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Treasury Board Accounting Standard 1.2 - Departmental and Agency Financial Statements

Background

1. This version replaces Treasury Board Accounting Standard (TBAS) issued in 2001 and is effective for the financial statements of the 2005-06 fiscal year and subsequent.
2. This TBAS has been developed using the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accounts (CICA). Although these recommendations do not specifically apply to departments of the federal government but are aimed at reporting at the overall government level, the principles contained therein are applicable to departmental reporting. As a result, their use in developing the format and content of departmental financial statements, modified as deemed necessary to reflect departmental circumstances, is appropriate.

Application

3. This TBAS applies to all organizations defined as departments in accordance with section 2 of the *Financial Administration Act* and revolving funds. The term "department" is used throughout this TBAS and refers to all these organizations.
4. The financial statements form only a part of a department's process of financial reporting that includes also, for example, information in departmental performance reports, annual reports or reports prepared to comply with legislation or policy. While many financial statement concepts also apply to such information, this standard deals specifically with financial statements.

Objective of Financial Statements

5. General-purpose financial statements provide an accounting of the department's administration of its public financial affairs and resources to a variety of users both within the government and external to it. As such, they serve the needs of many varied users whose needs may be different. Since external readers of the financial statements do not have access to specialized financial reports on the department, the primary focus of these financial statements should be geared toward them.
6. The objectives for the financial statements of departments are based on PSAB objectives for financial statements of federal, provincial and territorial governments. Since departments are different from governments, the objectives have been tailored to reflect the organizational structure of government departments:
   - (a) Financial statements should provide an accounting of the full nature and extent of the activities of the department. Note 1 to a department's financial statements provides a description of the activities being reported on.
   - (b) Financial statements should present information to describe the department's financial position at the end of the accounting period. Such information should be useful in evaluating:
     - i. The liabilities and contractual obligations of the department arising from its activities and the department's ability to meet these liabilities and contractual obligations; and
     - ii. The financial and non-financial assets that the department has stewardship responsibility for.

(c) Financial statements should present information to describe the changes in a department's financial position in the accounting period. Such information should be useful in evaluating:
   i. The allocation and consumption of economic resources in the accounting period; and
   ii. How the department met its cash requirements.

(d) Financial statements should demonstrate the accountability of a department for the resources, obligations and financial affairs for which it is responsible by providing information useful in:
   i. Evaluating the financial results of the department's management of its resources, obligations and financial affairs in the accounting period; and
   ii. Assessing whether resources were administered by the department in accordance with limits established by the appropriate legislative authorities.

Responsibility

7. Responsibility for the integrity and objectivity of the financial statements and the financial reporting process that produces such statements rests with senior management of a department. The Deputy Head and Senior Financial Officer acknowledge this responsibility in the statement of responsibility, which prefaces the financial statements.

8. For departments requiring an auditor's report, the auditor's role is to provide an opinion on whether the financial statements are presented fairly and are in accordance with Canadian generally accepted accounting principles for the public sector. The auditor also has certain professional responsibilities associated with the publication of audited financial statements in other documents. Guidance on publishing audited financial statements in the Departmental Performance Report (DPR) is found in the DPR preparation guidelines on the TBS website.

Reporting Entity

9. All departments as defined by section 2 of the *Financial Administration Act* will produce annual financial statements.

10. The financial transactions of all sub-entities of the department e.g. Revolving Funds, Special Operating Agencies, Consolidated Specified Purpose Accounts, will be consolidated into the overall departmental financial statements so that the financial statements of the department reflect the financial operations and situation of the department as a single reporting entity. Therefore, all transactions between the various sub-entities i.e., intradepartmental transactions, must be eliminated. Readers are advised to read PS 2500 Basic Principles of Consolidation for further guidance.

11. Crown Corporations are not considered to be under the control of departments and therefore are not consolidated in the financial statements of departments. However, investments in, loans and advances to Crown corporations are to be included in the statements of the department of the minister responsible for the Crown corporation, as well as any transactions related to these such as interest revenue and dividends. Payments of amounts appropriated to a Crown corporation are not to be included in a department's financial statements, as these funds are not appropriated to the department and do not relate to its activities. In these situations, the department is simply acting as a flow-through for administration purposes so the Crown corporation may receive its appropriated funds.

12. Some organizations, which meet the definition of a department pursuant to Section 2 of the FAA, receive their funding through another department. They neither submit their own Estimates nor report their results separately. These organizations such as Commissions of Inquiry and other smaller organizations will be reported in the financial statements of the department through which their funding is provided.

Form and Content

13. Financial statements comprise: a statement of financial position; a statement of operations; an optional statement of equity of Canada; a statement of cash flow; accompanying notes and a statement of management responsibility for the financial statements. A model of a financial statement package is presented at the end of this TBAS. Departments are to use this model but must modify it to fit their circumstances; that is, only those statement items and notes that apply to the reporting entity should be used.
14. Departments must exercise professional judgement in determining the content and presentation of their financial statements. The statements should communicate information that is relevant to users, reliable, comparable between periods, understandable and clearly presented in a manner that maximizes its usefulness. Entities should refer to the complete disclosure requirements contained in the PSAB handbook.
15. In terms of hierarchy, the TBAS and TBS Information Bulletins, which are consistent with Canadian generally accepted accounting principles (GAAP) for the public sector, will be the first source for direction and guidance, followed by the PSAB Handbook. TBS will monitor new guidance issued by PSAB and make any necessary amendments to TBAS to ensure guidance to departments reflects current GAAP.
16. The financial statements may include items that are not recorded in the Central Financial Management and Reporting System (CFMRS) trial balance. These items, such as certain services provided without charge, are required for the fair presentation of the financial statements but are not to be recorded in the trial balance, as the amounts are determined purely for financial statement presentation purposes.
17. For special circumstances not covered by this TBAS or for exceptions to the reporting requirements contained in this TBAS, departments must seek the advice of the Government Accounting Policy and Reporting Division of TBS.

