

# Local Revenue Standards Exposure Draft Summary of Comments and Responses

January 25, 2016

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## 1.0 Background

The First Nations Financial Management Board (“the Board”) published a Local Revenue Financial Reporting Standards Exposure Draft on August 31, 2015. This exposure draft contained the proposed set of standards under section 55(1)(d) of the *First Nations Fiscal Management Act* (“the Act”) to assist first nations to report on the collection and use of local revenues. The documents published as part of this exposure draft were made available for public comment until November 20, 2015. Following the comment period the Board analysed the comments received and considered how best to respond to each. This document summarises the comments that were received and how they were addressed in reaching a final set of standards.

On December 14, 2015 the Board chose to approve the issuance of a final set of local revenue financial reporting standards to be effective for reporting periods commencing on or after April 1, 2016. These standards consist of the following publications:

- D1 Local Revenue Financial Reporting Standards
- D2 Illustrative Local Revenue Financial Statements
- D3 Illustrative Local Revenue Segment Note Disclosure
- D4 Local Revenue Financial Reporting Standards – Explanatory Notes

These publications are available for free on the Board’s website ([www.fnfmb.com](http://www.fnfmb.com)).

## 2.0 Summary of Comments and Responses

Ref	Comment Received	Response
1.	Page 4, first paragraph That the term “municipalities” be removed.	This amendment has been made in the final version of the approved Standard.
2.	Page 4, fourth paragraph That the following passage be revised: “The primary objective of these financial statements is to allow a taxpayer to compare the approved local revenue budget against actual results of the period.” Use of financial statements is not limited to taxpayers. Consider: <i>The primary objective of these financial statements is to report on the results of operations of the local revenue account activities for the period.</i>	The word ‘primary’ implies that there are indeed other objectives and users.  The text in this paragraph has been amended in the final version of the approved Standard in line with the suggestion provided.
3.	Page 5, second paragraph That the wording explaining the rationale for ss. 14 (1.1) be changed to “where the costs of preparing separate audited local revenue account financial statements may be significant relative to the amount of revenue raised.” Further we recommend that the passage concerning “inherent limitations” be removed (see our comments below on subsection 10.3). The FMA amendment enabling this option did not arise out of a cost vs. benefit to taxpayer analysis. It arose to address situations where the potential cost of a separate audit may be significant relative to the amount of local revenues raised by the First Nation.	The text in this paragraph has been amended in the final version of the approved Standard in line with the suggestion provided.  Refer to item #9 below re: Limitations.
4.	Page 9, “local revenue account” That the term “local revenue account” be changed to “local revenue chart of account.” Consider adding a definition for a new term “local revenue financial statement”. Standards are secondary legislation and should be consistent defined terms in primary legislation.	Rather than try to define the ambiguous term ‘local revenue account’ this term has been deleted from the document. It is felt that the revisions made to the final Standards are adequate to avoid any confusion. The addition of Explanatory Notes will be used to help clarify this term.  The text in this paragraph (and elsewhere as necessary) has been amended in the final version of the approved Standard in line with the suggestion provided.
5.	Page 9, “taxpayer” That that this be revised to “means a person liable for the payment of taxes.”	The text in this paragraph has been amended in the final version of the approved Standard in line with the suggestion provided.
6.	Page 10, section 5 That the term “separate local revenue financial institution account” be revised to “separate account in a financial institution”.	The text in this paragraph has been amended in the final version of the approved Standard in line with the suggestion provided.

Ref	Comment Received	Response
7.	<p>Page 13, paragraph 10.2(b) That this provision be deleted.</p> <p>A written notification requirement for an option that was designed to reduce cost and administrative burden, is in our view at odds with the legislative intent of the amendment. Further, the written notification requirement (which includes the financial statements) for First Nations using this option, would mean that their financial statements would require a higher level of taxpayer engagement than separate audits, which need only to be made “available.” It also singles out taxpayers for this higher level of engagement, while the FMA does not indicate that the s. 14 requirements are intended solely to benefit taxpayers.</p>	<p>This condition relating to the need for written notification to taxpayers has been removed from the final version of the approved Standard and instead included in the new D4 Explanatory Notes as an optional resource.</p>
8.	<p>Page 13, paragraph 10.2 That FNFMB consider establishing conditions for the use of segment reporting that that would enable the FNFMB or FNTC to require the First Nation to prepare a separate audit in any given year. Specific circumstances could be set out where the FMB or FNTC could make this requirement, for example s.33, or for FMB co-management.</p> <p>FNTC has a concern regarding whether the proposed approach to enabling segmented reporting enables FNTC/FMB to require a full audit on a case by case basis, where a FN is using the segmented reporting approach. For example, if there is a complaint under s.33, could the segment reporting option affect the Commission’s ability to require a FN to conduct and provide a separate audit so that the FNTC can consider whether an expenditure was properly made?</p>	<p>Refer to item #10 below where this issue is dealt with.</p>
9.	<p>Page 13, subsection 10.3 That this provision re: Limitations be deleted.</p>	<p>The narrative text outlining the inherent limitations to the segment reporting option have been deleted from the standards and added to the new D4 Explanatory Notes.</p>

