NISGA'A LISIMS GOVERNMENT
FISCAL 2014 CONSOLIDATED FINANCIAL STATEMENTS
DISCUSSION AND ANALYSIS

The consolidated surplus of Nisga'a Lisims Government (the "Government") for fiscal 2014 of $10.8 million is a decrease from fiscal 2013's ($23.9 million) but is well in excess of fiscal 2013's final budget ($41,125). The Government's accumulated surplus has increased to $235.9 million (2013 - $225.1 million).

Consolidated statement of operations and accumulated surplus

Revenues

Fiscal Financing Agreement funding increased to $59.7 million (2013 - $58.0 million). Included in this figure is the Government's draws from the Capital Finance Commission of $49,642 (budget - $350,000).

Investment income decreased to $18.8 million (2013 - $26.0 million). Fiscal 2013 included recognition of capital gains during the year to avoid the expiration of the Nisga'a Settlement Trust's (the "Trust") Own Source Revenue exemption. By contrast fiscal 2014's capital gains are a result of the Trust liquidating parts of its portfolio to invest them in new investment funds that further diversify the Trust. The addition of these new funds is expected to reduce the volatility of the Trust's return. Diversification into low volatility funds and mortgage funds contributed to the increase in the Trust's realized investment income from a budget of $7.1 million.

Fiscal 2014 represents the first full year of personal income tax revenues flowing to the Government from revenue sharing agreements with B.C. and Canada. The $6.2 million (2013 - $4.4 million) of tax revenue includes estimates of both provincial and federal income taxes paid by Nisga'a citizens and individuals resident on Nisga'a Lands of $4.4 million (2013 – 1.0 million). Also included is consumption taxes revenue of $1.8 million (2013 - $3.4 million). Consumption tax revenue decreased from fiscal 2013 as a result of B.C.'s transition back to the Provincial Sales Tax from the Harmonized Sales Tax, the latter of which provided corporations input tax credits and thus shifted the burden of taxes to consumers.

Other revenues are broken out in more detail in Note 19. Total other revenues of $4.4 million were below budget ($5.6 million) as a result of lower than expected contract revenues from Nass Area Strategy. The Government received significant monies in fiscal 2013 however was more challenged to convince proponents to provide capacity funding in fiscal 2014. Early success in fiscal 2015 is expected to make up for the deficiency. Stumpage and silviculture levies includes $401,771 of revenue from logs harvested on crown lands and transferred free of charge to the Government. In addition to logs harvested on Nisga'a Lands, these logs were transferred to Nisga'a Fisheries Limited ("NFL") and sold.

Share of government business revenue represents revenues from the Government's government business enterprises and is offset by the share of government business expenses in the expenses section. Revenue increased to $4.1 million (2013 - $1.6 million) mainly due to the activities of NFL, including the aforementioned log sales which resulted in approximately $900,000 of profit. There was also an increase in fish catch prices and the volume of fish sold by NFL. By contrast, expenses increased to $3.6 million (2013 - $1.8 million). Most of this increase relates to NFL's log sales and fish sales while a smaller part relates to enTel commencing an expansion of their services with additional labour costs and improvements to their communications infrastructure. As Note 23 illustrates in more detail, profits from government business enterprises increased to $523,011 (2013 – loss of $221,958).

Targeted funding – INAC represents monies transferred to the Government through comprehensive funding agreements with Canada. These applications are proposal driven and mainly flowed through to other Nisga'a entities. Revenues decreased to $509,919 (2013 - $1.8 million) as a result of fewer successful applications.

The net result of these changes is a drop in total revenues to $95.4 million from fiscal 2013 ($99.8 million) but an increase from the Government's budgeted revenues ($82.0 million).

Expenses

Administration

Administration expenses comprises of general administration including the Office of the CEO, finance, information technology, human resources, citizenship, economic development, and the Nisga'a Museum.

