

# **KINGSCLEAR FIRST NATION**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

# **LENEHAN MCCAIN & ASSOCIATES**

## **CHARTERED ACCOUNTANTS**

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### **Independent Auditor's Report**

To the Members of  
Kingsclear First Nation

We have audited the accompanying consolidated financial statements of Kingsclear First Nation, which comprise the consolidated statement of financial position as at March 31, 2014, and the consolidated statements of operations, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the First Nation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the First Nation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kingsclear First Nation as at March 31, 2014, and the results of its operations, the changes in its net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.




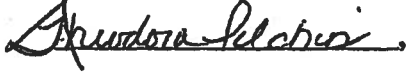

Woodstock, New Brunswick  
October 30, 2014


*Lenahan McCain & Associates*  
Chartered Accountants

**KINGSCLEAR FIRST NATION**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**MARCH 31, 2014**

	2014	2013
<b>Financial Assets</b>		
Cash (Note 3)	\$ 145,241	\$ 1,777,557
Restricted cash (Note 3)	533,829	289,937
Accounts receivable (Note 4)	2,295,900	1,405,004
Funds held in trust (Note 5)	2,945	79,142
Funds held in trust by Federal Government (Note 18)	8,065	7,866
Inventory (Note 11)	157,543	149,347
	<u>3,143,523</u>	<u>3,708,853</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities (Note 9)	1,750,373	2,108,385
Accounts payable - AANDC (Note 10)	1,791,605	2,012,811
Deferred revenue (Note 6)	195,438	482,407
Long-term debt (Note 7)	5,006,147	5,397,919
	<u>8,743,563</u>	<u>10,001,522</u>
<b>Net debt</b>	<u>(5,600,040)</u>	<u>(6,292,669)</u>
<b>Non-financial Assets</b>		
Tangible capital assets (Note 8)	14,053,635	13,725,754
Prepaid expenses (Note 15)	38,705	16,466
	<u>14,092,340</u>	<u>13,742,220</u>
<b>Accumulated Surplus</b>	<u>\$ 8,492,300</u>	<u>\$ 7,449,551</u>

Approved on behalf of the Kingsclear First Nation

 Chief  
 Councillor  
 Councillor  
 Councillor  
 Councillor

 Councillor  
\_\_\_\_\_, Councillor  
\_\_\_\_\_, Councillor  
\_\_\_\_\_, Councillor  
\_\_\_\_\_, Councillor

The accompanying notes are an integral part of the financial statements

**KINGSCLEAR FIRST NATION**  
**CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT**  
**FOR THE YEAR ENDED MARCH 31, 2014**

	2014 Budget	2014 Actual	2013 Actual
<b>Surplus</b>	\$ (643,015)	\$ 1,042,749	\$ 1,847,367
Acquisition of tangible capital assets	-	(1,240,025)	(1,831,086)
Amortization of tangible capital assets	873,073	912,144	873,073
(Gain)/Loss on disposal of tangible capital assets	-	-	(192,944)
Proceeds on disposal of tangible capital assets	-	-	243,500
	873,073	(327,881)	(907,457)
Acquisition of prepaid asset	-	(38,705)	(13,665)
Use of prepaid asset	-	16,466	-
	-	(22,239)	(13,665)
Increase in net financial assets	230,058	692,629	926,245
Net debt at beginning of year	(6,292,669)	(6,292,669)	(7,218,914)
Net debt at end of year	\$ (6,062,611)	\$ (5,600,040)	\$ (6,292,669)

