

INDIAN AND NORTHERN AFFAIRS CANADA

Statement of Management Responsibility

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2008 and all information contained in these statements rests with the management of Indian and Northern Affairs Canada (INAC). These financial statements have been prepared by management in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector.

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 fulfil its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of INAC's financial transactions. Financial information submitted to the *Public Accounts of Canada* and included in INAC's *Departmental Performance Report* is consistent with these financial statements.

Management maintains a system of financial management and internal control designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are in accordance with the *Financial Administration Act*, are executed in accordance with prescribed regulations, within Parliamentary authorities, and are properly recorded to maintain accountability of Government funds. Management also seeks to ensure the objectivity and integrity of data in its financial statements by careful selection, training and development of qualified staff, by organizational arrangements that provide appropriate divisions of responsibility, and by communication programs aimed at ensuring that regulations, policies, standards and managerial authorities are understood throughout the Department.

Management is supported by a Departmental Audit Committee (DAC). The role of the DAC is to oversee management's responsibilities for maintaining adequate processes and key control systems and reviews assessments of the probity and prudence of the Department's operations. The DAC will also review and recommend for approval internal audit plans and recommend for approval internal audit reports and the accompanying management action plans addressing recommendations.

The financial statements of INAC have not been audited.

Originally signed by _____

Michael Wernick
Deputy Minister

Originally signed by _____

Jim Quinn
Chief Financial Officer

Gatineau, Canada
July 18, 2008

INDIAN AND NORTHERN AFFAIRS CANADA

Statement of Operations *(Unaudited)*

For the year ended March 31
(in thousands of dollars)

	2008	2007
<hr/>		
Expenses (Note 4)		
People	3,775,950	3,348,986
Government	2,339,278	832,981
Economy	1,581,577	1,759,212
Land	508,159	604,369
Office of the Federal Interlocutor	36,716	38,353
Total Expenses	8,241,680	6,583,901
<hr/>		
Revenues (Note 5)		
People	2,929	14
Government	10,425	7,352
Economy	2,829	11,442
Land	232,920	189,312
Office of the Federal Interlocutor	12	-
Total Revenues	249,115	208,120
<hr/>		
Net Cost of Operations	7,992,565	6,375,781

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

INDIAN AND NORTHERN AFFAIRS CANADA

Statement of Financial Position (*Unaudited*)

As at March 31
(in thousands of dollars)

	2008	2007
Assets		
Financial assets		
Accounts receivable and advances (Note 6)	103,230	147,051
Loans receivable (Note 7)	742,265	711,676
Total financial assets	845,495	858,727
Non-financial assets		
Prepaid expenses	2,172	3,930
Land held for future claims settlements (Note 8)	25,013	24,235
Tangible capital assets (Note 9)	36,939	38,990
Total non-financial assets	64,124	67,155
TOTAL	909,619	925,882
Liabilities and Equity		
Liabilities		
Accounts payable and accrued liabilities	855,608	753,619
Vacation pay and compensatory leave	15,419	16,207
Other liabilities	62,849	75,484
Trust accounts (Note 10)	1,033,554	993,724
Settled claims (Note 11)	546,534	642,160
Environmental liabilities (Note 12)	1,497,137	1,313,856
Allowance for claims and litigation (Note 12)	10,618,915	9,785,811
Employee severance benefits (Note 13)	58,502	56,349
Total liabilities	14,688,518	13,637,210
Equity of Canada	(13,778,899)	(12,711,328)
TOTAL	909,619	925,882

Contingent liabilities (Note 12)

Contractual obligations (Note 14)

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

INDIAN AND NORTHERN AFFAIRS CANADA

Statement of Equity of Canada *(Unaudited)*

As at March 31

(in thousands of dollars)

	2008	2007
Equity of Canada, beginning of year	(12,711,328)	(12,329,015)
Net cost of operations	(7,992,565)	(6,375,781)
Current year appropriations used (Note 3)	7,268,728	6,086,238
Revenue not available for spending	(249,115)	(208,120)
Change in net position in the Consolidated Revenue Fund (Note 3)	(168,387)	39,623
Services provided without charge from other government departments (Note 15)	73,768	72,381
Transfer of Aboriginal Business Canada and First Nations SchoolNet from Industry Canada	-	3,346
Equity of Canada, end of year	(13,778,899)	(12,711,328)

