

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, 2014, 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, 2014 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 Colleen Swords

Original signed Pamela d'Eon

Colleen Swords
Deputy Minister

Pamela d'Eon
Acting Chief Financial Officer

Gatineau, Canada
August 25, 2014

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

	2014	2013
Liabilities		
Accounts payable and accrued liabilities (note 4)	632,704	672,255
Vacation pay and compensatory leave	16,242	16,815
Other liabilities (note 5)	82,476	69,958
Trust accounts (note 6)	890,472	920,104
Settled claims (note 7)	356,355	432,926
Provision for claims and litigation (note 8)	9,755,837	10,714,925
Environmental liabilities (note 8)	2,702,986	2,530,833
Provision for loan guarantees (note 8)	410	380
Employee future benefits (note 9)	21,010	30,603
Total liabilities	14,458,492	15,388,799
Financial assets		
Due from the Consolidated Revenue Fund	1,587,441	1,645,275
Accounts receivable and advances (note 10)	68,661	80,626
Interest receivable (note 11)	1,759	1,999
Loans receivable (note 12)	834,970	811,554
Total gross financial assets	2,492,831	2,539,454
Financial assets held on behalf of Government		
Interest receivable (note 11)	(1,759)	(1,999)
Loans receivable (note 12)	(834,970)	(811,554)
Total financial assets held on behalf of government	(836,729)	(813,553)
Total net financial assets	1,656,102	1,725,901
Departmental net debt	12,802,390	13,662,898
Non-financial assets		
Land held for future claims settlements (note 13)	39,570	31,635
Tangible capital assets (note 14)	67,662	65,738
Total non-financial assets	107,232	97,373
Departmental net financial position (note 15)	(12,695,158)	(13,565,525)

Contingent liabilities (note 8)

Contractual obligations (note 16)

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

Original signed Colleen Swords

Original signed Pamela d'Eon

Colleen Swords
Deputy Minister

Pamela d'Eon
Acting Chief Financial Officer

Gatineau, Canada
August 25, 2014

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

	2014 Planned Results	2014	2013
Expenses			
People	3,570,137	3,389,603	4,208,786
Land and Economy	1,537,896	1,417,535	1,467,186
Government	1,487,532	1,336,544	1,396,871
North	250,041	595,255	490,664
Internal Services	275,248	402,579	349,512
Expenses incurred on behalf of Government	(7,627)	8,906	6,960
Total expenses	7,113,227	7,150,422	7,919,979
Revenues			
Norman Wells project profits	91,183	83,503	108,884
Resource royalties	64,733	16,283	68,321
Interest on loans	6,943	6,168	5,970
Miscellaneous	2,438	5,021	4,835
Leases and rentals	1,873	2,665	3,874
Finance and administrative services	750	690	744
Revenues earned on behalf of Government	(167,170)	(112,870)	(190,205)
Total revenues	750	1,460	2,423
Net cost of operations	7,112,477	7,148,962	7,917,556
Net cost of operations before government funding and transfers	7,112,477	7,148,962	7,917,556
Government funding and transfers			
Net cash provided by Government	7,898,364	7,987,747	8,134,935
Change in due from the Consolidated Revenue Fund	(57,933)	(57,834)	(61,006)
Services provided without charge by other government departments (note 17)	84,959	89,416	94,470
Net cost of operations after government funding and transfers	(812,913)	(870,367)	(250,843)
Departmental net financial position – Beginning of year	(13,197,995)	(13,565,525)	(13,816,368)
Departmental net financial position – End of year	(12,385,082)	(12,695,158)	(13,565,525)

Segmented Information (note 18)

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)

