

STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING

Responsibility for the integrity and objectivity of the accompanying consolidated financial statements for the year ended March 31, 2018, 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 of Canada'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 CSC's *Departmental Results 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, 2018 was completed in accordance with the Treasury Board *Policy on Financial Management* 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.

Original Signed by

Anne Kelly, Commissioner
Ottawa, Canada
August 28, 2018

Original Signed by Gregory Hall for

Tony Matson,
Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (unaudited)

As at March 31

(in thousands of dollars)

	2018	2017
Liabilities		
Accounts payable and accrued liabilities (note 4)	522,729	263,231
Vacation pay and compensatory leave	56,312	52,339
Employee future benefits (note 5)	67,616	66,861
Inmate Trust Fund (note 6)	17,299	18,899
Environmental liabilities (note 7)	3,203	3,160
Deferred revenue (note 8)	1,909	1,517
Lease obligation for tangible capital assets (note 12)	-	96
<i>Total net liabilities</i>	669,068	406,103
Assets		
Financial assets		
Due from Consolidated Revenue Fund	433,223	249,281
Accounts receivable, advances and loans (note 9)	91,093	129,624
Inventories held for resale (note 10)	11,752	12,594
<i>Total gross financial assets</i>	536,068	391,499
Financial assets held on behalf of Government		
Accounts receivable, advances and loans (note 9)	(1,251)	(185)
<i>Total financial assets held on behalf of Government</i>	(1,251)	(185)
<i>Total net financial assets</i>	534,817	391,314
Organizational net debt	134,251	14,789
Non-financial assets		
Prepaid expenses	-	1
Inventories not for resale (note 10)	41,529	37,754
Tangible capital assets (note 11)	2,242,957	2,182,378
<i>Total non-financial assets</i>	2,284,486	2,220,133
Organizational net financial position	2,150,235	2,205,344

Contractual obligations (note 13)

Contingent liabilities and assets (note 14)

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

Original Signed by

 Anne Kelly, Commissioner
 Ottawa, Canada
 August 28, 2018

Original Signed by Gregory Hall for

 Tony Matson
 Chief Financial Officer

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

For the Year Ended March 31
(in thousands of dollars)

	2018 Planned Results	2018	2017
Expenses			
Custody	1,557,060	1,800,725	1,573,687
Correctional Interventions	507,452	542,988	461,900
Community Supervision	169,576	163,612	156,177
Internal Services	338,428	348,072	309,345
Expenses incurred on behalf of Government	-	(11)	(65)
Total expenses	2,572,516	2,855,386	2,501,044
Revenues			
Sales of goods and services	72,150	57,613	47,950
Miscellaneous revenues	4,054	3,832	2,750
Revenues earned on behalf of Government	(4,054)	(3,832)	(2,750)
Total revenues	72,150	57,613	47,950
Net cost of operations before government funding and transfers	2,500,366	2,797,773	2,453,094
Government funding and transfers			
Net cash provided by Government		2,388,868	2,376,486
Change in due from Consolidated Revenue Fund		183,942	26,177
Services provided without charge by other government departments (note 15a)		169,872	154,290
Transfer of the transition payments for implementing salary payments in arrears		(6)	(25)
Transfer of tangible capital assets from (to) other government departments (note 15c)		-	924
Other transfers of assets and liabilities (to)/ from other government departments (note 15c)		(12)	-
Net cost of (revenue from) operations after government funding and transfers		55,109	(104,758)
Organizational net financial position – Beginning of year		2,205,344	2,100,586
Organizational net financial position – End of year		2,150,235	2,205,344

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)

For the Year Ended March 31

(in thousands of dollars)

