
HOLLOW WATER FIRST NATION
CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

HOLLOW WATER FIRST NATION

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MARCH 31, 2020

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

The consolidated financial statements have been prepared by management in accordance with Canadian public sector accounting standards prescribed for governments as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada and as such include amounts that are the best estimates and judgments of management.

Management is responsible for the integrity and objectivity of these statements and for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

Chief and Council is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and is ultimately responsible for reviewing and approving the consolidated financial statements.

Chief and 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 consolidated financial statements and the external auditors' report.

The external auditors, Baker Tilly HMA LLP, conduct an independent examination, in accordance with Canadian generally accepted auditing standards, and express their opinion on the consolidated financial statements. The external auditors have full and free access to the financial management of Hollow Water First Nation and meet when required.

Chief

Councillor

Councillor

Councillor

Councillor

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INDEPENDENT AUDITORS' REPORT

To the Chief, Council and Membership
Hollow Water First Nation

Opinion

We have audited the accompanying consolidated financial statements of Hollow Water First Nation, which comprise the statement of financial position as at March 31, 2020, and the statement of operations and accumulated surplus, statement of changes in net debt and the statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Hollow Water First Nation as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Hollow Water First Nation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing Hollow Water First Nation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Hollow Water First Nation or to cease operations, or has no realistic alternative but to do so.

(continued.....)

Those charged with governance are responsible for overseeing Hollow Water First Nation's financial reporting process.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Hollow Water First Nation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Hollow Water First Nation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Hollow Water First Nation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(continued....)

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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Baker Tilly HMA LLP

Chartered Professional Accountants

Winnipeg, Manitoba

May 12, 2022

HOLLOW WATER FIRST NATION

STATEMENT 1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MARCH 31

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FINANCIAL ASSETS

Cash and cash equivalents	\$ 1,729,752	\$ 804,606
Restricted cash (Note 3)	353,856	472,720
Short-term investments	203,282	
Accounts receivable (Note 4)	3,016,155	1,369,108
Investments (Note 5)	<u>3,245,321</u>	<u>3,298,911</u>
	<u>8,548,366</u>	<u>5,945,345</u>

LIABILITIES

Bank indebtedness	24,779	50,066
Demand loan (Note 6)	1,103,986	947,541
First Peoples Economic Growth Inc. loan (Note 7)	186,113	205,594
Accounts payable and accrued liabilities (Note 8)	2,770,328	1,757,989
Deferred revenue & other long-term liabilities (Note 9)	<u>1,060,351</u>	<u>85,635</u>
	<u>5,145,557</u>	<u>3,046,825</u>
LONG TERM DEBT (Note 10)	<u>6,300,132</u>	<u>7,172,325</u>
	<u>11,445,689</u>	<u>10,219,150</u>
NET DEBT	<u>(2,897,323)</u>	<u>(4,273,805)</u>

NON-FINANCIAL ASSETS

Capital assets (Note 11)	20,461,502	10,978,249
Prepaid expenses & other current assets	13,240	27,946
Construction in progress (Note 21)	<u>9,870,538</u>	<u>19,656,219</u>
	<u>30,345,280</u>	<u>30,662,414</u>
ACCUMULATED SURPLUS (Note 12)	<u>\$ 27,447,957</u>	<u>\$ 26,388,609</u>

CONTINGENT LIABILITIES (Note 13)

Approved on behalf of Chief and Council

.....
Chief

.....
Councillor

.....
Henry Marks
Councillor

.....
Councillor

HOLLOW WATER FIRST NATION

STATEMENT 2

CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

YEAR ENDED MARCH 31

	2 0 2 0	2 0 1 9
REVENUE		
Indigenous Services Canada <i>(Note 14)</i>	\$ 10,280,900	\$ 8,173,633
Health Canada <i>(Note 15)</i>	2,816,769	2,347,200
Other	1,511,899	2,751,380
Income from Government Business Partnership	770,000	750,000
Province of Manitoba	182,215	151,996
Southeast Resource Development Council Corporation	319,504	374,416
Canada Mortgage and Housing Corporation	398,293	164,172
Government of Canada - Department of Justice	120,000	180,000
First People's Development Inc.	9,094	
Manitoba hydro	42,158	150,360
Recoveries by federal funding agency	(19,052)	
Administration revenue	239,894	
Rent	165,062	140,580
Tobacco tax rebate	29,764	
GST and sales tax rebates	13,467	8,813
Ottawa Trust interest	699	1,663
Assembly of Manitoba Chiefs	333,462	-
Revenue deferred in prior year	85,635	3,123,754
Revenue deferred to subsequent year	(1,060,351)	(85,635)
	<u>16,249,370</u>	<u>18,222,374</u>
EXPENDITURES	-	
Administration	2,043,808	1,784,770
Capital Projects	133,629	128,043
Education	4,500,502	4,285,043
First Nation Programs	2,080,663	1,891,878
Health	2,691,767	2,251,858
Housing	285,928	253,246
Operations and Maintenance	2,026,169	902,849
Social Assistance	1,016,149	1,030,125
Weri Construction Ltd.	411,407	1,251,656
	<u>15,190,022</u>	<u>13,779,468</u>
ANNUAL SURPLUS	1,059,348	4,442,906
ACCUMULATED SURPLUS, <i>beginning of year</i>	<u>26,388,609</u>	<u>21,945,703</u>
ACCUMULATED SURPLUS, <i>end of year</i>	<u>\$ 27,447,957</u>	<u>\$ 26,388,609</u>

