Financial Statements of

SHEGUIANDAH FIRST NATION

Year ended March 31, 2015

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the **Sheguiandah First Nation** are the responsibility of management and have been approved by the Chief and Council of the First Nation.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgements. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances, in order to ensure that the financial statements are presented fairly, in all material respects.

The First Nation maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and the First Nation's assets are appropriately accounted for and adequately safeguarded.

The First Nation Council is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements.

The Chief and Council review the First Nation's financial statements and recommend their approval. The Chief and Council meet periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting issues, to satisfy themselves that each party is properly discharging their responsibilities, and to review the annual report, the financial statements and the external auditors' report. The Chief and Council takes this information into consideration when approving the financial statements for issuance to the Members. The Chief and Council also consider the engagement of the external auditors.

The financial statements have been audited by KPMG LLP in accordance with Canadian generally accepted auditing standards on behalf of the members.

KPMG

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INDEPENDENT AUDITORS' REPORT

To the Members of Sheguiandah First Nation

We have audited the accompanying financial statements of **Sheguiandah First Nation** which comprise the statement of financial position as at March 31, 2015, the statement of operations, changes in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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, these financial statements present fairly, in all material respects, the financial position of Sheguiandah First Nation as at March 31, 2015 and its results of operations and its changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

October 7, 2015
Sudbury, Canada

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Year ended March 31, 2015

SHEGUIANDAH FIRST NATION

Exhibit A - Statement of Financial Position

March 31, 2015, with comparative information for 2014

	2015	2014
Financial assets:		
Cash	$ 502,420	$ 314,201
Accounts receivable	129,871	422,993
Note receivable (note 2)	15,890	20,090
Due from Aboriginal Affairs and Northern Development Canada	446,212	374,412
Consolidated trust funds (note 3)	37,528	36,495
Investment (note 4)	96,528	98,828
	1,228,449	1,267,019
Financial liabilities:		
Accounts payable and accrued liabilities	434,034	927,067
Deferred revenue (note 5)	77,072	80,633
Long-term debt (note 6)	1,002,838	512,361
Obligations under capital leases (note 7)	121,071	209,097
	1,635,015	1,729,158
Net financial debt	(406,566)	(462,139)
Non-financial assets:		
Tangible capital assets (note 8)	9,036,492	9,324,049
Prepaid expenses	8,341	10,000
	9,044,833	9,334,049
Accumulated surplus (note 9)	$ 8,638,267	$ 8,871,910

See accompanying notes to financial statements

Approved:

G Thompson

L Donaldson

Jackie Freeman

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Exhibit B - Statement of Operations

Year ended March 31, 2015, with comparative information for 2014

	2015	2014
Revenue:		
Government transfers - Provincial	$ 469,521	$ 417,810
- Federal	1,807,827	1,441,413
Rental income	164,012	163,541
Other	1,510,452	895,309
	3,951,812	2,918,073
Expenses:		
Band Government	830,649	418,709
Social Assistance	554,053	514,429
Education	713,137	591,977
Community Infrastructure	973,139	934,792
Health Services	540,110	430,235
Recreation	20,813	3,139
Community Property	314,671	213,669
Employment and Economic Development	138,980	135,936
CMHC Social Housing	99,903	130,169
	4,185,455	3,373,055
Deficiency of revenue over expenses	(233,643)	(454,982)
Accumulated surplus, beginning of year	8,871,910	9,326,892
Accumulated surplus, end of year	$ 8,638,267	$ 8,871,910

See accompanying notes to financial statements

SHEGUIANDAH FIRST NATION

Exhibit C - Statement of Changes in Net Debt

Year ended March 31, 2015, with comparative information for 2014

	2015	2014
Deficiency of revenue over expenses	$ (233,643)	$ (454,982)
Acquisition of tangible capital assets	(350,750)	(109,683)
Amortization of tangible capital assets	601,487	579,565
Disposal of tangible capital assets	(3,180)	-
Proceeds on sale of tangible capital assets	40,000	-
	53,914	14,900
Use of prepaid expenses	1,659	2,460
Change in net financial assets	55,573	17,360
Net debt, beginning of year	(462,139)	(479,499)
Net debt, end of year	$ (406,566)	$ (462,139)

