

**NISGA'A LISIMS GOVERNMENT  
FISCAL 2012 CONSOLIDATED FINANCIAL STATEMENTS  
DISCUSSION AND ANALYSIS**

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The trend of past fiscal years continues in the fiscal year ending March 31, 2012 for the Nisga'a Lisims Government (the "Government") in again reporting a significant surplus. The fiscal 2012 surplus of \$14.3 million is the Government's largest surplus since the fiscal year the Nisga'a Final Agreement was signed. In the past four fiscal years, the Government has reported consecutive surpluses totaling \$38.7 million. In that same time frame, the financial assets have remained at \$250 million however the liabilities have decreased \$22.9 million to \$75.1 million. These financial resources provide the Nisga'a Nation a solid foundation to finance programs and services and to improve living standards for Nisga'a citizens for many generations.

To that end, the Government has also continued to implement its Nass Area Strategy and Quality of Life Strategy. Negotiations with proponents interested in bringing economic development into the Nass Valley continued while previously executed impact benefit agreements began to be implemented. The Government also further developed a strategic plan of action to improve the lives of Nisga'a citizens in cooperation with other Nisga'a institutions. A labour market study was completed which provided insight as to the current issues facing Nisga'a citizens. The Government continued to defend the treaty in legal proceedings. Finally, fiscal 2012 marked the grand opening of the Nisga'a Museum; a project in development since the execution of the Nisga'a Final Agreement.

**Consolidated statement of operations and accumulated surplus**

**Revenues**

The Government budgeted for revenues to increase significantly in fiscal 2012 over fiscal 2011. As compared to the fiscal 2012 final budget, significant improvement in investment income as well as the performance of the Government's commercial entities saw revenues rise to \$90.1 million (budget - \$85.8 million). This represents an increase of \$17.0 million (23.2%) as compared to fiscal 2011.

Fiscal 2012 represents the third year of the Fiscal Financing Agreement (the "FFA") which was renewed in fiscal 2010. As per the terms of the FFA, federal funding is adjusted upward for population and inflation changes resulting in an increase of \$2.7 million (5.0%). Federal targeted funding also increased substantially by \$3.8 million (157.3%) mainly as a result of the Nisga'a Village of Gitwinksihlkw successfully obtaining \$5.5 million in funding to construct a new water system.

Other revenue increased significantly to \$14.2 million (2011 - \$6.0 million). The increase of \$8.2 million (136.4%) is the result of the first impact benefit agreement payments being received. Where prior years included significant revenues related to capacity funding to negotiate impact benefit agreements, fiscal 2012 is the first year where the return on those negotiations have been recognized.

The recession brought on by the 2008 credit crisis provided a challenge for the Nisga'a Settlement Trust's (the "Trust") investment managers. In fiscals 2010 and 2011, the Trust reported below normal investment income of \$3.5 million and \$5.1 million respectively. While improvements in the market have been slow, the Trust's investment income has increased \$2.7 million (53.6%) to \$7.8 million on the strength of increased realized capital gains and dividend income. This realized investment income has been re-invested back into the Trust.

The presentation of the consolidated statement of operations and accumulated surplus has been adjusted from fiscal 2011. Whereas the operating results of the Government's government businesses were reported on separate line items, the Fisheries Corporation, Telecom and Tourism revenues are now consolidated into a single line titled "government business income" along with the income of the Nass Area Enterprises Limited Partnership ("NAELP") and Nass Area Properties Limited Partnership ("NAPLP"). The details of each entity's income and expenses are now reported in Note 22 of the financial statements.

Government business income mainly stayed consistent with fiscal 2011 at \$1.5 million (2011 - \$1.5 million) only increasingly nominally by \$51,215 (3.5%) mostly as a result of income from the two new commercial entities. Income is, however, significantly higher than the budgeted figure of \$847,849 due to fish revenue being higher than previously expected.

The operating results of the Government's commercial forestry activities continue to be reported separately as "government business enterprise income". Commercial forestry income of \$492,940 is a significantly improvement over fiscal 2011 where a loss was reported of \$189,460.

