

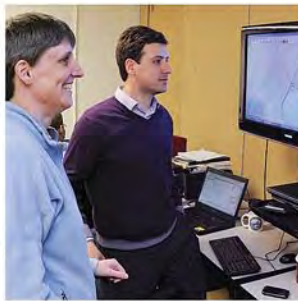


National
Defence

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FUTURE-ORIENTED FINANCIAL STATEMENTS

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(UNAUDITED)



Canada 



MANAGEMENT RESPONSIBILITY FOR FUTURE-ORIENTED FINANCIAL STATEMENTS

For the Years Ending March 31, 2013 and March 31, 2014

Departmental management is responsible for these future-oriented financial statements, including responsibility for the appropriateness of the assumptions on which these statements are prepared. These statements are based on the best information available and assumptions adopted as at December 31, 2012 and reflect the plans described in the Report on Plans and Priorities.

The future-oriented financial statements of the Department of National Defence have not been audited.

// Signed by //

Major General R. Bertrand
Acting Chief Financial Officer
Ottawa, Canada

// Signed by //

Robert Fonberg
Deputy Minister
Ottawa, Canada

Dated: March 15, 2013

FUTURE-ORIENTED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at March 31

(in thousands of dollars)	Estimated Results 2013	Planned Results 2014
Liabilities		
Accounts Payable and Accrued Liabilities (Note 6)	3,046,257	3,241,841
Vacation Pay and Compensatory Leave	205,653	200,430
Deposits and Trust Accounts (Note 7)	4,417	5,019
Deferred Revenue (Note 8)	17,827	11,116
Canadian Forces Pension and Insurance Accounts (Note 9)	47,209,458	47,113,496
Lease Obligations for Tangible Capital Assets (Note 10)	515,723	475,516
Employee Future Benefits (Note 11)	1,746,261	1,743,966
Remediation Liabilities (Note 17)	397,100	397,100
Future Asset Restoration Liabilities (Note 17)	2,600	2,600
Total liabilities	53,145,296	53,191,084
Financial Assets		
Due from Consolidated Revenue Fund	50,233,752	51,101,235
Receivables (Note 12)	193,689	169,084
Loans and Advances (Note 13)	36,010	34,119
Total gross financial assets	50,463,451	51,304,438
Financial assets held on behalf of Government		
Receivables (Note 12)	(2,075)	(2,075)
Total gross financial assets	(2,075)	(2,075)
Total financial assets held on behalf of the Government	50,461,376	51,302,363
Departmental net debt	2,683,920	1,888,721
Non-Financial Assets		
Prepaid Expenses (Note 14)	872,185	890,350
Inventories (Note 15)	6,223,072	6,405,000
Tangible Capital Assets and Accumulated Amortization (Note 16)	32,696,715	32,981,069
Total non-financial assets	39,791,972	40,276,419
Departmental net financial position	37,108,052	38,387,698

Contingent Liabilities (Note 17)

Contractual Obligations (Note 18)

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

FUTURE-ORIENTED STATEMENT OF OPERATIONS AND DEPARTMENTAL NET FINANCIAL POSITION (UNAUDITED)

For the year ended March 31

(in thousands of dollars)	Estimated Results 2013	Planned Results 2014
Expenses		
Defence Science and Technology	421,833	366,679
Recruiting of Personnel and Initial Training	1,247,700	1,084,523
Equipment Acquisition and Disposal	2,040,557	2,362,035
Real Property and Informatics Infrastructure Acquisition and Disposal	366,087	391,063
Maritime Readiness	2,348,468	2,041,324
Land Readiness	4,072,864	3,540,192
Aerospace Readiness	1,984,290	1,724,778
Joint and Common Readiness	2,662,169	2,314,650
Situational Awareness	547,600	479,769
Canadian Peace, Stability and Security	335,835	291,913
Continental Peace, Stability and Security	214,261	186,239
International Peace, Stability and Security	1,821,427	1,583,227
Defence Team Personnel Support	1,163,977	1,012,973
Canadian Identity	402,675	350,010
Environment Protection and Stewardship	141,300	122,820
Non-Security Support	14,012	12,180
Internal Services	1,432,693	1,245,312
	21,217,748	19,109,687
Revenues		
Sale of Goods and Services	427,228	420,865
Other	35,783	35,247
Gains on Disposals of Assets	15,933	15,696
Interest and Gains on Foreign Exchange	9,088	8,955
Revenues Earned on Behalf of Government	(18,538)	(18,263)
	469,494	462,500
Net cost of operations before government funding	20,748,254	18,647,187
Government funding		
Net cash provided by Government	21,055,502	18,163,902
Change in due from Consolidated Revenue Fund	925,702	867,483
Services provided without charge by other government departments	850,985	895,448
Net cost of operations after government funding	(2,083,935)	(1,279,646)
Departmental net financial position — Beginning of year	35,024,117	37,108,052
Departmental net financial position — End of year	37,108,052	38,387,698

Segmented information (Note 20)

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

FUTURE-ORIENTED STATEMENT OF CHANGE IN DEPARTMENTAL NET DEBT (UNAUDITED)

For the year ended March 31

(in thousands of dollars)	Estimated Results 2013	Planned Results 2014
Net cost of operations after government funding	(2,083,935)	(1,279,646)
Change due to tangible capital assets		
Acquisition of tangible capital assets	3,920,602	4,050,075
Amortization of tangible capital assets	(2,602,540)	(2,929,019)
Proceeds from disposal of tangible capital assets	(18,021)	(18,145)
Loss on Disposals of Tangible Capital assets	(412,833)	(465,423)
Adjustments of Tangible Capital Assets	(54,822)	(353,134)
Total change due to tangible capital assets	832,386	284,354
Change due to inventories	154,899	181,928
Change due to prepaid expenses	83,090	18,165
Net increase (decrease) in departmental net debt	(1,013,560)	(795,199)
Departmental net debt — Beginning of year	3,697,480	2,683,920
Departmental net debt — End of year	2,683,920	1,888,721

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

FUTURE-ORIENTED STATEMENT OF CASH FLOW (UNAUDITED)

For the year ended March 31

(in thousands of dollars)	Estimated Results 2013	Planned Results 2014
Operating Activities		
Net Cost of Operations Before Government Funding	20,748,254	18,647,187
<i>Non-Cash Items Included in Net Cost of Operations</i>		
Amortization of Tangible Capital Assets	(2,602,540)	(2,929,019)
Loss on Disposals of Tangible Capital Assets	(412,833)	(465,423)
Adjustments of Tangible Capital Assets	(54,822)	(353,134)
Services Provided Without Charge by Other Government Departments	(850,985)	(895,448)
<i>Variations in Statement of Financial Position</i>		
Increase (decrease) in Receivables and Advances	37,251	(26,496)
Increase in Prepaid Expenses	83,090	18,165
Increase (decrease) in Inventories	154,899	181,928
Increase in Liabilities, net of Capital Lease Obligations	33,825	(85,995)
Cash Used by Operating Activities	17,136,139	14,091,765
Capital Investment Activities		
Acquisitions of Tangible Capital Assets (Note 16)	3,920,602	4,050,075
Proceeds on Disposal of Tangible Capital Assets	(18,021)	(18,145)
Cash Used by Capital Investment Activities	3,902,581	4,031,930
Financing Activities		
Payments against / Adjustments to Capital Lease Obligations	16,782	40,207
Cash Used by Financing Activities	16,782	40,207
Net Cash Provided by Government of Canada	21,055,502	18,163,902

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



NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

1. Authority and Objectives

AUTHORITIES

The Department of National Defence (DND) was established by the *National Defence Act* (NDA). Under section 3 of the Act, 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 Armed Forces (CAF) and of all matters relating to National Defence.

