

**NESKANTAGA FIRST NATION
Consolidated Financial Statements**

Year Ended March 31, 2014

NESKANTAGA FIRST NATION
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Year Ended March 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the Chief and council of Neskantaga First Nation.

I have audited the accompanying consolidated financial statements of Neskantaga First Nation, which comprise the consolidated statement of financial position as at March 31, 2014 and the consolidated statements of operations and surplus (deficit), changes in net debt, and cash flows for the year ended March 31, 2014 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 entity'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 audit 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 consolidated financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for Disclaimer of Opinion

My examination indicated serious deficiencies in the accounting records with respect to assets, liabilities, revenues and expenses, and the system of internal control. As a consequence, I was unable to determine whether adjustments were required in respect of recorded or unrecorded assets, recorded or unrecorded liabilities and the components making up the consolidated statement of financial position, changes in members' equity, cash flows and operations.

This disclaimer of opinion applies to both the 2014 and 2013 fiscal years.

INDEPENDENT AUDITORS' REPORT continued.....

Opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on March 31, 2014 and March 31, 2013 consolidated financial statements. Accordingly, I do not express an opinion on these consolidated financial statements.

Other Matters

My audit was made for the purposes of forming an opinion on the financial statements taken as a whole. The supplementary information included in Schedules is presented for purposes of additional analysis and is not required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements taken as a whole.

Winnipeg, Manitoba
November 20, 2014

BP Shore
Chartered Professional Accountant

Neskantaga First Nation

P.O. Box 105, ON

P0T 1Z0

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of the Neskantaga First Nation for the year ended March 31, 2014 and all the information in this annual report are the responsibility of management and have been approved by the Executive Council.

The consolidated financial statements for the year ended March 31, 2014 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 Executive Council of Neskantaga 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 Neskantaga First Nation's assets are appropriately accounted for and adequately safeguarded.

The Executive 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 Executive Council reviews the Neskantaga First Nation consolidated financial statements and meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy themselves that each party is properly discharging their responsibilities, and to review the annual report, the consolidated financial statements and the external auditor's report. The Executive Council also approves the engagement of the external auditors.



Chief



Councilor

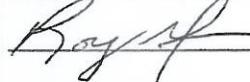
NESKANTAGA FIRST NATION

Consolidated Statement of Financial Position

March 31, 2014

	2014	2013
FINANCIAL ASSETS		
Cash	\$ 762,621	\$ 352,887
Temporary investments (<i>Note 2</i>)	2,159	15,535
Accounts receivable (<i>Page 17</i>)	1,178,421	1,270,053
Trust assets (<i>Note 10</i>)	8,371	8,164
Due from Neskantaga Economic Development Corporation (<i>Notes 2 & 11</i>)	<u>175,879</u>	<u>175,879</u>
	<u><u>\$ 2,127,451</u></u>	<u><u>\$ 1,822,518</u></u>
LIABILITIES		
Accounts payable (<i>Note 8</i>)	\$ 1,005,502	\$ 1,411,172
Deferred revenue (<i>Note 5</i>)	1,321,116	735,980
Long-term debt (<i>Note 6</i>)	<u>281,560</u>	<u>354,327</u>
	<u><u>2,608,178</u></u>	<u><u>2,501,479</u></u>
NET DEBT (<i>Page 6</i>)	<u><u>(480,727)</u></u>	<u><u>(678,961)</u></u>
NON-FINANCIAL ASSETS		
Capital assets (<i>Notes 2 & 4</i>)	15,444,996	16,688,637
Prepays	<u>420</u>	<u>44,589</u>
	<u><u>15,445,416</u></u>	<u><u>16,733,226</u></u>
ACCUMULATED SURPLUS	<u><u>\$ 14,964,689</u></u>	<u><u>\$ 16,054,265</u></u>

ON BEHALF OF THE NESKANTAGA FIRST NATION

 *Chief*
 *Councilor*

See INDEPENDENT AUDITOR'S REPORT and accompanying notes

NESKANTAGA FIRST NATION
Consolidated Statement of Operations and Surplus (Deficit)
Year Ended March 31, 2014

