

INDEPENDENT AUDITORS' REPORT

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

Opinion

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, 2019, and the statements of operations, changes in net assets and cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section, these financial statements present fairly, in all material respects, the financial position of Lutsel K'e Dene First Nation as at March 31, 2019 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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, 2019 and March 31, 2018.

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 Financial Statements* section of our report. We are independent of the First Nation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those 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 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.

In preparing the financial statements, management is responsible for assessing the First Nation's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the First Nation or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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:

Independent Auditor's Report to the Lutsel K'e Dene First Nation (continued)

- Identify and assess the risks of material misstatement of the 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 First Nation'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 First Nation'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 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 First Nation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.



ASHTON
Chartered Accountants
Business Advisors

Hay River, NT
November 13, 2019

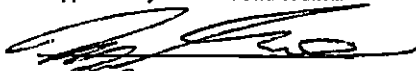

LUTSEL K'E DENE FIRST NATION

Statement of Financial Position

March 31, 2019

	2019	2018
Financial Assets		
Cash and cash equivalents (Note 3)	4,296,772	\$ 3,710,764
Short-term investments (Note 4)	196,555	-
Accounts receivable (Note 6)	2,764,335	2,754,468
GST receivable	553,057	613,772
	<u>7,810,719</u>	<u>7,079,004</u>
Liabilities		
Bank indebtedness (Note 3)	\$ 358,200	\$ 463,967
Accounts payable and accrued liabilities (Note 7)	825,195	1,037,339
Deferred revenue (Note 8)	6,212,689	5,663,917
Contributions repayable (Note 10)	-	74,162
Liability for source deductions (Note 11)	-	279,860
	<u>7,396,084</u>	<u>7,519,245</u>
Net Financial Assets (Debt)	<u>414,635</u>	<u>(440,241)</u>
Non-Financial Assets		
Capital assets (Note 9)	\$ 3,364,553	\$ 3,423,948
Prepaid expenses	33,916	263,638
	<u>3,398,469</u>	<u>3,687,586</u>
Accumulated Surplus	<u>\$ 3,813,104</u>	<u>\$ 3,247,345</u>

Approved by the Chief and council:

Chief

Councillor

LUTSEL K'E DENE FIRST NATION

Statement of Operations and Accumulated Surplus

For the year ended March 31, 2019

	Schedule	2019 Actual	2018 Actual
Revenue			
Government transfers		\$ 5,089,144	\$ 4,785,598
Contract revenue		109,518	211,169
Water and sewer		133,064	118,475
Other revenue		1,431,126	1,058,286
Deferred revenue, opening		5,220,917	4,400,393
Deferred revenue, closing		(6,102,688)	(5,330,917)
		5,881,081	5,243,004
Expenses			
Administration	1	2,216,660	2,430,557
Recreation	2	312,106	353,187
Wildlife	3	932,826	953,568
Public Works	4	1,085,452	788,485
Wellness	5	148,912	262,606
Education	6	779,799	572,199
Parks	7	694,611	468,507
Negotiations	8	111,603	157,438
IBA Office	9	312,970	301,853
Contract Services	10	682,509	254,781
		7,277,448	6,543,181
Annual surplus (deficit), before the undernoted		(1,396,367)	(1,300,177)
Other revenue (expense)			
IBA Funding		1,682,266	944,574
Derecognize contingent liability		279,860	-
		1,962,126	944,574
Surplus (deficit)		\$ 565,759	\$ (355,603)
Accumulated Surplus, Beginning of year		3,247,345	3,602,948
Accumulated Surplus, End of year		\$ 3,813,104	\$ 3,247,345

LUTSEL K'E DENE FIRST NATION

Statement of Change in Net Financial Assets (Debt)

For the year ended March 31, 2019

	2019	2018
Annual Surplus (deficit)	\$ 565,759	\$ (355,603)
Purchase of tangible capital assets	(387,640)	(5,654)
Amortization of tangible capital assets	447,035	394,200
Change in prepaid expenses	229,722	(262,088)
	289,117	126,458
Increase (decrease) in net financial assets	854,876	(229,145)
Net financial assets (debt), beginning of year	(440,241)	(211,096)
Net financial assets (debt), end of year	\$ 414,635	\$ (440,241)

