

INDIGENOUS AND NORTHERN AFFAIRS CANADA

Statement of Management Responsibility Including Internal Control Over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2016, and all information contained in these statements rests with the management of Indigenous and Northern Affairs Canada (INAC). These financial statements have been prepared by management using the Government's accounting policies, which are based on Canadian public sector accounting standards.

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

Management is also responsible for maintaining an effective system of internal control over financial reporting 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 INAC; and through conducting an annual risk-based assessment of the effectiveness of the system of internal control over financial reporting.

The system of internal control over financial reporting 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 internal control over financial reporting for the year ended March 31, 2016 was completed in accordance with the Treasury Board *Policy on Internal Control* and the results and action plans are summarized in the annex.

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

The financial statements of INAC have not been audited.

Original signed by H el ene Laurendeau

H el ene Laurendeau
Deputy Minister

Gatineau, Canada
August 31, 2016

Original signed by Paul Thoppil

Paul Thoppil, CPA, CA
Chief Financial Officer

INDIGENOUS AND NORTHERN AFFAIRS CANADA
Statement of Financial Position (Unaudited)
As at March 31
(in thousands of dollars)

| | 2016 | 2015 |
|--|---------------------|---------------------|
| Liabilities | | |
| Accounts payable and accrued liabilities (note 4) | 754,863 | 688,339 |
| Vacation pay and compensatory leave | 15,157 | 15,194 |
| Other liabilities (note 5) | 60,458 | 70,606 |
| Trust accounts (note 6) | 766,810 | 892,254 |
| Settled claims (note 7) | 228,117 | 281,854 |
| Provision for claims and litigation (note 8) | 11,549,179 | 10,635,848 |
| Provision for loan guarantees (note 8) | 1,565 | 1,405 |
| Environmental liabilities (note 9) | 3,765,010 | 3,000,346 |
| Employee future benefits (note 10) | 23,956 | 25,586 |
| Total liabilities | 17,165,115 | 15,611,432 |
| Financial assets | | |
| Due from the Consolidated Revenue Fund | 1,555,701 | 1,638,093 |
| Accounts receivable and advances (note 11) | 84,861 | 69,321 |
| Interest receivable (note 12) | 691 | 1,462 |
| Loans receivable (note 13) | 873,583 | 858,256 |
| Total gross financial assets | 2,514,836 | 2,567,132 |
| Financial assets held on behalf of Government | | |
| Interest receivable (note 12) | (691) | (1,462) |
| Loans receivable (note 13) | (873,583) | (858,256) |
| Total financial assets held on behalf of government | (874,274) | (859,718) |
| Total net financial assets | 1,640,562 | 1,707,414 |
| Departmental net debt | 15,524,553 | 13,904,018 |
| Non-financial assets | | |
| Land held for future claims settlements (note 14) | 38,847 | 39,546 |
| Prepaid expenses | 67 | 151 |
| Tangible capital assets (note 15) | 137,589 | 92,958 |
| Total non-financial assets | 176,503 | 132,655 |
| Departmental net financial position (note 16) | (15,348,050) | (13,771,363) |

Contingent liabilities (note 8)

Contractual obligations (note 17)

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

Original signed by H el ene Laurendeau

Original signed by Paul Thoppil

H el ene Laurendeau
Deputy Minister

Paul Thoppil, CPA, CA
Chief Financial Officer

Gatineau, Canada
August 31, 2016

INDIGENOUS AND NORTHERN AFFAIRS CANADA
Statement of Operations and Departmental Net Financial Position (Unaudited)
For the Year Ended March 31
(in thousands of dollars)

| | 2016 Planned Results | 2016 | 2015 |
|---|----------------------------|---------------------|---------------------|
| Expenses | | | |
| People | 3,679,735 | 3,672,644 | 3,786,451 |
| Government | 1,243,093 | 2,781,954 | 2,400,738 |
| Land and Economy | 1,584,873 | 1,961,920 | 1,623,181 |
| North | 207,960 | 866,819 | 650,002 |
| Internal Services | 267,088 | 308,854 | 324,718 |
| Expenses incurred on behalf of Government | 6,249 | (15,877) | (5,883) |
| Total expenses | 6,988,998 | 9,576,314 | 8,779,207 |
| Revenues | | | |
| Resource royalties | 19,500 | 17,821 | 59,541 |
| Norman Wells project profits | 68,500 | 10,471 | 74,779 |
| Interest on loans | 5,099 | 3,829 | 7,761 |
| Miscellaneous | 3,063 | 2,968 | 2,005 |
| Finance and administrative services | 710 | 2,448 | 3,135 |
| Leases and rentals | 2,747 | 1,445 | 1,670 |
| Revenues earned on behalf of Government | (97,427) | (35,681) | (143,080) |
| Total revenues | 2,192 | 3,301 | 5,811 |
| Net cost from continuing operations | 6,986,806 | 9,573,013 | 8,773,396 |
| Transferred operations (note 20a) | | | |
| Expenses | | 187 | 5,181 |
| Net cost of operations before government funding and transfers | | 9,573,200 | 8,778,577 |
| Government funding and transfers | | | |
| Net cash provided by Government | | 7,998,681 | 7,584,385 |
| Change in due from the Consolidated Revenue Fund | | (82,392) | 50,652 |
| Services provided without charge by other government departments (note 18) | | 80,437 | 80,629 |
| Transfer of the transition payments for implementing salary payments in arrears (note 19) | | (144) | (13,294) |
| Transfer of assets and liabilities to Polar Knowledge Canada (note 20a) | | 146 | 0 |
| Transfer of assets and liabilities from Truth and Reconciliation Commission (note 20b) | | (215) | 0 |
| Net cost of operations after government funding and transfers | | 1,576,687 | 1,076,205 |
| Departmental net financial position – Beginning of year | | (13,771,363) | (12,695,158) |
| Departmental net financial position – End of year | | (15,348,050) | (13,771,363) |

Segmented Information (note 21)

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

INDIGENOUS AND NORTHERN AFFAIRS CANADA
Statement of Change in Departmental Net Debt (Unaudited)
For the Year Ended March 31
(in thousands of dollars)

| | 2016 | 2015 |
|--|-------------------|-------------------|
| Net cost of operations after government funding and transfers | 1,576,687 | 1,076,205 |
| Change due to tangible capital assets | | |
| Acquisition of tangible capital assets (note 15) | 55,076 | 35,852 |
| Amortization of tangible capital assets (note 15) | (10,133) | (8,020) |
| Proceeds from disposal of tangible capital assets | (853) | (2,675) |
| Gain (loss) on disposal of tangible capital assets | 662 | (89) |
| Adjustments to tangible capital assets | (267) | 228 |
| Transfer to Polar Knowledge Canada (note 20a) | 146 | - |
| Total change due to tangible capital assets | 44,631 | 25,296 |
| Change due to land held for future claims settlements (Note 14) | (699) | - |
| Change due to prepaid expenses | (84) | 127 |
| Net increase (decrease) in departmental net debt | 1,620,535 | 1,101,628 |
| Departmental net debt – Beginning of year | 13,904,018 | 12,802,390 |
| Departmental net debt – End of year | 15,524,553 | 13,904,018 |

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

INDIGENOUS AND NORTHERN AFFAIRS CANADA
Statement of Cash Flow (Unaudited)
For the Year Ended March 31
(in thousands of dollars)

| | 2016 | 2015 |
|--|------------------|------------------|
| Operating activities | | |
| Net cost of operations before government funding and transfers | 9,573,200 | 8,778,577 |
| Non-cash items: | | |
| Amortization of tangible capital assets (note 15) | (10,133) | (8,020) |
| Gain on disposal of tangible capital assets | 662 | (89) |
| Adjustments to tangible capital assets | (267) | 228 |
| Services provided without charge by other government departments (note 18) | (80,437) | (80,629) |
| Transition payments for implementing salary payments in arrears (note 19) | 144 | 13,294 |
| Variations in Statement of Financial Position: | | |
| Increase (decrease) in accounts receivable and advances | 15,540 | 660 |
| Increase (decrease) in land held for future claims settlements | (699) | - |
| Increase (decrease) in prepaid expenses | (84) | 127 |
| Decrease (increase) in liabilities | (1,553,683) | (1,152,940) |
| Transfer of assets and liabilities from Truth and Reconciliation Commission (Note 20b) | 215 | - |
| Cash used in operating activities | 7,944,458 | 7,551,208 |
| Capital investing activities | | |
| Acquisitions of tangible capital assets (note 15) | 55,076 | 35,852 |
| Proceeds from disposal of tangible capital assets | (853) | (2,675) |
| Cash used in capital investing activities | 54,223 | 33,177 |
| Net cash provided by Government of Canada | 7,998,681 | 7,584,385 |

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

Notes to the Financial Statements (Unaudited)

INDIGENOUS AND NORTHERN AFFAIRS CANADA Notes to the Financial Statements (Unaudited) For the Year Ended March 31

1. Authority and objectives

The Department, under its legal name the Department of Indian Affairs and Northern Development, was established by the *Government Organization Act, 1966* and continued by the *Department of Indian Affairs and Northern Development Act* (R.S., 1985, c. I-6). It is named in Schedule I of the *Financial Administration Act*. However, the Department is more commonly known by its applied title under the Federal Identity Program as Indigenous and Northern Affairs Canada (INAC).

