

INDIGENOUS SERVICES CANADA

Financial Statements for the Year Ended March 31, 2018 (Unaudited)

Responsibility for the integrity and objectivity of the accompanying financial statements for the period ended November 30, 2017 to March 31, 2018, and all information contained in these financial statements rests with the management of Indigenous Services Canada (ISC). These financial statements have been prepared by management using the Government of Canada'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 ISC's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada 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 ISC; 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.

Management recognizes that there is an increased risk in financial reporting due to the transition process associated with the creation of a new department and amalgamation of functions from other organisations. However, management is confident that the system of internal control over financial reporting is sufficient to provide reasonable assurance that the financial information contained in these statements is reliable.

A risk-based assessment of the system of internal control over financial reporting for the period ended November 30, 2017 to March 31, 2018 was completed in accordance with the Treasury Board *Policy on Financial Management* and the results and action plans are summarized in the annex.

The effectiveness and adequacy of ISC's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of ISC'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 ISC have not been audited.

Original signed by Jean-François Tremblay

Jean-François Tremblay
Deputy Minister

Gatineau, Canada
August 30, 2018

Original signed by Paul Thoppil

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

INDIGENOUS SERVICES CANADA
Statement of Financial Position (Unaudited)
As at March 31, 2018
(in thousands of dollars)

	2018
Liabilities	
Accounts payable and accrued liabilities (note 4)	972,986
Vacation pay and compensatory leave	18,793
Other liabilities (note 5)	46,613
Trust accounts (note 6)	645,942
Contingent liabilities (note 7)	196,518
Employee future benefits (note 8)	16,484
Deferred revenues	112
Total liabilities	1,897,448
Liabilities held on behalf of Government	
Deferred revenues	(112)
Total liabilities held on behalf of Government	(112)
Total Liabilities	1,897,336
Financial assets	
Due from the Consolidated Revenue Fund	1,547,679
Accounts receivable and advances (note 9)	104,658
Loans and interest receivable (note 10)	1,893
Total gross financial assets	1,654,230
Financial assets held on behalf of Government	
Account receivable and advances	(40,645)
Loans and interest receivable (note 10)	(1,893)
Total financial assets held on behalf of Government	(42,538)
Total net financial assets	1,611,692
Departmental net debt	285,644
Non-financial assets	
Tangible capital assets (note 11)	28,072
Total non-financial assets	28,072
Departmental net financial position	(257,572)

Contractual obligations (note 12)
The accompanying notes form an integral part of these financial statements.

Original signed by Jean-François Tremblay

Jean-François Tremblay
Deputy Minister

Gatineau, Canada
August 30, 2018

Original signed by Paul Thoppil

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

INDIGENOUS SERVICES CANADA**Statement of Operations and Departmental Net Financial Position (Unaudited)****For the Period Ended November 30, 2017 to March 31, 2018***(in thousands of dollars)***2018**

	2018
Expenses	
People	1,853,000
Land and Economy	1,212,510
First Nations and Inuit Health	1,211,402
Government	235,417
Internal Services	25,841
Expenses incurred on behalf of Government	1,112
Total expenses	4,539,282
Revenues	
Services of a non-regulatory nature	7,901
Interest	163
Miscellaneous	106
Lease and use of public property	23
Revenues earned on behalf of Government	(223)
Total revenues	7,970
Net cost of operations before government funding and transfers	4,531,312
Government funding and transfers	
Net cash provided by Government	1,732,870
Change in due from Consolidated Revenue Fund	1,547,679
Services provided without charge by other government departments (note 13a)	29,836
Transfer of assets and liabilities from Indigenous and Northern Affairs Canada (note 14)	966,470
Transfer of assets and liabilities from Health Canada (note 14)	(3,110)
Transfer of assets and liabilities to other government departments	(5)
Net cost of operations after government funding and transfers	257,572
Departmental net financial position – Beginning of year	-
Departmental net financial position – End of year	(257,572)

Segmented Information (note 15)

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

INDIGENOUS SERVICES CANADA**Statement of Change in Departmental Net Debt (Unaudited)****For the Period Ended November 30, 2017 to March 31, 2018***(in thousands of dollars)***2018**

