performed. Details of the transactions related to this account are as follows:

	<u>2017</u>	<u>2016</u>
Opening balance	\$ 16,081	\$ 11,605
Amounts received	8,518	10,782
Revenue recognized	<u>(7,081)</u>	<u>(6,306)</u>
Closing balance	<u>\$ 17,518</u>	<u>\$ 16,081</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

Note 7 - 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 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 2016-17 expense amounts to \$40,169,194 (\$40,738,085 in 2015-16). For Group 1 members, the expense represents approximately 1.12 times (1.25 times in 2015-16) the employee contributions and, for Group 2 members, approximately 1.08 times (1.24 times in 2015-16) 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 Consolidated 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:

	<u>2017</u>	<u>2016</u>
Accrued benefit obligation - Beginning of year	\$ 24,559	\$ 26,484
Expense for the year	(2,278)	3,223
Benefits paid during the year	<u>(3,087)</u>	<u>(5,148)</u>
Accrued benefit obligation - End of year	<u>\$ 19,194</u>	<u>\$ 24,559</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

Note 8 - Other liabilities

The Department holds funds in trust from the AgrilInvest program, the AgriStability program as well as security and other deposits.

AgrilInvest is a producer savings account program that replaces the coverage for smaller income declines that was provided by previous programs. Program payments are cost-shared with the province or territory which producers can withdraw under specific terms and conditions. Since 2010, producers now make their AgrilInvest deposits at a participating financial institution of their choice. As such, existing funds held by the federal government are being transferred to the producers' AgrilInvest accounts held at the financial institutions.

The AgriStability program helps producers protect their farming operations against larger drops in income. Program payments are shared 60% federally and 40% provincially/territorially. The provincial/territorial share of the contributions and interest paid on the contributions are held in a specified purpose account until the producers draw down their funds.

AgrilInvest, AgriStability and security and other deposit account activity during the year was as follows:

	<u>2017</u>	<u>2016</u>
Opening balance	\$ 54,692	\$ 57,027
Deposits	297,052	273,649
Withdrawals	<u>(298,405)</u>	<u>(275,984)</u>
Ending balance	<u>\$ 53,339</u>	<u>\$ 54,692</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

Note 9 - Accounts receivable and advances

The following table presents details of the Department's accounts receivable and advances balances:

	<u>2017</u>	<u>2016</u>
Receivables from other government departments and agencies	\$ 17,033	\$ 20,293
Receivables from external parties	46,320	68,489
Employee advances	<u>75</u>	<u>141</u>
Subtotal	63,428	88,923
Allowance for doubtful accounts on receivables from external parties	<u>(24,037)</u>	<u>(29,937)</u>
Gross accounts receivable	<u>39,391</u>	<u>58,986</u>
Accounts receivable held on behalf of Government	505	694
Allowance for doubtful accounts held on behalf of Government	<u>(45)</u>	<u>(31)</u>
Net accounts receivable held on behalf of Government	<u>460</u>	<u>663</u>
Net accounts receivable	<u>\$ 38,931</u>	<u>\$ 58,323</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

Note 10- Loans receivable

The following table presents details of the Department's loans receivable balances:

	<u>2017</u>	<u>2016</u>
Transfer payments recoverable	\$ 135,517	\$ 118,235
Loans resulting from loan guarantee programs	<u>306,855</u>	<u>393,126</u>
Subtotal	442,372	511,361
Less: Allowance for uncollectibility	<u>(176,785)</u>	<u>(220,230)</u>
Gross loans receivable	<u>265,587</u>	<u>291,131</u>
Loans receivable held on behalf of Government	<u>265,587</u>	<u>291,131</u>
Net loans receivable	<u>\$ -</u>	<u>\$ -</u>

(a) Transfer payments recoverable

Transfer payments recoverable relate to contributions made to outside parties which are repayable based on conditions specified in the contribution agreement that have come into being. An allowance of \$14,532,000 (\$10,058,000 in 2016) has been recorded.