INAC is the federal government department primarily responsible for meeting the Government of Canada's obligations and commitments to First Nations, Inuit and Métis, and for fulfilling the federal government's constitutional responsibilities in the North. The mandate of INAC is derived largely from the *Department of Indian Affairs and Northern Development Act*, the *Indian Act* and its amendments, as well as numerous other statutes, negotiated agreements and relevant legal decisions.

To deliver on its mandate, INAC has structured its operations along four strategic outcomes and one program as follows:

a) People - Activities within this strategic outcome are dedicated to achieving a Canada where there is strengthened individual, family and community well-being for First Nations and Inuit. These programs are designed to:

- Enable First Nations and Inuit students to achieve levels of education comparable to other Canadians;
- Engage First Nation men, women and children to advance their participation in the labour market and take advantage of available opportunities;
- Fulfill legislative, administrative and treaty obligation for which INAC is responsible; and
- Support a fair resolution to the legacy of Indian Residential Schools.

b) Land and Economy – This strategic outcome supports the full participation of First Nations, Métis, Non-Status Indians and Inuit individuals and communities in the economy. These programs promote:

- Viable Aboriginal businesses and opportunity-ready First Nation and Inuit communities;
- Timely administration of reserve lands and prudent remediation of contaminated sites;
- Infrastructure which protects the health and safety of First Nation communities; and
- Urban Aboriginal People's participation in the economy.

Notes to the Financial Statements (Unaudited)

c) Government - Activities performed under this strategic outcome enable and support good governance and co-operative relationships for First Nations, Inuit and Northerners. These programs are designed to:

- Support transparent and accountable First Nation governments and institutions;
- Build relationships between parties based on trust, respect, understanding, shared responsibilities, accountability, rights and dialogue; and
- Create and maintain ongoing partnerships to support historical and modern treaty structures.

d) North - Through this strategic outcome, INAC promotes self-reliance, prosperity and well-being for the people and communities of the North. These programs are designed to:

- Strengthen northern communities and people;
- Support scientific research and technology in the North; and
- Support the management, sustainable development and regulatory oversight of the Northern resources.

e) Internal Services - Under this program, activities are designed to support the effective delivery of INAC's programs and services and other corporate obligations of the organization. These services include:

- Governance and management support;
- Resource management services; and
- Asset management services.

2. Summary of significant accounting policies

These financial statements have been prepared using the Government's accounting policies stated below, which are based on Canadian public sector accounting standards. 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 – INAC is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to INAC 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 in the 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 Statement of Operations and Departmental Net Financial Position are the amounts reported in the Future-Oriented Statement of Operations included in the *2015-2016 Report on Plans and Priorities*. Planned results are not presented in the "Government funding and transfers" section of the Statement of Operations and Departmental Net Financial Position and in the Statement of Change in Departmental Net Debt because these amounts were not included in the *2015-2016 Report on Plans and Priorities*.

Notes to the Financial Statements (Unaudited)

b) Net cash provided by Government – INAC operates within the Consolidated Revenue Fund, which is administered by the Receiver General for Canada. All cash received by INAC is deposited to the Consolidated Revenue Fund and all cash disbursements made by INAC are paid from the Consolidated Revenue Fund. The net cash provided by Government is the difference between all cash receipts and all cash disbursements, including transactions between departments of the Government.

c) Amounts due from/to the Consolidated Revenue Fund – These amounts are the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the Consolidated Revenue Fund. Amounts due from the Consolidated Revenue Fund represent the net amount of cash that INAC is entitled to draw from the Consolidated Revenue Fund without further authorities to discharge its liabilities.

d) Revenues – 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 that gave rise to the revenue takes place. Revenues that are non-respendable are not available to discharge INAC's liabilities. The Deputy Minister is expected to maintain accounting control regarding non-respendable revenues but has no authority over their disposition. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and therefore presented in reduction of INAC's gross revenues.

e) Expenses – Expenses are recorded on the 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.
- 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, the employer's contribution to the health and dental insurance plans, legal services, and workers' compensation are recorded as operating expenses at their estimated cost.

f) Employee future benefits

- Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multiemployer pension plan administered by the Government. INAC's contributions to the plan are charged to expenses in the year incurred and represent the total departmental obligation to the plan. INAC'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 Financial Statements (Unaudited)

- Severance benefits: Employees entitled to severance benefits under labour contracts or conditions of employment earn these benefits as services necessary to earn them are rendered. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

g) Accounts receivable – Accounts receivable are stated at the lower of cost and net recoverable value; a valuation allowance is recorded for accounts receivables where recovery is considered uncertain.

The amount of the allowance is determined based on an assessment of each account. The collectability of each account is reviewed by regional accounting offices on a semi-annual basis using a standard set of criteria to assess default risk.

h) Loans receivable – Loans receivable are stated at the lower of cost and net recoverable value; a valuation allowance is recorded for loans receivable where recovery is considered uncertain.

The amount of the allowance is determined based on an assessment of each loan. The collectability of each loan is reviewed by program managers on an annual basis using a standard set of criteria to assess default risk.

Interest on loans receivable is calculated in accordance with the terms and conditions of each individual program. Interest is not accrued on loans approved for write-off or forgiveness.

i) Contingent liabilities – Contingent liabilities are potential liabilities that 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.

j) Environmental liabilities – Environmental liabilities consist of estimated costs related to the remediation of 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, the government is directly responsible or accepts responsibility, it is expected that future economic benefits will be given up and a reasonable estimate of the amount can be made. The liability reflects the Government's best estimate of the amount required to remediate the sites to the current minimum standard for its use prior to contamination. When the cash flows required to settle or otherwise extinguish a liability are expected to occur over extended future periods, a present value technique is used. The discount rate applied is taken from the government's Consolidated Revenue Fund monthly lending rates for periods of one year and over. The discount rates used are based on the term rate associated with the estimated number of years to complete remediation. For remediation costs with estimated future cash flows spanning more than 25 years, the 25-year Government of Canada lending rate is used as the discount rate.

Notes to the Financial Statements (Unaudited)

k) 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. INAC does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, assets located on Indian Reserves or museum collections.

Capital assets which are held for future contribution to First Nations are reported as land held for future claims settlements.

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

| Asset Class | Amortization Period |
|-----------------------------------|---|
| Buildings | 20 or 40 years |
| Works and infrastructure | 30 years |
| Machinery and equipment | 5, 10 or 15 years |
| Informatics hardware and software | 3 or 5 years |
| Ships and boats | 10 years |
| Motor vehicles | 5 or 10 years |
| Other vehicles | 5 years |
| Leasehold improvements | Lesser of the remaining term of lease or useful life of the improvement |

l) Measurement uncertainty – The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, environmental liabilities, the liability for employee future benefits, the allowance for doubtful accounts and the useful life of tangible capital assets. Actual results could differ significantly from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

Notes to the Financial Statements (Unaudited)