See accompanying notes to financial statements

SHEGUIANDAH FIRST NATION

Exhibit D - Statement of Cash Flows

Year ended March 31, 2015, with comparative information for 2014

	2015	2014
Cash flows from operating activities:		
Deficiency of revenue over expenses	$ (233,643)	$ (454,982)
Adjustments for:		
Amortization of tangible capital assets	601,487	579,565
Gain on disposals of tangible capital assets	(3,180)	-
	364,664	124,583
Change in non-cash working capital:		
Decrease in accounts receivable	293,122	111,083
Decrease in note receivable	4,200	3,850
Increase (decrease) in due from Aboriginal Affairs and Northern Development	(71,800)	3,847
Decrease in accounts payable and accrued liabilities	(493,033)	(138,254)
Increase (decrease) in deferred revenue	(3,561)	80,633
Decrease in prepaid expenses	1,659	2,460
	95,251	188,202
Cash flows from financing activities:		
Principal payments on long-term debt	(66,420)	(57,054)
Long-term debt issued	556,897	-
Payments on obligations under capital leases	(88,026)	(87,555)
	402,451	(144,609)
Cash flows from capital activities:		
Purchase of tangible capital assets	(350,750)	(109,683)
Proceeds on disposal of capital assets	40,000	-
	(310,750)	(109,683)
Cash flows from investing activities:		
Decrease in investments	2,300	471
Increase in Consolidated trust funds	(1,033)	(901)
	1,267	(430)
Net increase (decrease) in cash	188,219	(66,520)
Cash, beginning of year	314,201	380,721
Cash, end of year	$ 502,420	$ 314,201

See accompanying notes to financial statements

Sheguiandah First Nation (the "First Nation") located on Manitoulin Island administers programs and provides services on behalf of its members.

1. Significant accounting policies:

These financial statements of the First Nation are the representation of management and have been prepared in accordance with Canadian generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada. The following is a summary of the significant accounting policies followed in the preparation of these financial statements:

(a) Reporting entity:

The reporting entity includes the activities of all committees of Council under the control of the First Nation.

(b) Revenue recognition:

Revenue is recognized as it becomes receivable under the terms of applicable funding agreements. Funding received under the funding arrangements which relates to a subsequent fiscal period is reflected as deferred revenue on the statement of financial position.

(c) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(d) Tangible capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land are amortized on a straight-line basis over their estimated useful lives as follows:

Assets	Useful Life - Years
Infrastructure	20 - 40
Buildings and housing	10 - 50
Vehicles and equipment	5 - 10
Computer equipment	1 - 5

1. Significant accounting policies (continued):

(e) Use of estimates:

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include the carrying amount of tangible capital assets and valuation allowances for receivables. Actual results could differ from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

(f) Prior year funding adjustments:

The First Nation has entered into accountable contribution arrangements with several government funding agencies. All such programs are subject to audit by the various governments, with audit adjustments repayable to the government.

Adjustments made under funding arrangements relating to prior years are charged to operations in the year during which the adjustments are made.

(g) Consolidated Trust Funds:

Trust funds arise from monies derived from capital or revenue sources as outlined in Section 62 of the Indian Act. These funds are held in trust in the Consolidated Revenue Fund of the Government of Canada and are subject to audit by the office of the Auditor General of Canada.

Funds held by the Government of Canada on behalf of the First Nation are included on the statement of financial position.

2. Note receivable:

The note receivable to a band member is non-interest bearing, requires monthly payments of $350 and matures in 2018.

