

Statement of Management Responsibility

Departmental management is responsible for these future-oriented financial statements, including responsibility for the appropriateness of the assumptions on which these statements are prepared. These statements are based on the best information available and assumptions adopted as at December 31st 2010, and reflect the plans described in the Report on Plans and Priorities.

The role of the External Audit Advisory Committee (EAAC) is advisory in nature and the current Directive on Departmental Audit Committee does not specifically mention Future-oriented Financial Statements.



Paul Boothe, Deputy Minister
Gatineau, Canada
February 10th, 2011



Basia Ruta
Chief Financial Officer

Future oriented Statement of Operations

ENVIRONMENT CANADA

For the year ended March 31

(in thousands of dollars)

	Estimated 2010-11	Forecast 2011-12
Expenses		
Internal Services	\$230,386	\$221,631
Weather and Environmental Services for Canadians	184,663	184,119
Biodiversity -- Wildlife and Habitat	137,542	139,985
Water Resources	132,765	133,616
Climate Change and Clean Air	215,124	112,572
Sustainable Ecosystems	78,000	81,802
Weather and Environmental Services for Targeted Users	70,327	71,488
Substances and Waste Management	126,245	70,569
Compliance Promotion and Enforcement - Pollution	46,044	45,616
Compliance Promotion and Enforcement - Wildlife	21,527	20,998
Mackenzie Gas Project	2,555	-
Total expenses	1,245,177	1,082,397
Revenues		
Internal Services	-	-
Weather and Environmental Services for Canadians	\$4,636	\$4,875
Biodiversity -- Wildlife and Habitat	4,647	4,588
Water Resources	17,750	18,224
Climate Change and Clean Air	1,624	1,066
Sustainable Ecosystems	370	381
Weather and Environmental Services for Targeted Users	45,373	44,527
Substances and Waste Management	2,721	2,278
Compliance Promotion and Enforcement - Pollution	-	-
Compliance Promotion and Enforcement - Wildlife	-	-
Mackenzie Gas Project	-	-
Total revenues	77,121	75,938
Net cost of operations	\$1,168,056	\$1,006,459

Segmented information (Note 9)

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

Notes to the Future oriented Financial Statements

ENVIRONMENT CANADA

1. Authority and objectives

Environment Canada was established under legislation by the *Department of the Environment Act*. Under this *Act*, the powers, duties and functions of the Minister of the Environment extend to and include matters relating to:

- ✓ The preservation and enhancement of the quality of the natural environment (including water, air and soil quality);
- ✓ Renewable resources, including migratory birds and other non-domestic flora and fauna;
- ✓ Water;
- ✓ Meteorology;
- ✓ Enforcement of any rules or regulations made by the International Joint Commission relating to boundary waters; and
- ✓ Coordination of the policies and programs of the Government of Canada respecting the preservation and enhancement of the quality of the natural environment.

Environment Canada delivers its mandate through the following programs:

- ✓ Weather and Environmental Services for Canadians
- ✓ Biodiversity -- Wildlife and Habitat
- ✓ Compliance Promotion and Enforcement - Wildlife
- ✓ Substances and Waste Management
- ✓ Climate Change and Clean Air
- ✓ Water Resources
- ✓ Compliance Promotion and Enforcement - Pollution
- ✓ Sustainable Ecosystems
- ✓ Mackenzie Gas Project
- ✓ Weather and Environmental Services for Targeted Users
- ✓ Internal Services

* The Mackenzie Gas Project (MGP) ended December 31, 2010.

