

**NISGA'A LISIMS GOVERNMENT  
CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2008**

**REPORT FROM THE DIRECTOR OF FINANCE  
CLAY HARMON, CMA, CFP, CAFM  
FINANCIAL STATEMENT DISCUSSION AND ANALYSIS**

Recently the Wilp Si'ayuukhl Nisga'a (WSN) (Nisga'a Legislature) passed an amendment to the Financial Administration Act to permit the publication of the audited financial statements of the Nisga'a Lisims Government. While these statement do not include the Nisga'a Villages, Urban Locals, Nisga'a Corporations and Nisga'a Institutions, it is expected that over the next few years these entities will also be publishing their statements. I am very pleased to present the following report relating to the Nisga'a Lisims Government statements. The Nisga'a Nation has always been proud of its legacy of transparency in its government activities evidenced by the fact that Nisga'a citizens and the public at large are permitted to attend meetings of the WSN, the Executive of the WSN and meetings of committees of the Executive. The Special Assembly held every two years is an opportunity for every Nisga'a citizen to participate in an open microphone forum. With attendance of approximately four hundred citizens and guests per day for this week long accountability exercise and with approximately four thousand hits on the live internet broadcast, this event defines government by the people in terms of accountability.

I am pleased to present the following Financial Statement Discussion and Analysis which has been prepared by management. The following discussion and analysis of the financial performance of the Nisga'a Lisims Government (NLG) should be read in conjunction with the audited consolidated financial statements (Statements) and their accompanying notes and schedules which are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) for governments established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

The Statements provide information about the economic resources, obligations and accumulated surplus of the NLG. They include information related to departments, investments and corporations of the NLG,

**FINANCIAL POSITION**

The Consolidated Statement of Financial Position reports the NLG's financial and non-financial resources, obligations and accumulated surplus as at March 31, 2008 on a comparative basis. This statement is used to evaluate the NLG's ability to finance its activities and to meet its liabilities and commitments. An important indicator on the Consolidated Statement of Financial Position is the NLG's Net Financial Assets.

Net Financial Assets is the difference between financial assets and liabilities which provides an indication of the affordability of additional spending. As at March 31, 2008

the NLG was in a net financial asset position of \$263.3 million (2007 - \$255.1 million). The change in Net Financial Assets during the year resulted from a surplus of \$.7 million which included a non financial expenditure of \$7.7 million of transfer of physical assets to Villages, amortization of physical assets in the amount of \$.5 million and \$.4 million of share of business enterprises loss.

Another important indicator on the Consolidated Statement of Financial Position is the accumulated surplus position. Accumulated Surplus represents the net assets of the NLG. This amount is also the cumulative yearly change in the surplus as a sum of the annual excess of revenues over expenses for the years. In 2008 accumulated surplus increased primarily as a result of recording the unrealized increase in value of portfolio investments (\$4.1 million), Capital Finance Commission expenditures less than budget (\$6.5 million budgeted less \$2.5 million actual for a \$4 million under expenditure) less the transfer of physical assets to Villages (\$7.7 million).

**The following is a discussion on some of the items that are included in the Consolidated Statement of Financial Position:**

**Accounts receivable** (Note 4 to the Statements) from Government funding and grants were lower at (March 31, 2008 - \$2.4 million, March 31, 2007 - \$5.6 million) by \$2.4 million mostly as a result of a reduction of targeted funding revenue reduced by \$4.7 million during the year.

**The Nisga'a Final Agreement proceeds receivable** (Note 5 to the Statements) arises as a result of an appropriation by the Parliament of Canada and the Legislature of the Province of British Columbia. The NLG has received two payments of \$22.0 million, six payments of \$13.0 million and at March 31 was still owed seven annual payments of \$22.6 million. The receipts of these funds are internally restricted through the Nisga'a Nation budgeting process and are substantially transferred to an account in the Designated Trust Funds.

