



Consolidated Financial Statements

Membertou Reserve Band Council

March 31, 2018

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Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of the **Membertou Reserve Band Council** and all the information in this annual report are the responsibility of management and have been approved by the Chief and Council.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Consolidated financial statements are not precise since they include certain amounts based on estimates and judgments. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances, in order to ensure that the consolidated financial statements are presented fairly, in all material respects.

The Band maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable, and accurate, and the Band's assets are appropriately accounted for and adequately safeguarded.

The Band Council is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements.

The 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 annual report, the consolidated financial statements and the external auditor's report.

The consolidated financial statements have been audited by Grant Thornton LLP in accordance with Canadian generally accepted auditing standards on behalf of the members. Grant Thornton LLP has full and free access to the Council.



Michael Monty
Chief Financial Officer



Terrance J. Paul
CEO

Independent Auditor's Report

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To the Chief and Councillors of the

Membertou Reserve Band Council

We have audited the accompanying consolidated statement of financial position of the Membertou Reserve Band Council (the "Band Council") as at March 31, 2018, and the consolidated statement of operations, changes in net financial liabilities, statement of fund balances, and statement of 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

The Band Council's 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk

assessments, the auditor considers internal control relevant to the Band Council's preparation and fair presentation of the consolidated 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 Band Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Band Council's management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Basis for qualified opinion

The statement of financial position includes intangible assets in the amount of \$2,064,336 for fishing licenses and permits purchased by the Band. Recording intangible assets is a departure from Canadian public sector accounting standards. Accordingly, both the purchased licenses and permits and accumulated surplus are overstated by \$2,064,336 as at March 31, 2018. If intangible assets were not recorded in order to be in compliance with Canadian public sector accounting standards, purchased licenses and permits and accumulated surplus would both decrease by \$2,064,336.

Qualified opinion

In our opinion, except for the effects of the matter described in the *Basis for qualified opinion* paragraph, these consolidated financial statements present fairly, in all material respects, the financial position of the Membertou Reserve Band Council as at March 31, 2018, and the results of its operations, changes in its net financial liabilities, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Sydney, Nova Scotia

July 24, 2018


Chartered professional accountants
Licensed Public Accountants

Membertou Reserve Band Council

Consolidated Statement of Operations

Year ended March 31	Budget	2018	2017
Revenues			
Fisheries	\$ 3,157,952	\$ 3,789,307	\$ 3,902,794
Rental	5,103,929	4,867,335	4,672,972
Commercial sales	38,750,398	39,065,890	37,353,772
(Loss) gain on disposal of property	-	(4,525)	15,526
Government transfers (Note 23)	12,343,289	18,456,729	25,499,957
Other revenues	<u>164,720</u>	<u>911,049</u>	<u>714,341</u>
	<u>59,520,288</u>	<u>67,085,785</u>	<u>72,159,362</u>
Expenditures			
Administrative	3,894,864	3,851,279	3,668,243
Community expenses	3,271,978	3,433,381	3,526,929
Core funding and benefits	846,048	926,317	849,027
Cost of sales – commercial	14,437,133	15,387,429	14,548,790
Education and training	1,257,860	1,372,794	1,273,558
Fishing	181,331	258,460	297,491
Health programs	772,649	1,226,042	904,835
Insurance	534,822	608,676	519,898
Interest	2,449,665	2,816,810	2,203,238
Other	2,295,428	3,204,383	2,814,176
Professional fees	252,696	276,905	293,575
Repairs and maintenance	5,006,193	7,521,684	7,874,073
Salaries and benefits	15,552,557	15,341,774	14,626,462
Security and policing	744,675	884,978	947,359
Social	<u>3,828,810</u>	<u>3,718,839</u>	<u>3,589,123</u>
	55,326,709	60,829,751	57,936,777
Less: transfers/recoveries	<u>(1,958,133)</u>	<u>(1,782,922)</u>	<u>(1,613,922)</u>
	53,368,576	59,046,829	56,322,855
Annual surplus before amortization	6,151,712	8,038,956	15,836,507
Amortization	<u>5,569,668</u>	<u>5,992,809</u>	<u>5,146,698</u>
Annual surplus	<u>\$ 582,044</u>	<u>\$ 2,046,147</u>	<u>\$ 10,689,809</u>
Accumulated surplus, beginning of year		<u>60,413,134</u>	<u>49,723,325</u>
Accumulated surplus, end of year		<u>\$ 62,459,281</u>	<u>\$ 60,413,134</u>

See accompanying notes to the consolidated financial statements.

