

INDIGENOUS AND NORTHERN AFFAIRS CANADA

Statement of Management Responsibility Including Internal Control over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2017, and all information contained in these statements rests with the management of Indigenous and Northern Affairs Canada (INAC). These financial statements have been prepared by management using the Government's accounting policies, which are based on Canadian public sector accounting standards.

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

Management is also responsible for maintaining an effective system of internal control over financial reporting designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* and other applicable legislation, regulations, authorities and policies.

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

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

A risk-based assessment of the system of internal control over financial reporting for the year ended March 31, 2017 was completed in accordance with the Treasury Board *Policy on Internal Control* and the results and action plans are summarized in the annex.

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

The financial statements of INAC have not been audited.

Original signed by H el ene Laurendeau

H el ene Laurendeau
Deputy Minister

Gatineau, Canada
September 1, 2017

Original signed by Paul Thoppil

Paul Thoppil, CPA, CA
Chief Finances, Results and Delivery
Officer

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

	2017	2016
Liabilities		
Accounts payable and accrued liabilities (note 4)	762,879	754,863
Vacation pay and compensatory leave	18,954	15,157
Other liabilities (note 5)	62,049	60,458
Trust accounts (note 6)	701,209	766,810
Settled claims (note 7)	203,950	228,117
Contingent liabilities (note 8)	15,065,865	11,550,744
Environmental liabilities (note 9)	3,394,399	3,765,010
Employee future benefits (note 10)	18,042	23,956
Total liabilities	20,227,347	17,165,115
Financial assets		
Due from the Consolidated Revenue Fund	1,501,826	1,555,701
Accounts receivable and advances (note 11)	67,357	84,861
Loans and interest receivable (note 12)	799,916	874,274
Total gross financial assets	2,369,099	2,514,836
Financial assets held on behalf of Government		
Loans and interest receivable (note 12)	(799,916)	(874,274)
Total financial assets held on behalf of government	(799,916)	(874,274)
Total net financial assets	1,569,183	1,640,562
Departmental net debt	18,658,164	15,524,553
Non-financial assets		
Land held for future claims settlements (note 13)	38,847	38,847
Prepaid expenses	161	67
Tangible capital assets (note 14)	173,787	137,589
Total non-financial assets	212,795	176,503
Departmental net financial position (note 15)	(18,445,369)	(15,348,050)

Contractual obligations (note 16)

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

Original signed by H el ene Laurendeau**H el ene Laurendeau**
Deputy MinisterGatineau, Canada
September 1, 2017Original signed by Paul Thoppil**Paul Thoppil, CPA, CA**
Chief Finances, Results and Delivery
Officer

INDIGENOUS AND NORTHERN AFFAIRS CANADA

Statement of Operations and Departmental Net Financial Position (*Unaudited*)

For the Year Ended March 31

(in thousands of dollars)

	2017	2017	2016
	Planned Results		
Expenses			
People	3,634,071	6,298,697	3,672,644
Government	1,251,647	3,440,247	2,781,954
Land and Economy	1,498,860	2,217,674	1,961,920
North	116,033	73,309	866,819
Internal Services	253,041	318,591	308,854
Expenses incurred on behalf of Government	6,394	(96,870)	(15,877)
Total expenses	6,760,046	12,251,648	9,576,314
Revenues			
Resource royalties	2,000	852	17,821
Norman Wells project profits	67,465	-	10,471
Interest on loans	5,845	5,952	3,829
Miscellaneous	4,152	5,343	2,968
Finance and administrative services	1,654	2,264	2,448
Leases and rentals	537	977	1,445
Revenues earned on behalf of Government	(79,428)	(11,202)	(35,681)
Total revenues	2,225	4,186	3,301
Net cost from continuing operations	6,757,821	12,247,462	9,573,013
Transferred operations			
Expenses		-	187
Net cost of operations before government funding and transfers		12,247,462	9,573,200
Government funding and transfers			
Net cash provided by Government		9,123,809	7,998,681
Change in due from Consolidated Revenue Fund		(53,875)	(82,392)
Services provided without charge by other government departments (note 17a)		81,528	80,437
Transfer of the transition payments for implementing salary payments in arrears (note 18)		-	(144)
Transfer of assets and liabilities to Canadian High Arctic Research Station (note 19a)		(1,293)	146
Transfer of assets and liabilities to Other government departments and agencies		(26)	-
Transfer of assets and liabilities from Truth and Reconciliation Commission (note 19b)		-	(215)
Net cost of operations after government funding and transfers		3,097,319	1,576,687
Departmental net financial position – Beginning of year		(15,348,050)	(13,771,363)
Departmental net financial position – End of year		(18,445,369)	(15,348,050)

Segmented Information (note 20)

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

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

	2017	2016
Net cost of operations after government funding and transfers	3,097,319	1,576,687
Change due to tangible capital assets		
Acquisition of tangible capital assets (note 14)	47,979	55,076
Amortization of tangible capital assets (note 14)	(10,436)	(10,133)
Proceeds from disposal of tangible capital assets	(1,922)	(853)
Gain (loss) on disposal of tangible capital assets	1,896	662
Adjustments to tangible capital assets	-	(267)
Transfer to Other government departments and agencies	(26)	-
Transfer to Canadian High Arctic Research Station (note 19a)	(1,293)	146
Total change due to tangible capital assets	36,198	44,631
Change due to land held for future claims settlements (note 13)	-	(699)
Change due to prepaid expenses	94	(84)
Net increase (decrease) in departmental net debt	3,133,611	1,620,535
Departmental net debt – Beginning of year	15,524,553	13,904,018
Departmental net debt – End of year	18,658,164	15,524,553