HOLLOW WATER FIRST NATION

STATEMENT 3

CONSOLIDATED STATEMENT OF CHANGES IN NET DEBT

YEAR ENDED MARCH 31

	2020	2019
Annual surplus	\$ 1,059,348	\$ 4,442,906
Acquisition of tangible capital assets	(693,803)	(1,142,017)
Amortization of tangible capital assets	1,172,862	890,511
Acquisition of construction in progress	(176,631)	(3,637,641)
	<u>302,428</u>	<u>(3,889,147)</u>
Acquisition of prepaid expenses	(13,240)	(27,946)
Use of prepaid expenses	<u>27,946</u>	<u>7,888</u>
	<u>14,706</u>	<u>(20,058)</u>
DECREASE IN NET DEBT FOR YEAR	1,376,482	533,701
NET DEBT, <i>beginning of year</i>	(4,273,805)	(4,807,506)
NET DEBT, <i>end of year</i>	<u>\$ (2,897,323)</u>	<u>\$ (4,273,805)</u>

HOLLOW WATER FIRST NATION

STATEMENT 4

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31

	2 0 2 0	2 0 1 9
CASH FLOW FROM		
<i>OPERATING ACTIVITIES</i>		
Cash received from Indigenous Services Canada (ISC)	\$ 10,280,900	\$ 8,173,633
Cash received from other sources	5,296,139	6,506,501
Cash paid to suppliers and employees	<u>(12,990,115)</u>	<u>(14,795,108)</u>
	<u>2,586,924</u>	<u>(114,974)</u>
<i>CAPITAL ACTIVITIES</i>		
Acquisition of tangible capital assets	<u>(693,803)</u>	<u>(1,142,017)</u>
Acquisition of construction cost	<u>(176,631)</u>	<u>(3,637,641)</u>
	<u>(870,434)</u>	<u>(4,779,658)</u>
<i>INVESTING ACTIVITIES</i>		
Change in restricted cash and short term investment	<u>(30,828)</u>	<u>2,691,274</u>
<i>FINANCING ACTIVITIES</i>		
Proceeds of long term debt	4,564,974	
Repayment of long term debt	<u>(872,193)</u>	<u>(3,353,926)</u>
Advance of demand loan payable	156,445	393,313
First People Economic Growth Fund Inc. loan	<u>(19,481)</u>	<u>(20,714)</u>
	<u>(735,229)</u>	<u>1,583,647</u>
NET INCREASE (DECREASE) IN CASH DURING YEAR	950,433	(619,711)
CASH, <i>beginning of year</i>	<u>754,540</u>	<u>1,374,251</u>
CASH, <i>end of year</i>	<u>\$ 1,704,973</u>	<u>\$ 754,540</u>

Cash consists of the following:

Cash - unrestricted	\$ 1,729,752	\$ 804,606
Bank indebtedness	<u>(24,779)</u>	<u>(50,066)</u>
	<u>\$ 1,704,973</u>	<u>\$ 754,540</u>

HOLLOW WATER FIRST NATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

1. NATURE OF OPERATIONS

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

These consolidated financial statements are the representations of management and have been prepared in accordance with Canadian public sector accounting standards prescribed for governments, as defined by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada, which encompasses the following principles.

REPORTING ENTITY

The consolidated financial statements report the financial activities of all entities and departments comprising the reporting entity of the First Nation.

PRINCIPLES OF CONSOLIDATION

All entities controlled by the First Nation are fully consolidated on a line-by-line basis except for the commercial enterprises that meet the definition of a government business enterprise, which are included in the consolidated financial statements using the modified equity method of accounting.

These consolidated financial statements combine the assets, liabilities, revenue and expenditures of the following entities and departments:

- Hollow Water First Nation
- Hollow Water First Nation Housing Authority
- Hollow Water First Nation Gaming Centre
- Wanipigaa-Sibi Development Corporation

All inter-entity balances have been eliminated on consolidation. However, transactions between departments have not been eliminated in order to present the results of operations for each specific department.