(b) Loans resulting from loan guarantee programs

The Department's loan receivables are the result of the exercise of loan guarantees by the initial lender under the terms of various loan guarantee programs. These loans are in default with the initial lender and due immediately to the Department. Interest rates on these loans vary according to the initial terms of the loans and applicable government regulations. An allowance of \$162,253,000 (\$210,172,000 in 2016) relating to these loans has been recorded.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

Note 11 - Tangible capital assets

Capital Asset Class	Cost					Closing Balance
	Opening Balance	Acquisitions	Adjustments ⁽¹⁾	Disposals and Write-Offs		
Land	\$ 12,497	\$ -	\$ 598	\$ 173	\$ 12,922	
Buildings	660,866	200	25,464	5,063	681,467	
Works and infrastructure	63,398	-	10,530	36,801	37,127	
Machinery and equipment	215,612	14,486	(98)	4,496	225,504	
Vehicles	70,196	2,359	-	4,718	67,837	
Leasehold improvements	29,092	-	233	113	29,212	
Computer hardware and software	49,944	192	(21)	176	49,939	
Assets under construction	<u>37,401</u>	<u>70,143</u>	<u>(37,056)</u>	<u>4</u>	<u>70,484</u>	
	\$ 1,139,006	\$ 87,380	\$ (350)	\$ 51,544	\$ 1,174,492	

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

Accumulated Amortization

Capital Asset Class	Opening Balance	Amortization	Adjustments ⁽¹⁾	Disposals and Write-Offs	Closing Balance
Land	\$ -	\$ -	\$ -	\$ -	\$ -
Buildings	466,746	18,626	118	4,354	481,136
Works and infrastructure	29,792	1,782	(119)	14,333	17,122
Machinery and equipment	141,381	12,604	5	4,315	149,675
Vehicles	46,047	4,538	-	4,545	46,040
Leasehold improvements	20,751	1,257	-	114	21,894
Computer hardware and software	43,804	2,078	(8)	173	45,701
Assets under construction	-	-	-	-	-
	<u>\$ 748,521</u>	<u>\$ 40,885</u>	<u>\$ (4)</u>	<u>\$ 27,834</u>	<u>\$ 761,568</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

Net Book Value

Capital Asset Class	2017	2016
Land	\$ 12,922	\$ 12,497
Buildings	200,331	194,120
Works and infrastructure	20,005	33,606
Machinery and equipment	75,829	74,231
Vehicles	21,797	24,149
Leasehold improvements	7,318	8,341
Computer hardware and software	4,238	6,140
Assets under construction	70,484	37,401
	<u>\$ 412,924</u>	<u>\$ 390,485</u>

- (1) Adjustments of \$37,056,000 include assets under construction of \$36,833,000 that were transferred to the other categories upon completion of the assets.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

Note 12 – Departmental net financial position

A portion of the Department's net financial position is used for a specific purpose. Related revenues and expenses are included in the Consolidated Statement of Operations and the Departmental Net Financial Position. The Department operates two programs which under legislation require that the revenues be earmarked to offset the expenses of the program.

The Crop Reinsurance Fund was established pursuant to the *Farm Income Protection Act* and provides insurance to participating provinces for costs they incur in operating crop insurance programs. The fund records receipts and disbursements under the terms of reinsurance agreements. When there are insufficient revenues to meet payments, the Minister of Finance may authorize an advance of additional funds to cover these obligations.

The Agricultural Commodities Stabilization Accounts were established pursuant to the *Agricultural Stabilization Act*, under which the commodity accounts formerly operated, and has since been repealed and replaced by the *Farm Income Protection Act* effective April 1, 1991. The purpose of these accounts was to reduce income loss to producers from market risks through stabilizing prices. Premiums were shared equally by the Government of Canada, the governments of participating provinces and participating producers. Current activities are limited to collection of accounts receivable.

Activity in the accounts is as follows:

	<u>2017</u>	<u>2016</u>
Crop Reinsurance Fund - Restricted		
Balance - Beginning of year	\$ 295,453	\$ 294,078
Revenues	1,409	1,375
Expenses	<u>-</u>	<u>-</u>
Balance – End of year	296,862	295,453
Agricultural Commodities Stabilization Accounts - Restricted	647	647
Unrestricted	<u>47,780</u>	<u>35,454</u>
Departmental net financial position - End of year	<u>\$ 345,289</u>	<u>\$ 331,554</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

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(tabular amounts in thousands of dollars)

Note 13 - 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 payment programs. Significant non revocable contractual obligations that can be reasonably estimated are summarized as follows:

	2018	2019	2020	2021	2022 and thereafter	Total
Transfer payments	\$ <u>322,757</u>	\$ <u>6,627</u>	\$ <u>4,948</u>	\$ <u>4,296</u>	\$ <u>-</u>	\$ <u>338,628</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

Note 14 – Contingencies

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

(a) Claims and litigation

Claims have been made against the Department in the normal course of operations. These claims include items with pleading amounts and other for which no amount is specified. While the total amount claimed in these actions is significant, their outcomes are not determinable. The Department has also been named in other legal claims against the Government of Canada, related to the agricultural industry, for which amounts and likelihood of liability cannot be determined. The limited disclosure regarding the contingent liabilities for legal claims recognized by the Department is a direct reflection of the sensitivity and status of on-going claims.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

(b) Loan or price guarantees

	Authorized Limit	Outstanding Guarantees		Allowance as at March 31	
		2017	2016	2017	2016
Loans according to the Advance Payments Program under the <i>Agricultural Marketing Programs Act</i>	\$ 5,000,000	\$1,245,811	\$ 1,164,648	\$35,245	\$ 38,786
Loans to farmers under the <i>Canadian Agricultural Loans Act</i>	3,000,000	103,675	104,116	1,037	1,041
Price guarantee agreements with marketing agencies pursuant to the Price Pooling Program under the <i>Agricultural Marketing Programs Act</i>	No limit	-	839	-	-
National Biomass Ethanol Program	140,000	19,639	24,960	-	-
		<u>\$ 1,369,125</u>	<u>\$ 1,294,563</u>	<u>\$ 36,282</u>	<u>\$ 39,827</u>

AGRICULTURE AND AGRI-FOOD CANADA

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The allowance for losses is the amount recorded for estimated losses on outstanding loan guarantees and which is included in accrued liabilities. No allowance has been recorded for the Price Pooling Program of the *Agricultural Marketing Programs Act* and for the National Biomass Ethanol Program as no costs are likely to occur.

Under the Advance Payments Program of *Agricultural Marketing Programs Act*, the Department guarantees the repayment of advances made by producer organizations to farmers in the spring and in the fall, creating a more stable business environment. The maximum cash advance of the program is \$400,000. The loans generally have a repayment term of 18 to 24 months.

Under the *Canadian Agricultural Loans Act*, the Department guarantees loans by financial institutions to farmers for improvement and development of farms, and the processing, distribution or marketing of farm products. This program guarantees 95 percent of the value of loans provided to farms and co-operatives by financial institutions. For individual applicants, including corporations, the maximum amount for a *Canadian Agricultural Loans Act* loan is \$500,000. Most loans are repayable within ten years. For loans on land purchases, the repayment period is 15 years.

Under the Price Pooling Program of the *Agricultural Marketing Programs Act*, the Department provides a price guarantee that protects marketing agencies and producers against unanticipated declines in the market price of their products.

The Minister of Agriculture and Agri-Food is authorized to guarantee Line of Credit Agreements entered into by Farm Credit Canada under the National Biomass Ethanol Program.

(c) Transfer payments - Conditionally repayable contributions

Under the Ruminant Slaughter Loan Loss Reserve Program, which ended in 2007, there were no conditionally repayable contributions outstanding in 2017, in comparison to \$1,149,613 outstanding in 2016. The funds contributed and accumulated interest are repayable within 10 years and no later than December 31, 2017, net of the amounts used to cover a portion of the loan defaults.

Under the EcoAgriculture Biofuels Capital Initiative, conditionally repayable contributions which are outstanding in 2017 total \$55,627,141 (\$55,941,084 in 2016). Repayments are determined by a project's profitability, and have a maximum repayment period of 10 years and no later than March 31, 2023.

Under the Slaughter Improvement Program, conditionally repayable contributions which are outstanding in 2017 total \$38,263,447 (\$42,153,401 in 2016). Repayments are determined by a project's profitability, and have a maximum repayment period of 10 years. The final payment is due no later than June 1, 2024.

AGRICULTURE AND AGRI-FOOD CANADA

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(tabular amounts in thousands of dollars)

Under the Slaughter Waste Innovation Program, conditionally repayable contributions which are outstanding in 2017 total \$18,417,207 (\$19,803,077 in 2016). Repayments are determined by a project's profitability as well as whether and how a project demonstrates the destruction or deactivation of Specified Risk Material. Contributions have a maximum repayment period of 10 years and the final payment is due no later than March 31, 2024.

