

A sepia-toned photograph of several Indigenous people in traditional regalia, including large feathered headdresses and beaded clothing. One person in the foreground is looking towards the camera, while others are in the background, some holding objects. The overall mood is historical and cultural.

D4

LOCAL REVENUE FINANCIAL REPORTING

EXPLANATORY NOTES



First Nations
**FINANCIAL
MANAGEMENT
BOARD**

**CONSEIL
DE GESTION
FINANCIÈRE** des
Premières Nations

APRIL 1, 2024

Who is the FMB?

The First Nations Financial Management Board (“the FMB”) is an independent First Nations institution that was created through federal legislation, the *First Nations Fiscal Management Act* (“the FMA”). The FMA is a law that provides First Nations with support and tools to strengthen their communities and build their economies. First Nations can choose whether or not to participate in the FMA.

The FMA also established two other First Nation institutions – the First Nations Tax Commission (“the FNTC”) and the First Nations Finance Authority (“the FNFA”). The three institutions were created with mandates to provide an array of tools to promote economic growth for First Nations. These tools include property tax jurisdiction, access to financial markets and tools for financial management.

The FMB provides capacity development support to First Nations seeking to strengthen their governance and finance practices. The FMB creates examples of good governance and finance practices and offers certification for those Nations wanting to show that they are following those practices. First Nations need certain certifications offered by the FMB to be eligible to access loans from the FNFA.



What are local revenues?

Local revenues is the term used to describe property taxes under the FMA. 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.

A First Nation may choose to implement a property taxation regime under the *Indian Act* or using the provisions contained in the FMA. Once a First Nation becomes scheduled to the FMA, it may only exercise its authority to levy property taxes under the FMA and not under the *Indian Act*. All First Nations scheduled to the FMA who are raising local revenues are required under the FMA to account for, and report on, their local revenues, separately from other moneys of the First Nation in accordance with Standards set by the FMB.

What are the Local Revenue Financial Reporting Standards and who should use this document?

The *Local Revenue Financial Reporting Standards* (“Financial Reporting Standards”) are for First Nations levying local revenue who have been scheduled to the FMA. The FMB has established the Financial Reporting Standards to assist First Nations in complying with the local revenue financial reporting requirements of the FMA.

This will normally require a First Nation to prepare a set of separate annual financial statements for the purpose of reporting the collection and use of local revenues during the period. This is necessary to fulfil the principles of transparency and accountability. These financial statements and the accompanying audit report are to be made available to members of the First Nation, taxpayers, the FNTC, the FMB and the Minister of Indigenous Services Canada.

The FMA also includes an option for reduced reporting to accommodate the needs of those First Nations that are generating a small amount of local revenues, where the costs of preparing separate audited local revenue financial statements may be significant relative to the amount of revenue raised. A First Nation that meets the criteria contained in the Financial Reporting Standards may disclose the required financial information as a separate segment in the First Nation’s annual audited financial statements.

The FMB has published several companion documents to the Financial Reporting Standards to assist First Nations in preparing their local revenue financial statements or segment report in the First Nation’s annual financial statements:

- *D1 – Local Revenue Financial Reporting – Standards* – Local revenue financial statement preparers are encouraged to refer to this document for all matters pertaining to local revenue standards.
- *D2 – Illustrative Local Revenue Financial Statements* – Local revenue 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 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.
- *D3 – Local Revenue Financial Reporting – Illustrative Segment Note Disclosure* – Financial statement preparers using the segment note reporting option for local revenues are encouraged to refer to this document for an illustrative segment note disclosure for inclusion in the annual financial statements of the First Nation.

Does the FMB issue standards for other areas of financial management for First Nations?

The FMB has a collection of Standards and Procedures for First Nations to utilise in developing, implementing and improving their financial management and to guide FMB's Certification services.