Net cost of operations after government funding and transfers	257,572
Change due to tangible capital assets	
Acquisition of tangible capital assets (note 11)	2,364
Amortization of tangible capital assets (note 11)	(1,797)
Proceeds from disposal of tangible capital assets	(65)
Gain on disposal of tangible capital assets	60
Transfer of tangible capital assets from Indigenous and Northern Affairs Canada (note 14)	19,944
Transfer of tangible capital assets from Health Canada (note 14)	7,571
Transfer of tangible capital assets to other government departments	(5)
Total change due to tangible capital assets	28,072
Net increase in departmental net debt	285,644
Departmental net debt – Beginning of year	-
Departmental net debt – End of year	285,644

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

INDIGENOUS SERVICES CANADA**Statement of Cash Flow (Unaudited)****For the Period Ended November 30, 2017 to March 31, 2018***(in thousands of dollars)*

	2018
<hr/>	
Operating activities	
Net cost of operations before government funding and transfers	4,531,312
Non-cash items:	
Amortization of tangible capital assets (note 11)	(1,797)
Gain on disposal of tangible capital assets	60
Services provided without charge by other government departments (note 13a)	(29,836)
Variations in Statement of Financial Position:	
Increase in liabilities	(1,897,336)
Increase in accounts receivable and advances	64,013
Transfer of assets and liabilities from Indigenous and Northern Affairs Canada (note 14)	(946,526)
Transfer of assets and liabilities from Health Canada (note 14)	10,681
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Cash used in operating activities	1,730,571
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Capital investing activities	
<hr/>	
Acquisitions of tangible capital assets (note 11)	2,364
Proceeds from disposal of tangible capital assets	(65)
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Cash used in capital investing activities	2,299
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Net cash provided by Government of Canada	1,732,870
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The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements (*Unaudited*)

INDIGENOUS SERVICES CANADA

Notes to the Financial Statements (*Unaudited*)

For the Period Ended November 30, 2017 to March 31, 2018

1. Authority and objectives

In August 2017, the Prime Minister announced plans for the dissolution of Indigenous and Northern Affairs Canada (INAC) and the creation of two new departments: Indigenous Services Canada (ISC) and Crown-Indigenous Relations and Northern Affairs Canada (CIRNAC). By Order in Council P.C. 2017-1464 of November 29, 2017, the Department of Indigenous Services Canada (ISC) was created as a Department for the purpose of the *Financial Administration Act* by being added to Schedule I.1 of that Act and reports through the Minister of Indigenous Services.

Effective November 30, 2017, Order in Council P.C. 2017-1465:

- a) transferred from Health Canada (HC) to ISC the control and supervision of the First Nations and Inuit Health Branch; and
- b) transferred from INAC to ISC the control and supervision of
 - i. the Education and Social Development Programs and Partnership Sector; and
 - ii. the Regional Operations Sector.

ISC has a mandate to support Canada's Indigenous peoples (First Nations, Inuit and Métis) by:

- Improving quality of life;
- Supporting high-quality services for Indigenous peoples; and
- Facilitating the path to self-determination in all sectors.

Priorities and reporting are aligned under the following strategic outcomes:

- a) **First Nations and Inuit Health** - First Nations and Inuit communities and individuals receive health services and benefits that are responsive to their needs so as to improve their health status.
- b) **People** - Individual, family and community well-being for First Nations and Inuit.
- c) **Land and Economy** - Full participation of First Nations, Métis, Non-status Indians and Inuit individuals and communities in the economy.
- d) **Government** - Support good governance, rights and interests of Indigenous peoples.

2. Summary of significant accounting policies

These financial statements have been prepared using the department'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.

Notes to the Financial Statements (*Unaudited*)

Significant accounting policies are as follows:

a) Parliamentary authorities

ISC is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to ISC 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 basis of reporting.

There are no planned results provided in the Statements of Operation and Departmental Net Financial Position since there was no Departmental Plan prepared for ISC for 2017-18.

b) Net cash provided by Government

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

c) Amounts due from or to the Consolidated Revenue Fund (CRF)

Amounts due from or to the CRF are the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that ISC is entitled to draw from the CRF without further authorities to discharge its liabilities.

d) Revenues

Revenues are recorded on the accrual basis:

- Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.
- Deferred revenue consists of amounts received in advance of the delivery of goods and rendering of services that will be recognized as revenue in a subsequent fiscal year as it is earned.
- Other revenues are recognized in the period the event giving rise to the revenue occurred.
- Revenues that are non-respendable are not available to discharge ISC's liabilities. While the Deputy Head is expected to maintain accounting control, he or she has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of ISC's gross revenues.

