

Homalco Indian Band
Consolidated Financial Statements
March 31, 2018

Homalco Indian Band

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For the year ended March 31, 2018

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HOMALCO FIRST NATION

Management's Responsibility

To the Members of Homalco Indian Band:

The accompanying consolidated financial statements of Homalco Indian Band are the responsibility of management and have been approved by the Chief and Council.

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

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

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

MNP LLP is appointed by the Council to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to both the Council and management to discuss their audit findings.

July 27, 2018

Signed by: Susan Hanley

Band Administrator

Independent Auditors' Report

To the Members of Homalco Indian Band:

We were engaged to audit the accompanying consolidated financial statements of Homalco Indian Band, which comprise the consolidated statement of financial position as at March 31, 2018, and the consolidated statements of operations and accumulated surplus (deficit), change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on conducting the audit in accordance with Canadian generally accepted auditing standards. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Management was unable to provide appropriate audit evidence to support a significant number of balances and transactions as at and for the year ended March 31, 2018. As a result, we were unable to determine whether any adjustments might have been necessary with respect to these consolidated financial statements.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements.

Other Matter

The consolidated financial statements of Homalco Indian Band for the year ended March 31, 2017 were audited by another firm of public accountants who issued an unmodified opinion on July 31, 2017.

Nanaimo, British Columbia

July 27, 2018

MNP LLP

Chartered Professional Accountants

Homalco Indian Band

Consolidated Statement of Financial Position

As at March 31, 2018

	2018	2017
Financial assets		
Cash and cash equivalents	456,386	306,420
Accounts receivable (Note 4)	323,895	489,610
Funds held in trust (Note 5)	7,452	45,931
Investment in Band business entities (Note 6)	1,392,685	1,390,788
Advances to related Band entities (Note 7)	1,746,587	541,361
Total financial assets	3,927,005	2,774,110
Liabilities		
Bank indebtedness (Note 8)	158,300	497,808
Accounts payable and accruals (Note 9)	547,872	553,820
Deferred revenue	200	3,714
Long-term debt (Note 10), (Note 11)	9,150,055	8,935,255
Total liabilities	9,856,427	9,990,597
Net debt	(5,929,422)	(7,216,487)
Contingent liabilities (Note 18)		
Non-financial assets		
Tangible capital assets (Schedule 1)	5,896,122	6,224,255
Prepaid expenses	49,953	44,740
Total non-financial assets	5,946,075	6,268,995
Accumulated surplus (deficit) (Note 12)	16,653	(947,492)
Approved by Chief and Council		
Signed by: Darren Blaney	Chief	Signed by: Alison Trenholm
		Councillor

The accompanying notes are an integral part of these financial statements

Homalco Indian Band

Consolidated Statement of Operations and Accumulated Surplus (Deficit)

For the year ended March 31, 2018

	<i>Schedule</i>	2018	<i>2017</i>
Revenue			
Indigenous Services Canada (Note 13)		1,775,723	1,811,950
Canadian Mortgage and Housing Corporation		178,787	269,543
Province of British Columbia		142,288	250,291
Department of Fisheries and Oceans Canada		85,946	233,960
Ottawa Trust		1,521	1,952
Earnings from investment in Band business entities		705,762	228,178
BC Treaty Commission		502,011	133,025
Rental income		294,222	290,255
Inter Tribal Health Authority		265,689	419,720
Other revenue		258,069	605,009
Interest income		1,232	3,509
		4,211,250	4,247,392
Expenses			
Band Government	3	741,289	1,541,426
Community Services	4	2,981	31,906
Economic Development	5	242,749	379,273
Education	6	377,348	510,972
Employment	7	45,654	18,431
Health	8	311,613	450,969
Housing	9	384,539	539,937
Public Works	10	115,733	95,093
Social Services	11	1,025,199	769,794
		3,247,105	4,337,801
Annual surplus (deficit)		964,145	(90,409)
Accumulated deficit, beginning of year		(947,492)	(857,083)
Accumulated surplus (deficit), end of year		16,653	(947,492)

The accompanying notes are an integral part of these financial statements

Homalco Indian Band
Consolidated Statement of Change in Net Debt
For the year ended March 31, 2018