The First Nation has accounted for its interest in a government partnership called Hollow Water Weri Construction Ltd., of which First Nation own 51% of the common shares according to the proportionate consolidation method.

Incorporated and unincorporated business entities which are owned and controlled by the First Nation but which are not dependent on the First Nation for their continuing operations are included in the consolidated financial statements using the modified equity method of accounting whereby only the First Nation's investment in the government business enterprise and the business enterprise's net income and other changes in equity are recorded. The enterprise's accounting principles are not adjusted to conform to those of the First Nation. Entities accounted for by the modified equity method include:

- South Beach Casino Limited Partnership

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

ASSET CLASSIFICATION

Assets are classified as either financial or non-financial. Financial assets are assets that could be used to discharge existing liabilities or finance future operations. Non-financial assets are acquired, constructed or developed assets that do not provide resources to discharge existing liabilities but are employed to deliver government services, may be consumed in normal operations and are not for resale. Non-financial assets include tangible capital assets and prepaid expenses.

CASH - UNRESTRICTED

Cash - unrestricted includes cash on hand, balances with banks net of bank overdrafts and short-term investments having a maturity of three months or less at acquisition which are held for the purpose of meeting short term cash commitments. Cash subject to restrictions preventing its use for current purposes is included in restricted cash.

RESTRICTED CASH

Cash subject to restrictions that prevent its use for current purposes is included in restricted cash.

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 liabilities less its financial assets. Net debt is comprised of two components, non-financial assets and accumulated surplus.

NON-FINANCIAL ASSETS

The First Nation's tangible capital assets and other non-financial 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 First Nation unless they are sold.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

TANGIBLE CAPITAL ASSETS

Tangible capital assets include acquired, built, developed and improved tangible capital assets, whose useful life extends beyond one year and which are intended to be used on an ongoing basis for producing goods or delivering services.

Tangible capital assets acquired are reported at net book value.

Residential buildings acquired under Canada Mortgage and Housing Corporation ("CMHC") sponsored programs are amortized at a rate equivalent to the annual principal reduction in the related long term debt. Assets under construction are not amortized until the asset is available to be put into service.

Contributions received to assist in the acquisition of tangible capital assets are reported as deferred revenue and amortized at the same rate as the related asset.

Amortization of tangible capital assets is provided for on the straight line method intended to amortize the cost of the assets over their estimated useful lives:

Ball field	20 years
Band housing	15 years
Buses	10 years
Community buildings	25 years
Equipment	5 years
Heavy equipment	12 years
Infrastructure	40 years
Lagoon	40 years
Roads and Bridges	40 years
Subsidized housing	25 years
Vehicles	5 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 amount of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from its use and disposal are less than the asset's carrying amount. Impairment is measured as the amount by which the asset's carrying amount exceeds its fair value. Any impairment is included in the statement of operations and accumulated surplus for the year in which the asset becomes impaired.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

REVENUE RECOGNITION

Revenue is recognized in the year in which the transactions or events occurred that gave rise to the revenue. All revenue is recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when its estimation is impracticable.

Government transfer revenue which includes Indigenous Services Canada (ISC), Health Canada and Canada Mortgage and Housing Corporation (CMHC) is recognized as revenue when the transfer is authorized and any eligibility criteria under the terms of the applicable funding agreement are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfer revenue is recognized in the statement of operations and accumulated surplus as the stipulations are settled.

Contributions from other sources are deferred when restrictions are placed on their use by the contributor, and are recognized as revenue when used for the specific purpose.

Revenue related to fees or services received in advance of the fee being earned or the service performed is deferred and recognized when the fee is earned or service performed.

All other types of revenue are recognized by the First Nation when the services are provided or the goods are shipped.

SEGMENTS

The First Nation conducts its business through eight reportable segments as identified in Note 24. 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 separately reported, the segment revenue and expenditures represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. Therefore, certain allocation methodologies are employed in the preparation of segmented financial information.

The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in the Basis of Presentation and Summary of Significant Accounting Policies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS

Financial instruments include cash, restricted cash, accounts receivable, long term investments, accounts payable and accrued liabilities, deferred revenue 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 risks arising from these financial instruments and the carrying value of the First Nation's financial assets and liabilities approximates their fair value.

FAIR VALUE

Due to the short term nature of all financial instruments other than long term investments and long term debt, the carrying value as presented in the consolidated financial statements are reasonable estimates of fair value. Management has estimated fair value by reference to established financial markets. As is true for all estimates, actual fair value could differ from this estimate, and if so, any difference would be accounted for in the year in which it becomes known. For long term investments and long term debt it is not practicable within the constraints of timeliness or cost to determine the fair value with sufficient reliability because the financial instruments are not traded in an organized financial market.