Notes to the Financial Statements (*Unaudited*)

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. Transfer payments that become repayable as a result of conditions specified in the contribution agreement that have come into being are recorded as a reduction to transfer payment expense and as a receivable.
- Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.
- 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 carrying value.

f) Employee future benefits

- Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multiemployer pension plan administered by the Government. ISC's contributions to the plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. The department's responsibility with regard to the Plan is limited to its contribution. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.
- Severance benefits: The accumulation of severance benefits for voluntary departures ceased for applicable employee groups. The remaining obligation for employees who did not withdraw benefits is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

g) Accounts and loans receivable

Accounts and loans receivable are stated at the lower of cost and net recoverable value.

When necessary, an allowance for valuation is recorded to reduce the carrying value of accounts and loans receivable to amounts that approximate their net recoverable value.

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

Notes to the Financial Statements (*Unaudited*)

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

h) Contingent liabilities

Contingent liabilities, including the provision for loans guarantees, are potential liabilities which may become actual liabilities when one or more future events occur or fail to occur. If the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, a provision is accrued and an expense is 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.

For loans guarantees, an allowance is recorded when it is determined that a loss is likely and the amount of the allowance is estimated taking into consideration the nature of the guarantee, loss experience and current conditions. The allowance is reviewed on an ongoing basis and changes in the allowance are recorded as expenses in the year they become known.

i) Contingent assets

Contingent assets are possible assets which may become actual assets when one or more future events occur or fail to occur. If the future even is likely to occur or fail to occur, the contingent asset is disclosed in the notes to the financial statements.

j) Tangible capital assets

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

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

Asset Class	Amortization Period
Buildings	20 to 40 years
Works and Infrastructure	25 to 30 years
Machinery and Equipment	3 to 15 years
Informatics Hardware and Software	3 to 10 years
Other Equipment	10 years
Motor Vehicles	4 to 10 years
Other Vehicles	5 to 10 years

Notes to the Financial Statements (*Unaudited*)

Leasehold Improvements

Over the useful life of the improvement or the lease term, whichever is shorter

Assets under construction are recorded in the applicable capital asset class in the year they are put into service and are not amortized until they are put into service.

k) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets, liabilities, revenues and expenses reported in the financial statements and accompanying notes at March 31. The estimates are based on facts and circumstances, historical experience, general economic conditions and reflect the best estimate of the related amount at the end of the reporting period. The most significant items where estimates are used are contingent 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.

l) Related party transactions

Related party transactions, other than inter-entity transactions, are recorded at the exchange amount.

Inter-entity transactions are transactions between commonly controlled entities. Inter-entity transactions, other than restructuring transactions, are recorded on a gross basis and are measured at the carrying amount, except for the following:

- Services provided on a recovery basis are recognized as revenues and expenses on a gross basis and measured at the exchange amount.
- Certain services received on a without charge basis are recorded for departmental financial statement purposes at the carrying amount.

3. Parliamentary authorities

ISC 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, ISC has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

Notes to the Financial Statements (*Unaudited*)

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

	2018
	(in thousands of dollars)
Net cost of operations before government funding and transfers	4,531,312
Adjustments for items affecting net cost of operations but not affecting authorities:	
Amortization of tangible capital assets	(1,797)
Gain on disposal of tangible capital assets	60
Services provided without charge by other government departments	(29,836)
Bad debt expense (not incurred on behalf of government)	(807)
Increase in vacation pay and compensatory leave	(4,114)
Increase in provision for claims and litigation	(112,355)
Increase in employee future benefits	(3,605)
Increase in accrued liabilities not charged to authorities	(106,630)
Changes in accrued assets for transfer payments	12,163
Refunds/adjustments to prior years' expenditures	2,687
Other	(1,643)
Total items affecting net cost of operations but not affecting authorities	(245,877)
Adjustments for items not affecting net cost of operations but affecting authorities:	
Acquisition of tangible capital assets	2,364
Total items not affecting net cost of operations but affecting authorities	2,364
Current year authorities used	4,287,799

Notes to the Financial Statements (*Unaudited*)

b) Authorities provided and used

	2018
	(in thousands of dollars)
Authorities provided:	
Vote 3 – Operating expenditures	777,605
Vote 7 – Capital expenditures	4,380
Vote 13 – Grants and contributions	3,600,229
Statutory amounts	82,032
Total authorities provided	4,464,246
Less:	
Authorities available for future years	(32,553)
Authorities lapsed:	
Vote 3 – Operating expenditures	(71,665)
Vote 7 – Capital expenditures	(465)
Vote 13 – Grants and contributions	(71,764)
Total authorities lapsed	(143,894)
Total authorities lapsed and available for future years	(176,447)
Current year authorities used	4,287,799

In addition to the amount for authorities available for future years presented above, most of the other lapsed amounts may become available to ISC in the 2019 fiscal year and in future years, but due to the timing of parliamentary approvals, these amounts had not been approved at March 31, 2018. Additional information on the use of authorities, including an explanation of variances and lapsed amounts, can be found in ISC's *Departmental Result Report*.