## **Expenses**

### **Administration**

Where the Government was distracted in previous fiscal years on major negotiations, the administrative focus for fiscal 2012 was back on the Government's expanding operations. This meant adding capacity and re-focusing personnel back to internal Government priorities. This shift back to the Government's core operations coincides with an increase in administration expenditures of \$1.2 million (25.1%) to \$5.9 million (2011 - \$4.7 million).

As more attention by the Government's senior management was focused on operations, the Government was able to recover fewer fixed overhead costs through capacity funding. Fiscal 2012 also saw the addition of an Executive Director to the senior management team who assists the Chief Executive Office in enacting the Government's operational plan. Other personnel were also added at the Nisga'a Museum and in the Communications department.

With these new personnel, additional focus was placed on the Quality of Life Strategy. In consultation with various experts in social and economic development, the Government worked to further establish a plan of action to improve the lives of Nisga'a citizens. Particularly, emphasis will be placed in reducing vulnerabilities in children aged 0 to 5 and working cooperatively with Nisga'a institutions both in the implementation of the strategy and in

analyzing results. This is a long term initiative of the Government with results expected to take years to fully manifest.

The grand opening of the Nisga'a Museum occurred on May 11, 2011 after the repatriation that occurred in September 2010. The opening ceremony was organized by the Communications department and included dignitaries from across the country. The Nisga'a Museum had well over a thousand visitors in its first year of operations and it is further expected to grow not only in the number of visitors but through the development of educational programs and additions to the collection. Funding partially came from the Government but the Nisga'a Museum was also able to generate \$57,760 from fundraising and gift store sales. The Government continues its fundraising efforts into fiscal 2013 with the hope that the Nisga'a Museum will become more self-sustaining.

The Communications department has also been active on two further initiatives: the Nisga'a Foundation and new communication platforms. The purpose of the Nisga'a Foundation is to assist the Government and other Nisga'a institutions in applying for funding to supplement its operations. This work is continuing into fiscal 2013. The Government launched a new Facebook page and a Twitter feed and commenced some preliminary work to redesign the Government's websites. The Government recognizes how crucial it is to communicate with its citizens and it is expected these new initiatives will improve how the Government interacts with its citizens.

The Government also put additional emphasis on economic development with a strategic analysis of the Nisga'a Nation's assets as well as training for citizens looking to work on the Northwest Transmission Line. Partnered with the Sauder School of Business and other consultants, the Government engaged in a strategic planning initiative to review the existing assets that could be further optimized to increase economic growth. Prosperity for the Nisga'a Nation was a forum held to connect skilled labour and trades with employers in the Nass Valley and surrounding area. Finally, faller training courses were held for Nisga'a citizens to obtain certificates needed to work on the Northwest Transmission Line. The Government received \$263,037 in funding which covered the majority of these costs.

Despite this sizable increase in expenditures and activity, the administration budget allocated an additional \$1.1 million (16.5%) to administration activities. While the Government filled many administrative positions, unfortunately the budget included positions that were not filled in fiscal 2012. Some of these positions have since been filled with others expecting to be filled shortly to further boost the Government's capacity. Embedded within administration costs is an allocation for Own Source Revenue ("OSR") liability. The Government has worked to arrange its transactions to minimize OSR liability and fiscal 2012's estimated liability is \$590,176 (budget - \$900,000).

### **Governance**

Similar to administration, increased governance activities focused more on treaty implementation and legislation. Expenditures increased by \$588,688 (20.4%) to \$3.5 million (2011 - \$2.9

million). The majority of the increases related to legal support and development (\$567,582). These increases were offset by reductions in expenditures related to Communications initiatives.

Instead of focusing on FFA or impact benefit agreements negotiations, significant emphasis was placed on the Taxation chapter of the Nisga'a Final Agreement. The Government sought input from experts on property taxation, income taxation and consumption taxes to negotiate revenue sharing and administration agreements. Property taxation negotiations started in fiscal 2011 continued, albeit at British Columbia's glacial pace, while discussions commenced on income taxation and revenue sharing. The Government has also been in discussions with British Columbia to ensure the provincial portion of HST paid by Nisga'a institutions and citizens are returned to the Nisga'a Nation. The provincial HST referendum significantly interfered with these discussions and they remain outstanding. There are currently several agreements and associated legislation that still need to be completed all of which are expected to be completed in fiscal 2013.

