

**Hollow Water First Nation  
Consolidated Financial Statements**  
*March 31, 2016*

# Hollow Water First Nation Contents

For the year ended March 31, 2016

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## **Management's Responsibility**

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To the Members of Hollow Water First Nation:

The accompanying consolidated financial statements of Hollow Water First Nation are the responsibility of management and have been approved by the Chief and Council.

Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian public sector accounting standards. This responsibility includes selecting appropriate accounting policies and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Hollow Water First Nation Chief and Council is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the consolidated financial statements. The Chief and Council fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Chief and Council is also responsible for recommending the appointment of the First Nation's external auditors.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the Chief and Council on behalf of the Members to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Chief and Council and management to discuss their audit findings.

October 5, 2016

Candace Bushie

Finance Manager

## Independent Auditors' Report

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To the Members of Hollow Water First Nation:

We have audited the accompanying consolidated financial statements of Hollow Water First Nation, which comprise the consolidated statement of financial position as at March 31, 2016, and the consolidated statements of operations and accumulated surplus, changes in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, including supporting schedules.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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, the consolidated financial statements present fairly, in all material respects, the financial position of Hollow Water First Nation as at March 31, 2016 and the results of its operations, changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Winnipeg, Manitoba

October 5, 2016

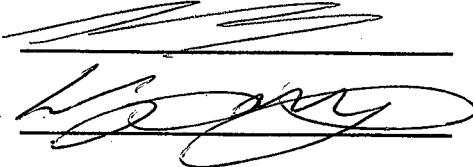
**MNP LLP**

Chartered Professional Accountants

**Hollow Water First Nation**  
**Consolidated Statement of Financial Position**  
*As at March 31, 2016*

	<b>2016</b>	<b>2015</b>
<b>Financial assets</b>		
Cash	960,583	113,338
Accounts receivable (Note 3)	856,871	596,640
Investment in Government Business Partnership (Note 4)	3,434,292	3,398,076
Restricted cash (Note 5)	166,673	611,168
	<b>5,418,419</b>	<b>4,719,222</b>
<b>Liabilities</b>		
Bank indebtedness (Note 6)	48,611	54,146
Accounts payable and accruals (Note 7)	2,280,591	1,659,133
Deferred revenue (Note 8)	265,322	217,428
Long-term debt (Note 9)	4,201,637	4,214,987
	<b>6,796,161</b>	<b>6,145,694</b>
<b>Net debt</b>	<b>(1,377,742)</b>	<b>(1,426,472)</b>
<b>Contingencies (Note 10)</b>		
<b>Non-financial assets</b>		
Tangible capital assets (Note 11) (Schedule 1)	8,864,917	9,303,706
<b>Accumulated surplus (Note 12)</b>	<b>7,487,175</b>	<b>7,877,234</b>

Approved on behalf of the Chief and Council



Chief

Councillor



Councillor

Councillor

**Hollow Water First Nation**  
**Consolidated Statement of Operations and Accumulated Surplus**  
*For the year ended March 31, 2016*

	<i>Schedules</i>	<i>2016 Budget</i>	<i>2016</i>	<i>2015</i>
<b>Revenue</b>				
Indigenous and Northern Affairs Canada (INAC) (Note 13)		<b>6,851,849</b>	<b>6,851,850</b>	6,991,553
Province of Manitoba (Note 14)		<b>1,710,000</b>	<b>1,930,362</b>	1,647,799
First Nations and Inuit Health (Note 15)		<b>1,598,386</b>	<b>1,598,386</b>	1,512,831
Other (Note 16)		<b>890,197</b>	<b>1,459,006</b>	535,985
Income from Government Business Partnership (Note 17)		<b>656,000</b>	<b>686,216</b>	554,720
Southeast Resource Development Council Corp. (Note 17)		<b>129,000</b>	<b>172,794</b>	137,849
Canada Mortgage and Housing Corporation		<b>154,013</b>	<b>159,378</b>	166,940
Government of Canada - Department of Justice		<b>120,000</b>	<b>120,000</b>	120,000
Revenue deferred in prior year (Note 8)		<b>217,428</b>	<b>217,428</b>	943,854
Revenue deferred to subsequent year (Note 8)		<b>(129,752)</b>	<b>(265,322)</b>	(217,428)
Recoveries by federal funding agency		-	(7,310)	(65,338)
		<b>12,197,121</b>	<b>12,922,788</b>	12,328,765
<b>Segment expenses</b>				
Education	4	<b>4,480,000</b>	<b>4,368,822</b>	4,516,778
Economic Development	5	<b>445,000</b>	<b>356,552</b>	446,726
Economic Enterprises	6	<b>1,880,000</b>	<b>3,208,847</b>	1,768,750
Community Wellness	7	<b>1,573,634</b>	<b>1,507,951</b>	1,413,175
Social Assistance	8	<b>979,900</b>	<b>1,044,905</b>	1,248,174
Subsidized Housing	9	<b>154,000</b>	<b>322,006</b>	335,901
Governance	10	<b>1,275,000</b>	<b>1,289,312</b>	1,276,805
Community Infrastructure	11	<b>1,250,000</b>	<b>1,214,452</b>	1,258,808
<b>Total segment expenses (Schedule 2)</b>		<b>12,037,534</b>	<b>13,312,847</b>	12,265,117
<b>Surplus (deficit)</b>		<b>159,587</b>	<b>(390,059)</b>	63,648
<b>Accumulated surplus, beginning of year ended</b>		<b>7,877,234</b>	<b>7,877,234</b>	7,813,586
<b>Accumulated surplus, end of year ended</b>		<b>8,036,821</b>	<b>7,487,175</b>	7,877,234

