



Grant Thornton

Consolidated financial statements

Paqtnkek Mi'kmaw Nation

March 31, 2017



Grant Thornton

Independent auditor's report

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To the Chief and Councillors of

Paqtnekek Mi'kmaw Nation

We have audited the accompanying consolidated statement of financial position of the Paqtnekek Mi'kmaw Nation (the "First Nation") as at March 31, 2017, and the consolidated statement of operations, statement of changes in net financial liabilities, statement of fund balances, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

The First Nation's 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.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk

assessments, the auditor considers internal control relevant to the First Nation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the First Nation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the First Nation's 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, these consolidated financial statements present fairly, in all material respects, the financial position of the Paqtnekek Mi'kmaw Nation as at March 31, 2017, and the results of its operations, changes in its net financial liabilities, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Port Hawkesbury, Canada
July 24, 2017

Grant Thornton LLP
Chartered Professional Accountants
Licensed Public Accountants

Paqtnkek Mi'kmaw Nation

Consolidated statement of operations

Year ended March 31	Schedule	Budget	2017	2016
Revenue				
Education	B	\$ 1,097,940	\$ 1,121,857	\$ 1,259,537
Social services	C	2,178,220	2,150,559	2,134,626
Capital	D	1,721,589	1,279,986	202,677
Operations and maintenance	E	212,561	254,321	210,760
Economic development and native employment	F	1,267,880	1,279,387	541,831
First Nation financial management	G	342,804	575,052	534,451
Health Canada programs	H	867,853	873,584	878,047
CMHC subsidized housing				
- 13 537 394	I	16,000	15,411	79,553
- 19 042 894	I	225,000	206,321	217,260
Non-subsidized housing projects	J	210,000	210,021	139,394
Gaming	K	80,312	80,312	74,616
Paqtnkek Tobacco Fund	L	1,840,000	1,967,250	1,839,060
Paqtnkek Fisheries	M	614,000	816,526	1,046,360
Paqtnkek Gas Bar	N	858,500	861,724	727,072
Paqtnkek VLT	O	1,010,500	1,173,015	1,097,449
		<u>\$ 12,543,159</u>	<u>\$ 12,865,326</u>	<u>\$ 10,982,693</u>
Expenditures				
Education	B	\$ 955,582	\$ 1,132,533	\$ 1,131,542
Social services	C	2,133,495	2,104,434	2,169,698
Capital	D	1,049,019	926,218	290,234
Operations and maintenance	E	196,690	150,902	128,907
Economic development and native employment	F	1,371,589	1,337,895	588,460
First Nation financial management	G	829,265	953,633	828,699
Health Canada programs	H	808,414	790,763	717,313
CMHC subsidized housing				
- 13 537 394	I	64,000	33,219	42,236
- 19 042 894	I	237,500	123,138	113,904
Non-subsidized housing projects	J	130,600	178,419	90,998
Gaming	K	-	-	-
Paqtnkek Tobacco Fund	L	1,693,220	1,791,675	1,678,708
Paqtnkek Fisheries	M	652,280	741,477	691,007
Paqtnkek Gas Bar	N	1,065,000	929,367	840,249
Paqtnkek VLT	O	589,300	602,187	573,349
Depreciation		-	565,534	590,136
		<u>\$ 11,775,954</u>	<u>\$ 12,361,394</u>	<u>\$ 10,475,440</u>
Excess of revenue over (under) expenditure		<u>\$ 767,205</u>	<u>\$ 503,932</u>	<u>\$ 507,253</u>

See accompanying notes to the consolidated financial statements.

Pagtneq Mi'kmaq Nation

March 31

2017

2016

Financial assets

Cash	\$ 1,447,691	\$ 890,037
Receivables (Note 2)	1,563,164	934,573
Inventory	33,397	43,230
Restricted cash		
Replacement reserve fund (Note 3)	160,364	66,345
Funds held in trust (Note 4)	22,120	21,717
	<u>3,226,736</u>	<u>1,955,902</u>

Financial liabilities

Payables and accruals (Note 6)	2,671,621	1,485,668
Deferred revenue (Note 7)	459,800	29,404
Long term debt (Note 8)	2,419,639	2,591,372
	<u>5,551,060</u>	<u>4,106,444</u>
Net financial liabilities	(2,324,324)	(2,150,542)

Net financial liabilities

(2,324,324) (2,150,542)

Non-financial assets

Capital assets (Note 5)	8,727,458	8,642,806
Capital projects under construction	<u>925,458</u>	<u>354,550</u>
	9,652,916	8,997,356
Prepays	<u>39,909</u>	<u>17,352</u>

Accumulated surplus

\$ 7,368,501

Net assets (Page 6)

\$ 7,368,501	\$ 6,864,166
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Contingencies (Note 13)

On behalf of the Band Council

Chief _____
Councillor _____

See accompanying notes to the consolidated financial statements.