Membertou Reserve Band Council

Consolidated Statement of Financial Position

March 31

2018

2017

Financial assets

Cash	\$ 12,961,236	\$ 3,867,542
Receivables (Note 2)	3,894,121	7,130,323
Inventory (Note 6)	402,647	395,669
Band funds in trust (Note 3)	120,208	116,380
Restricted cash	2,363,159	2,019,815
Investments (Note 4)	<u>2,740,821</u>	<u>2,710,678</u>
	<u>22,482,192</u>	<u>16,240,407</u>

Financial liabilities

Payables and accruals (Note 10)	5,295,678	7,207,565
Construction payables to be financed	-	517,406
Deferred revenue (Note 11)	3,345,960	1,432,409
Long term debt (Note 12)	84,270,262	72,471,012
Deferred trust contributions (Note 15)	6,226,207	6,098,207
Capital lease obligations (Note 14)	<u>385,804</u>	<u>389,060</u>
	<u>99,523,911</u>	<u>88,115,659</u>

Net financial liabilities (Page 6) (77,041,719) (71,875,252)

Non-financial assets

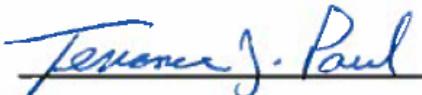
Purchased fishing licenses and permits (Note 7)	2,064,336	2,064,336
Capital assets (Note 8)	136,715,931	129,691,662
Prepays (Note 5)	<u>720,733</u>	<u>532,388</u>
	<u>139,501,000</u>	<u>132,288,386</u>

Accumulated surplus (Page 4) \$ 62,459,281 \$ 60,413,134

Contingencies (Note 19)

Commitments (Note 20)

On behalf of the Band Council

 Chief

 Councillor

See accompanying notes to the consolidated financial statements.

Membertou Reserve Band Council

Consolidated Statement of Cash Flows

Year ended March 31

2018

2017

Increase in cash and cash equivalents

Operating		
Excess (deficiency) of revenue over expenditures	\$ 2,046,147	\$10,689,809
Depreciation	5,992,809	5,146,698
Loss (gain) on disposal of capital assets	4,525	(15,526)
Share of limited partnership income	<u>(105,143)</u>	<u>(96,281)</u>
	7,938,338	15,724,700
Change in non-cash operating working capital		
Receivables	3,236,202	(3,583,085)
Prepays	(188,345)	(240,928)
Inventory	(6,978)	(69,714)
Payables and accruals	(2,429,293)	1,825,486
Deferred revenue	<u>1,913,551</u>	<u>956,357</u>
	<u>10,463,475</u>	<u>14,612,816</u>
Investing		
Partnership draws	100,000	100,000
Purchase of investments	<u>(25,000)</u>	<u>(25,000)</u>
	<u>75,000</u>	<u>75,000</u>
Financing		
New deferred trust contributions	128,000	350,000
Repayment of long term capital lease obligation	(93,246)	(68,971)
Receipt of capital lease	89,990	-
Receipt of long term debt	15,281,323	12,914,267
Repayment of long term debt	<u>(3,482,073)</u>	<u>(2,063,766)</u>
	<u>11,923,994</u>	<u>11,131,530</u>
Capital		
Proceeds on disposal of assets	144,095	99,510
Capital assets acquired	<u>(13,165,698)</u>	<u>(24,670,649)</u>
	<u>(13,021,603)</u>	<u>(24,571,139)</u>
Net increase in cash and cash equivalents	9,440,866	1,248,207
Cash and cash equivalents, beginning of year	<u>6,003,737</u>	<u>4,755,530</u>
Cash and cash equivalents, end of year	<u>\$ 15,444,603</u>	<u>\$ 6,003,737</u>
Cash and cash equivalents consist of:		
Cash	\$ 12,961,236	\$ 3,867,542
Funds in trust	120,208	116,380
Restricted cash	<u>2,363,159</u>	<u>2,019,815</u>
	<u>\$ 15,444,603</u>	<u>\$ 6,003,737</u>

See accompanying notes to the consolidated financial statements.

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2018

1. Summary of significant accounting policies

Reporting entity and principles of financial reporting

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which encompass the principles common with First Nations.

The consolidated financial statements of the Membertou Reserve Band Council are the representations of management prepared in accordance with Canadian generally accepted accounting principles for local governments, as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

The focus of PSAB financial statements is on the financial position of the First Nation and the changes thereto. The consolidated statement of financial position includes all the assets and liabilities of the First Nation.

