

INDIAN ISLAND FIRST NATION

**AUDITOR'S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS**

MARCH 31, 2018

INDIAN ISLAND FIRST NATION

TABLE OF CONTENTS

MARCH 31, 2018

	Page
MANAGEMENT'S REPORT	1
INDEPENDENT AUDITOR'S REPORT	2 - 3
FINANCIAL STATEMENTS	
Consolidated Financial Position	4
Consolidated Operations and Changes in Accumulated Surplus	5
Consolidated Changes in Net Debt	6
Consolidated Cash flows	7
Notes to Consolidated Financial Statements	8 - 27

MANAGEMENT'S REPORT

Year ended March 31, 2018

The accompanying consolidated financial statements of Indian Island First Nation and all the information in this annual report are the responsibility of management and have been approved by Chief and Council.

The consolidated 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 of the Canadian Institute of CPA Canada and as such include amounts that are the best estimates and judgments of management.

Management is responsible for the integrity and objectivity of these statements and for implementing and maintaining a system of internal controls to provide a reasonable assurance that reliable financial information is produced.

The Indian Island First Nation's Council is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and is ultimately responsible for reviewing and approving the consolidated financial statements.

The Indian Island First Nation Council meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy themselves that each party is properly discharging their responsibilities, and to review the consolidated financial statements and the external auditor's report.

The external auditors, Nadeau Picard & Associés, CPA, conduct an independent examination, in accordance with Canadian auditing standards, and express their opinion on the consolidated financial statements. The external auditors have full and free access to financial management of Indian Island First Nation and meet when required.

On behalf of Indian Island First Nation:

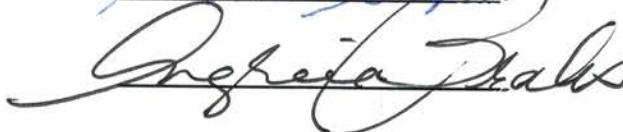
Chief



Councillor



Councillor



Date

July 27, 2018



INDEPENDENT AUDITOR'S REPORT

To the Chief and Band Councillors of

We have audited the accompanying consolidated financial statements of, which comprise the consolidated financial position as at March 31, 2018, and the consolidated statements of operations and changes in accumulated surplus, changes in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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.

Auditor's 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 auditor's 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of as at March 31, 2018 and the results of its operations, changes in its net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other matters

As mentioned in note 23 of the financial statements, budget figures are unaudited.

Nadeau Picard & Associés, CPA

Nadeau Picard & Associés, CPA
Chartered Professional Accountants
Grand Falls, July 27, 2018

CONSOLIDATED FINANCIAL POSITION
March 31

	2018	2017
FINANCIAL ASSETS		
Cash (note 2)	\$ 1,433,312	\$ 654,854
Accounts receivable (note 3)	258,357	360,448
Term deposit (note 4)	1,000,000	-
Inventories for resale (note 6)	<u>38,408</u>	<u>-</u>
	<u>2,730,077</u>	<u>1,015,302</u>
LIABILITIES		
Accounts payable and accrued liabilities (note 8)	379,782	555,165
Due to Government/other Government Organizations (note 9)	312,288	280,607
Trust funds held by INAC (note 4)	729	706
Deferred revenue (note 10)	619,294	473,430
Long-term debt (note 11)	<u>1,851,357</u>	<u>1,813,106</u>
	<u>3,163,450</u>	<u>3,123,014</u>
NET DEBT	<u>(433,373)</u>	<u>(2,107,712)</u>
NON FINANCIAL ASSETS		
Prepaid expenses (note 12)	154,218	133,028
Deposit on tangible capital assets	147,330	-
Tangible capital assets (note 13)	5,127,106	4,805,274
Construction in progress (note 14)	<u>1,143,350</u>	<u>1,098,131</u>
	<u>6,572,004</u>	<u>6,036,433</u>
ACCUMULATED SURPLUS	<u>\$ 6,138,631</u>	<u>\$ 3,928,721</u>