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

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

	2017	2016
Operating activities		
Net cost of operations before government funding and transfers	12,247,462	9,573,200
Non-cash items:		
Amortization of tangible capital assets (note 14)	(10,436)	(10,133)
Gain on disposal of tangible capital assets	1,896	662
Adjustments to tangible capital assets	-	(267)
Services provided without charge by other government departments (note 17a)	(81,528)	(80,437)
Transition payments for implementing salary payments in arrears (note 18)	-	144
Variations in Statement of Financial Position:		
Increase (decrease) in accounts receivable and advances	(17,504)	15,540
Increase (decrease) in land held for future claims settlements	-	(699)
Increase (decrease) in prepaid expenses	94	(84)
Increase in liabilities	(3,062,232)	(1,553,683)
Transfer of assets and liabilities from Truth and Reconciliation Commission (note 19b)	-	215
Cash used in operating activities	9,077,752	7,944,458
Capital investing activities		
Acquisitions of tangible capital assets (note 14)	47,979	55,076
Proceeds from disposal of tangible capital assets	(1,922)	(853)
Cash used in capital investing activities	46,057	54,223
Net cash provided by Government of Canada	9,123,809	7,998,681

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

Notes to the Financial Statements (*Unaudited*)

INDIGENOUS AND NORTHERN AFFAIRS CANADA

Notes to the Financial Statements (*Unaudited*)

For the Year Ended March 31

1. Authority and objectives

The mandate for Indigenous and Northern Affairs (INAC) is derived from a number of sources, including the following: the Canadian Constitution; the [Department of Indian Affairs and Northern Development Act](#); the [Indian Act](#) (as amended over the years); statutes dealing with environmental and resource management, such as the [Nunavut Planning and Project Assessment Act](#); the [Nunavut Waters and Nunavut Surface Rights Tribunal Act](#), the [Canada Petroleum Resources Act](#), and the [Territorial Lands Act](#).

INAC has a mandate to support Canada's Indigenous peoples (First Nations, Inuit and Métis) and Northerners in their efforts to:

- Improve social well-being and economic prosperity;
- Develop healthier, more sustainable communities; and
- Participate more fully in Canada's political, social and economic development — to the benefit of all Canadians.

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

a) People – Individual, family and community well-being for First Nations and Inuit.

b) Land and Economy – Full participation of First Nations, Métis, Non-Status Indians and Inuit individuals and communities in the economy.

c) Government – Support good governance, rights and interests of Indigenous peoples.

d) North - Self-reliance, prosperity and well-being for the people and communities of the North.

2. Summary of significant accounting policies

These financial statements have been prepared using the Government's accounting policies stated below, which are based on Canadian public sector accounting standards. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian public sector accounting standards.

Significant accounting policies are as follows:

a) Parliamentary authorities – INAC is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to INAC do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations and Departmental Net Financial Position and in the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting.

Notes to the Financial Statements (*Unaudited*)

The planned results amounts in the “Expenses” and “Revenues” sections of the Statement of Operations and Departmental Net Financial Position are consistent with the amounts reported in the Future-Oriented Statement of Operations included in the *2016-2017 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 *2016-2017 Report on Plans and Priorities*.

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 made by INAC are paid from the CRF. The net cash provided by Government is the difference between all cash receipts and all cash disbursements, including transactions between departments of the Government.

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

d) Revenues – Revenues are recorded on an accrual basis:

- Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.
- Other revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenue takes place.
- Revenues that are non-respendable are not available to discharge INAC’s liabilities. While the Deputy Head is expected to maintain accounting control, he or she has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of INAC’s gross revenues. INAC’s revenues earned on behalf of government include revenues related to resource royalties, guarantees deposits, interest on loans and leases and rentals.

e) Expenses – Expenses are recorded on an accrual basis:

- Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met the eligibility criteria or the entitlements established for the transfer payment program. In situations where payments do not form part of an existing program, transfer payments are recorded as expenses when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements. Transfer payments that become repayable as a result of conditions specified in the contribution agreement that have come into being are recorded as a reduction to transfer payment expense and as a receivable.
- Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.

Notes to the Financial Statements (*Unaudited*)

- Services provided without charge by other government departments for accommodation, the employer's contribution to the health and dental insurance plans, legal services, and workers' compensation are recorded as operating expenses at their estimated cost.

f) Employee future benefits

- Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multiemployer pension plan administered by the Government. INAC's contributions to the plan are charged to expenses in the year incurred and represent the total departmental obligation to the plan. INAC's responsibility with regard to the plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the plan's sponsor.
- 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 and loans receivable – Accounts and loans receivable are stated at the lower of cost and net recoverable value. A valuation allowance is recorded for accounts and loans receivable where recovery is considered uncertain.

The amount of allowance on loans receivable is determined on an assessment of collectability of each loan on an annual basis using a standard set of criteria to assess the default risk. Interest on loans receivable is calculated in accordance with the terms and conditions of each individual program.

If loans and interest receivables cannot be used to discharge INAC's liabilities or to issue new loans, they are considered to be held on behalf of government and are therefore presented as an offsetting amount to INAC's financial position.

h) 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.

i) Environmental liabilities – Environmental liabilities consist of estimated costs related to the remediation of environmentally 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,
- INAC is directly responsible or accepts responsibility, and
- it is expected that future economic benefits will be given up and a reasonable estimate of the amount can be made.