	2018	2017
Net cost of (revenue from) operations after government funding and transfers	55,109	(104,758)
Change due to tangible capital assets		
Acquisition of tangible capital assets (note 11)	187,650	153,921
Amortization of tangible capital assets (note 11)	(121,058)	(129,264)
Proceeds from disposal of tangible capital assets	(1,762)	(1,571)
Gain (loss) on disposal of tangible capital assets	394	(1,704)
Tangible capital assets adjustments (note 11)	(4,645)	(17,506)
Transfer of tangible capital assets from (to) other government departments	-	924
<i>Total change due to tangible capital assets</i>	60,579	4,800
Change due to inventories not for resale	3,775	(2,399)
Change due to prepaid expenses	(1)	1
Net increase (decrease) in organizational net debt	119,462	(102,356)
Organizational net debt – Beginning of year	14,789	117,145
Organizational net debt – End of year	134,251	14,789

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

CONSOLIDATED STATEMENT OF CASH FLOW (unaudited)

For the Year Ended March 31
(in thousands of dollars)

	2018	2017
Operating activities		
Net cost of operations before government funding and transfers	2,797,773	2,453,094
Non-cash items		
Amortization of tangible capital assets (note 11)	(121,058)	(129,264)
Net gain (loss) on disposal of tangible capital assets	394	(1,704)
Tangible capital assets adjustments (note 11)	(4,645)	(17,506)
Services provided without charge by other government departments (note 15a)	(169,872)	(154,290)
Transition payments for implementing salary payments in arrears	6	25
Variations in Consolidated Statement of Financial Position		
(Increase) in accounts payable and accrued liabilities (note 4)	(259,498)	(33,197)
(Increase) in vacation pay and compensatory leave	(3,973)	(844)
(Increase) decrease in employee future benefits (note 5)	(755)	22,306
Decrease (increase) in Inmate Trust Fund (note 6)	1,600	(663)
(Increase) in environmental liabilities (note 7)	(43)	(1,572)
(Increase) in deferred revenue (note 8)	(392)	(1,296)
(Decrease) increase in accounts receivable, advances and loans (note 9)	(39,597)	90,680
(Decrease) increase in prepaid expenses	(1)	1
Increase (decrease) in inventories	2,933	(1,653)
Transfer of assets to other government department (note 15(c))	12	-
Cash used in operating activities	2,202,884	2,224,117
Capital investing activities		
Acquisitions of tangible capital assets (note 11)	187,650	153,921
Proceeds from disposal of tangible capital assets	(1,762)	(1,571)
Cash used in capital investing activities	185,888	152,350
Financing activities		
Decrease (increase) in lease obligations for tangible capital assets (note 12)	96	19
Cash used in financing activities	96	19
Net cash provided by Government of Canada	2,388,868	2,376,486

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

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 needed to assist offenders to safely and successfully reintegrate into society; and

Internal Services: Internal Services are those groups of related activities and resources that the federal government considers to be services in support of programs and/or required to meet corporate obligations of an organization. Internal Services refers to the activities and resources of the 10 distinct service categories that support program delivery in the organization, regardless of the Internal Services delivery model in a department. The 10 service categories 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)

For the Year Ended March 31

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared using CSC'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 2017-2018 Departmental Plan.

b) Consolidation

These consolidated financial statements include the accounts of the sub-entity for which the Commissioner is accountable. The accounts of this sub-entity, 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 or to the Consolidated Revenue Fund (CRF)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

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. Revenues are then recognized in the period in which the related expenses are incurred.
- Deferred revenue consists of amounts received in advance of the delivery of goods and rendering of services that will be recognized as revenue in a subsequent fiscal year as it is earned.
- Other revenues are recognized for in the period the event giving rise to the revenues occurred.
- Revenues that are non-respendable are not available to discharge CSC's liabilities. While the Commissioner is expected to maintain accounting control, she has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of the entity's gross revenues.

f) Expenses

Expenses are recorded on an accrual basis:

- 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 an expense in the year the transfer is authorized and all eligibility criteria have been met by the recipient.

g) Employee future benefits

- Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multi-employer pension 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— The accumulation of severance benefits for voluntary departures ceased for applicable employee groups. The remaining obligation for employees who did not withdraw benefits is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

2. Summary of Significant Accounting Policies (continued)***h) Accounts and loans receivable from external parties***

Accounts and loans receivable are initially recorded at cost. When necessary, an allowance for valuation is recorded to reduce the carrying value of accounts and loans receivable to amounts that approximate their net recoverable value.