	Page #	2013/2014			2012/2013		
		AAANDC	Other	Total	Expenses	Revenues	Expenses
NFN Administered Programs							
Administration	18-19	419,180	619,005	1,038,185	1,438,649	(400,464)	1,266,665
Capital Projects	20	104,348	207,707	312,055	1,337,947	(1,025,892)	832,173
Community Infrastructure	21	639,239	-	639,259	513,664	125,595	599,146
Social Services	22	53,900	378,622	432,522	432,660	(138)	314,301
Remedial Investigation	23	38,449	-	38,449	38,449	-	-
Strategic Planning Initiative - Mining	24	216,667	29,676	246,343	246,343	-	282,713
Oramnenoshonnia	25	-	859,738	859,738	898,048	(38,910)	1,367,887
Hydro	26	-	77,117	77,117	55,977	21,140	25,487
Tikiragan	27	-	35,001	35,001	-	-	22,500
Emergency Response	28	96,857	144,364	241,221	327,360	(86,139)	-
Medical Services - Health Canada	29	-	1,366,398	1,366,398	1,221,571	144,827	978,111
Medical Services - Nishnawbe-Aki Nation	30	-	253,262	253,262	127,459	125,803	53,955
Education - Instructional Services	31	775,569	20,163	795,732	976,555	(180,823)	797,736
Education - Operations and Maintenance	32	598,497	-	598,497	449,928	148,369	542,915
Education - Transportation	32	93,324	-	93,324	16,716	76,608	91,494
Education - Tuition	33	299,400	25,938	325,338	325,338	-	214,320
Education - Post Secondary	34	60,704	-	60,704	60,704	-	60,704
Winter Road	35	279,389	545,449	824,838	824,590	248	943,130
		\$ 3,675,543	\$ 4,562,440	\$ 8,237,983	\$ 9,327,559	\$ (1,089,576)	\$ 8,395,139
							\$ 10,001,795
							\$ (1,606,656)
ACCUMULATED SURPLUS, BEGINNING OF YEAR, as previously reported							
							(2,239,866)
Restatement - Correction of error in prior periods (Note 8)							
							(120,705)
ACCUMULATED SURPLUS, BEGINNING OF YEAR, as restated							
							(2,360,571)
							\$ (3,450,147)
							\$ (2,360,571)

See INDEPENDENT AUDITOR'S REPORT and accompanying notes.

NESKANTAGA FIRST NATION
Consolidated Statement of Changes in Net Debt
Year Ended March 31, 2014

	2014	2013
Annual Surplus (Deficit)	\$ (1,089,576)	\$ (1,606,656)
Acquisition of tangible capital assets	(417,677)	(380,689)
Amortization of capital assets	1,661,318	1,689,616
	154,065	(297,729)
Prepaid expenses	44,169	(72)
Decrease (Increase) in net debt	198,234	(297,801)
Net debt beginning of year	(678,961)	(381,160)
Net debt, end of year	\$ (480,727)	\$ (678,961)

NESKANTAGA FIRST NATION
Consolidated Statement of Cash Flow
Year Ended March 31, 2014

	2014	2013
OPERATING ACTIVITIES		
Annual Surplus(Deficit)	\$ (1,089,576)	\$ (1,606,656)
Adjustments for items not affecting cash		
Amortization of capital assets	<u>1,661,318</u>	<u>1,689,616</u>
	<u>571,742</u>	<u>82,960</u>
Changes in non-cash working capital		
Accounts receivable	91,632	504,117
Accounts payable and accrued liabilities	(405,877)	(630,897)
Due from Neskantaga Economic Development Corporation	-	2,207
Deferred revenue	585,136	(814,526)
Prepaid expenses	44,169	(72)
	<u>315,060</u>	<u>(939,171)</u>
Cash flows from (used by) operating activities	<u>886,802</u>	<u>(856,211)</u>
CAPITAL ACTIVITIES		
Purchase of tangible capital assets	<u>(417,677)</u>	<u>(380,689)</u>
Cash flows from(used by) capital activities	<u>(417,677)</u>	<u>(380,689)</u>
INVESTING ACTIVITIES		
Marketable securities	<u>13,376</u>	<u>280,740</u>
Cash flows from(used by) investing activities	<u>13,376</u>	<u>280,740</u>
FINANCING ACTIVITIES		
Long Term debt	-	77,946
Repayment of Long Term debt	(72,767)	(245,868)
Cash flows from(used by) financing activities	<u>(72,767)</u>	<u>(167,922)</u>
INCREASE(DECREASE) IN CASH FLOW	409,734	(1,124,082)
Cash - beginning of year	<u>352,887</u>	<u>1,476,969</u>
CASH - END OF YEAR	\$ 762,621	\$ 352,887

