



GUIDE TO UNDERSTANDING THE

MARCH 31, 2005

CONSOLIDATED FINANCIAL STATEMENTS

FOREWORD

This guide has been written to help ‘Namgis members understand the information the audited financial statements contain and the programs that the Nation runs. This is not an annual report nor a commentary or interpretation of how well programs were operated. I recommend reading the Guide at the same time that one reads the audited financial statements.

Garry Ullstrom, CA
Comptroller

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INTRODUCTION

We prepare consolidated Financial Statements at the end of each fiscal year. The fiscal year runs from April 1st to March 31st, and the audited financial statements have to be given to the Department of Indian and Northern Affairs by July 30th of each year. The financial statements are audited by a firm of Chartered Accountants, Nordahl Craig Cummings & Gares, who have their offices in Vancouver.

The word “Consolidated” means combined or grouped together. In other words, these financial statements contain all of the financial information pertaining to all of the programs, projects, or businesses that ‘Namgis First Nation operates or controls.

TABLE OF CONTENTS TO CONSOLIDATED FINANCIAL STATEMENTS

Pages one, two and three of the audited financial statements are the Table of Contents. Everything that is in the statements is listed here.

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

(Page 4 of the audited financial statements)

This page gives useful information about:

- who is ultimately responsible for these financial statements
- how the statements are prepared, and a few other interesting tidbits.

AUDITOR’S REPORT

(Page 5 of the audited financial statements)

This describes:

- what was audited
- how the audit was performed - in very general terms
- what the auditor decided after conducting the audit. “In my opinion...”

The last paragraph, which contains the auditor’s opinion, is the most important part of the audit. In our case the auditor says that these financial statements for the year ending March 31, 2004 “*present fairly, in all material respects the financial position of the First Nation.*” This is called a “clean audit opinion.” It means that as far as the auditor can determine, the financial statements are accurate.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Page 6)

This statement was formerly known as the “Balance Sheet.” This statement tells us how well our nation is doing financially as at March 31st. It is divided into three main parts: Assets, Liabilities, and First Nation Equity. Assets are things that our nation owns. Liabilities are money that we owe to someone else, and First Nation Equity is the amount that remains when one subtracts the liabilities from the assets.

The first key thing to check is whether the Current Assets (\$3,724,810) exceed the Current Liabilities (\$1,085,866). In our case they do. This means we have enough money available to pay our current bills. Whenever possible, cash that is in our bank account is invested in term deposits or treasury bills to maximize the amount of interest earned.

As you read down the statement you’ll note that some of the items refer to a “Note.” The Notes to the Financial Statements begin on page nine. The notes explain the numbers or items on the Statement of Financial Position in more detail. In the case of the item “Restricted Cash and Deposits,” there is a Note (Note 3) on page 11 of the financial statements.

Accounts Payable refer to bills that related to pre-March 31st activities but were unpaid as at March 31st. For example, we may have had the dumptruck repaired on March 15th, but the mechanic didn’t send us a bill until April 10th.

Security deposits and down payments consist mainly of damage deposits put down by tenants. Deferred revenue is explained in the Capital Projects section of this guide on pages 9 and 10.

Long-Term Debt refers to debts that will be outstanding for longer than one year. For example, the mortgages on some of our social housing houses won’t be paid off for another ten years. Note 10 on pages 15 and 16 of the financial statements outlines who we owe money to and what the terms of those loans are. The amounts we owe to All Nations Trust Company and the Royal Bank consist of money we borrowed to build social housing units. Another long term loan is the treaty process loan, which now totals \$2,113,593.

The key thing in the First Nation Equity section on page 6 is that we have a surplus of \$571,668 and not a deficit. This means that we own more than we owe.