Audit

18. Unless required by legislation or instructed by TBS, departments are not to engage an external auditor for audit of the financial statements.
19. Financial statements that are audited by an external auditor must have the auditor’s report appended to them. Unaudited financial statements must be clearly annotated as such.

Publishing

20. Departments are encouraged to make interim and final financial statements readily available internally within the department.
21. The financial statements of departmental corporations, revolving funds, and agents of Parliament are currently publicly available whether through the Public Accounts, the Departmental Performance Report or annual report. Starting with the 2005-2006 fiscal year,

departments will publish their financial statements in the Departmental Performance Report. Financial statements that are not audited should be clearly marked as such.

Illustrative Financial Statement Package

Introduction

The objective of this financial statement package is to provide a model for the general-purpose financial statements prepared by departments. This model should be used in order to ensure comparability with other departments. It sets out overall considerations for the presentation of financial statements, guidance for their structure, and minimum requirements for the content of financial statements prepared using the accrual basis of accounting while also providing information on the use of funding provided by the Government of Canada through the appropriations.

The external readers should readily understand terminology used in the financial statements. Consequently, those responsible for the preparation of the financial statements should not use government jargon or acronyms that are not widely understood outside the public service (e. g. the terms specified purpose accounts (SPAs) and consolidated specified purpose accounts are particular to government). These terms should be avoided and replaced with words that describe their substance (e.g. deferred revenue and endowments). In cases where the use of government jargon is unavoidable, then the term should be defined such as is done for “Repayable Contributions”.

Components and Format of Financial Statement Package

The illustrative financial statement package contained in this section cannot consider all the unique circumstances and peculiarities of each and every department and therefore, departmental personnel must use professional judgement in modifying the package to meet their reporting requirements. It should not be used as a template.

As indicated earlier, it is recognized that reporting requirements may be different or desirable for many departments. Consequently, departments have flexibility to adjust the format to meet their reporting requirements, provided all relevant TBAS and PSAB reporting requirements are met.

For all statements:

- Financial statements that are subject to an external audit will have an Auditor’s Report appended to them. For departments that are not audited, the financial statements must be annotated “unaudited” on each page.
- Indicate on all statements whether amounts are in dollars or thousands of dollars. Presentation of amounts in notes should be consistent with that used for the statements.
- All statements should cross-reference to other statements and notes. For example, the total receivables on the Statement of Financial Position (SFP) must equal the amount shown in the note on receivables and the increase/(decrease) in the receivables balance on the SFP must equal the amount shown on the Statement of Cash Flow.
- The term “the department” has been used throughout the package. The name of the entity should replace “the department” wherever possible.

A brief description of each of the components of the financial statements follows indicating some major differences from those found in the private sector.

Treasury Board Accounting Standard 1.2 - Departmental and Agency Financial Statements

Statement of Management Responsibility

Purpose:
A statement of management responsibility states management's responsibility for the financial statements and other financial information, as well as the financial reporting process that produces such statements and other information. The report also states the role of the board of directors and, when one exists, the audit committee. The purpose of this statement is to communicate to users of the financial statements the key elements of responsibility for the representations made in financial statements and other financial information, to clarify whose representations they are and to clarify the limits of their accuracy. It is to be signed by the Deputy Head and the Senior Financial Officer.

Structure and Format:
The statement should be modified or tailored, as required, to suit the department's mode of operations. For example, if there is no internal audit function in the department, reference to it in the statement should be removed. Departmental personnel are encouraged to consult the CICA accounting guidance AcG-7, which provides guidance on the minimum content of a statement of management responsibility.

The statement should be dated to indicate the point to which events have been taken into account. The date would normally be the same as the date of the auditor's report with a view to ensuring consistent consideration of subsequent events.

Treasury Board Accounting Standard 1.2 - Departmental and Agency Financial Statements

Example:

Statement of Management Responsibility

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2006 and all information contained in these statements rests with departmental management. These financial statements have been prepared by management in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector.

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

Management maintains a system of financial management and internal control designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are in accordance with the *Financial Administration Act,* are executed in accordance with prescribed regulations, within Parliamentary authorities, and are properly recorded to maintain accountability of Government funds. Management also seeks to ensure the objectivity and integrity of data in its financial statements by careful selection, training and development of qualified staff, by organizational arrangements that provide appropriate divisions of responsibility, and by communication programs aimed at ensuring that regulations, policies, standards and managerial authorities are understood throughout the department.

Where an audit committee exists describe its role and responsibilities.

*As applicable add***:** The financial statements of the department have been audited by the *Auditor General of Canada, the independent auditor for the Government of Canada or the firm of* ___________________________. or

The financial statements of the department have not been audited.

Name, Deputy Head *(City where signed, eg Ottawa, Canada)* *(Date signed)*	Name, Senior Financial Officer

Treasury Board Accounting Standard 1.2 - Departmental and Agency Financial Statements

Statement of Operations

Purpose:
The purpose of the Statement of Operations is to report the revenues and expenses and the net cost of operations from one point in time to another point in time, normally from April 1st of one year to March 31st of the next year. In conjunction with other performance information, it provides information for determining the efficiency of the entity's operations.

