

INDIAN AND NORTHERN AFFAIRS CANADA  
Statement of Management Responsibility  
For the Year Ended March 31, 2006  
(Unaudited)

**Statement of Management Responsibility**

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2006 and all information contained in these statements rests with departmental management. 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 the department'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 the department.

The financial statements of the department have not been audited.



---

Michael Wernick,  
Deputy Minister



---

Caroline Davis,  
Assistant Deputy Minister

Gatineau, Canada

Date: September 12th, 2006

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

	<u>2006</u>	<u>2005</u>
<b><u>EXPENSES (Note 4)</u></b>		
Government	707,682	-
Land	304,300	-
People	3,082,833	-
Economy	1,242,603	-
Office of the Federal Interlocutor	37,290	-
Departmental Management and Administration	484,333	-
<b>Total Expenses</b>	<b><u>5,859,041</u></b>	<b><u>5,815,217</u></b>
<b><u>REVENUES (Note 5)</u></b>		
Government	9,415	-
Land	188,009	-
People	11	-
Economy	8,200	-
Office of the Federal Interlocutor	15	-
Departmental Management and Administration	63,092	-
<b>Total Revenues</b>	<b><u>268,742</u></b>	<b><u>296,915</u></b>
<b><u>Net Cost of Operations</u></b>	<b><u><u>5,590,299</u></u></b>	<b><u><u>5,518,302</u></u></b>

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

(1) Comparative information by program activity is not available as the department changed its program architecture for the fiscal year ended March 31, 2006.

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

	<u>2006</u>	<u>2005</u>
<b><u>ASSETS</u></b>		
<b>Financial assets</b>		
Accounts receivable (Note 6)	76,963	115,909
Loans and advances (Note 7)	679,683	639,917
<b>Total financial assets</b>	<b>756,646</b>	<b>755,826</b>
<b>Non-financial assets</b>		
Prepaid expenses	29,956	43,360
Tangible capital assets (Note 8)	22,624	27,895
<b>Total non-financial assets</b>	<b>52,580</b>	<b>71,255</b>
<b>TOTAL</b>	<b>809,226</b>	<b>827,081</b>
 <b><u>LIABILITIES</u></b>		
Accounts payable and accrued liabilities	628,644	682,610
Trust accounts (Note 12)	1,026,689	1,299,538
Other liabilities	94,939	97,706
Vacation pay and compensatory leave	17,074	16,677
Environmental liabilities (Note 10b)	1,071,014	971,051
Allowance for claims and litigation (Note 10a)	9,415,193	9,860,930
Settled claims	831,489	572,572
Employee severance benefits (Note 9)	53,199	45,702
<b>Total</b>	<b>13,138,241</b>	<b>13,546,786</b>
<b>Equity of Canada</b>	<b>(12,329,015)</b>	<b>(12,719,705)</b>
<b>TOTAL</b>	<b>809,226</b>	<b>827,081</b>

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>2006</u>	<u>2005</u>
<b>Equity of Canada, beginning of the year</b>	(12,719,705)	(12,554,342)
Net cost of operations	(5,590,299)	(5,518,302)
Current year appropriations used (Note 3)	5,824,235	5,601,450
Revenue not available for spending	(268,724)	(296,897)
Change in net position in the Consolidated Revenue Fund (Note 3a)	356,639	(15,107)
Services received without charge from other government departments (Note 13a)	68,839	63,493
<b>Equity of Canada, end of year</b>	<u><u>(12,329,015)</u></u>	<u><u>(12,719,705)</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>2006</u>	<u>2005</u>
<b><u>Operating activities</u></b>		
Net cost of operations	5,590,299	5,518,302
<b>Non-cash items:</b>		
Amortization of tangible capital assets	(4,956)	(5,505)
Gain (loss) on disposal and write-down of tangible capital assets	77	158
Services provided without charge	(68,839)	(63,493)
<b>Variations in Statement of Financial Position</b>		
Increase (decrease) in accounts receivable	(38,946)	(4,412)
Increase (decrease) in loans and advances	39,766	32,420
Increase (decrease) in prepaid expenses	(13,404)	4,973
Decrease (increase) in liabilities	408,545	(194,230)
<b>Cash used by operating activities</b>	<u>5,912,542</u>	<u>5,288,213</u>
<b><u>Capital investment activities</u></b>		
Acquisitions of tangible capital assets	5,119	1,391
Proceeds from disposal of tangible capital assets	(5,511)	(158)
<b>Cash used by capital investment activities</b>	<u>(392)</u>	<u>1,233</u>
<b><u>Financing activities</u></b>		
<b>Net cash provided by Government of Canada</b>	<u>5,912,150</u>	<u>5,289,446</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 six 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*)**

### Departmental Management and Administration

The Departmental Management and Administration (DMA) is an operational outcome that underpins the strategic outcomes listed above. DMA's mandate is to ensure the department is effectively and responsibly managed, operated and positioned to achieve its strategic outcomes and make Canada a better place for First Nations, Inuit, Métis and Northerners.