Administration expenditures of $9.5 million (2013 - $5.9 million) represents a 61% increase from prior year. The increase almost entirely relates to the Government's estimated Own Source Revenue liability. Increased personal income tax revenue and the expiry of the Trust's investment income exemption means more of the Government's revenues are included in the calculation of Own Source Revenue liability. Further, the ramp up rate has been increasing year over year and all revenues are subject to 100% of their associated inclusion rate. This resulted in an estimated liability of $4.0 million (2013 - $931,125). Smaller increases were as a result of additional resources provided to the Nisga'a Museum as a result of an Executive Director being hired, the further development of programming and additional administrative support staff hired.

Lands and resources

Lands and resources expenses comprises of cost centres associated with the Lands and Resources directorate including lands, forestry, Nass Area Strategy, and the Land Title Registry.

Lands and resources expenditures of $5.7 million (2013 - $3.2 million) represents a 78% increase from prior year. The increase almost entirely relates to the Government's Nass Area Strategy activities.

Discussions on natural gas transmission and other related projects have been a priority for the Government, particularly in relation to environmental assessments. In sum, the Government has incurred expenditures of $1.4 million (2013 - $96,860) on gas and gas related projects. The Government also engaged various proponents on mining, hydroelectric, and other resource projects which resulted in expenditures of $1.2 million (2013 - $1.3 million) The Government expects all of these costs will be reimbursed by way of either direct capacity funding or future benefit agreements.

Prior to fiscal 2014, the Government has been able to engage proponents in meaningful and good faith discussions. However in fiscal 2014, the Government was forced to engage in dispute resolution with B.C. and Canada for one specific project to ensure the terms of the Nisga'a Final Agreement were being respected. This process lasted much of fiscal 2014 and required the Government incur significant expenditures. While the Government received no financial assistance throughout the year for these expenditures in the fiscal year, the Government was able to conclude a cooperation and benefits agreement early in fiscal 2015.

Programs and services

Programs and services expenses comprises of cost centres associated with the Programs and Services directorate including child and family services, Nisga'a Employment Skills & Training, and the NLG Terrace office.

For fiscal 2014, Nisga'a Employment Skills & Training and the NLG Terrace office were new cost centres and were the cause of the increase of expenditures to $3.8 million (2013 – $2.9 million). Nisga'a Employment Skills & Training is fully funded through an agreement with Canada and is expected to expand in fiscal 2015 along with Nass Area Strategy projects. The NLG Terrace office was in operation for 8 months, from August 1, 2013 to March 31, 2014, and incurred costs of $387,041 which is a reduction from direct funding provided to the Terrace Nisga'a Society in fiscal 2013 of $978,847.

Expenditures were below budget of $4.2 million due to delays in further expanding the directorate. Child and family services continues its transition to a C-6 level of delegation with recruitment for fully trained staff well underway. In addition, Nisga'a Employment & Skills Training was delayed in its start which resulted in some cost savings.

Governance

Governance expenses comprises of cost centres related to convening legislative meetings, elected representatives, legal counsel, the Administrative Decisions Review Board, and Nisga'a Elections.

Governance expenditures decreased to $3.4 million (2013 - $4.7 million). As the Government continues to focus on the Nass Area Strategy, a large portion of resources dedicated to legal counsel were transferred to lands and resources from governance. Fiscal 2013 included a full, national election whereas fiscal 2014 had a number of by-elections which, in sum, required fewer resources from the Government. Finally, the Government transferred responsibility for the payment of stipends to urban local representatives to the urban locals except for Terrace. This increased the amount of transfers the Government provided to the urban locals but reduced its governance expenditures.

Fish, wildlife and migratory birds

Fish, wildlife and migratory birds expenses comprise of the Fish & Wildlife directorate which includes the fisheries and wildlife cost centres.

Expenditures increased to $2.2 million (2013 – 2.0 million) due to a variety of fisheries administration and projects. Labour costs and boat maintenance increased for fiscal 2014 both administratively and for marine vessel operations and support. Three new projects were also implemented: Nass Eulachon ($17,536), communal fishery ($43,238), and Gingolx side-channel enhancement ($39,709).

Commercial development

Commercial development represents expenditures from both the Commercial Fisheries Fund and the Business Development Fund.