i) Inventories

- Inventories 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.
- Inventories 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.

j) Tangible capital assets

The costs of acquiring land, buildings, equipment and other capital property are capitalized as tangible capital assets and, except for land, are amortized to expense over the estimated useful lives of the assets, as described in Note 11. All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more are recorded at their acquisition cost. Tangible capital assets do not include immovable assets located on reserves as defined in the *Indian Act*, works of art, museum collection and Crown land to which no acquisition cost is attributable; and intangible assets.

k) Contingent liabilities and Contingent assets

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 to other expenses. 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.

Contingent assets are possible assets which may become actual assets when one or more future events occur or fail to occur. If the future even is likely to occur or fail to occur, the contingent asset is disclosed in the notes to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

2. Summary of Significant Accounting Policies (continued)***l) 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 future cash flows required to settle or otherwise extinguish a liability are estimable, predictable and expected to occur over extended future periods, a present value technique is used. The discount rate used reflects the Government's cost of borrowing, associated with the estimated number of years to complete remediation.

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

If the likelihood of the Government's responsibility is not determinable, a contingent liability is disclosed in the notes to the financial statements.

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 and accompanying notes at March 31. The estimates are based on facts and circumstances, historical experience, general economic conditions and reflect the Government's best estimate of the related amount at the end of the reporting period. 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.

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

n) Related party transactions

Related party transactions, other than inter-entity transactions, are recorded at the exchange amount.

Inter-entity transactions are transactions between commonly controlled entities. Inter-entity transactions, other than restructuring transactions, are recorded on a gross basis and are measured at the carrying amount, except for the following:

- i. Services provided on a recovery basis are recognized as revenues and expenses on a gross basis and measured at the exchange amount.
- ii. Certain services received on a without charge basis are recorded for departmental financial statement purposes at the carrying amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

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

<i>(in thousands of dollars)</i>	2018	2017
Net cost of operations before government funding and transfers	2,797,773	2,453,094
<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)	(121,058)	(129,264)
Gain (loss) on disposal of tangible capital assets	394	(1,704)
Services provided without charge by other government departments (note 15a)	(169,872)	(154,290)
(Increase) in vacation pay and compensatory leave	(3,973)	(844)
Decrease in obligation for termination benefits	-	371
(Increase) decrease in employee future benefits	(755)	22,306
(Increase) in environmental liabilities	(43)	(1,572)
Refund of prior years' expenditures	(5,305)	4,864
Other	(75,249)	15,308
	(375,861)	(244,825)
<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)	187,650	153,921
Payment on lease obligation for tangible capital assets (note 11)	-	19
Transition payments for implementing salary payments in arrears	6	25
Increase (decrease) in inventories	2,933	(1,653)
(Decrease) increase in prepaid expenses	(1)	1
Other	15,612	2,223
	206,200	154,536
Current year authorities used	2,628,112	2,362,805

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

3. Parliamentary Authorities (continued)

b) Authorities provided and used

<i>(in thousands of dollars)</i>	2018	2017
Vote 1 – Operating expenditures	2,285,036	2,027,306
Vote 5 – Capital expenditures	247,857	230,192
Statutory amounts	214,975	214,179
	2,747,868	2,471,677
Less:		
Authorities available for future years	12,076	8,255
Lapsed authorities: Operating	45,447	24,182
Lapsed authorities: Capital	62,233	76,435
	2,628,112	2,362,805
Current year authorities used	2,628,112	2,362,805

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>	2018	2017
Accounts payable - Other government departments and agencies	33,633	21,918
Accounts payable - External parties	99,242	83,386
Total accounts payable	132,875	105,304
Accrued liabilities	389,854	157,927
Total accounts payable and accrued liabilities	522,729	263,231

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

5. 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 2017-2018 expense amounts to \$143,100 thousand (\$148,296 thousand in 2016-2017). For Group 1 members, the expense represents approximately 1.01 times (1.12 times in 2016-2017) the employee contributions and, for Group 2 members, approximately 1.00 times (1.08 times in 2016-2017) the employee contributions.