*The accompanying notes are an integral part of these consolidated financial statements*

**Hollow Water First Nation**  
**Consolidated Statement of Changes in Net Debt**  
*For the year ended March 31, 2016*

	<b>2016 Budget</b>	<b>2016</b>	2015
<b>Annual surplus (deficit)</b>	<b>159,587</b>	<b>(390,059)</b>	63,648
Purchases of tangible capital assets	(137,678)	(338,589)	(1,185,009)
Amortization of tangible capital assets	735,000	777,378	741,076
Decrease in costs of construction in progress	-	-	816,653
Use of prepaid expenses	-	-	6,210
<b>Decrease in net debt</b>	<b>756,909</b>	<b>48,730</b>	442,578
<b>Net debt, beginning of year</b>	<b>(1,426,472)</b>	<b>(1,426,472)</b>	(1,869,050)
<b>Net debt, end of year</b>	<b>(669,563)</b>	<b>(1,377,742)</b>	(1,426,472)

*The accompanying notes are an integral part of these consolidated financial statements*

**Hollow Water First Nation**  
**Consolidated Statement of Cash Flows**  
*For the year ended March 31, 2016*

	<b>2016</b>	<b>2015</b>
<b>Cash provided by (used for) the following activities</b>		
<b>Operating activities</b>		
Cash receipts from contributors	12,024,231	12,280,589
Cash paid to suppliers	(8,480,667)	(9,849,576)
Cash paid to employees	(3,218,961)	(2,728,908)
Interest on long-term debt	(214,379)	(131,817)
	<b>110,224</b>	<b>(429,712)</b>
<b>Financing activities</b>		
Advances of long-term debt	1,393,760	-
Repayment of long-term debt	(1,407,110)	(672,996)
Increase (decrease) in bank indebtedness	(5,535)	67,325
	<b>(18,885)</b>	<b>(605,671)</b>
<b>Capital activities</b>		
Purchases of tangible capital assets	(338,589)	(1,185,009)
Change in cost of construction in progress	-	816,653
	<b>(338,589)</b>	<b>(368,356)</b>
<b>Investing activities</b>		
Proceeds from withdrawal of Investment in Government Business Partnership	650,000	650,000
Change in restricted cash	444,495	(446,263)
	<b>1,094,495</b>	<b>203,737</b>
<b>Increase (decrease) in cash resources</b>	<b>847,245</b>	<b>(1,200,002)</b>
<b>Cash resources, beginning of year</b>	<b>113,338</b>	<b>1,313,340</b>
<b>Cash resources, end of year</b>	<b>960,583</b>	<b>113,338</b>

*The accompanying notes are an integral part of these consolidated financial statements*

**Hollow Water First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2016*

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**1. Operations**

The Hollow Water First Nation (the "First Nation") is located in the province of Manitoba, and provides various services to its Members. The Hollow Water First Nation financial reporting entity includes all related entities which are accountable to the First Nation and are either owned or controlled by the First Nation.

**2. Significant accounting policies**

These consolidated financial statements are the representations of management, prepared in accordance with Canadian public sector accounting standards and include the following significant accounting policies:

***Reporting entity***

The Hollow Water First Nation reporting entity includes the First Nation government and all related organizations and departments that are either owned or controlled by the First Nation. Trusts administered on behalf of third parties by Hollow Water First Nation are excluded from the First Nation reporting entity.

The First Nation has consolidated the assets, liabilities, revenues and expenses of the following entities and departments:

- Hollow Water First Nation Housing Authority
- Wanipigaa-Sibi Development Corp.
- Community Holistic Circle Healing Inc.
- Hollow Water East Side Rd. Const. Ltd.
- Ray FM
- Hollow Water First Nation Gaming Centre
- Hollow Water First Nation Government

All inter-entity balances and transactions have been eliminated on consolidation.

***Basis of presentation***

Sources of revenues and expenses are recorded on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenses are recognized as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

***Cash and cash equivalents***

Cash and cash equivalents include balances with banks and short-term investments with maturities of three months or less. Cash subject to restrictions that prevent its use for current purposes is included in restricted cash.

***Portfolio investments***

Portfolio investments are recorded at the lower of cost and net realizable value. The First Nation is considered a beneficial owner of 12.5% of Shawano Wapunong Building Inc. (the "Company"). The First Nation's investment in Shawano Wapunong Building Inc. meets the definition of a portfolio investment. When the Company was established, 100% of the common shares of the Company were purchased by the Southeast Resource Development Council Corp. to be held in trust for the beneficial owners. As a result, the First Nation's cost associated with the investment is \$0 (2015 - \$0).

**Hollow Water First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2016*

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**2. Significant accounting policies** *(Continued from previous page)*

***Investment in Government Business Partnership***

The Investment in the Government Business Partnership is accounted for in accordance with the modified equity method. Under the modified equity method, the equity method of accounting is modified only to the extent that the Government Business Partnership's accounting policies are not adjusted to conform to those of the First Nation. Thus, the First Nation's investment in the Government Business Partnership is recorded at acquisition cost and is increased for the proportionate share of post acquisition earnings and decreases by post acquisition losses and withdrawals.

***Funds held in Ottawa Trust Fund***

Funds held in trust on behalf of First Nation members by the Government of Canada in the Ottawa Trust Fund are reported on the consolidated statement of financial position with an offsetting amount in accumulated surplus. Trust moneys consist of:

- Capital trust moneys derived from non-renewable resource transactions on the sale of land or other First Nation tangible capital assets; and
- Revenue trust moneys generated primarily through land leasing transactions or interest earned on deposits held in trust.

