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McLeod Lake Indian Band Consolidated Financial Statements

March 31, 2019

McLeod Lake Indian Band Contents

For the year ended March 31, 2019

	Page
Management's Responsibility	
Independent Auditor's Report	
Consolidated Financial Statements	
Consolidated Statement of Financial Position.....	1
Consolidated Statement of Operations and Accumulated Surplus.....	2
Consolidated Statement of Change in Net Financial Assets.....	3
Consolidated Statement of Cash Flows.....	4
Notes to the Consolidated Financial Statements	5
Schedules	
Schedule 1 - Consolidated Schedule of Tangible Capital Assets.....	21
Schedule 2 - Consolidated Schedule of Expenses by Object.....	23
Schedule 3 - Schedule of Revenue and Expenses - Administration.....	24
Schedule 4 - Schedule of Revenue and Expenses - Business Enterprises.....	25
Schedule 5 - Schedule of Revenue and Expenses - Capital Projects.....	26
Schedule 6 - Schedule of Revenue and Expenses - Community Health.....	27
Schedule 7 - Schedule of Revenue and Expenses - Education.....	28
Schedule 8 - Schedule of Revenue and Expenses - Infrastructure	29
Schedule 9 - Schedule of Revenue and Expenses - Membership.....	30
Schedule 10 - Schedule of Revenue and Expenses - Natural Resources.....	31
Schedule 11 - Schedule of Revenue and Expenses - Social Development.....	32
Schedule 12 - Schedule of Revenue and Expenses - Social Housing.....	33



McLeod Lake Indian Band

General Delivery, McLeod Lake, BC V0J 2G0
Main Office (250) 750-4415 Fax: (250) 750-4420

Management's Responsibility

To the Members of McLeod Lake Indian Band:

Management is responsible for the preparation and presentation of the accompanying consolidated schedule of remuneration and expenses paid to unelected senior officials, including responsibility for significant accounting judgments and estimates in accordance with First Nations Financial Transparency Act. 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 schedule of remuneration and expenses paid to unelected senior officials, 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 financial information.

Chief and Council is composed primarily of individuals who are neither management nor employees of the Band. The Council is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial statements. The Council fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external accountants. The Council is also responsible for recommending the appointment of the Band's external accountants.

MNP LLP is appointed by the Chief and Council to review the schedule of remuneration and expenses paid to unelected officials and report directly to the members; their report follows. The external accountants have full and free access to, and meet periodically, with both the Council and management to discuss their findings.

July 19, 2019



Chief Financial Officer

Independent Auditor's Report

To the Members of McLeod Lake Indian Band:

Opinion

We have audited the consolidated financial statements of McLeod Lake Indian Band and its subsidiaries (the "Band"), which comprise the consolidated statement of financial position as at March 31, 2019, and the consolidated statements of operations, accumulated surplus and related schedules, changes in net financial assets and 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 the Band as at March 31, 2019, and the results of its consolidated operations 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 consolidated financial statements section of our report. We are independent of the Band in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 Consolidated 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 the Band'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 the Band or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Band's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 the Band'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 the Band'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 consolidated 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 the Band to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Band to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Prince George, British Columbia

July 19, 2019

MNP LLP

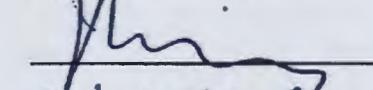
Chartered Professional Accountants

MNP
LLP

McLeod Lake Indian Band
Consolidated Statement of Financial Position
As at March 31, 2019

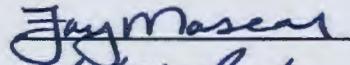
	2019	2018
Financial assets		
Cash (Note 4)	75,462,048	12,303,917
Accounts receivable and accruals (Note 5)	9,678,045	5,021,554
Guaranteed investment certificates	12,032	12,032
Restricted cash (Note 6)	316,540	287,191
Inventory for resale (Note 7)	1,390,999	1,400,985
Investment in Band business entities (Note 8)	33,270,773	30,819,938
Funds held in trust (Note 9)	47,492	48,036
Total financial assets	120,177,929	49,893,053
Liabilities		
Accounts payable and accruals (Note 10)	3,408,021	5,200,760
Deferred revenue (Note 11)	490,705	137,240
Debt (Note 12)	7,246,778	2,707,605
Advances from related Band entities (Note 13)	78,088,289	14,508,251
Total liabilities	89,233,793	22,553,856
Net financial assets	30,944,136	27,339,197
Contingent liabilities (Note 14)		
Non-financial assets		
Tangible capital assets (Schedule 1)	27,095,810	22,902,029
Prepaid expenses	19,816	187,343
Total non-financial assets	27,115,626	23,089,372
Accumulated surplus (Note 15)	58,059,762	50,428,569