Notes to the Financial Statements (*Unaudited*)

The liability reflects INAC's best estimate of the amount required to remediate the sites to the current minimum standard for its use prior to contamination. When the cash flows required to settle or otherwise extinguish a liability are expected to occur over extended future periods, a present value technique is used. The discount rate applied is taken from the Government's CRF monthly lending rates for periods of one year and over. The discount rates used are based on the term rate associated with the estimated number of years to complete remediation. For remediation costs with estimated future cash flows spanning more than 25 years, the 25 year Government of Canada lending rate is used as the discount rate.

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

Capital assets include lands held for future claim settlements which are to be transferred to First Nations upon 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 to 40 years
Works and infrastructure	25 to 30 years
Machinery and equipment	5 to 15 years
Informatics hardware and software	3 to 10 years
Ships and boats	10 years
Motor vehicles	4 to 10 years
Other vehicles	5 to 10 years
Leasehold improvements	Lesser of the remaining term of lease or useful life of the improvement

Assets under construction are recorded in the applicable capital asset class and are amortized in the year that they become available for use.

k) 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,

Notes to the Financial Statements (*Unaudited*)

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.

3. Parliamentary authorities

INAC receives most of its funding through annual parliamentary authorities. Items recognized in the Statement of Operations and Departmental Net Financial Position and the Statement of Financial Position in one year may be funded through parliamentary authorities in prior, current or future years. Accordingly, INAC has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

Notes to the Financial Statements (Unaudited)

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

	2017	2016
	(in thousands of dollars)	
Net cost of operations before government funding and transfers	12,247,462	9,573,200
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets	(10,436)	(10,133)
Gain on disposal of tangible capital assets	1,896	662
Transfer of land held for future claims settlements	-	(699)
Services provided without charge by other government departments	(81,528)	(80,437)
Bad debt expense (not incurred on behalf of government)	(1,720)	1,235
Decrease (increase) in vacation pay and compensatory leave	(3,797)	37
Decrease in liability for settled claims	24,167	53,737
Increase in provision for contingent liabilities	(3,515,116)	(913,331)
Decrease (increase) in environmental liabilities	370,611	(764,663)
Decrease in employee future benefits	5,914	1,762
Decrease (increase) in accrued liabilities not charged to authorities	1,993	(14,315)
Increase (decrease) in prepaid expenses	94	(84)
Refunds/adjustments to prior years' expenditures	36,527	54,051
Other	7,293	(217)
Total items affecting net cost of operations but not affecting authorities	(3,164,102)	(1,672,395)
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisition of tangible capital assets	47,979	55,076
Refunds of previous year revenues	1,166	
Transition payments for implementing salary payments in arrears	-	144
Adjustment – Revenues earned on behalf of government	-	(730)
Total items not affecting net cost of operations but affecting authorities	49,145	54,490
Current year authorities used	9,132,505	7,955,295

Notes to the Financial Statements (Unaudited)

b) Authorities provided and used

	2017	2016
	(in thousands of dollars)	
Authorities provided:		
Vote 1 – Operating expenditures	996,549	1,486,190
Vote 5 – Capital expenditures	55,426	57,703
Vote 10 – Grants and contributions	8,260,275	7,165,401
Statutory amounts	202,496	181,607
Total authorities provided	9,514,746	8,890,901
Less:		
Authorities available for future years	(34,412)	(33,344)
Authorities lapsed:		
Vote 1 – Operating expenditures	(124,800)	(221,966)
Vote 5 – Capital expenditures	(7,750)	(568)
Vote 10 – Grants and contributions	(214,836)	(679,105)
Statutory amounts	(443)	(623)
Total authorities lapsed	(347,829)	(902,262)
Total authorities lapsed and available for future years	(382,241)	(935,606)
Current year authorities used	9,132,505	7,955,295

In addition to the amount for authorities available for future years presented above, most of the other lapsed amounts may become available to INAC in the 2018 fiscal year and in future years, but due to the timing of parliamentary approvals, these amounts had not been approved at March 31, 2017. Additional information on the use of authorities, including explanation of variances and lapsed amounts, can be found in INAC's *Departmental Result Report*.

Notes to the Financial Statements (*Unaudited*)

4. Accounts payable and accrued liabilities

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

	<u>2017</u>	<u>2016</u>
	(in thousands of dollars)	
Accounts payable – Other government departments and agencies	28,423	17,842
Accounts payable – External parties	215,435	246,119
Total accounts payable	243,858	263,961
Accrued liabilities	519,021	490,902
Total accounts payable and accrued liabilities	762,879	754,863

5. Other liabilities

The following table presents a detail of INAC's other liabilities:

	(in thousands of dollars)				
	April 1, 2016	Receipts	Interest	Disburse- ments	March 31, 2017
Cash guarantee deposits	16,997	365	-	(828)	16,534
Other specified purpose accounts	43,461	15,115	748	(13,809)	45,515
Total	60,458	15,480	748	(14,637)	62,049

Cash guarantee deposits

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

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

Notes to the Financial Statements (*Unaudited*)

Other specified purpose accounts

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

6. Trust accounts

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

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

There are three categories of Indian moneys administered by INAC: Indian band funds, Indian savings accounts, and Indian estate accounts. The following table shows INAC's financial obligations in its role as administrator of trust accounts for Indian moneys:

	(in thousands of dollars)				
	April, 1 2016	Receipts	Interest	Disburse- ments	March 31, 2017
Indian band funds	710,294	99,390	13,552	(178,156)	645,080
Indian savings accounts	30,700	2,244	1,976	(5,205)	29,715
Indian estate accounts	25,816	6,969	351	(6,722)	26,414
Total trust accounts	766,810	108,603	15,879	(190,083)	701,209

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.

Notes to the Financial Statements (*Unaudited*)

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.

7. Settled claims

The liability for settled claims represents INAC's financial obligation pursuant to agreements related to comprehensive land claims which INAC has settled with the First Nations.