***Tangible capital assets***

Tangible capital assets are initially recorded at cost based on historical cost accounting records. Contributed tangible capital assets are recorded at their fair value at the date of contribution.

Tangible capital assets are amortized using the straight line method at rates intended to amortize the cost of the assets over their estimated useful lives:

Busses	10 years
Community buildings	25 years
Band housing	15 years
Heavy equipment	12 years
Light vehicles	5 years
Roads	40 years
Bridges	40 years
Subsidized housing	25 years
Infrastructure	40 years
Ball field	20 years

***Long-lived assets***

Long-lived assets consist of tangible capital assets. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The First Nation performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, exceeds the value of future economic benefits associated with the asset. Impairment is measured as the amount by which the assets' carrying value exceeds the residual value of the assets' service potential to the First Nation. Any impairment is included in operations for the year.

***Net debt***

The First Nation's consolidated financial statements are presented so as to highlight net debt as the measurement of financial position. The net debt of the First Nation is determined by its financial assets less its liabilities. Net debt is comprised of two components, non-financial assets and accumulated surplus.

***Non-financial assets***

The First Nation's tangible capital assets are accounted for as assets because they can be used to provide government services in future periods. These assets do not normally provide resources to discharge the liabilities of the government unless they are sold.

**Hollow Water First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2016*

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**2. Significant accounting policies** *(Continued from previous page)*

***Employee future benefits***

The First Nation's employee future benefit program consists of a defined contribution pension plan. The First Nation's contributions to the defined contribution plan are expensed as incurred.

***Revenue recognition***

***Government Transfers***

Government transfer revenue including Indigenous and Northern Affairs Canada (INAC), First Nations and Inuit Health (FNIH), Canada Mortgage and Housing Corporation (CMHC), First People's Development Inc. and Province of Manitoba funding is recognized as it becomes receivable under the terms of applicable funding agreements. Funding received under the funding arrangements that relate to a subsequent fiscal period is reflected as deferred revenue on the consolidated statement of financial position in the year of receipt, and is matched with related department expenses in the year of their occurrence.

***Income from Government Business Partnership***

Revenue recognized from the Government Business Partnership is in accordance with the modified equity method of accounting for the investment, and corresponds to the First Nation's proportionate share of the Government Business Partnership's net surplus earned during the year.

***Other revenue***

Contracted revenue is recognized when the services are provided and the collectability of the proceeds is reasonably assured.

Other revenue is recognized by the First Nation when services are provided or goods are shipped and collectability is reasonably assured.

The First Nations recognizes Video Lottery Terminals (VLT) revenue as the net win from gaming activities (the difference between gaming wins and gaming losses), consisting of slot machines, on a daily basis. Gaming revenue is net of commissions paid to Manitoba Liquor and Lotteries Corporation which management believes is the most appropriate presentation of gaming revenue on the consolidated financial statements.

***Measurement uncertainty***

The preparation of consolidated financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where necessary. Accounts payable and accruals includes an estimate of contingent liabilities. Amortization is based on the estimated useful lives of the related tangible capital assets. Deferred revenue is recorded based on management's analysis of the extent to which eligibility requirements have been met on government transfer revenue. Provisions for funding recoveries and site rehabilitation costs are recorded in accordance with management's estimates of future costs.

These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in operations in the period in which they become known.

***Segments***

The First Nation conducts its business through 8 reportable segments as listed below. These operating segments are established by senior management to facilitate the achievement of the First Nation's long-term objectives to aid in resource allocation decisions, and to assess operational performance.

For each segment, revenue and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. Tangible capital assets are assigned to the First Nation's segments in accordance with management's determination, as to the activities and services that will be facilitated as a result of ongoing ownership of the assets.

**Hollow Water First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2016*

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**2. Significant accounting policies** *(Continued from previous page)*

The First Nation's segments are as follows:

Education - includes the operations of education programs.  
Economic Development - other band programs not funded by INAC or FNIH, including its commercial operations.  
Economic Enterprises - reports on the operations of for-profit companies that are controlled by the First Nation.  
Community Wellness - reports on the First Nation's funding related to health and wellness.  
Social Assistance - activities include delivering social programs.  
Subsidized Housing - reports on CMHC subsidized housing.  
Governance - includes administration and governance activities.  
Community Infrastructure - includes activities for the maintenance of the community and its infrastructure.

Inter-segment transfers are recorded at their exchange amount. The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in the Significant Accounting Policies.

***Liability for contaminated sites***

A liability for remediation of a contaminated site is recognized at the best estimate of the amount required to remediate the contaminated site when contamination exceeding an environmental standard exists, the First Nation is either directly responsible or accepts responsibility, it is expected that future economic benefits will be given up, and a reasonable estimate of the amount is determinable. The best estimate of the liability includes all costs directly attributable to remediation activities and is reduced by expected net recoveries based on information available at March 31, 2016.

At each financial reporting date, the First Nation reviews the carrying amount of the liability. Any revisions required to the amount previously recognized are accounted for in the period revisions are made. The First Nation continues to recognize the liability until it is settled or otherwise extinguished. Disbursements made to settle the liability are deducted from the reported liability when they are made.

***Financial instruments***

Financial instruments include cash, accounts receivable, investment in government business partnership, restricted cash, bank indebtedness, accounts payable and accruals and long-term debt. Unless otherwise stated, it is management's opinion that the First Nation is not exposed to significant interest, currency or credit risk arising from these financial instruments.

***Recent accounting pronouncements and change in accounting policy***

***Financial instruments***

In June 2011, the Public Sector Accounting Board (PSAB) issued PS 3450 *Financial Instruments* to establish standards for recognition, measurement, presentation and disclosure of financial assets, financial liabilities and non-financial derivatives. As a result of issuance of PS 3450, there have been numerous consequential amendments made to other Sections. PS 3450 is effective for fiscal years beginning on or after April 1, 2019. Earlier adoption is permitted.

