

INDIAN AND NORTHERN AFFAIRS CANADA
Financial Statements for the Year Ended March 31, 2007
(Unaudited)

2006-2007 Financial Statements

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2007 and all information contained in these statements rests with the management of Indian and Northern Affairs Canada (INAC). These financial statements have been prepared by management in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector.

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

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

The financial statements of INAC have not been audited.



Michael Wernick,
Deputy Minister



Jim Quinn,
Chief Financial Officer

Gatineau, Canada

Date: August 8th, 2007

INDIAN AND NORTHERN AFFAIRS CANADA
Statement of Operations (Unaudited)
For the Year Ended March 31
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
<u>EXPENSES (Note 4)</u>		
People	3,348,986	3,360,637
Economy	1,759,212	1,354,578
Government	832,981	771,454
Land	604,369	331,722
Office of the Federal Interlocutor	38,353	40,650
Total Expenses	<u>6,583,901</u>	<u>5,859,041</u>
<u>REVENUES (Note 5)</u>		
People	14	14
Economy	11,442	10,716
Government	7,352	12,303
Land	189,312	245,689
Office of the Federal Interlocutor	-	20
Total Revenues	<u>208,120</u>	<u>268,742</u>
<u>Net Cost of Operations</u>	<u>6,375,781</u>	<u>5,590,299</u>

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

INDIAN AND NORTHERN AFFAIRS CANADA
Statement of Financial Position (Unaudited)
At March 31
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Financial assets		
Accounts receivable (Note 6)	147,040	76,963
Loans and advances (Note 7)	711,687	679,683
Total financial assets	858,727	756,646
Non-financial assets		
Prepaid expenses	28,165	29,956
Tangible capital assets (Note 8)	38,990	22,624
Total non-financial assets	67,155	52,580
TOTAL	925,882	809,226
 <u>LIABILITIES</u>		
Accounts payable and accrued liabilities	753,619	628,644
Vacation pay and compensatory leave	16,207	17,074
Other liabilities	75,484	94,939
Trust accounts (Note 12)	993,724	1,026,689
Environmental liabilities (Note 10)	1,313,856	1,071,014
Liability for claims and litigation (Note 10)	9,785,811	9,415,193
Settled claims	642,160	831,489
Employee severance benefits (Note 9)	56,349	53,199
Total	13,637,210	13,138,241
Equity of Canada	(12,711,328)	(12,329,015)
TOTAL	925,882	809,226

Contingent liabilities (Note 10)

Contractual obligations (Note 11)

The accompanying notes form an integral part of these financial statements

INDIAN AND NORTHERN AFFAIRS CANADA
Statement of Equity (Unaudited)
For the Year Ended March 31
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
Equity of Canada, beginning of the year	(12,329,015)	(12,719,705)
Net cost of operations	(6,375,781)	(5,590,299)
Current year appropriations used (Note 3)	6,086,238	5,824,235
Revenue not available for spending	(208,120)	(268,724)
Change in net position in the Consolidated Revenue Fund (Note 3)	39,623	356,639
Services received without charge from other government departments (Note 13)	72,381	68,839
Transfer in of Aboriginal Business Canada and First Nations SchoolNet from Industry Canada	3,346	-
Equity of Canada, end of year	<u><u>(12,711,328)</u></u>	<u><u>(12,329,015)</u></u>

The accompanying notes form an integral part of these financial statements

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

	<u>2007</u>	<u>2006</u>
<u>Operating activities</u>		
Net cost of operations	6,375,781	5,590,299
Non-cash items:		
Amortization of tangible capital assets	(5,243)	(4,956)
Gain (loss) on disposal and write-down of tangible capital assets	(1,433)	77
Services provided without charge	(72,381)	(68,839)
Adjustments to tangible capital assets	12,342	-
Transfer in of Aboriginal Business Canada & First Nations SchoolNet from Industry Canada	(3,346)	-
Variations in Statement of Financial Position		
Increase (decrease) in accounts receivable	70,077	(38,946)
Increase (decrease) in loans and advances	32,004	39,766
Increase (decrease) in prepaid expenses	(1,791)	(13,404)
Decrease (increase) in liabilities	(498,969)	408,545
Cash used by operating activities	<u>5,907,041</u>	<u>5,912,542</u>
<u>Capital investment activities</u>		
Acquisitions of tangible capital assets	11,682	5,119
Proceeds from disposal of tangible capital Assets	(982)	(5,511)
Cash used by capital investment activities	<u>10,700</u>	<u>(392)</u>
<u>Financing activities</u>		
Net cash provided by Government of Canada	<u>5,917,741</u>	<u>5,912,150</u>

The accompanying notes form an integral part of these financial statements

INDIAN AND NORTHERN AFFAIRS CANADA
Notes to Financial Statements (*Unaudited*)

1. Authority and Objectives

Indian and Northern Affairs Canada (INAC) was created in 1966 to provide basic services to First Nations, such as education and housing, road maintenance, and water and sewer systems. Today, the department is evolving towards an advisory, funding, and supportive agency in its relations with First Nations, Inuit and Northerners.