USE OF ESTIMATES

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 certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of certain revenue and expenditures during the reporting year.

Accounts receivable are stated after estimates as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. Amortization of tangible capital assets is provided for on the declining balance basis.

These estimates are reviewed periodically and, as adjustments become necessary, they are reported in the statement of operations and accumulated surplus in the year in which they become known.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

3. RESTRICTED CASH

CMHC REPLACEMENT RESERVE

Under the terms of the operating agreements with Canada Mortgage and Housing Corporation (CMHC), the replacement reserve is to be credited with an annual allocation of \$31,570 (March 31, 2019 - \$31,570). The annual replacement reserve allocation for new CMHC housing projects during the year is pro-rated consistent with the interest adjustment date established for the corresponding mortgage. These funds, along with accumulated interest, must be held in a separate bank account and/or invested in accounts or instruments insured by the Canada Deposit Insurance Corporation or as may otherwise be approved by CMHC from time to time. The funds in the account may only be used as approved by CMHC. Expenditures are charged to accumulated interest first and then to principal. At year end the required fund balance in CMHC replacement reserve was \$345,063 (March 31, 2019 - \$313,493). As of March 31, 2020, the accumulated balance of \$169,437 (March 31, 2019 - \$185,250) in this reserve was underfunded by \$175,626 and due from operating (March 31, 2019 - 128,243).

OTTAWA TRUST FUND

The Ottawa Trust Fund arises from monies derived from capital or revenue sources as outlined in Section 62 of the Indian Act. Capital trust monies are derived from non-renewable resource transactions on the sale of lands or other First Nation tangible capital assets. Capital trust monies are expended on the authorization of the Minister of Indigenous Services Canada, with the consent of the First Nation's Chief and Council. Revenue trust monies are generated primarily through land-leasing transactions or interest earned on deposits in the Consolidated Revenue Fund of the Government of Canada. Revenue trust monies are, in most cases, managed and expended under the provisions of Sections 63 to 69 of the Indian Act.

SHAWANO CONSULTING SERVICES LTD.

Funds held in trust by construction contractor relate to government transfer revenue that must be spent on particular costs of construction and renovations.

	2 0 2 0	2 0 1 9
Ottawa Trust Fund		
Revenue Trust	\$ 19,955	\$ 19,255
Capital Trust	<u>5,561</u>	<u>5,562</u>
	<u>25,516</u>	<u>24,817</u>
CMHC Replacement Reserve		
Cash	58,926	47,045
Term deposit, bearing interest at 2.20%, maturing June 9, 2019. On July 3, 2019, the First Nation invested \$200,000 into another term deposit bearing interest at 2.20%, maturing July 2, 2020.	<u>110,511</u>	<u>138,205</u>
	<u>169,437</u>	<u>185,250</u>
Shawano Consulting Services Ltd.	<u>158,903</u>	<u>262,653</u>
	<u>\$ 353,856</u>	<u>\$ 472,720</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

4. ACCOUNTS RECEIVABLE

	2 0 2 0	2 0 1 9
Indigenous Services Canada	1,641,258	785,259
Canada Mortgage and Housing Corporation	92,087	14,401
First Nation Members	257,102	257,102
GST receivable	14,837	12,486
Trade and other	<u>1,280,777</u>	<u>569,766</u>
	<u>3,286,061</u>	<u>1,639,014</u>
Allowance for doubtful accounts		
First Nation Members	(257,102)	(257,102)
Trade and other	<u>(12,804)</u>	<u>(12,804)</u>
	<u>(269,906)</u>	<u>(269,906)</u>
	<u><u>\$ 3,016,155</u></u>	<u><u>\$ 1,369,108</u></u>

5. INVESTMENTS

	2 0 2 0	2 0 1 9
South Beach Casino Limited Partnership		
Balance, <i>beginning of year</i>	\$ 3,298,911	\$ 3,401,087
Partnership income	607,542	762,146
Withdrawals	<u>(861,132)</u>	<u>(864,322)</u>
Subtotal	3,045,321	3,298,911
Guaranteed investment certificate @2.20% maturity date July 02, 2020	<u>200,000</u>	-
	<u><u>\$ 3,245,321</u></u>	<u><u>\$ 3,298,911</u></u>

The First Nation's investment in South Beach Casino Limited Partnership represents a one-seventh ownership that was established for the purpose of operating a casino and hotel on the Brokenhead Ojibway Nation land at Scanterbury, Manitoba. The investment in this partnership is accounted for in accordance with the modified equity method. The First Nation's investment in the partnership is recorded at acquisition cost and is increased for the proportionate share of post acquisition earnings and decreased by post acquisition losses and withdrawals. Summary information for South Beach Casino Limited Partnership has not been disclosed in the notes to these consolidated financial statements due to its sensitive nature.