	2018	2017
Annual surplus (deficit)	964,145	(90,409)
Purchases of tangible capital assets	(28,437)	(149,622)
Amortization of tangible capital assets	356,570	510,573
Acquisition of prepaid expenses	(5,213)	(26,200)
Decrease in net debt	1,287,065	244,342
Net debt, beginning of year	(7,216,487)	(7,460,829)
Net debt, end of year	(5,929,422)	(7,216,487)

Homalco Indian Band
Consolidated Statement of Cash Flows
For the year ended March 31, 2018

	2018	2017
Cash provided by (used for) the following activities		
Operating activities		
Annual surplus (deficit)	964,145	(90,409)
Non-cash items		
Amortization	356,570	510,573
Loss on disposal of tangible capital assets	-	4,630
Interest accrued on funds held in trust	(1,521)	(1,952)
	1,319,194	422,842
Changes in working capital accounts		
Accounts receivable	165,715	(357,316)
Accounts payable and accruals	(5,948)	148,263
Deferred revenue	(3,514)	(635)
Prepaid expenses	(5,213)	(26,200)
	1,470,234	186,954
Financing activities		
Advances of long-term debt	357,758	-
Repayment of long-term debt	(142,958)	(122,072)
Advances (repayment) of bank indebtedness	(339,508)	97,844
	(124,708)	(24,228)
Capital activities		
Purchases of tangible capital assets	(28,437)	(149,622)
Proceeds of disposal of tangible capital assets	-	2,000
	(28,437)	(147,622)
Investing activities		
Advances to related parties	(1,207,123)	(100,041)
Distribution from funds held in trust	40,000	-
	(1,167,123)	(100,041)
Increase (decrease) in cash and cash equivalents	149,966	(84,937)
Cash and cash equivalents, beginning of year	306,420	391,357
Cash and cash equivalents, end of year	456,386	306,420

Homalco Indian Band

Notes to the Consolidated Financial Statements

For the year ended March 31, 2018

1. Operations

Homalco Indian Band (the "Band") is located in the province of British Columbia, and provides various services to its members. Homalco Indian Band includes the Band's members, government and all related entities that are accountable to the Band and are either owned or controlled by the Band.

2. Significant accounting policies

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

Reporting entity consolidated

These financial statements consolidate the financial activities of all entities and departments comprising the Band reporting entity. Trusts administered on behalf of third parties by Homalco Indian Band are excluded from the Band reporting entity.

The Band has consolidated the assets, liabilities, revenue and expenses of the following entities and departments:

- Operating fund
- Business enterprise fund
- Capital fund
- Ottawa trust fund
- Replacement and operating reserve fund
- Treaty fund

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.

Homalco Indian Band business entities, owned or controlled by the Band's Chief and Council but not dependent on the Band for their continuing operations, are included in the consolidated financial statements using the modified equity method. Under the modified equity method, the equity method of accounting is modified only to the extent that business entity accounting principles are not adjusted to conform to those of the Band. Thus, the Band's investment in these entities are recorded at acquisition cost and is increased for the proportionate share of post acquisition earnings and decreased by post acquisition losses and distributions received. Entities accounted for by the modified equity basis include:

- Homalco Holdings Limited Partnership (99.99%)
- Homalco Holdings Inc. (100%)
- Bute Inlet Development Corporation (100%)
- Homalco Wildlife Tours Inc. (100%)
- Port Neville Logging Company (100%)
- Homalco Resources Management Limited Partnership (50%)

Basis of presentation

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

Cash and cash equivalents

Cash and cash equivalents include balances with banks and short-term investments with maturities of one year or less at acquisition which are held for the purpose of meeting short-term cash commitments.

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

Tangible capital assets

Tangible capital assets are recorded at cost less accumulated amortization.

Contributed tangible capital assets are recorded at their fair market value at the time of acquisition.

Amortization is provided on a declining balance basis over the estimated useful life of the assets. In the year of acquisition amortization commences in the month following the purchase of the asset. See below for amortization rates of specific asset categories.