Legal counsel also worked to make various amendments to the Nisga'a Elections Act as well as the Nisga'a Elections Regulations. The amended act was completed at the October 2011 sitting of Wilp Si'ayuukhl Nisga'a and put in force by way of regulation passed by the Nisga'a Lisims Government Executive. The amendments strengthen provisions related to conflicts of interests and financial debts to the Nisga'a Nation as well as adding other improvements to the election process.

The Communications department was able to focus more on the above noted new administrative initiatives as a result of other initiatives having a lower priority. The Government held its bi-annual Special Assembly in fiscal 2011. Aside from completing the report for the Special Assembly, the Communications department was not required to engage in any additional activities until fiscal 2013. There were also smaller incidents requiring activation of the Emergency Operations Centre as opposed to the forest fire in fiscal 2011 which required significant resources.

### **Programs and services**

Overall, actual expenditures for programs and services decreased by \$421,281 (12.7%) as compared to fiscal 2011 and were below budget by \$580,709 (16.7%). The majority of this decrease relates to a Log Home Building program; a one year initiative ending in fiscal 2011. This project trained Nisga'a citizens in carving and log home building and was funded by Canada for \$280,738. Similar to administration, there were also a number of vacant positions that needed to be filled within the directorate.

The Government has been transitioning towards a C-6 level of child protection for its child and family services program. As compared to fiscal 2011, an additional \$222,340 of preparatory costs was spent for child and family services on Nisga'a Lands. In contrast, activities for child and family services off Nisga'a Lands decreased by \$191,246 as compared to year 2011 as fewer family support costs were incurred.

Funding for child youth mental health services of \$56,940 was obtained and the Government worked with the Nisga'a Valley Health Authority to deliver that service. The Government also completed a labour market study which was commenced in fiscal 2011. The labour market study polled Nisga'a citizens in all seven communities to determine current social and economic issues. This study received \$86,155 (2011 - \$168,161) in funding from British Columbia.

### **Lands and resources**

Budgeted expenditures were consistent with actual expenditures of \$2.7 million in fiscal 2012 (2011 - \$3.0 million) with a decrease of \$309,983 (10.3%) as compared to fiscal 2011.

With focus shifted away from the Nass Area Strategy negotiations, the lands and resources directorate incurred fewer consulting costs as well as carried a smaller portion of the administrative burden. One new position was created to assist in reviewing proposals from proponents however no new impact benefit agreements were settled with activity mostly focused on the environmental assessment process and related discussions of future capacity funding.

The Government did conduct a survey and review of land owned in fee simple by the Nisga'a Nation outside of Nisga'a Lands in remote parts of the Nass Valley requiring the rental of a helicopter. This due diligence work is expected to become an annually recurring activity. Work continued on the land title holding project with the Government working with consultants to convert the land title system. The final piece of legislation is expected to be presented to Wilp Si'ayuukhl Nisga'a in October 2012.

Forestry activities focused on completing an inventory of timber on Nisga'a Lands. This project is being worked on jointly between the Government's Geographic Information Systems Technician and an outside consultant. Lisims Forest Resources Limited Partnership ("LFRLP") contributed \$53,610 to the costs of the project as part of their silviculture liability.

The Enforcement department continues to increase its activity with training for its staff, acquisition of equipment and increasing their physical presence within the Nass Valley. The department incurred an additional \$73,182 in fiscal 2012 however budgeted allocations exceeded actual expenditures by \$108,753. This allocation was to be used to hire and train two additional Enforcement officers however the Government has had difficulty in recruiting.

### **Government business expenses**

As was noted in the revenue section, the Government's commercial expenses for the Fisheries Corporation, Telecom and Tourism have been consolidated with NAELP and NAPLP. Additional detail for this line can be found in Note 22.