Ref	Comment Received	Response
10.	<p>Page 13, subsection 10.3</p> <p>Suggested that the LRA Standards include a condition or restriction on a First Nation using the segmented reporting approach. The condition would be that the FMB or FNTC could require a separate audit on a case by case basis in specified circumstances.</p>	<p>The purpose of the Local Revenue Financial Reporting Standards is to assist tax administrators, financial statement preparers and auditors understand how to report on and audit the results of operations of the first nation's local revenue activities. In staff's view this request for amendment goes beyond this purpose and beyond the role that the First Nations Financial Management Board ("the FMB") is expected to have under the <i>First Nations Fiscal Management Act</i> ("the Act").</p> <p>The Act currently requires a first nation to account for its local revenues separately from other monies and to ensure local revenues collected are deposited into a separate bank account and not comingled with unrelated funds.</p> <p>Section 33 of the Act allows the First Nations Tax Commission ("the FNTC") to require the production of documents. Arguably this could include the request for a separate set of audited local revenue financial statements. Irrespective of the need for an audit opinion, it is reasonable to expect that the first nation would be able to prepare an unaudited set of local revenue financial statements on account of the requirement under the Act for these transactions to be accounted for separately. Whether these separate financial statements then need to be audited for the purpose of the FNTC's review under section 33 of the Act is a question that falls outside the scope of these standards.</p> <p>A final remedy exists under the intervention authority given to the FNTC under the Act. It is reasonable to assume that the FNTC could exercise this authority and that the FMB would then respond to a request for audited information by intervening and fulfilling this need on behalf of the first nation.</p> <p>No amendment is proposed to the original Exposure Draft.</p>

Ref	Comment Received	Response
11.	<p><b><u>\$400,000 threshold is too low</u></b></p> <p>The Exposure Draft proposed the use of segment disclosure in the first nation’s annual financial statements in place of separate annual local revenue financial statements on the condition that total local revenues did not exceed \$400,000 in the current taxation year.</p> <p>Concern was raised over the costs of auditing the local revenues and it was commented that the \$400,000 threshold was too low in light of the costs associated with an audit. It was perceived that “essentially, governments collecting over \$400K in local revenues would have to ‘do’ both options under the proposed standards, not just one, which [was] expressed as being onerous.”</p> <p>It was proposed by a different individual that “the threshold be proportionate with the cost and effort required to produce separate audited financial statements and proposed the threshold be increased to \$1 million.”</p>	<p>The rationale of selecting the monetary threshold of \$400,000 has been discussed with the FNTC. This figure has been selected based on consultation with the FNTC taking into account analysis of taxing portfolios across the country. This threshold represents an approximate demarcation point between first nations with a small number of primarily corporate taxpayers and first nations with individual non-corporate taxpayers that pay tax on residential property. Corporate taxpayers are typically utility companies or companies that own and operate rights of way.</p> <p>No amendment is proposed to the original Exposure Draft.</p> <p>New explanatory notes have been developed to explain the rationale used in setting this threshold.</p>
12.	<p>“I think the requirement to notify taxpayers of segmented disclosure is unnecessary and an unreasonable burden to First Nations tax authorities. Also, the sample letter should not be required to include the audited statement as an enclosure. There is no obligation to provide such information to taxpayers; it is sufficient to have the documents available for inspection.”</p>	<p>The original Exposure Draft has been amended to remove reference to any writing communication to taxpayers. This optional communication has been moved to the new D4 – Local Revenue Financial Reporting – Explanatory Notes.</p>
13.	<p>“It would be helpful to have a sample segment disclosure statement.”</p>	<p>D3 – Local Revenue Financial Reporting – Illustrative Segment Note Disclosure has been developed and will be published as part of the final standard.</p>

## **Enclosure – Redline Amendments to Exposure Draft – D1 Local Revenue Financial Reporting Standards**

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# D1

LOCAL REVENUE ~~ACCOUNT~~ FINANCIAL REPORTING

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## STANDARDS



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~~EXPOSURE DRAFT ISSUED AUGUST 31, 2015~~

~~COMMENTS DUE NOVEMBER 20, 2015~~ APRIL 1, 2016

**Table 1 - LIST OF CORE DOCUMENTS**

The following table lists the core documents made available by the First Nations Financial Management Board (“the Board”) for First Nations to utilise in developing, implementing and improving their financial management.

