

Independent Auditors' Report

To the Members of Lutsel K'e Dene First Nation:

We have audited the accompanying financial statements of Lutsel K'e Dene First Nation, which comprise the statement of financial position as at March 31, 2018, and the statements of operations and accumulated surplus, change in net debt, cash flows and the related schedules for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

The First Nation derives revenue from the general public in the form of cash receipts and incurs related cash expenses. The completeness of these transactions are not susceptible to satisfactory audit verification. Accordingly, our verification of these revenue and expenses were limited to the amounts recorded in the records of the First Nation and we were unable to determine if further adjustments were required to revenue, expenses, opening accumulated surplus and cash flows from operations for the years ended March 31, 2018 and March 31, 2017. The previous year's opinion on the financial statements for the year ended March 31, 2017 was modified accordingly because of the possible effects of this limitation in scope.

We were unable to observe sufficient evidence of the review and approval of Lutsel K'e Dene First Nation's budget. Therefore, we were unable to determine whether adjustments to budgeted operations or budgeted changes in net debt might be necessary to present these figures as originally planned in the financial statements.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Lutsel K'e Dene First Nation as at March 31, 2018 and the results of its operations, change in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Grande Prairie, Alberta

November 30, 2018

MNP LLP

Chartered Professional Accountants

Lutsel K'e Dene First Nation
Statement of Financial Position
As at March 31, 2018

	2018	2017
Financial assets		
Cash and cash equivalents (Note 3)	3,710,764	3,966,165
Accounts receivable (Note 5)	2,754,468	1,187,831
GST receivable	613,772	524,047
Total financial assets	7,079,004	5,678,043
Liabilities		
Bank indebtedness (Note 3)	463,967	254,271
Accounts payable and accruals (Note 6)	1,037,339	591,807
Deferred revenue (Note 7)	5,663,917	4,733,393
Contributions repayable (Note 8)	74,162	29,808
Liability for source deductions (Note 9)	279,860	279,860
Total financial liabilities	7,519,245	5,889,139
Net debt	(440,241)	(211,096)
Contingencies (Note 10)		
Non-financial assets		
Tangible capital assets (Note 11)	3,423,948	3,812,494
Prepaid expenses	263,638	1,550
Total non-financial assets	3,687,586	3,814,044
Accumulated surplus	3,247,345	3,602,948

Approved on behalf of the First Nation



Chief



Councillor

Lutsel K'e Dene First Nation
Statement of Operations and Accumulated Surplus
For the year ended March 31, 2018

	<i>Schedules</i>	2018	2017
Revenue			
Government transfers		4,785,598	4,591,922
Contract revenue		211,169	580,245
Other revenue		1,058,286	494,317
Deferred revenue opening		4,400,393	3,727,157
Deferred revenue closing		(5,330,917)	(4,400,393)
Water and sewer		118,475	134,692
		5,243,004	5,127,940
Program expenses			
Administration	1	2,430,557	2,098,111
Recreation	2	353,187	205,079
Wildlife	3	953,568	812,541
Public Works	4	788,485	1,035,235
Wellness	5	262,606	206,119
Education	6	572,199	585,509
Thaidene Nene	7	468,507	474,339
Negotiations	8	157,438	129,455
IBA Office	9	301,853	300,811
Contract Services	10	254,781	218,843
Total expenses		6,543,181	6,066,042
Deficiency of revenue over expense before IBA transactions		(1,300,177)	(938,102)
IBA transactions			
IBA funding		954,474	908,620
IBA distributions to members		(900)	(203,400)
IBA scholarship		(9,000)	(16,000)
		944,574	689,220
Deficiency of revenue over expenses		(355,603)	(248,882)
Accumulated surplus, beginning of year		3,602,948	3,851,830
Accumulated surplus, end of year		3,247,345	3,602,948

Lutsel K'e Dene First Nation
Statement of Change in Net Debt

For the year ended March 31, 2018

	2018	2017
Deficiency of revenue over expenses		
Purchases of tangible capital assets	(355,603)	(248,882)
Amortization of tangible capital assets	(5,654)	(293,921)
Acquisition of prepaid expenses	394,200	418,983
	(262,088)	-
Increase in net debt	(229,145)	(123,820)
Net debt, beginning of year	(211,096)	(87,276)
Net debt, end of year	(440,241)	(211,096)