Approved on behalf of Chief and Council:


Elizabeth Salonas

Chief

Councillor


Jay Mason

Councillor


Albert Gads

Councillor

McLeod Lake Indian Band
Consolidated Statement of Operations and Accumulated Surplus
For the year ended March 31, 2019

	Schedules	2019 Budget (Note 21)	2019	2018
Revenue				
Sale of logs from settlement lands		11,200,000	82,444,069	10,572,484
Forest products		-	6,008,714	13,406,243
Indigenous Services Canada (Note 16)		3,404,047	2,315,630	5,123,101
First Nation Health Authority		450,365	779,983	471,306
Oil and Gas Commission		900,000	776,000	782,000
Province of British Columbia		20,000	382,682	402,121
Other revenue		775,000	327,564	2,890,595
Rental revenue		-	382,983	316,938
Earnings (loss) from investment in Nation partnerships (Note 8)			2,551,435	(1,046,015)
Contract revenue		525,000	2,190,384	1,372,968
Sale of goods and services		-	1,175,094	779,876
Donations		70,000	110,127	75,755
Interest income		-	458,320	17,139
Revenue recovery/reimbursement		-	109,240	1,057,462
Royalty income		-	183,250	1,762,778
Prince George Nchako Aboriginal Employment & Training Association		70,000	139,908	74,698
Housing programs		-	71,273	108,193
Exchange gains		-	12,127	-
Trust revenue		800,000	3,120,000	8,371
Ministry of Children & Family Development		78,432	112,383	110,050
Daycare revenue		5,000	18,292	4,228
First Nations Education Steering Committee		-	3,889	2,447
		18,297,844	103,673,347	38,292,738
Expenses				
Administration	3	1,654,307	2,806,620	2,274,116
Business Enterprises	4	119,986	11,943,342	16,662,837
Capital Projects	5	335,713	268,437	294,109
Community Health	6	450,365	566,801	445,414
Education	7	1,041,396	1,087,979	840,969
Infrastructure	8	2,612,117	1,007,954	815,690
Membership	9	389,357	5,571,370	4,482,196
Natural Resources	10	1,294,536	8,907,643	2,088,796
Social Development	11	511,497	557,510	398,526
Social Housing	12	-	(167,812)	89,086
		8,409,274	32,549,844	28,391,739
Surplus before transfer		9,888,570	71,123,503	9,900,999
Transfer to trust		-	(63,492,310)	(9,109,232)
Annual surplus		9,888,570	7,631,193	791,767
Accumulated surplus, beginning of year		-	50,428,569	49,636,802
Accumulated surplus, end of year		-	58,059,762	50,428,569

The accompanying notes are an integral part of these financial statements

McLeod Lake Indian Band
Consolidated Statement of Change in Net Financial Assets
For the year ended March 31, 2019

	2019 <i>Budget</i> <i>(Note 21)</i>	2019	2018
Annual surplus	9,888,570	7,631,193	791,767
Purchases of tangible capital assets	-	(6,137,230)	(1,724,508)
Amortization of tangible capital assets	-	1,942,353	1,721,535
Use of prepaid expenses	-	167,527	82,025
Loss on disposal of tangible capital assets	-	1,096	30,029
	-	(4,026,254)	109,081
Increase in net financial assets	9,888,570	3,604,939	900,848
Net financial assets, beginning of year	27,339,197	27,339,197	26,438,349
Net financial assets, end of year	37,227,767	30,944,136	27,339,197

McLeod Lake Indian Band
Consolidated Statement of Cash Flows
For the year ended March 31, 2019