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

INDIAN AND NORTHERN AFFAIRS CANADA

Statement of Cash Flow (Unaudited)

For the year ended March 31

(in thousands of dollars)

	2008	2007
Operating activities		
Net cost of operations	7,992,565	6,375,781
Non-cash items:		
Services provided without charge from other departments	(73,768)	(72,381)
Amortization of tangible capital assets	(7,607)	(5,243)
Loss on disposal and write-down of tangible capital assets	(447)	(1,433)
Adjustments to capital assets	-	12,342
Transfer of Aboriginal Business Canada and First Nations SchoolNet from Industry Canada	-	(3,346)
Variations in Statement of Financial Position:		
Increase (decrease) in accounts receivable and advances	(43,821)	70,088
Increase (decrease) in loans receivable	30,589	31,993
Increase (decrease) in prepaid expenses	(1,758)	(7)
Increase (decrease) in land held for future claims settlements	778	(1,784)
Decrease (increase) in liabilities	(1,051,308)	(498,969)
Cash used by operating activities	6,845,223	5,907,041
Capital investment activities		
Acquisitions of tangible capital assets	6,215	11,682
Proceeds from disposal of tangible capital assets	(211)	(982)
Cash used by capital investment activities	6,004	10,700
Financing Activities		
Net cash provided by Government of Canada	6,851,227	5,917,741

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

INDIAN AND NORTHERN AFFAIRS CANADA

Notes to the Financial Statements (*Unaudited*)

1. Authority and objectives

Indian and Northern Affairs Canada (INAC) was established by the *Government Organization Act, 1966* and has been continued in its current form by the *Department of Indian Affairs and Northern Development Act* (R.S., 1985, c. I-6). INAC is named as a department in Schedule I of the *Financial Administration Act*.

INAC's mission is to support First Nations, Inuit and Northerners in achieving their social and economic aspirations; in developing healthy and sustainable communities; and in more fully participating in and benefiting from Canada's political, social and economic development.

INAC is generally responsible for meeting the Government of Canada's obligations and commitments to First Nations, Inuit and Northerners, and for fulfilling the federal government's constitutional responsibilities in the North. The broad mandate of the Department is derived largely from the *Department of Indian Affairs and Northern Development Act*, the *Indian Act*, and territorial acts, some of which are expressions of Parliament's legislative jurisdiction found in section 91(24) of the *Constitution Act, 1867*.

In order to deliver its mission and achieve its mandate, INAC has structured its operations along five strategic outcomes as follows:

a) Government - Under this strategic outcome, activities support capacity building for governance and institutions, cooperative relationships, and claims settlements as the foundation for self-reliant First Nations, Inuit and Northerners. These activities promote:

- Stable, effective First Nations and Inuit governments;
- Sustainable intergovernmental relationships recognized by all parties; and
- Legal certainty over ownership and use of lands and resources.

b) People - Activities within this strategic outcome focus primarily on Aboriginal people on reserves and on promoting access to a range and level of services comparable to those available to other Canadians. Taken together, these activities create a range of essential services throughout an individual's life such as:

- The registration of eligible persons as Indians and estate administration;
- Education; and
- Social services.

c) Land - Activities within this strategic outcome promote efficient land management practices that address the Crown's obligation to protect, conserve, and manage lands, resources and the environment in a manner consistent with the principles of sustainable development and First Nations' aspirations for greater control and decision making over their lands, resources, and environment. These activities are required to:

- Develop the underlying infrastructure and capacity for First Nations governance;
- Create opportunities for more direct responsibility and control by First Nations over land, resources and the environment; and
- Realize economic development, improved socio-economic and environmental conditions, and sound First Nations governance over land, resources and the environment.

d) Economy - This strategic outcome concentrates on establishing a supportive investment/business climate to enable First Nations, Inuit and Northerners, their communities and their businesses to seize economic opportunities. It also focuses on building the economic and community foundations necessary to increase Aboriginal and Northern participation in the economy. These activities promote:

- Investment leading to jobs in communities;
- Management of infrastructure facilities; and
- Mitigation of health and safety risks.

e) Office of the Federal Interlocutor - Under this strategic outcome, activities are designed to improve socio-economic conditions for Métis, Non-Status Indians and urban Aboriginal people through strengthened relationships with Métis and Non-Status Indian groups and organizations, urban Aboriginal Canadians, and provincial governments and municipalities. These activities support:

- Agreements furthering self-government for Métis and Non-Status Indians;
- Increased employment for urban Aboriginal people; and
- An increased knowledge base relating to Métis Aboriginal rights.

