

C2

FINANCIAL PERFORMANCE

STANDARDS



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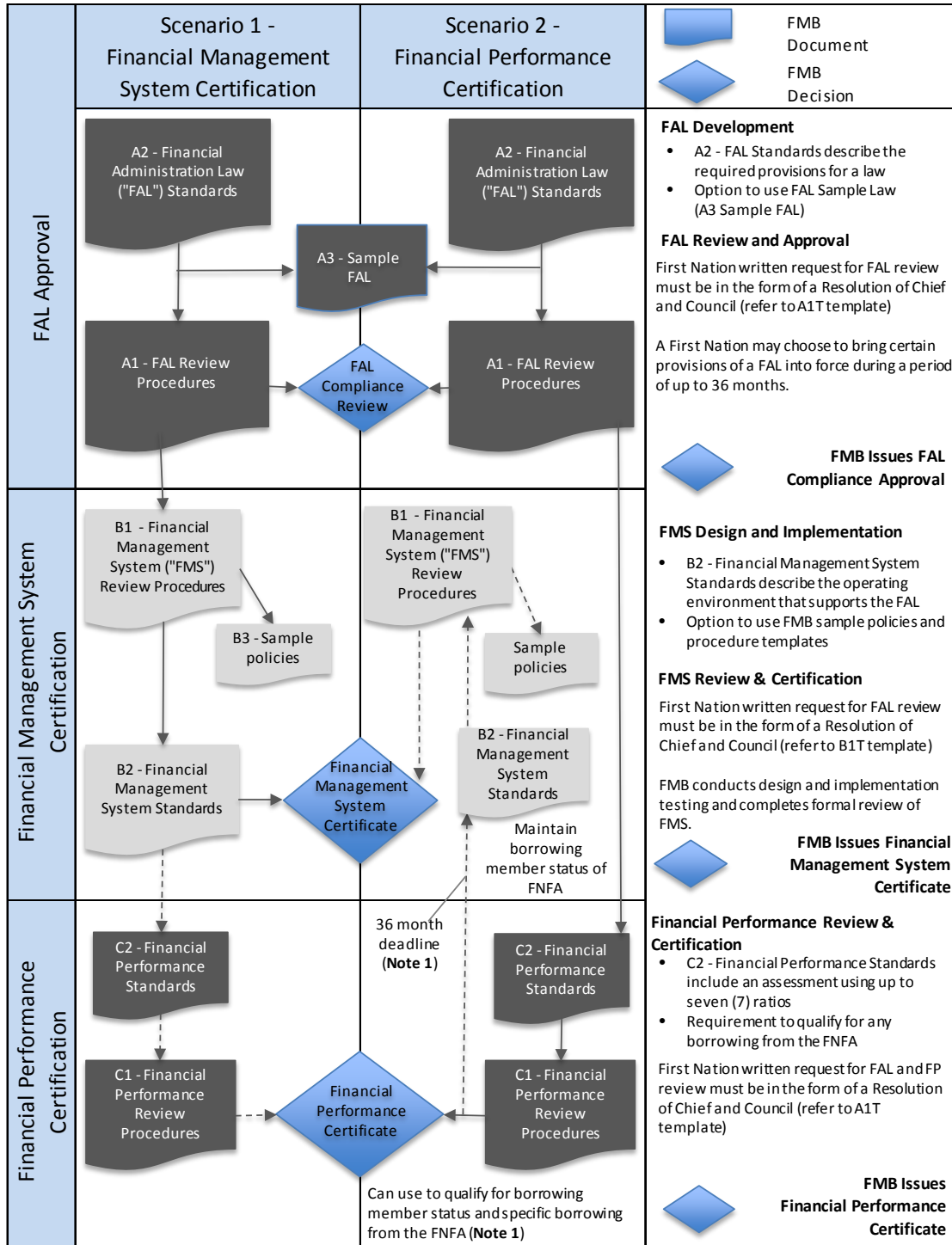
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TABLE 1 – LIST OF CORE DOCUMENTS