As these are conditionally repayable contributions, the amounts that will become repayable cannot be currently estimated as contribution agreements are subject to specific program requirements, which require annual determinations as to the value which must be repaid each year. Thus, to forecast a specific amount repayable each year is not possible due to the varying factors facing each recipient as it relates to their economic and production performances.

(d) Contingent recoveries

AgriStability and Canadian Agricultural Income Stabilization programs are federally and provincially/territorially cost shared programs and Canadian Agricultural Income Stabilization Inventory Transition Initiative is a federally funded program. When provincial/territorial governments deliver these programs and overpayments occur, the federal government is entitled to recover its share of funding if and when overpayments are recovered. The Department has estimated the contingent recoverable amount as \$7,936,598 (\$8,810,176 in 2016). Contingent recoveries are not recorded in the consolidated financial statements.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

Note 15 - 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. During the year, the Department received common services which were obtained without charge from other Government departments as disclosed below.

(a) Common services provided without charge by other government departments

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

	<u>2017</u>	<u>2016</u>
Employer's contribution to the health and dental insurance plans	\$ 35,514	\$ 33,232
Accommodation	18,986	20,828
Legal services	995	1,034
Workers' compensation	<u>1,057</u>	<u>1,087</u>
	<u>\$ 56,552</u>	<u>\$ 56,181</u>

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 costs 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 Consolidated Statement of Operations and Departmental Net Financial Position.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

(b) Other transactions with related parties

	<u>2017</u>	<u>2016</u>
Expenses - Other Government departments and agencies	\$ 177,635	\$ 138,372
Revenues - Other Government departments and agencies	\$ 18,351	\$ 17,044

Expenses and revenues disclosed in (b) exclude common services provided without charge, which are already disclosed in (a).

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

Note 16 - 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:

*	BRM	SIA&S	IC	IS	MANSC&AS	CPMA	FPCC	2017 Total	2016 Total
Expenses									
Transfer payments	\$ 1,245,645	\$ 155,914	\$ 41,758	\$ -	\$ 88,575	\$ -	\$ -	\$ 1,531,892	\$ 1,258,193
Salaries and employee benefits	18,881	245,329	14,188	146,228	44,054	3,109	2,225	474,014	480,029
Professional and other services	7,275	50,197	3,444	48,848	17,646	5,331	532	133,273	124,971
Allowance for loan guarantees and bad debts	45,045	4,308	16	25	-	-	-	49,394	42,101
Materials and supplies	144	36,074	2,085	4,914	543	106	44	43,910	49,304
Amortization of tangible capital assets	-	-	-	40,434	-	451	-	40,885	39,073
Accommodation and other	142	13,162	352,061	45,434	393	201	12	411,405	36,310
Travel	5	696	24	39	72	-	-	836	975
Repairs and maintenance	23	12,770	724	733	113	145	-	14,508	18,763
Electricity and other public services	-	16,893	211	(42)	72	7	-	17,141	15,992
Expenses incurred on behalf of Government	-	-	-	(28)	-	-	-	(28)	(11)
Total expenses	1,317,160	535,343	414,511	286,585	151,468	9,350	2,813	2,717,230	2,065,700
Revenues									
Sale of goods and services	1,314	28,961	16,491	18,191	-	10,206	-	75,163	79,351
Interest	12,097	140	18	375	3	33	-	12,666	13,097
Crop Reinsurance Fund	1,409	-	-	-	-	-	-	1,409	1,375
Joint project and cost sharing agreements	-	-	-	7,067	-	-	-	7,067	5,953
Gain on disposal of assets	-	-	-	3,844	-	-	-	3,844	4,549
Revenues earned on behalf of Government	(14,416)	(7,506)	(407)	(11,510)	(3)	-	-	(33,842)	(33,861)
Total revenues	404	21,595	16,102	17,967	-	10,239	-	66,307	70,464
Net cost of operations	\$ 1,316,756	\$ 513,748	\$ 398,409	\$ 268,618	\$ 151,468	\$ (889)	\$ 2,813	\$ 2,650,923	\$ 1,995,236

*BRM – Business Risk Management; SIA&S – Science, Innovation, Adoption and Sustainability; IC - Industry Capacity; IS – Internal Services; MANSC&AS – Market Access, Negotiations, Sector Competitiveness, and Assurance Systems; CPMA – Canadian Pari-Mutuel Agency; FPCC – Farm Products Council of Canada

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting of Agriculture and Agri-Food Canada for Fiscal Year 2016-2017 (Unaudited)

Note to the Reader

In accordance with the Treasury Board *Policy on Internal Control*, departments are required to demonstrate the measures they are taking to maintain an effective system of internal control over financial reporting.

