

KINGSCLEAR FIRST NATION

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2018

Independent Auditor's Report

To the Chief and Council and 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, 2018, 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, 2018, 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.



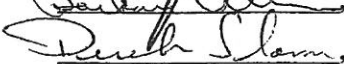
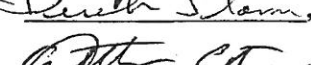
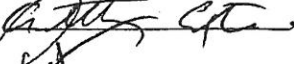

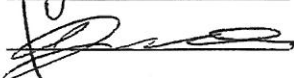
Lenahan McCain + Associates
Chartered Professional Accountants


Woodstock, New Brunswick
July 30, 2018

KINGSCLEAR FIRST NATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
MARCH 31, 2018

	2018	2017
Financial Assets		
Cash (Note 3)	\$ 1,645,497	\$ 903,518
Restricted cash (Note 3)	662,776	628,814
Accounts receivable (Note 4)	3,748,349	2,925,404
Funds held in trust by Federal Government (Note 16)	8,910	8,626
Inventory (Note 10)	281,450	219,278
	6,346,982	4,685,640
Liabilities		
Accounts payable and accrued liabilities (Note 8)	2,462,885	3,633,039
Accounts payable - INAC (Note 9)	775,687	773,765
Deferred revenue (Note 5)	892,439	220,957
Long-term debt (Note 6)	6,547,457	4,318,820
	10,678,468	8,946,581
Net debt	(4,331,486)	(4,260,941)
Non-financial Assets		
Tangible capital assets (Note 7)	19,810,233	15,762,420
Prepaid expenses (Note 14)	43,222	25,140
	19,853,455	15,787,560
Accumulated Surplus	\$ 15,521,969	\$ 11,526,619

Approved on behalf of the Kingsclear First Nation

 Chief
 Councillor
 Councillor
 Councillor
 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 OPERATIONS

FOR THE YEAR ENDED MARCH 31, 2018

	2018 Budget	2018 Actual	2017 Actual
Revenues			
Indigenous and Northern Affairs Canada	\$ 7,634,999	\$ 12,429,740	\$ 10,852,553
Convenience Store	10,000,000	13,716,376	10,200,149
VLT income	-	1,310,699	-
Health Canada	1,008,438	1,204,042	1,112,108
Rental income	221,058	626,991	619,595
Canada Mortgage and Housing Corporation	105,000	420,130	393,281
Wolastoqey Tribal Council Inc.	143,502	383,262	323,277
Fisheries and Oceans Canada	255,000	255,000	255,000
NB Power	-	-	2,797,283
Other	949,035	3,400,597	2,817,085
	<u>20,317,032</u>	<u>33,746,837</u>	<u>29,370,331</u>
Expenditures			
Administration Program	1,201,718	1,334,707	1,433,109
Policing Program	-	5,226	(4,983)
Education Program	2,595,618	3,014,804	2,832,196
Welfare Program	2,164,624	2,256,303	2,073,153
Social Housing Program	506,069	926,920	815,780
Health Program	841,209	1,291,941	1,068,685
Fisheries Program	255,000	389,366	243,718
Job Creation Program	153,412	513,232	527,480
Forestry Program	-	448,350	302,236
Convenience Store	9,760,000	13,343,337	10,056,689
Capital Program	18,543	3,000	79,536
Adult Care Program	208,387	475,628	462,546
Child Maintenance Program	1,135,390	1,337,078	1,400,000
Child and Family Program	824,455	1,253,561	858,381
Operations and Maintenance Program	300,880	571,462	477,042
Economic Development	-	1,533,456	2,986,541
	<u>19,965,305</u>	<u>28,698,371</u>	<u>25,612,109</u>
Surplus before other expense	351,727	5,048,466	3,758,222
Other expense			
Amortization	(1,053,116)	(1,053,116)	(895,451)
Surplus	(701,389)	3,995,350	2,862,771
Accumulated surplus at beginning of year	11,526,619	11,526,619	8,663,848
Accumulated surplus at end of year	<u>\$ 10,825,230</u>	<u>\$ 15,521,969</u>	<u>\$ 11,526,619</u>
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, 2018

	2018	2017
Surplus	\$ 3,995,350	\$ 2,862,771
Acquisition of tangible capital assets	(5,100,929)	(3,486,734)
Amortization of tangible capital assets	1,053,116	895,451
	(4,047,813)	(2,591,283)
Acquisition of prepaid asset	(18,082)	(57)
(Decrease) increase in net financial assets	(70,545)	271,431
Net debt at beginning of year	(4,260,941)	(4,532,372)
Net debt at end of year	\$ (4,331,486)	\$ (4,260,941)

