

# **SIPEKNE'KATIK HOUSING PROJECTS**

**FINANCIAL STATEMENTS**

**MARCH 31, 2020**

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## INDEPENDENT AUDITOR'S REPORT

To the Council and Members of  
Sipekne'katik Housing Projects

### *Report on the Audit of the Financial Statements*

#### *Opinion*

We have audited the financial statements of Sipekne'katik Housing Projects, which comprise the balance sheet as at March 31, 2020, and the statements of operations and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the organization as at March 31, 2020, and its results of operations and its cash flows for the year then ended in accordance with the funding agreement between Sipekne'katik Section 95 CMHC Projects and Canada Mortgage and Housing Corporation (CMHC)..

#### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the funding agreement between Sipekne'katik Section 95 CMHC Projects and Canada Mortgage and Housing Corporation (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.

In preparing the financial statements, management is responsible for assessing the organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Those charged with governance are responsible for overseeing the organization's financial reporting process.

#### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

## INDEPENDENT AUDITOR'S REPORT, continued

- ◆ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ◆ Obtain an understanding of internal control relevant to the audit 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 organization's internal control.
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ◆ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- ◆ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### *Basis of Accounting and Restriction of Use*

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist Sipekne'katik Section 95 Housing Projects to comply with the reporting provisions of the funding agreement 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 Sipekne'katik Housing Projects and CMHC and should not be used by parties other than the Members of Sipekne'katik Housing Projects and CMHC.

Woodstock, New Brunswick

March 19, 2021

*Lenehan McCain & Associates*  
**Lenehan McCain & Associates**  
Chartered Professional Accountants

**SIPEKNE'KATIK HOUSING PROJECTS**  
**BALANCE SHEET**  
**AS AT MARCH 31, 2020**

	2020	2019
<b><u>ASSETS</u></b>		
Current assets		
Cash - Supplementary subsidy funds (Note 2)	\$ -	\$ 58,630
Restricted cash - reserves (Note 3)	882,536	720,983
	882,536	779,613
Property, plant and equipment (Note 4)	7,561,698	7,125,903
	<b>\$ 8,444,234</b>	<b>\$ 7,905,516</b>
<b><u>LIABILITIES</u></b>		
Due to related party (Note 5)	\$ 920,408	\$ 520,849
Long-term debt (Note 6)	3,719,315	3,283,520
	4,639,723	3,804,369
<b><u>EQUITY</u></b>		
Contributed surplus	3,367,427	3,367,427
Replacement reserve fund (Note 7)	564,843	678,395
Operating reserve (Note 9)	45,435	146,007
Subsidy surplus reserve (Note 8)	6,500	8,500
Deficit	(179,694)	(99,182)
	3,804,511	4,101,147
	<b>\$ 8,444,234</b>	<b>\$ 7,905,516</b>

APPROVED



Chief

Councillor

SIPEKNE'KATIK HOUSING PROJECTS  
COMBINED STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED MARCH 31, 2020

	2020	2019
	\$	\$
<b>Revenue</b>		
Rental Income	381,577	327,706
CMHC subsidies	145,878	210,901
CMHC - enhanced assistance	-	122,665
Band contribution - enhanced assistance	-	52,544
	<u>527,455</u>	<u>713,816</u>
<b>Expenditures</b>		
Amortization	213,555	273,132
Repairs and maintenance	207,342	233,682
Allocation to replacement reserve	63,922	57,505
Interest on long-term debt	60,498	51,397
Insurance	52,455	49,277
Administration expense	5,695	6,628
Professional fees	4,500	4,500
Enhanced assistance - repairs and maintenance	-	175,209
	<u>607,967</u>	<u>851,330</u>
<b>Deficit</b>	<u>(80,512)</u>	<u>(137,514)</u>

The accompanying notes are an integral part of the financial statements

**SIPEKNE'KATIK HOUSING PROJECTS**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED MARCH 31, 2020**

	2020	2019
<b>Operating activities</b>		
Loss	\$ (80,511)	\$ (137,513)
Adjustment for Amortization	213,555	273,132
	133,044	135,619
Change in non-cash working capital items		
Increase in restricted cash - reserves	(161,553)	(103,577)
Increase in accounts payable and accrued liabilities	-	1
	(28,509)	32,043
<b>Investing activities</b>		
Acquisition of new housing	(649,350)	(618,928)
Due from Sipekne'katik	399,558	404,636
	(249,792)	(214,292)
<b>Financing activities</b>		
Repayment of long-term debt	(213,555)	(273,132)
Proceeds of long-term debt	649,350	618,928
Increase in replacement reserve	(113,552)	5,433
Increase (decrease) in operating reserve	(100,572)	(107,850)
(Decrease) in subsidy surplus reserve	(2,000)	(2,500)
	219,671	240,879
(Decrease) increase in cash	(58,630)	58,630
Cash, beginning of year	58,630	-
Cash, end of year	\$ -	\$ 58,630

