

LAKE BABINE NATION ADMINISTRATION 2007



General Report to the LBN Members

FRANK J ALEC, GENERAL MANAGER

GENERAL MANAGER'S REPORT TO THE MEMBERS

LBN FINANCIAL RECOVERY PLANS

Lake Babine Nation has undergone a change that was inevitable and predicted in the 2003 fiscal year of operations. The change that has occurred is eliminating expenditure patterns that continued to contribute to the Nation's deficit. Many reviews have taken place by Council, Management, INAC officials, and our Band Auditor to assist into the recovery plans. Band Members need to know that these reviews include: 03/04, 04/05, 05/06 Audited Financial Statements, Remedial Management Plan (February 2004) as the result of the 03/04 audited review and then the Band was to enter into a new Canada/First Nations Funding Agreement (CFNFA) in the fiscal year to start 2006 for five years. How these reviews connect to each other is why Lake Babine Nation has taken so long to recover, also just as long to advise our Band Members.

Accuracy and Facts

Foremost, Council and the Administration deserve an accurate financial picture with the recovery efforts documented before reporting to Membership. This report will show how much work LBN has placed in these situations and why the process remains the same: INAC obligations not being met and the extraordinary costs associated by LBN.

Audit Season 2003/2004

2003/2004 Audited Financial Statements review by INAC resulted in a negative 15.16% that indicated a default to our agreement with INAC called the Canada/First Nations Agreement. INAC was informed by Council of the day that LBN intended to enter into an agreement referred to as the Remedial Management Plan (RMP).

Remedial Management Plan

The RMP was signed on February 7, 2004 and outlines corrective measures that LBN had to make in order to get back on track on the spending and keeping within the budgets allocated. In this agreement LBN was to report to and indicate to INAC that changes or corrective measures were implemented and a meeting was to take place to review the changes or corrective measures.

In this arrangement it was pointed out by LBN that the RMP was signed in February 2004 just one month past from the end of the 03/04 fiscal year.

Our annual fiscal year of operations start April 01 of every year and ends March 31.

Audit Season 2004/2005

2004/2005 Audited Financial Statement review by INAC resulted in a negative 15.34% and LBN has requested to INAC to review the RMP as pertained in the agreements. Capital projects that have been outstanding for completion reports have been processed and taken off the Capital Freeze list. Expenditures that have impacted our solvency were identified to be: social housing rents + subsidy, emergency funds, band member loans, deferred revenues slated for capital projects that were not done or no completion reports, unfunded positions, and social development activities.

Canada First Nations Funding Agreement (CFNFA 2006-2011) – Start Sept 2005

During the process of reviewing the 04/05 audited financial statements LBN was to answer to INAC if we were interested to enter into another Canada/First Nations Funding Agreement. A response letter was drafted and sent to INAC in September 2005 indicating our interest. This was very interesting as LBN was under the RMP and still recovering while this letter was submitted to INAC and ultimately accepted. The process for this was to start in January 2006.

Review Letters from INAC

Members will notice that the review letters from INAC is mentioned more often. These letters are part of their process to determine if LBN is able to continue our operations or develop alternative actions. These letters show our debt ratio calculations and a refined review of our Audited Financial Statements. Of late the review letters were not accurate as our Auditors prove. This is one of the processes apart from our financial reviews by INAC.

CFNFA Process Start Up February and Signing March 2006-March 2011

Then in February 2006 LBN was instructed by INAC to submit a budget that would reflect the CFNFA for the next five years and that the budget needed to be balanced. Submitting a balanced budget would indicate to INAC that we are intending to stay on track with the RMP outline. The balanced budget was completed and submitted to INAC to process and that this submission was integral to developing a new CFNFA. The process was completed and a new agreement was signed in March 2006. This did not stop the process of the 04/05 financial audited statements and RMP reviews as these matters remained not complete by INAC.