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.

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, 2017, INAC had 10 outstanding settled claims (9 in 2016). Settlement payments made during 2017 totalled \$55,828,000 in 2017 (\$57,412,000 in 2016).

Notes to the Financial Statements (*Unaudited*)

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, 2017 is \$203,950,000 (\$228,117,000 in 2016). Future scheduled claim payments (on a cash basis) are as follows:

(in thousands of dollars)

	2018	2019	2020	2021	2022 and thereafter	Total
Scheduled payments	62,000	55,000	52,000	20,000	21,000	210,000

8. Contingent liabilities

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

Claims and litigation

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

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

Comprehensive land claims arise in areas of the country where Aboriginal rights and title have not been resolved by treaty or by other legal means. There are currently 70 (76 in 2016) 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 528 (503 in 2016) specific claims under negotiation, accepted for negotiation or under review.

There are legal proceedings for 615 (566 in 2016) general litigation claims being pursued through the courts still pending at March 31, 2017. There are also thousands of claims being managed through INAC with respect to the legacy of Indian residential schools, including class action claims, as well as claims submitted under the Alternative Dispute Resolution process and the Independent Assessment Process.

INAC has recorded a provision of \$15,064,295,000 (\$11,549,179,000 in 2016) as an estimate of the likely liability that will result from the above claims. This estimate includes projections based

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 20 – Segmented information.

Notes to the Financial Statements (*Unaudited*)

on historical rates and costs of settlement of similar claims. Exposure to liability in excess of the amount accrued is \$915,964,000 (\$425,016,000 in 2016 amended) and an additional amount of \$4,558,905,000 (\$4,466,977,000 in 2016 amended) is considered uncertain as the probability of the occurrence or non-occurrence of the future events confirming that a liability existed at the financial statements date cannot be determined.

Loan guarantees

(in thousands of dollars)

	Authorized Limit	Loan Guarantees		Provision for Losses	
		2017	2016	2017	2016
On-Reserve Housing Guarantee program	2,200,000	1,735,537	1,782,727	1,500	1,490
Indian Economic Development Guarantee program	60,000	864	928	70	75
Total	2,260,000	1,736,401	1,783,655	1,570	1,565

Due to the security restrictions in the Indian Act which prevent the mortgage and seizure of property located on reserves, INAC issues loan guarantees under two programs: On-Reserve Housing Guarantee program and Indian Economic Development Guarantee program.

On-Reserve Housing Guarantee Program

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

Indian Economic Development Guarantee Program

This program authorizes INAC to guarantee loans for non-incorporated Indian businesses on a risk-sharing basis with commercial lenders. Guarantees are provided for various types of borrowers whose activities contribute to the economic development of First Nations 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 recorded in 2017 is \$1,570,000 (\$1,565,000 in 2016). 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 a quarterly basis with any changes being charged or credited to current year expenses.

Notes to the Financial Statements (*Unaudited*)

Environmental liabilities

INAC has estimated a contingent liability in the amount of \$8,865,600 for 4 sites (\$0 in 2016 for 0 sites) where the department has determined that it is not directly responsible, nor does it accept responsibility; however, there is legal uncertainty as to the department's position.

9. Environmental Liabilities

Remediation of contaminated sites

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

INAC has identified a total of 2,221 sites (2,362 sites in 2016) where contamination may exist and assessment, remediation and monitoring may be required. Of these, INAC has identified 785 sites (1,061 sites in 2016) where action is possible and for which a liability of \$3,275,187,000 (\$3,555,944,000 in 2016) has been recorded. This liability estimate was determined after the sites are assessed and is based on scientific/engineering contractors reviewing the results of site assessments, and proposing possible remediation solutions.

In 2015-16, a statistical model (Golder model) was developed by the Government to estimate the liability for unassessed sites based on historical costs incurred for contaminated sites with similar nature and source. As a result, there are 1,195 unassessed sites (991 sites in 2016) where a liability estimate of \$126,380,000 (\$217,867,000 in 2016) has been recorded using this model. Furthermore, there are 12 unassessed sites (18 sites in 2016) where estimates have been calculated based on extrapolation and a liability of \$20,273,000 (\$21,881,000 in 2016) has been recorded. These estimates will be refined in future years as sites are assessed and costs are revised.

These three estimates combined, totaling \$3,421,840,000 (\$3,795,691,000 in 2016) with an expected recovery of \$27,441,000 (\$30,681,000 in 2016) represents management's best estimate of the costs required to remediate the sites to the current minimum standard for its use prior to contamination, based on information available at the financial statement date. A net present value technique has been used for sites where the cash flows are expected to occur over extended future periods.

Of the remaining 229 sites (292 sites in 2016), 83 sites were closed, as they were merged with another site, or remediated, or assessed but found not to be contaminated. 146 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.

Notes to the Financial Statements (Unaudited)

The following table presents the total estimated amounts of these liabilities by nature and source, the current year remediation expenditures and the associated expected recoveries as at March 31, 2017 and March 31, 2016. When the liability estimate is based on a future cash requirement, the amount is adjusted for inflation using a forecast CPI rate of 2%. Inflation is included in the undiscounted amount. The Government of Canada lending rate applicable to loans with similar terms to maturity has been used to discount the estimated future expenditures. The March 2017 rates range from 0.89% for a 2 year term to 2.55% for a 25 or greater year term.