Notes to the Financial Statements (*Unaudited*)

4. Accounts payable and accrued liabilities

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

	2018
	(in thousands of dollars)
Accounts payable – Other government departments and agencies	1,849
Accounts payable – External parties	303,937
Total accounts payable	305,786
Accrued liabilities	667,200
Total accounts payable and accrued liabilities	972,986

5. Other liabilities

The following table presents details of ISC's other liabilities:

	(in thousands of dollars)				
	Opening balance ⁽¹⁾	Receipts	Interest	Disburse- ments	Closing balance
Cash guarantee deposits	3,050	49	-	-	3,099
Other specified purpose accounts	40,503	4,164	463	(2,514)	42,616
Others	1,116	-	-	(218)	898
Total	44,669	4,213	463	(2,732)	46,613

⁽¹⁾ Transferred from INAC and HC on November 30, 2017.

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, ISC 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, ISC may require security deposits to ensure the lands and waters are returned in a condition acceptable to ISC. These guarantee deposits are received in the form of cash and are deposited to and held in the Consolidated Revenue Fund.

Notes to the Financial Statements (*Unaudited*)

Other specified purpose accounts

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

6. Trust accounts

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

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

There are three categories of Indian moneys administered by ISC: Indian band funds, Indian savings accounts, and Indian estate accounts.

The following table shows department's financial obligations in its role as administrator of trust accounts for Indian moneys:

	(in thousands of dollars)				
	Opening balance ⁽¹⁾	Receipts	Interest	Disburse- ments	Closing balance
Indian band funds	601,903	34,909	6,862	(52,307)	591,367
Indian savings accounts	27,176	352	283	(977)	26,834
Indian estate accounts	27,395	2,195	251	(2,100)	27,741
Total trust accounts	656,474	37,456	7,396	(55,384)	645,942

⁽¹⁾ Transferred from INAC on November 30, 2017.

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*.

The funds 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 an account usually corresponds with the final distribution to their heirs.

Notes to the Financial Statements (*Unaudited*)

7. Contingent liabilities and contingent assets

a) Contingent liabilities

Contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. They are grouped into two categories: claims and litigation and loan guarantees.

Claims and litigation

Claims and pending and threatened litigation cases outstanding against ISC 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 two significant types of claims faced by ISC: general litigation claims and special claims¹.

General litigation claims have been made against ISC in the normal course of operations. These claims include items with pleading amounts and others for which no amount is specified. While the total amount claimed in these action are significant, their outcomes are not determinable. There are legal proceedings for 31 general litigation claims being pursued through the courts still pending at March 31, 2018.

ISC has recorded a provision of \$195 Million for general litigation claims and non-litigation claims where it is likely that there will be a future payment and a reasonable estimate of the loss can be made. An additional amount of \$8.3 Million is considered uncertain for general litigation claims for which the outcome is not determinable as the probability of the occurrence or non-occurrence of the future events confirming that a liability existed at the financial statements date cannot be determined.

Loan guarantees

(in thousands of dollars)

	Authorized Limit	Loan Guarantees	Provision for Losses
		2018	2018
On-Reserve Housing Guarantee program	2,200,000	1,749,895	1,475
Indian Economic Development Guarantee program	60,000	463	35
Total	2,260,000	1,750,358	1,510

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

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 15. Segmented information.

Notes to the Financial Statements (*Unaudited*)

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 reserve. These loan guarantees enable status Indians residing on reserve, Band councils, or their delegated authorities, to secure housing loans without giving the lending institution rights to the property. The authorized limit is \$2.2 billion.

Indian Economic Development Guarantee Program

This program authorizes ISC to guarantee loans for non-incorporated Indian businesses on a risk-sharing basis with commercial lenders. Guarantees are provided for various types of borrowers whose activities contribute to the economic development of First Nations and enable them to develop long-term credit relationships with mainstream financial institutions. The authorized limit is \$60 Million.

