



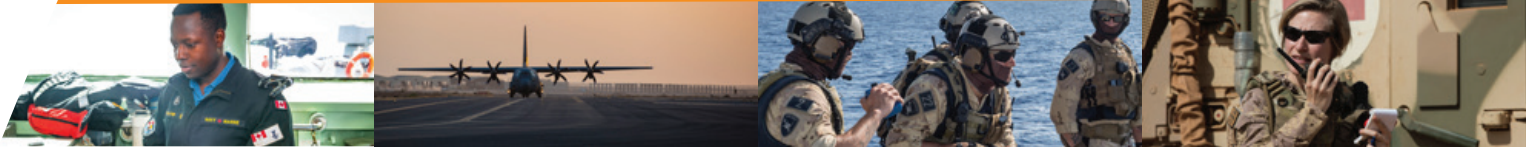
CONSOLIDATED DEPARTMENTAL FINANCIAL STATEMENTS 2018-2019 (UNAUDITED)



National
Defence

Défense
nationale

Canada



Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2019, and all information contained in these statements rests with the management of the Department of National Defence (the department). These financial statements have been prepared by management using the Government of Canada's accounting policies, which are based on Canadian public sector accounting standards (PSAS), with the exception of the accounting for pension benefits where the presentation and results using the stated accounting policies do not result in any significant differences from PSAS.

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 fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of the department's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in the department's Departmental Results Report, is consistent with these financial statements.

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

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

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

A risk-based assessment of the system of ICFR for the year ended March 31, 2019 was completed in accordance with the Treasury Board Policy on Financial Management and the results and action plans are illustrated in the annex.

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

The financial statements of the department have not been audited.

A handwritten signature in black ink, appearing to read "Jody Thomas".

Jody Thomas
Deputy Minister
Ottawa, Canada

A handwritten signature in black ink, appearing to read "Cheri Crosby".

Cheri Crosby, CPA, CMA
Chief Financial Officer

Date: August 23, 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)



As at March 31

(in thousands of dollars)	2019	2018 (Restated note 20)
Liabilities		
Accounts payable and accrued liabilities (note 4)	3,706,035	3,299,608
Vacation pay and compensatory leave	202,354	188,617
Environmental liabilities (note 5)	641,626	613,538
Deposits and trust accounts (note 6)	4,283	4,506
Deferred revenue (note 7)	5,865	9,842
Canadian Forces pension and insurance accounts (note 8)	609,306	696,823
Lease obligations for tangible capital assets (note 9)	96,669	169,849
Employee future benefits (note 10)	632,417	654,463
Total liabilities	5,898,555	5,637,246
Financial assets		
Due from Consolidated Revenue Fund	2,784,411	2,731,536
Accounts receivable (note 11)	357,982	979,489
Loans and advances (note 12)	56,301	46,132
Total gross financial assets	3,198,694	3,757,157
Financial assets held on behalf of government		
Accounts receivable (note 11)	(8,087)	(5,642)
Total financial assets held on behalf of government	(8,087)	(5,642)
Total net financial assets	3,190,607	3,751,515
Departmental net debt	2,707,948	1,885,731
Non-financial assets		
Prepaid expenses (note 13)	620,420	645,712
Inventory (note 14)	5,604,609	5,666,785
Tangible capital assets (note 15)	33,818,514	33,242,886
Total non-financial assets	40,043,543	39,555,383
Departmental net financial position	37,335,595	37,669,652

Contingent liabilities (note 16)

Contractual obligations and contractual rights (note 17)

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

Jody Thomas
Deputy Minister
Ottawa, Canada

Cheri Crosby, CPA, CMA
Chief Financial Officer

Date: August 23, 2019

CONSOLIDATED STATEMENT OF OPERATIONS AND DEPARTMENTAL NET FINANCIAL POSITION (UNAUDITED)



For the year ended March 31

(in thousands of dollars)	2019 Planned Results	2019	2018 (Restated note 20)*
Expenses			
Operations	790,197	1,420,112	1,358,359
Ready Forces	9,295,211	9,558,513	9,403,990
Defence Team	2,982,098	2,681,344	3,568,467
Future Force Design	827,484	696,070	854,152
Procurement of Capabilities	3,292,022	4,532,670	3,927,585
Sustainable Bases, Information Technology Systems and Infrastructure	3,541,281	3,291,366	3,375,112
Internal services	663,770	967,540	785,965
Total expenses	21,392,063	23,147,615	23,273,630
Revenues			
Sale of goods and services	392,759	382,874	384,421
Gains on disposals of assets	57,533	16,426	27,067
Other	41,461	11,734	13,698
Interest and gains on foreign exchange	14,918	13,442	18,912
Revenues earned on behalf of government	(20,436)	(14,101)	(10,387)
Total revenues	486,235	410,375	433,711
Net cost from continuing operations	20,905,828	22,737,240	22,839,919
Government funding and transfers			
Net cash provided by government		21,568,795	22,250,082
Change in due from Consolidated Revenue Fund		52,875	416,567
Services provided without charge by other government departments (note 18)		784,836	858,983
Transfer of Accounts receivable to Public Services and Procurement Canada		(2)	(16)
Transfer of assets and liabilities from (to) other government departments (note 15)		(3,321)	14,864
Net cost of operations after government funding and transfers		334,057	(700,561)
Departmental net financial position — beginning of year		37,669,652	36,969,091
Departmental net financial position — end of year		37,335,595	37,669,652

Segmented information (note 19)

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

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

CONSOLIDATED STATEMENT OF CHANGE IN DEPARTMENTAL NET DEBT (UNAUDITED)



For the year ended March 31

(in thousands of dollars)	2019	2018 (Restated note 20)
Net cost of operations after government funding and transfers	334,057	(700,561)
Change due to tangible capital assets		
Acquisition of tangible capital assets	3,494,842	3,512,577
Amortization of tangible capital assets	(2,669,086)	(2,602,625)
Proceeds from disposal of tangible capital assets	(16,426)	(23,774)
Loss on disposals of tangible capital assets	(101,994)	(90,260)
Adjustments of tangible capital assets	(128,387)	46,912
Transfer (to) from other government departments	(3,321)	14,864
Total change due to tangible capital assets	575,628	857,694
Change due to inventory	(62,176)	(143,857)
Change due to prepaid expenses	(25,292)	(82,685)
Net increase (decrease) in departmental net debt	822,217	(69,409)
Departmental net debt — beginning of year	1,885,731	1,955,140
Departmental net debt — end of year	2,707,948	1,885,731

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

CONSOLIDATED STATEMENT OF CASH FLOW (UNAUDITED)



For the year ended March 31

(in thousands of dollars)	2019	2018 (Restated note 20)
Operating activities		
Net cost of operations before government funding and transfers	22,737,240	22,839,919
Non-cash items included in net cost of operations:		
Amortization of tangible capital assets	(2,669,086)	(2,602,625)
Loss on disposals of tangible capital assets	(101,994)	(90,260)
Adjustments of tangible capital assets	(128,387)	46,912
Services provided without charge by other government departments	(784,836)	(858,983)
Transition payments for implementing salary payments in arrears	2	16
Variations in Statement of Financial Position:		
(Decrease) increase in accounts receivables	(623,952)	529,485
Increase (decrease) in loans and advances	10,169	(4,194)
(Decrease) in prepaid expenses	(25,292)	(82,685)
(Decrease) in inventory	(62,176)	(143,857)
(Increase) in accounts payable and accrued liabilities	(406,427)	(1,172,716)
(Increase) in vacation pay and compensatory leave	(13,737)	(10,341)
(Increase) decrease in environmental liabilities	(28,088)	106,951
Decrease (increase) in deposits and trust accounts	223	(156)
Decrease in deferred revenue	3,977	2,358
Decrease in Canadian Forces pension and insurance accounts	87,517	12,470
Decrease in employee future benefits	22,046	117,822
Cash used by operating activities	18,017,199	18,690,116
Capital investing activities		
Acquisitions of tangible capital assets	3,494,842	3,512,577
Proceeds from disposal of tangible capital assets	(16,426)	(23,774)
Cash used in capital investing activities	3,478,416	3,488,803
Financing activities		
Lease payments for tangible capital assets	73,180	71,163
Cash used by financing activities	73,180	71,163
Net cash provided by Government of Canada	21,568,795	22,250,082

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



For the year ended March 31

1. Authority and objectives

> Authorities

The Department of National Defence (the department) was established by the National Defence Act (NDA). Under section 3 of the NDA, the Minister of National Defence presides over the department. Under section 4 of the NDA, the Minister has the management and direction of the Canadian Forces and of all matters relating to National Defence, as well as being responsible for the construction and maintenance of all defence establishments and works for the defence of Canada, and research relating to the defence of Canada and to the development of and improvements in materiel.