SIPEKNE'KATIK HOUSING PROJECTS  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2020

I. Significant accounting policies

The financial statements have been prepared in accordance with the requirements of the operating agreement between Sipekne'katik and Canada Mortgage and Housing Corporation (CMHC), which includes the policies described below:

(a) Property, plant and equipment

Property, plant and equipment is recorded at the financing amount obtained for the new housing.

Since there is no clear title of ownership of land by the Sipekne'katik Housing Projects, no value of land is assigned or transferred to these projects as equity by Sipekne'katik.

Amortization is recorded annually on housing at a rate equal to the annual principal reduction of the mortgage. No amortization is recorded on the other property, plant and equipment; however, a replacement reserve is maintained to provide for future asset replacement.

(b) Revenue and expense recognition

Revenue and expenses are recorded on the accrual basis of accounting. Subsidy revenues are recognized in accordance with an operating agreement with CMHC, whereas rental revenue is recorded based on CMHC requirements, at an amount required for each project to obtain a break even financial result for pre 1997 projects and at minimum revenue contribution for post 1996 projects.

(c) Use of estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.



SIPEKNE'KATIK HOUSING PROJECTS  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2020

1. Significant accounting policies, continued

(d) Replacement reserve fund

The replacement reserve fund account is funded by an annual charge against earnings as opposed to an appropriation of surplus. Under the terms of the agreement with CMHC, the replacement reserve account is to be credited with an annual amount. 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 CMHC from time to time. The funds in the account may only be used as approved by CMHC. Withdrawals are credited to interest first and then principal.

(e) Operating reserve funds - post-1996 projects

Under the terms of agreement with Canada Mortgage and Housing Corporation, any surplus for post 1996 projects, after payment of all costs and expenses including the allocation of the Replacement Reserve, will be retained by Sipekne'katik within an operating reserve. This reserve will be available to offset future year post-1996 project deficits. Sipekne'katik has agreed to maintain operating reserve funds, and accumulating interest, in a separate bank account and/or invest only in instruments insured by the CDIC.

(f) Subsidy reserve fund

Under the terms of the agreements with Canada Mortgage and Housing Corporation, excess federal assistance payments received for Pre-97 Housing Projects may be retained in a subsidy surplus reserve up to a maximum of \$500 per unit plus interest. The reserve is to be comprised of monies deposited 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 funds in this account may only be used to meet future subsidy requirements of income-tested occupants over and above the maximum federal assistance. Withdrawals are credited to interest first and then principal.

SIPEKNE'KATIK HOUSING PROJECTS  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2020

1. Significant accounting policies, continued

(g) Financial instruments

The fair value of accounts payable and accrued liabilities is approximately equal to their carrying value due to their short-term maturity dates.

The fair value of long-term debt is determined using the present value of future cash flows under current financing agreements, based on market interest rates for loans with similar conditions and maturities.

2. Cash - Supplementary subsidy funds

	2020	2019
Guaranteed investment certificate	\$ -	\$ 58,630

3. Restricted cash - reserves

	2020	2019
Replacement reserve bank balance - pre proj	\$ 76,913	\$ 132,932
Replacement reserve bank balance - post proj	753,688	433,544
Subsidy reserve bank balance	6,500	8,500
Operating reserve bank balance	45,435	146,007

	\$ 882,536	\$ 720,983
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	2020	2019
Beginning balance	\$ 720,983	\$ 617,406
Transfer in	100,000	100,000
Transfer of supplementary subsidy funds	58,630	-
Interest earned	2,923	3,577
Ending balance	\$ 882,536	\$ 720,983

SIPEKNE'KATIK HOUSING PROJECTS  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2020

4. Property, plant and equipment

	2020		2019	
	Cost	Accumulated depreciation	Net book value	Net book value
Property, plant and equipment	\$ 15,867,804	\$ 8,306,106	\$ 7,561,698	\$ 7,125,903

5. Due from (to) Sipekne'katik

The amount owing from (to) Sipekne'katik general fund, does not bear interest and has no set terms of repayment.