(in thousands of dollars)

2017				
Nature and Source*	Number of Sites	Estimated Liability	Current Year Remediation Expenditures	Estimated Recoveries
Radioactive Material ⁽¹⁾	1	6,292	-	-
Former Mineral Exploration Sites ⁽²⁾	82	2,854,587	122,126	27,441
Military & Former Military Sites ⁽³⁾	46	131,332	11,086	-
Fuel Related Practices ⁽⁴⁾	912	233,340	39,644	-
Land Fill/ Waste Sites ⁽⁵⁾	708	113,750	4,690	-
Land Fill/Waste Sites (Yukon Devolution) ⁽⁵⁾	1	9,615	583	-
Engineering Asset/ Air & Land Transportation ⁽⁶⁾	1	1,331	-	-
Marine Facilities / Aquatic Sites ⁽⁷⁾	1	255	-	-
Office/ Commercial/ Industrial Operations ⁽⁸⁾	64	37,440	467	-
Other ⁽⁹⁾	176	33,898	3,875	-
Totals	1,992	3,421,840	182,471	27,441

*See endnotes for description of nature and source.

2016				
Nature and Source*	Number of Sites	Estimated Liability	Current Year Remediation Expenditures	Estimated Recoveries
Radioactive Material ⁽¹⁾	1	6,326	-	-
Former Mineral Exploration Sites ⁽²⁾	93	3,081,242	127,376	30,681
Military & Former Military Sites ⁽³⁾	50	152,790	9,441	-
Fuel Related Practices ⁽⁴⁾	1,054	254,858	18,242	-
Land Fill/ Waste Sites ⁽⁵⁾	766	179,116	903	-
Land Fill/Waste Sites (Yukon Devolution) ⁽⁵⁾	1	10,198	984	-
Engineering Asset/ Air & Land Transportation ⁽⁶⁾	10	1,283	-	-
Marine Facilities / Aquatic Sites ⁽⁷⁾	2	250	-	-
Office/ Commercial/ Industrial Operations ⁽⁸⁾	67	46,751	272	-
Other ⁽⁹⁾	43	62,877	4,750	-
Totals	2,087	3,795,691	161,968	30,681

*See endnotes for description of nature and source.

Notes to the Financial Statements (*Unaudited*)

10. Employee future benefits

a) Pension benefits

INAC's employees participate in the Public Service Pension Plan (the "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 they are indexed to inflation.

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

The 2016-2017 expense amounts to \$38,580,000 (\$38,754,000 in 2015-2016). For Group 1 members, the expense represents approximately 1.12 times (1.25 times in 2015-2016) the employee contributions and, for Group 2 members, approximately 1.08 times (1.24 times in 2015-2016) the employee contributions.

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

b) Severance benefits

Severance benefits provided to INAC's employees were previously based on an employee's eligibility, years of service and salary at termination of employment. However, since 2011 the accumulation of severance benefits for voluntary departures progressively ceased for substantially all employees. Employees subject to these changes were given the option to be paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits upon departure from the public service. By March 31, 2017, all settlements for immediate cash out were completed. Severance benefits are unfunded and, consequently, the outstanding obligation will be paid from future authorities.

The changes in the obligations during the year were as follows:

	<u>2017</u>	<u>2016</u>
	(in thousands of dollars)	
Accrued benefit obligation – Beginning of year	23,956	25,586
Adjustments for change in rate for the year	(2,274)	2,738
Benefits paid during the year	<u>(3,640)</u>	<u>(4,368)</u>
Accrued benefit obligation – End of year	<u><u>18,042</u></u>	<u><u>23,956</u></u>

Notes to the Financial Statements (*Unaudited*)

11. Accounts receivable and advances

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

	<u>2017</u>	<u>2016</u>
	(in thousands of dollars)	
Receivables – Other government departments and agencies	12,418	12,730
Receivables – External parties	73,360	94,724
Advances to employees and others	4,662	763
Gross accounts receivable and advances	90,440	108,217
Less:		
Allowance for doubtful accounts on receivables from external parties	(23,083)	(23,356)
Net accounts receivable and advances	67,357	84,861

Notes to the Financial Statements (*Unaudited*)

12. Loans and interest receivable

The following table presents details of loans and interest receivable*:

	<u>2017</u>	<u>2016</u>
	(in thousands of dollars)	
Direct loans portfolio:		
Native claimants	462,484	457,406
First Nations in British Columbia	536,906	522,781
Other direct loans	504	504
Total direct loans portfolio	999,894	980,691
Add: Interest receivable	6,241	5,814
Less: Allowance for doubtful loans and interest receivable	(210,276)	(119,045)
Net direct loans portfolio	795,859	867,460
Defaulted guaranteed loans portfolio:		
On-reserve housing guarantees	9,527	10,958
Indian economic development guarantees	346	422
Other defaulted guaranteed loans	-	104
Total defaulted guaranteed loans portfolio	9,873	11,484
Add: Interest receivable	29,253	28,490
Less: Allowance for doubtful loans and interest receivable	(35,069)	(33,160)
Net defaulted guaranteed loans portfolio	4,057	6,814
Net loans and interest receivable (held on behalf of Government)	799,916	874,274

* Interest receivable is being allocated to its loans receivable portfolio.

These loans are considered to be held on behalf of government since they are not available to discharge INAC's liabilities or to issue new loans and are therefore presented as an offsetting amount to INAC's financial position.

Direct loans portfolio

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

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

Notes to the Financial Statements (*Unaudited*)

Native claimants

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

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

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

When an agreement-in-principle is reached for the settlement of a claim, any accrued interest receivable is compounded semi-annually as part of the principal amount owing on the loan. After a final agreement is reached, any accrued interest receivable outstanding is compounded 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>2017</u>	<u>2016</u>
	(in thousands of dollars)	
Interest bearing	54,637	60,001
Non-interest bearing	407,847	397,405
Total	<u>462,484</u>	<u>457,406</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, 2017, and after the date on which an agreement-in-principle for the settlement of a treaty has been reached shall be non-interest bearing unless the loans become due and payable during this period.