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector.

Significant accounting policies are as follows:

a) Parliamentary appropriations - INAC is primarily financed by the Government of Canada through Parliamentary appropriations. Appropriations provided to INAC do not parallel financial reporting according to generally accepted accounting principles since appropriations are primarily based on cash flow requirements. Consequently, items recognized in the statement of operations and the statement of financial position are not necessarily the same as those provided through appropriations from Parliament. Note 3 provides a high-level reconciliation between the bases of reporting.

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

c) Change in net position in the Consolidated Revenue Fund - The difference between the net cash provided by Government and appropriations used in a year, excluding the amount of non-respendable revenue recorded by the Department. It results from timing differences between when a transaction affects appropriations and when it is processed through the CRF.

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 occurred that gave rise to the revenues.

e) Expenses - Expenses are recorded on the accrual basis:

- Grants are recognized in the year in which conditions for payment are met. In the case of grants which do not form part of an existing program, the expense is recognized when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives Parliamentary approval prior to the completion of the financial statements;
- Contributions are recognized in the year in which the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement;
- Vacation pay and compensatory leave are expensed in the year that the entitlement occurs; and
- Services provided without charge by other government departments for accommodation, the employer's contribution to the health and dental insurance plans and legal services 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 plan administered by the Government of Canada. INAC's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. Current legislation does not require the Department to make contributions for any actuarial deficiencies of the plan.
- Severance benefits - Employees are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. The 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 and loans receivable

Accounts and loans receivable are stated at amounts expected to be ultimately realized; a provision is made for receivables where recovery is considered uncertain.

Interest on loans receivable is calculated in accordance with the terms and conditions of each individual program.

h) Contingent liabilities

A contingent liability is a potential liability which may become an actual liability 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.

- Environmental liabilities - Environmental liabilities reflect the estimated costs related to the management and remediation of environmentally contaminated sites. Based on management's best estimates, a liability is accrued and an expense recorded when the contamination occurs or when the Department becomes aware of the contamination and is obligated, or is likely to be obligated, to incur such costs. If the likelihood of the Department's obligation to incur these costs is not determinable, or if an amount cannot be reasonably estimated, the costs are disclosed as contingent liabilities in the notes to the financial statements.

- Loan guarantees - An allowance for loan guarantees is recorded for potential losses on loan guarantees 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 allowance for losses on outstanding loan guarantees is based upon forecasting models developed by program areas.

i) Tangible capital assets

All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more are recorded at their acquisition cost. The Department does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, or assets located on Indian Reserves.

Capital assets which are held for future contribution to First Nations are reported as land held for future claims settlements. Lands north of 60 degrees latitude owned by the Crown as a result of confederation are recorded at nominal value.

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

<u>Asset Class</u>	<u>Amortization Period</u>
Buildings -	
Residential mobile	10 years
Administrative, institutional, recreational and residential	40 years
Works and infrastructure	30 years
Machinery and equipment -	
Communication equipment	5 years
Lab, scientific and testing equipment	10 years
Construction, excavating and clearing equipment	15 years
Generating equipment	20 years
Informatics hardware and software	3 years
Ships and boats	10 years
Motor vehicles -	
Passenger vehicles and light trucks less than 1 ton	5 years
Heavy trucks greater than 1 ton	10 years
Other vehicles	5 years
Leasehold improvements	Lesser of useful life or term of lease
Assets under construction	Once in service, in accordance with asset type

j) Measurement uncertainty

The preparation of financial statements in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector 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 allowance for claims and litigation, environmental liabilities, contingent liabilities, the liability for employee severance benefits, 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.