Significant aspects of the accounting policies adopted by the First Nation are as follows:

Principles of consolidation

The consolidated financial statements include the accounts of all funds and operations in which the First Nation has a controlling interest, after the elimination of inter-fund transactions and balances. The entities include the following Membertou Reserve Band Council Funds - Operating Fund, Housing Fund, Public Works Fund, Capital Fund, Economic Development Fund, Enterprise Fund, Employment Development Fund, Health Fund, AFS Program Fund, Social Fund, Enterprise Fund, and Education Fund, as well as, the Membertou Development Corporation, the Membertou Market, the Membertou Trade & Convention Centre Limited, the Membertou Gaming Commission Inc., 3237395 Nova Scotia Limited (Operating as Membertou Insurance Brokers), Membertou Commercial Fisheries, Membertou Entertainment Centre, the Membertou Business Centre, the Membertou Cultural and Heritage Centre Foundation Inc., Membertou Data Centre, Membertou Geomatics, Membertou Sport and Wellness Centre, and Membertou Properties Limited Partnership.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks, and term deposits net of bank overdraft.

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2018

1. Summary of significant accounting policies (continued)

Revenue recognition

All non-government contributions or grant revenues that are externally restricted such that they must be used for a specified purpose are recognized as revenue in the period in which the resources are used for the purpose or purposes specified. Any externally restricted inflow received before the criterion has been met is reported as a liability until the resources are used for the purpose or purposes specified.

Unrestricted revenue is recognized when received or receivable if the amount to be received can be reasonably estimated and ultimate collection is reasonably assured.

Rental revenue is recognized when received or receivable and collection is reasonably assured.

Gaming revenue from video lottery net of corresponding direct expenses are recognized at the time of play and are recorded net of commissions and credits paid out. Other gaming revenues are recognized as earned when received or receivable as long as collection is reasonably assured.

Government transfers

Government transfers received are recognized in the financial statements as revenue when the transfers are authorized and all eligibility criteria have been met except when there is a stipulation that gives rise to an obligation that meets the definition of a liability. In that case, the transfer is recorded as a liability and recognized as revenue as the stipulations are met.

Government transfers to individuals and other entities are recognized as an expense when the transfers are authorized and all eligibility criteria have been met.

Investments

Investments are valued at the lower of cost and net realizable value.

Tangible capital assets

Tangible capital assets are recorded at cost less accumulated amortization and impairment.

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2018

1. Summary of significant accounting policies (continued)

Depreciation

Rates and bases of depreciation applied to write off the cost of property and equipment over their estimated lives are as follows:

Buildings	4%, declining balance
Housing properties	25 year, straight line
Infrastructure	4%, declining balance
Fishing vessels	15%, declining balance
Fishing equipment	20%, declining balance
Equipment	20%, declining balance
Motor vehicles	20%, declining balance
Moveable equipment	20%, declining balance
School buses	20%, declining balance
Computer hardware and software	20%, declining balance
Office equipment and furniture	20%, declining balance
Parking lots	20%, declining balance
Equipment under capital lease	20%, declining balance

Purchased fishing licenses and permits

Purchased fishing licenses and permits assets are intangible capital assets. These indefinite-lived fishing licenses and permits are recognized at cost and are not amortized. The capitalization of intangible assets is a departure from Canadian public sector accounting standards.

The Band evaluates the carrying value of its licenses and permits annually for impairment. Should a permanent impairment be identified, the impairment will be recognized as a reduction in the carrying value and as a charge against income on the statement of operations in the period the impairment occurred.

The Band also owns other communal fishing licenses and permits which were not purchased by the Band but were given to or granted to the Band.

Use of estimates

In preparing the Band's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Income taxes

The Band Council is exempt from income taxes under Section 149(l) (c) of the *Canadian Income Tax Act*.

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2018

1. Summary of significant accounting policies (continued)

Moveable Capital Asset Reserve

The Band is required to maintain a Moveable Capital Asset Reserve in accordance with the consolidated contribution agreement with the Department of Indigenous Services Canada – First Nations and Inuit Health Branch. The reserve is for the maintenance or replacement of capital assets transferred to the band by the Department of Indigenous Services Canada – First Nations and Inuit Health Branch. Expenditures of capital funds under the reserve are restricted to expenditures on these assets only and there can be no transfer of these funds to the operating budget.

Inventory

The cost of inventories is comprised of directly attributable costs and includes the purchase price plus other costs incurred in bringing the inventories to their present location and condition, such as freight. The cost is reduced by the value of rebates and allowances received from vendors. The Band estimates net realizable value as the amount that inventories are expected to be sold. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable due to obsolescence, damage, or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling price, the amount of the write-down previously recorded is reversed. Costs that do not contribute to bringing inventories to their present location and condition, such as storage and administrative overheads, are specifically excluded from the cost of inventories and are expensed in the period incurred.

The cost of inventory recognized as an expense during fiscal 2018 was \$10,960,012 (2017 \$10,574,924). No write-down of inventories below their cost to their net realizable value was made in fiscal 2018. There were no reversals of inventories written down previously that are no longer estimated to sell below cost.

