



Agriculture and
Agri-Food Canada

Agriculture et
Agroalimentaire Canada

AGRICULTURE AND AGRI-FOOD CANADA

**Consolidated Financial Statements (Unaudited)
For the year ended March 31, 2019**

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, 2019, 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 of Canada'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.

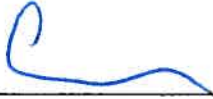
Management seeks to ensure the objectivity and integrity of data in its consolidated financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout Agriculture and Agri-Food Canada and through conducting an annual risk-based 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, 2019 was completed in accordance with the Treasury Board *Policy on Financial Management* 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



Michael Whittaker, Acting Chief Financial Officer

Ottawa, Canada
September 6, 2019

AGRICULTURE AND AGRI-FOOD CANADA

Consolidated Statement of Financial Position (Unaudited)

As at March 31

(in thousands of dollars)


	2019	2018
Liabilities		
Accounts payable and accrued liabilities (Note 4)	\$ 859,956	\$ 843,403
Vacation pay and compensatory leave	29,208	29,797
Environmental liabilities (Note 5)	5,979	6,630
Deferred revenue (Note 6)	12,653	17,711
Employee future benefits (Note 7)	17,979	17,880
Other liabilities (Note 8)	59,405	53,479
Total liabilities	985,180	968,900
Financial assets		
Due from Consolidated Revenue Fund	892,240	849,179
Accounts receivable and advances (Note 9)	35,962	34,718
Loans receivable (Note 10)	226,043	261,060
Total gross financial assets	1,154,245	1,144,957
Financial assets held on behalf of Government		
Accounts receivable and advances (Note 9)	(2,006)	(1,818)
Loans receivable (Note 10)	(226,043)	(261,060)
Total financial assets held on behalf of Government	(228,049)	(262,878)
Total net financial assets	926,196	882,079
Departmental net debt	58,984	86,821
Non-financial assets		
Prepaid expenses and inventory	1,452	4,950
Tangible capital assets (Note 11)	439,249	423,720
Total non-financial assets	440,701	428,670
Departmental net financial position (Note 12)	\$ 381,717	\$ 341,849

Contractual obligations and contractual rights (Note 13)

Contingent liabilities and contingent assets (Note 14)