3. Consolidated trust funds:

	Revenue	Capital	Total
Balance, beginning of year	$ 2,400	34,095	36,495
Interest	1,033	–	1,033
Balance, end of year	$ 3,433	34,095	37,528

4. Investment:

	2015	2014
Investment in U.C.C.M. Building Material Supply Company Ltd.	$ 96,527	98,827
Investment in M'Nidoo M'Nising Power Limited Partnership	1	1
	$ 96,528	98,828

The investment in U.C.C.M. Building Material Supply Company Ltd. represents a 14.28% ownership interest and is accounted for using the equity method.

The investment in the M'Nidoo M'Nising Power Limited Partnership (MMPLP) represents a 16.665% ownership interest and is accounted for using the equity method.

5. Deferred revenue:

	Aboriginal Affairs and Northern Development Canada	2015	2014
Post-Secondary	$ –	–	42,408
Provincial School Transportation	–	–	22,239
Water Systems	–	–	15,986
CORP Business Planning	77,072	77,072	–
	$ 77,072	77,072	80,633

6. Long-term debt:

The details of the long-term debt are as follows:

	2015	2014
Toronto Dominion Bank mortgage, payable $2,452 monthly including principal and interest, bearing interest at 3.71% per annum, due March 1, 2015	$ –	28,706
Canada Mortgage and Housing Corporation mortgage, payable $1,275 monthly including principal and interest, bearing interest at 1.64 % per annum, due February 2032	225,891	237,391
Canada Mortgage and Housing Corporation mortgage, payable $1,591 monthly including principal and interest, bearing interest at 4.55% per annum, due June 2032	219,813	230,745
Canada Mortgage and Housing Corporation mortgage, payable $2,227 monthly including principal and interest, bearing interest at 1.77% per annum, due November 2039	523,397	–
Ally Credit Canada loan, payable $648 monthly including principal and interest, bearing interest at 5.47% per annum, due March 2016	7,954	15,519
Manitoulin Chrysler loan, payable $839 monthly including principal and interest, bearing interest at 4.99% per annum, due December 2017	25,783	–
	$ 1,002,838	512,361

Principal repayments due within each of the next five years are estimated as follows:

2016	$ 57,066
2017	50,232
2018	49,286
2019	42,345
2020 and thereafter	803,909

7. Obligations under capital leases:

The First Nation has financed certain equipment by entering into capital leasing arrangements. Capital lease payments are due as follows:

Year ending March 31:		
2016	$	83,981
2017		42,451
2018		2,967
Net minimum lease payments		129,399
Less amount representing interest at interest rates from 10.3 to 13.8%		8,328
	$	121,071

The capital leases are secured by specified equipment having a carrying value of $244,120.

8. Tangible capital assets:

Cost	Balance March 31, 2014	Additions	Disposals	Balance at March 31, 2015
Buildings	$ 3,420,265	$ -	$ -	$ 3,420,265
Vehicles and equipment	1,001,103	214,027	(60,503)	1,154,627
Computers	16,897	6,073	-	22,970
Infrastructure	7,428,714	120,900	-	7,549,614
Housing	3,391,633	9,750	-	3,401,383
Total	$ 15,258,612	$ 350,750	$ (60,503)	$ 15,548,859

Accumulated amortization	Balance March 31, 2014	Disposals	Amortization expense	Balance at March 31, 2015
Buildings	$ 940,991	$ -	$ 103,595	$ 1,044,586
Vehicles and equipment	416,942	(23,683)	125,166	518,425
Computers	5,880	-	3,602	9,482
Infrastructure	3,607,721	-	283,846	3,891,567
Housing	963,029	-	85,278	1,048,307
Total	$ 5,934,563	$ (23,683)	$ 601,487	$ 6,512,367

	Net book value March 31, 2014	Net book value March 31, 2015
Buildings	$ 2,479,274	$ 2,375,679
Vehicles and equipment	584,161	636,202
Computers	11,017	13,488
Infrastructure	3,820,993	3,658,047
Housing	2,428,604	2,353,076
Total	$ 9,324,049	$ 9,036,492