INAC Funding Service Officer Changes in May 2006

While the 2004/2005 reviews were taking place a turnover occurred with INAC whereas the Funding Service Officer position changed in May 2006 and a period of transition was

happening while our efforts/work remained not processed by INAC. The RMP review was indicated to INAC by LBN and this was not done. The audit review letter was not addressed by INAC with its outstanding issues as mentioned by our Auditors. In June 2006 LBN Members elected a new Band Council.

Audit Season 2005/2006

2005/2006 Audited Financial Statements review by INAC resulted in negative 17.34% on our solvency calculations. LBN has not received the review letter until December 12, 2006 and was dated for November 29,2006.

The expenditures that were extraordinary are: social housing rents + subsidy, band member loans, emergency funds, choices program, fish harvest program, unfunded positions, deferred revenues, errors by INAC that LBN noted in 04/05 and not corrected by INAC.

LBN called a meeting on January 12, 2007 with Dean Mason & Co. (Band Auditor) to address the review letter. Based on this meeting and advice from the General Manager, Capital Manager, and Band Auditor a response letter was developed and prepared for Chief Betty Patrick to review, sign and to be sent to Jennifer Guscott, Regional Director General for INAC, BC Region. Reviews will continue in the first week of March 2007.

Members will note that the reviews are lengthy, time consuming, and very complex, adding to the tasks of red tape for the Federal Government and Membership needs.

Extraordinary Services and Costs

We noted and identified extraordinary costs as expenditures and we did this on purpose to show Members what really happen and they are as follows:

2003/2004 Fiscal Year

Emergency funds	\$ 206 740
Social Housing	\$ 761 254
Band Members Loans	\$ 314 676 (02/03 \$274K)
Social Development	\$ 222 715
Unfunded Positions	\$1 700 000
Fish Harvest (02/03)	\$ 215 603
Totals	\$3 420 988

2004/2005 Fiscal Year

Emergency Funds	\$ 278 983
Social Housing	\$1 144 626
Band Members Loans	\$ 109 152
Social Development	\$ 57 418
Unfunded positions	\$1 700 000
Totals	\$3 290 179

2005/2006 Fiscal Year

Emergency Funds	\$ 305 418
Social Housing	\$1 199 173
Band Members Loans	\$ 91 967
Social Development	\$ 131 175
Unfunded positions	\$1 700 000

Choices Expenses	\$ 118 725
Fish Harvest	\$ 212 149
Totals	\$3 758 607

Deferred Revenues

Members need to know what this means ; for example- capital projects that LBN has successfully secured and received funds need to be completed. The capital projects identified: \$375 000. These monies were used somewhere else as noted in the extraordinary services and costs. *It still shows in our audited financial statements and used as part of our revenues, but has a reverse effect to our financial situation. That is what deferred means.* Health budget surplus of approximately \$800000 is required to be spent within the Administration this is seen as deferred monies.

Recovery Plans 2007- What has the Council Done to Deal with the Financial Issues?

In the month of December 2006 Council decided to take the lead role in dealing with the deficit and approved to the lay off notices for all unfunded positions, discontinue some services in the social development area, eliminating the emergency funds, and approving a 4 day per week work schedule. These decisions are based on Management recommendations.

Cost reductions as the result of these corrective measures are: 4 day per week results in a cost reduction of \$145000, lay offs of unfunded positions reduced overhead by \$360 000, and the corrective measures in the Social Development program resulted in a \$120 000 reduction of expenses. Other cost reductions related to payroll are benefits that will be calculated for Council in a variance report. Rent collection of \$76 353 per month; wage earners pay \$22000 per month, SA department pays \$56353 per month.

Capital Program has been resurrected: Mold Remediation project will go forward starting on March 1, 2007 with allocations from INAC; \$3.4 Million

Other potential monies owed by INAC; MTSA \$400k, Misc. O&M \$120K.

Members will be shown an accurate financial picture when Council reviews the variance reports, approves a revised RMP and the 07/08 operational budget.

In part of the recovery plans are efforts placed by the Administration to share work loads and supporting each other through the changes.