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

FINANCIAL ADMINISTRATION LAW			
	A1	FINANCIAL ADMINISTRATION LAW – REVIEW PROCEDURES	Procedures to apply when requesting a compliance approval of the First Nation’s Financial Administration Law.
	A2	FINANCIAL ADMINISTRATION LAW – STANDARDS	Standards that support sound financial administration practices for a First Nation government in Canada.
	A3	SAMPLE FINANCIAL ADMINISTRATION LAW	Example of a Law which meets the requirements of the A2 Financial Administration Law – Standards.
	A4	FINANCIAL ADMINISTRATION LAW – EXPLANATORY NOTES	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 – ASSESSMENT	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.
FINANCIAL MANAGEMENT SYSTEM			
	B1	FINANCIAL MANAGEMENT SYSTEM – CERTIFICATION PROCEDURES	Procedures to apply when requesting a review of the First Nation’s financial management system.
	B2	FINANCIAL MANAGEMENT SYSTEM – STANDARDS	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 – SELF-ASSESSMENT	Tool that can be utilized to compare the existing financial management system of the First Nation to the B2 Financial Management System – Standards.
FINANCIAL PERFORMANCE			
	C1	FINANCIAL PERFORMANCE – CERTIFICATION PROCEDURES	Procedures to apply when requesting a review of the First Nation’s financial performance.
<input checked="" type="checkbox"/>	C2	FINANCIAL PERFORMANCE – STANDARDS	Standards that assess the historical financial performance of a First Nation over a five year period using up to seven <u>six</u> financial ratios.
LOCAL REVENUE ACCOUNT FINANCIAL REPORTING			
	D1	LOCAL REVENUE FINANCIAL REPORTING – STANDARDS	Standards that establish requirements for the financial reporting of a First Nation’s local revenues and expenditures.
	D2	LOCAL REVENUE FINANCIAL REPORTING – ILLUSTRATIVE FINANCIAL STATEMENTS	Illustrative annual financial statements for a First Nation’s local revenues and expenditures designed to comply with the D1 Local Revenue Financial Reporting – Standards.
	D3	LOCAL REVENUE FINANCIAL REPORTING – ILLUSTRATIVE SEGMENT NOTE DISCLOSURE	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.
	D4	LOCAL REVENUE FINANCIAL REPORTING – EXPLANATORY NOTES	Explanatory notes to accompany D1 Local Revenue Financial Reporting – Standards.

FIGURE 1 – STEPS TO FMB CERTIFICATION



Note 1: A Financial Performance Certificate is required to enter into a new borrowing agreement with the FNFA. To remain in good standing with the FNFA, a Financial Management System Certificate must be obtained within 36 months from when the first nation receives proceeds for the first time from a debenture or equivalent financial instrument issued by the First Nations Finance Authority under the terms of a Borrowing Law and a Security Issuing Council Resolution.

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 and the First Nations Finance Authority (“the FNFA”) - with mandates designed to permit first nations 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 investors and other stakeholders would have confidence - by negotiating on their collective behalf the borrowing of funds from these financial markets.

In order for a first nation to access these markets through this legislative program, the first nation must become a “borrowing member” of the FNFA. Before a first nation is eligible to be considered for membership in the FNFA, the FMB must issue a Financial Performance Certificate to the first nation indicating that the first nation was in compliance with the *Financial Performance Standards*. This Certificate supports a first nation’s application to become a borrowing member of the FNFA and its first financing from the FNFA.

The first nation must obtain a Financial Management System Certificate from FMB within 36 months after the first nation receives proceeds for the first time from a debenture (or equivalent instrument) issued by the FNFA or before it may obtain a second loan from the FNFA. The FMB has issued the *Financial Management System Standards* for purposes of issuing a first nation a Financial Management System Certificate.

The FMB has also issued the *Financial Management System Certification Procedures* and the *Financial Performance Certification Procedures* to guide first nations who are applying for a certificate from the FMB. Table 2 of this document explains the steps that can be taken in this process towards certification.

A first nation will not be issued a Financial Management System Certificate or a Financial Performance Certificate by FMB unless the first nation’s law or laws respecting financial administration have first been reviewed and issued a compliance approval by the FMB. The first nation’s law or laws must meet the requirements of the *Financial Administration Law Standards* before they will be approved. The FMB has issued the *Financial Administration Law Review Procedures* to guide first nations who are applying for compliance approval of their law or laws respecting financial administration. It may be necessary for a first nation to bring its already approved law or laws respecting financial administration up to date to meet the current *Financial Administration Law Standards* before it will be issued a Financial Management System Certificate. This may be necessary if there has been some significant period of time between the FMB’s approval of the first nation’s financial administration law and its request for a Financial Management System Certificate.

To assist first nations the FMB has prepared and made available to first nations a *Sample Financial Administration Law* (Sample Law) which meets the requirements of the *Financial Administration Law Standards* and which reflects sound financial administration practices of local, provincial and federal government in Canada. There are two versions of this Sample Law available – one meets the standards required to be met by first nations already raising or intending to raise local revenues under the Act and one meets the standards required to be met by first nations that are not raising and intending to raise local revenues under the Act.