Provision for losses

A provision for losses on loan guarantees are recorded when it is likely that a payment will be made in the future to honour a guarantee and when the amount of the loss can be reasonably estimated. The provision recorded in 2018 is \$1.5 Million. The provision is determined by applying the weighted average historical percentage of default to total outstanding loan guarantees, less expected recoveries. The provision is reviewed on a quarterly basis with any changes being charged or credited to current year expenses.

b) Contingent assets

Contingent assets arise in the normal course of operation and their ultimate disposition is unknown. The Department has made claims against external parties for which recovery or gain is likely to materialize, however a reasonable estimate cannot be made. Contingent assets are not recognized in the financial statements.

8. Employee future benefits

a) Pension benefits

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

Both the employees and ISC contribute to the cost of the Plan. Due to the amendment of the *Public Service Superannuation Act* following the implementation of provisions related to Economic Action Plan 2012, employee contributors have been divided into two groups – Group 1 relates to existing plan members as of December 31, 2012 and Group 2 relates to members joining the Plan as of January 1, 2013. Each group has a distinct contribution rate.

The 2017-18 expense amounts to \$20.4 Million. For Group 1 members, the expense represents approximately 1.01 times the employee contributions and, for Group 2 members, approximately 1.00 times the employee contributions.

Notes to the Financial Statements (*Unaudited*)

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

b) Severance benefits

Severance benefits provided to ISC's employees were previously based on an employee's eligibility, years of service and salary at termination of employment. However, since 2011 the accumulation of severance benefits for voluntary departures progressively ceased for substantially all employees. Employees subject to these changes were given the option to be paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits upon departure from the public service. By March 31, 2018, all settlements for immediate cash out were completed. Severance benefits are unfunded and, consequently, the outstanding obligation will be paid from future authorities.

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

	2018
	(in thousands of dollars)
Accrued benefit obligation – November 30, 2017⁽¹⁾	12,879
Subtotal	12,879
Expense for the year	3,692
Benefits paid during the year	(87)
Accrued benefit obligation – End of year	16,484

⁽¹⁾ Transferred from INAC and HC on November 30, 2017.

9. Accounts receivable and advances

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

	2018
	(in thousands of dollars)
Receivables – Other government departments and agencies	11,180
Receivables – External parties	97,577
Advances to employees and others	7,379
Gross accounts receivable and advances	116,136
Less:	
Allowance for doubtful accounts on receivables from external parties	(11,478)
Net accounts receivable and advances	104,658

Notes to the Financial Statements (*Unaudited*)

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

10. Loans and interest receivable

The following table presents details of loans and interest receivable:

	<u>2018</u>
	(in thousands of dollars)
Defaulted guaranteed loans portfolio:	
On-Reserve housing guarantees	1,242
Indian economic development guarantees	229
Total defaulted guaranteed loans portfolio	<u>1,471</u>
Add: Interest receivable	852
Less: Allowance for doubtful loans and interest receivable	(430)
Net defaulted guaranteed loans portfolio (held on behalf of Government)	<u>1,893</u>

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

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

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

There were no loan defaults in 2018 and as a result, there was no charge to the reserve for payments to cover defaults.

Notes to the Financial Statements (*Unaudited*)

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

On-Reserve Housing Guarantee program

- Payments of principal and interest for loans issued under this program are amortized over a period of 25 years. The interest rates on the guaranteed loans are consistent with conventional mortgage interest rates offered by the major banks. On a semi-annual basis, any accrued interest receivable outstanding is compounded as part of the principal amount owing on the loan.
- To control the occurrence of defaulted loans in this program, the Department restricts the eligibility of recipients for further loans until such time as a recovery plan has been reached and has been in operation in accordance with its terms and conditions for a period of six months.

Indian Economic Development Guarantee program

- Loans issued under this program cannot exceed a term of 15 years and the line of credit must be renewed every year. Interest rates on guaranteed loans are consistent with rates provided by lending institutions to commercial businesses, which are usually based on a spread from the prime lending rate. Accrued interest on loans issued under this program is not compounded. Any security pledged for a guaranteed loan may not be released by the lending institution without the prior approval of the Minister of ISC.

