

STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING

CORRECTIONAL SERVICE OF CANADA

Responsibility for the integrity and objectivity of the accompanying consolidated financial statements for the year ended March 31, 2017, and all information contained in these statements rests with the management of the Correctional Service of Canada (CSC). These consolidated financial statements have been prepared by management using the Government's accounting policies, which are based on Canadian public sector accounting standards.

Management is responsible for the integrity and objectivity of the information in these consolidated financial statements. Some of the information in the consolidated financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of CSC's financial transactions. Financial information submitted in the preparation of the *Public Accounts of Canada*, and included in the CSC's *Departmental Performance Report*, is consistent with these consolidated 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 CSC and through conducting an annual risk-based assessment of the effectiveness of the system of ICFR.

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

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

The effectiveness and adequacy of CSC's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of CSC'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 consolidated financial statements to the Commissioner.

The consolidated financial statements of CSC have not been audited.

Anne Kelly, A/Commissioner
Ottawa, Canada
August 25, 2017

Denis Bombardier, CPA, CGA
A/Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (unaudited)

CORRECTIONAL SERVICE OF CANADA

As at March 31

(in thousands of dollars)

	2017	2016
Liabilities		
Accounts payable and accrued liabilities (note 4)	263,231	230,034
Vacation pay and compensatory leave	52,339	51,495
Environmental liabilities (note 5)	3,160	1,588
Deferred revenue (note 6)	1,517	221
Employee future benefits (note 7)	66,861	89,167
Inmate Trust Fund (note 8)	18,899	18,236
Lease obligation for tangible capital assets (note 12)	96	115
Total net liabilities	406,103	390,856
Assets		
Financial assets		
Due from Consolidated Revenue Fund	249,281	223,104
Accounts receivable, advances and loans (note 9)	129,624	39,319
Inventory held for resale (note 10)	12,594	11,848
Total gross financial assets	391,499	274,271
Financial assets held on behalf of Government		
Accounts receivable, advances and loans (note 9)	(185)	(560)
Total financial assets held on behalf of Government	(185)	(560)
Total net financial assets	391,314	273,711
Organizational net debt	14,789	117,145
Non-financial assets		
Prepaid expenses	1	-
Inventory not for resale (note 10)	37,754	40,153
Tangible capital assets (note 11)	2,182,378	2,177,578
Total non-financial assets	2,220,133	2,217,731
Organizational net financial position	2,205,344	2,100,586

Contractual obligations (note 13)

Contingent liabilities (note 14)

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

Anne Kelly, A/Commissioner
Ottawa, Canada
August 25, 2017

Denis Bombardier, CPA, CGA
A/Chief Financial Officer

CONSOLIDATED STATEMENT OF OPERATIONS AND ORGANIZATIONAL NET FINANCIAL POSITION (unaudited)

CORRECTIONAL SERVICE OF CANADA

For the Year Ended March 31

(in thousands of dollars)

	2017 Planned Results	2017	2016
Expenses			
Custody	1,575,343	1,573,687	1,543,178
Correctional Interventions	497,642	461,900	480,424
Community Supervision	148,805	156,177	148,452
Internal Services	332,324	309,345	317,898
Expenses incurred on behalf of Government	-	(65)	(35)
Total expenses	2,554,114	2,501,044	2,489,917
Revenues			
Sales of goods and services	62,916	47,950	56,100
Miscellaneous revenues	3,504	2,750	4,229
Revenues earned on behalf of Government	(3,504)	(2,750)	(4,229)
Total revenues	62,916	47,950	56,100
Net cost of operations before government funding and transfers	2,491,198	2,453,094	2,433,817
Government funding and transfers			
Net cash provided by Government		2,376,486	2,375,525
Change in due from Consolidated Revenue Fund		26,177	(70)
Services provided without charge by other government departments (note 15a)		154,290	147,923
Transfer of the transition payments for implementing salary payments in arrears		(25)	(428)
Transfer of tangible capital assets from (to) other government departments (note 11)		924	(1,205)
Net cost of operations after government funding and transfers		(104,758)	(87,928)
Organizational net financial position – Beginning of year		2,100,586	2,012,658
Organizational net financial position – End of year		2,205,344	2,100,586

Segmented information (note 16)

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

CONSOLIDATED STATEMENT OF CHANGE IN ORGANIZATIONAL NET DEBT (unaudited)

CORRECTIONAL SERVICE OF CANADA

For the Year Ended March 31

(in thousands of dollars)