FMB Standards were established through a rigorous research and consultative review process that involved FMB internal review and input and advice from professionals experienced in first nation advisory services.

~~The FMB has carried out case studies of the potential requirements of the standards and procedures with several representative first nations, to test document and system content and application.~~ The FNTC and the FNFA have reviewed and provided comment on the FMB 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.

In addition to the materials reviewed in the development of the *Financial Administration Law Standards*, the Sample Law and the *Financial Management System Standards*, the following standards and materials were reviewed:

- ❖ [“20 Questions About Government Financial Reporting”, Public Sector Accounting Board, Canadian Institute of Chartered Accountants, 2003](#)
- ❖ [“Application of Joint Default Analysis to Government related Issuers”, Moody’s Investors Service, 2005](#)
- ❖ [“CPA Canada Public Sector Accounting Handbook”, CPA Canada](#)
- ❖ [“Creditworthiness of Canadian Municipalities”, Moody’s Investors Service, March 2013](#)
- ❖ [“Canadian Municipal Government Fact Sheet”, DBRS, 2008](#)
- ❖ [“Financial Reporting by First Nations”, Canadian Institute of Chartered Accountants, 2008](#)
- ❖ [“Certifying Financial Performance of First Nation Governments” Fiscal Realities Economists, 2009](#)
- ❖ [“International Local and Regional Governments Rating Criteria Outside the United States”, Fitch Ratings Inc., April 2016](#)
- ❖ [“International Public Finance: Methodology for Rating Non-U.S. Local and Regional Governments”, Standards and Poor’s Rating Services, June 2014](#)[“Moody’s Issues Annual Report on Province of British Columbia”, Global Credit Research Announcement, Moody’s Investors Service, 2007](#)
- ❖ [“National Financial Sustainability Study of Local Government”, PricewaterhouseCoopers November 2006](#)

- ❖ “Rating Canadian Municipal Governments”, DBRS, May 2016
- ❖ “Rating Canadian Municipal Governments”, DBRS, 2008
- ❖ “Rating Canadian Provincial Governments”, DBRS, 2007
- ❖ “Rating Methodology Regional and Local Governments”, Moody’s Investors Service, January 2013
- ❖ “Rating Methodology: The Application of Joint Default Analysis to Regional and Local Governments”, Moody’s Investors Service, 2008
- ❖ “Regional and Local Governments Outside the US”, Moody’s Investors Service, 2008
- ❖ “Statement of Recommended Practice(SORP-4 Indicators of Financial Condition”, Public Sector Accounting Board, 2009
- ❖ “The Six Critical Components of Strong Municipal Management: Managerial Methods to Promote Credit Enhancement”, Moody’s Investors Service, 2004
- ~~❖ “Certifying Financial Performance of First Nation Governments” Fiscal Realities Economists, 2009~~
- ~~❖ “20 Questions About Government Financial Reporting”, Public Sector Accounting Board, Canadian Institute of Chartered Accountants, 2003~~
- ~~❖ “Moody’s Issues Annual Report on Province of British Columbia”, Global Credit Research Announcement, Moody’s Investors Service, 2007~~
- ~~❖ “Statement of Recommended Practices: Indicators of Financial Condition”, Public Sector Accounting Board, 2009~~
- ~~❖ “Financial Reporting by First Nations”, Canadian Institute of Chartered Accountants, 2008~~
- ~~❖ “Rating Methodology: The Application of Joint Default Analysis to Regional and Local Governments”, Moody’s Investor Service, 2008~~
- ~~❖ “Application of Joint Default Analysis to Government related Issuers”, Moody’s Investor Service, 2005~~
- ~~❖ “The Six Critical Components of Strong Municipal Management: Managerial Methods to Promote Credit Enhancement”, Moody’s Investors Service, 2004~~
- ~~❖ “Regional and Local Governments Outside the US”, Moody’s Investors Service, 2008~~
- ~~❖ “Rating Canadian Municipal Governments”, DBRS, 2008~~
- ~~❖ “Rating Canadian Provincial Governments”, DBRS, 2007~~
- ~~❖ “DBRS Canadian Municipal Government Fact Sheet”, 2008~~
- ~~❖ “National Financial Sustainability Study of Local Government”, PWC, 2006~~
- ~~❖ Various excerpts from Credit Analysis on Municipal Finance Authority of BC and Ontario Infrastructure Projects Corporation. (Standard & Poor’s, Fitch Ratings, and Moody’s)~~
- ~~❖ CPA (Chartered Professional Accountants) Canada Public Sector Accounting Handbook~~

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FIRST NATIONS FINANCIAL MANAGEMENT BOARD

FINANCIAL PERFORMANCE STANDARDS

INTRODUCTION

1.0 PURPOSE OF STANDARDS

1.1 Purpose of Standards – The purpose of these standards is to establish parameters of financial performance and assessment of a first nation by the Board.