3. Parliamentary authorities

INAC receives most of its funding through annual parliamentary authorities. Items recognized in the Statement of Operations and Departmental Net Financial Position and the Statement of Financial Position in one year may be funded through parliamentary authorities in prior, current or future years. Accordingly, INAC 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

| | 2016 | 2015 |
|--|---------------------------|--------------------|
| | (in thousands of dollars) | |
| Net cost of operations before government funding and transfers | 9,573,200 | 8,778,577 |
| Adjustments for items affecting net cost of operations but not affecting authorities: | | |
| Amortization of tangible capital assets | (10,133) | (8,020) |
| Gain (loss) on disposal of tangible capital assets | 662 | (89) |
| Transfer of land held for future claims settlements | (699) | - |
| Services provided without charge by other government departments | (80,437) | (80,629) |
| Bad debt expense (not incurred on behalf of government) | (761) | (7,237) |
| Decrease (increase) in vacation pay and compensatory leave | 37 | 1,048 |
| Decrease (increase) in liability for settled claims | 53,737 | 74,501 |
| Decrease (increase) in provision for claims and litigation | (913,331) | (880,011) |
| Decrease (increase) in environmental liabilities | (764,664) | (297,360) |
| Decrease (increase) in employee future benefits | 1,630 | (4,576) |
| Decrease (increase) in accrued liabilities not charged to authorities | (14,314) | 336 |
| Increase (decrease) in prepaid expenses | (84) | 127 |
| Refunds/adjustments to prior years' expenditures | 54,051 | 67,549 |
| Other | 1,197 | (1,906) |
| Total items affecting net cost of operations but not affecting authorities | (1,673,109) | (1,136,267) |
| Adjustments for items not affecting net cost of operations but affecting authorities: | | |
| Acquisition of tangible capital assets | 55,076 | 35,852 |
| Transition payments for implementing salary payments in arrears | 144 | 13,294 |
| Other | (16) | 197 |
| Total items not affecting net cost of operations but affecting authorities | 55,204 | 49,343 |
| Current year authorities used | 7,955,295 | 7,691,653 |

Notes to the Financial Statements (Unaudited)

b) Authorities provided and used

| | <u>2016</u> | <u>2015</u> |
|--|---------------------------|--------------------|
| | (in thousands of dollars) | |
| Authorities provided: | | |
| Vote 1 – Operating expenditures | 1,486,190 | 1,401,102 |
| Vote 5 – Capital expenditures | 57,703 | 46,442 |
| Vote 10 – Grants and contributions | 7,165,401 | 7,057,149 |
| Statutory amounts | 181,607 | 225,904 |
| Total authorities provided | 8,890,901 | 8,730,597 |
| Less: | | |
| Authorities available for future years | (33,344) | (34,689) |
| Authorities lapsed: | | |
| Vote 1 – Operating expenditures | (221,966) | (259,694) |
| Vote 5 – Capital expenditures | (568) | (7,411) |
| Vote 10 – Grants and contributions | (679,105) | (737,150) |
| Statutory amounts | (623) | - |
| Total authorities lapsed | (902,262) | (1,004,255) |
| Total authorities lapsed and available for future years | (935,606) | (1,038,944) |
| Current year authorities used | 7,955,295 | 7,691,653 |

In addition to the amount for authorities available for future years presented above, most of the lapsed amounts may become available to INAC in the 2017 fiscal year, but due to the timing of parliamentary approvals, these amounts had not been approved at March 31, 2016. Therefore, there will be a significant difference between the total authorities lapsed at March 31, 2016 and what ends up being the net lapse once Parliament approves what funds will be moved to future years.

Additional information on the use of authorities, including explanation of variances and lapsed amounts, can be found in INAC's *Departmental Performance Report*.

Notes to the Financial Statements (Unaudited)

4. Accounts payable and accrued liabilities

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

| | <u>2016</u> | <u>2015</u> |
|--|---------------------------|----------------|
| | (in thousands of dollars) | |
| Accounts payable – Other government departments and agencies | 17,842 | 26,671 |
| Accounts payable – External parties | 246,119 | 164,648 |
| Total accounts payable | 263,961 | 191,319 |
| Accrued liabilities | 490,902 | 497,020 |
| Total accounts payable and accrued liabilities | 754,863 | 688,339 |

5. Other liabilities

The following table presents details of other liabilities:

| (in thousands of dollars) | <u>2016</u> | | | | | <u>2015</u> |
|----------------------------------|-----------------|----------------|--------------|------------------|-----------------|-----------------|
| | Opening Balance | Receipts | Interest | Disbursements | Closing Balance | Closing Balance |
| Cash guarantee deposits | 17,262 | 217 | - | (482) | 16,997 | 17,262 |
| Other specified purpose accounts | 53,344 | 285,704 | 1,017 | (296,604) | 43,461 | 53,344 |
| Total | 70,606 | 285,921 | 1,017 | (297,086) | 60,458 | 70,606 |

Cash guarantee deposits

In fulfilling its duties under various acts that govern the use of federal Crown land, including land use activities, water resources, and water rights, INAC may issue licences, permits, and other instruments to individuals and organizations that propose to undertake resource exploration and other types of development projects.

In accordance with the terms and conditions of the instrument, INAC may require security deposits to ensure the lands and waters are returned in a condition acceptable to INAC. These guarantee deposits are received in the form of cash and are deposited to and held in the Consolidated Revenue Fund.

Notes to the Financial Statements (Unaudited)

Other specified purpose accounts

These accounts are established to receive, hold and disburse monies in accordance with relevant statutes, departmental policies and agreements. The most significant of these accounts is the Indian Moneys Suspense Account. This statutory account was established to hold moneys received for individual Indians and bands pending execution of the related lease, permit or licence, settlement of litigation, registration of the Indian or identification of the recipient, and for Indian locatees pursuant to land tenure instruments issued by INAC. These moneys are eventually disbursed to individual Indians, credited to Band Fund or Individual Trust Fund accounts, or returned to payers, as appropriate.

6. Trust accounts

The following table shows INAC's financial obligations in its role as administrator of trust accounts for Indian moneys:

(in thousands of dollars)

| | 2016 | | | | | 2015 |
|-----------------------------|-----------------|----------------|---------------|------------------|-----------------|-----------------|
| | Opening Balance | Receipts | Interest | Disbursements | Closing Balance | Closing Balance |
| Indian band funds | 834,697 | 386,333 | 17,531 | (528,267) | 710,294 | 834,697 |
| Indian savings accounts | 32,659 | 1,144 | 617 | (3,720) | 30,700 | 32,659 |
| Indian estate accounts | 24,898 | 6,072 | 362 | (5,516) | 25,816 | 24,898 |
| Total trust accounts | 892,254 | 393,549 | 18,510 | (537,503) | 766,810 | 892,254 |

Indian Moneys

In accordance with the *Indian Act*, INAC has responsibility to administer Indian moneys of bands and certain individual Indians, including minors, dependant adults and deceased Indians.

Moneys collected or received for the use and benefit of these groups are deposited to the Consolidated Revenue Fund. Pursuant to Section 61(2) of the *Indian Act*, interest on Indian moneys held in the Consolidated Revenue Fund is allowed at a rate fixed from time to time by the Governor-in-Council. Interest accumulated in the accounts is compounded semi-annually.

There are three categories of Indian moneys administered by INAC: Indian band funds, Indian savings accounts, and Indian estate accounts.

Notes to the Financial Statements (Unaudited)

Indian Band Funds

These accounts were established to record moneys belonging to Indian bands throughout Canada pursuant to sections 61 to 69 of the *Indian Act*.

Indian Moneys of the bands are classified as either capital moneys or revenue moneys. Capital moneys of the band include all moneys derived from the sale of surrendered lands or the sale of band capital assets. Moneys from the sale of surrendered lands can include land sales, timber sales, oil and gas royalties, and sale of gravel. Revenue moneys are all moneys not classified as capital moneys.

Moneys are generally disbursed from these accounts pursuant to an authorized request from a band.

Indian Savings Accounts

These accounts were established to record moneys belonging to certain individual Indians pursuant to sections 52 and 52.1 to 52.5 of the *Indian Act*.

Sources of moneys include inheritances and per capita distribution of band funds. Moneys are generally disbursed from these accounts pursuant to an authorized request from an individual and upon reaching the age of majority.

Indian Estate Accounts

These accounts were established to record moneys belonging to dependant adults (referred to as mentally incompetent individuals in the *Indian Act*) and deceased Indians pursuant to sections 42 to 51 of the *Indian Act*.

Sources of moneys belonging to dependant adults include insurance proceeds, per capita distribution of band funds, and federal and provincial payments. Payments are made from these accounts for the maintenance and care of the individuals.

Estate accounts for deceased Indians include the proceeds of their liquidated assets that are held pending the settlement of the estate. The closing of the account usually corresponds with the final distribution to their heirs.

Notes to the Financial Statements (Unaudited)

7. Settled claims

The liability for settled claims represents INAC's financial obligation pursuant to agreements related to comprehensive land claims and specific claims.

