Grant Thornton

Consolidated Financial Statements

Membertou Reserve Band Council

March 31, 2016

Contents

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of the **Membertou Reserve Band Council** and all the information in this annual report are the responsibility of management and have been approved by the Chief and Council

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

The Band 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 Band's assets are appropriately accounted for and adequately safeguarded

The Band Council is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements

The Council 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 consolidated financial statements have been audited by Grant Thornton LLP in accordance with Canadian generally accepted auditing standards on behalf of the members Grant Thornton LLP has full and free access to the Council

Chief Financial Officer

Terry J. Paul

CEO

Grant Thornton

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, 2016, 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

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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

Basis for qualified opinion

The statement of financial position includes intangible assets in the amount of $2,064,336 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 $2,064,336 as at March 31, 2016 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 $2,064,336

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 Membertou Reserve Band Council as at March 31, 2016, 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

Emphasis of matters

We draw attention to Note 2 to the financial statements which describes the restatement of a prior period Our opinion is qualified in respect to this matter

Other matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole The schedules included on Pages 27 to 41 are presented for purposes of additional information and are not a required part of the consolidated financial statements Such supplementary information has been subjected to the auditing procedures applied, only to the extent necessary to express an opinion, on the audit of the consolidated financial statements taken as a whole

Sydney, Nova Scotia

July 21, 2016

Grant Thornton LLP

Chartered accountants

Membertou Reserve Band Council

Consolidated Statement of Operations

Year ended March 31	Budget	2016	2015 (Restated Note 2)
Revenues			
Fisheries	$ 2,292,483	$ 3,043,099	$ 2,711,344
Rental	2,738,130	2,549,121	1,648,672
Commercial sales	37,287,275	35,050,755	33,103,552
Commodity tax recovery	-	-	990,000
Gain on disposal of property	-	172,075	-
Government transfers (Note 24)	11,522,072	14,855,177	19,509,019
Other revenues	172,768	368,011	308,474
	54,012,728	56,038,238	58,271,061
Expenditures			
Administrative	2,591,418	2,703,009	1,053,021
Community expenses	3,022,169	3,166,900	2,692,627
Core funding and benefits	868,848	855,006	941,526
Cost of sales – commercial	16,612,348	14,263,362	13,935,623
Education and training	1,207,610	1,233,213	1,447,265
Fishing	170,100	308,485	201,918
Health programs	725,557	1,085,643	804,530
Insurance	461,679	439,903	596,496
Interest	1,380,961	1,565,226	1,301,311
Other	2,577,728	2,134,257	2,886,266
Professional fees	322,600	350,074	379,403
Repairs and maintenance	2,748,717	4,258,937	3,146,631
Salaries and benefits	13,581,799	13,599,807	13,345,579
Security and policing	916,305	909,898	869,589
Social	3,597,314	3,266,418	3,588,410
	50,785,153	50,140,138	47,190,195
Less transfers/recoveries	(1,470,340)	(1,502,876)	(755,932)
	49,314,813	48,637,262	46,434,263
Annual surplus before amortization and property transfer	4,697,915	7,400,976	11,836,798
Transfer of Highway 125 Project to the Province of Nova Scotia (Note 21)	-	6,021,928	-
Amortization	3,279,027	3,887,589	3,371,979
	3,279,027	9,909,517	3,371,979
Annual surplus (deficit)	$ 1,418,888	$ (2,508,541)	$ 8,464,819

See accompanying notes to the consolidated financial statements

Membertou Reserve Band Council

Consolidated Statement of Financial Position

March 31	2016	2015 (Restated Note 2)
Financial assets		
Cash	$ 2,917,234	$ 4,982,670
Receivables (Note 3)	3,547,238	3,161,649
Band funds in trust (Note 4)	114,735	25,008
Restricted cash	1,723,561	1,401,886
Investments (Note 5)	2,689,397	2,770,913
	10,992,165	12,342,126
Financial liabilities		
Payables and accruals (Note 11)	3,547,161	7,372,538
Construction payables to be financed	2,352,324	-
Deferred revenue (Note 12)	476,052	530,582
Long term debt (Note 13)	61,620,511	36,018,710
Deferred trust contributions (Note 16)	5,748,207	5,540,707
Capital lease obligations (Note 15)	27,753	159,616
	73,772,008	49,622,153
Net financial liabilities (Page 6)	(62,779,843)	(37,280,027)
Non-financial assets		
Purchased fishing licenses and permits (Note 8)	2,064,336	2,064,336
Capital assets (Note 9)	109,821,417	87,086,836
Prepaids (Note 6)	291,460	193,882
Inventory (Note 7)	325,955	286,383
	112,503,168	89,631,437
Net assets	$ 49,723,325	$ 52,351,410
Fund balances (Page 7)	$ 49,723,325	$ 52,351,410