Structure and Format:
The structure of the Statement of Operations is different in a number of aspects to ones found in the private sector: The "bottom-line" for this statement is Net Cost of Operations (i.e. expenses exceed revenues). In the private sector, the "bottom-line" is normally Net Profit (i.e. revenues exceed expenses). This has implications for the Statement of Cash Flows prepared using the indirect method; the starting amount is opposite to the starting amount normally found in the private sector or in accounting textbooks because expenses exceed revenues. Another change from the private sector is that expenses may be presented ahead of revenues in the statements. A department may choose this presentation where its revenues are insignificant compared to its expenses.

Expenses and revenues should be listed in order from largest to smallest.

<u>Presentation by major program:</u> The Statement should present the revenues and expenses by function or major program and also by object (i.e. major type of expense such as salaries, transfer payments, amortization, etc.). Departments should consider the Program-Activity level of the entity's Program-Activity Architecture (PAA) in determining the major programs or functions. Where a department has a very large number of program activities, it may be appropriate to group certain program activities together or present the statement at the strategic outcome level.

The revenues and expenses of the corporate services program activity code should be allocated to the other program activity codes. The allocation of revenues and expenses to the program activities should be based on a rational allocation basis which is tied to the nature of the item. For example, amortization expense should be allocated to the programs activities which use the asset.

The first illustrative example of the Statement of Operations presents results on both a major program basis and object of expense basis in the statement. This presentation may be appropriate where a department has a very small number of program activities. The second illustrative example presents results solely on a major program basis; object of expense information is presented in a note. This latter presentation is preferable where a department has several program activities.

<u>Services without charge:</u>

- In accounting for services without charge, it is important that services provided by other government departments are accounted for on a consistent basis from year to year. As such, the statement of operations should contain an expense in the amount of the estimated cost for any service from another government department that is not consistently provided without charge. At a minimum, these costs will include:
    - Accommodation from PWGSC
    - Health and dental from TBS
    - Legal services from Justice Canada

For services provided consistently without charge by other government departments, the accounting treatment is limited to a description of the nature of the service in the note on related party transactions.

- The department that provides the service without charge should provide the estimated cost to the recipient department.
- The amount must not be included in the CFMRS Trial Balance. To ensure that there is a nil effect, a corresponding amount is credited to equity. Adequate documentation (i.e. an audit trail) must be retained for amounts presented in the statement.
- The recording of services provided without charge as an expense affects the Statement of Operations, the Statement of Equity of Canada, the Statement of Cash Flow (when prepared under the indirect method) and the note on the reconciliation of net results to appropriations used.
- Services provided without charge that relate to assets under construction are not to be capitalized as part of the assets' cost (only expensed in the year).
- Services provided without charge are to be grouped under the appropriate object of expense and program activity (i.e. they are not to be presented on a separate line).

Treasury Board Accounting Standard 1.2 - Departmental and Agency Financial Statements

Examples:

Department Name
Statement of Operations (*Unaudited*)
For the Year Ended March 31
(*in thousands of dollars*)

	2006				2005
	Benefit programs and other services	Appeals	International Issues	Total	Total
Transfer payments					
Industry	2,993	0	0	2,993	2,878
Other	75	0	0	75	30
Total transfer payments	3,068	0	0	3,068	2,908
Operating Expenses					
Salaries and employee benefits	513,158	399,123	228,070	1,140,351	1,069,122
Professional and special services	187,573	145,890	83,366	416,829	395,995
Amortization	33,554	26,097	14,913	74,564	74,713
Utilities, materials and supplies	19,926	15,498	8,856	44,280	48,460
Accommodation	19,575	15,225	8,700	43,500	42,250
Travel	15,996	12,441	7,109	35,546	21,448
Communication	5,762	4,481	2,561	12,804	13,805
Loss on write-down of tangible capital assets	2,156	1,677	958	4,791	0
Loss on disposal of tangible capital assets	1,049	816	466	2,331	4,208
Other	325	253	144	722	993
Total operating expenses	799,074	621,501	355,143	1,775,718	1,670,994
Total Expenses	**802,142**	**621,501**	**355,143**	**1,778,786**	**1,673,902**
Revenues					
Regulatory fees	36,772	30,933	17,677	85,382	48,044
Miscellaneous revenues	3,285	222	127	3,634	6,824
Gains on disposal of assets	333	260	148	741	736
Total Revenues	**40,390**	**31,415**	**17,952**	**89,757**	**55,604**
Net Cost of Operations	**761,752**	**590,086**	**337,191**	**1,689,029**	**1,618,298**

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

Department Name
Statement of Operations *(Unaudited)*
For the Year Ended March 31
(in thousands of dollars)

	2006	2005
Expenses (Note 4)		
Benefit programs and other services	802,142	743,256
Appeals	621,501	585,866
International issues	355,143	344,780
Total expenses	1,778,786	1,673,902
Revenues (Note 5)		
Benefit programs and other services	40,390	25,022
Appeals	31,415	19,461
International issues	17,952	11,121
Total Revenues	89,757	55,604
Net Cost of Operations	1,689,029	1,618,298

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

Treasury Board Accounting Standard 1.2 - Departmental and Agency Financial Statements

Statement of Financial Position

Purpose:
The purpose of the Statement of Financial Position is to present the assets and liabilities that the department is responsible for administering, and the equity of Canada, as at a specific point of time, normally March 31st.

