

FORT MCKAY FIRST NATION

Financial Statements

March 31, 2014

July 28, 2014

Management's Responsibility For Financial Reporting

The accompanying financial statements of the Fort McKay First Nation and all the information in this annual report are the responsibility of management and have been approved by the Chief and Councilor-in-Charge of Finance on behalf of Council.

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

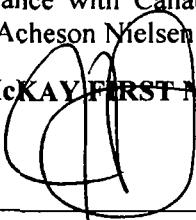
The Fort McKay First Nation maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and the Fort McKay First Nation assets are appropriately accounted for and adequately safeguarded.

The Fort McKay First Nation Council is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. Council carried out this responsibility principally through Chief and Council.

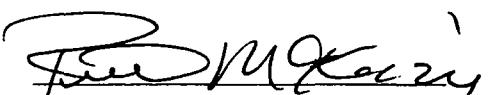
The Council, composed of five Council members, reviews the financial statements and recommends their approval to Chief and Council. The Fort McKay First Nation Chief and Council meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy themselves that each party is properly discharging their responsibilities, and to review the annual report, financial statements and the external auditor's management report. The Chief and Council also approve the engagement of the external auditors.

The financial statements have been audited by Pennock Acheson Nielsen Devaney Chartered Accountants in accordance with Canadian generally accepted auditing standards on behalf of the band members. Pennock Acheson Nielsen Devaney have full and free access to the members of the Chief and Council.

FORT MCKAY FIRST NATION








Pennock Acheson Nielsen Devaney

Pennock Acheson Nielsen Devaney Chartered Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Members of Fort McKay First Nation

We have audited the accompanying financial statements of Fort McKay First Nation, which comprise the statement of financial position as at March 31, 2014, and the statements of operations and accumulated surplus, changes in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Fort McKay First Nation as at March 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

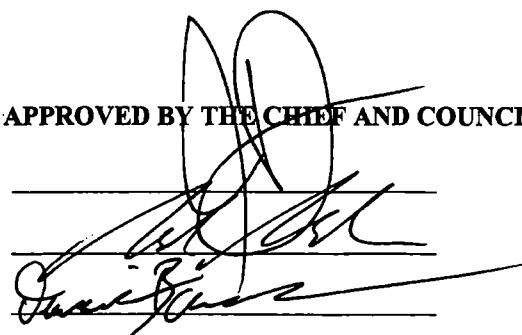
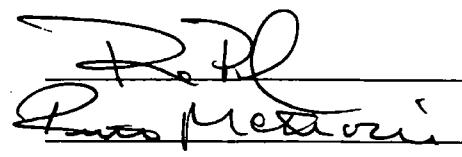
Pennock Acheson Nielsen Devaney

Chartered Accountants

July 29, 2014

FORT MCKAY FIRST NATION**Statement of Financial Position****As at March 31, 2014**

	2014	2013
FINANCIAL ASSETS		
Cash	\$ -	\$ 1,638,350
Cash held in trust (Note 3)	179,785	13,194,190
Accounts receivable (Note 4)	6,915,305	4,408,239
Investment in Settlement Trust (Note 5)	46,699,746	43,029,655
Investment in Business Enterprises (Note 6)	88,798,817	87,770,304
	<u>\$ 142,593,653</u>	<u>\$ 150,040,738</u>
LIABILITIES		
Short-term borrowings (Note 7)	\$ 3,308,894	\$ 1,156,865
Accounts payable and accrued liabilities (Note 8)	16,439,089	5,977,690
Unexpended grants (Note 9)	1,394,400	8,349,450
Debt (Note 10)	31,458,726	27,714,365
	<u>52,601,109</u>	<u>43,198,370</u>
NET FINANCIAL ASSETS	<u>89,992,544</u>	<u>106,842,368</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 11)	98,578,592	78,519,440
Prepaid expenses	254,370	260,194
	<u>98,832,962</u>	<u>78,779,634</u>
COMMITMENTS AND CONTINGENCIES (Note 15)		
ACCUMULATED SURPLUS (Note 13)	<u>\$ 188,825,506</u>	<u>\$ 185,622,002</u>

