

ABORIGINAL AFFAIRS AND NORTHERN DEVELOPMENT 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, 2015, and all information contained in these statements rests with the management of Aboriginal Affairs and Northern Development Canada (AANDC). 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 AANDC's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in AANDC'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 AANDC; 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, 2015 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 AANDC's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of AANDC'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 AANDC have not been audited.

Original signed by Colleen Swords

Colleen Swords
Deputy Minister

Gatineau, Canada
August 31, 2015

Original signed by Paul Thoppil

Paul Thoppil, CPA, CA
Chief Financial Officer

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

	2015	2014
Liabilities		
Accounts payable and accrued liabilities (note 4)	688,212	632,704
Vacation pay and compensatory leave	15,194	16,242
Other liabilities (note 5)	70,606	82,476
Trust accounts (note 6)	892,254	890,472
Settled claims (note 7)	281,854	356,355
Provision for claims and litigation (note 8)	10,635,848	9,755,837
Environmental liabilities (note 8)	3,000,346	2,702,986
Provision for loan guarantees (note 8)	1,405	410
Employee future benefits (note 9)	25,586	21,010
Total liabilities	15,611,305	14,458,492
Financial assets		
Due from the Consolidated Revenue Fund	1,638,093	1,587,441
Accounts receivable and advances (note 10)	69,321	68,661
Interest receivable (note 11)	1,462	1,759
Loans receivable (note 12)	858,256	834,970
Total gross financial assets	2,567,132	2,492,831
Financial assets held on behalf of Government		
Interest receivable (note 11)	(1,462)	(1,759)
Loans receivable (note 12)	(858,256)	(834,970)
Total financial assets held on behalf of government	(859,718)	(836,729)
Total net financial assets	1,707,414	1,656,102
Departmental net debt	13,903,891	12,802,390
Non-financial assets		
Land held for future claims settlements (note 13)	39,570	39,570
Tangible capital assets (note 14)	92,958	67,662
Total non-financial assets	132,528	107,232
Departmental net financial position (note 15)	(13,771,363)	(12,695,158)

Contingent liabilities (note 8)

Contractual obligations (note 16)

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

Original signed by Colleen Swords _____

Colle

en Swords
Deputy Minister

Gatineau, Canada
August 31, 2015

Original signed by Paul Thoppil _____
Paul Thoppil, CPA, CA

Chief Financial Officer

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

	2015	2015	2014
	Planned Results		
Expenses			
People	3,615,556	3,786,451	3,389,603
Government	1,811,253	2,400,738	1,336,544
Land and Economy	1,456,886	1,623,181	1,417,535
North	86,256	655,183	595,255
Internal Services	273,305	324,718	402,579
Expenses incurred on behalf of Government	(4,612)	(5,883)	8,906
Total expenses	7,238,644	8,784,388	7,150,422
Revenues			
Norman Wells project profits	98,268	74,779	83,503
Resource royalties	49,629	59,541	16,283
Interest on loans	5,955	7,761	6,168
Finance and administrative services	710	3,135	690
Miscellaneous	3,777	2,005	5,021
Leases and rentals	724	1,670	2,665
Revenues earned on behalf of Government	(157,351)	(143,080)	(112,870)
Total revenues	1,712	5,811	1,460
Net cost of operations	7,236,932	8,778,577	7,148,962
Net cost of operations before government funding and transfers	7,236,932	8,778,577	7,148,962
Government funding and transfers			
Net cash provided by Government		7,584,385	7,987,747
Change in due from the Consolidated Revenue Fund		50,652	(57,834)
Services provided without charge by other government departments (note 17)		80,629	89,416
Transfer of the transition payments for implementing salary payments in arrears (note 18)		(13,294)	-
Net cost of operations after government funding and transfers		1,076,205	(870,367)
Departmental net financial position – Beginning of year		(12,695,158)	(13,565,525)
Departmental net financial position – End of year		(13,771,363)	(12,695,158)

Segmented Information (note 19)

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

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

	2015	2014
Net cost of operations after government funding and transfers	1,076,205	(870,367)
Change due to tangible capital assets		
Acquisition of tangible capital assets (note 14)	35,852	24,556
Amortization of tangible capital assets (note 14)	(8,020)	(8,677)
Proceeds from disposal of tangible capital assets	(2,675)	(770)
Gain (loss) on disposal of tangible capital assets	(89)	727
Adjustments to tangible capital assets	228	(13,912)
<i>Total change due to tangible capital assets</i>	25,296	1,924
Change due to land held for future claims settlements	-	7,935
Net increase (decrease) in departmental net debt	1,101,501	(860,508)
Departmental net debt – Beginning of year	12,802,390	13,662,898
Departmental net debt – End of year	13,903,891	12,802,390