The First Nation expects to apply PS 3450 and related consequential amendments to the PSA Handbook for its consolidated financial statements dated March 31, 2020. PS 3450 is applied prospectively in the fiscal year of initial adoption; therefore, consolidated financial statements of prior periods, including comparative information, are not restated. The First Nation does not expect the adoption of these new standards to have a material impact on its consolidated financial statements.

**Hollow Water First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2016*

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**3. Accounts receivable**

	<b>2016</b>	<b>2015</b>
Indigenous and Northern Affairs Canada	39,229	3,401
Canada Mortgage and Housing Corporation	187,194	27,816
GST receivable	24,010	104,760
Province of Manitoba East Side Road Authority	429,295	468,339
First Nation Members	181,313	166,543
Trade and other	221,202	53,670
	<b>1,082,243</b>	824,529
<b>Allowance for doubtful accounts</b>		
GST receivable	-	(61,346)
First Nation Members	(166,543)	(166,543)
Trade and other	(49,829)	-
	<b>865,871</b>	596,640

**4. Investment in Government Business Partnership**

Investment in Government Business Partnership represents a one-seventh ownership interest in the South Beach Casino Limited Partnership which was formed to operate a casino and hotel on the Brokenhead Ojibway Nation land at Scantebury, Manitoba.

	<b>2016</b>	<b>2015</b>
Balance, beginning of year	3,398,076	3,493,356
Partnership income	686,216	554,720
Withdrawals	(650,000)	(650,000)
	<b>3,434,292</b>	3,398,076

**Hollow Water First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2016*

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**5. Restricted cash**

	<b>2016</b>	<b>2015</b>
<b>Ottawa Trust</b>		
Revenue Trust	16,865	15,821
Capital Trust	5,561	5,561
	<hr/>	<hr/>
	22,426	21,382
<b>Other</b>		
CMHC Replacement Reserve	11,324	1,444
Province of Manitoba East Side Road Authority	54,923	588,342
Funds held in trust by construction contractor	78,000	-
	<hr/>	<hr/>
	144,247	589,786
	<hr/>	<hr/>
	<b>166,673</b>	<b>611,168</b>

*Ottawa Trust*

The Ottawa Trust arose 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. Revenue from the Ottawa Trust is recognized in the year in which it is earned when it is measurable and collection is reasonably assured. Capital and revenue trust money is transferred to the First Nation on the authorization of the Minister of Indigenous and Northern Affairs Canada, with the consent of the First Nation's Chief and Council. Interest revenue earned in the revenue trust amounted to \$1,044 (2015 - \$807). Interest revenue earned in the capital trust amounted to \$0 (2015 - \$0).

*CMHC replacement reserve*

As required as part of the First Nation's Canada Mortgage and Housing Corporation ("CMHC") Housing program, a separate bank account has been established for replacement of capital equipment and for major repairs to the houses. Under the terms of the agreements with CMHC, the replacement reserve must either be held in a separate bank account or invested in accounts or instruments secured by the Canada Deposit Insurance Corporation or as may otherwise be approved by CMHC from time to time.

The First Nation is not in compliance with its agreement with CMHC. The agreement requires that the First Nation maintain a separate bank account to fund the full amount of the CMHC replacement reserve. At year end the bank account was underfunded by \$203,740 (2015 - \$199,522).

Subsequent to year end, the First Nation purchased a guaranteed investment certificate (GIC) to be held as part of the replacement reserve. At September 30, 2016, the balance of the guaranteed investment certificate was \$175,267. To finance the purchase of the GIC, the First Nation obtained loan financing in the amount of \$187,738, secured by the aforementioned GIC, with monthly payments of \$2,262 including interest at 3.7%, maturing May 2023, with the next scheduled renewal date of May 2021.

*Province of Manitoba East Side Road Authority*

The First Nation has a chequing account that requires a co-signature from a representative from the Province of Manitoba East Side Road Authority. Funds held in this account have been restricted for the purpose of highway construction.

*Funds held in trust by construction contractor*

Funds held in trust by construction contractor relate to revenue received from First Nations and Inuit Health that must be spent on improvements to the First Nation's medical facilities. As at March 31, 2016, the related expenses had been incurred but had not yet been paid.

**Hollow Water First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2016*

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**6. Bank indebtedness**

The First Nation has an operating line of credit available at an interest rate of prime (2.7%) plus 2.2%, to a maximum of \$100,000. The bank indebtedness outlined below does not pertain to the operating line of credit.

	<b>2016</b>	<b>2015</b>
Cheques outstanding in excess of cash on deposit	<b>48,611</b>	<b>54,146</b>

**7. Accounts payable and accruals**

	<b>2016</b>	<b>2015</b>
Highway construction	368,585	845,324
Other	579,111	683,959
Indigenous and Northern Affairs Canada	89,472	82,162
Tuition	1,243,423	47,688
	<b>2,280,591</b>	<b>1,659,133</b>

**8. Deferred revenue**

	<b>2016</b>	<b>2015</b>
Indigenous and Northern Affairs Canada (Schedule 4)	210,454	155,550
First Nations and Inuit Health (Schedule 7)	54,868	61,878
	<b>265,322</b>	<b>217,428</b>