> Objectives

Strong, Secure, Engaged is the defence policy that presents a vision and approach to defence by the Government of Canada. Strong, Secure, Engaged provides a bold vision to defence that will make Canada:

- **Strong at home**, its sovereignty well defended by a Canadian Armed Forces also ready to assist in times of natural disasters, other emergencies, and search and rescue;
- **Secure in North America**, active in a renewed defence partnership in NORAD (North American Aerospace Defense) Command and with the United States; and
- **Engaged in the world**, with the Canadian Armed Forces doing its part in Canadian contributions to a more stable, peaceful world, including peace support operations and peacekeeping.

Effective fiscal year 2018-19, Defence has implemented a new Departmental Results Framework (DRF) composed of six core responsibilities plus Internal Services. It replaces the Program Alignment Architecture (PAA) used in previous years.

The new DRF defines clearly the results to be achieved, carefully measures the progress in achieving them, and most importantly communicates to Canadians what has

been achieved on their behalf and the resources used to do so.

The activities associated with the core responsibilities were aligned and regrouped in the new DRF as summarized below:

(a) Operations

Detect, deter and defend against threats to or attacks on Canada. Assist civil authorities and law enforcement, including counter-terrorism, in support of national security, domestic disasters or major emergencies, and conduct search and rescue operations.

Detect, deter and defend against threats to or attacks on North America in partnership with the United States, including through NORAD.

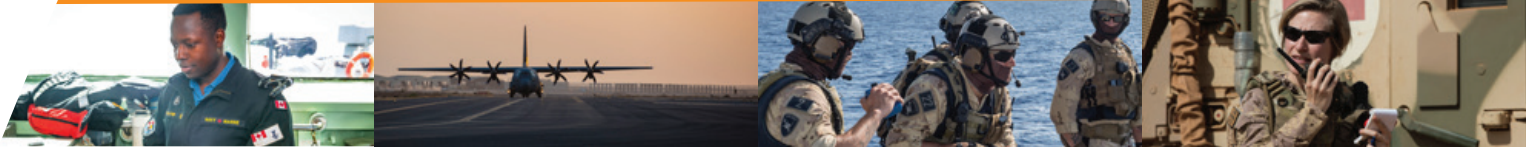
Lead and/or contribute forces to NATO and coalition efforts to deter and defeat adversaries, including terrorists, to support global stability. Lead and/or contribute to international peace operations and stabilization missions with the United Nations, NATO and other multilateral partners. Engage in capacity building to support the security of other nations and their ability to contribute to security and the security of Canadians abroad. Assist civil authorities and non-governmental partners in responding to international and domestic disasters or major emergencies.

(b) Ready Forces

Field combat ready forces able to succeed in an unpredictable and complex security environment in the conduct of concurrent operations associated with all mandated missions.

(c) Defence Team

Recruit, develop and support an agile and diverse Defence Team, within a healthy workplace free from harmful behaviour; support military families; and meet the needs of all retiring military personnel, including the ill and injured. Strengthen Canadian communities by investing in youth.



For the year ended March 31

(d) Future Force Design

Develop and design the future force through a deep understanding of the future operating environment and security risks to Canada and Canadian interests. Enhance Defence’s ability to identify, prevent, adapt and respond to a wide range of contingencies through collaborative innovation networks and advanced research.

(e) Procurement of Capabilities

Procure advanced capabilities to maintain an advantage over potential adversaries and to keep pace with Allies, while fully leveraging defence innovation and technology. Streamlined and flexible procurement arrangements ensure Defence is equipped to conduct missions.

(f) Sustainable Bases, Information Technology Systems and Infrastructure

Develop and manage modern, operational and sustainable bases and infrastructure. Contribute to the achievement of federal environmental targets.

(g) 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 services that support Program delivery in the organization, regardless of the Internal Services delivery model in a department. These services are:

- Management and Oversight Services
- Communications Services
- Legal Services
- Human Resources Management Services
- Financial Management Services
- Information Management Services
- Information Technology Services
- Real Property Management Services
- Materiel Management Services
- Acquisition Management Service

2. Summary of significant accounting policies

These financial statements have been prepared using the government’s accounting policies stated below, which are based on Canadian public sector accounting standards (PSAS), with the exception of the accounting for pension benefits where the presentation and results using the stated accounting policies do not result in any significant differences from PSAS. The pension benefits for members of the CAF (Canadian Armed Forces) follow accounting requirements as outlined in the Treasury Board Accounting Standards, as described in note 2(g) (i), which require the actuarial surpluses or deficiencies to be recognized in the financial statements of the Government of Canada, and not the department. Further disclosure is presented in note 8.

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 Future-oriented Statement of Operations included in the 2018-19 Departmental Plan.

Planned results are not presented in the “Government funding and transfers” section of the Consolidated Statements 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 2018-19 Departmental Plan.



For the year ended March 31

(b) Consolidation

These consolidated financial statements include the accounts of the sub-entities for which the Deputy Minister (DM) is accountable. 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 department is comprised of the DND, the CAF and several related organizations and agencies in the Defence Portfolio, all of which carry out the Defence mission and are part of the Defence Services Program. Organizations and agencies that are part of these consolidated financial statements include the following:

- Canadian Cadet Program and the Junior Canadian Rangers
- Canadian Forces Housing Agency
- Defence Research and Development Canada
- Office of the Ombudsman for the Department of National Defence and Canadian Forces
- Office of the Judge Advocate General

The Military Grievances External Review Committee, the Military Police Complaints Commission, Communications Security Establishment Canada and the Office of the Communications Security Establishment Commissioner are excluded from the consolidation because these organizations are not part of the Defence Services Program, although they fall under the responsibility of the Minister of National Defence.

(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 the government is the difference between all cash receipts and cash disbursements, including transactions between departments of the government.

(d) Amounts due from or to the CRF

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

(e) Revenues

- Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.
- Funds received in advance from external parties for the delivery of goods and rendering of services are recorded upon receipt as deferred revenue. Revenues are then 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 that gave rise to the revenue takes place.

Revenues that are non-respendable are not available to discharge the department’s liabilities. While the DM is expected to maintain accounting control, 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 in reduction of the entity’s gross revenues.

(f) Expenses

Expenses are recorded on an accrual basis:

- Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met the eligibility (or the entitlements) criteria (for grants) or the performance conditions (for contributions) established for the transfer payment program. In situations where grant payments do not form part of an existing program, payments are recorded as expenses when the government announces a decision to make a non-recurring transfer,



For the year ended March 31

provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements.

- 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, worker's compensation coverage and legal services are recorded as operating expenses at their estimated cost.

(g) Employee future benefits

(i) Pension benefits

Eligible civilian employees participate in the Public Service Pension Plan, a multi-employer plan 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. The department's responsibility with regard to the Plan is limited to its contributions as determined by the Chief Actuary of Canada. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

The department administers pension benefits for members of the CAF, both Regular and Reserve forces. The department contributes towards current and past service of members, and funds any actuarial shortfalls determined by the Chief Actuary of Canada. In addition to the regular contributions, current legislation also requires the department to make contributions for actuarial deficiencies in the pension plans. These contributions by the department are expensed in the year they are incurred. This accounting treatment corresponds to the funding provided to departments through Parliamentary authorities. All assets and liabilities related to the CAF pension plan are not reflected in the department's financial statements. As the Plan's sponsor, the Government of Canada, recognises the plans assets and the actuarial estimate of the liabilities in the

consolidated financial statements of the Government of Canada.