LUTSEL K'E DENE FIRST NATION

Statement of Cash Flows

For the year ended March 31, 2019

	2019	2018
Operating		
Annual surplus (deficit)	\$ 565,759	\$ (355,603)
Amortization of capital assets	447,035	394,200
Gain on disposal of tangible capital assets	-	-
	1,012,794	38,597
Change in non-cash items on statement of financial position		
Accounts receivable	(9,867)	(1,566,637)
Prepaid expenses	229,722	(262,088)
GST recoverable	60,715	(89,725)
Accounts payable and accrued liabilities	(212,144)	445,532
Deferred revenue	548,772	930,524
Contributions repayable	(74,162)	44,354
Liability for source deductions	(279,860)	-
	1,275,970	(459,443)
Capital		
Purchase of tangible capital assets	(387,640)	(5,654)
	(387,640)	(5,654)
Investing		
Change in investments	(196,555)	-
	(196,555)	-
Increase (decrease) in cash and cash equivalents	691,775	(465,097)
Cash and cash equivalents, beginning of year	3,246,797	3,711,894
Cash and cash equivalents, end of year	\$ 3,938,572	\$ 3,246,797
Cash resources are composed of:		
Cash	4,296,772	3,710,764
Bank indebtedness	(358,200)	(463,967)
	3,938,572	3,246,797

LUTSEL K'E DENE FIRST NATION

Statement of Changes in Accumulated Surplus

March 31, 2019

	General Operating	IBA Reserves Fund	Capital Asset Fund	2019	2018
Surplus (deficit)	\$ 423,973	\$ 141,786	\$ -	\$ 565,759	\$ (355,603)
Net interfund transfers					
Amortization	447,035	-	(447,035)	-	-
Capital additions	(387,640)	-	387,640	-	-
Transfer to reserves	(52,604)	52,604	-	-	-
Changes in accumulated surplus	430,764	194,390	(59,395)	565,759	(355,603)
Accumulated Surplus, beginning of year	(466,560)	289,957	3,423,948	3,247,345	3,602,948
Accumulated Surplus, end of year	\$ (35,796)	\$ 484,347	\$ 3,364,553	\$ 3,813,104	\$ 3,247,345

LUTSEL K'E DENE FIRST NATION

Notes to the Financial Statements

March 31, 2019

Note 1. Nature of 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 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.

Note 2. Summary of significant accounting policies

The basis of presentation and significant accounting policies are as follows:

(a) Basis of presentation

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards prescribed for governments as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.

(b) Fund accounting

The First Nation follows the restricted fund method which results in a self-balancing set of accounts for each fund established by legal, contractual or voluntary actions. Various funds have been amalgamated for the purpose of presentation in these financial statements. Details of the operations of each fund are set out in supplementary schedules. The following funds are maintained:

- General operating fund - reports the program delivery and administrative activities.
- IBA reserves fund - reports the surplus or deficiency of reserve funding.
- Capital assets fund - reports the capital assets of the First Nation together with their related financing.

(c) Measurement uncertainty

The preparation of financial statement in conformity with Public Sector Accounting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

(d) 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.

LUTSEL K'E DENE FIRST NATION

Notes to the Financial Statements

March 31, 2019

Note 2. Basis of presentation and significant accounting policies (continued)

(e) Tangible capital assets

Tangible capital assets are recorded at cost on the statement of financial position. Cost includes all amounts directly attributable to acquisition, construction, development or betterment of the asset. The assets are amortized over their estimated useful lives at the following rates:

Expenditures are recorded as tangible capital assets when they have a cost of \$15,000 or greater and a useful life of three or more years.

Asset	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%
Computer hardware and software	Declining balance	30-100%

One-half of the annual amortization is charged in the year of acquisition and none in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

Donated assets are capitalized and recorded at their estimated fair market value upon acquisition. Works of art for display are not included as capital assets. Certain capital assets for which the historical cost information is not available have been recorded at current fair market value discounted by a relevant inflation factor.

Expenditures that meet the criteria for capitalization as set out in the tangible capital asset accounting policy, but are purchased to run third-party programs are not capitalized if the assets will not be retained by Lutsel K'e Dene First Nation at the completion of the program.

(f) Revenue recognition

Restricted contributions are recognized as they become available under the terms of the applicable funding agreement. Funds received under the funding agreement which relate to a subsequent fiscal period are reflected as deferred revenue in the year of receipt and classified as such on the Statement of Financial Position.

