

Future-oriented Statement of Operations and Notes

**DEPARTMENT OF FOREIGN AFFAIRS AND
INTERNATIONAL TRADE**

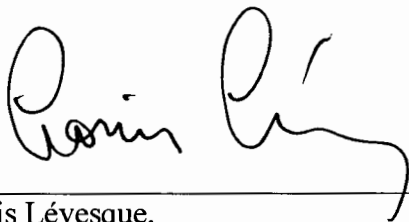
Year ended March 31

Statement of Management Responsibility

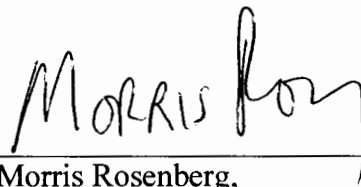
Departmental management is responsible for this Future-oriented Statement of Operations and Notes, including responsibility for the appropriateness of the assumptions on which this statement is prepared. This statement has been prepared in accordance with Treasury Board Accounting Standard 1.2 and is based on the best information available as at February 1, 2011. Assumptions adopted are consistent with amounts reported in Part 2 of the Main Estimates and reflect the plans described in the Report on Plans and Priorities (RPP).

Estimated results for 2010/11 and forecasted plans for 2011/12 are based on current year forecasted information and planned spending, submitted as part of the 2011/12 ARLU and subsequently approved Treasury Board submissions. The forecasted plans do not take in consideration any Budget 2011 items.

The actual results achieved for the fiscal years covered in the accompanying Future-oriented Statement of Operations will vary from the information presented. Actual results will be reported in the Departmental unaudited financial statements for both 2010/11 and 2011/12 respectively.

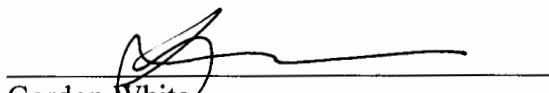


Louis Lévesque,
Deputy Minister of International Trade
Ottawa, Canada
Date **MAR - 7 2011**



Morris Rosenberg,
Deputy Minister of Foreign Affairs
Ottawa, Canada
Date

MAR 0 8 2011



Gordon White,
Chief Financial Officer & Assistant Deputy Minister
Ottawa, Canada
Date **Feb 21, 2011**

Department of Foreign Affairs and International Trade
Future-oriented Statement of Operations
For the Year Ended March 31
(in thousands of dollars)

	Estimated Results 2011	Forecast 2012
Expenses		
Diplomacy and Advocacy	1,392,742	1,234,807
Governance, Strategic Direction and Common Service Delivery	663,712	784,965
Passport Canada	311,780	324,097
International Policy Advice and Integration	238,811	140,051
International Commerce	199,563	170,926
Government of Canada Benefits	146,404	150,482
Internal Services	124,250	183,116
Consular Services and Emergency Management	70,962	63,217
Total Expenses	3,148,224	3,051,661
Revenues		
Passport Canada	279,162	283,697
Consular Services and Emergency Management	95,950	97,450
Governance, Strategic Direction and Common Service Delivery	51,940	53,940
Diplomacy and Advocacy	11,000	12,000
International Commerce	10,050	6,250
Total Revenues	448,102	453,337
Net cost of operations	2,700,122	2,598,324

Segmented information (Note 8)

The accompanying notes form an integral part of this Future-oriented statement.

Department of Foreign Affairs and International Trade
Notes to Future-oriented Statement of Operations
For the year ended March 31

1. Authority and Objectives

The Department of Foreign Affairs and International Trade (hereinafter called “the Department”) operates under the legislation set out in the *Department of Foreign Affairs and International Trade Act*, RSC 1985, c. E-22.

The 2011/12 *Report on Plans and Priorities* (RPP) is based on the Department’s Program Activity Architecture (PAA), as approved by Treasury Board (TB). The PAA presents the Department’s three strategic outcomes stated as end results. Strategic outcomes are supported by a cascading matrix of program activities, sub-activities and sub-sub-activities.

The Department’s strategic outcomes can be described in general terms as: (a) providing policy advice and coordination as well as conducting diplomacy and advocacy for the benefit of Canada and Canadians, while reflecting the country’s interests and values; (b) assisting Canadians through provision of international commercial, consular and passport services; and (c) managing a network of missions abroad on behalf of the Government of Canada. In short, the strategic outcomes indicate the long-term, enduring benefits for Canadians generated by the Department, as follows:

Strategic Outcome #1: Canada’s International Agenda: The international agenda is shaped to Canada’s benefit and advantage in accordance with Canadian interests and values.

