



Consolidated Financial Statements

Membertou Reserve Band Council

March 31, 2017

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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.

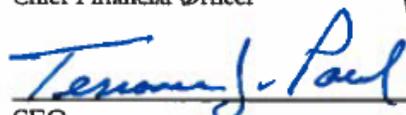
The Band maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable, and accurate, and the Band's assets are appropriately accounted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


Chief Financial Officer


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, 2017, 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, 2017. 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, 2017, 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.

Emphasis of matters

We draw attention to Note 2 to the financial statements which describes the restatement of a prior period. Our opinion is not qualified in respect to this matter.

Sydney, Nova Scotia

July 25, 2017


Chartered professional accountants
Licensed Public Accountants

Membertou Reserve Band Council

Consolidated Statement of Operations

Year ended March 31	Budget	2017	2016
Revenues			
Fisheries	\$ 3,021,499	\$ 3,902,794	\$ 3,043,099
Rental	4,757,548	4,672,972	2,549,121
Commercial sales	37,054,362	37,353,772	35,077,216
Gain on disposal of property	-	15,526	172,075
Government transfers (Note 22)	11,869,505	25,499,957	14,855,177
Other revenues	<u>88,000</u>	<u>714,341</u>	<u>458,088</u>
	<u>56,790,914</u>	<u>72,159,362</u>	<u>56,154,776</u>
Expenditures			
Administrative	3,331,619	3,668,243	2,729,470
Community expenses	3,221,978	3,526,929	3,166,900
Core funding and benefits	852,840	849,027	855,006
Cost of sales – commercial	14,591,040	14,548,790	14,263,362
Education and training	1,157,411	1,273,558	1,233,213
Fishing	200,400	297,491	308,485
Health programs	693,606	904,835	1,085,643
Insurance	462,248	519,898	439,903
Interest	2,055,885	2,203,238	1,565,226
Other	2,786,237	2,814,176	2,134,257
Professional fees	321,825	293,575	350,074
Repairs and maintenance	5,472,833	7,874,073	4,468,558
Salaries and benefits	14,307,154	14,626,462	13,599,807
Security and policing	822,533	947,359	909,898
Social	<u>3,556,159</u>	<u>3,589,123</u>	<u>3,266,418</u>
	<u>53,833,768</u>	<u>57,936,777</u>	<u>50,376,220</u>
Less: transfers/recoveries	<u>(1,561,516)</u>	<u>(1,613,922)</u>	<u>(1,502,876)</u>
	52,272,252	56,322,855	48,873,344
Annual surplus before amortization and property transfer			
	4,518,662	15,836,507	7,281,432
Transfer of Highway 125 Project to the Province of Nova Scotia (Note 20)	-	-	6,021,928
Amortization	<u>3,938,133</u>	<u>5,146,698</u>	<u>3,887,589</u>
	<u>3,938,133</u>	<u>5,146,698</u>	<u>9,909,517</u>
Annual surplus (deficit)			
	<u>\$ 580,529</u>	<u>\$ 10,689,809</u>	<u>\$ (2,628,085)</u>
Accumulated surplus, beginning of year		<u>49,723,325</u>	<u>52,351,410</u>
Accumulated surplus, end of year		<u>\$ 60,413,134</u>	<u>\$ 49,723,325</u>

See accompanying notes to the consolidated financial statements.

Membertou Reserve Band Council

Consolidated Statement of Financial Position

March 31

2017

2016

Financial assets

Cash	\$ 3,867,542	\$ 2,917,234
Receivables (Note 2)	7,130,323	3,547,238
Inventory (Note 6)	395,669	325,955
Band funds in trust (Note 3)	116,380	114,735
Restricted cash	2,019,815	1,723,561
Investments (Note 4)	<u>2,710,678</u>	<u>2,689,397</u>
	<u>16,240,407</u>	<u>11,318,120</u>