3. Parliamentary appropriations

INAC receives most of its funding through annual Parliamentary appropriations. Items recognized in the statement of operations and the statement of financial position in one year may be funded through Parliamentary appropriations 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 appropriations used

<i>(in thousands of dollars)</i>	<u>2008</u>	<u>2007</u>
Net cost of operations	7,992,565	6,375,781
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Add (Less):		
Revenue not available for spending	249,115	208,120
Expenses for settled claims	95,626	189,329
Refunds of transfer payments	29,987	-
Expenses for claims and litigation	(833,104)	(370,618)
Expenses for environmental liabilities	(183,281)	(242,843)
Services provided without charge	(73,768)	(72,381)
Amortization of tangible capital assets	(7,607)	(5,243)
Employee severance benefits	(2,153)	(3,150)
Loss on disposal of tangible capital assets	(447)	(1,433)
Other	<u>(3,440)</u>	<u>(1,215)</u>
	7,263,493	6,076,347

Adjustments for items not affecting net cost of operations but affecting appropriations:

Add (Less):		
Acquisition of tangible capital assets	6,215	11,682
Prepaid expenses	(1,758)	(7)
Land held for future claims settlements	<u>778</u>	<u>(1,784)</u>
	5,235	9,891
Current year appropriations used	<u>7,268,728</u>	<u>6,086,238</u>

b) Appropriations provided and used

	Appropriations Provided	
	<u>2008</u>	<u>2007</u>
	<i>(in thousands of dollars)</i>	
Vote 1 - Operating expenditures	725,942	702,783
Vote 5 - Capital expenditures	1,210	25,308
Vote 10 - Grants and Contributions	6,341,338	5,375,668
Vote 15 - Payment to Canada Post Corporation	47,600	40,900
Vote 20 - Office of the Federal Interlocutor - Operating	9,692	7,805
Vote 25 - Office of the Federal Interlocutor - Contributions	27,249	30,654
Statutory amounts	<u>219,003</u>	<u>261,855</u>
	<i>7,372,034</i>	<i>6,444,973</i>
Less:		
Appropriations available for future years	(31,937)	(33,107)
Lapsed appropriations	<u>(71,369)</u>	<u>(325,628)</u>
	<i>(103,306)</i>	<i>(358,735)</i>
Current year appropriations used	<u><u>7,268,728</u></u>	<u><u>6,086,238</u></u>

c) Reconciliation of net cash provided by Government to current year appropriations used

	<u>2008</u>	<u>2007</u>
	<i>(in thousands of dollars)</i>	
Net cash provided by Government	6,851,227	5,917,741
Revenue not available for spending	<u>249,115</u>	<u>208,120</u>
	7,100,342	6,125,861
Change in net position in the Consolidated Revenue Fund		
Variation in accounts receivable and advances	43,821	(70,088)
Variation in loans	(30,589)	(31,993)
Variation in accounts payable and accrued liabilities	101,989	124,975
Variation in trust accounts	39,830	(32,965)
Other adjustments	<u>13,335</u>	<u>(29,552)</u>
	168,386	(39,623)
Current year appropriations used	<u>7,268,728</u>	<u>6,086,238</u>

4. Expenses

The following table presents details of expenses by category:

	<u>2008</u>	<u>2007</u>
	<i>(in thousands of dollars)</i>	
Payments to or on behalf of Aboriginals	4,209,453	4,132,956
Transfers to industry	1,438,421	294,800
Transfers to other levels of government	657,327	673,639
Transfers to non-profit organizations	38,782	37,818
Transfers to Aboriginals	21,948	-
Other transfers to individuals	3,537	2,421
Assistance to encourage employment	<u>-</u>	<u>13,056</u>
<i>Total transfer payments</i>	<i>6,369,468</i>	<i>5,154,690</i>
Salaries and employee benefits	399,136	380,053
Claims and litigation	833,104	370,618
Professional services	245,889	262,176
Environmental liabilities	183,281	242,843
Operating expenses	50,288	36,001
Canada Post Corporation	43,987	39,311
Travel and relocation	42,004	40,362
Court awards and other settlements	33,586	23,625
Accommodations	29,377	26,789
Other expenses	<u>11,560</u>	<u>7,433</u>
<i>Total operating expenses</i>	<i>1,872,212</i>	<i>1,429,211</i>
Total expenses	<u>8,241,680</u>	<u>6,583,901</u>

5. Revenues

The following table presents details of revenues by category:

	<u>2008</u>	<u>2007</u>
	<i>(in thousands of dollars)</i>	
Norman Wells project profits	115,780	123,253
Resource royalties	87,560	34,423
Miscellaneous	29,656	27,331
Interest on loans	11,750	12,099
Leases and rentals	4,369	4,413
Treaty land entitlement	-	<u>6,601</u>
Total revenues	<u>249,115</u>	<u>208,120</u>

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

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

The *Northwest Territories and Nunavut Mining Regulations* (the 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 Mining Regulations prescribe that royalties are generally payable four months after the fiscal year-end of the company.