- Program Activity #1: International Policy Advice and Integration - providing strategic direction, intelligence and advice, including integration and coordination of Canada’s foreign and international economic policies.
- Program Activity #2: Diplomacy and Advocacy - engaging and influencing international players and delivering international programs and diplomacy.

Strategic Outcome #2: International Services for Canadians: Canadians are satisfied with commercial, consular and passport services.

- Program Activity #3: International Commerce - managing and delivering commerce services and advice to Canadian business.
- Program Activity #4: Consular Services and Emergency Management - managing and delivering consular services and advice to Canadians, and provides a coordinated Government of Canada response to emergencies abroad affecting Canadians.
- Program Activity #5: Passport Canada - managing and delivering passport services to Canadians through the use of the Passport Canada Revolving Fund.

Strategic Outcome #3: Canada’s International Platform: The Department maintains a mission network of infrastructure and services to enable the Government of Canada to achieve its international priorities.

- Program Activity #6: Governance, Strategic Direction and Common Service Delivery - managing and delivering services and infrastructure to enable Canada's representation abroad.
- Program Activity #7: Government of Canada Benefits - managing and administering allowances under the Foreign Service Directives and benefits to locally engaged staff..

Internal Services are the combination of process and service-related activities that make possible all of the Department's operations. Overall, Internal Services enable the Department to carry out its mandated functions toward the achievement of its strategic outcomes.

2. Significant Assumptions

The Future-oriented Statement of Operations has been prepared on the basis of the government priorities and the plans of the Department as described in the Report on Plans and Priorities.

The main assumptions are as follows:

- The Department's activities will remain substantially the same as in the previous year.
- Expense and revenues, including the determination of amounts internal and external to the government are based on historical experience. The general historical pattern is expected to continue.
- Allowances for uncollectibility are based on historical experience. The general historical pattern is expected to continue.
- Gains and losses from disposal of capital assets, as well as from foreign exchange revaluation, are unpredictable. As such, these gains and losses have been excluded.

These assumptions are adopted as at February 1, 2011.

3. Variations and Changes to the Forecast Financial Information

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

In preparing this Statement, the Department has made estimates and assumptions concerning the future. These estimates and judgments may differ from the subsequent actual results. Estimates and judgments 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 Statement of Operations and the historical Statement include:

- a) The timing and amounts of acquisitions and disposals of property, plant and equipment may affect amortization expense and create gains/losses.
- b) Economic conditions may affect both the amount of revenue earned and the collectability of receivables. It may also affect the rate of foreign exchange, and thus the associated gain/loss.
- c) 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 (DPR).

4. Summary of Significant Accounting Policies

The Future-oriented Statement of Operations has been prepared in accordance with the Treasury Board accounting policies stated below, which are based on Canadian generally accepted accounting principles for the public sector. The presentation and results of using the stated accounting policies do not result in any significant differences from Canadian generally accepted accounting principles.

Significant accounting policies are as follows:

(a) Parliamentary appropriations: The Department is financed by the Government of Canada through Parliamentary appropriations. Appropriations provided to the Department do not parallel financial reporting according to Canadian generally accepted accounting principles since appropriations are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations are not necessarily the same as those provided through appropriations from Parliament. Note 5 provides a high-level reconciliation between the basis of reporting.

(b) Consolidation: This Future-oriented Statement of Operations includes the accounts of Passport Canada. Revenue and expense transactions between Passport Canada and the department have been eliminated.

(c) Revenues – are presented on an accrual basis:

- Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.
- Other revenues are accounted for in the period in which the underlying transaction or event occurred that gave rise to the revenues.
- Revenues that have been received but not yet earned are recorded as deferred revenues.

(d) Expenses – are presented on an accrual basis:

- Grants are recognized in the year in which the conditions for payment are met. In the case of grants which do not form part of an existing program, the expense is recognized when the Government announces a decision to make a non-recurring transfer, provided the

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

- Contributions are recognized in the year in which the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement;
- Vacation pay and compensatory leave are expensed by the Department in the year that the entitlement occurs.
- Services provided without charge by other government departments for accommodation, the employer's contribution to the health and dental insurance plans, legal services and workers' compensation are reported as operating expenses at their estimated cost.

(e) Employee future benefits:

- i. **Pension benefits:** Eligible Canada-based staff (CBS) participate in the Public Service Pension Plan, a multi-employer plan administered by the Government of Canada. The Department's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor. Current legislation does not require the Department to make contributions for any actuarial deficiencies. Eligible locally engaged staff (LES) participate in a combination of plans developed and administered based on local law and practice, or in a worldwide pension scheme which is administered at the Department's headquarters.
- ii. **Severance benefits:** Employees (CBS and LES) are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. The CBS obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole. The LES obligation is established on the basis of operational requirements of the mission, local laws or practice and is calculated based on the number of eligible employees multiplied by the estimated severance payment based on historical experience.