Leases

Leases are classified as either capital or operating in nature. Capital leases are those which transfer substantially all the benefits and risks of ownership to the lessee. If the lease contains a term that allows ownership to pass to the Band or there is a bargain purchase option the capitalized value is depreciated over the estimated useful life of the related asset. Otherwise, the capitalized value is depreciated on a straight line basis over the lesser of the lease term and its estimated useful life. Obligations recorded under capital leases are reduced by the principal portion of lease payments as incurred and the imputed interest portion of capital lease payments is charged to expense and amortized straight-line over the life of the lease. Operating lease payments are charged to expense.

Net debt

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

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2018

1. Summary of significant accounting policies (continued)

Hedge accounting

The Band uses derivative instruments to manage the Band's exposure to interest rate risks. When derivative instruments are used, the Band determines whether hedge accounting can be applied. Where hedge accounting can and will be applied, the hedge is documented at inception, detailing the hedging relationship, identifying the hedged item, the related hedging item, the nature of the specific risks being hedged and the intended term of the hedging relationship. Both at the inception of the hedging relationship, and throughout the term, the Band has reasonable assurance that the critical terms of the hedging item and the hedged item are, and will remain, the same. For all hedged items which are anticipated transactions, the Band has determined that it is probable that the transaction will occur at the time and in the amount documented at the inception of the hedging relationship.

The Band has elected to use hedge accounting for the following qualifying hedging relationships: A prime plus 1.5% mortgage has been hedged with a 3.495% fixed interest rate swap to mitigate the effect of changes in interest rates.

2. Receivables	<u>2018</u>	<u>2017</u>
Department of Indigenous Services Canada	\$ 639,851	\$ 1,791,340
Housing rents	567,467	618,580
Mi'kmaq Employment Training Secretariat	107,395	57,024
Commodity sales tax	16,350	484,831
Department of Fisheries and Oceans	94,230	162,000
Atlantic Integrated Commercial Fisheries Initiative	67,603	297,000
Province of Nova Scotia	239,933	201,034
Atlantic Canada Opportunities Agency	-	908,250
Mi'kmaw Kina'matnewey	256,275	734,281
Sundry	818,516	673,541
Canada Mortgage and Housing Corporation	196,242	27,357
Trade	<u>890,259</u>	<u>1,175,085</u>
	<u>\$ 3,894,121</u>	<u>\$ 7,130,323</u>

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2018

3. Band funds in trust

The Trust Fund arises 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*.

The changes in net assets of the Trust Fund during the year are as follows:

	<u>2018</u>	<u>2017</u>
Net assets, beginning of year	\$ 116,380	\$ 114,735
Proceeds from reserve lands disposition	-	-
Interest earned	<u>3,828</u>	<u>1,645</u>
Net assets, end of year	<u>\$ 120,208</u>	<u>\$ 116,380</u>

4. Investments

	<u>2018</u>	<u>2017</u>
Membertou Hotel Limited Partnership	\$ 2,664,821	\$ 2,659,678
Encyt Technologies Incorporated	26,000	26,000
Tylev Investments Inc.	<u>50,000</u>	<u>25,000</u>
	<u>\$ 2,740,821</u>	<u>\$ 2,710,678</u>

5. Prepaids

	<u>2018</u>	<u>2017</u>
Core funding	\$ 175,950	\$ 122,273
Insurance	278,826	312,698
Miscellaneous	<u>265,957</u>	<u>97,417</u>
	<u>\$ 720,733</u>	<u>\$ 532,388</u>

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2018

6. Inventory	<u>2018</u>	<u>2017</u>
Membertou Sports and Wellness	\$ 11,389	\$ 12,156
Membertou Trade and Convention Centre Limited	98,569	70,201
Membertou Entertainment Centre	16,472	24,208
Membertou Cultural and Heritage Centre Foundation Inc.	122,686	108,744
Membertou Market	<u>153,531</u>	<u>180,360</u>
	<u>\$ 402,647</u>	<u>\$ 395,669</u>

7. Purchased fishing licenses and permits	<u>2018</u>	<u>2017</u>
Purchased fishing licenses and permits	<u>\$ 2,064,336</u>	<u>\$ 2,064,336</u>

The Band records all purchased commercial fishing licenses and permits as intangible assets. All other permits and licenses owned by Membertou Reserve Band Council have been granted for a nil consideration and therefore have not been capitalized.