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


Chris Forbes, Deputy Minister


Michael Whittaker, Acting Chief Financial Officer

Ottawa, Canada
September 6, 2019

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>2019</u> Planned Results	<u>2019</u>	<u>2018</u>
Expenses			
Sector Risk	\$ 1,538,456	\$ 1,136,371	\$ -
Science and Innovation	557,642	526,559	-
Domestic and International Markets	261,936	290,056	-
Internal Services	262,360	284,400	301,454
Expenses not allocated to the Department's 2018-2019 core responsibility (Note 17)	-	-	1,795,413
Expenses Incurred on behalf of Government	<u>(17)</u>	<u>(91)</u>	<u>(19)</u>
Total expenses	2,620,377	2,237,295	2,096,848
Revenues			
Sale of goods and services	67,396	66,591	73,350
Interest	14,083	11,221	12,270
Joint project and cost sharing agreements	8,036	8,274	7,958
Miscellaneous revenues	2,735	2,180	2,159
Gain on disposal of assets	3,171	1,126	2,326
Crop Reinsurance Fund	1,144	572	2,428
Revenues earned on behalf of Government	<u>(28,584)</u>	<u>(32,334)</u>	<u>(35,991)</u>
Total revenues	67,981	57,630	64,500
Net cost of operations before government funding and transfers	2,552,396	2,179,665	2,032,348
Government funding and transfers			
Net cash provided by Government of Canada		2,121,159	2,077,507
Change in due from Consolidated Revenue Fund		43,061	(109,240)
Services provided without charge by other government departments (Note 15)		55,361	60,588
Transfer of the transition payments for implementing salary payments in arrears		-	(4)
Other transfers of assets between other government departments		<u>(48)</u>	<u>57</u>
Net cost of operations after government funding and transfers		(39,868)	3,440
Departmental net financial position - Beginning of year		341,849	345,289
Departmental net financial position - End of year		<u>\$ 381,717</u>	<u>\$ 341,849</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>2019</u>	<u>2018</u>
Net cost of operations after government funding and transfers	\$ (39,868)	\$ 3,440
Change due to tangible capital assets		
Acquisition of tangible capital assets	59,212	59,523
Amortization of tangible capital assets	(43,266)	(39,874)
Proceeds from disposal of tangible capital assets	(1,304)	(2,706)
Net (loss) or gain on disposal of tangible capital assets including adjustments	537	(6,220)
Non-cash changes of tangible capital assets	399	79
Transfer (to) / from other government departments	<u>(49)</u>	<u>(6)</u>
Total change due to tangible capital assets	15,529	10,796
Change due to prepaid expenses and inventory	(3,498)	221
Net increase (decrease) in departmental net debt	<u>(27,837)</u>	<u>14,457</u>
Departmental net debt - Beginning of year	86,821	72,364
Departmental net debt - End of year	<u><u>\$ 58,984</u></u>	<u><u>\$ 86,821</u></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>2019</u>	<u>2018</u>
Operating activities		
Net cost of operations before government funding and transfers	\$ 2,179,665	\$ 2,032,348
Non-cash items:		
Amortization of tangible capital assets	(43,266)	(39,874)
Gain (Loss) on disposal of tangible capital assets	537	(6,220)
Non-cash changes of tangible capital assets	399	79
Services provided without charge by other government departments (Note 15)	(55,361)	(60,588)
Other transfers of assets from other government departments	(1)	(63)
Transition payments for implementing salary payments in arrears	-	4
Variations in Consolidated Statement of Financial Position:		
Increase (decrease) in accounts receivable and advances	1,056	(6,031)
Increase (decrease) in prepaid expenses and inventory	(3,498)	221
Decrease (increase) in accounts payable and accrued liabilities	(16,553)	106,668
Decrease (increase) in vacation pay and compensatory leave	589	(3,628)
Decrease (increase) in environmental liabilities	651	(3,207)
Decrease (increase) in deferred revenue	5,058	(193)
Decrease (increase) in employee future benefits	(99)	1,314
Decrease (increase) in other liabilities	<u>(5,926)</u>	<u>(140)</u>
Cash used in operating activities	2,063,251	2,020,690
Capital investing activities		
Acquisition of tangible capital assets	59,212	59,523
Proceeds from disposal of tangible capital assets	<u>(1,304)</u>	<u>(2,706)</u>
Cash used in capital investing activities	57,908	56,817
Net cash provided by Government of Canada	<u>\$ 2,121,159</u>	<u>\$ 2,077,507</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 through the following core responsibilities:

Sector Risk

Agriculture and Agri-Food Canada provides tools to mitigate the financial impact of risks beyond producers' control that threaten the viability of their operations. Agriculture and Agri-Food Canada also works with the sector to ensure that systems, standards and tools are developed to support its ability to prevent and control risks and address market demands.

Science and Innovation

Agriculture and Agri-Food Canada conducts scientific research, develops new knowledge and new technologies, and transfers the results to the agriculture and agri-food sector. Agriculture and Agri-Food Canada also works with industry and other partners to strengthen the sector's capacity to develop and adopt innovative practices, products and processes.

Domestic and International Markets

Agriculture and Agri-Food Canada provides programs and services and works in collaboration with the sector to support its competitiveness at home and abroad. Agriculture and Agri-Food Canada also works to increase opportunities for the sector to export its products by maintaining and expanding market access and advancing agricultural interests internationally.

Internal Services

Internal Services are those groups of related activities and resources that the federal government considers to be services in support of programs and/or required to meet corporate obligations of an organization. Internal Services refers to the activities and resources of the 10 distinct service categories that support Program delivery in the organization, regardless of the Internal Services delivery model in a department. The 10 service categories 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.

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 are prepared using the department'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 *2018-2019 Departmental Plan*. 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 *2018-2019 Departmental Plan*.

(b) Consolidation

These consolidated financial statements include the accounts of the sub-entities for which 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 of Canada

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 of Canada is the difference between all cash receipts and all cash disbursements, including transactions between departments of the Government.

(d) Amounts due from or to the Consolidated Revenue Fund

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.

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Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

(e) Revenues

- Revenues from regulatory fees are recognized based on the services provided in the year.
- Funds received from external parties for specified purposes are recorded upon receipt as deferred revenue.
- Revenues are then recognized in the period in which the related expenses are incurred.
- Deferred revenue consists of amounts received in advance of the delivery of goods and rendering of services that will be recognized as revenue in a subsequent fiscal year as it is earned.
- Other revenues are recognized in the period the event giving rise to the revenues occurred.
- 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

- Transfer payments are recorded as an expense in the year the transfer is authorized and all eligibility criteria have been met by the recipient.
- 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 carrying value.