6. DEMAND LOAN

The First Nation's demand loan payable, principal plus interest (prime + 0.25%) consists of an authorized loan to maximum of \$2,988,160 which can only be used for specified purpose pertaining to a legal claim against the Government of Canada. The loan is secured by an assignment and redirection of \$2,988,160 from a successful legal settlement, a commercial litigation insurance policy, a security bond of indemnity and a general security agreement.

2 0 2 0 2 0 1 9

\$ 1,103,986 \$ 947,541

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

7. FIRST PEOPLES ECONOMIC GROWTH FUND INC. LOANS

The First Nation owns 51% of Hollow Water - WERI Construction Ltd. During 2018, Hollow Water - WERI Construction Ltd. (the "Company"), obtained loan financing from First Peoples Economic Growth Fund Inc. The First Nation has guaranteed the repayment of the following loans entered into by the Company. The financing was obtained in order for Hollow Water - WERI Construction Ltd. to purchase heavy equipment and to provide for insurance, marketing and other administrative costs.

The loan advances from the First Peoples Economic Development Fund are secured by:

- 1) A promissory note from Hollow Water - WERI Construction Ltd.
- 2) A joint and several loan guarantee by the owners of Hollow Water - WERI Construction Ltd., including the First Nation
- 3) A general security agreement registered as a first charge covering all property owned by Hollow Water - WERI Construction Ltd.
- 4) Insurance coverage with a face value of no less than \$310,000
- 5) An Access Agreement signed by the Chief and Council of Hollow Water First Nation
- 6) A Band Council Resolution signed by the Chief and Council of Hollow Water First Nation
- 7) A waiver of Indian Act Restrictions on Enforcement signed by the Chief and Council of Hollow Water First Nation.

The loan advances from the First Peoples Economic Growth Fund Inc. are outlined below:

	2 0 2 0	2 0 1 9
Community Economic Expansion Program Loan This loan is non-interest bearing and requires 84 monthly principal payments of \$1,882.	\$ 114,811	\$ 135,514
Joint Venture Program Loan This loan requires 84 monthly payments of \$2,220 including interest at 6.00%.	116,375	133,869
Business Contribution Fund Forgivable Loan This loan is forgivable if after three years (the "control period") financial statements are prepared and submitted along with a "Business Performance Review." If the business does not remain in operation or changes in any significant way during the control period (i.e. sale of a significant asset or the acquisition of a partner), the non-repayable contribution will be deemed to be repayable and collection efforts will commence.	133,742	133,742
Less: Reduction of non-controlling share The proportionate share of the loans that pertains to the other co-owner of Hollow Water - WERI Construction Ltd. is excluded from the loan balance in the First Nation's consolidated financial statements.	(178,815)	(197,531)
	<u>\$ 186,113</u>	<u>\$ 205,594</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2 0 2 0	2 0 1 9
Water treatment plant and lagoon expansion	263,250	263,250
Trade payables and accruals	<u>2,507,078</u>	<u>1,494,739</u>
	<u><u>\$ 2,770,328</u></u>	<u><u>\$ 1,757,989</u></u>

9. DEFERRED REVENUE

	2 0 2 0	2 0 1 9
Indigenous Services Canada (ISC)		
Water treatment plant and lagoon expansion	\$ 42,618	\$
Major, renovation and expansion	<u>151,229</u>	35,000
Capacity development		20,000
Basic needs	74,688	30,635
Basic governance	22,707	
Capacity building	60,500	
Band housing	<u>290,594</u>	
Tuition	6,103	
Community well being	<u>38,488</u>	-
	<u><u>686,927</u></u>	<u><u>85,635</u></u>
Health Canada		
Jordon's principal	145,332	
Climate change	<u>15,910</u>	-
	<u><u>161,242</u></u>	-
Other	<u>212,182</u>	-
	<u><u>\$ 1,060,351</u></u>	<u><u>\$ 85,635</u></u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