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

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

	2015	2014
Operating activities		
Net cost of operations before government funding and transfers	8,778,577	7,148,962
Non-cash items:		
Amortization of tangible capital assets (note 14)	(8,020)	(8,677)
Gain on disposal of tangible capital assets	(89)	727
Adjustments to tangible capital assets	228	(13,912)
Services provided without charge by other government departments (note 17)	(80,629)	(89,416)
Transition payments for implementing salary payments in arrears (note 18)	13,294	-
Variations in Statement of Financial Position:		
Increase (decrease) in accounts receivable and advances	660	(11,965)
Increase (decrease) in land held for future claims settlements	-	7,935
Decrease (increase) in liabilities	(1,152,813)	930,307
<i>Cash used in operating activities</i>	<i>7,551,208</i>	<i>7,963,961</i>
Capital investing activities		
Acquisitions of tangible capital assets (note 14)	35,852	24,556
Proceeds from disposal of tangible capital assets	(2,675)	(770)
<i>Cash used in capital investing activities</i>	<i>33,177</i>	<i>23,786</i>
Net cash provided by Government of Canada	7,584,385	7,987,747

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

Notes to the Financial Statements (Unaudited)

ABORIGINAL AFFAIRS AND NORTHERN DEVELOPMENT 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 Aboriginal Affairs and Northern Development Canada (AANDC).

AANDC 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 AANDC 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, AANDC 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 AANDC 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, AANDC 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 AANDC'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 – AANDC is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to AANDC 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 financial statements included in the *2014-2015 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 *2014-2015 Report on Plans and Priorities*.

Notes to the Financial Statements (Unaudited)

b) Net cash provided by Government – AANDC operates within the Consolidated Revenue Fund, which is administered by the Receiver General for Canada. All cash received by AANDC is deposited to the Consolidated Revenue Fund and all cash disbursements made by AANDC 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 AANDC 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-respensible are not available to discharge AANDC's liabilities. While the Deputy Minister is expected to maintain accounting control, she has no authority regarding the disposition of non-respensible revenues. As a result, non-respensible revenues are considered to be earned on behalf of the Government of Canada and therefore presented in reduction of AANDC'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.

Notes to the Financial Statements (Unaudited)

f) Employee future benefits

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

Notes to the Financial Statements (Unaudited)

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.

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. AANDC 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

AANDC 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, AANDC 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

	2015	2014
	<i>(in thousands of dollars)</i>	
Net cost of operations before government funding and transfers	8,778,577	7,148,962
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets	(8,020)	(8,677)
Gain (loss) on disposal of tangible capital assets	(89)	727
Transfer of land held for future claims settlements	-	(328)
Adjustments to real property	-	(5,927)
Services provided without charge by other government departments	(80,629)	(89,416)
Bad debt expense (not incurred on behalf of government)	(7,237)	(37)
Decrease (increase) in vacation pay and compensatory	1,048	573
Decrease (increase) in liability for settled claims	74,501	76,571
Decrease (increase) in provision for claims and litigation	(880,011)	959,088
Decrease (increase) in environmental liabilities	(297,360)	(172,153)
Decrease (increase) in employee future benefits	(4,576)	9,593
Decrease (increase) in accrued liabilities not charged to authorities	336	3,000
Refunds/adjustments to prior years' expenditures	67,549	72,886
Other	(5,723)	(1,726)
Total items affecting net cost of operations but not affecting authorities	(1,140,211)	844,174
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisition of tangible capital assets	35,852	24,556
Acquisition of land held for future claims settlements	-	380
Refund of previous year revenues	3,944	21,387
Transition payments for implementing salary payments in arrears	13,294	-
Other	197	33
Total items not affecting net cost of operations but affecting authorities	53,287	46,356
Current year authorities used	7,691,653	8,039,492