APPROVED BY THE FIRST NATION


 _____, Chief



 _____, Councillor



 _____, Councillor

CONSOLIDATED OPERATIONS AND CHANGES IN ACCUMULATED SURPLUS

Year ended March 31	2018 Budget (Unaudited)	2018 Actual	2017 Actual
REVENUE			
Federal Government:			
Indigenous and Northern Affairs Canada	\$ 2,271,146	\$ 1,807,489	\$ 2,623,921
Indigenous and Northern Affairs Canada - Clawback	-	(57,585)	(60,907)
Health Canada	337,850	337,850	294,687
Fisheries and Oceans Canada	131,801	131,801	343,163
Canada Mortgage and Housing Corporation	358,395	358,395	166,179
Canadian Heritage	7,500	7,500	-
Provincial government	78,720	78,798	81,848
Other	<u>3,964,807</u>	<u>4,303,122</u>	<u>2,169,428</u>
	<u>7,150,219</u>	<u>6,967,370</u>	<u>5,618,319</u>
EXPENSES			
Economic Development	42,000	42,694	37,040
Education	673,525	567,283	621,054
Income Assistance	417,394	370,795	414,569
Assisted Living	30,473	34,516	58,385
Facilities - Operations and maintenance	35,727	65,016	72,410
Other - Capital	352,805	511,689	456,595
Indian Government Support	1,243,346	834,584	1,238,013
Health	303,910	315,505	303,796
Aquaculture	184,402	211,783	198,304
Fisheries	1,667,807	1,679,209	1,191,963
Natural Resources	115,000	116,906	86,622
Consulting	<u>6,000</u>	<u>7,480</u>	<u>-</u>
	<u>5,072,389</u>	<u>4,757,460</u>	<u>4,678,751</u>
ANNUAL SURPLUS	2,077,830	2,209,910	939,568
ACCUMULATED SURPLUS, BEGINNING OF PERIOD	<u>3,928,721</u>	<u>3,928,721</u>	<u>2,989,153</u>
ACCUMULATED SURPLUS, END OF PERIOD	<u>\$ 6,006,551</u>	<u>\$ 6,138,631</u>	<u>\$ 3,928,721</u>

CONSOLIDATED CHANGES IN NET DEBT
March 31

	2018	2017
ANNUAL SURPLUS	\$ <u>2,209,910</u>	\$ <u>939,568</u>
Tangible capital assets		
Acquisition of tangible capital assets	(765,832)	(1,218,142)
Amortization of tangible capital assets	443,209	340,988
Deposit on tangible capital assets	(147,330)	-
Disposal of tangible capital assets	157,185	10,000
Accumulated amortization on disposal of tangible capital assets	<u>(156,394)</u>	<u>(7,500)</u>
	<u>(469,162)</u>	<u>(874,654)</u>
Other non-financial assets		
Additions of construction in progress	(45,219)	(285,809)
Increase of prepaid expense	<u>(21,190)</u>	<u>(1,247)</u>
	<u>(66,409)</u>	<u>(287,056)</u>
CHANGE IN NET DEBT	1,674,339	(222,142)
NET DEBT, BEGINNING OF YEAR	<u>(2,107,712)</u>	<u>(1,885,570)</u>
NET DEBT, END OF YEAR	\$ <u>(433,373)</u>	\$ <u>(2,107,712)</u>

CONSOLIDATED CASH FLOWS

Year ended March 31

2018

2017

OPERATING ACTIVITIES

Annual surplus	\$ 2,209,910	\$ 939,568
Add (deduct) non-cash items :		
Amortization	443,209	340,988
Gain on disposal of tangible capital assets	<u>(459)</u>	<u>(7,500)</u>
	2,652,660	1,273,056
Net change in non-cash working capital items		
Accounts receivable	102,091	(46,935)
Prepaid	(21,191)	(1,247)
Inventories	(38,408)	-
Accounts payable and accrued liabilities	(175,387)	293,882
Due to Government and other Government organizations	31,681	27,405
Deferred revenue	<u>145,864</u>	<u>455,938</u>
	<u>2,697,310</u>	<u>2,002,099</u>

FINANCING ACTIVITIES

Increase of long-term debt	151,640	359,186
Repayment of long-term debt	(113,384)	(99,790)
Decrease in bank loan	-	(250,000)
Repayment of demand loans	-	(10,000)
Transfer to the replacement reserve fund	<u>(24,403)</u>	<u>(38,106)</u>
	<u>13,853</u>	<u>(38,710)</u>