	2014	2014	2013
	Planned Results		
Net cost of operations after government funding and transfers	(812,913)	(870,367)	(250,843)
Change due to tangible capital assets			
Acquisition of tangible capital assets (note 14)	21,125	24,556	15,827
Amortization of tangible capital assets (note 14)	(7,448)	(8,677)	(4,483)
Proceeds from disposal of tangible capital assets	(754)	(770)	(1,917)
Gain (loss) on disposal of tangible capital assets	754	727	1,679
Adjustments to tangible capital assets	-	(13,912)	2,052
Total change due to tangible capital assets	13,677	1,924	13,158
Change due to land held for future claims settlements	5,961	7,935	5,365
Net increase (decrease) in departmental net debt	(793,275)	(860,508)	(232,320)
Departmental net debt – Beginning of year	13,295,510	13,662,898	13,895,218
Departmental net debt – End of year	12,502,235	12,802,390	13,662,898

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)

	2014	2013
Operating activities		
Net cost of operations before government funding and transfers	7,148,962	7,917,556
Non-cash items:		
Amortization of tangible capital assets (note 14)	(8,677)	(4,483)
Gain on disposal of tangible capital assets	727	1,679
Adjustments to tangible capital assets	(13,912)	2,052
Services provided without charge by other government departments (note 17)	(89,416)	(94,470)
Variations in Statement of Financial Position:		
Increase (decrease) in accounts receivable and advances	(11,965)	21,123
Increase (decrease) in land held for future claims settlements	7,935	5,365
Decrease (increase) in liabilities	930,307	272,203
<i>Cash used in operating activities</i>	<i>7,963,961</i>	<i>8,121,025</i>
Capital investing activities		
Acquisitions of tangible capital assets (Note 14)	24,556	15,827
Proceeds from disposal of tangible capital assets	(770)	(1,917)
<i>Cash used in capital investing activities</i>	<i>23,786</i>	<i>13,910</i>
Net cash provided by Government of Canada	7,987,747	8,134,935

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

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

c) Government - Under this strategic outcome, activities 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;

Notes to the Financial Statements (Unaudited)

- 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 Statement of Operations and Departmental Net Financial Position are the amounts reported in the future-oriented financial statements included in the *2013-2014 Report on Plans and Priorities*. The planned results according to AANDC's future oriented financial statements have been reclassified to conform to the current year presentation.

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.

Notes to the Financial Statements (Unaudited)

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-respendable 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-respendable revenues. As a result, non-respendable 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.

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.

Notes to the Financial Statements (Unaudited)

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 receivables 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 environmentally contaminated sites as well as estimated costs related to obligations associated with future asset restoration.

- **Remediation Liabilities** are recorded as accrued liabilities to recognize the estimated costs related to the management and remediation of contaminated sites where AANDC is obligated, or likely to be obligated, to remediate the sites. If the responsibility to remediate is undeterminable, the amount is disclosed as a contingent liability. If the responsibility to remediate is undeterminable and a reasonable estimate cannot be made, the nature, source and extent of contamination is disclosed as a contingent liability.
- **Future Asset Restoration Obligations** are recorded as accrued liabilities to recognize the estimated costs related to the restoration of tangible capital assets. These costs are usually capitalized and amortized over the useful life based on an obligation imposed by legislation, regulation or contractual agreement where AANDC is obligated, or likely to be obligated, to restore the tangible capital asset. If the obligation to the tangible capital asset is undeterminable, the amount is disclosed as a contingent liability. If the obligation to restore the tangible capital asset is undeterminable and an estimate cannot be made, the nature and source of the potential obligation is disclosed as a contingent liability.

Notes to the Financial Statements (Unaudited)

k) Tangible capital assets – All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more are recorded at their acquisition cost. 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 to 40 years
Works and infrastructure	30 years
Machinery and equipment	5 to 15 years
Informatics hardware and software	3 to 10 years
Ships and boats	10 years
Motor vehicles	5 to 10 years
Other vehicles	5 years
Leasehold improvements	Lesser of the remaining term of lease or useful life of the improvement
Assets under construction	Once in service, in accordance with asset type