Contingencies (Note 17)

Commitments (Note 18)

On behalf of the Band Council

Terrance J Paul Chief

Lee Gould 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

	Budget	2016	2015 (Restated Note 2)
Net revenues	$ 1,418,888	$ (2,508,541)	$ 8,464,819
Gain on disposal of capital assets	-	(172,075)	-
Transfer of Highway 125 Project to the Province of Nova Scotia (Note 21)	-	6,021,928	-
Proceeds on sale of capital assets	-	255,100	-
Depreciation	3,279,027	3,887,589	3,371,979
Fishing licenses and permits acquired	-	-	(202,347)
Capital assets acquired	(29,305,924)	(32,727,123)	(13,425,989)
	(24,608,009)	(25,243,122)	(1,791,538)
Replacement Reserve transfers, net of approved repairs	-	(208,316)	(156,533)
Allocation to capital reserve, net of withdrawals	-	(955)	4,084
Interest earned on funds in trust	-	2,727	944
Proceeds to trust from land disposition	-	87,000	-
Usage of prepaid expenses	-	(97,578)	(33,220)
Acquisition of inventory, net of usage	-	(39,572)	7,236
		(256,694)	(177,489)
Change in net financial liabilities	(24,608,009)	(25,499,816)	(1,969,027)
Net financial liabilities, beginning of year	(37,280,027)	(37,280,027)	(35,311,000)
Net financial liabilities, end of year	$ (61,888,036)	$ (62,779,843)	$ (37,280,027)

See accompanying notes to the consolidated financial statements

Membertou Reserve Band Council
Consolidated Statement of Cash Flows

Year ended March 31	2016	2015 (Restated Note 2)
(Decrease) increase in cash and cash equivalents		
Operating		
Excess (deficiency) of revenue over expenditures	$ (2,508,541)	$ 8,464,819
Depreciation	3,887,589	3,371,979
Gain on disposal of capital assets	(172,075)	-
Transfer of Highway 125 Project to the Province of Nova Scotia (Note 21)	6,021,928	-
Share of limited partnership (income) loss	(42,484)	14,605
	7,186,417	11,851,403
Change in non-cash operating working capital (Note 19)	(2,030,322)	2,884,542
	5,156,095	14,735,945
Investing		
Partnership draws	150,000	100,000
Purchase of investments	(26,000)	-
	124,000	100,000
Financing		
Replacement reserve (net of approved repairs)	(208,316)	(156,533)
Moveable Capital Asset Reserve transfers (net of withdrawals)	(955)	4,084
Trust contributions	2,727	944
New deferred trust contributions	207,500	259,500
Proceeds to trust from land disposition	87,000	-
Repayment of long term capital lease obligation	(131,863)	(150,617)
Receipt of long term debt	27,444,387	6,659,104
Repayment of long term debt	(1,842,586)	(3,153,913)
	25,557,894	3,462,569
Capital		
Proceeds on disposal of assets	255,100	-
Capital assets acquired	(32,727,123)	(13,628,336)
	(32,472,023)	(13,628,336)
Net (decrease) increase in cash and cash equivalents	(1,634,034)	4,670,178
Cash and cash equivalents, beginning of year	6,389,564	1,719,386
Cash and cash equivalents, end of year	$ 4,755,530	$ 6,389,564
Cash and cash equivalents consist of		
Cash	$ 2,917,234	$ 4,962,670
Funds in trust	114,735	25,008
Restricted cash	1,723,561	1,401,886
	$ 4,755,530	$ 6,389,564