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

Year ended March 31, 2018

8. Capital assets

	<u>Cost, beginning of year</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	<u>Cost, end of year</u>	<u>Accumulated depreciation, beginning of year</u>	<u>Depreciation</u>	<u>Depreciation on Disposal</u>	<u>Accumulated depreciation, end of year</u>	<u>2018 Net book value</u>	<u>2017 Net book value</u>
Land	7,607,849	1,885,303	4,627,087	(29,676)	14,090,563	-	-	-	-	14,090,563	7,607,849
Buildings	79,101,364	1,924,971	1,817,076	-	82,843,411	11,889,019	2,818,045	-	14,707,064	68,136,347	67,212,345
Infrastructure	30,591,841	2,385,009	-	-	32,976,850	6,497,179	815,619	-	7,312,798	25,664,052	24,094,662
Housing Properties	29,077,006	2,295,319	-	-	31,372,325	11,769,470	1,055,953	-	12,825,423	18,546,902	17,307,536
Fishing vessels	1,626,027	44,485	371,643	(1)	2,042,154	836,969	146,232	-	983,201	1,058,953	789,058
Fishing equipment	395,426	-	-	-	395,426	287,127	21,660	-	308,787	86,639	108,299
Equipment	6,840,743	445,461	11,109	(350,775)	6,946,538	3,447,768	521,701	(231,361)	3,738,108	3,208,430	3,392,975
Motor Vehicles	747,107	279,025	-	-	1,026,132	501,665	94,853	-	596,518	429,614	245,442
Computer hardware & software	1,620,192	-	-	-	1,620,192	1,240,362	65,480	-	1,305,842	314,350	379,830
Office equipment	637,757	34,565	-	-	672,322	552,809	31,410	-	584,219	88,103	84,948
Parking lots	628,204	175,144	-	-	803,348	250,744	32,613	-	283,357	519,991	377,460
Leasehold improvements	2,521,482	375,459	-	-	2,896,941	1,372,797	351,801	-	1,724,598	1,172,343	1,148,685
Signage	344,527	76,992	-	-	421,519	228,869	36,971	-	265,840	155,679	115,658
Assets under construction	6,826,915	3,243,965	(6,826,915)	-	3,243,965	-	-	-	-	3,243,965	6,826,915
	<u>168,566,440</u>	<u>13,165,698</u>	<u>-</u>	<u>(380,452)</u>	<u>181,351,686</u>	<u>38,874,778</u>	<u>5,992,338</u>	<u>(231,361)</u>	<u>44,635,755</u>	<u>136,715,931</u>	<u>129,691,662</u>

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2018

9. Bank indebtedness

The Band Council has an established line of credit of \$2,500,000. The line of credit bears interest at a rate of prime plus 1%. At the year end, the line of credit had a balance outstanding of nil (2017 - nil). Security for bank indebtedness is as disclosed in note 12.

10. Payables and accruals	<u>2018</u>	<u>2017</u>
Trade	\$ 2,144,555	\$ 4,024,031
Accrued liabilities	2,885,507	2,981,261
Commodity tax	124,360	60,748
Employee benefits	141,256	75,630
Other	<u>-</u>	<u>65,895</u>
	<u>\$ 5,295,678</u>	<u>\$ 7,207,565</u>

11. Deferred revenue	<u>2018</u>	<u>2017</u>
Tui'kn Partnership	\$ 114,512	\$ 105,520
Department of Indigenous Services Canada	2,881,429	212,968
Department of Indigenous Services Canada - First Nations and Inuit Health Branch	-	30,000
Mi'kmaw Kina'matnewey	44,899	483,700
Kwilmu'kw Maw-klusuaqn	-	170,636
Miscellaneous	<u>305,120</u>	<u>429,585</u>
	<u>\$ 3,345,960</u>	<u>\$ 1,432,409</u>

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2018

12. Long term debt	<u>2018</u>	<u>2017</u>
Canada Mortgage and Housing Corporation		
1.39% - 2.84% mortgages, repayable under various terms by October 2038.	\$ 6,303,479	\$ 6,489,520
First Nation Finance Authority		
2.9% - 3.79% loans, repayable under various terms, maturing June 2024.	41,056,891	31,405,758
Royal Bank of Canada		
2.21% - 5.25% mortgages, repayable under various terms by September 20, 2032.	974,622	1,118,117
Ford Credit		
4.89% retail instalment contract repayable in monthly instalments of \$610 on account of principal and interest maturing in October 2020.	17,833	23,512
4.89% retail instalment contract repayable in monthly instalments of \$610 on account of principal and interest maturing in October 2020.	17,826	23,512
6.29% retail instalment contract repayable in monthly instalments of \$3,126 on account of principal and interest maturing in January 2025.	34,071	-
2.99% loan repayable in monthly instalments of \$707 of principal and interest maturing in October 2023.	43,599	-
2.99% loan repayable in monthly instalments of \$684 of principal and interest maturing in October 2023.	42,150	-
2.99% loan repayable in monthly instalments of \$3,126 of principal and interest maturing in October 2023.	35,247	-
Bank of Montreal		
Prime plus 1.25% term loan, maturing in July 2020, repayable in equal annual instalments of \$40,714.	191,428	287,143
Prime plus 1.25% mortgage, repayable in equal monthly Instalments of \$5,378, including interest, matures August 2023.	307,483	354,779
2.79% term loan, due on demand, maturing in February 2037, repayable in monthly instalments of \$38,770.	6,816,361	7,087,316

