

CANADIAN NORTHERN ECONOMIC DEVELOPMENT AGENCY

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, 2013, and all information contained in these statements rests with the management of the Canadian Northern Economic Development Agency (CanNor). 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 CanNor's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in CanNor'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 (ICFR) designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* and other applicable legislation, regulations, authorities and policies.

Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout CanNor and through conducting an annual risk-based assessment of the effectiveness of the system of ICFR.

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

CanNor is subject to periodic Core Control Audits performed by the Office of the Comptroller General and uses the results of such audits to comply with the Treasury Board *Policy on Internal Control*.

A Core Control Audit was performed in 2011 by the Office of the Comptroller General of Canada (OCG). The Audit Report and related Management Action Plan are posted on the CanNor web site at (<http://www.north.gc.ca/aa/ar-eng.asp>).

The financial statements of CanNor have not been audited.

Patrick Borbey,
President
Ottawa, Canada
August 26, 2013

Yves Robineau , CPA, CA
Chief Financial Officer

CANADIAN NORTHERN ECONOMIC DEVELOPMENT AGENCY

Statement of Financial Position (Unaudited)

As at March 31

(in dollars)

	<u>2013</u>	<u>2012</u>
Liabilities		
Accounts payable and accrued liabilities (Note 4)	15,878,396	17,659,815
Vacation pay and compensatory leave	305,230	291,944
Employee future benefits (Note 5)	517,439	873,571
Total Liabilities	16,701,065	18,825,330
Financial assets		
Due from Consolidated Revenue Fund	15,820,073	17,004,250
Accounts Receivable (Note 6)	58,323	19,565
Total financial assets	15,878,396	17,023,815
Departmental net debt	822,669	1,801,515
Non-Financial assets		
Tangible capital assets (Note 7)	1,938,661	2,350,014
Total non-financial assets	1,938,661	2,350,014
Departmental net financial position	1,115,992	548,499

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

Patrick Borbey,
President
Ottawa, Canada
August 26, 2013

Yves Robineau, CPA, CA
Chief Financial Officer

CANADIAN NORTHERN ECONOMIC DEVELOPMENT AGENCY
Statement of Operations and Departmental Net Financial Position (Unaudited)
For the year ended March 31
(in dollars)

	2013 Planned Results	2013	2012
Expenses			
Business Development	23,406,627	22,353,283	22,467,398
Community Development	18,896,348	19,294,370	13,435,124
Policy, Advocacy and Coordination	1,883,566	2,021,784	2,038,235
Internal Services	8,482,798	8,773,214	8,262,063
Total Expenses	52,669,339	52,442,651	46,202,820
Revenues			
Miscellaneous Revenues and Fees		463,860	1,577
Revenues earned on behalf of Government		(463,860)	(1,577)
Total Revenues		-	-
Net cost of operations before government funding and transfers		52,442,651	46,202,820
Government funding and transfers			
Net cash provided by Government		52,395,926	68,489,433
Transfer of asset to Other Government Department		(22,665)	
Change in due from Consolidated Revenue Fund		(1,184,177)	(22,102,599)
Services provided without charge by other government departments (Note 8)		1,821,060	1,525,790
Net cost of operations after government funding and transfers		(567,493)	(1,709,804)
Departmental net financial position - Beginning of year		548,499	(1,161,305)
Departmental net financial position - End of year		1,115,992	548,499

Segmented information (note 9)

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

CANADIAN NORTHERN ECONOMIC DEVELOPMENT AGENCY**Statement of Change in Departmental Net Debt (Unaudited)****For the year ended March 31***(in dollars)*

	<u>2013</u>	<u>2012</u>
Net cost of operations after government funding and transfers	(567,493)	(1,709,804)
Change due to tangible capital assets		
Acquisition of tangible capital assets	-	1,750,000
Amortization of tangible capital assets	(388,688)	(34,996)
Transfers and adjustments of capital assets	(22,665)	(154,627)
Total change due to tangible capital assets	(411,353)	1,560,377
Net increase (decrease) in departmental net debt	(978,846)	(149,427)
Departmental net debt - Beginning of year	1,801,515	1,950,942
Departmental net debt - End of year	<u>822,669</u>	<u>1,801,515</u>

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

CANADIAN NORTHERN ECONOMIC DEVELOPMENT AGENCY**Statement of Cash Flow (Unaudited)****For the year ended March 31***(in dollars)*