Comprehensive land claims are negotiated in areas where Aboriginal title has not been dealt with by treaty or by other legal methods. In such cases, the claim is based on an Aboriginal group's traditional use and occupancy of that land. Comprehensive land claim settlements result in agreement on special rights Aboriginal peoples will have in the future with respect to lands and resources.

Specific claims address past grievances arising out of non-fulfilment of Indian treaties and other lawful obligations, the improper administration of lands and other assets under the *Indian Act*, or formal agreements that are being pursued through negotiations.

An act of Parliament, based on a negotiated agreement, establishes the authority for INAC to make claim payments. The interest rate attached to these claim payments is set out in the act, along with a claim payment schedule. Claim payments are generally made over a number of years.

At March 31, 2016, INAC had 9 outstanding settled claims (10 in 2015). Payments totalled \$57,412,000 in 2016 (\$87,409,000 in 2015).

The present value of the liability for outstanding settled claims, calculated using the appropriate Consolidated Revenue Fund Monthly Lending Rate as published by the Department of Finance, at March 31, 2016 is \$228,117,000 (\$281,854,000 in 2015).

Future scheduled claim payments are as follows:

(in thousands of dollars)

| | 2017 | 2018 | 2019 | 2020 | 2021 and thereafter | Total |
|--------------------|-------------|-------------|-------------|-------------|--------------------------------|----------------|
| Scheduled payments | 57,000 | 58,000 | 51,000 | 51,000 | 16,000 | 233,000 |

Notes to the Financial Statements (Unaudited)

8. Contingent liabilities

Contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. They are classified into two categories: claims and litigation and loan guarantees.

Claims and litigation

Claims and pending or threatened litigation cases outstanding against INAC are potential liabilities that 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.

There are four significant types of claims faced by INAC: comprehensive land claims, specific claims, general litigation claims, and claims arising from the legacy of Indian residential schools¹.

Comprehensive land claims arise in areas of the country where Aboriginal rights and title have not been resolved by treaty or by other legal means. There are currently 76 (79 in 2015) comprehensive land claims under negotiation, accepted for negotiation or under review.

Specific claims deal with the past grievances of First Nations related to Canada's obligations under historic treaties or the way it managed First Nations' funds or other assets. The Government of Canada will pursue a settlement agreement with the First Nation when a claim demonstrates an outstanding lawful obligation. There are currently 503 (461 in 2015) specific claims under negotiation, accepted for negotiation or under review.

There are legal proceedings for 566 (554 in 2015) general litigation claims being pursued through the courts still pending at March 31, 2016. There are also thousands of claims being managed through INAC with respect to the legacy of Indian residential schools, including class action claims, as well as claims submitted under its Alternative Dispute Resolution process and its Independent Assessment Process.

INAC has recorded a provision of \$11,549,179,000 (\$10,635,848,000 in 2015) as an estimate of the likely liability that will result from the above claims. This estimate includes projections based on historical rates and costs of settlement of similar claims. Exposure to liability in excess of the amount accrued is \$95,896,000 (\$15,344,000 in 2015) and an additional amount of \$4,871,560,000 (\$4,688,785,000 in 2015) is considered uncertain as the probability of the occurrence or non-occurrence of the future event confirming that a liability existed at the financial statements date cannot be determined.

¹ Depending on its type, a claim may be resolved with a transfer payment or an operating expenditure. As a result, the year-over-year change in the provision is allocated between transfer payment expenses and operating expenses, as shown in note 21 – Segmented information.

Notes to the Financial Statements (Unaudited)

Loan guarantees

(in thousands of dollars)

| | Authorized Limit | Loan Guarantees | | Provision for Losses | |
|---|------------------|------------------|------------------|----------------------|--------------|
| | | 2016 | 2015 | 2016 | 2015 |
| On-Reserve Housing Guarantee program | 2,200,000 | 1,782,727 | 1,715,281 | 1,490 | 1,330 |
| Indian Economic Development Guarantee program | 60,000 | 928 | 928 | 75 | 75 |
| Total | 2,260,000 | 1,783,655 | 1,716,209 | 1,565 | 1,405 |

INAC issues loan guarantees under two programs: On-Reserve Housing Guarantee program and Indian Economic Development Guarantee program.

On-Reserve Housing Guarantee Program

This program authorizes INAC to guarantee loans to individuals and Indian bands to assist in the purchase of housing on reserves because security restrictions in the Indian Act prevent the mortgage and seizure of property located on reserves. These loan guarantees enable status Indians residing on reserves, Band councils, or their delegated authorities, to secure housing loans without giving the lending institution rights to the property. The authorized limit is \$2.2 billion.

Indian Economic Development Guarantee Program

This program authorizes INAC to guarantee loans for non-incorporated Indian businesses on a risk-sharing basis with commercial lenders because security restrictions in the Indian Act prevent the mortgage and seizure of property located on reserves. Guarantees are provided for various types of borrowers whose activities contribute to the economic development of Indians and enable them to develop long-term credit relationships with mainstream financial institutions. The authorized limit is \$60 million.

Provision for losses

A provision for losses on loan guarantees is recorded when it is likely that a payment will be made in the future to honour a guarantee and when the amount of the loss can be reasonably estimated. The provision is determined by applying the weighted average historical percentage of default to total outstanding loan guarantees, less expected recoveries. The provision is reviewed on at least an annual basis with any changes being charged or credited to current year expenses.

Notes to the Financial Statements (Unaudited)

9. Environmental Liabilities

Remediation of contaminated sites

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

INAC has identified a total of 2,362 sites (2,473 sites in 2015) where contamination may exist and assessment, remediation and monitoring may be required. Of these, INAC has assessed 1,079 sites (815 sites in 2015) where action is possible and for which a liability of \$3,577,825,000 (\$3,017,667,000 in 2015) has been recorded. This liability estimate has been determined after the sites are assessed and is based on scientific/engineering contractors reviewing the results of site assessments, and proposing possible remediation solutions.

In 2016, a statistical model was developed to estimate the liability for unassessed sites based on historical costs incurred for contaminated sites with similar functions. As a result, there are 991 unassessed sites where a liability estimate of \$217,867,000 has been recorded prospectively in 2016. These estimates will be refined in future years as sites are assessed and costs are revised.

These two estimates combined represents management’s best estimate of the amount required to complete the remediation of the sites to the current minimum standard for its use prior to contamination, based on information available at the financial statement date. A net present value technique has been used for sites where the cash flows are expected to occur over extended future periods.

Of the remaining 292 sites, 275 sites were closed, as they were merged with another site, or remediated, or assessed but found not to be contaminated. 17 sites are not considered a priority for action because information indicates there is likely no significant environmental impact or human health threats and there is likely no need for action unless new information becomes available indicating greater concerns, in which case, the site will be re-examined.

The following table presents the total estimated amounts of these liabilities by nature and source, the associated expected recoveries and the total undiscounted future expenditures as at March 31, 2016, and March 31, 2015. When the liability estimate is based on a future cash requirement, the amount is adjusted for inflation using a forecast CPI rate of 2%. Inflation is included in the undiscounted amount. The Government of Canada lending rate applicable to loans with similar terms to maturity has been used to discount the estimated future expenditures. The March 2016 rates range from 0.62% for a 2 year term to 2.13% for a 25 or greater year term.

Notes to the Financial Statements (Unaudited)

(in thousands of dollars)

| NATURE & SOURCE OF LIABILITY | | | | | | | | |
|--|----------------------------|--------------------------|--|---------------------------|----------------------------|--------------------------|--|---------------------------|
| Nature & Source | Total Number of Sites 2016 | Estimated Liability 2016 | Estimated Total Undiscounted Expenditures 2016 | Estimated Recoveries 2016 | Total Number of Sites 2015 | Estimated Liability 2015 | Estimated Total Undiscounted Expenditures 2015 | Estimated Recoveries 2015 |
| Radioactive Material ¹ | 1 | 6,326 | - | - | 1 | 7,852 | 76 | - |
| Former Mineral Exploration Sites ² | 93 | 3,081,242 | 127,376 | 30,681 | 92 | 2,491,912 | 135,852 | 17,321 |
| Military & Former Military Sites ³ | 50 | 152,790 | 9,441 | - | 50 | 167,030 | 23,351 | - |
| Fuel Related Practices ⁴ | 1,054 | 254,858 | 18,242 | - | 1,103 | 227,202 | 17,303 | - |
| Land Fill/ Waste Sites ⁵ | 766 | 179,116 | 903 | - | 788 | 65,863 | 5,417 | - |
| Land Fill/Waste Sites (Yukon Devolution) ⁵ | 1 | 10,198 | 984 | - | 1 | 11,182 | 813 | - |
| Engineering Assets/ Air and Land Transportation ⁶ | 10 | 1,283 | - | - | 16 | 1,524 | - | - |
| Marine Facilities / Aquatic Sites ⁷ | 2 | 250 | - | - | 2 | 245 | - | - |
| Office/ Commercial/ Industrial Operations ⁸ | 67 | 46,751 | 272 | - | 45 | 17,510 | 261 | - |
| Others ⁹ | 43 | 62,877 | 4,750 | - | 40 | 27,347 | 1,835 | - |
| Totals | 2,087 | 3,795,691 | 161,968 | 30,681 | 2,138 | 3,017,667 | 184,908 | 17,321 |
| Less Estimated Recoveries | | | <u>(30,681)</u> | | | <u>(17,321)</u> | | |
| Net Environmental Liability | | | <u>3,765,010</u> | | | <u>3,000,346</u> | | |

¹ Contamination associated with former nuclear operations, e.g. low-level radioactive waste, radioactive isotopes.