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

	2014	2013
	<i>(in thousands of dollars)</i>	
Net cost of operations before government funding and transfers	7,148,962	7,917,556
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets	(8,677)	(4,483)
Gain (loss) on disposal of tangible capital assets	727	1,679
Transfer of land held for future claims settlements	(328)	(17)
Adjustments to real property	(5,927)	-
Services provided without charge by other government departments	(89,416)	(94,470)
Bad debt expense (not incurred on behalf of government)	(37)	(3,315)
Decrease (increase) in vacation pay and compensatory leave	573	673
Decrease (increase) in liability for settled claims	76,571	86,700
Decrease (increase) in provision for claims and litigation	959,088	249,701
Decrease (increase) in environmental liabilities	(172,153)	(159,864)
Decrease (increase) in employee future benefits	9,593	13,398
Decrease (increase) in accrued liabilities not charged to authorities	3,000	(3,336)
Refunds/adjustments to prior years' expenditures	72,886	65,941
Other	(1,726)	2,427
Total items affecting net cost of operations but not affecting authorities	844,174	155,034
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisition of tangible capital assets	24,556	15,827
Acquisition of land held for future claims settlements	380	5,382
Refund of previous year revenues	21,387	1,288
Other	33	55
Total items not affecting net cost of operations but affecting authorities	46,356	22,552
Current year authorities used	8,039,492	8,095,142

Notes to the Financial Statements (Unaudited)

b) Authorities provided and used

	<u>2014</u>	<u>2013</u>
	<i>(in thousands of dollars)</i>	
Authorities provided:		
Vote 1 – Operating expenditures	1,527,574	1,451,057
Vote 5 – Capital expenditures	19,166	21,283
Vote 10 – Grants and contributions	7,011,939	6,811,078
Statutory amounts	219,689	215,798
Total authorities provided	8,778,368	8,499,216
Less:		
Authorities available for future years	(33,261)	(34,183)
Authorities lapsed:		
Vote 1 – Operating expenditures	(190,713)	(177,954)
Vote 5 – Capital expenditures	(12,533)	(11,802)
Vote 10 – Grants and contributions	(502,077)	(180,135)
Statutory amounts	(292)	-
Total authorities lapsed and available for future years	(738,876)	(404,074)
Current year authorities used	8,039,492	8,095,142

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 2015 fiscal year, but due to the timing of parliamentary approvals, these amounts had not been approved at March 31, 2014. 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>2014</u>	<u>2013</u>
	<i>(in thousands of dollars)</i>	
Accounts payable – Other government departments and agencies	29,406	29,742
Accounts payable – External parties	152,800	167,296
Total accounts payable	182,206	197,038
Accrued liabilities	450,498	475,217
Total accounts payable and accrued liabilities	632,704	672,255

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, 2014, an obligation for termination benefits in the amount of \$388,000 (\$4,373,000 in 2013) 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>2014</u>					<u>2013</u>
	Opening Balance	Receipts	Interest	Disbursements	Closing Balance	Closing Balance
Cash guarantee deposits	18,814	21,120	-	(4,864)	35,070	18,814
Other specified purpose accounts	51,144	31,799	559	(36,096)	47,406	51,144
Total	69,958	52,919	559	(40,960)	82,476	69,958

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:

(in thousands of dollars)

	2014					2013
	Opening Balance	Receipts	Interest	Disbursements	Closing Balance	Closing Balance
Indian band funds	859,906	185,281	24,262	(236,195)	833,254	859,906
Indian savings accounts	35,696	1,655	938	(4,389)	33,900	35,696
Indian estate accounts	22,619	8,288	485	(8,074)	23,318	22,619
Total Indian moneys	918,221	195,224	25,685	(248,658)	890,472	918,221
Other trust accounts	1,883	784	-	(2,667)	-	1,883
Total trust accounts	920,104	196,008	25,685	(251,325)	890,472	920,104

Indian Moneys

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

Other Trust Accounts

Relative to AANDC's legislative mandate, trust accounts may also be established in accordance with settlement agreements, legislative authorities other than the Indian Act, or court decisions.

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, 2014, AANDC had 12 outstanding settled claims (11 in 2013). Payments totalled \$86,023,000 in 2014 (\$109,000,000 in 2013).