(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 – The accumulation of severance benefits for voluntary departures ceased for applicable employee groups. The remaining obligation for employees who did not withdraw benefits 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

Accounts and loans receivable are initially recorded at cost and where necessary, are discounted to reflect their concessionary terms. Concessionary terms of loans include cases where loans are made on a long-term, low interest or interest-free basis. Transfer payments that are unconditionally repayable are recognized as loans receivable. When necessary, an allowance for valuation is recorded to reduce the carrying value of accounts and loans receivable to amounts that approximate their net recoverable value.

(i) Tangible capital assets

The costs of acquiring land, buildings, equipment and other capital property are capitalized as tangible capital assets and, except for land, are amortized to expense over the estimated useful lives 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)

as described in Note 11. All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more are recorded at their acquisition cost. Tangible capital assets do not include works of art, museum collections and Crown land to which no acquisition cost is attributable; and intangible assets.

(j) Contingent liabilities

Contingent liabilities, including the allowance for loan or price guarantees, are potential liabilities which may become actual liabilities when one or more future events occur or fail to occur. If the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, a provision is accrued and an expense recorded to other expenses. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the consolidated financial statements.

For loan or price guarantees, an allowance is recorded 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) Contingent assets

Contingent assets are possible assets which may become actual assets when one or more future events occur or fail to occur. If the future event is likely to occur or fail to occur, the contingent asset is disclosed in the notes to the consolidated financial statements.

(l) Environmental liabilities

An environmental liability for the 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 future cash flows required to settle or otherwise extinguish a liability are estimable, predictable and expected to occur over extended future periods, a present value technique is used. The discount rate used reflects the Government's cost of borrowing, associated with the estimated number of years to complete remediation.

The recorded liabilities are adjusted each year, 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 consolidated financial statements.

(m) Measurement uncertainty

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets, liabilities, revenues and expenses reported in the consolidated financial statements and accompanying notes at March 31. The estimates are based on facts and circumstances, historical experience, general economic conditions and reflect the Department's best estimate of the related amount at the end of the reporting period. The most significant items where estimates are used are contingent liabilities, environmental liabilities, the liability for employee future benefits and the useful life of tangible capital assets. Actual results could significantly

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

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.

(n) **Related party transactions**

Related party transactions, other than inter-entity transactions, are recorded at the exchange amount.

Inter-entity transactions are transactions between commonly controlled entities. Inter-entity transactions, other than restructuring transactions, are recorded on a gross basis and are measured at the carrying amount, except for the following:

- (i) Services provided on a recovery basis are recognized as revenues and expenses on a gross basis and measured at the exchange amount.
- (ii) Certain services received on a without charge basis are recorded for departmental financial statement purposes at the carrying amount.

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>2019</u>	<u>2018</u>
Net cost of operations before government funding and transfers	\$ 2,179,665	\$ 2,032,348
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets	(43,266)	(39,874)
Gain (Loss) on disposal of tangible capital assets	537	(6,220)
Non-cash changes of tangible capital assets	399	79
Services provided without charge by other government departments	(55,361)	(60,588)
Increase (decrease) in prepaid expenses and inventory	(3,498)	221
Decrease (increase) in vacation pay and compensatory leave	589	(3,628)
Decrease (increase) in accrued liabilities	26,766	(11,417)
Decrease (increase) in environmental liabilities	651	(3,207)
Decrease (increase) in employee future benefits	(228)	1,450
Decrease (increase) in allowances for bad debt expenses	(13,386)	(6,262)
Refund and adjustment of prior years' expenditures	16,567	19,186
Respendable revenue	4,761	7,376
Other	<u>12,165</u>	<u>5,299</u>
Total items affecting net cost of operations but not affecting authorities	(53,304)	(97,585)
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisition of tangible capital assets	59,212	59,523
Proceeds from disposal of tangible capital assets	(1,304)	(2,706)
Transition payments for implementing salary payments in arrears	-	4
Increase (decrease) in accounts receivable and advances	2,362	3,080
Increase (decrease) in loans receivable	<u>(28,685)</u>	<u>(9,766)</u>
Total items not affecting net cost of operations but affecting authorities	31,585	50,135
Current year authorities used	<u>\$ 2,157,946</u>	<u>\$ 1,984,898</u>