(ii) Severance benefits

The accumulation of severance benefits for voluntary departures ceased for applicable employee groups and CAF members. 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. The obligation related to the severance benefits earned by CAF members is calculated using information derived from the results of the actuarially determined liability for severance benefits for the CAF population.

(h) Accounts and loans receivable

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

(i) Inventory

Inventories are valued at cost, using a weighted average formula, and are comprised of ammunition and inventory supplies held for future program delivery and are not primarily intended for resale. Inventory managed by contractors and not held in the Defence Resource Management Information System (DRMIS) is valued according to the cost method used by the contractors (first-in, first-out (FIFO), last-in, first-out (LIFO), historical cost or moving weighted average). Inventory identified for disposal or surplus are excluded from the value of inventory as no value is expected to be recovered (for details, see note 14).

(j) 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, as described in Note 15. All tangible capital assets and leasehold



For the year ended March 31

improvements having an initial cost of \$30,000 or more are recorded at their acquisition cost. Tangible capital assets do not include works of art and historical treasures that have cultural, aesthetic or historical value, assets located on First Nations reserves and museum collections.

Asset Pooled Items (API) are tangible capital assets which can include spare parts that support higher level tangible capital assets with useful lives greater than one year. They are intended to be used on a continuing basis, and are part of an asset class or pool where items may be below the capitalization threshold individually but are typically purchased or held in large quantities. These items are grouped in pools and the pools are treated as capital assets from a financial perspective.

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

Asset Class	Amortization Period
Buildings	10-40 years
Works	5 - 40 years
Machinery and equipment	3-30 years
Informatics hardware	3-10 years
Informatics software	2-10 years
Arms and weapons	3-30 years
Other equipment	5-30 years
Ships and boats	10-30 years
Aircraft	20-40 years
Non-military motor vehicles	2-30 years
Military vehicles	3-25 years
Other vehicles	4-30 years
Leasehold improvements	Lesser of useful life of the improvement or term of lease
Betterments	Initial or extended useful life of the asset to which the improvements were made
Leased tangible capital assets	Economic life or term of lease

API are amortized at the estimated useful life of the pool.

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.

(k) 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 fails 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, the contingency is disclosed in the notes to the 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 government 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 government'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.

A liability for unexploded explosive ordnance (UXO) affected legacy sites is recognized when there is an appropriate basis for measurement and a reasonable estimate can be made. These liabilities are present obligations arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits.



For the year ended March 31

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 government's responsibility is not determinable, a contingent liability is disclosed in the notes to the consolidated statements.

(m) Transactions involving foreign currencies

Transactions involving foreign currencies are translated into Canadian dollar equivalents using rates of exchange in effect at the time of those transactions. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the rate of exchange in effect at March 31st. Gains resulting from foreign currency transactions are included as revenues in Interest and gains on foreign exchange, and losses from foreign currency transactions are included in other expenses in the Consolidated Statement of Operations and Departmental Net Financial Position.

(n) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements and accompanying notes at March 31st. 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, remediation liabilities, the liability for employee future benefits, allowance for doubtful accounts, allowances to estimate pricing errors and value of dormant inventory and the useful life of tangible capital assets. Actual results could significantly differ from those estimates. Management's estimates are

reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

Environmental liabilities are subject to measurement uncertainty as discussed in note 5 due to the evolving technologies used in the estimation of the costs for remediation of contaminated sites, the use of discounted present value of future estimated costs, and the fact that not all sites have had a complete assessment of the extent and nature of remediation or retirement. Changes to underlying assumptions, the timing of the expenditures, the technology employed, or the revisions to environmental standards or changes in regulatory requirements could result in significant changes to the environmental liabilities recorded.

(o) 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 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.



For the year ended March 31

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

(in thousands of dollars)	2019	2018 (Restated note 20)
Net cost of operations before government funding and transfers	22,737,240	22,839,919
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets (note 15)	(2,669,086)	(2,602,625)
Services provided without charge by other government departments (note 18)	(784,836)	(858,983)
Decrease in employee future benefits	22,046	117,822
Refund of previous year's expenses	0	84,580
(Increase) in vacation pay and compensatory leave	(13,737)	(10,341)
Loss on disposals of capital assets	(101,994)	(90,260)
Adjustments of tangible capital assets	(128,387)	46,912
Refund of program expenditures	3,028	63,123
Decrease in deferred revenue	3,977	2,358
(Increase) in accrued liabilities not charged to authorities	(941,818)	(149,706)
Bad debt expense	(4,983)	(31,807)
(Increase) decrease in environmental liabilities (note 5)	(28,088)	106,951
Proceeds from sale of assets	(16,426)	(23,774)
Miscellaneous	60,335	20,922
Total items affecting net cost of operations but not affecting authorities	(4,599,969)	(3,324,828)
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisition of tangible capital assets (note 15)	3,494,842	3,512,577
Decrease in lease obligations for tangible capital assets	73,180	71,163
(Decrease) in inventory purchases net of usage and adjustments	(62,176)	(143,857)
(Decrease) in prepaid expenses	(25,292)	(82,685)
Transition payments for implementing salary payments in arrears	2	16
Revenues collected from prior year receivables	(1,885)	4,782
Total items not affecting net cost of operations but affecting authorities	3,478,671	3,361,996
Current year authorities used	21,615,942	22,877,087



For the year ended March 31

3. Parliamentary authorities (continued)

(b) Authorities provided and used

(in thousands of dollars)	2019	2018
Vote 1 - Operating expenditures	16,071,131	16,050,430
Vote 5 - Capital expenditures	4,211,741	3,885,528
Vote 10 - Grants & contributions	210,303	177,004
Vote 15 - Debt write-off	15	0
Statutory amounts	1,612,519	3,464,975
Less:		
Authorities available for future years	(407,315)	(676,686)
Frozen allotments and other planned lapses	(82,452)	(24,164)
Current year authorities used	21,615,942	22,877,087

4. Accounts payable and accrued liabilities

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

(in thousands of dollars)	2019	2018
Accounts payable - other government departments and agencies	124,515	91,218
Accounts payable - external parties	1,624,012	2,117,702
Total accounts payable	1,748,527	2,208,920
Accrued liabilities	1,957,508	1,090,688
Total accounts payable and accrued liabilities	3,706,035	3,299,608



For the year ended March 31

5. Environmental liabilities

(a) 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 on federal lands that have been identified, allowing them to be classified, managed and recorded in a consistent manner. This systematic approach aids in the identification of the high risk sites in order to allocate limited resources to those sites which pose the highest risk to the environment and human health.

The department has identified a total of 984 sites (999 sites in 2017-18) where contamination may exist and assessment, remediation and monitoring may be required. Of these, the department has identified 284 sites (255 sites in 2017-18) where action is possible and for which a liability of \$495.9 million (\$456.1 million in 2017-18) has been recorded. This liability estimate has been determined after the sites are assessed and is based on environmental experts reviewing the results of site assessments, and proposing possible remediation solutions.

In addition, a statistical model based upon a projection of the number of sites that will proceed to remediation and upon which current and historical costs are applied is used to estimate the liability for a group of unassessed sites. As a result, there are 178 unassessed sites (216 in 2017-18) where a liability estimate of \$30.5 million (\$35.3 million in 2017-18) has been recorded using this model.

These two estimates combined totaling \$526.4 million (\$491.4 million in 2017-18), represent management's best estimate of the costs required to remediate the sites to the current minimum standard for its use prior to contamination, based on the information available at the financial statement date.

For the remaining 522 sites (528 sites in 2017-18), no liability for remediation has been recognized. Some of these sites 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 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 2017-18). 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% (1.79% in 2018) for a 2 year term to 1.92% (2.24% in 2018) for a 30 or greater year term.