Lutsel K'e Dene First Nation
Statement of Cash Flows
For the year ended March 31, 2018

	2018	2017
Cash provided by (used for) the following activities		
Operating activities		
Deficiency of revenue over expenses	(355,603)	(248,882)
Non-cash items		
Amortization	394,200	418,983
	38,597	170,101
Changes in working capital accounts		
Accounts receivable	(1,566,637)	25,499
Prepaid expenses	(262,088)	-
GST Recoverable	(89,725)	(83,834)
Accounts payable and accruals	445,532	168,305
Deferred revenue	930,524	673,236
Contributions repayable	44,354	-
	(459,443)	953,307
Financing activities		
Forgiveness of advances from related First Nation entities & departments	-	(20,458)
Capital activities		
Purchases of tangible capital assets	(5,654)	(293,921)
Increase (decrease) in cash resources	(465,097)	638,928
Cash resources, beginning of year	3,711,894	3,072,966
Cash resources, end of year	3,246,797	3,711,894
Cash resources are composed of:		
Cash	3,710,764	3,966,165
Bank indebtedness	(463,967)	(254,271)
	3,246,797	3,711,894

Lutsel K'e Dene First Nation
Notes to the Financial Statements
For the year ended March 31, 2018

1. Operations

Lutsel K'e Dene First Nation (the "First Nation") was established pursuant to the *Indian Act* of Canada. The First Nation's Chief and Council administers the affairs of the First Nation. The First Nation is economically dependant on the Government of Canada, the Government of the Northwest Territories and the Akitcho Territory Government. The First Nation is classified as an Indian Band which is a non-taxable entity under the *Income Tax Act*. Operating activities of the First Nation include the administration and delivery of services to the community of Lutsel K'e, Northwest Territories.

2. Significant accounting policies

These financial statements are the representations of management, prepared in accordance with Canadian public sector accounting standards established by the Public Sector Accounting Board of CPA Canada and are consistent with the accounting policies set out by MACA and include the following significant accounting policies:

Investments in First Nation owned entities

Investments in entities that are owned, controlled or influenced by the First Nation reporting entity are not recorded in the financial statements.

Reporting entity

The financial statements reflect the assets, liabilities, revenue and expenses, change in net debt and change in financial position of the reporting entity. This entity is comprised of operations and all organizations that are owned or controlled by the First Nation and are, therefore, accountable to the Council for administration of their financial affairs and resources.

The First Nation received significant funding from the Government of the Northwest Territories in the form of operating grants and capital grants. Administration is of the opinion that discontinuance of funding would significantly disrupt operations.

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.

Measurement uncertainty (use of estimates)

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of 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. Amortization is based on the estimated useful lives of tangible capital assets. Liability for source deductions are estimated based on wages paid in the period for which the liability was recorded.

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.

Lutsel K'e Dene First Nation
Notes to the Financial Statements
For the year ended March 31, 2018

2. Significant accounting policies (Continued from previous page)

Net financial assets (net debt)

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

Cash and cash equivalents

Cash and cash equivalent include 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.

Tangible capital assets

Tangible capital assets are initially recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the assets. The cost, less residual value, of the tangible capital assets is amortized on a straight-line or declining balance basis over the estimated useful life. One-half of the annual amortization is charged in the year of acquisition. Assets under construction are not amortized until the asset is available for use. Contributed tangible capital assets are initially recorded at fair value at the date of receipt and are also recorded as revenue.

Amortization

Amortization of tangible capital assets is provided using rates intended to amortize the cost of the assets over their estimated useful lives. Assets under construction are not amortized until the asset is available for use. One-half of the annual amortization is charged in the year of acquisition. The methods and rates of calculating amortization are as follows:

	Method	Rate
Buildings	straight-line	25-50 years
Infrastructure	straight-line	10-20 years
Leasehold improvements	straight-line	25-40 years
Equipment	declining balance	20 %
Automotive	declining balance	30 %
Floating dock	declining balance	20 %
Computers	declining balance	30-100 %

Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at the fair value at the date of receipt and also are recorded as revenue.