Also noted in the revenue section was the unexpected increase in fish sale revenue. This increase partially correlates to the increase in government business expenses as compared to budgeted figures. The majority of the increase of \$264,416 (12.6%) as compared to fiscal 2011 relates to startup costs of NAELP and NAPLP.

## **Fish, wildlife and migratory birds**

The activity of fish, wildlife and migratory birds mostly stayed consistent with prior years and to budget. Operational expenditures decreased by \$233,143 (10.2%) and were only below budget by \$69,267 (3.3%).

Fish conservation project expenditures remained consistent at \$1.1 million (2011 - \$1.1 million) and is funded from the FFA, the Lisims Fisheries Conservation Trust (the "LFCT") and the Government. The LFCT increased its funding to \$575,000 (2011 - \$550,000) due to improvements in its investment portfolio though have recently advised that their fortunes have recently reversed. This does put some concern as to the funding for these projects in fiscal 2013.

Each year, the Fisheries department has been looking to replace its aging vessels and vehicles. In fiscal 2011, the Fisheries department purchased a new vessel for \$69,985. Included in fiscal 2012 are purchases of three new vehicles for \$119,198 with one old vehicle transferred to the Maintenance department.

The Salmon Enhancement Program is an annual program funded through the Department of Fisheries and Oceans. In previous years, including fiscal 2011, the Government received \$60,000 in funding for this project however no funding was provided in fiscal 2012 so the project was cancelled. Funding for fiscal 2013 has been confirmed and the project has been re-initiated.

The remaining expenditures for fiscal 2012 are mostly consistent with budget and fiscal 2011 figures. The nominal increase in interest expense on the Treaty debt payable is due to the loan's interest rate being renewed at 3.2% (2011 - 1.77%). The Trust's management fees are based upon the market value of the Trust. Though the value of the Trust increased, the Government re-negotiated its management fees resulting in a nominal decrease. Amortization increased as a result of the completion of the Nisga'a Museum and the commencement of its capitalization. Unfortunately, the amortization budget figure did not take this into account and is in error.

## **Transfers and operating grants**

As the Government's FFA funding increases due to population and inflation adjustors, funding to Nisga'a institutions directly tied to that funding also increases. As compared to fiscal 2011, however, transfers to the Nisga'a Village Governments increased by \$6.2 million (29.2%) to \$27.3 million (2011 - \$21.1 million). Included within this figure are disbursements for targeted funding of \$5.9 million (2011 - \$1.5 million). In addition to population and inflation adjustors, each Nisga'a Village Government and Nisga'a Urban Local also received an additional \$65,000 of general funding to be used for any priorities defined by the community.

The Nisga'a Valley Health Authority's transfers also mainly relate to FFA adjustments however they also received \$211,063 (2011 - \$517,345) in targeted funding. Both School District #92 and Wilp Wilxo'oskwhl Nisga'a made applications to the Government for additional funding so the Government included \$300,000 into the fiscal 2012 budget for each institution. School District #92 and the Government, however, could not come to an agreement on that use of that funding. Wilp

Wilxo'oskwhl Nisga'a was advised that it would not receive Indian Studies Support Program funding for fiscal 2012 (2011 - \$171,824) and requested the Government provide replacement funding. This additional \$300,000 funding was provided in fiscal 2012.

As a result of the above transactions, the Government has recorded a surplus of \$14.3 million. This is an increase of \$8.2 million (135.3%) from fiscal 2011 and an increase of \$4.1 million (40.6%) over the budgeted surplus.

### **Consolidated statement of financial position**

The consolidated statement of financial position has also undergone a change in presentation. Instead of reporting the current financial assets and current liabilities separately from long term financial assets and long term liabilities, these figures are now consolidated. The figures are otherwise the same.

For the year ended March 31, 2012, the Government's financial assets only decreased \$1.2 million (0.5%) while the liabilities decreased by \$14.5 million (16.2%). In anticipation of a significant surplus for fiscal 2012, the Government arranged its financial transactions such that the surplus could be used to make payment on the Treaty debt payable. Whereas in prior years, the \$22.6 million capital transfer from Canada and British Columbia would be transferred to the Trust net of the payment on the Treaty debt payable, the full amount was transferred to the Trust.