CSC's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the Consolidated Financial Statements of the Government of Canada, as the Plan's sponsor.

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, 2018, 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:

<i>(in thousands of dollars)</i>	2018	2017
Accrued benefit obligation – Beginning of year	66,861	89,167
Expenses for the year	3,655	(20,189)
Benefits paid during the year	(2,900)	(2,117)
Accrued benefit obligation – End of year	67,616	66,861

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

6. 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.

<i>(in thousands of dollars)</i>	2018	2017
Beginning of year	18,899	18,236
Receipts	39,309	41,827
Disbursements	(40,909)	(41,164)
End of year	17,299	18,899

7. Environmental Liabilities***Remediation of contaminated sites***

The Government's "Federal Approach to Contaminated Sites" sets out a framework for management of contaminated sites using a risk-based approach. Under this approach the Government has inventoried the contaminated sites identified on federal lands, allowing them to be classified, managed and recorded in a consistent manner. This systematic approach aids in identification of the high risk sites in order to allocate limited resources to those sites which pose the highest risk to human health and the environment.

CSC has identified a total of 50 sites (52 sites in 2017) where contamination may exist and assessment, remediation and monitoring may be required. Of these, CSC has identified 23 sites (21 sites in 2017) where action is required and for which a gross liability of \$1,875 thousand (\$1,402 thousand in 2017) has been recorded. This liability estimate has been determined based on site assessments performed by environmental experts.

In addition, a statistical model based upon a projection of the number of sites that will proceed to remediation and upon which current and historical costs are applied is used to estimate the liability for a group of unassessed sites. As a result, there are 23 unassessed sites (24 sites in 2017) of which 14 sites are projected to have a liability (15 sites in 2017) estimate of \$1,328 thousand (\$1,758 thousand in 2017) which has been recorded using this model.

These two estimates combined, totalling \$3,203 thousand (\$3,160 thousand in 2017), 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

7. Environmental Liabilities (continued)

For the remaining 13 sites (16 sites in 2017), no liability for remediation has been recognized. Some of these sites are at various stages of testing and evaluation and if remediation is required, liabilities will be reported as soon as a reasonable estimate can be determined. For 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 and the total undiscounted future expenditures as at March 31, 2018 and March 31, 2017. When the liability estimate is based on a future cash requirement, the amount is adjusted for inflation using a forecast CPI rate of 1.9% (2% in 2017). Inflation is included in the undiscounted amount.

The following table presents the total estimated amounts of these liabilities by nature and source as at March 31, 2018, and March 31, 2017.

NATURE & SOURCE OF LIABILITY						
Nature & Source	2018			2017		
	Total Number of Sites	Number of Sites with a liability	Estimated Liability and Total Undiscounted Expenditures ⁽⁴⁾ (in thousands of dollars)	Total Number of Sites	Number of Sites with a liability	Estimated Liability and undiscounted expenditures 2017 ⁽⁴⁾ (in thousands of dollars)
Fuel Related Practices ⁽¹⁾	23	14	1,312	20	14	1,521
Landfills/Waste Sites ⁽²⁾	15	13	1,046	17	15	1,325
Other ⁽³⁾	12	10	845	15	7	314
Totals	50	37	3,203	52	36	3,160

- (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.

Also during the year 8 sites (12 sites in 2017) were closed as they were either remediated or assessed to confirm that they no longer meet all the criteria required to record a liability for contaminated sites.

CSC's ongoing efforts to assess contaminated sites may result in additional environmental liabilities.