1.2 Cautions – These standards are not intended to provide the basis for assessing whether a first nation is qualified for any particular loan or financing and should not be relied upon for that purpose. The financial information used to determine whether these standards have been complied with is based on both the information reported in the first nation's annual financial statements prepared in accordance with Canadian Public Sector Accounting Standards and their associated audit reports as well as representations of the first nation's management. The accuracy of all information submitted by the first nation is the responsibility of the first nation.

2.0 CERTIFICATION PROCEDURES

2.1 Application of Procedures – The *Financial Performance Certification Procedures* apply to these *Financial Performance Standards*.

3.0 BOARD CERTIFICATION

3.1 Certification for borrowing member status – Before the Board will certify a first nation for purposes of section 76(2) of the *First Nations Fiscal Management Act* (a condition for becoming a borrowing member of the First Nations Finance Authority), the first nation must demonstrate that it was, in the opinion of the Board, at the time of the review, in compliance with these *Financial Performance Standards*.

3.2 Certification for borrowing purposes – Before the Board will certify a first nation for purposes of section 32(1)(a) of the *First Nations Fiscal Management Act* (condition for approval of a borrowing law by the First Nations Tax Commission) or for the borrowing purposes set out in any regulations to the *First Nations Fiscal Management Act*, the first nation must demonstrate that it was, in the opinion of the Board, at the time of the review in compliance with these *Financial Performance Standards*.

4.0 INTERPRETATION OF STANDARDS

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

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

“**auditor**” means the independent auditor of the first nation who is ~~appropriately~~ licensed to practice public accounting by the provincial or territorial Chartered Professional Accounting body in their respective province and was appointed by the council of the first nation to provide an opinion on the first nation’s annual financial statements;

“**audit report**” means a report, including an opinion along with any relevant qualifications, provided by a first nation’s auditor respecting compliance of the first nation’s ~~compliance annual financial statements~~ with Canadian Public Sector Accounting Standards ~~GAAP for financial reporting~~;

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

“**FAL**” means the law or laws of a first nation respecting financial administration;

“**Financial Administration Law Standards**” means the *Financial Administration Law Standards* established by the Board under section 55(1) of the Act;

“**Financial Management System Certificate**” means a certificate issued to a first nation by the Board under its *Financial Management System Certification Procedures*;

“**Financial Management System Standards**” means the *Financial Management System Standards* established by the Board under section 55(1) of the Act;

“**Financial Performance Certificate**” means a certificate issued to a first nation by the Board under the *Financial Performance Certification Procedures*;

“**financial statements**” means consolidated annual financial statements of the first nation along with supporting notes disclosure prepared in accordance with Canadian Public Sector Accounting Standards and signed by management and schedules;

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

4.2 -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.

4.3 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.

4.4 Mandatory provisions – These standards establish requirements which must be complied with by a first nation.

4.5 Compliance in all material respects – Before the Board may issue a Financial Performance Certificate to a first nation, the Board must be of the opinion that the first nation was in compliance, in all material respects, with these standards

STANDARDS

5.0 FINANCIAL ADMINISTRATION LAW REQUIREMENTS

5.1 Board approved FAL – The first nation has a FAL which meets the following requirements:

- a. the FAL meets the *Financial Administration Law Standards* in effect on the date the Board conducts a formal review of the first nation's financial performance under the *Financial Performance Certification Procedures*, and
- b. the Board has issued a compliance approval for the FAL under section 9 of the Act.

5.2 Provisions of FAL in force – If a first nation is requesting a Financial Performance Certificate before the first nation has a Financial Management System Certificate, the provisions of the first nation's FAL which comply with the following *Financial Administration Law Standards*, are in force:

- a. Standard 13.1 (Fiscal Year);
- b. Standards 15.1 – 15.4 (Budgets) (excluding 15.4.3);
- c. Standards 18.2 – 18.5 (Financial Reporting);
- d. Standards 19.1 – 19.5, 19.7 (Audits);
- e. Standard 21.4 – 21.6 – (Records for Local Revenue Account and Other Revenues); and
- f. Standards 24.1 – 24.2 – (Delegated Authority in Intervention).

