



Independent Auditor's Report

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To the Chief and Councillors of the
Membertou Reserve Band Council

We have audited the accompanying consolidated statement of financial position of the Membertou Reserve Band Council (the "Band Council") as at March 31, 2014, 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 audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Membertou Reserve Band Council as at March 31, 2014, 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

July 29, 2014

Grant Thornton LLP

Chartered accountants

Membertou Reserve Band Council

Consolidated Statement of Operations

Year ended March 31

Schedule

Budget

2014

2013

Revenue				
Aboriginal Affairs and Northern Development				
Canada	B	\$ 5,567,416	\$ 8,923,459	\$ 7,388,406
Education	I	2,597,267	7,904,416	3,368,945
Employment development	J	434,580	434,580	504,007
Health Canada programs	K	1,077,374	2,177,253	1,652,453
Department of Fisheries and Oceans – AFS program	L	162,000	167,000	162,000
Rental income	M	6,360	33,569	40,071
Province of Nova Scotia	M	225,000	214,435	203,990
Membertou Housing Fund	N	1,272,000	1,478,358	1,434,611
Membertou Public Works	O	-	3,414,176	1,719,410
Membertou Enterprise Fund	P	3,945,936	3,880,179	3,520,580
Membertou Development Corporation	Q	88,000	562,102	579,822
Membertou Commercial Fisheries	R	2,834,026	2,840,693	3,044,611
Membertou Gaming Commission Inc	S	70,182,720	75,671,464	69,837,576
Membertou Market	T	6,930,800	6,724,426	6,758,571
Membertou Trade & Convention Centre Limited	U	2,950,445	2,393,894	2,534,017
Membertou Entertainment Centre	W	6,435,851	6,222,420	6,290,505
Membertou Insurance Brokers Inc	X	220,992	74,152	113,743
Membertou Rental Division	Y	900,535	663,895	548,906
Membertou Cultural & Heritage Centre Foundation	Z	206,400	90,033	98,172
Membertou Data Centre	AA	239,904	297,850	236,099
Membertou Geomatics	AB	355,000	353,504	394,860
Sundry	M	-	120,301	74,018
		\$ 106,632,606	124,622,159	110,505,373
Expenditure				
Aboriginal Affairs and Northern Development				
Canada	B	8,982,648	11,614,665	10,897,586
Education	I	3,107,794	3,119,558	3,011,546
Employment development	J	435,484	428,058	490,784
Health Canada programs	K	1,075,211	1,787,326	1,554,403
Department of Fisheries and Oceans - AFS program	L	175,257	167,192	190,092
Membertou Housing Fund	N	2,485,369	2,628,457	3,158,744
Membertou Public Works	O	1,438,389	1,653,475	1,256,449
Membertou Enterprise Fund	P	3,562,934	3,800,440	3,270,840
Membertou Development Corporation	Q	625,064	892,784	742,314
Membertou Commercial Fisheries	R	1,786,037	2,365,394	1,878,592
Membertou Gaming Commission Inc	S	60,026,649	65,314,168	59,931,129
Membertou Market	T	6,842,244	6,801,795	6,751,425
Membertou Trade & Convention Centre Limited	U	3,098,461	3,053,099	3,274,597
Membertou Entertainment Centre	W	5,829,888	5,970,061	5,817,899
Membertou Insurance Brokers Inc	X	118,290	117,265	129,124
Membertou Rental Division	Y	749,582	876,395	591,308
Membertou Cultural & Heritage Centre Foundation	Z	261,615	287,615	288,012
Membertou Data Centre	AA	387,728	379,354	344,575
Membertou Geomatics	AB	320,445	322,828	310,350
Interest and bank charges	M	622,462	405,632	373,348
		101,931,551	111,985,561	104,263,117
Excess of revenue over expenditures before other (expense) income		4,701,055	12,636,598	6,242,256
Community member contribution	Q	(1,950,000)	(1,965,000)	(1,949,500)
Investment allowance	Q	-	(114,195)	(73,573)
Share of limited partnership loss	-	-	(213,804)	-
Gain on disposal of assets	O/Q	-	-	1,089
		(1,950,000)	(2,292,999)	(2,021,984)
Excess of revenue over expenditure		\$ 2,751,055	\$ 10,343,599	\$ 4,220,272