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, 2018

	2018	2017
Cash flows from		
Operating activities		
Surplus	\$ 3,995,350	\$ 2,862,771
Items not affecting cash		
Amortization expense	1,053,116	895,451
	5,048,466	3,758,222
Change in non-cash operating working capital		
Accounts receivable	(822,945)	(1,408,722)
Inventory	(62,172)	(64,732)
Prepaid expenses	(18,082)	(57)
Funds held in trust by Federal Government	(284)	(157)
Accounts payable and accrued liabilities	(1,170,156)	2,503,971
Accounts payable - INAC	1,922	(738,761)
Deferred revenue	671,482	39,140
	3,648,231	4,088,904
Capital activities		
Acquisition of tangible capital assets	(5,100,928)	(3,486,735)
Financing activities		
Loan and mortgage advances	2,822,274	422,830
Repayment of loans and mortgages	(593,636)	(652,003)
	2,228,638	(229,173)
Increase in cash and cash equivalents	775,941	372,996
Cash and cash equivalents, beginning of year	1,532,332	1,159,336
Cash and cash equivalents, end of year	\$ 2,308,273	\$ 1,532,332
Represented by		
Cash	\$ 1,645,497	\$ 903,518
Restricted cash	662,776	628,814
	\$ 2,308,273	\$ 1,532,332

The accompanying notes are an integral part of the financial statements

KINGSCLEAR FIRST NATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2018

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.

KINGSCLEAR FIRST NATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018

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 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

KINGSCLEAR FIRST NATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018

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.

KINGSCLEAR FIRST NATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018

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, 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

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, 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, 2018

3. Cash

	2018	2017
Unrestricted accounts	\$ 1,645,497	\$ 903,518
Restricted accounts:		
CMHC replacement reserve post '96 projects	633,402	608,060
CMHC replacement reserve pre '97 projects	29,374	20,754
	<u>\$ 2,308,273</u>	<u>\$ 1,532,332</u>

4. Accounts Receivable

	2018	2017
Indigenous and Northern Affairs Canada	\$ 1,692,875	\$ 1,360,384
Health Canada	10,664	10,664
Fisheries and Oceans Canada	66,675	66,675
Province of New Brunswick - Other	258,140	-
Province of New Brunswick - HST rebates	649,104	423,870
Province of New Brunswick - VLT rebates	6,733	-
First Nation Education Initiatives	6,174	177,390
Convenience Store excise tax rebates	639,733	471,527
Convenience Store trade receivables	33,454	172,425
Other	27,536	164,045
Individuals	476,385	354,525
Canada Mortgage and Housing Corporation	211,295	70,144
Public Safety Canada	-	5,226
	<u>4,078,768</u>	<u>3,276,875</u>
Allowance for doubtful accounts	<u>(330,419)</u>	<u>(351,471)</u>
	<u>\$ 3,748,349</u>	<u>\$ 2,925,404</u>

KINGSCLEAR FIRST NATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2018

5. Deferred revenue

	2018	2017
INAC - Capital program (Wastewater and Water)	\$ 696,304	\$ -
INAC - Education (PSSP)	51,465	-
Health Canada - Brighter Futures and NNADAP	24,100	-
Fitness center	33,000	-
First Nation Land Management	-	37,097
NB Power - Shoreline project	39,140	39,140
INAC - Capital program (Water Systems)	6,101	-
INAC - Capacity Development	14,640	-
INAC - Capital program (FNWWAP Wastewater)	27,689	-
INAC - Child Maintenance program	-	144,720
	<u>\$ 892,439</u>	<u>\$ 220,957</u>

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, 2018

6. Long-term debt

	2018	2017
Canada Mortgage and Housing Corporation Various mortgages at interest rates from 0.90% to 2.39%, 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.	\$ 3,910,014	\$ 3,520,229
Canadian Imperial Bank of Commerce Various mortgages at interest rates from 2.74% to 7.25%, 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.	631,755	728,066
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.	48,825	70,525
Taylor Petroleum 1985 Ltd. 0% loan, monthly loan payments are based on fuel purchases from the prior month at a rate of \$0.02 per litre, no specified security nor maturity date.	653,247	-
John Deere Financial 4.5% loan, repayable in monthly installments of \$2,218 including interest, secured by a 2018 John Deere loader, due January 2022 with a residual amount of \$121,100 owing at maturity.	193,616	-
Canadian Imperial Bank of Commerce Prime plus 1% loan, repayable in monthly installments of \$10,000 plus interest, secured by convenience store assets, due June 2027.	1,110,000	-
	6,547,457	4,318,820
Current portion	694,785	-
	<u>\$ 5,852,672</u>	<u>\$ 4,318,820</u>