| FINANCIAL ADMINISTRATION LAW | | | |
|-------------------------------------|----|--|--|
| | A1 | FINANCIAL ADMINISTRATION LAW – REVIEW PROCEDURES | These Procedures apply when a First Nation requests compliance approval of their Financial Administration Law by the FMB. |
| | A2 | FINANCIAL ADMINISTRATION LAW – STANDARDS | These Standards support sound financial administration practices and are the foundation of a Financial Administration Law. |
| | A3 | SAMPLE FINANCIAL ADMINISTRATION LAW | An example of a law that meets the requirements of the <i>Financial Administration Law – Standards</i> . |
| | A4 | FINANCIAL ADMINISTRATION LAW – EXPLANATORY NOTES | These explanatory notes supplement the sample financial administration law. |
| | A5 | FINANCIAL ADMINISTRATION LAW – SELF-ASSESSMENT | A tool that can be used to compare an existing or proposed Financial Administration Law to the <i>Financial Administration Law – Standards</i> . |
| FINANCIAL MANAGEMENT SYSTEM | | | |
| | B1 | FINANCIAL MANAGEMENT SYSTEM - CERTIFICATION PROCEDURES | These procedures apply when a First Nation requests a review of their financial management system for the purpose of obtaining Financial Management System Certification from the FMB. |
| | B2 | FINANCIAL MANAGEMENT SYSTEM – STANDARDS | A First Nation must demonstrate compliance with these Standards with in order to achieve Financial Management System Certification. These Standards support sound financial practices for the operation, management, reporting and control of the financial management system of a First Nation. |
| FINANCIAL PERFORMANCE | | | |
| | C1 | FINANCIAL PERFORMANCE – CERTIFICATION PROCEDURES | These procedures apply when a First Nation requests a review of their financial performance for the purpose of obtaining Financial Performance Certification from the FMB. |
| | C2 | FINANCIAL PERFORMANCE – STANDARDS | These Standards assess the historical financial performance of a First Nation over a five year period using up to six financial ratios. A First Nation must demonstrate compliance with these Standards in order to achieve Financial Performance Certification. |
| LOCAL REVENUE FINANCIAL REPORTING | | | |
| | D1 | LOCAL REVENUE FINANCIAL REPORTING – STANDARDS | These Standards 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 <i>Local Revenue Financial Reporting – Standards</i> . |
| | D3 | LOCAL REVENUE FINANCIAL REPORTING – ILLUSTRATIVE SEGMENT NOTE DISCLOSURE | Illustrative segment note disclosure for a First Nation's local revenues for inclusion in the annual financial statements of a First Nation designed to comply with <i>Local Revenue Financial Reporting – Standards</i> . |
| <input checked="" type="checkbox"/> | D4 | LOCAL REVENUE FINANCIAL REPORTING – EXPLANATORY NOTES | These explanatory notes accompany the <i>Local Revenue Financial Reporting – Standards</i> . |

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FIRST NATIONS FINANCIAL MANAGEMENT BOARD

LOCAL REVENUE FINANCIAL REPORTING EXPLANATORY NOTES

These notes are intended to provide assistance to First Nations tax administrators, financial statement preparers and assurance providers by explaining certain elements of the *D1 – Local Revenue Financial Reporting Standards*.

1.0 PURPOSE

This section describes the purpose and objectives of the Financial Reporting Standards.

The primary objective of preparing local revenue financial statements is to report on the results of operations of the local revenue activities for the period 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.

2.0 APPLICATION

This section limits the applicability of the Financial Reporting Standards to those First Nations that are named in the schedule to the *First Nations Fiscal Management Act* (“Act”) and which are collecting local revenues under the Act.

3.0 INTERPRETATION OF STANDARDS

This section contains definitions used throughout the Financial Reporting Standards.

An attempt is made to clearly distinguish the “budget year”, “taxation year” and “reporting period”. A “budget year” is the 12 month period reflected in a First Nation’s annual expenditure law. The “taxation year” is the 12 month calendar year in which the assessment roll is applied for purposes of taxation. The “reporting period” is the 12 month financial period selected by the preparer of local revenue financial statements to report on the results of operations of the First Nation’s local revenue activities in accordance with the Financial Reporting Standards. While the “budget year” and “reporting period” should coincide and be the same, they may not necessarily be a calendar year and therefore may differ from the “taxation year”. In the latter situation a reconciliation will need to be prepared by the First Nation and reviewed by the auditor to account for any measurement or recognition differences arising due to this timing difference when preparing the annual local revenue financial statements.

While commonly used and referred to in the Act, the term “local revenue account” has deliberately not been defined. This is because in the view of the FMB this term can have two different meanings. Subsection 13(1) of the Act states “local revenues of a First Nation shall be placed in a local revenue account with a financial institution, separate from other moneys of the First Nation.” This reference to a local revenue account clearly refers to a financial institution account used to deposit and retain local revenue funds collected from taxpayers and other related receipts. However, this should not be confused with reference to the combined activities and results of the receipt and expenditure of local revenues and the accounting

for these transaction in the form of a local revenue “chart of accounts”. Quite often users of the local revenue financial statements may refer to these combined activities and results as the “local revenue account” so care should be taken to make this distinction whenever necessary. The reporting of local revenues and expenditures in the form of separate financial statements includes all transactions during the period and not just cash deposits, transfers or withdrawals occurring in the financial institution account being used.