OBJECTIVES

On behalf of the people of Canada, the CAF and the DND stand ready to perform three key roles:

- Defend Canada — by delivering excellence at home;
- Defend North America — by being a strong and reliable partner with the United States in the defence of the continent; and
- Contribute to International Peace and Security — by projecting leadership abroad.

The Defence mission is delivered through seventeen program activities, which are as follows:

(a) Defence Science and Technology:

This program provides the Government of Canada with critical scientific knowledge and innovation to address defence and security challenges and needs. The S&T Program includes direction setting, program planning, program management, and capability management, execution and assessment. The Program comprises multi-year projects with activities in research, technology development, analysis and experimentation applied to inform,

enable and respond to Canada's defence and security priorities over multiple time horizons extending up to a 20-year outlook. The scientific knowledge and innovation generated from these activities informs decisions on Defence capability acquisitions, readiness preparation and the conduct of operations in response to Government priorities. Activities under this program draw on internal capability and make extensive use of partnerships with Canadian industry and academia as well as international organizations.

(b) Recruiting of Personnel and Initial Training:

This program will promote National Defence as a preferred workplace with the general public and to recruit new hires for a broad range of trades and other general, professional and scientific occupations. This involves deepening Defence's connections to the various educational and ethnic communities to attract the right number and mix of people who have the skills needed to contribute in meeting the Defence Mission. Engaging in effective leadership, strategic planning, and targeted outreach activities will ensure proactive measures are taken to address the challenges arising from current labour market pressures for specific skill sets within certain geographic locations. The program will attract, select and enrol personnel and conduct initial training (basic recruit and occupational training) to military members to the Operational Functional Point. This ensures that sufficient personnel are recruited and trained with the needed skills in the appropriate occupation, now and into the future, to meet Defence requirements. This is accomplished through the provision of recruitment centres, recruitment campaigns, advertising and other outreach activities as well as the necessary training staff, facilities and associated supports.



NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

(c) Equipment Acquisition and Disposal:

This program acquires equipment required for CAF operations. This includes the acquisition of new & replacement capabilities or capital improvements to in-service equipment and dispose of them at the end of their service life. Equipment Acquisition occurs primarily through collaboration with Public Works and Government Services (PWGSC), Industry Canada (IC) and the vendors. Equipment Acquisition activities include defining requirements, engineering design, sourcing, validation of requirements, developing procurement strategy, contracting, contract negotiation and award, contract administration and management, project management of equipment acquisitions.

(d) Real Property and Informatics Infrastructure Acquisition and Disposal:

An extensive portfolio of land, works, and buildings and informatics required to support the delivery of defence operations. The Real Property Acquisition and Informatics Infrastructure Acquisition Disposal program aims to ensure that the right real property and informatics is acquired and disposed of, and is available where and when needed, while providing value for money, advancing objectives for the greening of government land and buildings, and adhering to best practices for asset life-cycle management. Program activities include working with stakeholders to define requirements; updating the real property and informatics development and management plans; managing projects for new and replacement construction; and identifying and eliminating excess facilities. Real property and informatics are acquired through construction and recapitalization, purchase or capital leases, and disposed of through deconstruction, sale or transfer. The activity includes the Capital Assistance Program (CAP) which is a capital contribution

program under which National Defence makes financial contributions to support the transfer of infrastructure facilities to provinces, territories, municipalities and/or their agencies. CAP projects support real property goals and objectives by encouraging cost-effective solutions for the provision of infrastructure on bases and wings across Canada.

(e) Maritime Readiness:

This program provides Canada with a combat-capable, multi-purpose Navy. The program will generate and sustain relevant, responsive, combat capable maritime forces that are able to respond to a spectrum of tasks, as may be directed by the Government, within the required response time. This is accomplished by bringing maritime forces to a state of readiness for operations, by assembling, and organizing maritime personnel, supplies, and materiel. This includes the training and equipping of forces and the provision of their means of deployment, sustainment and recovery to defend Canadian interests domestically, continentally and internationally.

(f) Land Readiness:

This program provides Canada with a combat-capable, multi-purpose Army. The program will generate and sustain relevant, responsive, combat capable land forces that are effective across the spectrum of conflict, from peacekeeping and nation building to war fighting. This is accomplished by bringing land forces to a state of readiness for operations, assembling and organizing Land personnel, supplies, and materiel as well as the provision of individual and collective training to prepare land forces to defend Canadian interests domestically, continentally and internationally.



NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

(g) Aerospace Readiness:

This program will provide Canada with a combat-capable, multi-purpose Air Force. The program will generate and sustain relevant, responsive, combat capable aerospace forces that are able to respond to the spectrum of tasks, as may be directed by the Government, within the required response time. This is accomplished by bringing aerospace forces to a state of readiness for operations, by assembling, and organizing aerospace personnel, supplies, and materiel. This includes the training and equipping of aerospace forces and the provision of their means of deployment, sustainment and recovery to defend Canadian interests domestically, continentally and internationally.

(h) Joint and Common Readiness:

This program will ensure Defence is ready to operate in a joint capacity, as directed by Government, to respond to domestic, continental and international requirements within the required response time. The program will generate and sustain forces for activities, operations and organizations in which elements of at least two services (e.g Royal Canadian Navy, Canadian Army, Royal Canadian Air Force) participate. This is accomplished through the provision of training of a joint and common nature, the equipping of forces and the provision of their means to deploy in a joint capacity.

(i) Situational Awareness:

The Government of Canada and Defence require an accurate and timely security picture and comprehensive situational awareness and threat knowledge for Canada and abroad. This program will provide credible, reliable and sustained intelligence services to Defence in support of decision making and military operations, as well as,

support to other government departments in the defence and security of Canada. Work activities include geospatial intelligence, imagery intelligence, signals intelligence, and counter intelligence.