Structure and Format:
Although the basic structure of the Statement of Financial Position is similar to ones found in the private sector, it is important to take note of some important differences:

- Assets are classified as either financial assets or non-financial assets and are reflected on the Statement as such. There is no distinction between current and non-current;
- Liabilities are not classified as current or non-current but are listed generally in order of expected repayment.

GST Refundable Advance Account: Although GST Refundable Advance Account is shown under the Advance classification in the chart of accounts, the nature of the account at the departmental level is an account receivable. For presentation purposes, departments should include the amount in OGD accounts receivable or as a reduction to OGD payables.

Cash: The main components of cash reported by most departments are cash awaiting deposit and deposits and payments in transit to the Receiver General. A net positive balance, or net deposits in transit, is a financial asset. A net negative balance, or net payments in transit, should be reported as an accounts payable or other liability.

Treasury Board Accounting Standard 1.2 - Departmental and Agency Financial Statements

Example:

Department Name
Statement of Financial Position (*Unaudited*)
At March 31
(*in thousands of dollars*)

		2006	2005
ASSETS			
Financial assets			
	Cash	3	2
	Accounts receivable and advances (Note 6)	31,157	14,086
	Total financial assets	31,160	14,088
Non-financial assets			
	Prepaid expenses	2,379	25
	Inventory	25,246	8,639
	Tangible capital assets (Note 8)	1,252,797	1,257,513
	Total non-financial assets	1,280,422	1,266,177
TOTAL		1,311,582	1,280,265
Liabilities			
	Accounts payable and accrued liabilities	190,441	152,016
	Vacation pay and compensatory leave	47,966	45,541
	Deferred revenue (Note 9)	10,740	10,078
	Lease obligation for tangible capital asset (Note 10)	24	42
	Employee severance benefits (Note 11)	63,796	61,454
		312,967	269,131
Equity of Canada		998,615	1,011,134
TOTAL		1,311,582	1,280,265

Contingent liabilities (Note 12)

Contractual obligations (Note 13)

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

Treasury Board Accounting Standard 1.2 - Departmental and Agency Financial Statements

Statement of Equity of Canada

Purpose:
The purpose of this statement is to present the reconciliation of the opening balance of the equity of Canada to the closing balance.

Structure and Format:
Since departments do not record appropriations as revenue, the amount of appropriations used by the department is included in the statement of equity of Canada as an offset to net cost of operations. Since departments operate within the Consolidated Revenue Fund (CRF) which is on a cash basis and appropriations used are on a modified cash basis, two reconciling items must be included to the statement: revenues not respendable by the department and change in net position in the CRF (see note 2(d) for additional information).

The amount of services provided without charge is added to complete the reconciliation of the opening to closing balances.

Example:

Department Name
Statement of Equity of Canada (*Unaudited*)
At March 31
(*in thousands of dollars*)

	2006	2005
Equity of Canada, beginning of year	1,011,134	1,015,070
Net cost of operations	(1,689,029)	(1,618,298)
Current year appropriations used (Note 3)	1,582,562	1,526,103
Revenue not available for spending	(24,500)	(22,251)
Change in net position in the Consolidated Revenue Fund (Note 3)	(6,302)	(6,340)
Services received without charge from other government departments (Note 14)	124,750	116,850
Equity of Canada, end of year	998,615	1,011,134

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

Treasury Board Accounting Standard 1.2 - Departmental and Agency Financial Statements

Statement of Cash Flow

Purpose:
The purpose of the Statement of Cash Flow is to show how the department generated and used cash in the accounting period (including interdepartmental settlement transactions). It normally covers a year from 1 April of one year to the 31 March of the next.

Structure and Format:
Other than amounts that have yet to be deposited and small amounts of travellers' cheques, departments do not generally keep cash balances. The beginning and ending cash balances are therefore usually zero; however, departments do use cash throughout the year. The use of cash is measured by the Receiver General Control Accounts – financial reporting accounts that begin with "6". Although the statement is formatted to present the change in cash balances from beginning to the end of the year, since these balances are generally zero, the statement effectively must reconcile to the total of these control accounts. Where the cash balances are nil, departments have the option of dropping the last three lines of the sample statement.

Since control accounts are at the departmental level, a split of these accounts will be necessary for the statements of most revolving funds. Also, where a department makes payments of appropriation amounts to a Crown corporation, these amounts must be deducted from the control accounts to complete the reconciliation. As this financial activity is neither under the control or responsibility of the department (i.e. is acting as a flow-through only), the amounts should not be reported in the financial statements.

This statement can be prepared using either the direct or indirect method, although PSAB encourages governments to use the direct method.

The Statement covers cash flows relating to: operating, capital, investing and financing activities:

- Departments do not normally carry out financing transactions, except for the Department of Finance on behalf of the entire government. Therefore, the only financing activity to be reported by a department is the net cash provided by the Government of Canada, that is, the balance of the Receiver General Control Accounts.
- Gains and/or losses on the disposal or write-down of tangible capital assets are included in operating activities; proceeds from disposal and cash paid on acquisition should be included in capital activities. (PS1200.114)
- Changes in the balances of advances to employees should be included in operating activities.
- Investing activities are generally limited to departments with investments in Crown corporations.
- Interest on capital leases should be listed under operating activities.