See accompanying notes to the consolidated financial statements

Membertou Reserve Band Council

Consolidated Statement of Financial Position

March 31

2014

2013

Financial assets

Cash	\$ 835,458	\$ -
Receivables (Note 2)	4,686,673	5,813,259
Band funds in trust (Note 3)	24,064	23,470
Restricted cash	859,864	589,472
Investments (Note 4)	2,885,518	3,136,975
	<u>9,291,577</u>	<u>9,563,176</u>

Financial liabilities

Bank indebtedness (Note 8)	-	2,179,878
Payables and accruals (Note 9)	6,161,441	5,679,867
Deferred revenue (Note 10)	336,177	398,918
Long term debt (Note 11)	32,513,519	26,736,290
Deferred trust contributions (Note 13)	5,281,207	4,814,707
Capital lease obligations (Note 12)	310,233	491,368
	<u>44,602,577</u>	<u>40,301,028</u>

Net financial liabilities (Page 6)	(35,311,000)	(30,737,852)
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Non-financial assets

Capital assets (Note 7)	77,032,826	62,187,118
Prepays (Note 5)	160,662	233,385
Inventory (Note 6)	293,619	269,468
	<u>77,487,107</u>	<u>62,689,971</u>

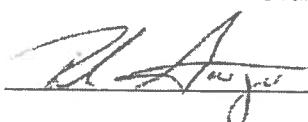
Net assets	\$ 42,176,107	\$ 31,952,119
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Fund balances (Page 7)	\$ 42,176,107	\$ 31,952,119
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Contingencies (Note 14)

Commitments (Note 15)

On behalf of the Band Council

 Councillor

 Councillor

See accompanying notes to the consolidated financial statements.

Membertou Reserve Band Council
Consolidated Statement of Changes in Net Financial Liabilities
Year ended March 31

	<u>Budget</u>	<u>2014</u>	<u>2013</u>
Net revenues	\$ 2,751,055	\$ 10,343,599	\$ 4,220,272
Depreciation	2,836,350	3,186,214	3,056,288
Capital assets acquired	(6,420,815)	(18,031,922)	(10,077,912)
Gain on sale of assets	-	-	(1,089)
Proceeds from disposal of capital assets	-	-	13,000
	<u>(833,410)</u>	<u>(4,502,109)</u>	<u>(2,789,441)</u>
Replacement Reserve transfers, net of approved repairs	(127,705)	(127,705)	42,201
Allocation to capital reserve	-	7,500	7,070
Interest earned on funds in trust	-	594	563
Usage of prepaid expenses	-	72,723	(147,903)
Acquisition of inventory, net of usage	-	(24,151)	20,311
	<u>(127,705)</u>	<u>(71,039)</u>	<u>(77,758)</u>
Change in net financial liabilities	(961,115)	(4,573,148)	(2,867,199)
Net financial liabilities, beginning of year	<u>(30,737,852)</u>	<u>(30,737,852)</u>	<u>(27,870,653)</u>
Net financial liabilities, end of year	<u>\$ (31,698,967)</u>	<u>\$ (35,311,000)</u>	<u>\$ (30,737,852)</u>

See accompanying notes to the consolidated financial statements.

