

KINGSCLEAR FIRST NATION

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2019

KINGSCLEAR FIRST NATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

MARCH 31, 2019

The accompanying consolidated financial statements of Kingsclear First Nation are the responsibility of Chief and Council. The consolidated financial statements have been prepared by management in accordance with Canadian public sector accounting standards and necessarily include estimates which are based on management's best judgments.

Management is also responsible for implementing and maintaining a system of internal controls designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

Council is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The consolidated financial statements have been reviewed and approved by Chief and Council.

Lenahan McCain & Associates, an independent firm of accountants, has been engaged to examine the consolidated financial statements in accordance with Canadian generally accepted auditing standards. Their report stating the scope of their examination and opinion on the consolidated financial statements, follows.

Chief

July 22 / 2019
Date

Councillor

Councillor

Councillor

Councillor

Councillor

Councillor

Councillor

Councillor

Councillor

Councillor

Independent Auditor's Report

To the Chief and Council and members of
Kingsclear First Nation

Opinion

We have audited the consolidated financial statements of Kingsclear First Nation, which comprise the consolidated statement of financial position as at March 31, 2019, and the consolidated statements of operations and accumulated surplus, change in net debt, cash flows and the related schedules for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the First Nation as at March 31, 2019, and the results of its consolidated operations and its consolidated cash flows for the year then ended in accordance with PSAB.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the First Nation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PSAB, 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.

In preparing the consolidated financial statements, management is responsible for assessing the First Nation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Those charged with governance are responsible for overseeing the First Nation's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:










- ♦ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ♦ Obtain an understanding of internal control relevant to the audit 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.
- ♦ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ♦ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the First Nation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- ♦ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Woodstock, New Brunswick
July 22, 2019

Lewke McCain + Associates
Chartered Professional Accountants

KINGSCLEAR FIRST NATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
MARCH 31, 2019

	2019	2018
Financial Assets		
Cash (Note 3)	\$ 1,175,975	\$ 1,638,238
Restricted cash (Note 3)	728,784	670,035
Accounts receivable (Note 4)	4,525,568	3,748,349
Funds held in trust by Federal Government (Note 16)	9,014	8,910
Inventory (Note 10)	261,011	281,450
	<u>6,700,352</u>	<u>6,346,982</u>
Liabilities		
Accounts payable and accrued liabilities (Note 8)	3,512,338	2,462,885
Accounts payable - ISC (Note 9)	639,561	775,687
Deferred revenue (Note 5)	913,853	892,439
Long-term debt (Note 6)	7,411,525	6,547,457
	<u>12,477,277</u>	<u>10,678,468</u>
Net debt	<u>(5,776,925)</u>	<u>(4,331,486)</u>
Non-financial Assets		
Tangible capital assets (Note 7)	23,805,177	19,810,233
Prepaid expenses (Note 14)	222,572	43,222
	<u>24,027,749</u>	<u>19,853,455</u>
Accumulated Surplus	<u>\$ 18,250,824</u>	<u>\$ 15,521,969</u>
Approved on behalf of the Kingsclear First Nation		
 _____, Chief		
 _____, 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 CHANGE IN NET DEBT
FOR THE YEAR ENDED MARCH 31, 2019

	2019	2018
<u>Surplus</u>	<u>\$ 2,728,855</u>	<u>\$ 3,995,350</u>
Acquisition of tangible capital assets	(5,222,244)	(5,100,929)
Amortization of tangible capital assets	1,227,300	1,053,116
	<u>(3,994,944)</u>	<u>(4,047,813)</u>
Acquisition of prepaid asset	(179,350)	(18,082)
Decrease in net financial assets	(1,445,439)	(70,545)
Net debt at beginning of year	(4,331,486)	(4,260,941)
<u>Net debt at end of year</u>	<u>\$ (5,776,925)</u>	<u>\$ (4,331,486)</u>

The accompanying notes are an integral part of the financial statements

KINGSCLEAR FIRST NATION
CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED MARCH 31, 2019

	2019 Budget	2019 Actual	2018 Actual
Revenues			
Indigenous Services Canada	\$ 8,195,212	\$ 12,069,802	\$ 12,490,647
Convenience Store	14,583,773	17,599,577	13,716,376
VLT income	2,502,018	1,360,650	1,310,699
Health Canada	1,124,850	1,288,501	1,204,042
Rental income	433,001	692,363	626,991
Canada Mortgage and Housing Corporation	264,628	621,304	1,020,130
Wolastoqey Tribal Council Inc.	343,974	368,730	383,262
Fisheries and Oceans Canada	255,000	255,000	255,000
Other	2,717,467	3,929,128	2,739,690
	30,419,923	38,185,055	33,746,837
Expenditures			
Administration Program	1,632,201	2,284,832	1,334,707
Policing Program	-	-	5,226
Education Program	3,345,015	3,106,905	3,014,804
Social Program	2,164,624	2,339,689	2,256,303
Social Housing Program	403,448	1,127,018	926,920
Health Program	1,124,850	1,254,488	1,291,941
Fisheries Program	262,802	480,939	389,366
Job Creation Program	378,259	410,502	513,232
Forestry Program	383,600	532,943	448,350
Convenience Store	13,948,369	16,519,687	13,162,074
Capital Program	72,001	13,200	3,000
Adult Care Program	538,528	577,969	475,628
Child Maintenance Program	1,135,390	1,232,442	1,337,083
Child and Family Program	1,008,904	1,439,234	1,253,555
Operations and Maintenance Program	456,176	1,063,741	571,462
Economic Development Program	2,719,853	1,845,311	1,714,719
	29,574,020	34,228,900	28,698,370
Surplus before other expense	845,903	3,956,155	5,048,467
Other expense			
Amortization	(1,227,300)	(1,227,300)	(1,053,116)
Surplus	(373,797)	2,728,855	3,995,350
Accumulated surplus at beginning of year	15,521,969	15,521,969	11,526,619
Accumulated surplus at end of year	\$ 15,148,172	\$ 18,250,824	\$ 15,521,969