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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>2019</u>	<u>2018</u>
Authorities provided:		
Vote 1 - Operating expenditures	\$ 622,435	\$ 606,697
Vote 5 - Capital expenditures	68,942	80,136
Vote 10 - Transfer payments	426,625	394,758
Statutory amounts	<u>1,152,226</u>	<u>993,717</u>
	2,270,228	2,075,308
Less:		
Authorities available for future years	18,066	19,942
Lapsed authorities	<u>94,216</u>	<u>70,468</u>
	112,282	90,410
Current year authorities used	<u><u>\$ 2,157,946</u></u>	<u><u>\$ 1,984,898</u></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>2019</u>	<u>2018</u>
Accounts payable - Other government departments and agencies	\$ 10,675	\$ 12,390
Accounts payable - External parties	<u>831,441</u>	<u>785,044</u>
Total accounts payable	842,116	797,434
Accrued liabilities	17,840	45,969
Total accounts payable and accrued liabilities	<u><u>\$ 859,956</u></u>	<u><u>\$ 843,403</u></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 5 – Environmental liabilities

Remediation of contaminated sites

The Government's "Federal Approach to Contaminated Sites" sets out a framework for management of contaminated sites using a risk-based approach. Under this approach the Government has inventoried the contaminated sites identified on federal lands, allowing them to be classified, managed and recorded in a consistent manner. This systematic approach aids in identification of the high risk sites in order to allocate limited resources to those sites which pose the highest risk to human health and the environment.

The Department has identified a total of 82 sites (120 sites in 2018) where contamination may exist and assessment, remediation and monitoring may be required. Of these, the Department has identified 10 sites (11 sites in 2018) where action is required and for which a liability of \$4,784,000 (\$4,752,000 in 2018) has been recorded. This liability estimate has been determined based on site assessments performed by environmental experts.

In addition, there are 26 sites that have not been assessed by environmental experts (47 sites in 2018) for which the department has estimated and recorded a liability of \$1,195,000 (\$1,878,000 in 2018).

These two estimates combined, totalling \$5,979,000 (\$6,630,000 in 2018), represents management's best estimate of the costs required to remediate sites to the current minimum standard for its use prior to contamination, based on information available at the financial statement date.

For the remaining 46 sites (62 sites in 2018), 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, 2019 and March 31, 2018. When the liability estimate is based on a future cash requirement, the amount is adjusted for inflation using a forecast CPI rate of 2.2% (1.9% in 2018). Inflation is included in the undiscounted amount. The Government of Canada's cost of borrowing by reference to the actual zero-coupon yield curve for Government of Canada bonds has been used to discount the estimated future expenditures. The March 2019 rates range from 1.55% for a 2 year term to 1.92% for a 30 or greater year term.

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Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

Nature and Source of Liability										
Nature and Source	2019					2018				
	Total Number of Sites	Number of Sites with a liability	Estimated Liability	Estimated Total Undiscounted Expenditures	Estimated Recoveries	Total Number of Sites	Number of Sites with a liability	Estimated Liability	Estimated Total Undiscounted Expenditures	Estimated Recoveries
Fuel Related Practices ⁽¹⁾	34	13	995	1,039	-	55	25	1,324	1,377	-
Landfills/Waste Sites ⁽²⁾	27	6	417	443	-	40	16	879	909	-
Engineered Asset/Air & Land Transportation ⁽³⁾	11	10	383	417	-	14	9	328	344	-
Other ⁽⁴⁾	10	7	4,184	4,391	-	11	8	4,099	4,275	-
Totals	82	36	5,979	6,290	-	120	58	6,630	6,905	-

(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 (benzene, toluene, ethylbenzene and xylenes).

(2) Contamination associated with former landfill/waste site or leaching from materials deposited in the landfill/waste site, e.g. metals, petroleum 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.

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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 in which these expenditures are incurred or in which the service is performed. Details of the transactions related to this account are as follows:

	<u>2019</u>	<u>2018</u>
Opening balance	\$ 17,711	\$ 17,518
Amounts received	3,225	8,151
Revenue recognized	<u>(8,283)</u>	<u>(7,958)</u>
Closing balance	<u>\$ 12,653</u>	<u>\$ 17,711</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 2018-2019 expense amounts to \$42,144,000 (\$41,296,000 in 2017-2018). For Group 1 members, the expense represents approximately 1.01 times (1.01 times in 2017-2018) the employee contributions and, for Group 2 members, approximately 1.00 times (1.00 times in 2017-2018) 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, 2019, 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>2019</u>	<u>2018</u>
Accrued benefit obligation - Beginning of year	\$ 17,880	\$ 19,194
Expense for the year	4,171	1,233
Benefits paid during the year	<u>(4,072)</u>	<u>(2,547)</u>
Accrued benefit obligation - End of year	<u>\$ 17,979</u>	<u>\$ 17,880</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 AgriInvest program, the AgriStability program as well as security and other deposits.

