Grant Thornton

Consolidated Financial Statements

Pictou Landing Band Council

March 31, 2017

Grant Thornton

Independent Auditor's Report

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To the Chief and Councillors of the

Pictou Landing Band Council

We have audited the accompanying consolidated statement of financial position of the Pictou Landing Band Council (the "Band Council") as at March 31, 2017, and the consolidated statement of operations, 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 Band Council'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 Band Council'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 Band Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Band Council'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 qualified audit opinion.

Basis for qualified opinion

The statement of financial position includes intangible assets in the amount of $3,192,100 for fishing licenses and permits purchased by the Band. Recording intangible assets is a departure from Canadian public sector accounting standards. Accordingly, both the purchased licenses and permits and accumulated surplus are overstated by $3,192,100 as at March 31, 2017.

If intangible assets were not recorded in order to be in compliance with Canadian public sector accounting standards, purchased licenses and permits and accumulated surplus would both decrease by $3,192,100.

Qualified opinion

In our opinion, except for the effects of the matter described in the *Basis for qualified opinion* paragraph, these consolidated financial statements present fairly, in all material respects, the financial position of the Pictou Landing Band Council 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.

Sydney, Nova Scotia

August 22, 2017

Grant Thornton LLP
Chartered Professional Accountants
Licensed Public Accountants

Pictou Landing Band Council
Consolidated Statement of Operations
Year ended March 31

	Budget	2017	2016
Revenue			
Government transfers (Note 14)	$ 6,919,152	$ 7,513,723	$ 6,806,527
Commercial	5,773,500	6,405,690	5,904,301
Boat Harbour Trust	534,595	620,270	-
Housing rent	926,600	711,633	665,874
Miscellaneous	141,740	780,919	509,509
	14,295,587	16,032,235	13,886,211
Expenditure			
Administrative	377,915	478,461	292,851
Community	614,000	584,276	563,679
Core funding	180,000	249,632	187,959
Depreciation	-	917,708	996,096
Education and training	424,099	516,474	387,954
Fishing	831,830	385,726	729,726
Health programs	332,139	371,948	380,624
Interest	82,500	64,659	78,590
Operations and maintenance	873,231	1,600,284	1,496,990
Other	490,976	264,929	211,046
Professional fees	243,983	452,147	244,116
Purchases	2,942,000	2,844,893	2,930,027
Salaries and benefits	3,519,884	4,205,385	3,269,679
Social	2,463,288	2,115,482	2,159,493
	13,375,845	15,052,004	13,928,830
Excess of revenue over expenditure (expenditure over revenue)	$ 919,742	$ 980,231	$ (42,619)
Accumulated surplus, beginning of year		13,506,742	13,549,361
Accumulated surplus, end of year (Note 12)		$ 14,486,973	$ 13,506,742

See accompanying notes to the consolidated financial statements.

Pictou Landing Band Council
Consolidated Statement of Financial Position

March 31	2017	2016
Financial assets		
Cash	$ 144,680	$ 892,579
Receivables (Note 2)	1,182,028	585,941
Inventory	40,528	41,331
Restricted funds (Note 3)	23,387,888	23,636,808
Investment in Mi'kmaq Wind4All Communities LP	689,512	383,912
	25,444,636	25,540,571
Financial liabilities		
Payables and accruals (Note 5)	613,275	543,762
Deferred revenue (Note 6)	118,191	30,854
Long term debt (Note 7)	4,931,999	5,325,728
Long term payable (Note 8)	224,000	280,000
Restricted funds (Note 3)	22,855,112	23,074,126
	28,742,577	29,254,470
Net financial liabilities (Page 6)	(3,297,941)	(3,713,899)
Non-financial assets		
Capital assets (Note 9)	14,592,814	14,021,607
Purchased fishing licenses and permits (Note 10)	3,192,100	3,192,100
Prepaids	-	6,934
	17,784,914	17,220,641
Accumulated surplus (Page 4)	$ 14,486,973	$ 13,506,742

Contingencies (Note 11)

On behalf of the Band Council

Chief Andrea Paul Chief

Councillor

See accompanying notes to the consolidated financial statements.

Pictou Landing Band Council
Consolidated Statement of Changes in Net Financial Liabilities

Year ended March 31	Budget	2017	2016
Net revenues	$ 919,742	$ 980,231	$ (42,619)
Amortization	-	917,708	996,096
Licenses and permits acquired	-	-	(2,834,400)
Capital assets acquired	-	(1,488,915)	(1,343,678)
	919,742	409,024	(3,224,601)
Acquisition of prepaids, net of usage	-	6,934	2,021
Change in net financial liabilities	919,742	415,958	(3,222,580)
Net financial liabilities, beginning of year	(3,713,899)	(3,713,899)	(491,319)
Net financial liabilities, end of year	$ (2,794,157)	$ (3,297,941)	$ (3,713,899)

See accompanying notes to the consolidated financial statements.