The accompanying notes are an integral part of the financial statements

**KINGSCLEAR FIRST NATION**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED MARCH 31, 2014**

	2014 Budget	2014 Actual	2013 Actual
<b>Revenues</b>			
Aboriginal Affairs and Northern Development Canada	\$ 6,501,054	\$ 7,720,432	\$ 7,484,403
Convenience Store	7,500,000	8,745,728	8,376,541
Health Canada	815,676	1,051,799	2,271,053
Other	1,249,481	1,846,696	1,345,560
Rental income	374,832	604,516	591,737
Canada Mortgage and Housing Corporation	235,284	250,084	336,579
SJRVTC Inc.	255,000	328,717	328,717
Fisheries and Oceans Canada	255,500	255,000	255,000
Public Safety Canada	106,740	106,979	106,979
	<b>17,293,567</b>	<b>20,909,951</b>	<b>21,096,569</b>
<b>Expenditures</b>			
Administration Program	1,191,532	1,287,728	1,191,815
Policing Program	106,740	113,302	107,186
Education Program	2,617,218	2,633,817	2,724,941
Welfare Program	2,047,434	2,047,430	2,170,372
Social Housing Program	727,200	448,218	447,304
Health Program	807,082	864,367	559,315
Fisheries Program	274,700	332,106	355,142
Job Creation Program	304,996	380,699	365,331
Forestry Program	125,000	254,525	337,141
Convenience Store	7,251,000	8,394,931	7,847,776
Capital Program	196,698	269,038	258,840
Adult Care Program	378,626	438,336	439,248
Child Maintenance Program	551,398	580,367	804,477
Child and Family Program	346,485	561,940	361,826
Operations and Maintenance Program	137,400	348,254	405,414
	<b>17,063,509</b>	<b>18,955,058</b>	<b>18,376,128</b>
<b>Surplus before other expense</b>	<b>230,058</b>	<b>1,954,893</b>	<b>2,720,441</b>
<b>Other expense</b>			
Amortization	(873,073)	(912,144)	(873,073)
<b>Surplus</b>	<b>(643,015)</b>	<b>1,042,749</b>	<b>1,847,367</b>
<b>Accumulated surplus at beginning of year</b>	<b>-</b>	<b>7,449,551</b>	<b>5,602,184</b>
<b>Accumulated surplus at end of year</b>	<b>\$ (643,015)</b>	<b>\$ 8,492,300</b>	<b>\$ 7,449,551</b>

The accompanying notes are an integral part of the financial statements

**KINGSCLEAR FIRST NATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED MARCH 31, 2014**

	2014	2013
<b>Cash flows from</b>		
<b>Operating activities</b>		
Surplus	\$ 1,042,749	\$ 1,847,367
Items not affecting cash		
Amortization expense	912,144	873,073
(Gain)/Loss on disposal of tangible capital assets	-	(192,944)
	<u>1,954,893</u>	<u>2,527,496</u>
 Change in non-cash operating working capital		
Accounts receivable	(890,896)	40,907
Inventory	(8,196)	(36,567)
Prepaid expenses	(22,239)	(13,665)
Funds held in trust (Note 5)	76,197	394,781
Funds held in trust by Federal Government (Note 18)	(199)	(189)
Accounts payable and accrued liabilities	(358,011)	(151,383)
Accounts payable - AANDC	(221,206)	528,626
Deferred revenue	(286,969)	(265,304)
	<u>243,374</u>	<u>3,024,702</u>
 <b>Capital activities</b>		
Proceeds on disposal of tangible capital assets	-	243,500
Acquisition of tangible capital assets	(1,240,026)	(1,831,086)
	<u>(1,240,026)</u>	<u>(1,587,586)</u>
 <b>Financing activities</b>		
Repayment of loans and mortgages	(391,772)	(383,435)
 Increase (decrease) in cash and cash equivalents	(1,388,424)	1,053,681
 Cash and cash equivalents, beginning of year	2,067,494	1,013,813
 Cash and cash equivalents, end of year	<u>\$ 679,070</u>	<u>\$ 2,067,494</u>
 <b>Represented by</b>		
Cash	\$ 145,241	\$ 1,777,557
Restricted cash	533,829	289,937
	<u>\$ 679,070</u>	<u>\$ 2,067,494</u>

The accompanying notes are an integral part of the financial statements

**KINGSCLEAR FIRST NATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

**1. Basis of Presentation and Significant Accounting Policies**

These financial statements are prepared in accordance with Canadian public sector accounting standards for governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

**(a) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, balances with banks net of bank overdrafts and term deposits having a maturity of one year or less at acquisition which are held for the purpose of meeting short-term cash commitments.

**(b) Principles of Consolidation**

All controlled entities are fully consolidated on a line-by-line basis.

**Consolidation Method**

This method combines the accounts of distinct organizations. It requires uniform accounting policies for the organizations. Inter-organizational balances and transactions are eliminated under this method. This method reports the organizations as if they were one organization.

**(c) Net Debt**

The First Nation's financial statements are presented so as to highlight net debt as the measurement of financial position. The net debt is comprised of two components, non-financial assets and accumulated surplus.

**(d) Inventory**

Inventory is recorded at the lower of cost and net realizable value. Cost is determined on the FIFO basis.

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**KINGSCLEAR FIRST NATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

**1. Basis of Presentation and Significant Accounting Policies (continued)**

**(e) Tangible Capital Assets**

Tangible capital assets (TCAs) are items that can be physically touched, are used to provide First Nation services, are used for First Nation administration purposes or are used for the construction and/or maintenance of other TCAs owned by the First Nation, will be useful for a period greater than one year and will be used by the First Nation on a regular basis.