“GAAP” has been defined as generally accepted accounting principles of the Chartered Professional Accountants of Canada (“CPA Canada”). CPA Canada is the national organisation that provides funding, staff and other resources to support an independent standard-setting process that is delivered through Canada’s accounting and audit and assurance standards boards and oversight councils¹. Canada’s financial reporting and assurance standards boards and oversight councils comprise:

- the Accounting Standards Oversight Council
- the Accounting Standards Board
- the Public Sector Accounting Board
- the Auditing and Assurance Standards Oversight Council
- the Auditing and Assurance Standards Board

The boards establish and maintain standards on accounting and auditing to serve the public interest. The oversight councils appoint board members and oversee and provide input into the boards’ activities to ensure that the process for setting standards functions properly.

In the view of the FMB, GAAP, for the purpose of applying the Financial Reporting Standards, would normally consist of Public Sector Accounting Standards as issued by the Public Sector Accounting Board.

4.0 CONFLICTS

The Act is to prevail in any situation where a standard conflicts with something in the Act. Despite this, 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

This standard simply reinforces the need under the Act for the establishment of a separate financial institution account for use in depositing, transferring or withdrawing local revenue funds. This is important to prevent the comingling of these funds with other unrelated monies of the First Nation.

The creation and use of more than one local revenue financial institution account is permitted.

¹ Refer to <https://www.cpacanada.ca/en/the-cpa-profession/how-cpa-canada-supports-standard-setting>

6.0 TRANSFERS TO OTHER FINANCIAL INSTITUTION ACCOUNTS

If local revenues collected are transferred to a non-local revenue financial institution account controlled by the First Nation, the amount and reasons for this transfer should be disclosed in the notes to the local revenue financial statements. Consideration should also be made as to the need for this same disclosure to be included in the First Nation's annual financial statements. The purpose behind these standards is to be transparent to users of the financial statements around any transactions that involve transferring local revenue funds to the First Nation since these funds would presumably be available for other uses. Since a taxpayer would expect that any local revenues raised under a local revenue law be used only for the purposes identified in an annual expenditure law, a transfer to the First Nation for other purposes must be disclosed.

7.0 LOCAL REVENUE FINANCIAL STATEMENTS

This section outlines the minimum elements that make up a complete set of local revenue financial statements. These include:

- a statement of revenues and expenditures;
- a statement of changes in reserve funds; and
- any necessary notes or schedules required under these standards or to meet the needs of readers of the statements.

A statement of financial position is not required primarily due to the challenges of measuring assets that may only be partially funded through local revenues. At this time it is the FMB's view that a statement of financial position would not provide meaningful information to users. However, a preparer of local revenue financial statements is encouraged to provide any additional disclosures around assets or liabilities related to the activities and results of the receipt and expenditure of local revenues if it will be useful to users.

On account of not requiring a statement of financial position, and since any accruals that may otherwise need to be recognised are assumed to be immaterial as at the reporting date, a statement of cash flows is not required. It is assumed that the annual statement of revenues and expenditures would not be materially different if presented on either a cash or accrual basis of accounting. In situations where this is not the case, disclosure of this information is encouraged.

One of the primary objectives of the local revenue financial statements is to inform users of the receipt and expenditure of local revenues compared to the approved annual budget. For this reason the inclusion of the annual budget information contained in the annual expenditure law must be presented in the statement of revenues and expenditures to allow this comparison to be made. The local revenue financial statements shall include a corresponding note disclosure that describes the budget presented on the statement of revenues and expenditures. The note shall disclose, but will not be limited to the date of budget approval, the date(s) of any approved budget amendments and any applicable budget reconciliation for Public Sector Accounting Standards ("PSAS") presentation purposes.

The results for the preceding reporting period must be presented in the statement of revenues and expenditures to allow a comparison of actual results to be made year-over-year.

The statement of changes in reserve funds is intended to provide users with information on how reserve fund balances have changed during the reporting period. These changes may result from transfers from or to the First Nation (refer to section 6.0), transfer between reserve funds, amounts borrowed or repaid and interest accumulated.

Lastly, this section ends by making it clear that the local revenue financial statements must be prepared for the annual period that reflects the budget year of the First Nation (refer to section 3.0). This is necessary to ensure that the budget contained in the annual expenditure law can be presented and compared to the activities and results for the period being reported on.

8.0 LOCAL REVENUE FINANCIAL STATEMENT DISCLOSURES

Some minimum disclosures are described in this section for inclusion with the local revenue financial statements. Subsequent events are events occurring after the financial statement date that may have a significant effect on the future local revenues of the First Nation. Either a disclosure or an adjustment is needed to account for the subsequent event and is considered to be important information to the users in their interpretation of the local revenue financial statements.

The minimum required disclosures are limited, and preparers are encouraged to consider what additional information will be useful to users of these financial statements.