Notes to the Financial Statements (Unaudited)

b) Authorities provided and used

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of dollars)</i>	
Authorities provided:		
Vote 1 – Operating expenditures	1,401,102	1,527,574
Vote 5 – Capital expenditures	46,442	19,166
Vote 10 – Grants and contributions	7,057,149	7,011,939
Statutory amounts	225,904	219,689
Total authorities provided	8,730,597	8,778,368
Less:		
Authorities available for future years	(34,689)	(33,261)
Authorities lapsed:		
Vote 1 – Operating expenditures	(259,694)	(190,713)
Vote 5 – Capital expenditures	(7,411)	(12,533)
Vote 10 – Grants and contributions	(737,150)	(502,077)
Statutory amounts	-	(292)
Total authorities lapsed and available for future years	(1,038,944)	(738,876)
Current year authorities used	7,691,653	8,039,492

In addition to the amount for authorities available for future years presented above, some of the other lapsed amounts may become available to AANDC in the 2016 fiscal year, but due to the timing of parliamentary approvals, these amounts had not been approved at March 31, 2015. Additional information on the use of authorities, including explanation of variances and lapsed amounts, can be found in AANDC's *Departmental Performance Report*.

Notes to the Financial Statements (Unaudited)

4. Accounts payable and accrued liabilities

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

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of dollars)</i>	
Accounts payable – Other government departments and agencies	26,671	29,406
Accounts payable – External parties	164,521	152,800
Total accounts payable	191,192	182,206
Accrued liabilities	497,020	450,498
Total accounts payable and accrued liabilities	688,212	632,704

In the *Economic Action Plan 2012*, the Government announced savings measures to be implemented by departments over the next three fiscal years starting in 2012-2013. As a result, AANDC has recorded at March 31, 2015 an obligation for termination benefits in the amount of \$11,000 (\$388,000 in 2013-2014) as part of accrued liabilities to reflect the estimated workforce adjustment costs.

5. Other liabilities

The following table presents details of other liabilities:

<i>(in thousands of dollars)</i>	<u>2015</u>					<u>2014</u>
	Opening Balance	Receipts	Interest	Disbursements	Closing Balance	Closing Balance
Cash guarantee deposits	35,070	15	-	(17,823)	17,262	35,070
Other specified purpose accounts	47,406	31,659	1,132	(26,853)	53,344	47,406
Total	82,476	31,674	1,132	(44,676)	70,606	82,476

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, AANDC 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, AANDC may require security deposits to ensure the lands and waters are returned in a condition acceptable to AANDC. 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 AANDC. 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 AANDC's financial obligations in its role as administrator of trust accounts for Indian moneys:

(in thousands of dollars)

	2015					2014
	Opening Balance	Receipts	Interest	Disbursements	Closing Balance	Closing Balance
Indian band funds	833,254	184,552	20,503	(203,612)	834,697	833,254
Indian savings accounts	33,900	2,273	1,013	(4,527)	32,659	33,900
Indian estate accounts	23,318	7,060	418	(5,898)	24,898	23,318
Total trust accounts	890,472	193,885	21,934	(214,037)	892,254	890,472

Indian Moneys

In accordance with the *Indian Act*, AANDC 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 AANDC: 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 AANDC'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 AANDC 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, 2015, AANDC had 10 outstanding settled claims (11 in 2014). Payments totalled \$87,409,000 in 2015 (\$86,023,000 in 2014).

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, 2015 is \$281,854,000 (\$356,355,000 in 2014).

Future scheduled claim payments are as follows:

(in thousands of dollars)

	2016	2017	2018	2019	2020 and thereafter	Total
Scheduled payments	57,000	56,000	58,000	51,000	67,000	289,000

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 three categories; claims and litigation, environmental liabilities and loan guarantees.

Claims and litigation

Claims and pending or threatened litigation cases outstanding against AANDC 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 AANDC: 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 80 (81 in 2014) 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 461 (441 in 2014) specific claims under negotiation, accepted for negotiation or under review.

There are legal proceedings for 554 (538 in 2014) general litigation claims being pursued through the courts still pending at March 31, 2015. There are also thousands of claims being managed through AANDC 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.

AANDC has recorded a provision of \$10,635,848,000 (\$9,755,837,000 in 2014) 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 \$15,344,000 (\$105,720,000 in 2014) and an additional amount of \$4,688,785,000 (\$4,800,633,000 in 2014) 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 19 – Segmented information.

Notes to the Financial Statements (Unaudited)

Environmental Liabilities

Liabilities are accrued to record the estimated costs related to the management and remediation of contaminated sites where AANDC is obligated to incur such costs².