Under this policy, departments are expected to conduct annual assessments of their system of internal control over financial reporting, establish action plan(s) to address any necessary adjustments, and to attach to their *Statements of Management Responsibility* a summary of their assessment results and action plans.

Effective systems of internal control over financial reporting aim to achieve reliable financial statements and to provide assurances that:

- transactions are appropriately authorized;
- financial records are properly maintained;
- assets are safeguarded from risks such as waste, abuse, loss, fraud and mismanagement; and
- applicable laws, regulations and policies are followed.

The system of internal control over financial reporting is not designed to eliminate all risks, but rather to mitigate risk to a reasonable level with controls that are balanced with and proportionate to the risks they aim to mitigate.

The system of internal control over financial reporting is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess the effectiveness of associated key controls and adjust as required, as well as to monitor the system in support of continuous improvement. As a result, the scope, pace and status of those departmental assessments of the effectiveness of their system of internal control over financial reporting will vary from one organization to another based on risks and taking into account their unique circumstances.

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting of Agriculture and Agri-Food Canada for Fiscal Year 2016-2017 (Unaudited)

1. Introduction

This document provides summary information on the measures taken by Agriculture and Agri-Food Canada to maintain an effective system of internal control over financial reporting, including information on internal control management, assessment results and related action plans.

1.1 Authority, Mandate and Program Activities

Detailed information on the Department's authority, mandate and program activities can be found in the [2016-17 Departmental Results Report](#) and the [2016-17 Report on Plans and Priorities](#).

2. Agriculture and Agri-Food Canada's System of Internal Control Over Financial Reporting

Agriculture and Agri-Food Canada recognizes the importance of setting the tone from the top to help ensure that staff at all levels understand their roles in maintaining effective systems of internal control over financial reporting and are well equipped to exercise these responsibilities effectively. Agriculture and Agri-Food Canada's focus is to ensure risks are well managed through a responsive and risk-based control environment that enables continuous improvement and innovation.

2.1 Internal Control Management

Agriculture and Agri-Food Canada has a well-established governance and accountability structure to support departmental assessment efforts and oversight of its system of internal control. A departmental internal control management framework, approved by the Deputy Minister, is in place and includes:

- Organizational accountability structures as they relate to internal control management to support sound financial management, including roles and responsibilities of senior managers in their areas of responsibility for control management;
- Principles of an effective system of internal control over financial reporting and the Department's assessment approach;
- Periodic internal reporting on the annual assessments through various forms such as: communications of results and recommendations to business process owners, presentations to the Departmental Audit Committee, and ad hoc reports and presentations to senior management.

Key Positions, Roles and Responsibilities

Below are Agriculture and Agri-Food Canada's key positions and committees with responsibilities for maintaining and reviewing the effectiveness of its system of internal control over financial reporting.

Deputy Minister - Agriculture and Agri-Food Canada's Deputy Minister, as Accounting Officer, assumes overall responsibility and leadership for the measures taken to maintain an effective system of internal control. In this role, the Deputy Minister is advised by the Departmental Audit Committee and the Departmental Management Committee.

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Chief Financial Officer (CFO) - Agriculture and Agri-Food Canada's CFO reports directly to the Deputy Minister and provides leadership for the coordination, coherence and focus on the design and maintenance of an effective and integrated system of internal control over financial reporting, including its annual assessment. Falling under the CFO responsibilities is also the management of the Corporate Risk Profile of Agriculture and Agri-Food Canada.

Senior Departmental Managers - Agriculture and Agri-Food Canada's senior departmental managers in charge of program delivery are responsible for maintaining and reviewing the effectiveness of the system of internal control over financial reporting falling within their mandate.