The increase in expenditures to $1.7 million (2013 - $305,322) was mostly due to the development of the Commercial Fisheries Fund. The Government purchased shrimp licenses, halibut licenses and quota, and paid grants to Nisga'a commercial fishermen. It is expected that the commercial fisheries program will continue to be developed in fiscal 2015.

Settlement fund

Settlement fund represents the expenditures of the Trust. The majority of the Trust's expenditures are investment manager and Trustee fees.

As part of the diversification strategy of the Trust, the Trust went from three investment portfolios to six investment portfolios with a seventh expected to be added in fiscal 2015. Dividing the Trust's assets means each portfolio is smaller and thus the investment manager fees are slightly higher but this extra cost is expected to be offset by higher, and less volatile, returns.

Share of business enterprise loss

Business enterprise income represents the results of the Lisims Forest Resources LP ("LFR") and Nass Area Enterprises LP ("NAE") whose financial details are included in Note 8.

LFR's net income for fiscal 2014 of $65,740 is slightly improved from fiscal 2013 ($38,437).

In fiscal 2013, NAE reported a net income of $582,962 which, combined with a fiscal 2012 start-up loss, resulted in the Government recording total partnership equity of $384,345. NAE's results for fiscal 2014 are a material reversal of the previous years' surplus and a loss greater than the total partnership equity earned to date.

In fiscal 2014, NAE continued to engage in work on construction of the Northwest Transmission Line based upon contracts with BC Hydro. NAE also accepted and completed work outside the scope of these contracts at the request of BC Hydro – work known as equitable adjustments – with the expectation that NAE and BC Hydro would agree upon pricing at a later date. NAE subcontracts much of its work to its contractors and earn a margin from subcontracting. This margin is meant to cover NAE's own work on the contracts, administration costs, and a profit margin.

The markups and margins that NAE expected to earn have materialized and are materially the same as the gross margins original estimated by NAE management during the bidding process. However negotiations with BC Hydro on equitable adjustments have been protracted and have required NAE to incur administrative expenses that NAE had not anticipated. More importantly, the profit margin that NAE expected to have earned by now to offset their costs is tied up in negotiations.

The Northwest Transmission Line is substantially complete. NAE's contract and equitable adjustment work has substantially come to an end. NAE only has a small staff remaining in the field engaged in wrap up work and its administrative staff is focused on completing equitable adjustment negotiations. NAE management is of the opinion that, if the equitable adjustment negotiations are completed shortly, NAE will earn sufficient profit margin to offset all losses and be in a position to contribute positive partnership equity.

As to the effect on the Government, NAE is a limited liability partnership and the Government is a limited liability partner. The Government is therefore not legally responsible for any losses of NAE and is not required to contribute any monies to NAE should they suffer any losses. The Government has not contributed any startup capital and is therefore only liable up to the partnership's accumulated equity. As such, despite the fact that NAE is in a negative partnership equity situation, the Government has only reduced its share of partnership equity from $384,345 to nil.

The share of business enterprise loss reported is of $318,705 is the net amount of the Government's share of LFR's net income and the reduction of the Government's share of NAE's partnership equity to nil.

The sum consolidated expenses of the Government is $34.0 million (2013 - $24.6 million). It is worth noting that the expenses of the Government for the delivery of programs and services – calculated by removing the Government's share of government business expenses and share of business enterprise loss – is $30.1 million and is within 0.4% variance of the budgeted expenses of the Government ($30.2 million) as authorized by Wilp Si'ayuukhl Nisga'a in October 2013.

Transfers and operating grants

Transfers to Nisga'a entities were made by the Government as per the approved fiscal 2014 final budget. School District No. 92's transfers increased to $7.9 million (2013 - $7.2 million) as a result of an increase in the per pupil rate paid by the Government to $19,446 per pupil (2013 - $19,112 per pupil) as well as additional one-time funding of $309,600. The reduction in transfers to Nisga'a Urban Locals to $1.8 million (2013 - $2.9 million) is as a result of the cessation of transfers to Terrace Nisga'a Society and the implementation of the NLG Terrace office.