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

<i>(in thousands of dollars)</i>	2018	2017
Opening balance	1,517	221
Amounts received	17,706	41,562
Revenue recognized	(17,314)	(40,266)
Ending balance	1,909	1,517

9. Accounts Receivable, Advances and Loans

The following table presents details of CSC's accounts receivable, advances, and loan balances:

<i>(in thousands of dollars)</i>	2018	2017
Receivables - Other government departments and agencies	38,108	73,392
Receivables - External parties	48,910	52,839
Employee advances	4,453	3,866
Parolee loans and advances to individuals other than employees	57	24
	91,528	130,121
Allowance for doubtful accounts on receivables from external parties and parolee loans	(435)	(497)
Gross accounts receivable and advances	91,093	129,624
Accounts receivable held on behalf of Government	(1,251)	(185)
Net accounts receivable and advances	89,842	129,439

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

For the Year Ended March 31

10. Inventories

The following table presents details of CSC's inventories:

	2018	2017
<i>(in thousands of dollars)</i>		
Inventories held for resale		
Raw materials	7,577	6,580
Work in progress	245	317
Finished goods	4,863	6,305
	12,665	13,202
Provision for obsolete inventory	(913)	(608)
Total inventories held for resale	11,752	12,594
Inventories not for resale		
Supplies	22,763	18,447
Clothing	9,849	10,220
Building materials	4,365	4,271
Utilities	1,847	1,959
Other	2,705	2,857
Total inventories not for resale	41,529	37,754
Total Inventories	53,281	50,348

The cost of consumed inventories not for resale recognized as an expense in the Consolidated Statement of Operations and Organizational Net Financial Position is \$119,344 thousand in 2017-2018 (\$130,348 thousand in 2016-2017).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

11. Tangible Capital Assets

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

Asset Class	Amortization Period
Buildings	25 to 40 years
Works and Infrastructure	20 to 25 years
Machinery and Equipment	10 years
Informatics Hardware and Software	3 to 10 years
Vehicles	5-10 years
Leasehold Improvements	Straight Line over the lesser of useful life of improvement or lease term
Assets under Capital Leases	Straight Line over the lesser of useful life of improvement or lease term

Assets under construction are recorded in the applicable asset class in the year they are put into service and are not amortized until they are put into service.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

For the Year Ended March 31

11. Tangible Capital Assets (continued)

Capital Asset Class	Cost					Accumulated Amortization					Net Book Value	
	Opening Balance	Acquisitions	Adjustments (1)	Disposals and Write-Offs	Closing Balance	Opening Balance	Amortization	Adjustments (1)	Disposals and Write-Offs	Closing Balance	2018	2017
(in thousands of dollars)												
Land	14,546	-	-	-	14,546	-	-	-	-	-	14,546	14,546
Buildings	2,559,898	-	7,869	-	2,567,767	1,105,668	76,304	(288)	-	1,181,684	1,386,083	1,454,230
Works and infrastructure	734,017	-	28,271	-	762,288	457,325	22,237	(872)	-	478,690	283,598	276,692
Machinery and equipment	127,026	3,594	109	(2,667)	128,062	87,485	5,893	(17)	(2,508)	90,853	37,209	39,540
Informatics Hardware and Software	82,569	-	10,585	(274)	92,880	65,893	6,115	(18)	(266)	71,724	21,156	16,677
Vehicles	74,244	12,580	226	(9,304)	77,746	42,442	6,818	145	(8,150)	41,255	36,491	31,802
Leasehold Improvements	50,342	-	5,386	(59)	55,669	25,336	3,679	1,257	(12)	30,260	25,409	25,006
Leased tangible capital assets	120	-	(120)	-	-	32	12	(44)	-	-	-	88
Assets under construction	323,797	171,476	(56,808)	-	438,465	-	-	-	-	-	438,465	323,797
Total	3,966,559	187,650	(4,482)	(12,304)	4,137,423	1,784,181	121,058	163	(10,936)	1,894,466	2,242,957	2,182,378

- (1) Adjustments include assets under construction of \$52,720 thousand (\$27,193 thousand in 2016-2017) that were transferred to the other capital asset classes upon completion of the project. A capital lease was procured by CSC with a net book value of \$76 thousand. Other net adjustments of \$4,645 thousand are as a result of the capital asset validation exercise undertaken during the fiscal year.

