

LAX KW'ALAAMS INDIAN BAND

FINANCIAL STATEMENTS

MARCH 31, 2015

**LAX KW'ALAAMS INDIAN BAND
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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF LAX KW'ALAAMS INDIAN BAND

Report on the Financial Statements

We have audited the accompanying statement of financial position of the Lax Kw'alaams Indian Band as at March 31, 2015 and the statements of financial activities, cash flows and changes in net financial liabilities for the year then ended and a summary of significant accounting policies.

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 principles, and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free of 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 the audit in accordance with Canadian generally accepted auditing standards. These standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for 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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

In accordance with the CICA handbook, section PS-3150, First Nation organizations are required to compile a comprehensive listing of all property and equipment owned by the organization. This has not been completed. The impact of this on the statement of financial position only affects property and equipment values and equity in property and equipment. The operating surplus is not impacted by this omission.

Opinion

In our opinion, except for the effect of adjustments, if any, which might be required regarding the above condition, these financial statements present fairly, in all material respects, the financial position of the Band as at March 31, 2015 and the results of its operations, cash flows and changes in net financial liabilities for the year then ended in accordance with Canadian public sector accounting principles.

Prince Rupert, BC
July 3, 2015

Carlyle Shepherd & Co.

LAX KW'ALAAMS INDIAN BAND

STATEMENT OF FINANCIAL POSITION

MARCH 31

	2015	2014
	\$	\$
FINANCIAL ASSETS		
Cash	13,634,860	9,434,133
Accounts receivable (note 2)	3,744,743	8,104,501
Inventory (notes 1 and 3)	2,104,221	2,818,496
Ottawa Trust funds (note 4)	<u>1,237,749</u>	<u>1,188,836</u>
	<u>20,721,573</u>	<u>21,545,966</u>
LIABILITIES		
Accounts payable and accruals (note 7)	9,094,518	7,776,414
Deferred revenue (note 8)	433,479	-
Replacement reserve	-	177,041
Bank and other loans (note 6)	<u>12,947,662</u>	<u>14,513,103</u>
	<u>22,475,659</u>	<u>22,466,558</u>
NET FINANCIAL ASSETS (LIABILITIES)	<u>-1,754,086</u>	<u>-920,592</u>
NON-FINANCIAL ASSETS		
Deposits	79,606	79,606
Investments (notes 1 and 9)	1,213,930	-
Licences (note 1)	2,019,668	2,019,668
Prepaid expenses (note 5)	5,294,110	5,647,392
Property and equipment (notes 1 and 11)	<u>46,555,438</u>	<u>36,422,121</u>
	<u>55,162,752</u>	<u>44,168,787</u>
	<u>53,408,666</u>	<u>43,248,195</u>
BAND POSITION		
Surplus (note 12)	2,339,993	3,626,554
Equity in Ottawa Trust funds (note 4)	1,237,749	1,188,836
Equity in property and equipment (note 13)	45,690,879	35,503,388
Equity in investments (note 9)	<u>4,140,045</u>	<u>2,929,417</u>
	<u>53,408,666</u>	<u>43,248,195</u>