Chief Audit Executive (CAE) - Agriculture and Agri-Food Canada's CAE reports directly to the Deputy Minister and provides assurance through periodic internal audits which are instrumental to the maintenance of an effective system of internal control over financial reporting.

Departmental Audit Committee (DAC) – The DAC is an advisory committee that provides objective views on the Department's risk management, control and governance frameworks and processes. It is comprised of three external members and two ex-officio members, the Deputy Minister and Associate Deputy Minister. The DAC formally meets at least three times per year.

Departmental Management Committee (DMC) - The DMC is chaired by the Deputy Minister and serves as an executive forum to address departmental management and operational issues such as human resources, finance, assets, information management/information technology, and public affairs.

Policy and Programs Management Committee (PPMC) –Chaired by the Deputy Minister, the PPMC is responsible for guiding the development and implementation of cohesive and comprehensive policies, programs and services, and monitoring of results.

2.1.1 Key Measures taken by Agriculture and Agri-Food Canada

Agriculture and Agri-Food Canada's control environment also includes a series of measures to equip its staff to manage risks through raising awareness, providing appropriate knowledge and tools as well as developing skills. The most relevant are:

- Departmental Values and Ethics Policy Centre and Values and Ethics Code which provides information and support to staff on ethical issues;
- Security Guidelines relating to the overall security program including elements of information and personnel security;
- Guidelines for managers, supervisors, and employees for the internal disclosure of wrongdoing;
- Departmental policies tailored to the Department's control environment;
- Regularly updated delegated authorities matrix;
- Training program and communications in core areas of financial management; and
- Documentation and testing of main business processes and related key controls.

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2.2 Service arrangements relevant to financial statements

Agriculture and Agri-Food Canada relies on other organizations for the processing of certain transactions that are recorded in its financial statements as follows:

Common Arrangements

- Public Services and Procurement Canada centrally administers the payments of salaries and the procurement of goods and services in accordance with Agriculture and Agri-Food Canada's Delegation of Authority, and provides accommodation services;
- The Treasury Board of Canada Secretariat provides Agriculture and Agri-Food Canada with information used to calculate various accruals and allowances, such as the accrued severance liability;
- Justice Canada provides legal services to Agriculture and Agri-Food Canada; and
- Shared Services Canada provides information technology (IT) infrastructure services to Agriculture and Agri-Food Canada in the areas of data centre and network services. The scope and responsibilities are addressed in the interdepartmental arrangement between Shared Services Canada and Agriculture and Agri-Food Canada.

Specific Arrangements

- Agriculture and Agri-Food Canada administers SAP, the financial and material management system, on behalf of the Department, Natural Resources Canada, Canadian Food Inspection Agency, Environment and Climate Change Canada, Northern Pipeline Agency, Canadian Environmental Assessment Agency, and Canadian Dairy Commission;
- Agriculture and Agri-Food Canada provides Global Affairs Canada, Parks Canada, Canadian Space Agency and Heritage Canada with SAP hosting services which include technical configuration, upgrades, patching and incident management; and
- Agriculture and Agri-Food Canada, with the support of Public Services and Procurement Canada, administers PeopleSoft, the Human Resources management system, on behalf of the Department and its portfolio partners (the Canadian Grain Commission and the Canadian Dairy Commission), the Canadian Food Inspection Agency, Health Canada, the Public Health Agency of Canada, the Department of Fisheries and Oceans, and Shared Services Canada.

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3. Agriculture and Agri-Food Canada's assessment results during fiscal year 2016-2017

Agriculture and Agri-Food Canada has developed baseline architecture of all key control points for business process and main IT systems that have been based on and assessed against the Common Financial Management Business Process developed by the Office of the Comptroller General. The Department has adopted an ongoing risk-based monitoring approach to support testing of internal control over financial reporting. Under this approach, all entity level controls, business cycle controls and information technology general controls are assigned a risk rating of high, medium, or low. High risk areas are assessed annually, medium risk at least every two years, and low risk, at least every three years.

In completing ongoing monitoring of its key controls, Agriculture and Agri-Food Canada first confirmed that there were no material changes within the Department that would impact the departmental system of internal control over financial reporting and warrant an adjustment to the planned ongoing monitoring schedule for fiscal year 2016-2017. As no changes were required, the Department completed validation and testing of documented controls for the key areas described in Section 3.1.