**The Capital Finance Commission Proceeds Receivable** (Note 5 to the Statements) arises out of the Nisga'a Final Agreement and a FFA (Fiscal Financing Agreement). The NLG receives \$3.0 million plus an inflation adjustment annually and in monthly installments for thirty six years related to the major maintenance and replacement of physical assets. The receipt of these funds is segregated in a separate bank or investment account and these funds are used for maintenance or replacement of assets identified in Schedule C to the FFA. The **Designated Cash** identified in the Consolidated Statement of Financial Position (Note 6 to the Statements) is substantially made up of these funds.

The **Designated Trust Funds** (Note 7 to the Statements) are held for the benefit of the Nisga'a Nation by Royal Trust as trustee of the Interim Nisga'a Settlement Trust. This trust fund is intended to provide financial security for future generations of citizens of the Nisga'a Nation. During the 2007 and 2008 fiscal years, \$5.5 million and \$6.4 million respectively and totaling \$11.9 million were appropriated to be transferred from the

Nisga'a Interim Settlement Trust to general revenues. As the NLG is in year eight of a five year FFA and as the cost of governing the Nation is greater than the amounts provided under the FFA, it has been necessary for the NLG to appropriate funds for operations from the Designated Trust Funds to achieve a balanced operating budget. These transfers were deferred in accordance with authorized cash management strategies. These transfers may be implemented in the future consistent with this strategic cash management policy. The history of the Nisga'a Settlement Trust is as follows:

Nisga'a Lisims Government  
Interim Nisga'a Settlement Trust  
Investment Snapshot to October 20, 2008

<u>Date</u>	<u>Starting Value</u>	<u>Contributions</u>	<u>Manager Expenses</u>	<u>Trustee &amp; Audit Expenses</u>	<u>Investment Return</u>	<u>Ending Value</u>	<u>Estimated Return</u>
		21,293,653					
Feb-02	21,293,653	6,703,632	(79,111)	(62,249)	(171,858)	27,684,067	-1.2%
2003	27,684,067	5,406,421	(126,482)	(117,420)	3,050,093	35,896,678	8.8%
2004	35,896,678	5,506,421	(150,732)	(129,567)	3,081,799	44,204,607	7.0%
2005	44,204,607	5,506,421	(172,859)	(152,616)	4,028,497	53,414,049	7.6%
2006	53,414,049	11,012,841	(206,652)	(191,817)	6,961,918	70,990,339	10.6%
2007	70,990,339	11,012,841	(246,449)	(233,202)	2,067,692	83,591,221	2.0%
Oct-08	83,591,221	12,298,006	(168,456)	(191,701)	(11,810,722)	83,718,348	-13.8%
<b>Total</b>		<b>78,740,234</b>	<b>(1,150,741)</b>	<b>(1,078,571)</b>	<b>7,207,418</b>	<b>83,718,348</b>	

NB There has been no withdrawal from funds deposited to the Trust.

The **Nisga'a Final Agreement debt payable** (Note 5 to the Statements) relates to costs to negotiate the final agreement. This loan is repayable over thirteen years commencing May 11, 2002 at six payments of \$2.0 million and seven payments of \$10.3 million. As the interest cost exceeded the payment for the first six years, this loan increased over that time period with the loan scheduled to be paid in full over the following seven payments. This loan payment is scheduled concurrently with the receipt of funds under the Nisga'a Final Agreement proceeds receivable.

The **Physical Assets** (Note 12 to the Statements) represent buildings, equipment and work in progress related to physical assets. In previous years, the expenditures of the Capital Finance Commission related to assets owned by the Villages were processed by the NLG through the Capital Finance Commission. As some of these projects were substantial and spanned a number of years, there was an increase in the work in progress account of the NLG. During 2008, a number of these projects were completed and the assets transferred to the Villages. The NLG has modified its accounting and financial

management of this kind of expenditure over the past year so that the Villages are advanced funds and then they manage the construction and major maintenance of their own projects resulting in an anticipated substantial reduction in this work in progress account in future years.