APPROVED ON BEHALF OF COUNCIL

Stan Daniels Chief Councillor

James Band Administrator

LAX KW'ALAAMS INDIAN BAND

STATEMENT OF FINANCIAL ACTIVITIES

YEAR ENDED MARCH 31

	Budget	2015	2014
	\$	\$	\$
REVENUE			
AANDC	21,931,255	21,931,255	15,347,759
CMHC	12,105	12,105	47,709
First Nations Health Authority	1,248,595	1,248,595	1,750,583
Interest	121,000	133,670	83,294
Logging and forestry	25,000,000	24,609,109	26,226,003
Ottawa Trust funds	50,000	48,913	31,719
Province of British Columbia	721,500	3,849,000	790,570
Resource agreements and joint ventures	5,313,973	2,414,977	8,485,645
Sales and rental	942,000	1,102,253	1,190,583
Settlement trust allocation	-	1,554	430,430
Income - related entities	1,300,000	1,210,628	
Other	1,628,905	1,483,470	1,716,516
	<u>58,269,333</u>	<u>58,045,529</u>	<u>56,100,811</u>
EXPENDITURE			
Administration	2,270,815	2,969,105	2,144,065
Amortization	1,516,278	1,516,278	1,612,787
Capital Development	326,000	318,600	202,183
Community Health	1,604,672	1,666,286	1,577,092
Economic Development	1,333,291	1,208,977	1,456,607
Education	4,166,597	4,184,821	3,889,942
Other	32,661,482	33,696,018	37,983,858
Public Works	1,780,083	1,562,662	1,316,154
Social Assistance	1,057,381	762,311	855,893
	<u>46,716,599</u>	<u>47,885,058</u>	<u>51,038,581</u>
REVENUE OVER EXPENDITURE	11,552,734	10,160,471	5,062,230
OPENING POSITION	<u>43,248,195</u>	<u>43,248,195</u>	<u>38,185,965</u>
CLOSING POSITION	<u>54,800,929</u>	<u>53,408,666</u>	<u>43,248,195</u>

LAX KW'ALAAMS INDIAN BAND

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31

	2015	2014
	\$	\$
OPERATING ACTIVITIES		
Revenue over expenditure	10,160,471	5,062,230
Amortization	1,516,278	1,612,787
Loss on disposal of assets	428,058	94,430
Accounts payable and accruals	1,751,583	1,179,386
Accounts receivable	4,359,758	-4,519,060
Inventory	714,275	-1,322,687
Prepaid expenses	353,282	-707,321
Ottawa Trust funds	-48,913	-31,719
Replacement reserve	<u>-177,041</u>	<u>-298,616</u>
	<u>19,057,751</u>	<u>1,069,430</u>
FINANCING ACTIVITIES		
Bank and other loans	<u>-1,565,441</u>	<u>7,696,509</u>
INVESTING ACTIVITIES		
Investments	-1,213,930	-
Property and equipment additions	<u>-12,077,653</u>	<u>-5,828,577</u>
	<u>-13,291,583</u>	<u>-5,828,577</u>
CHANGE IN CASH	4,200,727	2,937,362
OPENING CASH BALANCE	<u>9,434,133</u>	<u>6,496,771</u>
CLOSING CASH BALANCE	<u>13,634,860</u>	<u>9,434,133</u>

LAX KW'ALAAMS INDIAN BAND

STATEMENT OF CHANGES IN NET FINANCIAL LIABILITIES

YEAR ENDED MARCH 31

	Unaudited Budget	2015	2014
	\$	\$	\$
Revenue over expenditure	11,552,734	10,160,471	5,062,230
Amortization	1,516,278	1,516,278	1,612,787
Property and equipment additions	-12,090,000	-12,077,653	-5,828,577
Loss on disposal of assets	428,058	428,058	94,430
Investments	-1,300,000	-1,213,930	
Prepaid expenses	<u>400,000</u>	<u>353,282</u>	<u>-707,321</u>
Change in net financial liabilities	507,070	-833,494	233,549
Opening net financial liabilities	<u>-920,592</u>	<u>-920,592</u>	<u>-1,154,141</u>
Closing net financial liabilities	<u>-413,522</u>	<u>-1,754,086</u>	<u>-920,592</u>

LAX KW'ALAAMS INDIAN BAND

NOTES

MARCH 31, 2015

1. SIGNIFICANT ACCOUNTING POLICIES

a) Financial Statement Presentation

These financial statements have been prepared in accordance with Canadian public sector accounting standards.

b) Inventory

Inventory, other than log inventory, held for resale is valued at the lower of cost and net realizable value (determined on the first-in, first-out basis).