## **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 responsible 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.

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

**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 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 as amounts expected to be ultimately realized; a provision is made for receivables where recovery is considered uncertain.

Loans receivable are reported at cost, being the amounts of loans disbursed. These are reviewed annually and a valuation allowance recorded when loans are



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

considered unrecoverable. 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) 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.

**i) 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.

**j) Foreign currency transactions**

Transactions involving foreign currencies are translated into Canadian dollar equivalents using rates of exchange in effect at the time of those transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using exchange rates in effect on March 31<sup>st</sup>. Gains and losses resulting from foreign currency transactions are presented in Note 4 – Expenses and Note 5 – Revenues.

**k) Capital assets**

All tangible capital assets and leasehold improvements with an initial cost greater than \$10,000 are recorded.

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. Land and building on reserves are not recorded in the financial statements of INAC. Since 1997, First Nations are required to record capital assets on reserves in their financial statements.

**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	20 to 40 years
Works and infrastructure	20 to 40 years
Machinery and equipment	5 to 20 years
Informatics hardware	3 to 5 years
Informatics software	1 to 10 years
Other equipments	5 to 20 years
Ships and boats	10 to 25 years
Motor vehicles	5 to 10 years
Other vehicles	5 to 10 years
Leasehold improvements	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>2006</u>	<u>2005</u>
	(in thousands of dollars)	
<b>Net cost of operations</b>	<b>5,590,299</b>	<b>5,518,302</b>
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Add (Less):		
Services provided without charge	(68,839)	(63,493)
Amortization of tangible capital assets	(4,956)	(5,505)
Revenue not available for spending	268,724	296,897
Employee severance benefits	(7,497)	(45,702)
Gain on disposal of tangible capital assets	77	158
Liability for claims against the Department	445,737	0
Expenses related to environmental liabilities	(99,963)	(107,737)
Expenses for claims and pending litigation	(258,917)	-
Others	(32,145)	2,166
	<u>5,832,520</u>	<u>5,595,086</u>
Adjustments for items not affecting net cost of operations but affecting appropriations:		
Capital acquisitions	5,119	1,391
Prepaid expenses	(13,404)	4,973
<b>Current year appropriations used</b>	<b><u>5,824,235</u></b>	<b><u>5,601,450</u></b>

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

**b) Appropriations provided and used**

	<b>2006</b>	<b>2005</b>
	(in thousands of dollars)	
Vote 1 Operating Expenditures	604,813	613,783
Vote 5 Capital Expenditures	22,758	17,302
Vote 10 Grants and Contributions	5,005,289	4,981,213
Vote 15 Payment to Canada Post Corporation	40,900	37,000
Vote 20 Office of the Federal Interlocutor - Operating expenditures	7,989	5,817
Vote 25 Office of the Federal Interlocutor - Contributions	30,394	20,947
Vote 28a Indian Specific Claims Commission	-	5,144
Statutory Amounts	297,428	231,602
Less:		
Appropriations available for future years	(29,978)	(31,955)
Lapsed appropriations: Operating	(155,358)	(279,403)
	<b>5,824,235</b>	<b>5,601,450</b>

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

	<b>2006</b>	<b>2005</b>
	(in thousands of dollars)	
Net cash provided by Government	5,912,150	5,289,446
Revenue not available for spending	268,724	296,897
Change in net position in the Consolidated Revenue Fund		
Variation in accounts receivable and advances	38,946	4,412
Variation in accounts payable and accrued liabilities	(53,966)	160,651
Variation in trust accounts	(272,849)	17,975
Other adjustments	(68,770)	(167,931)
	<b>5,824,235</b>	<b>5,601,450</b>

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

**4. Expenses**

The following table presents details of expenses by category:

	<b>2006</b>	<b>2005</b>
	(in thousands of dollars)	
Transfers to aboriginals	3,971,625	4,072,270
Transfers to other levels of government	647,528	486,493
Transfers to industry	276,560	1,310
Transfers to non-profit organizations	36,150	20,877
Payments to or on behalf of aboriginals	22,648	351,481
Other transfers to individuals	1,081	1,149
<b>Total transfer payments</b>	<b>4,955,592</b>	<b>4,933,580</b>
Salaries and employee benefits	371,588	385,495
Professional Services	214,157	206,145
Operating expenses	201,525	180,068
Canada Post Corporation	40,900	36,483
Travel and relocation	29,760	28,755
Service charges and fees	21,178	18,590
Bad debts	14,227	18,196
Court Awards and other settlements	5,158	2,400
Amortization	4,956	5,505
<b>Total operating expenses</b>	<b>903,449</b>	<b>881,637</b>
<b>Total Expenses</b>	<b>5,859,041</b>	<b>5,815,217</b>