AgriInvest is a self-managed producer-government savings account that allows producers to set money aside which can be used to recover from small income shortfalls, or to make investments to reduce on-farm risks. Program payments are cost-shared with the province or territory, which producers can withdraw under specific terms and conditions. Producers make their AgriInvest deposits at a participating financial institution of their choice. Existing funds held by the federal government are being transferred to the producers' AgriInvest 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.

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

	<u>2019</u>	<u>2018</u>
Opening balance	\$ 53,479	\$ 53,339
Deposits	296,153	284,265
Withdrawals	<u>(290,227)</u>	<u>(284,125)</u>
Ending balance	<u><u>\$ 59,405</u></u>	<u><u>\$ 53,479</u></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>2019</u>	<u>2018</u>
Receivables - Other government departments and agencies	\$ 13,193	\$ 11,954
Receivables - External parties	36,629	45,445
Employee advances	<u>108</u>	<u>72</u>
Subtotal	49,930	57,471
Allowance for doubtful accounts on receivables from external parties	<u>(13,968)</u>	<u>(22,753)</u>
Gross accounts receivable	<u>35,962</u>	<u>34,718</u>
Accounts receivable held on behalf of Government	2,100	1,888
Allowance for doubtful accounts held on behalf of Government	<u>(94)</u>	<u>(70)</u>
Net accounts receivable held on behalf of Government	2,006	1,818
Net accounts receivable	<u><u>\$ 33,956</u></u>	<u><u>\$ 32,900</u></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>2019</u>	<u>2018</u>
Unconditionally repayable contributions	\$ 140,071	\$ 143,474
Loans resulting from loan guarantee programs	<u>262,219</u>	<u>289,442</u>
Subtotal	402,290	432,916
Less: Allowance for uncollectibility	<u>(176,247)</u>	<u>(171,856)</u>
Gross loans receivable	<u>226,043</u>	<u>261,060</u>
Loans receivable held on behalf of Government	226,043	261,060
Net loans receivable	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

(a) Unconditionally repayable contributions

Unconditionally repayable contributions 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 \$28,243,000 (\$17,789,000 in 2018) 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 \$148,004,000 (\$154,067,000 in 2018) 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

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	3 to 20 years
Vehicles	7 to 25 years
Computer hardware and software	3 to 5 years
Leasehold improvements	Over the useful life of the improvement or the lease term, whichever is shorter
Assets under construction	Once in service, in accordance with asset type

Assets under construction are recorded in the applicable asset class in the year they are put into service and are not amortized until they are put into service.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

Capital Asset Class	Cost					Accumulated Amortization					Net Book Value	
	Opening Balance	Acquisitions	Adjustments (1)	Disposals and Write-Offs	Closing Balance	Opening Balance	Amortization	Adjustments (1)	Disposals and Write-Offs	Closing Balance	2019	2018
Land	\$ 12,921	\$ -	\$ 350	\$ 81	\$ 13,190	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,190	\$ 12,921
Buildings	709,310	410	61,261	1,998	768,983	494,734	20,440	(68)	1,683	513,423	255,560	214,576
Works and infrastructure	33,416	78	3,949	-	37,443	17,504	1,155	209	-	18,868	18,575	15,912
Machinery and equipment	236,533	16,872	517	5,571	248,351	158,299	14,115	98	5,394	167,118	81,233	78,234
Vehicles	67,300	3,161	(140)	3,346	66,975	46,539	4,375	(48)	3,217	47,649	19,326	20,761
Computer hardware and software	49,820	273	(58)	300	49,735	47,347	1,749	(22)	300	48,774	961	2,473
Leasehold improvements	32,465	-	853	23	33,295	21,069	1,432	-	23	22,478	10,817	11,396
Assets under construction	67,447	38,418	(66,213)	65	39,587	-	-	-	-	-	39,587	67,447
Total	\$ 1,209,212	\$ 59,212	\$ 519	\$ 11,384	\$ 1,257,559	\$ 785,492	\$ 43,266	\$ 169	\$ 10,617	\$ 818,310	\$ 439,249	\$ 423,720