APPROVED BY THE CHIEF AND COUNCIL



FORT MCKAY FIRST NATION
Statement of Operations and Accumulated Surplus
Year Ended March 31, 2014

	2014	2013
REVENUE		
Business enterprise income	\$ 28,486,647	\$ 47,648,427
Long-term sustainability funding	15,743,687	-
Industry grants	10,542,087	7,188,785
Investment income	5,697,410	3,114,831
Property tax income	2,692,710	2,282,291
Rent	1,836,907	1,955,424
Consulting services	1,348,263	-
Aboriginal Affairs and Northern Development Canada	1,224,287	1,535,319
Miscellaneous and other	861,224	770,719
First Nations Development Funding	611,769	-
Health Canada	601,855	535,682
Interest	150,706	108,402
Canada Mortgage and Housing Corporation	136,400	110,907
Athabasca Tribal Council	<u>101,194</u>	<u>123,387</u>
	<u>70,035,146</u>	<u>65,374,174</u>
EXPENSES		
Education (<i>Schedule 1</i>)	1,728,576	1,243,536
Social development (<i>Schedule 2</i>)	739,179	714,491
Operation and maintenance (<i>Schedule 3</i>)	5,854,405	2,230,805
Housing and capital projects (<i>Schedule 4</i>)	16,319,890	7,697,033
Government support and administration (<i>Schedule 5</i>)	12,137,090	11,985,208
Economic development and human resources (<i>Schedule 6</i>)	5,844,059	581,953
Land trust and claims (<i>Schedule 7</i>)	748,814	251,006
Community health services (<i>Schedule 8</i>)	2,314,152	1,773,367
Enterprise fund (<i>Schedule 9</i>)	1,536,839	1,780,237
Sustainability department (<i>Schedule 10</i>)	<u>7,847,582</u>	<u>6,692,482</u>
	<u>55,070,586</u>	<u>34,950,118</u>
SURPLUS BEFORE THE FOLLOWING		
	<u>14,964,560</u>	<u>30,424,056</u>
OTHER ITEMS		
Depreciation	4,055,136	3,432,726
Per capita distributions	<u>7,705,920</u>	<u>12,368,117</u>
	<u>11,761,056</u>	<u>15,800,843</u>
ANNUAL SURPLUS		
	<u>3,203,504</u>	<u>14,623,213</u>
ACCUMULATED SURPLUS AT BEGINNING OF YEAR		
	<u>185,622,002</u>	<u>170,998,789</u>
ACCUMULATED SURPLUS AT END OF YEAR		
	<u>\$ 188,825,506</u>	<u>\$ 185,622,002</u>

FORT MCKAY FIRST NATION
Statement of Change in Net Financial Assets
Year Ended March 31, 2014

	2014	2013
Annual surplus	\$ 3,203,504	\$ 14,623,213
Acquisition of tangible capital assets	(24,114,288)	(9,508,024)
Depreciation	<u>4,055,136</u>	<u>3,432,726</u>
	<u>(20,059,152)</u>	<u>(6,075,298)</u>
Net use (acquisition) of prepaid asset	<u>5,824</u>	<u>(20,880)</u>
(DECREASE) INCREASE IN NET FINANCIAL ASSETS	(16,849,824)	8,527,035
NET FINANCIAL ASSETS AT BEGINNING OF YEAR	<u>106,842,368</u>	<u>98,315,333</u>
NET FINANCIAL ASSETS AT END OF YEAR	<u>\$ 89,992,544</u>	<u>\$ 106,842,368</u>