² Contamination associated with former mine activities, e.g. heavy metals, petroleum hydrocarbons, etc. Sites often have multiple sources of contamination.

³ Contamination associated with the operations of military and former military sites where activities such as fuel handling and storage activities, waste sites, metals/PCB-based paint used on buildings resulted in former or accidental contamination, e.g. petroleum hydrocarbons, PCBs, heavy metals. Sites often have multiple sources of contamination.

⁴ 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 hydrocarbon, polyromantic hydrocarbons and BTEX.

⁵ Contamination associated with former landfill/waste site or leaching from materials deposited in the landfill/waste site, e.g. metals, petroleum hydrocarbons, polyromantic hydrocarbons, BTEX, other organic contaminants, etc.

⁶ Contamination associated with the operations of engineered assets such as airports, railways and roads where activities such as, fuel storage/handling, waste sites, firefighting training facilities and chemical storage areas resulted in former or accidental contamination, e.g. metals, petroleum hydrocarbons, polyromantic hydrocarbons, BTEX and other organic contaminants. Sites often have multiple sources of contamination.

⁷ Contamination associated with the operations of marine assets, e.g., port facilities, harbours, navigation systems, light stations, hydrometric stations, where activities such as fuel storage/handling, use of metal based paint (e.g., on light stations) resulted in former or accidental contamination, e.g. metals, petroleum hydrocarbons, polyromantic hydrocarbons and other organic contaminants. Sites often have multiple sources of contamination.

⁸ Contamination associated with operations of the office/commercial/industrial facilities where activities such as fuel storage/handling, waste sites and use of metal based paint resulted in former or accidental contamination, e.g. metals, petroleum hydrocarbons, polyromantic hydrocarbons, BTEX, etc. Sites often have multiple sources of contamination.

⁹ 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.

Notes to the Financial Statements (Unaudited)

10. Employee future benefits

a) Pension benefits

INAC's 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 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 are indexed to inflation.

Both the employees and INAC contribute to the cost of the Public Service Pension Plan. Due to the amendment of the *Public Service Superannuation Act* following the implementation of provisions related to the *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 Public Service Pension Plan as of January 1, 2013. Each group has a distinct contribution rate.

For the year ended March 31, 2016, the expense amounts to \$38,754,000 (\$41,514,000 in 2015). For Group 1 members, the expense represents approximately 1.3 times (1.4 times in 2015) the employee contributions and, for Group 2 members, approximately 1.2 times (1.4 times in 2015) the employee contributions.

INAC'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.

b) Severance benefits

INAC provides severance benefits to its employees based on eligibility, years of service and salary at termination of employment. 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 and certain non-represented employees, 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 calculation of the outstanding severance benefit obligation.

Information about the severance benefits, measured as at March 31, is as follows:

| | <u>2016</u> | <u>2015</u> |
|--|---------------------------|----------------------|
| | (in thousands of dollars) | |
| Accrued benefit obligation- Beginning of year | 25,586 | 21,010 |
| Expense for the year | 2,738 | 12,036 |
| Benefits paid during the year | <u>(4,368)</u> | <u>(7,460)</u> |
| Accrued benefit obligation- End of year | <u>23,956</u> | <u>25,586</u> |

Notes to the Financial Statements (Unaudited)

11. Accounts receivable and advances

The following table presents details of INAC's accounts receivables and advances:

| | <u>2016</u> | <u>2015</u> |
|--|---------------------------|---------------|
| | (in thousands of dollars) | |
| Receivables – Other government departments and agencies | 12,730 | 12,971 |
| Receivables – External parties | 94,724 | 77,203 |
| Advances to employees and other | 763 | 1,742 |
| Gross accounts receivable and advances | 108,217 | 91,916 |
| Less: | | |
| Allowance for doubtful accounts on receivables from external parties | (23,356) | (22,595) |
| Net accounts receivable and advances | 84,861 | 69,321 |

12. Interest receivable

The following table presents details of accrued interest receivable on loans:

| | <u>2016</u> | <u>2015</u> |
|---|---------------------------|--------------|
| | (in thousands of dollars) | |
| Direct loans | 977 | 1,312 |
| Defaulted guaranteed loans | 3,892 | 2,653 |
| Gross interest receivable | 4,869 | 3,965 |
| Less: | | |
| Allowance for doubtful accounts | (4,178) | (2,503) |
| Net interest receivable (held on behalf of Government) | 691 | 1,462 |

Notes to the Financial Statements (Unaudited)

13. Loans receivable

The following table presents details of loans receivable:

| | <u>2016</u> | <u>2015</u> |
|---|---------------------------|----------------|
| | (in thousands of dollars) | |
| Direct loans portfolio: | | |
| Native claimants | 457,406 | 447,126 |
| First Nations in British Columbia | 522,781 | 505,896 |
| Other direct loans | 504 | 504 |
| Subtotal: Direct loans portfolio | 980,691 | 953,526 |
| Add: Capitalized interest | 4,837 | 4,545 |
| Less: Allowance for doubtful loans | (119,007) | (109,856) |
| Net recoverable value: Direct loans portfolio | 866,521 | 848,215 |
| Defaulted guaranteed loans portfolio: | | |
| On-reserve housing guarantees | 10,958 | 9,263 |
| Indian economic development guarantees | 422 | 422 |
| Other defaulted guaranteed loans | 104 | 104 |
| Subtotal: Defaulted guaranteed loans portfolio | 11,484 | 9,789 |
| Add: Capitalized interest | 24,598 | 24,221 |
| Less: Allowance for doubtful loans | (29,020) | (23,969) |
| Net recoverable value: Defaulted guaranteed loans portfolio | 7,062 | 10,041 |
| Loans receivable, net recoverable value (held on behalf of Government) | 873,583 | 858,256 |

Direct loans portfolio

The objective of direct loans is to support active participation by First Nations and First Nations organizations and to promote a balanced exchange of ideas in negotiating the settlement of comprehensive land claims, specific claims, and treaties.

INAC's direct loans portfolio has two active programs in support of this objective.

Notes to the Financial Statements (Unaudited)

Native claimants

These are loans made to Native claimants to defray the costs related to the research, development and negotiation of comprehensive land claims and specific claims.

The significant terms and conditions of loans to Native claimants are as follows:

- Loans made before an agreement-in-principle for the settlement of a claim is reached are non-interest bearing;
- Loans made after the date on which an agreement-in-principle has been reached, bear interest at a rate equal to the rate established by the Minister of Finance in respect of borrowings for equivalent terms by Crown corporations;
- Loans are due and payable, as to principal and interest, on the date on which the claim is settled, or on a date fixed in the loan agreement;
- Loans may be restructured, including forgiveness of a portion of the principal or interest in arrears, when the borrower cannot meet the term of the original loan agreement; and
- INAC may seek security for loans when deemed appropriate.

When an agreement-in-principle is reached for the settlement of a claim, any accrued interest receivable is capitalized semi-annually as part of the principal amount owing on the loan. After a final agreement is reached, any accrued interest receivable outstanding is capitalized annually as part of the principal amount owing on the loan.