FINANCIAL ADMINISTRATION LAW		DESCRIPTION
A1	FINANCIAL ADMINISTRATION LAW – <b>REVIEW PROCEDURES</b>	Procedures to apply when requesting a compliance approval of the First Nation’s Financial Administration Law.
A2	FINANCIAL ADMINISTRATION LAW – <b>STANDARDS</b>	Standards that support sound financial administration practices for a First Nation government in Canada.
A3	<b>SAMPLE</b> FINANCIAL ADMINISTRATION LAW	Example of a law which meets the requirements of the A2 Financial Administration Law – Standards.
A4	FINANCIAL ADMINISTRATION LAW – <b>EXPLANATORY NOTES</b>	Provides assistance on the development of a Financial Administration Law by discussing the structure and substantive content of the A3 Sample Financial Administration Law.
A5	FINANCIAL ADMINISTRATION LAW – <b>SELF-ASSESSMENT</b>	Tool that can be utilized to compare existing or proposed Financial Administration Law(s) of the First Nation to the A2 Financial Administration Law – Standards.
<b>FINANCIAL MANAGEMENT SYSTEM</b>		
B1	FINANCIAL MANAGEMENT SYSTEM - <b>CERTIFICATION PROCEDURES</b>	Procedures to apply when requesting a review of the First Nation’s financial management system.
B2	FINANCIAL MANAGEMENT SYSTEM – <b>STANDARDS</b>	Standards that support sound financial practices for the operation, management, reporting and control of the financial management system of a First Nation.
B3	FINANCIAL MANAGEMENT SYSTEM – <b>SELF-ASSESSMENT</b>	Tool that can be utilized to compare the existing financial management system of the First Nation to the B2 Financial Management System – Standards.
<b>FINANCIAL PERFORMANCE</b>		
C1	FINANCIAL PERFORMANCE – <b>CERTIFICATION PROCEDURES</b>	Procedures to apply when requesting a review of the First Nation’s financial performance.
C2	FINANCIAL PERFORMANCE – <b>STANDARDS</b>	Standards that assess the historical financial performance of a First Nation over a five year period using up to seven financial ratios.
<b>LOCAL REVENUE <del>ACCOUNT</del> FINANCIAL REPORTING</b>		
<input checked="" type="checkbox"/>	<b>D1</b> LOCAL REVENUE <del>ACCOUNT</del> <u>FINANCIAL REPORTING</u> <del>STANDARDS</del> <b>FINANCIAL REPORTING STANDARDS</b>	Standards that establish requirements for the financial reporting of a First Nation’s local revenues <del>account</del> <u>and expenditures</u> .
	<b>D2</b> LOCAL REVENUE <del>ACCOUNT</del> <u>FINANCIAL REPORTING</u> – <b>ILLUSTRATIVE FINANCIAL STATEMENTS</b>	Illustrative annual financial statements for a First Nation’s local revenues <del>account</del> <u>and expenditures</u> designed to comply with the D1 Local Revenue <del>Account</del> – Financial Reporting – Standards.
	<b>D3</b> <u>LOCAL REVENUE FINANCIAL REPORTING –</u> <u>ILLUSTRATIVE SEGMENT NOTE DISCLOSURE</u>	<u>Illustrative segment note disclosure for inclusion in the annual financial statements of a First Nation designed to comply with the D1 Local Revenue Financial Reporting – Standards.</u>

	<u>D4</u>	<u>LOCAL REVENUE FINANCIAL REPORTING – EXPLANATORY NOTES</u>	<u>Explanatory notes to accompany D1 Local Revenue Financial Reporting – Standards.</u>
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## Exposure Draft

This document is an Exposure Draft containing the proposed set of standards pertaining to the reporting and auditing of local revenues of a first nation under section 14 of the *First Nations Fiscal Management Act* (“the Act”). These standards may be established by the First Nations Financial Management Board (“the Board”) under section 55(1)(d) of the Act. These proposed standards have been written to reflect the amendments to the Act that are expected to come into force on or around April 1, 2016. First nations, taxpayers, and other stakeholders are encouraged to consider these proposed standards and provide written comments to the Board within the comment period. These comments will be reviewed and analysed before a final version of standards are established and published by the Board.