Financial liabilities

Payables and accruals (Note 10)	7,207,565	3,547,161
Construction payables to be financed	517,406	2,352,324
Deferred revenue (Note 11)	1,432,409	476,052
Long term debt (Note 12)	72,471,012	61,620,511
Deferred trust contributions (Note 13)	6,098,207	5,748,207
Capital lease obligations (Note 14)	<u>389,060</u>	<u>27,753</u>
	<u>88,115,659</u>	<u>73,772,008</u>

Net financial liabilities (Page 6) (71,875,252) (62,453,888)

Non-financial assets

Purchased fishing licenses and permits (Note 7)	2,064,336	2,064,336
Capital assets (Note 8)	129,691,662	109,821,417
Prepays (Note 5)	<u>532,388</u>	<u>291,460</u>
	<u>132,288,386</u>	<u>112,177,213</u>

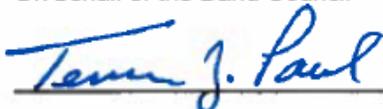
Accumulated surplus (Page 4) \$ 60,413,134 \$ 49,723,325

Contingencies (Note 17)

Commitments (Note 18)

Subsequent events (Note 24)

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

2017

2016

Increase (decrease) in cash and cash equivalents

Operating		
Excess (deficiency) of revenue over expenditures	\$ 10,689,809	\$ (2,628,085)
Depreciation	5,146,698	3,887,589
Gain on disposal of capital assets	(15,526)	(172,075)
Transfer of Highway 125 Project to the Province of Nova Scotia (Note 20)	-	6,021,928
Share of limited partnership income	<u>(96,281)</u>	<u>(42,484)</u>
	15,724,700	7,066,873
Change in non-cash operating working capital		
Receivables	(3,583,085)	(365,589)
Prepays	(240,928)	(97,578)
Inventory	(69,714)	(39,572)
Payables and accruals	1,825,486	(1,473,053)
Deferred revenue	<u>956,357</u>	<u>(54,530)</u>
	<u>14,612,816</u>	<u>5,036,551</u>
Investing		
Partnership draws	100,000	150,000
Purchase of investments	<u>(25,000)</u>	<u>(26,000)</u>
	<u>75,000</u>	<u>124,000</u>
Financing		
New deferred trust contributions	350,000	207,500
Repayment of long term capital lease obligation	(68,971)	(131,863)
Receipt of long term debt	12,914,267	27,444,387
Repayment of long term debt	<u>(2,063,766)</u>	<u>(1,842,586)</u>
	<u>11,131,530</u>	<u>25,677,438</u>
Capital		
Proceeds on disposal of assets	99,510	255,100
Capital assets acquired	<u>(24,670,649)</u>	<u>(32,727,123)</u>
	<u>(24,571,139)</u>	<u>(32,472,023)</u>
Net increase (decrease) in cash and cash equivalents	1,248,207	(1,634,034)
Cash and cash equivalents, beginning of year	<u>4,755,530</u>	<u>6,389,564</u>
Cash and cash equivalents, end of year	<u>\$ 6,003,737</u>	<u>\$ 4,755,530</u>
<hr/>		
Cash and cash equivalents consist of:		
Cash	\$ 3,867,542	\$ 2,917,234
Funds in trust	116,380	114,735
Restricted cash	<u>2,019,815</u>	<u>1,723,561</u>
	<u>\$ 6,003,737</u>	<u>\$ 4,755,530</u>

See accompanying notes to the consolidated financial statements.

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2017

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.

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.

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2017

1. Summary of significant accounting policies (continued)

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.

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.

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2017

1. Summary of significant accounting policies (continued)

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*.

Moveable Capital Asset Reserve

The Band is required to maintain a Moveable Capital Asset Reserve in accordance with the consolidated contribution agreement with Health Canada. The reserve is for the maintenance or replacement of capital assets transferred to the band by Health Canada. 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 2017 was \$10,574,924 (2016 \$8,986,394). No write-down of inventories below their cost to their net realizable value was made in fiscal 2017. 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 Company 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.

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2017

1. Summary of significant accounting policies (continued)

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.