The interest bearing and non-interest bearing portions of direct loans for Native claimants outstanding at March 31 are as follows:

| | <u>2016</u> | <u>2015</u> |
|----------------------|---------------------------|-----------------------|
| | (in thousands of dollars) | |
| Interest bearing | 60,001 | 65,068 |
| Non-interest bearing | 397,405 | 382,058 |
| Total | <u>457,406</u> | <u>447,126</u> |

First Nations in British Columbia

These are loans made to First Nations in British Columbia to support their participation in the British Columbia Treaty Commission and to defray the costs related to the research, development and negotiation of treaties.

The significant terms and conditions of direct loans to First Nations in British Columbia are the same as those for loans to Native claimants, except as follows:

Notes to the Financial Statements (Unaudited)

- Loans made between April 1, 2004 and March 31, 2016, and after the date on which an agreement-in-principle for the settlement of a treaty has been reached shall be non-interest bearing unless the loans become due and payable during this period.

The interest bearing and non-interest bearing portions of direct loans for First Nations in British Columbia outstanding at March 31 are as follows:

| | <u>2016</u> | <u>2015</u> |
|----------------------|---------------------------|-----------------------|
| | (in thousands of dollars) | |
| Interest bearing | 14,583 | 16,426 |
| Non-interest bearing | 508,198 | 489,470 |
| Total | <u>522,781</u> | <u>505,896</u> |

Other direct loans

INAC also has various legacy programs that are no longer active. These legacy programs will continue to operate under their existing arrangements until the land claims are settled, at which point the loans will become repayable and the respective programs closed.

All loans outstanding at year-end under the various legacy programs both for the current and prior year are interest bearing.

Defaulted guaranteed loans portfolio

The objective of loan guarantees is to encourage lending institutions to make loans for properties located on First Nations lands and to support access to credit markets for First Nations and First Nations organizations. Since properties located on First Nations lands cannot be used as collateral to secure the loans and lending institutions are prevented from foreclosing on these properties in the event of borrower default as prescribed by the *Indian Act*, lending institutions can be exposed to greater business risk in issuing loans for properties located on First Nations lands.

As guarantor, loan guarantees issued under the various programs may become receivables of the Department when, at the request of a lending institution, INAC is required to honour these loan guarantees. As a result, INAC makes payment to the lending institution and establishes a receivable from the First Nation or First Nation organization.

INAC has access to an annual \$2 million statutory authority for funding payments to lending institutions to honour loan guarantees. Payments made in excess of the \$2 million authority limit are charged to program expenses and funded by budgetary authorities.

There were five loan defaults in 2016 (2 in 2015) which resulted in a charge of \$2,155,491 to INAC's reserve for payments to cover defaults (\$90,000 in 2015).

Notes to the Financial Statements (Unaudited)

The significant terms and conditions of the two loan guarantee programs are as follows:

On-Reserve Housing Guarantee program

Payments of principal and interest for loans issued under this program are amortized over a period of 25 years. The interest rates on the guaranteed loans are consistent with conventional mortgage interest rates offered by the major banks. On a semi-annual basis, any accrued interest receivable outstanding is capitalized as part of the principal amount owing on the loan.

- To control the occurrence of defaulted loans in this program, the Department restricts the eligibility of recipients for further loans until such time as a recovery plan has been reached and has been in operation in accordance with its terms and conditions for a period of six months.

Indian Economic Development Guarantee program

- Loans issued under this program cannot exceed a term of 15 years and the line of credit must be renewed every year. Interest rates on guaranteed loans are consistent with rates provided by lending institutions to commercial businesses, which are usually based on a spread from the prime lending rate. Accrued interest on loans issued under this program is not capitalized. Any security pledged for a guaranteed loan may not be released by the lending institution without the prior approval of the Minister of INAC.

Other defaulted guaranteed loans

INAC also has a legacy program that is no longer active. This legacy program will continue to operate under its existing arrangements until the defaulted guaranteed loans are paid and the program closed.

14. Land held for future claims settlements

Land held for future claims settlements is segregated from other tangible capital assets as these assets are not acquired with the intention of being used on a continuous basis in government operations. Rather, these assets are properties acquired and held by INAC for the purpose of future settlements of Aboriginal land claims. Following the ratification of a negotiated agreement, these assets are transferred to the Aboriginal group.

Notes to the Financial Statements (Unaudited)

Changes in this account are summarized in the following table:

(in thousands of dollars)

| | 2016 | | | | 2015 |
|---|-----------------|--------------|-------------|-----------|-----------------|
| | Opening Balance | Acquisitions | Adjustments | Transfers | Closing Balance |
| Land held for future claims settlements | 39,546 | - | (699) | - | 38,847 |
| | | | | | 39,546 |

Notes to the Financial Statements (Unaudited)

15. Tangible capital assets

(in thousands of dollars)

| 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 | 2016 | 2015 |
| Land | 1,349 | - | - | - | 1,349 | - | - | - | - | - | 1,349 | 1,349 |
| Buildings | 13,606 | - | 25 | - | 13,631 | 6,584 | 341 | - | - | 6,925 | 6,706 | 7,022 |
| Works and infrastructure | 1,409 | - | - | - | 1,409 | 1,409 | - | - | - | 1,409 | - | - |
| Machinery and equipment | 9,033 | 791 | (23) | (603) | 9,198 | 6,894 | 658 | (2) | (426) | 7,124 | 2,074 | 2,139 |
| Informatics hardware | 14,416 | - | - | (11,710) | 2,706 | 14,370 | 29 | - | (11,710) | 2,689 | 17 | 46 |
| Informatics software | 66,914 | - | 8,927 | - | 75,841 | 34,470 | 7,761 | - | - | 42,231 | 33,610 | 32,444 |
| Ships and boats | 37 | - | (23) | - | 14 | 15 | - | (1) | - | 14 | - | 22 |
| Motor vehicles | 2,582 | 373 | (59) | (268) | 2,628 | 1,787 | 297 | 23 | (255) | 1,852 | 776 | 795 |
| Other vehicles | 583 | 12 | (23) | (14) | 558 | 548 | 6 | (2) | (13) | 539 | 19 | 35 |
| Leasehold improvements | 5,760 | - | - | - | 5,760 | 2,177 | 1,041 | - | - | 3,218 | 2,542 | 3,583 |
| Assets under construction | 45,523 | 53,900 | (8,927) | - | 90,496 | - | - | - | - | - | 90,496 | 45,523 |
| Total | 161,212 | 55,076 | (103) | (12,595) | 203,590 | 68,254 | 10,133 | 18 | (12,404) | 66,001 | 137,589 | 92,958 |

(1) Adjustments include assets under construction of \$8,927,000 that were transferred to the other categories upon completion of the assets. During the fiscal year, the Department transferred vehicles and machinery and equipment with a net book value of \$146,000 to Polar Knowledge Canada; and the Department received motor vehicles with a net book value of \$1 from Environment Canada. Net adjustment of \$25,000 is as a result of asset reclassification which was completed during the fiscal year.

Notes to the Financial Statements (*Unaudited*)

16. Departmental net financial position

A portion of INAC's net financial position is restricted to be used for a specific purpose. Related revenues and expenses are included in the Statement of Operations and Departmental Net Financial Position.

The Environmental Studies Research Fund account was established pursuant to the *Canada Petroleum Resources Act* and related regulations to record levies stipulated under the Act. The balance of the account is to be used to finance environmental and social studies pertaining to the manner in which, and the terms and conditions under which, exploration, development and production activities on frontier lands authorized under this Act or any other Act of Parliament should be conducted.

The Bowater Environmental Remediation Fund account was established pursuant to a decision of the Commercial Division of the Superior Court in the Province of Quebec. The balance in the account is to be used to finance the remediation of environmental damage caused by Bowater Canadian Forest Products Inc. relative to a land lease issued by INAC.

