

**Pasqua First Nation  
(CMHC Housing (Section 95))  
Financial Statements  
*March 31, 2018***

Draft for discussion purposes only

	Page
Independent Auditors' Report.....	1
Statement of Financial Position.....	2
Statement of Operations.....	3
Statement of Cash Flows.....	4
Notes to Financial Statements.....	5 - 10
Schedule of Operations - Pre-1997 Projects.....	11
Schedule of Operations - Post-1996 Projects.....	12

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**INDEPENDENT AUDITORS' REPORT**

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To the Members of Pasqua First Nation

We have audited the accompanying financial statements of Pasqua First Nation CMHC Housing (Section 95), which comprise the statement of financial position as at March 31, 2018, and the statements of operations and cash flows for the year then ended, and the summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management of Pasqua First Nation based on the funding agreements, between the First Nation and Canada Mortgage and Housing Corporation (CMHC).

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation of these financial statements in accordance with the funding agreements, between Pasqua First Nation and CMHC, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements of Pasqua First Nation CMHC Housing (Section 95) for the year ended March 31, 2018, are prepared, in all material respects, in accordance with the funding agreements between Pasqua First Nation and CMHC.

*Basis of Accounting and Restriction on Use*

Without modifying our opinion, we draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared to assist Pasqua First Nation CMHC Housing (Section 95) to comply with the reporting provisions of the funding agreements referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the members of Pasqua First Nation and CMHC and should not be used by parties other than members of Pasqua First Nation and CMHC.

**Pasqua First Nation**  
**(CMHC Housing (Section 95))**  
**Statement of Financial Position**  
*March 31, 2018*

	2018	2017
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 207,263	\$ 87,135
Restricted cash - replacement reserve - bank - note 5	40,677	25,320
Restricted cash - operating reserve - bank - note 5	12,465	9,669
Restricted cash - reserves - GICs - note 5	782,396	782,396
Subsidy receivable	60,992	50,483
Accounts receivable	893	98,115
	1,104,686	1,053,118
<b>Houses</b> - note 1.b	8,450,144	7,355,357
	<u>\$ 9,554,830</u>	<u>\$ 8,408,475</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 48,335	\$ 10,000
Current portion of CMHC mortgages - note 2	569,675	502,675
Deferred revenue	-	154,112
	618,010	666,787
<b>Long-term liabilities</b>		
Due to Pasqua First Nation - note 3	352,919	149,237
CMHC mortgages - note 2	7,872,726	6,844,939
<b>Reserves</b>		
Replacement reserve - note 4	812,927	771,172
Operating reserve - Post-1996 - note 4	(75,427)	2,665
Total reserves - note 4	737,500	773,837
Operating deficit - pre-1997 - notes 4 and 7	(26,325)	(26,325)
	<u>\$ 9,554,830</u>	<u>\$ 8,408,475</u>

Approved on behalf of the First Nation:

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**Pasqua First Nation**  
**(CMHC Housing (Section 95))**  
**Statement of Operations**  
**and Changes in Net Assets**  
*For the year ended March 31, 2018*

	2018	2017
<b>Revenues</b>		
CMHC subsidies	\$ 615,062	\$ 599,149
Rental revenue	248,220	194,634
Band contribution - notes 1.h and 3	70,575	123,265
Rent revenue shortfall - note 3	109,412	166,450
Other revenue	-	79
Deferred retrofit revenue - prior year	-	29,227
	1,043,269	1,112,804
<b>Expenditures</b>		
Administration fees	57,542	57,954
Amortization	504,211	-
Insurance premiums	113,188	120,542
Loan Interest	118,207	595,911
Professional fees	18,212	15,177
Repairs and maintenance	200,254	204,405
Replacement reserve	109,747	109,480
Retrofit expenses	-	29,227
	1,121,361	1,132,696
<b>Surplus (deficit) for the year from operations</b>	(78,092)	(19,892)
Transfer from (to) operating reserve fund - Post-1996	78,092	4,157
<b>Surplus (deficit) for the year</b>	-	(15,735)
<b>Balance, beginning of year</b>	(26,325)	(10,590)
<b>Balance, end of year</b>	\$ (26,325)	\$ (26,325)