Membertou Reserve Band Council

Consolidated Statement of Cash Flows

Year ended March 31

2014

2013

Increase in cash and cash equivalents

Operating		
Excess of revenue over expenditures	\$ 10,343,599	\$ 4,220,272
Depreciation	3,186,214	3,056,288
Loss from write-off of investment	114,195	73,573
Share of limited partnership loss	213,804	-
Gain on disposal of assets		(1,089)
	<u>13,857,812</u>	<u>7,349,044</u>
Change in non-cash operating working capital		
Receivables	1,126,586	(2,920,954)
Prepays	72,723	(147,903)
Inventory	(24,151)	20,311
Payables and accruals	481,574	1,407,579
Deferred revenue	(62,741)	(552,995)
	<u>15,451,803</u>	<u>5,155,082</u>
Investing		
Purchase of investments	<u>(76,542)</u>	<u>(682,733)</u>
Financing		
Replacement reserve (net of approved repairs)	(127,705)	42,201
Moveable Capital Asset Reserve transfers	7,500	7,070
Trust contributions	594	563
New deferred trust contributions	466,500	290,000
Repayment of long term capital lease obligation	(269,510)	(398,592)
Receipt of long term debt	9,942,054	12,958,025
Repayment of long term debt	(4,164,825)	(4,773,957)
	<u>5,854,608</u>	<u>8,125,310</u>
Capital		
Proceeds from disposal of capital assets	-	13,000
Capital assets acquired	<u>(17,943,547)</u>	<u>(10,077,912)</u>
	<u>(17,943,547)</u>	<u>(10,064,912)</u>
Net increase in cash and cash equivalents	3,286,322	2,532,747
Cash and cash equivalents, beginning of year	<u>(1,566,936)</u>	<u>(4,099,683)</u>
Cash and cash equivalents, end of year	<u>\$ 1,719,386</u>	<u>\$ (1,566,936)</u>
<hr/>		
Cash and cash equivalents consist of:		
Cash	\$ 835,458	\$ -
Bank indebtedness	-	(2,179,878)
Funds in trust	24,064	23,470
Restricted cash	<u>859,864</u>	<u>589,472</u>
	<u>\$ 1,719,386</u>	<u>\$ (1,566,936)</u>

See accompanying notes to the consolidated financial statements.

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2014

1. Summary of significant accounting policies

Reporting entity and principles of financial reporting

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

The consolidated financial statements of the Membertou Reserve Band Council 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

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

Principles of consolidation

The consolidated financial statements include the accounts of all funds and operations in which the First Nation has a controlling interest, after the elimination of inter-fund transactions and balances. The entities include the following Membertou Reserve Band Council Funds - Operating Fund, Housing Fund, Public Works Fund, Capital Fund, Economic Development Fund, Enterprise Fund, Employment Development Fund, Health Fund, AFS Program Fund, Social Fund, Enterprise Fund, and Education Fund, as well as, the Membertou Development Corporation, the Membertou Market, the Membertou Trade & Convention Centre Limited, the Membertou Gaming Commission Inc., Membertou Insurance Brokers Inc, Membertou Commercial Fisheries, Membertou Entertainment Centre, the Membertou Business Centre, the Membertou Cultural and Heritage Centre Foundation Inc., Membertou Data Centre, and Membertou Geomatics.

Revenue recognition

Membertou Reserve Band Council follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses or capital expenditures are incurred. Unrestricted contributions are recognized as revenue when recovered or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Cash and cash equivalents

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

Capital assets

Capital assets are recorded at cost.

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2014

1. Summary of significant accounting policies (continued)

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
Fishing equipment	20%, declining balance
Equipment	20%, declining balance
Motor vehicles	20%, declining balance
Moveable equipment	20%, declining balance
School buses	20%, declining balance
Computer hardware and software	20%, declining balance
Office equipment and furniture	20%, declining balance
Parking lots	20%, declining balance
Leasehold improvements	20%, declining balance
Equipment under capital lease	20%, declining balance

Investments

Investments are valued at the lower of cost and net realizable value.

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*

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

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2014

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 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 2014 was \$9,665,445 (2013 \$9,430,148). No write-down of inventories below their cost to their net realizable value was made in fiscal 2014. There were no reversals of inventories written down previously that are no longer estimated to sell below cost.

Leases

Leases are classified as either capital or operating in nature. Capital leases are those which transfer substantially all the benefits and risks of ownership to the lessee. If the lease contains a term that allows ownership to pass to the Company or there is a bargain purchase option the capitalized value is depreciated over the estimated useful life of the related asset. Otherwise, the capitalized value is depreciated on a straight line basis over the lesser of the lease term and its estimated useful life. Obligations recorded under capital leases are reduced by the principal portion of lease payments as incurred and the imputed interest portion of capital lease payments is charged to expense and amortized straight-line over the life of the lease. Operating lease payments are charged to expense.