	2017	2016
Net cost of operations after government funding and transfers	(104,758)	(87,928)
Change due to tangible capital assets		
Acquisition of tangible capital assets (note 11)	153,921	164,447
Amortization of tangible capital assets (note 11)	(129,264)	(117,045)
Proceeds from disposal of tangible capital assets	(1,571)	(1,155)
Gain (loss) on disposal of tangible capital assets	(1,704)	80
Tangible capital assets adjustments (note 11)	(17,506)	3,088
Transfer of tangible capital assets from/to other government departments (note 11)	924	(1,205)
Total change due to tangible capital assets	4,800	48,210
Change due to inventories not for resale	(2,399)	5,236
Change due to prepaid expenses	1	(6)
Net decrease in organizational net debt	(102,356)	(34,488)
Organizational net debt – Beginning of year	117,145	151,633
Organizational net debt – End of year	14,789	117,145

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

CONSOLIDATED STATEMENT OF CASH FLOW *(unaudited)*

CORRECTIONAL SERVICE OF CANADA

For the Year Ended March 31

(in thousands of dollars)

	2017	2016
Operating activities		
Net cost of operations before government funding and transfers	2,453,094	2,433,817
Non-cash items		
Amortization of tangible capital assets (note 11)	(129,264)	(117,045)
Net gain (loss) on disposal of tangible capital assets	(1,704)	80
Tangible capital assets adjustments (note 11)	(17,506)	3,088
Services provided without charge by other government departments (note 15a)	(154,290)	(147,923)
Transition payments for implementing salary payments in arrears	25	428
Variations in Consolidated Statement of Financial Position		
(Increase) decrease in accounts payable and accrued liabilities (note 4)	(33,197)	990
(Increase) decrease in vacation pay and compensatory leave	(844)	1,064
(Increase) decrease in environmental liabilities (note 5)	(1,572)	430
Increase in deferred revenue (note 6)	(1,296)	(114)
Decrease in employee future benefits (note 7)	22,306	6,392
(Increase) decrease in Inmate Trust Fund (note 8)	(663)	14
Increase in accounts receivable, advances and loans (note 9)	90,680	24,268
Increase (decrease) in prepaid expenses	1	(6)
(Decrease) increase in inventory	(1,653)	6,865
Cash used in operating activities	2,224,117	2,212,348
Capital investing activities		
Acquisitions of tangible capital assets (note 11)	153,921	164,447
Proceeds from disposal of tangible capital assets	(1,571)	(1,155)
Cash used in capital investing activities	152,350	163,292
Financing activities		
Decrease (increase) in lease obligations for tangible capital assets (note 12)	19	(115)
Cash used in financing activities	19	(115)
Net cash provided by Government of Canada	2,376,486	2,375,525

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

CORRECTIONAL SERVICE OF CANADA

For the Year Ended March 31

1. Authority and Objectives

The constitutional and legislative framework that guides the Correctional Service of Canada (CSC) is set out by the *Constitution Act 1982* and the *Corrections and Conditional Release Act* (CCRA).

The purpose of the federal correctional system, as defined by law, is to contribute to the maintenance of a just, peaceful and safe society by carrying out sentences imposed by courts through the safe and humane custody and supervision of offenders; and by assisting the rehabilitation of offenders and their reintegration into the community as law-abiding citizens through the provision of programs in penitentiaries and in the community (*Corrections and Conditional Release Act*, s.3). It delivers its mandate under four major programs:

Custody: This program contributes to public safety by providing for the day-to-day needs of offenders, including health and safety, food, clothing, mental health services, and physical health care. It also includes security measures within institutions such as drug interdiction, and appropriate control practices to prevent incidents;

Correctional Interventions: This program contributes to public safety through assessment activities and program interventions for federal offenders that are designed to assist their rehabilitation and facilitate their successful reintegration into the community as law-abiding citizens. The program engages Canadian citizens as partners in CSC's correctional mandate, and provides outreach to victims of crime;

Community Supervision: This program contributes to public safety through the administration of community operations, including the provision of accommodation options, establishment of community partnerships and provision of community health services as necessary. Community supervision provides the structure to assist offenders to safely and successfully reintegrate into society; and

Internal Services: Internal Services are groups of related activities and resources that are administered to support the needs of programs and other corporate obligations of an organization. Internal services include only those activities and resources that apply across an organization, and not those provided to a specific program. The groups of activities are Management and Oversight Services; Communications Services; Legal Services; Human Resources Management Services; Financial Management Services; Information Management Services; Information Technology Services; Real Property Services; Materiel Services; and Acquisition Services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE OF CANADA

For the Year Ended March 31

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared using the Government's accounting policies stated below, which are based on Canadian public sector accounting standards. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian public sector accounting standards.