The result of the above is a surplus by the Government of $10.8 million (2013 - $23.9 million).

Consolidated statement of financial position

Aside from growth in the net financial assets as a result of the addition of fiscal 2014's surplus, the consolidated statement of financial position remains largely unchanged from fiscal 2013.

The designated trust funds have increased to $208.1 million (2013 - $184.4 million) due to the annual transfer of monies from the Nisga'a Final Agreement proceeds receivable, offset by payment on the treaty debt payable, as well as overall growth in the assets of the Trust. Fiscal 2015 will be the final year in which capital transfers to the Trust will occur. Moving forward, the Trust will only grow through the appreciation of its assets.

Investments in other entities has been reduced to $2.7 million (2013 - $3.0 million) as a result of the aforementioned reduction in NAE's partnership equity to nil.

Bank indebtedness of $517,132 (2013 - $495,382) represents cheques the Government has issued but have yet to clear the Government's main operating account. The bank indebtedness was cleared early in fiscal 2015 upon receipt of the Government's annual funding transfers.

Accounts payable and accrued liabilities increased to $10.9 million (2013 - $7.4 million) due to an accrual of the Government's estimated Own Source Revenue liability of $4.0 million. As the Government's revenue generating capacity increases each year and the Own Source Revenue inclusion rate increases, the estimated liability of the Government will continue to increase each year. The liability is not due until two years after the fiscal year in which it is incurred.

Consolidated statement of changes in net financial assets

The consolidated statement of changes in net financial assets reconciles the fiscal 2014 surplus to the increase in net financial assets by providing details on transactions related to non-financial assets.

The acquisition of tangible capital assets represents work conducted by Nass Area Properties on Nass Camp. Three log homes were acquired from the Laxgalts'ap Forest Corporation and installed at Nass Camp. Additional work has also been conducted on the restaurant and sewer system at the camp. The Government also completed work on the Gingolx road upgrade ($1.9 million) and various upgrades to the Government's administration building ($282,890).

Consolidated statement of cash flows

The majority of the cash the Government received from its operating and financing activities went towards increases in the Trust ($28.0 million). The remainder went towards acquisition of tangible capital assets of $1.3 million (2013 - $2.2 million).

Notes to the consolidated financial statements

Additional details contained within the notes to the consolidated financial statements provide additional insight to the above transactions. Items of highlight are as follows:

Note 2 (c) (viii) – Land Title Assurance Fund

The Nisga'a Land Title Act was amended in October 2012 and included a requirement that a Land Title Assurance Fund be created. This fund is a basic principle of a Torrens title system and is used to guarantee title should an individual be deprived of their title due to fraud or error.

Note 8 – Investments in other entities

This note provides details of the Government's commercial entities that have been consolidated using modified equity into the Government's financial statements. It lists NAE's 2013 accumulated partnership equity and its current status as nil.

Note 17 (b) (iii) – Contingencies

This note is new to the financial statements and relates to a Notice of Disagreement the Government received from Canada in relation to the Government's Own Source Revenue treatment of Nisga'a Goods and Services Tax revenue. The disagreement also has ripple effects on the Own Source Revenue treatment of federal personal income tax revenues.

The Government has filed Own Source Revenue reports based upon its interpretation of the Own Source Revenue Agreement. The Government is of the opinion that it has applied a principled and defendable inclusion rate and, while it will engage Canada in discussions on the matter, expects to resolve the disagreement at a rate equal to or materially comparable to its applied rate.

Note 23 – Government business income and expenses

This note provides details of the Government's government business entities that have been consolidated using a full consolidation approach.

Consolidated schedule of tangible capital assets

This schedule provides a breakdown of additions and disposals to tangible capital assets and amortization by asset type.

Consolidated schedule of segment disclosure

This schedule provides the operating results and balances of each of the funds listed in note 2 (c). As compared to fiscal 2013's report, the Land Title Assurance Fund has been added. The fund had no activity save for a transfer of $50,000 to capitalize the fund in fiscal 2014.