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2014

2. Receivables	<u>2014</u>	<u>2013</u>
Aboriginal Affairs and Northern Development Canada	\$ 7,216	\$ 1,360,162
Housing rents	585,066	573,042
Mi'Kmaq Employment Training Secretariat	57,694	74,020
Health Canada	245,297	11,225
Commodity sales tax	62,136	44,339
Department of Fisheries and Oceans	167,000	162,000
Atlantic Integrated Commercial Fisheries Initiative	413,754	292,776
Province of Nova Scotia	773,709	273,959
Loan proceeds	905,147	1,086,420
Enterprise Cape Breton Corporation	59,393	-
Kinu Holdings Limited	-	16,000
Anaia Global Renewable Energies Inc.	-	157,893
3250777 Nova Scotia Limited	60,250	204,000
Mi'Kmaw Kina'matnewey	304,252	147,362
Sundry	223,403	108,896
Canada Mortgage and Housing Corporation	-	387,257
Trade	<u>842,561</u>	<u>934,113</u>
Less: allowance for doubtful accounts	<u>(20,205)</u>	<u>(20,205)</u>
	<u>\$ 4,686,673</u>	<u>\$ 5,813,259</u>

3. Band funds 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>2014</u>	<u>2013</u>
Net assets, beginning of year	\$ 23,470	\$ 22,907
Interest earned	<u>594</u>	<u>563</u>
Net assets, end of year	<u>\$ 24,064</u>	<u>\$ 23,470</u>

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2014

4. Investments	<u>2014</u>	<u>2013</u>
Membertou Coffee	\$ -	\$ 100
ANIA Global Renewable Energies Inc.	- -	37,500
Membertou Hotel Limited Partnership	2,885,518	3,099,322
3222894 Nova Scotia Limited	- -	1
3250777 Nova Scotia Limited	- -	1
Investment in KINU Holdings Limited	- -	51
	<u>2,885,518</u>	<u>3,136,975</u>
Allowance for investment impairment	- -	- -
	<u>\$ 2,885,518</u>	<u>\$ 3,136,975</u>

5. Prepays	<u>2014</u>	<u>2013</u>
Core funding	\$ 14,155	\$ 95,331
Insurance	133,269	126,246
Miscellaneous	<u>13,238</u>	<u>11,808</u>
	<u>\$ 160,662</u>	<u>\$ 233,385</u>

6. Inventory	<u>2014</u>	<u>2013</u>
Membertou Enterprise Fund	\$ 5,980	\$ 1,423
Membertou Trade and Convention Centre Limited	61,463	46,928
Membertou Entertainment Centre	29,991	17,627
Membertou Cultural and Heritage Centre Foundation Inc.	48,166	54,663
Membertou Market	<u>148,019</u>	<u>148,827</u>
	<u>\$ 293,619</u>	<u>\$ 269,468</u>

Membertou Reserve Band Council
Notes to the Consolidated Financial Statements
Year ended March 31

7. Capital assets

	<u>Opening Cost</u>	<u>Additions</u>	<u>Disposals</u>	<u>Closing Cost</u>	<u>Opening Accumulated Depreciation</u>	<u>Depreciation</u>	<u>Closing Accumulated Depreciation</u>	<u>2014 Net Book Value</u>	<u>2013 Net Book Value</u>
Land	\$ 3,914,714	\$ 2,061,415	\$ -	\$ 5,976,129	\$ -	\$ -	\$ -	\$ 5,976,129	\$ 3,914,714
Buildings	28,878,182	347,585	-	29,225,767	6,555,518	1,078,985	7,633,503	21,582,264	22,323,684
Infrastructure	21,803,727	6,064,595	-	27,868,322	3,736,103	642,430	4,378,533	23,489,789	18,067,624
Housing properties	20,287,204	67,221	-	20,354,425	8,353,100	817,375	9,170,475	11,183,950	11,934,104
Fishing vessels	1,325,697	14,403	-	1,340,100	330,392	151,540	481,932	858,168	995,305
Fishing equipment	340,915	20,813	-	361,528	142,145	43,877	186,022	175,506	198,770
Equipment	1,894,761	105,357	-	2,000,118	1,250,392	155,934	1,406,326	593,792	644,369
Motor vehicles	421,618	-	-	421,618	256,547	33,380	289,927	131,691	165,071
Movable equipment	816,629	95,156	-	911,785	615,061	60,749	675,810	235,975	201,568
School buses	127,997	-	-	127,997	78,353	9,928	88,281	39,716	49,644
Equipment under capital lease	1,262,377	88,375	-	1,350,752	702,175	76,097	778,272	572,480	560,202
Computer hardware and software	1,676,113	12,430	-	1,688,543	1,198,617	97,985	1,296,582	391,961	477,496
Parking lots	628,204	-	-	628,204	183,791	17,954	201,745	426,459	444,413
Assets under construction	2,210,174	9,154,772	-	11,364,946	-	-	-	11,364,946	2,210,174
	\$85,588,312	\$ 18,031,922	\$ -	\$ 103,620,234	\$ 23,401,194	\$ 3,186,214	\$ 26,587,408	\$ 77,052,826	\$62,187,118