CAPITAL ACTIVITIES

Deposit on capital assets	(147,330)	-
Addition to capital assets	(765,832)	(1,218,142)
Proceeds from disposal of capital assets	1,250	10,000
Net increase in construction in progress	<u>(45,219)</u>	<u>(285,809)</u>
	<u>(957,131)</u>	<u>(1,493,951)</u>

INVESTING ACTIVITIES

Increase of term deposit	<u>(1,000,000)</u>	<u>-</u>
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INCREASE IN CASH AND CASH EQUIVALENTS

754,032 469,438

CASH AND CASH EQUIVALENTS (BANK OVERDRAFT), BEGINNING438,002 (31,436)**CASH AND CASH EQUIVALENTS, ENDING**\$ 1,192,034 \$ 438,002

Cash and cash equivalents consist of the cash in operating accounts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES**Basic of Accounting**

These consolidated financial statements have been prepared by Band management in accordance with the First Nation Reporting Handbook, which states that you follow the Canadian public sector accounting standards for government entities, as recommended by the Public Sector Accounting Board of CPA Canada, which encompasses the following principles:

a) Accrual Accounting

Expenses are recorded for all goods and services received or consumed during this fiscal year.

Amounts received or recorded as receivable but not earned by the end of the fiscal year are recorded as deferred revenue.

b) Reporting Entity and Principles of Financial Reporting

The Indian Island First Nation reporting entity includes the Indian Island First Nation Government and all related entities which are accountable to the First Nation and are either owned or controlled by it.

These consolidated financial statements consolidate the assets, liabilities and results of operations for the following entities which use accounting principles that lend themselves to consolidation:

- Indian Island First Nation Government Administration
- Indian Island First Nation Trust Funds
- Indian Island Aquaculture Development Corporation
- Indian Island Economic Development Corporation
- Indian Island First Nation Consulting Corporation

All inter-entity balances have been eliminated on consolidation.

c) 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 and are not to be consumed in the normal course of operations. Non-financial assets are acquired, constructed or developed assets that do not provide resources to discharge existing liabilities but are employed to deliver government services, may be consumed in normal operations and are not for resale. Non-financial assets include tangible capital assets, construction in progress, deposit on capital assets and prepaid expenses.

d) Inventories

Tobacco inventories are measured at the lower of cost and net realizable value. The cost is determined using the first-in, first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less any applicable variable selling costs.

The livestock inventory costs such as purchases, salaries and others are expensed in the year incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)
e) Tangible capital assets

Tangible capital assets include acquired, built, developed and improved tangible capital assets, whose useful life extends beyond one year and which are intended to be used on an ongoing basis for producing goods or delivering services.

Tangible capital assets are recorded at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead directly attributable to construction and development, as well as interest costs that are directly attributable to the acquisition or construction of the asset.

Amortization is provided for on a straight line basis over their useful lives as follows:

Buildings	straight line	10-40 years
Roads and paving	straight line	20 years
Equipment and boat	straight line	2-10 years
Vehicle	straight line	5 years
Windtower	straight line	20-40 years

Tangible capital assets are written down when conditions indicate that they no longer contribute to Indian Island First Nation's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expenses in the consolidated statement of operations.

Certain assets which have historical or cultural value, including works of art, historical documents and historical and cultural artifacts, are not recognized as tangible capital assets. Assets under construction are not amortized until the asset is available to be put into service.

f) Deferred Revenue

Deferred revenue represents unspent Government transfers for programs, where the eligibility criteria has not been met at year end. The unspent revenue is carried forward to be recognized as eligibility criteria is met or until the funder deems the surpluses to be repayable at which time an amount payable is recognized.

g) Net Debt

The First Nation's consolidated financial statements are presented so as to highlight net debt as the measurement of financial position. The net debt of the First Nation is determined by its liabilities less its financial assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

h) Cash and Cash Equivalents

The First Nation's policy is to disclose bank balances under cash and cash equivalents, including bank overdrafts with balances that fluctuate frequently from being positive to overdrawn and term deposits with a maturity period of three months or less from the date of acquisition. Cash and cash equivalents that the First Nation cannot use for current transactions because they are pledged as security are also excluded from cash and cash equivalents.

i) Revenue Recognition

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

Government transfers are recognized as revenues when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability. Transfer revenue is recognized in the statement of operations as the stipulation liabilities are settled.