FORT MCKAY FIRST NATION

Statement of Cash Flows

Year Ended March 31, 2014

	2014	2013
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING ACTIVITIES		
Cash receipts from revenues	\$ 31,919,954	\$ 26,692,843
Cash paid to suppliers and employees	(42,802,212)	(32,734,059)
Interest received	150,706	108,402
Interest paid	<u>(1,801,151)</u>	<u>(1,286,034)</u>
	<u>(12,532,703)</u>	<u>(7,218,848)</u>
INVESTING ACTIVITIES		
Purchase of tangible capital assets	(24,114,288)	(9,508,024)
Investment in business enterprise - net	27,458,134	36,748,578
Investment in Settlement Trust	(3,670,091)	(3,114,831)
Decrease (increase) in cash held in trust	13,014,405	(8,924,955)
Advances from related parties	<u>15,723</u>	<u>9,992</u>
	<u>12,703,883</u>	<u>15,210,760</u>
FINANCING ACTIVITIES		
Proceeds from debt	7,162,660	1,714,106
Repayment of debt	(3,418,299)	(3,006,788)
Proceeds from short-term borrowings	27,187,227	1,366,138
Repayment of short-term borrowings	(25,035,198)	(209,273)
Per capita distributions	<u>(7,705,920)</u>	<u>(12,368,117)</u>
	<u>(1,809,530)</u>	<u>(12,503,934)</u>
DECREASE IN CASH	(1,638,350)	(4,512,022)
CASH - BEGINNING OF YEAR	1,638,350	6,150,372
CASH - END OF YEAR	\$ -	\$ 1,638,350
CASH AND CASH EQUIVALENTS CONSISTS OF:		
Cash	\$ -	\$ 1,605,839
Short-term investments	<u>-</u>	<u>32,511</u>
	<u>\$ -</u>	<u>\$ 1,638,350</u>

FORT MCKAY FIRST NATION

Notes to Financial Statements

Year Ended March 31, 2014

The Fort McKay First Nation (the First Nation) is a First Nation Settlement located in Fort McKay, Alberta, Canada and operates under the provisions of the Indian Act.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards. Significant aspects of the accounting policies adopted by the First Nation are as follows:

Reporting Entity

The financial statements reflect the revenues, expenses, assets, liabilities and accumulated surplus of the reporting entity. The reporting entity is comprised of all organizations and enterprises accountable for the administration of the financial affairs and resources of the First Nation and which are owned or controlled by the First Nation. In addition to general government tax-supported departments, they include the following:

- Education
- Social Development
- Operations and Maintenance
- Housing and Capital Projects
- Government Support and Administration
- Economic Development and Human Resources
- Land Trust Claims
- Community Health Services
- Business Enterprise
- Sustainability Department

The Fort McKay 2008 Business Trust holds investments which the First Nation is the beneficiary of and also is controlled through a trust agreement. These investments include:

- Fort McKay Group of Companies Limited Partnership
- Fort McKay Landing Limited Partnership

Investments in these limited partnerships are accounted for using the modified equity basis, consistent with the generally accepted accounting treatment for a government business enterprise. Under the modified equity basis, the government business enterprise's accounting principles are not adjusted to conform with those of the First Nation and inter-organizational transactions and balances are not eliminated.

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Revenues are accounted for in the period in which they are earned and measurable. Funds from external parties and earnings thereon restricted by agreement or legislation are accounted for as unexpended grants until used for the purpose specified.

Property tax revenue is based on market value assessments. Tax mill rates are established annually. Taxation revenues are recorded at the time tax billings are issued. Assessments are subject to appeal.

Government transfers to the First Nation are recognized in the financial statements as revenues in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be made. Prior to that time, any amounts received, along with restricted interest thereon is recorded as unexpended grants.

Rental revenue is recognized over the term of the rental agreement and when collection is reasonably assured.

Expenses are recognized as they are incurred and measurable based upon receipt of the goods and services and/or the legal obligation to pay.