This Exposure Draft will remain open for comment until November 20, 2015.

Those wishing to comment on these proposed standards are encouraged to do so using the online survey here: <https://www.surveymonkey.com/r/FNFMB-LRA-ED>

Written comments may also be sent to:

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E: [scott\\_munro@fnfmb.com](mailto:scott_munro@fnfmb.com)

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A final version is expected to be issued in the first half of 2016 and are proposed to become effective for reporting periods commencing on or after April 1, 2016. For first nations that have chosen budget years commencing April 1<sup>st</sup> these standards will be effective for the reporting period ending March 31, 2017. For first nations that have chosen budget years commencing January 1<sup>st</sup> these standards will be effective for the reporting period ending December 31, 2017. Since these standards reflect amendments to the Act that are not expected to come into force until April 1, 2016 earlier adoption of these standards is not recommended.

## **Background Context**

The *First Nations Fiscal Management Act* (“the Act”) establishes several first nation institutions – the First Nations Tax Commission (“the FNTC”), the First Nations Financial Management Board (“the Board”) and the First Nations Finance Authority (“the FNFA”) - with mandates to provide an array of fiscal tools for first nations to promote economic growth. These tools include property tax jurisdiction, financial management and access to financial markets on a similar basis as ~~municipalities and~~ local governments in Canada.

Working in a collaborative framework, these three institutions facilitate the voluntary development of first nation capacity to access these markets – by assisting them to use their available revenue streams to secure funding; by assisting them to implement a sound financial management system in which lenders, investors and other stakeholders would have confidence; and by negotiating on their collective behalf the borrowing of funds from these financial markets.

As with a local government, a first nation may choose to implement a property taxation regime. This statutory power may be drawn from either section 83 of the *Indian Act* or the provisions contained in the *First Nations Fiscal Management Act*. (Once a first nation becomes scheduled to the Act, it may only exercise its authority to levy property taxes under the Act and not under the *Indian Act*.) For first nations, property taxes provide an independent, stable and flexible source of revenue, which can be reinvested in first nation communities to build economic infrastructure, attract investment, and promote economic growth. Property taxation also establishes jurisdiction and provides first nations with improved powers to control land development.

In the property taxation regime under the Act, the term “local revenues” is used to define moneys raised under a local revenue law made under subsection 5(1) of the Act as well as payments made to a first nation in lieu of a tax imposed by a local revenue law. All first nations listed on the Schedule to the Act (“scheduled first nations”) and raising local revenues under the Act are required under subsection 14(1) of the Act<sup>1</sup> to account for, and report on, their local revenues, separately from other moneys of the first nation in accordance with these Standards. This will normally require a first nation to prepare a set of separate annual financial statements for the purpose of reporting relevant financial information pertaining to the collection and use of local revenues during the period. The primary objective of these financial statements is to ~~report on the results of operations of the local revenue activities~~~~allow a taxpayer to compare the approved local revenue budget against the actual results~~ and to facilitate a budget-to-actual comparison to be made. This is necessary to fulfil the principles of transparency and accountability over the collection and use of local revenues. These financial statements and the accompanying audit report are to be made available to members of the first nation, other persons who have an interest in the first nation’s lands (i.e. taxpayers), the FNTC, the Board and the Minister of Aboriginal Affairs and Northern Development Canada.

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<sup>1</sup> This publication has been written to reflect the proposed amendments to the *First Nations Fiscal Management Act* that are expected to come into force on or around April 1, 2016.

The Board has established financial reporting standards under section 55(1)(d) of the Act to assist first nations to comply with section 14(1) of the Act. These *Local Revenue ~~Account~~ Financial Reporting Standards* (“Financial Reporting Standards”) establish requirements for the preparation of annual financial statements of a scheduled first nation’s local revenues to promote transparency and to enable a comparative analysis of the financial information presented and disclosed. *D2 – Illustrative Local Revenue ~~Account~~ Financial Statements* has also been prepared and published by the Board to assist first nations to apply these Financial Reporting Standards. Local revenue ~~account~~ financial statement preparers are encouraged to refer to this document which also includes recommended minimum note disclosures and an illustrative independent auditor’s report. The presentation requirements contained in both documents are based on, and are meant to be consistent with, the *Standards for First Nation Expenditure Laws* and the *Sample Annual Expenditure Law* published by the FNTC.