**Pasqua First Nation**  
**(CMHC Housing (Section 95))**  
**Statement of Cash Flows**  
*For the year ended March 31, 2018*

	2018	2017
<b>Cash flows from (used in) operating activities</b>		
Surplus (deficit) for the year	\$ -	\$ (15,735)
Item not involving cash		
Amortization	504,211	516,606
Changes in non-cash operating items		
Subsidy receivable	(10,509)	(14,992)
Accounts receivable	97,222	(98,115)
Accounts payable and accrued liabilities	38,337	(5,179)
Deferred revenue	(154,112)	154,112
	475,149	536,697
<b>Cash flows from (used in) investing activities</b>		
Restricted cash - replacement reserve - bank	(15,357)	(15,592)
Restricted cash - operating reserve - bank	(2,796)	(3,596)
Purchase of houses	(1,599,000)	(2,655,667)
	(1,617,153)	(2,674,855)
<b>Cash flows from (used in) financing activities</b>		
Due to (from) Pasqua First Nation	203,682	(2,551)
Repayment of CMHC mortgages	1,094,787	2,158,022
Replacement reserve	41,755	56,370
Operating reserve - Post-1996	(78,092)	(995)
	1,262,132	2,210,846
<b>Increase in cash</b>	120,128	72,688
<b>Cash, beginning of year</b>	87,135	14,447
<b>Cash, end of year</b>	\$ 207,263	\$ 87,135

**1. Significant accounting policies**

The financial statements have been prepared in accordance with the significant accounting policies set out below to comply with the reporting requirements of the CMHC funding agreements. The basis of accounting used in these financial statements materially differs from Canadian generally accepted accounting principles.

**(a) Revenue and expenses**

Revenue and expenses are recorded according to the accrual basis of accounting.

**(b) Houses**

Houses are reported on the balance sheet at the same value as the outstanding mortgage liabilities. This has the effect of reducing the carrying value of the houses and the corresponding band equity to zero over the amortization of each phase. The reduction in band equity (which is equal to the principal reduction in mortgages) is recorded as "amortization" expense.

**(c) Replacement reserve fund - Pre-1997 and Post-1996 projects**

A replacement reserve fund has been established for replacement of capital equipment and for major repairs to houses. The reserve is credited annually in amounts approved by CMHC until the reserve accumulates to the amount specified in the agreements. Any applicable expense is charged against the reserve. Interest income attributable to this reserve fund is credited directly to the replacement reserve fund.

**(d) Subsidy surplus fund – Pre-1997 projects**

If a project has a surplus, a maximum of \$500 per house may be charged to operations and reserved for future operating losses.

**(e) Operating reserve fund – Post-1996 projects**

Any operating surpluses are retained in an operating reserve fund, which can be used to recover future operating deficits.

**(f) Long-term debt**

Loan payments including principle and interest are charged to current operations. The principle reduction is recorded as amortization expenses.

**(g) Economic dependence**

The projects' capacity to make loan payments is dependent upon CMHC subsidies.

**(h) Band contribution**

The First Nation is required to make a financial contribution to the CMHC program, if necessary, to bring the program to a break-even position if revenues have not been sufficient to cover expenditures.