Paṭṅkek Mi'kmaw Nation
Consolidated statement of accumulated surplus
Year ended March 31

	2017	2016
Investment in capital assets		
Surplus	\$ 127,316	\$ 21,717
Funds on deposit with INAC		
Replacement reserves	\$ 278,150	\$ 27,738
Operating reserve		
Net assets - externally restricted		
Total	\$ 6,864,166	\$ 6,356,462
Opening balance	\$ 6,409,245	\$ 6,356,462
Excess of revenue (under) over expenditure	(565,534)	507,253
Purchase of property and equipment	1,220,200	-
Increase in long term debt	-	-
Bank charges	(2,370)	-
Current year allocations	-	-
Withdrawals	-	-
Interest earned	-	403
Principal payments on long term debt	171,733	-
Ending balance	\$ 7,233,274	\$ 6,864,166

See accompanying notes to the consolidated financial statements.

Paqtnkek Mi'kmaw Nation **Consolidated statement of changes in net financial liabilities**

March 31

	2017	2016
Excess of revenue over expenditure	\$ 503,932	\$ 507,253
Depreciation	565,534	590,136
Purchase of property and equipment	(1,220,200)	(793,750)
	<u>(150,734)</u>	<u>303,639</u>
Trust allocations and interest	403	451
Acquisition of prepaid expenses, net of usage	(23,448)	22,084
	<u>(23,045)</u>	<u>22,535</u>
Change in net financial liabilities	(173,779)	326,174
Net financial liabilities, beginning of year	<u>(2,150,542)</u>	<u>(2,476,716)</u>
Net financial liabilities, end of year	<u>\$ (2,324,321)</u>	<u>\$ (2,150,542)</u>

See accompanying notes to the consolidated financial statements.

Paqtnkek Mi'kmaw Nation

Consolidated statement of cash flows

Year ended March 31

2017

2016

Increase in cash and cash equivalents

Operating

Excess of revenue over expenditure	\$ 503,932	\$ 507,253
Depreciation	<u>565,534</u>	<u>590,136</u>
	1,069,466	1,097,389

Change in non-cash operating working capital

Receivables	(628,591)	(117,512)
Inventory	9,833	17,208
Prepays	(23,451)	22,084
Payables and accruals	1,185,953	460,380
Deferred revenue	<u>430,396</u>	<u>(82,971)</u>
	2,043,606	1,396,578

Financing

Trust contributions and interest	403	451
Repayment of long term debt	<u>(171,733)</u>	<u>(190,735)</u>
	<u>(171,330)</u>	<u>(190,284)</u>

Investing

Purchase of property and equipment	<u>(1,220,200)</u>	<u>(793,750)</u>
	<u>(1,220,200)</u>	<u>(793,750)</u>

Net increase in cash and cash equivalents

652,076

412,544

Cash and cash equivalents, beginning of year

978,099

565,555

Cash and cash equivalents, end of year

\$ 1,630,175

\$ 978,099

Cash and cash equivalents, consists of:

Cash	\$ 1,447,691	\$ 890,037
Restricted cash		
Replacement reserve fund	160,364	66,345
Funds in trust	<u>22,120</u>	<u>21,717</u>
	\$ 1,630,175	\$ 978,099

See accompanying notes to the consolidated financial statements.

Paqtnkek Mi'kmaw Nation

Notes to the consolidated financial statements

March 31, 2017

1. Summary of significant accounting policies

Reporting entity and principles of financial reporting

These financial statements have been prepared in accordance with Canadian public sector accounting standards, which encompass the principles common with First Nations.