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. There are no changes in Kingston Penitentiary's 2017-2018 net book value of \$41,834 thousand (\$41,834 thousand in 2016-2017), ORTC's 2017-2018 net book value of \$4,991 thousand (\$4,991 thousand in 2016-2017) and Ontario RHQ's 2017-2018 net book value of \$789 thousand (\$789 thousand in 2016-2017). Should a change in the Kingston Penitentiary's, ORTC's, or Ontario RHQ'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.

CSC also has Buildings and Works and Infrastructure located on reserves as defined in the *Indian Act* which are not recognized above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

12. Lease Obligation for Tangible Capital Assets

CSC's Revolving Fund (CORCAN) has a capital lease obligation of \$0 as at March 31, 2018 (\$96 thousand in 2016-17) as a result of procuring the capital asset from the lessor. The obligations previously recorded are:

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

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 in order to carry out its transfer payment programs or when the services/goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

	2019	2020	2021	2022	2023	2024 and thereafter	Total
<i>(in thousands of dollars)</i>							
Acquisition of goods and services	199,603	25,161	14,228	9,382	100	-	248,474

14. Contingent Liabilities and Contingent Assets**a) Contingent Liabilities**Claims & 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.

b) Contingent Assets

CSC may bring a claim as part of its normal course of operations which could result in a contingent asset, however none are known to exist as at March 31, 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

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. Related parties also include individuals who are members of key management personnel or close family members of those individuals, and entities controlled by, or under shared control of, a member of key management personnel or a close family member of that individual.

CSC enters into transactions with these entities in the normal course of business and on normal trade terms.

During the year, CSC did not enter into material transactions at a value different from that which would have been arrived at if the parties were unrelated.

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 at their carrying value in CSC's Consolidated Statement of Operations and Organizational Net Financial Position as follows:

<i>(in thousands of dollars)</i>	2018	2017
Employer's contribution to the health and dental insurance plans	146,334	130,039
Accommodation	18,138	18,333
Workers' compensation	4,180	4,250
Legal services	1,220	1,668
Total	169,872	154,290

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 other government departments

<i>(in thousands of dollars)</i>	2018	2017
Accounts receivable	38,108	73,392
Accounts payable	33,633	21,918
Expenses	291,358	291,009
Revenues	51,621	43,822

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

c) Transfers of assets and liabilities (to) from other government departments

During the year, CSC transferred out amounts related to salary overpayments receivable to other government departments for a net amount of \$12 thousand (\$0 in the prior year).

In the prior year, CSC received tangible capital assets from other government departments for a net amount of \$924 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

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:

(in thousands of dollars)	2018				2017	
	Custody	Correctional Interventions	Community Supervision	Internal Services	Total	Total
Transfer payments						
Non-profit organizations	2,259	-	-	-	2,259	4,780
Total transfer payments	2,259	-	-	-	2,259	4,780
Operating expenses						
Salaries and employee benefits	1,292,236	421,466	25,752	256,785	1,996,239	1,720,035
Professional and special services	103,940	62,463	120,211	40,432	327,046	304,027
Utilities, materials and supplies	125,238	852	3,064	4,151	133,305	146,099
Amortization of tangible capital assets	119,905	1,153	-	-	121,058	129,264
Machinery and equipment	11,281	6,462	180	6,226	24,149	35,168
Payment in lieu of taxes	34,344	-	-	-	34,344	35,063
Repairs and maintenance	28,884	230	687	612	30,413	29,268
Rentals	1,165	1,676	4,319	17,586	24,746	22,015
Accommodation	-	-	8,860	9,277	18,137	18,334
Travel	6,478	4,078	424	5,394	16,374	14,757
Cost of goods sold	-	15,674	-	-	15,674	12,453
Damages and Claims Against the Crown	13,596	1	0	140	13,737	2,810
Inmate pay	-	12,832	-	-	12,832	13,032
Relocation	2	31	-	5,004	5,037	4,833
Telecommunications	173	9	-	381	563	990
(Gain)/loss on disposal of tangible capital assets	(335)	-	-	(59)	(394)	1,704
Environmental liabilities	43	-	-	-	43	1,572
Other subsidies and expenses	61,516	16,061	115	2,143	79,835	4,905
Total operating expenses	1,798,466	542,988	163,612	348,072	2,853,138	2,496,329
Sub-Total Expenses	1,800,725	542,988	163,612	348,072	2,855,397	2,501,109
Expenses incurred on behalf of Government	-	-	-	(11)	(11)	(65)
Total Expenses	1,800,725	542,988	163,612	348,061	2,855,386	2,501,044
Revenues						
Sales of goods and services	-	57,613	-	-	57,613	47,950
Miscellaneous revenues	3,342	479	10	1	3,832	2,750
Revenues earned on behalf of Government	(3,342)	(479)	(10)	(1)	(3,832)	(2,750)
Total Revenues	-	57,613	-	-	57,613	47,950
Net cost of operations before government funding and transfers	1,800,725	485,375	163,612	348,061	2,797,773	2,453,094