Unrestricted contributions are recognized as revenue of the appropriate fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

(g) Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the normal course of operations. The change in non-financial assets during the year, together with the annual surplus (deficit), provides the change in Net Financial Assets (Debt) for the year.

(h) Comparative amounts

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

LUTSEL K'E DENE FIRST NATION

Notes to the Financial Statements

March 31, 2019

Note 3. Cash and cash equivalents

	2019	2018
Unrestricted		
General bank account	\$ 50,311	\$ 34,848
Externally restricted		
CPI account	3,950,486	3,449,756
Gas tax account	114,663	114,705
Internally restricted		
IBA bank account	181,312	111,455
	\$ 4,296,772	\$ 3,710,764

The bank indebtedness is secured by a first ranking security interest on all property of the First Nation and by security deposits in the amount of \$50,000. Bank indebtedness is an operating line of credit available to a maximum \$200,000 and bears interest at Royal Bank prime rate plus 2.90%. At year end, \$358,200 (2018: \$463,967) is outstanding on the line of credit.

Note 4. Short-term investments

	Rate	Maturity	2019	2018
Long-term non redeemable GIC	2.35%	9-Nov-19	\$ 95,218	\$ -
Long-term non redeemable GIC	2.35%	24-Jan-20	101,337	-
			\$ 196,555	\$ -

Note 5. Restricted cash

	Required Balance	Cash Balance	Receivable	Excess (Shortfall)
<i>Externally restricted</i>				
Community public infrastructure	\$ 4,594,562	\$ 3,950,486	\$ 918,000	\$ 273,924
Gas tax	1,183,215	114,663	899,767	(168,785)
<i>Internally restricted</i>				
IBA account	484,347	181,312	-	(303,035)
	\$ 6,262,124	\$ 4,246,461	\$ 1,817,767	\$ (197,896)

LUTSEL K'E DENE FIRST NATION

Notes to the Financial Statements

March 31, 2019

Note 6. Accounts receivable

	Gross	Allowance	2019 Net	2018 Net
Government organizations				
Federal				
INAC	144,573	3,017	\$ 141,556	\$ -
Parks Canada	24,551	-	24,551	123,258
Territorial				
GNWT	287,264	4,730	282,534	359,955
GNWT - Housing	30,702	-	30,702	-
GNWT - Power Corporation	32,689	-	32,689	-
Gas tax funding	899,767	-	899,767	674,767
Community Public Infrastructure	918,000	-	918,000	768,000
Other government				
Akaitcho Territory Government	128,521	-	128,521	189,062
Other receivables				
Trade/Member/Other	423,236	117,221	306,015	639,426
	2,889,303	124,968	2,764,335	2,754,468

Note 7. Accounts payable and accrued liabilities

	2019	2018
Government remittances payable	\$ 15,151	\$ 23,670
Northwest Territories payroll tax payable	121,749	90,266
Trade/Other	688,295	923,403
	\$ 825,195	\$ 1,037,339

Note 8. Deferred revenue

	2019	2018
Capital Funding		
Community public infrastructure	\$ 4,594,561	\$ 4,056,988
Gas tax	1,183,215	958,215
Public transit funding	110,000	110,000
Operations funding		
Traditional Knowledge Archive	75,931	75,931
Parks Canada	91,440	91,440
CanNor	38,343	38,343
INAC IM/IT Gov Cap Dev	49,656	-
INAC Policy/Consult	27,640	-
Beverly Monitoring	28,903	-
Hide camp funding	13,000	-
Debeers Canada	-	333,000
	\$ 6,212,689	\$ 5,663,917