Example – Direct Method:

Department Name
Statement of Cash Flow (*Unaudited*)
For the Year Ended March 31
(*in thousands of dollars*)

	2006	2005
Operating activities		
Cash received from:		
Services and fees	(59,248)	(44,063)
Cash paid for:		
Transfer payments	2,985	2,426
Salaries and employee benefits	1,035,252	993,867
Professional and special services	399,895	375,155
Utilities, materials and supplies	54,993	54,892
Travel and communication	39,851	31,515
Other	1,798	956
	1,534,774	1,458,811
Cash used by operating activities	1,475,526	1,414,748
Capital investment activities		
Acquisitions of tangible capital assets	76,906	123,925
Proceeds from disposal of tangible capital assets	(673)	(41,159)
Cash used by capital investment activities	76,233	82,766
Financing activities		
Net cash provided by Government of Canada	(1,551,760)	(1,497,512)
Net Cash Used	(1)	2
Cash, beginning of year	2	4
Cash, end of year	3	2

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

If the department has no cash balances, the last line of the statement should be the Net cash provided by Government of Canada

Example – Indirect Method:

Department Name
Statement of Cash Flow (*Unaudited*)
For the Year Ended March 31
(*in thousands of dollars*)

	2006	2005
Operating activities		
Net cost of operations	1,689,029	1,618,298
Non-cash items:		
Amortization of tangible capital assets	(74,564)	(74,713)
(Loss) Gain on disposal and write-down of tangible capital assets	(6,384)	(3,472)
Services provided without charge	(124,750)	(116,850)
Variations in Statement of Financial Position:		
Increase (decrease) in accounts receivable and advances	17,071	(8,958)
Increase (decrease) in prepaid expenses	2,354	(569)
Increase in inventory	16,607	8,000
Increase in liabilities	(43,837)	(6,988)
Cash used by operating activities	1,475,526	1,414,748
Capital investment activities		
Acquisitions of tangible capital assets	76,906	123,925
Proceeds from disposal of tangible capital assets	(673)	(41,159)
Cash used by capital investment activities	76,233	82,766
Financing activities		
Net cash provided by Government of Canada	(1,551,760)	(1,497,512)
Net Cash Used	(1)	2
Cash, beginning of year	2	4
Cash, end of year	3	2

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

Treasury Board Accounting Standard 1.2 - Departmental and Agency Financial Statements

Notes

Purpose:
The purpose of the notes is to provide a narrative description of various accounting issues particular to the department to aid the readers and users of the financial statements to better understand and interpret the statements.

Structure and Format:
The Notes are very similar to those found in private sector financial statements but do include some items that are particular to the federal government departments.

- The first note provides information on the authority and objectives of the department and helps the reader understand the context of the department and its raison d'être;
- The second note provides a summary of the significant accounting policies of the department. Particular attention should be made to the requirement to include sub-notes on parliamentary appropriations, services provided without charge, measurement uncertainty and employee benefits.
- The note on measurement uncertainty is to alert readers that there are certain significant amounts in the financial statements that are based on estimates and assumptions. The most significant estimates are mentioned in the note (e.g. useful life of tangible capital assets, unamortized discount on repayable contributions or other loans, allowance for bad debts, employee severance benefits) as applicable to the department.
- If the department has repayable contributions as assets, then a note is required to describe the receivable and any allowance recorded on the receivable.
- There is a requirement to include a note on related party transactions. This note describes the relationship of departments to each other and the government as a whole and on what basis the department enters into transactions with other departments.

Departments are encouraged to include other notes specific to their operation to either provide more relevant information or to aid readers to better understand or interpret the financial statements. However, it is important to find the right balance between too much information and too little information.

An example of a set of notes follows. These notes are all mandatory to the extent that they are applicable to a department. However, they are not necessarily all-inclusive. Departments will need to modify or add to the notes to fit specific departmental circumstances. Only those notes that are applicable to the department should be included.

Example:

Department Name

Notes to the Financial Statements (Unaudited)

1. Authority and Objectives
A brief description of the authority and objectives of the department must be included here.

2. Summary of Significant Accounting Policies
The financial statements have been prepared in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector.

Significant accounting policies are as follows:

(a) Parliamentary appropriations – the Department is financed by the Government of Canada through Parliamentary appropriations. Appropriations provided to the department do not parallel financial reporting according to generally accepted accounting principles since appropriations are primarily based on cash flow requirements. Consequently, items recognized in the statement of operations and the statement of financial position are not necessarily the same as those provided through appropriations from Parliament. Note 3 provides a high-level reconciliation between the bases of reporting.

(b) Consolidation – these financial statements include the accounts of the following sub-entities of the department (specify the various sub-reporting entities in existence e.g. Revolving Fund, Special Operating Agencies, organizations such as Communications Security Establishment, etc.). The accounts of these sub-entities have been consolidated with those of the department and all inter-organizational balances and transactions have been eliminated. *Where applicable, departments should note that investments in Crown corporations are reported at cost and not consolidated.*

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

(d) Change in net position in the Consolidated Revenue Fund is the difference between the net cash provided by Government and appropriations used in a year, excluding the amount of non respendable revenue recorded by the department. It results from timing differences between when a transaction affects appropriations and when it is processed through the CRF.

(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 revenues. These revenues are recognized in the period in which the related expenses are incurred.

- Other revenues are accounted for in the period in which the underlying transaction or event occurred that gave rise to the revenues.

- Revenues that have been received but not yet earned are recorded as deferred revenues.

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

- Grants are recognized in the year in which the conditions for payment are met. In the case of grants which do not form part of an existing program, the expense is recognized when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements;

- Contributions are recognized in the year in which the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement;

- Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment.

- Services provided without charge by other government departments for accommodation, the employer's contribution to the health and dental insurance plans and legal services are recorded as operating expenses at their estimated cost.