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 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 , 3237395 Nova Scotia Limited (Operating as Membertou Insurance Brokers), Membertou Commercial Fisheries, Membertou Entertainment Centre, the Membertou Business Centre, the Membertou Cultural and Heritage Centre Foundation Inc , Membertou Data Centre, Membertou Geomatics, Membertou Sport and Wellness Centre, and Membertou Properties Limited Partnership

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

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

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

1. Summary of significant accounting policies (continued)

Capital assets
Capital assets are recorded at cost

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
Equipment under capital lease	20%, declining balance

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

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*

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

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 2016 was $8,993,549 (2015 $9,318,461). No write-down of inventories below their cost to their net realizable value was made in fiscal 2016 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

1. Summary of significant accounting policies (continued)

Hedge accounting

The Band uses derivative instruments to manage the Band's exposure to interest rate risks When derivative instruments are used, the Band determines whether hedge accounting can be applied Where hedge accounting can and will be applied, the hedge is documented at inception, detailing the hedging relationship, identifying the hedged item, the related hedging item, the nature of the specific risks being hedged and the intended term of the hedging relationship Both at the inception of the hedging relationship, and throughout the term, the Band has reasonable assurance that the critical terms of the hedging item and the hedged item are, and will remain, the same. For all hedged items which are anticipated transactions, the Band has determined that it is probable that the transaction will occur at the time and in the amount documented at the inception of the hedging relationship

The Band has elected to use hedge accounting for the following qualifying hedging relationships

A prime plus 1 50% mortgage has been hedged with a 3 495% fixed interest rate swap to mitigate the effect of changes in interest rates

2. Prior period adjustment

Canadian Public Sector Accounting Standards do not allow for the capitalization of intangible capital assets In 2016, management and Chief and Council of the Membertou Reserve Band Council has decided to capitalize the Band's purchased fishing licenses and permits which are considered to be intangible capital assets In addition, the Band decided to restate the comparative period as if all other purchased commercial fishing licenses and permits were capitalized All other licenses and permits currently owned by the Membertou Reserve Band Council have been granted to the Band for a $nil consideration and have not been capitalized Since the capitalization of these purchased intangible assets is a departure from PSAS, a qualification in the independent auditor's report has been disclosed for the GAAP departure

The prior period adjustment recorded as a result had the following impact on the financial statements for the year ended March 31, 2015:

<u>Statement of operations</u>	
Crab permits	$ (202,347)
<u>Statement of net assets</u>	
Unrestricted fund, beginning of year	$ 1,861,989
Excess of revenue over expenditures	$ 202,347
Unrestricted fund, end of year	$ 2,064,336
<u>Statement of financial position</u>	
Capital assets	$ 2,064,336

3. Receivables

	2016	2015
Indigenous and Northern Affairs Canada	$ 598,533	$ 8,848
Housing rents	666,786	665,422
Mi'Kmaq Employment Training Secretariat	573	118,630
Health Canada	18,468	38,786
Commodity sales tax	836,363	925,837
Department of Fisheries and Oceans	171,606	52,592
Atlantic Integrated Commercial Fisheries Initiative	-	37,565
Province of Nova Scotia	214,415	344,306
Loan proceeds	-	223,957
Mi'Kmaw Kina'matnewey	103,032	63,819
Sundry	231,783	153,775
Unama'ki Economics Benefits Office	-	72,038
Canada Mortgage and Housing Corporation	58,644	141,143
Trade	709,939	423,819
	3,610,142	3,270,537
Less allowance for doubtful accounts	(62,904)	(88,888)
	$ 3,547,238	$ 3,181,649

4. 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

	2016	2015
Net assets, beginning of year	$ 25,008	$ 24,064
Proceeds from reserve lands disposition	87,000	-
Interest earned	2,727	944
Net assets, end of year	$ 114,735	$ 25,008

5. Investments

	2016	2015
Membertou Hotel Limited Partnership	$ 2,663,397	$ 2,770,913
Encyt Technologies Incorporated	26,000	-
	$ 2,689,397	$ 2,770,913

6. Prepaids

	2016	2015
Core funding	$ -	$ 6,002
Insurance	250,828	168,362
Miscellaneous	40,632	19,518
	$ 291,460	$ 193,882