	<u>2013</u>	<u>2012</u>
Operating activities		
Net cost of operations before government funding and transfers	52,442,651	46,202,820
Non-cash items:		
Amortization of tangible capital assets	(388,688)	(34,996)
Adjustment for tangible capital assets		(154,627)
Services provided without charge by other government departments (Note 8)	(1,821,060)	(1,525,790)
Variations in Statement of Financial Position:		
Increase (decrease) in accounts receivable and advances	38,758	8,143
Decrease (increase) in accounts payable and accrued liabilities	1,781,419	21,458,455
Decrease (increase) in vacation pay and compensatory leave	(13,286)	95,750
Decrease (increase) in future employee benefits	356,132	689,678
Cash used in operating activities	52,395,926	66,739,433
Capital investing activities		
Acquisitions of tangible capital assets	-	1,750,000
Cash used in capital investing activities	-	1,750,000
Net cash provided by Government of Canada	<u>52,395,926</u>	<u>68,489,433</u>

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

CANADIAN NORTHERN ECONOMIC DEVELOPMENT AGENCY
Notes to the Financial Statements (Unaudited)
For the Year Ended March 31

1. Authority and Objectives

The Canadian Northern Economic Development Agency (CanNor) was established on August 18, 2009 in accordance with paragraph 2(a) of the *Public Service Rearrangement and Transfer of Duties Act*. Pursuant to Order-in-Council P.C 2009-1423, the control and supervision portion of the Northern Economic Development Branch in the Department of Indian Affairs and Northern Development was transferred to CanNor. CanNor is listed in Schedule I.1 of the *Financial Administration Act*.

Contributing to the jobs and growth in Canada, the Canadian Northern Economic Development Agency (CanNor) works to develop a diversified, sustainable and dynamic economy across Canada's three territories. It does this by delivering economic development programs, undertaking policy and research, and by collaborating with and aligning the efforts of other federal departments, territorial governments, Aboriginal organizations, and industry. This is particularly the case in resource development through its Northern Projects Management Office (NPMO).

In pursuit of its mandate and to contribute to its strategic outcome of *developed and diversified territorial economies that support prosperity for all Northerners*, CanNor has structured its program activities as follows:

a) Community Development – This program supports community-level investments in infrastructure and organizations, and individual-level investments in skills and capacity development undertaken in collaboration with other federal departments and partners. The program's objective is the establishment of economically sustainable northern communities with a high quality of life for residents.

b) Business Development – This program supports the growth and expansion of northern businesses, including small and medium-sized enterprises, through training, advisory services, and grants and contributions. The program's objective is the encouragement of a competitive, diverse northern business sector with a strengthened capacity for innovation.

c) Policy, Advocacy and Coordination – This program supports research and analysis to guide programming and policy choices, the promotion of northern interests both inside and outside of the federal government, and the development of horizontal strategies, initiatives and projects to address economic development challenges in the North.

d) Internal Services – This program is common across government. Internal services are groups of related activities and resources administered to support the needs of program activities and other corporate obligations of the Agency. These groups are: management and oversight services; communications; legal services; human resources management; financial management; information management services; information technology; materiel services; acquisition services; and travel and other administrative services. Internal services include only those activities and resources that apply across the entire organization and not to those provided specifically to support a program.

CANADIAN NORTHERN ECONOMIC DEVELOPMENT AGENCY
Notes to the Financial Statements (Unaudited)
For the Year Ended March 31

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— CanNor is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to CanNor 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 Statement of Operations and Departmental Net Financial Position are the amounts reported in the future-oriented financial statements included in the *2012-13 Report on Plans and Priorities*.

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

(c) Amounts due from or to the CRF are the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that CanNor is entitled to draw from the CRF 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 CanNor's liabilities. While the Deputy Head is expected to maintain accounting control, he or she has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of the entity's gross revenues.

CANADIAN NORTHERN ECONOMIC DEVELOPMENT AGENCY
Notes to the Financial Statements (Unaudited)
For the Year Ended March 31

(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. Transfer payments that become repayable as a result of conditions specified in the contribution agreement that have come into being are recorded as a reduction to transfer payment expense and as a receivable.

Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.

Services provided without charge by other government departments for accommodation, employer contributions to the health and dental insurance plans, are recorded as operating expenses at their estimated cost.

(f) Employee future benefits

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

(ii) 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 are stated at the lower of cost and net recoverable value; a valuation allowance is recorded for receivables where recovery is considered uncertain.

(h) 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. CanNor does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, assets located on Indian reserves and museum collections.

CANADIAN NORTHERN ECONOMIC DEVELOPMENT AGENCY
Notes to the Financial Statements (Unaudited)
For the Year Ended March 31

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

Asset Class	Amortization Period
Motor vehicles	
Passenger vehicles and light trucks	5 years
Leasehold Improvements	Lesser of useful life or term of lease
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 are not amortized until they become available for use.

(i) 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 the liability for employee future benefits and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management’s estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the year they become known.