For the year ended March 31

5. Environmental liabilities (continued)

(a) Remediation of contaminated sites (continued)

2019			
Nature and source	Number of sites	Estimated liability	Estimated undiscounted expenditure
Military and Former Military Sites ⁽¹⁾	387	336,744,229	358,187,706
Fuel Related Practices ⁽²⁾	318	41,124,835	42,748,273
Landfill / Waste Sites ⁽³⁾	135	24,239,461	25,362,792
Engineering Assets / Air and Land Transportation ⁽⁴⁾	9	744,520	787,722
Marine Facilities / Aquatic Sites ⁽⁵⁾	18	5,139,072	5,907,220
Office / Commercial / Industrial Operations ⁽⁶⁾	49	20,042,788	22,515,709
Other ⁽⁷⁾	68	98,390,399	103,320,750
Totals	984	526,425,304	558,830,172

2018			
Nature and source	Number of sites	Estimated liability (Restated ⁽⁸⁾)	Estimated undiscounted expenditure
Military and Former Military Sites ⁽¹⁾	354	329,972,343	350,031,882
Fuel Related Practices ⁽²⁾	358	36,964,359	39,068,128
Landfill / Waste Sites ⁽³⁾	138	30,049,149	31,978,355
Engineering Assets / Air and Land Transportation ⁽⁴⁾	10	806,500	881,577
Marine Facilities / Aquatic Sites ⁽⁵⁾	19	4,981,656	6,319,134
Office / Commercial / Industrial Operations ⁽⁶⁾	52	17,682,998	21,804,908
Other ⁽⁷⁾	68	72,815,747	76,748,533
Totals	999	493,272,752	526,832,517

(1) Contamination associated with the operations of military and former military sites where activities such as fuel handling and storage activities, waste sites, metals/PCB-based paint used on buildings resulted in former or accidental contamination, e.g. petroleum hydrocarbons, PCBs, heavy metals. Sites often have multiple sources of contamination.

(2) 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.

(3) Contamination associated with former landfill/waste site or leaching from materials deposited in the landfill/waste site, e.g. metals, petroleum hydrocarbons, polyaromatic hydrocarbons, BTEX, other organic contaminants, etc.



For the year ended March 31

5. Environmental liabilities (continued)

(a) Remediation of contaminated sites (continued)

(4) 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.

(5) Contamination associated with the operations of marine assets, e.g. port facilities, harbours, navigation systems, light stations, hydrometric stations, where activities such as fuel storage/handling, use of metal based paint (e.g. on light stations) resulted in former or accidental contamination, e.g. metals, petroleum hydrocarbons, polyaromatic hydrocarbons and other organic contaminants. Sites often have multiple sources of contamination.

(6) Contamination associated with the operations of office/commercial/industrial facilities where activities such as fuel storage/handling, waste sites and use of metal based paint resulted in former or accidental contamination, e.g. metals, petroleum hydrocarbons, polyaromatic hydrocarbons, BTEX, etc. Sites often have multiple sources of contamination.

(7) 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.

(8) Due to the change in estimate calculation, the department has restated the Estimated liability reported in 2017-18 for comparison purpose to \$493.3 million from \$491.4 million.

Also during the year 112 sites (149 sites in 2017-18) were closed as they were either remediated or assessed to confirm that they no longer meet all the criteria required to record a liability for contaminated sites.

(b) Other environmental liabilities

The department has identified approximately 532 UXO suspected sites (643 sites in 2017-18) for which clearance action may be necessary. Of these sites, 43 sites (43 sites in 2017-18) are confirmed UXO affected sites. Based on the department's best estimates, a liability of \$115.2 million (\$122.1 million in 2017-18) has been recorded for clearance action on 9 sites (10 sites in 2017-18) of the confirmed UXO sites. The remediation has been done for only 1 site (7 sites in 2017-18). The remaining 523 suspected sites (633 sites in 2017-18) are currently in the assessment stage and a reasonable estimate cannot yet be determined. Of these sites, the obligation for clearance action is likely for 31 sites, indeterminable for 54 sites and unlikely for 438 sites.

The department's ongoing efforts to assess contaminated sites and UXO affected sites may result in additional environmental liabilities.



For the year ended March 31

6. Deposits and trust accounts

The following table presents details of the department's deposits and trust accounts:

(in thousands of dollars)	2019	2018
Contractor security deposits		
Deposits, beginning of year	3,804	3,884
Deposits received	6,356	7,838
Refunds	(6,857)	(7,918)
Contractor security deposits, end of year	3,303	3,804
Trust account, estates — Armed Services*		
Trust account, beginning of year	702	466
Funds received	1,586	1,750
Payments	(1,308)	(1,514)
Trust account, estates — Armed Services, end of year	980	702
Closing balance	4,283	4,506

* The trust account, estates - Armed Services was established to record the service estates of deceased members of the Canadian Forces pursuant to section 42 of the National Defence Act. Net assets of estates are distributed to legal heirs under the administration of the Judge Advocate General, in their capacity as Director of Estates.

7. Deferred revenue

Deferred revenue represents the balance at year-end of unearned revenues stemming from amounts received from external parties which are restricted to fund the expenditures related to amounts received for fees prior to services being performed. Revenue is recognized in the period that these expenditures are incurred or the service is performed. Details of the transactions related to this account are as follows:

(in thousands of dollars)	2019	2018
Foreign governments		
Beginning of year	4,429	6,270
Funds received	86,184	177,274
Revenue recognized	(89,521)	(179,115)
Foreign governments, end of year	1,092	4,429
Other specified purposes		
Beginning of year	5,413	5,930
Funds received	6,309	4,238
Revenue recognized	(6,949)	(4,755)
Other specified purposes, end of year	4,773	5,413
Closing balance	5,865	9,842



For the year ended March 31

8. Canadian Forces pension and insurance accounts

Established in 1901 under the Militia Pension Act, the present Canadian Forces pension plans (the “CF pension plans”) are administered in accordance with the provisions of the Canadian Forces Superannuation Act. The Canadian Forces pension plan (CFPP) covers all members of the Regular Force component of the CAF. Reserve Force members who have sufficient qualifying service and pensionable earnings are members of either the CFPP or the Reserve Force pension plan (RFPP), which came into force on March 1, 2007, depending on their employment status and earnings.

The department maintains accounts to record the transactions pertaining to the CF pension plans, which comprise the Canadian Forces Superannuation Account (the “Superannuation Account”), the Canadian Forces Pension Fund Account (CFPF), the Retirement Compensation Arrangement Account (RCA), and the Reserve Force Pension Fund Account (RFPP). These accounts record transactions such as contributions, benefit payments, interest credits, refundable taxes, actuarial funding adjustments resulting from triennial reviews, and transfers to the Public Sector Pension Investment Board (PSPIB).

The value of the liabilities reported in these financial statements does not include the actuarial value of the liabilities determined by the Chief Actuary of the Office of the Superintendent of Financial Institutions nor the details of the investments that are held by PSPIB. Additional information on the CF pension plans, including audited financial statements, is published in the Annual Report of the Canadian Forces Pension Plans, which is available through the department. For further information on PSPIB, please visit www.pspib.ca.

The CFPF and the RFPP do not earn interest. The Pension Fund Accounts are merely flow through accounts. At year-end, the balances in the Pension Fund Accounts represent net contributions transferable to PSPIB.

The department also maintains the Regular Force Death Benefit Account, which provides life insurance to contributing members and former members of the CAF. This account records contribution, premiums, interest, and benefit payments.

The RCA records transactions for pension benefits that are provided in excess of those permitted under the Income Tax Act. The RCA is registered with Canada Revenue Agency (CRA) and a transfer is made annually between the RCA Account and CRA to either remit a 50 percent refundable tax in respect of the net contributions and interest credits or to be credited a reimbursement based on the net benefit payments. As at March 31, 2019, the total refundable tax transferred amounts to \$439 million (\$426 million in 2017-18).