9.0 LOCAL REVENUE FINANCIAL STATEMENT AUDIT

This section reinforces the need under subsection 14 (1.1) of the Act for local revenue financial information to be audited at least annually.

Before the First Nation appoints an auditor of the local revenue financial statements, certain steps should be undertaken to ensure that the auditor is independent and appropriately licensed by the relevant provincial CPA body.

Generally accepted auditing standards are the exclusive domain of CPA Canada and its related standard setting bodies. Auditors are encouraged to consider Canadian Auditing Standard 805, *Special considerations — audits of single financial statements and specific elements*, accounts or items of a financial statement when determining the correct assurance standard to use when performing the audit of local revenue financial statements.

The completion of the audit of the local revenue financial statements, as indicated by the date of the independent auditor's report, is to be no later than 120 days after the First Nation's reporting year end. This is intended to allow the timing of this audit work to coincide with the audit of the First Nation's annual financial statements.

10.0 LOCAL REVENUE FINANCIAL STATEMENT APPROVAL

This section specifies that it should be Council who reviews and approves the audited local revenue financial statements. This review and approval must be completed within 120 days after the First Nation's reporting year-end for local revenue. Council, the Chair of the Finance and Audit Committee and the Director of Finance are specified as the signatories of the statements. These approval and signatory

requirements are intended to be consistent with the approval and signature of the First Nation's annual financial statements.

11.0 LOCAL REVENUE SEGMENT DISCLOSURE

Subsection 14(1.1) of the Act states “if it is authorized by a standard established under paragraph 55(1)(d), the First Nation may instead report on its local revenues in its audited annual financial statements as a distinct segment of the activities that appear in the statements.” The intention of this section of the Financial Reporting Standards is to provide this authorisation.

A First Nation must prepare its own set of annual financial statements in accordance with PSAS as issued by the Public Sector Accounting Board. Under PS 2700, *Segment reporting*, the First Nation must “separate out key financial information into segments in order to provide relevant information for accountability and decision-making purposes, while ensuring that the information is consistent with the consolidated financial statements.” **If this section of the Financial Reporting Standards is used for purposes of reporting on the results of operations of the First Nation's local revenue activities, the activities giving rise to these results must be identified as a segment and reported as such in the First Nation's financial statements in accordance with PS 2700.** The requirements for reporting segment information contained in this standard will need to be understood and applied consistently.

The option to report local revenue financial information using a segment disclosure in the First Nation's annual financial statements rather than as a separate set of financial statements is subject to the condition that the First Nation does not raise more than \$400,000 of local revenues during the current taxation year. The rationale for this monetary threshold is to distinguish the population of all taxing First Nations between those that primarily or solely have corporate taxpayers and those that have non-corporate individual taxpayers. It is the view of the FMB and the FNTC that a separate set of annual local revenue financial statements is preferable to segment note disclosure to better serve the needs and interests of the latter.

Even when a First Nation is authorised under the Financial Reporting Standards to use the segment disclosure reporting option, a decision should still be made as to whether this is the most appropriate way to meet the needs of users of this information. Before a First Nation decides to use the segment disclosure option set out in this standard, a preparer should 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 ending on March 31st that differs from the First Nation's December 31st taxation year end. This will likely create measurement or recognition timing differences and therefore hinder any comparison to be made to budgeted amounts contained in an annual expenditure law;
- 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 the Financial Reporting Standards. The accounting for the receipt and expenditure of local revenues may be different under PSAS and the Financial Reporting Standards;

- c. as a consequence of the limitation described in paragraphs a. and b. the local revenue 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 the portion of a separate segment note containing local revenue 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 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.

For the reasons described above, the First Nation should use care when choosing to report using the segment disclosure option described in the Financial Reporting Standards.

SCHEDULE 1 - Local Service Expenditure Categories

This schedule is intended to match the same information contained in the Sample Annual Expenditure Law issued by the FNTC. The expenditure categories listed should be used in the design of the First Nation's local revenue chart of accounts to make the necessary financial reporting as easy as possible.

The expenditure of any budgeted contingency funds should be presented in the applicable expenditure category.

APPENDIX A - Sample Letter to Taxpayers

The sample letter below is provided in the event that a First Nation wishes to communicate to taxpayers its use of the optional Segment Reporting method. Its use is entirely optional.

[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, 20x1].

“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) while the standards for the reporting of local revenues are established by the First Nations Financial Management Board (“the FMB”) (www.fnfmb.com).

The local revenue reporting standards issued by the FMB (and available on its website) are contained in ‘*DI – Local Revenue Financial Reporting Standards*’. Normally the First Nation would prepare a separate set of local revenue financial statements and obtain an independent audit of them. However the FMB’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 FMB’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 FMB’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, [20x1]



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