Pictou Landing Band Council
Consolidated Statement of Cash Flows

Year ended March 31	2017	2016
Decrease in cash and cash equivalents		
Operating		
Excess of revenue over expenditures (expenditures over revenue)	$ 980,231	$ (42,619)
Share of partnership loss	97,332	-
Amortization	917,708	996,096
	1,995,271	953,477
Change in non-cash operating working capital		
Receivables	(596,087)	810,563
Prepaids	6,934	2,021
Inventory	803	28,863
Payables and accruals	69,513	26,849
Deferred revenue	87,337	(18,863)
	1,563,771	1,802,910
Financing		
(Decrease) increase in Boat Harbour funds	(219,014)	103,026
Repayment of long term payable	(56,000)	(56,000)
Deposit on land purchase	-	-
New long term debt	105,932	2,907,917
Repayment of long term debt	(499,661)	(243,751)
	(668,743)	2,711,192
Investing		
Investment in Mi'kmaq Wind4All Communities LP	(402,932)	(383,912)
Licenses and permits acquired	-	(2,834,400)
Capital assets acquired	(1,488,915)	(1,343,678)
	(1,891,847)	(4,561,990)
Net decrease in cash and cash equivalents	(996,819)	(47,888)
Cash and cash equivalents, beginning of year	24,529,387	24,577,275
Cash and cash equivalents, end of year	$ 23,532,568	$ 24,529,387

Cash and cash equivalents consist of:		
Cash	$ 144,680	$ 892,579
Restricted cash	23,387,888	23,636,808
	$ 23,532,568	$ 24,529,387

See accompanying notes to the consolidated financial statements.

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. The consolidated financial statements of the Pictou Landing Band Council are the representations of management prepared in accordance with Canadian generally accepted accounting principles for public sector entities, as required by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.

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

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

Principles of consolidation
The consolidated financial statements include the accounts of all funds and operations in which the Band has a controlling interest, after the elimination of inter-fund transactions and balances. The entities include the following Pictou Landing Band Council, Pictou Landing Housing Fund, and the Victoria Corner Market.

Revenue recognition
Government transfers received are recognized in the financial statements as revenue when the transfers are authorized and all eligibility criteria have been met except when there is a stipulation that gives rise to an obligation that meets the definition of a liability. In that case, the transfer is recorded as a liability and recognized as revenue as the stipulations are met.

Government transfers to individuals and other entities are recognized as an expense when the transfers are authorized and all eligibility criteria have been met.

Revenue from housing is recognized on a monthly basis as rents are received. Rents are based on the Band's established market rent for on reserve housing programs.

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

Purchased fishing licenses and permits
Purchased fishing licenses and permits assets are intangible assets. These indefinite-lived fishing licenses and permits are recognized at cost and are not amortized. The capitalization of intangible assets is a departure from Canadian public sector accounting standards.

The Band evaluates the carrying value of its licenses and permits annually for impairment. Should a permanent impairment be identified, the impairment will be recognized as a reduction in the carrying value and as a charge against income on the statement of operations in the period the impairment occurred.

The Band also owns other communal fishing licenses and permits which were not purchased by the Band but were given to or granted to the Band.

1. Summary of significant accounting policies (continued)

Capital assets
Capital assets are recorded at cost less accumulated amortization and impairment.

Depreciation
Rates and bases of depreciation applied to write off the cost of property and equipment over their estimated lives are as follows:

Buildings	4%, declining balance
Housing properties	25 year, straight line
Infrastructure	4%, declining balance
Fishing vessels	15%, declining balance
Equipment	20%, declining balance
Motor vehicles	30%, declining balance
Computer hardware and software	30%, declining balance
Fencing/compound	10%, declining balance

Use of estimates
In preparing the Band'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(l) (c) of the *Canadian Income Tax Act.*

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 Band 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 during fiscal 2017 was $2,844,893 (2016 - $2,930,027). No write-down of inventories below their cost to their net realizable value was made in fiscal 2017. There were no reversals of inventories written down previously that are no longer estimated to sell below cost.

1. Summary of significant accounting policies (continued)

Moveable Capital Asset Reserve
The Band is required to maintain a Moveable Capital Asset Reserve in accordance with the consolidated contribution agreement with Health Canada. The reserve is for the maintenance or replacement of capital assets transferred to the band by Health Canada. Expenditures of capital funds under the reserve are restricted to expenditures on these assets only and there can be no transfer of these funds to the operating budget.