6. Long-term debt

	2020		2019	
Project 021 - CMHC 1.85% loan, payable \$3,587 monthly including interest, renews May 1, 2020	\$	542,688	\$	575,446
Project 012 - CMHC 1.35% loan, payable \$1,897 monthly including interest, maturing April 1, 2022		46,789		68,782
Project 014 - RBC 2.69% loan, payable \$1,473 monthly including interest, maturing Sep 1, 2024		74,752		90,179
Project 015 - RBC 2.72% loan, payable \$289 monthly including interest, maturing Sep 1, 2024		14,639		17,659
Project 016 - RBC 2.15% loan, payable \$1,388 monthly including interest, maturing Nov 1, 2020		73,684		88,571
Carried forward	\$	752,552	\$	840,637

SIPEKNE'KATIK HOUSING PROJECTS  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2020

6. Long-term debt, continued

	2020	2019
Carried forward	\$ 752,552	\$ 840,637
Project 018 - CMHC 1.87% loan, payable \$845 monthly including interest, maturing May 1, 2024	85,481	93,950
Project 019 - CMHC 1.87% loan, payable \$1,170 monthly including interest, renews May 1, 2024	118,374	130,103
Project 020 - CMHC 1.08% loan, payable \$4,160 monthly including interest, renews Aug 1, 2020	705,827	747,918
Project 022 - CMHC 1.31% loan, payable \$1,226 monthly including interest, renews Dec 1, 2021	220,553	232,316
Project 023 - CMHC 1.35% loan, payable \$324 monthly including interest, renews May 1, 2022	59,390	62,460
Project 024 - CMHC 1.35% loan, payable \$747 monthly including interest, renews May 1, 2022	136,289	143,372
Project 025 - CMHC 1.03% loan, payable \$968 monthly including interest, renews Nov. 1, 2021	225,733	233,983
Project 026 - CMHC 2.04% loan, payable \$1,199 monthly including interest, renews January 1, 2023	263,116	272,073
Project 027 - CMHC 2.68% loan, payable \$2,700 monthly including interest, renews October 1, 2023	509,653	526,708
Carried forward	\$ 3,076,968	\$ 3,283,520

SIPEKNE'KATIK HOUSING PROJECTS  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2020

6. Long-term debt, continued

	2020	2019
Carried forward	\$ 3,076,968	\$ 3,283,520
Project 028 - CMHC 1.75% loan, payable \$2,969 monthly including interest, renews October 1, 2024	642,347	-
	\$ 3,719,315	\$ 3,283,520

All mortgages listed above have been guaranteed by Indigenous Services Canada.

7. Replacement Reserve

Under the terms of the agreements with Canada Mortgage and Housing Corporation, the Replacement Reserve account is to be credited in specific amounts for each Housing Project annually until it accumulates to a designated limit for Pre-97 and Post-96 Housing Projects. The reserve is overfunded at March 31, 2020. Balances should be as follows:

	Pre 1997	Post 1996	Total 2020	Total 2019
Balance, beginning of year	\$ 132,932	\$ 545,463	\$ 678,395	\$ 672,962
Adjustments per CMHC	-	(37,135)	(37,135)	-
Maturing unit adjustment	(52,324)	-	(52,324)	(40,621)
Interest 18/19 year	593	1,977	2,570	-
Interest 19/20 year	573	2,350	2,923	-
Allocation for the year	4,755	59,167	63,922	57,505
Supplementary subsidy funds	-	-	-	58,630
Withdrawal for eligible expenses	(9,616)	(83,892)	(93,508)	(70,081)
	\$ 76,913	\$ 487,930	\$ 564,843	\$ 678,395

SIPEKNE'KATIK HOUSING PROJECTS  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2020

8. Subsidy Surplus Reserve

	2020	2019
Balance, beginning of year	\$ 8,500	\$ 11,000
Maturing unit adjustment	(2,000)	(2,500)
	\$ 6,500	\$ 8,500

9. Operating Reserve

This reserve includes amounts transferred from surplus of Post-96 Housing Projects under terms of the agreements with Canada Mortgage and Housing Corporation.