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2014

8. Bank indebtedness

The Band Council has an established line of credit of \$2,500,000. The line of credit bears interest at a rate of prime plus 1%. At the year end, the line of credit had a balance outstanding of nil (2013 - \$1,995,000).

9. Payables and accruals	<u>2014</u>	<u>2013</u>
Trade	\$ 3,764,845	\$ 2,826,071
Accrued liabilities	1,768,065	2,142,276
Commodity tax	530,294	566,759
Employee benefits	<u>98,237</u>	<u>144,761</u>
	<u>\$ 6,161,441</u>	<u>\$ 5,679,867</u>

10. Deferred revenue	<u>2014</u>	<u>2013</u>
Tur'kn Partnership	\$ 119,148	\$ 111,435
Deferred gain on land sale	94,741	94,741
Gift certificates	32,468	74,968
Miscellaneous	<u>89,820</u>	<u>117,774</u>
	<u>\$ 336,177</u>	<u>\$ 398,918</u>

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2014

11. Long term debt	<u>2014</u>	<u>2013</u>
Royal Bank of Canada		
Prime loan bearing interest at prime plus 1.5% repayable in monthly instalments of \$51,300, plus interest, maturing November 2014	\$ 671,908	\$ 1,103,624
4.46% mortgage repaid during the year.	-	1,993,570
Prime loan bearing interest at prime plus 1.5%, repayable in monthly instalments of \$41,010, maturing July 2015	698,245	1,137,947
Canada Mortgage and Housing Corporation		
1.39% - 2.84% mortgages, repayable under various terms by October 2038	7,224,057	5,726,755
First Nation Finance Authority		
3.75% loan, repayable in monthly instalments of \$73,132, including interest, beginning in September 2014, maturing August 2044.	15,791,316	10,526,316
Royal Bank of Canada		
2.21% - 5.25% mortgages, repayable under various terms by September 20, 2032	1,562,847	3,238,659
Ford Credit Canada		
6.99% term loan repayable in monthly instalments of principal and interest of \$616, maturing in January 2015, secured by a chattel mortgage on a 2012 Ford truck.	5,930	12,650
6.99% term loan repayable in monthly instalments of principal and interest of \$685, maturing in January 2015, secured by a chattel mortgage on a 2012 Ford truck.	6,599	14,075
6.99% term loan repayable in monthly instalments of principal and interest of \$761, maturing in January 2015, secured by a chattel mortgage on a 2012 Ford truck	7,332	15,638
Uinooweg Development Group		
6.75% term loan, repaid during the year	-	22,054

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2014

11. Long term debt (continued)	<u>2014</u>	<u>2013</u>
8% term loan, maturing in October 2016, repayable in 84 monthly blended payments of \$3,165	88,367	117,978
Prime plus 3% term loan, maturing in March 2016, repayable in equal monthly instalments of \$5,840.	120,026	181,230
Bank of Montreal		
4.25% term loan, maturing in July 2019, repayable in equal annual instalments of \$40,714	554,286	285,000
Prime plus 3 25% bridge loan, repaid during the year	-	220,000
4.25% mortgage, repayable in equal monthly instalments of \$5,378, including interest, matures August 2023	496,035	-
4.25% term loan, repayable in annual instalments of 143,333, plus interest, matures in July 2016	430,000	-
3.75% non-revolving, demand loan, with repayment of interest only during the construction phase, up to 12 months. After construction phase, loan will be Converted to a term loan with the option of a fixed rate. Loan will be repayable over 25 years.	1,125,148	-
Peace Hills Trust		
4.25% mortgage repayable in 180 monthly instalments of \$8,173, matures August 2028	986,465	1,086,420
4.25% mortgage, repayable in 170 monthly instalments of \$15,140, matures May 2028.	1,931,391	-
General Motors Acceptance Corporation		
6.2% term loan repayable in monthly instalments of principal and interest of \$443, maturing in May 2016, secured by a chattel mortgage on a 2011 Chevrolet truck.	10,759	15,255
Atlantic Canada Opportunities Agency		
Interest free loan, repaid during the year.	-	35,656