10. LONG TERM DEBT

	2 0 2 0	2 0 1 9
CMHC mortgage, with payments of \$2,125 per month including interest at 1.05%, maturing February 2031, with a scheduled renewal date of August 2021.	\$ 262,874	\$ 285,479
CMHC mortgage, with payments of \$670 per month including interest at 2.41%, maturing February 2033, with a scheduled renewal date of April 2023.	89,206	95,023
CMHC mortgage, with payments of \$2,322 per month including interest at 2.22%, maturing September 2033, with a scheduled renewal date of April 2024.	325,017	345,440
CMHC mortgage, with payments of \$2,240 per month including interest at 1.05%, maturing January 2035, with a scheduled renewal date of August 2021.	369,067	391,936
CMHC mortgage, with payments of \$3,210 per month including interest at 1.05%, maturing March 2036, with a scheduled renewal date of August 2021.	567,184	599,562
CMHC mortgage, with payments of \$1,908 per month including interest at 1.30%, maturing May 2037, with a scheduled renewal date of June 2022.	352,282	370,476
CMHC mortgage, with payments of \$2,625 per month including interest at 2.21%, maturing February 2034, with a scheduled renewal date of February 2024.	377,359	400,268
Term loan, secured by a guaranteed investment certificate described in Note 3, with monthly payments of \$2,262 including interest at bank prime of 3.95% plus 1%, maturing May 2023, with the scheduled renewal date of May 2021.	88,214	115,357
Term loan, with monthly payments of \$3,723 including interest at 5.62%, maturing November 2031, with the next scheduled renewal in November 2021, 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.	381,674	404,078
Term loan, requiring semi annual payment principal payments of \$677,451 with monthly payments of interest at 6.05% (prime rate of 3.95% plus 2.10%), maturing May 2025.	<u>3,487,255</u>	<u>4,164,706</u>
	<u><u>\$ 6,300,132</u></u>	<u><u>\$ 7,172,325</u></u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

10. LONG TERM DEBT *(continued)*

CMHC mortgages are secured by a ministerial guarantee by the Government of Canada and assignment of all risks insurance.

Term loans borrowed from First Nations Bank of Canada, are secured by a general security agreement, assignment of designated property, Band Council Resolutions authorizing the borrowing and assignment of all risks insurance.

The scheduled principal payments required in each of the next five years to meet retirement provisions are estimated to be as follows:

March 31, 2022	\$ 1,619,929
2023	1,694,998
2024	1,627,644
2025	479,813
2026	470,422
Thereafter	<u>407,326</u>
	 <u>\$ 6,300,132</u>

HOLLOW WATER FIRST NATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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MARCH 31, 2020

11. TANGIBLE CAPITAL ASSETS

	Cost			Accumulated Amortization			Net Book Value	
	Opening Balance	Additions, Adjustments and Disposals	Closing Balance	Opening Balance	Amortization	Closing Balance	Total	Total
							2020	2019
Ball field	\$ 32,848	\$ 32,848	\$ 32,848	\$ 32,848	\$ 268,027	\$ 32,848	\$ 3,343,220	\$ 3,611,247
Band Housing	9,729,678		9,729,678	6,118,431	268,027	6,386,458		
Buses	337,180		337,180	320,006	8,587	328,593	8,587	17,174
Community buildings	2,381,412	40,000	2,421,412	1,691,675	68,835	1,760,510	660,902	689,737
Equipment	21,475	15,714	37,189	14,613	9,208	23,821	13,368	6,862
Heavy equipment	1,617,303		1,617,303	935,070	130,419	1,065,489	551,814	682,233
Infrastructure	6,454,919		6,454,919	3,909,947	161,373	4,071,320	2,383,599	2,544,972
Lagoon		10,501,983	10,501,983		262,550	262,550	10,239,433	
Roads and Bridges	1,531,727		1,531,727	1,251,548	33,461	1,285,009	246,718	280,179
Subsidized housing	3,832,723		3,832,723	826,784	145,195	971,979	2,860,744	3,005,939
Vehicles	904,286	98,418	1,002,704	764,380	85,207	849,587	153,117	139,906
	<u>\$ 26,843,551</u>	<u>\$ 10,656,115</u>	<u>\$ 37,499,666</u>	<u>\$ 15,865,302</u>	<u>\$ 1,172,862</u>	<u>\$ 17,038,164</u>	<u>\$ 20,461,502</u>	<u>\$ 10,978,249</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

12. ACCUMULATED SURPLUS

	2 0 2 0	2 0 1 9
Accumulated surplus (deficit) from operations	\$ (199,851)	\$ (710,755)
Equity in tangible capital assets	24,031,908	23,462,143
Equity in long term investments	3,245,321	3,298,911
Ottawa Trust	25,516	24,817
Replacement reserve	<u>345,063</u>	<u>313,493</u>
	<u><u>\$ 27,447,957</u></u>	<u><u>\$ 26,388,609</u></u>

13. CONTINGENT LIABILITIES

The First Nation receives funding from various government agencies based on specified program needs and budgets and allocates certain expenses to the various programs. In many cases the funding agent has the right to review the accounting records to ensure compliance with the terms and conditions of their funding agreements. At this time, it was not yet determined to what extent any funding amounts related to the fiscal year ended March 31, 2019 might be recovered.