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

	<u>2017</u>	<u>2016</u>
	(in thousands of dollars)	
Interest bearing	22,422	14,583
Non-interest bearing	514,484	508,198
Total	<u>536,906</u>	<u>522,781</u>

Other direct loans

INAC also has legacy programs that are no longer active including the Inuit Loan Fund, Indian Economic Guarantee Fund and Stoney Band Perpetual Loan. These legacy programs will continue to operate under their existing arrangements. All these loans outstanding are interest bearing.

Defaulted guaranteed loans portfolio

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

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

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

There were no loan defaults in 2017 (5 in 2016) which resulted in no charge to INAC's reserve for payments to cover defaults (\$2,155,491 in 2016).

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

On-Reserve Housing Guarantee program

Notes to the Financial Statements (*Unaudited*)

- 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 compounded 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 compounded. Any security pledged for a guaranteed loan may not be released by the lending institution without the prior approval of the Minister of INAC.

Other defaulted guaranteed loans

- INAC also has a legacy program that is no longer active. During 2016-2017, there was one defaulted loan outstanding which was deemed to be uncollectible and was written-off.

13. Land held for future claims settlements

Land held for future claims settlements in the amount of \$38,847,000 (no change from 2016) is segregated from other tangible capital assets as these assets are not acquired with the intention of being used on a continuous basis in government operations. Rather, these assets are properties acquired and held by INAC for the purpose of future settlements of Aboriginal land claims. Following the ratification of a negotiated agreement, these assets are transferred to the Aboriginal group.

Notes to the Financial Statements (Unaudited)

14. Tangible capital assets

The following table presents details of the cost of tangible capital assets:

(in thousands of dollars)	Opening Balance	Acquisitions	Adjustments ⁽¹⁾	Disposals and Write-offs	Closing Balance
Land	1,349	-	-	-	1,349
Buildings	13,631	-	8,138	(26)	21,743
Works and infrastructure	1,409	-	-	-	1,409
Machinery and equipment	9,198	546	-	(214)	9,530
Informatics hardware	2,706	15	-	(53)	2,668
Informatics software	75,841	-	1,054	-	76,895
Ships and boats	14	-	-	-	14
Motor vehicles	2,628	407	(182)	(303)	2,550
Other vehicles	558	-	-	-	558
Leasehold improvements	5,760	-	26	-	5,786
Assets under construction	90,496	47,011	(10,372)	-	127,135
Gross tangible capital assets	203,590	47,979	(1,336)	(596)	249,637

The following table presents details of the amortization of tangible capital assets and its net book value:

(in thousands of dollars)	Opening Balance	Amortization	Adjustments ⁽¹⁾	Disposals and Write-offs	Closing Balance	Net Book Value	
						2017	2016
Land	-	-	-	-	-	1,349	1,349
Buildings	6,925	639	-	-	7,564	14,179	6,706
Works and infrastructure	1,409	-	-	-	1,409	-	-
Machinery and equipment	7,124	707	-	(214)	7,617	1,913	2,074
Informatics hardware	2,689	10	-	(53)	2,646	22	17
Informatics software	42,231	7,737	-	-	49,968	26,927	33,610
Ships and boats	14	-	-	-	14	-	-
Motor vehicles	1,852	298	(17)	(303)	1,830	720	776
Other vehicles	539	2	-	-	541	17	19
Leasehold improvements	3,218	1,043	-	-	4,261	1,525	2,542
Assets under construction	-	-	-	-	-	127,135	90,496
Total	66,001	10,436	(17)	(570)	75,850	173,787	137,589

(1) Adjustments include assets under construction of \$10,371,602 that were transferred to the other categories upon completion of the assets. During the fiscal year, the Department transferred machinery and equipment and motor vehicles with a net book value of \$1,154,250 and \$138,597 respectively to the Canadian High Arctic Research Station and motor vehicles with a net book value of \$26,422 to Environment and Climate Change Canada.

Notes to the Financial Statements (*Unaudited*)

15. Departmental net financial position

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

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

The Bowater Environmental Remediation Fund account was established to finance the remediation of environmental damage caused by Bowater Canadian Forest Products Inc. relative to a land lease issued by INAC. During the year, the cleanup was completed and the outstanding balance has been transferred to the Indian band funds revenue account (Note 6).

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

	<u>2017</u>	<u>2016</u>
	(in thousands of dollars)	
Environmental Studies Research Fund – Restricted		
Balance – Beginning of year – Restricted	1,110	1,323
Revenues	661	1,110
Expenses	(1,110)	(1,323)
Balance – End of year - Restricted	661	1,110
Bowater Environmental Remediation Fund – Restricted		
Balance – Beginning of year - Restricted	2,099	2,127
Expenses	(2,099)	(28)
Balance – End of year - Restricted	-	2,099
Total restricted	661	3,209
Unrestricted	(18,446,030)	(15,351,259)
Departmental net financial position – End of year	(18,445,369)	(15,348,050)

Notes to the Financial Statements (*Unaudited*)

16. Contractual obligations

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

(in thousands of dollars)

	2018	2019	2020	2021	2022 and thereafter	Total
Transfer payments	5,073,009	3,211,712	1,902,596	1,222,938	589,141	11,999,396

17. Related party transactions

INAC is related as a result of common ownership to all Government departments, agencies, and Crown corporations. INAC enters into transactions with these entities in the normal course of business and on normal trade terms. In addition, INAC has agreements with the Canadian Northern Economic Development Agency, Health Canada and the Public Health Agency of Canada related to the provision of finance and administrative services. During the year, INAC received common services which were obtained without charge from other government departments as disclosed below.