Significant accounting policies are as follows:

a) Parliamentary authorities

CSC is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to CSC 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 Organizational 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 Organizational Net Financial Position are the amounts reported in the Consolidated Future-Oriented Statement of Operations included in the *2016-2017 Report on Plans and Priorities*. Planned results are not presented in "Government funding and transfers" section of the Consolidated Statement of Operations and Organizational Net Financial Position and in the Consolidated Statement of Change in Organizational Net Debt because these amounts were not included in the *2016-2017 Report on Plans and Priorities*.

b) Consolidation

These consolidated financial statements include the accounts of the sub-entity that are under the control of the organization. The accounts of CORCAN Revolving Fund have been consolidated with those of the organization and all inter-organizational balances and transactions have been eliminated.

c) Net Cash Provided by Government

CSC operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by CSC is deposited to the CRF and all cash disbursements made by CSC 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.

d) Due from the Consolidated Revenue Fund (CRF)

Amounts due from 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 CSC is entitled to draw from the CRF without further authorities to discharge its liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE OF CANADA

For the Year Ended March 31

2. Summary of Significant Accounting Policies (continued)

e) Revenues

- 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 services are rendered or goods are sold.
- Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.
- Funds that have been received are recorded as deferred revenue, provided that CSC has an obligation to other parties for the provision of goods, services or the use of assets in the future.
- Other revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenue takes place.
- Revenues that are non-respendable are not available to discharge CSC's liabilities. While the Commissioner is expected to maintain accounting control, he 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 the accrual basis:

- 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 contribution to the health and dental insurance plans, legal services and worker's compensation are recorded as operating expenses at their estimated cost.
- Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met the eligibility criteria or the entitlements established for the transfer payment program. In situations where payments do not form part of an existing program, transfer payments are recorded as expenses when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements. Transfer payments that become repayable as a result of conditions specified in the contribution agreement that have come into being are recorded as a reduction to transfer payment expense and as a receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE OF CANADA

For the Year Ended March 31

2. Summary of Significant Accounting Policies (continued)

g) Employee future benefits

- Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multi-employer plan administered by the Government. CSC's contributions to the Plan are charged to expenses in the year incurred and represent the total organizational obligation to the Plan. CSC'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.
- Severance benefits: Employees entitled to severance benefits under labour contracts or conditions of employment earn these benefits as services necessary to earn them are rendered. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

h) Accounts and loans receivable from external parties

Accounts and loans receivable are stated at the lower of cost and net recoverable value. However, when the terms of the loans are concessionary, such as those provided with a low or no interest clause, they are recorded at their estimated present value. A portion of the unamortized discount is recorded as revenue each year to reflect the change in the present value of the loans outstanding. Transfer payments that are unconditionally repayable are recognized as loans receivable. A valuation allowance is recorded for accounts and loans receivable where recovery is considered uncertain.

i) 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 consolidated financial statements.

j) Environmental liabilities

Environmental liabilities consist of estimated costs related to the remediation of contaminated sites as well as estimated costs related to obligations associated with the retirement of tangible capital assets and other environmental liabilities.

Contaminated Sites:

A liability for remediation of contaminated sites is recognized when all of the following criteria are satisfied: an environmental standard exists, contamination exceeds the environmental standard, CSC 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 CSC's best estimate of the amount required to remediate the sites to the current minimum standard for its use prior to contamination. When the cash flows required to settle or otherwise extinguish a liability are expected to occur over extended future periods, a present value technique is used. The discount rate applied is taken from the government's consolidated revenue fund monthly lending rates for periods of one year and over which is based on the Government's cost of borrowing. The discount rates used are based on the term rate associated with the estimated number of years to complete remediation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE OF CANADA

For the Year Ended March 31

2. Summary of Significant Accounting Policies (continued)

j) Environmental liabilities (continued)

For remediation costs with estimated future cash flows spanning more than 25 years, the Government of Canada's 25-year Consolidated Revenue Fund lending rate is used as the discount rate.

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

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

k) Inventories

- Inventory held for resale includes raw materials, finished goods and work-in-progress. It belongs to the CORCAN revolving fund and is valued at the lower of cost or net realizable value. The organization makes provisions for excess and obsolete inventory.
- Inventory not for resale consists of materials and supplies held for future program delivery and is valued at cost. If there is no longer any service potential, inventory is valued at the lower of cost or net realizable value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE OF CANADA

For the Year Ended March 31

2. Summary of Significant Accounting Policies (continued)

l) Tangible capital assets

All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more are recorded at their acquisition cost. CSC 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	Sub-Asset Class	Amortization Period
Buildings	Buildings	25 to 40 years
Works and infrastructure	Works and infrastructure	20 to 25 years
Machinery and equipment	Machinery and equipment	10 years
	Informatics hardware	3 to 4 years
	Informatics software	3 to 10 years
	Arms and weapons for defence	10 years
	Other equipment	10 years
Vehicles	Motor vehicles (non-military)	5 years
	Other vehicles	5 to 10 years
Leasehold improvements	Leasehold improvements	Lesser of useful life of leasehold improvement or term of lease
Leased tangible capital asset	Machinery and equipment	Lesser of useful life of asset or term of lease