(j) Canadian Peace, Stability and Security:

This program employs the CAF in the conduct of operations to ensure the safety and security of Canadians and the defence of Canada. These operations include protecting Canada's sovereignty, responding to domestic disasters or humanitarian crisis, supporting domestic security requirements, and conducting search and rescue activities. This is accomplished through the mobilization and deployment of forces within Canada. Canada Command is responsible for the conduct of all CAF domestic operations — routine and contingency — and is the national operational authority for the defence of Canada.

(k) Continental Peace, Stability and Security:

This program employs the CAF in the conduct of operations, both independently and in conjunction with allies, for the defence of North America and its approaches. Activities under this program include continental operations, as required in accordance with Government of Canada policy. This is accomplished through the mobilization and deployment of forces for the defence of North America and its approaches. Canada Command is responsible for the conduct of all continental operations — routine and contingency — and is the national operational authority for the defence of North America and its approaches.



NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

(l) International Peace, Stability and Security:

This program will contribute to global peace and security by conducting global CAF operations, across the spectrum from humanitarian assistance to combat, in concert with national and international partners, to achieve timely and decisive results in support of Canada's national interests. This is accomplished through the mobilization and deployment of forces internationally. Canadian Expeditionary Force Command is the operational command responsible for all CAF international operations, with the exception of operations conducted solely by Special Operations Forces elements.

(m) Defence Team Personnel Support:

The Defence Team Personnel Support program will provide a broad spectrum of support services such as financial support for education and housing and facilities services, as well as, benefits to military personnel and their families. This program will also provide learning support to Defence civilians. This program is necessary as the provision of fair and equitable support is a key element of the Social Contract between the nation and its military personnel that is essential to enhance personnel readiness and deployability, and establish the CAF as an employer of choice and learning institution.

(n) Canadian Identity:

This program preserves and promotes Canadian identity by providing youth programs, ceremonial activities and the preservation of military history. The program is necessary to demonstrate the military heritage and proficiency of the CAF to Canadians and inform them of the military profession and practice in Canada. This is realized through initiatives such as ceremonial and band performances, CAF museums, CAF history and heritage books, web content and the Cadets.

(o) Environment Protection and Stewardship:

This program promotes public health and safety and supports sustainable development on Defence lands and wherever Defence operates. It delivers multi-faceted real property/infrastructure environmental protection and stewardship compliant with applicable legislation and federal policy that extends through every level of departmental decision-making.

(p) Non-Security Support:

Defence is strongly committed to contributing to Canadian society in non-operational roles. The program will provide supports to develop national competency in defence issues and to the whole of government approach by sharing information with other government departments and non-governmental organizations. This may include the provision of grants to researchers to generate knowledge related to defence issues or provide meteorological or mapping information to other government departments in the interest of information sharing on horizontal initiatives.

(q) 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. These groups 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; Acquisition Services; and Travel and Other Administrative Services. Internal Services include only those activities and resources that apply across an organization and not to those provided specifically to a program.



NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

2. Methodology and Significant Assumptions

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

The main assumptions are as follows:

- Decreases in spending authorities have been proportionally allocated to activities based on historical analysis.
- Expenses and revenues, including the determination of amounts internal and external to the government, are mainly based on historical experience. The general historical pattern is expected to continue.
- Estimated year-end position for 2012–13 is used as the opening position for 2013–14 planned results.

These assumptions are adopted as at December 31, 2012.

3. Variations and Changes to the Forecast Financial Information

While every attempt has been made to accurately forecast final results for fiscal year 2012–13 and estimates for 2013–14, actual results achieved are likely to vary from the forecast information presented, and this variation could be material.

In preparing these future-oriented financial statements the Department has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are

based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

- The timing and amounts of acquisition and disposal of capital assets may affect gain/losses, amortization and expenses related to tangible capital assets.
- Implementation of new collective agreements.
- Economic conditions may affect the amount of revenue earned and the collectability of loans receivable.
- Further changes to the operating budget through additional new initiatives or technical adjustments later in the year.

Once the RPP is presented, the Department will not be updating the forecasts for any changes to appropriations or forecast financial information made in ensuing supplementary estimates. Variances will be explained in the Departmental Performance Report.

4. Summary of Significant Accounting Policies

These future-oriented financial statements have been prepared in accordance with Treasury Board Accounting Standards in effect at December 31, 2012. These accounting policies, stated below, 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.



NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

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 Statement of Operations and Departmental Net Financial Position and the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 5 provides a reconciliation between the bases of reporting.

(b) Consolidation

These consolidated financial statements include the accounts of the sub-entities that the deputy head (DH) is accountable for. The accounts of these sub-entities have been consolidated with those of the Department and all inter-organizational balances and transactions have been eliminated. The Department is comprised of DND, the CAF and several related organizations and agencies in the Defence Portfolio, 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 Department of National Defence and Canadian Forces Ombudsman;
- Office of the Judge Advocate General; and
- National Search and Rescue Secretariat.

The Canadian Forces Grievance Board, the Military Police Complaints Commission 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/To the Consolidated Revenue Fund

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.



NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

(e) Revenues

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

Revenues that are non-respendable are not available to discharge the Department's liabilities. While the DH is expected to maintain accounting control, he or she has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented 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 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 the reduction to transfer payment expense and as a receivable.

- 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 Superannuation Plan, a multi-employer plan administered by the Government. The Department's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. The Department's responsibility with regard to the plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.



NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

The Government sponsors a variety of employee future benefits such as pension plans and disability benefits, which cover civilian employees and members of the CAF. National Defence administers the pension benefits for members of the CAF. The actuarial liability and related disclosures for these future benefits are presented in the financial statements of the Government of Canada and reported annually to Parliament as required by the *Canadian Forces Superannuation Act*. This differs from the accounting and disclosures of future benefits for military members presented in these financial statements whereby pension expense corresponds to the Department's annual contributions toward the cost of current and prior service, which is based on actual contributions made by members of the Plans during the period. In addition to its regular contributions, current legislation also requires the Department to make contributions for actuarial deficiencies in the Canadian Forces Pension Plan and in the Reserve Force Pension Plan, which came into force on March 1, 2007. These contributions are expensed in the year they are credited to the Plans. This accounting treatment corresponds to the funding provided to departments through Parliamentary authorities.

(ii) Severance Benefits

Employees and military members 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 civilian employees and CAF members is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole. Nevertheless, civilian collective agreements are the reference, and define when such entitlements will cease for paying severance pay. The process of severance pay for civilian employees will then be processed instructively by their respective collective agreements.

(h) Accounts and Loans Receivables

Accounts and loans receivables are stated at the lower of cost and net recoverable value. Transfer payments that are unconditionally repayable are recognized as loans receivable. A valuation allowance is recorded for receivables where recovery is considered uncertain.

(i) Contingent Liabilities — Claims and Litigations

Contingent liabilities are potential liabilities, which may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements (refer to Note 17(a) of these financial statements).



NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

(j) Remediation Liabilities

Remediation liabilities reflect the estimated costs related to the management and remediation of environmentally contaminated sites. Based on management's best estimate, a liability is accrued and an expense recorded when a site becomes contaminated or the Department becomes aware that a site has become contaminated and is obligated, or likely to be obligated to incur costs related to implementing a site-specific management plan. If the likelihood of the Department's obligation to incur these costs is not determinable, or cannot be reasonably estimated, the costs are disclosed as a contingent liability in the notes to the financial statements (refer to Note 17 (b) of these financial statements).

(k) Future Asset Restoration Liabilities

Future asset restoration liabilities represent the estimated costs related to the risk management of unexploded explosive ordnance (UXO) affected legacy sites. A liability, based on a management's best estimate, is accrued when the Department becomes aware that a site is affected by UXO and is obligated, or is likely to be obligated, to incur costs related to a site-specific management plan. If the likelihood of the Department's obligation to incur these costs is not determinable, or if an amount cannot be reasonably estimated, the costs are disclosed as a contingent liability in the notes to the financial statements (refer to Note 17 (c) of these financial statements).

(l) Inventories

Inventory consists of consumables (such as non-repairables, uniforms and clothing, medical and other equipment and machine tools) and ammunition (including bombs and missiles). Consumable inventories are valued using a moving weighted average price methodology. Some items classified as repairable ammunition (e.g. missiles and torpedoes) are valued using a standard price. Inventory managed by contractors and not held in the CAF Supply System or Defence Resource Management Information System (DRMIS) is valued based on contractor-supplied records. DND is currently conducting a multi-year conversion of legacy systems into DRMIS. During the conversion process both periodic and perpetual inventory methods are being utilized. Items identified for disposal are excluded from the value of inventory as no value is expected to be recovered.

(m) Foreign Currency Transactions

Transactions involving foreign currencies are translated into Canadian dollar equivalents using rates of exchange in effect at the time of those transactions. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the rate of exchange in effect at year-end. Gains and losses resulting from foreign currency transactions are included as revenues in Interest and Gains on Foreign Exchange in Note 20 and losses from foreign currency transactions are included in Other Expenses in Note 20.

NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

(n) Tangible Capital Assets

All tangible capital assets, having an initial cost of \$30,000 or more, including capital leases, betterments and leasehold improvements, are recorded at their acquisition cost. The Department does not capitalize intangible assets, works of art and historical treasures that have cultural, aesthetic or historical value, assets located on First Nations Reserves and museum collections. Capitalization threshold values lower than \$30,000 may apply to certain assets such as vehicles and asset pooled items (API), formerly known as repairables.

Amortization of tangible capital assets is done 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	3–30 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
Leased Tangible Capital Assets	Economic life or term of lease

API are amortized in accordance with the sum of the accumulated amortization of the equipment platform that they support.

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.

NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

5. Parliamentary Authorities

National Defence receives most of its funding through expenditure authorities provided by Parliament. Items recognized in the Future-oriented Statement of Operations and the 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 requested Authorities

(in thousands of dollars)	Estimated 2013	Planned 2014
Net Cost of Operations	20,748,254	18,647,187
Adjustments for items affecting Net Cost of Operations but not affecting Authorities:		
Amortization of Tangible Capital Assets	(2,602,540)	(2,929,019)
Services Provided Without Charge by Other Government Departments	(850,985)	(895,448)
Employee Future Benefits	(17,102)	2,295
Refund of Previous Year's Expenses	66,633	67,994
Vacation Pay and Compensatory Leave	1,178	(5,223)
Gain (Loss) on Disposals of Capital Assets	(412,833)	(465,423)
Adjustments of Tangible Capital Assets	(54,822)	(353,134)
Accrued Liabilities	144,453	187,627
Bad Debts Expense	8,680	7,544
Miscellaneous	(926)	(1,205)
	(3,718,264)	(4,383,992)
Adjustments for items not affecting Net Cost of Operations but affecting Authorities:		
Tangible Capital Assets Acquisitions	3,920,602	4,050,075
Tangible Capital Assets Acquisitions with no monetary impact	(139,838)	(288,800)
Payments Against Capital Lease Obligations	74,283	74,745
Inventory Purchases Net of Usage and Adjustments	154,899	181,928
Net Variation Prepaid Expenses	83,090	18,165
Revenues Collected from Prior Year Receivables	9,379	13,259
	4,102,415	4,049,372
Forecast Authorities Available	21,132,405	18,312,567

NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

5. Parliamentary Authorities (continued)

(b) Authorities Requested

(in thousands of dollars)	Authorities Provided	
	Estimated 2013	Planned 2014
Operating Expenditures — Vote 1	16,446,736	12,839,225
Capital Expenditures — Vote 5	3,322,188	3,949,966
Grants & Contributions — Vote 10	215,368	184,691
Statutory Amounts	1,369,591	1,338,685
Less:		
Frozen Allotments and Other Planned Lapses	(221,478)	0
Forecast Authorities Available	21,132,405	18,312,567

6. Accounts Payable and Accrued Liabilities

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

(in thousands of dollars)	Estimated Results 2013	Planned Results 2014
Accounts payable to other government departments and agencies	99,748	106,152
Accounts payable to external parties	1,614,164	1,717,801
	1,713,912	1,823,953
Accrued Liabilities	1,332,345	1,417,888
	3,046,257	3,241,841

NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

7. Deposits and Trust Accounts

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

(in thousands of dollars)	Estimated Results 2013	Planned Results 2014
Contractor Security Deposits		
Deposits, beginning of year	3,582	4,253
Deposits Received	6,623	6,871
Refunds	(5,952)	(6,107)
Contractor Security Deposits, end of year	4,253	5,017
Trust Account, Estates — Armed Services*		
Trust Account, beginning of year	284	164
Funds Received	1,143	900
Payments	(1,263)	(1,062)
Trust Account, Estates — Armed Services, end of year	164	2
	4,417	5,019

* The Trust Account, Estates — Armed Services was established to record the service estates of deceased members of the CAF 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 his capacity as Director of Estates.

NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

8. 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)	Estimated Results 2013	Planned Results 2014
Foreign Governments		
Beginning of Year	16,586	12,805
Funds Received	12,588	16,641
Revenue Recognized	(16,369)	(20,707)
Foreign Governments, end of year	12,805	8,739
Other Specified Purposes		
Beginning of Year	6,372	5,022
Funds Received	3,988	1,961
Revenue Recognized	(5,338)	(4,606)
Other Specified Purposes, end of year	5,022	2,377
	17,827	11,116



NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

9. Canadian Forces Pension and Insurance Accounts

Established in 1901 under the *Militia Pension Act*, the present Canadian Forces Pension Plans (the “Plans”) are administered in accordance with the provisions of the Act. The Canadian Forces Pension Plan (CFPP) covers all members of the regular force component of the Canadian Forces. Reserve Force members who have sufficient qualifying service and pensionable earnings are members of either the CFPP or 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 Canadian Forces Pension Plans, which comprise the Canadian Forces Superannuation Account, the Canadian Forces Pension Fund Account, the Retirement Compensation Arrangement Account, and, the Reserve Force Pension Fund Account. These accounts record transactions such as contributions, benefit payments, interest credits, refundable taxes and actuarial debit and credit funding adjustments resulting from triennial reviews and transfers to the Public Sector Pension Investment Board (PSP Investments).