a) Common services provided without charge by other government departments

During the year, INAC received services without charge from certain common service organizations related to accommodation, the employer's contribution to the health and dental insurance plans, legal services and workers' compensation coverage. These services provided without charge have been recorded in INAC's Statement of Operations and Departmental Net Financial Position as follows:

	2017	2016
	(in thousands of dollars)	
Accommodation	35,221	36,217
Employer's contribution to the health and dental insurance plans	35,056	32,110
Legal services	10,884	11,734
Workers' compensation	367	376
Total	81,528	80,437

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

Notes to the Financial Statements (*Unaudited*)

b) Other transactions with related parties

	<u>2017</u>	<u>2016</u>
	(in thousands of dollars)	
Expenses – Other government departments and agencies	300,888	306,039
Revenues – Other government departments and agencies	2,928	3,561

Expenses and revenues disclosed in (b) exclude common services provided without charge, which are 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 INAC. However, it did result in the use of additional spending authorities by the Department. Prior to year-end, the transition payments for implementing salary payments in arrears were transferred to a central account administered by Public Services and Procurement Canada, who is responsible for the administration of the Government pay system.

19. Transfer to other government departments

a) Transfer to Canadian High Arctic Research Station

Effective June 1, 2015, the Department transferred responsibility for the Arctic Science and Technology program to Polar Knowledge Canada in accordance with Order in Council P.C. 2015-0581, including the stewardship responsibility for the assets and liabilities related to the program. Accordingly, INAC transferred tangible capital assets in the amount of \$1,293,000 related to the Arctic Science and Technology program to Canadian High Arctic Research Station during 2017.

The management of the construction of the Canadian High Arctic Research Station will remain within INAC until completion of this major crown project, which is expected to be in 2017-2018, at which time the transfer of the station will be reflected in INAC's financial statements. Until then, the asset under construction will continue to be included in INAC's financial statements.

b) Transfer from Truth and Reconciliation Commission

Effective June 30, 2015, pursuant to Order-in-council P.C. 2015-1042, the mandate of the Truth and Reconciliation commission (TRC) was extended to December 31, 2015 when it was amalgamated and combined with INAC under the Minister of INAC. TRC was wound down its operations as of December 31, 2015 and its residual assets and liabilities in the amount of \$244,000 and \$29,000 respectively were transferred to INAC.

Notes to the Financial Statements (Unaudited)

20. Segmented information

Presentation by segment is based on INAC's program alignment architecture. The presentation by segment is based on the same accounting policies as described in the summary of significant accounting policies in note 2. The following table presents the expenses incurred and revenues generated for each of INAC's strategic outcomes, by major object of expense and by major type of revenue. The segment results for the period are as follows:

(in thousands of dollars)	People	Land and Economy	Government	North	Internal Services	2017 Total	2016 Total
Transfer Payments							
Indigenous peoples	3,351,312	2,107,546	1,612,943	14,958	-	7,086,759	5,413,818
Claims and litigation (note 8)	-	-	1,448,525	-	-	1,448,525	1,161,582
Provincial/territorial governments and institutions	575,947	71,312	223,163	98,465	-	968,887	980,821
Environmental liabilities (note 9)	-	(106,851)	-	(165,022)	-	(271,873)	398,200
Industry	9,150	4,203	-	74,694	-	88,047	76,507
Non-profit organizations	43,940	19,948	478	3,086	-	67,452	55,881
Other	776	-	-	127	-	903	660
Refunds/adjustments to prior years' expenditures	(22,570)	(6,462)	(1,987)	(3,395)	(295)	(34,709)	(48,785)
Total Transfer Payments	3,958,555	2,089,696	3,283,122	22,913	(295)	9,353,991	8,038,684
Operating Expenses							
Claims and litigation (note 8)	2,075,894	(7,775)	(1,528)	-	-	2,066,591	(248,251)
Salaries and employee future benefits	98,283	94,349	87,904	42,888	136,674	460,098	469,447
Professional and special services	26,662	12,230	5,880	94,484	56,046	195,302	212,789
Court awards and other settlements	116,274	8,275	51,565	-	1,031	177,145	552,206
Legal services	2,047	123	61	-	77,487	79,718	77,713
Accommodations	7,515	7,504	6,428	2,737	11,037	35,221	36,217
Travel and relocation	4,938	4,380	5,293	3,839	3,829	22,279	24,877
Rentals of buildings and machinery	376	265	413	1,510	15,019	17,583	16,498
Amortization	2,556	56	144	488	7,192	10,436	10,129
Bad debt	389	6,701	-	36	311	7,437	7,510
Information services	4,688	146	184	194	1,930	7,142	9,306
Other	104	1,021	476	2,307	1,317	5,225	9,875
Machinery and equipment	152	483	107	585	2,580	3,907	3,912
Utilities, materials and supplies	670	354	267	410	1,984	3,685	3,340
Transportation and telecommunications	275	22	37	74	1,284	1,692	2,357
Repairs and maintenance	29	124	153	111	1,206	1,623	4,386
Refunds/adjustments to prior years' expenditures	(710)	(280)	(259)	(528)	(41)	(1,818)	(5,267)
Expenses incurred on behalf of Government	-	(5,640)	(91,230)	-	-	(96,870)	(15,877)
Environmental liabilities (note 9)	-	-	-	(98,739)	-	(98,739)	366,463
Total Operating Expenses	2,340,142	122,338	65,895	50,396	318,886	2,897,657	1,537,630
Total Expenses	6,298,697	2,212,034	3,349,017	73,309	318,591	12,251,648	9,576,314