The balance of the funds at the end of the year is included in Departmental Net Financial Position. Activity in the accounts is as follows:

| | <u>2016</u> | <u>2015</u> |
|--|---------------------------|---------------------|
| | (in thousands of dollars) | |
| Environmental Studies Research Fund – Restricted | | |
| Balance – Beginning of year – Restricted | 1,323 | 3,555 |
| Revenues | 1,110 | 1,323 |
| Expenses | (1,323) | (3,555) |
| Balance – End of year - Restricted | 1,110 | 1,323 |
| Bowater Environmental Remediation Fund – Restricted | | |
| Balance – Beginning of year - Restricted | 2,127 | 2,238 |
| Expenses | (28) | (111) |
| Balance – End of year - Restricted | 2,099 | 2,127 |
| Total restricted | 3,209 | 3,450 |
| Unrestricted | (15,351,259) | (13,774,813) |
| Departmental net financial position – End of year | (15,348,050) | (13,771,363) |

Notes to the Financial Statements (*Unaudited*)

17. Contractual obligations

The nature of INAC's activities can result in some multi-year contracts and obligations whereby INAC will be obligated to make future payments in order to carry out its transfer payment programs or when the goods or services are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

(in thousands of dollars)

| | 2017 | 2018 | 2019 | 2020 | 2021 and thereafter | Total |
|-------------------|-----------|-----------|-----------|-----------|---------------------|-------------------|
| Transfer payments | 4,680,789 | 3,152,155 | 2,329,259 | 1,192,794 | 884,141 | 12,239,138 |

18. Related party transactions

INAC is related as a result of common ownership to all Government departments, agencies, and Crown corporations. INAC enters into transactions with these entities in the normal course of business and on normal trade terms. In addition, INAC has agreements with the Canadian Northern Economic Development Agency, Health Canada and the Public Health Agency of Canada related to the provision of finance and administrative services. During the year, INAC 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, INAC received services without charge from certain common service organizations related to accommodation, the employer's contribution to the health and dental insurance plans, legal services and workers' compensation coverage. These services provided without charge have been recorded in INAC's Statement of Operations and Departmental Net Financial Position as follows:

| | 2016 | 2015 |
|--|---------------------------|---------------|
| | (in thousands of dollars) | |
| Accommodation | 36,217 | 37,570 |
| Employer's contribution to the health and dental insurance plans | 32,110 | 31,757 |
| Legal services | 11,734 | 10,942 |
| Workers' compensation | 376 | 360 |
| Total | 80,437 | 80,629 |

The Government has centralized some of its administrative activities for efficiency, cost-effectiveness purposes and economical 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 infrastructure services provided by Shared Services Canada are not included in INAC's Statement of Operations and Departmental Net Financial Position.

Notes to the Financial Statements (*Unaudited*)

b) Other transactions with related parties

| | <u>2016</u> | <u>2015</u> |
|--|---------------------------|-------------|
| | (in thousands of dollars) | |
| Expenses – Other government departments and agencies | 306,039 | 297,615 |
| Revenues – Other government departments and agencies | 3,561 | 4,459 |

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

19. Transfer of the transition payments for implementing salary payments in arrears

The Government of Canada implemented salary payments in arrears in 2014-15. As a result, a one-time payment was issued to employees and will be recovered from them in the future. The transition to salary payments in arrears forms part of the transformation initiative that replaces the pay system and also streamlines and modernizes the pay processes. This change to the pay system had no impact on the expenses of INAC. However, it did result in the use of additional spending authorities by the Department. Prior to year-end, the transition payments for implementing salary payments in arrears were transferred to a central account administered by Public Services and Procurement Canada, who is responsible for the administration of the Government pay system.

20. Transfer to (from) other government departments

a) Transfer to Polar Knowledge Canada

Effective June 1, 2015, the Department transferred responsibility for the Arctic Science and Technology program to Polar Knowledge Canada in accordance with Order in Council P.C. 2015-0581, including the stewardship responsibility for the assets and liabilities related to the program. Accordingly, INAC transferred the following assets and liabilities related to the Arctic Science and Technology program to Polar Knowledge Canada on June 1, 2015:

| | <u>2016</u> |
|--|---------------------------|
| | (In thousands of dollars) |
| Assets: | |
| Tangible capital assets (net book value) | 146 |
| Total assets transferred | <u>146</u> |
| Total liabilities transferred | <u>-</u> |
| Adjustment to the departmental net financial position | <u><u>146</u></u> |

In addition, the 2015 comparative figures have been reclassified on the Statement of Operations and Departmental Net Financial Position to present the expenses of the transferred operations.

Notes to the Financial Statements (*Unaudited*)

Total expenses related to transferred operations were \$186,909 for 2016 and \$5,180,686 for 2015.

During the transition period, the Department continued to administer the transferred activities on behalf of Polar Knowledge Canada. The administered expenses amounted to \$243,263 for the year. These expenses are not recorded in these financial statements.

Note that the management of the construction of the Canadian High Arctic Research Station will remain within INAC until completion of the major Crown project, which is expected to be in 2017, at which time the transfer of the station to Polar Knowledge Canada will be reflected in INAC's financial statements. Until then, the asset under construction will continue to be included in INAC's financial statements.

b) Transfer from Truth and Reconciliation Commission

Effective June 30, 2015, pursuant to Order-in-Council P.C. 2015-1042, the mandate of the Truth and Reconciliation Commission (TRC) was extended to December 31st, when it was amalgamated and combined with INAC under the Minister of INAC. TRC has wound down its operations as of December 31st and its residual assets and liabilities were transferred to INAC. Accordingly, the following assets and liabilities related to TRC have been included in INAC's financial statements at March 31, 2016:

| | 2016 |
|--|---------------------------|
| | (In thousands of dollars) |
| Assets: | |
| Accounts receivable | 3 |
| Tax receivable | 241 |
| Total assets received | 244 |
| Liabilities: | |
| Accrued salaries and wages | 8 |
| Accrued liabilities | 13 |
| Accounts payable to other government departments | 8 |
| Total liabilities received | 29 |
| Adjustment to the departmental net financial position | 215 |

Notes to the Financial Statements (Unaudited)

21. Segmented information

Presentation by segment is based on INAC'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 each of INAC's strategic outcomes, by major object of expense and by major type of revenue. The segment results for the period are as follows:

| (in thousands of dollars) | People | Land and Economy | Government | North | Internal Services | 2016 Total | 2015 Total |
|---|------------------|---------------------|------------------|----------------|----------------------|------------------|------------------|
| Transfer Payments | | | | | | | |
| Indigenous peoples | 2,930,413 | 1,449,053 | 1,020,982 | 13,370 | - | 5,413,818 | 5,322,599 |
| Claims and litigation (note 8) | - | - | 1,161,582 | - | - | 1,161,582 | 1,120,521 |
| Provincial/territorial governments and institutions | 557,881 | 79,908 | 236,182 | 106,850 | - | 980,821 | 897,116 |
| Environmental liabilities (note 9) | - | 240,880 | - | 157,320 | - | 398,200 | 103,219 |
| Industry | 7,545 | 464 | - | 68,498 | - | 76,507 | 76,574 |
| Non-profit organizations | 37,273 | 16,023 | 478 | 2,107 | - | 55,881 | 65,206 |
| Other | 655 | - | - | 5 | - | 660 | 646 |
| Refunds/adjustments to prior years' expenditures | (26,201) | (7,965) | (4,108) | (1,250) | - | (39,524) | (49,953) |
| Total Transfer Payments | 3,507,566 | 1,778,363 | 2,415,116 | 346,900 | - | 8,047,945 | 7,535,928 |
| Operating Expenses | | | | | | | |
| Court awards and other settlements | 221,596 | 74,056 | 255,545 | - | 1,009 | 552,206 | 385,430 |
| Salaries and employee future benefits | 115,100 | 84,033 | 87,459 | 41,424 | 141,431 | 469,447 | 477,788 |
| Environmental liabilities (note 9) | - | - | - | 366,463 | - | 366,463 | 194,141 |
| Professional and special services | 45,334 | 12,177 | 6,813 | 102,060 | 46,405 | 212,789 | 229,534 |
| Legal services | 2,116 | 32 | 823 | 1 | 74,741 | 77,713 | 84,307 |
| Accommodations | 8,929 | 6,407 | 6,707 | 2,686 | 11,488 | 36,217 | 37,570 |
| Travel and relocation | 11,558 | 2,835 | 4,461 | 3,422 | 2,601 | 24,877 | 22,174 |
| Rentals of buildings and machinery | 1,117 | 244 | 228 | 881 | 14,028 | 16,498 | 14,965 |
| Amortization | 2,445 | 14 | 6 | 205 | 7,459 | 10,129 | 8,016 |
| Other | 193 | 1,347 | 4,888 | 2,118 | 1,329 | 9,875 | 13,848 |
| Information services | 6,995 | 474 | 121 | 115 | 1,601 | 9,306 | 12,058 |
| Bad debt | 390 | 6,778 | 247 | 12 | 83 | 7,510 | 11,310 |
| Repairs and maintenance | 15 | 828 | 93 | 2,058 | 1,392 | 4,386 | 3,140 |
| Machinery and equipment | 501 | 192 | 146 | 75 | 2,998 | 3,912 | 6,491 |
| Utilities, materials and supplies | 475 | 324 | 292 | 439 | 1,810 | 3,340 | 4,036 |
| Transportation and telecommunications | 474 | 40 | 22 | 278 | 1,543 | 2,357 | 2,460 |
| Refunds/adjustments to prior years' expenditures | (3,909) | (6,224) | (1,013) | (2,318) | (1,064) | (14,528) | (17,596) |
| Expenses incurred on behalf of Government | - | (6,750) | (9,127) | - | - | (15,877) | (5,883) |
| Claims and litigation (note 8) | (248,251) | - | - | - | - | (248,251) | (240,510) |
| Total Operating Expenses | 165,078 | 176,807 | 357,711 | 519,919 | 308,854 | 1,528,369 | 1,243,279 |
| Total Expenses | 3,672,644 | 1,955,170 | 2,772,827 | 866,819 | 308,854 | 9,576,314 | 8,779,207 |