AANDC has disclosed a contingent liability in the amount of \$742,000 for two sites (\$722,000 in 2014 for two sites) where the department has determined that it is not directly responsible, nor does it accept responsibility; however, there is uncertainty as to whether the department may be responsible.

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 AANDC 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.

AANDC has identified approximately 2,473 sites (2,817 sites in 2014) where contamination may exist and assessment, remediation and monitoring may be required. Of these, AANDC has identified 815 sites (893 sites in 2014) where action is possible and for which a net liability of \$3,000,346,000 (\$2,702,986,000 in 2014) has been recorded. This liability 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.

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, 2015, and March 31, 2014. When the liability estimate is based on a future cash requirement, the Consolidated Revenue Fund Monthly Lending Rates has been used to discount the estimated future expenditures. The March 2015 rates range from 0.61% for a 2 year term to 2.12% for a 25 or greater year term.

² Contaminated sites may be remediated with a transfer payment or an operating expenditure. As a result, the year-over-year change in environmental liabilities is allocated between transfer payment expenses and operating expenses, as shown in note 19 – Segmented information.

Notes to the Financial Statements (Unaudited)

(in thousands of dollars)

NATURE & SOURCE OF LIABILITY								
Nature & Source	Total Number of Sites 2015	Estimated Liability 2015	Estimated Total Undiscounted Expenditures 2015	Estimated Recoveries 2015	Total Number of Sites 2014	Estimated Liability 2014	Estimated Total Undiscounted Expenditures 2014	Estimated Recoveries 2014
Radioactive Material ¹	1	7,852	76	-	1	6,979	-	-
Former Mineral Exploration Sites ²	73	2,474,591	135,852	17,321	72	2,141,546	130,401	17,321
Military & Former Military Sites ³	48	167,030	23,351	-	49	173,299	16,080	-
Fuel Related Practices ⁴	398	227,202	17,303	-	447	255,324	19,869	-
Land Fill/ Waste Sites ⁵	263	65,863	5,417	-	285	57,602	2,266	-
Land Fill/Waste Sites (Yukon Devolution) ⁵	1	11,182	813	-	1	11,995	928	-
Engineering Assets/ Air and Land Transportation ⁶	2	1,524	-	-	4	1,356	-	-
Marine Facilities / Aquatic Sites ⁷	1	245	-	-	1	245	-	-
Office/ Commercial/ Industrial Operations ⁸	15	17,510	261	-	21	17,294	225	-
Others ⁹	13	27,347	1,835	-	12	37,346	276	-
Totals	815	3,000,346	184,908	17,321	893	2,702,986	170,045	17,321

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)

Of the remaining 1,658 sites for which no liability is recorded, 204 sites were closed and 11 sites are pending closure, as they were either remediated or assessed and found not to be contaminated, and there are 1,443 sites for which an estimated liability has not been determined, primarily due to the fact the sites are not yet fully assessed and contamination has not yet been determined or they have not developed a detailed remediation plan. As the sites are assessed, if contamination is found, and it exceeds the environmental standard, a liability will be recognized as soon as a reasonable estimate can be made.

Of the 1,443 sites that do not have liabilities, 55 sites are considered high priority for action because they present a higher risk to human health and the environment. These sites are at various stages of testing and evaluation in order to develop a remediation or risk management strategy. Liabilities will be reported as soon as a reasonable estimate can be determined. 207 sites are considered a medium to low priority based on the low level of risk to human health or the environment. Assessment and remediation will be done on these sites as resources become available. 1,120 sites are not yet classified because they are only at the initial testing stages and contamination has not yet been determined. 37 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. 24 sites currently have insufficient information in order to classify. Additional information is required to classify the site but is not available at this time. As additional information becomes available the sites will be re-examined.

A measurement uncertainty exists for three sites for which a management option will be selected within the next fiscal year which could have a significant impact on the amount reported. Depending on the management option selected for these sites, a range in the liability is possible from the lowest estimate of \$144,581,000 to the highest estimate of \$194,182,000 (\$125,000 to \$3,359,000 in 2014 for one site).