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

m) Measurement uncertainty

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the consolidated financial statements. At the time of preparation of these consolidated statements, management believes the estimates and assumptions to be reasonable. The most significant areas where estimates are used are contingent liabilities, environmental liabilities, the liability for employee future benefits, the fair value of non-monetary transactions related to leased tangible capital assets and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the consolidated financial statements in the year they become known.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE OF CANADA

For the Year Ended March 31

3. Parliamentary Authorities

CSC receives most of its funding through annual Parliamentary authorities. Items recognized in the Consolidated Statement of Operations and Organizational 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, CSC 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

	2017	2016
<i>(in thousands of dollars)</i>		
Net cost of operations before government funding and transfers	2,453,094	2,433,817
<i>Adjustments for items affecting net cost of operations but not affecting authorities:</i>		
<i>Add (Less):</i>		
Amortization of tangible capital assets (note 11)	(129,264)	(117,045)
Gain (loss) on disposal of tangible capital assets	(1,704)	80
Services provided without charge by other government departments (note 15a)	(154,290)	(147,923)
(Increase) decrease in vacation pay and compensatory leave	(844)	1,064
Decrease in obligation for termination benefits	371	3,403
Decrease in employee future benefits	22,306	6,392
(Increase) decrease in environmental liabilities	(1,572)	430
Refund of prior years' expenditures	4,864	4,225
Other	15,308	1,155
	(244,825)	(248,219)
<i>Adjustments for items not affecting net cost of operations but affecting authorities:</i>		
<i>Add (Less):</i>		
Acquisitions of tangible capital assets (note 11)	153,921	164,447
Payment on lease obligation for tangible capital assets (note 11)	19	5
Transition payments for implementing salary payments in arrears	25	428
(Decrease) increase in inventories	(1,653)	6,865
Increase (decrease) in prepaid expenses	1	(6)
Other	2,223	448
	154,536	172,187
Current year authorities used	2,362,805	2,357,785

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE OF CANADA

For the Year Ended March 31

3. Parliamentary Authorities (continued)

b) Authorities provided and used

<i>(in thousands of dollars)</i>	2017	2016
Vote 1 – Operating expenditures	2,027,306	1,993,402
Vote 5 – Capital expenditures	230,192	239,717
Statutory amounts	214,179	224,250
	2,471,677	2,457,369
Less:		
Authorities available for future years	8,255	4,500
Lapsed authorities: Operating	24,182	24,052
Lapsed authorities: Capital	76,435	71,032
Current year authorities used	2,362,805	2,357,785

4. Accounts Payable and Accrued Liabilities

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

<i>(in thousands of dollars)</i>	2017	2016
Accounts payable - Other government departments and agencies	21,918	25,733
Accounts payable - External parties	83,386	85,390
Total accounts payable	105,304	111,123
Accrued liabilities	157,927	118,911
Total accounts payable and accrued liabilities	263,231	230,034

5. Environmental Liabilities

Remediation of contaminated sites

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

CSC has identified a total of 64 sites (66 sites in 2016) where contamination may exist and assessment, remediation and monitoring may be required. Of these, CSC has identified 21 sites (24 sites in 2016) where action is possible and for which a liability of \$1,402,483 (\$1,587,585 in 2016) has been recorded. This liability estimate has been determined after the sites are assessed and is based on scientific/engineering contractors reviewing the results of site assessments and proposing possible remediation solution.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE OF CANADA

For the Year Ended March 31

5. Environmental Liabilities (continued)

As a result, there are 24 unassessed sites where a liability estimate of \$1,757,946 has been recorded using this model.

These two estimates combined, totalling \$3,160,429, represents 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 information available at the financial statement date.

Of the remaining 19 sites, 12 sites were closed, as they were found not to be contaminated. No liability has been recognized for the other 7 sites. For these sites, CSC does not expect to give up any future economic benefit (there is likely no significant environmental impact or human health threats). These sites will be re-examined and a liability for remediation will be recognized if future economic benefits will be given up.

The following table presents the total estimated amounts of these liabilities by nature and source as at March 31, 2017, and March 31, 2016.

(in thousands of dollars)

Nature & Source	NATURE & SOURCE OF LIABILITY			
	Number of sites 2017	Estimated Liability 2017 ⁽⁴⁾	Number of sites 2016	Estimated Liability 2016 ⁽⁴⁾
Fuel Related Practices ⁽¹⁾	16	1,521	8	327
Landfills/Waste Sites ⁽²⁾	19	1,325	8	817
Other ⁽³⁾	10	314	8	444
Totals	45	3,160	24	1,588

(1) Contamination primarily associated with fuel storage and handling, e.g. accidental spills related to fuel storage tanks or former fuel handling practices, e.g. petroleum hydrocarbons, polyaromatic hydrocarbons and BTEX.