Subsection 14(1.1) of the Act sets forth an option whereby a first nation that meets criteria contained in these standards may disclose the required financial information in the form of a separate segment in the annual audited consolidated financial statements of the first nation. This option has been developed to accommodate the needs of those first nations that are generating taxation revenues at a scale where the costs of preparing separate audited local revenue ~~account~~ financial statements ~~might outweigh the benefits to taxpayers~~ may be significant relative to the amount of revenue raised. ~~To assist those first nations that qualify to use this simplified reporting option, these Financial Reporting Standards include a description of the inherent limitations that this option presents, along with a sample letter in Schedule 2 that can be sent to individual taxpayers.~~

To assist preparers of local revenue financial information apply these standards, *D4 – Local Revenue Financial Reporting – Explanatory Notes* has been issued as a companion resource. These explanatory notes seek to clarify certain standards and provide insight on the decisions that need to be made by first nation management.

These Financial Reporting Standards will continue to be refined as necessary through ongoing consultation with first nations, the FNTC and technical advisors to the Board (including lawyers and accountants experienced in first nation advisory services) and to reflect changes in the regulatory, accounting and legal environments. Financial market expectations applicable to local government bond financing will also continue to be monitored.

The Board has carried out case studies of the potential requirements of the standards and procedures with several representative first nations in order to test the content of documents and system applications. The FNTC and FNFA have reviewed and provided comment on the Board’s standards, procedures and sample laws to ensure they do not conflict with FNTC and FNFA authorities applicable to scheduled first nations including FNFA borrowing members.

The Board has also reviewed the following standards and materials:

- Standards for First Nation Expenditure Laws published by the First Nations Tax Commission

- Understanding Canadian Public Sector Financial Statements published by the Office of the Auditor General of British Columbia
- Various ISO (International Organization for Standardization) Standards, including ISO 9001 (Quality Management Systems) and ISO 17021 (Conformity assessment – Requirements for bodies providing audit and certification of management systems)
- IWA4 (ISO International Workshop Agreement #4) – Guidelines for the Application of ISO 9001:2000 “Quality Management Systems for Local Governments”
- ISO/IEC (International Electrotechnical Commission) Directives, Part 2 – Rules for the Structure and Drafting of International Standards
- CPA (Chartered Professional Accountants) Canada Handbook and Study Group documents
- CPA (Chartered Professional Accountants) Canada Public Sector Accounting Handbook, Public Sector Guidelines and Public Sector Statements of Recommended Practice
- Additional Public Sector Accounting Board materials
- Excerpts from TSX (Toronto Stock Exchange) materials.

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## FIRST NATIONS FINANCIAL MANAGEMENT BOARD

### LOCAL REVENUE ~~ACCOUNT~~ FINANCIAL REPORTING STANDARDS

#### INTRODUCTION

#### 1.0 PURPOSE

**1.1 Purpose of Standards** – The purpose of these standards is to assist first nations with the financial reporting of a first nation’s local revenues, including the audit of this financial information, under section 14(2) of the Act. These standards are meant to promote transparency and accountability for the collection and expenditure of local revenues.

**1.2 Caution** – These Local Revenue ~~Account~~ Financial Reporting Standards have been developed for the purposes set out in the Act only and may not include other applicable financial reporting or auditing requirements imposed by law or agreement on a first nation.

#### 2.0 APPLICATION

**2.1 Application** – The standards apply to all first nations which are named in the schedule to the Act and which are collecting local revenues under the Act.

#### 3.0 INTERPRETATION OF STANDARDS

**3.1 Definitions** – Unless the context indicates otherwise, in these standards:

“**Act**” means the *First Nations Fiscal Management Act*;

“**annual expenditure law**” means a local revenue law establishing a budget for the receipt and expenditure of local revenues and referred to in paragraph 5(1)(b) of the Act;

“**auditor**” means the auditor of the first nation who meets the requirements set out in standard 9.1;

“**Board**” means the First Nations Financial Management Board;

“**Budget budget year**” means the twelve month period selected by a first nation for the purpose of establishing an annual expenditure law;

“**council**” means the council of the first nation;

“**financial institution**” means the First Nations Finance Authority, a bank, a credit union or caisse populaire;

“**first nation**” means a first nation named in the schedule of the Act and collecting local revenues under the Act;

-“**FNFA**” means the First Nations Finance Authority;

“**FNTC**” means the First Nations Tax Commission;

“**GAAP**” means generally accepted accounting principles of the Chartered Professional Accountants of Canada, as amended or replaced from time to time;

“**generally accepted auditing standards**” means the authoritative pronouncements of the Auditing and Assurance Standards Board contained in the Chartered Professional Accountants of Canada Assurance Handbook, as amended or replaced from time to time;