LUTSEL K'E DENE FIRST NATION

Notes to the Financial Statements

March 31, 2019

Note 9. Schedule of Tangible Capital Assets

	Original Cost Opening Balance	Additions	Disposals	Original Cost Closing Balance	Accumulated Amortization Beginning of Year	Net Carrying Amount Beginning of year	Deletions	Amortization	Accumulated Amortization End of Year	Net Carrying Amount 2019
Buildings	\$ 3,668,144	\$ 5,656	\$ -	\$ 3,673,800	\$ 2,404,699	\$ 1,263,445	\$ -	\$ 121,647	\$ 2,526,346	\$ 1,147,454
Equipment	311,658	13,919	-	325,577	281,689	29,989	-	7,386	289,075	36,502
Infrastructure	3,301,506	-	-	3,301,506	1,516,232	1,785,274	-	163,895	1,680,127	1,621,379
Computers	394,876	6,523	-	401,499	391,296	3,680	-	4,049	395,345	6,154
Leasehold improvements	87,891	-	-	87,891	72,428	15,463	-	3,240	75,668	12,223
Automotive	1,748,738	248,712	-	1,997,450	1,423,183	325,555	-	134,973	1,558,156	439,294
Floating dock	22,204	112,830	-	135,034	21,642	562	-	11,845	33,487	101,547
	\$ 9,535,117	\$ 387,640	\$ -	\$ 9,922,757	\$ 6,111,169	\$ 3,423,948	\$ -	\$ 447,035	\$ 6,558,204	\$ 3,364,553

LUTSEL K'E DENE FIRST NATION

Notes to the Financial Statements

March 31, 2019

Note 10. Contributions repayable

	2019	2018
ISC	\$ -	\$ 4,620
Walter Duncan Foundation	-	25,188
Public transit funding	-	9,354
GNWT	-	35,000
	\$ -	\$ 74,162

Note 11. Liability for source deductions

The First Nation did not deduct the payroll withholding taxes 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. In the 2019 fiscal year, it was determined that it is unlikely that Canada Revenue Agency will require the First Nation to pay the outstanding balances. The total balance outstanding cannot be reasonably estimated as they do not have access to the personal tax information of the former employees. As such, the balance is no longer expected to be payable.

Note 12. Impact Benefit Agreements (IBA) reserve

	Opening surplus (deficit)	Funding received and allocated	Expenses incurred, net of other revenue	Current year surplus (deficit)	Ending surplus (deficit)
Youth	23,249	50,000	32,518	17,482	40,731
Education	84,983	300,000	305,879	(5,879)	79,104
Scholarship	5,955	15,000	14,750	250	6,205
IBA office / coordinator	3,403	125,000	118,580	6,420	9,823
Elders	21,639	50,000	49,824	176	21,815
Caribou hunt	177,722	100,000	26,771	73,229	250,951
Recreation	(6,754)	112,900	34,609	78,291	71,537
Diaviak Liason	32,364	30,000	58,183	(28,183)	4,181
	342,561	782,900	641,114	141,786	484,347

Note 13. 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.

Lutsel K'e First Nation prepares budget information for each project as required under the individual contribution agreements. The budgeted revenues and expenses and surplus (deficit) have not been reported in these financial statements as they are not consistent with the format of the financial results as disclosed on the statement of operations and statement of change in net assets.

LUTSEL K'E DENE FIRST NATION

Notes to the Financial Statements

March 31, 2019

Note 14. Government Transfers

Government of the Northwest Territories - Municipal and Community Affairs

	2019
Water & Sewer Services 18-19	475,000
Community Gov't Funding 18-19	817,000
NEW TAX DEAL 2018	15,869
YCI 18/19 Lutsel K'e	13,157
CYRP 18/19 SS Edu	13,636
CPI 18/19	618,000
Additional Funding 18/19	160,000
Recreation & Sport 18/19 LDFN	14,000
RYSE 2018-19 CA	13,000
	2,139,662

Note 15. Economic dependence

The First Nation receives a significant portion of its revenue pursuant to a funding agreement with Indigenous and Northern Affairs Canada (INAC) and Government of Northwest Territories (GNWT). The nature and extent of this revenue is of such significance that the First Nation is economically dependent on this source of revenue.

Note 16. Contingent liabilities

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.

Note 17. Financial instruments

The First Nation is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the company's risk exposure and concentration.

Credit Risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The First Nation is exposed to credit risk from customers. In order to reduce its credit risk, the First Nation reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The First Nation has a significant number of customers which minimizes concentration of credit risk.

Fair Value

The First Nation's carrying value of cash and cash equivalents, accounts receivable, commercial line of credits, and accounts payable and accrued liabilities approximates its fair value due to the immediate or short term maturity of these instruments.

The carrying value of the long-term debt is less than the fair value because the amounts are non-interest bearing. However, because the long-term debt has no fixed repayment terms, the fair value and the exposure to related risk cannot be determined with any degree of certainty, and the amounts are therefore reported at their carrying value.

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. In seeking to minimize the risks from interest rate fluctuations, the First Nation manages exposure through its normal operating and financing activities.