Of the total financial assets of \$333.0 million, \$5.6 million (cash \$0.8 million plus accounts receivable of \$4.8 million) is available for operations as the remainder of the financial assets have been internally restricted. In addition to this \$5.6 million there is an additional \$11.9 million of the Designated Trust Funds that have been appropriated but not transferred. The current liabilities related to these available funds amount to \$7.6 million (\$18.0 million less \$10.4 million). If there is no transfer from the Designated Trust Funds, there is an operating shortfall of \$2.0 million which is supported by an authorized line of credit in the amount of \$5.0 million of which \$3.0 million had been accessed at year end.

## **REVENUES AND EXPENDITURES**

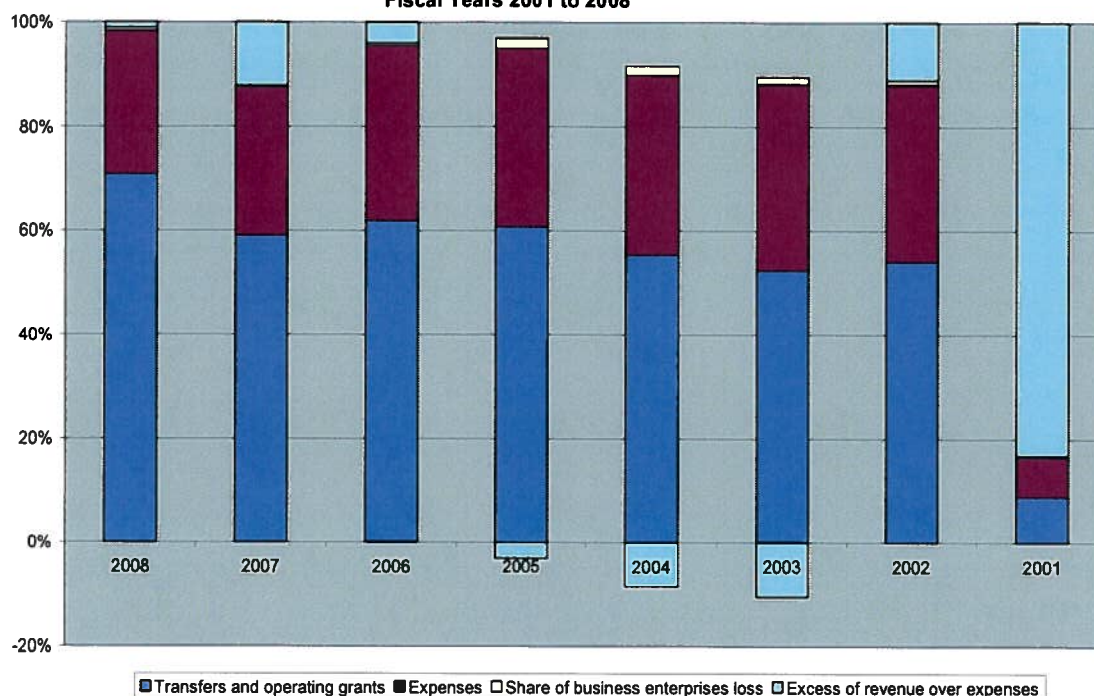
The Consolidated Statement of Operations and Accumulated Surplus is a report of the NLG's changes in economic resources and accumulated surplus for 2008 on a comparative basis. As there is an excess of revenues over expenditures during the year, it indicates that the NLG increased its accumulated surplus during the year.

During 2008 the NLG recorded consolidated revenues of \$64.3 million (2007 - \$61.1 million). The main increases in revenue relate to the investment income of the Settlement Trust and the Designated Cash along with a recording of the unrealized increase in value of portfolio investments. All of these revenue sources are maintained in their respective trust or designated investment accounts. The only expenditures from these designated accounts during the year relate to expenditures authorized by the Capital Finance Commission.