NESKANTAGA FIRST NATION
Notes to Consolidated Financial Statements
Year Ended March 31, 2014

1. NATURE OF ENTITY

The Organization is a non-profit, non-taxable entity and is engaged in the social, cultural, educational and economic development of First Nation citizens of Neskantaga First Nation. The Organization provides services such as fire, ambulance, public works, community planning, parks and recreation, library and other general government operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

The Organization classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired or liability incurred. The Organization's accounting policy for each category is as follows:

Assets held-for-trading

Financial instruments classified as assets held-for-trading are reported at fair value at each balance sheet date, and any change in fair value is recognized in excess (deficiency) of revenue over expenses in the period during which the change occurs. Transaction costs are expensed when incurred.

In these financial statements, cash has been classified as held-for-trading.

Available-for-sale investments

Financial instruments classified as available-for-sale are reported at fair value at each balance sheet date, and any change in fair value is recognized in net assets in the period in which the change occurs. All transactions related to marketable securities are recorded on a settlement date basis.

In these financial statements, no items have been classified as available-for-sale.

Held-to-maturity investments

Financial instruments classified as held-to-maturity are financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity. These assets are initially recorded at fair value and subsequently carried at amortized cost, using the effective interest rate method. Transaction costs are included in the amount initially recognized.

In these financial statements, no items have been classified as held-to-maturity.

Loans and receivables and other financial liabilities

Financial instruments classified as loans and receivables and other financial liabilities are carried at amortized cost using the effective interest method. Transaction costs are expensed when incurred.

In these financial statements accounts receivable have been classified as loans and receivables. Accounts payable and accrued liabilities, line of credit and long term debt have been classified as other financial liabilities.

(continues)

NESKANTAGA FIRST NATION
Notes to Consolidated Financial Statements
Year Ended March 31, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks, net of bank overdrafts, and short-term deposits with original maturities of three months or less. Bank borrowings are considered to be financing activities.

Capital assets

Capital assets are stated at cost less accumulated amortization. Cost includes all costs directly attributable to acquisition or construction of the tangible capital asset including transportation costs, installation costs, design and engineering fees, legal fees and site preparation costs. Contributed capital assets are recorded at fair value at the time of the donation, with a corresponding amount recorded as revenue.

Capital assets are amortized over their estimated useful lives at the following rates and methods:

Municipal Garage	10%
Arena	5%
Housing	5%
Water and Sewer	4%
Diesel Plant	4%
Roads	20%
Heavy Equipment	4%
School	20%
School Bus	20%
Sawmill	20%
Vehicles	20%
Computers	20%
Health equipment	20%
Copier and Cabinet	20%
Northern Store	5%
Office Equipment	20%
Police Building	5%
Dock	5%
Lagoon	4%
Administration Building	5%

The Organization regularly reviews its capital assets to eliminate obsolete items.

Capital assets acquired during the year are not amortized until they are placed into use.

Property and equipment purchased due to funding requirements for government programs are recorded net of the government funding for those assets.

(continues)

NESKANTAGA FIRST NATION
Notes to Consolidated Financial Statements
Year Ended March 31, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Measurement uncertainty

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements for a period necessarily involves the use of estimates which have been made using careful judgement. The consolidated financial statements have, in management's opinion, been properly prepared within the reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

Fund Accounting

These financial statements were prepared using the accrual basis of accounting in accordance with Public Sector Accounting Standards. The accrual basis recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipts of goods or services and the creation of a legal obligation to pay.

Reporting entity and basis of consolidation

These consolidated financial statements include the Not-for-Profit organizations which are owned and/or controlled by the Neskantaga First Nation;

The financial activities of Meyers Norris Penny LLP - co-management of Neskantaga First Nation, whose primary activities are to aid in management functions of the First Nation;

The financial activities of Neskantaga First Nation Educational Authority, whose primary activities are to promote educational development of the First Nation;

The financial activity of Neskantaga First Nation Otamenoshonia, whose primary activity is to receive funds from the Ontario First Nations Limited Partnership.