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, 2019

	2019	2018
Cash flows from		
Operating activities		
Surplus	\$ 2,728,855	\$ 3,995,350
Items not affecting cash		
Amortization expense	1,227,300	1,053,116
	3,956,155	5,048,466
Change in non-cash operating working capital		
Accounts receivable	(777,219)	(822,945)
Inventory	20,439	(62,172)
Prepaid expenses	(179,350)	(18,082)
Funds held in trust by Federal Government	(104)	(284)
Accounts payable and accrued liabilities	1,045,027	(1,170,156)
Accounts payable - ISC	(131,697)	1,922
Deferred revenue	21,414	671,482
	3,954,665	3,648,231
Capital activities		
Acquisition of tangible capital assets	(5,222,245)	(5,100,928)
Financing activities		
Loan and mortgage advances	1,607,418	2,822,274
Repayment of loans and mortgages	(743,352)	(593,636)
	864,066	2,228,638
Increase (decrease) in cash and cash equivalents	(403,514)	775,941
Cash and cash equivalents, beginning of year	2,308,273	1,532,332
Cash and cash equivalents, end of year	\$ 1,904,759	\$ 2,308,273
Represented by		
Cash	\$ 1,175,975	\$ 1,638,238
Restricted cash	728,784	670,035
	\$ 1,904,759	\$ 2,308,273

The accompanying notes are an integral part of the financial statements

KINGSCLEAR FIRST NATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2019

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. Net realizable value is the estimated selling price in the normal course of business.

KINGSCLEAR FIRST NATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2019

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 and housing	10-40yrs Straight line
Parking areas and pedestrian pedway	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, 2019

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, 2019

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, 2019

3. Cash

	2019	2018
Unrestricted accounts		
Restricted accounts:		
CMHC replacement reserve post '96 projects	\$ 1,175,975	\$ 1,638,238
CMHC replacement reserve pre '97 projects	601,241	633,402
Health - Movable Asset Reserve	29,374	29,374
	98,169	7,259
	<u>\$ 1,904,759</u>	<u>\$ 2,308,273</u>

4. Accounts Receivable

	2019	2018
Indigenous Services Canada	\$ 2,681,004	\$ 1,360,384
Health Canada	128,972	10,664
Fisheries and Oceans Canada	107,970	66,675
Province of New Brunswick - Other	288	258,140
Province of New Brunswick - HST rebates	223,076	649,104
Province of New Brunswick - VLT rebates	10,645	6,733
First Nation Education Initiatives	62,960	6,174
Convenience Store excise tax rebates	465,813	639,733
Convenience Store trade receivables	45,080	33,454
Other	98,063	27,536
Individuals	464,622	476,385
Canada Mortgage and Housing Corporation	569,728	211,295
Public Safety Canada	-	5,226
	4,858,221	4,078,768
Allowance for doubtful accounts	(332,653)	(330,419)
	<u>\$ 4,525,568</u>	<u>\$ 3,748,349</u>

KINGSCLEAR FIRST NATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2019

5. Deferred revenue

	2019	2018
ISC - Capital program (Wastewater and Water)	\$ -	\$ 696,304
ISC - Education (PSSP)	253,243	51,465
Health Canada - Brighter Futures and NNADAP	-	24,100
Health Canada - Building Healthy Communities	33,331	-
Fitness center	2,000	33,000
NB Power - Shoreline project	-	39,140
ISC - Capital program (Water Systems)	-	6,101
ISC - Capacity/Innovation	160,300	14,640
ISC - Capital program (FNWWAP Wastewater)	-	27,689
ISC - Emergency Management Assistance	343,900	-
ISC - Land Use Planning	19,927	-
ISC - HR deferral	1,299	-
Ec Dev summer student wages	7,281	-
ISC - Govt Cap Development	92,572	-
	<u>\$ 913,853</u>	<u>\$ 892,439</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, 2019