The value of the liabilities reported in these financial statements for the Canadian Forces Pension Plans reflect only the balances which are posted in the departmental financial system. These balances do 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 PSP Investments. Additional information on the Canadian Forces Pension Plans, including audited financial statements, is published in the Annual Report of the Canadian Forces Pension Plans, which is available through the Department of National Defence Website. For further information on PSP Investments, please visit their website www.pspib.ca.

The Department also maintains the Regular Forces 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.

NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

9. Canadian Forces Pension and Insurance Accounts (continued)

The following table provides details of the Canadian Forces Pension and Insurance Accounts:

(in thousands of dollars)	Estimated Results 2013	Planned Results 2014
Canadian Forces Superannuation Account		
Beginning of Year	46,269,146	46,401,229
Funds Received and Other Credits	2,586,500	2,384,500
Payments and Other Charges	(2,454,417)	(2,494,609)
Canadian Forces Superannuation Account, end of year	46,401,229	46,291,120
Canadian Forces Pension Fund Account		
Beginning of Year	280,496	280,496
Funds Received and Other Credits	1,325,000	1,345,000
Payments and Other Charges	(286,700)	(386,500)
Transfers to the Public Sector Pension Investment Board	(1,038,300)	(958,500)
Canadian Forces Pension Fund Account, end of year	280,496	280,496
Reserve Force Pension Fund Account		
Beginning of Year	9,724	12,624
Funds Received and Other Credits	45,000	68,000
Payments and Other Charges	(42,100)	(70,325)
Reserve Force Pension Fund Account, end of year	12,624	10,299
Retirement Compensation Arrangements Account*		
Beginning of Year	307,573	329,506
Funds Received and Other Credits	50,233	51,238
Payments and Other Charges	(28,300)	(28,866)
Retirement Compensation Arrangements Account, end of year	329,506	351,878
Regular Force Death Benefit Account		
Beginning of Year	190,303	185,603
Funds Received and Other Credits	31,100	30,900
Payments and Other Charges	(35,800)	(36,800)
Regular Force Death Benefit Account, end of year	185,603	179,703
	47,209,458	47,113,496

* The Retirement Compensation Arrangements (RCA) account 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.

NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

10. Lease Obligations for Tangible Capital Assets

The Department has entered into agreements to lease certain equipment under capital leases with a estimated cost of \$870 million and accumulated amortization of \$476 million as at the date of these statements. The obligations for the upcoming years include the following:

(in thousands of dollars)	Estimated Results 2013	Planned Results 2014
2014	90,528	
2015	90,459	83,470
2016	90,395	83,406
2017	90,325	83,348
2018 and Thereafter	305,487	364,954
Total Future Minimum Lease payments	667,194	615,178
Less: imputed interest (5.29%–8.05%)	151,471	139,662
Balance of Obligations	515,723	475,516

* The Department has entered into agreements for buildings and aircraft under capital leases (refer to Note 16 of these financial statements).

11. Employee Future Benefits

(a) Pension Benefits:

i) The Department's Public Service employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum 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. The Department's responsibility with regard to the pension 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.

ii) The members of the CAF (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.

NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

11. Employee Future Benefits (Continued)

iii) The members of the CAF (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 Plans for both current and prior service. The Department is responsible for providing program management and the day-to-day administration of the Plans. The actuarial liability and actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plans' sponsor.

(b) Severance Benefits:

The Department provides severance benefits to its public service employees and Canadian Forces members based on eligibility, years of service and final salary. These severance benefits are not pre-funded. Benefits will be paid from future authorities.

As part of collective agreement negotiations with certain employee groups, and changes to conditions of employment for executives, certain non-represented employees and CAF members, the accumulation of severance benefits under the employee severance pay program ceased for these employees commencing in 2012. Employees subject to these changes have been given the option to be immediately paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits on termination from the public service. These changes have been reflected in the estimates of the outstanding severance benefit obligation disclosed below.

(in thousands of dollars)	Estimated Results 2013	Planned Results 2014
Public Service Employees		
Accrued Benefit Obligation, beginning of year	222,459	207,223
Expenses for the year	18,681	9,123
Benefits Paid During the Year	(33,917)	(36,532)
Accrued Benefit Obligation, end of year	207,223	179,814
Canadian Armed Forces Members		
Accrued Benefit Obligation, beginning of year	1,506,700	1,539,038
Expenses for the Year	127,062	116,543
Benefits Paid During the Year	(94,724)	(91,429)
Accrued Benefit Obligation, end of year	1,539,038	1,564,152
	1,746,261	1,743,966

NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

12. Receivables

The following table presents details of the Department's accounts receivable balances:

(in thousands of dollars)	Estimated Results 2013	Planned Results 2014
External Parties	167,563	146,277
Other Government Departments and Agencies	105,735	92,304
	273,298	238,581
Less: Allowance for Doubtful Accounts on External Receivables	(79,609)	(69,497)
Gross accounts receivables	193,689	169,084
Accounts receivable held on behalf of Government	(2,075)	(2,075)
Net Receivables	191,614	167,009

13. Loans and Advances

The following table presents details of the Department's loans and advances balances:

(in thousands of dollars)	Estimated Results 2013	Planned Results 2014
Imprest Accounts, Standing Advances and Authorized Loans to CAF Members	35,878	33,994
Advances to NATO Personnel for Recoverable Damage Claims	77	73
Accountable Advances (Temporary Advances)	55	52
	36,010	34,119

14. Prepaid Expenses

The following table presents the details of prepaid expenses:

(in thousands of dollars)	Estimated Results 2013	Planned Results 2014
Foreign Military Purchases	547,249	556,564
Sea Sparrow Missiles	88,675	13,560
NATO Flying Training Canada (NFTC)	45,244	46,187
Joint Strike Fighter Development	12,037	6,018
Building Rentals	11,092	11,323
Other Purchases	167,888	256,698
	872,185	890,350

NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

15. Inventories

The following table presents the details of inventory, measured at cost using the moving weighted average method:

(in thousands of dollars)	Estimated Results 2013	Planned Results 2014
Ammunition, Bombs and Missiles	3,484,051	3,523,565
Uniforms and Clothing	466,349	489,398
Contractor Held Inventory*	385,579	415,975
Communication, Electrical Parts/Accessories and Informatics Equipment	288,411	296,842
Engineering, Test and Technical Equipment and Machine Tools	272,506	280,473
Land Equipment Spares	264,396	272,125
Metal	217,796	252,409
Aircraft Spares	192,324	197,947
Ship Spares	186,495	191,947
Sonobuoys, Parts and Accessories	142,954	147,133
Medical Equipment	103,499	106,525
Fuel, Petroleum and Oil	43,176	44,439
Miscellaneous	175,536	186,222
	6,223,072	6,405,000

* Contractor Held Inventory is valued at historical cost.

NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

16. Tangible Capital Assets and Accumulated Amortization

TANGIBLE CAPITAL ASSETS					
(in thousands of dollars)	Balance Beginning of Year	Current Year Adjustments ⁽¹⁾	Acquisitions	Disposals ⁽²⁾	Balance End of Year
Land, Buildings & Works					
Land	85,950	0	3,299	(445)	88,804
Buildings	7,561,422	146,767	12,154	(36,926)	7,683,417
Works	2,217,566	108,262	7,938	(31,425)	2,302,341
	9,864,938	255,029	23,391	(68,796)	10,074,562
Machinery & Equipment					
Machinery and Equipment	6,918,396	167,848	320,849	(77,719)	7,329,374
Informatics Hardware	6,969,279	229,260	215,047	(242,318)	7,171,268
Informatics Software	474,496	25,043	5,604	(44,960)	460,183
Arms and Weapons	6,595,380	255,356	109,505	(285,867)	6,674,374
Other Equipment	84,648	(1,835)	2,846	(2,623)	83,036
	21,042,199	675,672	653,851	(653,487)	21,718,235
Ships, Aircraft & Vehicles					
Ships and Boats	11,976,216	142,695	38,212	(22,529)	12,134,594
Aircraft	15,205,594	1,280,164	141,699	(923,713)	15,703,744
Non-military Motor Vehicles	795,948	45,115	8,600	(19,726)	829,937
Military Vehicles	1,863,793	58,736	27,730	(25,514)	1,924,745
Other Vehicles	482,299	25,948	40,647	1,059	549,953
	30,323,850	1,552,658	256,888	(990,423)	31,142,973
Leasehold Improvements					
Leasehold Improvements	52,512	10,204	0	(34)	62,682
	52,512	10,204	0	(34)	62,682
Leased Tangible Capital Assets					
Buildings	138,858	0	0	0	138,858
Other Equipment	48	0	0	0	48
Aircraft	644,414	5,220	0	(110,250)	539,384
	783,320	5,220	0	(110,250)	678,290
Assets Under Construction					
Buildings	1,763,664	(229,840)	1,078,377	(23)	2,612,178
Engineering Works	169,235	(123,702)	96,201	(1)	141,733
Informatics Software	617,279	(40,901)	38,958	(7)	615,329
Equipment	6,543,606	(1,710,200)	1,902,409	(1,448)	6,734,367
	9,093,784	(2,104,643)	3,115,945	(1,479)	10,103,607
Gross Tangible Capital Assets	71,160,603	394,140	4,050,075	(1,824,469)	73,780,349

⁽¹⁾ Current Year Adjustments represent adjustments to API, assets under construction put into use, reclassifications and adjustments of tangible capital assets.

⁽²⁾ Disposals of assets under construction represent assets that are put into use in the year and transferred to other capital asset classes as applicable

NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

16. Tangible Capital Assets and Accumulated Amortization (continued)

ACCUMULATED AMORTIZATION							
(in thousands of dollars)	Balance Beginning of Year	Current Year Adjust- ments ⁽¹⁾	Current Year Amor- tization	Disposals ⁽²⁾	Balance End of Year	Net Book Value 2013	Net Book Value 2014
Land, Buildings & Works							
Land						85,950	88,804
Buildings	3,531,787	17,313	192,119	(18,852)	3,722,367	4,029,635	3,961,050
Works	1,246,602	189	67,826	(21,327)	1,293,290	970,964	1,009,051
	4,778,389	17,502	259,945	(40,179)	5,015,657	5,086,549	5,058,905
Machinery & Equipment							
Machinery and Equipment	5,669,872	428,495	366,169	(27,429)	6,437,107	1,248,524	892,267
Informatics Hardware	5,779,696	83,719	606,297	(144,131)	6,325,581	1,189,583	845,687
Informatics Software	304,430	(7,387)	71,318	(35,565)	332,796	170,066	127,387
Arms and Weapons	4,022,892	129,924	249,421	(93,907)	4,308,330	2,572,488	2,366,044
Other Equipment	59,676	(902)	7,208	(2,151)	63,831	24,972	19,205
	15,836,566	633,849	1,300,413	(303,183)	17,467,645	5,205,633	4,250,590
Ships, Aircraft & Vehicles							
Ships and Boats	7,105,919	(211,694)	369,520	(20,939)	7,242,806	4,870,297	4,891,788
Aircraft	8,085,831	253,692	737,355	(833,846)	8,243,032	7,119,763	7,460,712
Non-military Motor Vehicles	559,603	25,409	46,711	(14,870)	616,853	236,345	213,084
Military Vehicles	1,265,474	2,970	76,666	(14,925)	1,330,185	598,319	594,560
Other Vehicles	329,454	26,159	37,282	(2,186)	390,709	152,845	159,244
	17,346,281	96,536	1,267,534	(886,766)	17,823,585	12,977,569	13,319,388
Leasehold Improvements							
Leasehold Improvements	29,278	(613)	6,459	0	35,124	23,234	27,558
	29,278	(613)	6,459	0	35,124	23,234	27,558
Leased Tangible Capital Assets							
Buildings	62,201	0	8,612	0	70,813	76,657	68,045
Other Equipment	41	0	5	0	46	7	2
Aircraft	411,132	0	86,051	(110,773)	386,410	233,282	152,974
	473,374	0	94,668	(110,773)	457,269	309,946	221,021
Assets Under Construction							
Buildings						1,763,664	2,612,178
Engineering Works						169,235	141,733
Informatics Software						617,279	615,329
Equipment						6,543,606	6,734,367
						9,093,784	10,103,607
Total	38,463,888	747,274	2,929,019	(1,340,901)	40,799,280	32,696,715	32,981,069

⁽¹⁾ Current Year Adjustments represent adjustments to API, assets under construction put into use, reclassifications and adjustments of tangible capital assets.

⁽²⁾ Disposals of assets under construction represent assets that are put into use in the year and transferred to other capital asset classes as applicable



NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

17. Contingent Liabilities

Contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. The department is involved in three categories of contingent liabilities: claims and litigations, remediation liabilities, and future asset restoration liabilities.

(a) Claims and Litigations

Claims have been made against the Department in the normal course of operations. As at the date of the preparation of these future oriented financial statements, legal proceedings for claims totalling approximately \$10.5 million were still pending. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in the financial statements.

(b) Remediation Liabilities — Contaminated Sites

Liabilities are accrued to record the estimated costs related to the management and remediation of environmentally contaminated sites where the Department is obligated or likely to be obligated to incur such costs.