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2014

11. Long term debt (continued)	<u>2014</u>	<u>2013</u>
Enterprise Cape Breton Corporation		
Interest free term loan, repaid during the year.	-	22,725
Interest free term loan, maturing in August 2015, repayable in monthly instalments of \$5,444.	92,572	157,900
Interest free term loan, maturing in April 2015, repayable in equal monthly instalments of \$785.	10,185	19,605
5 75% repayable loan, payments begin July 2013, repayable in monthly instalments of \$6,479, matures June 2021.	460,051	500,000
Doncaster Mortgage		
Interest free mortgage, repayable in annual instalments of \$60,000, maturing April 2017	240,000	-
Canada Mortgage and Housing Corporation		
2 02% mortgage advances		
Section 95	<u>32,513,519</u>	<u>303,233</u>
Current portion of long term debt	<u>2,442,913</u>	<u>26,736,290</u>
Principal payments due within one year	<u>2,442,913</u>	<u>2,333,060</u>
	<u>\$ 30,070,606</u>	<u>\$ 24,403,230</u>

As security, the band has provided a Band Council Resolution providing an irrevocable authorization to the Aboriginal Affairs and Northern Development 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, the Royal Bank of Canada has been given a general security agreement constituting a first ranking security interest in all personal property of the Membertou Reserve Band Council, Membertou Gaming Commission, Membertou Commercial Fisheries, and the Membertou Trade and Convention Centre, as well as guarantees in the amount of \$12,000,000 from each of the above noted divisions of the Band

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

2015	\$ 2,442,913
2016	\$ 2,015,229
2017	\$ 1,381,094
2018	\$ 1,235,412
2019	\$ 1,212,897
Thereafter	<u>\$ 24,225,974</u>
	<u>\$ 32,513,519</u>

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2014

12. Capital lease obligations	2014	2013
Royal Bank of Canada		
1 92% capital lease repayable in equal monthly instalments of \$6,327, including interest, maturing September 2015.	\$ 145,532	\$ 188,213
6.44% capital lease, repaid during the year.	-	11,640
5.27% capital lease, repaid during the year.	-	61,373
4 18% capital lease, repayable in monthly instalments of \$2,607 on account of principal and interest maturing in December 2016, on a CAT Backhoe.	78,819	-
4.69% capital lease, repaid during the year.	-	58,272
6.07% capital lease, repayable in monthly instalments of \$2,062 on account of principal and interest maturing in May 2015.	27,804	50,122
7 6% capital lease, repayable in monthly instalments of \$2,347 on account of principal and interest maturing in June 2016.	58,078	80,829
Cisco Capital		
11 94% capital lease, repaid during the year.	-	40,919
Less current portion	<u>310,233</u>	<u>491,368</u>
	<u>146,120</u>	<u>288,793</u>
	<u><u>\$ 164,113</u></u>	<u><u>\$ 202,575</u></u>

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

2014	\$ -	\$ 303,654
2015	160,125	128,839
2016	139,503	73,434
2017	30,038	7,041
	329,666	512,968
Less: amounts representing interest	19,433	21,600
Present value of net minimum capital lease payments	310,233	491,368
Less: Current portion of obligations under capital lease	146,120	288,793
	<u><u>\$ 164,113</u></u>	<u><u>\$ 202,575</u></u>

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2014

13. Deferred trust contributions	2014	2013
Balance, beginning of year	\$ 4,814,707	\$ 4,524,707
Contributions during the year	(309,500)	(478,000)
Deferrals during the year	<u>776,000</u>	<u>768,000</u>
	<u>5,281,207</u>	<u>4,814,707</u>
Contributions due within one year	<u>588,500</u>	<u>315,500</u>
Deferred trust contributions	\$ 4,692,707	\$ 4,499,207

The Membertou Reserve Band Council has setup a Children's Trust Fund for all children on the Membertou Reserve Band Council list. An annual contribution is made on each child's behalf to the trust fund.