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.

2. Receivables

	2017	2016
Indigenous and Northern Affairs Canada	$ 485,713	$ 128,480
Commodity taxes receivable	106,260	56,338
Loans to band members	-	2,228
Loans to fishers – band members	13,899	56,882
Federal government departments	145,845	135,032
Province of Nova Scotia	89,200	107,836
Mi'kmaq Employment Training Secretariat	140,953	40,840
Mi'Kmaw Kina'matnewey	129,040	33,335
Trade	57,432	59,320
Sundry	16,636	4,290
	1,184,978	624,581
Less: allowance for doubtful accounts	(2,950)	(38,640)
	$ 1,182,028	$ 585,941

3. Restricted funds

	2017	2016
Boat Harbour (a)	$ 22,855,112	$ 23,074,126
Funds on deposit with Indigenous and Northern Affairs Canada (b)	4,836	4,748
CMHC funds held in trust (c)	10,151	-
Replacement reserve (d)	517,789	557,934
	$ 23,387,888	$ 23,636,808

a) In July 1993, the First Nation reached a settlement agreement with Indigenous and Northern Affairs Canada. This agreement established the Boat Harbour Trust Fund, which contained funds that were to be used for continuing compensation of band members, band compensation and development, and community development. To access these funds, the First Nation was required to hold a referendum with residents to approve the disbursement of such funds.

In July 2014, the Trust expired and the funds were allocated as follows: the band member compensation was paid directly from the Trust to individual band members, the band compensation and development funds which are accessible via a Band Council Resolution. As such, these funds have been recorded as restricted funds with an offsetting trust fund liability in the statement of financial position. As funds are accessed, they are recorded as revenue in the consolidated financial statements.

b) Funds on deposit with Indigenous and Northern Affairs Canada refers to monies that were derived from capital revenue sources as outlined in Section 32 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 and restricted for specific purposes.

c) Funds on deposit with Canada Mortgage and Housing Corporation that are to be applied as principal repayments when certain mortgages are renewed.

d) Under the terms of the agreement with the Canada Mortgage and Housing Corporation (CMHC), replacement reserve funds are required to be set aside for housing repairs or replacements. The funds may only be used as approved by the CMHC.

4. Bank Indebtedness

The First Nation has an established line of credit of $400,000, plus $100,000 overdraft limit, which is secured by Band Council Resolutions. The lines of credit bear interest at prime plus 1%. At the year end, the line of credit had a balance outstanding of $nil (2016 – $nil).

5. Payables and accruals

	2017	2016
Trade payables	$ 529,840	$ 416,334
Government remittances	9,314	25,255
Accrued liabilities	74,121	102,173
	$ 613,275	$ 543,762

6. Deferred revenue

	2017	2016
Indigenous and Northern Affairs Canada		
School replacement	$ 30,854	$ 30,854
Housing renovations	87,337	-
	$ 118,191	$ 30,854

7. Long term debt

	2017	2016
Canada Mortgage and Housing Corporation		
.98% - 2.65% mortgages, repayable under various terms by 2041.	$ 1,905,832	$ 2,004,809
Royal Bank of Canada		
1.94 – 2.9% mortgages, repayable under various terms by 2032.	153,758	103,330
Bank of Montreal		
Prime plus .75% demand loan, repayable in annual principal instalments of $291,667, plus interest paid monthly, maturing in September 2026.	2,508,333	2,800,000
Prime plus 1% demand loan, repayable in monthly instalments of $2,200 plus interest, maturing in June 2017	6,232	32,632
3.39% - 6.3% mortgages, repayable under various terms by 2032.	357,844	384,957
	4,931,999	5,325,728
Current portion of long term debt	595,284	469,255
	$ 4,336,715	$ 4,856,473

As security for all mortgages, 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. As security for the Bank of Montreal demand loan, the Band has provided a Band Council Resolution and pledged all related fishing licenses, gear, and equipment.

Repayments in each of the next five (5) years are as follows:

2018	$ 595,284
2019	$ 595,899
2020	$ 476,080
2021	$ 463,407
2022	$ 448,754
Thereafter	$ 2,352,575

8. Long term payable

The long term payable consists of an outstanding account owed to Chignecto Regional School Board. The Band is committed to annual minimum principal repayments of $56,000, plus interest, at prime minus 1.625%.