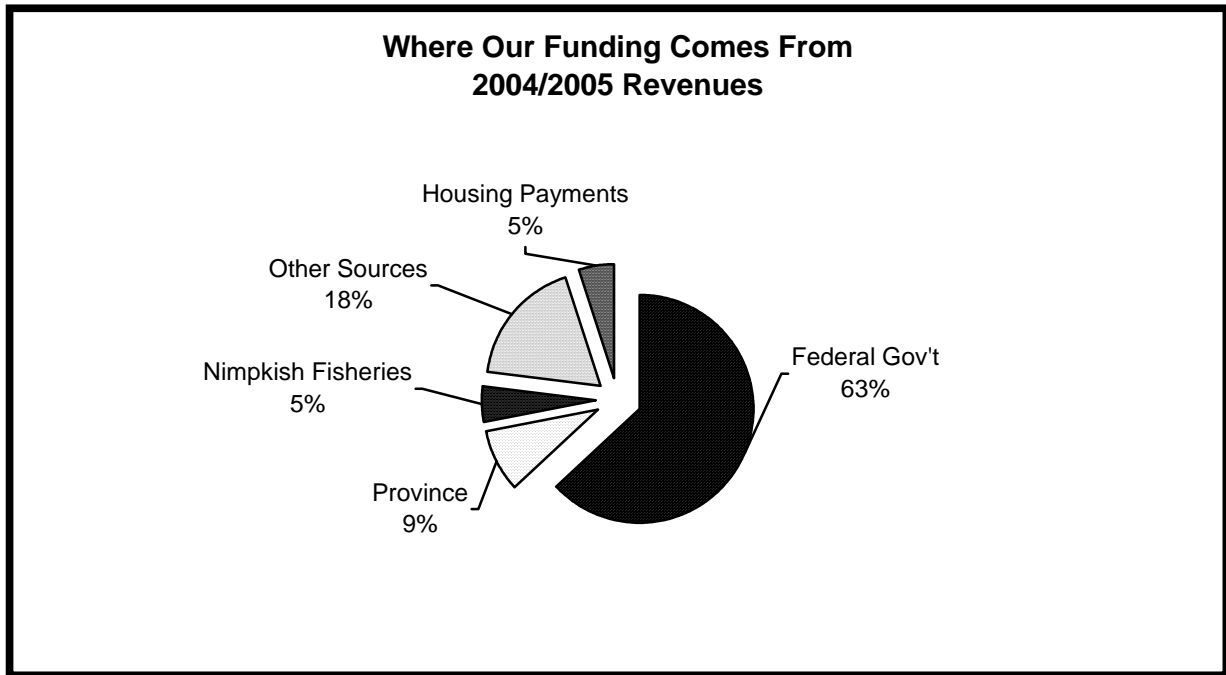
CONSOLIDATED STATEMENT OF REVENUES AND EXPENDITURES

(Page 7)