	2019	2018
Cash provided by (used for) the following activities		
Operating activities		
Annual surplus	7,631,193	791,767
Non-cash items		
Amortization	1,942,353	1,721,535
Loss on disposal of tangible capital assets	1,096	30,029
Bad debts (recovery)	(349,209)	23,725
Loss (earnings) from investment in Band business entities	(2,551,435)	1,046,015
	6,673,998	3,613,071
Changes in working capital accounts		
Accounts receivable	(4,656,491)	(1,037,529)
Accounts payable and accruals	(1,792,737)	3,347,834
Inventories	9,986	(1,148,192)
Deferred revenue	353,468	(4,311)
Use of prepaid expenses	167,527	82,025
	755,751	4,852,898
Financing activities		
Repayment of debt	(2,430,115)	(715,063)
Advances from debt	6,969,288	332,397
	4,539,173	(382,666)
Capital activities		
Purchases of tangible capital assets	(6,137,230)	(1,724,508)
Investing activities		
Increase in restricted cash	(29,349)	(74,877)
Distributions from (to) Band business entities	(769,721)	500,000
Advances to related entities	64,799,507	4,650,524
	64,000,437	5,075,647
Increase in cash	63,158,131	7,821,371
Cash, beginning of year	12,303,917	4,482,546
Cash, end of year	75,462,048	12,303,917

McLeod Lake Indian Band
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

1. Operations

The McLeod Lake Indian Band (the "Band") is located in the province of British Columbia, and provides various services to its members. McLeod Lake 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 consolidated financial statements are the representations of management, prepared in accordance with Canadian public sector accounting standards and include the following significant accounting policies:

Fund accounting

The Band uses fund accounting procedures which result in a self-balancing set of accounts for each fund established by legal, contractual or voluntary actions. The various funds have been amalgamated for the purpose of presentation in the summary financial statements. All interfund balances have been eliminated.

The Band maintains the following funds:

- The Operating Fund, which reports on the general activities of the Band administration.
- The Ottawa Trust Fund, which reports on trust monies owned by the Band and held by third parties.
- The Canada Mortgage and Housing Corporations ("CMHC") Social Housing Fund, which reports the CMHC funded social housing operations of the Band.
- The Capital Fund reports on the tangible capital assets of the Band, less any related capital financing.
- The Enterprise Fund, which reports on activities of the Limited Partnerships and other incorporated entities controlled by the McLeod Lake Indian Band on a modified equity basis.

Reporting entity consolidated

The consolidated financial statements consolidate the financial activities of all entities and departments comprising the Band reporting entity, except for Band business entities. Trusts administered on behalf of third parties by McLeod Lake 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:

- Social Housing Fund
- Tse'khene Community Development Corporation
- Tse'khene Food and Fuel Ltd.
- Duz Cho Forest Products Limited Partnership
- Duz Cho Forest Products Ltd.

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.

McLeod Lake Indian Band business enterprises, owned or controlled by the Band's Chief and Council but not dependant on the Band for their continuing operations, are included in the consolidated financial statements using the modified equity method. Band business partnerships, jointly owned and controlled by the Band's Chief and Council that are not dependent on the Band for their continuing operations, are included in the consolidated financial statements using the modified equity method.

McLeod Lake Indian Band
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

2. Significant accounting policies (Continued from previous page)

Under the modified equity method, the equity method of accounting is modified only to the extent that the business entity accounting principles are not adjusted to conform to those of the Band. Thus, the Band's investment in these entities is 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:

- Duz Cho Logging Ltd. (100% owned)
- Duz Cho Logging Limited Partnership (99.99% owned)
- Duz Cho Construction Ltd. (100% owned)
- Duz Cho Construction Limited Partnership (99.99% owned)
- Duz Cho Group of Companies Ltd. (100% owned)
- Duz Cho Group of Companies Limited Partnership (100% owned)
- Three Feathers Limited Partnership (33.3% owned)
- McLeod Lake Mackenzie Community Forest Limited Partnership (50% owned)

Entities which are not controlled or jointly controlled are accounted for at cost. These include:

- Mackenzie Fibre Management Corporation

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.

Funds held in Trust

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. 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 financial assets

The Band's consolidated financial statements are presented so as to highlight net financial assets as the measurement of financial position. The net financial assets of the Band is determined by its financial assets less its liabilities. Net financial assets combined with non-financial assets and comprise a second indicator of financial position, accumulated surplus.

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.

Cash

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

McLeod Lake Indian Band
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

2. Significant accounting policies (Continued from previous page)

Tangible capital assets

Capital expenditures are any significant expenditure incurred to acquire or improve land, buildings, engineering structures, machinery or equipment. The benefits last beyond one year and result in the acquisition of an asset or are an extension of the life of an asset. Tangible capital assets are initially recorded at cost less accumulated amortization. Contributed tangible assets are recorded at their fair value at the date of contribution.

Assets under construction are not amortized until the asset is available for productive use.

All intangible assets and items inherited by the right of the Band, such as reserve lands, forests, water resources and mineral resources, are not recognized in the Band's consolidated financial statements.