(1) Adjustments include assets under construction of \$66,213,000 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 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>2019</u>	<u>2018</u>
Crop Reinsurance Fund - Restricted		
Balance - Beginning of year - Restricted	\$ 299,290	\$ 296,862
Revenues	572	2,428
Expenses	-	-
Balance - End of year - Restricted	<u>299,862</u>	<u>299,290</u>
Agricultural Commodities Stabilization Accounts - Restricted	647	647
Unrestricted	81,208	41,912
Departmental net financial position - End of year	<u>\$ 381,717</u>	<u>\$ 341,849</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 13 – Contractual obligations and contractual rights

(a) 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:

	2020	2021	2022	2023	2024	2025 and thereafter	Total
Transfer payments	<u>\$ 328,558</u>	<u>\$ 277,234</u>	<u>\$ 268,297</u>	<u>\$ 260,250</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,134,339</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) Contractual rights

The activities of the Department sometimes involve the negotiation of contracts or agreements with outside parties that result in the department having rights to both assets and revenues in the future. They principally involve interest on loans receivable, revenue/profit sharing arrangement from research agreements. Major contractual rights that will generate revenues in future years and that can be reasonably estimated are summarized as follows:

	Interest on loans receivable	Research agreements	Total
2020	\$ 11,599	\$ 22,655	\$ 34,254
2021	11,599	12,302	23,901
2022	11,599	8,723	20,322
2023	11,599	6,917	18,516
2024	11,599	-	11,599
2025 and subsequent	57,994	-	57,994
Total	<u>\$ 115,989</u>	<u>\$ 50,597</u>	<u>\$ 166,586</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 – Contingent liabilities and contingent assets

(a) 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:

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 records an allowance for claims and litigations when it is likely that there will be a future payment and a reasonable estimate of the loss can be made.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

Loan or price guarantees

	Authorized Limit	Outstanding Guarantees		Allowance as at March 31	
		2019	2018	2019	2018
Loans according to the Advance Payments Program under the <i>Agricultural Marketing Programs Act</i>	\$ 5,000,000	\$ 1,674,656	\$ 1,269,711	\$ 16,494	\$ 43,600
Loans to farmers under the <i>Canadian Agricultural Loans Act</i>	3,000,000	97,909	100,548	979	1,006
Price guarantee agreements with marketing agencies pursuant to the Price Pooling Program under the <i>Agricultural Marketing Programs Act</i>	No limit	-	-	-	-
National Biomass Ethanol Program	140,000	-	-	-	-
Total		<u>\$ 1,772,565</u>	<u>\$ 1,370,259</u>	<u>\$ 17,473</u>	<u>\$ 44,606</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)

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 for 2018-2019 was \$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.

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.

(b) Contingent assets

Transfer payments - Conditionally repayable contributions

Under the EcoAgriculture Biofuels Capital Initiative, conditionally repayable contributions which are outstanding in 2019 total \$42,434,000 (\$55,627,000 in 2018). Repayments are determined by a project's profitability, and have a maximum repayment period of 10 years. The final repayment is due no later than June 30, 2022.

Under the Slaughter Improvement Program, conditionally repayable contributions which are outstanding in 2019 total \$24,125,000 (\$34,734,000 in 2018). Repayments are determined by a project's profitability, and have a maximum repayment period of 10 years. The final repayment is due no later than October 1, 2023.

Under the Slaughter Waste Innovation Program, conditionally repayable contributions which are outstanding in 2019 total \$16,202,000 (\$17,031,000 in 2018). 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. The final repayment is due no later than September 1, 2023.

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.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Consolidated Financial Statements (Unaudited)

For the year ended March 31

(tabular amounts in thousands of dollars)

Contingent recoveries

AgriStability and Canadian Agricultural Income Stabilization programs are federally and provincially/territorially cost shared programs and the 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 \$6,714,000 (\$6,951,000 in 2018). 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. Related parties also include individuals who are members of key management personnel or close family members of those individuals, and entities controlled by, or under shared control of, a member of key management personnel or a close family member of that individual.

The Department enters into transactions with Government departments, agencies, and Crown Corporations in the normal course of business and on normal trade terms.