Notes to the Financial Statements (Unaudited)

Loan guarantees

(in thousands of dollars)

	Authorized Limit	Loan Guarantees		Provision for Losses	
		2015	2014	2015	2014
On-Reserve Housing Guarantee program	2,200,000	1,715,281	1,810,445	1,330	320
Indian Economic Development Guarantee program	60,000	928	1,008	75	90
Total	2,260,000	1,716,209	1,811,453	1,405	410

AANDC 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 AANDC 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 AANDC 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. Employee future benefits

a) Pension benefits

AANDC'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 AANDC 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, 2015, the expense amounts to \$41,514,000 (\$47,729,000 in 2014). For Group 1 members, the expense represents approximately 1.4 times (1.6 times in 2014) the employee contributions and, for Group 2 members, approximately 1.4 times (1.5 times in 2014) the employee contributions.

AANDC'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

AANDC 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>2015</u>	<u>2014</u>
	<i>(in thousands of dollars)</i>	
Accrued benefit obligation- Beginning of year	21,010	30,603
Expense for the year	12,036	9,793
Benefits paid during the year	<u>(7,460)</u>	<u>(19,386)</u>
Accrued benefit obligation- End of year	<u>25,586</u>	<u>21,010</u>

Notes to the Financial Statements (Unaudited)

10. Accounts receivable and advances

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

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of dollars)</i>	
Receivables – Other government departments and agencies	12,971	19,576
Receivables – External parties	77,203	64,240
Advances to Employee and Other	1,742	204
Gross accounts receivable and advances	91,916	84,020
Less:		
Allowance for doubtful accounts on receivables from external parties	(22,595)	(15,359)
Net accounts receivable and advances	69,321	68,661

11. Interest receivable

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

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of dollars)</i>	
Direct loans	1,312	1,502
Defaulted guaranteed loans	2,653	1,685
Gross interest receivable	3,965	3,187
Less:		
Allowance for doubtful accounts	(2,503)	(1,428)
Net interest receivable (held on behalf of Government)	1,462	1,759

Notes to the Financial Statements (Unaudited)

12. Loans receivable

The following table presents details of loans receivable:

	2015	2014
	<i>(in thousands of dollars)</i>	
Direct loans portfolio:		
Native claimants	447,126	441,678
First Nations in British Columbia	505,896	485,710
Other direct loans	504	504
Subtotal: Direct loans portfolio	953,526	927,892
Add: Capitalized interest	4,545	4,405
Less: Allowance for doubtful loans	(109,856)	(108,028)
Net recoverable value: Direct loans portfolio	848,215	824,269
Defaulted guaranteed loans portfolio:		
On-reserve housing guarantees	9,263	10,612
Indian economic development guarantees	422	522
Other defaulted guaranteed loans	104	104
Subtotal: Defaulted guaranteed loans portfolio	9,789	11,238
Add: Capitalized interest	24,221	20,647
Less: Allowance for doubtful loans	(23,969)	(21,184)
Net recoverable value: Defaulted guaranteed loans portfolio	10,041	10,701
Loans receivable, net recoverable value (held on behalf of Government)	858,256	834,970

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.

AANDC'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
- AANDC 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>2015</u>	<u>2014</u>
	<i>(in thousands of dollars)</i>	
Interest bearing	65,068	72,382
Non-interest bearing	382,058	369,296
Total	<u>447,126</u>	<u>441,678</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, 2015, 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:

	2015	2014
	<i>(in thousands of dollars)</i>	
Interest bearing	16,426	18,189
Non-interest bearing	489,470	467,521
Total	505,896	485,710

Other direct loans

AANDC 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, AANDC is required to honour these loan guarantees. As a result, AANDC makes payment to the lending institution and establishes a receivable from the First Nation or First Nation organization.

AANDC 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 two loan defaults in 2015 (0 in 2014) which resulted in a charge of \$90,000 to AANDC's reserve for payments to cover defaults (\$0 in 2014).

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 AANDC.

Other defaulted guaranteed loans

AANDC 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.