Amortization

Amortization for tangible capital assets is provided using the following methods at rates intended to amortize the cost of the assets over their estimated useful lives. In the year of acquisition, amortization is taken at one-half of the rates.

	<i>Method</i>	<i>Rate</i>
Buildings (includes Social Housing) and Paving	straight-line	10 - 20 years
Water Systems & Fire Protection	straight-line	10 years
Automotive and Mobile Equipment	straight-line	5 years
Office and Computer Equipment	straight-line	5 years
Manufacturing Equipment and Small Tools	straight-line	2 - 10 years

McLeod Lake Indian Band
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

2. Significant accounting policies (Continued from previous page)

Revenue recognition

i) Government Transfers

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.

ii) Band Capital and Revenue Trust Funds

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

iii) Investment Income

Investment income is recognized by the Band when the investment income is earned.

iv) Forestry Revenue

Revenue earned on timber sale licenses is recognized when wood fibre is delivered and the customer takes ownership and assumes the risk of loss, persuasive evidence of an arrangement exists, and collection is reasonably assured.

v) Other Revenue

Revenue earned from the sale of lumber, fuel, tobacco and confectionary items is recognized when the goods are delivered to the customer, persuasive evidence of an arrangement exists, and collection is reasonably assured.

Interest income, rental income, and other revenue are recognized when earned and/or when the service is provided and collection is reasonably assured.

Measurement uncertainty

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

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. 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 operations in the periods in which they become known.

Segments

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

For each reported segment, revenue and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis.

The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements.

McLeod Lake Indian Band
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

2. Significant accounting policies (Continued from previous page)

Reforestation

The Band accounts for costs related to the reforestation of logged areas in the period such areas are logged. Costs represent the required contribution to the McLeod Lake Indian Band Silviculture Trust pursuant to the Band Forest Practices Code.

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, 2019.

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, 2019, no liability for contaminated site exists.

Financial Instruments

The Band's financial instruments consist of cash, accounts receivable and accruals, guaranteed investment certificates, restricted cash, accounts payable and accruals, debt and advances from related Band entities.

The Band recognizes its financial instruments when the Band becomes party to the contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value. They are subsequently recorded at cost less any impairment losses if other than temporary.

Transaction costs directly attributable to the origination, acquisition, issuance or assumption of financial instruments subsequently measured at fair value are immediately recognized in annual surplus. Conversely, transaction costs are added to the carrying amount for those financial instruments subsequently measured at cost or amortized cost.

All financial assets are tested annually for impairment. Management considers if there is a significant adverse change in the expected amount or timing of cash flows from the financial asset in determining whether objective evidence of impairment exists. Any impairment, which is not considered temporary, is recorded in the statement of operations. Write-downs of financial assets measured at cost and/or amortized cost to reflect losses in value are not reversed for subsequent increases in value. Reversals of any net remeasurements of financial assets measured at fair value are reported in the statement of remeasurement gains and losses.

3. Change in accounting policies

PS 3430 Restructuring Transactions

Effective April 1, 2018, the First Nation adopted the recommendations relating to PS 3430 Restructuring Transactions as set out in the CPA Canada Public Sector Accounting Handbook. The main features of this standard are as follows:

- A restructuring transaction is defined as a transfer of an integrated set of assets and/or liabilities, together with related program or operating responsibilities that does not involve an exchange of consideration.
- Individual assets and liabilities transferred in a restructuring transaction are derecognized by the transferor at their carrying amount and recognized by the recipient at their carrying amount with applicable adjustments.

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

McLeod Lake Indian Band
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

4. Cash

	2019	2018
Operations Fund	71,807,113	9,808,261
Duz Cho Forest Products Limited Partnership	1,191,684	863,766
Tse'khene Community Development Corporation	2,088,450	1,525,125
Social Housing Fund	367,847	72,392
Tse'khene Food & Fuel Ltd.	6,954	34,373
	75,462,048	12,303,917

5. Accounts receivable and accruals

	2019	2018
Operations Fund	9,069,005	3,358,963
Social Housing Fund	718,837	850,608
Duz Cho Forest Products Limited Partnership	382,013	1,439,647
Tse'khene Community Development Corporation	29,016	217,564
Tse'khene Food and Fuel Ltd.	47,863	34,743
	10,246,734	5,901,525
Less: Allowance for doubtful accounts	568,689	879,971
	9,678,045	5,021,554

Included in the operations fund is amounts receivable from Indigenous Services Canada of \$17,963 (2018 - \$1,120,122).