INAC financial statements are presented along five major Strategic Outcome lines.

Government

Under this strategic outcome, activities support good governance, effective institutions and co-operative relationships as the foundation for self-reliant and self-sufficient First Nations, Inuit and Northerners. Building trust and effective accountability between First Nations, Inuit and Northerners and their governments is a prerequisite to success.

People

This strategic outcome promotes First Nations' access to a range and level of services reasonably comparable to those enjoyed by other Canadians. By ensuring that basic needs are met, and by focusing on education, this strategic outcome looks at key socio-economic indicators to effect real change.

Land

This strategic outcome promotes efficient land management practices that address the Crown's existing obligation to protect, conserve and manage lands and the environment; resource management consistent with the principles of sustainable development; and First Nations' aspirations to control of their lands and resources.

Economy

This strategic outcome concentrates on establishing a supportive investment/business climate to enable First Nations, Inuit and northern individuals, communities and businesses to seize economic opportunities. It also focuses on building the economic and community foundations necessary to increase Aboriginal and northern participation in the economy.

Office of the Federal Interlocutor

This strategic outcome is designed to work towards achieving practical ways of improving socio-economic conditions for Métis and Non-Status Indians and urban Aboriginal people; to develop, maintain and nurture good relationships with Métis and Non-Status Indian groups and organizations, urban Aboriginal Canadians, and provincial governments and municipalities (especially in western Canada); and to help Métis and Non-Status Indian organizations to become more self-sufficient, better able to represent their members when engaging with federal and provincial governments, and more accountable to their members and to federal and provincial governments for public funding.

INDIAN AND NORTHERN AFFAIRS CANADA
Notes to Financial Statements (*Unaudited*)

2. Summary of Significant Accounting Policies

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

Significant accounting policies are as follows:

a) Parliamentary appropriations

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

b) Net Cash Provided by Government

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

c) Change in net position in the Consolidated Revenue Fund

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

d) Revenues

Revenues are accounted for in the period in which the underlying transaction or event occurred that gave rise to the revenues;

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

Grants are recognized in the year in which conditions for payment are met. In the case of grants which do not form part of an existing program, the expense is

INDIAN AND NORTHERN AFFAIRS CANADA
Notes to Financial Statements (*Unaudited*)

recognized when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements;

Contributions are recognized in the year in which the recipient has met the eligibility criteria; or fulfilled the terms of a contractual transfer agreement;

Vacation pay and compensatory leave are expensed in the year that the entitlement occurs;

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

f) Employee future benefits

- i. Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multi-employer plan administered by the Government of Canada. INAC's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. Current legislation does not require the department to make contributions for any actuarial deficiencies of the Plan.
- ii. Severance benefits: Employees are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

g) Accounts and loans receivable

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

Loans receivable are stated at amounts expected to be ultimately realized; a provision is made for loans whose recovery is considered to be uncertain. Interest is recorded on a quarterly basis and is calculated based on rates which are outlined in the terms and condition of each individual program

h) Allowances for loan guarantees

An allowance for loan guarantees is recorded for potential losses on loan guarantees when it is likely that a payment will be made in the future to honour a guarantee and when the amount of the loss can be reasonably estimated.

INDIAN AND NORTHERN AFFAIRS CANADA
Notes to Financial Statements (*Unaudited*)

The allowance for losses on outstanding loan guarantees is based upon forecasting models developed by program areas.

i) Contingent liabilities

A contingent liability is a potential liability which may become an actual liability when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

j) Environmental liabilities

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

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. The department does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, and assets located on Indian Reserves.