There are some assets that have been owned for a significant number of years, therefore some assumptions and amortization calculations were required to determine age and historical cost.

TCAs are recorded at cost, which includes all amounts directly attributable to acquisition, construction, development or betterment of the asset, and are amortized on the straight-line basis over their estimated useful lives. The First Nation has determined a capitalization threshold of \$5,000. Any item purchased below this threshold will be recorded as an expense in the year the item is acquired. Amortization begins in the year the asset has been put to use. Assets under construction are not amortized until they are put into use.

Tangible capital assets recorded at a nominal amount of \$1 (because specific cost information could not be determined) include some roads, some of the water/sewer infrastructure, a few smaller buildings and approximately 5 hectares of land.

Buildings	10-40yrs Straight line
Parking areas	25yrs Straight line
Fire truck	10yrs Straight line
Other vehicles	5yrs Straight line
Boats	10yrs Straight line
Equipment	5yrs Straight line
Gas tanks	15yrs Straight line
Roads	15yrs Straight line
Water and sewer facilities	30yrs Straight line



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**KINGSCLEAR FIRST NATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

**1. Basis of Presentation and Significant Accounting Policies (continued)**

**(f) Revenue Recognition**

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

Government transfers (both operating and capital) are recognized as revenues when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability. Transfer revenue is recognized in the statement of operations as the stipulation liabilities are settled.

Contributions from other sources are deferred when restrictions are placed on their use by the contributor, and are recognized as revenue when used for the specific purpose.

Revenue related to fees or services received in advance of the fee being earned or the service is performed is deferred and recognized when the fee is earned or service performed.

**(g) Expense recognition**

Expenses are recorded on the accrual basis as they are incurred and measurable based on receipt of goods or services and obligation to pay.

**(h) Use of Estimates**

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. These estimates are reviewed periodically and are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

**(i) Asset Classification**

Assets are classified as either financial or non-financial. Financial assets are assets that could be used to discharge existing liabilities or finance future operations. Non-financial assets are acquired, constructed or developed assets that do not provide resources to discharge existing liabilities but are employed to deliver government services, may be consumed in normal operations and are not for resale. Non-financial assets include tangible capital assets, prepaid expenses and inventories of supplies.

**(j) Fishing licences**

Fishing licences are considered intangible assets and are not recorded as assets in these financial statements.

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**KINGSCLEAR FIRST NATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

**1. Basis of Presentation and Significant Accounting Policies (continued)**

**(k) Segment Disclosure**

The financial statements of Kingsclear First Nation provide supporting schedules which are established by program based on government funding provided. The various programs have been amalgamated for the purpose of presentation in the consolidated financial statements. Details of the operations of each program are set out in the supplementary schedules for management information purposes.

**(l) Financial Instruments**

The First Nation's financial instruments consist of cash, accounts receivable, bank indebtedness, accounts payable, deferred revenue and long-term debt. Unless otherwise noted, it is management's opinion that the First Nation is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

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**KINGSCLEAR FIRST NATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

**2. Additional Information - Restricted Amounts**

**Moveable Assets Reserve (MAR)**

Under the terms of the Health Services Transfer Agreement with Health Canada, an amount is to be maintained in a reserve for the replacement of qualifying tangible capital assets. Expenditures for replacement of qualifying tangible capital assets are charged to this reserve when incurred.

A separate bank account for this reserve is maintained by the First Nation, is underfunded by \$74,466 at March 31, 2014 and is included with cash on the consolidated statement of financial position.

The moveable assets reserve is included with the accumulated surplus on the consolidated statement of financial position.

**Replacement Reserve (RR)**

Under the terms of the agreements with Canada Mortgage and Housing Corporation, an amount is to be maintained in a reserve for qualifying capital and maintenance expenditures related to the corresponding housing projects/units of the First Nation. These funds, along with accumulated interest, must be held in a separate bank account and/or invested only in accounts or instruments approved by CMHC from time to time. The funds in the account may only be used as approved by CMHC. Withdrawals are credited to interest first and then principal.

Separate bank accounts for this reserve are maintained by the First Nation, are underfunded by \$112,513 at March 31, 2014 and are included with restricted cash on the consolidated statement of financial position.

The replacement reserve is included with accumulated surplus on the consolidated statement of financial position.