Log inventory is valued at lower of cost or fair market value based on the total timber profile.

c) Investments

Long-term investments, except Coast Tsimshian Limited Partnership, are recorded as an expenditure in the related fund when acquired, and are reported using the modified equity method.

Coast Tsimshian Limited Partnership has been consolidated with the Band's financial statements.

d) Property and Equipment

Property and equipment are reported at cost and are amortized using the declining balance method at the following annual rates:

Equipment	20%
Roads, sewer and water	4%
Buildings	5%

e) Licences

Tree farm licences purchased through the Logging Enterprise Fund are reported at cost.

The licences are subject to amortization for impairment when events or circumstances occur that indicate the market value is less than book value.

LAX KW'ALAAMS INDIAN BAND

NOTES

MARCH 31, 2015

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Use of Estimates

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from these entries.

g) Recognition of Revenue and Expenditures

Revenue is recorded in the period in which the transactions or events that give rise to the revenue occur. Funding from external parties is reported as per the terms of the funding agreement. Other revenue is recognized when earned.

Expenditures are accounted for in the period when the goods and services are acquired and the liability is incurred.

h) Financial Instruments

It is management's opinion that the Band's financial instruments are not exposed to significant interest rate, liquidity, market or other price risks. The reported value of bank debt approximates fair value as the terms and conditions of the borrowing arrangements are comparable to current market terms and conditions for similar items.

The Band measures financial assets and liabilities at market value at the date of acquisition.

i) Budget Information

The unaudited budget information has been provided by management.

2. ACCOUNTS RECEIVABLE

	2015	2014
AANDC	\$ 217,510	\$ 390,182
Member receivables	92,749	95,606
Social Housing rentals	-	802,070
Logging	1,374,956	1,385,995
Other	<u>2,251,449</u>	<u>6,424,639</u>
Allowance for doubtful accounts	<u>3,936,664</u> <u>191,921</u>	<u>9,098,492</u> <u>993,991</u>
	<u><u>\$ 3,744,743</u></u>	<u><u>\$ 8,104,501</u></u>

LAX KW'ALAAMS INDIAN BAND

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3. INVENTORY

	2015	2014
Building supplies	\$ 1,125	\$ -
Cigarettes	67,358	77,127
Fuel	153,808	119,672
Logs	<u>1,881,930</u>	<u>2,621,697</u>
	<u><u>\$ 2,104,221</u></u>	<u><u>\$ 2,818,496</u></u>

4. OTTAWA TRUST FUNDS

	Revenue	Capital	Suspense	Total 2015	Total 2014
Opening balance	\$ 501,328	\$ 687,508	\$ -	\$ 1,188,836	\$ 1,157,117
Receipts	<u>37,498</u>	<u>-</u>	<u>11,415</u>	<u>48,913</u>	<u>31,719</u>
Closing balance	<u><u>\$ 538,826</u></u>	<u><u>\$ 687,508</u></u>	<u><u>\$ 11,415</u></u>	<u><u>\$ 1,237,749</u></u>	<u><u>\$ 1,188,836</u></u>

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

5. PREPAID EXPENSES

	2015	2014
Post-secondary allowances	\$ 58,774	\$ 62,535
Legal retainer	270,978	232,378
Logging road construction	3,034,990	3,314,162
Engineering costs related to permitting	1,722,205	1,827,519
Other	<u>207,163</u>	<u>210,798</u>
	<u><u>\$ 5,294,110</u></u>	<u><u>\$ 5,647,392</u></u>

LAX KW'ALAAMS INDIAN BAND

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MARCH 31, 2015

5. PREPAID EXPENSES continued

Annually, management reviews each setting related to the roads to determine the economic viability and if the road costs will be recoverable in the future. The prepaid costs associated with uneconomic settings are written off or reduced. There is an estimated 495,000 cubic metres of logs related to the direct costs and engineering.