Long-lived assets

Long-lived assets consist of tangible capital assets. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The First Nation performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying amount of an asset, or group of assets, may not be recoverable. The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted future cash flows from its use and disposal. Impairment is measured as the amount by which the asset's carrying amount exceeds its fair value.

Revenue recognition

Contract revenue

Revenue is recognized as it becomes receivable under the terms of applicable funding agreements. Funding received under funding arrangements that relate to a subsequent fiscal period are reflected as deferred revenue on the statement of financial position in the year of receipt.

Lutsel K'e Dene First Nation
Notes to the Financial Statements
For the year ended March 31, 2018

2. Significant accounting policies (Continued from previous page)

Government transfers

The First Nation 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 First Nation recognizes revenue as the liability is settled. Transfers of non-depreciable assets are recognized in revenue when received or receivable.

Externally restricted revenue

The First Nation recognizes externally restricted inflows as revenue in the period the resources are used for the purpose specified in accordance with an agreement or legislation. Until this time, the First Nation records externally restricted inflows in deferred revenue.

Pension expenditures

Contributions for current and past service benefits are recorded as expenses in the year in which they become due.

Segments

The First Nation conducts its business through 10 reportable segments: Administration, Recreation, Wildlife, Public Works, Wellness, Education, Thaidene Nene, Negotiations, IBA Office, and Contract Services. These operating segments are established by senior management to facilitate the achievement of the First Nation's long-term objectives to aid in resource allocation decisions, and to assess operational performance.

For each reportable segment, revenue and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. Therefore, certain allocation methodologies are employed in the preparation of segmented financial information. Administration fees have been apportioned based on a percentage of budgeted revenue, where permitted by the funder.

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

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 First Nation 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 First Nation 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 First Nation 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.

At year end there was no liability for contaminated sites.

Change in accounting policies

Effective April 1, 2017, the First Nation adopted the recommendations relating to the following Sections, as set out in the CPA Canada Public Sector Accounting Standards Handbook:

- PS 2200 Related Party Disclosures
- PS 3420 Inter-entity Transactions
- PS 3210 Assets
- PS 3320 Contingent Assets
- PS 3380 Contractual Rights

Pursuant to the recommendations, the changes were applied prospectively, and prior periods have not been restated. There was no material impact on the consolidated financial statements of adopting the new Sections.

Lutsel K'e Dene First Nation
Notes to the Financial Statements
For the year ended March 31, 2018

3. Cash and cash equivalents

	2018	2017
General bank account	34,848	49,527
IBA bank account	111,455	201,200
Gas tax	114,705	114,789
CPI	3,449,756	3,600,649
	3,710,764	3,966,165

Cash accounts bear interest at prime plus 2.50% per annum (2017 - prime plus 2.50% per annum). As at March 31, 2018, prime was 3.45% (2017 - 2.70%).

Current year bank indebtedness relates to \$1,275 cash overdrawn, less outstanding cheques of \$302,692. as at March 31, 2018. In addition, the First Nation has a \$160,000 (2017 - \$nil) Royal Bank of Canada Line of credit balance.

Prior year bank indebtedness relates to \$111,465 cash, less outstanding cheques of \$365,736 as at March 31, 2017.

4. Restricted cash

	<i>2018 Unspent deposits</i>	<i>2018 Bank balance</i>	<i>2018 Receivable</i>	<i>2018 Deposit surplus (deficiency)</i>
IBA - internally restricted	623,763	111,960	-	(511,803)
Gas Tax	958,215	114,789	450,000	(393,426)
CPI	4,056,988	3,449,862	768,000	160,874
	5,638,966	3,676,611	1,218,000	(744,355)

Sufficient funds must be deposited into separate bank accounts to correspond with the respective restricted balances. Interest earned on these accounts are deposited into the appropriate restricted bank account. As of March 31, 2018, the First Nation has overdrawn their restricted funding and will need to replace it.