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

INDIAN AND NORTHERN AFFAIRS CANADA
Notes to Financial Statements (*Unaudited*)

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

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

1) Measurement uncertainty

The preparation of financial statements in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, environmental liabilities, the liability for employee severance benefits and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

INDIAN AND NORTHERN AFFAIRS CANADA
Notes to Financial Statements (Unaudited)

3. Parliamentary Appropriations

INAC receives most of its funding through annual Parliamentary appropriations. Items recognized in the statement of operations and the statement of financial position in one year may be funded through Parliamentary appropriations in prior, current or future years. Accordingly, INAC has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

a) Reconciliation of net cost of operations to current year appropriations used:

	<u>2007</u>	<u>2006</u>
	(in thousands of dollars)	
Net cost of operations	6,375,781	5,590,299
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Add (Less):		
Services provided without charge	(72,381)	(68,839)
Amortization of tangible capital assets	(5,243)	(4,956)
Revenue not available for spending	208,120	268,724
Employee severance benefits	(3,150)	(7,497)
(Loss) Gain on disposal of tangible capital assets	(1,433)	77
Liability for claims against the Department	(370,618)	445,737
Expenses related to environmental liabilities	(242,843)	(99,963)
Expenses for settled claims	189,329	(258,917)
Others	(1,215)	(32,145)
	<u>6,076,347</u>	<u>5,832,520</u>
Adjustments for items not affecting net cost of operations but affecting appropriations:		
Capital acquisitions	11,682	5,119
Prepaid expenses	(1,791)	(13,404)
Current year appropriations used	<u>6,086,238</u>	<u>5,824,235</u>

INDIAN AND NORTHERN AFFAIRS CANADA
Notes to Financial Statements (Unaudited)

b) Appropriations provided and used

	Appropriations Provided	
	2007	2006
	(in thousands of dollars)	
Vote 1 Operating Expenditures	702,783	604,813
Vote 5 Capital Expenditures	25,308	22,758
Vote 10 Grants and Contributions	5,375,668	5,005,289
Vote 15 Payment to Canada Post Corporation	40,900	40,900
Vote 20 Office of the Federal Interlocutor - Operating expenditures	7,805	7,989
Vote 25 Office of the Federal Interlocutor - Contributions	30,654	30,394
Statutory Amounts	261,855	297,428
Less:		
Appropriations available for future years	(33,107)	(29,978)
Lapsed appropriations: Operating	(325,628)	(155,358)
Current year appropriations used	6,086,238	5,824,235

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

	2007	2006
	(in thousands of dollars)	
Net cash provided by Government	5,917,741	5,912,150
Revenue not available for spending	208,120	268,724
Change in net position in the Consolidated Revenue Fund		
Variation in accounts receivable and advances	(70,077)	38,946
Variation in loans and advances	(32,004)	(39,766)
Variation in accounts payable and accrued liabilities	124,975	(53,966)
Variation in trust accounts	(32,965)	(272,849)
Other adjustments	(29,552)	(29,004)
	<u>(39,623)</u>	<u>(356,639)</u>
Current year appropriations used	6,086,238	5,824,235

INDIAN AND NORTHERN AFFAIRS CANADA
Notes to Financial Statements (Unaudited)

4. Expenses

The following table presents details of expenses by category:

	2007	2006
	(in thousands of dollars)	
Payments to or on behalf of aboriginals	4,132,956	4,440,010
Transfers to other levels of government	673,639	647,528
Transfers to industry	294,800	276,560
Transfers to non-profit organizations	37,818	36,150
Assistance to Encourage Employment	13,056	0
Other transfers to individuals	2,421	1,081
Total transfer payments	5,154,690	5,401,329
Salaries and employee benefits	380,053	371,588
Claims and Litigation	370,618	(445,737)
Professional Services	262,176	235,365
Contaminated Sites	242,843	99,963
Travel and relocation	40,362	39,091
Canada Post Corporation	39,311	40,900
Operating expenses	36,001	66,220
Accommodations	26,789	25,577
Court Awards and other settlements	23,625	5,158
Amortization	5,243	4,956
Loss on Disposal of tangible capital assets	1,748	-
Service charges and fees	281	406
Bad debts	155	14,227
Loss (Gain) on Foreign Exchange	6	(2)
Total operating expenses	1,429,211	457,712
Total Expenses	6,583,901	5,859,041

INDIAN AND NORTHERN AFFAIRS CANADA
Notes to Financial Statements (Unaudited)

5. Revenues

The following table presents details of revenues by category:

	2007	2006
	(in thousands of dollars)	
Return on investment from outside the Government	135,352	142,889
Rights and privileges	34,423	92,726
Miscellaneous	32,547	28,414
Lease & use of public property	4,413	3,885
Other Revenue	1,385	828
Total Revenue	208,120	268,742