Recovery Is Not Just Cutting Back – It Creates Opportunities

Recovery plans are not limited to the cutting and corrective measures they include initiating economic plans. Therefore Council plans to have a strategic economic development session for the month of February. Following the economic development strategy an operational planning session with the entire Administration will be done in March 2007.

On the interim, Administration will be deploying services from the wellness team to assist Band Members to get ready for the planned economic development projects.

Workshops are suggested for the months between January – June for Members in the areas of Social Housing, Social Development, Education, Employment and Training, Fisheries, Treaty Developments, Economic Development, and Financial Updates.

Other Pertinent Information on the Audit - Scheduling

Every year LBN schedules the start and completion of the audited financial statements as directed by INAC and for the past 3 audit schedules we have been on time.

In the months between January and February the Band Auditor comes to the office and starts with the preliminary information of reconciling the invoices, ensuring proper authorizations have been made in all transactions, makes notes to areas that need more detailed work, and advising Finance to have information prepared for their review and reporting.

Band Auditor then prepares the Audited Financial Statements for Band Council review and approval before it goes to INAC in June.

INAC should have the audited financial statements review letter prepared for Council by September no later.

Band Council reviews the letter from INAC and with the assistance of the Band Auditor, corrections are made to errors.

Debt Ratio Calculations & Audited Financial Statements – What do they mean?

The Audited Financial Statements is like a performance report of how the Nation has done in managing the funds for the entire year. The Financial Statements communicates to our Members by assessing the amount, timing, and uncertainty or certainty of our cash flow. It also tells of our financial performance and management stewardship.

INAC takes our Audited Financial Statements and reviews it with their own selected experts within their office in Vancouver. The review takes information from the Audited Financial Statements, cross references this information with their systems information called the Transfer Payments Monitoring System (TPMS) and without backing the information with LBN's input, the debt ratio is calculated.

Debt ratio calculations are done by adding all the revenues and taking away the expenditures which leaves either a deficit or surplus. This amount is then divided by the revenue to show the debt ratio.

Debt ratios are mentioned in the CFNFA whereas we cannot go under negative eight percent on the debt ratio calculations. Should this happen we are in default with the CFNFA then INAC needs an action plan to deal with the situation. In the case of LBN: Chief and Council of the day chose a self propelled RMP: LBN initiated the meetings, LBN negotiated the outcomes, and LBN continues on their intended plans of recovery.

Where Do We Go From Here?

Once the red tape is finalized between INAC, Council will be faced with another monumental task and that is to review the 2007-2008 Operational Budget.

The budget will represent a clear way of expenditures that are: mandatory, needed, within the direction Council will be taking in order for the Nation to get back on its feet.

The budget will consider: the elements of a revised remedial management plan and balancing the entire revenues with the expected expenditures.

The budget will have to consider operational plans that allow economic development initiatives and activities, wellness planning for the Nation, and restructuring.

Following this task or during the process of these developments, a cooperative approach between Council and Administration will be implemented to communicate with the entire Membership.

The Membership will be informed of the strategies, visions, mission statement, goals, and objectives through various community meetings, public band council meetings, informational workshops, and newsletters.

Conclusion

This report is very important for Members to read, question, and find out more information where needed. This report is fact and shows exactly where the money was spent and for what purpose. Members will also note how the redirected funds impacted the Nation. *We therefore conclude that we are all responsible for the Nations deficit in areas as identified.*

Members will notice how this report is structured with the audited fiscal years being interrupted by other items and this was done on purpose to show the Members of how complex the efforts were to move toward the actual recovery plans.

This does not exclude the lack of follow ups by INAC and CMHC, they are just as responsible and with Council's assistance we will deal with them on their own time.

We also conclude that if Members know the truth on our efforts, support from Membership will be stronger and we will become more trusting towards each other. You are very welcomed to come and visit the office to ask questions or take part in providing solutions to some of the challenges.

Thank you for reading this report and do not hesitate to write or follow up with us what you would like clarified.

**Submitted by: Frank J Alec, General Manager
February 8, 2007**