The consolidated financial statements of the Paqtnkek Mi'kmaw Nation are the representations of management prepared in accordance with Canadian generally accepted accounting principles for local governments, as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

The focus of PSAB financial statements is on the financial position of the First Nation and the changes thereto. The consolidated statement of financial position includes all the assets and liabilities of the First Nation.

The various funds have been amalgamated for the purpose of presentation in the consolidated financial statements. The Paqtnkek Mi'kmaw Nation maintains the following funds and unincorporated entities:

- The Operating Fund which reports the general activities of the First Nation Administration, including social services, band support, education, operations capital, operating and maintenance, economic development, community health and welfare, employment training, and miscellaneous.
- The Paqtnkek Mi'kmaw Nation Canada Mortgage and Housing Projects Fund which reports the social housing assets of the First Nation, together with related activities.
- The Paqtnkek Tobacco Fund which reports the First Nation's tobacco activities.
- The Paqtnkek Fisheries which reports the First Nation's commercial fishing operation.
- The Paqtnkek Gas Bar which reports the First Nation's commercial operations.
- The Paqtnkek VLT which reports the First Nation's gaming operations.

Significant aspects of the accounting policies adopted by the First Nation are as follows:

Principles of consolidation

The First Nation maintains a separate self-balancing set of accounts for the Operating Fund, the Capital Fund, and the Canada Mortgage and Housing Projects Fund. The Operating Fund includes the following statement of operations:

Social development	Education program
Band government	Economic development
Capital projects	Employment development
Operations and maintenance	Health Canada programs
Band operated school	Gaming
Miscellaneous	

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks, and term deposits net of bank overdraft.

Paqtnkek Mi'kmaw Nation

Notes to the consolidated financial statements

March 31, 2017

1. Summary of significant accounting policies (continued)

Inventory

The cost of inventories is comprised of directly attributable costs and includes the purchase price plus other costs incurred in bringing the inventories to their present location and condition, such as freight. The cost is reduced by the value of rebates and allowances received from vendors. The First Nation estimates net realizable value as the amount that inventories are expected to be sold. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling price, the amount of the write-down previously recorded is reversed. Costs that do not contribute to bringing inventories to their present location and condition, such as storage and administrative overheads, are specifically excluded from the cost of inventories and are expensed in the period incurred.

The cost of inventory recognized as an expense in these financial statements during fiscal 2017 was \$2,247,289 (2016 - \$2,033,178). There were no write downs of inventory below cost to net realizable value during the year. There were no reversals of inventories written down previously that are no longer estimated to sell below cost.

Capital assets

Capital assets are recorded at cost, which includes all amounts directly attributable to their acquisition, construction or betterment of the asset. Interest on construction is also included in cost. Depreciation, at rates noted below, is expensed in the current year.

Rates and methods of depreciation applied to write off the cost of capital assets over their estimated useful lives are as follows:

Buildings	2.5 - 5%, declining balance
Housing properties	25 years, straight line
Infrastructure and roads	4 - 10%, declining balance
Equipment	20%, declining balance
Motor vehicles	30%, declining balance
Vessels	15%, declining balance

In the year of acquisition, depreciation of capital assets is calculated at half the full annual rate as stated above.

Paqtnkek Mi'kmaw Nation

Notes to the consolidated financial statements

March 31, 2017

1. Summary of significant accounting policies (continued)

Revenue recognition

Unconditional and conditional transfers from other governments for operating and capital purposes are recognized as revenue in the period in which all eligibility criteria and/or stipulations have been met and the amounts are authorized. Any funding received prior to satisfying these conditions is deferred until the conditions have been met. When revenue is received without eligibility criteria or stipulations, it is recognized when the transfer is authorized.

All non-government contributions or grant revenues that are externally restricted for specified purpose are recognized as revenue in the period in which the resources are used for the purpose or purposes specified. Any externally restricted revenues not yet used for the purpose or purposes specified are reported as deferred revenue.

Commercial revenues are recognized as revenues when product is sold and when services are provided if the amounts can be reasonably estimated and collection is reasonably assured.

Gaming revenue from video lottery net of corresponding direct expenses are recognized at the time of play and are recorded net of commissions and credits paid out. Other gaming revenues are recognized as earned when received or receivable as long as collection is reasonably assured.

Use of estimates

In preparing the First Nation's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Income taxes

The Band Council is exempt from income taxes under Section 149(1)(c) of the *Canadian Income Tax Act*.