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

(3) Contamination 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.

(4) It was determined that the effects of discounting of these liabilities for each fiscal year is immaterial for CSC. Therefore, the present value technique has not been used to calculate the discounted value for each site.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE OF CANADA

For the Year Ended March 31

6. 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 specific projects, and amounts received for fees prior to services being performed. Revenue is recognized in the period that these expenditures are incurred or the service is performed. Details of the transactions related to this account are as follows:

	2017	2016
<i>(in thousands of dollars)</i>		
Opening balance	221	107
Amounts received	41,562	25,974
Revenue recognized	(40,266)	(25,860)
Ending balance	1,517	221

7. Employee Future Benefits

a) Pension Benefits

CSC's employees participate in the public service pension plan (the "Plan"), which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

Both the employees and CSC contribute to the cost of the Plan. Due to the amendment of the *Public Service Superannuation Act* following the implementation of provisions related to Economic Action Plan 2012, employee contributors have been divided into two groups – Group 1 relates to existing plan members as of December 31, 2012 and Group 2 relates to members joining the Plan as of January 1, 2013. Each group has a distinct contribution rate.

The 2016-2017 expense amounts to \$148,296,273 (\$154,143,499 in 2015-2016). For Group 1 members, the expense represents approximately 1.12 times (1.25 times in 2015-2016) the employee contributions and, for Group 2 members, approximately 1.08 times (1.24 times in 2015-2016) the employee contributions.

CSC'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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE OF CANADA

For the Year Ended March 31

7. Employee Future Benefits (continued)

b) Severance benefits

Severance benefits provided to CSC's employees were previously based on an employee's eligibility, years of service and salary at termination of employment. However, since 2011 the accumulation of severance benefits for voluntary departures progressively ceased for substantially all employees. Employees subject to these changes were given the option to be paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits upon departure from the public service. By March 31, 2017, substantially all settlements for immediate cash out were completed. Severance benefits are unfunded and, consequently, the outstanding obligation will be paid from future authorities.

The changes in the obligations during the year were as follows:

	2017	2016
<i>(in thousands of dollars)</i>		
Accrued benefit obligation – Beginning of year	89,167	95,559
Expenses for the year	(20,189)	5,436
Benefits paid during the year	(2,117)	(11,828)
Accrued benefit obligation – End of year	66,861	89,167

8. Inmate Trust Fund

Pursuant to section 111 of the *Corrections and Conditional Release Regulations*, this account is credited with all moneys brought into the institution by an inmate on admission or readmission, and all moneys that are received on the inmate's behalf while in custody, including, monetary gifts from a third party, payments for program participation, pay earned while on work release or conditional release in the community, moneys received from a third party for work performed in an institution or a CSC approved inmate operated business enterprise, sale of hobby craft or custom work, a payment, allowance or income paid by either a private or government source. Deductions may be made from this account for issues such as debts to the Crown, the Inmate Welfare Fund, canteen expenditures, telephone calls, payments to assist in the reformation and rehabilitation of the inmate, and any other payments for which the inmate is liable.

	2017	2016
<i>(in thousands of dollars)</i>		
Beginning of year	18,236	18,250
Receipts	41,827	43,387
Disbursements	(41,164)	(43,401)
End of year	18,899	18,236

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE OF CANADA

For the Year Ended March 31

9. Accounts Receivable, Advances and Loans

The following table presents details of accounts receivable, advances and loans:

	2017	2016
<i>(in thousands of dollars)</i>		
Receivables - Other government departments and agencies	73,392	33,782
Receivables - External parties	52,839	5,422
Employee advances	3,866	338
Parolee loans and advances to individuals other than employees	24	58
	130,121	39,600
Allowance for doubtful accounts on receivables from external parties and parolee loans	(497)	(281)
Gross accounts receivable and advances	129,624	39,319
Accounts receivable held on behalf of Government	(185)	(560)
Net accounts receivable and advances	129,439	38,759

10. Inventory

The following table presents details of the inventory:

	2017	2016
<i>(in thousands of dollars)</i>		
Inventory held for resale		
Raw materials	6,580	6,225
Work in progress	317	829
Finished goods	6,305	5,151
	13,202	12,205
Provision for obsolete inventory	(608)	(357)
Total inventory held for resale	12,594	11,848

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE OF CANADA

For the Year Ended March 31

10. Inventory (continued)

	2017	2016
<i>(in thousands of dollars)</i>		
Inventory not for resale		
Supplies	18,447	21,672
Clothing	10,220	9,984
Building materials	4,271	4,133
Utilities	1,959	1,708
Other	2,857	2,656
Total inventory not for resale	37,754	40,153
Total	50,348	52,001