Amortization

All intangible assets and items inherited by the right of the First Nation, such as reserve land, forests, water and mineral resources, are not recognized in the First Nation's consolidated financial statements. Amortization is not taken on assets which have been acquired but not put to use. Amortization for other tangible capital assets is provided using the following methods at rates intended to amortize the cost of the assets over their estimated useful lives:

	<i>Method</i>	<i>Rate</i>
Buildings	declining balance	4 %
Automotive equipment	declining balance	30 %
Equipment	declining balance	20 %
Boats	declining balance	5 %
Infrastructure	declining balance	5 %
Salmon hatchery	declining balance	10 %
Housing	declining balance	5 %
Computer software	declining balance	55 %

Funds held in Ottawa Trust Fund

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

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

Net debt

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

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 normally provide resources to discharge existing liabilities but are employed to deliver government services, may be consumed in normal operations and are not for resale in the normal course of operations. Non-financial assets include tangible capital assets and prepaid expenses.

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

Measurement uncertainty

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

Accounts receivable and advances to band related entities are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. Amortization is based on the estimated useful lives of tangible capital assets. Liabilities for contaminated sites are based on the best information available regarding potentially contaminated sites that the Band is responsible for. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in annual surplus (deficit) in the periods in which they become known.

Revenue recognition

i) Indigenous Services Canada ("ISC")

ISC revenue is recognized as it becomes receivable under the terms of the "Comprehensive Funding Agreement". Funding is based on an annual budget which is agreed to by the parties and consists of fixed contribution payments and set contribution payments. In the case of the fixed contribution payments, the Band is permitted to use surpluses at its own discretion provided the terms and conditions of the agreement are met but must take responsibility for any deficits. In the case of the set contribution payments, any surpluses must be returned to ISC and deficits are recoverable.

ii) Government funding

The Band recognizes a government transfer as revenue when the transfer is authorized and all eligibility criteria, if any, have been met. A government transfer with stipulations giving rise to an obligation that meets the definition of a liability is recognized as a liability. In such circumstances, the Band recognizes revenue as the liability is settled. Transfers of non-depreciable assets are recognized in revenue when received or receivable.

iii) Ottawa Trust Funds

The Band recognizes revenues of the Ottawa Trust Fund at the time funds are contributed from the accounts held in Ottawa. Interest revenue is recognized when earned.

iv) Rental income

Rental income is recorded in the year it is earned. At the end of each year management evaluates whether rent revenue is collectible and records a bad debt expense and allowance for doubtful accounts for those amounts designated as unlikely to be collected.

v) Own source and other revenue

Own source and other revenue are recognized as services are rendered or goods are sold, once amounts can be reasonably measured, and collectibility is reasonably assured, on an accrual basis.

Liability for contaminated site

A liability for remediation of a contaminated site is recognized at the best estimate of the amount required to remediate the contaminated site when contamination exceeding an environmental standard exists, the Band is either directly responsible or accepts responsibility, it is expected that future economic benefits will be given up, and a reasonable estimate of the amount is determinable. The best estimate of the liability includes all costs directly attributable to remediation activities and is reduced by expected net recoveries based on information available at March 31, 2018.

At each financial reporting date, the Band reviews the carrying amount of the liability. Any revisions required to the amount previously recognized is accounted for in the period revisions are made. The Band continues to recognize the liability until it is settled or otherwise extinguished. Disbursements made to settle the liability are deducted from the reported liability when they are made. As at March 31, 2018, no liability for contaminated sites exists.

3. Change in accounting policies

PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions

Effective April 1, 2017, the First Nation adopted the recommendations relating to PS 2200 *Related Party Disclosures* and PS 3420 *Inter-Entity Transactions*, as set out in the CPA Canada Public Sector Accounting Handbook. Pursuant to the recommendations, the changes were applied prospectively, and prior periods have not been restated.

These new Sections define a related party and establish disclosures required for related party transactions. Disclosure is required when related party transactions have occurred at a value different from that which would have been arrived at if the parties were unrelated, and they have, a material financial effect on the financial statements. They also establish standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

There was no material impact on the consolidated financial statements of adopting the new Sections.

PS 3210 Assets, PS 3320 Contingent Assets and PS 3380 Contractual Rights

Effective April 1, 2017, the First Nation adopted the recommendations relating to PS 3210 *Assets*, PS 3320 *Contingent Assets*, and PS 3380 *Contractual Rights*, as set out in the CPA Canada Public Sector Accounting Handbook. Pursuant to the recommendations, the changes were applied prospectively, and prior periods have not been restated.

PS 3210 *Assets* provides additional guidance to clarify the definition of assets set out in PS 1000 *Financial Statement Concepts*.