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2018

12. Long term debt (continued)	<u>2018</u>	<u>2017</u>
Prime plus 0.25% term loan, due on demand, maturing in March 2020, repayable in annual principal instalments of \$1,000,000 plus monthly interest.	2,000,000	3,000,000
Prime plus 2.71% term loan, due on demand, maturing May 2024, repayable in principal instalments of \$9,453 plus monthly interest.	697,922	550,791
2.97% mortgage repayable in monthly instalments of \$7,310 on account of principal and interest maturing on December 2038, secured by a Department of Indigenous Services Canada Ministerial Guarantee.	1,353,524	1,400,289
3.59% mortgage repayable in monthly instalments of \$5,338 on account of principal and interest maturing on May 2020, secured by a Department of Indigenous Services Canada Ministerial Guarantee. Loan will be repayable over 25 years.	946,409	975,926
Prime plus 3.29% mortgage repayable in monthly instalments of \$15,988 on account of principal and interest maturing on July 2041, secured by a Department of Indigenous Services Canada Ministerial Guarantee.	3,119,440	2,176,777
Prime plus 2.75% mortgage repayable in monthly instalments of \$15,198 on account of principal and interest maturing on May 2027, secured by a Department of Indigenous Services Canada Ministerial Guarantee. Loan will be repayable over 25 years.	1,477,975	771,798
Prime plus 0.75% term loan advance	1,000,000	-
Prime plus 0.75% term loan advance.	438,229	-
Prime plus 0.75% term loan advance	182,795	-
Peace Hills Trust		
4.25% mortgage repayable in monthly instalments of \$17,162, matures July 2028.	1,695,438	1,839,142
4.25% mortgage, repayable in monthly instalments of \$15,140, matures May 2028.	1,497,977	1,613,320

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2018

12. Long term debt (continued)	<u>2018</u>	<u>2017</u>
4.25% mortgage, repayable in monthly instalments of \$5,095, matures May 2022.	221,571	272,250
4.25% mortgage, repayable in monthly instalments of \$4,703, matures September 2022.	230,747	-
Bank of Nova Scotia		
Interest free loan, maturing in December 2019, repayable In equal monthly instalments of \$397	8,336	13,100
Interest free loan, maturing in December 2019, repayable In equal monthly instalments of \$397	8,336	13,099
Prime plus 1.5% mortgage repayable in 59 equal monthly payments of principal and interest. The term of the loan is 5 years and amortization is 25 years.	12,354,980	12,702,302
Prime plus 1.35% mortgage repayable in 60 equal monthly payments of principal and interest of \$3,310. The term of the loan is 5 years and amortization is 25 years.	587,262	-
Prime plus 0.5% repayable in monthly instalments of \$7,908, matures July 2030.	375,227	-
Atlantic Canada Opportunities Agency		
5.75% repayable loan, payments begin July 2015, repayable in monthly instalments of \$6,479, matures June 2021.	233,104	292,561
Doncaster Mortgage		
Interest free mortgage, repaid during the year.	-	60,000
	84,270,262	72,471,012
Current portion of long term debt Principal payments due within one year.	<u>4,374,896</u>	<u>3,470,726</u>
	<u>\$ 79,895,366</u>	<u>\$ 69,000,286</u>

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2018

12. Long term debt (continued)

As security, the Band has provided a Band Council Resolution providing an irrevocable authorization to the Department of Indigenous Services Canada to assign all funding until all loans are repaid to the bank and a floating charge on the assets of the Band Council.

As security, the Bank of Montreal has been given a general security agreement constituting a first ranking security interest in all personal property of the Membertou Reserve Band Council, Membertou Gaming Commission and the Membertou Trade and Convention Centre, as well as guarantees in the amount of \$2,700,000 from each entity.

As security, Peace Hills trust has been given a general security agreement over all fixed and floating assets, present and future, of the Membertou First Nation with a specific charge over the Membertou First Nation Business Centre, Membertou First Nation Professional Centre, and Day & Ross lease.

As security, Atlantic Canada Opportunities Agency has been given a general security agreement over specific equipment.

As security, the Bank of Nova Scotia has been given a 3rd charge general security agreement over all present and future personal property of the Membertou First Nation with a specific charge over financed equipment.