The Government receives monies from the FFA related to the maintenance and replacement of specified assets of the Government, the Nisga'a Village Governments and the Nisga'a Valley Health Authority and are listed in Schedule C of the FFA. These monies are held in a designated cash account, a Capital Finance Commission ("CFC") receivable has been recognized for monies to be received under the current FFA and unspent monies as CFC deferred revenue. In fiscal 2012, the Government received \$3.9 million (2011 - \$3.8 million) on the receivable including inflation adjustments. From these monies and cash on hand, \$4.0 million (2011 - \$5.6 million) was disbursed to asset owners.

The increase in investments in other entities relates to LFRLP's net income for fiscal 2012 of \$492,940.

The Government's bank indebtedness increased to \$1.1 million (2011 - \$308,084) as a result of a larger number of cheques issued and outstanding at March 31, 2012 as compared to March 31, 2011. The largest of these additional cheques is a payment of a Nisga'a Valley Health Authority holdback (\$500,000). The Government has a line of credit to cover these payments of \$5 million of which \$725,000 (2011 - \$2.2 million) was drawn down.

Liabilities have otherwise been mostly reduced in fiscal 2012 as payments were made on the Treaty debt payable, the line of credit and a demand loan drawn for the purposes of constructing the Nisga'a Museum. The nominal increase in due to other entities relates to additional borrowings of the Fisheries Corporation from LFRLP.

The major addition to the tangible capital assets relates to the completion of the Nisga'a Museum for which more detail is provided below.

### **Consolidated statement of changes in net financial assets**

The consolidated statement of changes in net financial assets reconciles the fiscal 2012 surplus to the increase in net financial assets by providing details on transactions related to non-financial assets. As has been mentioned above, amortization exceeded the budget due to an error in taking into consideration additional assets made available for use in fiscal 2012.

Again, the acquisition of tangible capital assets mostly relates to the final construction costs of the Nisga'a Museum. The difference between the budget and actual figures relate to upgrades to the Gingolx road leading to the government wharf. There was a second Nisga'a Nation capital project expected to be completed in fiscal 2012 however it is now expected to be completed in fiscal 2013.

The Government owns a group home in the City of Terrace which was initially for use by child and family services. The home was in need of renovations however, upon completion of an engineering estimate, it was determined that it was structurally unsound and was recommended to be demolished. The loss on disposal of tangible capital assets of \$132,404 represents the demolition of the home.

### **Consolidated statement of cash flows**

The consolidated statement of cash flows provides a good summary of the major transactions that the Government has completed for the fiscal year. The Government's surplus of \$14.3 million nets out to \$10.6 million of cash from operations after considering changes in non-cash and working capital items. This is a decrease from fiscal 2011's cash from operations of \$15.5 million and is due to two reasons. Firstly, as a result of renewing the FFA in fiscal 2010, the Government received significant retroactive and one time payments early in fiscal 2011. Secondly, the Government made payment on a number of its outstanding accounts payable and accrued liabilities in fiscal 2012.

The Government also received significant monies from its financing activities of \$12.4 million (2011 - \$9.8 million). As per previous fiscal years, the Government received payment on the Nisga'a Final Agreement receivable and CFC receivable. NAELP drew down on its long-term debt advances in the amount of \$105,000 to fund its startup operations. As a result of repayments fewer debt advances in fiscal 2011, the Government had fewer repayments on long-term debt.

The majority of the cash the Government received from its operating and financing activities went towards increases in the Trust (\$21.4 million). The remainder went towards acquisition of tangible capital assets of \$2.5 million (2011 - \$8.8 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 3 – Accounts and loan receivables**

While the total amount of receivables of \$4.7 million (2011 - \$4.8 million) remains unchanged, it is of note that the receivable for HST, GST and PST increased by \$617,531 (76.7%) over fiscal 2011.