6.0 CERTIFICATION REQUIREMENTS

6.1 Financial Management System Certificate timeline – If a first nation intends to become a borrowing member of the First Nations Finance Authority at the time it is requesting the Board to issue it a Financial Performance Certificate, the first nation commits to make all reasonable efforts to request and receive from the Board a Financial Management System Certificate

- a. before the first nation passes a borrowing law for its second borrowing of money from the First Nations Finance Authority, and
- b. in any event, not later than 36 months, or a longer period approved by the Board, from when the first nation receives proceeds for the first time from a debenture or equivalent financial instrument issued by the First Nations Finance Authority under the terms of a borrowing law and a security issuing council resolution.

6.2 Financial Management System Certificate for subsequent borrowing – If a first nation is requesting a Financial Performance Certificate for the purpose of borrowing money from the First Nations Finance Authority, other than for purposes of the first nation’s first borrowing of money, the first nation has a Financial Management System Certificate.

7.0 FINANCIAL PERFORMANCE RATIOS

7.1 Definitions – In this Standard 7.0:

~~“**amortization expense**” means the expense accounted for on the statement of operations representing the allocation of the cost of tangible capital assets over their useful lives;~~

~~“**changes in non-cash working capital**” means the change in current financial assets of a first nation, excluding cash and cash equivalents, less the change in current financial liabilities (generally reported on the Statement of Cash Flows);~~

~~“**current assets**” means those assets ordinarily realizable within one year from the date of the statement of financial position;~~

~~“**current liabilities**” means those amounts payable within one year from the date of the statement of financial position;~~

“**expenses**” including losses, means decreases, in economic resources, either by way of decreases in assets or increases in liabilities, resulting from the operations, transactions and events of the accounting period;

“**financial assets**” means assets that could be used to discharge liabilities or finance future operations and are not for consumption in the normal course of operations, and include the following:

- ~~a. cash and cash equivalents;~~
- ~~a-b. a realizable asset that is convertible to cash;~~
- ~~c. accounts receivable; and a contractual rights to receive cash or another financial asset from a third another party;~~
- ~~d. a contractual right to exchange financial instruments with another party under conditions that are potentially favourable to the first nation;~~
- ~~b-e. an equity instrument of another party;~~
- ~~c.—short term, temporary, or portfolio investments;~~
- ~~d.—inventory held for resale;~~
- ~~f.—an investments in a government business enterprise or government business partnership; and~~
- ~~g. a financial claim on an outside organization or individuals; or~~
- ~~e-h. an inventory or item for sale that meets the criteria in the CPA Canada Public Sector Accounting Handbook;~~
- ~~f.—proven financial claims on a third party;~~

“interest” means interest expense;

“liabilities” means present obligations of a first nation arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits;

~~“property tax levied and collected~~local revenues levied” means the amount of local revenues that a first nation has levied under its annual local revenue laws pursuant to the *First Nations Fiscal Management Act*; amounts, generally reported by first nation management, that a first nation has levied and collected under its local revenue laws;

“local revenues collected” means the amounts, generally reported by first nation management, that a first nation has collected under its annual local revenue laws pursuant to the *First Nations Fiscal Management Act*, and where uncollected revenues are considered those outstanding as at the date of the financial performance review;

“revenues” including gains, means increases in economic resources, either by way of increases in assets or decreases in liabilities, resulting from the operations, transactions and events of the accounting period;

“tangible capital assets” means non-financial assets having physical substance that

- a. are held ~~by the first nation~~ for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital asset;~~;~~
- b. have useful economic ~~life-lives~~ extending beyond ~~one fiscal year~~ an accounting period;~~;~~
- c. ~~have been acquired~~ are to be used on a continuing basis;~~;~~ and
- d. are not for sale in the ordinary course of business;~~and~~

“**tangible capital assets expenditure**” means any amount, generally reported in the Statement of Changes in Net Financial Assets (Net Debt), Statement of Cash Flows or Statement of Operations (~~i.e. Income Statement~~) of the financial statements of a first nation, which was paid to construct new, or support the maintenance of existing, tangible capital assets - other than land.

7.2 Application of definitions – Unless the context indicates otherwise, the financial terms used in Standard 7.0 and not otherwise defined have the same meanings as defined in the CPA Canada Public Sector Accounting Handbook.

7.27.3 Financial Information information – A first nation demonstrates compliance with this Standard 7.0 using information taken from the following:

- a. its five most recent ~~annual~~ financial statements, with the most recent financial statements ~~being for~~ having a financial year-end which is not more than 16 months before the date of issuance of a Financial Performance Certificate;
- b. a signed report from an auditor for each of the financial statements referred to in paragraph a; and
- c. any additional documentation submitted by the first nation as required to support and clarify the first nation’s request for review of its financial performance.