(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 at the carrying value in the Department's Consolidated Statement of Operations and Departmental Net Financial Position as follows:

	<u>2019</u>	<u>2018</u>
Employer's contribution to the health and dental insurance plans	\$ 35,482	\$ 40,218
Accommodation	18,261	18,661
Legal services	707	706
Workers' compensation	<u>911</u>	<u>1,003</u>
Total	<u>\$ 55,361</u>	<u>\$ 60,588</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 other government departments and agencies

	<u>2019</u>	<u>2018</u>
Expenses	\$ 134,093	\$ 143,363
Revenues	17,924	18,244

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 core responsibility. 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 core responsibilities, by major object of expense and by major type of revenue. The segment results for the period are as follows:

	Sector Risk	Science and Innovation	Domestic and International Markets	Internal Services	2019 Total	2018 Total
Expenses						
Transfer payments	\$ 1,082,096	\$ 133,010	\$ 172,312	\$ -	\$ 1,387,418	\$ 1,224,029
Salaries and employee benefits	31,952	268,833	58,733	155,543	515,061	539,168
Professional and other services	10,979	36,435	22,155	53,327	122,896	127,575
Allowance for loan guarantees and bad debts	10,250	12,991	-	62	23,303	40,636
Materials and supplies	575	35,051	960	7,924	44,510	46,406
Amortization of tangible capital assets	-	-	316	42,950	43,266	39,874
Accommodation and other	309	10,649	35,223	22,939	69,120	48,650
Travel	29	830	117	226	1,202	974
Repairs and maintenance	104	12,977	186	592	13,859	12,848
Electricity and other public services	77	15,783	54	837	16,751	16,707
Expenses incurred on behalf of Government	-	-	-	(91)	(91)	(19)
Total expenses	1,136,371	526,559	290,056	284,309	2,237,295	2,096,848
Revenues						
Sale of goods and services	1,224	30,999	16,266	18,102	66,591	73,350
Interest	11,077	-	-	144	11,221	12,270
Joint project and cost sharing agreements	-	-	-	8,274	8,274	7,958
Miscellaneous revenues	1,427	159	49	545	2,180	2,159
Gain on disposal of assets	-	-	-	1,126	1,126	2,326
Crop Reinsurance Fund	572	-	-	-	572	2,428
Revenues earned on behalf of Government	(13,917)	(7,214)	(773)	(10,430)	(32,334)	(35,991)
Total revenues	383	23,944	15,542	17,761	57,630	64,500
Net cost of operations	\$ 1,135,988	\$ 502,615	\$ 274,514	\$ 266,548	\$ 2,179,665	\$ 2,032,348

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 17 – Program alignment architecture

Certain 2017-2018 figures in the Consolidated Statement of Operations and Departmental Net Financial Position have not been presented under the Department's 2018-2019 core responsibility due to significant changes. Below are the unallocated amounts based on the Department's 2017-2018 program alignment architecture:

	<u>2018</u>
Business Risk Management	\$ 974,469
Science, Innovation, Adoption and Sustainability	556,320
Market Access, Negotiations, Sector Competitiveness, and Assurance Systems	193,044
Industry Capacity	59,573
Canadian Pari-Mutuel Agency	9,414
Farm Products Council of Canada	<u>2,593</u>
	<u>\$ 1,795,413</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 18 – Subsequent events

(a) Agricultural Marketing Programs Regulations

On May 29, 2019, the Government of Canada announced its decision to amend the Agricultural Marketing Programs Regulations. Under the Advance Payments Program of the *Agricultural Marketing Programs Act*, the amendment increases the maximum advance outstanding for all eligible agricultural producers to \$1,000,000 (previously \$400,000) and increases the authorized limit for loans according to the Advance Payment Program to \$7,500,000,000 (previously \$5,000,000,000).

(b) Compensation for Supply-Managed Dairy Producers

On August 16, 2019, the Minister of Agriculture and Agri-Food Canada announced \$1,750,000,000 will be made available over eight years to Canada's nearly 11,000 dairy farmers. Of this amount, \$345,000,000, in fiscal year 2019-2020, will be paid in the form of direct payments that will benefit all dairy producers in proportion to their quota held.

The impact of these subsequent events will be reflected in the 2019-2020 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 19 – Comparative information

Certain comparative figures have been reclassified to conform to the current year's presentation.

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting of Agriculture and Agri-Food Canada for Fiscal Year 2018-2019 (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.

Detailed information on the Department's authority, mandate and Core Responsibilities can be found in the [Departmental Plan](#) and [Departmental Results Report](#).

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 comprises:

- Organizational accountability structures as they relate to internal control management to support sound financial management, including roles and responsibilities of senior departmental managers for control management in their areas of responsibility;
- Values and ethics;
- Ongoing communication and training on statutory requirements, and policies and procedures for sound financial management and control; and
- Monitoring of, and regular updates to, internal control management, as well as the provision of related assessment results and action plans to the Deputy Minister and senior departmental management and, as applicable, the Departmental Audit Committee.

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.