13. 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 AANDC 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)

	2015				2014
	Opening Balance	Acquisitions	Adjust- ments	Transfers	Closing Balance
Land held for future claims settlements	39,570	-	-	-	39,570

Notes to the Financial Statements (Unaudited)

14. 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	2015	2014
Land	1,407	-	-	58	1,349	-	-	-	-	-	1,349	1,407
Buildings	18,465	-	-	4,859	13,606	8,691	351	-	2,458	6,584	7,022	9,774
Works and infrastructure	1,409	-	-	-	1,409	1,409	-	-	-	1,409	-	-
Machinery and equipment	5,428	84	3,200	124	8,588	4,331	715	1,494	56	6,484	2,104	1,097
Informatics hardware	17,797	12	(3,393)	-	14,416	16,160	110	(1,900)	-	14,370	46	1,637
Informatics software	57,883	-	9,031	-	66,914	28,824	5,646	-	-	34,470	32,444	29,059
Other equipment	-	24	421	-	445	-	4	406	-	410	35	-
Ships and boats	113	23	-	99	37	78	2	-	65	15	22	35
Motor vehicles	3,727	285	(288)	1,142	2,582	2,872	310	(278)	1,117	1,787	795	855
Other vehicles	391	23	289	120	583	345	9	278	84	548	35	46
Leasehold improvements	4,049	-	1,711	-	5,760	1,304	873	-	-	2,177	3,583	2,745
Assets under construction	21,007	35,401	(10,743)	142	45,523	-	-	-	-	-	45,523	21,007
Total	131,676	35,852	228	6,544	161,212	64,014	8,020	-	3,780	68,254	92,958	67,662

(1) Adjustments include assets under construction of \$10,743,000 that were transferred to the other categories upon completion of the assets. Net adjustments of \$228,000 are as a result of previously unrecorded assets which were identified during the fiscal year.

Notes to the Financial Statements (*Unaudited*)

15. Departmental net financial position

A portion of AANDC'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 AANDC.

Activity in the accounts is as follows:

	2015	2014
	<i>(in thousands of dollars)</i>	
Environmental Studies Research Fund – Restricted		
Balance – Beginning of year – Restricted	3,555	1,243
Revenues	1,323	3,555
Expenses	(3,555)	(1,243)
<i>Balance – End of year - Restricted</i>	1,323	3,555
Bowater Environmental Remediation Fund – Restricted		
Balance – Beginning of year - Restricted	2,238	2,284
Expenses	(111)	(46)
<i>Balance – End of year - Restricted</i>	2,127	2,238
Total restricted	3,450	5,793
Unrestricted	(13,774,813)	(12,700,951)
Departmental net financial position – End of year	(13,771,363)	(12,695,158)

Notes to the Financial Statements (*Unaudited*)

16. Contractual obligations

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

(in thousands of dollars)

	2016	2017	2018	2019	2020 and thereafter	Total
Transfer payments	4,468,708	2,331,742	1,705,829	1,194,238	529,007	10,229,524

17. Related party transactions

AANDC is related as a result of common ownership to all Government departments, agencies, and Crown corporations. AANDC enters into transactions with these entities in the normal course of business and on normal trade terms. In addition, AANDC 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, AANDC 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, AANDC 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 AANDC's Statement of Operations and Departmental Net Financial Position as follows:

	2015	2014
	<i>(in thousands of dollars)</i>	
Accommodation	37,570	41,836
Employer's contribution to the health and dental insurance plans	31,757	34,994
Legal services	10,942	12,091
Workers' compensation	360	495
Total	80,629	89,416

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 Works and Government Services Canada and audit services provided by the Office of the Auditor General are not included in AANDC's Statement of Operations and Departmental Net Financial Position.

Notes to the Financial Statements (*Unaudited*)

b) Other transactions with related parties

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of dollars)</i>	
Expenses – Other Government departments and agencies	297,615	279,770
Revenues – Other Government departments and agencies	4,459	4,245

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

18. 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 AANDC. 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 Works and Government Services Canada, who is responsible for the administration of the Government pay system.

Notes to the Financial Statements (Unaudited)