In addition, Environment Canada has authority under numerous pieces of legislation which affect how the department operates. The most significant *Acts* are as follows:

- ✓ *Antarctic Environmental Protection Act*
- ✓ *Canada Water Act*
- ✓ *Canada Wildlife Act*
- ✓ *Canadian Environmental Assessment Act*
- ✓ *Canadian Environmental Protection Act, 1999*
- ✓ *Department of the Environment Act*
- ✓ *Fisheries Act (Sections 36-42)*
- ✓ *International River Improvements Act*
- ✓ *Migratory Birds Convention Act, 1994*
- ✓ *Species at Risk Act*
- ✓ *Weather Modification Information Act*
- ✓ *Kyoto Protocol Implementation Act (2007, c. 30)*
- ✓ *Federal Sustainable Development Act (2008, c. 33)*
- ✓ *Wild Animal and Plant Protection and Regulation of International and Interprovincial Trade Act*

2. Significant assumptions

The future-oriented financial statements have been prepared on the basis of the government priorities and the plans of the department as described in the Report on Plans and Priorities.

The main assumptions are as follows:

(a) The Department has considerable temporary funding that is scheduled to sunset March 31, 2011. These financial statements do not consider any potential renewal of the sunset programs. Environment Canada's activities may change depending on the outcome of Budget 2011 decisions on the renewal of core regulatory and non-regulatory activities, as well as other Government funding decisions. The outcome of these decisions will be reflected in the Department's future budget exercises as this information becomes known.

(b) Expenses and revenues, including the determination of amounts internal and external to the government, are based on historical data and trends, up-to-date Annual Reference Level Update (ARLU) information, supplementary Estimates, expert information from within the department and requests to other departments for information (ex. Services provided without charge).

(c) Allowances for uncollectibility are based on best estimate.

(d) Estimated year end information for 2010-11 is used as the opening position for the 2011-12 forecasts.

These assumptions are adopted as at December 31st, 2010.

3. Variations and Changes to the Forecast Financial Information

While every attempt has been made to accurately forecast final results for the remainder of 2010-11 and for 2011-12, actual results achieved for both years are likely to vary from the forecast information presented, and this variation could be material.

In preparing these financial statements Environment Canada has made estimates and assumptions concerning the future. These estimates and judgements may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Factors that could lead to material differences between the future-oriented financial statements and the historical financial statements include:

(a) The timing and amounts of acquisitions and disposals of property, plant and equipment may affect gains/losses and amortization expense.

(b) Further changes to the operating budget through additional new initiatives or technical adjustments later in the year.

Once the Report on Plans and Priorities is presented, Environment Canada will not be updating the forecasts for any changes to appropriations or forecast financial information made in ensuing supplementary estimates. Variances will be explained in the Departmental Performance Report.

4. Summary of significant accounting policies

The future-oriented financial statements have been prepared in accordance with Treasury Board accounting policies listed below, which are consistent with Canadian generally accepted accounting principles for the public sector. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian generally accepted accounting principles.

Significant accounting policies are as follows:

(a) Parliamentary authorities

Environment Canada is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to Environment Canada do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations are not necessarily the same as those provided through authorities from Parliament. Note 5 provides reconciliation between the bases of reporting.

4. Summary of significant accounting policies (continued)

(b) Net Cash Provided by Government

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

(c) Revenues

Are presented on an accrual basis:

Revenues from regulatory fees are recognized in the accounts based on the services provided in the year. Funds received from external parties for specified purposes are recorded upon receipt as deferred revenue. These Revenues are recognized in the period in which the related expenses are incurred. Funds that have been received are recorded as deferred revenue, provided the department has an obligation to other parties for the provision of goods, services or the use of assets in the future. Other Revenues are accounted for in the period in which the underlying transaction or event occurred that gave rise to the revenue takes place.

(d) 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, provided that the transfer is authorized and a reasonable estimate can be made;
- ✓ Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment;
- ✓ Services provided without charge by other government departments for accommodation, employer contributions to the health and dental insurance plans, legal services and worker's compensation are recorded as operating expenses at their estimated cost.

(e) Employee future benefits

- ✓ Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multi-employer pension plan administered by the Government. Environment Canada'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 Environment Canada to make contributions for any actuarial deficiencies of the Plan.
- ✓ 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.