RRAP expenditures

Repairs and renovations incurred under the CMHC Residential Renovations Assistance Program (RRAP) are expensed in the Operating Fund in the year incurred.

Net debt

The Band's financial statements are presented so as to highlight net debt as the measurement of financial position. The net debt of the Band is determined by its liabilities less its financial assets.

Paqtnkek Mi'kmaw Nation

Notes to the consolidated financial statements

March 31, 2017

2. Receivables	2017	2016
Indigenous and Northern Affairs Canada	\$ 895,350	\$ -
Health Canada	5,000	-
Mi'kmaq Employment Training Secretariat	180,563	51,582
Mi'kmaw Kina'matnewey	24,110	165,301
Canada Mortgage and Housing Corporation	34,000	-
Members	137,806	248,898
Province of Nova Scotia	100,312	80,312
Service Canada	-	10,071
Commodity taxes	68,472	82,014
Trade receivables	141,100	433,631
	<u>1,586,713</u>	<u>1,071,809</u>
Less: allowance for doubtful accounts	<u>(23,549)</u>	<u>(137,236)</u>
	\$ 1,563,164	\$ 934,573

Paqtnkek Mi'kmaw Nation

Notes to the consolidated financial statements

March 31, 2017

3. Replacement reserve fund

Under the terms of the agreement with the CMHC, the replacement reserve account is to be increased by annual charges to equity. The charge in the current year is \$33,250 (2016 - \$33,250). These funds, along with accumulated interest, must be held in a separate bank account and/or invested only in accounts or instruments insured by the Canada Deposit Insurance Corporation or as may otherwise be approved by the CMHC from time to time. The funds in the account may only be used as approved by the CMHC. Withdrawals are credited to interest first and then principal. At year end, the funds in reserve consisted of the following:

	<u>2017</u>	<u>2016</u>
Cash	<u>\$ 160,364</u>	<u>\$ 66,345</u>
Replacement reserve funds:		
<u>13 537 394 Series</u>		
Balance, beginning of year	\$ 92,590	\$ 91,259
Annual appropriation	1,350	1,350
Bank charges	(10)	(21)
Interest earned during the year	<u>18</u>	<u>2</u>
Balance, end of year	<u>\$ 93,948</u>	<u>\$ 92,590</u>
<u>19 042 894 Series</u>		
Balance, beginning of year	\$ 185,560	\$ 156,686
Annual appropriation	31,900	31,900
Bank charges	(15)	(3,030)
Interest earned during the year	<u>26</u>	<u>4</u>
Balance, end of year	<u>\$ 217,471</u>	<u>\$ 185,560</u>
	<u>\$ 311,419</u>	<u>\$ 278,150</u>

As of March 31, 2017, there was a shortfall of \$151,055 (2016 - \$211,805) in the replacement reserve accounts. Accordingly, the projects are not in compliance with the agreement.

Paqtnkek Mi'kmaw Nation

Notes to the consolidated financial statements

March 31, 2017

4. Funds held in trust

The Trust Fund arises 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. The management of these funds is primarily governed by Sections 63 to 69 of the *Indian Act*.

The changes in net assets of the Trust Fund during the year are as follows:

	<u>2017</u>	<u>2016</u>
Net assets, beginning of year	\$ 21,717	\$ 21,266
Interest earned	<u>403</u>	<u>451</u>
Net assets, end of year	<u>\$ 22,120</u>	<u>\$ 21,717</u>

5. Capital assets

5. Capital assets			<u>2017</u>	<u>2016</u>
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>	<u>Net book value</u>
Land	\$ 277,176	\$ -	\$ 277,176	\$ 277,176
Buildings and housing properties	10,597,933	4,872,510	5,725,423	5,302,000
Equipment	630,857	490,832	140,025	304,879
Vehicles	657,435	528,437	128,998	154,046
Vessels	726,927	469,630	257,297	302,705
Infrastructure and roads	<u>3,783,590</u>	<u>1,585,051</u>	<u>2,198,539</u>	<u>2,302,000</u>
	<u>\$ 16,673,918</u>	<u>\$ 7,946,460</u>	<u>\$ 8,727,458</u>	<u>\$ 8,642,806</u>