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 1.50% mortgage has been hedged with a 3.495% fixed interest rate swap to mitigate the effect of changes in interest rates.

2. Receivables	<u>2017</u>	<u>2016</u>
Indigenous and Northern Affairs Canada	\$ 1,791,340	\$ 598,533
Housing rents	618,580	666,786
Mi'Kmaq Employment Training Secretariat	57,024	573
Health Canada	-	18,468
Commodity sales tax	484,831	836,363
Department of Fisheries and Oceans	162,000	171,606
Atlantic Integrated Commercial Fisheries Initiative	297,000	-
Province of Nova Scotia	201,034	214,415
Atlantic Canada Opportunities Agency	908,250	-
Mi'Kmaw Kina'matnewey	734,281	103,032
Sundry	673,541	231,783
Unama'ki Economics Benefits Office	-	-
Canada Mortgage and Housing Corporation	27,357	58,644
Trade	<u>1,175,085</u>	<u>709,939</u>
	7,130,323	3,610,142
Less: allowance for doubtful accounts	<u>-</u>	<u>(62,904)</u>
	<u>\$ 7,130,323</u>	<u>\$ 3,547,238</u>

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2017

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>2017</u>	<u>2016</u>
Net assets, beginning of year	\$ 114,735	\$ 25,008
Proceeds from reserve lands disposition	-	87,000
Interest earned	<u>1,645</u>	<u>2,727</u>
Net assets, end of year	<u>\$ 116,380</u>	<u>\$ 114,735</u>

4. Investments

	<u>2017</u>	<u>2016</u>
Membertou Hotel Limited Partnership	\$ 2,659,678	\$ 2,663,397
Encyt Technologies Incorporated	26,000	26,000
Tylev Investments Inc.	<u>25,000</u>	<u>-</u>
	<u>\$ 2,710,678</u>	<u>\$ 2,689,397</u>

5. Prepaids

	<u>2017</u>	<u>2016</u>
Core funding	\$ 122,273	\$ -
Insurance	312,698	250,828
Miscellaneous	<u>97,417</u>	<u>40,632</u>
	<u>\$ 532,388</u>	<u>\$ 291,460</u>

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

(Unaudited – See Notice to Reader)

March 31, 2017

6. Inventory	<u>2017</u>	<u>2016</u>
Membertou Enterprise Fund	\$ -	\$ 38
Membertou Sports and Wellness	12,156	-
Membertou Trade and Convention Centre Limited	70,201	74,171
Membertou Entertainment Centre	24,208	15,686
Membertou Cultural and Heritage Centre Foundation Inc.	108,744	88,516
Membertou Market	<u>180,360</u>	<u>147,544</u>
	<u>\$ 395,669</u>	<u>\$ 325,955</u>