**3. Cash**

	2014	2013
<b>Unrestricted accounts</b>	<b>\$ 145,241</b>	<b>\$ 1,777,557</b>
<b>Restricted accounts:</b>		
CMHC replacement reserve post '96 projects	459,462	244,943
CMHC replacement reserve pre '97 projects	74,367	44,994
	<b>\$ 679,070</b>	<b>\$ 2,069,494</b>

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**KINGSCLEAR FIRST NATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

**4. Accounts Receivable**

	2014	2013
Aboriginal Affairs and Northern Development Canada	\$ 1,029,818	\$ 569,581
Health Canada	-	5,629
Fisheries and Oceans Canada	72,604	45,064
First Nation HRDC	-	15,984
St. John River Valley Tribal Council Inc.	121,895	97,567
Province of New Brunswick - HST rebates	558,822	174,654
Province of New Brunswick - other	24,982	24,982
First Nation Education Initiatives	-	15,501
North Shore Micmac District Council	-	7,200
Canada Revenue Agency	-	12,156
Convenience Store excise tax rebates	454,003	422,283
Convenience Store trade receivables	21,329	20,509
Canada Mortgage and Housing Corporation	-	(200)
Individuals	339,240	336,113
Public Safety Canada	5,226	-
	<u>2,627,919</u>	<u>1,747,023</u>
Allowance for doubtful accounts	<u>(332,019)</u>	<u>(342,019)</u>
	<u>\$ 2,295,900</u>	<u>\$ 1,405,004</u>

**5. Funds held in trust**

	2014	2013
Health Canada funds held in trust	\$ 2,945	\$ 79,142

The funds held in trust at March 31, 2014 were disbursed to the First Nation during the 2014/2015 fiscal year.

**KINGSCLEAR FIRST NATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

**6. Deferred revenue**

	2014	2013
Health Canada - health centre construction	\$ -	\$ 91,433
First Nation Land Management	37,097	37,097
AANDC - Capital program (Water over \$1.5M)	13,621	209,157
AANDC - Child Maintenance program	144,720	144,720
	<u>\$ 195,438</u>	<u>\$ 482,407</u>

These amounts represent unexpended funds under contribution agreements and therefore may be subject to repayment to the funding source.

**7. Long-term debt**

	2014	2013
Canada Mortgage and Housing Corporation Various mortgages at interest rates from 1.64% to 4.55%, repayable in blended monthly installments ranging from \$335 to \$2,381, guaranteed by the Minister of Aboriginal Affairs and Northern Development Canada. These loans are related to CMHC housing projects and have varying repayment terms and maturity dates.	\$ 3,538,689	\$ 3,719,695
Canadian Imperial Bank of Commerce Various mortgages at interest rates from 2.74% to 5.09%, repayable in blended monthly installments ranging from \$342 to \$3,476, guaranteed by the Minister of Aboriginal Affairs and Northern Development Canada. These loans are related to CMHC housing projects and have varying repayment terms and maturity dates.	1,467,458	1,667,580
Daimler Chrysler Financial 7.35% loan, repayable in monthly installments of \$1,558 including interest, secured by a 2009 school bus, due October 2013	-	10,644
	5,006,147	5,397,919
Current portion	363,484	362,588
	<u>\$ 4,642,663</u>	<u>\$ 5,035,331</u>

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**KINGSCLEAR FIRST NATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

**7. Long-term debt, continued**

Principal portion of long-term debt due within the next five years:

2015	\$ 363,484
2016	325,422
2017	314,411
2018	302,500
2019 and thereafter	3,700,330
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	\$ 5,006,147
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**KINGSCLEAR FIRST NATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****MARCH 31, 2014****8. Tangible Capital Assets**

	Cost	Additions	Disposals	Accumulated amortization	2014 Net book value
Land	\$ 25,001	\$ -	\$ -	\$ -	\$ 25,001
Buildings	19,482,961	73,853	-	8,810,127	10,746,686
Fire truck and other vehicles	459,541	-	-	292,665	166,876
Gas tanks and equipment	1,701,110	8,027	-	1,525,585	183,552
Water and sewer	2,273,283	1,158,146	-	750,841	2,680,587
Boats	136,286	-	-	124,536	11,750
Parking areas	28,000	-	-	11,905	16,095
Roads	1,217,638	-	-	994,550	223,088
	<u>\$ 25,323,820</u>	<u>\$ 1,240,026</u>	<u>\$ -</u>	<u>\$ 12,510,209</u>	<u>\$ 14,053,635</u>