6. Payables and accruals

	<u>2017</u>	<u>2016</u>
Indigenous and Northern Affairs Canada	\$ 175,070	\$ 131,698
Health Canada	9,751	9,751
Commodity taxes	275,946	275,968
Trade payables and accruals	<u>2,210,854</u>	<u>1,068,251</u>
	<u>\$ 2,671,621</u>	<u>\$ 1,485,668</u>

Paqtnkek Mi'kmaw Nation

Notes to the consolidated financial statements

March 31, 2017

7. Deferred revenue	2017	2016
CMHC		
Indigenous and Northern Affairs Canada	\$ -	\$ 29,404
Health Canada	454,800	-
	<u>5,000</u>	<u>-</u>
	\$ 459,800	\$ 29,404
8. Long term debt	2017	2016
Canada Mortgage and Housing Corporation		
1.82% mortgage maturing in May 2024, payable in equal monthly instalments of principal and interest of \$400	\$ 32,219	\$ 36,393
1.03% mortgage maturing in March 2026, payable in equal monthly instalments of principal and interest of \$370	38,135	42,017
1.43% mortgage maturing in February 2027, payable in equal monthly instalments of principal and interest of \$1,153	126,437	138,072
1.62% mortgage maturing in January 2028, payable in equal monthly instalments of principal and interest of \$363	43,333	46,966
1.92% mortgage maturing in March 2029, payable in equal monthly instalments of principal and interest of \$352	45,305	48,634
1.82% mortgage maturing in September 2029, payable in equal monthly instalments of principal and interest of \$716	96,138	102,934
1.01% mortgage maturing in December 2030, payable in equal monthly instalments of principal and interest of \$676	104,176	111,207
1.03% mortgage maturing in July 2031, payable in equal monthly instalments of principal and interest of \$407	64,996	68,958

Paqtnkek Mi'kmaw Nation

Notes to the consolidated financial statements

March 31, 2017

8. Long term debt (continued)	<u>2017</u>	<u>2016</u>
1.71% mortgage maturing in July 2032, payable in equal monthly instalments of principal and interest of \$716	115,800	122,359
1.67% mortgage maturing in April 2033, payable in equal monthly instalments of principal and interest of \$1,035	175,226	184,657
1.67% mortgage maturing in June 2033, payable in equal monthly instalments of principal and interest of \$1,907	325,614	342,934
1.83% mortgage maturing in December 2034, payable in equal monthly instalments of principal and interest of \$358	65,181	68,266
1.23% mortgage maturing in April 2035, payable in equal monthly instalments of principal and interest of \$741	144,231	151,316
1.13% mortgage maturing in May 2036, payable in equal monthly instalments of principal and interest of \$1,287	266,131	277,866
1.65% mortgage maturing in May 2022, payable in equal monthly instalments of principal and interest of \$371	20,317	24,397
1.39% mortgage maturing in August 2037, payable in equal monthly instalments of principal and interest of \$299	63,686	66,368
1.62% mortgage maturing in March 2038, payable in equal monthly instalments of principal and interest of \$527	112,527	116,998
1.85% mortgage maturing in August 2039, payable in equal monthly instalments of principal and interest of 500	109,995	113,927
Bank of Nova Scotia		
4.55% mortgage maturing in May 2023, payable in equal monthly instalments of principal and interest of \$920	60,349	68,566

Paqtnkek Mi'kmaw Nation

Notes to the consolidated financial statements

March 31, 2017

8. Long term debt (continued)	<u>2017</u>	<u>2016</u>
4.49% mortgage maturing in February 2028, payable in equal monthly instalments of principal and interest of \$508	52,734	56,405
4.49% mortgage maturing in February 2028, payable in equal monthly instalments of principal and interest of \$508	52,734	56,405
4.49% mortgage maturing in February 2028, payable in equal monthly instalments of principal and interest of \$508	52,734	56,405
4.55% mortgage maturing in February 2029, payable in equal monthly instalments of principal and interest of \$327	35,921	38,280
4.55% mortgage maturing in February 2029, payable in equal monthly instalments of principal and interest of \$327	35,921	38,280
4.55% mortgage maturing in February 2029, payable in equal monthly instalments of principal and interest of \$327	35,921	38,280
4.55% mortgage maturing in February 2029, payable in equal monthly instalments of principal and interest of \$327	36,115	38,280
4.55% mortgage maturing in February 2029, payable in equal monthly instalments of principal and interest of \$327	35,921	38,280
4.55% mortgage maturing in February 2029, payable in equal monthly instalments of principal and interest of \$327	35,921	38,280
4.55% mortgage maturing in February 2029, payable in equal monthly instalments of principal and interest of \$327	35,921	38,280

Paqtnkek Mi'kmaw Nation

Notes to the consolidated financial statements

March 31, 2017

8. Long term debt (continued)	2017	2016
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Ulnooweg Development Group Inc.