	2020	2019
Balance, beginning of year	\$ 146,007	\$ 253,857
Surplus (deficit) transferred for 18/19 year	(137,514)	-
Surplus (deficit) transferred for 17/18 year	-	(107,850)
Interest earned	1,007	-
Adjustment by CMHC	35,935	-
	\$ 45,435	\$ 146,007

10. Contingent liability

Subsidy assistance payments received through CMHC pursuant to Section 56.1 of the National Housing Act are subject to repayment if the Sipekne'katik Housing Projects fail to comply with the terms and conditions of the agreement. As at March 31, 2020, the Sipekne'katik Housing Projects is in compliance with the terms and conditions including the requirement to maintain properly funded replacement, subsidy surplus and operating reserve account balances.

11. Matured Units

Periodically, adjustments to the subsidy surplus and replacement reserve balances are required where units have matured based on information provided by CMHC.

SIPEKNE'KATIK HOUSING PROJECTS

PRE 1997 PROJECTS  
SCHEDULE OF OPERATIONS

FOR THE YEAR ENDED MARCH 31, 2020

	2020	2019
	\$	\$
<b>Revenue</b>		
Rental Income	84,827	77,468
CMHC subsidies	15,795	39,629
CMHC - enhanced assistance	-	122,665
Band contribution - enhanced assistance	-	52,544
	<u>100,622</u>	<u>292,306</u>
<b>Expenditures</b>		
Amortization	39,900	48,095
Repairs and maintenance	25,633	32,865
Insurance	19,409	18,233
Administration expense	5,695	6,628
Allocation to replacement reserve	4,755	5,338
Interest on long-term debt	2,980	3,688
Professional fees	2,250	2,250
Enhanced assistance - repairs and maintenance	-	175,209
	<u>100,622</u>	<u>292,306</u>
<b>Surplus</b>	-	-

The accompanying notes are an integral part of the financial statements

SIPEKNE'KATIK HOUSING PROJECTS

POST 1996 PROJECTS  
SCHEDULE OF OPERATIONS

FOR THE YEAR ENDED MARCH 31, 2020

	2020	2019
	\$	\$
<b>Revenue</b>		
Rental Income	296,750	250,239
CMHC subsidies	130,083	171,271
	<u>426,833</u>	<u>421,510</u>
<b>Expenditures</b>		
Repairs and maintenance	181,707	200,816
Amortization	173,655	225,037
Allocation to replacement reserve	59,167	52,167
Interest on long-term debt	57,519	47,709
Insurance	33,047	31,045
Professional fees	2,250	2,250
	<u>507,345</u>	<u>559,024</u>
<b>Deficit</b>	<u>(80,512)</u>	<u>(137,514)</u>

The accompanying notes are an integral part of the financial statements



## AUDITOR'S REPORT ON COMPLIANCE WITH AGREEMENT

TO: CANADA MORTGAGE AND HOUSING CORPORATION

We have audited Sipekne'katik First Nation pre 1997 Social Housing Operations compliance as at March 31, 2020 with the criteria established in:

1. Paragraph 15 of the First Nation's Operating Agreement with CMHC in respect of funding and maintenance of the Replacement Reserve and the interest income related thereto (compliant).
2. Sub-paragraphs 4(7-11) of the First Nation's Operating Agreement with CMHC in respect of funding and maintenance of the Subsidy Surplus Reserve and the interest income related thereto (compliant).
3. Sub-paragraph 2(5) of the First Nation's Operating Agreement with CMHC in respect of:
  - 1) Verification of the incomes of lessees paying rent according to the rent-to-income scale (not compliant).
  - 2) Application of a rent-to-income ratio for those lessees (not compliant).
  - 3) Adjustment of the rental charges for rent-to-income lessees (not compliant).

We also confirm that:

- a) Withdrawals to the Replacement Reserve are for items of a capital nature in accordance with CMHC's On-Reserve Housing program Criteria.
- b) CMHC on-reserve housing program's procurement requirements have been adhered to.

## AUDITOR'S REPORT ON COMPLIANCE WITH AGREEMENT

TO: CANADA MORTGAGE AND HOUSING CORPORATION

We have audited the Sipekne'katik First Nation post 1996 Social Housing Operations compliance as at March 31, 2020 with the criteria established in:

1. Paragraph 10(2)(g) of the First Nation's Operating Agreement with CMHC in respect of funding and maintenance of the Operating Reserve and the interest income related thereto (compliant).
2. Paragraph 10(2)(e) of the First Nation's Operating Agreement with CMHC in respect of funding and maintenance of the Replacement Reserve and the interest income related thereto (compliant).
3. Schedule 10(2)(f) in respect of:
  - 1) Disbursements from the Replacement Reserve Fund for items of a capital nature in accordance with the criteria (compliant).
  - 2) Procurement requirements have been adhered to.