7. Inventory

	2016	2015
Membertou Enterprise Fund	$ 38	$ 187
Membertou Trade and Convention Centre Limited	74,171	67,549
Membertou Entertainment Centre	15,686	21,478
Membertou Cultural and Heritage Centre Foundation Inc	88,516	54,010
Membertou Market	147,544	143,159
	$ 325,955	$ 286,383

8. Purchased fishing licenses and permits

	2016	2015
Purchased fishing licenses and permits	$ 2,064,336	$ 2,064,336

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

9. Capital assets

	Cost, beginning of year	Additions	Disposals	Cost, end of year	Accumulated depreciation, beginning of year	Depreciation	Accumulated depreciation, end of year	2016 Net book value	2015 Net book value
Land	6,501,531	912,277	(79,494)	7,334,314	-	-	-	7,334,314	6,501,531
Buildings	37,857,954	17,950,622	-	55,808,576	7,920,945	1,336,273	9,257,218	46,551,358	29,937,009
Infrastructure	30,903,352	4,873,925	(7,215,390)	28,561,887	4,995,609	684,343	5,679,952	22,881,935	25,907,743
Housing Properties	22,310,055	2,316,776	-	24,626,831	9,992,194	857,047	10,849,241	13,777,590	12,317,861
Fishing vessels	1,411,166	-	-	1,411,166	610,184	115,707	725,891	685,275	800,982
Fishing equipment	395,426	-	-	395,426	221,278	36,102	257,380	138,046	174,148
Equipment	4,354,950	120,349	-	4,475,299	3,158,637	250,707	3,409,344	1,065,955	1,196,313
Motor Vehicles	707,340	31,248	-	738,588	432,424	58,094	490,518	248,070	274,916
Computer hardware & software	1,441,143	30,588	-	1,471,731	1,106,083	69,856	1,175,939	295,792	335,060
Office equipment	603,257	-	-	603,257	525,340	15,259	540,599	62,658	77,917
Parking lots	628,204	-	-	628,204	218,633	16,383	235,016	393,188	409,571
Leasehold improvements	2,009,719	337,866	-	2,347,585	596,681	419,533	1,016,214	1,331,371	1,413,038
Signage	290,494	21,336	-	311,830	181,379	23,937	205,316	106,514	109,115
Assets under construction	7,631,632	7,317,719	-	14,949,351	-	-	-	14,949,351	7,631,632
	117,046,223	33,912,706	(7,294,884)	143,664,045	29,959,387	3,883,241	33,842,628	109,821,417	87,086,836

10. 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 (2015 - nil) Security is as described in Note 13

11. Payables and accruals

	2016	2015
Trade	$ 2,589,668	$ 3,954,038
Accrued liabilities	725,856	3,311,943
Commodity tax	66,167	43,221
Employee benefits	70,264	60,088
Security deposits	32,504	-
Other	62,702	3,248
	$ 3,547,161	$ 7,372,538

12. Deferred revenue

	2016	2015
Tui'kn Partnership	$ 109,582	$ 109,582
Long term deferred gain on land sale	94,741	94,741
Health Canada	-	16,681
Kwilmu'kw Maw-klusuaqn	71,018	-
Miscellaneous	200,711	309,578
	$ 476,052	$ 530,582

13. Long term debt	2016	2015
Canada Mortgage and Housing Corporation		
1 39% - 2 84% mortgages, repayable under various terms by October 2038	$ 6,768,293	$ 6,777,211
First Nation Finance Authority		
3 79% loan, repayable in monthly instalments of $97,792, including interest, beginning in September 2016, maturing June 2024	32,012,650	20,775,414
Royal Bank of Canada		
2 21% - 5 25% mortgages, repayable under various terms by September 20, 2032	1,221,232	1,385,015
Ulnooweg Development Group		
8% term loan, maturing in October 2016, repayable in 84 monthly blended payments of $3,165	21,597	56,320
Prime plus 3% term loan repaid during the year	-	60,586
Bank of Montreal		
4 25% term loan, maturing in July 2019, repayable in equal annual instalments of $40,714	382,857	458,572
4 25% mortgage, repayable in equal monthly Instalments of $5,378, including interest, matures August 2023	404,274	446,908
3 2% term loan, with interest only payments until arena project is complete	1,675,154	-
4 25% term loan, repayable in annual instalments of $143,333, plus interest, matures in July 2016	143,334	286,666
Prime plus 0 75% non-revolving, demand loan with repayment of interest only during the construction phase, up to 12 months After the construction phase, the loan will be converted to a term loan with the option of a fixed rate Loan is repayable over 25 years	1,113,897	425,994
3 59% mortgage repayable in monthly instalments of $5,338 on account of principal and interest maturing on May 2020, secured by an Indigenous and Northern Affairs Canada Ministerial Guarantee Loan is repayable over 25 years	1,004,475	1,029,600