(f) 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.

(g) 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 Environment Canada becomes aware of the contamination and is obligated, or is likely to be obligated to incur such costs. If the likelihood of Environment Canada's obligation to incur these costs is either not determinable, or if an amount cannot be reasonably estimated, the costs are disclosed as contingent liabilities in the notes to the future-oriented financial information.

4. Summary of significant accounting policies (continued)

(h) Inventory

Inventory consists of parts, material and supplies held for future program delivery and not intended for resale. Inventory is valued at cost using the average cost method. If there is no longer any service potential, inventory is valued at the lower of cost or net realizable value.

(i) Tangible capital assets

All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more are recorded at their acquisition cost. Environment Canada does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, assets located on Indian Reserves and museum collections.

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

Asset class	Amortization Period
Buildings	25 to 40 years
Works and Infrastructure	20 to 40 years
Machinery and Equipment	2 to 30 years
Vehicles	3 to 25 years
Leasehold Improvements	Lesser of the remaining term of lease or useful life of the improvement
Leased tangible capital assets	Over term of lease/useful life

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

5. Parliamentary Appropriations

Environment Canada receives most of its funding through annual Parliamentary authorities. Items recognized in the Statement of Operations in one year may be funded through Parliamentary authorities in prior, current or future years. Accordingly, Environment Canada 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) Authorities requested:

(in thousands of dollars)

Authorities requested

	Estimated 2010-11	Forecast 2011-12
Vote 1 - Operating expenditures	\$822,049	\$675,880
Vote 5 - Capital expenditures	57,176	41,662
Vote 10 - Grants & Contributions	162,250	93,398
Statutory amounts	89,198	84,573
Forecast authorities available	\$1,130,673	\$895,514

(b) Reconciliation of net cost of operations to current year authorities used:

(in thousands of dollars)	Estimated 2010-11	Forecast 2011-12
Net cost of operations	\$1,168,056	\$1,006,459
<i>Adjustments for items affecting net cost of operations but not affecting authorities:</i>		
<i>Add :</i>		
Expenses not being charged to Appropriations ¹	(21,700)	(21,700)
Revenues not available for spending	11,435	11,283
Inventory	1,200	1,500
	<u>(9,065)</u>	<u>(8,917)</u>
<i>Less :</i>		
Services received without charge	96,641	93,871
Amortization of tangible capital assets (Note 6)	22,204	43,148
Employee Severance Benefits	9,332	(14,049)
Project deposits	2,841	2,841
Expenses related to Environmental Liabilities	29	29
Environmental Damage Fund	437	437
Expenses for claims pending litigation	13	-
Bad debt expense	38	-
Foreign exchange gains	(6)	(6)
	<u>131,528</u>	<u>126,271</u>
<i>Adjustments for items not affecting net cost of operations but affecting authorities:</i>		
<i>Add:</i>		
Net acquisition of tangible capital assets (Note 6)	33,177	24,243
	<u>33,177</u>	<u>24,243</u>
Forecast current year lapse (eg.Frozen allotments)	70,033	-
	<u>70,033</u>	<u>-</u>
Forecast authorities available	<u>\$1,130,673</u>	<u>\$895,514</u>