Engineering costs related to permitting are costs associated with the work necessary to get permits approved for future settings. The current prepaid engineering is for permits estimated to result in available settings with approximately 652,000 cubic metres of logs.

6. BANK AND OTHER LOANS

Bank of Montreal, interest at prime plus 1.25% per annum; secured by a general security agreement covering all logging enterprise assets.	\$ 1,300,000
British Columbia Treaty Commission advances for the purposes of treaty negotiations. Repayment provisions are outlined in Sections 13.0 and 14.0 of the First Nation Negotiation Support Agreement.	3,606,838
Bank of Montreal loans; secured by general security agreements.	
\$10,166/month including interest at prime plus 1.25% per annum.	588,172
\$52,859/month including interest at 4% per annum	6,452,752
Line of credit, authorized to \$1,000,000, interest at prime plus 1% per annum.	<u>999,900</u>
	<u>\$ 12,947,662</u>

Scheduled principal repayment during the next five years is as follows:

2016	\$ 404,616
2017	421,156
2018	438,373
2019	456,294
2020	<u>449,542</u>
	<u>\$ 2,169,981</u>

LAX KW'ALAAMS INDIAN BAND

NOTES

MARCH 31, 2015

7. ACCOUNTS PAYABLE

	2015	2014
Trade payable and accruals	\$ 3,201,443	\$ 2,275,114
Logging operations payables	4,243,638	4,832,134
Construction holdbacks	1,453,445	469,359
Wages and holiday pay	<u>195,992</u>	<u>199,807</u>
	<u>\$ 9,094,518</u>	<u>\$ 7,776,414</u>

8. DEFERRED REVENUE

Deferred revenue relates to the following First Nation Health Authority programs:

Pre-Natal	\$ 41,227
Diabetes	51,190
NNADAP	165,299
Oral Dental	18,187
AIDS	16,705
Aboriginal Head Start	<u>140,871</u>
	<u>\$ 433,479</u>

9. INVESTMENTS

Equity in investments is comprised as follows:

	2015	2014
Accounted for using the modified equity reporting method	\$	\$
Embark Engineering Limited Partnership	52,652	-
Lax Kw'alaams Fishing Enterprises Ltd.	1,161,278	-
Coast Tsimshian Fish Plants Inc.	<u>-</u>	<u>-</u>
	<u>1,213,930</u>	<u>-</u>
Accounted for at cost		
TD Wealth revenue trust fund	<u>-</u>	3,302
Accounted for using the consolidated method		
Coast Tsimshian Resources LLP	<u>2,926,115</u>	<u>2,926,115</u>
	<u>4,140,045</u>	<u>2,929,417</u>

LAX KW'ALAAMS INDIAN BAND

NOTES

MARCH 31, 2015

9. INVESTMENTS (continued)

Summary of financial information for modified equity entities:

	Embark Engineering Limited Partnership	Lax Kw'alaams Fishing Enterprises Ltd.	Coast Tsimshian Fish Plant Inc.
	\$	\$	\$
Assets			
Current Property and equipment	562,934 - <hr/> 562,934	1,108,546 130,754 <hr/> 1,239,300	1,098,557 9,737,203 <hr/> 10,835,760
Liabilities			
Current Non-current	459,694 - <hr/> 459,694	78,021 - <hr/> 78,021	2,771,694 21,158,063 <hr/> 23,929,757
Share Capital	-	1	100
Retained Income (Deficit)	103,240	1,161,278	-13,094,097
Revenue Expenses	2,370,514 2,265,290	2,189,722 1,661,945	4,090,241 7,408,804
Net Income	105,224	527,777	-3,318,563

Losses are recorded only to the extent of the Band's investment.

The Band also has partnership interests in five limited partnerships, membership in four societies and shareholdings in sixteen companies. For those entities that are active, the Band records their share of revenue and expenditures through the Band's records. The remainder of the entities do not have any value as they are either inactive or have operational deficits in excess of the Band's investment.