FORT MCKAY FIRST NATION

Notes to Financial Statements

Year Ended March 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Budget information, as approved by Chief and Council, is reported on an accrual basis, consistent with principles applied in the financial statements (Note 17).

Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Administration has used estimates to determine accrued liabilities, tangible capital asset useful lives as well as provisions made for allowances for amounts receivable or any provision for impairment of investment values.

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 and Cash Equivalents

Cash includes cash on hand, balances with banks net of bank overdraft, and short-term investments which mature at various times during the next fiscal year and are deemed to be temporary in nature. The short-term investments are recorded at cost.

Investment in Settlement Trust

Investments in cash and marketable securities are accounted for at market value. The Fort McKay Settlement Trust holds the Heritage Fund of which the First Nation is the beneficiary and also controls through a trust agreement. These funds are derived from the Fort McKay Treaty Entitlement Settlement Agreement, are held in trust by the Royal Trust Corporation of Canada and are subject to audit by the office of the Trustee. The management of these funds is governed by the Fort McKay Settlement Trust Agreement.

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 delivering services.

Tangible capital assets are reported at net book value. Contributions received to assist in the acquisition of tangible capital assets are reported in income in the period received. Contributions received to assist in the construction of tangible capital assets are reported in deferred revenue and are amortized into income under the percentage of completion method.

Tangible capital assets are depreciated over their estimated useful lives using the declining balance method at the following rates:

Housing, buildings and improvements	4% and 5%
Infrastructure	4%
Office furniture and equipment	20%
Vehicles	30%

FORT MCKAY FIRST NATION

Notes to Financial Statements

Year Ended March 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

In the year of acquisition, one-half of the annual depreciation is recorded. Tangible capital assets under construction are not depreciated until the asset is available to be put into service.

Leases are classified as capital or operating leases. Leases which transfer substantially all benefits and risks incidental to ownership of property are accounted for as capital leases. Assets under capital lease are included within the respective asset classifications. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.

Equity in Tangible Capital Assets

Equity in tangible capital assets is included within accumulated surplus. It represents the investment in tangible capital assets, after deducting the portion financed by long-term debt.

Long-Lived Assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value.

Net Financial Assets

The First Nation's financial statements are presented so as to highlight the net financial assets as the measurement of financial position. The net financial assets of the First Nation is determined by its financial assets less its liabilities.

Employee Benefits

The First Nation has a defined contribution pension plan. Employer contributions to the plan are expensed as employees earn the entitlement and contributions are made.

Comparative figures

Certain of the comparative figures have been reclassified to be consistent with the presentation for the current period.

Future Accounting Standard Pronouncements

The following summarizes upcoming changes to public sector accounting standards issued by the Public Sector Accounting Standards Board (PSAB). In 2014, the First Nation will continue to assess the impact and prepare for the adoption of these standards. While the timing of standard adoption can vary, certain standards must be adopted concurrently. The requirements in *Financial Statement Presentation* (PS1201), *Financial Instruments* (PS3450), and *Portfolio Investments* (PS3041) must be implemented at the same time.

Financial Statement Presentation

PS1201, *Financial Statement Presentation*, requires a new statement of re-measurement of gains and losses separate from the statement of operations. Included in this new statement are the unrealized gains and losses arising from the re-measurement of financial instruments and items denominated in foreign currencies, as well as the First Nation's proportionate share of other comprehensive income that arises when including the results of government business enterprises and partnerships. This standard is applicable for fiscal years beginning on or after April 1, 2015.

FORT MCKAY FIRST NATION
Notes to Financial Statements
Year Ended March 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

PS3450, Financial Instruments, applicable for fiscal years beginning on or after April 1, 2015, establishes recognition, measurement, and disclosure requirements for derivative and non-derivative financial instruments. The standard requires fair value measurement of derivatives and equity instruments; all other financial instruments can be measured at cost/amortized cost or fair value at the election of the First Nation. Unrealized gains and losses are presented in a new statement of re-measurement gains and losses. There is the requirement to disclose the nature and extent of risks arising from financial instruments and clarification is given for the de-recognition of financial liabilities.