6. Restricted cash

Under the terms of the agreement with Canada Mortgage and Housing Corporation ("CMHC"), the replacement reserve account is to be credited in the amount of \$10,000 (2018 - \$13,739) annually. These funds, along with accumulated interest, must be held in a separate bank account and/or invested only 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. At year end, these reserves were adequately funded.

Under the terms of the agreement with Canada Mortgage and Housing Corporation ("CMHC"), excess revenues over expenditures for the Post 1996 phases may be retained in an operating reserve. These funds along with accumulated interest, must be held in a separate bank account and/or invested only in accounts or instruments insured by the Canada Deposit Insurance Corporation or as may otherwise be approved by CMHC from time to time. At year end, the operating reserve was adequately funded.

Restricted cash is comprised of the following:

	2019	2018
Replacement reserve	174,264	174,264
Operating reserve	142,276	112,927
	316,540	287,191

McLeod Lake Indian Band
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

7. Inventory for resale

	2019	2018
Tse'khene Food and Fuel Ltd.	41,808	54,128
Duz Cho Forest Products Limited Partnership	1,349,191	1,346,857
	1,390,999	1,400,985

The cost of inventories recognized as an expense during the year was \$4,168,573 (2018 - \$9,043,599).

8. Investment in Band business entities

	<i>Balance, beginning of year</i>	<i>Loans / advances</i>	<i>Share of earnings (loss)</i>	<i>Distributions</i>	2019
					Total investment
Portfolio Investments:					
Mackenzie Fibre Management Corporation	400	-	-	-	400
Wholly-owned Businesses:					
Duz Cho Logging Ltd.	3,412,908	(3,413,200)	(2,211)	-	(2,503)
Duz Cho Construction Ltd.	(39,584)	-	37,053	-	(2,531)
Duz Cho Group of Companies Ltd.	(4,075)	-	(991)	-	(5,066)
	3,369,249	(3,413,200)	33,851	-	(10,100)
First Nation Business Partnerships -					
Modified Equity:					
Duz Cho Logging Limited Partnership (99.99%)	9,334,310	3,413,200	1,458,082	-	14,205,592
Duz Cho Construction Limited Partnership (99.99%)	15,222,879	-	990,918	-	16,213,797
Duz Cho Group of Companies Limited Partnership (99.99%)	-	-	(91,413)	-	(91,413)
McLeod Lake Mackenzie Community Forest Limited Partnership (50%)	2,797,616	-	(1,214)	(100,000)	2,696,402
Three Feathers Limited Partnership (33.3%)	94,884	-	161,211	-	256,095
	27,449,689	3,413,200	2,517,584	(100,000)	33,280,473
	30,819,338	-	2,551,436	(100,000)	33,270,773

McLeod Lake Indian Band
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

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

	<i>Balance, beginning of year</i>	<i>Loans / advances</i>	<i>Share of earnings (loss)</i>	<i>Distributions</i>	<i>2018 Total investment</i>
Portfolio Investments:					
Mackenzie Fibre Management Corporation	400	-	-	-	400
Wholly-owned Businesses:					
Duz Cho Logging Ltd.	(799)	3,413,200	507	-	3,412,908
Duz Cho Construction Ltd.	(250)	-	(39,334)	-	(39,584)
Duz Cho Group of Companies Ltd.	(2,826)	150	(1,399)	-	(4,075)
Duz Cho Forest Products Ltd.	(9,998)	9,998	-	-	-
McLeod Lake Indian Band Exploration Corporation	1,587	(1,587)	-	-	-
	(12,286)	3,421,761	(40,226)	-	3,369,249
First Nation Business Partnerships – Modified Equity:					
Duz Cho Logging Limited Partnership (99.90%)	11,241,724	(3,413,200)	1,505,786	-	9,334,310
Duz Cho Construction Limited Partnership (99.90%)	19,019,369	(1,512)	(3,794,978)	-	15,222,879
McLeod Lake Mackenzie Community Forest Limited Partnership (50%)	2,039,021	-	1,258,595	(500,000)	2,797,616
Three Feathers Limited Partnership (33.3%)	70,076	-	24,808	-	94,884
McLeod Lake Indian Band Exploration Limited Partnership (99.90%)	707,150	(707,150)	-	-	-
	33,077,340	(4,121,862)	(1,005,789)	(500,000)	27,449,689
	33,065,454	(700,101)	(1,046,015)	(500,000)	30,819,338

Continued on next page

McLeod Lake Indian Band
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

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

Summary financial information for each Band business entity, accounted for using the modified equity method, for their respective year-ends is provided below.

