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November 19, 2024

Chief and Council
Little Grand Rapids First Nation
General Delivery
Little Grand Rapids, MB
R0B 0V0

Our File No. 5264

Dear Ladies and Gentlemen:

We have completed our examination of the consolidated financial statements of Little Grand Rapids First Nation for the year ended March 31, 2024 The purpose of this letter is to bring to your attention certain matters that were encountered during the course of our work, and to offer our comments and recommendations. These comments, by their nature, are critical as they relate solely to weaknesses and do not address the many strong features and controls within Little Grand Rapids First Nation's systems.

The objective of an audit is to obtain reasonable assurance whether the financial statements are free of material misstatement and it is not designed to identify matters that may be of interest to management. Accordingly, an audit would not usually identify all such matters. We reviewed and tested Little Grand Rapids First Nation's financial systems and related internal controls to the extent we considered necessary to evaluate the systems as required by generally accepted auditing standards. Our study and evaluation with respect to these financial systems was not designed for the purpose of expressing an opinion on internal controls. It would not necessarily disclose all weaknesses in the systems.

Our major findings were as follows:

**CURRENT YEAR FINANCIAL STATEMENTS**

The net assets and change in net assets for the year are key indicators of the overall financial health and financial performance for Little Grand Rapids First Nation. For the fiscal year ending March 31, 2024, the First Nation had an increase in net assets of $1,305,097 (March 31, 2023 net asset decrease of $50,019) resulting in an accumulated net asset balance of $1,653,074 as of March 31, 2024 (March 31, 2023 net asset balance of $347,977). Statement 3 of the consolidated financial statements outlines the change in net assets for the year. The net asset balance is presented on the statement of financial position and is calculated by subtracting financial assets from liabilities. If financial assets are greater this results in a net asset position. If liabilities are greater, a net debt position is the result.

The $1,305,097 increase in net assets is due to a decrease in accounts payable and accrued liabilities by $1,691,262. The increase in net assets can also be contributed to a $1,851,102 net increase in unexpended funding and deferred revenue during the year. As financial assets are used to address unexpended funding, a decrease in net assets should be expected.

Of the total $22,981,058 in liabilities as of March 31, 2024, $5,084,128 (22%) is for CMHC Housing mortgages which will continue to be partially subsidized annually by CMHC if Little Grand Rapid's continues to meet the terms of CMHC's operating agreement.

Using figures derived from the consolidated financial statements, the following is a summary of financial results;

| | 2024 | 2023 | 2022 |
|---|---|---|---|
| Total Financial Assets | $ 24,634,132 | $ 24,134,960 | $ 22,387,919 |
| Current/Liquid Assets | 20,918,144 | 20,710,522 | 19,337,148 |
| Total Liabilities | 22,981,058 | 23,786,983 | 21,989,923 |
| Current Liabilities | 13,534,804 | 15,731,356 | 14,513,071 |
| Working Capital (Deficit) | 7,383,340 | 4,979,166 | 4,824,077 |
| Ending Net Assets (Debt) | 1,653,074 | 347,977 | 397,996 |
| Change in Net Assets (Debt) for year | 1,305,097 | ( 50,019) | 1,170,609 |
| Accumulated Surplus | 98,770,196 | 94,514,225 | 91,113,208 |
| Total ISC Revenue | 28,911,508 | 24,975,108 | 24,448,984 |
| Total Revenue | 43,702,438 | 40,450,345 | 35,817,724 |
| Total Expenses | 39,446,467 | 37,049,328 | 28,429,196 |
| Annual Surplus | $ 4,255,971 | $ 3,401,017 | $ 7,388,528 |

## UNEXPENDED FUNDING

As of March 31, 2024, Little Grand Rapids is expected to have $8,860,655 of ISC funding in unexpended funding to report as revenue in the 2024/25 fiscal year.

