

**KINGSCLEAR FIRST NATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2017**



### Independent Auditor's Report

To the Chief and Council 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, 2017, and the consolidated statements of operations, change in net debt, cash flows and the related schedules 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.

#### *Auditors' 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, 2017, 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  
August 17, 2017

Chartered Professional Accountants

**KINGSCLEAR FIRST NATION**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**MARCH 31, 2017**

	2017	2016
<b>Financial Assets</b>		
Cash (Note 3)	\$ 903,518	\$ 479,475
Restricted cash (Note 3)	628,814	679,861
Accounts receivable (Note 4)	2,925,404	1,516,682
Funds held in trust by Federal Government (Note 16)	8,626	8,469
Inventory (Note 10)	219,278	154,546
	<b>4,685,640</b>	<b>2,839,033</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities (Note 8)	3,633,039	1,129,068
Accounts payable - INAC (Note 9)	773,765	1,512,526
Deferred revenue (Note 5)	220,957	181,817
Long-term debt (Note 6)	4,318,820	4,547,993
	<b>8,946,581</b>	<b>7,371,404</b>
<b>Net debt</b>	<b>(4,260,941)</b>	<b>(4,532,371)</b>
<b>Non-financial Assets</b>		
Tangible capital assets (Note 7)	15,762,420	13,171,136
Prepaid expenses (Note 14)	25,140	25,083
	<b>15,787,560</b>	<b>13,196,219</b>
<b>Accumulated Surplus</b>	<b>\$ 11,526,619</b>	<b>\$ 8,663,848</b>

Approved on behalf of the Kingsclear First Nation

_____, Chief	_____, Councillor
<i>Ron Salomon</i> , Councillor	_____, Councillor
<i>John</i> , Councillor	_____, Councillor
_____, Councillor	_____, Councillor
<i>Paula</i> , Councillor	_____, Councillor
<i>Dane</i> , 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, 2017

	2017	2016
<u>Surplus</u>	\$ 2,862,771	\$ 222,907
Acquisition of tangible capital assets	(3,486,735)	(647,719)
Amortization of tangible capital assets	895,451	866,897
	<u>(2,591,284)</u>	<u>219,178</u>
<u>Acquisition of prepaid asset</u>	<u>(57)</u>	<u>69,634</u>
<u>Increase in net financial assets</u>	<u>271,430</u>	<u>511,719</u>
<u>Net debt at beginning of year</u>	<u>(4,532,371)</u>	<u>(5,044,090)</u>
<u>Net debt at end of year</u>	<u>\$ (4,260,941)</u>	<u>\$ (4,532,371)</u>

The accompanying notes are an integral part of the financial statements

**KINGSCLEAR FIRST NATION**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED MARCH 31, 2017**

	2017 Budget	2017 Actual	2016 Actual
<b>Revenues</b>			
Indigenous and Northern Affairs Canada	\$ 7,451,310	\$ 10,852,553	\$ 7,172,499
Convenience Store	9,600,000	10,200,149	9,348,558
NB Power		2,797,283	
Health Canada	746,638	1,112,108	1,031,912
Rental income	416,832	619,595	604,022
Canada Mortgage and Housing Corporation	235,284	393,281	244,836
Wolastoqey Tribal Council Inc.	287,000	323,277	314,826
Fisheries and Oceans Canada	255,500	255,000	255,000
Other	1,307,495	2,817,085	1,527,914
	<hr/> 20,300,059	<hr/> 29,370,331	<hr/> 20,499,567
<b>Expenditures</b>			
Administration Program	1,168,439	1,479,469	1,163,756
Policing Program		(4,983)	13,082
Education Program	2,488,970	2,832,196	2,392,902
Welfare Program	2,164,624	2,073,153	2,116,796
Social Housing Program	727,200	438,976	341,759
Health Program	746,638	1,068,685	878,124
Fisheries Program	274,700	243,718	284,063
Job Creation Program	305,000	527,480	391,134
Forestry Program	309,000	302,236	308,758
Convenience Store	9,181,000	10,056,689	8,939,723
Capital Program	192,001	456,340	242,705
Adult Care Program	384,726	462,546	405,758
Child Maintenance Program	1,150,000	1,400,000	887,933
Child and Family Program	562,256	858,381	533,052
Operations and Maintenance Program	324,780	477,042	493,103
Economic Development		2,940,181	
	<hr/> 19,979,334	<hr/> 25,612,109	<hr/> 19,392,648
<b>Surplus before other expense</b>	320,725	3,758,222	1,106,919
<b>Other expense</b>			
Amortization	(895,451)	(895,451)	(884,011)
<b>Surplus</b>	(574,726)	2,862,771	222,907
<b>Accumulated surplus at beginning of year</b>	8,663,848	8,663,848	8,440,941
<b>Accumulated surplus at end of year</b>	<hr/> \$ 8,089,122	<hr/> \$ 11,526,619	<hr/> \$ 8,663,848