For the year ended March 31

8. Canadian Forces pension and insurance accounts (continued)

The following table provides details of the Canadian Forces pension and insurance accounts liability as presented in the Statement of Financial Position:

(in thousands of dollars)	2019	2018
Canadian Forces Pension Fund Account		
Beginning of year	164,762	173,590
Funds received and other credits	1,551,128	1,613,514
Payments and other charges	(926,237)	(795,353)
Transfers to the Public Sector Pension Investment Board	(678,867)	(826,989)
Canadian Forces Pension Fund Account, end of year	110,786	164,762
Reserve Force Pension Fund Account		
Beginning of year	(83,308)	(63,015)
Funds received and other credits	67,032	79,425
Payments and other charges	(107,289)	(99,718)
Reserve Force Pension Fund Account, end of year	(123,565)	(83,308)
Retirement Compensation Arrangements Account		
Beginning of year	430,166	409,218
Funds received and other credits	38,521	54,817
Payments and other charges	(26,113)	(33,869)
Retirement Compensation Arrangements Account, end of year	442,574	430,166
Regular Force Death Benefit Account		
Beginning of year	185,203	189,500
Funds received and other credits	27,977	29,147
Payments and other charges	(33,669)	(33,444)
Regular Force Death Benefit Account, end of year	179,511	185,203
Closing balance	609,306	696,823

8a. Canadian Forces Superannuation Account

The Superannuation Account was created in order to record notional transactions for service prior to April 01, 2000. The Superannuation Account does not hold any investment assets. The amount of interest credited on the account is as though net contributions were invested quarterly in 20-year Government of Canada bonds issued at prescribed rates and held to maturity.

The assets and liabilities related to the Superannuation Account are not reflected in the department's Financial Statements as the Superannuation Account is the responsibility of the Government of Canada.



For the year ended March 31

8a. Canadian Forces Superannuation Account (continued)

Details of the Superannuation Account, including actuarial surpluses or deficiencies, can be found in the Annual Report of the Canadian Forces Pension Plans and in the Public Accounts of Canada.

The table below does not include the actuarial value of the liabilities determined by the Chief Actuary of the Office of the Superintendent of Financial Institutions, and is provided for information purposes only to disclose the transactions and account balance.

(in thousands of dollars)	2019	2018
Canadian Forces Superannuation Account		
Beginning of year	46,356,963	45,208,527
Funds received and other credits	1,791,272	3,663,587
Payments and other charges	(2,540,762)	(2,515,151)
Canadian Forces Superannuation Account, end of year	45,607,473	46,356,963

9. Lease obligations for tangible capital assets

The department has entered into agreements to lease certain tangible capital assets under capital leases with a cost of \$843 million and accumulated amortization of \$734 million as at March 31, 2019 (\$843 million and \$693 million respectively as at March 31, 2018). The obligations for the upcoming years include the following:

(in thousands of dollars)	Total future minimum lease payments	Imputed interest (4.10% to 7.74%)	Balance of obligations 2019	Balance of obligations 2018
Buildings	71,512	(15,608)	55,904	64,174
Aircraft	42,252	(1,487)	40,765	105,675
Total	113,764	(17,095)	96,669	169,849

Future minimum lease payments

(in thousands of dollars)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25 and thereafter	Total
Buildings	11,185	10,649	7,636	7,561	7,561	26,920	71,512
Aircraft	38,652	3,600	0	0	0	0	42,252
Total	49,837	14,249	7,636	7,561	7,561	26,920	113,764

The department has also entered into agreements for buildings and aircraft under capital leases (refer to note 15).



For the year ended March 31

10. Employee future benefits

(a) Pension benefits

The department's Public Service 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 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 Canada's 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 2018-19 expense amounts to \$197 million (\$184 million in 2017-18). For Group 1 members, the expense represents approximately 1.01 times (1.01 times in 2017-18) the contributions by employees and, for Group 2 members, approximately 1.00 times (1.00 times in 2017-18) 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.

The members of the Canadian Armed Forces Regular Force and eligible members of the Reserve Force participate in the Canadian Forces pension plan, which is sponsored by the Government of Canada and administered by the department. Pension benefits accrue up to a maximum 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 are indexed to inflation.

The members of the Canadian Armed Forces Reserve Force who are not eligible for participation in the Canadian Forces pension plan, may be eligible to participate in the Reserve Force pension plan, which is sponsored by the Government of Canada and administered by the department. Pension benefits accrue at a rate of 1.5 percent of pensionable earnings during the member's service, plus an additional 0.5 percent times the average of the best five consecutive years of earnings for those members who are not yet eligible for Canada/Québec Pension Plan benefits. The benefits are integrated with Canada/Québec Pension Plan benefits and are indexed to inflation.

Both the members and the department contribute to the cost of the CF pension plans for both current and prior service. The 2018-19 expense amounts to \$2,402 million (\$2,870 million in 2017-18) which represents approximately 4 times (4.6 times in 2017-18) the contributions by employees.

The department is responsible for providing program management and the day-to-day administration of the CF pension plans. The actuarial liability and actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the sponsor of the CF pension plans.

As a result of the actuarial funding report by the Office of the Chief Actuary, the President of Treasury Board has approved:

- Annual actuarial adjustments of \$145 million (\$145 million in 2017-18) to fund the deficit in the Canadian Forces Pension Fund Account, and \$5 million (\$5 million in 2017-18) for the Reserve Force Pension Fund Account until the deficit is funded as per the triennial funding valuation.

For more information on these adjustments, please consult the actuarial reports, available at the Office of the Chief Actuary's website (<http://www.osfi-bsif.gc.ca>)



For the year ended March 31

10. Employee future benefits (continued)

(b) Severance benefits

Severance benefits provided to the department's employees were previously based on 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:

(in thousands of dollars)	2019	2018
Public Service Employees		
Accrued benefit obligation, beginning of year	85,985	83,301
Expenses for the year	9,551	9,464
Benefits paid during the year	(10,913)	(6,780)
Accrued benefit obligation, end of year	84,623	85,985
Canadian Armed Forces Members		
Accrued benefit obligation, beginning of year	568,478	688,984
Expenses for the year	54,495	(4,966)
Benefits paid during the year	(75,179)	(115,540)
Accrued benefit obligation, end of year	547,794	568,478
Total accrued benefit obligation, end of year	632,417	654,463



For the year ended March 31

11. Accounts receivable

The following table presents details of accounts receivable:

(in thousands of dollars)	2019	2018
Receivables - External parties	243,442	241,225
Receivables - Other government departments and agencies	166,761	787,090
	410,203	1,028,315
Less: allowance for doubtful accounts on receivables from external parties	52,221	48,826
Gross accounts receivable	357,982	979,489
Accounts receivable held on behalf of government	(8,087)	(5,642)
Net Receivables	349,895	973,847

12. Loans and advances

The following table presents details of loans and advances:

(in thousands of dollars)	2019	2018
Imprest accounts, standing advances and authorized loans to CAF members	49,518	42,939
Accountable advances (temporary advances)	6,783	3,193
Total loans and advances	56,301	46,132

13. Prepaid expenses

The following table presents details of prepaid expenses:

(in thousands of dollars)	2019	2018
Foreign Military Purchases	266,775	261,453
Mercury Global Military Wideband Satellite Communications Project	193,532	209,015
Sea Sparrow Missiles	79,054	77,697
NATO Flying Training Canada (NFTC)	59,182	71,507
Building rentals	13,892	14,963
Other purchases	7,985	11,077
Total prepaid expenses	620,420	645,712



For the year ended March 31

14. Inventory

The following table presents the details of inventory, measured at cost using the moving weighted average method except for inventory managed by contractors and not held in Defence Resource Management Information System (DRMIS), which is valued according to the cost method used by the contractors:

(in thousands of dollars)	2019	2018
Ammunition, bombs and missiles	2,919,996	3,011,575
Uniforms and clothing	377,132	387,850
Contractor held inventory	369,918	338,133
Metal	314,698	307,823
Communication, electrical parts/accessories and informatics equipment	284,759	306,328
Engineering, test and technical equipment and machine tools	256,457	259,269
Ship spares	216,681	206,490
Land equipment spares	211,009	206,345
Sonobuoys, parts and accessories	142,148	148,338
Aircraft spares	137,160	144,488
Medical equipment	120,890	104,434
Packaging, preserving and storing material	54,537	48,075
Fuel, petroleum and oil	41,637	34,482
Sports, recreation, athletic equipment and supplies	27,711	28,703
Lighting, distribution, control equipment and parts	27,525	26,278
Miscellaneous	102,351	108,174
Total inventories	5,604,609	5,666,785

The cost of consumed inventory recognized as an expense in the Consolidated Statement of Operations and Departmental Net Financial Position is \$551 million in 2018-19 (\$608 million in 2017-18).