KINGSCLEAR FIRST NATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2018

6. Long-term debt, continued

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

2019	\$ 694,785
2020	695,631
2021	637,473
2022	606,833
2020	698,340

7. Tangible Capital Assets

	Cost	Additions	Accumulated amortization	2018 Net book value
Land	\$ 25,001	\$ -	\$ -	\$ 25,001
Buildings	23,270,173	1,472,432	11,225,856	9,933,036
Fire truck and other vehicles	657,853	251,007	554,295	149,050
Gas tanks and equipment	1,628,934	395,794	1,704,064	3,915,529
Water and sewer	3,946,603	1,886,945	1,324,958	4,702,949
Boats	144,786	-	129,993	14,793
Parking areas	28,000	-	16,385	11,615
Roads	1,217,638	1,094,751	1,254,129	1,058,260
	\$ 30,918,988	\$ 5,100,929	\$ 16,209,680	\$ 19,810,233

	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	-
	\$ 27,432,253	\$ 3,486,735	\$ 15,156,568	\$ 15,762,420

KINGSCLEAR FIRST NATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018

8. Accounts payable and accrued liabilities

	2018	2017
Province of New Brunswick - tuition	\$ 391,566	\$ 575,311
Canada Revenue Agency - HST	259,157	103,026
Convenience store trade payables	345,674	185,233
Child and Family Services program	-	88,574
Canada Revenue Agency - Payroll deductions	61,101	55,141
Trade payables	1,062,664	2,164,334
Health Canada	138,479	80,348
Social utilities	49,744	46,550
Province of New Brunswick-Royalties	-	32,589
Unclaimed royalties	154,500	301,934
	\$ 2,462,885	\$ 3,633,040

9. Accounts payable - Indigenous and Northern Affairs Canada

	2018	2017
2002-03 and 2003-04 Child maintenance	\$ -	\$ 116,223
2015-16 Basic needs	-	17,517
2016-17 CFS Maintenance	133,229	-
2008-09 Child maintenance and preventative	-	32,473
2015-16 Preventative (CF)	-	15,126
2009-10 Basic needs	199,949	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
2016-17 Basic Needs	126,474	-
2016-17 Special Needs	2,897	-
2012-13 Post Secondary Student Support	-	4,282
2013-14 Post Secondary Student Support	-	40,881
	\$ 775,687	\$ 773,765

KINGSCLEAR FIRST NATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018

10. Inventory

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

	2018	2017
Tobacco products	\$ 149,624	\$ 132,295
Gasoline and diesel	67,502	32,021
Grocery	45,999	54,962
Lotto	18,325	-
	<u>\$ 281,450</u>	<u>\$ 219,278</u>

KINGSCLEAR FIRST NATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018

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 \$3,748,349 (2017 - \$2,925,404). 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 \$3,238,572 (2017 - \$4,406,805). 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, 2018

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

	2018	2017
Child and family services	\$ 6,981	\$ -
Community planning	6,515	-
Post secondary	28,324	25,140
Administration	1,402	-
	<u>\$ 43,222</u>	<u>\$ 25,140</u>

KINGSCLEAR FIRST NATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018

15. Expenses by object

	2018	2017
Wages and benefits	\$ 4,794,388	\$ 4,364,085
Cost of goods sold	11,077,050	8,504,267
Provincial tuition	1,001,090	994,445
Interest	173,440	103,710
Professional services	265,145	372,914
Royalties	448,350	316,200
Amortization	1,053,116	895,451
Insurance	219,600	210,365
Other	10,719,308	10,746,123
	<u>\$ 29,751,487</u>	<u>\$ 26,507,560</u>

16. Trust funds held by Federal Government

	March 31, 2017	Additions (interest)	Withdrawals	March 31, 2018
Revenue	\$ 3,358	\$ 284	\$ -	\$ 3,642
Capital	5,268	-	-	5,268
	<u>\$ 8,626</u>	<u>\$ 284</u>	<u>\$ -</u>	<u>\$ 8,910</u>

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

	2018	2017
Annual surplus (deficit)	\$ 3,995,350	\$ 2,862,771
Deduct: Federal government transfers for capital	(3,678,000)	(2,351,360)
Add: Amortization expense included in annual surplus	1,053,116	895,451
<u>Annual surplus net of capital related revenues and amortization</u>	<u>\$ 1,370,466</u>	<u>\$ 1,406,862</u>