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, 2017**

	2017	2016
<b>Cash flows from Operating activities</b>		
Surplus	\$ 2,862,771	\$ 222,907
Items not affecting cash		
Amortization expense	895,451	884,011
	<hr/> 3,758,222	<hr/> 1,106,918
<b>Change in non-cash operating working capital</b>		
Accounts receivable	(1,408,722)	(322,494)
Inventory	(64,732)	(25,793)
Prepaid expenses	(57)	69,634
Funds held in trust by Federal Government	(157)	(88)
Accounts payable and accrued liabilities	2,503,971	173,067
Accounts payable - INAC	(738,761)	(87,302)
Deferred revenue	39,140	-
	<hr/> 4,088,904	<hr/> 913,942
<b>Capital activities</b>		
Acquisition of tangible capital assets	(3,486,735)	(664,837)
<b>Financing activities</b>		
Loan and mortgage advances	422,830	266,350
Repayment of loans and mortgages	(652,003)	(364,249)
	<hr/> (229,173)	<hr/> (97,899)
<b>Increase in cash and cash equivalents</b>	<b>372,996</b>	<b>151,206</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>1,159,336</b>	<b>1,008,130</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,532,332</b>	<b>\$ 1,159,336</b>
<b>Represented by</b>		
Cash	\$ 903,518	\$ 479,475
Restricted cash	628,814	679,861
	<hr/> \$ 1,532,332	<hr/> \$ 1,159,336

The accompanying notes are an integral part of the financial statements

**KINGSCLEAR FIRST NATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2017**

**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 Chartered Professional Accountants of Canada.

**(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, 2017**

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

**(c) 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 and buses	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, 2017**

**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 being 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, are recorded at acquisition cost, and have not been recorded as assets in these financial statements as no acquisition costs have been incurred to date.

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**KINGSCLEAR FIRST NATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2017**

**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.

**2. Additional Information - Restricted Amounts**

**Movable 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, 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, 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.

**KINGSCLEAR FIRST NATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2017**

**3. Cash**

	<b>2017</b>	<b>2016</b>
Unrestricted accounts	\$ 903,518	\$ 479,475
Restricted accounts:		
CMHC replacement reserve post '96 projects	608,060	549,195
CMHC replacement reserve pre '97 projects	20,754	130,666
	<hr/> <b>\$ 1,532,332</b>	<hr/> <b>\$ 1,159,336</b>

**4. Accounts Receivable**

	<b>2017</b>	<b>2016</b>
Indigenous and Northern Affairs Canada	\$ 1,360,384	\$ 217,335
Health Canada	10,664	10,664
Fisheries and Oceans Canada	66,675	66,675
Province of New Brunswick - HST rebates	423,870	283,997
Province of New Brunswick - other		79,428
First Nation Education Initiatives	177,390	163,869
Convenience Store excise tax rebates	471,527	456,264
Convenience Store trade receivables	172,425	139,127
Other	164,045	29,336
Individuals	354,525	416,232
Canada Mortgage and Housing Corporation	70,144	-
Public Safety Canada	5,226	5,226
 Allowance for doubtful accounts	 3,276,875	 1,868,153
	(351,471)	(351,471)
	<hr/> <b>\$ 2,925,404</b>	<hr/> <b>\$ 1,516,682</b>