The cost of consumed inventory recognized as an expense in the Consolidated Statement of Operations and Organizational Net Financial Position is \$130,348,375 in 2016-2017 (\$112,805,458 in 2015-2016).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE OF CANADA

For the Year Ended March 31

11. Tangible Capital Assets

(in thousands of dollars)

Capital Asset Class	Cost					Accumulated Amortization					Net Book Value	
	Opening Balance	Acquisitions	Disposals and Write-Offs	Adjustments (1)	Closing balance	Opening Balance	Amortization	Disposals and Write-Offs	Adjustments (1)	Closing balance	2017	2016
Land	14,288	-	-	258	14,546	-	-	-	-	-	14,546	14,288
Buildings	2,610,153	-	(711)	(49,544)	2,559,898	1,032,242	68,493	(26)	4,959	1,105,668	1,454,230	1,577,911
Works and infrastructure	646,746	-	(46)	87,317	734,017	425,951	31,499	(41)	(84)	457,325	276,692	220,795
Machinery and equipment	210,960	5,466	(5,466)	(1,365)	209,595	142,462	14,387	(3,764)	293	153,378	56,217	68,498
Vehicles	66,013	10,631	(5,612)	3,212	74,244	40,950	6,122	(4,865)	235	42,442	31,802	25,063
Leasehold Improvements	30,348	-	(445)	20,439	50,342	16,906	8,739	(309)	-	25,336	25,006	13,442
Leased tangible capital asset	120	-	-	-	120	8	24	-	-	32	88	112
Assets under construction	257,469	137,824	-	(71,496)	323,797	-	-	-	-	-	323,797	257,469
Total	3,836,097	153,921	(12,280)	(11,179)	3,966,559	1,658,519	129,264	(9,005)	5,403	1,784,181	2,182,378	2,177,578

In April 2012, the Government of Canada announced it would close three institutions (Kingston Penitentiary, Ontario Regional Treatment Centre (ORTC) and Leclerc Institution). The closures were completed in September 2013 as planned. As of September 2013, the Kingston Penitentiary and ORTC were closed and will remain as tangible capital assets of CSC until such time a decision as to their future use is made. Kingston Penitentiary's net book value for 2016-2017 is \$41,834,434 (\$35,319,811 in 2015-2016). ORTC's net book value for 2016-2017 is \$4,991,472 (\$4,548,479 in 2015-2016). Should a change in the Kingston Penitentiary's or ORTC's net book values become known, any applicable amounts will be recorded at that time. Leclerc Institution remains a tangible capital asset of CSC and has been leased under a long-term operating agreement with the Province of Quebec.

- (1) Adjustments include assets under construction of \$27,192,827 (\$151,254,729 in 2015-2016) that were transferred to the other capital asset classes upon completion of the assets, as well as tangible capital assets transferred from/to other government departments. During 2016-17, CSC received tangible capital assets from multiple other government departments with a total net book value of \$924,176. Other net adjustments of \$17,506,307 are as a result of the capital asset validation exercise undertaken during the fiscal year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE OF CANADA

For the Year Ended March 31

12. Lease Obligation for Tangible Capital Assets

CSC's Revolving Fund (CORCAN) has a capital lease obligation of \$96,376 as at March 31, 2017 (\$114,540 in 2015-16). The obligations related to the upcoming years include the following:

	2017	2016
<i>(in thousands of dollars)</i>		
2017	-	27
2018	27	27
2019	27	27
2020	27	27
2021	32	32
Total future minimum lease payments	113	140
Less: imputed interest (8%)	17	25
Total	96	115

13. Contractual Obligations

The nature of the CSC's activities can result in some large multi-year contracts and obligations whereby the organization will be obligated to make future payments when the services/goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

	2018	2019	2020	2021	2022 and thereafter	Total
<i>(in thousands of dollars)</i>						
Acquisition of goods and services	118,709	9,840	8,701	4,998	3,330	145,578
Capital lease on tangible capital assets	27	27	27	32	-	113

14. Contingent Liabilities

Claims and litigation

Claims have been made against CSC 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. CSC 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. Other claims and litigations against CSC that have not been recorded in the allowance include class action suits for which the likelihood of liability is not determinable and/or a reasonable amount cannot be estimated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE OF CANADA

For the Year Ended March 31

15. Related Party Transactions

CSC is related as a result of common ownership to all government departments, agencies, and Crown corporations. CSC enters into transactions with these entities in the normal course of business and on normal trade terms. During the year, CSC received common services which were obtained without charge from other government departments as disclosed below.

a) Common services provided without charge by other government departments

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

	2017	2016
<i>(in thousands of dollars)</i>		
Employer's contribution to the health and dental insurance plans	130,039	121,676
Accommodation	18,333	19,628
Workers' compensation	4,250	5,088
Legal services	1,668	1,531
Total	154,290	147,923