14. Contingencies

- a) The Band has entered into a five year alternative funding arrangement with the Aboriginal Affairs and Northern Development Canada, effective April 1, 2010. 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) As at March 31, 2014, the Band has provided a guarantee for mortgages payable by Band members, totalling \$961,368 (2013 - \$820,743), which were obtained under Section 10 of the *Indian Act*. In the event that the individual is unable to meet its obligations at some future date and the Band is required to honour its guarantee, any payments will be accounted for as a charge to operations in the year such payments are made
- c) The Band's pension plan contributions are funded by the Aboriginal Affairs and Northern Development Canada. Any unexpended portion of these funds is repayable by the band.
- d) 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.

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2014

15. Commitments

Membertou Entertainment Centre has entered into an agreement to lease handsets which expires on July 31, 2018. The annual rent of the handsets consists of a minimum monthly payment. Minimum lease payments for the next five (5) years are as follows:

2015	\$ 290,304
2016	\$ 290,304
2017	\$ 290,304
2018	\$ 290,304
2019	\$ 96,768

16. 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 \$127,705 (2013 - \$237,261). 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.

As of March 31, 2014, there was an unfunded balance of \$278,557 (2013 - 279,069) in the replacement reserve account. Subsequent to year end, this balance was fully funded by the Band

17. Measurement uncertainty

The Membertou Market is required to pay commodity tax on sales to non-native customers. In order to accrue the liability, management has estimated the amount of exempt sales. Management has filed a commodity tax voluntary disclosure with Canada Revenue Agency during the 2010 fiscal year and believes the amount accrued is reasonable. However, it is possible that the percentage of non-native sales could be adjusted by the Canada Revenue Agency and result in a material gain or loss.

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2014

18. Capital management

Membertou Reserve Band Council'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 Membertou Band Council, while also ensuring compliance with any financial covenants.

Membertou Reserve Band Council monitors and makes adjustments to its capital structure when necessary, in light of changes to economic conditions, the objectives of the Membertou Band Council and the cash requirements of the entity.

Membertou Reserve Band Council 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>2014</u>	<u>2013</u>
Long term debt	\$ 32,513,519	\$ 26,736,290
Long term capital lease obligation	310,233	491,368
Add: bank indebtedness	-	2,179,878
Net funded debt	<u>32,823,752</u>	29,407,536
Equity	<u>42,176,107</u>	31,952,119
Capital under management	<u>\$ 74,999,859</u>	<u>\$ 61,359,655</u>

Although Membertou Reserve Band Council 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.

The primary investments undertaken by Membertou Reserve Band Council 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.

As part of existing debt agreements, the financial covenant is monitored and communicated, as required by the terms of credit agreements, on a quarterly basis by management to ensure compliance with the agreements. The covenants are debt service coverage – calculated as net earnings plus interest and depreciation less unfunded capital expenditures divided by the current portion of long term debt and long term capital lease obligations. As well, the band must obtain written consent before making capital expenditures in excess of \$750,000.

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2014

18. Capital management (continued)

	<u>2014</u>	<u>2013</u>
Debt service coverage	4.06	2.34
Unfunded capital expenditures	-	-

The Band is in compliance with the both covenants as at March 31, 2014.

19. 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 Entity's financial instruments that are exposed to concentrations of credit risk are primarily accounts receivable

The Entity's maximum exposure to credit risk corresponds to the carrying amount for all receivables.

Liquidity risk

Liquidity risk is the risk that the Entity may not have cash available to satisfy its liabilities as they come due. The Entity 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 Entity monitors capital markets and the related conditions. Market conditions allowing, the Entity 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, 2014, are outlined in Note 11

Fair value of financial instruments

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

The book values 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 long term debt approximates its carrying amount.

Interest rate risk

The Band has interest bearing loans on which general interest rate fluctuations apply. The financial risk is the risk to the Band's earnings that arises from fluctuations in interest rates and the degree of volatility of these rates. The Band does not use derivative instruments to reduce its exposure to interest and foreign currency risk.

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

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20. Amounts due from (to) related entities

The Band has amounts receivable from. Anara Global Renewable Energies Inc. in the amount of nil (2013 - \$157,893), and 3250777 Nova Scotia Limited in the amount of \$60,250 (2013 - \$204,000). These three entities are joint ventures that are 50% owned by the Band

21. Pension costs and obligations

The Band is required to match contributions to a group registered retirement savings plan for all full time employees to a limit of 5.5% of the yearly maximum pensionable earnings for non-band members and 9% for band members. Total contributions during the year amounted to \$416,325 (2013 - \$487,828).