1. This amount represents monies that are kept in trust by Environment Canada for Nature Conservancy of Canada

6. Tangible capital assets

Cost (in thousands of dollars)	2011	Acquisitions	Disposals, write-offs, adjustments	2012
Land	\$25,244	-	-	\$25,244
Buildings	167,280	10,523	-	177,803
Works and infrastructure	8,201	2,907	-	11,108
Machinery and equipment	474,349	9,676	200	483,825
Vehicles	42,454	2,137	800	43,791
Leasehold improvements	35,324	-	-	35,324
Assets under construction ¹	130,329	-	-	130,329
Capital lease	34,858	-	-	34,858
	<u>\$918,039</u>	<u>\$25,243</u>	<u>\$1,000</u>	<u>\$942,282</u>
Accumulated amortization (in thousands of dollars)	2011	Amortization	Disposals, write-offs, adjustments	2012
Buildings	98,284	5,018	-	103,302
Works and infrastructure	2,400	328	-	2,728
Machinery and equipment	361,067	28,461	-	389,528
Vehicles	27,050	3,396	-	30,446
Leasehold improvements	24,707	1,413	-	26,120
Capital lease	10,438	4,532	-	14,970
	<u>\$523,946</u>	<u>\$43,148</u>	<u>-</u>	<u>\$567,094</u>
Net book value (in thousands of dollars)	2011			2012
Land	25,244			25,244
Buildings	68,997			74,501
Works and infrastructure	5,801			8,380
Machinery and equipment	113,282			94,298
Vehicles	15,404			13,345
Leasehold improvements	10,617			9,204
Assets under construction ¹	130,329			130,329
Capital lease	24,420			19,888
Net Book Value	<u>\$394,093</u>			<u>\$375,188</u>

1. Assets under construction include: buildings, engineering works, software and other construction. Disposals include those assets under construction that have been placed in service. Assets that are still under construction are not treated as depreciable assets as they are not yet available for use.

7. Employee future benefits

(a) Pension benefits

Environment Canada's employees participate in the *Public Service Pension Plan*, which is sponsored and administered by the Government. Pension benefits accrue up to a maximum period of 35 years at a rate of 2% 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 forecast expenses are \$62,561,982 in 2010-11 and \$55,399,289 in 2011-12, representing approximately 2.0 times the contributions of employees.

Environment Canada'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

Environment Canada 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 authorities. Information about the severance benefits, measured as at March 31, is as follows:

(in thousands of dollars)	Estimated Results 2010-11	Forecast 2011-12
Accrued benefit obligation, beginning of year	\$113,951	\$123,283
Expense for the year	18,079	(5,691)
Benefits paid during the year	(8,747)	(8,358)
Accrued benefit obligation, end of year	<u>\$123,283</u>	<u>\$109,234</u>

8. Related party transactions

Environment Canada 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.

Common services provided without charge by other government departments :

During the year Environment Canada is forecasted to receive without charge from other departments, accommodation, legal fees, workers' compensation coverage and the employer's contribution to the health and dental insurance plans. These services without charge have been recognized in the department's future-oriented Statement of Operations as follows:

(in thousands of dollars)	Estimated Results 2010-11	Forecast 2011-12
Employer's contribution to the health and dental insurance plans	\$45,026	\$39,901
Accommodation	46,315	47,661
Legal services	3,800	4,982
Workers' compensation	1,500	1,329
Total	<u>\$96,641</u>	<u>\$93,873</u>

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, are not included as an expense in the department's Statement of Operations.

Notes to the Future oriented Financial Statements

9. Segmented information

Presentation by segment is based on the Department's program activity architecture. The presentation by segment is based on the same accounting policies and significant assumptions as described in notes 2 and 4. The following table presents the expenses incurred and revenues generated for the main program activities, by major object of expenses and by major type of revenues. The segment results for the period are as follows:

(in thousands of dollars)