Foreign Currency Translation

PS2601, Foreign Currency Translation, which replaces the current PS2600, Foreign Currency Translation, is applicable for fiscal years beginning on or after April 1, 2015. This standard requires that monetary assets and liabilities denominated in a foreign currency and non-monetary items included in the fair value category, denominated in a foreign currency, be adjusted to reflect the exchange rates in effect at the financial statement date. Unrealized gains and losses are to be presented in the new statements of re-measurement gains and losses.

Portfolio Investments

PS3041, Portfolio Investments, has removed the distinction between temporary and portfolio investments. This section now includes pooled investments in its scope and was amended to conform to Financial Instruments, PS3450. Upon adoption of PS3450 and PS3041, Temporary Investments (PS3030) will no longer apply.

2. ECONOMIC DEPENDENCE

The First Nation receives a major portion of its revenues from its Business Enterprises, funds operational requirements with cash generated from these investments, and is dependent on continued cash flow from these investments.

3. CASH HELD IN TRUST

Trust fund accounts arise from monies derived from revenue sources as outlined in Section 62 of the Indian Act (lease of reserve lands). These funds are held in trust by AANDC 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. During the year no amounts were withdrawn from the Trust fund.

During the 2013 year the First Nation received a substantial grant from industry partnerships. This money has been recorded but was restricted until certain other trusts are put in place. During the current year the requirements have been met and the First Nation gained access to these funds to assist with community sustainability.

FORT MCKAY FIRST NATION
Notes to Financial Statements
Year Ended March 31, 2014

4. ACCOUNTS RECEIVABLE

	2014	2013
Due from members:		
Rent	\$ 233,936	\$ 261,822
Business loans	<u>98,358</u>	<u>98,358</u>
	332,294	360,180
Less: allowance for doubtful accounts	<u>(332,294)</u>	<u>(355,180)</u>
	-	5,000
Due from others:		
Trade accounts receivable	2,803,280	1,814,372
Rent receivable	1,244,511	-
Property taxes receivable	1,137,807	1,126,278
Sustainability department and other receivables	957,027	408,190
GST rebate receivable	642,462	547,120
Health Canada	240,983	1,017,649
Blood Tribe First Nation	177,051	-
Athabasca Tribal Corporation	50,597	47,491
First Nations Development Fund	49,929	17,205
Canadian Mortgage and Housing Corporation	45,194	-
Aboriginal Affairs and Northern Development Canada	<u>34,421</u>	<u>1,031,427</u>
	7,383,262	6,009,732
Less: allowance for doubtful accounts	<u>(467,957)</u>	<u>(1,606,493)</u>
	6,915,305	4,403,239
Total accounts receivable	<u>6,915,305</u>	<u>4,408,239</u>

5. INVESTMENT IN SETTLEMENT TRUST

	2014	2013
Balance, beginning of year		
Current year income, net of fees	\$ 43,029,655	\$ 39,914,824
Increase in fair market value	2,066,458	2,138,474
Disbursements, net	<u>3,630,952</u>	<u>2,092,365</u>
	<u>(2,027,319)</u>	<u>(1,116,008)</u>
Balance, end of year	<u>46,699,746</u>	<u>43,029,655</u>

FORT MCKAY FIRST NATION**Notes to Financial Statements****Year Ended March 31, 2014****6. INVESTMENT IN BUSINESS ENTERPRISES**

	2014	2013
Balance, beginning of year	\$ 87,770,304	\$ 76,870,455
Current year income	28,486,647	47,648,427
Draws	<u>(27,458,134)</u>	<u>(36,748,578)</u>
Balance, end of year	<u>\$ 88,798,817</u>	<u>\$ 87,770,304</u>

7. SHORT-TERM BORROWINGS

	2014	2013
Demand operating loan	\$ 218,037	\$ 1,156,865
Outstanding items	3,123,492	-
Short-term investments	<u>(32,635)</u>	<u>-</u>
	<u>\$ 3,308,894</u>	<u>\$ 1,156,865</u>

The First Nation maintains a demand operating loan with an authorized credit limit of \$2,000,000. The demand operating loan bears interest at prime plus 0.75% and is secured by a general security agreement and by a corporate guarantee (Note 10).