The Band's investees have a different year-end than March 31, 2019, as described below. The Band uses the investees' year-end financial statements to account for its investment in these investees. There have been no significant events or transactions in the interim period.

McLeod Lake Indian Band Exploration Limited Partnership was dissolved during the year therefore there is no financial information to present for this entity.

The following entities are unaudited: Three Feathers Limited Partnership, Duz Cho Group of Companies Ltd, Duz Cho Logging Ltd and Duz Cho Construction Ltd and Duz Cho Group of Companies Limited Partnership.

During the course of the year, Duz Cho Group of Companies Limited Partnership met the criteria to be become a government business entity and as such is accounted for under the modified equity method as of April 1, 2018.

Duz Cho Forest Products Limited Partnership has been accounted for using the consolidation method as the Limited Partnership is not self-sustaining. Included in the Band's consolidated financial statements are revenue of \$6,020,841, expenses of \$10,064,158 and net loss of \$4,043,317.

	<i>Duz Cho Logging Limited Partnership As at October 31, 2018</i>	<i>Duz Cho Construction Limited Partnership As at October 31, 2018</i>	<i>McLeod Lake Mackenzie Community Forest Limited Partnership As at December 31, 2018</i>	<i>Three Feathers Limited Partnership As at March 31, 2019 (Unaudited)</i>
Assets				
Cash	-	1,288,012	30,972	814,307
Accounts receivable	4,602,451	5,768,939	35,495	270,942
Inventory	422,658	170,086	-	-
Investments	627,657	-	5,460,471	-
Advances to related parties	4,407,430	3,832,702	-	13,200
Property, plant and equipment	9,516,638	9,343,664	115,647	-
Prepaid expenses	15,765	67,099	11,134	18,993
Intangible assets	851,157	-	-	-
Restricted investments	-	-	655,266	-
Total assets	20,443,746	20,460,502	6,308,985	1,117,442
Liabilities				
Accounts payable and accruals	1,944,790	1,685,392	177,820	350,292
Deferred revenue	-	-	80,000	-
Short-term debt	2,114,213	1,329,361	12,629	-
Advances from related parties	1,324,091	-	-	-
Long-term debt	2,162,042	1,230,238	-	-
Other long-term liabilities	-	-	645,731	-
Total liabilities	7,545,136	4,244,991	916,180	350,292
Partners' Capital	12,898,610	16,215,511	5,392,805	767,150
Total revenue (loss)	33,005,018	13,848,072	1,165,324	525,537
Total expenses	31,551,137	12,822,054	1,167,749	41,857
Comprehensive income (loss)	1,453,881	1,026,018	(2,425)	483,680

McLeod Lake Indian Band
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

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

	Duz Cho Group of Companies Ltd. As at October 31, 2018 (Unaudited)	Duz Cho Logging Ltd. As at October 31, 2018 (Unaudited)	Duz Cho Construction Ltd. As at October 31, 2018 (Unaudited)	Duz Cho Group of Companies Limited Partnership As at October 31, 2018 (Unaudited)
Assets				
Cash	-	-	-	42,696
Accounts receivable	-	-	-	16,852
Inventory	-	-	-	-
Investments	185	3,414,809	1,714	25,697,598
Advances to related parties	-	-	-	23,474
Property, plant and equipment	-	-	-	5,729
Prepaid expenses	-	-	-	7,783
Intangible assets	-	-	-	-
Restricted investments	-	-	-	-
Total assets	185	3,414,809	1,714	25,794,132
Liabilities				
Accounts payable and accruals	1,000	1,000	1,000	68,822
Deferred revenue	-	-	-	-
Short-term debt	-	-	-	-
Advances from related parties	4,400	3,416,212	3,145	-
Long-term debt	-	-	-	-
Other long-term liabilities	-	-	-	-
Total liabilities	5,400	3,417,212	4,145	68,822
Partners' Capital	(5,215)	(2,403)	(2,431)	25,725,310
Total revenue (loss)	9	(1,211)	38,053	273,478
Total expenses	1,000	1,000	1,000	364,891
Comprehensive income (loss)	(991)	(2,211)	37,053	(91,413)

9. 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.