	Cost	Additions	Disposals	Accumulated amortization	2013 Net book value
Land	\$ 25,001	\$ -	\$ -	\$ -	\$ 25,001
Buildings	18,241,208	1,289,203	47,450	8,185,132	11,297,829
Fire truck and other vehicles	459,541	-	-	251,478	208,063
Gas tanks and equipment	1,557,835	151,040	7,765	1,424,668	276,442
Water and sewer	1,882,440	390,843	-	688,093	1,585,190
Boats	715,184	-	578,898	124,536	11,750
Parking areas	28,000	-	-	10,785	17,215
Roads	1,217,638	-	-	913,374	304,264
	<u>\$ 24,126,847</u>	<u>\$ 1,831,086</u>	<u>\$ 634,113</u>	<u>\$ 11,598,066</u>	<u>\$ 13,725,754</u>

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**KINGSCLEAR FIRST NATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

**9. Accounts payable and accrued liabilities**

	<b>2014</b>	<b>2013</b>
Province of New Brunswick - tuition	<b>\$ 1,179,891</b>	<b>\$ 1,348,256</b>
Canada Revenue Agency - HST	<b>123,938</b>	<b>109,732</b>
FNEII	<b>-</b>	<b>31,408</b>
Child and Family Services program	<b>75,735</b>	<b>61,820</b>
Canada Revenue Agency - Payroll deductions	<b>42,361</b>	<b>30,320</b>
Trade payables	<b>193,870</b>	<b>431,455</b>
Health Canada	<b>84,278</b>	<b>-</b>
Accrued liabilities	<b>50,300</b>	<b>89,245</b>
Other	<b>-</b>	<b>6,149</b>
	<b>\$ 1,750,373</b>	<b>\$ 2,108,385</b>

**10. Accounts payable - Aboriginal Affairs and Northern Development Canada**

	<b>2014</b>	<b>2013</b>
2002-03 and 2003-04 Child maintenance	<b>\$ 148,000</b>	<b>\$ 148,000</b>
2008-09 Basic and special needs	<b>-</b>	<b>138,760</b>
2003-04 Water and sewer projects	<b>120,692</b>	<b>141,932</b>
2008-09 Maintenance (CF)	<b>205,204</b>	<b>205,204</b>
2008-09 Preventative (CF)	<b>186,577</b>	<b>186,577</b>
2009-10 Basic needs	<b>211,252</b>	<b>211,252</b>
2009-10 Special Needs	<b>-</b>	<b>9,084</b>
2010-11 Basic Needs	<b>121,218</b>	<b>147,473</b>
2010-11 Special Needs	<b>36,585</b>	<b>36,585</b>
2010-11 Preventative (CF)	<b>24,205</b>	<b>24,205</b>
2010-11 In-Home Care	<b>131,130</b>	<b>131,129</b>
2011-12 In-Home Care	<b>-</b>	<b>100,415</b>
2011-12 Special Needs	<b>-</b>	<b>22,906</b>
2011-12 Prevention/Least Disruptive Measures	<b>-</b>	<b>34,789</b>
2011-12 Maintenance (CF)	<b>-</b>	<b>79,052</b>
2011-12 Post Secondary Student Support	<b>-</b>	<b>22,424</b>
2012-13 Tuition agreement	<b>373,024</b>	<b>373,024</b>
2013-14 Post Secondary Student Support	<b>163,526</b>	<b>-</b>
2013-14 Tuition agreement	<b>70,192</b>	<b>-</b>
	<b>\$ 1,791,605</b>	<b>\$ 2,012,811</b>



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**KINGSCLEAR FIRST NATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

**11. Inventory**

Inventory on hand for resale purposes relates to the convenience store, and is comprised of the following:

	2014	2013
Tobacco products	\$ 82,804	\$ 102,660
Gasoline and diesel	30,604	23,355
Grocery	44,135	23,332
	<u>\$ 157,543</u>	<u>\$ 149,347</u>

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**KINGSCLEAR FIRST NATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

**12. Financial Instruments Risks and Uncertainties**

The First Nation is exposed to the following risks in respect of certain of the financial instruments held:

**Credit risk**

The financial instruments that potentially subject the First Nation to a significant concentration of credit risk consist primarily of cash and accounts receivable.

The First Nation maintains cash balances with Canadian chartered banks which is insured by the Canada Deposit Insurance Corporation up to CDN \$100,000. From time to time, these balances exceed the federally insured limits and expose the First Nation to credit risk from concentration of cash. The First Nation limits this risk by transacting with reputable financial institutions.