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

**5. Revenues**

The following table presents details of revenues by category:

	<b>2006</b>	<b>2005</b>
	(in thousands of dollars)	
Return on investment from outside the Government	142,889	124,093
Rights and privileges	92,726	159,986
Miscellaneous	28,414	7,985
Lease & use of public property	3,885	3,906
Sales of goods & information products	532	617
Interest on overdue accounts receivable	119	66
Other fees & charges	81	104
Gain on disposal of tangible capital assets	77	158
Gains on foreign exchange valuation	19	-
<b>Total Revenue</b>	<b>268,742</b>	<b>296,915</b>

**6. Accounts receivable**

The following table presents details of accounts receivable:

	<b>2006</b>	<b>2005</b>
	(in thousands of dollars)	
Other Government Departments	29,450	54,113
External Parties	69,121	67,991
	98,571	122,104
Less: allowance for doubtful accounts on external receivables	(21,608)	(6,195)
<b>Total</b>	<b>76,963</b>	<b>115,909</b>

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

**7. Loans and advances**

	<b>2006</b>	<b>2005</b>
	(in thousands of dollars)	
Advances	23	23
Inuit Loan Fund	83	83
Indian Economic Development Fund	51	70
Native Claimants	391,319	373,222
Council of Yukon First Nations - Elders	9,495	10,352
First Nations in British Columbia	337,996	309,269
Stoney Band Perpetual Loan	390	390
Loans and advances – expired loan guarantees	14,929	13,740
Allowances	(74,603)	(67,232)
<b>Total</b>	<b>679,683</b>	<b>639,917</b>

**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.

The total amount authorized to be outstanding at any time is \$6,633,697, as last amended by Indian Affairs and Northern Development Vote 37b, *Appropriation Act No.4, 1995-1996*.

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.

The total amounts authorized to be outstanding at any time is \$48,550,835, as last amended by Indian Affairs and Northern Development Vote 7b, *Appropriation Act no. 4, 1996-1997*.

All the outstanding loans bear interest at rates from 7.00 percent to 11.25 percent per annum.

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

**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, *Appropriation Act No.2, 2005-2006*.

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 \$ 148,499,426.03 and \$ 242,819,976.29 respectively. Rates are from 2.13 percent to 11.89 percent per annum for the interest-bearing portion.

**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 Vote L30, *Appropriation Act No. 2, 2005-2006*.

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 31,2006, whichever date is earlier.

All loans outstanding at year end bear interest at rates from 2.28 percent to 3.61 percent per annum.



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

**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.

The terms and conditions of the loans are as follows:

(a) loans made before an agreement-in-principle for the settlement of a treaty is reached are non-interest bearing;

(b) loans made 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; and,

(c) 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 date of the 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 \$49,551,175 and \$288,444,327.26 respectively. The rate is 2.2787 to 5.185 percent per annum for the interest-bearing portion.

**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. Under the terms of the agreement as stated in Treasury Board Minute P.C. 2 / 1437 dated April 11, 1946, the Band assigned monies accruing to them from the rental of their water resources to provide interest payments at the rate 3% annually on the amount of the loan that had actually been expended. In the same agreement the Band resolved that the Department allot \$200,000 to the Pekosko Group, and \$300,000 for the additions to Morley Reserve.

**Loans and advances - 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. In 1987, a reserve for losses of \$2,000,000 per annum was established with the department's reference levels to cover the three guaranteed loan programs.

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

- 1) On Reserve Housing Program (ORHG) provides housing guarantees to lenders for Indian or Indian Bands residing on reserves or crown land.
- 2) Indian Economic Development Guarantee Program (IEDG) guarantees loans for Indian business on a risk-sharing basis with commercial lenders.

Loans are recorded at cost and interest is recognized on a quarterly basis as follows:

- 1) ORHG - compounded semi-annually, at contract rate applicable at the time of assignment to the Minister.
- 2) IEDG – simple interest; usually on a percentage plus prime rate.

Loans are recorded on the receivables on an annual basis when is it likely that recovery of the debt from the security used as collateral, such as trust or land claim funds or through repayment agreements, is unlikely.