As at the date of the preparation of the future-oriented financial statements the Department has confirmed approximately 246 sites where such action is possible and for which a liability of \$397.1 million has been recorded. The Department has also estimated contingent liabilities relating to contaminated sites of \$243.7 million for mitigation costs that are not accrued.

Additional new sites, changes in the remediation approach or material changes in amounts accrued or not accrued are not forecasted for the future years presented in these statements. However, the department's ongoing efforts to assess contaminated sites may result in additional liabilities related to newly identified sites, or changes in the assessments or intended use of existing sites. These liabilities will be accrued by the department in the year in which they become likely and can be reasonably estimated.

(c) Future Asset Restoration Liabilities

Liabilities are accrued to record the estimated costs related to the risk management and clearance of unexploded explosive ordnance (UXO) affected legacy sites, where the Department is obligated or likely to be obligated to incur such costs.

As at the date of the preparation of the future-oriented financial statements the Department has confirmed 7 sites where clearance or risk management activities will be necessary and for which a liability of \$2.6 million has been recorded.

Additional new sites or material changes in amounts accrued or not accrued are not forecasted for the future years presented in these statements. However, the department's ongoing efforts to assess UXO sites may result in additional liabilities related to newly identified sites, or changes in the assessments or intended use of existing sites. These liabilities will be accrued by the department in the year in which they become likely and can be reasonably estimated.

NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

18. Contractual Obligations

The nature of the Department's activities can result in some large multi-year contracts and obligations whereby the Department will be obligated to make future payments when the services/goods are received. Significant contractual obligations over \$10 million that can be reasonably estimated are as follows:

(in thousands of dollars)	2013– 2014	2014– 2015	2015– 2016	2016– 2017	2017– 2018 and Thereafter	Total
Fixed Assets	1,384,023	757,515	461,518	242,775	242,774	3,088,605
Purchases	1,439,180	1,029,874	807,079	753,064	3,676,723	7,705,920
	2,823,203	1,787,389	1,268,597	995,839	3,919,497	10,794,525

19. Related Party Transactions

The Department is related as a result of common ownership to all Government departments, agencies and Crown Corporations. The Department enters into transactions with these entities in the normal course of business and on normal trade terms. During the year, the Department 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, 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 Future-oriented Statement of Operations as follows:

(in thousands of dollars)	Estimated Results 2013	Planned Results 2014
Employer's Contributions to the Health and Dental Plans Paid by Treasury Board of Canada Secretariat	760,783	805,155
Accommodation Provided by Public Works and Government Services Canada	75,788	75,892
Worker's Compensation Coverage Provided by Human Resources and Skills Development Canada	8,892	8,571
Legal Services Provided by Department of Justice Canada	5,522	5,830
	850,985	895,448



NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

19. Related Party Transactions (continued)

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 payroll and cheque issuance services provided by Public Works and Government Services Canada and audit services provided by the Office of the Auditor General are not included in Department's Future-oriented Statement of Operations.

(b) Other transactions with related parties

(in thousands of dollars)	Estimated Results 2013	Planned Results 2014
Accounts Payable to Other Government Departments and Agencies	99,748	106,152
Accounts Receivable from Other Government Departments and Agencies	105,735	92,304
	205,483	198,456

20. Segmented Information

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

NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

20. Segmented Information (continued)

(in thousands of dollars)	2013 Total	2014		
		DST	RPIT	EAD
Operating expense				
Salary and Employee Benefits	10,589,060	173,145	827,423	155,343
Amortization	2,602,540	70	0	2,584,111
Professional and Special Services	1,980,898	80,643	62,279	348,552
Repair and Maintenance	1,337,188	5,913	208	63,371
Transportation and Communication	985,783	14,540	25,423	21,369
Materials and Supplies	948,988	9,006	24,494	30,467
Expenses Related to Tangible Assets	574,857	5,328	1,771	263,935
Other Services	548,091	18,466	7,652	35,705
Equipment and Other Rentals	397,199	1,098	3,124	479
Loss on Disposals and Write-offs and Write-downs of Tangible Capital Assets	343,731	0	0	255,732
Accommodation	188,843	1,753	18,471	7,931
Utilities	169,607	3,258	364	5
Other Expenses	228,878	53,112	37,666	(1,337,271)
Interest on Capital Lease Payments	41,206	41	59,874	(69,896)
Advertising, Printing and Related Services	34,439	94	14,940	2,014
Bad Debts	8,680	140	834	188
Total operating expenses	20,979,988	366,607	1,084,523	2,362,035
Transfer payments				
Transfers to Other Countries and International Organizations	210,490	0	0	0
Transfers to Non-Profit Organizations	9,228	72	0	0
Transfers to Other Levels of Government	8,937	0	0	0
Transfers to Individuals	9,105	0	0	0
Total transfer payments	237,760	72	0	0
Total expenses	21,217,748	366,679	1,084,523	2,362,035
Revenues				
Sale of Goods and Services	427,228	2,663	4,208	(3,422)
Other	35,783	223	352	(287)
Gains on Disposals of Assets	15,933	99	157	(128)
Interest and Gains on Foreign Exchange	9,088	57	90	(73)
Revenues Earned on Behalf of Government	(18,538)	(116)	(183)	149
Total revenues	469,494	2,926	4,624	(3,761)
Total	20,748,254	363,753	1,079,899	2,365,796

DST Defence Science and Technology
 RPIT Recruiting of Personnel and Initial Training
 EAD Equipment Acquisition and Disposal

NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

20. Segmented Information (continued)

(in thousands of dollars)	2014			
	RPIIAD	MR	LR	AR
Operating expense				
Salary and Employee Benefits	12,076	1,205,751	2,091,942	918,223
Amortization	319,991	0	0	0
Professional and Special Services	65,231	187,680	188,306	146,620
Repair and Maintenance	79,794	148,031	173,890	214,812
Transportation and Communication	1,370	36,753	98,206	57,054
Materials and Supplies	3,046	87,849	111,406	100,193
Expenses Related to Tangible Assets	(4,458)	53,151	67,606	24,141
Other Services	2,758	11,761	52,734	26,726
Equipment and Other Rentals	976	16,679	51,006	32,180
Loss on Disposals and Write-offs and Write-downs of Tangible Capital Assets	42,432	45	229	204
Accommodation	3,869	7,997	15,325	7,211
Utilities	161	24,177	45,844	27,389
Other Expenses	(131,679)	259,950	638,321	167,653
Interest on Capital Lease Payments	(5,338)	82	2,921	41
Advertising, Printing and Related Services	1	441	816	1,537
Bad Debts	14	977	1,640	794
Total operating expenses	390,244	2,041,324	3,540,192	1,724,778
Transfer payments				
Transfers to Other Countries and International Organizations	0	0	0	0
Transfers to Non-Profit Organizations	0	0	0	0
Transfers to Other Levels of Government	819	0	0	0
Transfers to Individuals	0	0	0	0
Total transfer payments	819	0	0	0
Total expenses	391,063	2,041,324	3,540,192	1,724,778
Revenues				
Sale of Goods and Services	165	17,408	26,494	21,950
Other	14	1,458	2,219	1,838
Gains on Disposals of Assets	6	649	988	819
Interest and Gains on Foreign Exchange	4	370	564	467
Revenues Earned on Behalf of Government	(7)	(755)	(1,150)	(952)
Total revenues	182	19,130	29,115	24,122
Total	390,881	2,022,194	3,511,077	1,700,656