8. Tangible capital assets (continued):

Cost	Balance March 31, 2013	Additions	Disposals	Balance at March 31, 2014
Buildings	$ 3,381,280	$ 38,985	$ -	$ 3,420,265
Vehicles and equipment	936,984	64,119	-	1,001,103
Computers	10,318	6,579	-	16,897
Infrastructure	7,428,714	-	-	7,428,714
Housing	3,391,633	-	-	3,391,633
Total	$ 15,148,929	$ 109,683	$ -	$ 15,258,612

Accumulated amortization	Balance March 31, 2013	Disposals	Amortization expense	Balance at March 31, 2014
Buildings	$ 843,753	$ -	$ 97,238	$ 940,991
Vehicles and equipment	300,506	-	116,436	416,942
Computers	3,224	-	2,656	5,880
Infrastructure	3,329,277	-	278,444	3,607,721
Housing	878,238	-	84,791	963,029
Total	$ 5,354,998	$ -	$ 579,565	$ 5,934,563

	Net book value March 31, 2013	Net book value March 31, 2014
Buildings	$ 2,537,527	$ 2,479,274
Vehicles and equipment	636,478	584,161
Computers	7,094	11,017
Infrastructure	4,099,437	3,820,993
Housing	2,513,395	2,428,604
Total	$ 9,793,931	$ 9,324,049

9. Accumulated surplus:

Accumulated surplus consists of individual fund surplus and reserves and reserve funds as follows:

	2015	2014
Surplus:		
Invested in tangible capital assets	$ 7,909,403	8,602,591
Section 95 Housing	(41,448)	3,683
Operations	571,256	(1,422)
Reserve funds set aside for specific purpose by Council:		
Consolidated revenue fund	37,528	36,495
Committed reserve – post secondary	87,298	87,298
Ontario First Nations Limited Partnership	–	72,465
Section 95 Replacement reserve	71,050	70,800
	$ 8,635,087	8,871,910

10. Line of credit:

The First Nation has a line of credit available in the amount of $40,000, which has not been utilized. The interest rate on the line of credit is prime plus 2.5%.

11. Comparative information:

Certain 2014 comparative information have been reclassified where necessary to conform to the current year presentation.

12. Segmented information:

The First Nation is a diversified governmental institution that provides a wide range of services to its Members, including band government, social assistance, education, community infrastructure, health services, recreation, housing projects, employment and economic development and capital. For management reporting purposes the First Nation's operations and activities are organized and reported by Fund. Funds were created for the purpose of recording specific activities to attain certain objectives in accordance with special regulations, restrictions or limitations.

Services are provided by departments and their activities are reported in these funds. Certain departments that have been separately disclosed in the segmented information, along with the services they provide, are as follows:

Band Government

The band government department oversees the delivery of all governmental services. The department is responsible for ensuring that there are adequate policies and procedures in place to safeguard assets and to properly report financial activities. In addition, this department includes the governance activities of chief and council.

Social Assistance

The social assistance department delivers a variety of programming including Ontario works and offers employment support services. In addition, the department manages the homemakers and home support programs.

Education

The education department enters into service contracts with provincially funded area school boards for elementary and secondary students. In addition, the department reimburses tuition costs and provides living and other allowances to students who are attending post secondary institutions.

Community Infrastructure

The community infrastructure department provides public services that contribute to sustainability through the provision of maintenance and operating services such as roads, water and sanitation, fire protection, street lighting, community buildings and band owned equipment.

12. Segmented information (continued):

Health Services

The health services department provides a diverse bundle of services directed towards the well being of the members including the delivery of programming such as the community health representative, medical transportation, healthy communities, community care, national child benefit and many other smaller programs designed to enhance the health of members.

Recreation

The recreation department provides cultural and recreational activities for the benefit of the Members of the First Nation.

Community Property

The housing department manages the construction and renovation of houses owned by the First Nation.