Notes to the Financial Statements (*Unaudited*)

| (in thousands of dollars) | People | Land and Economy | Government | North | Internal Services | 2016 Total | 2015 Total |
|--|------------------|---------------------|------------------|----------------|----------------------|------------------|------------------|
| Revenues | | | | | | | |
| Resource royalties | - | 5 | - | 17,816 | - | 17,821 | 59,541 |
| Norman Wells project profits | - | - | - | 10,471 | - | 10,471 | 74,779 |
| Interest on loans | - | 1,657 | 2,172 | - | - | 3,829 | 7,761 |
| Miscellaneous | - | 744 | - | 1,428 | 796 | 2,968 | 2,005 |
| Finance and administrative services | - | - | - | - | 2,448 | 2,448 | 3,135 |
| Leases and rentals | - | 2 | - | 1,443 | - | 1,445 | 1,670 |
| Revenues earned on behalf of Government | - | (1,690) | (2,172) | (31,124) | (695) | (35,681) | (143,080) |
| Total Revenues | - | 718 | - | 34 | 2,549 | 3,301 | 5,811 |
| Net cost from continuing operations | 3,672,644 | 1,954,452 | 2,772,827 | 866,785 | 306,305 | 9,573,013 | 8,773,396 |

The major categories of revenue are described below.

Norman Wells project profits

This project is a source of revenues earned pursuant to an agreement between INAC and Imperial Oil. This agreement prescribes a profit-sharing formula and sets out a payment schedule, whereby payments are made annually to INAC no later than March 20 of each year.

Resource royalties

The most significant sources of resource royalty revenues are those earned pursuant to the *Northwest Territories and Nunavut Mining Regulations* and the *Frontier Lands Petroleum Royalty Regulations*.

The *Northwest Territories and Nunavut Mining Regulations* prescribe a profit-sharing formula upon which royalty revenues are based. INAC receives a percentage of the profits companies earn from the sale of minerals extracted from land leased by these companies pursuant to the Mining Regulations. The *Northwest Territories and Nunavut Mining Regulations* prescribe that royalties are generally payable four months after the fiscal year-end of the company.

The *Frontier Lands Petroleum Royalty Regulations* also prescribe a profit-sharing formula upon which royalty revenues are based. INAC receives a percentage of the profits companies earn from the sale of oil and gas extracted from the land, which the company has the right to use pursuant to a production licence issued under the authority of the *Canada Petroleum Resources Act*. The *Frontier Lands Petroleum Royalty Regulations* prescribe that royalties are generally payable on the last day of the month following the month of production.

Leases and rentals

The major source of lease and rental revenues is lease fees prescribed in the *Northwest Territories and Nunavut Mining Regulations*. After a waiting period of 10 years, companies may lease land in the North for purposes of exploration and extraction of minerals. Leases are for a period of 21 years and are renewable. Lease fees are set out in the *Northwest Territories and Nunavut Mining Regulations* and are payable annually on the anniversary date of the signing of the lease.

Notes to the Financial Statements (*Unaudited*)

22. Subsequent Events

Contingent Liabilities- Claims and Litigation

Subsequent to year-end, INAC has settled claims amounting to \$395 million for specific claims, comprehensive native land claims, litigation claims and Indian Residential School claims.

23. Comparative information

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

**Summary of the assessment of
effectiveness of the system of Internal
Control over Financial Reporting and the
action plan of
Indigenous and Northern Affairs Canada
For Fiscal Year 2015-2016**

**Annex to the
*Statement of Management Responsibility
Including Internal Control over Financial
Reporting***

1.0 Introduction

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

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

2.0 Departmental system of internal control over financial reporting

2.1. Internal control management

INAC has a well-established governance and accountability structure to support departmental assessment efforts and oversight of its system of internal control. A departmental internal control management framework, approved by the Deputy Head, is in place and includes:

- Organizational accountability structures as they relate to internal control management to support sound financial management, including roles and responsibilities of senior managers in their areas of responsibility for control management.

The Departmental Audit Committee provides advice to the Deputy Head on the adequacy and functioning of the department's risk management, control and governance frameworks and processes.

2.2. Service arrangements relevant to financial statements

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

Common arrangements:

- Public Services and Procurement Canada centrally administers the payments of salaries and benefits, the procurement of some goods and services, as well as the provision of accommodations on behalf of INAC.
- The department of Justice Canada provides legal services.
- Treasury Board Secretariat provides INAC with a) a percentage ratio to be used when calculating the severance pay liability for purposes of its financial statements and b) an annual dollar figure for the services it provides without charge for the health and dental care insurance plans, which are funded centrally.
- Shared Services Canada provides information technology infrastructure services to INAC in the areas of data centre and network services.

Specific Arrangements

- Health Canada provides INAC with the SAP financial system platform to capture and report all financial transactions.

3.0 INAC's assessment results during fiscal year 2015-2016

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, INAC completed assessments of Entity-level Controls, Information Technology General Controls, and the financial controls within the Purchases, Payables and Payments process and the Ministerial Loan Guarantees process. Control issues identified through the assessments included:

Entity Level Controls

- Responsibilities must be better recognized and communicated so that each group understands their role in addressing risk and control, the aspects for which they are accountable, and how they will coordinate their efforts with each other.

Information Technology General Controls

- Some areas of applications and databases access require procedure improvements.

Purchases, Payables and Payments

- INAC financial policies, guidelines and business processes require updates to reflect the current business processes.

Ministerial Loan Guarantees

- The Ministerial Loan Guarantee Manual, including roles and responsibilities, needs to be reviewed and updated.
- The guarantee loan program requires strengthened quality assurance, oversight, and monitoring activities.

4.0 INAC's action plan

4.1 Progress during fiscal year 2015-2016

INAC conducted its ongoing monitoring according to the rotational ongoing monitoring plan as shown in the following table.

The following table summarizes the department's progress based on the plan identified in the previous fiscal year's annex.

Summary of progress during fiscal year 2015-2016:

| Previous year's rotational ongoing monitoring plan for current year | Status | Remedial action required |
|---|----------------------|--------------------------|
| Information Technology General Controls | Completed as planned | Yes |
| Purchases, Payables and Payments | Completed as planned | Yes |
| Entity Level Controls | Completed as planned | Yes |
| Guaranteed Loans (Ministerial Loan Guarantees) | Completed as planned | Yes |

4.2 Action plan for the next fiscal year and subsequent years

INAC's rotational ongoing monitoring plan over the next four 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.

| Process areas | Risk ranking | 2015-2016 | 2016-2017 | 2017-2018 | 2018-2019 | 2019-2020 |
|--|--------------|----------------------|-----------|-----------|-----------|-----------|
| Entity Level Controls (ELC) | High | Completed as planned | | C | C | C |
| Environmental Liabilities | High | | | C | C | C |
| Purchases, Payables and Payments (PPP) | Medium | Completed as planned | | | C | |
| Grants and Contributions | Medium | | C | | | C |
| Payroll | Medium | | | C | | |
| IT General Controls | Medium | Completed as planned | | | C | |
| Specific Claims | Low | | C | | | |
| Revenue Management & Guaranteed Deposits | Low | | | | C | |
| Tangible Capital Assets | Low | | | | | C |
| Other Liabilities | Low | | | | | C |
| Trust Accounts | Low | | | C | | |
| Direct Loans | Low | | C | | | |
| Comprehensive Claims | Low | | C | | | |
| Guaranteed Loans | Low | Completed as planned | | | | |
| Financial Reporting | Low | | C | | | |
| C: CONTINUOUS MONITORING | | | | | | |