Contributions from other sources are deferred when restrictions are placed on their use by the contributor and are recognized as revenue when used for the specific purpose.

Revenue related to fees or services received in advance of the fee being earned or the service is performed is deferred and recognized when the fee is earned or service performed.

j) Financial Instruments

The First Nation's financial instruments consist of cash, accounts receivable, term deposits, accounts payable and accrued liabilities, due to Government and other Government Organizations and long term debt. The fair value of these financial instruments approximate their carrying values unless otherwise noted.

k) Use of estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from these estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)**1) Segmented Information**

The First Nation discloses segmented results of operations for the year in note 22 to the consolidated financial statements. The First Nation has segregated its activities into the following segments based on distinguishable groups of activities:

Economic Development

Contains activities of the economic development program. The First Nation is currently working on a windtower project.

Education

Provides elementary, secondary and post-secondary tuition for qualifying members along with related programs and support.

Social

Provides social assistance to qualifying members. It also includes the section 95 housing and related expenditures.

Health

Contains activities that provide medical services to band members.

Public Works

Contains all activities that relate to the maintenance of buildings and land of the First Nation.

Band Government

Includes all other activities not described in another fund. Mainly centralized and shared activities.

Other

Includes the forestry, aquaculture, fisheries and consulting activities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31
2018**2017****2. CASH**

Cash in operating accounts	\$ 1,192,034	\$ 438,002
Cash in Ottawa Trusts	729	706
Replacement reserve fund - restricted	<u>240,549</u>	<u>216,146</u>
	<u>\$ 1,433,312</u>	<u>\$ 654,854</u>

Under the terms of an agreement with Canada Mortgage and Housing Corporation, Indian Island First Nation must set aside funds annually for the repair, maintenance and replacement of worn out assets. These funds are to be held in a separate bank account and invested only in accounts or instruments insured by the Canada Deposit Insurance Corporation or otherwise approved by the Canada Mortgage and Housing Corporation. Under CMHC requirements the amount of cash which should be held in a separate account for Replacement and Operating reserves should total \$238,178. The actual balance in the account is \$240,549.

3. ACCOUNTS RECEIVABLE

Fisheries and Oceans Canada	\$ 27,620	\$ 59,595
Indigenous and Northern Affairs Canada	4,914	104,645
Provincial Government	3,638	49,304
Enhanced education	1,856	167
Other receivables	<u>220,329</u>	<u>146,737</u>
	<u>\$ 258,357</u>	<u>\$ 360,448</u>

4. TERM DEPOSITS

Term deposits are recorded at cost. Term deposits are written down where there has been a loss in value that is other than a temporary decline. The current term deposit carry an interest rate of 1.6% and is maturing in March 2019.

5. OTTAWA TRUST MONEYS

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.

	Beginning balance	Additions	Withdrawals	Ending balance
Trust - capital	\$ 142	\$ -	\$ -	\$ 142
Trust - revenue	<u>564</u>	<u>23</u>	<u>-</u>	<u>587</u>
Total	<u>\$ 706</u>	<u>\$ 23</u>	<u>\$ -</u>	<u>\$ 729</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31
2018**2017****6. INVENTORIES FOR RESALE**

Tobacco	\$ <u>38,408</u>	\$ <u>-</u>
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7. BANK LOAN

The First Nation has an authorized line of credit of \$250,000, bearing interest at prime rate plus 2.50%. The line of credit is secured by an assignment on accounts receivable that have a net carrying value of \$258,357 (2017 - \$360,448)

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Suppliers	250,401	512,824
Payroll deductions	9,465	7,864
Sales tax	23,744	5,305
Accrued expenses	<u>96,172</u>	<u>29,172</u>
	\$ <u>379,782</u>	\$ <u>555,165</u>

A separate bank account is not used for the purpose of payroll deductions. All payroll deductions were remitted before year-end except for those above remitted in April 2018.

9. DUE TO GOVERNMENT AND OTHER GOVERNMENT ORGANIZATIONS

Federal government - INAC	101,882	60,907
Provincial government	<u>210,406</u>	<u>219,700</u>
	\$ <u>312,288</u>	\$ <u>280,607</u>