**8. Tangible Capital Assets**

(in thousands of dollars)

Capital asset class	Cost				Accumulated amortization				2006 Net book value	2005 Net book value
	Opening balance	Acquisitions	Disposals and write-offs	Closing balance	Opening balance	Amortization	Disposals and write-offs	Closing balance		
Land	2,377		(1,675)	702					702	2,377
Buildings	29,030			29,030	11,691	818		12,509	16,521	17,339
Work and Infrastructure	5,211		(3,779)	1,432	1,098	48		1,146	286	4,113
Machinery and Equipment	7,805	412	(18)	8,199	5,639	626	(10)	6,255	1,944	2,166
Informatics Hardware	32,385	4,428	(1,808)	35,005	33,044	2,899	(1,809)	34,134	871	(659)
Informatics software	101			101	12			12	89	89
Other Equipments (non-Furn.)	242	87		329					329	242
Ships and Boats	108	57		165	53	2		55	110	55
Motor Vehicles	4,669	97	(282)	4,484	3,477	541	(309)	3,709	775	1,192
Other Vehicles	507	33		540	481	22		503	37	26
Leasehold improvements	125			125					125	125
Assets under construction	830	5		835					835	830
<b>Total</b>	<b>83,390</b>	<b>5,119</b>	<b>(7,562)</b>	<b>80,947</b>	<b>55,495</b>	<b>4,956</b>	<b>(2,128)</b>	<b>58,323</b>	<b>22,624</b>	<b>27,895</b>

Amortization expense for the year ended March 31, 2006 is \$4,956 (2005 - \$5,504)

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

**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 \$ 53,199,313 (\$ 45,702,157 in 2005) which represents approximately 2.6 time the contributions by employees.

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

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.

	<b>2006</b>	<b>2005</b>
	(in thousands of dollars)	
Accrued benefit obligation, beginning of year	45,702	37,784
Expense for the year	12,825	11,246
Benefits paid during the year	(5,328)	(3,328)
	<hr/>	<hr/>
Accrued benefit obligation, end of year	<u>53,199</u>	<u>45,702</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:

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

(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 74 (77 in 2005) comprehensive land claims.

(ii) Specific Claims: These address historical 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 729 (735 in 2005) specific claims under negotiation, accepted for negotiation or under review.

(iii) Litigation claims: Comprehensive land claims and specific claims are pursued through the departments while litigation claims are pursued through the courts. There are currently 439 (416 in 2005) claims being pursued through the courts where the plaintiffs are seeking damages.

The department has recorded an allowance of \$9,415,192,622 (\$9,860,930,343 in 2005) 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 \$1,071,014,000 (\$971,051,000 in 2005) has been recorded. The department has estimated additional clean-up costs of \$627,880,000 (\$116,394,000 in 2005) that are not accrued, as these are not considered likely to be incurred 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.

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

**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 31<sup>st</sup>, 2006, INAC has recorded an allowance for losses on loan guarantees of \$ 1,800,000 (\$ 1,800,000 in 2005).

As at March 31<sup>st</sup>, 2006, the department has the following outstanding guarantees:

<i>(in thousands of dollars)</i>	<b>Authorized Limit</b>	<b>Balance Outstanding</b>
Indian Economic Development Guarantee Program	60,000	31,745
On Reserve Housing Guarantee Program	1,700,000	353,083

(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 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 million per annum was established within the department's reference levels to cover all Guarantee Loan Programs administered by Indian Affairs and Northern Development.

**11. Contractual Obligations**

The nature of INAC's activities can result in some large 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:

<i>(in thousands of dollars)</i>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011 and there-after</b>	<b>By period of five years</b>	<b>Total</b>
Transfer payments	1,039	731	537	458	184	243	3,192
Operating leases	48	29	15	0	0	0	92
<b>Total</b>	<b>1,087</b>	<b>760</b>	<b>552</b>	<b>458</b>	<b>184</b>	<b>243</b>	<b>3,284</b>

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

**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.

	<b>2006</b>	<b>2005</b>
	(in thousands of dollars)	
Indian Band Funds	979,331	1,251,312
Indian Savings Accounts	36,195	36,450
Indian Estates Accounts	11,163	11,776
<b>Total Trust Accounts</b>	<b>1,026,689</b>	<b>1,299,538</b>

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.

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

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

	<b>2006</b>	<b>2005</b>
	(in thousands of dollars)	
Accommodation provided by Public Works and Government Services Canada (PWGSC)	25,577	23,186
Contributions covering employers' share of employees' insurance premiums and expenditures paid by TBS (excluding revolving funds)	23,068	21,511
Workman's compensation coverage provided by Human Resource Canada	605	964
Salary and associated expenditures for legal services provided by Justice Canada	19,589	17,832
<b>Total</b>	<b>68,839</b>	<b>63,493</b>

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

	<b>2006</b>	<b>2005</b>
	(in thousands of dollars)	
Accounts receivable with other government departments and agencies	29,450	54,113
Accounts payable to other government departments and agencies	15,313	16,488