6. Accounts receivable

The following table presents details of accounts receivable:

	2007	2006
	(in thousands of dollars)	
Receivables from other government departments	54,463	29,450
Receivables from external parties	114,259	69,121
	168,722	98,571
Less: allowance for doubtful accounts on external receivables	(21,682)	(21,608)
Total	147,040	76,963

INDIAN AND NORTHERN AFFAIRS CANADA
Notes to Financial Statements (Unaudited)

7. Loans and advances

	<u>2007</u>	<u>2006</u>
	(in thousands of dollars)	
Native Claimants	410,657	391,319
First Nations in British Columbia	366,299	337,996
Loans on expired loan guarantees	23,103	14,929
Council of Yukon First Nations - Elders	8,710	9,495
Other Loans and Advances	530	547
	<u>809,299</u>	<u>754,286</u>
Less: allowance for doubtful accounts	<u>(97,612)</u>	<u>(74,603)</u>
Total	<u>711,687</u>	<u>679,683</u>

Native Claimants

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

During the year, loans were authorized by Indian Affairs and Northern Development Vote L30 and L30a, *Appropriation Act No.2 and No. 3 2006-2007*.

The terms and conditions of the loans are as follows:

- (a) loans made before an agreement-in-principle for the settlement of a claim is reached are non-interest bearing;
- (b) loans made after the date on which an agreement-in-principle for the settlement of a claim has been reached, bear interest at a rate equal to the rate established by the Minister of Finance in respect of borrowings for equivalent terms by Crown corporations; and,
- (c) loans are due and payable, as to principal and interest, on the date on which the claim is settled, or on a date fixed in the agreement.

The interest bearing and the non-interest bearing portions of the loans outstanding at year end are \$140,143,513 and \$270,513,603 respectively

First Nations in British Columbia

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

During the year, loans were authorized by Indian Affairs and Northern Development Vote L35, *Appropriation Act No.2, 2006-2007*.

The terms and conditions of the loans are as follows:

INDIAN AND NORTHERN AFFAIRS CANADA
Notes to Financial Statements (*Unaudited*)

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

- (1) Date on which the treaty is settled;
- (2) Twelfth anniversary of the first loan advances to the First Nation under the earliest First Nation Funding agreement;
- (3) Seventh anniversary after the signing of an agreement-in-principle; or,
- (4) Date the Federal Minister demands payment of the loans due to an event of default under this agreement or under any First Nations' Funding agreement.

The interest-bearing and non-interest bearing portions of the loans outstanding at year end are \$54,059,828 and \$312,238,927 respectively.

Loans on expired loan guarantees

The expired loan guarantees are the outstanding balances of principal and other amounts that were paid out of the Consolidated Revenue Fund

Council of Yukon First Nations - Elders

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

During the year, loans were authorized by Indian Affairs and Northern Development Votes L30 and L30a, *Appropriation Acts No. 2 and No.3, 2006-2007*.

The terms and conditions of the loans are as follows:

- (a) loans made before an agreement-in-principle for the settlement of a claim is reached are non-interest bearing;
- (b) loans made after the date on which an agreement-in-principle for the settlement of a claim has been reached, bear interest at a rate equal to the rate established by the Minister of Finance in respect of borrowings for equivalent terms by Crown corporations; and,
- (c) loans are due and payable, as to principal and interest, on the date on which the claim is settled or on a date fixed in the agreement, which shall be no later than March 31, 2007,

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whichever date is earlier.

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Other Loans and Advances

Inuit Loan Fund

Loans have been made to individual Inuit or groups of Inuit, to promote commercial activities and gainful occupations. Loans have also been made to co-operative associations, credit unions, caisses populaires or other credit societies incorporated under provincial laws, where the majority of members are Inuit, or to corporations incorporated under the laws of Canada, or provincial laws, where the controlling interest is held by Inuit. One loan is remaining with an interest rate of 5.50 percent per annum.

Indian Economic Development Fund

Loans have been made for the purposes of economic development, to Indians or Indian Bands, to individuals, partnerships or corporations, the activities of which contribute or may contribute to such development. Loans 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.

Stoney Band Perpetual Loan

In 1946, Loans were made to Stoney Band of Alberta for land acquisition beyond their treaty entitlement. A loan not exceeding \$500,000 was made to purchase additional land. The expended amount of the loan bears interest at a rate of 3.00 percent per annum.