For the year ended March 31

15. Tangible capital assets

The following table presents details of the cost of tangible capital assets:

(in thousands of dollars)	Balance beginning of year (Restated note 20)	Adjustments ⁽¹⁾	Acquisitions	Disposals and write-offs	Balance end of year
Land, buildings and works					
Land	86,259	1	0	(154)	86,106
Buildings	10,449,642	202,331	77	(31,688)	10,620,362
Works	2,722,612	35,334	15,420	(9,772)	2,763,594
	13,258,513	237,666	15,497	(41,614)	13,470,062
Machinery and equipment					
Machinery and equipment	7,241,738	(209,799)	157,184	(85,062)	7,104,061
Informatics hardware	5,651,896	80,797	156,714	(107,138)	5,782,269
Informatics software	970,907	123,232	17,577	(72)	1,111,644
Arms and weapons	6,339,655	643,444	42,642	(348,298)	6,677,443
Other equipment	144,190	(1,313)	12,904	(1,634)	154,147
	20,348,386	636,361	387,021	(542,204)	20,829,564
Ships, aircraft and vehicles					
Ships and boats	13,730,319	(16,114)	16,115	(230,074)	13,500,246
Aircraft	19,724,757	170,894	20,011	(32,584)	19,883,078
Non-military motor vehicles	1,101,642	16,628	56,149	(30,765)	1,143,654
Military vehicles	1,620,551	90,544	15,891	(55,173)	1,671,813
Other vehicles	472,842	(21,449)	13,336	(5,451)	459,278
	36,650,111	240,503	121,502	(354,047)	36,658,069
Leasehold improvements					
Leasehold improvements	125,604	0	0	0	125,604
	125,604	0	0	0	125,604
Leased tangible capital assets					
Buildings	151,356	0	0	0	151,356
Other equipment	48	0	0	0	48
Aircraft	691,286	0	0	0	691,286
	842,690	0	0	0	842,690
Assets under construction					
Buildings	941,206	(187,172)	467,078	0	1,221,112
Engineering works	280,881	(38,898)	107,775	0	349,758
Informatics software	197,247	(137,184)	89,398	0	149,461
Equipment	5,015,999	(1,542,218)	2,306,571	(4,001)	5,776,351
	6,435,333	(1,905,472)	2,970,822	(4,001)	7,496,682
Gross tangible capital assets	77,660,637	(790,942)	3,494,842	(941,866)	79,422,671

(1) Adjustments represent adjustments to asset pooled items (API), assets under construction put into use and reclassifications.

During 2018-19, the department transferred in works and infrastructure (net book value of one dollar), land (total cost of \$1,000), and buildings (net book value of \$25,799) from the Royal Canadian Mounted Police; machinery and equipment (net book value of \$2), works and infrastructure (net book value of \$5,631), buildings (net book value of \$1 million) from the Department of Industry.

Also during 2018-19, the department transferred out works in progress (total cost of \$5 million) to the Department of Fisheries and Oceans.

These transfers are included in the adjustments column.



For the year ended March 31

15. Tangible capital assets (continued)

The following table presents details of the amortization of tangible capital assets and its net book value:

(in thousands of dollars)	Balance beginning of year (Restated note 20)	Adjustments	Amortization	Disposals and write-offs	Balance end of year	Net Book Value	
						2019	2018 (Restated note 20)
Land, buildings and works							
Land	0	0	0	0	0	86,106	86,259
Buildings	4,705,032	9,739	270,539	(23,721)	4,961,589	5,658,773	5,744,611
Works	1,575,348	589	76,512	(4,325)	1,648,124	1,115,470	1,147,264
	6,280,380	10,328	347,051	(28,046)	6,609,713	6,860,349	6,978,134
Machinery and equipment							
Machinery and equipment	5,458,827	(353,998)	261,732	(80,297)	5,286,264	1,817,797	1,782,911
Informatics hardware	4,845,032	(16,631)	115,088	(105,476)	4,838,013	944,256	806,864
Informatics software	674,903	0	51,761	(18)	726,646	384,998	296,004
Arms and weapons	2,901,256	50,143	270,561	(262,284)	2,959,676	3,717,767	3,438,399
Other equipment	125,749	(1,441)	7,891	(1,634)	130,565	23,582	18,441
	14,005,767	(321,927)	707,033	(449,709)	13,941,164	6,888,400	6,342,619
Ships, aircraft and vehicles							
Ships and boats	9,154,203	(145,704)	731,057	(223,896)	9,515,660	3,984,586	4,576,116
Aircraft	11,900,605	(156,998)	672,575	(32,357)	12,383,825	7,499,253	7,824,152
Non-military motor vehicles	678,350	6,185	88,330	(29,975)	742,890	400,764	423,292
Military vehicles	1,352,055	(27,733)	56,013	(54,104)	1,326,231	345,582	268,496
Other vehicles	308,360	(23,386)	19,946	(5,359)	299,561	159,717	164,482
	23,393,573	(347,636)	1,567,921	(345,691)	24,268,167	12,389,902	13,256,538
Leasehold improvements							
Leasehold improvements	44,658	0	6,945	0	51,603	74,001	80,946
	44,658	0	6,945	0	51,603	74,001	80,946
Leased tangible capital assets							
Buildings	93,551	0	6,601	0	100,152	51,204	57,805
Other equipment	48	0	0	0	48	0	0
Aircraft	599,775	0	33,535	0	633,310	57,976	91,511
	693,374	0	40,136	0	733,510	109,180	149,316
Assets under construction							
Buildings						1,221,112	941,206
Engineering works						349,758	280,881
Informatics software						149,461	197,247
Equipment						5,776,351	5,015,999
						7,496,682	6,435,333
Total	44,417,752	(659,235)	2,669,086	(823,446)	45,604,157	33,818,514	33,242,886



For the year ended March 31

15. Tangible capital assets (continued)

The department has 14 million (\$20 million in 2017-18) in net book value of capital assets with an original acquisition cost of \$1,589 million (\$1,998 million in 2017-18) that have been declared surplus. These assets have been written down to their net realizable value in the Consolidated Statement of Financial Position.

16. Contingent liabilities

Contingent liabilities arise in the normal course of the operations of the department and their ultimate disposition is unknown. The department is involved in contingent liabilities on claims and litigations.

Claims and litigations

Claims have been made against the department in the normal course of operations. These claims include items with pleading amounts and others for which no amount is specified. While the total amount claimed in these actions is significant, their outcomes are not determinable. The department has recorded an allowance for claims and litigations where it is likely that there will be a future payment and a reasonable estimate of the loss can be made. Claims and litigations for which the outcome is not determinable and a reasonable estimate can be made by management amount to approximately \$74 million (\$371 million in 2017-18) at March 31, 2019.

17. 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 when the services/goods are received. Contractual obligations over \$10 million that can be reasonably estimated are summarized as follows:

(in thousands of dollars)	2019-20	2020-21	2021-22	2022-23	2023-24 and thereafter	Total
Fixed Assets	1,815,189	1,672,139	1,025,774	540,459	564,820	5,618,381
Purchases	3,207,310	2,264,710	1,604,978	1,349,103	6,134,094	14,560,195
Total	5,022,499	3,936,849	2,630,752	1,889,562	6,698,914	20,178,576



For the year ended March 31

17. Contractual obligations and contractual rights (continued)

(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 leases of property and sales of goods and services. Major contractual rights that will generate revenue in the future years and that can be reasonably estimated are summarized as follows:

(in thousands of dollars)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25 and thereafter	Total ¹
Support services	0	0	0	0	0	31,053	31,053
Total	0	0	0	0	0	31,053	31,053

(1) The disclosed contractual rights pertain to an In Service Support Contract for helicopters that gives rise to royalties as well as consideration. In accordance with the contract, consideration will be provided in the form of a credit of \$31 million that cannot be activated prior to 2023-24 and must be used by end of 2028-29. Also, the department will earn royalties for future helicopter sales. As there are no anticipated sales as at March 31, 2019, this amount is currently reported as nil.