6. Long-term debt

	2019	2018
Canada Mortgage and Housing Corporation Various mortgages at interest rates from 0.96% to 2.39%, repayable in blended monthly installments ranging from \$302 to \$2,855, guaranteed by the Minister of Indigenous Services Canada. These loans are related to CMHC housing projects and have varying repayment terms and maturity dates.	\$ 3,602,337	\$ 3,910,014
Canadian Imperial Bank of Commerce Various mortgages at interest rates from 4.64% to 7.25%, repayable in blended monthly installments ranging from \$799 to \$2,726, guaranteed by the Minister of Indigenous Services Canada. These loans are related to CMHC housing projects and have varying repayment terms and maturity dates.	2,155,071	631,755
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.	27,125	48,825
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, matures July 2022.	430,130	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.	175,343	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.	990,000	1,110,000
Canadian Imperial Bank of Commerce Prime plus 1% demand loan, repayable in monthly installments of \$901 plus interest, secured by a 2018 Chevrolet Cargo Van, due February 2022.	31,519	-
	7,411,525	6,547,457
Current portion	813,656	694,785
	\$ 6,597,869	\$ 5,852,672

KINGSCLEAR FIRST NATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019

6. Long-term debt, continued

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

2020	
2021	\$ 813,656
2022	749,296
2023	515,762
2024	581,081
	<u>459,500</u>

7. Tangible Capital Assets

	Cost	Additions	Accumulated amortization	2019 Net book value
Land	\$ 25,001	\$ -	\$ -	\$ 25,001
Buildings and housing	21,158,892	2,509,489	11,953,437	11,714,944
Fire truck and other vehicles	703,346	103,064	648,436	157,974
Gas tanks and equipment	5,619,593	100,497	1,764,111	3,955,979
Pedway	-	1,652,473	33,049	1,619,423
Water and sewer	6,027,907	856,722	1,560,608	5,324,021
Boats	144,786	-	132,722	12,064
Parking areas	28,000	-	17,505	10,495
Roads	2,312,389	-	1,327,113	985,276
	<u>\$ 36,019,914</u>	<u>\$ 5,222,245</u>	<u>\$ 17,436,981</u>	<u>\$ 23,805,177</u>

	Cost	Additions	Accumulated amortization	2018 Net book value
Land	\$ 25,001	\$ -	\$ -	\$ 25,001
Buildings and housing	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
	<u>\$ 30,918,988</u>	<u>\$ 5,100,929</u>	<u>\$ 16,209,680</u>	<u>\$ 19,810,233</u>

KINGSCLEAR FIRST NATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2019

8. Accounts payable and accrued liabilities

	2019	2018
Province of New Brunswick - tuition	\$ 404,751	\$ 391,566
Canada Revenue Agency - HST	99,829	259,157
Convenience store trade payables	303,043	345,674
Canada Revenue Agency - Payroll deductions	-	61,101
Trade payables and accrued liabilities	2,471,215	1,062,664
Health Canada	-	138,479
Social utilities	-	49,744
Unclaimed royalties	233,500	154,500
	\$ 3,512,338	\$ 2,462,885

9. Accounts payable - Indigenous Services Canada

	2019	2018
2016-17 CFS Maintenance	\$ -	\$ 133,229
2009-10 Basic needs	199,949	199,949
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
2016-17 Basic Needs	126,474	126,474
2016-17 Special Needs	-	2,897
	\$ 639,561	\$ 775,687

10. Inventory

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

	2019	2018
Tobacco products	\$ 139,493	\$ 149,624
Gasoline and diesel	64,387	67,502
Grocery	43,374	45,999
Lotto	13,757	18,325
	\$ 261,011	\$ 281,450

KINGSCLEAR FIRST NATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2019

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 \$4,525,568 (2018 - \$3,748,349). 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 \$4,151,900 (2018 - \$3,238,572). 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, 2019

12. Economic Dependence

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

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

In September 2011, Indigenous Services 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, however is expected to terminate on August 31, 2019.

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

	2019	2018
Child and family services	\$ 2,404	\$ 6,981
Community planning	-	6,515
Post secondary	27,000	28,324
Administration	187,415	1,402
Community health	3,703	-
Convenience store	2,050	-
	<u>\$ 222,572</u>	<u>\$ 43,222</u>

KINGSCLEAR FIRST NATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2019

15. Expenses by object

	2019	2018
Wages and benefits	\$ 5,046,418	\$ 4,794,388
Cost of goods sold	14,664,720	11,077,050
Provincial tuition	843,839	1,001,090
Interest	277,605	173,440
Professional services	380,192	265,145
Royalties	532,943	448,350
Amortization	1,227,300	1,053,116
Insurance	233,751	219,600
Other	12,243,475	10,719,308
	\$ 35,450,243	\$ 29,751,487

16. Trust funds held by Federal Government

	March 31, 2018	Additions (interest)	Withdrawals	March 31, 2019
Revenue	\$ 3,642	\$ 104	\$ -	\$ 3,746
Capital	5,268	-	-	5,268
	\$ 8,910	\$ 104	\$ -	\$ 9,014

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

	2019	2018
Annual surplus (deficit)	\$ 2,728,855	\$ 3,995,350
Deduct: Federal government transfers for capital	(2,520,094)	(3,678,000)
Add: Amortization expense included in annual surplus	1,227,300	1,053,116
Annual surplus net of capital related revenues and amortization	\$ 1,436,061	\$ 1,370,466