**Hollow Water First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2016*

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**9. Long-term debt**

	<b>2016</b>	<b>2015</b>
Payments of \$2,125 per month including interest at 1.05%, maturing May 2037, with the next scheduled renewal in May 2017, secured by a Ministerial guarantee and an assignment of fire insurance.	353,246	371,954
Payments of \$634 per month including interest at 1.62%, maturing February 2033, with the next scheduled renewal in February 2018, secured by a Ministerial guarantee and an assignment of fire insurance.	113,142	118,864
Payments of \$2,343 per month including interest at 2.35%, maturing September 2033, with the next scheduled renewal in September 2018, secured by a Ministerial guarantee and an assignment of fire insurance.	405,890	424,260
Payments of \$2,240 per month including interest at 1.05%, maturing January 2035, with the next scheduled renewal in May 2021, secured by a Ministerial guarantee and an assignment of fire insurance.	460,443	478,845
Payments of \$3,210 per month including interest at 1.05%, maturing February 2036, with the next scheduled renewal in May 2021, secured by a Ministerial guarantee and an assignment of fire insurance.	696,156	720,800
Payments of \$2,001 per month including interest at 1.80%, maturing May 2037, with the next scheduled renewal in May 2017, secured by a ministerial guarantee and an assignment of fire insurance.	424,578	440,796
Loan payable, monthly payments of \$854, including interest at 4.64%, maturing December 2016, secured by a general security agreement.	7,570	17,269
First Nation Bank term loan, with monthly payments of \$3,460, including interest at 4.60%, maturing November 2031, with the next scheduled renewal in November 2016, secured by a general assignment of rents and leases earned by the First Nation from Southeast Child and Family Services and an assignment of fire insurance.	465,604	485,886
First Nation Bank term loan, with annual payments of \$278,572, including interest at 5.45% (prime plus 2.75%), maturing December 2019, secured by a first charge against annual partnership withdrawals from the Investment in Government Business Partnership described in Note 4.	1,115,008	-
First Nation's Bank demand loan, bearing interest at prime plus 2.4% (5.1%), payable in annual instalments of \$80,000 plus interest payments due monthly, due May 2017.	160,000	240,000
<u>Loans matured or paid out during the year</u>	<u>-</u>	<u>916,313</u>
	<b>4,201,637</b>	<b>4,214,987</b>

Principal repayments on long-term debt in each of the next five years, assuming long-term debt subject to refinancing is renewed, are estimated as follows:

2017	493,000
2018	495,000
2019	411,000
2020	415,000
2021	140,000
	<hr/>
	1,954,000
	<hr/>

**Hollow Water First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2016*

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**10. Contingencies**

The First Nation is subject to funding recoveries according to their agreements with federal government agencies. At year-end, it was not yet determined to what extent any funding amounts related to the year ending March 31, 2016 might be recovered by these agencies.

At March 31, 2016, the First Nation has determined that some contaminated sites exist. However, no determination has been made as to whether the contamination exceeds an environmental standard that the First Nation is required to comply with. Also, the First Nation does not consider themselves to be responsible and have not accepted responsibility. As a result, no liability regarding the contaminated sites is recorded in these consolidated financial statements. If and when it is determined that a liability exists, the liability will be recorded in the period in which such a determination is made, in accordance with the accounting policy described in Note 2.

The First Nation recognizes a statement of claim filed by a former employee which names the First Nation as a defendant. The statement of claim seeks for compensation for wrongful dismissal, citing general damages and specific damages. The First Nation has estimated the likely settlement amount and has recorded this amount in accounts payable and accruals as at March 31, 2016.

**11. Tangible capital assets by segment**

	<b>2016</b>	<b>2015</b>
Subsidized Housing	2,465,155	2,602,137
Housing	1,436,435	1,609,818
Education	42,936	60,408
Community Infrastructure	4,695,818	4,772,771
Economic Enterprises	224,573	258,572
	<hr/> <b>8,864,917</b>	<hr/> <b>9,303,706</b>

**12. Accumulated surplus**

	<b>2016</b>	<b>2015</b>
Invested in tangible capital assets	5,778,289	5,332,479
Ottawa Trust	22,426	21,382
CMHC replacement reserve - required amount	215,064	200,966
Investment in Government Business Partnership	3,434,292	3,398,076
Accumulated deficit from operations	(1,962,896)	(1,075,669)
	<hr/> <b>7,487,175</b>	<hr/> <b>7,877,234</b>

**13. Indigenous and Northern Affairs Canada revenue**

Indigenous and Northern Affairs Canada revenue recorded on the consolidated financial statements in the year ended March 31, 2016 and in the year ended March 31, 2015 agrees to the amounts stated on the year-end INAC funding confirmation.

**Hollow Water First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2016*

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**14. Province of Manitoba revenue**

	<b>2016</b>	<b>2015</b>
Construction contract revenue	1,810,362	1,527,799
Department of Justice funding grant	120,000	120,000
	<b>1,930,362</b>	1,647,799

**15. First Nations and Inuit Health revenue**

FNIH revenue recorded on the consolidated financial statements in the year ended March 31, 2016 and in the year ended March 31, 2015 agrees to the amounts stated on the year-end FNIH funding confirmation.

**16. Other revenue**

	<b>2016</b>	<b>2015</b>
<b>Video Lottery Terminals</b>		
Proceeds	1,119,552	-
Prizes	(875,335)	-
	<b>244,217</b>	-
<b>Other</b>		
Manitoba Hydro transmission line project	709,722	-
Other	505,067	535,985
	<b>1,214,789</b>	535,985
	<b>1,459,006</b>	535,985

**17. Related party transactions**

Income from Government Business Partnership of \$686,216 (2015 - \$554,720) was earned through the investment in the South Beach Casino Limited Partnership as described in Note 4.