The *Frontier Lands Petroleum Royalty Regulations* (the 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 Royalty Regulations prescribe that royalties are generally payable on the last day of the month following the month of production.

The major source of lease and rental revenues is lease fees prescribed in the 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 Mining Regulations and are payable annually on the anniversary date of the signing of the lease.

The treaty land entitlement relates to a series of reimbursement payments received from the Province of Saskatchewan pursuant to an *Amended Cost Sharing Agreement* between INAC and the Province of Saskatchewan dated September 22, 1992. The payments were a reimbursement of savings that was agreed the Province would recognize as a result of converting certain Northern communities to reserve status. These savings were agreed to be reimbursed over a period of 13 years. The last of these payments was made on March 1, 2007.

6. Accounts receivable and advances

The following table presents details of accounts receivable and advances:

	<u>2008</u>	<u>2007</u>
	<i>(in thousands of dollars)</i>	
Receivables from other Federal Government departments and agencies	33,541	54,463
Receivables from external parties	93,633	114,259
Employee advances	<u>105</u>	<u>11</u>
	<i>127,279</i>	<i>168,733</i>
Less: allowance for doubtful accounts on external receivables	<u>(24,049)</u>	<u>(21,682)</u>
Total	<u>103,230</u>	<u>147,051</u>

7. Loans receivable

The following table presents details of loans receivable :

	<u>2008</u>	<u>2007</u>
	<i>(in thousands of dollars)</i>	
Native claimants	423,504	410,657
First Nations in British Columbia	392,265	366,299
Loan guarantees	23,076	23,103
Council of Yukon First Nations - Elders	7,993	8,710
Other loans	<u>519</u>	<u>519</u>
	<i>847,357</i>	<i>809,288</i>
Less: allowance for doubtful recoveries	<u>(105,092)</u>	<u>(97,612)</u>
Total	<u>742,265</u>	<u>711,676</u>

Native claimants

Loans have been made to Native claimants to defray the costs related to the research, development and negotiation of claims.

During the year, loans were authorized by INAC Vote L30, *Appropriation Act No.2, 2007-2008*. The terms and conditions of the loans are as follows:

- (a) loans made before an agreement in principle for the settlement of a claim is reached are non interest bearing;
- (b) loans made after the date on which an agreement in principle for the settlement of a claim 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; and
- (c) 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 agreement.

The interest bearing and non interest bearing portions of the loans outstanding at year end are \$130,568,000 (\$140,144,000 in 2007) and \$292,936,000 (\$270,514,000 in 2007) respectively.

First Nations in British Columbia

Loans have been made to First Nations in British Columbia to support their participation in the British Columbia Treaty Commission process related to the research, development and negotiation of treaties.

During the year, loans were authorized by INAC Vote L35, *Appropriation Act No.2, 2007-2008*. The terms and conditions of the loans are as follows:

- (a) loans made before an agreement in principle for the settlement of a treaty is reached are non interest bearing;
- (b) loans made before April 1, 2004 and after the date on which an agreement in principle for the settlement of a treaty 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;
- (c) loans made between April 1, 2004 and March 31, 2009, and after the date on which an agreement in principle for the settlement of a treaty has been reached, shall be interest free unless the loans become due and payable during this period; and
- (d) loans are due and payable by the First Nation and the loan will be paid on the earliest of the following dates:

- (i) date on which the treaty is settled;
- (ii) twelfth anniversary of the first loan advances to the First Nation under the earliest First Nations funding agreement;
- (iii) seventh anniversary after the signing of an agreement in principle; or
- (iv) date the Federal Minister demands payment of the loans due to an event of default under this agreement or under any First Nations funding agreement.

The interest bearing and non interest bearing portions of the loans outstanding at year end are \$54,060,000 (\$54,060,000 in 2007) and \$338,205,000 (\$312,239,000 in 2007) respectively.

Loan guarantees

The Department, under various programs, guarantees loans made by lending institutions to First Nations and First Nations organizations. As guarantor, and at the request of a lending institution, INAC may be required to honour these loan guarantees. As a result, the Department makes payment to the lending institution and establishes a receivable from the First Nation or First Nation organization.

Council of Yukon First Nations - Elders

Loans have been made to the Council of Yukon First Nations to provide interim benefits to elderly Yukon Indians pending settlement of Yukon Indian land claims.