The First Nation does have credit risk in accounts receivable \$2,295,900 (2013 - \$1,405,004). Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. The First Nation reduces its exposure to credit risk by performing valuations on a regular basis and creating an allowance for bad debts when applicable. The First Nation derives substantially all of its revenues and therefore, accounts receivable, from government sources. In the opinion of management, the credit risk exposure to the First Nation is low and is not material.

**Liquidity risk**

The First Nation does have a liquidity risk in the accounts payable and accrued liabilities of \$3,541,978 (2013 - \$4,121,196). Liquidity risk is the risk that the First Nation cannot repay its obligations when they become due to its creditors. The First Nation reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due and maintains a responsible cash position. In the opinion of management, the liquidity risk exposure to the First Nation is low and is not material.

**Interest rate risk**

The First Nation is exposed to interest rate risk related to mortgages with floating interest rates. This exposure may have an effect on its interest expenses in future periods. The First Nation reduces its exposure to interest rate risk by regularly monitoring published bank prime interest rates which have been relatively stable over the period presented. There are some loans payable that are at fixed term rates and therefore, do not affect interest rate risk. The First Nation does not use derivative instruments to reduce its exposure to interest rate risk. In the opinion of management the interest rate risk exposure to the First Nation is low and is not material.

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**KINGSCLEAR FIRST NATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

**13. Economic Dependence**

Kingsclear First Nation receives a significant portion of its revenue pursuant to a funding agreement with Aboriginal Affairs and Northern Development Canada.

Due to certain deficiencies in its financial position, the First Nation is also party to a Remedial Management Plan agreement (RMP) with Aboriginal Affairs and Northern Development Canada. Under the terms of the RMP, funding from Aboriginal Affairs and Northern Development Canada can be suspended if terms of the RMP are not complied with.

In September 2011, Aboriginal Affairs and Northern Development Canada determined that the First Nation was not meeting terms of the RMP on its own and exercised its right to appoint a co-manager to assist in implementing and monitoring the RMP. In addition to monitoring the RMP, the co-manager's responsibilities include having joint authority with the First Nation for authorizing and approving expenditures and payments for programs. The requirement for the co-management arrangement is still in place as of the date of these financial statements. Removal of the co-manager requires the approval of Aboriginal Affairs and Northern Development Canada and Kingsclear First Nation.

**14. Contingent liabilities**

Kingsclear First Nation has entered into contribution agreements with various federal government departments. Funding received under these contribution agreements is subject to repayment if the First Nation fails to comply with the terms and conditions of the agreements. The likelihood of compliance reviews and any potential findings are not determinable as at the date on the auditor's report.

The First Nation is a guarantor of a "Section 10" mortgage payable to CIBC, original amount \$85,000. Should the individual default on their personal housing loan, the guarantee requires the First Nation to make the payment. The loan, which was in good standing at March 31, 2014 had a balance outstanding of \$60,245, bearing an interest rate of 3.69%.

The First Nation is indebted to the Province of New Brunswick (Department of Education) in the amount of \$1,179,891, excluding interest, for tuition as at March 31, 2014. Additionally, the Province has billed \$271,420 of interest as at the same date. However, the interest amount has not been included in the accounts payable as the Province has confirmed that the interest will be forgiven once the principal amount has been paid.

**15. Prepaid expenses**

	2014	2013
Social assistance	\$ 22,847	\$ 16,466
Post secondary	15,858	-
	<u>\$ 38,705</u>	<u>\$ 16,466</u>

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**KINGSCLEAR FIRST NATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2014**

**16. Expenses by object**

	2014	2013
Wages and benefits	\$ 4,213,571	\$ 3,687,490
Cost of goods sold	7,423,947	7,049,391
Staff development	-	22,842
Interest	153,217	110,910
Professional services	213,236	155,396
Rental expenditures	18,361	12,000
Amortization	912,144	873,074
Insurance	142,307	223,804
Other	6,790,419	7,114,294
	<b>\$ 19,867,202</b>	<b>\$ 19,249,201</b>

**17. Trust funds held by Federal Government**

	March 31, 2013	Additions (interest)	Withdrawals	March 31, 2014
Revenue	\$ 2,598	\$ 199	\$ -	\$ 2,797
Capital	5,268	-	-	5,268
	<b>\$ 7,866</b>	<b>\$ 199</b>	<b>\$ -</b>	<b>\$ 8,065</b>

**18. Comparative amounts**

Certain comparative amounts have been reclassified to conform with the presentation adopted in the current period. There is no impact to the accumulated surplus balance.