5. Accounts receivable

	2018	2017
GNWT	552,735	224,331
ISC	25,241	124,880
Akiatcho Territory Government	189,062	157,546
MACA	1,249,987	451,755
Parks Canada	123,258	70,994
	2,140,283	1,029,506
Trade/Member/Other	624,214	168,354
Allowance for doubtful accounts	(10,029)	(10,029)
	2,754,468	1,187,831

Lutsel K'e Dene First Nation
Notes to the Financial Statements
For the year ended March 31, 2018

6. Accounts payable and accruals

	2018	2017
ISC	4,620	4,620
Walter Duncan Foundation	25,188	25,188
Nutrition North	9,354	-
GNWT	35,000	-
	74,162	29,808
Source deductions - CRA	23,670	58,528
Source deductions - GNWT	90,266	90,817
Liability for source deductions - CRA (Note 9)	279,860	279,860
	393,796	429,205
Trade/Other	923,403	442,462
	1,391,361	901,475

Lutsel K'e Dene First Nation
Notes to the Financial Statements
For the year ended March 31, 2018

7. Deferred revenue

	2018	2017
Community Public Infrastructure		
Balance beginning of year	3,455,929	3,206,761
Received	768,000	768,000
Spent	(166,941)	(333,389)
MACA reallocation	-	(185,443)
Balance end of year	4,056,988	3,455,929
Federal Gas Tax		
Balance beginning of year	733,215	322,772
Received	225,000	225,000
MACA reallocation	-	185,443
Balance end of year	958,215	733,215
Traditional Knowledge Archive		
Balance beginning of year	62,906	62,906
Received	15,000	-
Spent	(1,975)	-
Balance end of year	75,931	62,906
GNWT - Public Transit - MACA		
Balance beginning of year	110,000	110,000
Balance end of year	110,000	110,000
CANOR		
Balance beginning of year	38,343	24,718
Received	-	13,625
Balance end of year	38,343	38,343
Debeers Canada		
Balance beginning of year	333,000	333,000
Balance end of year	333,000	333,000
Parks Canada		
Received	450,000	299,774
Spent	(323,560)	(299,774)
Funding repayable	(35,000)	-
Balance end of year	91,440	-
Total deferred revenue	5,663,917	4,733,393

The First Nation does not currently have sufficient funds to cover their deferred revenue.

Lutsel K'e Dene First Nation
Notes to the Financial Statements
For the year ended March 31, 2018

8. Contributions repayable

	2018	2017
ISC	4,620	4,620
Walter Duncan Foundation	25,188	25,188
Nutrition North	9,354	-
GNWT	35,000	-
	74,162	29,808

9. Liability for source deduction

The First Nation has received demands to pay from Canada Revenue Agency related to source deductions not withheld from employee's payroll. The First Nation did not deduct the withholdings as required by current legislation as they are of the opinion that the collection of tax is in violation of their Treaty rights. However, the legislation as it currently stands does not exempt the First Nation from withholding and remitting amounts for territorial and federal income taxes. As the liability is difficult to determine as Canada Revenue Agency will first seek restitution from the employee, whether they continue to work for the First Nation or whether they are employed elsewhere, the First Nation has recorded an estimate for the amounts. The estimate has been determined by considering the total remuneration paid to employees in 2009, 2010, 2011 and 2012 and comparing the actual remittances to an estimate of what the correct withholdings would have been. No estimate has been prepared for years prior to 2008 although it is probable that additional amounts may become payable. These amounts are unknown at this time and will be recorded as they are known. During the year the First Nation is deducting, withholding and remitting current territorial and federal income taxes on behalf of all employees.

10. Contingencies

These financial statements are subject to review by the First Nation's funding agents. It is possible that adjustments, that may include repayment of amounts funded, could be made based on the results of their reviews.

The total liability to close the landfill and solid waste landfill can not be reasonably estimated at this time due to the uncertainty of the future costs. When the costs can be reasonably estimated a liability will be accrued to record the future costs.