13. **Long term debt** (continued)	2016	2015
Peace Hills Trust		
4 25% mortgage repayable in 180 monthly instalments of $8,173, matures August 2028	1,600,858	1,625,066
4 25% mortgage, repayable in 170 monthly instalments of $15,140, matures May 2028	1,723,743	1,829,829
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	772	5,867
Bank of Nova Scotia		
Interest free loan, maturing in December 2019, repayable In equal monthly instalments of $397	17,863	22,626
Interest free loan, maturing in December 2019, repayable In equal monthly instalments of $397	17,862	22,626
Prime plus 1 5% mortgage repayable in 59 equal monthly payments of principal and interest The term of the loan is 5 years and amortization is 25 years	13,040,008	-
Atlantic Canada Opportunities Agency		
Interest free term loan repaid during the year	-	27,244
Interest free term loan repaid during the year	-	766
5 75% repayable loan, payments begin July 2015, repayable in monthly instalments of $6,479, matures June 2021.	351,642	407,382
Doncaster Mortgage		
Interest free mortgage, repayable in annual instalments of $60,000, maturing April 2017	120,000	180,000
Poushay Mortgage		
Interest free mortgage repaid during the year	-	53,875

13. Long term debt (continued)

	2016	2015
Canada Mortgage and Housing Corporation		
2 02% mortgage advances		
Section 95	-	141,143
	61,620,511	36,018,710
Current portion of long term debt		
Principal payments due within one year	1,920,255	1,707,227
	$ 59,700,256	$ 34,311,483

As security, for the Canada Mortgage and Housing Corporation and the Royal Bank of Canada housing 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, 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

In conjunction with the mortgage from the Bank of Nova Scotia with a balance of $13,040,008 at March 31, 2016, an interest rate swap is designated as a hedge of the interest rate risk in the Company's 25 year floating rate mortgage The swap matures at the same time as the debt and requires the Company to pay 3 495%. The floating rate side of the swap exactly matches the interest payments on the debt, at a rate of prime plus 1 5%. All payments are due on the 17th day of each month, therefore interest is accrued at the reporting date

For the Bank of Nova Scotia loan, the Band has given a General Security Agreement constituting a 2nd security interest in all present and future personal property subject with appropriate insurance coverage, loss if any, payable to the Bank and including a specific charges over property with a net book value of $18,019,447

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

2017	$ 1,920,255
2018	1,781,926
2019	1;748,429
2020	1,761,309
2021	1,585,657
Thereafter	52,822,935
	$ 61,620,511

14. Derivatives

		2016
	Carrying Amount	Notional Amount
Interest rate swap	$ 13,040,008	$ 13,039,991

The Band has designated prime plus 1 5% mortgage as hedged with 3 495% fixed interest rate swap to mitigate the effect of changes in interest rates The following is the accrued amounts pertaining to 3.495% fixed interest rate swap

3 495% fixed rate interest rate swap	2016
Accrued net amount payable on swap	$ 1,620

15. Capital lease obligations

	2016	2015
Royal Bank of Canada		
1 92% capital lease repaid during the year	$ -	$ 71,755
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	20,786	50,285
6 07% capital lease repaid during the year	-	4,093
7 6% capital lease, repayable in monthly instalments of $2,347 on account of principal and interest maturing in June 2016	6,967	33,483
	27,753	159,616
Less current portion	27,753	148,595
	$ -	$ 11,021

Repayment in the next year is as follows

2016	$ -	$ 160,121
2017	30,504	6,137
	30,504	166,258
Less. amounts representing interest	2,751	6,642
Present value of net minimum capital lease payments	27,753	159,616
Less. Current portion of obligations under capital lease	27,753	148,595
	$ -	$ 11,021