18. 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 personnel¹ 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 these entities in the normal course of business and on normal trade terms. The department did not identify any material transactions that occurred at a value different from which would have been arrived at if the parties were unrelated.

(1) For the departmental financial statements, key management personnel (KMP) are defined as the Associate Deputy Ministers, Assistant Deputy Ministers (ADM), other executives at the EX-4 and EX-5 level, including military equivalents, and members of governing management boards.



For the year ended March 31

18. Related party transactions (continued)

(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 accommodation, legal services, the employer's contribution to the health and dental insurance plans and workers' compensation coverage. These services provided without charge have been recorded in the department's Statement of Operations and Departmental Net Financial Position as follows:

(in thousands of dollars)	2019	2018
Employer's contributions to the health and dental plans paid by Treasury Board of Canada Secretariat	699,435	789,778
Accommodation provided by Public Services and Procurement Canada	76,218	59,736
Worker's compensation coverage provided by Employment and Social Development Canada	6,189	6,533
Legal services provided by Department of Justice Canada	2,994	2,936
Total	784,836	858,983

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 Statement of Operations and Departmental Net Financial Position.

(b) Other transactions with related parties

(in thousands of dollars)	2019	2018
Expenses - other government departments and agencies	1,287,301	1,207,277
Revenues - other government departments and agencies	16,027	16,316

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

19. Segmented information

The presentation by segment is based on the Departmental Results Framework (DRF) as stated in note 1 and is based on the 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 result framework, by major object of expense and by major type of revenue. The segment results for the period are as follows:



For the year ended March 31

19. Segmented information (continued)

(in thousands of dollars)	BUN00 ⁽¹⁾	BUO00 ⁽²⁾	BUPO0 ⁽³⁾	BUQ00 ⁽⁴⁾
Operating expenses				
Salary and employee benefits	713,249	5,524,227	1,861,883	331,302
Amortization	1,123	2,953	935	11,012
Professional and special services	40,885	570,923	213,587	170,830
Repair and maintenance	50,269	1,217,403	5,889	7,256
Expenses related to tangible assets	36,952	468,462	15,283	55,140
Materials and supplies	310,116	343,032	113,325	34,754
Transportation and communication	106,126	242,488	363,097	21,700
Other services	26,667	166,240	182,123	53,222
Accommodation	29,756	59,376	46,382	2,563
Equipment and other rentals	62,674	190,311	18,423	1,741
Utilities	3,182	2,290	607	54
Loss on disposals and write-offs and write-downs of assets	101,994	0	0	0
Bad debts	0	0	0	0
Interest on capital lease payments	0	5,194	1,103	0
Advertising, printing and related services	156	6,155	9,812	1,296
Other expenses	(263,562)	757,249	(154,133)	5,066
Total operating expenses	1,219,587	9,556,303	2,678,316	695,936
Transfer payments				
Transfers to other countries and international organizations	196,866	2,176	0	0
Transfers to other levels of government	0	34	0	0
Transfers to non-profit organizations	3,659	0	1,422	134
Transfers to individuals	0	0	1,606	0
Total transfer payments	200,525	2,210	3,028	134
Total expenses	1,420,112	9,558,513	2,681,344	696,070
Revenues				
Sale of goods and services	109,217	30,271	51,890	2,600
Gains on disposals of assets	264	3,551	0	5,188
Interest and gains on foreign exchange	952	3,953	125	1,902
Revenues earned on behalf of government	0	(2)	(777)	(3,418)
Other	361	235	785	0
Total revenues	110,794	38,008	52,023	6,272
Net cost from continuing operations	1,309,318	9,520,505	2,629,321	689,798



For the year ended March 31

19. Segmented information (continued)

(in thousands of dollars)	BUR00 ⁽⁵⁾	BUS00 ⁽⁶⁾	ISSA0 ⁽⁷⁾	2019	2018 (Restated note 20)
Operating expenses					
Salary and employee benefits	238,367	1,307,190	402,921	10,379,139	12,590,956
Amortization	2,304,659	347,584	820	2,669,086	2,602,625
Professional and special services	521,766	438,652	108,977	2,065,620	2,272,341
Repair and maintenance	22,357	260,563	46,033	1,609,770	1,285,345
Expenses related to tangible assets	880,731	81,039	11,575	1,549,182	772,048
Materials and supplies	17,008	60,817	3,118	882,170	828,742
Transportation and communication	23,911	44,926	11,293	813,541	734,550
Other services	37,063	101,375	29,902	596,592	537,729
Accommodation	8,349	32,704	62,976	242,106	183,898
Equipment and other rentals	407	10,925	345	284,826	175,063
Utilities	1	158,628	6,486	171,248	167,135
Loss on disposals and write-offs and write-downs of assets	0	0	0	101,994	90,260
Bad debts	0	0	4,983	4,983	31,807
Interest on capital lease payments	0	2,456	(1,009)	7,744	11,977
Advertising, printing and related services	456	911	1,049	19,835	18,354
Other expenses	477,595	440,320	278,071	1,540,606	816,156
Total operating expenses	4,532,670	3,288,090	967,540	22,938,442	23,118,986
Transfer payments					
Transfers to other countries and international organizations	0	0	0	199,042	147,137
Transfers to other levels of government	0	3,276	0	3,310	596
Transfers to non-profit organizations	0	0	0	5,215	5,087
Transfers to individuals	0	0	0	1,606	1,824
Total transfer payments	0	3,276	0	209,173	154,644
Total expenses	4,532,670	3,291,366	967,540	23,147,615	23,273,630
Revenues					
Sale of goods and services	3	173,670	15,223	382,874	384,421
Gains on disposals of assets	1,665	4,057	1,700	16,426	27,067
Interest and gains on foreign exchange	1,943	114	4,453	13,442	18,912
Revenues earned on behalf of government	(13)	(29)	(9,862)	(14,101)	(10,387)
Other	110	846	9,397	11,734	13,698
Total revenues	3,708	178,658	20,911	410,375	433,711
Net cost from continuing operations	4,528,962	3,112,708	946,629	22,737,240	22,839,919

(1) BUN00: Operations

(2) BUO00: Ready Forces

(3) BUP00: Defence Team

(4) BUQ00: Future Force Design

(5) BUR00: Procurement of Capabilities

(6) BUS00: Sustainable Bases, Information Technology Systems and Infrastructure

(7) ISSA0: Internal services



For the year ended March 31

20. Accounting changes

Restatement of previous year's results

The department is undergoing a multi-year review of its business processes related to the recording and valuation of tangible capital assets and inventory. In 2018-19 this review identified capital assets that had never been recorded in previous fiscal years and related adjustments to remove non-capital expenditures.

The effect of the resulting retroactive adjustments are presented below:

(in thousands of dollars)	2018 As previously stated	Effect of changes	2018 Restated
Consolidated Statement of Financial Position			
Tangible capital assets (note 15)	33,485,695	(242,809)	33,242,886
Total non-financial assets	39,798,192	(242,809)	39,555,383
Departmental net financial position	37,912,461	(242,809)	37,669,652
Consolidated Statement of Operations and Departmental Net Financial Position			
Total expenses	23,198,555	75,075	23,273,630
Net cost from continuing operations	22,764,844	75,075	22,839,919
Net cost of operations after government funding and transfers	(775,636)	75,075	(700,561)
Departmental net financial position - beginning of year	37,136,825	(167,734)	36,969,091
Departmental net financial position - end of year	37,912,461	(242,809)	37,669,652
Consolidated Statement of Change in Departmental Net Debt			
Net cost of operations after government funding and transfers	(775,636)	75,075	(700,561)
Amortization of tangible capital assets	(2,527,550)	(75,075)	(2,602,625)
Total change due to tangible capital assets	932,769	(75,075)	857,694
Consolidated Statement of Cash Flow			
Net cost of operations before government funding and transfers	22,764,844	75,075	22,839,919
Amortization of tangible capital assets	(2,527,550)	(75,075)	(2,602,625)



For the year ended March 31

21. Comparative information

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



1. Introduction

This document provides summary information on the measures taken by the department to maintain an effective system of Internal Control over Financial Reporting (ICFR), including information on internal control management, assessment of results and related action plans.