(g) Employee future benefits

(i) Pension benefits: Eligible employees participate in the Public Service Pension Plan *(identify appropriate plan),* a multiemployer administered by the Government of Canada. The department's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. Current legislation does not require the department to make contributions for any actuarial deficiencies of the Plan.

(ii) Severance benefits: Employees are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. 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 receivables are stated at amounts expected to be ultimately realized; a provision is made for receivables where recovery is considered uncertain.

(i) Repayable contributions are contributions where the recipient is expected to repay the amount advanced. Depending on their nature, they are classified as either unconditionally repayable or conditionally repayable and are accounted for differently.

(i) Unconditionally repayable contributions are contributions that must be repaid without qualification. Normally, these contributions are provided with a low or no interest clause. Due to their concessionary nature, they are recorded on the Statement of Financial

Position as loans at their estimated present value. A portion of the unamortized discount is brought into income each year to reflect the change in the present value of the contributions outstanding. An estimated allowance for un-collectibility is also recorded where appropriate.

(ii) Conditionally repayable contributions are contributions that, all or part of which become repayable, if conditions specified in the contribution agreement come into effect. Accordingly, they are not recorded on the Statement of Financial Position until such time as the conditions specified in the agreement are satisfied at which time they are then recorded as a receivable and a reduction in transfer payment expenses. An estimated allowance for un-collectibility is recorded where appropriate.

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

(k) Environmental liabilities – Environmental liabilities reflect the estimated costs related to the management and remediation of environmentally contaminated sites. Based on management's best estimates, a liability is accrued and an expense recorded when the contamination occurs or when the department becomes aware of the contamination and is obligated, or is likely to be obligated to incur such costs. If the likelihood of the department's obligation to incur these costs is not determinable, or if an amount cannot be reasonably estimated, the costs are disclosed as contingent liabilities in the notes to the financial statements.

(l) Inventories – Inventories consist of parts, material and supplies held for future program delivery and not intended for re-sale. They are valued at cost. If they no longer have service potential, they are valued at the lower of cost or net realizable value.

(m) Foreign currency transactions – Transactions involving foreign currencies are translated into Canadian dollar equivalents using rates of exchange in effect at the time of those transactions. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the rate of exchange in effect on 31 March. Gains and losses resulting from foreign currency transactions are included in – *specify the line* – on the statement of operations. *(Note not required where department has insignificant foreign exchange transactions).*

(n) Tangible capital assets – All tangible capital assets and leasehold improvements having an initial cost of $10,000 *(If the department has a different threshold, then this amount should be reflected***)** or more are recorded at their acquisition cost. The department does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, assets located on Indian Reserves and museum collections. *(This portion of the note should be expanded as required to comply with PS3150.41 of the CICA Public Sector Accounting Handbook.)*

Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the asset as follows: *(This portion of the note would be amended to reflect the amortization methodology, rates and classes of assets being used in the department. Classes should match those listed in note 8)*

Asset class	**Amortization period**
Buildings	***(Number)*** years
Works and Infrastructure	***(Number)*** years
Machinery and equipment	***(Number)*** years
Vehicles	***(Number)*** years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement
Assets under construction	Once in service, in accordance with asset type
Leased tangible capital assets	In accordance with asset type if ownership is likely to transfer to the department; otherwise, over the lease term

(o) Measurement uncertainty — The preparation of these financial statements in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, environmental liabilities, the liability for employee severance benefits and the useful life of tangible capital assets *(list as applicable)*. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known. *This note should be enhanced if a department has a particular significant measurement uncertainty.*

3. Parliamentary Appropriations

The Department receives most of its funding through annual Parliamentary appropriations. Items recognized in the statement of operations and the statement of financial position in one year may be funded through Parliamentary appropriations 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:

Treasury Board Accounting Standard 1.2 - Departmental and Agency Financial Statements

(a) Reconciliation of net cost of operations to current year appropriations used:		**2006**	**2005**
		(in thousands of dollars)	
Net cost of operations		1,689,029	1,618,298
Adjustments for items affecting net cost of operations but not affecting appropriations:			
Add (Less):			
	Services provided without charge	(124,750)	(116,850)
	Amortization of tangible capital assets	(74,564)	(74,713)
	Revenue not available for spending	24,500	22,251
	Increase in liability for contaminated sites	(12,304)	(2,718)
	(Loss) gain on disposal and write-down of tangible capital assets	(6,384)	(3,472)
	Vacation pay and compensatory leave	(2,425)	(1,590)
	Employee Severance Benefits	(2,342)	(2,306)
	Other	(4,065)	(7,977)
		1,486,695	1,430,923
Adjustments for items not affecting net cost of operations but affecting appropriations			
Add (Less):	Acquisitions of tangible capital assets	76,906	87,749
	Inventory purchased	16,607	8,000
	Prepaid expenses	2,354	(569)
Current year appropriations used		**1,582,562**	**1,526,103**

(b) Appropriations provided and used

	Appropriations Provided	
	2006	**2005**
	(in thousands of dollars)	
Vote xx – Operating expenditures	1,140,976	1,089,838
Vote xx - Capital expenditures	130,765	126,865
Statutory amounts	364,956	361,517
Less:		
Appropriations available for future years	(50,000)	(49,000)
Lapsed appropriations: Operating	(4,135)	(3,117)
Current year appropriations used	1,582,562	1,526,103

Notes:
1. Schedule B should be modified to include only those appropriations applicable to the department.
2. The amount to include is the total amount for each type of appropriation. There is no need to break the amounts into more detail but departments may provide further detail if desired.
3. Amounts of appropriations provided and used must agree with the amounts shown as Available for Use and Authorities Used as reflected in the Source and Disposition of Authorities in Volume II of the Public Accounts.