7. Purchased fishing licenses and permits	<u>2017</u>	<u>2016</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

March 31, 2017

8. Capital assets

	Cost, beginning of year	Additions	Transfers	Disposals	Cost, end of year	Accumulated depreciation, beginning of year	Depreciation	Depreciation on Disposal	Accumulated depreciation, end of year	2017 Net book value	2016 Net book value
Land	\$ 7,334,314	\$ 329,994		\$ (56,459)	\$ 7,607,849	\$ -	\$ -	\$ -	\$ -	\$ 7,607,849	\$ 7,334,314
Buildings	55,808,576	9,547,107	13,745,681	-	79,101,364	9,535,328	2,368,990	(15,299)	11,889,019	67,212,345	46,273,248
Infrastructure	28,561,887	2,029,954		-	30,591,841	5,679,952	817,227	-	6,497,179	24,094,662	22,881,935
Housing Properties	24,626,831	3,246,505	1,203,670	-	29,077,006	10,849,241	920,229	-	11,769,470	17,307,536	13,777,590
Fishing vessels	1,411,166	239,056		(24,195)	1,626,027	718,588	118,381	-	836,969	789,058	692,578
Fishing equipment	395,426	-		-	395,426	260,052	27,075	-	287,127	108,299	135,374
Equipment	4,475,299	2,428,714		(63,270)	6,840,743	3,135,590	363,506	(51,328)	3,447,768	3,392,975	1,339,709
Motor Vehicles	738,588	63,127		(54,608)	747,107	490,518	59,068	(47,921)	501,665	245,442	248,070
Computer hardware & software	1,471,731	148,461		-	1,620,192	1,176,214	64,148		1,240,362	379,830	295,517
Office equipment	603,257	34,500		-	637,757	540,599	12,210		552,809	84,948	62,658
Parking lots	628,204	-		-	628,204	235,016	15,728		250,744	377,460	393,188
Leasehold improvements	2,347,585	173,897		-	2,521,482	1,016,214	356,583		1,372,797	1,148,685	1,331,371
Signage	311,830	32,697		-	344,527	205,316	23,553		228,869	115,658	106,514
Assets under construction	14,949,351	6,826,915	(14,949,351)	-	6,826,915	-	-		-	6,826,915	14,949,351
	-	-		-	-	-	-		-	-	-
	\$ 143,664,045	\$ 25,100,927	\$ -	\$ (198,532)	\$ 168,566,440	\$ 33,842,628	\$ 5,146,698	\$ (114,548)	\$ 38,874,778	\$ 129,691,662	\$ 109,821,417

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2017

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 (2016 - nil).

10. Payables and accruals

	<u>2017</u>	<u>2016</u>
Trade	\$ 4,024,031	\$ 2,589,668
Accrued liabilities	2,981,261	725,856
Commodity tax	60,748	66,167
Employee benefits	75,630	70,264
Security deposits	-	32,504
Other	<u>65,895</u>	<u>62,702</u>
	<u>\$ 7,207,565</u>	<u>\$ 3,547,161</u>

11. Deferred revenue

	<u>2017</u>	<u>2016</u>
Tui'kn Partnership	\$ 105,520	\$ 109,582
Long term deferred gain on land sale	-	94,741
Indigenous and Northern Affairs Canada	212,968	-
Health Canada	30,000	-
Mi'Kmaw Kina'matnewey	483,700	-
Kwilmu'kw Maw-klusuaqn	170,636	71,018
Miscellaneous	<u>429,585</u>	<u>200,711</u>
	<u>\$ 1,432,409</u>	<u>\$ 476,052</u>

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2017

12. Long term debt	<u>2017</u>	<u>2016</u>
Canada Mortgage and Housing Corporation		
1.39% - 2.84% mortgages, repayable under various terms by October 2038.	\$ 6,489,520	\$ 6,768,293
First Nation Finance Authority		
2.9% - 3.79% loans, repayable under various terms, maturing June 2024.	31,405,758	32,012,650
Royal Bank of Canada		
2.21% - 5.25% mortgages, repayable under various terms by September 20, 2032.	1,118,117	1,221,232
Ford Credit		
4.89% retail instalment contract repayable in monthly instalments of \$610 on account of principal and interest maturing in October 2020.	23,512	-
4.89% retail instalment contract repayable in monthly instalments of \$610 on account of principal and interest maturing in October 2020.	23,512	-
Ulnooweg Development Group		
8% term loan repaid during the year	-	21,597
Bank of Montreal		
4.25% term loan, maturing in July 2019, repayable in equal annual instalments of \$40,714.	287,143	382,857
4.25% mortgage, repayable in equal monthly instalments of \$5,378, including interest, matures August 2023.	354,779	404,274
2.79% term loan, due on demand, maturing in February 2037, repayable in monthly instalments of \$38,770.	7,087,316	1,675,154
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.	3,000,000	-
Prime plus 1.00% term loan, due on demand, maturing December 2023, repayable in principal instalments of \$9,453 plus monthly interest.	550,791	-
4.25% term loan repaid during the year.	-	143,334