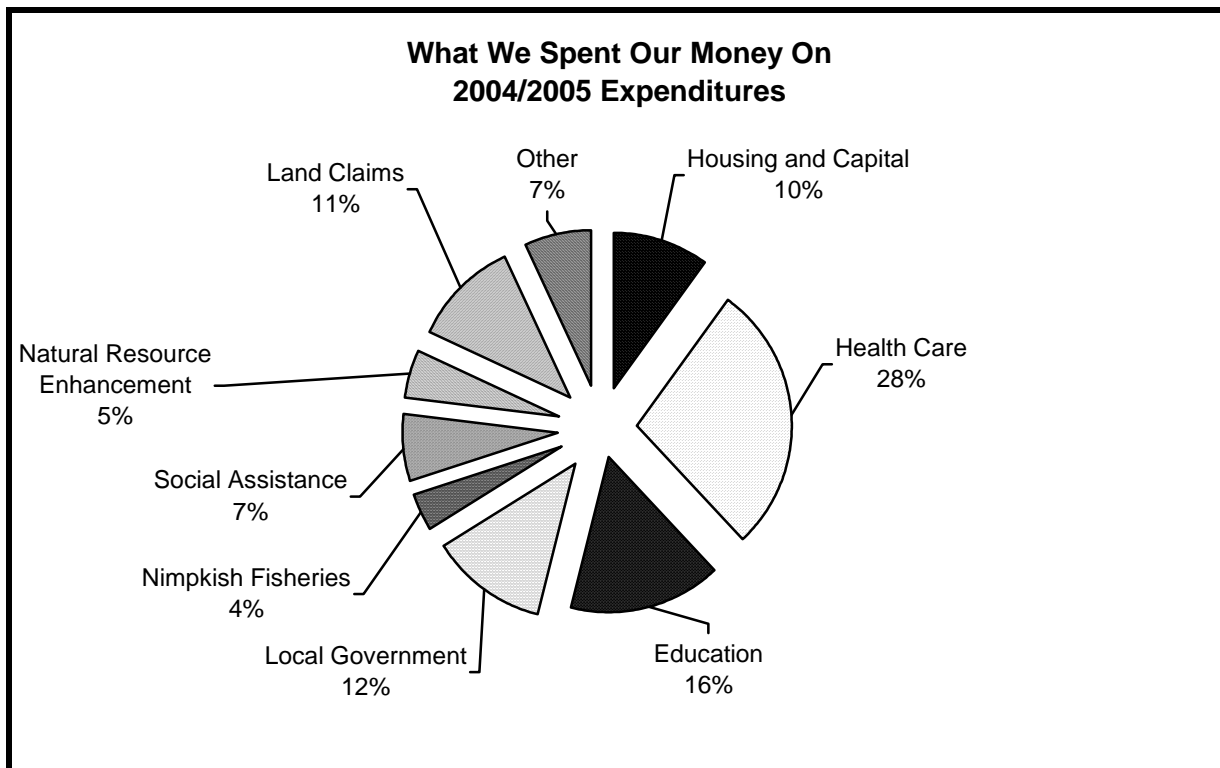
This is a useful statement because it shows at a glance where our funding comes from and how much came from each source. It also summarizes what we spent our money on. It shows that in 2005 we spent \$1,120,452 more than we received.

The numbers from the Consolidated Statement of Revenues and Expenditures have been used to create the following pie charts. The first pie chart shows where our funding comes from. The “Other” category in the pie chart totals 18% (or \$2,133,201), which includes the following amounts: Commercial activities \$969,559, interest earned \$62,548, \$123,000 from the Pacific

Salmon Foundation, \$157,000 in school funding from the First Nations Education Steering Committee, and many smaller amounts from other agencies like the Vancouver Island Health Authority, the Village of Alert Bay, School District #85, etc.



The “Other” category for what we spent our money on is 7% (or \$887,319) of total expenditures. It includes \$719,415 for “other commercial activities”.



CONSOLIDATED STATEMENT OF CASH FLOWS

(Page 8)

This is a rather complicated statement that I rarely look at myself. It keeps track of the changes between years in the items that are shown in the Consolidated Statement of Financial Position. More specifically, it is another way of showing where our cash came from and how it was spent. It is definitely for the analytical keeners out there.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Pages 9-20)

These notes provide detailed explanations about the accounting principles that were used to prepare the statements. The notes also provide detailed explanations of some of the balance sheet items. They are a lot more interesting to read than the Consolidated Statement of Cash Flows!

SUMMARY STATEMENT OF REVENUES AND EXPENDITURES

(Pages 21-23)

These pages contain a financial summary of each of our “Revenue” programs. Capital programs have their own summary statement on page 84 of the financial statements. Revenue programs are sometimes called “operating programs” because they are the ongoing programs that continue year after year. Capital projects, on the other hand, usually have a specified completion date.

The first column on this page lists the names of all of the revenue funds. Some of the names are not self-explanatory, so a description of each program is included on each schedule along with the financial information. The second column titled “Schedule” simply lists the number of each schedule. The “R” stands for “Revenue” schedules and the “C” stands for capital programs, which start on page 85.

The third column lists the total revenues for each program for this past fiscal year that ended March 31, 2005. Column number four shows the total expenditures for each program for the past year, and column five shows the revenues minus the expenditures for each program. If revenues exceeded expenditures for last year, then a surplus resulted. If expenditures were larger than revenues, a deficit (which is shown by brackets) resulted. If you look right down to the bottom of column five, the total of all of the surpluses and deficits in our revenue programs for last year was a deficit of \$549,544.