INDIAN AND NORTHERN AFFAIRS CANADA
Notes to Financial Statements (Unaudited)

8. Tangible Capital Assets

(in thousands of dollars)

Capital Asset Class	Cost				Accumulated amortization				2007 Net Book Value	2006 Net Book Value
	Opening Balance	Acquisitions	Disposals Write-offs and Other Adjustments	Closing Balance	Opening Balance	Amortization	Disposals Write-offs and Other Adjustments	Closing Balance		
Land	702		(96)	606					606	702
Buildings	29,030		(14)	29,016	12,509	812	(2,140)	11,181	17,835	16,521
Works and Infrastructure	1,432		(23)	1,409	1,146	48	(14)	1,180	229	286
Machinery and Equipment	8,199	294	(181)	8,312	6,255	617	(1,640)	5,232	3,080	1,944
Informatics Hardware	35,005	2,047	500	37,552	34,134	3,197	(7,256)	30,075	7,477	871
Informatics Software	101	665	(646)	120	12	4	(12)	4	116	89
Other Equipments (non-Furn.)	329		(329)	0					0	329
Ships and Boats	165		(35)	130	55	6		61	69	110
Motor Vehicles	4,484	470	(1,056)	3,898	3,709	532	(1,573)	2,668	1,230	775
Other Vehicles	540	57	(257)	340	503	27	(319)	211	129	37
Leasehold Improvements	125	58	(125)	58					58	125
Assets Under Construction	835	8,091	(765)	8,161					8,161	835
Total	80,947	11,682	(3,027)	89,602	58,323	5,243	(12,954)	50,612	38,990	22,624

Amortization expense for the year ended March 31, 2007 is \$5,243,000 (2006 - \$4,956,000).

9. Employee Benefits

a) Pension benefits: INAC's employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government of Canada. Pension benefits accrued for to a maximum period of 35 years at a rate of 2 percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plans benefits and they are indexed to inflation.

Both the employees and INAC contribute to the cost of the Plan. The expense amounts to \$ 36,006,000 (\$37,742,000 in 2006) which represents approximately 2.2 times (2.6 in 2006) the contributions by employees.

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

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Canada, as the Plan's sponsor.

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

	2007	2006
	(in thousands of dollars)	
Accrued benefit obligation, beginning of year	53,199	45,702
Expense for the year	8,380	12,825
Benefits paid during the year	(5,230)	(5,328)
Accrued benefit obligation, end of year	<u>56,349</u>	<u>53,199</u>

10. 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, contaminated sites and loan guarantees.

a) Claims and litigation

There are hundreds of claims and pending and threatened litigation cases outstanding against the department. These claims include items with pleading amounts and many where an amount is not specified. While the total amount claimed in these actions is significant, their outcomes are not determinable. There are three significant types of claims faced by INAC:

(i) Comprehensive land claims: These are claims that are based on traditional Native use and occupancy of land and represent settlements for modern treaties. The primary purpose of comprehensive claims settlement is to conclude agreements with Aboriginal groups that will resolve the legal ambiguities associated with the common law concept of Aboriginal rights. The process is intended to result in agreement on special rights Aboriginal peoples will have in the future with respect to lands and resources. There are 71 (74 in 2006) comprehensive land claims.

(ii) Specific Claims: These address past grievances arising out of non-fulfilment of Indian treaties and other lawful obligations, or the improper administration of lands and other assets under the Indian Act or formal agreements that are being pursued through negotiations. There are currently 744 (729 in 2006) specific claims under negotiation, accepted for negotiation or under review.

(iii) General Litigation claims: Comprehensive land claims and specific claims are pursued through the department while general litigation claims are claims that are being pursued through the legal system and where a formal statement of claim or application

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has been filed before the court and with the Department of Justice. There are currently 451 (439 in 2006) claims being pursued through the courts where the plaintiffs are seeking damages.

The department has recorded an allowance of \$ 9,785,811,000 (\$9,415,193,000 in 2006) 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 settlements or similar claims.

b) Contaminated sites

Liabilities are accrued to record the estimated costs related to the management and remediation of contaminated sites where the department is obligated to incur such costs. The department has identified contaminated sites for which a liability of \$1,313,856,000 (\$1,071,014,000 in 2006) has been recorded. Estimated additional clean-up costs of \$519,205,000 (\$627,880,000 in 2006) have not been accrued, as the likelihood of incurring these costs cannot be determined at this time. INAC's ongoing efforts to assess contaminated sites may result in additional environmental liabilities related to newly identified sites, or changes in the assessments or intended use of existing sites. These liabilities will be accrued by the department in the year in which they become known.

c) Loan Guarantees

The amount of the allowance for losses is determined by taking into consideration the weighed average of the contingent liability and the historical percentage of default. Losses on loan guarantees are recorded when it is likely that a payment will be made to honour a guarantee. As at March 31st, 2007, INAC has recorded an allowance for losses on loan guarantees of \$ 1,800,000 (\$ 1,800,000 in 2006).