PS 3320 *Contingent Assets* establishes disclosure standards on contingent assets.

PS 3380 *Contractual Rights* establishes disclosure standards on contractual rights, and does not include contractual rights to exchange assets where revenue does not arise. The main features of this Section are as follows:

- Contractual rights are rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future.
- Until a transaction or event occurs under a contract or agreement, an entity only has a contractual right to an economic resource. Once the entity has received an asset, it no longer has a contractual right.
- Contractual rights are distinct from contingent assets as there is no uncertainty related to the existence of the contractual right.

There was no material impact on the consolidated financial statement of adopting the new Sections.

4. Accounts receivable

	2018	2017
Accounts receivable	980,042	1,044,603
Less: allowance for doubtful accounts	656,147	554,993
	323,895	489,610

Homalco Indian Band

Notes to the Consolidated Financial Statements

For the year ended March 31, 2018

5. Funds held in trust

Capital and revenue trust monies are transferred to the Band on the authorization of the Minister of Indigenous Services Canada, with the consent of the Band's Council.

	2018	2017
Capital Trust		
Balance, beginning and end of year	3,452	3,452
Revenue Trust		
Balance, beginning of year	42,479	40,527
Interest	1,521	1,952
Withdrawal	(40,000)	-
Balance, end of year	4,000	42,479
	7,452	45,931

Ottawa Trust Funds

The Ottawa Trust accounts arise from moneys derived from capital or revenue sources as outlined in Section 62 of the Indian Act. These funds are held in trust in the Consolidated Revenue Fund of the Government of Canada and are subject to audit by the Office of the Auditor General of Canada. The management of these funds is primarily governed by Sections 63 to 69 of the Indian Act.

6. Investment in Band business entities

The Band has investments in the following entities:

	<i>Investment cost</i>	<i>Cumulative share of earnings</i>	<i>2018 Total investment</i>
Wholly-owned Businesses:			
Homalco Holdings Inc. (100%)	1	-	1
Bute Inlet Development Corporation (100%)	1	-	1
Homalco Wildlife Tours Inc. (100%)	5	86,550	86,555
Port Neville Logging Company (100%)	1	-	1
	8	86,550	86,558
Business Partnerships:			
Homalco Holdings Limited Partnership (99.99%)	1	1,250,738	1,250,739
Homalco Resources Management Limited Partnership (50%)	1	55,387	55,388
	10	1,392,675	1,392,685

Homalco Indian Band

Notes to the Consolidated Financial Statements

For the year ended March 31, 2018

6. Investment in Band business entities *(Continued from previous page)*

		2017
	<i>Investment cost</i>	<i>Cumulative share of earnings</i>
		<i>Total investment</i>
Wholly-owned Businesses:		
Homalco Holdings Inc. (100%)	1	-
Bute Inlet Development Corporation (100%)	1	-
Homalco Wildlife Tours Inc. (100%)	5	86,550
Port Neville Logging Company (100%)	1	-
	8	86,550
Business Partnerships:		
Homalco Holdings Limited Partnership (99.99%)	1	1,248,841
Homalco Resources Management Limited Partnership (50%)	1	55,387
	10	1,390,778

Summary financial information for each Band business entity, accounted for using the modified equity method, is not available for their respective year-ends.

The Band's investees have different year-ends than March 31, 2018. The Band uses the investees' year-end financial statements to account for its investment in these investees. The investees are unaudited.

7. Advances to related Band entities

Advances to related Band entities are unsecured, non-interest bearing and due on demand. These entities are related by virtue of common control or joint control by the Band.

8. Bank indebtedness

	2018	2017
TD Canada Trust, line of credit, bearing interest at prime plus 1.0%. At March 31, 2018 prime was 3.45%.	158,300	265,000
TD Canada Trust, cheques issued in excess of cash and cash equivalents	-	232,808
	158,300	497,808

9. Accounts payable and accruals

Included in accounts payable and accruals are amounts owing to Indigenous Services Canada of \$222,897 (2017 - \$nil).