The Government has centralized some of its administrative activities for efficient, cost-effective, 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, audit services provided by the Office of the Auditor General, and information technology services provided by Shared Services Canada, are not included in CSC's Consolidated Statement of Operations and Organizational Net Financial Position.

b) Other transactions with related parties

	2017	2016
<i>(in thousands of dollars)</i>		
Accounts receivable – Other government departments and agencies	73,392	33,782
Accounts payable – Other government departments and agencies	21,918	25,733
Expenses – Other government departments and agencies	291,009	321,786
Revenues – Other government departments and agencies	43,822	48,712

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE OF CANADA

For the Year Ended March 31

16. Segmented Information

Presentation by segment is based on the Organization's program alignment architecture. The presentation by segment is based on the same accounting policies as described in the Summary of Significant Accounting Policies in note 2. The following table presents the expenses incurred and revenues generated for the main programs, by major objects of expense and by major types of revenue. The segment results for the period are as follows:

	2017				2016	
<i>(in thousands of dollars)</i>						
	Custody	Correctional Interventions	Community Supervision	Internal Services	Total	Total
Transfer payments						
Non-profit organizations	4,780	-	-	-	4,780	5,823
Total transfer payments	4,780	-	-	-	4,780	5,823
Operating expenses						
Salaries and employee benefits	1,102,774	364,691	23,549	229,021	1,720,035	1,764,298
Professional and special services	96,746	56,315	114,800	36,166	304,027	294,574
Utilities, materials and supplies	136,852	2,002	2,730	4,515	146,099	131,485
Amortization of tangible capital assets	127,889	1,375	-	-	129,264	117,045
Machinery and equipment	28,779	1,523	221	4,645	35,168	20,443
Payment in lieu of taxes	35,063	-	-	-	35,063	32,707
Repairs and maintenance	27,693	(249)	1,246	578	29,268	26,010
Rentals	910	1,535	4,215	15,355	22,015	22,852
Accommodation	-	-	8,787	9,547	18,334	19,628
Travel	5,905	3,612	524	4,716	14,757	14,107
Inmate pay	-	14,182	-	-	14,182	14,557
Cost of goods sold	-	12,453	-	-	12,453	16,389
Relocation	1,129	397	-	3,307	4,833	2,810
(Gain)/loss on disposal of tangible capital assets	1,697	10	-	(3)	1,704	(80)
Environmental liabilities	1,572	-	-	-	1,572	(430)
Telecommunications	196	6	-	788	990	250
Other subsidies and expenses	1,702	4,048	105	710	6,565	7,484
Total operating expenses	1,568,907	461,900	156,177	309,345	2,496,329	2,484,129
Sub-Total Expenses	1,573,687	461,900	156,177	309,345	2,501,109	2,489,952
Expenses incurred on behalf of Government	1	-	-	(66)	(65)	(35)
Total Expenses	1,573,688	461,900	156,177	309,279	2,501,044	2,489,917
Revenues						
Sales of goods and services	-	47,950	-	-	47,950	56,100
Miscellaneous revenues	2,174	528	7	41	2,750	4,230
Revenues earned on behalf of Government	(2,174)	(528)	(7)	(41)	(2,750)	(4,230)
Total Revenues	-	47,950	-	-	47,950	56,100
Net cost of operations before government funding and transfers	1,573,688	413,950	156,177	309,279	2,453,094	2,433,817

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE OF CANADA

For the Year Ended March 31

17. Comparative information

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

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE OF CANADA

SUMMARY OF THE ASSESSMENT OF EFFECTIVENESS OF THE SYSTEMS OF INTERNAL CONTROL OVER FINANCIAL REPORTING FOR FISCAL YEAR 2016-2017 AND THE ACTION PLAN OF CORRECTIONAL SERVICE OF CANADA

1. INTRODUCTION

This document provides summary information on the measures taken by Correctional Service of Canada (CSC) to maintain an effective system of internal control over financial reporting (ICFR) including information on internal control management and assessment results and related action plans.

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

2. DEPARTMENTAL SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING

CSC recognizes the importance of setting the tone from the top to ensure that employees throughout the organization understand their roles and responsibilities in maintaining an effective system of ICFR.

2.1 Internal Control Management

CSC has a well-established governance and accountability structure to support organizational assessment efforts and oversight of its system of internal control. CSC's *Financial Management Framework* clearly defines the expectations, the requirements and the roles and responsibilities for internal controls.