Employment and Economic Development

This department is responsible for identifying and developing economic opportunities for the benefit of the First Nation and its Members. The department also secures and delivers employment training funding for the First Nation. In addition the department manages various cultural programs.

Social Housing

The social housing department manages the operations of CMHC housing owned by the First Nation. This includes tenant identification, rent collection and maintenance management.

For each reported segment, revenues and expenses include amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis.

Therefore, certain allocation methodologies are employed in the preparation of segmented financial information, including transfers that have been apportioned based on a percentage of budgeted expenses.

The accounting policies used in these segments are consistent with those followed in the preparation of the financial statements as disclosed in the summary of significant accounting policies.

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Notes to Financial Statements

Note 12 - Segmented Information (continued)

Year ended March 31, 2015

		Band Government	Social Assistance	Education	Community Infrastructure	Health Services	Recreation	Community Property	Employment and Economic Development	Social Housing	2015 Total
Revenue	$	716,728	536,489	774,109	359,394	530,599	17,119	319,328	610,843	87,203	3,951,812
Expenses:											
Salaries, benefits and honoraria		240,854	70,029	96,424	199,406	269,497	14,249	12,045	57,732	-	960,236
Travel and training		130,705	6,780	14,172	4,122	72,301	124	-	24,380	-	252,584
Materials, supplies and rentals		278,412	40,896	4,933	303,493	133,712	3,837	44,719	7,023	19,674	836,699
Contractual and professional		259,905	569	37,518	29,529	900	2,194	230,210	48,937	3,885	613,647
Interest on long-term debt		-	-	-	5,678	-	-	-	-	12,334	18,012
Tuition		-	-	452,856	-	-	-	-	-	-	452,856
Other		(21,156)	435,779	176,315	45,285	39,283	409	91,134	3,937	29,699	800,685
Amortization of tangible capital assets		15,731	-	20,794	456,524	-	-	63,813	563	44,061	601,486
Investment in tangible capital assets		(67,334)	-	(89,875)	(52,949)	-	-	(127,250)	(3,592)	(9,750)	(350,750)
		837,117	554,053	713,137	991,088	515,693	20,813	314,671	138,980	99,903	4,185,455
Excess (deficiency) of revenue over expenses	$	(120,389)	(17,564)	60,972	(631,694)	14,906	(3,694)	4,657	471,863	(12,700)	(233,643)

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Notes to Financial Statements

Note 12 - Segmented Information (continued)

Year ended March 31, 2014

		Band Government	Social Assistance	Education	Community Infrastructure	Health Services	Recreation	Community Property	Employment and Economic Development	Social Housing	2014 Total
Revenue	$	679,163	501,212	637,800	326,995	433,457	3,825	130,688	69,794	135,139	2,918,073
Expenses:											
Salaries, benefits and honoraria		132,289	75,690	48,832	102,494	232,844	-	25,440	134,573	-	752,162
Travel and training		30,773	17,042	8,254	3,987	62,862	-	-	404	-	123,322
Materials, supplies and rentals		114,005	52,284	3,343	346,964	97,334	3,139	72,853	780	28,769	719,471
Contractual and professional		113,246	-	71,262	7,495	-	-	-	-	-	192,003
Interest on long-term debt		-	-	-	24,931	-	-		-	10,226	35,157
Tuition		-	-	409,471	-	-	-	-	-	-	409,471
Other		25,343	369,337	96,969	42,231	37,195	-	51,729	-	50,507	673,311
Amortization of tangible capital assets		9,632	76	14,006	449,634	-	-	63,647	179	40,667	577,841
Investment in tangible capital assets		(6,579)	-	(60,160)	(42,944)	-	-	-	-	-	(109,683)
		418,709	514,429	591,977	934,792	430,235	3,139	213,669	135,936	130,169	3,373,055
Excess (deficiency) of revenue over expenses	$	260,454	(13,217)	45,823	(607,797)	3,222	686	(82,981)	(66,142)	4,970	(454,982)