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, 2014 is \$356,355,000 (\$432,926,000 in 2013)

Future scheduled claim payments are as follows:

(in thousands of dollars)

	2015	2016	2017	2018	2019 and thereafter	Total
Scheduled payments	87,000	57,000	59,000	58,000	118,000	379,000

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

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 81 (81 in 2013) 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 441 (443 in 2013) specific claims under negotiation, accepted for negotiation or under review.

There are legal proceedings for 538 (533 in 2013) general litigation claims being pursued through the courts still pending at March 31, 2014. 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 \$9,755,837,000 (\$10,714,925,000 in 2013) 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 \$105,720,000 (\$178,046,000 in 2013) and an additional amount of \$4,800,633,000 (\$4,364,276,000 in 2013) 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 18 – Segmented information.

Notes to the Financial Statements (Unaudited)

Environmental liabilities (Contaminated Sites)

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

As of March 31, 2014, AANDC has identified approximately 893 sites (785 sites in 2013) where the Department is obligated, or likely to be obligated, to remediate and for which a remediation liability of \$2,702,986,000 (\$2,530,833,000 in 2013) has been recorded in accrued liabilities. In addition, AANDC has disclosed a contingent liability in the amount of \$722,000 for two sites (\$13,524,000 in 2012-2013 for 23 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.

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

Loan guarantees

As at March 31, 2014, AANDC has issued loan guarantees under its On-Reserve Housing Guarantee program of \$1,810,445,000 (\$1,860,452,000 in 2013) and under its Indian Economic Development Guarantee program of \$1,008,000 (\$658,000 in 2013). AANDC's authority limit for issuing loan guarantees under these programs is \$2.2 billion (\$2.2 billion in 2013) and \$60 million (\$60 million in 2013) respectively.

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.

The provision for losses for each loan guarantee program is as follows:

	<u>2014</u>	<u>2013</u>
	<i>(in thousands of dollars)</i>	
On-Reserve Housing Guarantee program	320	325
Indian Economic Development Guarantee program	90	55
Total provision for losses	<u>410</u>	<u>380</u>

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 18 – Segmented information.

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.

The 2013-2014 expense amounts to \$47,729,000 (\$50,366,000 in 2013). For Group 1 members, the expense represents approximately 1.6 times (1.7 in 2013) the employee contributions and, for Group 2 members, approximately 1.5 times (1.6 times in 2013) 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 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>2014</u>	<u>2013</u>
	<i>(in thousands of dollars)</i>	
Accrued benefit obligation- Beginning of year	30,603	44,001
Expense for the year	9,793	16,594
Benefits paid during the year	<u>(19,386)</u>	<u>(29,992)</u>
Accrued benefit obligation- End of year	<u>21,010</u>	<u>30,603</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>2014</u>	<u>2013</u>
	<i>(in thousands of dollars)</i>	
Receivables – Other government departments and agencies	19,576	14,267
Receivables – External parties	64,240	84,493
Employee advances	204	319
Gross accounts receivable and advances	84,020	99,079
Less:		
Allowance for doubtful accounts on receivables from external parties	(15,359)	(18,453)
Net accounts receivable and advances	68,661	80,626

11. Interest receivable

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

	<u>2014</u>	<u>2013</u>
	<i>(in thousands of dollars)</i>	
Direct loans	1,502	1,671
Defaulted guaranteed loans	1,685	913
Gross interest receivable	3,187	2,584
Less:		
Allowance for doubtful accounts	(1,428)	(585)
Net interest receivable (held on behalf of Government)	1,759	1,999

Notes to the Financial Statements (Unaudited)

12. Loans receivable

The following table presents details of loans receivable:

	<u>2014</u>	<u>2013</u>
	<i>(in thousands of dollars)</i>	
Direct loans portfolio:		
Native claimants	441,678	449,342
First Nations in British Columbia	485,710	464,924
Other direct loans	504	504
Subtotal: Direct loans portfolio	927,892	914,770
Add: Capitalized interest	4,405	4,298
Less: Allowance for doubtful loans	(108,028)	(119,383)
Net recoverable value: Direct loans portfolio	824,269	799,685
Defaulted guaranteed loans portfolio:		
On-reserve housing guarantees	10,612	12,214
Indian economic development guarantees	522	522
Other defaulted guaranteed loans	104	104
Subtotal: Defaulted guaranteed loans portfolio	11,238	12,840
Add: Capitalized interest	20,647	18,607
Less: Allowance for doubtful loans	(21,184)	(19,578)
Net recoverable value: Defaulted guaranteed loans portfolio	10,701	11,869
Loans receivable, net recoverable value (held on behalf of Government)	834,970	811,554

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-principal 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>2014</u>	<u>2013</u>
	<i>(in thousands of dollars)</i>	
Interest bearing	72,382	74,738
Non-interest bearing	369,296	374,604
Total	<u>441,678</u>	<u>449,342</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, 2013, 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:

	2014	2013
	<i>(in thousands of dollars)</i>	
Interest bearing	18,189	19,875
Non-interest bearing	467,521	445,049
Total	485,710	464,924

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 no loan defaults in 2014 (2 in 2013) which resulted in no charge to AANDC's reserve for payments to cover defaults (\$1,546,000 in 2013).

Notes to the Financial Statements (Unaudited)

The various loan guarantee programs are described below.

On-Reserve Housing Guarantee program

This program authorizes the Department 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 significant terms and conditions of the On-Reserve Housing Guarantee program are as follows:

- 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

This program authorizes the Department 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 significant terms and conditions of the Indian Economic Development Guarantee program are as follows:

- 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.

Notes to the Financial Statements (Unaudited)

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.

Changes in this account are summarized in the following table:

(in thousands of dollars)

	2014					2013
	Opening Balance	Acquisitions	Adjustments	Transfers	Closing Balance	Closing Balance
Land held for future claims settlements	31,635	380	7,883	(328)	39,570	31,635

(1) Adjustments of \$7,883,000 are as a result of the real property validation exercise which was undertaken during the fiscal year.

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	2014	2013
Land	606	-	801	-	1,407	-	-	-	-	-	1,407	606
Buildings	28,600	-	(10,135)	-	18,465	15,412	461	(7,182)	-	8,691	9,774	13,188
Works and infrastructure	1,444	-	(35)	-	1,409	1,409	-	-	-	1,409	-	35
Machinery and equipment	5,558	43	(173)	-	5,428	5,533	241	(1,443)	-	4,331	1,097	25
Informatics hardware	20,764	217	(2,506)	678	17,797	15,901	570	366	677	16,160	1,637	4,863
Informatics software	50,262	-	7,621	-	57,883	19,379	6,392	3,053	-	28,824	29,059	30,883
Ships and boats	113	-	-	-	113	68	10	-	-	78	35	45
Motor vehicles	4,187	114	220	794	3,727	3,283	352	(11)	752	2,872	855	904
Other vehicles	463	25	(97)	-	391	324	21	-	-	345	46	139
Leasehold improvements	3,892	-	823	666	4,049	1,340	630	-	666	1,304	2,745	2,552
Assets under construction	12,498	24,157	(15,648)	-	21,007	-	-	-	-	-	21,007	12,498
Total	128,387	24,556	(19,129)	2,138	131,676	62,649	8,677	(5,217)	2,095	64,014	67,662	65,738

(1) Adjustments include assets under construction of \$13,823,000 that were transferred to the other categories upon completion of the assets. Net adjustments of \$13,912,000 are as a result of the capital asset validation exercise which was undertaken 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:

	2014	2013
	<i>(in thousands of dollars)</i>	
Environmental Studies Research Fund – Restricted		
Balance – Beginning of year – Restricted	1,243	2,026
Revenues	3,555	1,243
Expenses	(1,243)	(2,026)
<i>Balance – End of year – Restricted</i>	3,555	1,243
Bowater Environmental Remediation Fund – Restricted		
Balance – Beginning of year – Restricted	2,284	2,597
Expenses	(47)	(313)
<i>Balance – End of year – Restricted</i>	2,237	2,284
Total restricted	5,793	3,527
Unrestricted	(12,700,951)	(13,569,052)
Departmental net financial position – End of year	(12,695,158)	(13,565,525)

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)

	2015	2016	2017	2018	2019 and thereafter	Total
Transfer payments	4,326,345	2,871,991	1,537,808	1,066,403	775,495	10,578,042
Total	4,326,345	2,871,991	1,537,808	1,066,403	775,495	10,578,042

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 an agreement with the Canadian Northern Economic Development Agency 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:

	2014	2013
	<i>(in thousands of dollars)</i>	
Accommodation	41,836	44,109
Employer's contribution to the health and dental insurance plans	34,994	38,800
Legal services	12,091	11,043
Workers' compensation	495	518
Total	89,416	94,470

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>2014</u>	<u>2013</u>
	<i>(in thousands of dollars)</i>	
Expenses – Other Government departments and agencies	279,770	250,113
Revenues – Other Government departments and agencies	4,245	2,278

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

Notes to the Financial Statements (*Unaudited*)

18. 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	2014 Total	2013 Total
Transfer Payments							
First Nations	2,921,529	1,255,251	1,296,915	37,935	-	5,511,630	5,687,349
Provincial/territorial governments and institutions	494,191	59,712	199,930	103,295	-	857,128	809,617
Industry	22,870	18,019	-	63,906	-	104,795	97,064
Non-profit organizations	26,120	10,241	405	4,707	-	41,473	41,418
Contaminated sites (note 8)	-	(24,741)	-	65,099	-	40,358	43,622
Other	547	-	-	-	-	547	333
Refunds/adjustments to prior years' expenditures	(23,619)	(18,282)	(7,401)	(4,593)	-	(53,895)	(60,777)
Claims and litigation (note 8)	-	-	(264,251)	-	-	(264,251)	(403,774)
Total Transfer Payments	3,441,638	1,300,200	1,225,598	270,349	-	6,237,785	6,214,852
Operating Expenses							
Court awards and other settlements	452,262	726	30	-	64,854	517,872	473,836
Salaries and employee future benefits	107,022	88,183	92,828	67,620	152,184	507,837	532,144
Professional and special services	31,895	15,152	6,366	115,854	48,246	217,513	185,094
Legal services	33,625	4	59	4	84,188	117,880	117,141
Contaminated sites (note 8)	-	-	-	131,795	-	131,795	116,242
Accommodations	10,429	7,058	7,464	4,004	12,881	41,836	44,109
Travel and relocation	10,703	2,504	3,745	3,483	2,639	23,074	28,221
Machinery and equipment	193	272	79	334	15,952	16,830	9,102
Rentals of buildings and machinery	1,874	229	112	2,362	8,260	12,837	13,675
Information services	9,647	186	223	387	2,342	12,785	14,451
Expenses incurred on behalf of Government	-	(2,478)	11,384	-	-	8,906	6,960
Amortization	1,928	26	17	308	6,398	8,677	4,483
Utilities, materials and supplies	949	344	312	725	2,843	5,173	6,254
Transportation and telecommunications	850	61	18	111	1,750	2,790	2,916
Repairs and maintenance	31	251	84	221	2,044	2,631	2,702
Bad debt	-	2,443	6	-	30	2,479	3,599
Other	(6,714)	1,618	301	(1,354)	1,699	(4,450)	(4,711)
Refunds/adjustments to prior years' expenditures	(11,892)	(1,722)	(698)	(948)	(3,731)	(18,991)	(5,164)
Claims and litigation (note 8)	(694,837)	-	-	-	-	(694,837)	154,073
Total Operating Expenses	(52,035)	114,857	122,330	324,906	402,579	912,637	1,705,127
Total Expenses	3,389,603	1,415,057	1,347,928	595,255	402,579	7,150,422	7,919,979