Investments

These financial statements consolidate the assets, liabilities and results of operations for Neskantaga First Nation and use accounting principles which lend themselves to consolidation, but in order to present the results of operations for each specific program, transactions amongst programs have not necessarily been eliminated on the individual schedules.

These financial statements have been prepared using the modified equity method of consolidation for business enterprises and business partnerships. The investment in the acquired companies is initially recorded at its cost. The results of operations of the acquired companies are included in the investment from the dates of acquisition. Under this method, government business enterprises' accounting policies, which follow Canadian generally accepted accounting principles for publicly accountable enterprises, are not adjusted to conform with Public Sector Accounting Standards and inter-entity transactions and balances are not eliminated.

Revenue recognition and deferred revenue

Revenue is recognized as it becomes receivable under the terms of applicable funding agreements. Funding received under the funding agreements, relating to a subsequent fiscal period is reflected as deferred revenue in the year of receipt and classified as such on the statement of financial position.

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NESKANTAGA FIRST NATION
Notes to Consolidated Financial Statements
Year Ended March 31, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Use of estimates

In preparing the Organization's consolidated financial statements in accordance with Canadian generally accepted auditing principles, management is required to make estimates and assumptions that affect the consolidated 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. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

3. CAPITAL DISCLOSURES

The Organization prepares a realistic budget each year, allocating expenses to the revenues they expect to earn for unrestricted operations.

On a yearly basis, the Chief and Council reviews any deficit balances and assesses how expenditures can be reduced to ensure future operations.

NESKANTAGA FIRST NATION
Notes to Consolidated Financial Statements
Year Ended March 31, 2014

4. PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	2014 Net book value
Municipal garage	\$ 124,654	\$ 124,654	\$ -
Arena	566,473	438,178	128,295
Housing	7,823,726	5,590,436	2,233,290
Water and sewer	968,180	587,886	380,294
Diesel Plant	3,298,858	2,729,805	569,053
Roads	916,726	594,641	322,085
Capital Leases	192,374	192,374	-
Heavy equipment	2,298,383	1,810,449	487,934
School	5,929,325	3,605,030	2,324,295
School bus	59,650	59,650	-
Sawmill	15,003	15,003	-
Vehicles	710,928	643,085	67,843
Computers	181,641	180,975	666
Health equipment	7,867	7,867	-
Copier and cabinet	11,254	11,254	-
Northern store	584,256	306,734	277,522
Office equipment	5,703	5,703	-
Police building	124,425	58,635	65,790
Dock	116,000	44,570	71,430
Lagoon	6,029,830	1,929,546	4,100,284
Administration Building	3,079,746	1,043,952	2,035,794
Community centre	2,888,426	508,005	2,380,421
	<hr/> \$ 35,933,428	<hr/> \$ 20,488,432	<hr/> \$ 15,444,996

(continues)

NESKANTAGA FIRST NATION

Notes to Consolidated Financial Statements

Year Ended March 31, 2014

4. PROPERTY AND EQUIPMENT (continued)

	Cost	Accumulated amortization	2013 Net book value
Municipal garage	\$ 124,654	\$ 124,654	\$ -
Arena	566,473	409,855	156,618
Housing	7,731,210	5,220,433	2,510,777
Water and sewer	968,180	549,159	419,021
Diesel plant	3,298,858	2,564,862	733,996
Roads	916,726	557,972	358,754
Capital leases	192,374	192,374	-
Heavy equipment	2,217,183	1,684,488	532,695
School	5,929,325	3,367,857	2,561,468
School bus	59,650	59,650	-
Sawmill	15,003	15,003	-
Vehicles	644,653	569,035	75,618
Computers	181,641	176,342	5,299
Health equipment	7,867	7,867	-
Copier and cabinet	11,254	11,254	-
Northern store	584,256	277,522	306,734
Office equipment	5,703	5,703	-
Police building	124,425	52,414	72,011
Dock	116,000	38,770	77,230
Lagoon	6,029,830	1,688,352	4,341,478
Administrative building	3,079,746	889,965	2,189,781
Community centre	2,710,740	363,583	2,347,157
	<hr/> <u>\$ 35,515,751</u>	<hr/> <u>\$ 18,827,114</u>	<hr/> <u>\$ 16,688,637</u>