8.25% loan, repaid during the year	-	15,779
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8.00% loan, repaid during the year	-	5,583
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Less: Current portion of long term debt

Principal payments due within one year	2,419,639	2,591,372
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	<u>151,494</u>	<u>181,754</u>
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	<u>\$ 2,268,145</u>	<u>\$ 2,409,618</u>
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As security, the Band has provided a Band Council Resolution providing an irrevocable authorization to the Indigenous and Northern Affairs Canada to assign all funding until all loans are repaid to the bank and a floating charge on the assets of the Band Council.

The aggregate maturities of long term debt, assuming mortgages are renewed under the same terms and conditions currently in effect, for each of the next five years subsequent to March 31, 2017, are as follows

2018	\$ 151,494
2019	\$ 156,855
2020	\$ 159,044
2021	\$ 162,996
2022	\$ 163,055

9. Operating reserve fund

After the payment of all costs and expenses, including the allocation to the Replacement Reserve, any surplus revenue will be retained by the First Nation within an Operating Reserve fund. Interest earnings must accrue to and be maintained in the Operating Reserve fund. The Project's Operating Reserve fund may only be used for the ongoing operating costs of the housing projects committed under the 1997 On-Reserve Program (19 042 894 series housing projects). Accordingly, future years' deficits may be recovered from the Operating Reserve fund. The First Nation agrees to maintain Operating Reserve funds in a separate bank account and/or invested only in accounts or instruments insured by the CDIC, or as may otherwise be mutually agreed to by the First Nation and CMHC.

Paqtnkek Mi'kmaw Nation

Notes to the consolidated financial statements

March 31, 2017

10. Subsidy surplus reserve fund

Under the terms of the agreement with the CMHC, excess Federal assistance payments received may be retained in a subsidy surplus reserve up to a maximum of \$500 per unit plus interest. The reserve is to be comprised of monies deposited in a separate bank account and/or invested only in accounts or instruments insured by the CMHC from time to time. The funds in the account may only be used to meet future subsidy requirements of income-tested occupants over and above the maximum Federal assistance. Withdrawals are credited to interest first and then principal. When the fund has attained the maximum \$500 per unit, 100% of the excess assistance during the year may be transferred to other projects owned by the borrower requiring additional assistance if they are within the same municipality or area and are assisted under the same program.

11. Capital management

Paqtnkek Mi'kmaw Nation's objectives when managing capital are: i) ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans, ii) to minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions and iii) to maintain an optimal capital structure that provides necessary financial flexibility and returns to the Paqtnkek Mi'kmaw Nation, while also ensuring compliance with any financial covenants.

Paqtnkek Mi'kmaw Nation monitors and makes adjustments to its capital structure when necessary, in light of changes to economic conditions, the objectives of the Paqtnkek Mi'kmaw Nation and the cash requirements of the entity.

Paqtnkek Mi'kmaw Nation considers its total capitalization to include all interest-bearing debt including long term debt and the current portion thereof, equity, net of cash. The calculation is set out in the following table:

	<u>2017</u>	<u>2016</u>
Long term debt		
Add: bank indebtedness (cash)	\$ 2,419,639	\$ 2,591,372
Net funded debt	<u>(1,630,175)</u>	<u>(978,099)</u>
Equity	789,484	1,613,273
	<u>7,368,501</u>	<u>6,864,166</u>
Capital under management	\$ 8,157,965	\$ 8,477,439

Although Paqtnkek Mi'kmaw Nation does not include operating leases in its definition of capital, the entity does give consideration to its obligations under operating leases when assessing its total capitalization.

Paqtnkek Mi'kmaw Nation

Notes to the consolidated financial statements

March 31, 2017

11. Capital management (continued)

The primary investments undertaken by Paqtnkek Mi'kmaw Nation include improvements and additions to housing properties, buildings, and infrastructure. The entity relies largely on its cash flow from operations to fund its capital investment program. The cash flow is supplemented, when necessary, through the borrowing of additional debt. No changes were made to these objectives in the current period.