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2014	2013
Trade payables and accrued liabilities	\$ 14,740,571	\$ 4,691,979
Per capita distribution payable	1,243,289	1,079,465
Accrued salaries and employee benefits payable	<u>455,229</u>	<u>206,246</u>
	<u>\$ 16,439,089</u>	<u>\$ 5,977,690</u>

FORT MCKAY FIRST NATION

Notes to Financial Statements

Year Ended March 31, 2014

9. UNEXPENDED GRANTS

	2013	Approved	Expensed	2014
AANDC				
<i>Education</i>				
Student transportation services - FTP	-	35,207	35,207	-
<i>Social Development</i>				
Basic needs - Contribution	-	135,115	135,115	-
Child out-parental home - Contribution	-	200	200	-
Special needs - Contribution	-	7,254	7,254	-
In-home care - Contribution	-	58,415	58,415	-
Service delivery - FTP	-	84,000	84,000	-
<i>Operations and Maintenance</i>				
Fire protection - FTP	-	5,000	5,000	-
Wastewater systems - FTP	-	7,944	7,944	-
Water systems - FTP	-	18,965	18,965	-
Electrical services - FTP		7,211	7,211	
Community buildings - FTP	-	47,371	47,371	-
Solid Waste - FTP	-	90,667	90,667	-
<i>Housing and Capital Projects</i>				
Equipment - Contribution	-	138,300	138,300	-
Major renovations, extenstions and repairs - FTP	-	231,200	231,200	
Roads and bridges - FTP	-	25,624	25,624	-
Management support - FTP	-	2,200	2,200	-
<i>Government Support and Administration</i>				
Band Support Funding - Grant	-	267,113	267,113	-
Community Economic Developemnt - FTP	-	56,781	56,781	-
Registry Events - Contribution	-	5,720	5,720	-
TOTAL AANDC	-	1,224,287	1,224,287	-
CMHC Mortgage Subsidy	-	136,400	136,400	-
Sustainability agreements	8,349,450	3,728,090	10,683,140	1,394,400
TOTAL	8,349,450	5,088,777	12,043,827	1,394,400

FORT MCKAY FIRST NATION**Notes to Financial Statements****Year Ended March 31, 2014****10. DEBT**

	2014	2013
22 individual Peace Hills Trust mortgages repayable with payments totaling \$157,720 per month, including interest at 4.25% maturing between April 2014 and March 2019, and secured by a government guarantee, assignment of insurance proceeds, and specific houses with a net book value of \$19,471,726.	\$ 25,994,888	\$ 22,970,707
Prime-based demand loan bearing interest at prime plus 0.75%. Monthly principal payments of \$54,915 plus interest are required, and is secured by a general security agreement and by a corporate guarantee.	2,807,787	
7 individual CMHC direct Section 95 housing mortgages repayable with payments totaling \$9,624 per month, including interest at rates ranging from 1.6% to 2.8% maturing between November 2024 and March 2037, and are secured by specific houses with a net book value of \$2,400,524.	1,746,763	1,827,398
Demand loan bearing interest at prime plus 0.75%. Monthly payments of interest are required with principal payments of \$2,000,000. The loan was repaid on April 2, 2014.	900,574	2,900,574
Finance contract with monthly payments of \$581 bearing no interest, maturing December 2014 and secured by specific equipment with a net book value of \$9,679.	8,714	15,686
	<u>\$ 31,458,726</u>	<u>\$ 27,714,365</u>

Estimated principal payments required to service debt in each of the next five years are:

2015	\$ 2,658,770
2016	1,790,041
2017	1,834,880
2018	1,883,692
2019	1,448,512
Thereafter	<u>21,842,831</u>
	<u>\$ 31,458,726</u>

The above mortgages receive Federal assistance through the Canada Mortgage and Housing Corporation which reduces mortgage interest expense to 2% to enable the project to provide housing for low income individuals. The amount of assistance received for the year ended March 31, 2014 was \$136,400 (2013 - \$110,907).