During the year, loans were authorized by INAC Vote L30, *Appropriation Act No. 2, 2007-2008*. The terms and conditions of the loans are as follows:

- (a) loans made before an agreement in principle for the settlement of a claim is reached are non interest bearing;
- (b) loans made after the date on which an agreement in principle for the settlement of a claim 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; and
- (c) 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 agreement, which shall be no later than March 31, 2008, whichever date is earlier.

All loans outstanding at year-end, both for the current and prior year, are interest bearing.

8. 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 of a claim, these assets are transferred to the Aboriginal group.

Changes in this account are summarized in the following table:

<i>(in thousands of dollars)</i>	<u>2008</u>			<u>2007</u>
	<u>Opening balance</u>	<u>Acquisitions</u>	<u>Transfers</u>	<u>Closing balance</u>
Land held for future claims settlements	<u>24,235</u>	<u>1,488</u>	<u>710</u>	<u>24,235</u>

9. Tangible Capital Assets

(in thousands of dollars)

Capital asset class	<u>Cost</u>			<u>Accumulated amortization</u>				<u>Total</u>		
	<u>Opening balance</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>Closing balance</u>	<u>Opening balance</u>	<u>Amortization</u>	<u>Disposals</u>	<u>Closing balance</u>	2008 net book value	2007 net book value
Land	606	-	-	606	-	-	-	-	606	606
Buildings	29,016	-	(416)	28,600	11,181	716	(102)	11,795	16,805	7,835
Works and infrastructure	1,409	-	-	1,409	1,180	45	-	1,225	184	229
Machinery and equipment	8,312	595	(370)	8,537	5,232	515	(360)	5,387	3,150	3,080
Informatics hardware	37,552	2,167	(6,835)	32,884	30,075	3,713	(6,685)	27,103	5,781	7,477
Informatics software	120	2,144	6,839	9,103	4	2,127	-	2,131	6,972	116
Ships and boats	130	-	-	130	61	8	-	69	61	69
Motor vehicles	3,898	786	(211)	4,473	2,668	449	(210)	2,907	1,566	1,230
Other vehicles	340	-	-	340	211	34	-	245	95	129
Leasehold improvements	58	366	(184)	240	-	-	-	-	240	58
Assets under construction	<u>8,161</u>	<u>157</u>	<u>(6,839)</u>	<u>1,479</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,479</u>	<u>8,161</u>
Total	<u>89,602</u>	<u>6,215</u>	<u>(8,016)</u>	<u>87,801</u>	<u>50,612</u>	<u>7,607</u>	<u>(7,357)</u>	<u>50,862</u>	<u>36,939</u>	<u>38,990</u>

Amortization expense for the year ended March 31, 2008 is \$7,607 (\$5,243 in 2007).

10. Trust Accounts

In accordance with the *Indian Act*, INAC has responsibility to administer certain Indian moneys of bands, minors, mentally incompetent individuals and deceased Indians.

All moneys collected or received on behalf of these groups are deposited to the CRF and bear interest at a rate fixed from time to time by the Governor-in-Council pursuant to Section 61(2) of the *Indian Act*. Interest is accumulated in the accounts and is compounded semi-annually.

The following table shows the Department's financial obligations in its role as administrator of these Indian moneys:

	<i>(in thousands of dollars)</i>				
		<u>2008</u>		<u>2007</u>	
	<u>Opening balance</u>	<u>Receipts</u>	<u>Payments</u>	<u>Closing balance</u>	<u>Closing balance</u>
Indian Band Funds	942,040	280,350	240,828	981,562	942,040
Indian Savings Accounts	39,076	3,876	4,165	38,787	39,076
Indian Estates Accounts	<u>12,608</u>	<u>4,784</u>	<u>4,187</u>	<u>13,205</u>	<u>12,608</u>
Total	<u>993,724</u>	<u>289,010</u>	<u>249,180</u>	<u>1,033,554</u>	<u>993,724</u>

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*.

Moneys 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 gravels. Revenue moneys are all moneys not classified as capital moneys.

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

Indian Savings Accounts

These accounts were established to record moneys belonging to Indian minors 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 held in these accounts until the minor attains the age of majority and are then paid out to the beneficiary in instalments over a period not exceeding three years.

Indian Estate Accounts

These accounts were established to record moneys belonging to mentally incompetent individuals and deceased Indians pursuant to sections 42 to 51 and 52.3 of the *Indian Act*.