Notes to the Financial Statements (*Unaudited*)

(in thousands of dollars)	People	Land and Economy	Government	North	Internal Services	2017 Total	2016 Total
Revenues							
Interest on loans	-	3,835	2,117	-	-	5,952	3,829
Miscellaneous	-	1,919	7	3,228	189	5,343	2,968
Finance and administrative services	-	-	-	-	2,264	2,264	2,448
Leases and rentals	-	2	3	972	-	977	1,445
Resource royalties	-	-	-	852	-	852	17,821
Revenues earned on behalf of Government	-	(3,900)	(2,127)	(5,045)	(130)	(11,202)	(35,681)
Norman Wells project profits	-	-	-	-	-	-	10,471
Total Revenues	-	1,856	-	7	2,323	4,186	3,301
Net cost from continuing operations	6,298,697	2,210,178	3,349,017	73,302	316,268	12,247,462	9,573,013

The major categories of revenue are described below.

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.

Resource royalties

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

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

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

Norman Wells project profits

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

Notes to the Financial Statements (*Unaudited*)

21. Subsequent Events

Contingent Liabilities- Claims and Litigation

Subsequent to year-end, INAC has settled claims amounting to \$306,000,000 for specific claims, comprehensive native land claims, litigation claims and Indian Residential School claims.

22. Comparative information

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

Footnotes

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 the 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.

**Summary of the assessment of
effectiveness of the system of Internal
Control over Financial Reporting and the
action plan of
Indigenous and Northern Affairs Canada
For Fiscal Year 2016-2017**

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

1.0 Introduction

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

Detailed information on INAC's authority, mandate and program activities can be found in the 2016-17 [Departmental Result Report](#) and the 2017-18 [Departmental Plan](#).

2.0 Departmental system of internal control over financial reporting

2.1. Internal control management

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

- Organizational accountability structures as they relate to internal control management to support sound financial management, including roles and responsibilities of senior managers in their areas of responsibility for control management;
- Values and ethics;
- Ongoing communication and training on statutory requirements, and policies and procedures for sound financial management and control; and
- At least semi-annual monitoring of and regular updates on internal control management, as well as the provision of related assessment results and action plans to the Deputy Head and departmental senior management and, as applicable, the Departmental Audit Committee.

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

2.2. Service arrangements relevant to financial statements

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

Common arrangements:

- Public Services and Procurement Canada centrally administers the payments of salaries and the procurement of goods and services in accordance with the INAC Delegation of Authority, and provides accommodation services;
- The Department of Justice Canada provides legal services to INAC.
- The Treasury Board of Canada Secretariat provides INAC with information used to calculate various accruals and allowances, such as the accrued severance liability; and
- Shared Services Canada provides information technology (IT) infrastructure services to INAC in the areas of data centre and network services. The scope

and responsibilities are addressed in the interdepartmental arrangements between Shared Services Canada and INAC.

Specific Arrangements

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

3.0 INAC's assessment results during fiscal year 2016-2017

The key findings and significant adjustments required from the current year's assessment activities are summarized below.

New or significantly amended key controls: In the current year, there were no significantly amended key controls in existing processes which required a reassessment.

Ongoing monitoring program: As part of its rotational ongoing monitoring plan, INAC completed reassessments of the financial controls within the business processes of direct loans, specific claims, comprehensive claims, grants and contributions, and financial reporting and close processes. Key controls tested were found to be operating effectively with no significant deficiencies. However, opportunities for improvement were identified in the following areas:

Comprehensive Claims

- Contingent liability reports should be reconciled with a secondary data source to ensure their accuracy and completeness.
- Change management controls over data source for contingent liabilities should be improved to prevent unauthorized changes.

Grants and Contributions

- Transfer payment directives should be reviewed and updated periodically to ensure requirements are communicated and well understood.
- Monitoring of compliance with policies and directives should be improved to ensure that requirements are enforced.

Financial Reporting and Close

- The review and approval processes for trial balances and manual journal entries should be documented for audit trail purposes.
- User access roles and privileges in SAP should be reviewed periodically to ensure that incompatible functions are segregated.

4.0 INAC's action plan

Management action plans addressing recommendations for the three business processes were developed by the business process owners.

4.1 Progress during fiscal year 2016-2017

INAC continued to conduct its ongoing monitoring according to the previous fiscal year's rotational plan as shown in the following table.

Progress During Fiscal Year 2016-2017:

Previous year's rotational ongoing monitoring plan for current year	Status	Remedial action required
Direct Loans	Completed as planned	No
Specific Claims	Completed as planned	No
Comprehensive Claims	Completed as planned	Yes
Grants and Contributions	Completed as planned	Yes
Financial Reporting and Close	Completed as planned	Yes

4.2 Action plan for the next fiscal year and subsequent years

INAC's rotational ongoing monitoring plan over the next 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.

Business Process	Risk Ranking	2017-18	2018-19	2019-20	2020-21	2021-22
Grants & Contributions	High		TEST		TEST	TEST
Payroll	High		TEST		TEST	
Environmental Liabilities	High	TEST		TEST		TEST
ITGCs	Medium	TEST		TEST		
Trust Accounts	Medium	TEST			TEST	
Revenue Management & Guarantee Deposits	Medium	TEST			TEST	
Tangible Capital Assets	Medium		TEST			TEST
Entity Level Controls	Low			TEST		
Specific Claims	Low					TEST
Financial Reporting	Low				TEST	
Purchases, Payables and Payments	Low			TEST		
General Litigation	Low		TEST			
Guaranteed Loans	Low		TEST			
Direct Loans	Low			TEST		
Comprehensive Claims	Low					TEST