7.37.4 FIRST NATION FISCAL GROWTH RATIO (“FGR”)

7.37.4.1 Purpose of FGR – The purpose of the FGR is to ~~assess~~ measure a first nation’s ability to sustain and grow its financial capacity.

7.37.4.2 Description of FGR ~~and Adjusted FGR~~ – The FGR measures the average annual revenue growth rate expressed as a percentage. ~~The FGR measures the difference between the average compound annual revenue and expenditure growth rates expressed~~

as a percentage. The Adjusted FGR measures the magnitude of the FGR in relation to the 5-year accumulated surplus (deficit) expressed as a percentage.

A growth rate of 0 or better indicates that revenue is growing ~~growth has outpaced expenditure growth and thus fiscal balance has been maintained~~. A growth rate of less than 0 indicates that ~~expenditures are increasing faster than revenues~~ revenue is shrinking which could indicate an unsustainable trend or potential structural deficit that can put fiscal stress on a first nation's ability to maintain financial capacity to meet government program and service requirements, infrastructure spending, or servicing debt.

7.4.3 Measure of FGR – The FGR between two contiguous years is measured using the following calculation:

$$\frac{(TR_X - TR_{X-1})}{TR_{X-1}}$$

TR_X: Total revenue in year 'X'

TR_{X-1}: Total revenue from the fiscal year one year prior to year 'X'

The average FGR for the period under review is determined by taking the average of the FGR results between all contiguous years in the period under review (e.g. the average of the growth rate between Year -1 and Year 0, Year -2 and Year -1, Year -3 and Year -2 and Year -4 and Year -3).

$$\frac{\left(\frac{\text{Revenue (Current Year)}}{\text{Revenue (5 year Average)}} \right)^{(1/5)} - 1 \text{ minus } \left(\frac{\text{Expenses (Current year)}}{\text{Expenses (5 year Average)}} \right)^{(1/5)} - 1}{1}$$

Measure of Adjusted FGR – The adjusted FGR is measured using the following calculation:

$$\frac{[\text{FGR x Revenue (5 year average)}] + [\text{Surplus (5 year average)}]}{\text{Revenue (5 year average)}}$$

7.3.3 Thresholds – The first nation demonstrates that its average FGR for the period under review is not lower than -5%. ~~one of the following:~~

~~7.3.4~~ its FGR is not lower than -5%, or

~~7.3.5~~ 7.4.4 if its FGR is lower than -5%, its Adjusted FGR is not lower than -5%.

7.4 FIRST NATION LIQUIDITY TEST RATIO (“LTR”)

~~**7.4.1 Purpose of LTR**—The purpose of the LTR is to assess a first nation’s ability to meet short-term operating obligations.~~

~~**7.4.2 Description of LTR**—The LTR measures the relationship of net working capital or deficit compared to total revenue.~~

~~Positive working capital indicates strong liquidity. The higher the LTR value the greater the margin of safety in meeting short-term operating obligations. Negative working capital indicates weak liquidity and suggests that future revenues will be required to pay for past transactions and events. Sustained working capital deficits may impair the ability of the first nation to manage its payments and thus maintain adequate levels of program and service delivery.~~

~~**7.4.3 Measure of LTR**—The LTR is measured using the following calculation:~~

$$\frac{\text{Current Assets - Current Liabilities}}{\text{Total Average Revenues}}$$

~~**7.4.4 Threshold**—The first nation demonstrates that~~

- ~~a. its LTR for its most recent reported year is not lower than 10%, or~~
- ~~b. its average LTR for its five reported years is not lower than 10%.~~

7.5 FIRST NATION OPERATING MARGIN RATIO (“OMR”) CORE SURPLUS RATIO (“CSR”)

~~**7.5.1 Purpose of- OMR CSR**— The purpose of the OMR CSR is to measure ~~assess~~ a first nation’s ability to sustain fiscal balance.~~

~~**7.5.2 Description of- OMR CSR**— The OMR CSR measures the ability of a first nation to sustain structural fiscal balance by determining the extent to which its revenues ~~operating cash flows~~ have been sufficient to meet its- expenses. ~~cash operating activities, including capital spending.~~~~

The OMR CSR measures the first nation’s ~~cash management and~~ ability to generate sufficient revenues ~~cash flows~~ to ~~maintain operations~~ satisfy expenses. The measure ~~also~~ indicates whether the first nation is spending beyond its revenue base and thus exerting fiscal stress on its financial capacity.

A cumulative positive ~~CSR~~ OMR indicates fiscal balance has been maintained, whereas a pattern of ~~operating~~ deficits signals fiscal imbalance and a need to fund deficits by borrowing.