3.1 Ongoing Monitoring Program

Adopting the ongoing monitoring schedule outlined in the Department's Annex for 2015-2016, Agriculture and Agri-Food Canada validated and tested internal controls in the following areas during 2016-2017:

- **Business Cycle Controls**
 - Financial Close and Reporting
 - Budgeting and Forecasting
 - Capital Assets
 - Loan Guarantees
 - Revenues
- **Information Technology General Controls (ITGCs)**
 - Security
 - Change Management
 - Operations

The ITGCs testing also included the SAP and PeopleSoft process and controls performed by the Department as an administrator and service provider under service arrangements to other federal government departments and agencies.

The testing period for these controls covered January 1, 2016 to December 31, 2016.

Agriculture and Agri-Food Canada completed operating effectiveness testing of all internal control areas identified for assessment in FY 2016-2017 according to the departmental internal control over financial reporting program with the exception of PeopleSoft. Design effectiveness testing of PeopleSoft service provider controls was completed given that there was only minor maintenance performed on the system during the testing period.

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During this testing, it was noted the Department continues to have a number of key controls designed and implemented and operating effectively. Progress is continuing to address recommendations for improvement identified in 2015-2016 where corrective action required more time to complete. Areas noted for improvement during the 2016-2017 assessment, which include service provider assessments for SAP and PeopleSoft, are as follows:

- **Business Cycle Controls**
 - Review the current guidelines and implement a formal monitoring process for journal entries;
 - Ensure appropriate approvals are obtained when processing financial transactions.

- **Information Technology General Controls**
 - Continue to review system access to ensure it is appropriately restricted; and
 - Ensure appropriate documentation granting system access is retained for audit evidence purposes.

Where feasible, corrective actions were implemented shortly after adjustments were identified. Otherwise, management action plans either have been or are currently being developed to fully address the recommendations within a reasonable timeframe. A follow-up will be performed to ensure action plans are being implemented as planned.

4. Agriculture and Agri-Food Canada's action plan

4.1 Progress during fiscal year 2016-2017

The Department achieved its commitments for 2016-2017 from the 2015-2016 action plans by completing activities as follows:

- Based on the Department's ongoing monitoring strategy, assessed Financial Close and Reporting, Budgeting and Forecasting, IT Security, IT Change Management, Capital Assets, Loan Guarantees, Revenues, and IT Operations.
- Progress has been made on addressing areas for improvement noted during previous assessments.

In addition, the Department also undertook a review of its risk-based monitoring strategy implemented in 2012-2013. The review resulted in the alignment of the department's entity-level control framework with the 2013 COSO framework and an update to its ongoing monitoring guide based on current business processes and systems and a revised risk assessment framework, which will be used to assess the department's internal controls starting with the 2017-18 year.

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4.2 Action plan for the next fiscal year and subsequent years

Under the *Policy on Internal Control*, departments are required to maintain an effective system of internal control over financial reporting with the objective to provide reasonable assurance that a) transactions are appropriately authorized, b) financial records are properly maintained, c) assets are safeguarded and d) applicable laws, regulations and policies are followed.

Agriculture and Agri-Food Canada is positioned to take corrective measures in 2017-2018 to improve controls in the areas noted during testing this year. The Department will also proceed with ongoing risk-based monitoring of key internal control over financial reporting based on the updated monitoring guide on the following cycle:

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Key Control Areas		Year 1 2017-2018	Year 2 2018-2019	Year 3 2019-2020
Business Processes				
Higher Risk (Annual)	Financial Close & Reporting	X	X	X
	Forecasting	X	X	X
	Payroll	X	X	X
Medium Risk (2 year cycle)	Capital Assets		X	
Low Risk (3 year cycle)	AgriInsurance		X	
	AgriStability/AgriInvest	X		
	Budgeting			X
	Generic Grants and Contributions		X	
	Loan Guarantees			X
	Operating Expenditures		X	
	Revenues	X		
IT Processes				
Higher Risk (Annual)	PeopleSoft	X	X	X
	SAP (ECC/BW/BPC)	X	X	X
Medium Risk (2 year cycle)	Advance Payments Program Electronic Delivery System (APPEDS)	X		X
	Business Risk Management Suite (BRMS)		X	
	Production Insurance National Statistical System (PINSS)		X	
Low Risk (3 year cycle)	Entity Level Controls	X		