“**including**” means ‘including, but not limited to’;

~~“**local revenue account**” means the chart of accounts used by a first nation to account for the transactions authorised under a local revenue law;~~

“**local revenue ~~account~~ financial statements**” means the separate annual financial statements described in standards 5.0 and 6.0;

“**local revenue law**” means a local revenue law made by a first nation under subsection 5(1) of the Act;

“**local revenues**” means moneys raised under a local revenue law and payments made to a first nation in lieu of a tax imposed by a law made under paragraph 5(1)(a) of the Act;

“**taxpayer**” means a person liable for the payment of taxes ~~or payment made in lieu of taxes to a first nation;~~

“**reporting period**” means the twelve month period used to prepare local revenue ~~account~~ financial statements; and

“**taxation year**” means the calendar year to which an assessment roll applies for the purposes of taxation.

**3.2 Application of Act definitions** – Unless the context indicates otherwise, the words and expressions used in these standards, and not otherwise defined, have the same meanings as in the Act.

**3.3 Rules of interpretation** – In these standards, the following rules of interpretation apply:

- a. words in the singular include the plural, and words in the plural include the singular;
- b. if a word or expression is defined, other parts of speech and grammatical forms of the same word or expression have corresponding meanings;
- c. a reference to a law, including a financial administration law, means the law as amended or replaced from time to time;

- d. a reference to a standard means the standard as amended or replaced from time to time;
- e. headings, subheadings and notes are inserted for convenience of reference only, do not form part of these standards and in no way define, limit, alter or enlarge the scope or meaning of any provision of these standards.

**3.4 Mandatory provisions** – These standards establish requirements that must be met in the preparation and audit of local revenue ~~account~~ financial statements under section 14 of the Act unless a particular standard is expressed as permissive.

#### 4.0 CONFLICTS

**4.1 Between standards and Act** – In the event of a conflict between a provision of these standards and the Act, the Act prevails to the extent of the conflict.

**4.2 Higher standards apply** – Despite standard 4.1, if a provision of these standards imposes a higher standard than that imposed in a provision of the Act, the higher standard must be applied.

#### 5.0 LOCAL REVENUE FINANCIAL INSTITUTION ACCOUNT

**5.1 Separate financial institution account** – The local revenues collected by the first nation are deposited to, and withdrawn from, a separate ~~local revenue~~ financial institution account and are not comingled with other moneys of the first nation in accordance with subsection 13(1) of the Act.

#### 6.0 TRANSFERS TO OTHER FINANCIAL INSTITUTION ACCOUNTS

**6.1 Required disclosure** – If local revenues are transferred from the local revenue financial institution account to a different and unrelated financial institution account of the first nation, the reasons for each transfer and the anticipated use of the transferred funds (using the local service expenditure categories and subcategories described in Schedule 1) are disclosed in the notes to the local revenue ~~account~~ financial statements.

**6.2 Suggested disclosure** – The disclosure referred to in standard 6.1 should also be considered by the first nation for inclusion in the notes to the first nation's annual financial statements.

#### 7.0 LOCAL REVENUE ~~ACCOUNT~~ FINANCIAL STATEMENTS

**7.1 Required content** – The local revenue ~~account~~ annual financial statements include the following:

- a. a statement of revenues and expenditures;
- b. a statement of changes in reserve funds; and

- c. any necessary notes or schedules required under these standards or to meet the needs of readers of the statements.

**7.2 Statement of revenues and expenditures** – The statement of revenues and expenditures referenced in standard 7.1 is prepared in a manner consistent with the presentation of the local revenue component of the first nation’s annual budget as reflected in its annual expenditure law and includes a comparison of:

- a. annual budgeted amounts for revenues and expenditures as presented in the first nation’s most recent annual expenditure law; and
- b. actual results for the current and immediately preceding reporting periods.

(Schedule 1 attached to these standards contains an illustrative format for the presentation of local revenue expenditures based on the *Sample Annual Expenditure Law* as issued by the FNTC.)

**7.3 Statement of changes in reserve funds** – The statement of changes in reserve funds referenced in standard 7.1 includes the following information for each reserve fund:

- a. the beginning balance as at the beginning of the reporting period;
- b. the effects of any retrospective restatements or retrospective application of changes in accounting policies;
- c. a reconciliation between the carrying amount at the beginning and the end of the reporting period, separately disclosing, on a gross basis, changes resulting from:
  - i. transfers ~~into and out~~ from other segments or departments within the local revenue account~~first nation~~;
  - ii. transfers into and out from other reserve funds; and
  - iii. moneys borrowed and repaid;
- d. interest earned during the period;
- e. the ending balance as at the end of the reporting period.