ISC tracks unexpended funding in each program and identifies any unexpended amounts in their year end audit review letter that is issued to Chief and Council. Unexpended amounts are required to be spent in the following fiscal year or transferred to another eligible program to avoid possible funding recoveries.

We recommend Little Grand Rapids review their unexpended funding as of March 31, 2024, and budget accordingly to utilize these funds in 2024/25.

## FINANCIAL RATIOS

The following three financial ratios are used by Indigenous Services Canada (ISC) as indicators to help assess the financial health of a First Nation. These ratios are only a first level indicator to assess a First Nation's financial situation, additional ratios and tools are used by ISC to finalize their financial assessment process.

## WORKING CAPITAL/LIQUIDITY RATIO

The working capital ratio calculates whether there are sufficient assets to cover liabilities over the short term. It is a measure of short term financial health. The ratio is calculated by dividing current assets by current liabilities. Current assets are expected to be received in the next year, while current liabilities are expected to be paid within the next year. ISC's current working capital threshold is 90%; a ratio higher than 90% is good; a ratio below 90% is an indicator that an entity will have trouble addressing its current liabilities.

| | 2024 | 2023 | 2022 |
|---|---|---|---|
| Total Financial Assets | $24,634,132 | $24,134,960 | $22,387,919 |
| Less: Restricted Cash (excl. capital projects) | ( 26,567) | ( 24,738) | ( 23,070) |
| Investments | ( 3,689,421) | ( 3,399,700) | ( 3,027,701) |
| Current Assets | $20,918,144 | $20,710,522 | $19,337,148 |
| Total Liabilities | 22,981,058 | 23,786,983 | 21,989,923 |
| Long term portion of long term debt | ( 9,446,254) | ( 8,055,627) | ( 7,476,852) |
| Current Liabilities | $13,534,804 | $15,731,356 | $14,513,071 |
| Working Capital Ratio | 154.55% | 131.65% | 133.24% |

Little Grand Rapids working capital ratio increased to 154.55% compared to 131.65% for 2022/23. The ratio exceeds the 90% threshold and the increase can be contributed to a $2,382,694 increase in unexpended funding during the year. This ratio indicates that the First Nation would be able to manage its current liabilities with its current assets.

Although, this ratio is expected to decrease as Little Grand Rapids utilizes cash resources towards the $8,860,655 in unexpended funding balance as of March 31, 2024. Had the $8.8M of unexpended funding been spent as of March 31, 2024, Little Grand Rapid's working capital ratio would have decreased to 89.09%, which is just below ISC's 90% threshold.

## SUSTAINABILITY (NET DEBT) RATIO

The sustainability ratio calculates the ability to service operational and capital obligations over the long term. This indicates a government's capacity to operate over the long term given its relative debt levels. The ratio is calculated by dividing total financial assets, less restricted and investment assets over total liabilities. ISC's current sustainability threshold is 50%. If the calculated ratio is 50% or higher, this indicates the government can sustain itself in the long term by addressing its liabilities with the assets at its disposal.

| | 2024 | 2023 | 2022 |
|---|---|---|---|
| Total Financial Assets | $24,634,132 | $24,134,960 | $22,387,919 |
| Less: Restricted Cash | ( 26,567) | ( 24,738) | ( 23,070) |
| Investments | ( 3,689,421) | ( 3,399,700) | ( 3,027,701) |
| Adjusted Financial Assets | $20,918,144 | $20,710,522 | $19,337,148 |
| Total Liabilities | $22,981,058 | $23,786,983 | $21,989,923 |
| Sustainability (Net Debt) Ratio | 91.02% | 87.07% | 87.94% |

Little Grand Rapid's sustainability ratio for this fiscal year increased and exceeded ISC's threshold of 50%. Although, as in the case of the working capital ratio above, the sustainability ratio is expected to decrease as Little Grand Rapids utilizes cash resources in the future to spend the $8.8M of unexpended funding as of March 31, 2024. Had the $8.8M of unexpended funding been spent as of March 31, 2024, Little Grand Rapid's sustainability ratio would have been 52.47% which is just above ISC's 50% threshold.