In conjunction with the mortgage from the Bank of Nova Scotia with a balance of \$12,354,980 at March 31, 2018, an interest rate swap is designated as a hedge of the interest rate risk in the Company's 25 year floating rate mortgage. The swap matures at the same time as the debt and requires the Company to pay 3.495%. The floating rate side of the swap exactly matches the interest payments on the debt, at a rate of prime plus 1.5%. All payments are due on the 17th day of each month; therefore interest is accrued at the reporting date.

Repayments in each of the next five (5) years are as follows:

2019	\$ 4,374,896
2020	4,413,453
2021	3,317,056
2022	3,283,217
2023	3,155,977
Thereafter	<u>65,725,663</u>
	<u>\$ 84,270,262</u>

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2018

13. Derivatives

		2018		2017
	<u>Carrying amount</u>	<u>Notional amount</u>	<u>Carrying amount</u>	<u>Notional amount</u>
<u>Assets</u>				
Interest rate contracts	<u>\$12,675,331</u>	<u>\$12,354,980</u>	<u>\$ 12,741,491</u>	<u>\$12,702,302</u>
<u>Liabilities</u>				
Interest rate contracts	<u>12,354,980</u>	<u>12,354,980</u>	<u>12,702,302</u>	<u>12,702,302</u>
	<u>\$ 320,351</u>	<u>\$ -</u>	<u>\$ 39,189</u>	<u>\$ -</u>

The Band has designated prime, plus 1.5% mortgage as hedged with 3.495% fixed interest rate swap to mitigate the effect of changes in interest rates. The following is the accrued amounts pertaining to 3.495% fixed interest rate swap:

3.495% fixed rate interest rate swap	<u>2018</u>	<u>2017</u>
Accrued net amount payable on swap	<u>\$ 1,788</u>	<u>\$ 1,481</u>

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2018

14. Capital lease obligations	<u>2018</u>	<u>2017</u>
John Deere		
2.9% capital lease, repayable in monthly instalments of \$7,694, maturing in October 2021.	\$ 306,964	\$ 389,060
4.17% capital lease, repayable in monthly instalments of \$1,690, maturing in June 2022.	<u>78,840</u>	<u>-</u>
	385,804	389,060
Less: current portion	<u>101,977</u>	<u>82,129</u>
	<u>\$ 283,827</u>	<u>\$ 306,931</u>

Repayments in each of the next five (5) years are as follows:

2019	\$ 101,977
2020	105,170
2021	108,465
2022	65,457
2023	<u>4,735</u>
	<u>\$ 385,804</u>

15. Deferred trust contributions	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 6,098,207	\$ 5,748,207
Contributions during the year	(656,500)	(388,000)
Deferrals during the year	<u>784,500</u>	<u>738,000</u>
	6,226,207	6,098,207
Contributions due within one year	<u>(782,000)</u>	<u>(709,500)</u>
Deferred trust contributions	<u>\$ 5,444,207</u>	<u>\$ 5,388,707</u>

The Membertou Reserve Band Council has setup a Children's Trust Fund for all children on the Membertou Reserve Band Council list. An annual contribution is made on each child's behalf to the trust fund.

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2018

16. Accumulated surplus

The First Nation segregates its accumulated surplus into the following categories:

	<u>2018</u>	<u>2017</u>
Unallocated	\$ 61,842,745	\$ 60,207,080
Funds on deposit with Department of Indigenous Services Canada	120,208	116,380
Health Canada Moveable Capital Asset Reserve	97,257	89,350
Replacement Reserve	-	324
Tangible Capital Asset Reserve	<u>399,071</u>	<u>-</u>
	<u>\$ 62,459,281</u>	<u>\$ 60,413,134</u>

The funds on deposits have been set aside to be spent on specific projects.

17. Moveable Capital Asset Reserve

	<u>2018</u>	<u>2017</u>
Opening balance	\$ 89,350	\$ 85,521
Allocations during the year	8,117	8,117
Withdrawals	<u>(210)</u>	<u>(4,288)</u>
	<u>\$ 97,257</u>	<u>\$ 89,350</u>

18. Tangible Capital Asset Reserve

	<u>2018</u>	<u>2017</u>
Opening balance	\$ -	\$ -
Allocations during the year	399,071	-
Withdrawals	<u>-</u>	<u>-</u>
	<u>\$ 399,071</u>	<u>\$ -</u>