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2017

12. Long term debt (continued)	<u>2017</u>	<u>2016</u>
2.97% mortgage repayable in monthly instalments of \$7,290 on account of principal and interest maturing on May 2020, secured by an Indigenous and Northern Affairs Canada Ministerial Guarantee. Loan will be repayable over 25 years.	1,400,289	1,113,897
3.59% mortgage repayable in monthly instalments of \$5,338 on account of principal and interest maturing on May 2020, secured by an Indigenous and Northern Affairs Canada Ministerial Guarantee. Loan will be repayable over 25 years.	975,926	1,004,475
Prime plus 0.75% non-revolving, demand loan with repayment of interest only during the construction phase, up to 24 months. After the construction phase, the loan will be converted to a term loan with the option of a fixed rate. Loan will be repayable over 25 years.	2,176,777	-
Prime plus 0.75% term loan advance.	771,798	-
Peace Hills Trust		
4.25% mortgage repayable in 180 monthly instalments of \$8,173, matures August 2028.	1,839,142	1,600,858
4.25% mortgage, repayable in 170 monthly instalments of \$15,140, matures May 2028.	1,613,320	1,723,743
4.25% mortgage, repayable in monthly instalments of \$5,095, matures May 2022.	272,250	-
General Motors Acceptance Corporation		
6.2% term loan repayable in monthly instalments of principal and interest of \$443, maturing in May 2016, secured by a chattel mortgage on a 2011 Chevrolet truck.	-	772
Bank of Nova Scotia		
Interest free loan, maturing in December 2019, repayable in equal monthly instalments of \$397.	13,100	17,863
Interest free loan, maturing in December 2019, repayable in equal monthly instalments of \$397.	13,099	17,862
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.	12,702,302	13,040,008

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

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12. Long term debt (continued)	<u>2017</u>	<u>2016</u>
Atlantic Canada Opportunities Agency		
5.75% repayable loan, payments begin July 2015, repayable in monthly instalments of \$6,479, matures June 2021.	292,561	351,642
Doncaster Mortgage		
Interest free mortgage, repayable in annual instalments of \$60,000, maturing April 2017.	<u>60,000</u>	<u>120,000</u>
	72,471,012	61,620,511
Current portion of long term debt		
Principal payments due within one year.	<u>3,470,726</u>	<u>1,920,255</u>
	<u>\$ 69,000,286</u>	<u>\$ 59,700,256</u>

As security, the band has provided a Band Council Resolution providing an irrevocable authorization to the Indigenous and Northern Affairs 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. A corporate guarantee has also been provided by Membertou Gaming Commission Inc. and the Membertou Trade and Convention Centre in the amount of \$2,700,000 from each entity.

In conjunction with the mortgage from the Bank of Nova Scotia with a balance of \$12,702,302 at March 31, 2017, 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:

2018	\$ 3,470,726
2019	3,477,621
2020	3,520,753
2021	2,431,484
2022	2,391,707
Thereafter	<u>57,084,230</u>
	<u>\$ 72,376,521</u>

Membertou Reserve Band Council

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March 31, 2017

13. Deferred trust contributions	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 5,748,207	\$ 5,540,707
Contributions during the year	(388,000)	(565,500)
Deferrals during the year	<u>738,000</u>	<u>773,000</u>
	6,098,207	5,748,207
Contributions due within one year	<u>709,500</u>	<u>480,000</u>
	\$ 5,388,707	\$ 5,268,207

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.

14. Capital lease obligations	<u>2017</u>	<u>2016</u>
Royal Bank of Canada		
4.18% capital lease repaid during the year	\$ -	\$ 20,786
7.6% capital lease repaid during the year	-	6,967
2.9% capital lease, repayable in monthly instalments of \$7,694, maturing in October 2021.	<u>389,060</u>	<u>-</u>
	389,060	27,753
Less: current portion	<u>82,129</u>	<u>27,753</u>
	\$ 306,931	\$ -

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

2018	\$ 92,326
2019	92,326
2020	92,326
2021	92,326
2022	<u>46,193</u>
	415,497
Less: amounts representing interest	<u>26,437</u>
	\$ 389,060