Southeast Resource Development Council Corp. (SERDC) provided grant revenue of \$172,794 (2015 - \$137,849) to the First Nation during the year. SERDC is a not-for-profit organization jointly controlled by 8 First Nation governments, including the First Nation.

During the year, the First Nation rented equipment owned by a business owned and operated by Chief Larry Barker for \$22,217 (2015 - \$0).

These transactions were conducted in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**18. Defined contribution pension plan**

The First Nation remits its pension liabilities on a monthly basis and remittances were current at year end.

**Hollow Water First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2016*

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**19. Economic dependence**

The First Nation receives a significant portion of its revenue from Indigenous and Northern Affairs Canada ("INAC") and First Nations and Inuit Health ("FNIH").

The revenue is provided as a result of Treaties entered into with the Government of Canada. These Treaties are administered by INAC and FNIH under the terms and conditions of the Indian Act. The ability of the First Nation to continue operations is dependent upon the Government of Canada's continued financial commitments as guaranteed by these Treaties.

**20. Provision for site rehabilitation**

The Manitoba Environmental Protection Act sets out the regulatory requirements to properly close and maintain active and inactive landfill sites. Under this environmental law, there is a requirement for closure and post-closure care of solid waste sites including covering and landscaping and ongoing environmental monitoring, site inspection and maintenance.

As directed by PS 3270, a liability must be recognized beginning when the landfill first accepts waste to the date the landfill stops accepting waste. The liability for closure and post-closure care is recognized as the site capacity is used to the extent of the proportion of site capacity used compared to the estimated total expenditure required for closure and post-closure care.

The estimated total expenditure represents the sum of discounted future cash flows associated with closure and post-closure care considering current technology, the length of the post-closure care period and current environmental regulations. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to future asset service potential, are expensed in the current year.

At year-end, the extent to which the First Nation is bound by environmental laws of The Manitoba Environmental Protection Act was not determinable, and therefore, no liability has been recorded in these consolidated financial statements.

**21. First Nations Financial Transparency Act**

The First Nation was required to post its consolidated financial statements on a website and submit the consolidated financial statements to INAC by July 29, 2016. Since the audit report date is dated after this date, the First Nation has not complied with this requirement. The possible effect of this non-compliance has not yet been determined. The First Nation fully intends to post its consolidated financial statements on a website upon release of these consolidated financial statements.

**22. Budget information**

The disclosed budget information has been approved by the Chief and Council of the Hollow Water First Nation.

**23. Commitment**

The First Nation has entered into an operating lease agreement for video lottery terminals with estimated future minimum annual payments as follows:

2017	\$57,966
2018	\$57,966
2019	\$57,966
2020	\$57,966
2021	\$57,966

**Hollow Water First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2016*

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**24. Subsequent events**

Subsequent to year end, the First Nation obtained additional loan financing as follows:

1. Loan financing in order to purchase a guaranteed investment certificate in an effort to fund the required balance in the CMHC replacement reserve. Details of this transaction are disclosed in Note 5.
2. Loan financing of \$2,350,577 through a demand construction loan. The purpose of the demand construction loan is to finance the construction of 10 houses. The loan requires semi-annual principal payments of \$78,353, as well as monthly interest payments of prime plus 2.83% (5.53%). The loan is secured by a first charge against annual partnership withdrawals from the Investment in Government Business Partnership described in Note 4, as well as a first charge against INAC government transfer revenue and an assignment of fire insurance.
3. Loan financing of \$481,700 through a demand construction loan. The purpose of the demand construction loan is to finance the purchase of 3 mobile homes and 2 sea can containers. The loan requires semi-annual principal payments of \$16,057, as well as monthly interest payments of prime plus 2.83% (5.53%). The loan is secured by a first charge against annual partnership withdrawals from the Investment in Government Business Partnership described in Note 4, as well as a first charge against INAC government transfer revenue and an assignment of fire insurance.

**25. Comparative figures**

Certain comparative figures have been reclassified to conform with current year's presentation.

**Hollow Water First Nation**  
**Schedule 1 - Consolidated Schedule of Tangible Capital Assets**  
*For the year ended March 31, 2016*

	<i>Busses</i>	<i>Community buildings</i>	<i>Band housing</i>	<i>Heavy equipment</i>	<i>Light vehicles</i>	<i>Roads</i>	<i>Subtotal</i>
<b>Cost</b>							
Balance, beginning of year	337,180	2,194,196	6,757,401	1,235,516	634,936	835,641	11,994,870
Acquisition of tangible capital assets	-	78,000	-	-	260,589	-	338,589
Balance, end of year	337,180	2,272,196	6,757,401	1,235,516	895,525	835,641	12,333,459
<b>Accumulated amortization</b>							
Balance, beginning of year	276,772	1,440,527	5,147,583	852,722	354,206	620,790	8,692,600
Annual amortization	17,472	61,358	173,383	39,088	113,875	20,891	426,067
Balance, end of year	294,244	1,501,885	5,320,966	891,810	468,081	641,681	9,118,667
<b>Net book value of tangible capital assets</b>	<b>42,936</b>	<b>770,311</b>	<b>1,436,435</b>	<b>343,706</b>	<b>427,444</b>	<b>193,960</b>	<b>3,214,792</b>
2015 - net book value of tangible capital assets	60,408	753,669	1,609,818	382,794	280,730	214,851	3,302,270

**Hollow Water First Nation**  
**Schedule 1 - Consolidated Schedule of Tangible Capital Assets**  
*For the year ended March 31, 2016*