CANADIAN NORTHERN ECONOMIC DEVELOPMENT AGENCY

Notes to the Financial Statements (*Unaudited*)

For the year ended March 31

3. Parliamentary Authorities

CanNor receives most of its funding through annual parliamentary authorities. Items recognized in the Statement of Operations and Department 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, CanNor 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:

3a) Reconciliation of net cost of operations to current year authorities used

	2013	2012
	(in dollars)	
Net cost of operations before government funding and transfers	52,442,651	46,202,820
Adjustments for items affecting net cost of operations but not affecting authorities:		
Add (Less):		
Amortization of tangible capital assets	(388,688)	(34,996)
Adjustment in machinery and equipment for tangible capital assets	-	(129,994)
Services provided without charge by other government departments	(1,821,060)	(1,525,790)
Increase in accrued liabilities not charged to authorities	-	(636,000)
Refunds of prior year's expenditures	458,959	325,594
Adjustments of prior year's accounts payable	1,353,901	1,862,629
Decrease(increase) in employee future benefits	356,132	689,678
Decrease (increase) in vacation pay and compensatory leave	(13,286)	95,750
Total items affecting net cost of operations but not affecting authorities	(54,042)	646,871
Adjustments for items not affecting net cost of operations but affecting authorities:		
Add (Less):		
Acquisition of tangible capital assets	-	1,750,000
Current year authorities used	<u>52,388,609</u>	<u>48,599,691</u>

CANADIAN NORTHERN ECONOMIC DEVELOPMENT AGENCY**Notes to the Financial Statements (Unaudited)****For the year ended March 31****3b) Authorities provided and used**

	2013	2012
	(in dollars)	
Authorities Provided:		
Vote 27 – Operating expenditures (Vote 40 in 2011)	13,867,834	17,237,930
Vote 29 – Contributions (Vote 45 in 2011)	39,861,803	32,754,757
Statutory amounts	1,302,839	1,207,038
Less:		
Lapsed:		
Vote 27 – Operating expenditures (Vote 40 in 2011)	(1,147,768)	(1,838,007)
Vote 29 – Contributions (Vote 45 in 2011)	(1,496,099)	(762,027)
Current year authorities used	<u>52,388,609</u>	<u>48,599,691</u>

4. Accounts payable and accrued liabilities

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

	2013	2012
	(in dollars)	
Accounts payable - Other government departments and agencies	1,337,008	3,570,076
Accounts payable - External parties	<u>796,286</u>	<u>947,307</u>
Total accounts payable	2,133,294	4,517,383
Accrued liabilities	<u>13,745,102</u>	<u>13,142,432</u>
Total accounts payable and accrued liabilities	<u>15,878,396</u>	<u>17,659,815</u>

In *Canada's Economic Action Plan 2012*, the Government announced savings measures to be implemented by CanNor's over the next three fiscal years starting in 2012-2013. As a result, CanNor has recorded at March 31, 2012 an obligation for termination benefits for an amount of \$636,000 as part of accrued liabilities to reflect the estimated workforce adjustment costs (WFC). No additional liability was recorded in 2012-2013.

CANADIAN NORTHERN ECONOMIC DEVELOPMENT AGENCY

Notes to the Financial Statements (*Unaudited*)

For the year ended March 31

5. Employee future benefits

a) Pension benefits

CanNor's employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government. 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 Plans benefits and they are indexed to inflation.

Both the employees and CanNor contribute to the cost of the Plan. The 2012-13 expense amounts to \$930,227 (\$867,860 in 2011-12), which represents approximately 1.7 times (1.8 times in 2011-12) the contributions by employees.

CanNor'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

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

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.

	2013	2012
	(in dollars)	
Accrued benefit obligation - Beginning of year	873,571	1,563,249
Expense/adjustment for the year	(190,528)	57,876
Benefits paid during the year	(165,604)	(747,554)
Accrued Benefit Obligation - End of year	517,439	873,571

CANADIAN NORTHERN ECONOMIC DEVELOPMENT AGENCY

Notes to the Financial Statements (*Unaudited*)

For the year ended March 31

6. Accounts receivable and advances

The following table presents details of CanNor's accounts receivable and advances balances. There is no allowance for doubtful accounts.