19. Segmented information

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

<i>(in thousands of dollars)</i>	People	Land and Economy	Government	North	Internal Services	2015 Total	2014 Total
Transfer Payments							
First Nations	2,929,120	1,421,930	959,110	12,879	-	5,323,039	5,511,630
Claims and litigation (note 8)	-	-	1,120,521	-	-	1,120,521	(264,251)
Provincial/territorial governments and institutions	497,782	69,301	214,598	116,015	-	897,696	857,128
Environmental liabilities (note 8)	-	14,484	-	88,735	-	103,219	40,358
Industry	9,804	1,270	-	65,500	-	76,574	104,795
Non-profit organizations	40,732	20,010	192	4,452	-	65,386	41,473
Other	646	-	-	-	-	646	547
Refunds/adjustments to prior years' expenditures	(26,121)	(20,327)	(2,693)	(812)	-	(49,953)	(53,895)
Total Transfer Payments	3,451,963	1,506,668	2,291,728	286,769	-	7,537,128	6,237,785
Operating Expenses							
Salaries and employee future benefits	108,029	86,467	92,387	46,138	146,400	479,421	507,813
Court awards and other settlements	377,432	-	-	-	7,998	385,430	517,872
Professional and special services	54,445	11,306	5,799	115,620	42,364	229,534	204,785
Environmental liabilities (note 8)	-	(933)	-	195,074	-	194,141	131,795
Legal services	3,755	30	47	-	80,475	84,307	117,880
Accommodations	9,480	6,442	7,015	2,922	11,711	37,570	41,836
Travel and relocation	11,905	2,485	3,908	3,361	2,858	24,517	22,791
Rentals of buildings and machinery	1,894	221	250	1,201	11,399	14,965	12,631
Other	352	2,277	296	7,274	3,649	13,848	8,971
Information services	9,186	247	442	479	1,704	12,058	12,727
Bad debt	981	10,052	(2)	168	111	11,310	2,479
Amortization	1,938	26	17	264	5,776	8,021	8,677
Machinery and equipment	243	247	48	739	5,214	6,491	16,762
Utilities, materials and supplies	744	329	322	522	2,119	4,036	5,134
Repairs and maintenance	29	103	91	587	2,330	3,140	2,616
Transportation and telecommunications	482	48	32	311	1,587	2,460	2,790
Expenses incurred on behalf of Government	-	(4,039)	(1,844)	-	-	(5,883)	8,906
Refunds/adjustments to prior years' expenditures	(5,897)	(2,834)	(1,642)	(6,246)	(977)	(17,596)	(18,991)
Claims and litigation (note 8)	(240,510)	-	-	-	-	(240,510)	(694,837)
Total Operating Expenses	334,488	112,474	107,166	368,414	324,718	1,247,260	912,637
Total Expenses	3,786,451	1,619,142	2,398,894	655,183	324,718	8,784,388	7,150,422

Notes to the Financial Statements (*Unaudited*)

<i>(in thousands of dollars)</i>	People	Land and Economy	Government	North	Internal Services	2015 Total	2014 Total
Revenues							
Norman Wells project profits	-	-	-	74,779	-	74,779	83,503
Resource royalties	-	5	-	59,536	-	59,541	16,283
Interest on loans	-	5,056	2,705	-	-	7,761	6,168
Miscellaneous	-	2,684	-	(676)	(3)	2,005	5,021
Leases and rentals	-	2	-	1,668	-	1,670	2,665
Finance and administrative services	-	-	-	-	3,135	3,135	690
Revenues earned on behalf of Government	-	(5,121)	(2,705)	(135,307)	53	(143,080)	(112,870)
Total Revenues	-	2,626	-	-	3,185	5,811	1,460
Net cost from continuing operations	3,786,451	1,616,516	2,398,894	655,183	321,533	8,778,577	7,148,962

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 AANDC and Imperial Oil. This agreement prescribes a profit-sharing formula and sets out a payment schedule, whereby payments are made annually to AANDC no later than March 20.

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. AANDC 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. AANDC 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*)

20. Subsequent Events

Polar Knowledge Canada

Polar Knowledge Canada was established effective June 1, 2015, pursuant to subsections 170(1) and 170(2) of the Economic Action Plan 2014 Act, No.2 which received Royal Assent on December 16, 2014, and Order in Council P.C 2015-0582 dated May 12, 2015. Polar Knowledge Canada merges the mandate and functions of the Canadian Polar Commission with those of the Arctic Science and Technology Directorate within AANDC to form one organization.

This reorganization will result in an adjustment to AANDC's equity in the 2015-2016 fiscal year as the assets and liabilities held by AANDC on June 1, 2015 and the funding and authorities associated with the program will be transferred to Polar Knowledge Canada. For the year ended March 31, 2015, total net cost of operations related to the Arctic Science and Technology Directorate was approximately \$5 million. At March 31, 2015, the net assets of the Arctic Science and Technology Directorate were less than \$100 thousand.

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

Contingent Liabilities- Claims and Litigation

Subsequent to year-end, AANDC issued settlement payments amounting to \$400 million for specific claims, litigation claims, and Indian Residential School claims.