	<i>Subtotal</i>	<i>Bridges</i>	<i>Subsidized housing</i>	<i>Infrastructure</i>	<i>Ball field</i>	<b>2016</b>	<b>2015</b>
<b>Cost</b>							
Balance, beginning of year	<b>11,994,870</b>	<b>696,086</b>	<b>4,817,486</b>	<b>6,454,919</b>	<b>32,846</b>	<b>23,996,207</b>	22,811,198
Acquisition of tangible capital assets	<b>338,589</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>338,589</b>	1,185,009
Balance, end of year	<b>12,333,459</b>	<b>696,086</b>	<b>4,817,486</b>	<b>6,454,919</b>	<b>32,846</b>	<b>24,334,796</b>	23,996,207
<b>Accumulated amortization</b>							
Balance, beginning of year	<b>8,692,600</b>	<b>487,252</b>	<b>2,215,349</b>	<b>3,264,454</b>	<b>32,846</b>	<b>14,692,501</b>	13,951,425
Annual amortization	<b>426,067</b>	<b>17,402</b>	<b>136,982</b>	<b>196,927</b>	<b>-</b>	<b>777,378</b>	741,076
Balance, end of year	<b>9,118,667</b>	<b>504,654</b>	<b>2,352,331</b>	<b>3,461,381</b>	<b>32,846</b>	<b>15,469,879</b>	14,692,501
<b>Net book value of tangible capital assets</b>	<b>3,214,792</b>	<b>191,432</b>	<b>2,465,155</b>	<b>2,993,538</b>	<b>-</b>	<b>8,864,917</b>	9,303,706
2015 - net book value of tangible capital assets	3,302,270	208,834	2,602,137	3,190,465	-	9,303,706	

**Hollow Water First Nation**  
**Schedule 2 - Consolidated Schedule of Expenses by Object**  
*For the year ended March 31, 2016*

	<b>2016</b>	<b>2015</b>
<b>Consolidated expenses by object</b>		
Bad debts (recovery)	22,454	(44,759)
Amortization	777,378	741,076
Community events	150,643	119,177
Contracted services	86,876	352,137
Manitoba Hydro clearing construction contracts	523,229	4,473
Highway construction	1,303,036	979,425
Insurance	171,450	157,117
Interest on long-term debt	214,379	131,817
Manitoba Liquor and Lotteries	122,194	-
Member disbursements	236,687	230,851
Professional fees	128,784	164,811
Repairs and maintenance	309,037	343,081
Salaries and benefits	3,218,961	2,757,391
Social assistance	967,624	1,164,462
Supplies	313,246	315,412
Telephone	40,546	39,486
Training	162,341	217,671
Travel	366,793	441,988
Tuition	4,155,071	4,120,553
Utilities	42,118	28,948
	<b>13,312,847</b>	<b>12,265,117</b>

**Hollow Water First Nation**  
**Schedule 3 - Consolidated Summary Schedule of Segment Operations**  
*For the year ended March 31, 2016*

	<b>Revenue</b>	<b>Expenses</b>	<b>2016 Surplus (Deficit)</b>	<b>2015 Surplus (Deficit)</b>
<b>Segments (Schedules 4 to 11)</b>				
Education	4,432,668	4,368,822	63,846	(180,960)
Economic Development	874,307	356,552	517,755	401,547
Economic Enterprises	3,052,344	3,208,847	(156,503)	(130,016)
Community Wellness	1,684,733	1,507,951	176,782	114,091
Social Assistance	1,020,247	1,044,905	(24,658)	(79,922)
Subsidized Housing	159,378	322,006	(162,628)	(169,011)
Governance	1,228,043	1,289,312	(61,269)	(203,524)
Community Infrastructure	471,068	1,214,452	(743,384)	311,443
	<b>12,922,788</b>	<b>13,312,847</b>	<b>(390,059)</b>	<b>63,648</b>

*The accompanying notes are an integral part of these consolidated financial statements*

**Hollow Water First Nation**  
**Education**  
**Schedule 4 - Consolidated Schedule of Operations**  
*For the year ended March 31, 2016*

	<b>2016</b>	<b>2015</b>
<b>Revenue</b>		
Indigenous and Northern Affairs Canada	4,487,572	4,390,718
Revenue deferred in prior year	155,550	100,650
Revenue deferred to subsequent year	(210,454)	(155,550)
	<b>4,432,668</b>	4,335,818
<b>Expenses</b>		
Community events	8,005	1,800
Insurance	2,832	-
Repairs and maintenance	14,567	16,486
Salaries and benefits	147,366	258,852
Supplies	4,693	6,200
Telephone	804	-
Training	16,750	103,495
Travel	18,734	9,392
Tuition	4,155,071	4,120,553
	<b>4,368,822</b>	4,516,778
<b>Surplus (deficit)</b>	<b>63,846</b>	(180,960)

**Hollow Water First Nation**  
**Economic Development**  
**Schedule 5 - Consolidated Schedule of Operations**  
*For the year ended March 31, 2016*

	<b>2016</b>	<b>2015</b>
<b>Revenue</b>		
Income from Government Business Partnership	686,216	554,720
Other	116,585	281,553
Southeast Resource Development Council Corp.	71,506	12,000
	<b>874,307</b>	848,273
<b>Expenses</b>		
Community events	33,254	7,932
Contracted services	-	70,247
Insurance	889	-
Interest on long-term debt	64,578	21,606
Member disbursements	236,687	230,851
Salaries and benefits	792	13,108
Supplies	20,352	102,982
	<b>356,552</b>	446,726
<b>Surplus</b>	<b>517,755</b>	401,547

**Hollow Water First Nation**  
**Economic Enterprises**  
**Schedule 6 - Consolidated Schedule of Operations**  
*For the year ended March 31, 2016*