**Pasqua First Nation**  
**(CMHC Housing (Section 95))**  
**Notes to Financial Statements**  
*For the year ended March 31, 2018*

**2. CMHC mortgages**

	Renewal date	Interest rate	Blended monthly payments	2018	2017
1 Peace Hills Trust	01/10/2018	5.34%	\$ 2,948	\$ 20,379	\$ 53,872
2 Peace Hills Trust	01/03/2017	5.24%	1,645	-	-
3 Peace Hills Trust	01/04/2018	5.14%	1,530	1,460	19,326
4 CMHC	01/03/2020	1.39%	646	15,277	22,758
5 CMHC	01/03/2020	1.39%	684	16,181	24,105
6 CMHC	01/08/2020	1.08%	1,612	134,861	152,649
7 CMHC	01/09/2022	1.84%	1,003	103,998	114,061
8 CMHC	01/04/2023	2.41%	1,115	118,063	128,953
9 CMHC	01/02/2020	1.12%	1,249	166,088	179,144
10 CMHC	01/06/2021	1.14%	3,687	338,122	378,267
11 CMHC	01/06/2021	1.14%	5,336	791,755	846,440
12 CMHC	01/06/2022	1.30%	1,787	278,872	296,460
13 CMHC	01/06/2022	1.30%	3,575	557,845	593,025
14 CMHC	01/01/2019	2.11%	8,576	1,727,228	1,793,091
15 CMHC	01/08/2019	1.85%	1,041	220,576	228,914
16 CMHC	01/05/2021	1.21%	9,312	1,359,692	1,454,402
17 CMHC	01/05/2021	1.21%	5,401	788,683	843,619
18 CMHC	01/06/2021	1.14%	1,385	204,321	218,528
19 CMHC	01/03/2023	2.39%	10,571	1,599,000	-
				8,442,401	7,347,614
Less current portion				569,675	502,675
Due beyond one year				\$ 7,872,726	\$ 6,844,939



**3. Due to/from Pasqua First Nation**

The "Due to/from Pasqua First Nation" account is comprised of amounts paid by the First Nation on behalf of CMHC operations such as mortgage payments, repairs and maintenance and insurance premiums. It also includes amounts owed by the First Nation to CMHC operations for shortfalls in rent as outlined in the CMHC operating agreement.

In 2018 the band contribution is \$70,575 (2017 - \$123,265); the rent shortfall is \$109,412 (2017 - \$166,450).

**4. Reserve funds**

Replacement reserve fund - Pre - 1997 (phases 1 & 3)

	2018	2017
Balance, start of the year	\$ 68,860	\$ 93,362
Allocation for the year	5,760	7,960
Interest earned	2,269	2,049
Replacements for the year	(11,050)	(5,817)
Maturing unit adjustment	-	(29,463)
CMHC adjustment	-	769
Balance, end of the year	\$ 65,839	\$ 68,860

Replacement reserve fund - Post - 1996 (phases 4 - 19)

	2018	2017
Balance, start of the year	\$ 702,310	\$ 621,439
Allocation for the year	103,987	101,520
Interest earned	15,845	13,637
Replacements for the year	(75,055)	(34,286)
Balance, end of the year	\$ 747,087	\$ 702,310

**Pasqua First Nation**  
**(CMHC Housing (Section 95))**  
**Notes to Financial Statements**  
*For the year ended March 31, 2018*

**4. Reserve funds, continued**

Operating reserve fund - Post - 1996 (phases 4 - 19)

	2018	2017
Balance, start of the year	\$ 2,665	\$ 3,660
Interest	-	3,161
Transfer from operations - adjustment	-	11,581
Transfer from (to) operations - current year	(78,092)	(15,737)
Balance, end of the year	\$ (75,427)	\$ 2,665

Operating deficit (phases 1 & 3)

	2018	2017
Balance, start of the year	(26,325)	(37,294)
Maturing unit adjustment	-	10,969
Balance, end of the year	\$ (26,325)	\$ (26,325)

**5. Funding of reserves**

Under the terms of the agreement with CMHC, reserve 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 CMHC from time to time. The reserves are funded as follows:

	Reserve Amount	Funded Amount	Over (Under) Funded
Replacement reserve - pre - 1997	\$ 65,839	\$ 73,495	\$ 7,656
Replacement reserve - post - 1996	747,087	749,578	2,491
Operating reserve - post - 1996	(75,427)	12,465	87,892
	\$ 737,499	\$ 835,538	\$ 98,039

**6. Compliance with CMHC operating agreements**

The operating agreements require confirmation that the First Nation has complied with certain aspects of the operating agreements.