16. Deferred trust contributions

	2016	2015
Balance, beginning of year	$ 5,540,707	$ 5,281,207
Contributions during the year	(565,500)	(529,500)
Deferrals during the year	773,000	789,000
	5,748,207	5,540,707
Contributions due within one year	480,000	555,000
Deferred trust contributions	$ 5,268,207	$ 4,985,707

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

17. Contingencies

a) The Band has entered into a five year alternative funding arrangement with the Indigenous and Northern Affairs Canada, effective April 1, 2012 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, 2016, the Band has provided a guarantee for mortgages payable by Band members, totalling $1,028,462 (2015 - $1,080,474), which were obtained under Section 10 of the Canada Mortgage and Housing Corporation 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 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

18. 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 three (3) years are as follows

2017	$ 290,304
2018	$ 290,304
2019	$ 96,768

19. Change in non-cash operating working capital

	2016	2015
Receivables	$ (365,589)	$ 1,505,024
Prepaids	(97,578)	(33,220)
Inventory	(39,572)	7,236
Payables and accruals	(1,473,053)	1,211,097
Deferred revenue	(54,530)	194,405
	$ (2,030,322	$ 2,884,542

20. 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 $112,143 (2015 - $125,205) 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, 2016, the reserve was fully funded

21. Transfer of Highway 125 Project to the Province of Nova Scotia

Under the terms of a Memorandum of Understanding between the Membertou Reserve Band Council and the Province of Nova Scotia, the Band agreed to construct an interchange structure connecting the Membertou Indian Reserve with that of the provincial highway system Upon its completion, the Band agreed to transfer ownership of the interchange and ramp system to the Province of Nova Scotia

22. 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, 2016, are outlined in Note 13

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
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates The Band is exposed to interest rate risk on its fixed and floating interest rate financial instruments Given the current composition of long-term debt, fixed-rate instruments subject the Band to a fair value risk while the floating-rate instruments subject it to a cash flow risk There was no significant change in exposure from the prior year

23. 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 $460,663 (2015 - $448,540)

24. Government transfers

	2016			2015		
	Operating	Capital	Total	Operating	Capital	Total
Indigenous and Northern						
Development Canada	$ 5,734,514	$ 950,594	$ 6,685,108	$ 6,054,834	$ 3,339,304	$ 9,394,138
Health Canada	2,046,212	13,120	2,059,332	1,911,103	58,831	1,969,934
Canada Mortgage and Housing						
Corporation	398,585		398,585	387,728		387,728
Mi'kmaw Kina'matnewey	3,177,910		3,177,910	3,033,311		3,033,311
Other	705,057	500 000	1,205,057	736,837	2,780,565	3,517,402
Total	12,062,278	1,463,714	13,525,992	12,123,813	6,178,700	18,302,513
Province of Nova Scotia	200 000	1,129,185	1,329,185	206,506	1,000,000	1,206,506
	$ 12,262,278	$ 2,592,899	$ 14,855,177	$12,330,319	$7,178,700	$ 19,509,019

25. 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
- Commercial Entities – the Band's commercial operations

See financial data on Page 42

26. Expenses by object

	2016	2015
Administrative	$ 2,073,009	$ 1,053,021
Community expenses	3,166,900	2,692,627
Cost of sales – commercial	14,263,362	13,935,623
Core funding and benefits	855,006	941,526
Depreciation	3,887,589	3,371,979
Education and training	1,233,213	1,447,265
Fishing	308,485	201,918
Health programs	1,085,643	804,530
Insurance	439,903	596,496
Interest	1,565,226	1,301,311
Other	2,134,257	2,886,266
Professional fees	350,074	379,403
Repairs and maintenance	4,258,937	3,146,631
Salaries and benefits	13,599,807	13,345,579
Security and policing	909,898	869,589
Social	3,266,418	3,588,410
	54,027,727	50,562,174
Transfer of Highway 125 Project to the Province of Nova Scotia (Note 20)	6,021,928	-
Less transfers/recoveries	(1,502,876)	(755,932)
	$ 58,546,779	$ 49,806,242

27. Comparative figures

Certain of the 2015 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2016

Grant Thornton

Schedule of Honoraria, Salaries, Travel Expenses, and Other Remuneration

(Unaudited)

Membertou Reserve Band Council

March 31, 2016

Membertou Reserve Band Council

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