	2011 Total	2012										Total	
		B-WH ¹	WR ²	SE ³	CPE-W ⁴	WESC ⁵	WESTU ⁶	SWM ⁷	CCCA ⁸	CPE-P ⁹	MGP ¹⁰		IS ¹¹
Operations and administration													
Personnel	\$674,773	\$56,211	\$68,703	\$34,102	\$14,578	\$97,357	\$46,440	\$51,893	\$45,711	\$32,628	-	\$147,598	\$595,221
Travel & Relocation	61,575	6,455	9,219	5,607	864	13,919	7,053	2,775	3,068	1,733	-	9,599	60,291
Communication	6,445	580	309	2,167	121	377	231	275	423	242	-	1,586	6,311
Professional Services	127,291	14,253	16,737	9,446	3,160	17,654	7,722	6,699	10,775	6,369	-	28,090	120,905
Rental	25,914	2,891	1,905	1,051	73	6,201	890	254	765	146	-	11,198	25,374
Repair & Maintenance	11,257	511	1,830	92	21	2,428	644	432	404	43	-	4,616	11,022
Utilities, materiel & supplies	131,009	6,845	13,694	3,873	1,588	19,937	4,907	5,777	5,784	3,467	-	17,057	82,929
Acquisition of Land, Buildings and works	1,374	111	107	0	11	168	12	1	6	22	-	910	1,346
Acquisition of Machinery and equipment	31,830	1,230	5,107	727	388	8,375	1,776	1,102	2,535	779	-	9,149	31,167
Transfer to Crown Corp	33,939	2,159	10,944	2,270	194	13,373	1,753	1,066	8,962	188	-	(8,172)	32,739
Total Operations and administration	1,105,409	91,246	128,555	59,336	20,998	179,787	71,428	70,273	78,434	45,616	-	221,631	967,304
Transfer payments													
Non-profit organizations	93,855	23,981	1,974	20,087	-	2,939	17	106	28,180	-	-	-	\$77,284
Other countries and international organizations	9,353	373	-	19	-	1,184	42	190	5,893	-	-	-	7,702
Other levels of governments within Canada	9,708	2,625	2,944	2,360	-	-	-	-	65	-	-	-	7,994
Other to individuals	26,540	21,703	44	-	-	108	-	-	-	-	-	-	21,854
Industry	313	57	99	-	-	102	0	-	-	-	-	-	258
Total transfer payments	139,769	48,739	5,061	22,466	-	4,332	60	296	34,138	-	-	-	115,092
Total Expenses	1,245,177	139,985	133,616	81,802	20,998	184,119	71,488	70,569	112,572	45,616	-	221,631	1,082,397
Revenues													
Information Products	32,308	-	2,276	-	-	846	28,402	-	-	-	-	-	31,524
Licences and Permits	4,078	4,003	-	-	-	-	-	-	-	-	-	-	4,003
Miscellaneous	1,875	-	97	-	-	157	1,561	-	-	-	-	-	1,815
Products	8	-	-	-	-	-	8	-	-	-	-	-	8
Realty	1,464	201	63	288	-	1,139	-	-	-	-	-	-	1,691
Regulatory Services	2,095	160	-	-	-	-	-	1,955	-	-	-	-	2,115
Scientific/analytical projects - INRE	202	-	-	-	-	-	-	-	-	-	-	-	-
Scientific and Professional Services	34,381	224	15,789	93	-	2,607	14,359	271	1,066	-	-	-	34,409
Services	197	-	-	-	-	125	197	-	-	-	-	-	322
Reporting Services	515	-	-	-	-	-	-	51	-	-	-	-	51
Total Revenues	77,121	4,588	18,224	381	-	4,875	44,527	2,278	1,066	-	-	-	75,938
Net cost of operations	\$1,168,056	\$135,397	\$115,392	\$81,421	\$20,998	\$179,245	\$26,961	\$68,292	\$111,506	\$45,616	-	\$221,631	\$1,006,459

1 (B-WH) Biodiversity -- Wildlife and Habitat

2 (WR) Water Resources

3 (SE) Sustainable Ecosystems

4 (CPE-W) Compliance Promotion and Enforcement - Wildlife

5 (WESC) Weather and Environmental Services for Canadians

6 (WESTU) Weather and Environmental Services for Targeted Users

7 (SWM) Substances and Waste Management

8 (CCCA) Climate Change and Clean Air

9 (CPE-P) Compliance Promotion and Enforcement - Pollution

10 (MGP) Mackenzie Gas Project

11 (IS) Internal Services