11. Tangible capital assets

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

	Opening Balance	Acquisitions	Adjustments ⁽¹⁾	Disposals	Closing Balance
<i>(in thousands of dollars)</i>					
Land	1,234	-	-	-	1,234
Buildings	12,808	-	-	-	12,808
Works and infrastructure	1,409	-	-	-	1,409
Machinery and equipment	14,372	898	(31)	-	15,239
Informatics hardware	443	-	-	-	443
Informatics software	21,719	-	-	-	21,719
Motor vehicles	10,716	1,418	-	(402)	11,732
Other vehicles	122	48	-	-	170
Leasehold improvements	443	-	-	-	443
Assets under construction	1,105	-	-	-	1,105
Gross tangible capital assets	64,371	2,364	(31)	(402)	66,302

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

	Opening Balance	Amortization	Adjustments ⁽¹⁾	Disposals	Closing Balance	Net Book Value
<i>(in thousands of dollars)</i>						2018
Land	-	-	-	-	-	1,234
Buildings	6,913	107	-	-	7,020	5,788
Works and infrastructure	1,409	-	-	-	1,409	-
Machinery and equipment	10,146	335	(26)	-	10,455	4,784
Informatics hardware	397	4	-	-	401	42
Informatics software	10,863	873	-	-	11,736	9,983
Motor vehicles	6,688	465	-	(397)	6,756	4,976
Other vehicles	70	3	-	-	73	97
Leasehold improvements	370	10	-	-	380	63
Assets under construction	-	-	-	-	-	1,105
Total	36,856	1,797	(26)	(397)	38,230	28,072

(1) Adjustments include assets transferred to Other Government Departments (note 14).

12. Contractual obligations

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

(in thousands of dollars)	2019	2020	2021	2022	2023	2024 and thereafter	Total
Transfer payments	5,830,877	3,637,612	2,716,324	1,725,108	1,438,849	431,083	15,779,853
Operating Contracts	52,201	52,742	-	-	-	-	104,943
Total	5,883,078	3,690,354	2,716,324	1,725,108	1,438,849	431,083	15,884,796

13. Related party transactions

ISC is related as a result of common ownership to all Government departments, agencies, and Crown corporations. Related parties also include individuals who are members of key management personnel or close family members of those individuals, and entities controlled by, or under shared control of, a member of key management personnel or a close family member of that individual.

a) Common services provided without charge by other government departments

During the year, ISC received services without charge from certain common service organizations related to accommodation, 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 ISC's Statement of Operations and Departmental Net Financial Position as follows:

	2018
	(in thousands of dollars)
Accommodation	16,852
Employer's contribution to the health and dental insurance plans	12,139
Legal services	763
Workers' compensation	82
Total	29,836

The Government has centralized some of its administrative activities for efficiency, cost-effectiveness purposes and economical delivery of programs to the public. As a result, the Government uses central agencies and common service organizations so that one department performs services for all other departments and agencies without charge. The costs of these services, such as the payroll and cheque issuance services provided by Public Services and Procurement Canada, audit services provided by the Office of the Auditor General and information technology infrastructure services provided by Shared

Services Canada are not included in ISC's Statement of Operations and Departmental Net Financial Position.

b) Internal services provided without charge by other government departments

During the year, ISC received services without charge from Crown-Indigenous Relations and Northern Affairs Canada for the provision of internal services in support of the Regional Operations and Education Social Development Policy Program and from Health Canada for the provision of internal services in support of the First Nations and Inuit Health Canada. These are estimated to be approximately \$43.1 Million and \$11.3 Million. Given the number of assumptions associated with the calculation of these charges, no amounts have been recorded in the Department's Statement of Operations and Departmental Net Financial Position for these services provided without charge.

c) Other transactions with related parties

	<u>2018</u>
	(in thousands of dollars)
Expenses – Other government departments and agencies	41,928
Revenues – Other government departments and agencies	4

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

14. Transfer from other government departments

a) Transfer from the Department of Indigenous and Northern Affairs Canada

Effective November 30, 2017, Indigenous and Northern Affairs Canada transferred its Education and Social Development Programs and Partnership Sector and Regional Operations Sector to ISC in accordance with Order-in-Council P.C. 2017-1465, including the stewardship responsibility for the assets and liabilities related to the sectors.

b) Transfer from the Department of Health Canada

Effective November 30, 2017, Health Canada transferred its First Nations and Inuit Health Branch to the department of Indigenous Services Canada in accordance with Order-in-Council P.C. 2017-1465, including the stewardship responsibility for the assets and liabilities related to the sectors.