9. Capital assets

	Land	Buildings	Computer equipment	Equipment	Fencing	Fishing vessels
Cost:						
Balance, beginning of year	$ 296,259	$ 19,445,056	$ 95,104	$ 1,977,795	$ 130,515	$ 1,745,984
Additions	-	279,027	46,262	82,809	-	-
Transfers	-	1,541,942	-	-	-	-
Disposals	-	-	-	-	-	-
Balance, end of year	296,259	21,366,025	141,366	2,060,604	130,515	1,745,984
Accumulated amortization:						
Balance, beginning of year	-	9,785,731	50,824	1,520,335	64,889	1,075,459
Amortization	-	359,068	17,223	97,985	6,565	100,992
Amortization on disposals	-	-	-	-	-	-
Balance, end of year	-	10,944,798	79,047	1,619,321	71,451	1,174,320
Net book value	$ 296,259	$ 11,021,226	$ 55,518	$ 441,655	$ 59,064	$ 571,664

	Infrastructur	Vehicle	Assets under construction	Total - 2017	Total - 2016
Cost:					
Balance, beginning of year	$ 2,951,902	$ 393,898	$ 944,257	$ 27,960,600	$ 26,517,122
Additions	-	-	1,080,817	1,488,915	1,343,678
Transfers	-	-	(1,541,942)	-	-
Disposals	-	-	-	-	-
Balance, end of year	2,951,902	393,898	983,133	29,449,715	27,960,800
Accumulated amortization:					
Balance, beginning of year	1,148,511	314,869	-	13,939,193	12,943,097
Amortization	85,274	20,709	-	917,708	996,095
Amortization on disposals	-	-	-	-	-
Balance, end of year	1,233,785	335,577	-	14,856,901	13,939,193
Net book value	$ 1,718,117	$ 48,321	$ 983,133	$ 14,592,814	$ 14,021,607

10. Purchased fishing licenses and permits

	2017	2016
Purchased fishing licenses and permits	$ 3,192,100	$ 3,192,100

The Band records all purchased commercial fishing licenses and permits as intangible assets. All other permits and licenses owned by Pictou Landing Band Council have been granted for a nil consideration and therefore have not been capitalized.

11. Contingencies

a) As a result of certain deficiencies in its working capital position, the First Nation is also party to a Remedial Management Plan agreement (RMP) with Indigenous and Northern Affairs Canada which expires March 31, 2022. Under the terms of the RMP agreement, funding from the arrangement with Indigenous and Northern Affairs Canada can be suspended if the terms of the RMP are not complied with by the First Nation.

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.

c) The Band has pledged to Ultramar Ltd. an $8,000 letter of credit with the Bank of Montreal as security for inventory.

12. Accumulated surplus

The Band segregates its accumulated surplus into the following categories:

	2017	2016
Unallocated	$ 14,005,274	$ 12,987,951
Funds on deposit with Indigenous and Northern Affairs Canada	4,836	4,748
Moveable capital asset reserve (Health Canada)	144,621	131,621
Subsidy surplus reserve	-	7,000
Replacement reserve	332,242	375,422
	$ 14,486,973	$ 13,506,742

The funds on deposits have been set aside to be spent on specific projects.

Pictou Landing Band Council
Notes to the Consolidated Financial Statements
March 31, 2017

13. Pension plan

Pictou Landing First Nation maintains a registered pension plan on behalf of eligible employees. The plan is a defined contribution plan for all permanent employees. The plan is funded at the rate of 8.1% of the annual earnings for Native employees and 5.5% for non-native employees.

Pictou Landing First Nation matches these contributions. Upon cessation of employment, employees are required to withdraw the plan balance or are given the option to convert to a personal plan. Total contributions during the year amounted to $146,728 (2016 - $140,715).

14. Government transfers

	2017 Operating	2017 Capital	2017 Total	2016 Operating	2016 Capital	2016 Total
Indigenous and Northern Affairs Canada	$ 3,949,640	458,479	$ 4,408,119	$ 3,232,277	$ 128,480	$ 3,360,757
Health Canada	944,715	-	$ 944,715	$ 898,375	$ -	$ 898,375
Canada Mortgage and Housing Corporation	-	-	$ -	$ -	$ -	$ -
Mi'kmaw Kina'matnewey	104,101	-	$ 104,101	$ 105,853	$ -	$ 105,853
Other	1,391,228	-	$ 1,391,228	$ 1,221,289	$ -	$ 1,221,289
Total	480,986	-	$ 480,986	$ 380,176	$ 585,000	$ 965,176
Province of Nova Scotia	6,870,670	458,479	$ 7,329,149	5,837,970	713,480	6,551,450
	184,574	-	$ 184,574	155,077	100,000	255,077
	$ 7,055,244	$ 458,479	$ 7,513,723	$ 5,993,047	$ 813,480	$ 6,806,527

15. Comparative figures

Certain of the 2016 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2017.