The First Nation's lenders require the First Nation to maintain certain lending covenants throughout the year. At year-end the First Nation is not in compliance with certain of its covenants under its financing agreements. The First Nation is currently working with its lender to resolve this matter.

FORT MCKAY FIRST NATION
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11. TANGIBLE CAPITAL ASSETS

	Cost	Accumulated Depreciation	2014 Net Book Value	2013 Net Book Value
Band buildings and houses	\$ 85,226,039	\$ 14,707,735	\$ 70,518,304	\$ 50,559,335
CMHC rental houses	3,348,688	948,164	2,400,524	6,422,187
Infrastructure	28,836,863	5,416,985	23,419,878	19,548,075
Office furniture and equipment	2,846,196	1,201,974	1,644,222	1,222,979
Vehicles	1,811,056	1,215,392	595,664	766,864
	\$ 122,068,842	\$ 23,490,250	\$ 98,578,592	\$ 78,519,440

12. EQUITY IN TANGIBLE CAPITAL ASSETS

	2014	2013
Tangible capital assets	\$ 122,068,842	\$ 97,989,966
Accumulated depreciation	(23,490,250)	(19,470,526)
Debt	(31,458,726)	(27,714,365)
	\$ 67,119,866	\$ 50,805,075

13. ACCUMULATED SURPLUS

	2014	2013
General First Nation operations	\$ 74,826,109	\$ 78,593,082
Restricted surplus:		
Cash held in trust	179,785	13,194,190
Settlement trust	46,699,746	43,029,655
Equity in tangible capital assets	67,119,866	50,805,075
	\$ 188,825,506	\$ 185,622,002

14. RELATED PARTY TRANSACTIONS

The First Nation purchases certain products and services from several of its Business Enterprises. These transactions are carried out at commercial terms offered to third parties. During the year the First Nation purchased contract services of \$153,444 (2013 - \$441,152) from a company controlled by a Councillor. All transactions have been carried out at commercial terms offered to third parties.

Included in trade accounts receivable are amounts receivable from related parties of \$221,180 (2013 - \$198,950). Included in trade accounts payable are amounts payable to related parties of \$1,251,273 (2013 - \$145,704).

FORT MCKAY FIRST NATION

Notes to Financial Statements

Year Ended March 31, 2014

15. COMMITMENTS AND CONTINGENCIES

- a) The First Nation is liable under a number of forgivable loans under the CMHC Residential Rehabilitation Assistance Program. The amount of any repayable liability is not known.
- b) The First Nation is contingently liable as the guarantor of the short-term borrowings and equipment loans of related parties. At March 31, 2014 these loans totaled approximately \$20,600,000.
- c) The First Nation has been named as a defendant in lawsuits with former employees of the First Nation for wrongful dismissal and breach of employment contracts. The amount of the claims total \$11,756,086 and the likelihood of gain or loss is not determinable at this time. The First Nation has accrued \$1,550,000, which management feels is a reasonable estimate of the potential loss.

16. EMPLOYEE BENEFITS

The First Nation has a defined contribution plan for employees into which the First Nation contributes 5% of the base salary for each employee. During the year, the First Nation funded contributions of \$297,947 (2013 - \$216,426) to the defined contribution plan.

17. BUDGET FIGURES

The 2014 budget figures represent the budget prepared by the First Nation for the fiscal period April 1, 2013 - March 31, 2014. The budget figures have not been audited.