LAX KW'ALAAMS INDIAN BAND

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MARCH 31, 2015

10. CONTINGENT LIABILITIES

A former contractor is seeking payment of an outstanding account in the amount of \$300,000. The Band disputes this claim.

Guarantor of Band member mortgages to \$828,620.

Lax Kw'alaams Ferry Corporation letter of credit to \$1,000,000 in favour of the Ministry of Transportation for use of the Aero Point facility.

Guarantee for Coast Tsimshian Fish Plant Ltd. of \$2,531,460.

Guarantee for Coast Tsimshian Resources Limited Partnership of \$5,000,000.

The Band has retained various consultants regarding the negotiations with potential LNG terminal operators. Their fees are contingent on the outcome of the negotiations and the availability of proponent funding.

A ferry employee has filed a grievance regarding termination. The maximum exposure is estimated to be \$13,000. Settlement has not yet been reached.

LAX KW'ALAAMS INDIAN BAND

NOTES

MARCH 31, 2015

11. PROPERTY AND EQUIPMENT

	PROPERTY AND EQUIPMENT			Closing Balance	ACCUMULATED AMORTIZATION			NET BOOK VALUE		
	Opening Balance	Additions	Disposals		Opening Balance	Disposals	Annual Amortization	Closing Balance	2015	
							\$		2014	
Land	1,524,007	-	202,500	1,321,507	-	-	-	1,321,507	1,524,007	
Buildings	29,127,597	11,767,283	1,466,520	39,428,360	15,138,368	1,240,961	360,576	14,257,983	25,170,377	
Infrastructure	33,861,623	-	-	33,861,623	14,432,363	-	777,170	15,209,533	18,652,090	
Equipment	6,248,137	310,370	1,277,357	5,281,150	4,768,512	1,277,358	378,532	3,869,686	1,411,464	
	<u>70,761,364</u>	<u>12,077,653</u>	<u>2,946,377</u>	<u>79,892,640</u>	<u>34,339,243</u>	<u>2,518,319</u>	<u>1,516,278</u>	<u>33,337,202</u>	<u>46,555,438</u>	
									<u>36,422,121</u>	

LAX KW'ALAAMS INDIAN BAND

NOTES

MARCH 31, 2015

12. SURPLUS (DEFICIT)

	2015	2014
Administration	\$ -269,003	\$ -
Capital Development	4,060,184	3,207,223
Community Health	-931,587	-403,343
Economic Development	-11,560	1,000,000
Education	494	-
Other	3,920,254	4,141,081
Social Assistance	3,011	-
Treaty Process	<u>-4,431,800</u>	<u>-4,318,407</u>
	<u><u>\$ 2,339,993</u></u>	<u><u>\$ 3,626,554</u></u>

13. EQUITY IN PROPERTY AND EQUIPMENT

	2015	2014
Opening balance	\$ 35,503,388	\$ 30,529,067
Contributions from operations	12,077,653	5,828,577
Loan repayment	28,317	820,612
Loss on disposal of assets	-428,058	-94,430
Amortization	<u>-1,490,421</u>	<u>-1,580,438</u>
	<u><u>\$ 45,690,879</u></u>	<u><u>\$ 35,503,388</u></u>

14. SEGMENT DISCLOSURE

The presentation by segment is based on the same accounting policies as described in the summary of significant accounting policies as described in note one. The following table presents the expenses incurred and the revenue generated by main object of expense and by major revenue type. The segment results for the year are as follows:

LAX KW'ALAAMS INDIAN BAND

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MARCH 31, 2015

14. Segment Disclosure (continued)

	Budget	Administration	Capital Development	Community Health	Economic Development	Education	Other	Public Works	Social Assistance	Social Amortization	Total 2015	Total 2014
REVENUE												
AANDC	21,931,255	1,387,642	12,954,121		245,353	4,840,016		1,649,742	1,054,381		21,931,255	15,347,759
CMHC	12,105						12,105				12,105	47,709
First Nations Health Authority	1,248,595			1,248,595							1,248,595	1,750,583
Settlement Trust allocation	1,554							1,554			1,554	430,430
Resource agreements	5,313,973							2,414,977			2,414,977	8,485,845
Logging and forestry	25,000,000							24,609,109			24,609,109	26,226,003
Province of BC	721,500							3,813,000	36,000		3,849,000	790,570
Related entity investment	1,300,000	1,210,628									1,210,628	
Other	2,740,351	132,783	10,058		1,345,277	80,019	952,119	245,818	2,432		2,768,306	3,022,112
	<u>58,269,333</u>	<u>2,731,053</u>	<u>12,964,179</u>	<u>1,248,595</u>	<u>1,580,630</u>	<u>4,720,035</u>	<u>31,802,884</u>	<u>1,931,360</u>	<u>1,058,813</u>	<u>-</u>	<u>58,045,528</u>	<u>56,100,811</u>
EXPENDITURE												
Administration	113,708				91,834						91,834	118,022
Advances to affiliates	2,022,000							3,985,147			3,985,147	8,573,012
Allowances	2,170,017			337,310		1,037,413				590,480	1,985,213	1,979,027
Amortization	1,516,278									1,516,278	1,516,278	1,612,787
Contract services and fees	30,330,407	51,886		260,393	117,675	2,926,272	26,477,727	6,261	5,656		29,847,880	28,490,168
Council												
Honoraria	775,000	849,538									849,538	732,983
Travel	330,000	323,473									323,473	343,659
Donations	250,000							241,212			241,212	1,242,733
Equipment rental and repairs	882,935	8,674			418,023	8,679	109,998	252,883	8,269		807,526	804,508
Loss on disposal of assets	428,056						428,056				428,056	94,430
Materials, supplies and other	3,690,459	133,695	262,887	550,484	27,998	64,083	1,924,058	387,410	9,011		3,359,586	2,557,687
Professional services	870,000	830,412			128,524		349,347				1,108,283	1,350,975
Recoveries	-			-73,173							-73,173	201,274
Telephone & utilities	304,844	52,098		18,391		2,046	3,609	243,453	1,124		320,719	281,852
Travel and workshops	349,776	48,036	8,340	82,694	27,780	2,260	60,147	107,460	1,380		338,077	327,607
Wages and benefits	2,683,119	870,287	47,393	398,353	488,977	142,088	116,717	565,195	146,401		2,775,411	2,327,879
	<u>46,716,699</u>	<u>2,989,105</u>	<u>318,600</u>	<u>1,668,286</u>	<u>1,208,977</u>	<u>4,184,821</u>	<u>33,696,018</u>	<u>1,582,662</u>	<u>762,311</u>	<u>1,516,278</u>	<u>47,885,058</u>	<u>51,038,581</u>
REVENUE OVER EXPENDITURE	<u>11,552,734</u>	<u>-238,052</u>	<u>12,645,579</u>	<u>-417,691</u>	<u>381,653</u>	<u>535,214</u>	<u>-1,893,154</u>	<u>368,688</u>	<u>284,502</u>	<u>-1,516,278</u>	<u>10,160,471</u>	<u>5,062,230</u>
TRANSFERS		<u>1,115,197</u>	<u>-25,335</u>		<u>-1,383,213</u>	<u>-534,720</u>	<u>1,498,260</u>	<u>-368,688</u>	<u>-291,491</u>	<u>-</u>	<u>-</u>	<u>-</u>
ANNUAL SURPLUS (DEFICIT)	<u>11,552,734</u>	<u>877,145</u>	<u>12,620,244</u>	<u>-417,691</u>	<u>-1,011,580</u>	<u>494</u>	<u>-394,894</u>	<u>-</u>	<u>3,011</u>	<u>-1,516,278</u>	<u>10,160,471</u>	<u>5,062,230</u>