**Pre – 1997 agreements**

**Replacement reserve (paragraph 15)**

The First Nation has complied with the requirements except that the replacement reserve funds for the Pre – 1997 and Post - 1996 projects have been co-mingled in the same bank account and is fully funded.

**Subsidy surplus reserve (sub-paragraph 2 (5))**

The First Nation has complied with the requirements.

**Verifications of income and rent calculations (sub-paragraph 2 (5))**

The First Nation has not been successful in its attempts to complete verifications of income and calculate monthly rent in accordance with the agreement for all tenants.

**Post – 1996 agreements**

**Operating reserve (Paragraph 10 (2) (g))**

The First Nation has complied with the requirements.

**Replacement reserve (paragraph 10 (2) (e))**

The First Nation has complied with the requirements except that the replacement reserve funds for the Pre – 1997 and Post - 1996 projects have been co-mingled in the same bank account and is fully funded.

**Disbursements from the replacement reserve fund (paragraph 10 (2) (f))**

The First Nation has complied with the requirements in regards to the disbursements from the replacement reserve fund.

**7. Operating Deficit**

	2018	2017
Operating Deficit - Pre-1997	\$ (26,325)	\$ (37,294)
Adjustment to balance to CMHC records	-	10,969
	<u>\$ (26,325)</u>	<u>\$ (26,325)</u>

**8. Prior period adjustment**

The comparative figures have been retroactively restated to reflect the balances as reported in the CMHC audit review letter.

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Schedule 1  
**Pasqua First Nation**  
**(CMHC Housing (Section 95))**  
**Schedule of Operations - Pre-1997 Projects**  
*For the year ended March 31, 2018*

	2018	2017
<b>Revenue</b>		
CMHC subsidies	\$ 33,600	\$ 43,471
Rental revenue	30,616	42,438
Band contribution - notes 1.h and 3	70,575	123,265
Other revenue	-	14
Deferred retrofit revenue - prior year	-	29,227
	134,791	238,415
<b>Expenditures</b>		
Administration fees	4,020	5,945
Amortization	51,358	-
Insurance premiums	15,350	21,714
Loan interest	2,476	71,831
Professional fees	2,024	3,036
Repairs and maintenance	53,803	98,702
Replacement reserve allocation	5,760	7,960
Retrofit expenses	-	29,227
	134,791	238,415
<b>Surplus (deficit) for the year</b>	<b>\$ -</b>	<b>\$ -</b>

Schedule 2  
**Pasqua First Nation**  
**(CMHC Housing (Section 95))**  
**Schedule of Operations - Post-1996 Projects**  
*For the year ended March 31, 2018*

	2018	2017
<b>Revenue</b>		
CMHC subsidies	\$ 581,462	\$ 555,678
Rental revenue	217,604	152,196
Rent revenue shortfall - note 3	109,412	166,450
Other revenue	-	65
	<b>908,478</b>	<b>874,389</b>
<b>Expenditures</b>		
Administration fees	53,522	52,009
Amortization	452,853	-
Insurance premiums	97,838	98,828
Loan interest	115,731	524,080
Professional fees	16,188	12,141
Repairs and maintenance	146,451	105,703
Replacement reserve allocation	103,987	101,520
	<b>986,570</b>	<b>894,281</b>
<b>Surplus (deficit) for the year from operations</b>	<b>(78,092)</b>	<b>(19,892)</b>
<b>Transfer from (to) operating reserve fund - Post-1996</b>	<b>78,092</b>	<b>4,157</b>
<b>Surplus (deficit) for the year</b>	<b>\$ -</b>	<b>\$ (15,735)</b>