For accounting purposes, any amounts assessed or claims paid will be accounted for in the year of determination.

14. RECONCILIATION OF INDIGENOUS SERVICES CANADA (ISC) REVENUE

	2 0 2 0	2 0 1 9
ISC funding per agreement #1718-MB-000026 (MANITOBA)	<u>\$ 10,280,900</u>	<u>\$ 8,173,633</u>
Total ISC revenue per financial statements	<u><u>\$ 10,280,900</u></u>	<u><u>\$ 8,173,633</u></u>

15. RECONCILIATION OF HEALTH CANADA REVENUE

	2 0 2 0	2 0 1 9
Health Canada funding per agreement #1617-MB-000002 (MANITOBA)	<u>\$ 2,816,769</u>	<u>\$ 2,347,200</u>
Total Health Canada revenue per financial statements	<u><u>\$ 2,816,769</u></u>	<u><u>\$ 2,347,200</u></u>

16. ECONOMIC DEPENDENCE

Hollow Water First Nation receives a majority of its revenue from Indigenous Services Canada (ISC) and Health Canada pursuant to funding arrangements with the Government of Canada. The ability of the First Nation to continue operations is dependent upon the Government of Canada's continued financial commitments as guaranteed by the funding arrangements.

17. RELATED PARTY TRANSACTIONS

In the normal course of operations, the First Nation enters into transactions with related parties. Related party transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Due to the significant volume of transactions between the First Nation and its related parties, aggregate revenue and expenditures derived from related party transactions is not determinable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

18. SEGMENTS

The First Nation has nine reportable segments. These segments are differentiated by the major activities or services they provide. The First Nation's segments are as follows:

Administration - activities include the governance function relating to decisions that define expectations, grant power or verify performance consisting of decision-making and leadership processes.

Capital - provide infrastructure for better access and facilities to community and businesses and provide opportunities both within and beyond the community for better economic environment.

Education - activities include overseeing many aspects of educational opportunities for community members at all levels of learning both within the community and externally.

First Nation Programs - activities include the management and expenditure of revenue generated within the community.

Health - activities include the delivery of programs to promote community health and to address environmental issues and non-insured health benefits.

Hollow Water - WERI Construction Ltd. - activities include the reporting of the First Nation's proportionate share in a company called Hollow Water - WERI Construction Ltd.

Housing - activities include the provision of residential housing opportunities for community members.

Operations and Maintenance - activities include the development and maintenance of the community's infrastructure, buildings, roads, bridges and related equipment and the provision of other more specialized community services.

Social Assistance - activities include satisfying the economic, social or health related needs of community members who require assistance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

19. EXPENDITURES BY OBJECT

	2 0 2 0	2 0 1 9
Amortization	\$ 1,172,862	\$ 890,511
Community events	199,969	111,027
Contracted services	1,164,546	924,808
Insurance	242,581	252,529
Interest on long-term debt	447,053	334,753
Member disbursements	13,498	274,866
Professional fees	172,947	440,644
Repairs and maintenance	980,650	915,246
Supplies	415,750	162,623
Telephone	29,587	24,473
Salaries and benefits	3,094,285	2,820,616
Social assistance	934,162	944,814
Tuition	4,178,654	4,064,312
Utilities	65,342	59,261
Training	265,095	66,417
Travel	444,463	388,870
Office	85,076	84,400
Administration	497,832	395,878
Band member dividends	268,599	242,360
Bank charges and interest	16,640	25,796
Elders assistance	26,372	13,381
Honorarium	90,690	87,703
Community services	337,917	200,693
Rent	45,452	53,487
	<u>\$ 15,190,022</u>	<u>\$ 13,779,468</u>

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

21. CONSTRUCTION IN PROGRESS

	2 0 2 0	2 0 1 9
Water treatment plant and lagoon expansion	\$ 9,330,867	\$ 19,656,219
4 Unit Housing	<u>539,671</u>	-
	<u><u>\$ 9,870,538</u></u>	<u><u>\$ 19,656,219</u></u>

22. COVID-19

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in a widespread health crisis that has affected economies and financial markets around the world resulting in an economic downturn. This outbreak may also cause staff shortages, increased or reduced funding availability, increased or decreased demand for services, increased government regulations or interventions, all of which may negatively impact the financial conditions or results of operations of the Nation. The duration and impact of the COVID-19 outbreak is unknown at this time and it is not possible to reliably estimate the length and severity of these developments.