Detailed information on the department's authority, mandate and program activities can be found in the 2018-19 Departmental Results Report and the 2019-20 Departmental Plan.

2. Departmental system of internal control over financial reporting

2.1 Internal control management

The department 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 over Financial Management (ICFM) Framework, approved by the Deputy Minister (DM) exists as does an Ongoing Monitoring of ICFM Framework approved by the Chief Financial Officer (CFO). ICFR is a subset of ICFM and is therefore outlined within the ICFM framework. The frameworks are supported by:

- Organizational accountability structures as they relate to internal control over financial management to support sound financial management, including roles and responsibilities of senior managers in their areas of responsibility for control management;
- An internal control over financial management directorate under the CFO to monitor the effectiveness of ICFR and ICFM across the department, including making recommendations and reporting on deficiencies;
- An internal financial attestation process in support of certification by the DM and CFO, whereby senior departmental executives who report to the DM attest that they have maintained an effective system of

internal control over financial reporting in their area of responsibility;

- A Defence Ethics Program which is a comprehensive values-based program put in place to meet the needs of the department and the Canadian Armed Forces (CAF), at both the individual and the organizational levels;
- A comprehensive Fraud Risk Management strategy that is designed to protect the department's resources from fraud, waste and abuse through a prevention and detection framework;
- Ongoing communication and training on statutory requirements, and policies and procedures for sound financial management and control;
- Regular monitoring of internal control management by Internal Audit as well as the provision of related assessments of results and action plans to the DM, the Departmental Audit Committee (DAC) and departmental senior management; and
- A DAC that has oversight on the adequacy and functioning of the department's risk, management and control and governance framework and processes.

2.2 Service arrangements relevant to financial statements

The department relies on other organizations for the processing of certain transactions that are recorded in its Departmental Financial Statements as follows:

(i) Common Arrangements:

- Public Services and Procurement Canada (PSPC) centrally administers the payments of civilian salaries, pension, and the procurement of goods and services as per the delegation of authority of other government organizations. PSPC also administers the Receiver General Central Systems used to issue cheques on behalf of the department;
- The Treasury Board of Canada Secretariat provides services related to public sector pension and insurance for the Defence Team and centrally administers payment of the employer's share of contributions toward statutory employee benefit plans (i.e., the Public Service Pension Plan, Employment Insurance Plan, Canada Pension Plan, Quebec Pension Plan and Public Service Supplementary Death Benefit Plan) on behalf of the department;



- Shared Services Canada provides information technology infrastructure services and support to the department, such as but not limited to, email, data centres and network services;
- The department of Justice provides legal services to the department, as well as information for establishing the contingent liability note to the financial statements and for inclusion in the Public Accounts of Canada; and
- PSPC provides Pension services to CAF members.

(ii) Specific Arrangements:

- Defence Construction Canada provides contracting, construction contract management and payment processing services as well as infrastructure support to the department in accordance with the Memorandum of Understanding between the two organizations and as per the department’s Delegation of Authorities instrument; and
- The Office of the Superintendent of Financial Institutions provides the department with the accrued severance liability amount for the CAF.

3. Departmental assessment results during fiscal year 2018-19

The department is one of the largest and most complex organizations in the Government of Canada with annual expenditures of over \$23 billion, revenues of \$410 million and net assets in excess of \$37 billion managed in a highly decentralized operating and financial environment.

There are three separate payroll systems, two of which are currently undergoing major transformations, which annually expend more than \$10 billion in salaries and

benefits to more than 100,000 Regular and Reserve Force military members as well as civilian employees. Furthermore, there are two major Enterprise Resource Planning systems, Defence Resource Management Information System and Human Resource Management System, which support the business and extend to every operational area of the department.

The department’s five-year rotational ICFR ongoing monitoring plan is developed on a risk informed basis using methodology outlined in the department’s ICFM Ongoing Monitoring Framework approved by the CFO. ICFM is a broad set of measures and activities that provide reasonable assurance of the effectiveness and efficiency of the financial management activities of a department. ICFR is a subset of ICFM focusing uniquely on providing reasonable assurance of the accuracy and completeness of the department’s financial statements.

Annually a risk assessment is completed and the rotational plan is updated as required. Due to the complexity of operations, although a business process is identified for assessment in a given fiscal year, it is possible that only a subset of sub-processes are assessed within a fiscal year. Each element in the table on the next page will undergo a complete assessment at least once every five years.

ICFR ongoing monitoring assessments involve the review and testing of previously identified key controls within business processes to confirm that the design of these controls continue to address key financial risks and that these controls continue to operate effectively.

The following table summarizes the status of the ongoing monitoring activities according to the previous fiscal year’s rotational plan.



Progress during fiscal year 2018-19	
Previous year's rotational ongoing monitoring plan for current year	Status
IT General Controls	Completed as planned; remediation action plans under development
Inventory	Partially complete; remediation action plans under development
Capital Assets	Completed as planned; remediation action plans under development
Real Property	Completed as planned; remediation action plans developed
Military Regular Force Payroll	Completed as planned; remediation action plans under development
Military Reserve Force Payroll	Completed as planned; remediation action plans under development

The key findings from the current year's assessment activities are summarized below:

3.1 New or significant amended key controls

The ongoing challenges presented by the government pay system, Phoenix, continue to require changes to internal pay processes and controls. Implementation of these controls and associated quality assurance programs continue. A full assessment of the civilian payroll process will be conducted in fiscal year 2020-21 as per the department's rotational ongoing monitoring plan.

3.2 Ongoing monitoring program

Ongoing monitoring assessments are comprised of two components: confirming controls continue mitigate the intended risks (design effectiveness) and confirming that the controls are operating as intended (operating effectiveness). As part of its rotational ongoing monitoring plan, the department completed its assessments of IT general controls and controls within the inventory, capital assets, real property, military regular force payroll and military reserve force payroll business processes. Due to timing and resource constraints, the inventory sub-process of stocktaking underwent only the design effectiveness component of ongoing monitoring. The operating effectiveness component will take place in fiscal year 2019-20. No new control gaps were identified as a result of the monitoring. However, two common themes emerged: (a) automated controls were found to be more effective than manual controls, and, (b) lack of consistent documentation related to the performance of certain controls. Management action plans are being developed.



4. Departmental action plan for the next fiscal year and subsequent years

The department's rotational ongoing monitoring plan for the next three fiscal years, based on an annual ICFM scoping and risk assessment, is shown in the following table.

Rotational Ongoing Monitoring Plan			
Key Control Areas	2019-20	2020-21	2021-22
Entity Level Controls	Yes	Yes	No
IT General Controls	Yes	Yes	Yes
Financial Reporting and Close	No	No	Yes
Procure to Payment	Yes	Yes	Yes
Inventory	Yes	Yes	Yes
Capital Assets	Yes	No	Yes
Real Property	No	No	Yes
Civilian Pay	Yes	Yes	Yes
Military Regular Force Pay	Yes	Yes	Yes
Military Reserve Force Pay	Yes	Yes	Yes
Accounts Receivable	Yes	No	No



Accounting changes (note 20).....	32
Accounts payable and accrued liabilities (note 4).....	13
Accounts receivable (note 11).....	23
Authority and objectives (note 1).....	6
Canadian Forces pension and insurance accounts (note 8).....	18
Comparative information (note 21).....	33
Contingent liabilities (note 16).....	27
Contractual obligations and contractual rights (note 17).....	27
Deferred revenue (note 7).....	17
Deposits and trust accounts (note 6).....	17
Employee future benefits (note 10).....	21
Environmental liabilities (note 5).....	14
Inventory (note 14).....	24
Lease obligations for tangible capital assets (note 9).....	20
Loans and advances (note 12).....	23
Parliamentary authorities (note 3).....	12
Prepaid expenses (note 13).....	23
Related party transactions (note 18).....	28
Segmented information (note 19).....	29
Summary of significant accounting policies (note 2).....	7
Tangible capital assets (note 15).....	25