Another factor to consider for the sustainability ratio is debt related to CMHC loans. The CMHC loans will be largely subsidized for the term of the loans, if Little Grand Rapids continues to meet the terms of the operating agreements with CMHC. Little Grand Rapids will receive CMHC subsidies ($341,701 in 2024) and collect rents from shelter allowance ($132,877 in 2024) to cash flow the roughly $440,000 in annual payments. By removing CMHC debts of $5,084,128 from the total liabilities and factoring in the $8.8M of unexpended funding noted above, the ratio for 2024 increases to 67.37%.

**WORKING CAPITAL TO REVENUE RATIO**

The working capital to revenue ratio measures the ability to cover the current working capital deficiency with one month's total revenues. ISC's current working capital to revenue ratio threshold is 0%.

| | 2024 | 2023 | 2022 |
|---|---|---|---|
| Current Assets | $20,918,144 | $20,710,522 | $19,337,148 |
| Current Liabilities | (13,534,804) | (15,731,356) | (14,513,071) |
| Working Capital (Deficit) | $ 7,383,340 | $ 4,979,166 | $ 4,824,077 |
| Total Revenue | $43,702,438 | $40,450,345 | $35,817,724 |
| Less: Revenue for Major Capital Projects | | | |
| School Construction | ( 5,095,344) | ( 4,479,108) | ( 4,871,226) |
| ISC 6 Units Housing | ( 1,028,544) | ( 174,451) | |
| Lagoon | | ( 398,479) | ( 398,479) |
| CMHC Rapid Housing Initiative | | | ( 1,068,804) |
| Holding Tank Installations | ( 96,500) | | |
| Skid Steer Purchase | ( 92,160) | | |
| CMHC Rapid Housing Initiative | ( 179,084) | | |
| CMHC Rapid Housing Initiative | ( 115,990) | | |
| Multiple units | ( 248,341) | ( 564,377) | ( 752,382) |
| Adjusted Total Revenue | $36,846,475 | $34,833,930 | $28,726,833 |
| Working Capital to Revenue Ratio | 20.04% | 14.29% | 16.79% |

Little Grand Rapid's working capital to revenue ratio exceeds ISC's threshold of 0%. The working capital surplus position increased to $7,383,340 for 2023/24 compared to $4,979,166 in 2022/23.

The working capital to revenue ratio is expected to decrease as Little Grand Rapids utilizes cash resources in the future to spend the $8.8M of unexpended funding as of March 31, 2024. Had the $8.8M of unexpended funding been spent as of March 31, 2024, Little Grand Rapid's working capital would have decreased by $8.8M and the working capital to revenue ratio would have been negative 4.01% which is below ISC's 0% threshold.

**CMHC REPLACEMENT RESERVE**

The First Nation is required to maintain a replacement reserve fund in Housing for the purpose of future replacement of capital assets. As of March 31, 2024, the total replacement reserve fund balance in Housing was $1,130,797. This reserve was partially funded with cash held in a separate bank account in the amount of $2,600, leaving the reserve unfunded by $1,128,197.

We recommend Little Grand Rapids identify and follow through with a plan to fund the replacement reserve in full.

The above comments are not meant to reflect upon the honesty or integrity of the employees or Council members. The contents of this letter have been discussed with the responsible management personnel and apply to the controls and procedures in existence during our examination. We have not reviewed these items since November 19, 2024, the date of our Independent Auditors' Report. This communication is prepared solely for the information of management and is not intended for any other purpose.

We accept no responsibility to a third party who uses this communication. We would be pleased to discuss our comments and recommendations with you and to assist you with the implementation.

Yours very truly,

**BAKER TILLY HMA LLP**

Michael Angers

Michael P. Angers, CPA, CA
Partner