22. Government transfers

	2014			2013		
	Operating	Capital	Total	Operating	Capital	Total
Aboriginal Affairs and Northern Development Canada						
Health Canada	\$ 5,785,052	\$ 3,138,407	\$ 8,923,459	\$ 5,668,996	\$ 1,719,410	\$ 7,388,406
Canada Mortgage and Housing Corporation	1,954,498	222,755	2,177,253	1,652,453	-	1,652,453
Mi'kmaw Kina'matnewey	406,437		406,437	427,886		427,886
Other	2,800,644	5,081,315	7,881,959	2,599,775	769,170	3,368,945
Total	11,666,291	8,718,064	20,384,355	11,129,982	2,988,580	14,118,562
Province of Nova Scotia	247,950	590,000	837,950	203,990	-	203,990
	\$ 11,914,241	\$ 9,308,064	\$ 21,222,305	\$11,333,972	\$ 2,988,580	\$ 14,322,552

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

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23. Segmented information

Membertou Reserve Band Council provides a wide range of services to its members, including training, education, social, health care and housing. For management reporting purposes Membertou Reserve Band Council'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 Development – social assistance provided to qualifying members.
- Band Government – all associated with the administration of the Band operations
- Human Resources and Quality Management – centralized human resource division for the Band's 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.
- Employment Development – activities related to job training and skills.
- Health Canada – activity of the Health Centre which provides a variety of health care programs and support.
- Department of Fisheries and Oceans – AFS Program – management of the DFO fisheries operations.
- Miscellaneous – all other items not reported in a specified division.
- Housing Fund – Section 95 and non-subsidized housing operations
- Public Works – expenditures and revenues related to the creation and maintenance of infrastructure of the Band.
- Enterprise Fund – the Band's tobacco sales operation and community expenses.
- Development Corporation – specified development projects and expenditures initiated at the Band level.
- Commercial Fishing – encompasses the fisheries activities of the Band
- Gaming Commission – the VLT operations of the Band.
- Membertou Market – gas bar and deli operation.
- Trade and Convention Centre – convention hall and Kiju's restaurant.
- Entertainment Centre – the Band's bingo operations
- Membertou Insurance Brokers – insurance brokerage operated by the Band
- Rental Division – operates the commercial rental division.
- Cultural and Heritage Centre Foundation – operates the Heritage Park and Petroglyph's Gift Shop
- Data Centre – revenues and expenditures related to the IT division
- Geomatics – revenues and expenditures related to the geomatics consulting division

See financial data on Page 57.

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2014

24. Expenses by object	<u>2014</u>	<u>2013</u>
Administrative	\$ 1,090,482	\$ 469,203
Capital projects	2,654,688	1,492,405
Community expenses	2,791,383	3,227,197
Core funding and benefits	869,942	912,242
Depreciation	3,186,214	3,056,288
Education and training	1,530,532	1,676,069
Fishing	970,160	548,080
Health programs	1,064,871	948,353
Insurance	319,570	299,824
Interest	1,103,544	966,332
Other	3,659,542	3,571,505
Professional fees	364,794	479,360
Purchases	9,518,101	9,430,148
Repairs and maintenance	2,986,902	3,279,915
Salaries and benefits	12,477,814	12,732,041
Social	3,608,035	3,451,283
Wager payouts	<u>67,565,991</u>	<u>61,763,963</u>
	<u>115,762,565</u>	<u>108,304,208</u>
Less: transfers/recoveries	(1,484,005)	(1,603,196)
Less: capital expenses	-	(488,395)
	<u><u>\$ 114,278,560</u></u>	<u><u>\$ 106,212,617</u></u>

25. Subsequent events

On March 19, 2012, the Band has entered into a borrowing agreement with the First Nation Finance Authority allowing the Band to borrow up to \$44,650,000 for specified capital projects and debt refinancing.

Subsequent to year end, the Band received an additional \$5,000,000 advance of long term debt from the First Nation Finance Authority.

26. Comparative figures

Certain of the 2013 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2014.