As at March 31st, 2007, the department has the following balances available for new guarantees:

<i>(in thousands of dollars)</i>	Authorized Limit	Balance Available
Indian Economic Development Guarantee Program	60,000	31,578
On Reserve Housing Guarantee Program	1,700,000	181,432
Aboriginal Business Loan Insurance Program	No Limit	Not Applicable

(i) The Indian Economic Development Guarantee authority, established under Vote L53(b), *Appropriation Act No. 1, 1970*, amended under P.C. 1977-3608, authorized the department to guarantee loans for Indian business on a risk-sharing basis with commercial lenders. The guarantee level is not to exceed at any time \$60,000,000, less the total amount of payments made to implement previous guarantees under that authority.

(ii) On Reserve Housing guarantees provide needed support to Indian or Indian bands residing on reserves or crown land. Reserves are, as such, non mortgageable and the

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ministerial guarantee provides security to the lending institution in the event of a default by the client.

In 1987, a reserve for losses of \$2, 000,000 per annum was established within the department's reference levels to cover all Guarantee Loan Programs administered.

(iii) The Aboriginal Business Loan Insurance Program, established under the Department of Industry, Science and Technology Act, Section 9 and Paragraph 15 (1) (b), and Order in Council nos. P.C. 1990-370 and P.C. 1990-371, and amended under Department of Industry Act (1995), Part IV, Paragraph 14 (1) (b), provides loan insurance to financial institutions on behalf of loans issued to Aboriginal individuals, organizations, corporations or partnerships for the purpose of increasing commercial enterprise activity by Aboriginal Canadians. No limit was established regarding the maximum insured amount.

11. Contractual Obligations

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

(in thousands of dollars)	2008	2009	2010	2011	2012 and thereafter	Total
Transfer payments	1,256	744	644	213	15	2,872
Operating leases	29	15	-	-	-	44
Total	1,285	759	644	213	15	2,916

12. Trust Accounts

Trust accounts represent the department's financial obligations in its role as administrator of certain monies that it has received or collected for specified purposes and that it will pay out accordingly. The following trust accounts are administered by the department.

(in thousands of dollars)	2007				2006
Trust Accounts	Opening Balance	Receipts	Payments	March 31, 2007 Balance	March 31, 2006 Balance
Indian Band Funds	979,331	253,287	(290,578)	942,040	979,331
Indian Savings Accounts	36,195	7,218	(4,337)	39,076	36,195
Indian Estates Accounts	11,163	4,939	(3,494)	12,608	11,163
Total	1,026,689	265,444	(298,409)	993,724	1,026,689

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Indian Band Funds:

This account was established to record monies belonging to Indian bands throughout Canada pursuant to sections 61 to 69 of the Indian Act.

Indian Savings Accounts:

These accounts were established to record monies received and disbursed for individual Indians pursuant to sections 52 and 52.1 to 52.5 of the Indian Act.

Indian Estate Accounts:

These accounts were established to record monies received and disbursed for estates of deceased Indians, mentally incompetent Indians and missing Indians pursuant to sections 42 to 51 and 52.3 of the Indian Act.

13. Related party transactions

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

(a) Services provided without charge:

During the year, the department received without charge from other departments, accommodation, legal services and the employer's contribution to the health and dental insurance plans.

These services without charge have been recognized in the department's Statement of Operations as follows:

	2007	2006
	<u>(in thousands of dollars)</u>	
Accommodation provided by Public Works and Government Services Canada (PWGSC)	26,789	25,577
Contributions covering employers' share of employees' insurance premiums and expenditures paid by TBS (excluding revolving funds)	24,219	23,068
Workman's compensation coverage provided by Human Resource Canada	637	605

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Salary and associated expenditures for legal services provided by Justice Canada	20,736	19,589
Total	72,381	68,839

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

(b) Payables outstanding at year-end with related parties:

	2007	2006
	(in thousands of dollars)	
Accounts payable to other government departments and agencies	25,776	15,313

14. Comparative information

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