c) Reconciliation of net cash provided by Government to current year appropriations used

		2006	2005
		(in thousands of dollars)	
Net cash provided by Government		1,551,760	1,497,512
Revenue not available for spending *(1)(2)*		24,500	22,251
Change in net position in the Consolidated Revenue Fund			
(3)	Variation in accounts receivable and advances	(17,071)	8,958
	Variation in accounts payable and accrued liabilities	38,425	5,990
	Variation in deferred revenue	662	10
	Other adjustments *(4)*	(15,714)	(8,618)
		6,302	6,340
Current year appropriations used		1,582,562	1,526,103

(1) Include refunds of previous year's expenditures. However, in the unusual situation where the refund amount is large, consider presenting it on its own line.

(2) Assumes that the department has vote-netting authority (i.e. appropriations provided are net of revenues). For departmental corporations, the reconciliation will have to be tailored to include revenue available for spending and any carry-forward provision.

(3) Amounts are the changes taken from the Statement of Financial Position. Only list the balance sheet items where some part of the amount affects either net cash provided by Government or appropriations used. For example, a change in the liability for employee severance does not affect net cash provided since it is an accrual entry and the entry to record the liability does not impact appropriations. Hence the change in this liability is not included in the reconciliation.

(4) Other adjustments reflect the cumulative difference between the changes in assets and liabilities listed above which do not have an impact on either net cash provided by Government or Appropriations Used. For example, within accrued liabilities, some amounts would have been recorded by an expense that was charged to an "F" authority code (such as an accrual for contingent liabilities) and would not have affected appropriations used. As a result, the increase in this portion of accrued liabilities would have no effect on either the amount of net cash provided by government or appropriations used, and should be removed for the reconciliation. Other elements to include in the adjustment where appropriate include (but are not limited to):

- *Changes in accounts receivable from external parties (regardless as to whether revenue is respendable or not);*
- *Changes in accounts receivable for non respendable revenue.*

o 4. **Expenses** *(only required where details of expenses are not provided on the Statement of Operations)*

The following table presents details of expenses by category:

	2006	**2005**
	(in thousands of dollars)	
Transfer payments – Industry	2,993	2,878
Transfer payments – Other	75	30
Total transfer payments	3,068	2,908
Salaries and employee benefits	1,140,351	1,069,122
Professional and special services	416,829	395,995
Amortization	74,564	74,713
Utilities, materials and supplies	44,280	48,460
Accommodation	43,500	42,250
Travel	35,546	21,448
Communication	12,804	13,805
Loss on write-down of tangible capital assets	4,791	0
Loss on disposal of tangible capital assets	2,331	4,208
Other	722	993
Total operating expenses	1,775,718	1,670,994
Total Expenses	**1,778,786**	**1,673,902**

5. Revenues *(only required where details of revenues are not provided on the Statement of Operations)*

The following table presents details of revenues by category:

	2006	**2005**
	(in thousands of dollars)	
Regulatory fees	85,382	48,044
Miscellaneous revenues	3,634	6,824
Gains on disposal of tangible capital assets	741	736
Total revenues	89,757	55,604

6. Accounts Receivable and Advances

The following table presents details of accounts receivable and advances:

	2006	**2005**
	(in thousands of dollars)	
Receivables from other Federal Government departments and agencies	25,697	8,872
Receivables from external parties	5,632	6,941
Employee advances	345	322
	31,674	16,135
Less: allowance for doubtful accounts on external receivables	(517)	(2,049)
Total	31,157	14,086

7. Loans Receivable:

(This is a suggested note for organizations that have repayable contributions or other loans receivable. It must be changed to reflect the department's particular operating environment.)

	2006	**2005**
	(in thousands of dollars)	
Repayable contributions		
Unamortized discount		
Allowance for uncollectibility		
Net repayable contributions		
Other loans		
Total		

For departments with repayable contributions and other loans receivable, consult the disclosure requirements in PS 3050.54 and .56 of the CICA Public Sector Accounting Handbook to determine the extent of information to disclose.

8. Tangible Capital Assets

(in thousands of dollars)

	Cost				Accumulated amortization				2006	2005
Capital asset class	**Opening balance**	**Acquisi-tions**	**Disposals and write-offs**	**Closing balance**	**Opening balance**	**Amortiz-ation**	**Disposals and write-offs**	**Closing balance**	**Net book value**	**Net book value**
Land	12,989			12,989					12,989	12,989
Buildings	1,324,284	44,635	2,809	1,366,110	425,488	40,465	59	465,894	900,216	898,796
Works and infrastructure	370,059	13,822		383,881	202,792	17,267		220,059	163,822	167,267
Machinery and equipment	169,327	16,121	18,276	167,172	117,194	12,735	14,269	115,660	51,512	52,133
Vehicles	35,641	7,076	3,900	38,817	23,536	4,004	3,599	23,941	14,876	12,105
Leasehold improvements	1,255	67		1,322	95	82		177	1,145	1,160
Assets under construction	112,988	53,677	58,492	108,173					108,173	112,988
Leased tangible capital assets	111			111	36	11		47	64	75
Total	2,026,654	135,398	83,477	2,078,575	769,141	74,564	17,927	825,778	1,252,797	1,257,513

Amortization expense for the year ended March 31, 2006 is $74,564 (2005 - $74,713).