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2017

15. Derivatives	<u>2017</u>		<u>2016</u>	
	<u>Carrying amount</u>	<u>Notional amount</u>	<u>Carrying amount</u>	<u>Notional amount</u>
<u>Assets</u>				
Interest rate contracts	\$12,741,491	\$ 12,702,202	\$ 13,040,008	\$ 13,040,008
<u>Liabilities</u>				
Interest rate contracts	\$12,702,302	\$ 12,702,302	\$ 13,040,008	\$ 13,040,088
	39,189	-	-	-

The Partnership 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>2017</u>	<u>2016</u>
Accrued net amount payable on swap	<u>\$ 1,481</u>	<u>\$ 1,620</u>

16. Accumulated surplus

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

	<u>2017</u>	<u>2016</u>
Unallocated	\$ 60,207,080	\$ 49,314,196
Funds on deposit with Indigenous and Northern Affairs Canada	116,380	114,735
Health Canada Moveable Capital Asset Reserve	89,350	85,521
Replacement reserve	324	208,873
	<u>\$ 60,413,134</u>	<u>\$ 49,723,325</u>

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

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2017

17. Contingencies

- a) The Band has entered into a five year alternative funding arrangement with the Indigenous and Northern Affairs 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, 2017, the Band has provided a guarantee for mortgages payable by Band members, totalling \$959,655 (2016 - \$1,028,462), 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 Indigenous and Northern Affairs 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, 2017, outstanding loan balances were \$12,741,491.
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Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2017

18. Commitments

Membertou Entertainment Centre has entered into an agreement to lease handsets which expires on July 31, 2018. The annual rent of the handsets consists of a minimum monthly payment. Minimum lease payments for the next two (2) years are as follows:

2018	\$ 290,304
2019	\$ 96,768

19. 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 \$93,018 (2016 - \$93,166). 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, 2017, the reserve was fully funded.

20. Transfer of Highway 125 Project to the Province of Nova Scotia

Under the terms of a Memorandum of Understanding between the Membertou Reserve Band Council and the Province of Nova Scotia, the Band agreed to construct an interchange structure connecting the Membertou Indian Reserve with that of the provincial highway system. Upon its completion, the Band agreed to transfer ownership of the interchange and ramp system to the Province of Nova Scotia.

Membertou Reserve Band Council

Notes to the Consolidated Financial Statements

March 31, 2017

21. 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 \$454,946 (2016 - \$460,663).

22. Government transfers

	<u>Operating</u>	<u>2017 Capital</u>	<u>Total</u>	<u>Operating</u>	<u>2016 Capital</u>	<u>Total</u>
Indigenous and Northern Development Canada	\$ 6,534,386	\$ 5,122,675	\$ 11,657,061	\$ 5,734,514	\$ 950,594	\$ 6,685,108
Health Canada	1,783,612	13,326	1,796,938	2,046,212	13,120	2,059,332
Canada Mortgage and Housing Corporation	333,712		333,712	398,585		398,585
Mi'kmaw Kina'matnewey	3,706,333		3,706,333	3,177,910		3,177,910
Other	930,562	1,414,250	2,344,812	705,057	500,000	1,205,057
Total	13,288,605	6,550,251	19,838,856	12,062,278	1,463,714	13,525,992
Province of Nova Scotia	161,101	5,500,000	5,661,101	200,000	1,129,185	1,329,185
	<u>\$ 13,449,706</u>	<u>\$ 12,050,251</u>	<u>\$ 25,499,957</u>	<u>\$ 12,262,278</u>	<u>\$ 2,592,899</u>	<u>\$ 14,855,177</u>

23. Comparative figures

Certain of the 2016 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2017.

24. Subsequent events

Subsequent to year end, Membertou Development Corporation purchased the Habourside Commercial Park for \$1,112,000. This purchase was financed with a temporary \$1,200,000 increase in the Bank of Montreal line of credit.