**KINGSCLEAR FIRST NATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2017**

**5. Deferred revenue**

	<b>2017</b>	<b>2016</b>
INAC - Child Maintenance Program	\$ 144,720	\$ 144,720
First Nation Land Management	37,097	37,097
NB Power - Shoreline project	39,140	*
	<hr/> <b>\$ 220,957</b>	<hr/> <b>\$ 181,817</b>

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

**KINGSCLEAR FIRST NATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2017**

**6. Long-term debt**

	2017	2016
Canada Mortgage and Housing Corporation Various mortgages at interest rates from 0.90% to 2.11%, repayable in blended monthly installments ranging from \$302 to \$2,855, guaranteed by the Minister of Indigenous and Northern Affairs Canada. These loans are related to CMHC housing projects and have varying repayment terms and maturity dates.	\$ 3,520,229	\$ 3,807,407
Canadian Imperial Bank of Commerce Various mortgages at interest rates from 2.74% to 4.9%, repayable in blended monthly installments ranging from \$672 to \$2,726, guaranteed by the Minister of Indigenous and Northern Affairs Canada. These loans are related to CMHC housing projects and have varying repayment terms and maturity dates.	728,066	648,361
Canadian Imperial Bank of Commerce Prime plus 1.5% loan, repayable in monthly installments of \$1,808 plus interest, secured by a 2016 Bluebird school bus, due June 2020	70,525	92,225
	<hr/> <u>\$ 4,318,820</u>	<hr/> <u>\$ 4,547,993</u>

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

2018	\$ 399,000
2019	354,000
2020	354,000
2021	295,000
2020	\$ 268,000

**KINGSCLEAR FIRST NATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2017**

**7. Tangible Capital Assets**

	Cost	Additions	Accumulated amortization	2017 Net book value
Land	\$ 25,001	\$ -	\$ -	\$ 25,001
Buildings	20,010,576	3,065,237	10,567,364	12,702,809
Fire truck and other vehicles	657,853	-	465,067	192,786
Gas tanks and equipment	1,617,047	11,887	1,628,934	-
Water and sewer	3,739,852	401,111	1,135,035	2,811,568
Boats	136,286	8,500	127,265	17,521
Parking areas	28,000	-	15,265	12,735
Roads	1,217,638	-	1,217,638	-
	<b>\$ 27,432,253</b>	<b>\$ 3,486,735</b>	<b>\$ 15,156,568</b>	<b>\$ 15,762,420</b>

  

	Cost	Additions	Accumulated amortization	2016 Net book value
Land	\$ 25,001	\$ -	\$ -	\$ 25,001
Buildings	19,699,896	310,680	9,972,810	10,037,766
Fire truck and other vehicles	503,698	154,156	400,940	256,913
Gas tanks and equipment	1,617,047	-	1,601,852	15,196
Water and sewer	3,539,852	200,000	989,933	2,749,919
Boats	136,286	-	124,536	11,750
Parking areas	28,000	-	14,145	13,855
Roads	1,217,638	-	1,156,902	60,736
	<b>\$ 26,767,418</b>	<b>\$ 664,836</b>	<b>\$ 14,261,118</b>	<b>\$ 13,171,136</b>

**KINGSCLEAR FIRST NATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2017**

**8. Accounts payable and accrued liabilities**

	2017	2016
Province of New Brunswick - tuition	\$ 575,311	\$ 514,444
Canada Revenue Agency - HST	103,026	37,722
Convenience store trade payables	185,233	115,518
Child and Family Services program	88,574	75,735
Canada Revenue Agency - Payroll deductions	55,141	66,849
Trade payables	2,164,333	153,838
Health Canada	80,348	14,414
Social utilities	46,550	43,598
Province of New Brunswick-Royalties	32,589	-
Child Maintenance program	301,934	-
Water system upgrade project	-	106,950
	<hr/>	<hr/>
	\$ 3,633,039	\$ 1,129,068