Homalco Indian Band
Notes to the Consolidated Financial Statements
For the year ended March 31, 2018

10. Long-term debt

	2018	2017
TD Canada Trust loan, repayable in monthly installments of \$2,115 plus interest, bearing interest at prime plus 0.50% per annum, secured by a general security agreement, maturing October 15, 2027. At March 31, 2018, prime was 3.45%.	243,251	268,634
British Columbia Treaty Commission loan - see note 11 for details	8,284,361	7,926,603
All Nations Trust Company - repayable at \$2,327 per month including interest at 1.05% per annum; secured by a guarantee of the Band and the Government of Canada. Maturing on July 1, 2026 and renewing on August 1, 2021.	222,685	248,126
All Nations Trust Company - repayable at \$2,512 per month including interest at 1.30% per annum; secured by a guarantee of the Band and the Government of Canada. Maturing on June 1, 2032 and renewing on June 1, 2022.	392,044	416,761
All Nations Trust Company - repaid during the year	-	36,901
All Nations Trust Company - repayable at \$2,576 per month including interest at 1.62% per annum; secured by a guarantee of the Band and the Government of Canada. Maturing on June 1, 2018.	7,714	38,230
	9,150,055	8,935,255

11. Treaty loan

The Homalco Indian Band has signed promissory notes and First Nation Negotiation Support Agreements totaling \$8,284,361 as at March 31, 2018 (2017 - \$7,926,603) representing advances made by Canada for negotiations. Under the terms of that agreement, the Indian Band received both loaned and contributed funds. The funds are to be used solely for the purpose of treaty negotiations. Repayment provisions for this loan are outlined in the First Nation Negotiation Support Agreement between ISC the Indian Band.

12. Accumulated surplus (deficit)

Accumulated surplus (deficit) consists of the following:

	2018	2017
Equity in business enterprise fund	1,392,685	1,390,788
Equity in capital fund	5,030,428	5,215,603
Equity in ottawa trust fund	7,452	45,931
Replacement and operating reserves	626,069	583,073
Deficit in treaty fund	(8,410,367)	(8,059,951)
Equity (deficit) in operating fund	1,370,386	(122,936)
	16,653	(947,492)

The replacement and operating reserves are underfunded by \$626,069 (2017 - \$583,073).

Homalco Indian Band
Notes to the Consolidated Financial Statements
For the year ended March 31, 2018

13. Indigenous Services Canada funding reconciliation

2018

Revenue per confirmation	1,797,557
Recovery in basic needs	(21,834)
	1,775,723

14. Economic dependence

Homalco Indian Band receives a significant portion of its revenue from Indigenous Services Canada ("ISC") as a result of funding agreements entered into with the Government of Canada. These agreements are administered by ISC under the terms and conditions of the Indian Act. The ability of the Band to continue operations is dependent upon the Government of Canada's continued financial commitments as guaranteed by these agreements.

15. Segments

During the year, the Band had 9 reportable segments. These segments are differentiated by factors such as major activities, service lines, accountability and control relationships. For management and reporting purposes, the revenues, expenses and surpluses or deficits are organized by the following segments:

Band Government:

This segment includes general operations, support and financial management of the Band.

Community Services:

This segment includes revenues and expenses from dealing with the management of land, Fisheries and Oceans Canada, as well as other functions which benefit the community at large.

Economic Development:

This segment includes activities related to the growth of revenue producing projects within the Band.

Education:

This segment includes revenues and expenses relating to the primary, secondary and post-secondary education of the members of the Band.

Employment:

This segment includes revenues and expenses associated with employment services provided to members of the Band.

Health:

This segment includes activities related to the provision of health services within the Band.

Housing:

This segment includes activities related to the provision of housing within the Band.

Public Works:

This segment includes revenues and expenses associated with municipal services and the maintenance of roads, water and community buildings within the Band.

Social Services:

This segment includes revenues and expenses relating to social assistance and other family services provided to the members of the Band.

16. Comparative figures

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

17. Budget information

Canadian public sector accounting standards ("PSAS") requires the disclosure of budget information for comparison to the Band's actual revenue and expenses. The consolidated budgeted revenue and expenses, and annual surplus (deficit) have not been reported in these consolidated financial statements. While having no effect on reported revenue, expenses, and annual surplus (deficit), omission of this information is considered a departure from PSAS.

18. Contingent liabilities

The financial results of the CMHC Social Housing program are subject to review by CMHC. It is possible that adjustments could be made based on the results of their review.

As at March 31, 2018 there existed outstanding claims against the Band. These claims have been referred to legal counsel. It is not possible to determine the Band's potential liability, if any, with respect to these matters.