~~**7.5.3 Measure of- OMR CSR**— The OMR CSR in a given year is measured using the following calculation:~~

$$\text{OMR} = \frac{(\text{TR} - \text{TE})}{\text{TR}}$$

TR: Total revenues

TE: Total expenses

The average OMR for the period under review is determined by taking the sum of the OMR results for each year divided by the number of years under review.

~~The weighted average CSR for the period under review is determined by weighting the CSR for each year and summing those results. The weighting factors are 0.3, 0.3, 0.2, 0.1, and 0.1, for the years from most recent to least recent, respectively.~~

~~**7.5.37.5.4 Threshold** – The first nation demonstrates that its average OMR for the period under review is not lower than -5%. ~~weighted average CSR exceeds such threshold as determined by multiplying the most recent year's revenue by negative 5%.~~~~

7.6 FIRST NATION ASSET MAINTENANCE RATIO (“AMR”)

7.6.1 Purpose of AMR – The purpose of the AMR is to ~~assess-measure~~ a first nation's ability to sustain its investment in its tangible capital assets other than land.

7.6.2 Description of AMR – The AMR measures the first nation's total tangible capital expenditures (other than for land) relative to the first nation's total amortization cost, expressed as a percentage.

The AMR assesses whether the overall asset base is increasing, or being replenished, at a rate equal to, or higher than, the consumption of assets.

The AMR is an indicator of the willingness of the first nation to maintain the current level of investment in capital assets and provides a measure of the first nation's ability to execute a tangible capital assets maintenance plan.

An AMR of less than 100% over extended years can create fiscal stress in the future. Delayed maintenance or replacement of capital assets may result in outdated assets which affect the first nation's ability to provide programs and services.

7.6.3 Measure of AMR – The AMR in a given years is measured using the following calculation:

$$\text{AMR} = \frac{\text{TTCE}}{\text{TAE}}$$

TTCE: Total tangible capital expenditures

TAE: Total amortization expense

The average AMR for the period under review is determined by taking the sum of the AMR results for each year divided by the number of years under review.

Total Tangible Capital Expenditures

Total Depreciation Expense

~~7.6.37.6.4~~ **Thresholds** – The first nation demonstrates that its average AMR for the period under review is at least 100%.

~~a. its AMR calculated on the average of the last 5 year's financial statements is at least 100%, and;~~

~~b. its annual AMR for at least 3 out of the 5 reported years exceeds 100%.~~

7.7 FIRST NATION NET DEBT RATIO (“NDR”)

7.7.1 Purpose of NDR – The purpose of the NDR is to ~~assess~~ measure a first nation's ability to manage its overall level of debt. ~~debt service flexibility.~~

7.7.2 Description of NDR – The NDR measures the size of the net debt burden in relation to one year annual revenues available to cover debt service.

The NDR indicates whether a first nation's debt load is sustainable or potentially restricting its financial flexibility to incur more debt.

An increasing NDR indicates total debt is becoming more onerous on the first nation that could lead to long-term sustainability concerns. A decreasing NDR indicates the first nation's capacity to incur more debt is strengthening.

7.7.3 Measure of NDR – The NDR is measured using the following calculation:

Total Liabilities – Financial Assets

Total Revenue

TR

TL: Total liabilities

TFA: Total financial assets

TR: Total revenues

The weighted average NDR for the period under review is determined by weighting the NDR for each year and summing those results. The weighting factors are 0.3, 0.3, 0.2, 0.1, and 0.1, for the years from most recent to least recent, respectively.

~~**Measure of interest coverage** – is measured using the following calculation:~~

~~**7.7.4 Thresholds** – The first nation demonstrates that its weighted average NDR for the period under review does not exceed 30%.~~

~~a. its NDR for its most current reported year does not exceed 60%; or~~

~~b. its weighted average interest coverage is not lower than 1.5x.~~

~~The weighted average interest coverage for the period under review is determined by weighting the interest coverage ratio for each year and summing those results. The weighting factors are 0.3, 0.3, 0.2, 0.1, and 0.1, for the years from most recent to least recent, respectively.~~

7.8 FIRST NATION INTEREST EXPENSE RATIO (“IER”)

7.8.1 Purpose of IER – The purpose of the IER is to assess a first nation’s ability to manage its overall level of debt.

7.8.2 Description of IER – The IER measures the size of the first nation’s interest expense burden in relation to annual revenue.