(f) 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.

(g) Tangible capital assets: All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more are recorded at their acquisition cost. The Department does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, and assets located in museum collections.

Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the assets. The amortization periods are as follows:

Asset Class	Amorization Period
Buildings	20 to 25 years
Works and infrastructure	30 years
Machinery and equipment	5 to 25 years
Informatics hardware	3 to 15 years
Informatics software	3 to 10 years
Vehicles	5 to 10 years
Leasehold improvements	Term of the lease or 25 years
Assets under construction	Once in service, in accordance with asset type

Assets under construction are recorded in the applicable capital asset class in the year that they become available for use and thus begin their amortization period.

5. Parliamentary Appropriations

The Department receives most of its funding through expenditure authorities provided by Parliament. Items recognized in the Statement of Operations in one year may be funded through parliamentary appropriations 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) Authorities requested

	Estimated 2011	Forecast 2012
	(in thousands of dollars)	
Authorities requested		
Vote 1	1,720,117	1,428,708
Vote 5	224,912	238,368
Vote 10	952,301	901,417
Statutory amounts	87,033	139,281
Forecast authorities available	2,984,363	2,707,774

Forecast authorities requested for the year ending March 31, 2012 are the planned spending amounts presented in the 2011/12 Report on Plans and Priorities (\$3,040.4 million), excluding net voted revenues (\$332.7 million). Estimated authorities requested for the year ending March 31, 2011 include amounts presented in the 2010/11 Main Estimates and Supplementary Estimates (A) and (B), planned for presentation in Supplementary Estimates (C) and estimates of amounts to be allocated at year-end from Treasury Board central votes.

b) Reconciliation of net cost of operations to requested authorities

	Estimated 2011	Forecast 2012
	(in thousands of dollars)	
Net cost of operations	2,700,122	2,598,324
 Adjustments for items affecting net cost of operations but not affecting authorities:		
Revenue not available for spending	122,950	120,650
Amortization of tangible capital assets	(96,706)	(87,376)
Services provided without charge by other government departments	(99,200)	(87,850)
Decrease (increase) in employee severance benefits	(13,804)	(12,472)
Decrease (increase) in the allowance for bad debt expenses	(1,604)	(1,449)
Decrease (increase) in vacation pay and compensatory leave	(101)	(91)
Refunds of prior year expenditures	14,787	13,360
Other	2,947	2,663
 Total adjustments for items not affecting authorities	 (70,731)	 (52,565)
 Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisition of tangible capital assets	157,805	162,015
 Estimated lapses for votes 1, 5 and 10 as of December 31, 2010	 197,167	 -
 Forecast authorities available	 2,984,363	 2,707,774

6. Employee Benefits

a) Pension benefits

The Department's CBS participate in the Public Service Pension 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/Quebec Pension Plans benefits and are indexed to inflation.

Both the employees and the Department contribute to the cost of the Plan. The forecasted expenses are \$85,217,450 in 2010/11 and \$82,766,902 in 2011/12, representing approximately 1.9 times the contributions by employees.

The Department's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

Locally engaged staff participate in a combination of pension plans developed and administered based on local law and practice, or in the worldwide pension scheme which is administered at the Department's headquarters. The Government of Canada is the sponsor of all plans which may be defined contribution, defined benefit and either prefunded or pay-as-you go. The forecasted expenses are \$19,295,692 in 2010/11 and \$18,657,196 in 2011/12.

b) Severance benefits

The Department provides severance benefits to its employees based on eligibility, years of service and final salary. The severance benefit liability for Canada-based staff is based on a percentage provided by Treasury Board, applied to the eligible payroll as at March 31. Treasury Board determines the percentage based on an actuarial evaluation of the future liability for the entire government's eligible employees. For locally engaged staff, the liability is based on historical data whereby an average severance payment per locally engaged staff is calculated. This cost is multiplied by the total number of eligible locally engaged staff and a layoff/payout rate.

These severance benefits are not pre-funded. Benefits will be paid from future appropriations. Information about the severance benefits, measured as at March 31, is as follows:

	Estimated 2011	Forecast 2012
	(in thousands of dollars)	
Accrued benefit obligation, beginning of year	135,078	148,882
Expense for the year	27,643	27,191
Expected benefits payments during the year	(13,839)	(14,719)
Accrued benefit obligation, end of year	148,882	161,354

The estimated CBS severance benefits liability amounts to \$59.1 million, whereas the LES liability is \$89.7 million.