NESKANTAGA FIRST NATION
Notes to Consolidated Financial Statements
Year Ended March 31, 2014

5. DEFERRED REVENUE

	2014	2013
Deferred Revenue - Beginning of Year	\$ 735,980	\$ 1,550,506
Add: Current Deferral of Revenue	1,321,116	735,980
Less: Deferred Revenue Transferred to Income	<u>(735,980)</u>	<u>(1,550,506)</u>
Deferred Revenue - End of Year	<u>1,321,116</u>	<u>735,980</u>

The balance of deferred revenue consists of the following:

Remedial investigations	15,526	23,843
Strategic Planning Initiative	296,924	-
Minor capital	227,290	22,644
Crisis	22,244	
Nishnawbe-Aski Nation - Medical	-	90,786
Education	-	39,868
Winter road projects	318,638	182,834
Other	-	4,250
Otamenoshonia	<u>440,494</u>	<u>371,755</u>
	<u>\$ 1,321,116</u>	<u>\$ 735,980</u>

NESKANTAGA FIRST NATION
Notes to Consolidated Financial Statements
Year Ended March 31, 2014

6. LONG-TERM DEBT

	2014	2013
CAPITAL LOANS		
Demand loan payable with blended monthly payments of principal and interest of \$5,378 with variable annual interest at Royal Bank Prime plus 2% secured by an assignment of rents and insurance on the Northern Store and manager's residence maturing February 2019	\$ 225,031	\$ 276,380
Demand loan payable with blended monthly payments of principal and interest of \$2,041 with a fixed annual interest at Royal Bank at 4.55% due August 12, 2016. The loan is secured by an assignment of Tikanagan lease payments.	<u>56,529</u>	<u>77,947</u>
	<u>281,560</u>	<u>354,327</u>
Principal repayment terms are approximately:		
2015	\$ 73,356	
2016	77,005	
2017	69,167	
2018	59,304	
2019	<u>2,728</u>	
	<u>281,560</u>	

The demand bank loan was secured by a first charge against all assets of the company except real property, and an acknowledged letter of direction to Indian and Northern Affairs Canada that all funding is to be sent to the bank.

7. ACCUMULATED SURPLUS

The First Nation segregates its accumulated surplus in the following categories:

	2014	2013
Investment in tangible capital assets	\$ 18,406,465	\$ 18,406,672
Current funds	(3,450,147)	(2,360,571)
Trust funds	<u>8,371</u>	<u>8,164</u>
	<u>\$ 14,964,689</u>	<u>\$ 16,054,265</u>

NESKANTAGA FIRST NATION

Notes to Consolidated Financial Statements

Year Ended March 31, 2014

8. CORRECTION OF AN ERROR IN PRIOR PERIODS

During the current fiscal year, Health Canada withheld funding related to 2013 which reduced its current year cashflow. A correction was made to apply the repayable to the proper period. The following is a summary of the changes in these balances:

	<u>2013</u>
Accounts Payable	
Balance as at March 31, 2013, as previously stated	\$ 1,290,467
Change from adjustments for Health Canada repayable in the appropriate period.	<u>120,705</u>
Balance as at March 31, 2013, as restated	<u>\$ 1,411,172</u>

9. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current year's presentation.

10. AANDC FUNDS HELD IN TRUST

The restricted cash balance contains the surplus of monies held in trust for Neskantaga First Nation by the Department of Aboriginal Affairs and Northern Development Canada. The change in the trust balance during the year was as follows:

	<u>2014</u>	<u>2013</u>
Trust balance, beginning of year	\$ 8,164	\$ 7,928
Interest earned	<u>207</u>	<u>236</u>
Trust balance, end of year	<u>8,371</u>	<u>8,164</u>

11. RELATED PARTY TRANSACTIONS

The following summarizes the First Nation's related party transactions for the year:

	<u>2014</u>	<u>2013</u>
Neskantaga Economic Development	<u>\$ 175,879</u>	<u>\$ 175,879</u>

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for sales of product or provision of services.