RPIIAD Real Property and Informatics Infrastructure Acquisition and Disposal

MR Maritime Readiness

LR Land Readiness

AR Aerospace Readiness

NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

20. Segmented Information (continued)

(in thousands of dollars)	2014			
	JCR	SA	CaPSS	CoPSS
Operating expense				
Salary and Employee Benefits	1,276,049	309,350	103,128	48,455
Amortization	2,849	16,624	0	0
Professional and Special Services	221,485	56,256	7,772	56,475
Repair and Maintenance	61,369	39,729	100,406	18,080
Transportation and Communication	97,318	13,118	13,728	4,549
Materials and Supplies	176,277	10,550	29,999	21,685
Expenses Related to Tangible Assets	33,924	9,914	2,032	859
Other Services	50,891	25,846	4,949	1,516
Equipment and Other Rentals	33,122	2,301	6,250	2,075
Loss on Disposals and Write-offs and Write-downs of Tangible Capital Assets	97	0	0	0
Accommodation	22,562	1,888	1,039	1,450
Utilities	22,459	1,046	393	3,378
Other Expenses	302,452	(7,515)	15,472	27,635
Interest on Capital Lease Payments	8,813	0	0	0
Advertising, Printing and Related Services	3,636	348	404	25
Bad Debts	842	314	158	57
Total operating expenses	2,314,145	479,769	285,730	186,239
Transfer payments				
Transfers to Other Countries and International Organizations	0	0	167	0
Transfers to Non-Profit Organizations	505	0	2,384	0
Transfers to Other Levels of Government	0	0	3,632	0
Transfers to Individuals	0	0	0	0
Total transfer payments	505	0	6,183	0
Total expenses	2,314,650	479,769	291,913	186,239
Revenues				
Sale of Goods and Services	13,064	476	738	835
Other	1,094	40	62	70
Gains on Disposals of Assets	487	18	28	31
Interest and Gains on Foreign Exchange	278	10	16	18
Revenues Earned on Behalf of Government	(567)	(21)	(32)	(36)
Total revenues	14,356	523	812	918
Total	2,300,294	479,246	291,101	185,321

JCR Joint and Common Readiness

SA Situational Awareness

CaPSS Canadian Peace, Stability and Security

CoPSS Continental Peace, Stability and Security

NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

20. Segmented Information (continued)

(in thousands of dollars)	2014			
	IPSS	DTPS	CI	EPS
Operating expense				
Salary and Employee Benefits	902,011	444,741	197,370	20,556
Amortization	0	5,374	0	0
Professional and Special Services	135,627	34,989	17,567	53,657
Repair and Maintenance	94,994	67,514	14,268	353
Transportation and Communication	113,418	294,970	29,559	2,044
Materials and Supplies	184,372	7,407	20,708	2,719
Expenses Related to Tangible Assets	28,417	1,258	1,392	260
Other Services	68,162	92,243	4,399	8,955
Equipment and Other Rentals	178,934	1,029	13,746	705
Loss on Disposals and Write-offs and Write-downs of Tangible Capital Assets	1	38	0	0
Accommodation	15,572	8,952	7,990	197
Utilities	2,780	12,509	1,982	1,447
Other Expenses	(362,200)	32,878	38,555	26,978
Interest on Capital Lease Payments	36,876	327	83	69
Advertising, Printing and Related Services	845	434	1,094	70
Bad Debts	549	373	166	16
Total operating expenses	1,400,358	1,005,036	348,879	118,026
Transfer payments				
Transfers to Other Countries and International Organizations	182,869	0	0	0
Transfers to Non-Profit Organizations	0	23	1,131	1,368
Transfers to Other Levels of Government	0	0	0	3,426
Transfers to Individuals	0	7,914	0	0
Total transfer payments	182,869	7,937	1,131	4,794
Total expenses	1,583,227	1,012,973	350,010	122,820
Revenues				
Sale of Goods and Services	167,473	103,222	180	104
Other	14,026	8,645	15	9
Gains on Disposals of Assets	6,246	3,850	7	4
Interest and Gains on Foreign Exchange	3,563	2,196	4	2
Revenues Earned on Behalf of Government	(7,267)	(4,479)	(8)	(5)
Total revenues	184,041	113,434	198	114
Total	1,399,186	899,539	349,812	122,706

IPSS International Peace, Stability and Security
DTPS Defence Team Personnel Support
CI Canadian Identity
EPS Environment Protection and Stewardship

NOTES TO THE FUTURE-ORIENTED FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31

20. Segmented Information (continued)

(in thousands of dollars)	2014		2014 Total
	NSS	ISS	
Operating expense			
Salary and Employee Benefits	9,237	509,402	9,204,202
Amortization	0	0	2,929,019
Professional and Special Services	53	58,639	1,721,831
Repair and Maintenance	1	79,576	1,162,309
Transportation and Communication	97	33,347	856,863
Materials and Supplies	24	4,675	824,877
Expenses Related to Tangible Assets	9	10,140	499,679
Other Services	140	63,503	476,406
Equipment and Other Rentals	4	1,544	345,252
Loss on Disposals and Write-offs and Write-downs of Tangible Capital Assets	0	0	298,778
Accommodation	69	41,872	164,148
Utilities	0	234	147,426
Other Expenses	4	436,929	198,940
Interest on Capital Lease Payments	0	1,925	35,818
Advertising, Printing and Related Services	0	3,232	29,931
Bad Debts	5	477	7,544
Total operating expenses	9,643	1,245,495	18,903,023
Transfer payments			
Transfers to Other Countries and International Organizations	0	(74)	182,962
Transfers to Non-Profit Organizations	2,537	0	8,020
Transfers to Other Levels of Government	0	(109)	7,768
Transfers to Individuals	0	0	7,914
Total transfer payments	2,537	(183)	206,664
Total expenses	12,180	1,245,312	19,109,687
Revenues			
Sale of Goods and Services	913	64,394	420,865
Other	76	5,393	35,247
Gains on Disposals of Assets	34	2,401	15,696
Interest and Gains on Foreign Exchange	19	1,370	8,955
Revenues Earned on Behalf of Government	(40)	(2,794)	(18,263)
Total revenues	1,002	70,764	462,500
Total	11,178	1,174,548	18,647,187

NSS Non-Security Support
ISS Internal Services



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