At first glance this suggests that we spent more than we received for our operating/revenue programs. The large deficit of \$551,422 in R-60, Treaty Process, however, is only a deficit because the treaty loan shows up on the Consolidated Statement of Financial Position (p.6), not as revenue in this program. When the \$551,422 deficit is removed, the operating program deficit changes to a surplus of \$1,878. When we look even closer, we discover that the surplus is so small because we made one-time, capital expenditures using operating surpluses from prior years for the following items:

- \$496,000 to purchase District Lot 6 adjacent to the Cheslakee Reserve
- \$84,500 to fund extra students in the Post Secondary Program in order to draw down past surpluses by providing additional short term (one year) training to band members

- \$15,600 to purchase a compactor for the housing program
- \$61,000 for retroactive pay increases

After adjusting for these one-time, pre-approved expenditures, we are seen to have actually run a significant operating surplus of over \$658,978. In other words, we ran a balanced budget and lived within our means. It should be noted that \$380,436 was received in 04/05 as part of the Forest and Range Agreement. See schedule R-30. Council is drafting a five year expenditure plan relating to those funds.

Columns number six and seven give us the bigger picture. They keep track of all of the accumulated surpluses and deficits for each program from whenever the programs started. For example, the post secondary program (R-1) has been operating for roughly twenty years. Last year it had total revenues of \$730,384, and total expenditures of \$814,914, which resulted in a deficit of \$84,530. Column six shows us that from the first year the program started up to the year ended March 31, 2004, surpluses totaling \$272,793 had accumulated, or built up. When we subtract the deficit of \$84,530 from this past year, the accumulated surplus up to March 31, 2005 (column seven) now totals \$188,263. In other words, columns six and seven show us whether programs have, over time, been run within their means (i.e. they run surpluses), or whether the programs have spent more than they have received (i.e. they run deficits), which drains money from other programs. For example, Schedule R-24, Namgis House shows a deficit of (\$552,459). This means that over the years we have spent \$552,459 more on expenditures relating to 'Namgis House than we received in rental income to pay for running the building. Clearly this is a problem! We either need to increase revenues or decrease costs in order to start running this program at a balanced budget.

The total at the bottom of column seven called "Subtotal Revenue Funds" (3 lines up from the bottom right corner) is very important. The total of the accumulated surpluses and accumulated deficits for the revenue programs shows whether the revenue programs are, overall, being run within their means. The surplus of \$1,507,728 means that we do not have to borrow money to run our ongoing programs. In fact, we can (and frequently do) use the surplus money for special one-time projects, such as buying the excavator, buying computers for the school, and providing seed money for starting the dental clinic.

STATEMENTS OF REVENUE AND EXPENDITURE

In order to keep track of things financially, each program run by our nation has a separate financial statement that is produced monthly by the accounting staff. Currently there are seventy-eight different programs that our nation runs. In order to keep down the thickness of the audited financial statement, some of the programs are combined into one schedule on the audited financial statement.

Each schedule contains, or presents, several bits of information. The columns and what they contain will be explained using the first schedule, R-1, as an example.

DESCRIPTIONS OF REVENUE PROGRAMS

Post Secondary Schedule R-1

Each schedule begins with a brief description of what the program is all about. More information about these programs may also be available on our website at www.namgis.org. For example, Diane Alfred, Colleen Smith and Charlene Harse put together powerpoint presentations explaining what the Amlilas, Head Start, and Infant Development programs are all about and those presentations are on the website.

But let's get back to the financial statements...The first line of the first column, on the left of the page, shows the sources of revenue for this program. In this case, most of the funding is provided by Indian and Northern Affairs Canada (INAC). The number in brackets (2360) is just a code used by INAC. The North Vancouver Island Aboriginal Training Society also provides some funding (\$70,300), which is to help pay for our trades training program.