7. Related Party Transactions

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

a) Common services provided without charge by other government departments

During the year, the Department is forecasted to receive without charge from other departments, accommodation, legal fees, the employer's contribution to the health and dental insurance plans, and administration costs and commissions paid to provincial workers' compensation boards. These services without charge have been recognized in the Department's Future-oriented Statement of Operations as follows:

	Estimated 2011	Forecast 2012
	(in thousand of dollars)	
Employer's contribution to the health and dental insurance plans provided by Treasury Board Secretariat	67,300	56,300
Accommodation provided by Public Works and Government Services Canada	30,100	29,475
Legal services provided by Justice Canada	1,400	1,725
Administration costs and commissions paid to provincial workers' compensation boards by Social Development Canada	400	350
Total services provided without charge	99,200	87,850

The Government has structured some of its administrative activities for efficiency and cost-effectiveness purposes so that one department performs these on behalf of all without charge. The costs of these services, which include payroll and cheque issuance services provided by Public Works and Government Services Canada and audit services provided by the Office of the Auditor General, are not included as an expense in the Department's Future-oriented Statement of Operations.

b) Administration of programs on behalf of other government departments

The Department has a number of memorandums of understanding (MOUs) with partner departments for the administration of unique, in-year programs delivered abroad. The Department is forecasting expenses of \$190,000,000 in 2010/11 and \$197,000,000 in 2011/12 for operational and program activities on behalf of our partner departments. The Department is forecasting revenues of \$287,000,000 in 2010/11 and \$282,000,000 in 2011/12 on behalf of our partner departments. These forecasted expenses and revenues are remitted to the partner departments and are reflected in the financial statements of those departments and not recorded in this financial statement.

8. Segmented Information

Presentation by segment is based on the Department's PAA. 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 the expenses incurred and revenues generated for the main program activities, by major object of expenses and by major type of revenues. The segment results for the period are as follows (*in thousands of dollars*):

	Diplomacy and Advocacy	Gov. Strategic Direction & Common Service Delivery	Passport Canada	Internal Services	International Commerce	Government of Canada Benefits	International Policy Advice and Integration	Consular Services and Emergency Management	Forecast 2012 Total	Estimated 2011 Total
Transfer payments										
Other countries and international organizations	465,393	-	-	-	-	-	4,022	-	469,415	453,575
Non-profit organizations	377,993	-	-	-	6,907	28	20,000	-	404,928	391,249
Other levels of government in Canada	13,463								13,463	10,354
Other Transfers to any Other Sector	9,006	-	-	-	-	-	35	-	9,041	11,054
Industry	-	-	-	-	1,764	-	-	-	1,764	1,704
International Development Assistance	409	-	-	-	-	-	-	-	409	395
Individuals	-	-	-	-	-	139	-	-	139	134
Total Transfer payments	866,264	-	-	-	8,671	167	24,057	-	899,159	868,465
Operating expenses										
Salaries and employee benefits	200,900	264,127	176,031	122,922	121,455	102,741	86,781	38,261	1,113,218	1,121,237
Professional and special services	40,287	157,456	31,083	17,181	13,792	2,600	5,394	4,952	272,745	390,858
Rentals	58,665	147,358	18,209	6,235	14,755	-	6,034	4,719	255,975	251,123
Transportation	22,627	15,178	28,103	5,939	745	44,974	13,450	11,616	142,632	137,108
Acquisition of machinery and equipment, including parts and consumables	18,853	24,860	48,486	22,102	1,561	-	547	626	117,035	84,511
Amortization	234	70,356	9,529	4,982	1,652	-	545	78	87,376	96,706
Utilities, materials and supplies	14,763	60,137	451	2,382	3,354	-	1,309	1,624	84,020	93,529
Telecommunications	5,598	21,430	3,602	264	1,874	-	1,081	615	34,464	33,151
Repairs and maintenance	3,170	11,687	4,064	709	1,837	-	439	348	22,254	29,384
Information	3,175	11,487	4,502	382	1,072	-	368	348	21,334	40,548
Bad debt	271	889	37	18	158	-	46	30	1,449	1,604
Total operating expenses	368,543	784,965	324,097	183,116	162,255	150,315	115,994	63,217	2,152,502	2,279,759
Total expenses	1,234,807	784,965	324,097	183,116	170,926	150,482	140,051	63,217	3,051,661	3,148,224
Revenues										
Sale of Goods and Services	11,904	53,511	281,438	-	6,200	-	-	96,675	449,728	444,425
Other non-tax revenue	96	429	2,259	-	50	-	-	775	3,609	3,677
Total revenues	12,000	53,940	283,697	-	6,250	-	-	97,450	453,337	448,102
Net cost of operations	1,222,807	731,025	40,400	183,116	164,676	150,482	140,051	(34,233)	2,598,324	2,700,122