Accordingly, assets and liabilities transferred from these two departments are listed below:

(in thousands of dollars)

	Indigenous and Northern Affairs Canada	Health Canada	Total
Liabilities			
Accounts payable and accrued liabilities	254,765	17,590	272,355
Vacation pay and compensatory leave	9,387	8,609	17,996
Other liabilities	43,454	1,215	44,669
Trust accounts	656,474	-	656,474
Contingent liabilities	82,153	2,000	84,153
Employee future benefits	2,987	9,892	12,879
<i>Total liabilities transferred</i>	1,049,220	39,306	1,088,526
Financial Assets			
Accounts receivable and advances	58,855	34,529	93,384
Interest receivable	1,059	-	1,059
Loans receivable	2,892	316	3,208
<i>Total gross financial assets transferred</i>	62,806	34,845	97,651
Non-Financial Assets			
Tangible capital assets	19,944	7,571	27,515
<i>Total Non-Financial Assets transferred</i>	19,944	7,571	27,515
Adjustment to the departmental net financial position	(966,470)	3,110	(963,360)

15. Segmented information

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

	People	Land and Economy	First Nations and Inuit Health	Government	Internal Services	2018 Total
<i>(in thousands of dollars)</i>						
Transfer Payments						
First Nations	1,299,202	1,104,919	524,621	167,593	-	3,096,335
Provincial/territorial governments and institutions	386,916	50,385	56,013	238	-	493,552
Non-profit organizations	15,071	20,307	10,856	144	-	46,378
Industry	3,745	2,441	-	-	-	6,186
Refunds / adjustments to prior years' expenditures	15	-	-	38	-	53
Total Transfer Payments	1,704,949	1,178,052	591,490	168,013	-	3,642,504
Operating Expenses						
Utilities, materials and supplies	173	71	192,528	33	366	193,171
Professional and special services	3,150	2,086	177,375	292	1,729	184,632
Salaries and employee benefits	26,330	26,734	99,977	18,427	12,876	184,344
Court awards and other settlements	112,219	-	-	45,142	-	157,361
Travel and relocation	696	1,042	141,355	583	613	144,289
Accommodation	3,446	3,282	4,867	2,668	2,590	16,853
Legal services	-	-	259	55	8,140	8,454
Repair and maintenance	256	159	2,081	24	1,349	3,869
Transportation and communications	8	6	1,549	50	190	1,803
Amortization of tangible capital assets	846	48	681	-	222	1,797
Other	28	284	393	42	164	911
Rentals	40	108	429	97	229	903
Information services	5	34	226	-	69	334
Bad debt	864	606	-	-	(1,785)	(315)
Refunds / adjustments to prior years' expenditures	(10)	(2)	(1,808)	(9)	(911)	(2,740)
Expenses incurred on behalf of Government	-	(606)	-	-	1,718	1,112
Total Operating Expenses	148,051	33,852	619,912	67,404	27,559	896,778
Total Expenses	1,853,000	1,211,904	1,211,402	235,417	27,559	4,539,282
Revenues						
Interest	-	72	-	-	91	163
Lease and use of public property	-	-	23	-	-	23
Miscellaneous revenues	-	-	74	5	27	106
Services of a non-regulatory nature	-	-	7,901	-	-	7,901
Revenues earned on behalf of Government	-	(72)	(35)	-	(116)	(223)
Total Revenues	-	-	7,963	5	2	7,970
Net cost from continuing operations	1,853,000	1,211,904	1,203,439	235,412	27,557	4,531,312

ANNEX TO THE STATEMENT OF MANAGEMENT
RESPONSIBILITY INCLUDING INTERNAL
CONTROL OVER FINANCIAL REPORTING

INDIGENOUS SERVICES CANADA
2017-2018

1.0 Introduction

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

Detailed information on Indigenous Service Canada's authority, mandate and program activities can be found in the [Departmental Plan 2018-2019](#).

ISC is a new department formed by Orders in Council on November 30, 2017. The department is comprised of programs and personnel transferred from Health Canada and the former Indigenous and Northern Affairs Canada. ISC programs continue to operate under the systems of internal control established under the former departments. Health Canada continued the ICFR monitoring for the First Nations Inuit Health Branch (FNIHB) until March 31, 2018.

2.0 Departmental system of internal control over financial reporting

2.1 Internal control management

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

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

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

2.2 Service arrangements relevant to financial statements

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

Common Arrangements

- Public Services and Procurement Canada (PSPC) centrally administers the payments of salaries and the procurement of goods and services in accordance with the Indigenous Service Canada Delegation of Authority, and provides accommodation services.

- The Treasury Board of Canada Secretariat provides Indigenous Services Canada with information used to calculate various accruals and allowances, such as the accrued severance liability.
- The Department of Justice provides legal services to Indigenous Services Canada.
- Shared Services Canada provides information technology (IT) infrastructure services to Indigenous Services Canada in the areas of data centre and network services. The scope and responsibilities are addressed in the interdepartmental arrangement between Shared Services Canada and Indigenous Services Canada.