	<b>2016</b>	<b>2015</b>
<b>Revenue</b>		
Province of Manitoba	1,795,362	1,527,799
Other	1,256,982	110,935
	<b>3,052,344</b>	<b>1,638,734</b>
<b>Expenses</b>		
Amortization	33,999	33,661
Bad debts	22,454	-
Community events	68,403	71,910
Contracted services	5,800	5,200
Highway construction	1,303,036	979,425
Insurance	5,082	4,710
Interest on long-term debt	34,357	2,627
Manitoba Hydro clearing construction contracts	523,229	4,473
Manitoba Liquor and Lotteries	122,194	-
Professional fees	25,875	32,602
Repairs and maintenance	117,032	87,472
Salaries and benefits	836,099	389,308
Supplies	59,783	65,290
Telephone	7,253	8,356
Travel	40,940	83,716
Utilities	3,311	-
	<b>3,208,847</b>	<b>1,768,750</b>
<b>Deficit</b>	<b>(156,503)</b>	<b>(130,016)</b>

**Hollow Water First Nation**  
**Community Wellness**  
**Schedule 7 - Consolidated Schedule of Operations**  
*For the year ended March 31, 2016*

	<b>2016</b>	<b>2015</b>
<b>Revenue</b>		
Indigenous and Northern Affairs Canada	79,337	65,510
First Nations and Inuit Health	1,598,386	1,512,831
Revenue deferred in prior year	61,878	26,551
Revenue deferred to subsequent year	(54,868)	(61,878)
Recoveries by federal funding agency	-	(15,748)
	<b>1,684,733</b>	1,527,266
<b>Expenses</b>		
Amortization	1,556	1,556
Community events	40,981	37,535
Contracted services	52,004	74,121
Insurance	27,284	26,034
Repairs and maintenance	27,688	19,435
Salaries and benefits	947,150	909,854
Social assistance	122	6,935
Supplies	100,649	78,887
Telephone	13,807	10,216
Training	86,460	68,026
Travel	189,863	167,375
Utilities	20,387	13,201
	<b>1,507,951</b>	1,413,175
<b>Surplus</b>	<b>176,782</b>	114,091

**Hollow Water First Nation**  
**Social Assistance**  
**Schedule 8 - Consolidated Schedule of Operations**  
*For the year ended March 31, 2016*

	<b>2016</b>	<b>2015</b>
<b>Revenue</b>		
Indigenous and Northern Affairs Canada	1,027,557	1,217,842
Recoveries by federal funding agency	(7,310)	(49,590)
	<b>1,020,247</b>	1,168,252
 <b>Expenses</b>		
Salaries and benefits	65,902	82,185
Social assistance	967,502	1,157,527
Supplies	6,818	4,977
Telephone	803	-
Travel	3,880	3,485
	<b>1,044,905</b>	1,248,174
 <b>Deficit</b>	<b>(24,658)</b>	(79,922)

**Hollow Water First Nation**  
**Subsidized Housing**  
**Schedule 9 - Consolidated Schedule of Operations**  
*For the year ended March 31, 2016*

	<b>2016</b>	<b>2015</b>
<b>Revenue</b>		
Canada Mortgage and Housing Corporation	<b>159,378</b>	166,890
<b>Expenses</b>		
Amortization	136,981	136,982
Insurance	60,195	64,810
Interest on long-term debt	63,583	68,237
Professional fees	13,650	17,115
Repairs and maintenance	47,597	30,143
Salaries and benefits	-	2,828
Telephone	-	7,933
Travel	-	7,853
	<b>322,006</b>	335,901
<b>Deficit</b>	<b>(162,628)</b>	(169,011)

**Hollow Water First Nation**  
**Governance**  
**Schedule 10 - Consolidated Schedule of Operations**  
*For the year ended March 31, 2016*

	<b>2016</b>	<b>2015</b>
<b>Revenue</b>		
Indigenous and Northern Affairs Canada	852,368	593,885
Government of Canada - Department of Justice	120,000	120,000
Province of Manitoba	120,000	120,000
Southeast Resource Development Council Corp.	101,288	125,849
Other	34,387	113,497
Canada Mortgage and Housing Corporation	-	50
	<b>1,228,043</b>	1,073,281
<b>Expenses</b>		
Bad debts (recovery)	-	(44,759)
Insurance	9,716	10,485
Interest on long-term debt	40,430	39,347
Professional fees	89,259	101,594
Repairs and maintenance	11,995	14,825
Salaries and benefits	958,834	939,850
Supplies	48,162	28,294
Telephone	16,907	12,192
Training	23,024	46,150
Travel	90,985	128,827
	<b>1,289,312</b>	1,276,805
<b>Deficit</b>	<b>(61,269)</b>	(203,524)

**Hollow Water First Nation**  
**Community Infrastructure**  
**Schedule 11 - Consolidated Schedule of Operations**  
*For the year ended March 31, 2016*

	<b>2016</b>	<b>2015</b>
<b>Revenue</b>		
Indigenous and Northern Affairs Canada	405,016	723,598
Revenue deferred in prior year	-	816,653
Other	51,052	30,000
Province of Manitoba	15,000	-
	<b>471,068</b>	1,570,251
<b>Expenses</b>		
Amortization	604,842	568,877
Contracted services	29,072	202,569
Insurance	65,452	51,078
Interest on long-term debt	11,430	-
Professional fees	-	13,500
Repairs and maintenance	90,158	174,720
Salaries and benefits	262,818	161,406
Supplies	72,789	28,782
Telephone	972	789
Training	36,107	-
Travel	22,392	41,340
Utilities	18,420	15,747
	<b>1,214,452</b>	1,258,808
<b>Surplus (deficit)</b>	<b>(743,384)</b>	311,443