9. Deferred revenue *(example of disclosure for a non-consolidated specified purpose account)*
Deferred revenue represents the balance at year-end of unearned revenue stemming from donations, which are restricted to fund the salary costs related to research in the field of xxx. Revenue is recognized each year in the amount of the salary costs incurred. Details of the transactions related to this account are as follows:

	2006	2005
	(in thousands of dollars)	
Opening balance	10,078	10,068
Donations received	1,344	1,140
Revenue recognized	(682)	(1,130)
Closing balance	10,740	10,078

Note: if the specified purpose account (SPA) is created under legislation, reference to it should be made. If the department has a consolidated SPA, a separate note on the split of the equity of Canada balance between the unrestricted and the restricted balances (the consolidated SPA) should be presented.

10. Lease Obligation for Tangible Capital Assets

The department has entered into agreements to rent information technology equipment *(general description of leased assets)* under capital lease with a cost of $111,000 and accumulated amortization of $47,000 as at March 31, 2006 ($111,000 and $36,000 respectively as at March 31, 2005) (note 7). The obligations for the upcoming years include the following:

Maturing year	2006	2005
	(in thousands of dollars)	
2007	19	19
2008	10	19
2009	0	10
2010	0	0
2011 and thereafter	0	0
Total future minimum lease payments	29	48
Less: imputed interest (2.3% to 6.0%)	5	6
Balance of obligations under leased tangible capital assets	24	42

(Any significant restrictions imposed on the department as a result of the lease agreement should be disclosed.)

11. Employee Benefits

(a) Pension benefits: The department's employees participate in the Public Service Pension 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 Plans benefits and they are indexed to inflation.

Both the employees and the department contribute to the cost of the Plan. The 2005-06 expense amounts to $XXX ($xxx in 2004-05), which represents approximately 2.6 time the contributions by employees.

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

(b) Severance benefits: The department provides severance benefits to its employees based on eligibility, years of service and final salary. These severance benefits are not pre-funded. Benefits will be paid from future appropriations. Information about the severance benefits, measured as at March 31, is as follows:

	2006	2005
	(in thousands of dollars)	
Accrued benefit obligation, beginning of year	61,454	59,318
Expense for the year	2,510	2,306
Benefits paid during the year	(168)	(170)
Accrued benefit obligation, end of year	63,796	61,454

12. Contingent liabilities

(a) Contaminated sites
Liabilities are accrued to record the estimated costs related to the management and remediation of contaminated sites where the department is obligated or likely to be obligated to incur such costs. The department has identified approximately 50 sites (49 sites in 2005) where such action is possible and for which a liability of $20,304,000 ($8,000,000 in 2005) has been recorded. The department has estimated additional clean-up costs of $3,000,000 ($1,000,000 in 2005) that are not accrued, as these are not considered likely to be incurred at this time. The department's ongoing efforts to assess contaminated sites may result in additional environmental liabilities related to newly identified sites, or changes in the assessments or intended use of existing sites. These liabilities will be accrued by the department in the year in which they become known.

(b) Claims and litigation
Claims have been made against the department in the normal course of operations. Legal proceedings for claims totalling approximately $20,000,000 ($14,000,000 in 2005) were still pending at March 31,

2006. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in the financial statements. * *Department should provide details of significant cases – refer to disclosure requirements in PS 3300.28 of the CICA Public Sector Accounting Handbook.*

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 when the services/goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

(in thousands of dollars)	**2007**	**2008**	**2009**	**2010**	**2011 and thereafter**	**Total**
Transfer payments	3,000	2,500	1,000			6,500
Operating leases	1,000	1,000	1,000	900	100	4,000
Total	4,000	3,500	2,000	900	100	10,500

14. Related party transactions

The department is related as a result of common ownership to all Government of Canada departments, agencies, and Crown corporations. The department enters into transactions with these entities in the normal course of business and on normal trade terms. Also, during the year, the department received services which were obtained without charge from other Government departments as presented in part (a).

(a) Services provided without charge:

During the year the department received without charge from other departments, accommodation, legal fees and the employer's contribution to the health and dental insurance plans. These services without charge have been recognized in the department's Statement of Operations as follows:

	2006	**2005**
	(thousands of dollars)	
Accommodation	43,500	42,250
Employer's contribution to the health and dental insurance plans	75,000	70,000
Legal services	6,250	4,600
Total	124,750	116,850

The Government has structured some of its administrative activities for efficiency and cost-effectiveness purposes so that one department performs these on behalf of all without charge. The costs of these services, which include payroll and cheque issuance services provided by Public Works and Government

Services Canada and audit services provided by the Office of the Auditor General *(list activities relevant to the department*), are not included as an expense in the department's Statement of Operations.

(b) Payables and receivables outstanding at year-end with related parties:

	2006	**2005**
	(thousands of dollars)	
Accounts receivable with other government departments and agencies	25,697	8,872
Accounts payable to other government departments and agencies	4,062	5,741

(Note: if the amount of receivables and payables is presented elsewhere in the financial statements, there is no need to present the information in this note).

(c) Administration of programs on behalf of other government departments *(Note: only recommended for departments which administer significant amounts of funds on behalf of other government departments)*

Under a memorandum of understanding signed with Industry Canada on April 1, 2004, the department administers program XXX in Northern Canadian communities. During 2005-06, the department issued $xxx in transfer payments ($xxx in 2004-05) on behalf of Industry Canada. These expenses are reflected in the financial statements of Industry Canada and not those of the department. *Provide a description of the activities performed by your department and the dollar amount of funds administered.*

15. Comparative information

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

This note should be used only when appropriate.