21. 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
Aboriginal Affairs and Northern
Development Canada
For Fiscal Year 2014-2015**

**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 Aboriginal Affairs and Northern Development Canada (AANDC) 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 AANDC'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

AANDC 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

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

Common arrangements:

- Public Works and Government Services 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 AANDC.
- The department of Justice Canada provides legal services.
- Treasury Board Secretariat provides AANDC 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 AANDC in the areas of data centre and network services.

Specific Arrangements

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

3.0 AANDC's assessment results during fiscal year 2014-2015

As of Fiscal Year 2014-2015, AANDC has completed both its Design Effectiveness Assessment and Operational Effectiveness Assessment for all Control Levels including the Tangible Capital Assets which has been completed in January 2015 as scheduled in the Internal Control Action Plan.

3.1 Design effectiveness of key controls

In 2014-2015, AANDC reviewed and updated the design effectiveness documentation of the Tangible Capital Assets prior to proceeding with its operating effectiveness key control testing of the process.

3.2 Operating effectiveness testing of key controls

Business Process Controls

During 2014-2015, the department completed operating effectiveness testing of its Tangible Capital Assets process key controls.

As a result of the operational effectiveness assessment, the overall conclusion is that AANDC maintained an effective internal control in the majority of the key activities of financial reporting. However, certain areas required corrective action and management action plans have been developed in order to further strengthen overall accountability, and to improve the management of AANDC's processes. Pertinent corrective action is described as follow:

Tangible Capital Assets

- To plan the review of asset management policies instruments to reflect the implementation of organization changes and the April 1, 2014 implementation of SAP financial system.
- To strengthen and update the procedures over write-offs and write-downs transactions.
- To strengthen and update the procedures over the physical count exercise.

3.3 Ongoing monitoring of key controls

- An ongoing Monitoring Plan has been developed based on AANDC's ongoing monitoring framework. Ongoing internal control monitoring assessment activities will start in 2015-2016.

4.0 AANDC's action plan

4.1 Progress during fiscal year 2014-2015

During 2014-2015, AANDC continued to make significant progress by assessing the operational effectiveness of key controls of the Tangible Capital assets process. It completes the first full assessment of the department system of internal control over financial reporting. The following table summarizes the department's progress based on the plans identified in the previous fiscal year's annex.

Summary of progress during fiscal year 2014-2015:

Elements of action plan	Plan 2014-2015	Actual 2014-2015
Assessment of design effectiveness of key controls:		
Review and update of design effectiveness documentation	Tangible Capital Assets	Completed as planned
Assessment of operating effectiveness of key controls:		
Testing of operating effectiveness of key controls	Tangible Capital Assets	Completed as planned
Remediation of operating effectiveness of key control deficiencies	Tangible Capital Assets	Completed as planned
To schedule the testing of operating effectiveness of medium risk control objective elements	Entity Level Controls (ELC)	Integrated in the ELC of the 2015-2016 ongoing Monitoring Plan
Review of the Policy on Accounting for Environmental Liabilities		
Review and update the departmental policy to reflect the current environment	Environmental Liabilities policy	Deferred in 2015-2016

- AANDC's ongoing Monitoring Plan has been launched.

4.2 Action plan for the next fiscal year and subsequent years

AANDC's rotational ongoing monitoring plan over the next five 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	High	C	C	C	C	C
Environmental Liabilities*	High			C	C	C
Purchases, Payables and Payments	Medium	C			C	
Grants & Contributions	Medium		C			C
Payroll	Medium			C		
Information Technology General Controls	Medium				C	
Specific Claims	Low		C			
Revenue Management & Guarantee Deposits	Low				C	
Tangible Capital Assets	Low					C
General Litigation Liabilities	Low					C
Trust Accounts	Low			C		
Direct Loans	Low		C			
Comprehensive Claims	Low		C			
Guaranteed Loans	Low	C				
Financial Reporting	Low			C		
C: CONTINUOUS MONITORING						

*The Environmental Liability departmental policy revision and update is scheduled for 2015-2016 for implementation in 2016-2017. The process assessment control work is consequently planned for 2017-2018.

The monitoring activities and plan will be reviewed, re-validated and adjusted as necessary based on an annual risk assessment.

By end of 2015-2016 AANDC plans to have as per the AANDC's 5 year rotational ongoing Monitoring Plan:

- conducted the testing of Entity Level Controls operational effectiveness.
- conducted the testing of Purchases, Payables and Payments design effectiveness.
- conducted the testing of Guaranteed Loans design effectiveness.