7.8.3 Measure of IER – The IER in a given year is measured using the following calculation:

$$\text{IER} = \frac{\text{IE}}{\text{TR}}$$

IE: Interest expense

TR: Total revenues

The average IER for the period under review is determined by taking the sum of the IER results for each year divided by the number of years under review

7.8.4 Thresholds – The first nation demonstrates that its average IER for the period under review does not exceed 5%.

7.8 FIRST NATION BUDGET PERFORMANCE RATIO (“BPR”)

~~7.8.1 Purpose of BPR – The purpose of the BPR is to assess a first nation’s ability to manage within its budget.~~

~~7.8.2 Description of BPR – The BPR measures the ability of a first nation to meet its budget expectations by measuring the extent of deviation of the actual performance from the budgeted performance.~~

~~The BPR measures the average variation between budgeted and actual results, over a five year period, expressed as the absolute percentage of budget.~~

~~The BPR measure can illustrate the reasonableness of the budgetary assumptions and whether the current budgets can be relied on. Improper budgeting can undermine future financial flexibility, which can create fiscal problems and pose a significant challenge to maintaining credit strength. Proper budgeting can improve credit strength in good times and provide some assurance of maintaining credit strength in weaker times.~~

~~7.8.3 Measure of BPR – The BPR is measured using the following calculation:~~

$$\frac{\text{Total Revenue (actual) - Total Revenue (Budgeted)}}{\text{Total Revenue (Budgeted)}} \text{ minus } \frac{\text{Total Expenses (actual) - Total Expenses (budgeted)}}{\text{Total Expenses (budgeted)}}$$

~~7.8.4 Thresholds – The first nation demonstrates the following:~~

- ~~a. its BPR calculated on the average of the last 5 year’s revenues is within the range of +15% and – 15%;~~
- ~~b. its BPR calculated on the average of the last 5 year’s expenses is within the range of +15% and – 15%; and~~

- c. ~~its BPR calculated on the average of the last 5 year's surplus/deficit differential is within the range of + 15% and - 15%.~~

7.9 FIRST NATION LOCAL REVENUES COLLECTION RATIO ("LRCR")~~PROPERTY TAX COLLECTION RATIO ("TCR")~~

7.9.1 Application of LRCR - Standard 7.9 applies only to first nations raising local revenues under the *First Nations Fiscal Management Act*. First nations not raising local revenues under the *First Nations Fiscal Management Act* are exempt from compliance with this Standard.

7.9.17.9.2 Purpose of ~~LRCR~~TCR – The purpose of the LRCR ~~TCR~~ is to ~~assess~~ measure a first nation's effectiveness in collecting the local revenues ~~property taxes~~ it is levying.

7.9.27.9.3 Description of ~~LRCR~~TCR – The LRCR ~~TCR~~ measures the amount of local revenues ~~property tax~~ collected compared to the amount of local revenues ~~property taxes~~ levied, expressed as a percentage.

7.9.4 Measure of ~~LRCR~~TCR – The LRCR ~~TCR~~ is measured using the following calculation:

$$\underline{\text{LRCR}} = \frac{\underline{\text{LRC}}}{\underline{\text{LRL}}}$$

LRC: Local revenues collected

LRL: Local revenues levied

$$\frac{\text{Actual Property Tax Collected (in the reported taxation year)}}{\text{Actual Property Tax Levied (in the reported taxation year)}}$$

7.9.37.9.5 Thresholds – The first nation demonstrates that its LRCR for the most recent year of the period under review exceeds 95%.

- a. ~~its TCR calculated on the average of the last 5 year's information exceeds 95%, and~~
- b. ~~its annual TCR for at least 3 out of the 5 reported years exceeds 95%.~~

8.0 NORMALIZATION ADJUSTMENTS AND COMPARABILITY ADJUSTMENTS ~~NORMALIZING ADJUSTMENTS~~

~~8.1 Extraordinary events~~ Normalization adjustments for extraordinary events – If, in the opinion of the Board, a first nation’s ability or inability to satisfy a threshold described in Standard 7.0 resulted from the inclusion of an extraordinary event, the Board may, in its discretion, remove an amount attributable to that event from calculation of the first nation’s ratios in order to better evaluate the first nation’s financial performance.

~~-An extraordinary event must be both unusual and infrequent. Unusual events are highly abnormal and unrelated to the ordinary and typical activities of a first nation. Infrequent events are reasonably expected not to recur going forward.~~

~~8.18.2~~ Comparability adjustments – If, in the opinion of the Board, a first nation’s ability or inability to satisfy a threshold described in Standard 7.0 resulted from historical differences in accounting policy, bookkeeping procedure, or financial statement presentation, the Board may, in its discretion,

- a. reclassify a balance or financial transaction of a first nation included in the first nation’s financial statements, and
- b. add or remove that balance or transaction from the calculation of ~~– a ratio contained within Standard 7.0~~ the first nation’s ratios.



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