Transfers and operating grants increased by \$9.5 million from \$36.1 million in 2007 to \$45.6 million in 2008. This increase is made up of the transfer of physical assets to villages in the amount of \$7.7 million and transfers for operations and capital in the amount of \$1.8 million.

Expenses increased by \$0.3 million from \$17.4 million in 2007 to \$17.7 million in 2008. There was a reduction of cost of governance and administration with increased costs mostly related to silvaculture expenditures within the Lands and Resources department, Economic Development funding, and Capital Finance Commission funding.

**Nisga'a Lisims Government  
Analysis of Distribution of Total Revenues  
Fiscal Years 2001 to 2008**



## ACCOUNTING POLICIES

The significant accounting policies used in preparing the NLG's consolidated financial statements are summarized in Note 3 to the Statements. The accounting policies section of the Statements sets out management's decisions concerning estimates that may significantly impact the NLG's financial results. The precision of these estimates and the likelihood of future changes depend on a number of underlying variables and a range of possible outcomes. The following is a discussion of these critical accounting estimates.

**Designated Trust Funds** (including portfolio investments) are recorded at market value. This represents a change in accounting policy as is required under PSAB and GAAP. Investment income is recorded on the accrual basis. Subsequent to the year end and the publishing of the audited statements, market values have declined sharply resulting in a potential write down of these assets. If this had been measured as of October 20, 2008 as per the chart in the Designated Trust Funds section of this report, the write down would be \$11.8 million. The government manages this risk and has conducted a rigorous analysis of this fund using a firm of actuaries to measure the probability that this fund will achieve its goals in the long term. The investment policy mandates a conservative asset mix that includes equities and fixed income investment vehicles. There is always uncertainty when making forward looking statements. The government believes that it has followed best practices in selecting investment managers and identifying asset quality and mix.

The NLG has made **contractual commitments** to the Villages, Urban Locals, Hospital Authority, School District and College. The amount of these commitments is linked to the FFA and to the performance of the Designated Trust Funds. These contractual commitments are revised twice per year in the budget process.

### **BUSINESS RISKS**

**Human resources** management is an area of risk for the government. There is potential for significant turnover within the senior management due to the high percentage of the senior managers that will be eligible to retire within the next few years. A small group of employees in the child and family services department have formed a bargaining unit under the BCGEU. Contract negotiations are in progress but there is a level of uncertainty relating to the outcome of those negotiations.

**Fisheries and Wildlife** department relies on funding from the **Lisims Fisheries Conservation Trust** to conduct research and environmental studies. This funding has been in the amount of \$0.5 million (2007 – \$0.6million). The Trust relies on its investment portfolio to fund these projects. As a result of severe market declines the trustees have advised the NLG that there will be no funding for the 2008-2009 fiscal year. This announcement was made after the trustees had confirmed funding for the year and the projects were substantially complete. The trustees quoted their investment policy in that the funding would be beyond their authority given the change in the market value of the Trust. The NLG will be applying under Section 60 of the Nisga'a Nation Fiscal Financing Agreement.

### **LOOKING FORWARD**

The NLG is actively engaged in a number of dynamic activities pointed towards improving the quality of life for Nisga'a citizens. The Nass Area Strategy is designed to formalize a protocol as to how the Nisga'a Nation engages those who would like to participate in economic activities that affect Nisga'a Lands. There is a project in progress to develop a public policy framework that will link to the vision statement of the Nisga'a Nation. One of the management work plans is centered on the concept of performance reporting to balance the current state of the art presentation of financial information to Nisga'a citizens and other stakeholders. Building on a process of transparent governance through events such as the Special Assembly and the increasing use of the internet to involve Nisga'a citizens; along with a "grass roots" budgeting and reporting system bringing a new definition to the term "accountability", the Nisga'a Nation expects to continue to demonstrate the leadership that it is so well known for.