	2019	2018
Capital Trust		
Balance, beginning and end of year	47,492	47,492
Revenue Trust		
Balance, beginning of year	544	499
Interest	554	45
Transferred out to cash	(1,098)	-
Balance, end of year	-	544
	47,492	48,036

McLeod Lake Indian Band
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

9. Funds held in trust (Continued from previous page)

Ottawa Trust Funds

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

10. Accounts payable and accruals

	2019	2018
Accounts payable general	1,771,856	4,186,529
Accrued liabilities	804,787	428,178
Payroll & benefits	252,542	355,524
Government remittances	519,972	9,424
Housing	23,435	10,632
Other	35,429	210,473
	3,408,021	5,200,760

11. Deferred revenue

	2019	2018
Deferred revenue from non-government organizations	311,022	137,240
Deferred revenue from government organizations	10,000	-
Prepaid sales	169,683	-
	490,705	137,240

McLeod Lake Indian Band
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

12. Debt

	2019	2018
BMO - demand loan repayable in monthly instalments of \$38,284 including interest at prime plus 4.6% per annum, maturing October 2038, secured by all properties of Duz Cho Forest Products Limited Partnership with a net book value of \$13,501,765 (2018 - \$11,207,620)	6,000,000	-
RBC - term loan repayable in monthly instalments of \$14,500 including interest at prime plus 5.6% per annum, maturing March 2025, secured by all properties of Duz Cho Forest Products Limited Partnership with a net book value of \$13,501,765 (2018 - \$11,207,620)	930,514	-
All Nations Trust Company - repayable in monthly installments of \$1,754 including interest at 1.3% per annum, maturing on April, 2027, secured by buildings with a net book value of \$357,444 (2018 - \$339,572).	161,458	180,282
All Nations Trust Company - repayable in monthly installments of \$2,445 including interest at 2.5% per annum, maturing on May, 2023, secured by buildings with a net book value of \$195,146 (2018 - \$205,416).	116,031	142,279
Ford Credit - loan payable in monthly instalments of \$859, including interest at 3.99% per annum, maturing November 2022, secured by a specific piece of equipment with a net book value of \$37,440	38,775	-
Western Financial Insurance - term loan paid off during the year	-	129,326
All Nations Trust Company - term loan paid off during the year	-	2,047
Paper Excellence - term loan paid off during the year	-	2,192,586
<u>RBC - term loan paid off during the year</u>	<u>61,085</u>	
	7,246,778	2,707,605

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

2020	367,131
2021	384,407
2022	402,544
2023	421,587
2024	407,285
Thereafter	1,982,954
Total	7,246,778

The prime rate for both RBC and BMO is 3.95% (2018 - 3.45%).

McLeod Lake Indian Band
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

13. Advances from related Band entities

Advances from 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.

	2019	2018
McLeod Lake Indian Band Treaty 8 Trust	63,489,864	8,207,675
McLeod Lake Indian Band Provincial Lands Trust	-	(151,604)
McLeod Lake Indian Band Mineral and Mining Trust	67,851	214,254
McLeod Lake Indian Band Silviculture Trust	6,305,942	737,259
Duz Cho Construction Limited Partnership	3,817,202	2,617,202
Duz Cho Logging Limited Partnership	4,407,430	2,883,465
	78,088,289	14,508,251

The Band has entered into an agreement with the McLeod Lake Indian Band Silviculture Trust to perform reforestation activities on behalf of the Band. In the event actual future reforestation costs exceed the resources of the McLeod Lake Indian Band Silviculture Trust, the Band is contingently liable to fund the shortfall. Amounts owing to the Trust at year-end are \$6,305,942 (2018 - \$737,259).

Subsequent to year-end, \$55,000,000 was transferred to McLeod Lake Indian Band Treaty 8 Trust.

14. Contingent liabilities

- (a) As at March 31, 2019 there are existing 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.
- (b) 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.
- (c) The Band is subject to funding recoveries according to their agreements with federal government agencies. It has not yet been determined to what extent any funding amounts related to the year ended March 31, 2019 might be recovered.

15. Accumulated surplus

Accumulated surplus consists of the following:

	2019	2018
Equity in Ottawa Trust funds	47,492	48,036
Equity in tangible capital assets	19,849,025	20,194,424
Investment in Band business entities (enterprise fund)	33,270,773	30,819,338
Replacement and operating reserve (social housing fund)	271,193	241,646
Surplus (deficit) in operating fund	4,621,279	(874,875)
	58,059,762	50,428,569

16. Indigenous Services Canada ("ISC") funding reconciliation

	2019	2018
Direct Band Funding		
Revenue per confirmation	2,315,630	5,123,101

McLeod Lake Indian Band
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

17. Trusts under administration

Treaty 8 Trust

The Band is the beneficiary of the McLeod Lake Indian Band Treaty 8 Trust which was established in April 2000 upon ratification of a land settlement agreement. The income from the Trust represented by the Trust Project and Development Account is to be allocated to the Band annually, and the Band must also loan an amount, determined by the Trust, to the Capital Account of the Trust each year. Under the terms of the agreement, net logging profits earned by the Band must be reverted to the Trust. The total fund balance at December 31, 2018 is \$64,331,893 (2017 - \$51,665,865).