For the year ended March 31, 2017, there were no externally imposed capital restrictions for the First Nation, and the Paqtnkek Mi'kmaw Nation is in compliance with the covenants relating to the revolving term credit facility.

12. Financial instruments

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The First Nation's financial instruments that are exposed to concentrations of credit risk are primarily accounts receivable in the amount of \$1,563,164 (2016 - \$934,573).

Liquidity risk

Liquidity risk is the risk that the First Nation may not have cash available to satisfy its liabilities as they come due. The First Nation actively maintains a committed credit facility to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost.

The First Nation monitors capital markets and the related conditions. Market conditions allowing, the First Nation will access debt capital markets for various long-term debt maturities and as other liabilities come due or as assessed to be appropriate in order to minimize risk and optimize pricing.

The contractual maturities of the principal portion of significant financial liabilities as at March 31, 2017, is outlined in Note 8.

Fair value of financial statements

The fair value of a financial instrument is the estimated amount that the First Nation would receive or pay to settle the financial assets and financial liabilities at the reporting date.

The book value of cash and cash equivalents, receivables, and payables and accruals approximate fair values at the balance sheet date due to their short term to maturity. The fair value of the variable rate long term debt is assumed to approximate its carrying amount.

Paqtnkek Mi'kmaw Nation

Notes to the consolidated financial statements

March 31, 2017

13. Contingencies

a) The Band has entered into a one year alternative funding arrangement with the Indigenous and Northern Affairs Canada, effective April 1, 2016. These funds may be repayable if any of the following conditions are not met:

- 1) minimum program requirements are not met;
- 2) capital funds are not expended for capital purposes; and
- 3) any mandatory capital projects are not completed.

b) The Band has entered into contribution agreements with various government departments. Funding received under these contribution agreements is subject to repayment if the Band fails to comply with the terms and conditions of the agreements.

14. Line of credit

The First Nation has a \$50,000 operating line of credit with Bank of Nova Scotia at a rate of prime plus 2%. The balance of the line of credit as at March 31, 2017, was nil (2016 – nil).

15. Pension costs and obligations

The First Nation is required to match contributions to a group registered retirement savings plan for certain full time employees. Total contributions during the year amounted to \$36,639 (2016 - \$29,743).

Paqtnkek Mi'kmaw Nation

Notes to the consolidated financial statements

March 31, 2017

16. Expenditures by object	<u>2017</u>	<u>2016</u>
Bad debt (recoverable) provision	\$ 64,385	\$ (3,737)
Business development and promotion	165,098	127,683
Cash shortages (overage)	(1,361)	320
Community support	600,734	483,440
Contracted services	149,943	155,052
Cost of goods sold	2,310,432	2,256,773
Depreciation	565,534	590,136
Due and fees	164,113	167,506
Education and training	1,187,052	741,713
Fuel, bait, and boat maintenance	305,833	301,348
Health programs	362,514	277,835
Infrastructure	1,006,817	374,822
Insurance	119,426	118,767
Interest	124,139	111,010
Repairs and maintenance	270,834	287,291
Salaries, wages, and benefits	2,499,419	2,094,098
Social	1,933,679	1,984,639
Supplies	222,159	98,451
Travel	<u>310,644</u>	<u>308,293</u>
	\$ 12,361,394	\$ 10,475,440

Paqtnekek Mi'kmaw Nation

Notes to the consolidated financial statements

March 31, 2017

17. Segment disclosure

Paqtnekek Mi'kmaw Nation provides a wide range of services to its members, including training, education, social, health care and housing. For management reporting purposes Paqtnekek Mi'kmaw Nation's operations and activities are organized and reported by Divisions. The Divisions were created for the purpose of recording activities to comply with specific regulations and requirements.