**7.4 Reporting period** – The local revenue ~~account~~ financial statements are prepared on an annual basis reflecting the budget year of the first nation.

## 8.0 LOCAL REVENUE ~~ACCOUNT~~ FINANCIAL STATEMENT DISCLOSURES

**8.1 Minimum disclosures** – The local revenue ~~account~~ financial statements include, at a minimum, the following disclosures:

- a. description of local revenue ~~account~~activities – a brief description of the composition and purpose of local revenues and ~~the local revenue account~~expenditures;
- b. basis of presentation – a brief description of the basis of presentation selected when preparing the statements. (Reference may be given to both the requirements under the Act and these standards); and
- c. any other relevant information that may assist readers of the statements.

## 9.0 LOCAL REVENUE ~~ACCOUNT~~ FINANCIAL STATEMENT AUDIT

**9.1 Auditor qualifications** – The auditor of a first nation’s local revenue ~~account~~ financial statements is

- a. appointed by the council of the first nation,
- b. independent of the first nation and the administration of ~~the~~its local revenues ~~account~~and expenditures, and
- c. a public accounting firm or public accountant
  - i. in good standing with the Chartered Professional Accountants of Canada, the Canadian Institute of Chartered Accountants, the Certified General Accountants Association of Canada or the Society of Management Accountants of Canada and their respective counterparts in the province or territory in which the public accounting firm or public accountant is practicing, and
  - ii. licensed or otherwise authorized to practice public accounting in the province or territory in which the majority of the reserve lands of the first nation are located.

**9.2 Required auditing standards** – The auditor audits the local revenue ~~account~~ financial statements in accordance with generally accepted auditing standards.

**9.3 Recommended assurance standard** – The auditor may consider the Canadian Auditing Standard 805, *Special considerations – audits of single financial statements and specific elements, accounts or items of a financial statement*, to be the appropriate assurance standard to apply in most situations.

**9.4 Auditor’s report** – The auditor’s report on the local revenue ~~account~~ financial statements expresses an opinion whether the financial statements present fairly, in all material respects, the local revenues and expenditures of the ~~local revenue account~~first nation, and the changes in reserve funds funded by local revenues of the first nation for the reporting year in accordance with the appropriate basis of accounting.

**9.5 Required audit completion date** – Subject to any earlier dates specified in a first nation’s local revenue law or financial administration law, an annual audit of a first nation’s local revenue ~~account~~ financial statements is completed and the auditor’s report dated and issued no later than 120 days after the first nation’s reporting year end.

## 10.0 LOCAL REVENUE ~~ACCOUNT~~ SEGMENT DISCLOSURE

**10.1 Option** – A first nation may choose to report its local revenues under this standard – rather than under standards 7.0 to 9.0 – if the conditions set out in standard 10.2 apply.

~~**10.2 Conditions to use Segment Disclosure** – A first nation may report on its local revenues in its audited annual financial statements prepared in accordance with GAAP as a distinct segment of the activities that appear in the statements if the first nation raises no more than \$400,000 of local revenues during the current taxation year~~

~~**10.2** the first nation raises no more than \$400,000 of local revenues during the current taxation year; and~~

~~**10.2** the first nation communicates in writing to each taxpayer stating that this reporting option has been chosen in place of preparing a separate set of audited local revenue account financial statements in accordance with standards 7.0 to 9.0.~~

~~**10.3 Limitations** – Before a first nation decides to use the segment disclosure option set out in this standard the council, with input from the tax administrator, must consider the following limitations in this form of reporting:~~

- ~~a. the first nation’s audited annual financial statements will be prepared with a reporting period that differs from the first nation’s taxation year;~~
- ~~b. a separate segment note in the audited annual financial statements of the first nation will need to be prepared in accordance with the first nation’s chosen basis of accounting (i.e. Canadian public sector accounting standards) rather than a special purpose non-GAAP framework such as that presented in these standards;~~
- ~~c. as a consequence of the limitation described in paragraphs a. and b. the local revenue account financial information presented in a segment disclosure may not agree with, nor be reconciled to, the local revenue budget information contained in the first nation’s annual expenditure law;~~
- ~~d. unless otherwise engaged to do so, the auditor of the first nation’s annual financial statements will only be required to express an opinion over the financial statements taken as a whole and will not express any opinion over a separate segment note containing local revenue account financial information; and~~

~~e. as a consequence of the limitation described in paragraph d. the level of assurance associated with a separate segment note containing local revenue account financial information contained in the first nation's annual financial statements may be inadequate to detect or prevent an error due to fraud or error that would be considered material to taxpayers.~~

**10.410.3 GAAP** – A segment note disclosure prepared in accordance with this standard is prepared in accordance with GAAP and the first nation's own accounting policies. (Public Sector Accounting Standard 2700, *Segment reporting*, contains the authoritative requirements for the presentation and content of segment information within a set of financial statements of a first nation.)