Land and Minerals Trust

The Band is the beneficiary of the McLeod Lake Indian Band Lands and Minerals Trust which was established in May 2011. The purpose of the Trust is to receive royalty and contract payments for the use of mineral and timber resources by third parties on the Band's traditional territories. The Trust property is to be used for the benefit of the Band and the persons who are members of the Band during the term of the Trust. The total fund balance at December 31, 2018 is \$7,240,525 (2017 - \$6,929,918).

Provincials Revenue Trust

The Band is the beneficiary of the McLeod Lake Indian Band Provincial Revenues Trust which was established in May 2011. The purpose of the Trust is to receive revenues from the Province of British Columbia associated with mineral taxes by the Province from the Mount Milligan mine contract with MLIB. The Trust property is to be used for the benefit of the Band and the persons who are members of the Band during the term of the Trust. The total fund balance at December 31, 2018 is \$4,721,227 (2017 - \$2,448,063).

Education Trust

The Band is the beneficiary of the McLeod Lake Indian Band (2017) Education Trust which was established in April 2017. The purpose of the Trust is to administer these funds for the long-term benefit of the membership of the Band. The total fund balance at December 31, 2018 is \$6,157,435 (2017 - \$5,955,099).

McLeod Lake Indian Band
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

18. Financial Instruments

The Band as part of its operations carries a number of financial instruments. It is management's opinion that the Band is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

Credit Risk

Credit risk is the risk assumed by the creditor that the borrower will fail to fully honour its financial obligations. Financial instruments that potentially subject the Band to concentrations of credit risk consists principally of cash, accounts receivable and advances to related parties. The maximum credit risk exposure is \$2,553,664 (2018 - \$2,061,393). Management believes that the credit risk is low in regards to cash as balances are held with a chartered financial institution and low for accounts receivable and advances to related parties as management provides allowances for potentially uncollectible amounts.

Risk management

The Band does not have formal risk management policies in place.

Liquidity Risk

Liquidity risk is the risk that the Band will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivery of cash or another financial asset. The Band enter into transactions to purchase goods and services on credit for which repayment is required at various maturity dates. Liquidity risk is measured by reviewing the Band's future net cash flows for the possibility of negative net cash flow.

The Band and its entities manage liquidity risk by maintaining liquid assets.

The current liabilities of the Band and its entities are expected to be settled and mature within one year of the year-end date.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Band exposed to interest rate risk primarily due to the long-term debt as it is subject to floating rates.

The prime rate for both RBC and BMO at March 31, 2019 was 3.95% (2018 - 3.45%).

McLeod Lake Indian Band
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

19. Segments

During the year, the Band had 10 reportable segments. These segments are differentiated by factors such as major activities, services lines, accountability, and control relationships. For management and reporting purposes, the revenues, expenses, surpluses or deficits are organized by the following segments:

Administration:

This segment reflects funding and expenditures related to Band governance activities.

Business Enterprises:

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

Capital Projects:

This segment includes services relating to housing renovations and repairs.

Community Health:

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

Education:

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

Infrastructure:

This segment relates to the operation and maintenance of the Band's community buildings and water facilities.

Membership:

This segment includes the revenues and expenses relating to youth, elders, employment training and distributions.

Natural Resource:

This segment relates to forestry, land management and consultation programs and services.

Social Development:

This segment includes the revenues and expenses relating to the social assistance of the members of the Band.

Social Housing:

This segment includes the revenues and expenses relating to the social housing of the members of the Band.

20. Pension plan

The Band has a defined contribution pension plan for certain employees. The employees contribute a minimum of 5% of their earnings which the Band matches. The pension expense is \$135,350 (2018 - \$127,433).

21. Budget information

The disclosed budget information has been approved by the Chief and Council of the McLeod Lake Indian Band. The original budget was approved at the Chief and Council meeting held on March 19, 2018.

Budgets were not prepared for all segments and all departments in 2019. As such, the budget figures in the Consolidated Statement of Operations are not presented for the same scope of activities as the actual results.

22. Comparative figures

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