Specific Arrangements

- Crown-Indigenous Relations and Northern Affairs Canada provides internal services such as finance, human resources and information technology under a Memorandum of Understanding between the departments.
- Crown-Indigenous Relations and Northern Affairs Canada provides host services to Indigenous Services Canada for the Grants and Contributions Information Management System (GCIMS)
- Health Canada provides internal services such as finance, human resources and information technology under a Memorandum of Understanding between the departments.
- Health Canada provides Indigenous Services Canada with a SAP financial system platform to capture and report all financial transactions.
- Public Service & Procurement Canada provides platform access to its human resources management system of record (MyGCHR).
- Agriculture and Agri-Food Canada provides platform access to its human resources management system of record (PeopleSoft).
- Pursuant to a contract with the Government of Canada, Express Scripts Canada (ESC), an external service provider, administers the Health Information and Claims Processing System for pharmacy, dental care, medical supplies and equipment benefits on behalf of the First Nations and Inuit Health Branch program. The external service provider has the authority and responsibility to ensure that claims paid on behalf of Indigenous Services Canada for services provided to First Nations and Inuit clients are made in accordance with the terms and conditions set out by the First Nations and Inuit Health Branch program. Pursuant to the contract requirements, an independent annual assurance report on the operating effectiveness of controls is provided by the external service provider's independent auditors at the end of each reporting period in accordance with Canadian auditing standards.

3.0 Departmental assessment results during fiscal year 2017-18

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

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

Indigenous Services Canada operated under the former Indigenous and Northern Affairs Canada and Health Canada ongoing risk-based monitoring programs. Moving forward Indigenous Service Canada will implement a risk-based monitoring plan for the transition year 2018-19. This will continue to ensure that internal controls over financial reporting are maintained, monitored and reviewed, with timely corrective measures taken when issues are identified.

Indigenous Services Canada will continue to work with Public Services and Procurement Canada and the Treasury Board Secretariat to identify and implement strengthened controls in payroll processing (post-Phoenix).

Ongoing risk-based monitoring program: Assessments of the following processes were completed for Indigenous Services Canada in 2017-18: Grants and Contributions; Payroll; Non-Insured Health Benefits – Contract for Operations and Maintenance (O&M) under Express Scripts Canada (ESC); Non-Insured Health Benefits provided to First Nations and Inuit communities and individuals outside ESC Contract; Revenue, Receipts and Receivables; Purchasing, Payables and Payments; and Information Technology General Controls.

Key controls tested in Indigenous Services Canada business processes in 2017-18 were found to be operating effectively with no significant deficiencies identified. However, opportunities for improvement in the following areas were identified and are being addressed:

- Enhancing the monitoring of online employee departure applications;
- Strengthening the monitoring of pay transactions;
- improving the management of receivables; and
- Improving the management of systems access and Service Level Agreements with external service providers.

4.0 Ongoing risk-based monitoring plan

4.1 Progress on ongoing risk-based monitoring plan during fiscal year 2017-18

Assessments were conducted for Indigenous Services Canada based on ongoing risk-based monitoring plans as shown in the following table.

Progress during fiscal year 2017-18	
Previous year's rotational ongoing risk-based monitoring plan for current year	Status Completed as planned
Grants and Contributions	Yes
Payroll	Yes

Progress during fiscal year 2017-18	
Previous year's rotational ongoing risk-based monitoring plan for current year	Status Completed as planned
Non-Insured Health Benefits – Contract for Operations and Maintenance (O&M) under Express Scripts Canada (ESC)	Yes
Non-Insured Health Benefits – Operations and Maintenance (O&M) non-ESC	Yes
Revenue, Receipts and Receivables	Yes
Purchasing, Payables and Payments	Yes
Information Technology General Controls (ITGC)	Yes

4.2 Action plan for the next fiscal year and subsequent years

Indigenous Services Canada will execute a risk-based transitional year monitoring plan in 2018-2019 while business processes from the two former departments are integrated. For succeeding years, a longer term monitoring plan will be prepared based on a comprehensive risk assessment of ISC integrated business processes.

Based on the current risk environment and prior coverage by Health Canada and Indigenous and Northern Affairs Canada, ISC will assess key financial controls in five processes in 2018-2019:

Process	Risk	2018-19
Non-Insured Health Benefits: Express Script Canada (ESC) Contract	high	test
Non-Insured Health Benefits: non-ESC Contract	high	test
Grants and Contributions	high	test
Financial Reporting	high	test
General Litigation Liabilities	medium	test
Purchases, Payables and Payments	medium	test