**SCHEDULE 1****Local Service Expenditure Categories****1. General Government Expenditures**

- a. Executive and Legislative
- b. General Administrative
- c. Other General Government

**2. Protection Services**

- a. Policing
- b. Firefighting
- c. Regulatory Measures
- d. Other Protective Services

**3. Transportation**

- a. Roads and Streets
- b. Snow and Ice Removal
- c. Parking
- d. Public transit
- e. Other Transportation

**4. Recreation and Cultural Services**

- a. Recreation
- b. Culture
- c. Heritage Protection
- d. Other Recreation and Culture

**5. Community Development**

- a. Housing
- b. Planning and Zoning
- c. Community Planning
- d. Economic Development Program
- e. Tourism
- f. Trade and Industry
- g. Land Rehabilitation and Beautification
- h. Other Regional Planning and Development

**6. Environmental Health Services**

- a. Water Purification and Supply
- b. Sewage Collection and Disposal
- c. Garbage Waste Collection and Disposal
- d. Recycling
- e. Other Environmental Services

**7. Fiscal Services**

- a. Long-term Borrowing Payments to the First Nations Finance Authority
- b. Interim financing Payments to the First Nations Finance Authority
- c. Other Payments
- d. Accelerated Debt Payments
- e. Other Fiscal Services

**8. Other Services**

- a. Health
- b. Social Programs and Assistance
- c. Agriculture
- d. Education
- e. Other Service

**9. Grants**

- a. Home owner grant equivalents
- b. Other grants

**10. Contingency Amounts****11. Transfers into Reserve Funds****12. Repayment of moneys borrowed from Reserve Funds**

(Source: Sample Annual Expenditure Law, First Nations Tax Commission, 2015-04-09)

~~SCHEDULE 2~~~~SAMPLE LETTER TO TAXPAYERS~~~~(RECOMMENDED FOR USE WHEN APPLYING SEGMENT REPORTING OPTION)~~~~{DATE}~~~~{NAME OF RECIPIENT, TITLE}~~~~{NAME OF ORGANISATION}~~~~{ADDRESS}~~~~{CITY} — {PROV} {PC}~~~~{NAME OF SENDER, TITLE}~~~~{NAME OF FIRST NATION}~~~~{ADDRESS}~~~~{CITY} — {PROV} {PC}~~~~DEAR {NAME}:~~~~RE: — annual reporting of local revenues under the first nations fiscal management act~~~~As a first nation that is raising local revenues under the first nations fiscal management act (“the act”) we are committed to demonstrating transparency and accountability over the use of property taxation collected from our taxpayers. We are therefore writing to inform taxpayers of how we have chosen to report on our local revenues for the budget year ending [march 31, 20x2].~~~~“local revenues” refers to moneys raised under a local revenue law made under section 5(1) of the act as well as payments made to a first nation in lieu of a tax imposed by a local revenue law. The standards for the development and enactment of a local revenue law are established by the first nations tax commission ([www.fntc.ca](http://www.fntc.ca)) while the standards for the reporting of local revenues are established by the first nations financial management board (“the board”) ([www.fnfmb.com](http://www.fnfmb.com)).~~~~The local revenue reporting standards issued by the board (and available on its website) are contained in ‘d1 — local revenue account financial reporting standards’. Normally the first nation would prepare a separate set of local revenue account financial statements and obtain an independent audit of them. However the board’s standards allow first nations, under certain conditions, to report the collection and expenditure of local revenues in the form of a distinct segment note disclosure contained in the annual~~

~~financial statements of the first nation. [name of first nation] has met the conditions that make this simplified form of annual reporting possible and has chosen to make use of this option.~~

~~We believe that the use of the more simplified segment reporting option permitted under the board's standards is appropriate to meet taxpayer needs and at the same time minimizes the cost of this annual reporting.~~

~~If you have any questions after reading this letter, the board's standards or the enclosed annual financial statements that include a local revenues segment note disclosure, please contact me at (xxx) (xxx-xxxx).~~

~~Sincerely,~~

~~[insert signature]~~

~~[name]~~

~~Enclosure: — Annual audited financial statements for the financial year ending March 31, [20x2]~~