This *Framework*, approved by the Commissioner in September 2013, includes the following elements in support of sound stewardship of public resources and reliable financial reporting:

- Key responsibilities and requirements of the Commissioner as Accounting Officer, the Chief Financial Officer, Senior Departmental Managers, Departmental Managers, Financial Officers and separately the Departmental Audit Committee (DAC) for effective financial resource management, investment planning, financial information and reporting, internal control and oversight;
- Values and ethics; and
- The context for sound financial management and internal control across the organization which are consistent with the *Financial Administration Act (FAA)*, and Treasury Board policy instruments.

CSC's *Financial Management Framework* also requires the Commissioner to engage with the DAC on risk-based assessment plans and associated results related to the effectiveness of CSC's system of ICFR.

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE OF CANADA

2.2 Service Arrangements relevant to financial statements

CSC relies on other organizations for the processing of certain transactions that are recorded in its financial statements as follows:

- Public Services and Procurement Canada centrally administers the payments of salaries and the procurement of goods and services, as per CSC's Delegation of Authority and provides accommodation services;
- Treasury Board Secretariat provides CSC with information used to calculate various accruals and allowances, such as the accrued severance liability;
- The Department of Justice provides legal services to CSC;
- Shared Services Canada provides information technology (IT) infrastructure services to CSC in the areas of data centre and network services; and
- The Public Service Pay Center provides pay and compensation services to CSC.

3. CSC'S ASSESSMENT RESULTS DURING FISCAL YEAR 2016-2017

The key findings and significant adjustments required from the current year's assessment activities are summarized below.

New or significantly amended key controls: In the current year, there were significantly amended key controls in the salary processes which required a reassessment due to the implementation of the new Pay Modernization Project in April 2016. Design and operating effectiveness testing was conducted on the key controls and CSC identified the following opportunities for improvement:

- Complete and implement the new quality review process for salary transactions. A management action plan addressing recommendation was developed by the process owner.
- Develop and implement reconciliations of data transfer between CSC and Phoenix. A management action plan addressing recommendation was developed by the process owner.
- Ensure proper segregation of duties related to system access as well as regular reviews. A management action plan addressing recommendation was developed by the process owner.
- Continue to update and strengthen pre and post payment/post entry verification process. A management action plan addressing recommendation was developed by the process owner.
- In-year and year-end risk based detailed reviews of the pay transactions should be performed on an ongoing basis. A management action plan addressing recommendation was developed by the process owner.
- Manage HR systems access removal through a formal request. A management action plan addressing recommendation was developed by the process owner.

Ongoing monitoring program: As part of its rotational ongoing monitoring plan, the organization completed its reassessment of Financial Statement Close and Reporting, Information Technology General Control (ITGC): Procure to pay automated controls, and Information Technology General Control (ITGC): Inmate Pay System – Replacement (IASR). For the most part, the key controls that were tested performed as intended, with remediation required as follows:

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE OF CANADA

3. CSC'S ASSESSMENT RESULTS DURING FISCAL YEAR 2016-2017 (continued)

Financial Statement Close

- Ensure proper segregation of duties related to the approval of journal voucher (JV) entered in Information Material Management System (IFMMS) directly in the government wide coding (GWC). A management action plan addressing recommendation was developed by the process owner.
- Financial statement variance analysis should be performed at a lower level of detail. A management action plan addressing recommendation was developed by the process owner.

4. CSC'S ACTION PLAN

4.1 Progress during fiscal year 2016-2017

During 2016-2017, CSC has continued to conduct its ongoing monitoring according to the previous year's fiscal year's rotation plan as shown in the following table. After a reassessment of overall risk levels and priorities, the planned testing of the Tangible Capital Asset and Other Operating Expenses and Accounts Payables were deferred.

Progress During Fiscal Year 2016-2017

Element in previous year's action plan	Status as at March 31, 2017
Financial Statement Close and Reporting	Ongoing Monitoring testing completed, remedial actions started
Salary	Ongoing Monitoring testing completed, remedial actions started
Information Technology General Control (ITGC) : Procure to pay automated controls	Ongoing Monitoring testing completed; no remedial actions required
Information Technology General Control (ITGC): Inmate Pay System – Replacement (IASR)	Ongoing Monitoring testing completed; no remedial actions required

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE OF CANADA

4.2 Status and action plan for the next fiscal year and subsequent years

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

Rotational Ongoing Monitoring Plan

Key Control Areas	Ongoing monitoring rotation ⁱ		
	2017-2018	2018-2019	2019-2020
Entity-Level Controls		✓	
IT General Controls	✓		✓
Financial Statement Close and Reporting	✓	✓	✓
Tangible Capital Assets	✓	✓	✓
Inventory		✓	
Inmate Trust Fund			✓
Salary	✓	✓	✓
Other Operating Expenses and Accounts Payable			✓
Revenues and Accounts Receivable		✓	

ⁱ The frequency of the ongoing monitoring of key control areas is risk-based and may occur over a multi-year cycle.