The balance has continued to grow since the implementation of HST in July 2010 as the Government had not received a refund for the provincial portion of taxes paid. The Government has been in discussions with British Columbia over the past two years and British Columbia has provided a \$1.45 million interim payment however the agreements remain unfinished. The Government hopes to conclude these discussions shortly to ensure refunds for taxes paid through to March 2013 are received expeditiously.

#### **Note 7 – Designated trust funds**

The Government has placed significant emphasis on optimizing the funds in the Trust in the past couple years. In fiscal 2012, the full \$22.6 million in capital transfers from Canada and British Columbia was transferred into the Trust as opposed to an amount of \$13.1 million transferred in fiscal 2011 net of payments on the Treaty debt payable.

As of March 31, 2012, the market value of the Trust is \$164.9 million (2011 - \$143.9 million). In the four year period from March 31, 2008, the market value of the Trust has more than doubled from a value of \$73.5 million. The increase of \$91.4 million in those four years comprises of \$49.2 million that would have been transferred to the Trust through the normal capital transfer process. The remaining \$42.2 million is investment income and additional capital transfers that the Trust has earned as a result of the Government optimizing its financial activities.

The Government did appropriate \$5.6 million (2011 – \$3.7 million) from the Trust to fund the operations of the Nisga'a Nation however the Trust only distributed \$3.0 million (2011 – nil).

#### **Note 22 – Government business income and expenses**

This new note provides details of the revenue and expenses of the government businesses fully consolidated within the Governments financial statements net of any intercompany transactions. The revenues and expenses of the Fisheries Corporation, Telecom and Tourism are mostly in line with fiscal 2011. Of note, Telecom's expenses were higher in 2011 as a result of the write-off of a prepaid asset which the Government believes has no future value.

The activities of NAELP mainly represent startup costs to hire personnel and purchase equipment but also to negotiate for Northwest Transmission Line contractual opportunities. NAELP had no revenues in fiscal 2012 and relied upon a credit facility to fund its operations but has signed contractual opportunities early in fiscal 2013. It is expected that NAELP will further separate from the Government's operations in fiscal 2013 as it earns revenue.

NAPLP is the owner of Nass Camp and all revenues and expenses reported relate to the operations of Nass Camp. It is expected that Nass Camp will be used as a work camp and staging area for many contractors engaged in work on the Northwest Transmission Line. In anticipation of this usage, NAPLP did incur significant preparatory expenditures (\$481,135). The revenues recorded in fiscal 2012 represent rental income from a handful of renters with more expected to be recognized once work on the Northwest Transmission Line progresses.

### **Consolidated schedule of tangible capital assets**

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

The major capital initiative of the Government was to complete the construction of the Nisga'a Museum. An additional \$1.8 million was incurred in fiscal 2012 to come to a total cost of \$13.6 million which was transferred from constructions in progress to buildings and mobile homes.

The other significant addition is the purchase of a number of vehicles to replace ageing vehicles used by child and family services, fisheries, lands and elections. Other additions were for the purchase of equipment, furniture and computers by both the Government and its government business entities. The sole disposal for the year was the child and family service group home.

### **Consolidated schedule of segment disclosure**

This schedule provides the operating results and balances of each of the funds listed in note 2 (c).

Included in the Government and Administration Fund are the operations and administration of the Government. The surplus of \$15.0 million includes the Trust's surplus of \$9.2 million and interest expense on internal borrowings from the Commercial Fisheries Fund of \$392,639.

The Business Development Fund consists of \$50,447 (2011 - \$47,196) of interest income on business development loans. Disbursements from the fund were \$163,293 (2011 - \$110,000).

The Investment Fund represents the activities of the government businesses and government enterprises. The deficit of \$351,942 (2011 - \$835,415) is a consolidation of the results reported in Note 8 and Note 22.

The Government provided submissions to the CFC of \$383,455 (2011 - \$24,000) for renovation projects within the Lisims building. These submissions are recorded as revenue under the Tangible Capital Asset Fund. This revenue is offset by the loss on disposal of the group home and amortization.

Capital Finance Commission Fund revenues and transfers directly relate to funding to the Nisga'a Village of Gitwinksihlkw for their water project.