Divisions that have been separately disclosed in the consolidated schedules of revenues and expenditures on the following pages are:

- Social services – social assistance provided to qualifying members.
- Financial management- all associated with the administration of the Band operations.
- Capital Projects – provides capital construction projects for the community.
- Operations and Maintenance – repairs and maintenance carried out during the year to the community buildings.
- Economic Development – specified development projects undertaken by the Band.
- Education – providing elementary, secondary and post-secondary tuition for qualifying members along with related programs and support.
- Health Canada – activity of the Health Centre which provides a variety of health care programs and support.
- Housing Fund – Section 95 and non-subsidized housing operations.
- Tobacco Fund – the Band's tobacco sales operation.
- Commercial Fishing – encompasses the fisheries activities of the Band.
- Gaming Commission – represents the Band's share of Casino Nova Scotia revenues.
- Gas bar – the gas bar operations of the band.
- VLT – the VLT operations of the Band.

See financial data on Pages 40 – 42.

18. Government transfers

	Operating	2017 Capital	Total	Operating	2016 Capital	Total
Indigenous and Northern Affairs Canada	\$ 3,650,524	\$ 854,800	\$ 4,515,324	\$ 2,906,462	\$ -	\$ 2,906,462
Health Canada	761,020	-	761,020	827,941	34,106	862,047
Canada Mortgage and Housing Corporation	123,768	-	123,768	118,588	-	118,588
Mi'kmaw Kina'matneway	1,073,346	-	1,073,346	1,201,373	-	1,201,373
Other	316,260	-	316,260	234,437	-	234,437
Total	5,934,918	854,800	6,789,718	5,288,801	34,106	5,322,907
Province of Nova Scotia	637,568	-	637,568	480,997	243,717	724,714
	\$ 6,572,486	\$ 854,800	\$ 7,427,286	\$ 5,769,798	\$ 277,823	\$ 6,047,621

Paqtnkek Mi'kmaw Nation
Notes to the consolidated financial statements
March 31, 2017

19. Comparative figures

Certain comparative figures have been reclassified to conform with changes in the current year presentation.

20. Subsequent Events

Subsequent to year-end, Paqtnkek Mi'kmaw Nation entered into an agreement to borrow \$1,500,000 from the First Nations Finance Authority.

Paqtnkek Mi'kmaw Nation
Schedule of Segment Disclosure
Year ended March 31, 2017

	Social		First Nation Financial Management		Capital		Operations and Maintenance		Economic Development and Native Employment	
	Actual 2017	Actual 2016	Actual 2017	Actual 2016	Actual 2017	Actual 2016	Actual 2017	Actual 2016	Actual 2017	Actual 2016

Revenues
Federal government operating transfers \$ 2,150,559
Federal government capital transfers -
Provincial government operating transfers -
Provincial government capital transfers -
Contributed assets -
Economic activities -
Other 4,067

\$ 2,150,559	\$ 2,134,626	\$ 575,052	\$ 534,451	\$ 1,279,985	\$ 202,677	\$ 254,321	\$ 210,760	\$ 1,278,387	\$ 541,831
-	-	259,000	244,754	1,588	34,207	-	-	67,331	89,679
-	-	-	-	-	32,000	-	-	-	-
-	-	-	-	888,800	-	-	-	508,745	49,912
\$ 2,150,559	\$ 2,130,559	\$ 316,052	\$ 289,697	\$ 389,597	\$ 136,470	\$ 254,321	\$ 210,760	\$ 703,311	\$ 402,240
\$ 2,150,559	\$ 2,134,626	\$ 575,052	\$ 534,451	\$ 1,279,985	\$ 202,677	\$ 254,321	\$ 210,760	\$ 1,278,387	\$ 541,831

Expenses
Salaries and benefits \$ 135,043
Amortization \$ 136,606
Interest 559,813
Other 452,618

\$ 135,043	\$ 136,606	\$ 559,813	\$ 452,618	\$ 37,741	\$ 110,686	\$ -	\$ -	\$ 272,592	\$ 239,537
1,969,391	2,033,092	383,820	376,061	15,173	177,832	150,902	128,907	1,065,303	348,923
\$ 2,104,434	\$ 2,169,698	\$ 953,633	\$ 828,699	\$ 926,218	\$ 290,234	\$ 150,902	\$ 128,907	\$ 1,337,885	\$ 588,460
\$ 46,125	\$ (35,072)	\$ (378,581)	\$ (294,246)	\$ 353,767	\$ (87,557)	\$ 103,419	\$ 81,853	\$ (58,508)	\$ (46,629)

Surplus (deficit) for the year

Year ended March 31, 2017

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Year ended March 31, 2017

Surplus (deficit) for the year