**9. Accounts payable - Indigenous and Northern Affairs Canada**

	2017	2016
2002-03 and 2003-04 Child maintenance	\$ 116,223	\$ 116,223
2015-16 Basic needs	17,517	-
2008-09 Child maintenance and preventative	32,473	192,473
2015-16 Preventative (CF)	15,126	-
2009-10 Basic needs	211,252	211,252
2013-14 Capital Planning projects	2,901	-
2010-11 Basic Needs	121,218	121,218
2010-11 Special Needs	36,585	36,585
2010-11 Preventative (CF)	24,205	24,205
2010-11 In-Home Care	131,130	131,130
2015-16 In-Home Care	8,635	-
2015-16 Special Needs	11,337	-
2012-13 Post Secondary Student Support	4,282	-
2012-13 Tuition agreement	-	373,024
2013-14 Post Secondary Student Support	40,881	163,526
2013-14 Tuition agreement	-	70,192
2015-2016 Institutional Care	-	9,541
2015-2016 Prevention projects	-	17,702
2015-2016 Child Maintenance	-	45,455
	<hr/>	<hr/>
	\$ 773,765	\$ 1,512,526

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KINGSCLEAR FIRST NATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2017

**10. Inventory**

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

	2017	2016
Tobacco products	\$ 132,295	\$ 89,356
Gasoline and diesel	32,021	15,187
Grocery	<u>54,962</u>	<u>50,003</u>
	<hr/> <b>\$ 219,278</b>	<hr/> <b>\$ 154,546</b>

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**KINGSCLEAR FIRST NATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2017**

**11. 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 \$2,925,404 (2016 - \$1,516,682). 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 \$4,406,804 (2016 - \$2,641,594). 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.

**KINGSCLEAR FIRST NATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2017**

**12. Economic Dependence**

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

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

In September 2011, Indigenous and Northern Affairs 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 Indigenous and Northern Affairs Canada and Kingsclear First Nation.

**13. 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.

In the normal course of its operations, the First Nation becomes involved in legal actions. Some of these potential liabilities may become actual liabilities when one or more future events occurs 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 on the First Nation's financial statements. When the future event and/or ability to estimate involves more uncertainty, the action or claim is considered a contingent liability.

**14. Prepaid expenses**

	2017	2016
Post secondary	\$ 25,140	\$ 25,083
	<hr/> <b>\$ 25,140</b>	<hr/> <b>\$ 25,083</b>

**KINGSCLEAR FIRST NATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2017**

**15. Expenses by object**

	2017	2016
Wages and benefits	\$ 4,364,085	\$ 3,839,360
Cost of goods sold	8,504,267	7,743,424
Provincial tuition	994,445	893,456
Interest	103,710	116,531
Professional services	372,914	225,826
Royalties	316,200	307,200
Amortization	895,451	884,011
Insurance	210,365	206,094
Other	10,746,123	5,908,816
	<hr/> <b>\$ 26,507,560</b>	<hr/> <b>\$ 20,124,718</b>

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

	March 31, 2016	Additions (interest)	Withdrawals	March 31, 2017
Revenue	\$ 3,201	\$ 157	\$ -	\$ 3,358
Capital	5,268	-	-	5,268
	<hr/> <b>\$ 8,469</b>	<hr/> <b>\$ 157</b>	<hr/> <b>\$ -</b>	<hr/> <b>\$ 8,626</b>

**17. 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.

**18. Annual surplus net of capital related revenues and amortization**

	2017	2016
Annual surplus (deficit)	\$ 2,862,771	\$ 222,908
Deduct: Federal government transfers for capital	(2,351,360)	(200,000)
Add: Amortization expense included in annual surplus	895,451	884,011
<b>Annual surplus net of capital related revenues and amortization</b>	<hr/> <b>\$ 1,406,862</b>	<hr/> <b>\$ 906,919</b>