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting of Agriculture and Agri-Food Canada for Fiscal Year 2018-2019 (Unaudited)

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) - The PPMC is chaired by the Deputy Minister and 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 provide 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.

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting of Agriculture and Agri-Food Canada for Fiscal Year 2018-2019 (Unaudited)

2.2 Service arrangements relevant to financial statements

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

Common Service Arrangements

- Public Services and Procurement Canada, which administers the payments of salaries and the procurement of goods and services, and provides accommodation services;
- Shared Services Canada, which provides information technology (IT) infrastructure services;
- Department of Justice Canada, which provides legal services; and
- Treasury Board of Canada Secretariat, which provides information on public sector insurance and centrally administers payment of the employer's share of contributions toward statutory employee benefit plans.

Readers of this annex may refer to the annexes of the above-noted departments for a greater understanding of the systems of internal control over financial reporting related to these specific services.

Specific Arrangements

- Agriculture and Agri-Food Canada administers a shared instance of SAP, the financial and material management system, on behalf of the Department, the Canadian Food Inspection Agency, Environment and Climate Change Canada, Natural Resources Canada, Northern Pipeline Agency, Canadian Environmental Assessment Agency, and Canadian Dairy Commission;
- Agriculture and Agri-Food Canada provides SAP hosting services to Canadian Space Agency, Canadian Heritage and Parks Canada; 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, the Canadian Food Inspection Agency, Department of Fisheries and Oceans, Health Canada, the Public Health Agency of Canada, and Shared Services Canada.

3. Agriculture and Agri-Food Canada's assessment results for the 2018-2019 fiscal year

The Department has adopted an ongoing risk-based monitoring approach to support testing of internal control over financial reporting. The level of risk impacts the extent and frequency of testing required for key control activities. High risk areas are assessed annually, medium risk at least every two to three years, and low risk, at least every three to four years.

3.1 New or significantly amended key controls

In the current fiscal year, there were no new or significantly amended key controls in existing processes that required reassessment.

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3.2 Ongoing Monitoring Program

For 2018-2019, adjustments were not required to the rotational ongoing monitoring plan and the Department adopted the ongoing monitoring plan outlined in the Department's Annex for 2017-2018 and validated and reassessed internal controls in the following areas:

Previous fiscal year's rotational ongoing monitoring plan for the current fiscal year	Status
Financial Close and Reporting	Completed as planned. Where required, remedial actions have either been completed or are planned during 2019-2020.
Section 33	
Forecasting	
Payroll	
Capital Assets	
AgriInsurance	
Generic Grants and Contributions	
Operating Expenditures	
Information Technology General Controls (ITGCs) for SAP, PeopleSoft, Business Risk Management Suite (BRMS), and Production Insurance National Statistical System (PINSS)	

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

The testing period covered January 1, 2018 to December 31, 2018. Based on areas assessed in the current year, no high risk findings were identified. Therefore, for the most part, the key controls that were tested performed as intended. Remediation points that were identified primarily focused on system access controls. Where feasible, corrective actions were implemented shortly after adjustments were identified and management action plans either have been or are currently being developed to fully address the recommendations. A follow-up will be performed to ensure action plans are being implemented as planned.

4. Action plan for the next fiscal year and subsequent fiscal years

Agriculture and Agri-Food Canada's rotational ongoing monitoring plan over the next three fiscal years, based on an annual validation of the high-risk processes and controls and related adjustments to the ongoing monitoring plan as required, is shown in the following table.

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting of Agriculture and Agri-Food Canada for Fiscal Year 2018-2019 (Unaudited)

Key Control Areas		Fiscal Year 2019-2020	Fiscal Year 2020-2021	Fiscal Year 2021-2022
Higher Risk (Annual)	Financial Close and Reporting	X	X	X
	Section 33	X	X	X
	Forecasting	X	X	X
	Payroll	X	X	X
Medium Risk (2-3 years)	Capital Assets		X	
Low Risk (3-4 years)	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 (2-3 years)	Advance Payments Program Electronic Delivery System (APPEDS)	X		
	Business Risk Management Suite (BRMS)		X	
	Production Insurance National Statistical System (PINSS)			X
Low Risk (3-4 years)	Entity Level Controls		X	

During 2018-2019, the Department reviewed its ongoing monitoring work plan. In order to increase efficiency, the Department adjusted the testing of ITGCs for PINSS from 2020-2021 to 2021-2022 in order to coincide with the assessment of the related business process controls for AgriInsurance. High risk control areas will continue to be assessed annually, medium risk at least every 2-3 years and low risk at least every 3-4 years.