	<u>2013</u>	<u>2012</u>
	(in dollars)	
Receivables - Other government departments and agencies	21,365	19,315
Receivables – External parties	36,708	-
Employee advances	<u>250</u>	<u>250</u>
Total accounts receivable	<u>58,323</u>	<u>19,565</u>

CANADIAN NORTHERN ECONOMIC DEVELOPMENT AGENCY

Notes to the Financial Statements (*Unaudited*)

For the year ended March 31

(in dollars)

7. Tangible capital assets

Capital Asset Class	Cost				Accumulative Amortization				Net Book Value	
	Opening Balance	Acquisitions	Adjustment	Closing balance	Opening Balance	Amortization	Adjustment	Closing balance	2013	2012
Motor Vehicles	132,259	-	(35,787)	96,472	57,901	25,670	(13,122)	70,449	26,023	74,358
Assets Under Construction	1,750,000	-	(1,750,000)	-	-	-	-	-	-	1,750,000
Leasehold Improvements	535,765	-	1,750,000	2,285,765	10,109	363,018	-	373,127	1,912,638	525,656
Total	2,418,024	-	(35,787)	2,382,237	68,010	388,688	(13,122)	443,576	1,938,661	2,350,014

(1) Motor Vehicles adjustment results from transfers of a vehicle to another department.

(2) Assets under construction transferred upon completion.

CANADIAN NORTHERN ECONOMIC DEVELOPMENT AGENCY

Notes to the Financial Statements (*Unaudited*)

For the year ended March 31

8. Related party transactions

CanNor is related as a result of common ownership to all government departments, agencies, and Crown corporations. CanNor enters into transactions with these entities in the normal course of business and on normal trade terms. In addition, CanNor has an agreement with Aboriginal Affairs and Northern Development Canada (AANDC) related to the provision of finance and administration services. During the year, CanNor 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, CanNor received services without charge from certain common service organizations, related to accommodation and the employer's contribution to the health and dental insurance plans. These services provided without charge have been recorded in CanNor's Statement of Operations and Departmental Net Financial Position as follows:

	2013	2012
	(in dollars)	
Accommodation	1,121,668	809,763
Employer's contribution to the health and dental insurance plans	699,392	716,027
Total	1,821,060	1,525,790

The Government has centralized some of its administrative activities for efficiency, cost-effectiveness purposes and economic delivery of programs to the public. As a result, the Government uses central agencies and common service organizations so that one department performs services for all other departments and agencies without charge. The costs of these services, such as the payroll and cheque issuance services provided by Public Works and Government Services Canada and audit services provided by the Office of the Auditor General are not included in CanNor's Statement of Operations and Departmental Net Financial Position.

b) Other transactions with related parties

	2013	2012
	(in dollars)	
Expenses – other government departments and agencies	4,296,665	6,361,911

CANADIAN NORTHERN ECONOMIC DEVELOPMENT AGENCY
Notes to the Financial Statements (Unaudited)
For the year ended March 31

9. Segmented information

Presentation by segment is based on CanNor's program alignment architecture. The presentation by segment is based on the same accounting policies as described in the Summary of significant accounting policies in note 2. The following table presents the expenses incurred and revenues generated for the main programs, by major object of expenses and by major type of revenues. Operating expenses for Business Development and Community Development are split on a 50/50 basis since it is not practical to track the expenses separately. The segment results for the period are as follows:

<i>(in dollars)</i>	Business Development	Community Development	Policy, Advocacy and Coordination	Internal Services	2013 Total	2012 Total
Transfer payments	19,915,749	16,856,838	-	-	36,772,587	30,192,138
Operating expenses						
Salaries and employee benefits	1,936,133	1,936,131	1,804,511	4,236,590	9,913,365	10,408,072
Professional and special services	114,858	114,858	16,206	1,291,100	1,537,022	1,483,611
Amortization of tangible capital assets	-	-	-	388,688	388,688	34,996
Travel and relocation	315,052	315,052	184,218	403,972	1,218,294	1,336,279
Machinery and equipment	9,392	9,393	-	42,701	61,486	505,660
Accommodation	-	-	-	1,121,668	1,121,668	809,763
Utilities, materials and supplies	7,444	7,444	3,307	140,184	158,379	48,686
Rentals of buildings and machinery	46,751	46,751	12,649	1,041,859	1,148,010	1,219,524
Transportation and telecommunication services	1,234	1,234	332	29,204	32,004	101,770
Information services	6,186	6,185	255	72,459	85,085	48,353
Repair and maintenance	144	144	-	1,165	1,453	7,254
Other expenses	340	340	306	3,624	4,610	6,714
Total operating expenses	2,437,534	2,437,532	2,021,784	8,773,214	15,670,064	16,010,682
Total expenses	22,353,283	19,294,370	2,021,784	8,773,214	52,442,651	46,202,820
Revenues						
Miscellaneous Revenues and Fees	97,744	98,744	54,275	212,097	463,860	1,577
Revenue earned on behalf of the government	(97,744)	(97,744)	(54,275)	(212,097)	(463,860)	(1,577)
Total revenues	-	-	-	-	-	-
Net Cost of Operations	22,353,283	19,294,370	2,021,784	8,773,214	52,442,651	46,202,820

10. Comparative

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