Sources of moneys belonging to mentally incompetent individuals include inheritances, per capita distribution of band funds, and provincial assistance 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.

11. 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, 2008, INAC had 12 outstanding settled claims (13 in 2007). Payments totalled \$128,000,000 in 2008 (\$192,330,000 in 2007).

The present value of the liability for settled claims at March 31, 2008 is \$546,534,000 (\$642,160,000 in 2007). Future scheduled claim payments are as follows:

(in thousands of dollars)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013 and thereafter</u>	<u>Total</u>
Scheduled payments	<u>86,000</u>	<u>77,000</u>	<u>81,000</u>	<u>82,000</u>	<u>343,000</u>	<u>669,000</u>

12. Contingent liabilities

Contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. They are classified into three categories: claims and litigation, environmental liabilities (contaminated sites) and loan guarantees.

Claims and litigation

There are hundreds of claims and pending and threatened litigation cases outstanding against the Department. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in the financial statements.

There are three significant types of claims faced by the department: comprehensive land claims, specific claims, and general litigation claims.

There are 75 (71 in 2007) comprehensive land claims and 689 (744 in 2007) specific claims under negotiation, accepted for negotiation, or under review. Legal proceedings for 525 (451 in 2007) claims being pursued through the courts were still pending at March 31, 2008.

INAC has recorded an allowance of \$10,618,915,000 (\$9,785,811,000 in 2007) 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.

Environmental liabilities

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

INAC has identified contaminated sites for which a liability of \$1,497,137,000 (\$1,313,856,000 in 2007) has been recorded. Estimated additional clean-up costs of \$628,767,000 (\$519,205,000 in 2007) have not been accrued, as the likelihood of incurring these costs cannot be determined at this time.

INAC's ongoing efforts to assess contaminated sites may result in additional environmental liabilities related to newly identified sites, or changes in the assessments or intended use of existing sites. These liabilities will be accrued by the Department in the year in which they become known.

Loan guarantees

The amount of the allowance for losses on loan guarantees is determined by taking into consideration the weighted average of the contingent liability and the historical percentage of default. Losses on loan guarantees are recorded when it is likely that a payment will be made to honour a guarantee. As at March 31, 2008, INAC has recorded an allowance for losses on loan guarantees of \$1,800,000 (\$1,800,000 in 2007).

As at March 31, 2008, INAC has the following balances available for new guarantees:

<i>(in thousands of dollars)</i>	<u>Authorized Limit</u>	<u>Balance Available</u>
Indian Economic Development Guarantee Program	60,000	821
On Reserve Housing Guarantee Program	1,700,000	17,648
Aboriginal Business Loan Insurance Program	No Limit	Not Applicable

In 1987, a reserve for losses of \$2,000,000 per annum was established within INAC's reference levels to cover all loan guarantee programs administered by the Department.

Indian Economic Development Guarantee Program

This program, established under Vote L53(b), *Appropriation Act No. 1, 1970*, and amended under Order in Council no. P.C. 1977-3608, authorizes the Department to guarantee loans for Indian business on a risk-sharing basis with commercial lenders. The guarantee level is not to exceed at any time \$60,000,000 less the total amount of payments made to implement previous guarantees under this authority.

On Reserve Housing Guarantee Program

Guarantees under this program provide needed support to Indian or Indian bands residing on reserves or Crown land. Since reserves are non-mortgageable, the Ministerial guarantee provides security to the lending institution in the event of a default by the client.

Aboriginal Business Loan Insurance Program

This program, established under the Department of Industry, *Science and Technology Act*, Section 9 and Paragraph 15(1)(b), and Order in Council nos. P.C. 1990-370 and P.C. 1990-371, and amended under *Department of Industry Act, 1995*, Part IV, Paragraph 14(1)(b), provides loan insurance to financial institutions on behalf of loans issued to Aboriginal individuals, organizations, corporations or partnerships for the purpose of increasing commercial enterprise activity by Aboriginal Canadians.

No limit was established regarding the maximum insured amount.

13. Employee Benefits

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 the Department contribute to the cost of the Plan. For the year ended March 31, 2008, the expense amounts to \$37,978,000 (\$36,006,000 in 2007), which represents approximately 2.1 times (2.2 in 2007) the contributions by employees.

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.