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

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 2017-2018 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 [Departmental Plan](#).

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 (PSPC) 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 2017-2018

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 no significantly amended key controls in existing processes which required a reassessment.

Ongoing monitoring program: As part of its rotational ongoing monitoring plan, the department completed its reassessment of Fixed Assets (other than Real Property), Travel, and Contingent Liabilities. Documentation and testing of the Information Technology General Controls (ITGC) of salary feeder systems was started and will be completed in two phases; one in 2018-2019 and another in 2019-2020. For the most part, the key controls that were tested performed as intended, with remediation required as follows:

Travel

- The Account Verification Directive and related instructions pre-date the latest version of HRG and should be updated. The update should include a uniform process to document pre and post payment review and enhanced guidance regarding s.32 and expenditure initiation documentation. A management action plan addressing recommendation was developed by the process owner.

Tangible Capital Assets (Other than Real Property)

- Asset Recording Form not consistently fully completed and signed by Custodian. A management action plan addressing recommendation was developed by the process owner.
- Instructions for the fixed assets count are not being followed. A management action plan addressing recommendation was developed by the process owner.
- Disposals not consistently approved as required. A management action plan addressing recommendation was developed by the process owner.
- Segregation of duties in IFMMS should be improved. A management action plan addressing recommendation was developed by the process owner.

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

CORRECTIONAL SERVICE OF CANADA

4. CSC'S ACTION PLAN

4.1 Progress during fiscal year 2017-2018

During 2017-2018, 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. However, due to reduced staffed some modifications were made to the plan:

- Travel was tested in order to get some coverage of the Account Payable Process;
- Financial Statement Close was moved to biennial testing;
- Contingent Liabilities were tested; and
- Ongoing discussion and process documentation of the Salary Process.

Progress During Fiscal Year 2017-2018

Element in previous year's action plan	Status as at March 31, 2018
Fixed Asset (other than real Property)	Ongoing Monitoring testing completed, remedial actions started
Salary and Employee Benefits	Ongoing discussions and process documentation
Travel	Ongoing Monitoring testing completed, remedial actions started
Contingent Liabilities	Ongoing Monitoring testing completed; no remedial actions required
Information Technology General Control (ITGC) : Salary Feeding Systems	Audit Charter and risk assessment completed

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		
	2018-2019	2019-2020	2020-2021
Entity-Level Controls	✓		
IT General Controls	✓	✓	
Revenues and Accounts Receivable	✓		
Inventory	✓*		
Tangible Capital Assets	✓	✓	✓
Salary and Employee Benefits	✓*	✓	✓
Other Operating Expenses and Accounts Payable	✓	✓	✓
Inmate Trust Fund		✓	
Financial Statement Close and Reporting	✓		✓

ⁱ The frequency of the ongoing monitoring of key control areas is risk-based and may occur over a multi-year cycle.
 * Identifies partial ongoing monitoring work. The work will consist of narrative and flow chart process description updates, risk assessment update and monitoring of the implementation of management action plans. No extensive sample testing will be done.