11. Tangible capital assets

	Cost	Additions	Disposals	Accumulated amortization	2018 Net book value
Buildings	3,662,489	5,655	-	2,404,699	1,263,445
Equipment	311,658	-	-	281,689	29,969
Infrastructure	3,301,586	-	-	1,516,232	1,785,354
Computers	394,896	-	-	391,296	3,600
Leasehold improvements	87,891	-	-	72,428	15,463
Automotive	1,748,738	-	-	1,423,183	325,555
Floating dock	22,204	-	-	21,642	562
	9,529,462	5,655	-	6,111,169	3,423,948

Lutsel K'e Dene First Nation
Notes to the Financial Statements
For the year ended March 31, 2018

11. Tangible capital assets (Continued from previous page)

	Cost	Additions	Disposals	Accumulated amortization	2017 Net book value
Buildings	3,655,428	7,061	-	2,307,461	1,355,028
Equipment	311,658	-	-	274,197	37,461
Infrastructure	3,242,702	58,885	-	1,385,116	1,916,471
Computers	371,603	23,293	-	375,515	19,381
Leasehold improvements	87,891	-	-	69,519	18,372
Automotive	1,544,055	204,683	-	1,283,660	465,078
Floating dock	22,204	-	-	21,501	703
	9,235,541	293,922	-	5,716,969	3,812,494

12. Amortization on tangible capital assets

	2018	2017
Amortization by asset type		
Buildings	97,238	99,343
Equipment	7,492	9,365
Infrastructure	131,115	131,115
Computers	15,782	20,617
Leasehold improvements	2,909	2,909
Automotive	139,523	155,458
Floating dock	141	176
	394,200	418,983

13. Accumulated surplus

Accumulated surplus consists of the following:

	2018	2017
General operating deficit	(466,560)	(737,168)
Equity in tangible capital assets	3,423,948	3,812,494
IBA reserve (Note 14)	289,957	527,622
	3,247,345	3,602,948

Lutsel K'e Dene First Nation
Notes to the Financial Statements
For the year ended March 31, 2018

14. Impact Benefit Agreements (IBA) reserve

	<i>Opening surplus (deficit)</i>	<i>Funding received and allocated</i>	<i>Expenses incurred, net of other revenue</i>	<i>Current year surplus (deficit)</i>	<i>Ending surplus (deficit)</i>
Youth	22,838	50,000	49,589	411	23,249
Education	179,237	300,000	394,254	(94,254)	84,983
Scholars	-	15,000	9,045	5,955	5,955
IBA coordinator	10,223	-	-	-	10,223
Elders	24,139	50,000	52,500	(2,500)	21,639
Operating fund	17,215	160,000	158,975	1,025	18,240
Caribou hunt	177,722	-	-	-	177,722
Negotiations	139,866	-	190,143	(190,143)	(50,277)
Thaidene Nene Trust	2,786	-	-	-	2,786
Recreation	1,827	100,000	108,581	(8,581)	(6,754)
DiaviakLiason	-	94,091	61,727	32,364	32,364
Admin	-	20,000	20,000	-	-
Adult Fund	(42,185)	-	-	-	(42,185)
Unallocated funds	533,668 (6,046)	789,091 18,058	1,044,814 -	(255,723) 18,058	277,945 12,012
	527,622	807,149	1,044,814	(237,665)	289,957

15. Economic dependence

Lutsel K'e Dene First Nation receives a significant portion of its revenue from Indigenous Services Canada "ISC", a result of Treaties entered into with the Government of Canada. These treaties are administered by ISC under the terms and conditions of the *Indian Act*. The ability of the First Nation to continue operations is dependent upon the Government of Canada's continued financial commitments as guaranteed by these treaties.

16. Approval of the financial statements

Council and management have approved these financial statements on November 14th, 2018.

17. Budget information

Canadian public sector accounting "PSA" standards require the disclosure of budget information for comparison to the First Nation's actual revenue and expenses. The budgeted revenue and expenses, and surplus have not been reported in these financial statements. While having no effect on reported revenue, expenses, and surplus, omission of this information is considered a departure from PSA standards.

18. Compliance with laws and regulations

The First Nation is required by the *First Nations Financial Transparency Act* to submit its financial statements to ISC, and post its financial statements on a website within 120 days of year-end. As the First Nation had not done this, it is not in compliance with this law. The potential effect of the non-compliance is unknown.