Severance benefits

INAC provides severance benefits to its employees based on eligibility, years of service and final salary. These severance benefits are not pre-funded. Benefits will be paid from future appropriations. Information about the severance benefits, measured as at March 31, is as follows:

	<u>2008</u>	<u>2007</u>
	<i>(in thousands of dollars)</i>	
Accrued benefit obligation, beginning of year	56,349	53,199
Expense for the year	8,735	8,380
Benefits paid during the year	<u>(6,582)</u>	<u>(5,230)</u>
Accrued benefit obligation, end of year	<u>58,502</u>	<u>56,349</u>

14. Contractual Obligations

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

	<i>(in thousands of dollars)</i>					
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013 and thereafter</u>	<u>Total</u>
Transfer payments	1,366,000	933,000	464,000	235,000	336,000	3,334,000
Operating leases	<u>15,000</u>	-	-	-	-	<u>15,000</u>
Total	<u>1,381,000</u>	<u>933,000</u>	<u>464,000</u>	<u>235,000</u>	<u>336,000</u>	<u>3,349,000</u>

15. Related party transactions

INAC is related as a result of common ownership to all Government of Canada departments, agencies, and Crown corporations. INAC enters into transactions with these entities in the normal course of business and on normal trade terms. Also, during the year, INAC received services which were obtained without charge from other Government departments as presented in part (a).

a) Services provided without charge

During the year INAC received without charge from other departments, accommodation, the employer's contribution to the health and dental insurance plans, workman's compensation coverage and legal services. These services without charge have been recognized in INAC's statement of operations as follows:

	<u>2008</u> <i>(in thousands of dollars)</i>	<u>2007</u>
Accommodation provided by Public Works and Government Services Canada (PWGSC)	29,377	26,789
Contributions covering employers' share of employees' insurance premiums and expenditures paid by TBS (excluding revolving funds)	22,592	24,219
Workman's compensation coverage provided by Human Resources Canada	587	637
Salary and associated expenditures for legal services provided by Justice Canada	<u>21,212</u>	<u>20,736</u>
Total	<u>73,768</u>	<u>72,381</u>

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

b) Payables outstanding at year-end with related parties

	<u>2008</u> <i>(in thousands of dollars)</i>	<u>2007</u>
Accounts payable to other government departments and agencies	<u>15,211</u>	<u>25,776</u>

16. Subsequent events

a) Indian Residential Schools Resolution Canada - Pursuant to Order in Council P.C. 2008-805 dated April 25, 2008, Indian Residential Schools Resolution Canada (IRSRC) was amalgamated and combined with INAC under the Minister of INAC, effective June 1, 2008.

This amalgamation will result in an equity adjustment in the 2008-2009 fiscal year. At March 31, 2008, the net assets of IRSRC included total assets of \$13,844,000 and total liabilities of \$1,083,965,000. IRSRC's assets are comprised mainly of accounts receivable and tangible capital assets, while their liabilities are comprised mainly of accounts payable and allowances for claims and litigation.

For the year ended March 31, 2008, IRSRC's net cost of operations was (\$1,306,068,000), comprised mainly of transfer payments to First Nations and First Nations organizations and professional and special services.

b) Mackenzie Gas Project - Pursuant to Order in Council P.C. 2007-1888 dated December 6, 2007, the powers, duties and functions of the Minister of INAC under the *Mackenzie Gas Project Impacts Act* in relation to the Mackenzie Gas Project (the Project) were transferred to Industry Canada.

However, further to a Memorandum of Understanding between the two departments, INAC continued to operate the Project until March 31, 2008. Effective April 1, 2008, operational control of the Project was transferred to Industry Canada.

This transfer will result in an equity adjustment in the 2008-2009 fiscal year. For the year ended March 31, 2008, total expenditures relating to the Project totalled \$8,479,000, comprised mainly of salaries, operating expenditures, and contributions.

c) Ministerial Loan Guarantees - INAC's On Reserve Housing Guarantee program authority of \$1.7 billion to guarantee loans made by approved lenders as defined in the *National Housing Act*, as well as loans made by provincial corporations or their agents and by Canada Mortgage and Housing Corporation, was exceeded on May 26, 2008.

The Department has taken remedial action to address this situation, including the implementation of a strengthened management control framework over the Ministerial Loan Guarantee process. The Department is currently preparing a Treasury Board submission, seeking an increase in the current authority limit, to be submitted for Treasury Board consideration and approval in the fall of 2008.

17. Comparative information

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