Notes to the Financial Statements (*Unaudited*)

<i>(in thousands of dollars)</i>	People	Land and Economy	Government	North	Internal Services	2014 Total	2013 Total
Revenues							
Norman Wells project profits	-	-	-	83,503	-	83,503	108,884
Resource royalties	-	-	-	16,283	-	16,283	68,321
Interest on loans	-	2,952	3,216	-	-	6,168	5,970
Miscellaneous	-	730	-	4,382	(91)	5,021	4,835
Leases and rentals	-	1	-	2,664	-	2,665	3,874
Finance and administrative services	-	-	-	-	690	690	744
Revenues earned on behalf of Government	-	(3,016)	(3,216)	(106,832)	194	(112,870)	(190,205)
Total Revenues	-	667	-	-	793	1,460	2,423
Net cost from continuing operations	3,389,603	1,414,390	1,347,928	595,255	401,786	7,148,962	7,917,556

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*)

19. 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 2013-2014**

**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. Resources have been transferred permanently and there is no annual cost incurred by AANDC.

3.0 AANDC's assessment results during fiscal year 2013-2014

As of Fiscal Year 2013-2014, AANDC has completed its Design Effectiveness Assessment for all identified Control Levels. AANDC has also completed all of its Operational Effectiveness Assessment for all Control Levels with the exception of Tangible Capital Assets which is to be completed by March 2015 as per the Internal Control Action Plan.

3.1 Design effectiveness of key controls

In 2013-2014, AANDC reviewed and updated the design effectiveness documentation, including the Environmental Liabilities management action plans, prior to proceeding with its operating effectiveness key control testing of the processes listed below in 3.2.

3.2 Operating effectiveness testing of key controls

Information Technology General Controls

- Remediation implementation plans are in place.
- AANDC adopted Health Canada's financial management system (Systems, Application and Products (SAP)).
- Follow-up on the remediation plans will be adjusted and undertaken once AANDC has completed the work required for migration to Systems, application and products (SAP).

Business Process Controls

During 2013-2014, the department completed operating effectiveness testing of its Revenue Management and Guaranteed Deposits, Guaranteed Loans, Entity Level Controls high risk control objective elements, and Environmental Liabilities identified 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 in the following business processes:

Revenue Management and Guaranteed Deposits

- To strengthen the management of account receivable and deposit processes.
- To enforce roles and responsibilities procedures over transactions requiring pre-audit action.
- To re-engaged resources to complete the rebuilding of the Land Administration System.
- To re-examine cheque distribution office security access standards.

Guaranteed Loans

- To strengthen the management in the areas of Ministerial Loan Guarantees Authority Planning, eligibility assessments, tracking and monitoring Ministerial Loan Guarantees and Guarantee Loan Management Module system reports.

Entity Level Controls

- To improve the management in the areas of monitoring of training, account certification and post payment reviews.

Environmental Liabilities

- To strengthen the management in the areas of cost estimates revision documentation and approval, liability estimates, site closure and reporting reconciliation.

3.3 Ongoing monitoring of key controls

- An ongoing monitoring framework has been approved in 2013-2014 and the ongoing Monitoring Plan will be launched before March 31, 2015.

4.0 AANDC's action plan

4.1 Progress during fiscal year 2013-2014

During 2013-2014, AANDC continued to make significant progress in assessing and improving its key controls. 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 2013-2014:

Elements in action plan	Plan for 2013-2014 per prior year's action plan	Actual – 2013-2014
Assessment of design effectiveness of key controls:		
Remediation of key control design deficiencies	Environmental Liabilities	Completed as planned
Assessment of operating effectiveness of key controls:		
Testing of operating effectiveness of key controls	Revenue Management and Guaranteed Deposits	Completed as planned
	Guaranteed Loans	Completed as planned
	Entity Level Controls	Completed as planned
	Environmental Liabilities	Completed as planned
Remediation of operating effectiveness of key control deficiencies	Revenue Management and Guaranteed Deposits	Completed as planned
	Guaranteed Loans	Completed as planned
	Entity Level Controls	Completed as planned
	Environmental Liabilities	Completed as planned

4.2 Status and action plan for the next fiscal year and subsequent years

Building on progress to date, AANDC is positioned to complete the full assessment of its system of internal control over financial reporting in 2014-2015. A rotational ongoing Monitoring Plan will be launched by March 2015 to reassess control performance on a risk basis across all control areas.