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2018

19. Contingencies

- a) The Band has entered into a five year alternative funding arrangement with the Department of Indigenous Services Canada, effective April 1, 2013. These funds may be repayable if any of the following conditions are not met:
- 1) minimum program requirements are not met;
 - 2) capital funds are not expended for capital purposes; and
 - 3) any mandatory capital projects are not completed.
- b) As at March 31, 2018, the Band has provided a guarantee for mortgages payable by Band members, totalling \$1,046,715 (2017 - \$959,655), which were obtained under Section 10 of the *Indian Act*. In the event that the individual is unable to meet its obligations at some future date and the Band is required to honour its guarantee, any payments will be accounted for as a charge to operations in the year such payments are made.
- c) The Band's pension plan contributions are funded by the Department of Indigenous Services Canada. Any unexpended portion of these funds is repayable by the band.
- d) The Band has entered into contribution agreements with various government departments. Funding received under these contribution agreements is subject to repayment if the band fails to comply with the terms and conditions of the agreements.
- e) Under an agreement with the Bank of Nova Scotia, the Band is jointly and severally liable for loans provided by the Bank of Nova Scotia to Membertou Properties Limited Partnership. The Band has provided the Bank of Nova Scotia with a General Security Agreement providing a 2nd security interest in all present and future personal property subject with appropriate insurance coverage, loss if any, payable to the Bank and including specific charges over equipment financed. At March 31, 2018, outstanding loan balances were \$12,354,980.

20. Commitments

- a) Membertou Entertainment Centre has entered into an agreement to lease handsets which expires in November 2024. The annual rent of the handsets consists of a minimum monthly payment. Minimum lease payments for the next seven (7) years are as follows:

2019	\$ 290,304
2020	\$ 290,304
2021	\$ 290,304
2022	\$ 290,304
2023	\$ 290,304
2024	\$ 290,304
2025	\$ 193,536

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2018

20. Commitments (continued)

- b) Membertou Reserve Band Council has entered into an agreement to lease video lottery terminals (VLTs) from Eskasoni First Nation which expires in June 2022. The annual rent of the VLTs consists of a minimum monthly payment. Minimum lease payments for the next four (4) years are as follows:

2019	\$ 250,000
2020	\$ 250,000
2021	\$ 250,000
2022	\$ 62,500

21. Replacement reserve fund

Under the terms of the agreement with the CMHC, the replacement reserve account is to be increased by annual charges to equity. The charge in the current year is \$110,286 (2017 - \$93,018). These funds, along with accumulated interest, must be held in a separate bank account and/or invested only in accounts or instruments insured by the Canada Deposit Insurance Corporation or as may otherwise be approved by the CMHC from time to time. The funds in the account may only be used as approved by the CMHC. Withdrawals are credited to interest first and then principal.

As of March 31, 2018, the reserve was fully funded.

22. Pension costs and obligations

The Band is required to match contributions to a group registered retirement savings plan for all full time employees to a limit of 5.5% of the yearly maximum pensionable earnings for non-band members and 9% for band members. Total contributions during the year amounted to \$464,564 (2017 - \$454,946).

23. Government transfers

	2018			2017		
	Operating	Capital	Total	Operating	Capital	Total
Department of Indigenous Services						
Canada	\$ 7,064,531	\$ 2,640,579	\$ 9,705,110	\$ 6,534,386	\$ 5,122,675	\$ 11,657,061
Department of Indigenous Services						
Canada - First Nations and Inuit						
Health Branch	2,009,850	-	2,009,850	1,783,612	13,326	1,796,938
Canada Mortgage and Housing Corporation	334,650	-	334,650	333,712	-	333,712
Mi'kmaw Kina'matnewey	4,025,219	1,097,450	5,122,669	3,706,333	-	3,706,333
Other	862,784	238,566	1,101,350	930,562	1,414,250	2,344,812
Total	14,297,034	3,976,595	18,273,629	13,288,605	6,550,251	19,838,856
Province of Nova Scotia	183,100	-	183,100	161,101	5,500,000	5,661,101
	\$ 14,480,134	\$ 3,976,595	\$ 18,456,729	\$ 13,449,706	\$ 12,050,251	\$ 25,499,957

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2018

24. Expenses by object	<u>2018</u>	<u>2017</u>
Administrative	\$ 3,851,279	\$ 3,668,243
Community expenses	3,433,381	3,526,929
Core funding and benefits	926,317	849,027
Depreciation	5,992,809	5,146,698
Education and training	1,372,794	1,273,558
Fishing	258,460	297,491
Health programs	1,226,042	904,835
Insurance	608,676	519,898
Interest	2,816,810	2,203,238
Other	3,204,383	2,814,176
Professional fees	276,905	293,575
Purchases	10,886,311	9,981,224
Repairs and maintenance	7,521,684	7,874,073
Salaries and benefits	15,341,774	14,626,462
Security and policing	884,978	947,359
Social	3,718,839	3,589,123
Prize payouts	<u>4,501,118</u>	<u>4,567,566</u>
	66,822,560	63,083,475
Less: transfers/recoveries	<u>(1,782,922)</u>	<u>(1,613,922)</u>
	<u>\$ 65,039,638</u>	<u>\$ 61,469,553</u>

25. Comparative figures

Certain of the 2017 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2018.