23. BUDGET

Canadian public sector accounting (PSA) standards require the disclosure of budget information for comparison to the First Nation's actual revenue and expenses based on the original approved budget. Hollow Water First Nation prepared a budget for the year ended March 31, 2020 for the departments related to Indigenous Services Funding, however, we have not been provided the budgeted information. The consolidated budgeted revenue and expenses, and surplus have not been reported in these consolidated financial statements. There are no effect on the reported revenue, expenses, and surplus, however, the omission of this information is considered a departure from PSA standards.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

24. SEGMENT DISCLOSURE

Hollow Water First Nation provides a range of services to its members. For management reporting purposes, operations and activities are reported by department. For each segment separately reported, the segment revenue and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. The presentation by segment is based on the same accounting policies as described in the Summary of Significant Accounting Policies as described in Note 2. The segment results for the year are as follows:

	Band Administration		Capital Project		Education		First Nation Programs		Health	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Revenues										
Federal Government										
ISC	\$ 1,821,047	\$ 857,836	\$ 352,092	\$ 894,257	\$ 4,609,466	\$ 4,385,308	\$ 20,032	\$ 65,510	\$ 65,510	
Health Canada										2,816,769
CMHC	193,625						31,850	19,561		2,347,200
Deferred from prior				2,573,167		161,593		40,946		
Deferred to following	(121,695)	-	(42,618)	-	(6,103)	-	(212,182)	-	(161,242)	-
Subtotal	1,892,977	857,836	309,474	3,467,424	4,603,363	4,546,901	(160,300)	60,507	2,721,037	2,760,758
Other revenue	246,866	636,043	-	-	20,000	17,070	2,436,476	2,503,640	325,812	6,699
Total revenue	2,139,843	1,493,879	309,474	3,467,424	4,623,363	4,563,971	2,276,176	2,564,147	3,046,849	2,767,457
Expenses										
Amortization	933,189	708,907								9,842
Debt servicing		217,427					405,503			
Other	442,134	442,117	64,882	81,995	4,264,612	4,099,022	1,192,309	1,213,290	1,326,333	1,056,564
Salaries and benefits	668,485	416,319	68,747	46,048	235,890	186,021	482,851	678,588	1,355,592	1,195,294
Total expenses	2,043,808	1,784,770	133,629	128,043	4,500,502	4,285,043	2,080,663	1,891,878	2,691,767	2,251,858
Surplus (Deficit)	\$ 96,035	\$(290,891)	\$ 175,845	\$ 3,339,381	\$ 122,861	\$ 278,928	\$ 195,513	\$ 672,269	\$ 355,082	\$ 515,599

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

24. SEGMENT DISCLOSURE *(continued)*

	Housing		Operation and Maintenance		Social		Construction	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Revenues								
Federal Government								
ISC	\$ 172,818	\$ 20,000	\$ 2,329,583	\$ 902,048	\$ 1,083,170	\$ 1,048,674	\$ -	\$ -
CMHC		144,611						
Deferred from prior	20,000		35,000		30,635			
Deferred to following	-	(20,000)	(441,823)	(35,000)	(74,688)	(30,635)	-	-
Subtotal	192,818	144,611	1,922,760	867,048	1,039,117	1,018,039	-	-
Other revenue	656,418	161,640	2,120	15,719	-	23,796	40,432	1,134,643
Total revenue	849,236	306,251	1,924,880	882,767	1,039,117	1,041,835	40,432	1,134,643
Expenses								
Amortization	145,195	120,307					84,636	61,297
Debt servicing	35,816							
Other	104,917	132,939	1,853,157	748,222	965,945	964,898	267,267	1,111,867
Salaries and benefits			173,012	154,627	50,204	65,227	59,504	78,492
Total expenses	285,928	253,246	2,026,169	902,849	1,016,149	1,030,125	411,407	1,251,656
Surplus (Deficit)	\$ 563,308	\$ 53,005	\$ (101,289)	\$ (20,082)	\$ 22,968	\$ 11,710	\$ (370,975)	\$ (117,013)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

24. SEGMENT DISCLOSURE *(continued)*

	TOTAL	
	<u>2020</u>	<u>2019</u>
Revenues		
Federal Government		
ISC	\$ 10,280,900	\$ 8,173,633
Health Canada	2,816,769	2,347,200
CMHC	398,293	164,172
Deferred from prior	85,635	3,123,754
Deferred to following	<u>(1,060,351)</u>	<u>(85,635)</u>
Subtotal	12,521,246	13,723,124
Other revenue	3,728,124	4,499,250
Total revenue	16,249,370	18,222,374
Expenses		
Amortization	1,172,862	890,511
Debt servicing	441,319	217,427
Other	10,481,556	9,850,914
Salaries and benefits	<u>3,094,285</u>	<u>2,820,616</u>
Total expenses	15,190,022	13,779,468
Annual surplus	\$ 1,059,348	\$ 4,442,906