Following the revenues, the expenditure accounts are listed. These accounts show what the funding was spent on in terms of broad categories i.e. "books and supplies." The next line "EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURE" equals the revenues minus the expenditures for the years that are shown. Underneath it, the "SURPLUS AT BEGINNING OF YEAR" shows the accumulated surpluses or deficits for this program from the first year up to now that it has been running. This is some of the same information that was shown on page 20. It is just laid out differently here. The last line, "SURPLUS AT END OF YEAR" equals the surplus or deficit at the beginning of the year plus the surplus or deficit from the line above it. If you think of the last line as a bank account balance, this program had \$188,263 in its bank account at the end of the last fiscal year.

The first column "2005 Budget" shows the budget for the past year. The budget column shows what we expected to receive as revenue and what we planned to spend in each of the categories or accounts. Budgeting is one of the most important things that we do each year because it charts our course and enables us to check every month to see whether we are still on course or heading off into danger!

The second column shows what actually happened and where we actually ended up. Specifically, we spent less than we had committed to spend. By comparing the actual column to the budget column one can see where the differences occurred. For example, tuition fees cost roughly \$65,000 more than budgeted. The big saving came in Trades Training Allowance, which was about \$88,000 less than budgeted. In summary, column two (2005 Actual) is the most important column. It shows what actually happened financially in this program for the year ended March 31, 2005.

The third column (2004 Actual) shows the actual results from two years ago. This column is provided for comparative purposes. Numbers are a bit more meaningful when they are put into context and not just standing on their own. By showing the results from two years ago, one can identify major changes between years when examining and comparing each line. In this case one can see that tuition and student support both increased significantly over the past two years.

As you review the financial statements I encourage you to jot down questions on each schedule so that you can ask them at a later date.

DESCRIPTION OF CAPITAL PROGRAMS

Capital programs are usually one time projects that involve building something that will be used for a long time. Revenues and expenditures for installing municipal infrastructure like pipes and roads, or for constructing a building or for buying a new dump truck, are capital in nature. Capital projects are shown separately from the ongoing operating/"revenue" programs. (The fuel to run the dump truck and the cost of repairing it are both operating expenditures, which are recorded in the "R" schedules. The initial purchase of the truck is a capital expenditure and is shown on a "C" schedule.)

External funding that we receive from outside agencies to pay for capital projects can only be used for those projects and for nothing else. This is called "restricted funding." If there is unspent restricted funding at the end of the year for a capital project that is not finished, the unspent funding must be shown as "deferred revenue" on the Consolidated Statement of Financial Position. (See also Note 9 on page 15.) It will then be shown as revenue to the project in the year when it is actually spent. The capital projects and programs are shown on the "C" schedules.

SOCIAL HOUSING

Canada Mortgage and Housing (CMHC) is a federal, crown corporation that helps provide affordable housing for Canadians. 'Namgis has benefited from two of CMHC's On Reserve Social Housing programs. We call their "pre-1997" housing program the "Old" program and we call their current housing program the "New" Program. We built eighteen houses under the "Old" program and have built three duplexes under the "New" program.

In both cases the houses and duplexes are built mainly using money borrowed from mortgage companies. The federal government guarantees the mortgages. Mortgage payments are automatically withdrawn from our bank account each month. If tenants do not pay their rent then we will not be able to make our monthly payments to the mortgage companies. If that happens, the mortgage companies will call the mortgages and the federal government will take the money from the funding they give us for other programs.

CMHC demands that a separate Statement of Financial Position (pages 90 & 93) be shown for each Social Housing program. That is why the Social Housing program financial statements are broken out separately from our other operations. Notes 3, 7, 10, 11 and 13 in the financial statements contain more information on the Social Housing programs.

Both the Old and New programs require that every year money be put into a fund (Reserve) to pay for major repairs in the future. The purpose of the Statements of Funded Reserves on pages 92 & 95 is to show how much of the Reserve(s) consist of interest earned and how much consists of annual contributions from the Social Housing programs.

GOVERNMENT TRUST FUNDS

Statement of Financial Position

(Page 96 of the audited financial statements)

This brief schedule shows how much money is in our trust funds that are in Ottawa and that are held by the Federal Government. See also note 4 in the financial statements.