By end of 2014-2015 AANDC plans to have:

- completed the first full assessment of its system of internal control over financial reporting by testing the operational effectiveness of key controls of the Tangible Capital assets process.
- updated the Policy on Accounting for Environmental Liabilities to reflect the current environment.
- launched AANDC's rotational ongoing Monitoring Plan.
- scheduled the testing of Entity Level Controls operational effectiveness of medium risk control objective elements within the AANDC's 5 year rotational ongoing Monitoring Plan.

By end of 2015-2016 AANDC plans to have:

- conducted testing of the design and operational effectiveness of the processes identified in year 1 of AANDC's 5 year rotational ongoing Monitoring Plan. The monitoring activities and plan will be reviewed, re-validated and adjusted as necessary based on an annual risk assessment.

**Action Plan Summary – Completed in previous years, completed in current year,
next fiscal year and subsequent years**

Control Level	Assess Design Effectiveness	Remediate Design Effectiveness	Assess Operational Effectiveness	Remediation Plan of Operational Effectiveness
Entity Level Controls	CPY 2012-2013	CPY 2012-2013	CCY 2013-2014	CCY 2013-2014
Information Technology General Controls				
OASIS	CPY 2007-2008	CPY 2011-2012	CPY 2007-2008	CPY 2011-2012
FNITP/GLMM	CPY 2007-2008	CPY 2011-2012	CPY 2007-2008	CPY 2011-2012
RIMS	CPY 2007-2008	CPY 2011-2012	CPY 2007-2008	CPY 2011-2012
OSMS/RPS	CPY 2008-2009	CPY 2011-2012	CPY 2008-2009	CPY 2011-2012
TFMS	CPY 2011-2012	CPY 2011-2012	CPY 2011-2012	CPY 2011-2012
Business Processes				
Grants and Contributions	CPY 2008-2009	CPY 2010-2011	CPY 2011-2012	CPY 2011-2012
Purchases, Payables and Payments	CPY 2008-2009	CPY 2009-2010	CPY 2011-2012	CPY 2011-2012
Payroll	CPY 2008-2009	CPY 2010-2011	CPY 2011-2012	CPY 2012-2013
Trust Accounts	CPY 2009-2010	CPY 2010-2011	CPY 2011-2012	CPY 2011-2012
Direct Loans	CPY 2009-2010	CPY 2010-2011	CPY 2012-2013	CPY 2012-2013
Guaranteed Loans	CPY 2009-2010	CPY 2010-2011	CCY 2013-2014	CCY 2013-2014
Revenue Management & Guaranteed Deposits	CPY 2010-2011	CPY 2011-2012	CCY 2013-2014	CCY 2013-2014
Tangible Capital Assets	CPY 2010-2011	CPY 2011-2012	PCD 2014-2015	PCD 2014-2015
Comprehensive Claims	CPY 2009-2010	CPY 2010-2011	CPY 2012-2013	CPY 2012-2013
Specific Claims	CPY 2009-2010	CPY 2010-2011	CPY 2012-2013	CPY 2012-2013
Environmental Liabilities	CPY 2009-2010	CCY 2013-2014	CCY 2013-2014	CCY 2013-2014
General Litigation Liabilities	CPY 2009-2010	CPY 2010-2011	CPY 2012-2013	CPY 2012-2013
Financial Reporting	CPY 2008-2009	CPY 2010-2011	CPY 2012-2013	CPY 2012-2013
CPY - Completed in Previous Year PCD – Planned Completion Date CCY – Completed current fiscal year				