Schedule of Changes in Equity in Government Trust Funds

(Page 97)

The Federal Government has two trust funds it holds on our behalf. One is a Revenue Fund. Certain types of income, such as interest earned on the money in the Capital Fund, are paid into the Revenue Fund. We can only withdraw money from the trust funds by submitting a Band Council Resolution to the Federal Government and by obtaining approval of the membership to do so. The government only allows money from the Capital Fund to be withdrawn if it is going to be used for expenditures of a capital nature. Note 4 on page 12 of the financial statements explains the funds a bit more.

This financial schedule shows all of the deposits into the trust funds and all of the withdrawals from them.

Schedule of Receipts and Expenditures of Government Trust Funds

(Page 98)

The purpose of this schedule is to show that the money withdrawn from the trust accounts is used for the purposes that the members approved.

AUDITORS' REPORT FOR THE SCHEDULE OF HONORARIA, REMUNERATION AND TRAVEL FOR CHIEF AND COUNCIL

This Audit Report clarifies that the auditors did not do any additional or special audit work regarding the Schedule of Honoraria, Remuneration, and Travel for Chief and Council. It states *“no procedures have been carried out on this Schedule in addition to those necessary to form an opinion on the consolidated financial statements.”*

Schedule of Honoraria, Remuneration and Travel for Chief and Council

(Page 100)

The Federal Government demands that this statement be provided as part of the audited financial statements in order to ensure what they consider to be an adequate degree of openness, transparency, and accountability to community members as regards funds paid to Council members.

The top half shows Per Diems and Travel Expenses. Every time that a councilor is out of town on council business, he or she is paid \$90 per day. This is called the “Per Diem.” The intent is to make up for the earnings that the councilor is forgoing by being on the road and away from

work. Travel expenses, on the other hand, consist of \$120 per day for hotel and meals when a councilor travels south of Nanaimo and \$90 per day for trips closer to home. Mileage, airfare, taxis and ferry tickets are also included in the “Travel Expenses” column.

The “Council Honoraria” section at the bottom of the page shows the monthly honoraria that Chief and Council are paid. The Chief is paid \$1,000 per month and councilors are paid \$500 per month.

It should also be noted that ‘Namgis membership have established a policy that states that council members cannot work for (be paid by) the Nation while they are on council.

AUDITORS’ REPORT FOR THE SCHEDULE OF REMUNERATION AND TRAVEL FOR SENIOR STAFF

This Audit Report clarifies that the auditors did not do any special work regarding the Schedule of Remuneration and Travel for Senior Staff.

Schedule of Remuneration and Travel for Senior Staff (Page 102)

Remuneration means pay, or benefit of a monetary kind. The Federal Government demands that this statement be provided as part of the audited financial statements in order to ensure what they consider to be an adequate degree of openness, transparency, and accountability to community members as regards funds paid to “senior” staff members. For the purpose of this schedule, senior staff members have been defined as those staff who were paid more than \$45,000.

As of March 31, 2005 the ‘Namgis had roughly 90 full time staff. Salaries and benefits are the Nation’s largest single expenditure and totaled roughly \$4 million in fiscal 2005. In order to increase the likelihood of staff being paid fair and equitable wages for the work being performed, in 1992 the ‘Namgis adopted two salary grids, one for “department heads” and one for the remaining staff. ‘Namgis also adopted a set of criteria that is used to rate, or measure, the difficulty, complexity, and impact of a job, as described in the job’s description. The number of points that a job description is awarded when the criteria are applied to it determines which level of the salary grid the position is placed at. Each level on the grids has a range of pay attached. Some of those ranges are shown on this audited schedule.

The salary in the “from” column is the starting, lowest salary offered for that position. The “to” column shows the maximum that someone in that position could expect to earn. Typically the maximum would only be paid once the person in that job had worked for several years for the nation and had performed well. The actual salary grids have three more “steps” of pay between the high and low that are shown on this audited schedule.

The “other remuneration” column is included so that nation members can be assured that they are being shown all of the pay that the senior staff members received during the year. Typically the only reason that a salaried staff member would receive other remuneration over and above their regular salary is if they received a retroactive pay increase. This occurs occasionally as the result of a successful salary appeal or reclassification of a position.